CLIENT CODE 475

ND MILL AND ELEVATOR ASSOCIATION

GRAND FORKS, NORTH DAKOTA

Audit Report

For the Years Ended
June 30, 2012 and 2011

ROBERT R. PETERSON
STATE AUDITOR

Office of the State Auditor
Division of State Audit

LEGISLATIVE AUDIT AND FISCAL REVIEW COMMITTEE MEMBERS

Representative Dan Ruby – Chairman
Senator Terry M. Wanzek – Vice Chairman

Representatives

Dick Anderson
Tracy Boe
Patrick Hatlestad
RaeAnn G. Kelsch
Keith Kempenich
Gary Kreidt
Joe Kroeber
Andrew Maragos
Corey Mock
David Monson
Chet Pollert
Bob Skarphol
Lonny B. Winrich
Dwight Wrangham

Senators

Randel Christmann
Joan Heckaman
Jerry Klein
Judy Lee

Contents

STATE AUDITOR
ROBERT R. PETERSON

PHONE
(701) 328 - 2241
FAX
(701) 328 - 1406

STATE OF NORTH DAKOTA
OFFICE OF THE STATE AUDITOR
STATE CAPITOL
600 E. BOULEVARD AVENUE - DEPT. 117
BISMARCK, NORTH DAKOTA 58505

Independent Auditor's Report

Honorable Jack Dalrymple, Governor

Members of the Legislative Assembly

The Industrial Commission

Vance Taylor, President and General Manager
North Dakota Mill and Elevator Association

We have audited the accompanying financial statements of the business-type activities of the North Dakota Mill and Elevator Association, an agency of the state of North Dakota, as of and for the years ended June 30, 2012 and 2011, as listed in the table of contents. These financial statements are the responsibility of the North Dakota Mill and Elevator Association's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 1, the financial statements of the North Dakota Mill and Elevator Association are intended to present the financial position, and the changes in financial position and cash flows, where applicable, of only that portion of the business-type activities of the state of North Dakota that is attributable to the transactions of the North Dakota Mill and Elevator Association. They do not purport to, and do not, present fairly the financial position of the state of North Dakota as of June 30, 2012 and 2011, and the changes in its financial position and its cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the financial position of the business-type activities of the North Dakota Mill and

Elevator Association as of June 30, 2012 and 2011, and the changes in financial position and its cash flows, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 6, 2012 on our consideration of the North Dakota Mill and Elevator Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United State of America require that the management's discussion and analysis on pages 5-8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the North Dakota Mill and Elevator Association basic financial statements. The Schedule of Appropriations is presented for purposes of additional analysis and is not a required part of the financial statements of the North Dakota Mill and Elevator Association. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Appropriations is fairly stated in all material respects in relation to the financial statements as a whole.

Bob Peterson

Robert R. Peterson
State Auditor

November 6, 2012

STATE AUDITOR
ROBERT R. PETERSON

PHONE
(701) 328 - 2241
FAX
(701) 328 - 1406

STATE OF NORTH DAKOTA
OFFICE OF THE STATE AUDITOR
STATE CAPITOL
600 E. BOULEVARD AVENUE - DEPT. 117
BISMARCK, NORTH DAKOTA 58505

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Honorable Jack Dalrymple, Governor

Members of the Legislative Assembly

The Industrial Commission

Vance Taylor, President and General Manager
North Dakota Mill and Elevator Association

We have audited the financial statements of the business-type activities of the North Dakota Mill and Elevator Association, an agency of the state of North Dakota, as of and for the years ended June 30, 2012 and 2011, which collectively comprise the North Dakota Mill and Elevator Association's financial statements and have issued our report thereon dated November 6, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting
Management of the North Dakota Mill and Elevator Association is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the North Dakota Mill and Elevator Association's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the North Dakota Mill and Elevator Association's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the North Dakota Mill and Elevator Association's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the North Dakota Mill and Elevator Association's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the North Dakota Mill and Elevator Association's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

This report is intended solely for the information and use of management, the Governor, the Industrial Commission, and the Legislative Audit and Fiscal Review Committee and is not intended to be and should not be used by anyone other than these specified parties.

Robert R. Peterson
State Auditor

November 6, 2012

Management's Discussion and Analysis

This section of North Dakota Mill and Elevator Association's annual financial report presents management's discussion and analysis of the Mill's financial performance during the fiscal year that ended June 30, 2012. Please read this information in conjunction with the financial statements that follow this section.

FINANCIAL HIGHLIGHTS

Condensed Financial Data

	FY 2012	FY 2011	FY 2010
Current Assets	$ 67,851,345	$ 78,363,277	$ 44,822,627
Noncurrent Assets	315,228	302,477	291,221
Capital Assets	38,339,705	36,087,720	36,726,174
Total Assets	$ 106,506,278	$ 114,753,474	$ 81,840,022
Current Liabilities	$ 43,549,795	$ 55,587,341	$ 30,313,895
Noncurrent Liabilities	788,657	787,124	754,526
Total Liabilities	$ 44,338,452	$ 56,374,465	$ 31,068,421
Invested in Capital Assets, Net of Related Debt	$ 38,339,705	$ 36,087,720	$ 36,726,174
Unrestricted	23,828,121	22,291,289	14,045,427
Total Net Assets	$ 62,167,826	$ 58,379,009	$ 50,771,601
Operating Revenue			
Gross Sales	$ 310,437,733	$ 272,891,617	$ 222,354,845
Sales Deductions	(47,775,398)	(44,679,188)	(39,130,840)
Net Sales	$262,662,335	$ 228,212,429	$ 183,224,005
Nonoperating Revenue			
Interest Income	22,635	28,853	10,778
Miscellaneous	56,773	88,017	63,529
Total Revenues	$ 262,741,743	$ 228,329,299	$ 183,298,312
Operating Expenses			
Material Cost	$ 232,106,607	$ 189,914,884	$ 149,384,187
Manufacturing, Selling, General	21,785,382	21,769,885	20,176,100
Nonoperating Expenses			
Interest Expense	757,014	531,852	507,819
Other	44,342	24,654	50,296
Total Expenses	$ 254,693,345	$ 212,241,275	$ 170,118,402
Revenue Over Expenses	$ 8,048,398	$ 16,088,024	$ 13,179,910
Transfer to Industrial Commission	(34,172)	(34,404)	(34,404)
Transfer to General Fund	(3,822,989)	(7,641,811)	(6,260,457)
Transfer to Ag Fuel Tax Fund	(402,420)	(804,401)	(658,996)
Change in Net Assets	$ 3,788,817	$ 7,607,408	$ 6,226,053
Beginning Net Assets	58,379,009	50,771,601	44,545,548
Ending Net Assets	$ 62,167,826	$ 58,379,009	$ 50,771,601

- Gross sales reached $310,438,000.
- During the fiscal year, the Mill shipped a record 11,591,000 hundredweight of flour.
- The mill made a profit of $8,048,000.
- Mill operations provided more than $252,878,000 to the region and another 586,677,000 in secondary economic activity for a total economic impact of more than $839,555,000.

RESULTS OF OPERATIONS

Certain operating information is set forth below, as a percentage of gross sales for the fiscal years ended June 30, 2012, June 30, 2011 and June 30, 2010:

	FY 2012	FY 2011	FY 2010
Gross Margin	9.8%	14.0%	15.2%
Material Costs	74.1%	69.6%	67.2%
Operating Costs	7.0%	8.0%	9.1%
Profits	2.6%	5.9%	5.9%

Gross sales reached $310,438,000 for the fiscal year compared to $272,892,000 last year and $222,354,000 in fiscal year 2010. These high sales can be attributed to high wheat prices. Sales of spring wheat flour were 10,592,000 hundredweight or 91% of our total sales while sales of durum products were 998,000 hundredweight. This compares to sales of 10,311,000 hundredweight of spring wheat flour and 1,178,000 hundredweight of durum products last year. Bulk flour sales represent 79% of the flour sold. Flour packed in bags accounted for 21% of the flour sold.

As a result of this sales volume and high grain prices, the Mill spent more than $229,828,000 buying wheat and durum. This is up from the previous year purchases of $187,832,000 and up from purchases in fiscal year 2010 of $143,940,000. This increase in fiscal year 2012 is due to an increase of $1.34 in the price of grain delivered to the Mill during the year over the price paid in fiscal year 2011 and the increased number of bushels purchased. The Mill purchased more than 24,228,000 bushels of wheat and durum during the year just ended. The majority of the grain purchased is from North Dakota growers or grain elevators.

In addition to spending over $229,828,000 on grain, most of which went to North Dakota farmers, the Mill also spent $11,734,000 with other North Dakota based suppliers. Payroll costs for the North Dakota Mill were $11,316,000 for the year ended June 30, 2012. These three items when added together show that the Mill provided a direct economic impact to the region of over $252,878,000. A North Dakota State University study stated that for every dollar in direct economic activity from wheat processing, another $2.32 was generated in secondary economic activity. Thus, the Mill produced $586,677,000 in secondary economic activity resulting in a total economic impact of more than $839,555,000.

Operating costs were $21,785,000 compared to $20,770,000 last year and $20,176,000 in fiscal year 2010. This is an increase of $1,015,000 from last year. The primary cause for this increase in operating cost is due to the increase in cwts. produced and sold. Operating cost per hundredweight of production increased to $1.90 from $1.89 in fiscal year 2011 and $1.86 in fiscal year 2010.

Gross margins as a percent of gross sales fell to 9.8% from 14.0% in fiscal year 2011 and 15.2% in fiscal year 2010. Reduction in demand and competition is keeping downward pressure on margins. Profits as a percent of gross sales declined to 2.6% compared to 5.9% in the prior two years. The Mill experienced a profit of $8,048,000 compared to a profit of $16,088,000 last year.

LIQUIDITY

The North Dakota Mill's cash requirements relate primarily to capital improvements and a need to finance inventories and receivables based on raw material costs and levels. These cash needs are expected to be fulfilled by the Mill through operations and an established operating line of credit with the Bank of North Dakota. The Mill has a $60,000,000 operating line of credit with the Bank of North Dakota.

CASH FLOWS FROM OPERATIONS

Operating activities for the year ended June 30, 2012 provided cash of $22,813,000 compared to using cash of $7,557,000 in fiscal year 2011 and providing cash of $28,411,000 in fiscal year 2010. Cash was used primarily for increases in the level of accounts receivables and inventories. There was an operating profit for this same period of $8,770,000 compared to $16,528,000 in fiscal year 2011 and $13,664,000 in 2010.

CASH FLOWS FROM FINANCING ACTIVITIES

The North Dakota Mill had $24,000,000 of short-term debt outstanding and payable to the Bank of North Dakota on June 30, 2012 compared to $32,500,000 last year and $13,400,000 in fiscal year 2010.

NET ASSETS

Current assets decreased $10,740,000 from last year. This decrease from last year is due primarily to decreases in accounts receivables and inventories. Accounts receivables decreased $4,325,000 while inventories declined $8,257,000 from last year's values. This decrease is due to the lower price of wheat at year-end.

The carrying value of capital assets increased $2,252,000 to $38,340,000 for the year ended June 30, 2012. The North Dakota Mill completed several capital projects throughout the year that improved plant efficiencies and/or helped keep operating costs down. For more detailed information regarding capital assets and long-term debt activity see the Notes to the Financial Statements.

Current liabilities declined $12,266,000 from last year. The major change occurred in notes payable which decreased $8,500,000. The notes payable is to the Bank of North Dakota. The total net assets increased by $3,789,000, resulting in an improvement in overall financial position.

COMMODITY PRICE RISK

The North Dakota Mill utilizes futures contracts offered through regulated commodity exchanges to reduce risk. The Mill is exposed to risk of loss in the market value of inventories and fixed purchase and sales contracts. To reduce this risk, opposite and offsetting futures positions are taken. Gains and losses on these positions are recognized for financial reporting purposes when they are realized.

INDUSTRY

U.S. annual wheat flour production decreased in 2011 1.4% to 411,745,000 cwts. Production of whole wheat flour in the U.S. increased by 2% to 20,923,000 cwts. The average rate of flour milling operations in 2011 was 87%. Excess flour milling capacity and high wheat and durum prices continue to put downward pressure on margins. We expect grain and financial markets to continue to be volatile.

North Dakota farmers produced an excellent spring wheat crop despite challenging growing conditions in 2012. Average spring wheat protein is higher this year. Good spring wheat quality has a positive impact on flour quality and contributes positively towards State Mill profitability.

Comparative Statement of Net Assets

ASSETS	2012	2011
Current assets:		
Cash	$ 409,809	$ 639,829
Notes receivable	593,971	966,454
Receivables, net (note 4)	40,881,659	45,738,433
Inventories (note 5)	25,523,902	30,568,430
Prepaid expense	442,004	450,131
Total current assets	$ 67,851,345	$ 78,363,277
Noncurrent assets:		
Patronage capital credits	$ 302,078	$ 289,327
Other assets	13,150	13,150
Capital assets, net (note 6)	38,339,705	36,087,720
Total noncurrent assets	38,654,933	36,390,197
Total assets	$ 106,506,278	$ 114,753,474
LIABILITIES		
Current liabilities:		
Accounts payable and other liabilities (note 7)	$ 15,324,386	$ 14,641,129
Due to state general fund	3,822,989	7,641,811
Due to ag fuel tax fund	402,420	804,401
Notes payable	24,000,000	32,500,000
Total current liabilities	$ 43,549,795	$ 55,587,341
Noncurrent liabilities:		
Compensated absences	$ 788,657	$ 787,124
Total noncurrent liabilities	788,657	787,124
Total liabilities	$ 44,338,452	$ 56,374,465
NET ASSETS		
Invested in capital assets	$ 38,339,705	$ 36,087,720
Unrestricted	23,828,121	22,291,289
Total net assets	$ 62,167,826	$ 58,379,009

The accompanying notes are an integral part of the financial statements.

Comparative Statement of Revenues, Expenses, and Changes in Net Assets

	2012		2011	
OPERATING REVENUES				
Net sales	$	262,662,335	$	228,212,429
Total operating revenues	$	262,662,335	$	228,212,429
OPERATING EXPENSES				
Material cost	$	232,106,607	$	189,914,884
Wages and benefits		11,316,337		11,620,184
Repairs and maintenance		1,521,360		1,429,615
Operating supplies		602,599		650,441
Utilities		2,881,715		2,734,912
Insurance		806,075		762,754
Outside services		630,257		775,398
Office supplies		69,388		(237,596) *
Computer expense		200,073		275,834
Communications		72,488		74,313
Travel and entertainment		240,234		224,557
Employee expense		83,169		85,970
Safety expense		31,545		22,675
Postage and mailing		26,212		28,825
Advertising		130,865		163,506
Dues and subscriptions		119,680		106,730
Legal and professional		36,021		31,055
Depreciation		3,017,364		3,020,712
Total operating expenses		253,891,989		211,684,769
Operating income	$	8,770,346	$	16,527,660
NONOPERATING REVENUES (EXPENSES)				
Interest income	$	22,635	$	28,853
Interest expense		(757,014)		(531,852)
Miscellaneous income		56,773		88,017
Other expense		(44,342)		(24,654)
Total nonoperating expenses		(721,948)		(439,636)
Gain before transfers	$	8,048,398	$	16,088,024
Transfer to state general fund	$	(3,822,989)	$	(7,641,811)
Transfer to ag fuel tax fund		(402,420)		(804,401)
Transfer to Industrial Commission		(34,172)		(34,404)
Change in net assets	$	3,788,817	$	7,607,408
Total net assets - beginning		58,379,009		50,771,601
Total net assets - ending	$	62,167,826	$	58,379,009

The accompanying notes are an integral part of the financial statements.

* Due to cleaning up old accounts.

Comparative Statement of Cash Flows

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and users	$ 315,351,281	$ 255,193,605
Payments to suppliers	(280,384,204)	(251,543,376)
Payments to employees	(12,154,118)	(11,206,857)
Net cash (used) provided by operating activities	$ 22,812,959	$ (7,556,627)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Proceeds from noncapital debt	$ 23,750,000	$ 36,900,000
Principal paid on noncapital debt	(32,250,000)	(17,800,000)
Note given for other than capital purposes		(1,085,286)
Interest paid on noncapital debt	(757,014)	(531,852)
Ag promotion	(38,297)	(24,654)
Transfer to Industrial Commission	(34,172)	(34,404)
Transfer to state general fund	(7,641,811)	(6,260,457)
Transfer to ag fuel tax fund	(804,401)	(658,996)
Net cash provided (used) by noncapital financing activities	$ (17,775,695)	$ 10,504,351
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of infrastructure and equipment		$ (33,944)
Acquisition and construction of capital assets	$ (5,275,394)	(2,317,351)
Net cash used by capital and related financing activities	$ (5,275,394)	$ (2,351,295)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income on investments	$ 8,110	$ 9,786
Net cash provided by investing activities	$ 8,110	$ 9,786
Net increase (decrease) in cash and cash equivalents	$ (230,020)	$ 606,215
Cash, beginning	639,829	33,614
Cash, ending	$ 409,809	$ 639,829

(Continued)

Statement of Cash Flows - Continued

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Operating income	$	8,770,346	$	16,527,660
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation and amortization		3,017,364		3,020,712
Sales allowance adjustments		387,008		424,444
Other nonoperating income		56,773		57,053
(Increase) decrease in receivables, net		4,856,774		(17,755,066)
(Increase) decrease in inventories		5,044,528		(15,327,740)
Decrease in prepaid expense		8,127		209,791
(Increase) in patronage capital credits		(12,752)		(11,255)
Increase in accounts payable		1,497,701		5,792,655
(Decrease) Increase in accrued payroll		(839,395)		1,013,570
(Decrease) increase in other liabilities		24,871		(1,542,766)
Increase in accrued sick and vacation pay		1,613		34,314
Total adjustments		14,042,612		(24,084,288)
Net cash (used) provided by operating activities	$	22,812,959	$	(7,556,627)

The accompanying notes are an integral part of the financial statements.

Notes to the Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies, as summarized below and the financial statements for the North Dakota Mill and Elevator Association (Mill) are in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) which is the nationally accepted standard-setting body for establishing governmental accounting and financial reporting principles.

A. Reporting Entity

For financial reporting purposes, the Mill has included all of its operations as enterprise funds, and has considered all potential component units for which the Mill is financially accountable and other organizations for which the nature and significance of their relationship with the Mill are such that exclusion would cause the Mill's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. This criteria includes appointing a voting majority of an organization's governing body and (1) the ability of the Mill to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the Mill.

Based upon these criteria, there are no component units to be included within the Mill as a reporting entity and the Mill is included within the state of North Dakota as a reporting entity.

B. Basis of Presentation

The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). The Mill's activities are considered to be an enterprise fund, single business-type activity (BTA) and accordingly, are reported within a single column in the basic financial statements.

C. Basis of Accounting

The enterprise fund is accounted for on a flow of economic resources measurement focus. The accrual basis of accounting is utilized by the enterprise fund. Revenue is recognized at the time of shipment from the Mill or from the transloading site. Expenses are recognized at the time goods and services were received and accepted.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Mill does not apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, for business type activities; unless the GASB amends its pronouncements to specifically adopt FASB pronouncements issued after that date.

D. Cash

This classification appears on the Comparative Statement of Net Assets and the Comparative Statement of Cash Flows and includes petty cash and cash on deposit with the Bank of North Dakota.

E. Receivables
Accounts receivable represent amounts due from customers for credit sales. Other receivables consist of grain margin accounts, pending railway claims, and derivatives. The grain margin accounts and derivatives are used to buy and sell spring wheat futures contracts on the Minneapolis Grain Exchange. Any activity would be recognized at cost after the settlement period. The allowance method is used to account for estimated uncollectible accounts receivable.

F. Inventories
Grain committed to production is valued at cost. Grain committed to sale is valued at net commitment price. Excess grain inventories are valued at June 30 Minneapolis grain market values, less freight costs to Minneapolis. Flour, feed, and resale inventories are valued at ingredient cost plus manufacturing costs incurred in their production. Supplies inventories are valued at cost. The first-in, first-out basis is used for all inventories.

G. Capital Assets
Capital assets are stated at cost. When it is determined that a project consisting of machinery, equipment, or buildings will span more than one year, a "construction in progress" project folder is established to facilitate the accumulation until completion. Upon completion, the completed item is transferred to the applicable asset category. Movable equipment with a cost of $5,000 or more is capitalized and reported in the accompanying financial statements.

Depreciation is computed on a straight-line basis over the estimated useful life of the assets, generally 10 to 20 years for infrastructure, 30 to 40 years for buildings, 5 to 25 years for plant equipment, 7 to 10 years for office equipment and furniture, 3 to 8 years for intangibles, and 5 to 10 years for leasehold improvements.

H. Noncurrent Long-Term Liabilities
Noncurrent long-term liabilities include compensated absences that will not be paid within the next fiscal year.

I. Compensated Absences
Annual Leave - Union employees earn vacation within a range of 6 days to 30 days per year depending on length of continuous service. Other employees are entitled to earn annual leave, based on tenure of employment, within a range of 12 days to 30 days per year. Individuals may bank earned vacation time to a total accumulation of 30 days payable at retirement or upon severance of employment.

Sick Leave - Union employees earn sick pay at the rate of one day for each two months of continuous employment. Upon termination, union employees shall be paid an amount equal to $50 times the total unused days of accumulated leave, not to exceed $5,000. Other employees earn sick pay at the rate of one day per month. Upon termination, these employees are entitled to be paid 10% of their accumulated sick leave, if employed 10 years or longer.

J. Scale Accrued Purchases
Grain received/unloaded at the Mill that has not yet been settled by the Mill.

K. Net Assets
The Mill's net assets are classified as follows:

Invested in Capital Assets – This represents the Mill's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

Unrestricted Net Assets – Unrestricted net assets include resources derived from customer sales which may be used to meet the Mill's ongoing obligations.

L. Revenue and Expense Recognition
The Mill presents its revenues and expenses as operating or nonoperating based on recognition definitions from GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that use Proprietary Fund Accounting*. Operating activities are those activities that are necessary and essential to the mission of the Mill. Operating revenues include all charges to customers. Revenues from interest income, gains on sale of capital assets, and bad debt recovery are considered nonoperating since these are either investing, capital, or noncapital financing activities. Operating expenses are all expense transactions incurred other than those related to investing, capital, or noncapital financing activities and do not include interest expense and disposal of undepreciated capital assets.

NOTE 2 – BUDGETING AND BUDGETARY CONTROL

The Mill provides its own operating funds. A two-year budget appropriation is approved by the State Legislature. The Mill's budgeting is on the accrual basis. The Mill does not use encumbrance accounting.

NOTE 3 – DEPOSITS

North Dakota Century Code (NDCC) Sections 6-09-07 and 21-04-02 govern the deposit and investment of public funds.

NDCC 6-09-07 states, "All state funds…must be deposited in the Bank of North Dakota...or must be deposited in accordance with constitutional and statutory provisions."

NDCC 21-04-02 provides that public funds belonging to or in the custody of the state shall be deposited in the Bank of North Dakota.

At June 30, 2012 and 2011 the carrying amounts of the Mill's deposits were $409,809 and $639,829 respectively, and the bank balances were $6,449,071 and $8,879,088, respectively. All deposits are exposed to custodial credit risk because they are not covered by depository insurance and the deposits are uncollateralized. These monies are deposited in the Bank of North Dakota and are guaranteed by the state of North Dakota (North Dakota Century Code Section 6-09-10).

NOTE 4 – RECEIVABLES

The Mill and Elevator entered into a note receivable with a customer in December 2009 and with another customer in September 2010. The total of the notes at June 30, 2012 and 2011 were $593,971 and $966,454, respectively, with a variable interest rate of 2%, which is the same rate that the Bank of North Dakota charges the Mill and Elevator.
Receivables at June 30, 2012 and 2011 consist of the following:

		Allowance		
June 30, 2012	Gross Receivables	Bad Debts	Billbacks/ Promotional	Net Receivables
Current Receivables				
Accounts	$ 43,207,710	$ (1,763,864)	$ (562,187)	$ 40,881,659
Total Current Receivables	$ 43,207,710	$ (1,763,864)	$ (562,187)	$ 40,881,659

		Allowance		
June 30, 2011	Gross Receivables	Bad Debts	Billbacks/ Promotional	Net Receivables
Current Receivables				
Accounts	$ 47,475,607	$ (1,763,864)	$ (504,760)	$ 45,206,983
Margin accounts	531,450			531,450
Total Current Receivables	$ 48,007,057	$ (1,763,864)	$ (504,760)	$ 45,738,433

At June 30, 2012 and 2011, the ages of gross accounts receivable were as follows:

	2012	2011
Current	$ 24,997,303	$ 28,290,759
1-30 Days	14,345,851	14,908,792
31-60 Days	2,857,616	3,370,976
61-90 Days	599,814	519,550
Over 90 Days	407,126	385,530
	$ 43,207,710	$ 47,475,607

NOTE 5 – INVENTORIES

At June 30, 2012 and 2011, inventories consisted of the following:

	2012	2011
Grain	$ 20,328,926	$ 22,553,665
Flour, Feed, Resale	4,408,637	7,301,988
Supplies	786,339	712,777
Total Inventories	$ 25,523,902	$ 30,568,430

The Mill's net position in the grain market at June 30, 2012 and 2011 was as follows:

	2012 Bushels		2011 Bushels	
	Wheat	Durum	Wheat	Durum
Company Owned (Priced) Grain on Hand	1,709,087	246,214	1,943,887	41,230
Open Purchase Contracts				
Cash	2,562,987	64,098	2,511,752	432,663
Futures	80,000		1,445,000	
Subtotal	4,352,074	310,312	5,900,639	473,893
Bushel Equivalent of Flour Inventory	448,064	58,195	540,119	107,115
Committed to Production	(4,789,723)	(345,070)	(6,580,862)	(538,670)
Net Position (Short) Long	10,415	23,437	(140,104)	42,338

Any gains or losses on net open position would only occur if there were changes in the market price of wheat or durum prior to the Mill covering their open position. Losses on open purchase contracts could occur if there was a failure to deliver the commodity. The amount of loss would depend upon the difference between the contract price and the market price at that time.

NOTE 6 – CAPITAL ASSETS

A summary of changes in capital assets for fiscal years ended June 30, 2012 and 2011 is presented as follows:

	Balance 7/1/11	Additions	Deletions	Transfers	Balance 6/30/12
Capital Assets, Non-Depreciable:					
Land	$ 221,553				$ 221,553
Construction in Progress	969,365	$ 5,275,394		$ (1,437,260)	4,807,499
Total Capital Assets, Non-Depreciable	1,190,918	5,275,394		(1,437,260)	5,029,052
Capital Assets, Depreciable:					
Infrastructure	$ 2,716,761				$ 2,716,761
Buildings	20,393,787			$ 487,832	20,881,619
Machinery & Equipment	56,980,540		$ (764,297)	827,194	57,043,437
Intangibles	443,114			84,929	528,043
Furniture & Fixtures	631,012		(107,024)	37,305	561,293
Total Capital Assets, Depreciable	$ 81,165,214		$ (871,321)	$ 1,437,260	$ 81,731,153
Less Accumulated Depreciation for:					
Infrastructure	$ 1,764,346	$ 67,399			$ 1,831,745
Buildings	10,740,135	475,192			11,215,327
Machinery & Equipment	33,019,235	2,384,713	$ (758,252)		34,645,696
Intangibles	212,647	63,627			276,274
Furniture & Fixtures	532,049	26,433	(107,024)		451,458
Total Accumulated Depreciation	$ 46,268,412	$ 3,017,364	$ (865,276)		$ 48,420,500
Total Capital Assets, Depreciable, Net	$ 34,896,802	$ (3,017,364)	$ (6,045)	$ 1,437,260	$ 33,310,653
Capital Assets, Net	$ 36,087,720	$ 2,258,030	$ (6,045)		$ 38,339,705

	Balance 7/1/10	Additions	Deletions	Transfers	Balance 6/30/11
Capital Assets, Non-Depreciable:					
Land	$ 221,553				$ 221,553
Construction in Progress		$ 2,412,851		$ (1,443,486)	969,365
Total Capital Assets, Non-Depreciable	221,553	2,412,851		(1,443,486)	1,190,918
Capital Assets, Depreciable:					
Infrastructure	2,716,761				2,716,761
Buildings	20,393,787				20,393,787
Machinery & Equipment	55,824,718	28,290	(282,178)	1,409,710	56,980,540
Intangibles	437,461	5,654			443,115
Furniture & Fixtures	597,235			33,776	631,011
Total Capital Assets, Depreciable	79,969,962	33,944	(282,178)	1,443,486	81,165,214
Less Accumulated Depreciation for:					
Infrastructure	1,686,724	77,622			1,764,346
Buildings	10,264,800	475,335			10,740,135
Machinery & Equipment	30,867,233	2,369,644	(217,642)		33,019,235
Intangibles	138,645	74,001			212,646
Furniture & Fixtures	507,939	24,111			532,050
Total Accumulated Depreciation	43,465,341	3,020,713	(217,642)		46,268,412
Total Capital Assets, Depreciable, Net	36,504,621	(2,986,769)	(64,536)	1,443,486	34,896,802
Capital Assets, Net	$ 36,726,174	$ (573,918)	$ (64,536)	$ -	$ 36,087,720

NOTE 7 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2012 and 2011 were as follows:

	2012	2011
Scale Accrued Purchases	$ 9,238,802	$ 6,890,060
Accounts Payable	4,303,528	5,382,849
Accrued Gain Sharing	1,212,598	1,813,233
Margins payable	228,281	
Other	141,645	116,774
Accrued Payroll	91,438	352,425
Accrued Commissions	44,360	44,360
Compensated Absences, Current Portion	41,508	41,428
Accrued Payroll Taxes and Benefits	22,226	
Total accounts payable and accrued liabilities	$ 15,324,386	$ 14,641,129

NOTE 8 – SHORT-TERM NOTES PAYABLE

The Mill uses a revolving line of credit to finance current operations. Short-term debt activity for the years ended June 30, 2012 and 2011 was as follows:

	Balance 7/1/11	Draws	Repayments	Balance 6/30/12
Line of credit	$ 32,500,000	$ 23,750,000	$ (32,250,000)	$ 24,000,000

	Balance 7/1/10	Draws	Repayments	Balance 6/30/11
Line of credit	$ 13,400,000	$ 36,900,000	$ (17,800,000)	$ 32,500,000

NOTE 9 – LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities for June 30, 2012 and 2011 is presented as follows:

	Balance 7/1/11	Additions	Reductions	Balance 6/30/12	Current Portion	Noncurrent Portion
Net Pension Obligations		$ 769,330	$ (769,330)			
Compensated Absences	$ 828,552	473,210	471,597	$ 830,165	$ 41,508	$ 788,657
Total Long-Term Liabilities	$ 828,552	$ 1,242,540	$ (297,733)	$ 830,165	$ 41,508	$ 788,657

	Balance 7/1/10	Additions	Reductions	Balance 6/30/11	Current Portion	Noncurrent Portion
Net Pension Obligations		$ 633,230	$ (633,230)			
Compensated Absences	$ 794,238	437,784	(403,470)	$ 828,552	$ 41,428	$ 787,124
Total Long-Term Liabilities	$ 794,238	$ 1,071,014	$ (1,036,700)	$ 828,552	$ 41,428	$ 787,124

NOTE 10 – BONUS AND OTHER EMPLOYEE AGREEMENTS

The general manager’s annual bonus opportunity is based on performance, up to 30% of base salary. The employee’s annual bonus opportunity is based on achieving production, safety, and profit goals. Production and safety goals have a 4% bonus potential and if profit before gain sharing expense accrual exceeds $2 million, the profit bonus would be 1% of base salary for each million in profits (before gain sharing expense accrual), or fraction thereof. The bonus potential was accrued. (See Note 7)

NOTE 11 – LEASE OBLIGATIONS

During the fiscal years ended June 30, 2012 and 2011 the Mill had operating leases for bulk rail and box cars with original terms of 2 to 21 years on 582 and 549, respectively. Contract rental charges per car varied from $175 to $895 per month. The Mill also has an operating lease with Pitney Bowes for a postage machine and Nissan Motor for the general manager’s automobile. The annual contract expenses for the years ended June 30, 2012 and 2011 are as follows:

	2012	2011
Bulk rail cars	$ 4,555,095	$ 4,253,430
Postage machine	1,664	2,774
Automobile	8,833	8,096
Total operating lease payments	$ 4,565,592	$ 4,264,300

The minimum future lease payments for each of the next five years and in the aggregate is as follows:

6/30/2013	$ 4,420,891
6/30/2014	3,786,203
6/30/2015	3,263,880
6/30/2016	2,331,305
6/30/2017	1,161,385
6/30/2018-2021	1,014,000
	$ 15,977,664

NOTE 12- PENSION AND POST-RETIREMENT PLANS/BENEFITS

The North Dakota Mill and Elevator Association participates in the North Dakota Public Employees' Retirement System (NDPERS), administered by the state of North Dakota. The following is a brief description of the plans:

A. Description of Pension Plans

1. NDPERS has a cost-sharing multiple-employer defined benefit pension plan covering substantially all classified employees of the Mill. The plan provides retirement, disability, and death benefits. If an active employee dies with less than three years of credited service, a death benefit equal to the value of the employee's accumulated contributions, plus interest, is paid to the employee's beneficiary. If the employee has earned more than three years of credited service, the surviving spouse will be entitled to either a single payment refund, life-time monthly payments in an amount equal to 50% of the employee's accrued normal retirement benefit, or monthly payments in an amount equal to the employees' accrued 100% joint and survivor retirement benefit, if the member had reached normal retirement age prior to date of death. If the surviving spouse dies before the employee's accumulated pension benefits are paid; the balance will be payable to the surviving spouse's designated beneficiary.

Eligible employees who become totally disabled after a minimum of 180 days of service receive monthly disability benefits that are equal to 25% of their final average salary, with a minimum benefit of $100. To qualify under this section, the employee must meet the criteria established by the Retirement Board for being considered totally disabled.

Employees are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equal or exceed 85, or at normal retirement age (65), equal to 2% of their final average salary for each year of service. The plan permits early retirement at ages 55-64, with three or more years of service.

2. NDPERS has a cost-sharing multiple-employer defined contribution pension plan covering selected non-classified employees of the Mill. The employee selects where all mandatory contributions will be invested, from the investment options available through the plan. The plan provides retirement, disability, and death benefits. An employee

gradually vests in the employer contributions as follows: 50% after two years of service; 75% after three years of service; and 100% after four years of service. An employee is always vested in their own contributions. If an active employee dies, the surviving spouse or beneficiary will receive the full market value of the vested portion of the account.

Employees who become disabled are eligible to draw from their account until the funds are gone, subject to income taxes upon withdrawal.

Employees are entitled to their plan benefits at any time upon separation from the state. An early withdrawal penalty may apply, if the employee takes their money before age 59½ without, for example, rolling the money into another qualified plan or IRA.

B. Pension Plan Funding Policy

NDPERS is funded by employee contributions (set by statute) of 4% (5% as of January 2012) of regular compensation. During the 1983-1985 biennium the state implemented the employer pickup provision of the IRS code whereby a portion or all of the required employee contributions are made by the employer. The state paid the full employee contribution until January 2012 when the employee began paying 1% of covered compensation. Employer contributions of 4.12% (5.12% as of January 2012) of covered compensation are set by statute. The required contributions are determined using an entry age normal actuarial funding method.

C. State Group Health Plan

Section 54-52.1-03.2 of the North Dakota Century Code establishes a Retiree Health Benefits Fund to provide members who receive retirement benefits from the Public Employees Retirement System a credit toward their monthly health insurance premium under the state health plan based upon the member's years of credited service. The employer contribution for the Public Employees Retirement System is set by statute on an actuarially determined basis (projected unit actuarial cost method) at 1.14% of covered compensation. Employees participating in the retirement plan, as part-time/temporary members are required to contribute 1.14% of their covered compensation to the Retiree Health Benefits Fund.

The North Dakota Retirement Board was created by the state legislature and is the governing authority of NDPERS. Benefit and contribution provisions are administered in accordance with chapter 54-52 of the North Dakota Century Code. The Mill's required and actual contributions to NDPERS for the fiscal years ending June 30, 2012, 2011, and 2010 were $769,330, $633,230, and $598,748, respectively.

NDPERS issues a publicly available financial report that includes financial statements and the required supplementary information for NDPERS. The report may be obtained by writing to: NDPERS; 400 East Broadway, Suite 505; PO Box 1657; Bismarck, ND 58502-1657.

NOTE 13 - DEFERRED COMPENSATION PLAN

The state offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all state employees, permits them to defer a portion of their current salary until future years. Participation in the plan is optional. The deferred compensation is not available to the employees until separation of employment, unforeseeable emergency, de minimus distribution or qualified domestic relations orders.

All compensation deferred under the plans, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights are held in trust for the exclusive use of the employee or their beneficiary.

The North Dakota Mill and Elevator employee deposits to deferred compensation for June 30, 2012 and 2011 were $179,924 and $183,066, respectively.

NOTE 14 – CONCENTRATIONS

The Mill sells a substantial portion of its product to five major customers. Sales to these customers totaled approximately 6,191,430 and 6,435,667 hundredweight for the years ended June 30, 2012 and 2011, respectively. For both June 30, 2012 and 2011, sales to these customers were 53% of total sales.

Approximately 69% of employees are employed under a five-year bargaining agreement that will expire at June 30, 2014. This contract contains a provision that states there shall be no strikes, slowdowns, or stoppages of work, picketing, boycotts, or other interference with the full operations of the business of the Company by the employees covered by this agreement and there shall be no lockout by the employer.

NOTE 15 - RELATED PARTY TRANSACTIONS

Chapter 54-18 of the North Dakota Century Code provides that the Industrial Commission shall transfer to the state general fund 50% of the annual earnings of the Mill after any transfers to other state agricultural-related programs. The chapter also provides that the Industrial Commission shall transfer 5% of the net income earned by the Mill during that fiscal year to the agricultural fuel tax fund.

As referred to in Note 3, the Mill does all of its banking with the Bank of North Dakota. The Mill established a revolving line of credit with the Bank of North Dakota and as of June 30, 2012 and 2011, there was $24,000,000 and $32,500,000 outstanding, respectively. The interest rate is variable at 1.0% over the 3-month LIBOR, adjusted quarterly. As of June 30, 2012, the floor rate was 2.0%.

NOTE 16 – DERIVATIVE INSTRUMENT

The fair value balances and notional amount of derivative instruments outstanding at June 30, 2012 and the changes in fair value of such derivative instruments for the year then ended as reported in the 2012 financial statements are $607,568, classified as derivative – grain futures contract (one contract equals 5000 bushels) and $607,568, classified as deferred inflow of resources, respectively. The fair value of the grain futures contracts was determined on the Minneapolis Grain Exchange. The margin requirement is $.60 per bushel, unless the market price changes the limit for two consecutive days, then the margin requirement is $.90 per bushel. The Mill has entered into futures contracts for spring wheat to lock in a price for a future delivery or settlement period. These contracts are entered into to protect the Mill against price fluctuations of the commodity. The price protection is needed to cover any long or short positions compared to flour sales.

Futures	Brokerage Firm	Number of Contracts	Average Cost	Fair Value	Effective Date
Sept 2012	ADM Investor Services	(124)	$8.2042	$8.4500	June 2012
Sept 2012	RJ O'Brien	(175)	8.0979	8.4500	June 2012
Dec 2012	ADM Investor Services	126	7.9113	8.5100	June 2012
Dec 2012	RJ O'Brien	56	7.8351	8.5100	June 2012
Mar 2013	ADM Investor Services	31	7.8661	8.5700	June 2012
Mar 2013	RJ O'Brien	12	7.6983	8.5700	June 2012
May 2013	ADM Investor Services	20	7.8623	8.6600	June 2012
May 2013	RJ O'Brien	25	7.8337	8.6600	June 2012
July 2013	RJ O'Brien	30	7.7100	8.6600	June 2012
Sept 2013	ADM Investor Services	15	8.1593	8.3000	June 2012

The Mill is exposed to credit risk on hedging derivative instruments that are in asset positions. All grain futures trades are completed using two different national brokerage firms on the Minneapolis Grain Exchange. ADM Investor Services is rated A by the Standard & Poor's Rating Service. RJ O'Brien is a privately held business and is not rated by the Standard & Poor's Rating Service.

The Mill is exposed to rollover risk on grain futures trades whenever the hedge ratio (defined in aggregate of the size across all futures months relative to the underlying net cash position) does not equal 1.0. At June 30, 2012, the table below shows the hedge ratio by futures month going forward:

Period	Hedge Ratio
September 2012	1.1
December 2012	1.0
March 2013	1.0
May 2013	1.2
July 2013	1.0
September 2013	2.8
Net Position	1.0

The following table shows the Mill's hedge ratio by futures month going forward for at June 30, 2011:

Period	Hedge Ratio
September 2011	0.9
December 2011	0.9
March 2012	0.9
May 2012	1.0
July 2012	1.1
Net Position	0.9

NOTE 17 - RISK MANAGEMENT

The North Dakota Mill and Elevator Association is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the North Dakota Mill and Elevator Association carries liability insurance and property insurance through the state's Risk Management Fund (RMF) and commercial insurance, respectively.

The 1995 Legislative Session established the RMF, an internal service fund, to provide a self-insurance vehicle for funding the liability exposures of state agencies resulting from the elimination of the state's sovereign immunity. The RMF manages the tort liability of the state, its agencies and employees. All state agencies participate in the RMF and each fund's contribution was determined using a projected cost allocation approach.

The Mill participated in North Dakota Workforce Safety and Insurance (WSI), an enterprise fund of the state of North Dakota. The WSI is a state insurance fund and a 'no fault' insurance system covering the state's employers and employees financed by premiums assessed to employers. The premiums are available for the payment of claims to employees injured in the course of employment.

The Mill participates in the State Bonding Fund which currently provides blanket fidelity bond coverage in the amount of $2,000,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

There have been no significant reductions in insurance coverage from the prior years and settled claims resulting from these risks have not exceeded insurance coverage in any of the past three years.

NOTE 18 – COMMITMENTS AND CONTINGENCIES

At June 30, 2012 and 2011, the Mill had committed to purchase 2,562,987 and 2,511,752 bushels of spring wheat, respectively, and 64,098 and 432,663 bushels of durum, respectively.

In addition, at June 30, 2012 and 2011, construction commitments totaled $2,847,961 and $3,125,635; respectively, amounts authorized totaled $7,655,460 and $4,095,000, respectively, and amounts expended/construction in progress totaled $4,807,499 and $969,365, respectively.

Responses to LAFRC Audit Questions

The Legislative Audit and Fiscal Review Committee (LAFRC) requests that certain items be addressed by auditors performing audits of state agencies.

1. *What type of opinion was issued on the financial statements?*

   Unqualified.

2. *Was there compliance with statutes, laws, rules, and regulations under which the agency was created and is functioning?*

   Yes.

3. *Was internal control adequate and functioning effectively?*

   Yes.

4. *Were there any indications of lack of efficiency in financial operations and management of the agency?*

   No.

5. *Has action been taken on findings and recommendations included in prior audit reports?*

   Yes.

6. *Was a management letter issued? If so, provide a summary below, including any recommendations and the management responses.*

   No.

LAFRC Audit Communications

1. *Identify any significant changes in accounting policies, any management conflicts of interest, any contingent liabilities, or any significant unusual transactions.*

   None noted.

2. *Identify any significant accounting estimates, the process used by management to formulate the accounting estimates, and the basis for the auditor's conclusions regarding the reasonableness of those estimates.*

   Management's estimate of the useful lives, as described in Note 1, is used to compute depreciation on capital assets. Management's estimate of the allowance for uncollectible receivables is based on aging categories and past history. We evaluated the key factors and assumptions used to develop the useful lives and allowances in determining that they are reasonable in relation to the financial statements taken as a whole.

3. *Identify any significant audit adjustments.*

   None.

4. *Identify any disagreements with management, whether or not resolved to the auditor's satisfaction relating to a financial accounting, reporting, or auditing matter that could be significant to the financial statements.*

   None.

5. *Identify any serious difficulties encountered in performing the audit.*

   None.

6. *Identify any major issues discussed with management prior to retention.*

   This is not applicable for audits conducted by the Office of the State Auditor.

7. *Identify any management consultations with other accountants about auditing and accounting matters.*

   None.

8. *Identify any high-risk information technology systems critical to operations based on the auditor's overall assessment of the importance of the system to the agency and its mission, or whether any exceptions identified in the six audit report questions to be addressed by the auditors are directly related to the operations of an information technology system.*

   Microsoft Dynamics GP and CINCH Agri-Suite are the most high-risk information technology systems critical to the North Dakota Mill and Elevator Association.

STATE AUDITOR
ROBERT R. PETERSON

PHONE
(701) 328 - 2241
FAX
(701) 328 - 1406

STATE OF NORTH DAKOTA
OFFICE OF THE STATE AUDITOR
STATE CAPITOL
600 E. BOULEVARD AVENUE - DEPT. 117
BISMARCK, NORTH DAKOTA 58505

Governance Communication

November 6, 2012

Legislative Audit and Fiscal Review Committee

Industrial Commission

We have audited the financial statements of the business-type activities of the North Dakota Mill and Elevator Association for the year ended June 30, 2012, and have issued our report thereon dated November 6, 2012. Professional standards require that we provide you with the following information related to our audit.

Qualitative Aspects of Accounting Practices
Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the North Dakota Mill and Elevator Association are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies were not changed. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate(s) affecting the financial statements were:

- Useful lives of capital assets
- Allowance for uncollectible receivables: $2,326,051

Management's estimate of the useful lives, as described in Note 1, is used to compute depreciation on capital assets. Management's estimate of the allowance for uncollectible receivables is based on aging categories and past history. We evaluated the key factors and assumptions used to develop the useful lives and allowances in determining that they are reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit
We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements
Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. None of the misstatements detected as a result of audit procedures were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management
For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations
We have requested certain representations from management that are included in the management representation letter dated November 6, 2012.

Management Consultations with Other Independent Accountants
In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues
We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of Industrial Commission and Legislative Audit and Fiscal Review Committee and management of the North Dakota Mill and Elevator Association, is not intended to be, and should not be used by anyone other than these specified parties.

Very truly yours,

Robyn Hoffmann

Robyn Hoffmann, CPA
Auditor In-Charge

Schedule of Appropriations

OBJECT	2011-2013 Original Appropriation	Appropriation Adjustments	2012 Expenses/ Transfers	Balance 6-30-12
Salaries and wages	$ 26,018,008		$ 11,316,337	$ 14,701,671
Operating expenses	20,443,869		7,642,831	12,801,038
Agriculture Promotion	210,000		38,296	171,704
Contingency	400,000			400,000
TOTAL	$ 47,071,877	$ -	$ 18,997,464	$ 28,074,413
SOURCE				
Special fund authority	$ 47,071,877		$ 18,997,464	$ 28,074,413
TOTAL	$ 47,071,877	$ -	$ 18,997,464	$ 28,074,413

2011-13 Appropriation amounts come directly from the North Dakota Session Laws, Chapter 14, House Bill 1014.

The following is a reconciliation of the GAAP expenses from the Comparative Statement of Revenue, Expenditures and Changes in Fund Balance to the Schedule of Appropriations:

	2012
Total operating expenses	$ 253,891,989
Less:	
Material cost	(232,106,607)
Depreciation	(3,017,364)
Add:	
Demurrage	191,150
Agriculture Promotion	38,296
Expenses per schedule of appropriations	$ 18,997,464

Appropriation Adjustments:

None

You may obtain audit reports on the internet at:

www.nd.gov/auditor/

or by contacting the
Division of State Audit

Office of the State Auditor
600 East Boulevard Avenue – Department 117
Bismarck, ND 58505-0060