CLIENT CODE 475

ND MILL AND ELEVATOR ASSOCIATION

GRAND FORKS, NORTH DAKOTA

Audit Report

For the Years Ended
June 30, 2013 and 2012

ROBERT R. PETERSON
STATE AUDITOR

Office of the State Auditor
Division of State Audit

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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

Report on the Financial Statements

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, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the North Dakota Mill and Elevator Association's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 State 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion of the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the North Dakota Mill and Elevator Association as of June 30, 2013 and 2012, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of the North Dakota Mill and Elevator Association are intended to present the financial position, the changes in financial position, and cash flows of only that portion of the business-type activities of the state that is attributable to the transactions of the 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, 2013 and 2012, the changes in its financial position, or where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As described in Note 1, the North Dakota Mill and Elevator Association adopted the provisions of GASB 62 *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* and GASB 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position.* The opinion is not modified with the implementation of these GASB statements.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America required that the management's discussion and analysis on pages 6-9 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 with management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the North Dakota Mill and Elevator Association's basic financial statements. The Schedule of Appropriations is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Schedule of Appropriations is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards,* we have also issued our reports dated October 22, 2013 and 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 those reports 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 internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the North Dakota Mill and Elevator Association's internal control over financial report compliance.

Robert R. Peterson
State Auditor

Fargo, North Dakota

October 22, 2013

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Independent Auditor's 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, in accordance with the 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, the business-type activities of the North Dakota Mill and Elevator Association, as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the North Dakota Mill and Elevator Association's basic financial statements, and have issued our report dated October 22, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the North Dakota Mill and Elevator Association's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the North Dakota Mill and Elevator Association's internal control.

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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the North Dakota Mill and Elevator Association's financial statements are free from 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.*

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Robert R. Peterson
State Auditor

Fargo, North Dakota

October 22, 2013

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, 2013. Please read this information in conjunction with the financial statements that follow this section.

FINANCIAL HIGHLIGHTS
Condensed Financial Data

	FY 2013	FY 2012	FY 2011
Current Assets	$ 79,019,516	$ 67,851,345	$ 78,363,277
Noncurrent Assets	338,086	315,228	302,477
Capital Assets	43,038,358	38,339,705	36,087,720
Total Assets	$ 122,395,960	$ 106,506,278	$ 114,753,474
Current Liabilities	$ 53,758,742	$ 43,549,795	$ 55,587,341
Noncurrent Liabilities	877,631	788,657	787,124
Total Liabilities	$ 54,636,373	$ 44,338,452	$ 56,374,465
Invested in Capital Assets	$ 43,038,358	$ 38,339,705	$ 36,087,720
Unrestricted	24,721,229	23,828,121	22,291,289
Total Net Position	$ 67,759,587	$ 62,167,826	$ 58,379,009
Operating Revenue			
Gross Sales	$ 318,974,832	$ 310,437,733	$ 272,891,617
Sales Deductions	(50,834,567)	(47,775,398)	(44,679,188)
Net Sales	$268,140,265	$262,662,335	$ 228,212,429
Nonoperating Revenue			
Interest Income	11,939	22,635	28,853
Miscellaneous	100,365	56,773	88,017
Total Revenues	$ 268,252,569	$ 262,741,743	$ 228,329,299
Operating Expenses			
Material Cost	$ 232,545,519	$ 232,106,607	$ 189,914,884
Manufacturing, Selling, General	23,169,766	21,785,382	21,769,885
Nonoperating Expenses			
Interest Expense	605,514	757,014	531,852
Other	24,543	44,342	24,654
Total Expenses	$ 256,345,342	$ 254,693,345	$ 212,241,275
Revenue Over Expenses	$ 11,907,227	$ 8,048,398	$ 16,088,024
Transfer to Industrial Commission	(34,172)	(34,172)	(34,404)
Transfer To NDSU Ag Extension	(60,000)		
Transfer to General Fund	(5,625,933)	(3,822,989)	(7,641,811)
Transfer to Ag Fuel Tax Fund	(595,361)	(402,420)	(804,401)
Change in Net Position	$ 5,591,761	$ 3,788,817	$ 7,607,408
Beginning Net Position	62,167,826	58,379,009	50,771,601
Ending Net Position	$ 67,759,587	$ 62,167,826	$ 58,379,009

- Gross sales reached $318,975,000.
- During the fiscal year, the Mill shipped a record 11,940,000 hundredweight of flour.
- The Mill made a profit of $11,907,000.
- Mill operations provided more than $249,106,000 to the region and another $577,926,000 in secondary economic activity for a total economic impact of more than $827,032,000.

RESULTS OF OPERATIONS

Certain operating information is set forth below, as a percentage of gross sales for the fiscal years ended June 30, 2013, June 30, 2012 and June 30, 2011:

	FY 2013	FY 2012	FY 2011
Gross Margin	11.2%	9.8%	14.0%
Material Costs	72.9%	74.8%	69.6%
Operating Costs	7.3%	7.0%	8.0%
Profits	3.7%	2.6%	5.9%

Gross sales reached $318,975,000 for the fiscal year compared to $310,438,000 last year and $272,892,000 in fiscal year 2011. These high sales can be attributed to higher sales volume. Sales of spring wheat flour were 10,863,000 hundredweight or 91% of our total sales while sales of durum products were 1,077,000 hundredweight. This compares to sales of 10,592,000 hundredweight of spring wheat flour and 998,000 hundredweight of durum products last year. Bulk flour sales represent 78 percent of the flour sold. Flour packed in bags accounted for 22% of the flour sold.

As a result of this increased sales volume, the Mill spent more than $224,816,000 buying wheat and durum. This is slightly down from the previous year purchases of $226,745,000 and up from purchases in fiscal year 2011 of $208,818,000. This decrease in fiscal year 2013 is due to a decrease of $0.49 in average price paid per bushel for grain purchased by the Mill during the year. The Mill actually purchased 1,098,000 bushels more wheat and durum during the year than in the previous year. The majority of the grain purchased is from North Dakota growers or grain elevators.

In addition to spending over $224,816,000 on grain, most of which went to North Dakota farmers, the Mill also spent $12,200,000 with other North Dakota based suppliers. Payroll costs for the North Dakota Mill were $12,090,000 for the year ended June 30, 2013. These three items when added together show that the Mill provided a direct economic impact to the region of over $249,106,000. 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 $577,926,000 in secondary economic activity resulting in a total economic impact of more than $827,032,000.

Operating costs were $23,170,000 compared to $20,785,000 last year and $20,770,000 in fiscal year 2011. This is an increase of $1,384,000 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 $1.94 from $1.90 in fiscal year 2012 and $1.89 in fiscal year 2011.

Gross margins as a percent of gross sales increased to 11.2% from 9.8% in fiscal year 2012 and are below the 14.0% in fiscal year 2011. Profits as a percent of gross sales increased to 3.7% compared to 2.6% last year and are below the 5.9% in the fiscal year 2011. The Mill experienced a profit of $11,907,000 this year compared to a profit of $8,048,000 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, 2013 provided cash of $9,240,000 compared to $22,813,000 in fiscal year 2012 and net cash used of $7,557,000 in fiscal year 2011. Cash was used primarily for increases in the level of accounts receivables and inventories. There was an operating profit for this same period of $12,425,000 compared to $8,770,000 in fiscal year 2012 and $16,528,000 in 2011.

CASH FLOWS FROM FINANCING ACTIVITIES

The North Dakota Mill had $27,000,000 of short-term debt outstanding and payable to the Bank of North Dakota on June 30, 2013 compared to $24,000,000 last year and $32,500,000 in fiscal year 2011.

NET POSITION

Current assets increased $11,168,000 from last year. This increase from last year is due primarily to increases in accounts receivables and inventories. Accounts receivables increased $9,377,000 while inventories rose $2,403,000 from last year's values. This increase is due to the higher sales volume and increased inventories.

The carrying value of capital assets increased $4,699,000 to $43,038,000 for the year ended June 30, 2013. 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 increased $10,209,000 from last year. The major change occurred in notes payable which increased $3,000,000 and accounts payable which increased $5,081,000. The notes payable is to the Bank of North Dakota. The total net position increased by $5,592,000, 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.

INDUSTRY

U.S. annual wheat flour production increased in 2012 to 420,365,000 cwts. or a 2.1% increase over 2011. Production of whole wheat flour in the U.S. was estimated at 18,177,000 cwts. The average rate of flour milling operations in 2012 was 89%. Excess flour milling capacity and high wheat and durum prices continue to put downward pressure on margins. Per capita flour consumption increased in 2012 to 134 pounds from 133 pounds in 2011. 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 2013. Average spring wheat protein is lower this year. Good spring wheat quality has a positive impact on flour quality and contributes positively towards State Mill profitability.

Financial Statements

Comparative Statement of Net Position

ASSETS	2013	2012
Current assets:		
Cash	$ 225	$ 409,809
Notes receivable	345,290	593,971
Receivables, net (note 4)	50,258,871	40,881,659
Inventories, net (note 5)	27,926,954	25,523,902
Prepaid expense	488,176	442,004
Total current assets	$ 79,019,516	$ 67,851,345
Noncurrent assets:		
Patronage capital credits	$ 324,936	$ 302,078
Other assets	13,150	13,150
Capital assets, net (note 6)	43,038,358	38,339,705
Total noncurrent assets	43,376,444	38,654,933
Total assets	$ 122,395,960	$ 106,506,278
LIABILITIES		
Current liabilities:		
Checks issued in excess of cash	$ 132,140	
Accounts payable and other liabilities (note 7)	20,405,307	$ 15,324,386
Due to state general fund	5,625,934	3,822,989
Due to ag fuel tax fund	595,361	402,420
Notes payable	27,000,000	24,000,000
Total current liabilities	$ 53,758,742	$ 43,549,795
Noncurrent liabilities:		
Compensated absences	$ 877,631	$ 788,657
Total noncurrent liabilities	877,631	788,657
Total liabilities	$ 54,636,373	$ 44,338,452
NET POSITION		
Invested in capital assets	$ 43,038,358	$ 38,339,705
Unrestricted	24,721,229	23,828,121
Total net position	$ 67,759,587	$ 62,167,826

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

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

	2013		2012	
OPERATING REVENUES				
Sales (net of sales deductions of $50,834,565 and $47,775,398, respectively)	$	268,140,265	$	262,662,335
Total operating revenues	$	268,140,265	$	262,662,335
OPERATING EXPENSES				
Material cost	$	232,545,519	$	232,106,607
Wages and benefits		12,089,602		11,316,337
Repairs and maintenance		1,946,651		1,521,360
Operating supplies		627,071		602,599
Utilities		3,166,364		2,881,715
Insurance		809,105		806,075
Outside services		420,253		630,257
Office supplies		79,047		69,388
Computer expense		221,545		200,073
Communications		71,578		72,488
Travel and entertainment		265,589		240,234
Employee expense		84,957		83,169
Safety expense		24,051		31,545
Postage and mailing		28,661		26,212
Advertising		171,342		130,865
Dues and subscriptions		125,016		119,680
Legal and professional		34,108		36,021
Depreciation		3,004,826		3,017,364
Total operating expenses		255,715,285		253,891,989
Operating income	$	12,424,980	$	8,770,346
NONOPERATING REVENUES (EXPENSES)				
Interest income	$	11,939	$	22,635
Interest expense		(605,514)		(757,014)
Miscellaneous income		100,365		56,773
Other expense		(24,543)		(44,342)
Total nonoperating expenses		(517,753)		(721,948)
Gain before transfers	$	11,907,227	$	8,048,398
Transfer to state general fund	$	(5,625,933)	$	(3,822,989)
Transfer to ag fuel tax fund		(595,361)		(402,420)
Transfer to NDSU Ag Extension		(60,000)		
Transfer to Industrial Commission		(34,172)		(34,172)
Change in net position	$	5,591,761	$	3,788,817
Total net position - beginning		62,167,826		58,379,009
Total net position - ending	$	67,759,587	$	62,167,826

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

Comparative Statement of Cash Flows

		2013		2012
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers and users	$	310,512,686	$	315,351,281
Payments to suppliers		(289,735,372)		(280,384,204)
Payments to employees		(11,537,179)		(12,154,118)
Net cash provided by operating activities	$	9,240,135	$	22,812,959
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Proceeds from noncapital debt	$	22,000,000	$	23,750,000
Principal paid on noncapital debt		(19,000,000)		(32,250,000)
Interest paid on noncapital debt		(605,514)		(757,014)
Ag promotion		(24,543)		(38,297)
Transfer to Industrial Commission		(34,172)		(34,172)
Transfer to state general fund		(3,822,989)		(7,641,811)
Transfer to ag fuel tax fund		(402,420)		(804,401)
Transfer to NDSU Ag Extension		(60,000)		
Net cash used by noncapital financing activities	$	(1,949,638)	$	(17,775,695)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition and construction of capital assets	$	(7,703,479)	$	(5,275,394)
Net cash used by capital and related financing activities	$	(7,703,479)	$	(5,275,394)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest income on investments	$	3,398	$	8,110
Net cash provided by investing activities	$	3,398	$	8,110
Net increase in cash	$	(409,584)	$	(230,020)
Cash, beginning		409,809		639,829
Cash, ending	$	225	$	409,809

(Continued)

Statement of Cash Flows - Continued

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income	$ 12,424,980	$ 8,770,346
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	3,004,826	3,017,364
Sales allowance adjustments	257,222	387,008
Other nonoperating income	100,365	56,773
(Increase) decrease in receivables, net	(8,562,509)	4,856,774
(Increase) decrease in inventories	(2,403,052)	5,044,528
(Increase) decrease in prepaid expense	(46,172)	8,127
(Increase) in patronage capital credits	(22,858)	(12,752)
Increase in accounts payable	3,924,172	1,497,701
Increase (decrease) in accrued payroll	504,957	(839,395)
Increase in other liabilities	10,737	24,871
Increase in accrued sick and vacation pay	47,466	1,613
Total adjustments	(3,184,846)	14,042,612
Net cash provided by operating activities	$ 9,240,135	$ 22,812,959
SUPPLEMENTAL DISCLOSURE ON NON CASH TRANSACTIONS		
Decrease in Notes Receivable for customer allowance	$ (248,681)	
Total non cash transactions	$ (248,681)	

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.

D. Cash

This classification appears on the Comparative Statement of Net Position 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 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 Position

The Mill's net position is 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. However, there are no outstanding debt obligations.

Unrestricted Net Position – Unrestricted net position 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 non-depreciated capital assets.

M. New Accounting Pronouncements

In fiscal year 2013, the Mill adopted the Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* These provisions of this Statement incorporate certain accounting and financial reporting guidance into authoritative GASB literature.

In fiscal year 2013, the Mill adopted the Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position.* The provisions of this Statement establish financial reporting standards for the presentation of deferred outflows of resources and deferred inflows of resources and their effects on government's net position.

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, 2013 and 2012 the carrying amounts of the Mill's deposits were $225 and $409,809 respectively, and the bank balances were $5,139,543 and $6,449,071, 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, 2013 and 2012 were $345,290 and $593,971, respectively, with a variable interest rate of 1.75%, which is the same rate that the Bank of North Dakota charges the Mill and Elevator.

Receivables at June 30, 2013 and 2012 consist of the following:

June 30, 2013	Gross Receivables	Allowance Bad Debts	Allowance Billbacks/ Promotional	Net Receivables
Current Receivables				
Accounts	$ 50,831,738	$ (2,259,830)	$ (442,086)	$ 48,129,822
Margin accounts	1,314,346			1,314,346
Deferred outflow of resources	814,703			814,703
Total Current Receivables	$ 52,960,787	$ (2,259,830)	$ (442,086)	$ 50,258,871

June 30, 2012	Gross Receivables	Allowance Bad Debts	Allowance 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

At June 30, 2013 and 2012, the ages of gross accounts receivable were as follows:

	2013	2012
Current	$ 28,046,505	$ 24,997,303
1-30 Days	17,600,019	14,345,851
31-60 Days	4,383,862	2,857,616
61-90 Days	242,518	599,814
Over 90 Days	558,834	407,126
	$ 50,831,738	$ 43,207,710

NOTE 5 – INVENTORIES

At June 30, 2013 and 2012, inventories consisted of the following:

	2013	2012
Grain	$ 21,321,948	$ 20,328,926
Flour, Feed, Resale	5,957,615	4,408,637
Supplies	647,391	786,339
Total Inventories	$ 27,926,954	$ 25,523,902

The Mill's net position in the grain market at June 30, 2013 and 2012 was as follows:

	2013 Bushels		2012 Bushels	
	Wheat	Durum	Wheat	Durum
Company Owned (Priced) Grain on Hand	1,574,289	112,366	1,709,087	246,214
Open Purchase Contracts				
Cash	2,343,733	588,063	2,562,987	64,098
Futures	510,000		80,000	
Subtotal	4,428,022	700,429	4,352,074	310,312
Bushel Equivalent of Flour Inventory	561,086	71,409	448,064	58,195
Committed to Production	(4,995,105)	(419,704)	(4,789,723)	(345,070)
Net Position (Short) Long	(5,997)	352,134	10,415	23,437

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, 2013 and 2012 is presented as follows:

	Balance 7/1/12	Additions	Deletions	Transfers	Balance 6/30/13
Capital Assets, Non-Depreciable:					
Land	$ 221,553				$ 221,553
Construction in Progress	4,807,499	$ 7,703,479		$ (7,761,832)	4,749,146
Total Capital Assets, Non-Depreciable	$ 5,029,052	$ 7,703,479		$ (7,761,832)	$ 4,970,699
Capital Assets, Depreciable:					
Infrastructure	$ 2,716,761				$ 2,716,761
Buildings	20,881,619			$ 152,256	21,033,875
Machinery & Equipment	57,043,437		$ (35,003)	7,468,547	64,476,981
Intangibles	528,043			49,333	577,376
Furniture & Fixtures	561,293		(14,768)	91,696	638,221
Total Capital Assets, Depreciable	$ 81,731,153		$ (49,771)	$ 7,761,832	$ 89,443,214
Less Accumulated Depreciation for:					
Infrastructure	$ 1,831,745	$ 64,169			$ 1,895,914
Buildings	11,215,327	513,929			11,729,256
Machinery & Equipment	34,645,696	2,332,541	$ (35,003)		36,943,234
Intangibles	276,274	61,874			338,148
Furniture & Fixtures	451,458	32,313	(14,768)		469,003
Total Accumulated Depreciation	$ 48,420,500	$ 3,004,826	$ (49,771)		$ 51,375,555
Total Capital Assets, Depreciable, Net	$ 33,310,653	$ (3,004,826)		$ 7,761,832	$ 38,067,659
Capital Assets, Net	$ 38,339,705	$ 4,698,653			$ 43,038,358

	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

NOTE 7 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2013 and 2012 were as follows:

	2013	2012
Accounts Payable	$ 9,183,521	$ 4,303,528
Scale Accrued Purchases	8,379,121	9,238,802
Accrued Gain Sharing	1,617,434	1,212,598
Derivative Grain Futures Contracts	814,703	228,281
Other	145,985	141,645
Accrued Payroll Taxes and Benefits	114,276	22,226
Accrued Payroll	99,510	91,438
Accrued Commissions	50,757	44,360
Compensated Absences, Current Portion		41,508
Total accounts payable and accrued liabilities	$ 20,405,307	$ 15,324,386

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, 2013 and 2012 was as follows:

	Balance 7/1/12	Draws	Repayments	Balance 6/30/13
Line of credit	$ 24,000,000	$ 22,000,000	$ (19,000,000)	$ 27,000,000

	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

NOTE 9 – LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities for June 30, 2013 and 2012 is presented as follows:

	Balance 7/1/12	Additions	Reductions	Balance 6/30/13	Current Portion	Noncurrent Portion
Net Pension Obligations		$ 835,396	$ (835,396)			
Compensated Absences	$ 830,165	460,924	(413,458)	$ 877,631		$ 877,631
Total Long-Term Liabilities	$ 830,165	$ 1,296,320	$ (1,248,854)	$ 877,631		$ 877,631

	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

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, 2013 and 2012 the Mill had operating leases for bulk rail and box cars with original terms of 3 to 21 years on 605 and 582, respectively. Contract rental charges per car varied from $495 to $834 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, 2013 and 2012 are as follows:

	2013	2012
Bulk rail cars	$ 4,798,656	$ 4,555,095
Postage machine	2,774	1,664
Automobile	8,833	8,833
Total operating lease payments	4,810,263	4,565,592

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

6/30/2014	$ 4,744,100
6/30/2015	4,222,332
6/30/2016	3,289,757
6/30/2017	2,119,837
6/30/2018	1,124,036
6/30/2019-2020	687,120
	$ 16,187,182

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% (effective through December 31, 2011); 5% (effective January 1, 2012); and 6% (effective January 1, 2013) 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 is paying 4% of the employee contribution. Employer contributions of 4.12% (effective through December 31, 2011); 5.12% (effective January 1, 2012); and 6.12% (effective January 1, 2013) 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, 2013, 2012, and 2011 were $835,396, $769,330, and $633,230, 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, 2013 and 2012 were $188,876 and $179,924, respectively.

NOTE 14 – CONCENTRATIONS

The Mill sells a substantial portion of its product to five major customers. Sales to these customers totaled approximately 6,279,650 and 6,191,430 hundredweight for the years ended June 30, 2013 and 2012, respectively. For both June 30, 2013 and 2012, 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, 2013 and 2012, there was $27,000,000 and $24,000,000 outstanding, respectively. The interest rate is variable at 1.0% over the 3-month LIBOR, adjusted quarterly. As of June 30, 2013, the floor rate was 1.75%.

NOTE 16 – DERIVATIVE INSTRUMENT

The fair value balances and notional amount of derivative instruments outstanding at June 30, 2013 and the changes in fair value of such derivative instruments for the year then ended as reported in the 2013 financial statements are $814,703, classified as derivative – grain futures contract (one contract equals 5000 bushels) and $814,703, classified as deferred outflow 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.

Sept 2013	RJ O'Brien	(116)	$7.9470	$7.7500	June 2013
Sept 2013	ADM Investor Services	(92)	7.9472	7.7500	June 2013
Dec 2013	RJ O'Brien	100	8.9838	7.8300	June 2013
Dec 2013	ADM Investor Services	77	8.2132	7.8300	June 2013
Mar 2014	RJ O'Brien	22	8.4920	7.9675	June 2013
Mar 2014	ADM Investor Services	44	8.5449	7.9675	June 2013
May 2014	RJ O'Brien	25	8.0225	8.0225	June 2013
May 2014	ADM Investor Services	11	8.3377	8.0225	June 2013
July 2014	ADM Investor Services	31	8.2321	8.0600	June 2013

Puts	Brokerage Firm	Number of Contracts	Average Cost	Fair Value	Effective Date
Sept 2013	ADM Investor Services	(10)	0.2200	0.2275	June 2013
Sept 2013	ADM Investor Services	(10)	0.4100	0.4063	June 2013

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, 2013, the table below shows the hedge ratio by futures month going forward:

Period	Hedge Ratio
September 2013	1.1
December 2013	1.0
March 2014	1.1
May 2014	0.9
July 2014	0.9
Net Position	0.9

The following table shows the Mill's hedge ratio by futures month going forward for at June 30, 2012:

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

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, 2013 and 2012, the Mill had committed to purchase 2,343,733 and 2,562,987 bushels of spring wheat, respectively, and 2,562,987 and 64,098 bushels of durum, respectively.

In addition, at June 30, 2013 and 2012, construction commitments totaled $3,185,853 and $2,847,961, respectively, amounts authorized totaled $7,935,000 and $7,655,460, respectively, and amounts expended/construction in progress totaled $4,749,147 and $4,807,499, respectively.

Supplementary Information

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?*

   Unmodified.

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.

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Governance Communication

October 22, 2013

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 years ended June 30, 2013 and 2012, and have issued our report thereon dated October 22, 2013. 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. As described in Note 1 to the financial statements, the North Dakota Mill and Elevator Association changed accounting policies related to the codification of accounting and financial reporting guidance and financial reporting of deferred outflows and inflows of resources and net position by adopting Statement of Governmental Accounting Standards (GASB Statement) Nos. 62 and 63, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 1989 FASB and AICPA Pronouncements and Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, respectively, in fiscal year 2013. Accordingly, the cumulative effect of the accounting change as of the beginning of the year is reported in the Statement of Net Position. 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: $2,701,916

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 receivable 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 October 22, 2013.

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.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

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	2011-13 Original Appropriation	Appropriation Adjustments	2012 Expenses/ Transfers	2013 Expenses/ Transfers	Balance 6-30-13
Salaries and wages	$ 26,018,008		$ 11,316,337	$ 12,089,602	$ 2,612,069
Operating expenses	20,443,869		7,642,831	8,432,199	4,368,839
Agriculture Promotion	210,000		38,296	24,543	147,161
Contingency	400,000				400,000
TOTAL	$ 47,071,877	$ -	$ 18,997,464	20,546,344	$ 7,528,069
SOURCE					
Special fund authority	$ 47,071,877		$ 18,997,464	$ 20,546,344	$ 7,528,069
TOTAL	$ 47,071,877	$ -	$ 18,997,464	$ 20,546,344	$ 7,528,069

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	2013
Total operating expenses	$ 253,891,989	255,715,285
Less:		
Material cost	(232,106,607)	(232,545,519)
Depreciation	(3,017,364)	(3,004,826)
Add:		
Demurrage	191,150	356,861
Agriculture Promotion	38,296	24,543
Expenses per schedule of appropriations	$ 18,997,464	$ 20,546,344

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