

NORTH DAKOTA
BEEF COMMISSION

Bismarck, North Dakota

Audit Report

For the Fiscal Years Ending
June 30, 2016 and June 30, 2015

Office of the State Auditor
Division of State Audit

**LEGISLATIVE AUDIT AND FISCAL REVIEW
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STATE OF NORTH DAKOTA
OFFICE OF THE STATE AUDITOR
STATE CAPITOL
600 E. BOULEVARD AVE. – DEPT. 117
BISMARCK, ND 58505

Independent Auditor's Report

Honorable Jack Dalrymple, Governor
Members of the Legislative Assembly
Members of the North Dakota North Dakota Beef Commission
Nancy Jo Bateman, North Dakota Beef Commission Executive Director

Report on the Financial Statements

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, 2016, and 2015 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 the financial statements that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the 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 statement 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 statement.

We believe that 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, 2016 and 2015 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 Matters

As discussed in Note 1, the financial statement presents only the North Dakota Beef Commission Fund's revenues and expenditures, and do not purport to, and do not present fairly the financial position of the state of North Dakota as of June 30, 2016 or 2015, 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.

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 *Combining Balance Sheets and Combining Statements of Revenues, Expenditures, and Changes in Fund Balance* for fiscal years 2016 and 2015 are presented for purposes of additional analysis and are not a required part of the financial statements.

These additional statements are the responsibility of management and were 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 *Combining Financial Statements* are 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 28, 2016 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, 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 28, 2016

Financial Statements

Combined Balance Sheet

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
<u>Assets</u>		
Cash and Cash Equivalents	\$ 1,116,237	\$ 269,867
Investments	100,000	100,000
Assessments Receivable	89,392	37,726
Interest Receivable	<u>77</u>	<u>44</u>
Total Assets	<u>\$ 1,305,706</u>	<u>\$ 407,637</u>
<u>Liabilities and Fund Balance</u>		
Liabilities:		
Accounts Payable	\$ 87,665	\$ 32,254
Accrued Payroll	19,690	16,552
Due to Cattlemen's Beef Board	55,617	40,855
Due to the National Cattlemen's Beef Association	23,749	11,753
Due to Other States	<u>1,494</u>	<u>1,321</u>
Total Liabilities	<u>\$ 188,215</u>	<u>\$ 102,735</u>
Fund Balance:		
Restricted	<u>\$ 1,117,491</u>	<u>\$ 304,902</u>
Total Fund Balances	<u>\$ 1,117,491</u>	<u>\$ 304,902</u>
Total Liabilities and Fund Balances	<u>\$ 1,305,706</u>	<u>\$ 407,637</u>

See Notes to the Financial Statement.

Combined Statement of Revenues, Expenditures, and Changes in Fund Balance

For the Fiscal Year Ended June 30

	2016	2015
<u>Revenues</u>		
Gross Assessment Revenue	\$ 2,251,607	\$ 1,057,977
Less:		
Refunds	(79,329)	
Assessment Revenue Remitted to Other States	(20,724)	(17,683)
Assessment Revenue Remitted to Cattlemen's Beef Board	(576,322)	(520,670)
Net Assessment Revenues	\$ 1,575,232	\$ 519,624
Interest Income	1,107	857
Beef Gift Certificates	2,170	3,085
Other Revenue	17,994	2,875
Total Revenues	\$ 1,596,503	\$ 526,441
<u>Expenditures</u>		
Program Expenditures:		
International Promotion	\$ 28,210	\$ 20,009
Promotion	50,322	5,693
Industry Information	10,047	
Research	24,305	663
Consumer Information	109,727	93,906
National Program Development	230,224	119,260
Total Program Expenditures	\$ 452,835	\$ 239,531
Beef Gift Certificates	2,170	3,085
Administration	328,909	248,978
Total Expenditures	\$ 783,914	\$ 491,594
Revenues Over (Under) Expenditures	\$ 812,589	\$ 34,847
Fund Balance, Beginning of Year	304,902	270,055
Fund Balance, End of Year	\$ 1,117,491	\$ 304,902

See Notes to the Financial Statement.

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 the financial position as well as all revenue and expenditure activity in the operations program.

The Commission was established by North Dakota Century Code (NDCC) chapter 4.1-3, and is vested with the powers to collect and expend an assessment of two dollars for each head of cattle sold within the state or from the state. 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.

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 include 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, which is made up of \$530,288 (National) and \$587,203 (State) for a total restricted fund balance of \$1,117,491. 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.

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 \$1,116,237 and \$269,867 at June 30, 2016 and 2015, 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, 2016 and 2015, 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 7/1/2015	Additions	Reductions	Balance 6/30/2016	Current Portion
Compensated absences	<u>\$ 25,023</u>	<u>\$ 9,977</u>	<u>\$ 9,258</u>	<u>\$ 25,742</u>	<u>\$ 9,258</u>
	Balance 7/1/2014	Additions	Reductions	Balance 6/30/2015	Current Portion
Compensated absences	<u>\$ 21,637</u>	<u>\$ 11,164</u>	<u>\$ 7,778</u>	<u>\$ 25,023</u>	<u>\$ 7,778</u>

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). For members hired on or after January 1, 2016 the Rule of 85 will be replaced with the Rule of 90 with a minimum age of 60. The monthly 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, 2016, the ND Beef Commission (Commission) has a long-term liability of \$91,580 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, 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, 2015, the Commission's proportion was 0.0134688 percent, which was a decrease of 0.000107 from its proportion measured as of 06/30/2014.

While the Commission's financial statements present expenditures on a modified accrual basis, the accrual based pension expense for the year ended June 30, 2016 is \$8,543.

Actuarial assumptions. The total pension liability in the July 1, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.50%
Salary increases	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 set back two years for males and three years for

females, projected generationally using the SSA 2014 Intermediate Cost scale from 2014. For disabled retirees, mortality rates were based on the RP-2000 Disabled Mortality Table set back one year for males (no setback for females) multiplied by 125%.

The actuarial assumptions used were based on the results of an actuarial experience study completed in 2015. They are the same as the assumptions used in the July 1, 2015, funding actuarial valuation for NDPERS.

As a result of the 2015 actuarial experience study, the NDPERS Board adopted several changes to the actuarial assumptions effective July 1, 2015. This includes changes to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale, and percent married assumption.

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%	1.52%
International Fixed Income	5%	0.45%
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, 2015. 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, 2015, 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, 2015. 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, 2015.

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	\$140,434	\$91,580	\$51,609

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, 2016.

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.

Required Supplementary Information

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

	2016	2015
Employer's proportion of the net pension liability (asset)	0.013468%	0.013575%
Employer's proportionate share of the net pension liability (asset)	\$91,580	\$86,163
Employer's covered-employee payroll	\$119,981	\$114,348
Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	76.33%	75.35%
Plan fiduciary net position as a percentage of the total pension liability	77.15%	77.70%

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

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

Required Supplementary Information

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

	<u>2016</u>	<u>2015</u>
Statutorily required contribution	\$ 9,114	\$ 8,142
Contributions in relation to the statutorily required contribution	\$ (8,543)	\$ (8,142)
Contribution deficiency (excess)	\$ 571	\$ 0
Employer's covered-employee payroll	\$119,981	\$114,348
Contributions as a percentage of covered-employee payroll	7.60%	7.12%

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

Supplementary Information

Combining Balance Sheet

June 30, 2016

	National	State	Totals
<u>Assets</u>			
Cash and cash equivalents	\$ 471,112	\$ 645,125	\$ 1,116,237
Investments	100,000		100,000
Assessments receivable	47,635	41,757	89,392
Interest receivable	77		77
Total assets	<u>\$ 618,824</u>	<u>\$ 686,882</u>	<u>\$ 1,305,706</u>
<u>Liabilities and Fund Balance</u>			
Liabilities:			
Accounts payable	\$ 11,852	\$ 75,813	\$ 87,665
Accrued payroll		19,690	19,690
Due to Cattlemen's Beef Board	55,617		55,617
Due to the National Cattlemen's Beef Assn.	19,573	4,175	23,748
Due to other states	1,494		1,494
Total liabilities	<u>\$ 88,536</u>	<u>\$ 99,678</u>	<u>\$ 188,214</u>
Fund Balance:			
Restricted	\$ 530,288	\$ 587,204	\$ 1,117,492
Total fund balance	<u>\$ 530,288</u>	<u>\$ 587,204</u>	<u>\$ 1,117,492</u>
Total liabilities and fund balance	<u>\$ 618,824</u>	<u>\$ 686,822</u>	<u>\$ 1,305,706</u>

Combining Balance Sheet

June 30, 2015

	National	State	Totals
<u>Assets</u>			
Cash and cash equivalents	\$ 269,867		\$ 269,867
Investments	100,000		100,000
Assessments receivable	37,726		37,726
Interest receivable	44		44
Total assets	<u>\$ 407,637</u>	<u>\$ -</u>	<u>\$ 407,637</u>
<u>Liabilities and Fund Balance</u>			
Liabilities:			
Accounts payable	\$ 32,254		\$ 32,254
Accrued payroll	16,552		16,552
Due to Cattlemen's Beef Board	40,855		40,855
Due to the National Cattlemen's Beef Assn.	11,753		11,753
Due to other states	1,321		1,321
Total liabilities	<u>\$ 102,735</u>	<u>\$ -</u>	<u>\$ 102,735</u>
Fund Balance:			
Restricted	\$ 304,902	\$ -	\$ 304,902
Total fund balance	\$ 304,902	\$ -	\$ 304,902
Total liabilities and fund balance	<u>\$ 407,637</u>	<u>\$ -</u>	<u>\$ 407,637</u>

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance

For the Fiscal Year Ended June 30, 2016

	National	State	Total
<u>Revenues</u>			
Gross Assessment Revenue	\$ 1,172,878	\$ 1,078,729	\$ 2,251,607
Less:			
Refunds		(79,329)	(79,329)
Assessment Revenue Remitted to Other States	(20,724)		(20,724)
Assessment Revenue Remitted to Cattlemen's Beef Board	(576,322)		(576,322)
Net Assessment Revenues	\$ 575,832	\$ 999,400	\$ 1,575,232
Interest Income	1,107		1,107
Beef Gift Certificates	2,170		2,170
Other Revenues	17,994		17,994
Total Revenues	\$ 597,103	\$ 999,400	\$ 1,596,503
<u>Expenditures</u>			
Program Expenditures:			
International Promotion	\$ 14,105	\$ 14,105	\$ 28,210
Promotion	25,161	25,161	50,322
Industry Information	10,024	24	10,048
Research		24,305	24,305
Consumer Information	68,978	40,749	109,727
National Program Development	186,048	44,175	230,223
Total Program Expenditures	\$ 304,316	\$ 148,519	\$ 452,835
Beef Gift Certificates	2,170		2,170
Administration	65,231	263,678	328,909
Total Expenditures	\$ 371,717	\$ 412,197	\$ 783,914
Revenues Over (Under) Expenditures	\$ 225,386	\$ 587,203	\$ 812,589
Fund Balance, Beginning of Year	304,902		304,902
Fund Balance, End of Year	\$ 530,288	\$ 587,203	\$ 1,117,491

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance

For the Fiscal Year Ended June 30, 2015

	National	State	Total
<u>Revenues</u>			
Gross Assessment Revenue	\$ 1,057,977		\$ 1,057,977
Less:			
Refunds			
Assessment Revenue Remitted to Other States	(17,683)		(17,683)
Assessment Revenue Remitted to Cattlemen's Beef Board	(520,670)		(520,670)
Net Assessment Revenues	\$ 519,624	\$ -	\$ 519,624
Interest Income	857		857
Beef Gift Certificates	3,085		3,085
Other Revenues	2,875		2,875
Total Revenues	\$ 526,441	\$ -	\$ 526,441
<u>Expenditures</u>			
Program Expenditures:			
International Promotion	\$ 20,009		\$ 20,009
Promotion	5,693		5,693
Industry Information	-		-
Research	663		663
Consumer Information	93,906		93,906
National Program Development	119,260		119,260
Total Program Expenditures	\$ 239,531	\$ -	\$ 239,531
Beef Gift Certificates	3,085		3,085
Administration	248,978		248,978
Total Expenditures	\$ 491,594	\$ -	\$ 491,594
Revenues Over (Under) Expenditures	\$ 34,847	\$ -	\$ 34,847
Fund Balance, Beginning of Year	270,055	-	270,055
Fund Balance, End of Year	\$ 304,902	\$ -	\$ 304,902

Exhibits

STATE AUDITOR
ROBERT R. PETERSON



Phone (701)239-7250
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STATE OF NORTH DAKOTA
OFFICE OF THE STATE AUDITOR
STATE CAPITOL
600 E. BOULEVARD AVE. – DEPT. 117
BISMARCK, ND 58505

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of a Financial Statement Performed in Accordance with Government Auditing Standards

Independent Auditor's Report

Honorable Jack Dalrymple, Governor
Members of the Legislative Assembly
Members of the North Dakota Beef Commission
Nancy Jo Bateman, North Dakota Beef Commission 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, 2016 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 28, 2016.

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. 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. We did identify a deficiency in internal control, described in the accompanying *Schedule of Findings, Recommendations, and Managements Response* as finding 16-1 that we consider to be significant deficiency.

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 (the "Act"), and the Beef Promotion 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 that (i) the North Dakota Beef Commission was not in compliance with the provisions of the Beef Promotion and Research Act of 1985 (the "Act") and the Beef Promotion and Research Order (the "Order") relative to the use of funds collected by the North Dakota Beef Commission insofar as they relate to accounting matters, or (ii) that the North Dakota Beef Commission failed to accurately allocate expenses that it shared with any other entity or funding source in a manner that complies with the Act and Order.

Further, nothing came to our attention that caused us to believe the North Dakota Beef Commission was not in compliance with the provisions of the Beef Board Investment Policy for Qualified State Beef Councils dated March 14, 2016, which describes the type of instruments in which the North Dakota Beef Commission may invest. Our audits were not, however, directed primarily toward obtaining knowledge of such noncompliance.

We noted certain matters that we reported to management of the North Dakota Beef Commission in a letter dated October 28, 2016.

North Dakota Beef Commission's Response to Findings

North Dakota Beef Commission's response to the findings identified in our audit, are described in the accompanying *Schedule of Findings, Recommendations, and Managements Response*. The North Dakota Beef Commission's response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

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 28, 2016

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 special-purpose financial statement?*

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, there is a lack of controls surrounding the recording of expenditures in the proper fiscal year. For additional commentary see Finding 16-1 on page 25.

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

No.

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

Yes, the North Dakota Beef Commission has implemented the recommendation from the previous audit regarding the segregation of duties surrounding revenue collections.

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

Yes. The Governance Communication section of this report contains four informal recommendations related to updating the agency's policy manual, obtaining proper support for refunds, following state procurement procedures, and the use of OMB's Promotional Expense Request form.

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.*

None noted.

3. *Identify any significant audit adjustments.*

See Governance Communication section, page 26, for adjustments.

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 special-purpose financial statement.*

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.*

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

Findings, Recommendations, and Management's Response

Recording Expenditures in Incorrect Fiscal Year (Finding 16-1)

Condition:

The Beef Commission is not recording expenditures in the correct fiscal year. The Commission improperly recorded \$162,726 of research contract payments in fiscal year 2016, as the agency had not incurred nor had any obligations regarding these expenditures until after fiscal year 2016.

Criteria:

OMB fiscal policy 200 states that the financial data must be reported in accordance with generally accepted accounting principles. The general rule is that expenditures are to be charged to the fiscal year in which the goods or services were received.

Cause:

Beef Commission employees thought they could record the expenditures in fiscal year 2016 as they had been approved by the board in fiscal year 2016.

Effect:

Recording expenditures in the incorrect fiscal year may cause material misstatements to the financial statements.

Recommendation:

We recommend the North Dakota Beef Commission record expenditures in the correct fiscal year in accordance with Office of Management and Budget fiscal policy 200.

ND Beef Commission Response:

After discussing this with the auditor conducting our audit, we understand that research payments for new research projects approved during the 2016 fiscal year should not have been recorded in that year. In the future, we will pay specific attention to these projects and the accompanying contractual arrangements in an effort to have expenses recorded in the appropriate fiscal year.

Governance Communication

October 28, 2016

To: The North Dakota Beef Commission

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, 2016 and have issued our report thereon dated October 28, 2016. 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 August 17, 2016. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by 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 2016. 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. Management has corrected all such misstatements. The schedule below titled "Audit Adjustments" lists material misstatements detected as a result of audit procedures were corrected by management.

Audit Adjustments

Accounts Payable - State	162,726
Research - State	162,726

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 28, 2016.

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.

The following presents our informal recommendations:

- We recommend the North Dakota Beef Commission update its policy manual to cover all areas of the entity's operations.
- We recommend the North Dakota Beef Commission obtain the proper supporting documentation listed in their documented instructions for all refunds.

- We recommend the North Dakota Beef Commission establish procedures to ensure all purchases made are in accordance with the purchasing requirements established by the State Procurement Office.
- We recommend the North Dakota Beef Commission complete the Promotional Expense Request form for approval of all promotional expenses not directly related to promoting the beef industry.

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

Sincerely,

A handwritten signature in dark ink, appearing to read "Krista Lambrecht". The signature is fluid and cursive, with the first name "Krista" and last name "Lambrecht" clearly distinguishable.

Krista Lambrecht, CPA
Auditor in-charge

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