Client Code 624

NORTH DAKOTA BEEF COMMISSION

BISMARCK, NORTH DAKOTA

Audit Report

For the Fiscal Years Ending
June 30, 2015 and June 30, 2014

Office of the State Auditor
Division of State Audit

LEGISLATIVE AUDIT AND FISCAL REVIEW
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Independent Auditor's Report

Honorable Jack Dalrymple, Governor

Members of the Legislative Assembly

Members of the North Dakota Beef Commission

Nancy Jo Bateman, Executive Director

We have audited the accompanying financial statements of the North Dakota Beef Commission Fund of the state of North Dakota, as of and for the years ended June 30, 2015, and 2014 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 on 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 have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the North Dakota Beef Commission Fund, as of June 30, 2015 and 2014 and the change in financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 1, the financial statements present only the North Dakota Beef Commission Fund, and do not purport to, and do not present fairly the financial position of the state of North Dakota as of June 30, 2015 or 2014, the changes in its financial position, or where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Also discussed in Note 1 to the financial statement, the North Dakota Beef Commission adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions.* Our opinion is not modified with respect to this manner.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Schedule of Employer’s Share of Net Pension Liability and the Schedule of Employer Contributions 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 financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the 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 evidence sufficient to express an opinion or provide any assurance.

Management has omitted the management’s discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming an opinion on the North Dakota Beef Commission Fund's financial statements. The *Detailed Schedule of Expenditures* is presented for purposes of additional analysis and are not a required part of the financial statements.

The *Detailed Schedule of Expenditures* is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the *Detailed Schedule of Expenditures* is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2015 on our consideration of the North Dakota Beef Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the North Dakota Beef Commission's internal control over financial reporting and compliance.

Robert R. Peterson
State Auditor

Bismarck, North Dakota

October 23, 2015

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

Members of the North Dakota Beef Commission

Nancy Jo Bateman, Executive Director

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 financial statements of the North Dakota Beef Commission Fund of the state of North Dakota as of and for the year ended June 30, 2015 and the related notes to the financial statements, which collectively comprise North Dakota Beef Commission Fund's financial statements, and have issued our report thereon dated October 23, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the North Dakota Beef Commission'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 North Dakota Beef Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the North Dakota Beef Commission'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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of Finding, Recommendations, and Management Response as Finding 15-1 that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the North Dakota Beef Commission Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, the Beef Promotion and Research Act of 1985, and the Beef Promotions and Research Order (the "Order") relative to the use and investment of funds collected by the North Dakota Beef Commission and with terms described in Section 1260.149(f) and Section 1260.181(b) of the Order relative to prohibited uses of funds collected by the North Dakota Beef Commission, 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*.

In connection with our audit, nothing came to our attention that caused us to believe the North Dakota Beef Commission failed to comply with the terms, in so far as they related to accounting matters of the Beef Promotion and Research Act of 1985 and the Beef Promotions and Research Order (the "Order") relative to the use of funds collected by the North Dakota Beef Commission, with the terms described in Section 1260.181(b) of the Order relative to prohibited use of funds collected by the North Dakota Beef Commission, and with the terms described in Section 1260.149(f) of the Order relative to the investment of funds collected by the North Dakota Beef Commission. However, our audit was not directed toward obtaining knowledge of such noncompliance.

State of North Dakota's Response to Findings

The North Dakota Beef Commission's response to the findings identified in our audit is described in the accompanying schedule of findings, recommendations, and management response. The North Dakota Beef Commission's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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

Bismarck, North Dakota

October 23, 2015

Financial Statements

Balance Sheet

		June 30, 2015		June 30, 2014
Assets				
Cash and Cash Equivalents	$	269,867	$	221,259
Investments		100,000		100,000
Assessments Receivable		37,726		38,629
Interest Receivable		44		41
Total Assets	$	407,637	$	359,929
Liabilities and Fund Balance				
Liabilities:				
Accounts Payable	$	32,254	$	23,490
Accrued Payroll		16,552		13,566
Due to Cattlemen's Beef Board		40,855		41,288
Due to the National Cattlemen's Beef Association		11,753		10,286
Due to Other States		1,321		1,244
Total Liabilities	$	102,735	$	89,874
Fund Balance:				
Restricted	$	304,902	$	270,055
Total Fund Balances	$	304,902	$	270,055
Total Liabilities and Fund Balances	$	407,637	$	359,929

See Notes to the Financial Statements.

Statement of Revenues, Expenditures, and Changes in Fund Balance

For the Fiscal Year Ended June 30

	2015	2014
Revenues		
Gross Assessment Revenue	$ 1,057,977	$ 1,131,120
Less:		
Assessment revenue remitted to other states	(17,683)	(24,445)
Assessment revenue remitted to Cattlemen's Beef Board	(520,670)	(553,349)
Net Assessment Revenues	$ 519,624	$ 553,326
Interest Income	857	789
Beef Gift Certificates	3,085	13,537
Other Revenue	2,875	12,871
Total Revenues	$ 526,441	$ 580,523
Expenditures		
Program Expenditures:		
International Promotion	$ 20,009	$ 12,728
Promotion	5,693	34,560
Research	663	681
Consumer Information	93,906	91,255
National Program Development	119,260	124,484
Total Program Expenditures	$ 239,531	$ 263,708
Beef Gift Certificates	3,085	13,347
Administration	248,978	227,585
Total Expenditures	$ 491,594	$ 504,640
Revenues Over (Under) Expenditures	$ 34,847	$ 75,883
Fund Balance, Beginning of Year	270,055	194,172
Fund Balance, End of Year	$ 304,902	$ 270,055

See Notes to the Financial Statements.

Notes to the Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the North Dakota Beef Commission (hereafter Commission) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

A. Reporting Entity

For financial reporting purposes, the Commission includes all funds, programs, and activities over which it is financially accountable. The Commission does not have any component units as defined by the Government Accounting Standards Board. The Commission is part of the state of North Dakota as a reporting entity. The financial statements report all revenue and expenditure activity in the operations program.

The Commission was established by NDCC chapter 4.1-3, and is vested with the powers to collect and expend an assessment of one dollar for each head of cattle sold within the state or from the state by residents of North Dakota. The Commission's responsibilities are to provide and participate in programs to increase the consumption of domestic beef through such means as advertising, research, consumer information, industry information, sales promotion, and education, but at no time may false or unwarranted claims be made on behalf of the beef industry. Additional responsibilities are to support beef promotion, research, and education activities of the national beef promotion and marketing organizations. The Commission is also to initiate, encourage, and sponsor research designed to solve problems in the beef industry and to enhance the sale and production of North Dakota beef cattle.

B. Reporting Structure

The financial statements include all activities of the reporting entity as defined above. In accordance with NDCC section 4.1-03-16 these activities are funded on a continuing appropriation basis from a special revenue fund (the Beef Commission fund).

C. Fund Financial Statements

Separate fund financial statements are provided for the Beef Commission governmental fund.

D. Fund Accounting Structure

The Commission uses a fund to report its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. The accounting and reporting treatment applied to a fund is determined by its measurement focus.

The Commission reports the Beef Commission's operating fund as a major governmental fund. It is used to account for the collection of assessments and transactions to provide and participate in programs to increase the use and consumption of beef through such means as advertising, research, consumer information, industry information, sales promotion, and education of the beef industry.

E. Basis for Accounting

Governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they become susceptible to accrual; generally when they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period, generally within 60 days of year end. Major revenues that are determined to be susceptible to accrual are assessments and interest.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to debt service, compensated absences, and claims and judgments, are recorded only when payment is due and payable.

F. Cash and Cash Equivalents

Cash and cash equivalents includes all funds deposited with the Bank of North Dakota.

G. Investments

Investments include certificates of deposit that are reported at fair value.

H. Receivables

Receivables include assessments receivable on cattle sales and interest receivable on investments.

I. Compensated Absences

Annual and sick leave are a part of permanent employees' compensation as set forth in section 54-06-04 of the North Dakota Century Code. In general, accrued annual leave cannot exceed 30 days at April 30, while accrued sick leave is not limited. Employees are entitled to earn leave based on tenure of employment, within a range from a minimum of one working day, to a maximum of two working days per month, established by the rules and regulations adopted by the employing unit. Employees are paid for all unused annual leave upon termination or retirement, per section 54-06-14 of the North Dakota Century Code. Employees vest in sick leave at ten years of credible service, at which time the employer is liable for 10% of the accumulated unused sick leave.

J. Fund Balance

The difference between fund assets and liabilities is "Fund Balance" on the governmental fund statements. Governmental funds utilize a fund balance presentation for equity. Fund balance is categorized as nonspendable, restricted, committed, assigned, or unassigned. All of the Commission's fund balance is considered restricted. The North Dakota Beef Commission's fund balance is restricted by enabling legislation contained in the North Dakota Century Code Chapter 4.1-03 to be spent only pursuant to that Chapter.

K. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the North Dakota Public Employees Retirement System (NDPERS) and additions to/deductions from NDPERS' fiduciary net position have been determined on the same basis as they are reported by NDPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

L. New Accounting Pronouncements

During fiscal year 2015, the state of North Dakota adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No, 27*, GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – amendment of GASB No. 68.*

The state of North Dakota will implement the following new pronouncements for fiscal years ending after 2015:

GASB Statement No. 72, *Pension Transition for Contributions Made Subsequent to the Measurement Date – and amendment of GASB Standard No. 68*, GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the scope of GASB 68, and Amendments to Certain Provisions of GASB Statements 67-68*, GASB Statement No. 74, *Financial Reporting for Postemployment Benefits Plans Other than Pension Plans*, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*.

NOTE 2 - DEPOSITS AND INVESTMENTS

A. Deposits

State law generally requires that all state funds be deposited in the Bank of North Dakota. NDCC 21-04-01 provides that public funds belonging to or in the custody of the state shall be deposited in the Bank of North Dakota. Also, 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.

The bank balances were $269,867 and $221,259 at June 30, 2015 and 2014, respectively. All deposits are exposed to custodial credit risk because they are not covered by depository insurance and the deposits are uncollateralized. All of the Commission's deposits are at the Bank of North Dakota. Deposits with the Bank of North Dakota are considered uninsured; however, these deposits are guaranteed by the state of North Dakota (NDCC chapter 6-09-10).

B. Investments

All investments must be short-term (one year or less), risk free (federally insured or fully collateralized), and interest bearing. The fair value of investments was $100,000 and $100,000 at June 30, 2015 and 2014, respectively. All investments were certificates of deposit insured by the U.S. government. NDCC 4-24-09 states the State Treasurer shall credit 20% of the investment income to the general fund in the state treasury as payment for services when provided without cost to the Commission, the remaining 80% is credited to the beef fund.

NOTE 3 - LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities for the fiscal years ended June 30, 2015 and 2014 is presented as follows:

	Balance 7/1/2014	Additions	Reductions	Balance 6/30/2015	Current Portion
Compensated absences	$ 21,637	$ 11,164	$ 7,778	$ 25,023	$ 7,778

	Balance 7/1/2013	Additions	Reductions	Balance 6/30/2014	Current Portion
Compensated absences	$ 21,150	$ 10,525	$ 10,038	$ 21,637	$ 10,038

NOTE 4 – North Dakota Public Employees Retirement System (NDPERS)

The Beef Commission participates in the North Dakota Public Employees Retirement System (NDPERS) - Main System. The following brief description of NDPERS is provided for general information purposes only. Participants should refer to NDCC Chapter 54-52 for more complete information.

A. Description of the Plan

NDPERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all employees of the state of North Dakota, its agencies, and various participating political subdivisions. NDPERS provides for pension, death, and disability benefits. The cost to administer the plan is financed through the contributions and investment earnings of the plan.

Responsibility for administration of the NDPERS defined benefit pension plan is assigned to a Board comprised of seven members. The Board consists of a Chairman, who is appointed by the Governor; one member appointed by the Attorney General; one member appointed by the State Health Officer; three members elected by the active membership of the NDPERS system; and one member elected by the retired public employees.

B. Pension Benefits

Benefits are set by statute. NDPERS has no provision or policies with respect to automatic and ad hoc post-retirement benefit increases. Member of the Main System are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equal or exceeds 85 (Rule of 85), or at normal retirement age (65). The annual pension benefit is equal to 2.00% of their average monthly salary, using the highest 36 months out of the last 180 months of service, for each year of service. The plan permits early retirement at ages 55-64 with three or more years of service.

Members may elect to receive the pension benefits in the form of a single life, joint and survivor, term-certain annuity, or partial lump sum with ongoing annuity. Members may elect to receive the value of their accumulated contributions, plus interest, as a lump sum distribution upon retirement or termination, or they may elect to receive their benefits in the form of an annuity. For each member electing an annuity, total payment will not be less than the members' accumulated contributions plus interest.

C. Death and Disability Benefits

Death and disability benefits are set by statute. If an active member dies with less than three years of service for the Main System, a death benefit equal to the value of the member's accumulated contributions, plus interest, is paid to the member's beneficiary. If the member has earned more than three years of credited service for the Main System, the surviving spouse will be entitled to a single payment refund, life-time monthly payments in an amount equal to 50% of the member's accrued normal retirement benefit, or monthly payments in an amount equal to the member's 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 member's accumulated pension benefits are paid, the balance will be payable to the surviving spouse's designated beneficiary.

Eligible members who become totally disabled after a minimum of 180 days of service, receive monthly disability benefits equal to 25% of their final average salary with a minimum benefit of $100. To qualify under this section, the member has to become disabled during the period of eligible employment and apply for benefits within one year of termination. The definition of disabled is set by the NDPERS in the North Dakota Administrative Code.

D. Refunds of Member Account Balance

Upon termination, if a member of the Main System is not vested (is not 65 or does not have three years of service), they will receive the accumulated member contributions and vested employer contributions, plus interest, or may elect to receive this amount at a later date. If the member has vested, they have the option of applying for a refund or can remain as a terminated vested participant. If a member terminated and withdrew their accumulated member contribution and is subsequently reemployed, they have the option of repurchasing their previous service.

The member's account balance includes the vested employer contributions equal to the member's contributions to an eligible deferred compensation plan. The minimum member contribution is $25 and the maximum may not exceed the following:

- 1 to 12 months of service – Greater of 1% of monthly salary or $25
- 13 to 25 months of service – Greater of 2% of monthly salary or $25
- 25 to 36 months of service – Greater of 3% of monthly salary or $25
- Longer than 36 months of service – Greater of 4% of monthly salary or $25

E. Member and Employer Contributions

Member and employer contributions paid to NDPERS are set by statute and are established as a percent of covered compensation. Member contribution rates are 7% and employer contribution rates are 7.12% of covered compensation.

F. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the ND Beef Commission (Commission) has a long-term liability of $86,163 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Commission's proportion of the net pension liability was based on the Commission's share of covered payroll in the Main System pension plan relative to the covered payroll of all participating Main System employers. At June 30, 2014, the Commission's proportion was 0.013575%.

While the Commission's financial statements present expenditures on a modified accrual basis, the accrual based pension expense for the year ended June 30, 2015 is $13,099. At June 30, 2015, the Commission has deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 2,794	$ 0
Changes of assumptions	0	0
Net difference between projected and actual earnings on pension plan investments	0	(16,819)
Changes in proportion and differences between employer contributions and proportionate share of contributions	0	0
Employer contributions subsequent to the measurement date	13,342	0
Total	$16,136	$ (16,819)

$13,342 reported as deferred outflows of resources related to pensions resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2016	$ (3,610)
2017	(3,610)
2018	(3,610)
2019	(3,610)
2020	416
Thereafter	0

Actuarial assumptions. The total pension liability in the July 1, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.50%
Salary increases	3.85% per annum for four years, then 4.50% per annum
Investment rate of return	8.00%, net of investment expenses
Cost-of-living adjustments	None

For active members, inactive members and healthy retirees, mortality rates were based on the RP-2000 Combined Healthy Mortality Table with ages set back three years.. For disabled retirees, mortality rates were based on the RP-2000 Disabled Retiree Mortality Table with ages set back one year for males (not set back for females).

The actuarial assumptions used were based on the results of an actuarial experience study completed in 2010. They are the same as the assumptions used in the July 1, 2014, funding actuarial valuation for NDPERS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Fund's target asset allocation are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	31%	6.90%
International Equity	21%	7.55%
Private Equity	5%	11.30%
Domestic Fixed Income	17%	1.55%
International Fixed Income	5%	0.90%
Global Real Assets	20%	5.38%
Cash Equivalents	1%	0.00%

Discount rate. The discount rate used to measure the total pension liability was 8% as of June 30, 2014. The projection of cash flows used to determine the discount rate assumes that member and employer contributions will be made at rates equal to those based on the July 1, 2014, Actuarial Valuation Report. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members as of June 30, 2014. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2014.

Sensitivity of the Employer's proportionate share of the net pension liability to changes in the discount rate. The following presents the Employer's proportionate share of the net pension liability calculated using the discount rate of 8%, as well as what the Employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7%) or 1-percentage-point higher (9%) than the current rate:

	1% Decrease (7%)	**Current Discount Rate (8%)**	**1% Increase (9%)**
Employer's proportionate share of the net pension liability	$132,889	$86,163	$47,094

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued NDPERS financial report.

Payables to the pension plan. No amount was payable to the pension plan at June 30, 2015.

G. GASB 27 Disclosure for 2014

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 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. The North Dakota Retirement Board was created by the state legislature and is the governing authority of NDPERS. The North Dakota Beef Commission’s required and actual contributions for NDPERS for the fiscal years ending June 30, 2014, 2013, and 2012 were $13,448. $12,095, and $12,787, respectively.

NOTE 5 – POST-RETIREMENT BENEFITS

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.

NOTE 6 - RISK MANAGEMENT

The Commission is exposed to various risks of loss related to torts; theft of; damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The following are funds/pools established by the state for risk management issues:

The 1995 Legislative Session established the Risk Management Fund (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 and its agencies' employees and the university system. All state agencies participate in the RMF and their fund contribution is determined using a projected cost allocation approach. The statutory liability of the state is limited to a total of $250,000 per person and $1,000,000 per occurrence.

The Commission also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The agency pays an annual premium to the Fire and Tornado Fund to cover for loss to business personal property, up to a limit of $100,000. Replacement cost coverage is provided by estimating the replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third party insurance carrier for losses in excess of $1,000,000 per occurrence during a 12-month period. The State Bonding Fund currently provides the agency with blanket fidelity bond coverage in the amount of $300,000 per employee. The State Bonding Fund does not currently charge any premium for this coverage.

The Commission participates in the North Dakota Worker's Compensation Bureau, an enterprise fund of the state of North Dakota. The Bureau 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.

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 fiscal years.

Schedule of Employer's Share of Net Pension Liability
ND Public Employees Retirement System
Last 10 Fiscal Years*

	2015
Employer's proportion of the net pension liability (asset)	0.013575%
Employer's proportionate share of the net pension liability (asset)	$86,163
Employer's covered-employee payroll	$114,348
Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	75.35%
Plan fiduciary net position as a percentage of the total pension liability	77.70%

*Complete data for this schedule is not available prior to 2015.

The amounts presented for fiscal year 2015 have a measurement date of the previous fiscal year end.

Schedules of Required Supplementary Information

Schedule of Employer Contributions
ND Public Employees Retirement System
Last 10 Fiscal Years*

	2015
Statutorily required contribution	$12,715
Contributions in relation to the statutorily required contribution	($12,715)
Contribution deficiency (excess)	$0
Employer's covered-employee payroll	$114,348
Contributions as a percentage of covered-employee payroll	11.12%

*Complete data for this schedule is not available prior to 2015.

Supplementary Information

Detailed Schedule of Expenditures

	2015	2014
Administration		
Compensation:		
Salaries	$ 121,635	$ 118,171
Benefits	49,299	46,188
Per Diem – Commissioners	11,950	10,800
Operations:		
Rent	11,984	11,984
Equipment/Supplies/Postage	5,293	5,515
Audit	4,584	4,472
Legal	1,975	
Telephone	1,305	1,574
Compliance Program	1,753	2,471
Insurance	638	638
Travel - Staff	9,796	7,028
Travel - Commissioners	28,766	18,744
Total Administration	$ 248,978	$ 227,585
Program Expenditures		
International Promotion	$ 20,009	$ 12,728
Promotion:		
Advertising	500	32,655
Retail and Food Service	5,193	1,905
Research	663	681
Industry Information		
Consumer Information:		
Health	7,157	5,152
Education	12,081	21,298
Public Relations and Media	51,662	43,807
Cattlewomen	19,250	17,209
Producer Information	3,756	3,789
National Program Development	119,260	124,484
Total Program Expenditures	$ 239,531	$ 263,708

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?*

   No. See the material weakness included in this report under "Findings, Recommendations, and Management Response."

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?*

   No. The prior recommendation regarding a lack of segregation of duties is reissued (See page 22).

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

   Yes. The Governance Communication on pages 23-24 of this report contains one informal recommendation related to following OMB guidelines for travel expenses.

LAFRC Audit Communications

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

   There were no significant changes in accounting policies; no management conflicts of interest were 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.*

   None.

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.*

   We are pleased to report that no significant disagreements arose during the course of our audit.

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.*

   ConnectND Finance and Human Resource Management System (HRMS) are the high-risk information technology systems critical to the North Dakota Beef Commission.

SEGREGATION OF DUTIES (Finding 15-1)

Condition:
The North Dakota Beef Commission does not have proper segregation of duties surrounding revenue collections. There is no independent reconciliation of receipts to deposits to ensure all collections were deposited.

Criteria:
The Committee of Sponsoring Organizations (COSO) states that controls and the monitoring of those controls are important components of enterprise risk management.

Cause:
The North Dakota Beef Commission has had only two employees since 2012, making complete segregation of duties difficult.

Effect or Potential Effect:
A lack of internal controls provides an opportunity for fraud to occur and for increased errors and misstatements.

Recommendation:

We recommend the North Dakota Beef Commission properly segregate duties surrounding revenue collections.

North Dakota Beef Commission Response:

The ND Beef Commission realizes it is extremely hard to have the ultimate of internal controls and segregation of duties with a staff of only two people. However, we have tried as best we can to divide responsibilities and follow the direction from previous auditors in implementing steps we felt were improvements. We have added a third staff member as of the last week of June so are hopeful that this will help during the current year and into the future.

Governance Communication

October 23, 2015

To: The North Dakota Beef Commission Board of Directors

The Legislative Audit and Fiscal Review Committee

We have audited the financial statements of the North Dakota Beef Commission for the year ended June 30, 2015, and have issued our report thereon dated October 23, 2015. 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 Beef Commission 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 the year. 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.

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. There were no known or likely misstatements that we needed to report to management.

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 23, 2015.

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. It should be noted that the retention of the State Auditor is a matter of state law and is not under the control of the North Dakota Beef Commission.

The following presents our informal recommendation.

We recommend the North Dakota Beef Commission follow North Dakota Century Code and the Office of Management and Budget policies 505 and 507 when paying travel expenses.

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

Very truly yours,

Krista Lambrecht

Krista Lambrecht, CPA
Auditor in-charge