CLIENT CODE 475

ND MILL AND ELEVATOR ASSOCIATION
GRAND FORKS, NORTH DAKOTA

Audit Report

For the Years Ended
June 30, 2014 and 2013

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, 2014 and 2013, and the related notes to the 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 the audit evidence we 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, 2014 and 2013, 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, 2014 and 2013, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America required 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 November 3, 2014 and October 22, 2013 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.

Bob Peterson

Robert R. Peterson
State Auditor

Fargo, North Dakota

November 3, 2014

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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, 2014 and 2013, 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 November 3, 2014.

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.

Bob Peterson

Robert R. Peterson
State Auditor

Fargo, North Dakota

November 3, 2014

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, 2014. Please read this information in conjunction with the financial statements that follow this section.

FINANCIAL HIGHLIGHTS

Condensed Financial Data

	FY 2014	FY 2013	FY 2012
Current Assets	$ 68,812,727	$ 79,019,516	$ 68,851,345
Noncurrent Assets	378,095	338,086	315,228
Capital Assets	46,329,271	43,038,358	38,339,705
Total Assets	$ 115,520,093	$ 122,395,960	$ 106,506,278
Current Liabilities	$ 37,481,252	$ 53,758,742	$ 43,549,795
Noncurrent Liabilities	855,070	877,631	788,657
Total Liabilities	$ 38,336,322	$ 54,636,373	$ 44,338,452
Deferred Inflows of Resources	$ 184,813		
Invested in Capital Assets	$ 46,329,271	$ 43,038,358	$ 38,339,705
Unrestricted	30,669,687	24,721,229	23,828,121
Total Net Position	$ 76,998,958	$ 67,759,587	$ 62,167,826
Operating Revenue			
Gross Sales	$ 310,189,182	$ 318,974,832	$ 310,437,733
Sales Deductions	(54,058,781)	(50,834,567)	(47,775,398)
Net Sales	$256,130,400	$268,140,265	$ 262,662,335
Nonoperating Revenue			
Interest Income	6,057	11,939	22,635
Miscellaneous	68,186	100,365	56,773
Total Revenues	$ 256,204,643	$ 268,252,569	$ 262,741,743
Operating Expenses			
Material Cost	$ 217,071,458	$ 232,545,519	$ 232,106,607
Manufacturing, Selling, General	25,255,631	23,169,766	21,785,385
Nonoperating Expenses			
Interest Expense	469,671	605,514	757,014
Other	56,541	24,543	44,342
Total Expenses	$ 242,853,301	$ 256,345,342	$ 254,693,345
Revenue Over Expenses	$ 13,351,342	$ 11,907,227	$ 8,048,398
Transfer to Industrial Commission	(35,804)	(34,172)	(34,172)
Transfer to NDSU Ag Extension		(60,000)	
Transfer to General Fund	(3,408,600)	(5,625,933)	(3,822,989)
Transfer to Ag Prod. Utilization Fund	(667,567)	(595,361)	(402,420)
Change in Net Position	$ 9,239,371	$ 5,591,761	$ 3,788,817
Beginning Net Position	67,759,587	62,167,826	58,379,009
Ending Net Position	$ 76,998,958	$ 67,759,587	$ 62,167,826

- Gross sales reached $310,189,000.
- During the fiscal year, the Mill shipped a record 12,218,000 hundredweight of flour.
- The mill made a profit of $13,351,000.
- Mill operations provided more than $229,420,000 to the region and another $532,254,000 in secondary economic activity for a total economic impact of more than $761,674,000.

RESULTS OF OPERATIONS

Certain operating information is set forth below, as a percentage of gross sales for the fiscal years ended June 30, 2014, June 30, 2013 and June 30, 2012:

	FY 2014	FY 2013	FY 2012
Gross Margin	12.6%	11.2%	9.8%
Material Costs	70.0%	72.9%	74.8%
Operating Costs	8.1%	7.3%	7.0%
Profits	4.3%	3.7%	2.6%

Gross sales reached $310,189,000 for the fiscal year compared to $318,975,000 last year and $310,438,000 in fiscal year 2012. These high sales can be attributed to higher sales volume. Sales of spring wheat flour were 11,125,000 hundredweight or 91% of our total sales while sales of durum products were 1,093,000 hundredweight. This compares to sales of 10,863,000 hundredweight of spring wheat flour and 1,077,000 hundredweight of durum products last year. Bulk flour sales represent 77% of the flour sold. Flour packed in bags accounted for 23% of the flour sold.

As a result of this increased sales volume, the Mill spent more than $203,119,000 buying wheat and durum. This is down from the previous year purchases of $224,816,000 and down from purchases in fiscal year 2012 of $226,745,000. This decrease in fiscal year 2014 is due to a decrease of $1.08 in average price paid per bushel for grain purchased by the Mill during the year. The Mill actually purchased 577,000 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 $203,851,000 on grain, most of which went to North Dakota farmers, the Mill also spent $12,728,000 with other North Dakota based suppliers. Payroll costs for the North Dakota Mill were $12,841,000 for the year ended June 30, 2014. These three items when added together show that the Mill provided a direct economic impact to the region of over $229,420,000. 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 $532,254,000 in secondary economic activity resulting in a total economic impact of more than $761,674,000.

Operating costs were $25,256,000 compared to $23,170,000 last year and $20,785,000 in fiscal year 2012. This is an increase of $2,086,000 from last year. The primary causes for this increase in operating cost is due to the increase in cwts. produced and sold, increases in wages and benefits, increased utility costs, and increased depreciation costs. Operating cost per hundredweight of production increased to $2.10 from $1.94 in fiscal year 2013 and $1.90 in fiscal year 2012.

Gross margins as a percent of gross sales increased to 12.6% from 11.2% in fiscal year 2013 and 9.8% in fiscal year 2012. Profits as a percent of gross sales increased to 4.3% compared to 3.7% last year and the 2.6% in the fiscal year 2012. The Mill experienced a profit of $13,351,000 compared to a profit of $11,907,000 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, 2014 provided cash of $27,116,000 compared to $9,240,000 in fiscal year 2013 and cash of $22,813,000 in fiscal year 2012. Cash was used primarily for decreases in the level of debt. There was an operating profit for this same period of $13,803,000 compared to $12,425,000 in fiscal year 2013 and $8,770,000 in 2012.

CASH FLOWS FROM FINANCING ACTIVITIES

The North Dakota Mill had $14,000,000 of short-term debt outstanding and payable to the Bank of North Dakota on June 30, 2014 compared to $27,000,000 last year and $24,000,000 in fiscal year 2012.

NET POSITION

Current assets decreased $10,207,000 from last year. This decrease from last year is due primarily to decreases in accounts receivables and inventories. Accounts receivables decreased $11,476,000 while inventories declined $536,000 from last year's values. This decrease is due to the lower grain prices in this fiscal year.

The carrying value of capital assets increased $3,291,000 to $46,329,000 for the year ended June 30, 2014. 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 decreased $13,215,000 from last year. The major change occurred in notes payable, which decreased $13,000,000. The notes payable is to the Bank of North Dakota. The total net position increased by $9,240,000, 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 2013 to 423,214,000 cwts. or a 0.7% increase over 2012. Production of whole wheat flour in the U.S. was estimated at 18,969,000 cwts. The average rate of flour milling operations in 2013 was 89%. Excess flour milling capacity and high wheat and durum prices continue to put downward pressure on margins. Per capita flour consumption increased to 134.7 pounds in 2013. We expect grain and financial markets to continue to be volatile.

North Dakota farmers produced a large, good quality spring wheat crop despite challenging growing conditions in 2014. Average spring wheat protein is 13.6% 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

	2014	2013
ASSETS		
Current assets:		
Cash and cash equivalents	$ 623,178	$ 225
Notes receivable	102,955	345,290
Receivables, net (note 4)	38,840,893	50,258,871
Inventories (note 5)	28,036,716	27,926,954
Derivative instrument	184,813	
Prepaid expense	1,024,172	488,176
Total current assets	$ 68,812,727	$ 79,019,516
Noncurrent assets:		
Patronage capital credits	$ 364,945	$ 324,936
Other assets	13,150	13,150
Capital assets, net (note 6)	46,329,271	43,038,358
Total noncurrent assets	46,707,366	43,376,444
Total assets	$ 115,520,093	$ 122,395,960
LIABILITIES		
Current liabilities:		
Checks issued in excess of cash		$ 132,140
Accounts payable and other liabilities (note 7)	$ 19,405,085	20,405,307
Due to state general fund	3,408,600	5,625,934
Due to ag fuel tax fund	667,567	595,361
Notes payable	14,000,000	27,000,000
Total current liabilities	$ 37,481,252	$ 53,758,742
Noncurrent liabilities:		
Compensated absences	$ 855,070	$ 877,631
Total noncurrent liabilities	855,070	877,631
Total liabilities	$ 38,336,322	$ 54,636,373
DEFERRED INFLOWS OF RESOURCES		
Accumulated increase in fair value of hedging derivatives	$ 184,813	
Total deferred inflows of resources	$ 184,813	
NET POSITION		
Invested in capital assets	$ 46,329,271	$ 43,038,358
Unrestricted	30,669,687	24,721,229
Total net position	$ 76,998,958	$ 67,759,587

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

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

	2014	2013
OPERATING REVENUES		
Sales (net of sales deductions of $54,058,781 and $50,834,565, respectively)	$ 256,130,400	$ 268,140,265
Total operating revenues	$ 256,130,400	$ 268,140,265
OPERATING EXPENSES		
Material cost	$ 217,071,458	$ 232,545,519
Wages and benefits	12,841,397	12,089,602
Repairs and maintenance	1,954,038	1,946,651
Operating supplies	611,932	627,071
Utilities	3,726,691	3,166,364
Insurance	839,870	809,105
Outside services	645,952	420,253
Office supplies	68,981	79,047
Computer expense	335,426	221,545
Communications	72,622	71,578
Travel and entertainment	262,585	265,589
Employee expense	83,116	84,957
Safety expense	33,122	24,051
Postage and mailing	23,591	28,661
Advertising	150,831	171,342
Dues and subscriptions	145,478	125,016
Legal and professional	38,416	34,108
Depreciation	3,421,583	3,004,826
Total operating expenses	242,327,089	255,715,285
Operating income	$ 13,803,311	$ 12,424,980
NONOPERATING REVENUES (EXPENSES)		
Interest income	$ 6,057	$ 11,939
Interest expense	(469,671)	(605,514)
Miscellaneous income	68,186	100,365
Other expense	(56,541)	(24,543)
Total nonoperating expenses	(451,969)	(517,753)
Gain before transfers	$ 13,351,342	$ 11,907,227
Transfer to state general fund	$ (3,408,600)	$ (5,625,933)
Transfer to ag products utilization fund	(667,567)	(595,361)
Transfer to NDSU Ag Extension		(60,000)
Transfer to Industrial Commission	(35,804)	(34,172)
Change in net position	$ 9,239,371	$ 5,591,761
Total net position - beginning	67,759,587	62,167,826
Total net position - ending	$ 76,998,958	$ 67,759,587

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

Comparative Statement of Cash Flows

		2014		2013
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers and users	$	320,860,643	$	310,512,686
Payments to suppliers		(281,024,613)		(289,735,372)
Payments to employees		(12,719,614)		(11,537,179)
Net cash provided by operating activities	$	27,116,416	$	9,240,135
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Proceeds from noncapital debt	$	8,000,000	$	22,000,000
Principal paid on noncapital debt		(21,000,000)		(19,000,000)
Interest paid on noncapital debt		(469,672)		(605,514)
Ag promotion		(35,814)		(24,543)
Transfer to Industrial Commission		(35,804)		(34,172)
Transfer to state general fund		(5,625,934)		(3,822,989)
Transfer to ag products utilization fund		(595,361)		(402,420)
Transfer to NDSU Ag Extension				(60,000)
Net cash used by noncapital financing activities	$	(19,762,585)	$	(1,949,638)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition and construction of capital assets	$	(6,733,222)	$	(7,703,479)
Net cash used by capital and related financing activities	$	(6,733,222)	$	(7,703,479)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest income on investments	$	2,344	$	3,398
Net cash provided by investing activities	$	2,344	$	3,398
Net increase/(decrease) in cash and cash equivalents	$	622,953	$	(409,584)
Cash and cash equivalents, beginning		225		409,809
Cash and cash equivalents, ending	$	623,178	$	225

(Continued)

Statement of Cash Flows - Continued

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income	$ 13,803,311	$ 12,424,980
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	3,421,583	3,004,826
Sales allowance adjustments	246,048	257,222
Other nonoperating income	68,186	100,365
Decrease (increase) in receivables, net	10,603,275	(8,562,509)
Decrease in inventories	(109,762)	(2,403,052)
Decrease in prepaid expense	(535,996)	(46,172)
Increase in patronage capital credits	(40,009)	(22,858)
(Decrease) increase in accounts payable	(475,832)	3,924,172
Increase in accrued payroll	87,046	504,957
Increase in other liabilities	13,828	10,737
Increase in accrued sick and vacation pay	34,737	47,466
Total adjustments	13,313,104	(3,184,846)
Net cash provided by operating activities	$ 27,116,416	$ 9,240,135

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, derivatives, and promissory note from employee. 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 2014, the state of North Dakota adopted the Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans.* The objective of this statement is to improve financial reporting by state governmental pension plans. This statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

The Mill will implement the following new pronouncement for fiscal years ending after 2014:

GASB Statement No. 68 *Accounting and Financial Reporting for Pensions* is effective for financial statements for periods beginning after June 15, 2014. This statement establishes accounting and financial reporting requirements related to pensions for governments whose employees are provided with pensions through pension plans that are covered by the scope of this statement. This standard will result in the recognition of a pension liability, at this point the amount of the liability cannot be determined.

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, 2014 and 2013 the carrying amounts of the Mill's deposits were $623,178 and $225 respectively, and the bank balances were $5,377,642 and $5,139,543, 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 September 2010. The total of the notes at June 30, 2014 and 2013 were $102,955 and $345,290, 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, 2014 and 2013 consist of the following:

		Allowance		
June 30, 2014	Gross Receivables	Bad Debts	Billbacks/ Promotional	Net Receivables
Current Receivables				
Accounts	$ 41,316,960	$ (2,182,671)	$ (384,792)	$ 38,749,497
Margin accounts	76,396			76,396
Other	15,000			15,000
Total Current Receivables	$ 41,408,356	$ (2,182,671)	$ (384,792)	$ 38,840,893

		Allowance		
June 30, 2013	Gross Receivables	Bad Debts	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

At June 30, 2014 and 2013, the ages of gross accounts receivable were as follows:

	2014	2013
Current	$ 22,877,917	$ 28,046,505
1-30 Days	14,879,547	17,600,019
31-60 Days	3,014,927	4,383,862
61-90 Days	258,269	242,518
Over 90 Days	286,300	558,834
	$ 41,316,960	$ 50,831,738

NOTE 5 – INVENTORIES

At June 30, 2014 and 2013, inventories consisted of the following:

	2014	2013
Grain	$ 20,786,330	$ 21,321,948
Flour, Feed, Resale	6,622,806	5,957,615
Supplies	627,580	647,391
Total Inventories	$ 28,036,716	$ 27,926,954

The Mill's net position in the grain market at June 30, 2014 and 2013 was as follows:

	2014 Bushels		2013 Bushels	
	Wheat	Durum	Wheat	Durum
Company Owned (Priced) Grain on Hand	2,287,584	156,134	1,574,289	112,366
Open Purchase Contracts				
Cash	3,140,624	313,380	2,343,733	588,063
Futures	(105,000)		510,000	
Subtotal	5,323,208	469,514	4,428,022	700,429
Bushel Equivalent of Flour Inventory	738,758	56,570	561,086	71,409
Committed to Production	(6,163,069)	(202,466)	(4,995,105)	(419,704)
Net Position (Short) Long	(101,103)	323,618	(5,997)	352,134

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, 2014 and 2013 is presented as follows:

	Balance July 1, 2013	Additions	Deletions	Transfers	Balance June 30, 2014
Capital Assets, Non-Depreciable:					
Land	$ 221,553			$ 146,073	$ 367,626
Construction in Progress	4,749,146	$ 6,733,222		(10,267,980)	1,214,388
Total Capital Assets, Non-Depreciable	$ 4,970,699	$ 6,733,222		$ (10,121,908)	$ 1,582,014
Capital Assets, Depreciable:					
Infrastructure	$ 2,716,761			$ 55,743	$ 2,772,504
Buildings	21,033,875		$ (239,388)	961,428	21,755,915
Machinery & Equipment	64,476,981		(670,256)	8,801,502	72,608,227
Intangibles	577,376			288,136	865,511
Furniture & Fixtures	638,221			15,100	653,321
Total Capital Assets, Depreciable	$ 89,443,214		$ (909,644)	$ 10,121,908	$ 98,655,478
Less Accumulated Depreciation for:					
Infrastructure	$ 1,895,914	$ 58,043			$ 1,953,957
Buildings	11,729,256	535,842	$ (225,212)		12,039,886
Machinery & Equipment	36,943,234	2,706,355	(663,704)		38,985,885
Intangibles	338,148	79,443			417,591
Furniture & Fixtures	469,003	41,899			510,902
Total Accumulated Depreciation	$ 51,375,555	$ 3,421,583	$ (888,916)		$ 53,908,221
Total Capital Assets, Depreciable, Net	$ 38,067,659	$ (3,421,583)	$ (20,728)	$ 10,121,908	$ 44,747,257
Capital Assets, Net	$ 43,038,358	$ 3,311,639	$ (20,728)		$ 46,329,271

	Balance July 1, 2012	Additions	Deletions	Transfers	Balance June 30, 2013
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

NOTE 7 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2014 and 2013 were as follows:

	2014	2013
Accounts Payable	$ 7,652,587	$ 9,183,521
Scale Accrued Purchases	9,566,365	8,379,121
Accrued Gain Sharing	1,740,728	1,617,434
Derivative Grain Futures Contracts		814,703
Other	157,222	145,985
Accrued Payroll Taxes and Benefits	23,864	114,276
Accrued Payroll	153,675	99,510
Accrued Commissions	53,347	50,757
Compensated Absences, Current Portion	57,297	
Total accounts payable and accrued liabilities	$ 19,405,085	$ 20,405,307

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, 2014 and 2013 was as follows:

	Balance July 1, 2013	Draws	Repayments	Balance June 30, 2014
Line of credit	$ 27,000,000	$ 8,000,000	$ (21,000,000)	$ 14,000,000

	Balance July 1, 2012	Draws	Repayments	Balance June 30, 2013
Line of credit	$ 24,000,000	$ 22,000,000	$ (19,000,000)	$ 27,000,000

NOTE 9 – LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities for June 30, 2014 and 2013 is presented as follows:

	Balance July 1, 2013	Additions	Reductions	Balance June 30, 2014	Current Portion	Noncurrent Portion
Net Pension Obligations		$ 1,070,608	$ (1,070,608)			
Compensated Absences	$ 877,631	506,750	(472,014)	$ 912,367	$ 57,297	$ 855,070
Total Long-Term Liabilities	$ 877,631	$ 1,577,358	$ (1,542,622)	$ 912,367	$ 57,297	$ 855,070

	Balance July 1, 2012	Additions	Reductions	Balance June 30, 2013	Current Portion	Noncurrent Portion
Net Pension Obligations		$ 835,396	$ (835,396)			
Compensated Absences	$ 830,165	460,924	(413,458)	$ 877,631		$ 877,631
	$ 830,165	$ 1,296,320	$ (1,248,854)	$ 877,631		$ 877,631

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, 2014 and 2013 the Mill had operating leases for bulk rail and box cars with original terms of 2 to 21 years on 637 and 605, 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, Nissan Motor for the general manager's automobile, which ended in October 2013 and Chrysler Capital for the general manager's new automobile which started in October 2013. The annual contract expenses for the years ended June 30, 2014 and 2013 are as follows:

	2014	2013
Bulk rail cars	$ 5,428,922	$ 4,798,656
Postage machine	1,664	2,774
Automobile	8,432	8,833
Total operating lease payments	$ 5,439,018	$ 4,810,263

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

6/30/2015	$ 5,003,754
6/30/2016	4,279,969
6/30/2017	3,060,781
6/30/2018	2,236,986
6/30/2019	1,324,990
6/30/2020-2024	1,030,090
	$ 16,936,570

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); 6% (effective January 1, 2013) and 7% (effective January 1, 2014) 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); 6.12% (effective January 1, 2013); and 7.12 (effective January 1, 2014) 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, 2014, 2013, and 2012 were $1,070,608, $835,396, and $769,330, 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 minimis 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, 2014 and 2013 were $211,957 and $188,876, respectively.

NOTE 14 – CONCENTRATIONS

The Mill sells a substantial portion of its product to five major customers. Sales to these customers totaled approximately 6,232,739 and 6,279,650 hundredweight for the years ended June 30, 2014 and 2013, respectively. For June 30, 2014 and 2013, sales to these customers were 51% and 53% of total sales, respectively.

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

2013 Senate Bill 2014 section 32 states the Industrial Commission shall transfer to the state general fund 50% of the annual earnings and undivided profits of the Mill after any transfers to the other state agricultural-related programs or the sum of $6,817,200, whichever is less, during the biennium beginning July 1, 2013 and ending June 30, 2015. The moneys must be transferred on an annual basis in the amounts and at the times requested by the director of the office of management and budget.

Chapter 54-18-21 of the North Dakota Century Code provides that the Industrial Commission shall transfer 5% of the net income earned by the Mill during that fiscal year to the agricultural products utilization 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, 2014 and 2013, there was $14,000,000 and $27,000,000 outstanding, respectively. The interest rate is variable at 1.0% over the 3-month LIBOR, adjusted quarterly. As of June 30, 2014, the floor rate was 1.75%.

NOTE 16 – DERIVATIVE INSTRUMENT

The fair value balances and notional amount of derivative instruments outstanding at June 30, 2014 and the changes in fair value of such derivative instruments for the year then ended as reported in the 2014 financial statements are $184,813, classified as Derivative Instrument (one contract equals 5000 bushels) and $184,813, classified as Deferred Inflows of Resources – Accumulated increase in fair value of hedging derivatives. 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 2014	ADM Investor Services	(141)	$7.1571	$6.7700	June 2014
Sept 2014	RJ O'Brien	(91)	7.2937	6.7700	June 2014
Dec 2014	ADM Investor Services	69	7.1043	6.8700	June 2014
Dec 2014	RJ O'Brien	44	7.0924	6.8700	June 2014
Dec 2014	RJ O'Brien	(1)	8.4975	7.0650	June 2014
Mar 2015	RJ O'Brien	57	7.1426	6.9775	June 2014
May 2015	ADM Investor Services	29	7.8397	7.0575	June 2014
May 2015	RJ O'Brien	13	7.7231	7.0575	June 2014

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, 2014, the table below shows the hedge ratio by futures month going forward:

Period	Hedge Ratio
September 2014	1.1
December 2014	1.2
March 2015	1.0
May 2015	1.0
Net Position	1.1

The following table shows the Mill's hedge ratio by futures month going forward for at June 30, 2013:

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

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, 2014 and 2013, the Mill had committed to purchase 3,140,624 and 2,343,733 bushels of spring wheat, respectively, and 313,380 and 588,063 bushels of durum, respectively.

In addition, at June 30, 2014 and 2013, construction commitments totaled $9,990,612 and $3,185,853, respectively, amounts authorized totaled $11,105,000 and $7,935,000, respectively, and amounts expended/construction in progress totaled $1,214,388 and $4,749,147, respectively.

NOTE 19 – SUBSEQUENT EVENTS

On September 17, 2014 the Industrial Commission authorized the Mill to spend $19,185,000 to increase the milling capacity by 11,500 hundredweight per day. The request to the Industrial Commission was to increase a prior expansion project of $7,985,000 that had been approved earlier in fiscal year 2014. The project will include construction of a building on the Mill's property. The project is considered necessary to meet the growth in demand from current customers. Construction is expected to be completed in the fall of 2015.

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?*

   There were no recommendations included in the prior audit report.

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.*

   A significant audit adjustment was made for $2.9 million to decrease the accrual for Due to state general fund and Transfer to state general fund to accurately report the actual amount transferred to the state general fund for fiscal year 2014.

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

November 3, 2014

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, 2014 and 2013, and have issued our report thereon dated November 3, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards* as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 16, 2014. Professional standards also require that we communicate to you 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 was not changed during fiscal year 2014. 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: $2,567,463

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, past history, and an analysis of the collectability of individual accounts. 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. We noted one material audit adjustment was made for $2.9 million to decrease the accrual for Due to state general fund and Transfer to state general fund to accurately report the actual amount transferred to the state general fund for fiscal year 2014.

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 3, 2014.

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	2013-15 Original Appropriation	Appropriation Adjustments	2014 Expenses/ Transfers	Balance 6-30-14
Salaries and wages	$ 29,141,750		$ 12,841,397	$ 16,300,353
Accrued leave payments	575,807		20,873	554,934
Operating expenses	21,796,000		8,987,303	12,808,697
Agriculture Promotion	210,000		35,814	174,186
Contingency	400,000			400,000
TOTAL	$ 52,123,557	$ -	$ 21,885,387	$ 30,238,170
SOURCE				
Special fund authority	$ 52,123,557		$ 21,885,387	$ 30,238,170
TOTAL	$ 52,123,557	$ -	$ 21,885,387	$ 30,238,170

2013-15 Appropriation amounts come directly from the North Dakota Session Laws, Chapter 45, Senate Bill 2014.

The following is a reconciliation of the GAAP expenses from the Comparative Statement of Revenue, Expenses and Changes in Net Position to the Schedule of Appropriations:

	2014
Total operating expenses	$ 242,327,089
Less:	
Material cost	(217,071,458)
Depreciation	(3,421,583)
Add:	
Demurrage	15,525
Agriculture Promotion	35,814
Expenses per schedule of appropriations	$ 21,885,387

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