

2005

JOINT HOUSE AND SENATE AGRICULTURE COMMITTEES
AGRICULTURAL COMMODITY GROUPS HEARINGS

- □ Committee on Committees
- □ Rules Committee
- □ Confirmation Hearings
- □ Delayed Bills Committee
- House Appropriations
- ☐ Senate Appropriations

X Other

Joint Meeting of House and Senate Agriculture Committees with Commodity Groups

Tape Number	Side A	B Side	Meter #
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Minutes:

Chairman Flakoll opened the joint meeting of the Senate and House Agriculture Committees with the commodity groups.

Sharlene Wittenburg presented the report of the North Dakota Turkey Federation. (meter 200 - 400)

Senator Klein asked how turkey consumption is trending.

Ms. Wittenburg said it has dropped.

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Joint Meeting Senate Agriculture Committee and House Agriculture Committee January 7, 2005

Dianne Peycke, Executive Director, presented the report of the North Dakota State Potato Council. (meter 468 - 1174)

Representative Headland asked about how many refunds are requested.

Ms. Peycke said 15.

Senator Klein commented that 15 refunds amounts to 20% of the funds.

Senator Urlacher asked how the refunds are trending.

Ms. Peycke said they have been increasing. They are down this year because some growers were too late with their requests.

Senator Urlacher asked what is the reason for the increase in refunds, do growers need the money?

Ms. Peycke said the large growers request refunds because it amounts to a large dollar amount.

Smaller growers have various reasons.

Senator Flakoll stated it might be convenient to have the reports of the commodity groups ahead of the scheduled meeting next year to allow the legislators to have time to read the material.

Matt Mechtel presented the report of the North Dakota Soybean Council. (meter 1226 - 2873)

Senator Flakoll asked if there is data regarding the largest users of diesel in North Dakota.

Mr. Mechtel said rail, trucking, mining and agriculture would all be heavy users.

Representative Mueller asked where the biodiesel that is used in North Dakota is produced.

Mr. Mechtel said in Ralston, IA and a plant in Minnesota too.

Representative Mueller asked what Mr. Mechtel thinks of the biodiesel mandate.

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Mr. Mechtel said he must be apolitical in his position with the Soybean Council. He would support the mandate as a farmer. He has used biodiesel in his operation since 2000 and believes strongly in it. He uses 30,000 gallons per year.

Senator Flakoll asked what is the increased cost of biodiesel?

Mr. Mechtel said you can expect about one cent per 1%. The cost is expected to drop eventually.

Senator Taylor asked if he is comfortable with the acres of soybeans in North Dakota.

Mr. Mechtel said he expects the acreage to hold steady. This was a tough year.

Representative Onstad asked what percentage of soybeans in North Dakota are Round Up ready.

Mr. Mechtel said about 80%. More EU countries are accepting Round Up ready beans. Still some Asian countries, particularly Japan that are difficult to please.

Mr. Mechtel said regarding identity preservation, he has kept them separate on his own farm and successfully marketed them.

Mike Clemens presented the report of the North Dakota Oilseed Council. (meter #2873 - 4167)

Representative Mueller said the financial statement is positive, why so much carryover?

Mr. Clemens said they are very careful with their funding. They watch the timelines for their contracts so the money is there when payments are due. They also want to be prepared for a rainy day.

Representative Onstad asked about the relationship with Canadian growers.

Mr. Clemens said the contracts are working well and it is efficient to combine the efforts of the state and national groups as well as the Canadian flax group.

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Joint Meeting Senate Agriculture Committee and House Agriculture Committee January 7, 2005

Shirley Grummer and John Weisburger presented the report of the Milk Marketing Board.

(meter 4323 - end) (side B, 0 - 70)

Senator Flakoll said they may ask the auditors office about the additional charges for the audit that was farmed out to a private firm.

Representative Kreidt asked for an explanation of who audits the plants.

Mr. Weisburger said in the last 2 years \$80,000 has been recovered. There is still lots of confusion and the plants make accidental mistakes because class III milk is paid on its components. The milk board has staff auditors.

Representative Mueller said there have been efforts in the legislature in the past to eliminate the milk marketing board. Why would that be a bad idea?

Mr. Weisburger said there will be regulation, either by the milk marketing board of the federal marketing order. With the pooling scheme, plants are feeling a very detrimental effect. There would also be a negative effect on timely delivery to rural areas.

Chairman Flakoll thanked the various legislators and officials that have stopped by for the meeting including Agriculture Commissioner Roger Johnson, Senator Wardner and Representative Brusegaard.

Bonnie Woodworth presented the report of the North Dakota Honey Promotion Fund. (meter 96 - 1124)

Representative Kreidt asked if North Dakota honey is the best quality.

Ms. Woodworth said yes, sweet clove and alfalfa make the best quality honey. It is all sold out of state.

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Joint Meeting Senate Agriculture Committee and House Agriculture Committee January 7, 2005

Representative Froelich asked if beekeepers now make more money from pollination than from honey.

Ms. Woodworth said the pollination prices are rising rapidly due to a shortage of bees. Almond growers need 1 1/2 colonies per acre. They are concerned the bees will come out of Mexico.

Representative Kreidt asked if there is mite problem in the industry.

Ms. Woodworth said yes, bees have become resistant to the chemicals used to treat the mites.

FDA is dragging its feet on approving formic acid, a Canadian product. The most promising solution is in research to find mite resistant bees.

Senator Urlacher asked if killer bees are a problem.

Ms. Woodworth said they are Africanized bees that have not been managed for years and became overly defensive. They are resistant to mite damage and so are in favor now.

Representative Froelich asked if these were GMO bees.

Ms. Woodworth said GMO pollen is an issue in the industry.

Paul Bernston presented the report of the North Dakota Dry Pea and Lentil Council. (meter 1124 - 2085)

Representative Onstad asked about identity preservation and intermodal shipping.

Mr. Bernston said they are in favor of intermodal shipping.

Representative Mueller asked about the transfer of funds from the Governor's office.

Mr. Bernston said it was a grant from the USDA that was distributed to specialty crops

Tim Courneya presented the report of the North Dakota Dry Bean Council. (meter 2172 -4218)

Senator Taylor asked why the auditors report differs from their own report.

Mr. Courneya said it was a timing issue and the collections are now on track.

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Jerry Messer presented the report of the North Dakota Dairy Promotion Commission. (meter 4327 - 5127)

Jay Nissen presented the report of the North Dakota Corn Utilization Council (meter 5198 - 6039)

Larry Schnell presented the report of the North Dakota Beef Commission. (meter 6039 - 1127)

Senator Flakoll asked about the cost of the audit.

Nancy Jo Bateman came to the podium She said 5 commodity groups had their audits outsourced. The cost of the beef commission audit went from \$2800 to \$5700.

Representative Froelich asked about the 16 cents being sent to an arm of the NCBA, Federation of State Beef Councils He also asked if the Beef Commission can speak for North Dakota producers on BSE?

Mr. Schnell said no, they are prohibited by law from lobbying. The representatives on the Federaton of State Beef Councils are not necessarily members of the NCBA. The beef commission believes it is important to carry their dollars to urban areas and this is a more efficient way to do it. The money isn't used for politics, it is used for promotion.

Representative Froelich said there is a lot of animosity toward the NCBA, the money might be better spent on the Center of Beef Excellence.

Representative Froelich asked if there are contingency plans in place in case the national beef check off is struck down in the courts?

Mr. Schnell said yes, if the federal program is ruled unconstitutional, we have a North Dakota program with a 50 cent mandate, the collections are refundable.

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Senator Flakoll asked why the amount designated for the Beef Center of Excellence is not on the books yet.

Mr. Schnell said they give money after the fact when they are sure the job has been done properly.

Louis Arnold presented the report of the North Dakota Barley Council (meter 1188 - 1692)

Representative Onstad asked if there are other directions barley will go other than malting and feed use.

Mr. Arnold said they are wanting a feed barley variety for the Red River Valley.

Representative Kingsbury adjourned the joint meeting of the Senate and House Agriculture Committees.

Committee on Committees
Rules Committee
Confirmation Hearings
Delayed Bills Committee
House Appropriations
Senate Appropriations
Other

Joint meeting of Senate and House Agriculture Committees Commodity Groups - Wheat Commission

Date: January 13, 2005			
Tape Number	Side A	B Side	Meter #
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Minutes:	170		

Representative Nicholas opened the joint meeting of the Senate and House Agriculture Committees.

Harlan Klein, chairman, presented the report of the North Dakota Wheat Commission. (written testimony)

Senator Klein asked what the \$3.97 season average for durum and the \$3.97 season average for hard red spring wheat in 2003 - 2004 is based on.

Mr. Klein said it is based on local bids from North Dakota Agriculture Statistics and is the average for the 03 crop.

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Senator Flakoll asked if the gross return is actual or statistics.

Mr. Klein said the Agricultural Statistics' numbers are based on actual numbers, acquired during phone surveys.

Representative Nicholas asked what is the average spring wheat acreage.

Mr. Klein said 6.3 million acres for spring wheat, 2 million acres for durum.

Representative Nicholas commented the actual economic impact could be closer to \$150 million.

Representative Froelich said with wheat imports way down, are milled wheat imports up?

Jim Peterson said they have monitored flour imports and while there has been an increase but not at the level to correspond with the decrease in wheat imports.

Senator Klein asked why North Dakota has to pay for the trade case.

Mr. Klein said the case is specific to hard red spring wheat and it could never have been brought forward with hard red winter wheat. The other states weren't willing to participate. If North Dakota didn't do it, it wouldn't have been done. We have received some value from other states in political support. North Dakota producers have reaped the biggest benefit from the case.

Senator Klein said we are defending against something someone else created.

Senator Flakoll would like to have a copy of the slide show in electronic format.

Mr. Klein said our area has traditionally been a west coast shipper in the past. Last year 80% of domestic production went east and south. The elevator people in talking with the mills have learned the trade case is the reason they are buying North Dakota wheat, they need the quality. The US Wheat Association chose to stay in China and continue their efforts and now China's

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imports have doubled in one year. They are on track to become the largest importer of US wheat, probably overtaking Japan.

Senator Urlacher asked about freight rates.

Mr. Klein said they have given \$20,000 for the Public Service Commission to do a study.

Senator Flakoll asked what the refund rate is for the wheat check-off.

Mr. Klein said it is currently 6.9% and historically runs between 6 and 7%. The increase in the check-off would probably cause in increase in the refund rate but that will drop when the Wheat Commission delivers the results as promised.

Representative Froelich asked about the difficulty to get a refund. He also asked if the wheat check-off could be challenged, in light of the challenge to the beef check-off.

Neal Fisher described the steps necessary to receive a refund for wheat check-off funds.

Representative Froelich said couldn't the request for refund be delivered electronically.

Senator Klein said its not that difficult to get a refund.

Mr. Klein said while some people have said they would like to make the wheat check-off mandatory, they have kept if refundable so that should help avoid a challenge. The beef check-off is mandatory.

Representative Brandenburg said he is concerned about research. He does not want the servicing of the debt on the trade case to be too big of a cost to research.

Mr. Klein said he agrees, they have not done enough in research because of the trade case.

Representative Nicholas adjourned the joint meeting of the Senate and House Agriculture Committees.

2005 HOUSE STANDING COMMITTEE MINUTES BILL/RESOLUTION NO. HOUSE SENATE JOINT MEETING

House Agriculture Committee

☐ Conference Committee

Hearing Date 1---13---05

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Minutes:

CHAIRMAN NICHOLAS: OPENED. We continue with last Fridays report from the various Commodity Groups. We will hear from the Wheat Commission. We have Harlin Klein the Chairman of the Wheat Commission. We will start with your report Harlin.

HARLIN KLEIN: Thank you Mr Chairman. And committee. We area here today to give you our annual report. [[[[[HARLIN PASSED OUT MATERIAL AND IS REFERENCING THIS MATERIAL AS HE SPEAKS...PLEASE READ MATERIAL WHICH IS ATTACHED]]]]]
[[[[PLEASE SEE THE SLIDE PRESENTATION ATTACHED AS TO HARLIN KLEIN]]]]
The slide states ND leads in Hard Red Spring and Durum wheat. He speaks to 2003--2004 expenditures. Public information, administration. Export marketing, research domestic promotion and trade and domestic policy. Please see picture on slide as to percentages.

The state as a whole has had good production with high protein which gives a bonus per bushel of wheat. HARLIN mentioned in testimony that implement dealers are doing well because

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Of wheat production per acre and the protein. Ocean freight has gone up. All freight rates have gone up One of our major expenses has been with the Canadian trade dispute. That has been a moodier expense. We have worked hard and got some good results. We still have to get Canada

To comply wilt WTO ruling. No dumping. Along with this we are getting some positive results. It is long and hard to get to where we want to be with the WTO. We will be monitoring what is going on.

CHAIRMAN NICHOLAS: Asked Harlin, what is the total spring wheat acreage in ND? In 2002, 03 and 04 just approximate

HARLIN: The average acres are in excess of 6 million spring wheat and two million of durum. There is another study coming up where we may be changing this.

SENATOR KLEIN: Why did we have to come up with the money for the Canadian law suit all by ourselves. Why did we not have US GOVERNMENT HELP?

HARLIN: When they look at wheat that is coming in we felt they were dumping wheat here. It cause disruption. Other states were strapped with poor crops. It got to the point if ND did not do it it would not get done. We want to get the problems solved. It took a lot of political support. That was there contribution. We asked other states to help, they were not interested. Actually the US Government created a lot of the problem and not we are paying for it. The numbers we are using are conservative as to what return we will get on the suit. We are shipping wheat to the Eastern and Southeaster US. The people we are selling or shipping to tell us it is because we cannot bring the wheat down from Canada that we have been previously using. We want your quality. WE have replaced Canada's wheat in that area.

We are selling a lot of wheat to China. They are a gang buster for us. Like 33 million bushels. Even taking over Japan. Cuba is strong importer. We need more equitable pricing for freight. We need to bring in growers for discussion. We need positive effort. There is a lot of commonality. We are all thinking on the same trail. We need this for a national policy. We need to educate media on how farm programs work. We need to get that out. We need to tell producers. What experiments, research is going on. We are into the low carb diets. The Atkins diet has been detrimental to the wheat industry. Wheat is not a unhealthy diet. We need public information. We need to do more marketing and promoting. WE are going ahead and perusing a check off increase that we had talked about. We are looking at going to a penny and a half. The increase going to pay off the trade case. We need to get this trade case paid off. I was initially skeptical about the trade case. They prepared us to give us testimony. People were enthusiastic and they had a passion for the trade case to go on. They wanted it to go forth, they were creating electric to convince me we were doing the right thing. They are doing every thing they can. With that I will ask for questions. We want to address freight rates. In the domestic arena. We developed what was call domestic policy committee. We invited the growers in. Farm Bureau, Farmers Union etc.

What are our differences? There is a lot of similarity between growers. We are all on the same page. We need to put those energies together. And take them forward as a complete wheat group and get some things accomplished. In that same are is the disaster bill. We need disaster aid. We came up with very positive results. We need to inform on disease policy. What other areas do we need to look at as to research. Biotechnology is coming on.

QUESTION: As to check-off raises. And refunds.

The refund rate on check-off's. What percentage is that.

The refund rate on check off is about six point nine. Historically it has been right in that area. Six to seven percent. My gut feeling if we do an increase in the check off rate we will see an increase in refunds. They will want it back. We have to communicate and tell the growers that this is what it is doing for you.

REPRESENTATIVE FROELICH: Stated Producers are having a hard time getting there refunds. The procedure is difficult.

HARLIN: Every one is benefiting. Some people say there should not be a refund because all producers are benefiting by the commissions work. Trade promotion helps everyone. We want to keep it voluntary because of legal challenges. If the check off becomes illegal then we would have to go to voluntary. Voluntary may come into play. With out the check off It takes away your market promotion and advertising ability. It would be almost non existent.. If we don't promote we loose. What is that going to do to our market. Someone who wants to promote takes over. To get a refund you have to send in though mail to get la form to get a refund. You can also stop at office. We have not made it altra easy to get a refund. CHAIRMAN NICHOLAS: The challenge is for mandatory check offs. Not with refundable check offs. All Check off in North Dakota are refundable.

REPRESENTATIVE BRANDENBURG: We are neglecting research because of all the problems with the over national check off. The money we have spent for legal bills is taking away from research.

REPRESENTATIVE NICHOLAS: Any comments. We thank the commission. THE CHAIR CLOSE.

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4	N.D. DAIRY PROMOTION COMMISSION	
5	N.D. DRY BEAN COUNCIL	
6	N.D. DRY PEA & LENTIL COUNCIL	
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North Dakota Barley Council Fargo, North Dakota

House and Senate Agriculture Committee Report For the Two-Year Period Ended June 30, 2004

> Robert R. Peterson State Auditor



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November 17, 2004

House and Senate Agriculture Committees:

Transmitted herewith are the financial statements and auditor reports of the North Dakota Barley Council as required by North Dakota Century Code section 4-24-10.

Specifically you will find the state auditor's report on the financial statements, the statement of revenues and expenditures, notes to the financial statements and the compliance and internal control report. Complete audit reports may be obtained by contacting my office.

The Office of the State Auditor would like to thank the commodity groups for their cooperation in preparing these reports.

Sincerely,

Robert R. Peterson

State Auditor



OFFICE OF THE STATE AUDITOR

STATE CAPITOL 600 E. BOULEVARD AVE. - DEPT. 117 8ISMARCK, ND 58505

INDEPENDENT AUDITOR'S REPORT

Honorable John Hoeven, Governor

Members of the Legislative Assembly

Steven Edwardson, North Dakota Barley Council Executive Administrator

We have audited the special-purpose statement of revenues and expenditures of the North Dakota Barley Council for the two-year period ended June 30, 2004. This financial statement is the responsibility of the management of the North Dakota Barley Council. Our responsibility is to express an opinion on this financial statement based on our audit.

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

The accompanying special-purpose financial statement was prepared to provide state decision-makers, including the Legislative Audit and Fiscal Review Committee, with a comprehensive overview of the North Dakota Barley Council's operations. The revenues and expenditures are reported as discussed in the first note to the financial statements. This special-purpose financial statement is not intended to be a presentation in conformity with generally accepted accounting principles.

In our opinion, the special-purpose financial statement referred to above presents fairly, in all material respects, the revenues and expenditures of the North Dakota Barley Council for the two-year period ended June 30, 2004, in conformity with the basis of accounting described in the first note to the financial statements.

Our audit was made for the purpose of forming an opinion on the special-purpose financial statement taken as a whole. The statement subsequent to the notes is presented for purposes of additional analysis and is not a required part of the special-purpose financial statement of the North Dakota Barley Council. The detailed statement has been subjected to the auditing

procedures applied in the audit of the special-purpose financial statement and in our opinion, is fairly stated in all material respects in relation to the financial statement taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 16, 2004 on our consideration of the North Dakota Barley Council's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

This report is intended solely for the information of the Governor, Legislative Audit and Fiscal Review Committee, and management of the North Dakota Barley Council and should not be used for any other purpose. However, this report is a matter of public record and its distribution is not limited.

Robert R. Peterson State Auditor

September 16, 2004

COMPARATIVE STATEMENT OF REVENUES AND EXPENDITURES For the Two-Year Periods Ended June 30, 2004 and 2002

	Fiscal Years 2004-2003	
REVENUES: Barley Assessments (Net of Refunds of \$68,705)	\$	1,492,192
Interest on Investments	Ψ	15,860
Miscellaneous Revenue		9,637
Total Revenues	\$	1,517,689
EXPENDITURES:		
Salaries and Benefits	\$	407,869
Operating Expenses		849,973
Equipment		5,220
Grant Expenditures		165,998
Total Expenditures	\$	1,429,060
Revenue Over Expenditures	\$	88,629

NOTES TO THE SPECIAL-PURPOSE FINANCIAL STATEMENT For the Two-Year Period Ended June 30, 2004

Note 1 - Summary of Significant Accounting Policies

The responsibility for this special-purpose financial statement, the internal control structure, and compliance with laws and regulations belongs to the management of the North Dakota Barley Council. A summary of the significant accounting policies follows:

A. Reporting Entity

For financial reporting purposes, the North Dakota Barley Council includes all funds, programs, and activities over which it is financially accountable. The North Dakota Barley Council does not have any component units as defined by the Governmental Accounting Standards Board. The North Dakota Barley Council is part of the State of North Dakota as a reporting entity.

The North Dakota Barley Council was created by the 1983 Legislature through passage of the "Barley Industry Promotion Act" pursuant to Chapter 4-10.4 of the North Dakota Century Code (NDCC). The intended purpose is the production, development, marketing, and promotion of barley in North Dakota is important to the general welfare of the people of North Dakota. The accomplishment of which required the establishment of the North Dakota Barley Council for the purposes and with the objectives of contributing to the stabilization and improvement of the agricultural economy of this state.

The Council is composed of one participating grower elected from each of the five districts established in Chapter 4-10.4 of the North Dakota Century Code. North Dakota Century Code section 4-10.4-08 states a tax at the rate of ten mills per bushel must be levied and imposed on all barley grown in the state, delivered into the state, or sold to a first purchaser in the state. Every first purchaser of barley shall collect the tax imposed by the section by charging and collecting from the seller the tax at the rate of ten mills per bushel by deducting the tax from the purchase price of all barley subject to the tax and purchased by the first purchaser. Every first purchaser shall keep as a part of its permanent records a record of all purchases, sales, and shipments of barley, which may be examined by the North Dakota Barley Council at all reasonable times. Every first purchaser shall report to the Council by the thirtieth day of each calendar quarter stating the quantity of barley received, sold, or shipped by it. The remittance of the tax to the Council must accompany the report. All moneys levied and collected by the Council are to be deposited in an account designated "Barley Fund" at the State Treasurer and used for carrying out Council objectives. The administrative duties of the Council and the record-keeping requirements of the "Barley Fund" are the responsibility of the Council.

B. Reporting Structure

The special-purpose financial statement includes all activities of the reporting entity as defined above. These activities are funded from fund 231, the Barley fund. The comparative statement of revenues and expenditures is a combined statement to give the users an overview of the agency's activity.

C. Basis of Accounting

Revenues and expenditures on the comparative statement of revenues and expenditures are principally reported on the modified accrual basis of accounting that is generally accepted accounting principles (GAAP) for governmental fund types.

Under the modified accrual basis of accounting revenues are recognized when susceptible to accrual (i.e., measurable and available). "Measurable" means the amount can be determined, available means due and collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues are considered available if they are collected within 45 days after fiscal year end. Expenditures are recorded when goods or services are received. Exceptions include: principal and interest expenditures which are recorded when due; compensated absences that are recorded when paid; and claims and judgments.

There can be differences between revenues and expenditures reported on the state's accounting system and those reported by the Office of Management and Budget in the state's CAFR in accordance with GAAP. Examples of these differences include the following:

- 1. Loan receipts and loan disbursements are accounted for as revenues and expenditures on the state's accounting system (and at times are budgeted as expenditures).
- Revenue reported on the statement of revenues and expenditures can differ from GAAP revenues because certain receivables are accrued for GAAP purposes while they were not recorded as revenue on the state's accounting system when they are received after the apply-back period.
- Certain transfers are sometimes recorded as revenues and expenditures on the state's accounting system.
- Expenditures recorded on the state's accounting system do not report expenditures relating to capital lease and other financing arrangements.

D. Other GAAP Reporting Differences

GAAP financial statements would include a balance sheet by fund type and account group. Revenues and expenditures would also be reported by fund type. GAAP financial statements would also provide more complete note disclosures.

For this report revenues and expenditures are reported on a departmental basis to give an overview of the North Dakota Barley Council's operations. All revenues and expenditures are included.

Note 2 - Related Parties

The North Dakota Barley Council has a close working relationship with the National Barley Growers Association (NBGA), the US Feed Grains Council (USFGC), and the North Dakota Grain Growers Association (NDGGA). For fiscal years 2004 and 2003, the Barley Council paid the NBGA \$35,632 and \$34,144; USFGC \$96,160 and \$96,500; and the NDGGA \$57,000 and \$42,565, respectively.

Note 3 – Other Significant Items

The North Dakota Barley Council's deposits and investments at June 30, 2004 were \$122,489 and \$1,135,324, respectively. These amounts represent approximately 21 months of expenditures.



OFFICE OF THE STATE AUDITOR

STATE CAPITOL 600 E. BOULEVARD AVE. - DEPT. 117 BISMARCK, ND 58505

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF THE SPECIAL-PURPOSE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable John Hoeven, Governor

Members of the Legislative Assembly

Steven Edwardson, North Dakota Barley Council Executive Administrator

We have audited the special-purpose financial statement of the North Dakota Barley Council for the two-year period ended June 30, 2004, and have issued our report thereon dated September 16, 2004. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the North Dakota Barley Council's special-purpose financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 one instance of noncompliance that is required to be reported under *Government Auditing Standards*, which is described in the Status of Prior Audit Findings.

Internal Control

In planning and performing our audit, we considered the North Dakota Barley Council's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the special-purpose financial statement and not to provide assurance on the internal control over financial reporting. We noted a matter involving the internal control structure over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is that there is a lack of segregation of duties in certain areas. However, no recommendation will be made, since implementation is not feasible as duties are segregated to the extent possible between the executive administrator and the administrative officer.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described in the preceding paragraph to be a material weakness. We also noted other matters involving the internal control over financial reporting that we have reported to management of the Barley Council in a separate letter dated September 16, 2004.

This report is intended for the information of the Governor, Legislative Audit and Fiscal Review Committee and management of the North Dakota Barley Council. However, this report is a matter of public record and its distribution is not limited.

Robert R. Peterson State Auditor

September 16, 2004

NORTH DAKOTA BARLEY COUNCIL

SUMMARY OF ACTIVITIES NORTH DAKOTA BARLEY COUNCIL 505 40TH STREET SOUTHWEST, SUITE E FARGO, NORTH DAKOTA 58103 - 1184

OVERVIEW

The North Dakota Barley Council (hereinafter referred to as the "Council") was created by the 1983 North Dakota Legislative Assembly. The mission of the Council is to protect and foster the health, prosperity, and general welfare of the people by protecting and stabilizing the barley industry and economy of barley producing regions in North Dakota. Active involvement by barley producers guides the efforts of the Council. A five person board governs the Council. County representatives, selected by fellow barley producers, elect a representative from each of five districts. These five representatives, or Council members, become the governing board for the Council.

Council members are eligible to serve a maximum of three consecutive four year terms. Each of the five council districts is approximately equivalent in barley production, although geographic size among districts varies dramatically. Currently, 3 full time employees (i. e. the Executive Administrator, Administrative Officer, and Barley Utilization Development Specialist) administer policies adopted by the council.

The activities and duties of the Council are supported by an assessment of 10 mills (one cent) per bushel collected from barley producers at the first point of sale. Producers who object to the assessment may, within 60 days following collection of the assessment, apply to the Council for a refund. Historically, less than 3 percent of assessments collected were refunded. However, the refund rate has risen to approximately 5 percent due primarily to difficult economic conditions throughout the agricultural sector in the state.

CATEGORIES OF FOCUS

For the current biennium, the activities of the Council have focused on five categories: 1) research; 2) market development and promotion; 3) domestic policy; 4) trade policy; and 5) information services. The following sections provide highlights of Council activities in each category.

Research

--1. Fusarium Head Blight (FHB): North Dakota barley producers continue to be plagued by FHB. Economists have estimated that FHB and its associated toxin, deoxynavalenol (DON), has cost barley farmers in North Dakota and Minnesota \$500 to \$600 million in lost income since 1993. Prior to 1993, the malting and brewing industry depended on this region to supply two-thirds of its malting barley needs (approximately 100 to 110 million bushels). This is a market in which growers historically received a premium of 25 to 50 cents per bushel more for malting barley than feed barley. The Census of Agriculture has reported that the number of barley growers in North Dakota has decreased from 14,000 to 10,000 in the last 10 years. Meanwhile, acreage planted to barley in the state declined by 40% since the disease epidemic hit the state. FHB has spread into parts of western North Dakota and the Prairie Provinces of Canada. Brewing companies, particularly Anheuser-Busch, have very stringent standards that require very low levels of DON in barley.

FHB attacks barley very differently than it does wheat. In wheat, FHB can dramatically reduce yields, but this phenomenon can be controlled through the use of fungicides. The situation in barley is quite different, as FHB has little effect on yield, but dramatically impacts quality due to the accumulation of DON in the kernel. Fungicides have little efficacy in the control of FHB and DON accumulation in barley.

The Council, along with other North Dakota and Minnesota grower organizations, continues to serve as a principal agent in the National Wheat & Barley Scab Initiative, which has obtained over \$6 million per year in federal funding to conduct research on FHB and DON. The Council is very pleased with the dedication and professional focus of the USDA and NDSU researchers that are studying the complexity of FHB. Continued research is needed to ensure the development of a disease resistant malting cultivar for the well being of the barley industry.

- -2. Variety Development: the Council is working closely with North Dakota State University to develop new barley varieties for North Dakota barley producers. In addition to developing new varieties of malting barley, research efforts are also focused on developing new varieties of feed barley for livestock producers. The Council is also in the very early stages of evaluating specific large seeded varieties for use in ethanol production, thus providing barley producers with another potential market outlet for barley.
- —3. Basic Research: The USDA-ARS Cereal Crops Research Unit at the Northern Crops Science Laboratory (NCSL) in Fargo conducts considerable basic research in genetics, pathology, and cereal quality. Research conducted at the lab has and continues to have a major and positive impact on small grain production in the region. This research is critical to the advancement of crop yields, disease control, and quality advancement. The Council continues to support long term research efforts at USDA that provide the foundation of information necessary to advance barley development.
- —4. Western Malt Barley Initiative: The movement of barley acres seems to continue its western migration (a trend which began in the state of New York over a century ago). As corn production moves into a geographic area, barley acres are moved west. Wet weather cycles in the upper Midwest have caused an increase of disease pressure on barley production. The malting industry, with its processing facilities concentrated in the Dakotas, Minnesota, and Wisconsin, has been forced to purchase barley with low or no DON at a higher price from Canada. As an alternative, the maltsters and brewers have recently increased the amount of malting barley purchased from western North Dakota and eastern Montana. The need to develop new cultivars and research production practices for raising barley in western North Dakota led to the Western North Dakota Malting Barley Initiative passed by the North Dakota legislature. The goals of this project are: 1) develop malting barley varieties specifically adapted to western North Dakota dryland and irrigated production; 2) develop recommendations for fertilizing malting barley varieties in western North Dakota; and 3) develop predictive models that allow growers to determine the risk of producing malting barley based on spring stored soil moisture levels.

Market Development and Promotion

- --1. Domestic: In the domestic market, the Council remains active in promoting barley utilization in the following categories:
- —a. Malting: To remain competitive in the domestic malting market, the Council maintains strong working relationships with the largest maltsters and brewers in the United States. The Council funds annual crop surveys that provide specific barley quality information necessary to attract buyers into the state. Since the onset of FHB in 1993, the Council has consistently worked with domestic maltsters and brewers to reduce unrealistic and unobtainable quality guidelines that have lowered the selling price of malting barley. Sound scientific research shows that nominal levels of DON can be utilized throughout the malting and brewing process without adversely impacting the final product. The use of barley containing even minute levels of DON is much less a quality concern among brewers than it is a concern about public perception.
- -b. Livestock: The Council has long realized that more work needs to be done in promoting the use of barley in livestock diets. To that end, Weston Dvorak has served the Council for 2 years as a barley utilization development specialist to promote barley utilization in livestock. With a Master of Science degree in ruminant nutrition from NDSU, Mr. Dvorak has provided considerable service to livestock producers in ration formulation, enterprise expansion, and feed management. This position has assisted in enhancing demand for feed barley by assisting producers in understanding the benefits of including

barley in livestock nutrition. Mr. Dvorak is quickly becoming a leading national authority on barley utilization in livestock production.

- -c. Human Food: as a member of the National Barley Foods Council, the Council supports development of human food products that contain barley. The NBFC is also seeking a health claim from the Food and Drug Administration (FDA) regarding the benefits of barley in cardiovascular health. When received, this claim will assist in enhancing barley utilization in human food products.
- --2. International: The Council remains very active in foreign market development. It has been part of the mission of the Council since its inception, and contacts made throughout the years assist in maintaining North Dakota as the largest U. S. producer of barley. Much of the export promotion activities are accomplished through the affiliation of the Council with the U.S. Grains Council (USGC). The USGC has a network of eleven offices located in key foreign countries and conducts market development and promotion programs in over 100 countries worldwide. The USGC program, valued at approximately \$20 million annually, provides the Council with access to key decision-makers (buyers, processors, and users) throughout the world. As a result of this affiliation, Council representatives have, during the current biennium, traveled to Japan, China, Taiwan, Mexico, and other nations that have emerging markets for U.S. barley. Council participation on these missions was at no charge to the Council.

The affiliation of the Council with the USGC provides the opportunity to bring foreign buyers and users into North Dakota to meet with barley producers, researchers, and end users. Direct face to face dialog with foreign buyers provides a unique opportunity to improve knowledge of the market structure, production capabilities, supply, quality, and reliability of the North Dakota barley marketing system. The Council has hosted foreign trade delegations from Japan, Taiwan, Mexico, Colombia, Nicaragua, Haiti, Honduras, Jamaica, and El Salvador.

-3. Institute of Barley and Malt Sciences: Market development is more than simply facilitating the sale of barley. Since North Dakota is the largest barley producing state in the U. S., the Council strives to assist North Dakota in maintaining this prominence. To that end, the Council is working closely with NDSU to develop the Institute of Barley and Malt Sciences (IBMS). NDSU has an interdisciplinary research effort on barley that has been ongoing for over 50 years. The IBMS reflects the fact that barley, malt, and beer quality are influenced by a combination of genetic, environmental, and technological factors. The mission of the IBMS is to provide reliable, high quality, targeted research and education for U. S. barley producers and domestic and international malting and brewing industries at a single site. Coordinating the expertise at NDSU into the IBMS framework provides the infrastructure necessary to teach potential barley users from foreign countries how to utilize North Dakota barley. This provides an added service to foreign customers and strengthens the development of long term business relationships.

Domestic Policy

The Council believes that providing a comprehensive program covering nearly all aspects affecting North Dakota barley producers only makes sense. To do otherwise would be shortsighted. Therefore, the Council has been very active on domestic policy issues at the federal level.

- --1. Disaster Legislation: the Council worked closely with the National Barley Growers Association and the North Dakota Grain Growers Association to secure disaster assistance in 2004. This should provide much needed assistance to barley growers that suffered the effects of drought, flooding, and other weather related factors.
- --2. Farm Bill: the Council continues to monitor changes to the farm bill and their potential impact on barley. The Council works closely with the National Barley Growers Association and the North Dakota Grain Growers Association to maintain continuous knowledge of farm bill issues.
- -3. Chemical harmonization: Producers frequently state that they could save \$5 to \$6 per acre in chemical costs each year if they had access to chemicals at prices offered to Canadian producers. To that end, the Council participates in meetings involving chemical harmonization. Chemical harmonization

has different meanings to different entities. To the EPA, it means harmonization of protocols between countries. To chemical companies, it means the same registration procedure across international boundaries. But to growers, it means access to chemicals at the same price provided to international (Canadian) producers. The Council has been active in working with EPA and the chemical companies as a means of obtaining international access to affordable crop protection products.

- --4. Grain inspection and testing: The protocol used by USDA Federal Grain Inspection Service (FGIS) for DON testing has been a problem for North Dakota barley producers. The FGIS has a standard procedure that rounds the test results to the nearest whole number, but its optional procedure, which is the predominate procedure used, allows the reporting of DON to the nearest tenth of a part per million. While FGIS has admitted that current technology is not accurate at these low levels, FGIS has been unwilling to change its position. Congressional support for modification of the testing procedures remained the only option left for resolving this issue. Recently, Congress submitted language that would direct FGIS to modify its reporting procedures to comply with the accuracy of the testing technology.
- -5. Crop Insurance: The administration and implementation of affordable and practical crop insurance is becoming increasingly complex for agricultural producers. To that end, the Council is working closely with USDA-RMA, the National Barley Growers Association, and private insurance product developers to evaluate and enhance crop insurance for malting barley.
- -6. Organization Alliance: The Council recognizes the importance of developing alliances with other grower organizations that can provide complementary support to strengthen Council objectives. The Council works closely with the North Dakota Grain Growers Association in farm program policy, trade, and other areas of legislation that impact barley producers, thus providing unified support for North Dakota barley. In addition, the Council also actively works with the National Barley Growers Association in such areas as chemical harmonization and trade legislation.

International Policy

- -1. International Trade: International trade policy requires significant reform if North Dakota barley producers are to remain competitive on a long-term basis. The intrusion of Canadian barley into the U.S. market through manipulated pricing and monopolistic trade practices is unacceptable. This issue has been historically masked when Canada experiences a decrease in barley production. The Council is concerned that importation of barley from Canada will resume once production levels return to a more normal level. U.S. suppliers are confounded by these same practices in foreign markets in addition to the export subsidy practices of the European Union. That is why the Council has become much more active in international trade issues, and therefore prioritizes monitoring and influencing trade policy. The Council is steadfast in doing all it can to secure a trading environment where North Dakota producers can participate in trade opportunities unencumbered by trade distortions caused by policies of the EU and the Canadian Wheat Board. The foundation of the trade policy agenda of the Council is to encourage market access, full utilization of all U.S. export tools (such as the Export Enhancement Program and GSM credit programs), elimination of unfair foreign export subsidies, the reform of state trading enterprises, and the development of expedited dispute resolution mechanisms.
- -2. World Trade Organization: The Council actively participates in World Trade Organization Ministerial meetings where worldwide trade policy issues are resolved. The Council plans to maintain continued involvement in this ongoing process. Similarly, as the Free Trade Agreement of the Americas continues to proceed, the Council has actively participated to assure that interests of North Dakota barley growers are heard. On cross-border trade issues concerning the U.S. and Canada, the Council continues to correspond with Administration officials.

Information Services

The Council also allocates resources to many other issues that impact barley producers. The Council serves as an information clearinghouse for barley producers, processors, end users, other grower organizations, and governmental officials, all of which depend on accurate information from which to base

their decisions. The Council, acting on behalf of North Dakota barley producers, is committed to influencing key decision makers, as well as monitoring progress and reporting on barley-related issues. Such issues include but are not limited to crop insurance, chemical registration and harmonization, cultivar development, disaster assistance measures, domestic and international market conditions, and trade policy. Council staff provide educational presentations to trade delegations, growers, and policy developers in an effort to maintain factual knowledge of barley.

FUTURE CONSIDERATIONS

North Dakota barley producers face significant challenges in maintaining barley as a profitable crop enterprise in their farming operations. As the Council looks ahead to the 2005 – 2007 biennium, the Council intends to maintain its focus in the key categories of research, market development and promotion, domestic policy, trade policy, and information services as outlined in this report. At present, the Council projects stable to slightly decreased barley production for the next biennium. Careful budgeting, supplemented with some carryover funds, should allow the Council to maintain its program efforts at current levels while simultaneously striving to increase barley production in North Dakota.

NORTH DAKOTA BARLEY COUNCIL 505 40th Street SW, Suite E Fargo, ND 58103-1184

STATEMENT OF PROJECTED REVENUES AND EXPENDITURES For the Current and Next Biennium 2003 - 2005 and 2005 - 2007 (UNAUDITED)

Prepared by the North Dakota Barley Council

REVENUES	2003 - 2005 BIENNIUM	2005 - 2007 BIENNIUM
Assessment Revenues Collected from 1st Purchases Interest & Other Income	\$1,317,500.00 \$30,000.00	\$1,156,480.00 \$20,000.00
Total Revenues	\$1,347,500.00	\$1,176,480.00
EXPENDITURES		
Refunds paid to producers	\$73,147.00	\$77,535.82
Salaries/Benefits	\$500,000.00	\$425,000.00
Operating Expenses		
Travel & per diem	\$195,000.00	\$200,000.00
Telephone, postage, and printing	\$105,000.00	\$70,000.00
Rents and rental	\$75,000.00	\$80,000.00
Conference expenses	\$42,000.00	\$47,000.00
Dues and memberships	\$377,000.00	\$407,000.00
Advertising and promotion	\$30,000.00	\$25,000.00
Professional services	\$127,500.00	\$20,000.00
Miscellaneous	\$69,000.00	\$68,000.00
Research Grants	\$270,000.00	\$270,000.00
Equipment	\$30,000.00	\$20,000.00
Total Expenditures	\$1,893,647.00	\$1,709,535.82
Revenues Over (Under) Expenditures	(\$546,147.00)	(\$533,055.82)

^{*}Includes equipment repair, photography, legal services, audit, insurance, office supplies, subscriptions, janitorial services, promotional supplies, and other expenditures.

North Dakota Beef Commission Bismarck, North Dakota

House and Senate Agriculture Committee Report For the Two-Year Period Ended June 30, 2004

Robert R. Peterson State Auditor



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

November 17, 2004

House and Senate Agriculture Committees:

Transmitted herewith are the financial statements and auditor reports of the North Dakota Beef Commission as required by North Dakota Century Code section 4-24-10.

Specifically you will find the state auditor's report on the financial statements, the statement of revenues and expenditures, notes to the financial statements and the compliance and internal control report. Complete audit reports may be obtained by contacting my office.

The Office of the State Auditor would like to thank the commodity groups for their cooperation in preparing these reports.

Sincerely.

Robert R. Peterson

State Auditor

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



OFFICE OF THE STATE AUDITOR

STATE CAPITOL 600 E. BOULEVARD AVE. - DEPT. 117 BISMARCK, ND 58505

STATE AUDITOR'S REPORT

Honorable John Hoeven, Governor

Members of the Legislative Assembly

Nancy Jo Bateman, North Dakota Beef Commission

The following pages were taken from the audit report of the North Dakota Beef Commission for the two-years ended June 30, 2004. The financial statements are the responsibility of the management of the North Dakota Beef Commission. The auditor's responsibility was to express an opinion on the financial statements.

The audit was performed in accordance with generally accepted auditing standards, 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 the auditors plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

The financial statements are presented to provide state decision makers, including the Agriculture Committees, with a comprehensive overview of the North Dakota Beef Commission's operations. The revenues and expenditures are reported under the modified accrual basis of accounting. The financial statements are not intended to be a presentation in conformity with generally accepted accounting principles. The complete audit report should be reviewed to obtain a complete picture of the financial position and operations of the North Dakota Beef Commission. The complete report may be obtained by contacting the Office of the State Auditor.

The audit resulted in a clean (unmodified) audit opinion. In accordance with *Government Auditing Standards*, a report was also issued on the auditor's consideration of the North Dakota Beef Commission's internal control over financial reporting and the tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

This report is intended solely for the information of the meeting of the Joint Agriculture Committees and should not be used for any other purpose. However, this report is a matter of public record and its distribution is not limited.

Robert R. Peterson State Auditor

November 17, 2004

NORTH DAKOTA BEEF COMMISSION Statements of Revenues, Expenditures, and Changes in Fund Balances For the Fiscal Years Ended June 30, 2004 and 2003

	2004	2003
Revenues:		
Gross assessment revenues Less:	\$ 1,282,961	\$ 1,353,346
Assessment revenues remitted to other states	(44,168)	(56,602)
Assessment revenues remitted to Cattlemen's Beef Board	<u>(617,565)</u>	<u>(648,422)</u>
Net Assessment Revenues	621,228	648,322
Interest income	2,716	3,516
Other revenue	4,729	3,723
Total Revenues		
	628,673	655,561
Expenditures:		
Program expenditures:		
International promotion	1,978	3,696
Promotion	46,330	30,067
Research	35,000	10,000
Consumer information	104,642	71,594
Industry information	15,503	10,000
National program development	<u>197,574</u>	
Total Program Expenditures	401,027	125,357
National Cattlemen's Beef Association	-	207,221
Administration	209,918	189,186
Total Expenditures	610,945	521,764
Revenues over expenditures	17,728	133,797
Fund Balance – July 1	466,837	333,040
Fund Balance – June 3	<u>\$ 484.565</u>	\$ 466,837

Notes to the Financial Statements June 30, 2004

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

For financial reporting purposes, the North Dakota Beef Commission includes all funds programs, and activities over which it is financially accountable. The North Dakota Beef Commission does not have any component units as defined by the Government Accounting Standards Board. The North Dakota Beef 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 North Dakota Beef Commission was established by NDCC chapter 4-34.10, 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 section 4-34-10 these activities are funded on a continuing appropriation basis from a special revenue fund, fund 229 (the Beef Commission operating fund).

C. Government-Wide and Fund Financial Statements

The Statement of Net Assets and Statement of Activities report information on all non-fiduciary activities of the Commission. The Commission reports all activities as governmental activities which are financed through assessments. The Statement of Net Assets presents the reporting entity's assets and liabilities, with the difference reported as net assets. The net assets are reported as unrestricted net assets with constraints on resources which are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Program revenues include charges for assessments for each head of cattle sold within the state or from the state by residents of North Dakota.

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

Notes to the Financial Statements - Continued June 30, 2004

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

C. Fund Accounting Structure

The Commission uses funds 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 consumption of domestic beef through such means as advertising, research, consumer information, industry information, sales promotion, and education of the beef industry within the state.

D. Basis for Accounting

The government-wide statements are reported using the economic resources management focus and the accrual basis of accounting. Revenues are recorded when a liability is incurred, regardless of the timing of cash flows.

Governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as 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.

Major revenues that are susceptible to accrual include assessments and interest. All revenues are determined to be available if collected within one year of fiscal year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences are recorded only when payment is due and payable.

E. Cash and Cash Equivalents

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

F. Investments

Investments include certificates of deposit that are reported at fair value. All investment income is recognized in the statements of revenues, expenditures and changes in fund balance.

G. Receivables

Receivables include interest on investments and assessments receivable.

Notes to the Financial Statements - Continued June 30, 2004

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

H. Accumulated Unpaid Annual and Sick Leave

N.D.C.C 54-06-14 allows employees to accrue annual leave at a variable rate between one and two days per month based on years of service. In general, accrued annual leave cannot exceed thirty days at each calendar year end. Employees are paid for unused annual leave upon termination or retirement.

Sick leave is accrued at the rate of one day per month without limitation on the amount that can be accumulated. Employees vest in sick leave at ten years of service at which time the State is liable for ten percent of the employee's accumulated unused sick leave.

NOTE 2 CHANGE IN ACCOUNTING PRINCIPLES

For the fiscal year beginning July 1, 2003, the Commission implemented the following new accounting standards issued by GASB:

Statement No. 34, <u>Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments</u>

Statement No. 37, <u>Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments: Omnibus</u>, and

Statement No. 38, Certain Financial Statement Note Disclosures.

Statement No. 34 as amended by Statement No. 37, establishes new financial reporting standards for state and local governments. This statement's requirements represent a significant change in the financial formats and changes in fund types and account groups. In addition to fund financial statements, governments are required to report government-wide financial statements, prepared using the accrual basis of accounting.

Statement No. 38 requires certain note disclosures when Statement No. 34 is implemented. The provisions of these new standards have been incorporated into the financial statement notes.

NOTE 3 ORGANIZATION AND RELATED PARTY TRANSACTIONS

As stated in Note 1, the Commission is an entity of the state of North Dakota and as such, other state agencies of the state and political subdivisions are related parties.

Notes to the Financial Statements - Continued June 30, 2004

NOTE 4 DEPOSITS AND INVESTMENTS

The GASB requires certain financial statement disclosure of deposits and investments such as the disclosure of carrying amount by type of investments and classification into one of three categories based upon credit risk. Category 1 includes deposits that are fully insured or collateralized with securities held by the Commission or by its agent in the Commission's name. Category 2 includes deposits which are collateralized with securities held by the pledging financial institution's trust department or agent in the Commission's name. Category 3 includes deposits which are not collateralized or are collateralized by the pledging financial institution, trust or agent, not in the Commission's name.

North Dakota Beef Commission is required to maintain its operating funds at the Bank of North Dakota. All deposits at the Bank of North Dakota are uncollateralized, a category 3 risk as defined by the GASB, but guaranteed by the State of North Dakota according to N.D.C.C. 6-07-10.

June 30, 2004: Cash deposits Certificates of deposit as investments	Carrying <u>Amount</u> \$ 486,077 <u>99,000</u>	Total Bank <u>Balance</u> \$ 486,077 <u>99,000</u>	Category 1 \$ - 99,000	Categor \$	- \$ 486,077
Totals	\$ 585,077	\$ 585,077	\$ 99,000	\$	- \$ 486,077
Governmental Activities: Other long-term liabilities: Compensated absences GENERAL LONG TERM D 8alar 7/1/20 7/1/20 \$30,	nce	 -	ns Within C		Amounts Due Thereafter \$ 14,959
NOTE 6 DUE FROM / DUE TO OTHER STATE AGENCIES					
Due to other state age	encies encies				
Information Technology D	_			•	155 245

Department of Transportation

Due to other state agencies

Attorney General

Central Services

Bank of North Dakota

Total

1

<u>33</u>

434

141

Notes to the Financial Statements - Continued June 30, 2004

NOTE 7 PENSION PLAN

The Beef Commission participates in the North Dakota Public Employees' Retirement System administered by the State of North Dakota. The following is a brief description of the plans.

Defined Benefit Pension Plan – NDPERS is a cost-sharing multiple-employer defined benefit pension plan covering substantially all classified employees of the Beef Commission. The plan provides retirement, disability and death benefits. If an active employee dies with less than three years of credited service, a death benefit equal to the value of the employee's accumulated contributions, plus interest, is paid to the employee's beneficiary. If the employee has earned more than three years of credited service, the surviving spouse will be entitled to a single payment refund, life-time monthly payments in an amount equal to 50% of the employee's accrued normal retirement benefit, or 60 monthly payments equal to the employee's accrued normal retirement benefit calculated as if the employee were age 65 the day before death occurred or monthly payments in an amount equal to the employees' accrued 100% joint and survivor retirement benefit if the member had reached normal retirement age prior to date of death. If the surviving spouse dies before the employee's accumulated pension benefits are paid, the balance will be payable to the surviving spouse's designated beneficiary.

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

Employees are entitled to unreduced monthly pension benefits equal to 2.00% of their final average salary for each year of service beginning when the sum of age and years of credited service equal or exceed 85, or at normal retirement age (65). The plan permits early retirement at ages 55-64, with three or more years of service.

Benefit and contribution provisions are administered in accordance with chapter 54-52 of the North Dakota Century Code. This state statute requires that 4% of the participant's salary be contributed to the plan by either the employee or by the employer under a "salary reduction" agreement. The Beef Commission has implemented a salary reduction agreement and is currently contributing the employees' share. The Beef Commission is required to contribute 4.12% of each participant's salary as the employer's share. 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 Beef Commission's required and actual contributions to NDPERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$9,576, \$9,576, and \$9,160, respectively.

NDPERS issues a publicly available financial report that includes financial statements and the required supplementary information for NDPERS. That report may be obtained by writing to NDPERS; 400 East Broadway, Suite 505, PO Box 1214, Bismarck, ND 58502-1214.

Notes to the Financial Statements - Continued June 30, 2004

NOTE 8 RISK MANAGEMENT

The Commission is exposed to various risks of loss related to torts, theft, damage, destruction of assets, errors and omissions, injuries to employees and natural disasters. The Commission participates in the following funds or pools:

The Risk Management Fund (RMF) was created in 1995 and is an internal service fund to provide a self-insurance vehicle for the liability exposure of state agencies resulting from the elimination of the state's sovereign immunity. The RMF manages the tort liability of the state, its agencies' employees, and the University System. All state agencies participate in the RMF and their fund contribution was 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 pays an annual premium to the Fire and Tornado Fund to cover property damage to personal property. Replacement cost coverage is provided by estimating 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 one million dollars per occurrence during a twelve month period. The State Bonding Fund currently provides the Commission with blanket fidelity bond coverage in the amount of \$200,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

The North Dakota Workforce Safety & Insurance is 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 year and settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

NOTE 9 OFFICE LEASE COMMITMENT

The Commission has two operating leases. One is for office space and the other for postage machine rent. The office space lease expires in 2005 and the equipment lease expires in 2008. Total rent expense for the year ended June 30, 2004 was \$11,087.

Lease commitments are as follows:

Operating <u>Leases</u>
\$ 10,937
1,560
1,560
780

Notes to the Financial Statements - Continued June 30, 2004

NOTE 10 PENDING LITIGATION

A federal district court lawsuit was filed in South Dakota that could impact future assessment revenue. On June 21, 2002, District Court Judge Charles Kornmann ruled the Beef Promotion and Research Act as unconstitutional and called for assessment collections to cease on July 15, 2002. A stay was granted on July 10, 2002 by the 8th Circuit United States Court of Appeals that allowed the beef promotion programs to continue without interruption pending an appeal to the 8th Circuit. The 8th Circuit Court heard the case and on July 8th, 2003 the three judge panel issued their ruling upholding the lower court's ruling that the Beef Promotion and Research Act was unconstitutional. At the same time, however, the 8th Circuit Court of Appeals left in effect a stay of injunction that allowed the check-off program to continue until the court issues its mandate. On August 22, 2003, the Department of Justice, at the request of the U.S. Solicitor General, filed a petition for rehearing by the 8th Circuit Court of Appeals. The case will now be heard before the Supreme Court. The final resolution of this case is unknown at this time.

The lawsuit's final outcome may have a direct and material impact on the operations of the North Dakota Beef Commission. The Federal Act currently authorizes the collection of \$1.00 per head every time cattle change ownership. North Dakota retains \$0.50 per head with the remaining \$0.50 being paid to the Cattlemen's Beef Board. The ND Legislative Assembly recently amended the state's Beef Promotion Act, NDCC Chapter 4-34, to insure its continuance should the Federal Act be struck down. See 2003 Session Laws chapter 61. State law now requires the collection of \$0.50 per head or the amount specified under the Federal Act, whichever is greater. The striking down of the Federal Act would, however, have a direct impact on the ND Beef Commission. Assessment revenues collected would be cut in half immediately, although the Commission would still be collecting the same \$0.50 per head that is presently being retained under the Federal Act. In the absence of the Federal Act, State law also allows for a refund of assessments. Potential future refunds and the potential reduction in program revenues is unknown. Collecting check-off dollars on North Dakota cattle being sold out of state would also be an issue. Voluntary cooperation from collection points in other states would need to be solicited. If voluntary cooperation fails, compliance and collection efforts directed at producers selling cattle may increase employee workload or require additional employees. Finally, if the Federal Act is struck down, there could be an increase in audit and legal costs for collection and compliance that is currently being done by the Cattlemen's Beef Board and USDA.

NOTE 11 OUTSIDE CHECKING ACCOUNT

The North Dakota Beef Commission has an outside checking account used for the "Beef Gift Certificate" program. Individuals write out checks to the North Dakota Beef Commission and receive a check back from the gift certificate account for the same amount. The account has a bank balance of approximately \$27,000, which consists of outstanding checks accumulated since the account was opened.

NOTE 12 COMMITMENTS

As of June 30, 2004, the North Dakota Beef Commission has approved \$200,000 to be paid to the NDSU Beef Systems Center of Excellence.



REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Governor of North Dakota The Legislative Assembly

The North Dakota Beef Commission Bismarck, North Dakota

We have audited the financial statements of the governmental activities and the major fund of the North Dakota Beef Commission, a department of the State of North Dakota, as of and for the year ended June 30, 2004, which collectively comprise North Dakota Beef Commission's basic financial statements and have issued our report thereon dated September 10, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the North Dakota Beef Commission internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted one matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect North Dakota Beef Commission ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition noted above deals with a lack of internal controls surrounding their outside checking account as reported in finding 04-1 of the findings, recommendations, and agency's response section of this report.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. However, we believe that the reportable condition described above is a material weakness.

Compliance

As part of obtaining reasonable assurance about whether the North Dakota Beef Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the findings, recommendations, and agency's response section of this report (item 04-1).

This report is intended solely for the information of the audit committee, management, the Legislative audit and Fiscal Review Committee, and other state officials, and is not intended to be and should not be used by anyone other than those specified parties.

Brady, Marty & ASSOCIATES, P.C.

September 10, 2004

FINDINGS, RECOMMENDATIONS AND AGENCY'S RESPONSE For the Fiscal Year Ended June 30, 2004

Gift Certificate Program not in Accordance with State Law (04-1)

The ND Beef Commission has a checking account for a Beef Gift Certificate Program that is not administered in accordance with state law. Under this program, individuals pay cash or write checks equal to the face amount of the "gift certificate." Checks are made payable to the Commission and are deposited into the Beef Gift Certificate account at Wells Fargo Bank in Bismarck, along with any cash received. The individual receives a check from this account that is considered a "gift certificate." This check contains a memo that the funds are to be used for the purchase of beef products. However, this memo does not alter the fact that the "gift certificate" is a negotiable instrument, which can be cashed at any bank or used at any establishment that accepts checks.

Since the Commission deposits the cash and checks directly into the Beef Gift Certificate account, they are in violation of Article X, Section 12 of the Constitution which states: "All public moneys, from whatever source derived, shall be paid over monthly by the public official, employee, agent, director, manager, board, bureau, or institution of the state receiving the same, to the state treasurer, and deposited by him to the credit of the state, and shall be paid out and disbursed only pursuant to appropriation first made by the legislature..."

We also noted the Commission had not implemented adequate internal controls to prevent misappropriation of funds from the account. The following weaknesses were noted:

 No segregation of duties existed between accounting for transactions and disbursement approval, as all three employees are authorized signers.

The account had a balance of approximately \$27,000 at June 30, 2004, which is the result of outstanding checks over the several years the account has existed. The Commission may be required to turn over those checks outstanding for a certain time period to the Unclaimed Property Division of the State Land Department in accordance with North Dakota Century Code chapter 47-30.1.

RECOMMENDATION:

We recommend the ND Beef Commission restructure the Beef Gift Certificate Program to comply with state law. The Commission must also establish proper internal controls over the fund.

AGENCY'S RESPONSE:

Since our 2003 audit when concerns about this account were brought to our attention, there has been a significant amount of work put in to bring this account for the Beef Gift Certificate program into compliance with state law. This includes work on both the old Wells Fargo account which was in question, and development of a new process with the State Treasurer's Office and a new account at the Bank Of North Dakota (BND).

A special computer program has been developed specifically to handle the Beef Gift Certificate program encompassing bank reconciliation, issuing of certificates, and tracking of outstanding checks and the individual purchasers and recipients. As of September 30, 2004, the Wells Fargo account has been reconciled, all outstanding checks have been identified, and the account is no longer being actively used to issue certificates. We are now beginning the process of identifying purchasers and recipients of uncashed Beef Gift Certificates and will be notifying those individuals in an attempt to clear those checks or reissue them. In cases where individuals cannot be located or identified, we have plans in place to turn those funds over to Unclaimed Property. Considering the fact that we must allow ample time for checks to clear from this account, it will not be closed anytime in the near future and may need to be kept open for at least 2 years.

FINDINGS, RECOMMENDATIONS AND AGENCY'S RESPONSE For the Fiscal Year Ended June 30, 2004

Beginning on October 1, 2004, a new process will be implemented, with appropriate internal controls, to handle all Beef Gift Certificate purchases within the scope of state law. Funds collected for the purchase of Beef Gift Certificates will be deposited directly with the State Treasurer. A new account has been established at the Bank Of North Dakota for the purpose of issuing Beef Gift Certificates. Funds are to be transferred from the Treasurer to the BND account. A new computer program is enabling timely reconciliation, tracking of outstanding checks, and identification of certificate purchasers and recipients that will help the Commission to contact people with certificates that have not been cashed within a year timeframe.

BEEF

North Dakota Beef Commission

4023 STATE STREET • BISMARCK, ND 58503 • PHONE 701-328-5120 • TOLL FREE 1-877-321-BEEF

REPORT TO 2005 NORTH DAKOTA LEGISLATIVE ASSEMBLY SENATE AND HOUSE AGRICULTURE COMMITTEES

BACKGROUND

The North Dakota Beef Commission was legislated into existence during the 1973 legislative session. The rate of the beef checkoff began at \$.10 per head. It was increased to \$.25 per head during the 1981 legislative session and then again to \$.50 in 1983. With the passage of the Beef Promotion and Research Act as part of the 1985 Farm Bill, the beef checkoff became a nationwide, uniform program at the rate of \$1 per head, including an assessment on imported cattle, beef and beef products. This went into effect October 1, 1986. In May of 1988 beef producers nationwide participated in a producer referendum and voted overwhelmingly in favor of continuing the national program. That is the program that exists today.

LEADERSHIP

The ND Beef Commission is directed by a group of nine beef producers. These producer directors are appointed by the governor with six of the nine nominated by various beef industry governed organizations. Three producer directors are selected from nominations submitted by the ND Stockmen's Association. One dairy producer director is selected from nominations from the ND Milk Producers Association. One livestock marketing director is selected from nominations from the ND Livestock Marketing Association. One cattle feeder director is selected from nominations submitted by the Feeder Council of the ND Stockmen's Association. The Feeder Council group resulted from the merger of the ND Livestock Feeders Assn. with the ND Stockmen's Assn. The three remaining beef producer directors are appointed at-large by the governor and must meet certain criteria set forth in the ND Beef Commission section of the ND Century Code. Directors can serve no more than two consecutive three-year terms. The Commission may also elect up to two non-voting exofficio members. Presently, there is one exofficio member. Van Amundson of Jamestown served on the Commission for six years and has represented the Commission as a national director on the Federation of State Beef Councils which is the checkoff arm of the National Cattlemen's Beef Association. He has held several positions of leadership at the national level and is currently a member of the executive committee and treasurer of the National Cattlemen's Beef Association. This is the highest level of national leadership a ND Beef Commission representative has ever held.

PURPOSE

The mission of the North Dakota Beef Commission is to increase the demand for beef by focusing on consumer expectations while enhancing the profit opportunity for the beef industry. This is accomplished through information, promotion, industry information, research and national and international promotion programs the NDBC funds.

As outlined in the Beef Commission law, the purposes of the Commission are as follows:

- 1. 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;
- 2. To support beef promotion, research, and education activities of the national beef promotion and marketing organizations;
- 3. To initiate, encourage, and sponsor research designed to solve problems in the beef industry;
- 4. To enhance the sale and production of North Dakota beef cattle.

Since there are approximately 3 head of cattle in North Dakota for every person, it has always been a priority to support the national programs with the greatest amount of money possible. For producers to

BEET

realize the greatest return on their checkoff investment, it is critical to get the beef industry message to consumers in the most cost effective manner possible. This is accomplished by pooling checkoff dollars at the national level. Currently, \$.66 of every checkoff dollar collected in ND is invested in national and international programs. The federal law mandates \$.50 must go to national programs of the Cattlemen's Beef Board. By joining forces at the national level, the beef message can be targeted to where the people are, not where the cattle are.

One other area that is unique to the ND Beef Commission, when compared to other commodity groups, is the fact that the ND Beef Commission **does not** lobby. Federal law prohibits the use of any beef checkoff dollars for the purpose of government influencing. We are not, however, prohibited from providing program information, research results, and serving as an information resource for the industry.

PROGRAM HIGHLIGHTS

TARGET MARKET

Demand-building checkoff programs have targeted today's busy consumers with dual messages about nutritional benefits of beef and the enjoyment factor. And these programs are working! *Consumer demand for beef has increased over 16% since 1998* and continues to grow. Since dollars at both the state and national level are limited and it is impossible to reach all consumers, all programs have become very targeted, whether we are talking about advertising, retail and foodservice programs or consumer education, public relations and research. In order to be the most effective, all programming starts with a solid base of research, ranging from consumer marketing to food safety, nutrition, new product development and beyond. The goal of all programs is to reach today's consumers with the latest information about beef and give them permission once again to enjoy beef because it is good for them and tastes great, too. Each piece of this marketing puzzle contributes to the ultimate objective which is to continue increasing consumer demand for beef.

CONSUMER INFORMATION Education

Through teachers, educators and third party influencers, beef is placed in a favorable position so young people can learn about the importance of beef in the diet and the importance of the beef industry to our country. Basing programs on research has led school programs to become more finely targeted. The focus today is on "tweens" which are 8-12 year old girls. This group of young people is forming life long eating habits and opinions about various food choices. They have responded very positively to materials developed and distributed through a partnership with the Girl Scout program at the state and national level. The patch program, called "Fit For A Princess", helps them to learn about good nutrition and earn a coveted patch. Nationwide demand for this program has topped the 200,000 mark for materials and patches. Another beef industry web site for teachers, www.teachfree.com, now also helps educators receive free industry education materials via the internet.

The **Beef Mini-Grant** project continues to be a very successful program with approximately 110 family and consumer science instructors participating each year. They receive a \$30 beef gift certificate to purchase beef for their classroom and annually over 24,000 recipe brochures and health related publications are requested for use in classrooms across North Dakota.

The *Living Ag Classroom* program annually brings close to 5000 fourth grade students closer to agriculture. This project is undertaken in Minot, Bismarck and Fargo. The theme of the events is "Food From Farm To Fork", with the goal being to help 4th grade students understand that there is more to food than the grocery store. They leave the event realizing that agriculture, in all its forms, is a big and important business in North Dakota. When they return to their classrooms, teachers also have a great resource book they can use for additional classroom activities about ND agriculture.

The ND FFA, 4-H and NDSU Meat Judging team are also annual recipients of support from the ND Beef Commission. Members of these groups that participate in specific beef product related programs receive recognition, awards or scholarships funded with beef checkoff dollars to recognize their achievements.

Health Professionals

Working with health professionals to keep beef on the table has been extremely successful and exciting. Through years of work, the NDBC has developed and maintains a very good working relationship with many health organizations that now carry positive beef messages. The NDBC has been a sponsor of the American Heart Association's Heart Ball in Bismarck and continues to work with AHA to incorporate beef information into their programs. The ND Academy of Family Physicians is reminded annually of the important role beef plays in good health with the most current research being made available to them. Beef is also on their menu as the beef industry sponsors their annual business meeting luncheon. The ND Dietetics Association is also a great partner with the beef industry. The NDBC has proudly teamed with the National Cattlemen's Beef Association to bring top quality speakers from the Council For Women's Nutrition Solutions to state dietetics meetings. The Council consists of a group of nationally recognized women who are experts in their fields of nutrition research, medicine, dietetics and health, and who are firm believers in the important role that beef plays in our diets. The NDBC also participates annually in Senator Dorgan's "Women's Health, Women's Lives" conference. This event rotates between Bismarck and Fargo and hosts over 1000 women who attend the daylong event focusing on various health issues of interest to women. The Working Women's Summit, hosted by the Bismarck Tribune and the ND Business and Professional Women, has become an important event for the Commission. This event attracts between 200 and 400 working women who were treated to one of the industry's new Beef Value Cuts as the luncheon entrée. The NDSU Extension Service food and nutrition specialists and county food specialists attended a day long training session featuring Dayle Hayes, RD, and member of the national Council For Women's Nutrition Solutions. Hayes' common sense approach to nutrition education received rave reviews from Extension Service Staff.

In addition to these many and varied programs, the beef industry has embarked on a new message strategy for health professionals and consumers. With the review of the *US Dietary Guidelines and the national Food Guidance System*, known to most as the Food Guide Pyramid, it has become apparent that the beef industry has to work hard with nutrition decision makers to see to it that beef gets fair representation in the protein group. It is widely known that beef contains a concentrated bundle of nutrients for a very small number of calories but this message didn't seem to receive the attention that is deserved. As a result, beef is being promoted within an exciting new frame work along with other nutrient dense foods under the "Naturally Nutrient Rich" consumer message platform. A nutrient density index is under development which will indicate how many nutrients per calorie a food provides. Research will also continue to further develop this index to clearly communicate to consumers the good nutrient package that beef provides.

Public relations & media

If there were ever a need for aggressive public relations planning and execution, it was December 23, 2003, when the cow stole Christmas. The announcement of the first confirmed case of BSE in the United States caused chaos throughout North America, livestock markets, futures, and the press. But when the dust settled, the years of planning and coordination between the Cattlemen's Beef Board, National Cattlemen's Beef Association, state cattlemen's associations and state beef councils paid off. Consistent, fact based messages about the safety of beef went out across the media channels within minutes of the announcement. In ND, the Commission joined forces with the ND Stockmen's Association and the ND CattleWomen and provided information to producers about what the groups were doing to manage the issue. Governor Hoeven and his staff also helped to coordinate press conferences and carried forward messages to consumers that beef was safe. Interviews were conducted with several media outlets on an ongoing basis as information was revealed. If there is a measurement of how successful the beef industry's public relations activities were, it was shown in the consumer attitude research that was done as the event was unfolding. Prior to this event, in September 2003, an ongoing checkoff-funded consumer survey found that 88 percent of Americans were confident that US beef was safe from mad cow disease. One week after BSE was reported, that same survey actually revealed that 91 percent of Americans were now confident that beef was safe, an increase of 3 percent. In September of 2004, that number remained at 91 percent, in spite of two other reports of inconclusive BSE tests which were later both found to be negative. The research and public relations efforts relative to BSE continue to be funded with checkoff dollars as consumers are constantly reassured that beef they eat and buy in the US is safe.

To reach the many and varied audiences with positive beef messages, many methods of public relations are used. New convenient beef products, beef value cuts, naturally nutrient rich beef, and food safety continue to be core messages. The media is used to bring food, nutrition and recipe articles to consumers.

Checkoff-funded media efforts coordinated through the national program have reached consumers with safety, nutrition and consumer friendly beef messages more than 4 billion times in 2004 alone.

In ND, new and exciting programs have taken beef information to a new level. To honor the state's active, reserve and national guard military members and their families, the Commission joined forces with the ND Stockmen's Association and the ND CattleWomen to host two special *Military Appreciation events* in the summer of 2004. Over 1000 military personnel and family members enjoyed a mouth watering beef meal during the two events, one a the Red River Valley Fair in Fargo and the second at the ND State Fair in Minot. Media coverage for the events resulted in *over 700,000 consumer impressions* statewide.

Beef also now makes the news every Thursday statewide on the KX Television network with a new **Beef...It's What's For Dinner. television segment**. This 1-minute beef cooking segment features a delicious beef recipe. From the start of this program in May of 2004 to date, this program has generated **1.3 million consumer impressions** and thousands of web site visits to obtain the featured recipes.

The *hamburger celebrated its* 100th *birthday* and took center stage throughout 2004. Having its humble beginnings at a small stand at the 1904 St. Louis World's Fair, it has evolved to be America's favorite and most frequently eaten food. KBMR AM radio, CashWise Foods and the ND Beef Commission joined forces to salute the burger. Close to 1000 people enjoyed a grilled burger with all the trimmings at the event. Several additional celebrations of the Burger's birthday were also held across the state, many which were coordinated by the ND CattleWomen.

Direct contact is made each year with thousands of consumers through events including the ND State Fair, the Fargo Women's Showcase, cooking schools, and media. Annually, *over 250,000 recipes* are distributed to consumers in North Dakota alone. Research has also shown that with new recipes, incremental beef meals increase. This is great news for the beef industry.

Volunteers are also critical to the success of many beef promotion programs. That's why the NDBC uses checkoff dollars to support the efforts of the *ND CattleWomen* as they reach consumers through the National Beef Cook-Off, ND High School Beef Challenge, State and National Beef Ambassador program, Ag Days, and countless other programs.

PROMOTION

Advertising

When asked 'What's for Dinner?' America knows the answer is BEEF. In fact, research reveals that consumers who see "Beef. It's What's For Dinner" advertising are 11 percent more likely to buy and spend more on beef. Television, radio and print advertising focuses on two different beef demand "drivers" that positively affect consumers. These are enjoyment and nutrition. With the increased cost of television advertising and the shrinking buying power of checkoff dollars, an increased emphasis has been put on print and radio advertising. The popular and well recognized "Rodeo" music and the distinctive voice of Sam Elliott provide instant recognition of beef ads by consumers. Print ads have also been a hit. A strategic decision was made to take chicken on in several nutrition focused ads with headlines like "Lean beef's actually lower in fat than you think-Make's you wonder about eating all that skinless chicken, doesn't it?" and "Only one more gram of saturated fat than a skinless chicken breast? It's like finding out that chocolate brownies are as healthy as carrots!" The sheer enjoyment of eating beef has been the focus of the "enjoyment" print ads. They feature beef photos so good you might want to take a bite out of the magazine and then feature headlines like "All of a sudden, a \$2000 grill seems perfectly reasonable," or "There's no such thing as a chicken knife." And "Why aliens steal our cows." These ads appear in magazines ranging from Ladies Home Journal and BonAppetit to Men's Fitness and Runner's World. The state benefits greatly from the national advertising simply because of cost efficiencies present when national network advertising is purchased as opposed to individual station purchases. The NDBC purchases a limited amount of advertising in the state and focuses this on radio and print, concentrating efforts in the largest consumer markets of Fargo, Grand Forks, Minot and Bismarck. Holiday features appear in select daily papers and area magazines. Special promotions are undertaken in these markets to increase the sale and use of beef. Summer grilling also presents great opportunities to sell the sizzle of beef through print ads and occasional radio buys.

Retail

With most beef purchase decisions being made as consumers stand in front of the grocery meat case, working with grocers is extremely important. Programs for retail meat departments have gone far beyond the days of fancy posters and recipes. Now retailers are given assistance in totally rethinking their meat cases from a consumer perspective. The beef industry has turned into an idea-generating partner, with new and unique programs that are designed for use by individual chains. Retailers are encouraged to develop their own personalized programs that will yield sales increases, and they are kept up to date on the latest consumer trends. They are also encouraged to expand their product lines to include many of the new convenient, microwaveable beef items and also to look at the way the beef industry has added value to the chuck and round. Muscle profiling research has led to the development and mass merchandising of undervalued muscles in the chuck and round. These very desirable new steak cuts provide consumers with a great product at a more reasonable price than traditional tender beef cuts. Summer grilling recipes also are made available to meat departments as are holiday recipes featuring prime rib and other holiday roast

Foodservice

Foodservice is an important area when you consider that approximately 50% of the beef moves through the foodservice channel. Although large chain restaurant headquarters are not located in North Dakota, partnerships with local branches of major chains have been possible. Pizza Ranch restaurants in North Dakota and six other states introduced three new steak pizzas through a partnership with the ND Beef Commission, NCBA and other state beef councils. It resulted in over 11,000 pounds of beef steak topping and more than 64,800 steak pizzas being sold. As a result, steak pizza has become a permanent menu item at Pizza Ranch. National partnerships also led to new beef items on menus at restaurants across the state including Quizno's and Domino's Pizza. These partnerships are critical to the introduction of new menu ideas and they pay great dividends. From 2001 to 2004, the beef checkoff program has leveraged checkoff dollars in 21 promotions with national foodservice chains with a total of \$1.4 million while foodservice partners invested more than \$95.7 million in consumer media about the beef promotions. That means for every checkoff dollar invested, restaurant chains chipped in \$68!

In the school foodservice arena, the NDBC has worked closely with state school foodservice officials to solve problems with ground beef products. The Commission also conducted a seminar for over 120 school food service directors state-wide on a range of topics including beef nutrition, the importance of beef in the diets of children, new technology and irradiation of beef, and how to structure and conduct beef product test panels with students in school. Resources available to the NDBC through the national program including NCBA foodservice experts and national research are extremely valuable and helpful when presented with opportunities to reach this important audience of food professionals.

New Product Development & Culinary Initiatives

National work and research is ongoing to help move beef into several areas of foodservice and retail where beef is under-represented. While many are now familiar with successful heat-and-serve beef products like pot roast, barbequed brisket, and others, there are still tremendous possibilities ahead for beef. That's why the checkoff's "R&D Ranch Team" is striving to make headlines and drive new beef product innovation through the industry. And it's working. Since the beef checkoff started focusing on new product development efforts in 1998, over 2100 new beef products have come to the market.

While work is moving forward aggressively with manufacturers, research has also helped to develop great new beef cuts called BEEF VALUE CUTS. These cuts from the chuck and round include the "FLAT" IRON" steak, "RANCH CUT" steak, and tender "MEDALLIONS". The subsequent merchandising of these cuts through retail and foodservice channels has added great value to the chuck and round, and to the value of each animal. Cattle-Fax estimates that the increase in the value of the chuck between 1998 and 2003 was worth between \$60 and \$70 per head. By the end of 2003, more than 800 restaurants and five large retailers had sold more than 6 million Beef Value Cut steaks including those mentioned previously. Some of these restaurants can be found within North Dakota including Friday's, Ground Round and others.

The "Mark of Quality" continues to be the beef industry's "seal of approval" on new beef products that have been tested and deemed to deliver what consumers expect from beef - great taste, quality and satisfaction. This program is managed by the Brand-Like Commission. This small group of producers

actually taste, test and approve beef products to use the Mark. The ND Beef Commission was proud to have a member of this group from 2003 through 2004.

The NCBA **Beef & Veal Culinary Center**, located in Chicago, is a valuable resource to the beef industry. Their mission is to develop, test and perfect beef recipes, cooking methods, and serve as a resource and the ultimate authority on beef and veal preparation. The Culinary Center provides a great service to state beef councils like the ND Beef Commission when there are opportunities to provide information, stories and programs to consumers on beef cookery.

PRODUCER & INDUSTRY INFORMATION

Many issues related to how beef producers do business have various repercussions to our customers, the consumer. These issues include food safety, beef quality assurance, animal welfare, animal diseases, the environment, etc. The beef industry monitors these issues closely, both at the national and state level, so that we are out in front of potentially volatile issues. Obvious examples of these hot topics, and their many abbreviations, would include: BSE; TSE; E.Coli 0157:H7; Listeria; Johne's Disease; Foot & Mouth Disease; Salmonella; Anthrax; Tuberculosis; and the list goes on. As these and other issues make their way to the media, endless hours of work are put in behind the scenes to see that stories present the facts and are balanced. Obviously, the first reported case of BSE (mad cow disease) on December 23, 2003, presented the greatest issues management challenge the beef industry may ever have encountered. But an organized and well coordinated state/national plan made this supposed disaster turn into an opportunity to tell the American public and world the facts about American beef and the beef industry. (Please refer to the public relations section of this report for more information on this subject.) After literally thousands of interviews being conducted by industry personnel coast to coast at beef councils and cattlemen's associations, consumer confidence in the safety of American beef increased from 88% three months before the case, to 91% in the days following the announcement of the BSE case. It has been said that the beef industry's coordinated state/national issues management program has as its goal "the best story you never heard." This is because if it is at all possible, the primary goal is to prevent bad stories from ever being written or aired. That's not always possible but the research and proactive work on behalf of beef producers continues daily to ensure that beef and the beef industry is presented fairly to the public.

The ND Beef Quality Assurance program has grown and matured for approximately five years and is considered by many to be one of the premier cow/calf state BQA programs in existence. This program is under the direction of the NDSU Extension Service, with financial support coming, in part, from an annual grant from the NDBC. This cooperative relationship has been a real success and great example of how organizations in agriculture can come together effectively when there is a need that must be met. The Beef Quality Assurance program is under the direction of Lisa Pederson, BQA program director. The NDBQA program has been awarded two competitive national beef checkoff grants that have funded innovative beef education programs for producers. The value of the program continues to be seen as producers encourage each other to attend certification workshops and promote their own cattle as higher value due to the fact that they meet standards set to certify them as "BQA Certified." In addition to handling cattle in a manner that contributes to a higher value end product, cattle raised under BQA certification requirements can be marketed through additional channels many producers have not had access to before.

As all programs funded with checkoff dollars are implemented, it is an ongoing challenge to keep producers informed about where their checkoff dollars are being invested and what results they are having. Every checkoff organization walks a fine line trying to determine how much money should be used to "preach to the choir." The NDBC has tried to limit the dollars in this area because they felt producers would gain more by having their checkoff dollars invested in programs that reached consumers. However, as opportunities present themselves to reach producers in various ways, the NDBC welcomes the chance to bring in national speakers and producer leaders to discuss checkoff programs. Over the past two years the Commission took advantage of the opportunity to have a research scientist from the USDA ARS Grand Forks Human Nutrition Research Center discuss checkoff funded research being conducted at their facility with producers attending the ND Stockmen's convention. The following year Commission Chairman Larry Schnell made a presentation at their convention highlighting the results of checkoff programs at the state and national level. Publication of an annual report with wide distribution to producers and periodic radio programs, called Beef Insight, are also methods used to keep producer investors informed on where their checkoff dollars are used and the results they are achieving.

RESEARCH

Beef checkoff dollars are restricted to funding research directly related to beef and beef products. With very close coordination of industry research priorities and targeted research needs at the national level, the ND Beef Commission has always encouraged state institutions to develop and conduct research projects that further national research priorities. This has been very successful and has resulted in *ND researchers* receiving over \$150,000 in national checkoff funds over the past two years.

The USDA ARS Grand Forks Human Nutrition Research Center has been the recipient of more than \$150,000 in national beef checkoff grant funding for the work Dr. Fariba Roughead has been doing for several years on the role of beef in the diet and its effect on calcium absorption in women. The ND Beef Commission has participated in several previous studies that have provided the base for her advanced research. This research has always been deemed extremely important for the beef industry because it is refuting a long held theory among nutrition researchers. This theory maintains that a diet high in red meat contributes to osteoporosis and bone loss in women. Because of the tremendous and advanced research capabilities of the Center, Dr. Roughead has been able to study this problem and her research is now showing at the least, no effect, and at the best, a tendency toward increased calcium absorption.

Dr. John Finley continues to do research that is also important to beef producers in the Dakota's. His research into the *effects of selenium from beef and other foods on various forms of cancer* is showing great promise. Preliminary selenium research, funded in part by the ND Beef Commission, helped contribute to Dr. Finley being granted over \$1 million in federal funds for further research.

The *NDSU Beef Systems Center of Excellence* is a new program that the ND Beef Commission has become involved with. A grant for \$200,000 has been approved for research to be conducted at the Center. At the writing of this report, contracts are in development with NDSU and the Center is in the development stages.

At the national level, research is very targeted and it is yielding great results for the industry. Research has targeted methods of improving beef safety and consumer confidence, developing more convenient beef products, identifying beef's nutritional benefits, and marketing previously underutilized beef cuts. Specific topics of research include eliminating E.coli 0157:H7, beef tenderness, beef nutrient composition, foodservice market research, and more. Please review the enclosed "Building Demand Through Research" publication highlighting national and state funded checkoff research projects.

FOREIGN MARKETING

The NDBC has a long-standing record of support for the *US Meat Export Federation*, the organization that carries out US beef demand-building programs in foreign markets. While December 23, 2003 saw the closing of virtually every export market to US beef due to BSE, the year of 2003 was nearly a record export year with over 3 billion pounds of beef and beef variety meats being exported, and was a record setting year for total dollar value which was \$3.86 billion. According to economists, beef exports account for about \$14/cwt or about \$175 per head to the value of fed cattle. That's why work to reopen foreign markets has been a top priority for the USMEF and the US government. Of the more than 100 foreign countries that buy US beef, approximately 70 have reopened their markets to the US. While this is exciting, these countries collectively only represent 22 percent of our total export volume and 18 percent of the total value. Negotiations with Japan and Korea are ongoing and critical as together they represent approximately 50 percent of the US export market. Japan alone has taken over 85 percent of the tongues exported each year. The increased value this adds to tongues alone is 25 times what they are worth in the US.

PROJECTIONS FOR NEXT BIENNIUM

The outlook for beef producers at this point in time is hard to predict. While prices producers are receiving are higher than most have ever experienced, several unknowns remain and the resulting effect on producers and profits are a guess. Some of these issues include opening of additional export markets, opening of the Canadian border, and the unknown factors surrounding any future cases of BSE that may be found. Weather is also an unknown and a large contributing factor.

According to CattleFax, *beef production* during 2004 is expected to show a decline of about 1.5 billion pounds from 2003 and total 24.7 billion pounds. This will be the smallest beef production total since 1994. Net *beef supplies*, however, are expected to be up from 2003 and the second largest on record at 27.3 to 27.4 billion pounds. The increase in 2004 net beef supplies is driven by the lack of beef export markets that left nearly 2 billion pounds of beef in the domestic market. About 75% of this increase was offset by smaller domestic beef production. In terms of *total meat supplies*, 2004 is expected to show pork production up about 3% and broiler production growing 3-4%. Beef production is expected to be down close to 6% leaving total meat supplies even with 2003. *Per capita consumer spending* on beef will show approximately a \$21 increase for 2004, setting a record \$234 per person for the year. This increase in spending will be due to 9% higher average retail prices and a nearly 1 pound increase in per capita supplies. *Per capita consumption* for 2004 will total about 65.2 pounds. In total, *consumer beef expenditures* increased substantially during 2004 and are expected to total \$69 billion, up \$6.8 billion for the year. Since 1998, consumer expenditures have grown by more than \$22 billion. This increased spending has been driven by improved consumer demand for beef, higher prices and larger net beef supplies compared to 2003.

Beef demand trends have been a significant factor in the state of the beef industry over the past few years. Beef demand registered a sharp increase in 2003 and it has continued to rise through the first three quarters of 2004. Since 1998, when the first Beef Demand Index was reported, we have seen a 16% increase in consumer demand for beef. This is a result, in part, to the targeted demand building programs of the beef checkoff program. Beef demand is expected to remain strong into 2005. The economy remains strong, consumers haven't backed away from beef in the wake of BSE, and the prospect of reopening key export markets in 2005 will have a positive impact on beef demand and the beef industry.

In terms of beef checkoff programs, the NDBC anticipates that programs will continue to have a high degree of state/national coordination, always focusing on increasing consumer demand for beef. Because of the extensive research and planning that goes into all national programs, it is only logical that the NDBC concentrate efforts on extending these highly effective programs across the state, rather than trying to develop new programs and ideas. This simply would not be cost effective. Commission directors at both the state and national level will continue to work diligently to see that checkoff dollars are invested in programs that will be highly effective and return the greatest amount per dollar invested back to beef producers. At the state level, the ND Beef Commission will continue to target programs where they will have the greatest net return, this being population centers. With a staff of only three employees, projects will be prioritized based on need and effectiveness for the audience targeted in North Dakota.

All future projections, however, may be greatly affected by a **Supreme Court** decision expected by June 2005. The issue being decided is whether the national beef checkoff program violates producers' constitutional rights of free speech and association. Should a decision uphold the constitutionality of the national program, beef councils nationwide will continue to conduct demand-building programs as has been the situation since 1986. If the decision is to the contrary, the ND Beef Commission will revert to a state mandated \$.50 per head checkoff with a refund. The Commission has discussed the potential impact this would have on the current program and has discussed preliminary plans if there was a need to revert to this. There is no question that there would be significant changes that would have to be made in this instance. In the meantime, the NDBC is not going to operate in the "what if" mode but will continue to keep our eye on the target, that being consumers, and do the best job possible with producer dollars to increase demand for beef.

If you have questions or concerns about the beef checkoff program, please feel free to contact the ND Beef Commission, 4023 State Street, Bismarck, ND 58503, 701-328-5120, or toll free 1-877-321-BEEF. For more detailed information on beef checkoff programs from the past two years, please see the printed annual reports included with this information.

NORTH DAKOTA BEEF COMMISSION Bismarck, North Dakota

STATEMENT OF PROJECTED REVENUE AND EXPENDITURES For the Bienniums Ended June 30, UNAUDITED

Prepared by the North Dakota Beef Commission

	03-05 <u>Biennium</u>	05-07 <u>Biennium</u>
Beginning Balance	\$ 449,922	\$ 196,710
REVENUES: Gross Assessment Revenues Less	2,492,666	2,400,000
Assessments Remitted To other states	91,575	90,000
Assessment Revenues remitted to Cattlemen's Beef Board	1,200,546	1,155,000
Net Assessment Revenues	\$1,200,545	\$1,155,000
Interest Income Other Revenue	4,716 8,729	2,000 8,500
Total Revenues	\$1,213,866	<u>\$1,165,500</u>
EXPENDITURE Program Expenditures International Promotion Research Consumer Information Industry Information National Program Development	\$ 21,978 97,530 235,000 288,042 27,503 368,095	\$ 36,000 94,000 15,000 200,000 20,000 337,600
Total Program Expenditures	\$ 1,038,148	\$ 702,600
Administration/Operations	428,930	420,000
Total Expenditures	<u>\$ 1,467,078</u>	<u>\$ 1,122,600</u>
Excess of Revenues Over (Under) Expenditures	\$ (253,212)	\$ 42,900
Ending Balance	\$ 196,710	\$ 239,610



A Message From NDBC Chairman

Two years in a row!

Despite several threats to consumer confidence brought on by the discovery of one BSE infected cow last

December and three

"inconclusive" tests since then, cattle prices and consumer demand are at or close to record levels for a second straight year. Even with record prices at the retail level, consumers continue to choose beef over other proteins time after time. That's a testament to the quality and safety of the product that you produce.

Domestically, one of the highlights of the year was the role the ND Beef Commission and the Beef card played in managing the finding of a BSE cow December, and the three "inconclusive" tests then Despite tremendous levels of coverage, larreports were, for the most part, accurate and uning due to prior scientific research funded by your checkoff dollars, as well as well-planned ategies, good coordination and timely communications. You can be proud of the way the ssue was handled.

in North Dakota, some of your checkoff dollars fore used to honor our servicemen and women at fullitary appreciation events - one in Fargo ie Red River Valley Fair, and one in Minot he State Fair. Thanks to cooperation the ND Beef Commission, ND Stockmens Association, ND Cattlewomen, and the NDSU Animal & Range Science Department, these events were very well received and very much appreciated.

Thanks to everyone who helped.

Producers in North Dakota can also be proud of the work the ND Beef Commission is doing to build partnerships to promote beef more effectively and efficiently. Our relationships have paid off in joint promotions with foodservice distributors, retailers, school foodservice providers, dietitians and physicians groups, as well as other commodity organizations. These relationships are not developed overnight, but they are the key to long term success in marketing our products.

Internationally, we're all aware of the problems brought on by the finding of the BSE cow. The US Meat Export Federation, with state and national checkoff funds, is working hard to get our export markets re-opened, and continues to work to increase demand for US beef around the world. The resumption of sales to Japan and Asia will not return to pre-BSE levels overnight, but over time we hope to regain or exceed the strong levels we had there only one year ago.

Finally, the question of whether the Beef Checkoff will continue as it is should be answered in the next six months. The outcome could stop the national checkoff completely, it could change parts of the law, or change nothing. If the national checkoff is ruled unconstitutional and is not allowed to continue, North Dakota would revert to a mandatory fiftycent per head checkoff with a refund option, which is what we had prior to the national checkoff. The checkoff has proven to be a very valuable tool in increasing consumer demand and the NDBC remains committed to the continued success of the beef checkoff program.

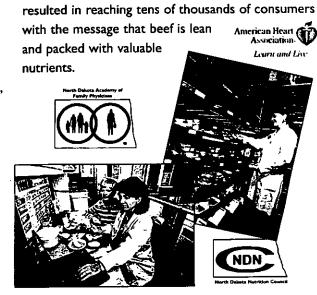
LARRY SCHNELL 2004-2005 NDBC CHAIRMAN

RUTRITION RESEARCH AND PARTNERSHIPS

Research unraveling the role beef plays in bone health and cancer are ongoing at the Grand Forks USDA/ARS Human Nutrition Research Center.

Beef checkoff dollars from both the state and national level continue to support these state-of-the-art human mineral studies into calcium, selenium and beef.

NDSU Extension Service



Partnerships with well respected nutrition and

health professional groups across the state have

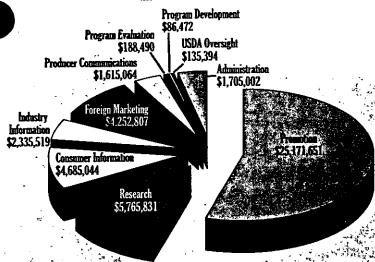


Your National Beef Checkoff Program, Fiscal Year 2004 in Review

The last year has been historic for the beef industry. The discovery of a single case of BSE in the U.S. in December 2003 resulted in most export markets being closed to U.S. beef, which in turn caused anxiety about a potential oversupply of beef domestically. While key markets remain closed, beef demand has increased. In fact, beef demand has climbed more than 16 percent since 1998, on the heels of nearly 20 years of decline. This year, cattle prices were strong to record setting, and the industry has many accomplishments to celebrate.

The beef checkoff does not own cattle, beef products or packing plants, and it can't prevent falling cattle prices. Instead, the beef checkoff was designed to encourage others to sell more beef and to stimulate consumers to buy more beef. This report highlights a few of the programs into which producers are investing their checkoff dollars.

CATTLEMEN'S BEEF BOARD' FISCAL YEAR 2004 EXPENDITURES Does not include state beef council investments 'unaudited numbers



Total Expenditures: \$45,941,274

Proposion Highlights Advertising

In 2004, the checkoff enjoyment advertising campaign again fueled the passion consumers have for beef. Checkoff-funded research indicates those who saw the advertising are significantly pore likely to buy and spend more on beef. Eleven percent of eef's target market of adults ages 28-54 who saw the advertisement were more likely to buy and spend more on beef.

SUPERMARKET PARTNERSHIPS

The retail program has helped increase demand by supporting supermarkets with radio advertising. The promotion was executed with the leading retailers in 45 major markets, reaching more than 50 percent of our target audience. Utilizing the popular "Beef. It's What's For Dinner.®" tagline, the promotion ran from May through Labor Day and focused on all cuts of beef while celebrating the 100th birthday of the hamburger.

NEW PRODUCTS



Checkoff-funded new beef product concept development with both consumers and restaurant operators yielded almost 30 new beef product ideas in 2004, adding to the nearly 2,200 new

beef product ideas launched since 1998.

RESTAURANT PARTNERSHIPS

One example of a partnership is with Quizno's to introduce the Steakhouse Beef Dip Sub. The Steakhouse Sub is prepared with beef from the round and is expected to sell more than 800,000 pounds of beef during the fall 2004 promotion in Quizno's 3,000 restaurants.

VEAL

Veal demand remains steady, thanks in part to checkofffunded programs. Public relations efforts earned an estimated \$822,000 in foodservice trade publicity and \$1.1 million in consumer media coverage. Through four major television appearances, yeal reached 19.2 million viewers.

CULINARY CENTER

In 2004, the checkoff's culinary center developed and tested 140 recipes and shot 43 new photos for the upcoming Lean Beef Cookbook. Two beef publications, Creating Crave and the Beef Factor, continue to garner strong media interest with articles appearing in numerous culinary publications.

COOK-OFF

The July 2004 TV Food Network segment airing the Cook-Off had an audience reach of more than 1.5 million, which is slightly higher than typical TVFN.



Your Beef Checkoff. Investing in

RESEARCH HIGHLIGHTS SAFETY

Checkoff-funded research has identified, for the purpose of eliminating, potential niches for Salmonella, Listeria and E. coli in processing plants. It evaluated the effectiveness of pathogen interventions for live cattle, carcasses, trim and ground beef and identified how E. coli O157:H7 attaches



to meat surfaces. Checkoff dollars have also brought together industry sectors to discuss food safety issues and plan additional interventions.

PRODUCT ENHANCEMENT

The checkoff-funded Carcass Merit Project focused on the validation of bovine gene markers for tenderness, marbling and composition. The project identified quality traits in all participating breeds and aided in the development of the first quality trait EPDs (Expected Progeny Differences) for the beef industry. Research shows that overall beef tenderness has improved an impressive 20 percent during the last five years.

NUTRITION RESEARCH

Checkoff funds have supported the development of the "Naturally Nutrient Rich" consumer message platform for beef. Scientists generated preliminary data to create a nutrient density index, which indicates how many nutrients per calorie a food provides. Research will continue to further develop this index to clearly communicate to consumers the good nutrient package that beef provides.

üliformation Highlights

HEALTH PROFESSIONAL EDUCATION

The beef checkoff partnered with the American Dietetic Association to educate ADA spokespeople about the importance of "Naturally Nutrient Rich" beef in a healthful diet. ADA generates more than 6 million consumer impressions a year.

Public Relations & Food Communications

Checkoff-funded media relations efforts have reached consumers with safety, nutrition and consumer friendly beef messages more than 4 billion times this year.

Youth Programs

Programs directed at youth media, classroom teachers, youth organization leaders and kids reached more than 9.7 million 8 to 12 year-old girls with positive beef messages. A

special promotion of the Fit for a Princess patch activity to 274 Girl Scout Councils nationwide resulted in orders for 100.000 sets of materials.

MARKET RESEARCH

Market research uncovers consumer attitudes and trends, and helps establish direction for checkoff programs that will address the needs of the beef industry. Information is used to measure and develop program strategies to increase consumer demand for beef.

ISSUES MANAGEMENT

A BSE crisis response plan was already in place on Dec. 23, when a single case of BSE was identified in the U.S.A September 2004 checkoff-funded consumer survey found that 91 percent of Americans are confident that U.S. beef is safe from mad cow disease, up slightly from 88 percent in September 2003. In addition, the percentage of consumers who say they are 'extremely confident' that U.S. beef is safe from mad cow disease increased 7 percent since the announcement of the first U.S. case of BSE.

QUALITY ASSURANCE PROGRAMS

The checkoff's quality assurance programs, including beef, veal and dairy, recently developed and released an interactive mini-CD that summarizes the overall impacts of the 1991, 1995 and 2000 National Beef Quality Audits on improving the quality and consistency of beef and



beef products. To date, more than 5,000 copies of the mini-CD have been distributed.

FOREIGN MARKETING HIGHLIGHTS

During 2003, export volume increased 3 percent to 1.276 million metric tons, while value grew 21 percent to more than \$3.86 billion. It is estimated that exports accounted for more than 13 percent of total U.S. production. With the discovery of a single case of BSE in the U.S. in Dec. 2003, however most major markets were closed to U.S. beef exports throughout much of 2004. Checkoff dollars were used to prepare to re-launch U.S. beef products as safe and wholesome when the markets reopen.

PRODUCER COMMUNICATIONS HIGHLIGHTS



Beef and dairy producers received information about their beef checkoff investment through television, radio and print messages. This campaign created more than 35 million checkoff impressions at a cost of about two cents each. Nearly 70 percent of producers say they feel informed about

the Beef Checkoff Program.

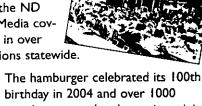
ef Safety, Nutrition and Premetion.

Promoting Beef to Consumers across north dakota

The ND Beef Commission, ND Stockmen's Association and ND CattleWomen joined forces to host two events saluting the state's Military Forces. Over 1000 members of the military and their families enjoyed a beef picnic and activities

for the children, in Fargo at the Red River Valley Fair and at the ND

State Fair in Minot. Media coverage of the event resulted in over 700,000 consumer impressions statewide.





people were on hand to enjoy a juicy burger in Bismarck when the Beef Commission partnered with KBMR radio, CashWise Foods and the ND CattleWomen to honor the burger.

Beef makes the news every Thursday statewide on the KX Television network with a new I-minute cooking segment featuring a delicious beef recipe. To date, this program has generated 1.3 million consumer impressions and thousands of web site visits to obtain the featured recipes.



Holiday beef promotions help to keep beef top of mind for menu planning. Beef Gift Certificates are also promoted as the perfect gift for the holidays and any occasion resulting in the purchase of over 1300 certificates valued at over \$21,000 this year.

PUBLIC RELATIONS AND EDUCATION PROGRAMS HAVE CONSUMERS THINKING BEEF

Consumers were introduced to new beef products and great new recipe ideas through food events, fairs, displays, ND CattleWomen programs and large events including the Women's Showcase, Working Women's Summit and Senator Dorgan's Women's Health, Women's Lives conference.

Education programs and materials teach students, from preschool to college. Over 100 Family & Consumer Science

teachers participated in the Beef Mini Grant program,

receiving \$30 for beef for classroom use and over 24,000 nutrition handouts and recipes. Living Agriculture Classroom events in Fargo, Minot and Bismarck also reach close to 5000 4th graders annually. Other projects funded with checkoff dollars and coordinated by the ND



CattleWomen include

Operations

Total Expenses

Fund Balance, July 1, 2003

Fund Balance, June 30, 2004

Revenues over (under) expenses

the Beef Ambassador and Beef Challenge events for junior and senior high students.



Partherships Suggeed. FROM NEW PRODUCTS TO PRODUCERS



Pizza Ranch restaurants in North Dakota and six other states introduced three new steak pizzas through a partnership with state beef commissions. It resulted in over

11,000 pounds of beef steak topping and more than 64,800 steak pizzas being sold. As a result, steak pizza has become a permanent menu item at Pizza Ranch.

North Dakota's Beef Quality Assurance program,

one of the most respected in the country, is a result of an ngoing partnership between e NDSU Extension Service and the ND Beef Commission.



CORTH DAKOTA BEEF COMMISSION DIRECTORS & STAFF

CATTLE FEDER ÖFFICERS Larry Schnell, Chairman Shawn Arndorfer. Hettinger lason Schmidt. Vice Chairman DAIRY PRODUCES Jennifer Warford, Eldon Hintz, New Salem Secretary LIVESTOCK MARKETS BITE PRODUCERS Larry Schnell, Kim Lees, Buchanan Dickinson Jerry Schaefer, Des Lacs Ex-Officie Jason Schmidt, Medina Van Amundson. BEEF PRODUCER MEDIRERS lamestown AT LARGE Marshall Hermanson, SPAFE Stanley Nancy Jo Bateman, Executive Director lennifer Warford. Bismarck

NORTH DAKOTA BEEF COMMISSION CAMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FURD BALANCES July 1, 2003 - June 30, 2004

Revenue: \$1,282,961 Checkoff Assessments (44.168)Less Remittance to States of Origin Less Remittance to Cattlemen's Beef Board (617,565) 621,228 Net Assessments 7.445 Other revenue (interest & receipts) \$628,673 Net In-State Revenue Expenditures: 1,978 International promotion 46,330 Promotion 35.000 Consumer Information 104,642 15,503 Industry Information 197,574 National program development 161,254 Administration

48.664

\$610,945

\$17,728

\$466,837

\$484,565

NORTH DAKOTA BEEF COMMISSION 4023 STATE STREET . BISMARCH, NORTH DANOTA 58503 . 701/328-5120

Gladys Woroniecki,

Hebron

Sylvia Brown

Ioan Hoovestol

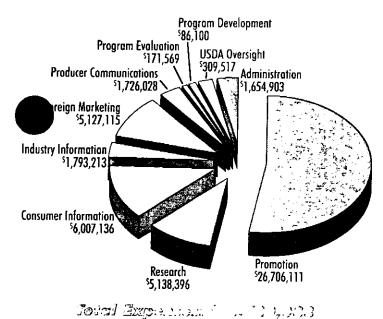
Your National Beef Checkoff Program

Fiscal Year 2003 Year in Review

The last year has been an impressive one for the beef industry, despite a weak U.S. economy. Beef demand is growing at record levels and we've seen record-high cattle prices. The checkoff does not own cattle. beef products or packing plants, and it can't prevent falling cattle prices. Instead, the beef checkoff was designed to encourage others to sell more beef and to stimulate consumers to buy more beef. This report highlights a few of the programs into which producers are investing their checkoff dollars.

CATTLEMEN'S BEEF BOARD **FISCAL YEAR 2003 EXPENDITURES**

Does not include state beef council investments



ABOUT YOUR NATIONAL BEEF CHECKOFF PROGRAM

Cally Elman

- All producers and importers pay the same \$1 per head.
- One-half of the money collected by a state beef council-50 cents of every dollar - is controlled by the producers in that state.
- All checkoff-funded programs are budgeted and evaluated by the Beef Board, which is an organization comprised of 108 off-paying producers and importers. Board members are nominated by fellow state producers.

Promotion Highlights **ADVERTISING**

A refocused "Beef. It's What's for Dinner.®" advertising campaign that includes both men and women as its target to fuel the passion consumers have for beef. About 87 percent have seen the ads, and importantly, research indicates that those who saw the advertising

will be more likely to buy and spend more on beef.



GROCERY STORES

Beef industry experts conducted grilling demonstrations via satellite that reached an estimated 3.5 million viewers. Retail media articles about summer grilling reached an estimated 6.8 million grocery-store managers.

NEW PRODUCTS

Checkoff-developed Homestyle Beef Pot Roast is in the hot foods delis of more than 1,000 Kroger, Ukrop's, and Super Target stores. More than 800 restaurants and five new retailers have sold 6 million steaks from the new Beef Value Cuts program, among them the Flat Iron, Shoulder Tender and Ranch Cut Steaks.

RESTAURANTS

The Beef Checkoff Program partnered with Domino's Pizza to introduce the Philly CheeseSteak Pizza nationwide. With 7,300 stores worldwide,



Dominos is the nation's leader in pizza delivery. By increasing beef offerings at quick-service restaurants, this partnership is a way for the beef industry to sell more beef.

VEAL

Veal demand is steadily climbing thanks in part to checkoff-funded programs. Public relations efforts earned an estimated \$1 million in foodservice trade publicity and \$1.4 million in consumer media coverage - a return of more than seven times the initial checkoff investment.

CULINARY CENTER

It's all about crave at the Beef Culinary Center with the release of the 32-page publication Creating Crave. . . the Beef Factor. This comprehensive guide introduces "umami," the fifth taste and the "wow" flavor in beef. More than 2,500 copies have been distributed.

COOK-OFF

The 2003 National Beef Cook-Off entry generation phase garnered 1,100 media placements earning 186 nillion consumer impressions. The ww.beefcookoff.org web site was visited 1 million times between January and March 2003.



RESEARCH RIDE ... 1

SAFETY

The checkoff program funded research to learn how E. coli O157:H7 attaches to meat surfaces, how Listeria develops and new detection methods for Listeria and E. coli. Research has also validated numerous interventions that can be used within the beef processing chain to ensure the safety of beef products.

PRODUCT ENHANCEMENT

A checkoff-funded research project focused on genetics and identification of carcass merit traits provided valuable data that more than a dozen beef breeds are using to further improve beef tenderness and other quality traits that affect consumer buying trends. Research shows that overall beef tenderness has improved an impressive 20 percent during the last five years.

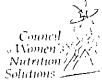
NUTRITION RESEARCH

neckoff-funded research has provided evidence of the benefits of nigher-protein diets centered around beef for improving weight loss, lowering cholesteral, and increasing overall satisfaction with diets in overweight women. A long-term study is under way to show how beef can enhance weight loss, maintain muscle tone and improve people's abilities to keep the weight off long-term. Three manuscripts published in professional journals helped communicate these outcomes to nutrition experts and health professionals.

CHICLING IN HORMAROPEN

HEALTH PROFESSIONAL EDUCATION

The checkoff-funded Council for Women's Nutrition Solutions (CWNS) continues to spread the message about beet's role in a healthful diet. ... (Nomen's) CWNS co-hosted a spokesperson retreat that reached more than 40 influential dietitians and resulted in media impressions totaling more than 27 million in just nine months.



PUBLIC RELATIONS

eef industry public relations efforts earned placement of 500 articles, reaching an estimated audience of nearly 3 billion people.

FOOD COMMUNICATIONS

Checkoff-funded programs designed to establish long-term relationships with food opinion leaders and promote beef included newspaper press releases, recipe cards, a beef update seminar for supermarket consumer affairs professionals, a summer grilling media tour, and deskside visits to food editors in New York. Total results for the efforts included more than 6,700 print placements with a combined circulation of nearly 1.4 billion.

YOUTH PROGRAMS

The Fit for a Princess Girl Scout patch program promotes beef ZIP --



zinc, iron and protein -- nutrient messages and continues to be in high demand. In 2003, 130,000 copies were printed and shipped to state beef councils or Girl Scout councils.

ISSUES MANAGEMENT

An August 2003 consumer opinion tracking survey found that 89 percent of Americans are confident in the safety of U.S. beef — matching the highest confidence figure ever measured.

QUALITY ASSURANCE PROGRAMS

The industry's quality assurance programs, including beef, veal and dairy, recently developed and released an interactive mini-CD that summarizes the overall impacts of the 1991, 1995 and 2000 National Beef Quality Audits on improving the quality and consistency of beef and beef products. To date, more than 5,000 copies of the mini-CD have been distributed to beef producers and extension educators nationwide.

FOREIGN MARKETING

Beef export volume nearly doubled between 1993 and 2002, thanks, in part, to checkoff-funded initiatives in the areas of international promotion and marketing. During the first half of 2003, export values increased 5 percent and were on track to top 1.2 million metric tons for the year, while values grew 17 percent during the first half and are estimated to approach \$3.6 billion for the year. It is estimated that exports now account for more than 13 percent of total U.S. production, or roughly the equivalent of beef from 5 million head of fed cattle.

PRODUCER COMMUNICATIONS

Information about checkoff programs was disseminated to producers through national beef and dairy publications with a combined circulation of nearly 700,000 producers. Beef nutrition and safety messages aired on radio stations in targeted states.



Dear Beef Producer,

Your beef checkoff investment is returning great dividends to the beef industry today. Consumer demand for beef is on the rise, consumers are selecting beef over the competition, and they are enjoying the great taste of beef. Good news for beef producers and the beef business!! Beef checkoff programs of research, education and promotion have made a significant contribution to this success.

Beef producers like you make the decisions on where and how your beef checkoff dollars are invested. As beef producer directors on the North Dakota Beef Commission, we take this responsibility very seriously.

The ultimate objective of the North Dakota Beef Commission is to invest beef producer checkoff dollars in programs that will reach as many consumers as possible. It is important to realize that many of these consumers are not in North Dakota but are across the nation and also in international markets. To achieve this objective, approximately \$.66 of every North Dakota beef checkoff dollar is invested in national and international programs. At the state level, the Commission plays a critical role in extending many nationally developed checkoff programs. This helps to put the beef message where the consumers are, rather than where the cattle are. These programs are also targeted at the state's largest consumer markets including Fargo, Bismarck, Minot and Grand Forks.

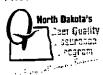
Please take a few minutes to review some of the highlights of state and national checkoff programs in this annual report to you, the beef checkoff investor. With each program undertaken and with each producer dollar invested, the North Dakota Beef Commission is committed to making a positive difference in the long-term success of the beef business.

ND Beef Commission

TESEKRON

A research partnership between the beef industry and the USDA ARS Grand Forks Human Nutrition Research Center took a huge leap forward this year. After investing North Dakota checkoff dollars in state-of-theart mineral research, the groundwork was laid for the investment of significant national checkoff funding in a research project dealing with the role of red meat in the diet and how it may or may not affect women's bone health. Currently, this study is being funded with over \$153,000 from national checkoff funds and \$20,000 from state checkoff funds.

PRODUCER & INDUSTRY LIFERMATION



The North Dakota Beef **Quality Assurance** (NDBQA) program is considered by many

across the nation to be the premier cow/calf state BQA program in existence. The NDSU Extension Service and various grants, including an annual grant from the ND Beef Commission, fund the program. The NDBQA program also has received national checkoff grants making programs like "Beef 101" possible. Adding value to the chuck and round has resulted in new, convenient

products for consumers. The new "home-style deli pot roast." designed to provide a great alternative in the deli to the rotisserie chicken, was served up to discriminating beef eaters at the ND Stockmen's Association convention. It passed the "beef eater" test and received rave reviews.

PROMOTION

Summer grilling and holiday entertaining are made for beef so the ND Beef Commission took advantage of these promotion opportunities. From newsprint to magazines to the meat case, consumers were encouraged to enjoy everything from steaks and burgers to prime rib.

Over 10,000 people in attendance at the second annual Professional Bull Riding (PBR) event in

Bismarck knew what was for dinner, and it was BEEF. In addition to beef banners at the event, beef was featured in radio, television, magazine and newspaper ads, on posters throughout the region, and in other various promotions. Hundreds of thousands of consumers were reached through the media and the actual event.



With approximately 96% of the world's population living outside of the United States, effective foreign marketing

for US beef is critical to the future of the beef industry. The ND Beef Commission annually invests \$16,000 in two memberships to the U.S.Meat Export Federation so North Dakota beef producers are represented in this very important area.

CONSUMER INFORMATION

Over 5000 women attended the Women's Showcase in Farao and over 1800 took time to



taste Hormel's microwaveable beef pot roast at the Beef Commission booth. Several hundred were treated to beef cooking programs featuring Sara Reddington, director of the NCBA Beef and Veal Culinary Center in Chicago, and Nancy Jo Bateman, executive director of the ND Beef Commission.

Close to 1000 women attended the "Women's Health, Women's Lives" conference, hosted by Senator Byron Dorgan. They welcomed the reassurance that beef was lower in fat than

they had previously thought, and were excited about new recipe ideas incorporating on cuts of beef.

Over 300 professional women attending the Working Women's Summit in Bismarck learned about lean beef, quick beef recipe ideas, and enjoyed beef stir-fry at the luncheon sponsored by the ND Beef Commission.



The ND Beef Commission hosted Sara Reddington, chef and director of the NCBA Beef and Veal Culinary Center, on a one-day media tour in Fargo. A finalist recipe from the National Beef Cook-Off featuring microwaveable beef pot roast was prepared I taken to 13 radio station morning teams. Nowing the radio appearances, Reddington filmed five television food programs with Lyn Nichols, Fargo-area food celebrity on WDAY-TV, WDAY-AM and The Forum newspaper food editor.

Over 50 family physicians enjoyed a "Flat Iron" steak lunch while listening to the latest beef update from Commission Executive Director, Nancy Jo Bateman, during the ND Academy of Family Physicians annual conference in Grand Forks. In a separate event, the Commission was able to reach out to 25 UND family practice residents through their Family Practice Physicians in Training program and host them at a beef luncheon.

The latest beef nutrition and education materials were provided to hundreds of health professionals across the state. This included members of the ND Dietetics Association, ND Nutrition Council, NDSU Extension Service Family & Consumer Science agents, NDSU Extension Service Family Nutrition Program staff, and others.

From grade school to college, beef education programs are at work.

Over 100 high school and junior high family and consumer science teachers participated in the Beef Mini Grant program receiving a \$30 Beef Gift Certificate and free education materials.



The Living Ag Classroom program continues to expand, now effectively reaching over 5000 fourth grade students from the Minot, Fargo, Bismarck and Valley City areas with information on "food from farm to fork."

4-H, FFA and the NDSU collegiate meats judging scholarship program also received support through the beef checkoff.

Volunteers are critical to the success of many beef promotion programs. That's why the Beef Commission uses checkoff dollars to support the efforts of the ND CattleWomen as they reach consumers through the Beef Cook-Off, High School Beef Challenge, National Beef Ambassador program, Ag Days, and countless other programs.

\$466,837

NORTH DAKOTA BEEF COMMISSION DIRECTORS AND STAFF (7/1/03)

OFFICERS	CATTLE FEEDER		
Aaron Jacobson, Chairman	Grady Thorsgard, Northwood		
Larry Schnell, Vice Chairman	DAIRY PRODUCER		
Margie Hande, Secretary	Eldon Hintz, New Salem		
BEEF PRODUCERS	LIVESTOCK MARKETS		
Aaron Jacobson, Crosby	Larry Schnell, Dickinson		
Jerry Schaefer, Des Lacs	PV OFFICIO		
Jason Schmidt, Medina	EX-OFFICIO Van Amundson, <i>Jamestown</i>		
BEEF PRODUCER	STAFF		
MEMBERS AT-LARGE	Nancy Jo Bateman,		
Margie Hande, Amidon	Executive Director		
Shelby Schäntz, Glen Ullin	Sylvia Brown		
Jennifer Warford, Bismarck	Joan Hoovestol		

dorth Dakota Beef Commission

4023 State Street
Bismarck, ND 58503
701-328-5120 or
1-877-321-BEEF

NORTH DAKOTA BEEF COMMISSION

Combined statement of revenues, expenditures and changes in fund balances

JULY 1, 2002 — JUNE 30, 2003

JULY 1, 2002 — JUNE 3	0, 2003
Revenues	
Beef Checkoff Revenues	⁵ 1,353,346
Other Revenues (interest & receipts)	7,239
Total Revenues	1,360,585
Expenditures	• •
National Programs	\$912,245
Cattlemen's Beef Board	·
Other States	
National Cattlemen's Beef Association	
US Meat Export Federation	
State Programs	125,357
Promotion, Retail, Foodservice,	·
Consumer Information, Education,	
Health Care, Industry Information,	
Research	
Compensation Section Compensation	145,033
Operations	44,153
Total Expenditures	¹ 1,226,788
Excess of revenues over (under) expenditures	^{\$} 133,797
Fund balance, July 1, 2002	\$333,040
= 11 1	****

Fund balance, June 30, 2003







Investing in Beef Safety, Nutrition & Promotion





G. Andrew Tucker, Jr.

Letter

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Dear Fellow Producers:

It's been a great year for the beef industry and for your Beef Checkoff Program. We've enjoyed some of the best prices ever for our cattle, and as consumer demand for beef continues its upward climb, we hope to see more opportunities for producer profitability. Of course, we always have our challenges, and your checkoff program met those head-on in 2003 — not the least of which were the case of BSE in Canada and continued court battles over the constitutionality of the checkoff program.

We are fortunate to have invested checkoff dollars over the years into issues management, as those investments paid off when the BSE case in Canada was announced. It was an impressive thing to watch: Within an hour and a half of the announcement, your crisis-management team had gathered accurate information about the BSE case, held a press conference with 130 national and international media representatives — including *The New York Times, Washington Post, USA Today,* CNN and the like — and then took hundreds more media calls that day and during the following weeks. I consider this one of the checkoff's paramount successes for 2003, because you can only imagine what damaging scare tactics about the safety of the beef supply in the U.S. could have fueled the rumor mills had this extensive checkoff program not been in place to manage the flow of accurate, science-based information.

In this annual report, you'll get more details about the checkoff's issues management programs, in addition to a host of other checkoff success stories from 2003. Among those are: efforts to build exports; continued development of the Beef Value Cuts program and new-product development; an exciting new advertising campaign that sets the record straight with consumers about the nutritional qualities of beef; a summer grilling program that reached about 10.3 million consumers and grocery-store managers; continued research about *E. coli* O157:H7; consumer market research that helps establish direction for the beef industry and checkoff programs; and food communications that garnered some 6,700 beef-related stories with a combined circulation of nearly 1.4 billion consumers.

It has been an honor and a pleasure to serve as chairman of the Cattlemen's Beef Board during the last year, as we invested in programs aimed at stimulating consumers to choose beef more often. And as a producer, it is comforting to know that our representatives on the Beef Board will continue to work hard on our behalf in 2004. At the same time, of course, it is important that we all continue to participate in the process, to work together to maintain a strong marketplace for beef.

With warm regards,

G. Andrew Tucker, Jr.

6 Andrew Tuck

Producer

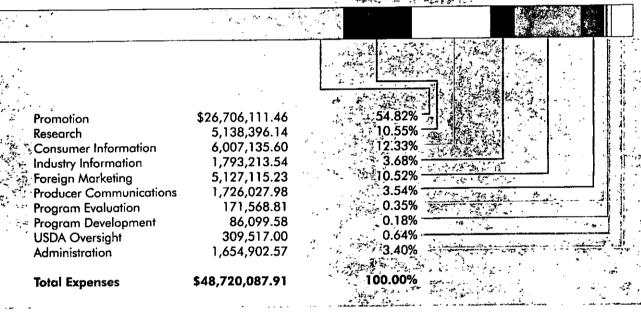
Rockledge, Fla.

2003 Chairman, Cattlemen's Beef Promotion & Research Board



CBB Executive Committee: Front Row, L-R, Beef Board Chief Operating Officer Monte Reese; Chairman Andy Tucker, FL; Vice Chairman Nelson Curry, KY; Secretary/Treasurer Al Svajgr, NE; Beef Board Chief Financial Officer Tom Ramey. Back Row, L-R, Jay O'Brien, TX; Dave Bateman, IL; John Roberts, Northeast Region; Carllyn Walker, TX; Mike Cline, IA; Kay Richardson, FL; Gary Sharp, SD; and Laurie Bryant, importer. Not pictured: Dee Lacey, CA, Ex-Officio.

2003 Cattlemen's Beef Board Expenses



he beef checkoff funds a variety of beef safety, nutrition and promotion programs with the goal of increasing consumer demand for beef. In the following pages, you'll find highlights of what the checkoff has accomplished during the last year. For more detailed information about these and other checkoff programs, please visit the following Web sites:

beefboard.org beef.org ancw.org beefcookoff.org beeffoodservice.com beefmark.com beefnutrition.com bifsco.beef.org bseinfo.org cool-2b-real.com cwns.org fmdinfo.org beefitswhatsfordinner.com rdranch.com teachfree.com usmef.org veal.org vealstore.org



Cheeseburger Fries®





he last year has been an impressive one for the beef industry, despite a weak U.S. economy. Beef demand continued to grow, and we've seen record-high cattle prices. Consumer

spending on beef also is reaching new highs, having climbed dramatically from the levels of the 1990s - up about \$14 billion in total.

But what does this mean to a cattle producer? Cattle-Fax estimates the increase in demand over the last few years has added about \$200 to the price of a fed steer - value that eventually is expected to be passed back to cow-calf producers in the prices they receive for calves.

During fiscal 2003, various industry and research organizations contracted to carry out Beef Checkoff Programs. Beef organizations working on checkoff programs during the year included the National Cattlemen's Beef Association, the American National CattleWomen. the U.S. Meat Export Federation, the Meat Importers Council of America, and the American Veal Association. These checkoff programs are designed to encourage others to sell more beef and to stimulate consumers to buy more beef.

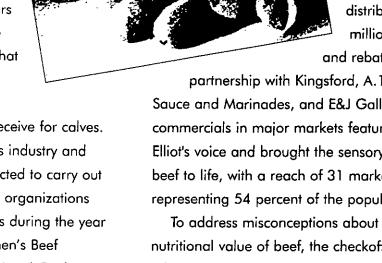
We know that consumers love beef. That's why

checkoff promotion efforts were refocused to target men and women with messages about beef's enjoyment. The 2003 summer grilling

> campaign catered to consumer enjoyment of beef by way of national print, radio and television advertising. More than 17,000 grocery stores nationwide participated in the summer promotion, which included distribution of 200 million coupons and rebates for beef in

partnership with Kingsford, A.1. Steak Sauce and Marinades, and E&J Gallo. Radio commercials in major markets featured Sam Elliot's voice and brought the sensory appeal of beef to life, with a reach of 31 markets representing 54 percent of the population.

To address misconceptions about the nutritional value of beef, the checkoff program's advertising campaign highlighted the nutritional benefits of beef versus its main competitor, poultry. A popular nutrition print campaign in 16 consumer magazines in 2003 showed a delicious lean beef meal and delivered the message that lean beef has only one more gram of saturated fat than a skinless chicken breast but packs a





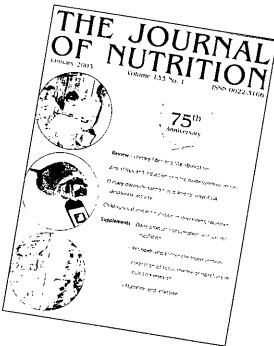




nutritional punch with six times more zinc, three times more iron and eight times more vitamin B12.

Meanwhile, checkoff-funded public relations programs continued to generate positive stories about beef in the consumer news media during 2003. Health professional programs, such as the Council for Women's Nutrition Solutions, brings health professionals to consumers to talk about beef's benefits in a healthful et. Through programs like these, me checkoff is attempting to break down the nutrition barriers for beef and make consumers feel good again about eating beef.

The checkoff also is addressing consumer perceptions about the safety of beef, initiating a plan to deal with the two main safety issues facing the beef industry: E. coli and BSE. When news about BSE in Canada broke in the spring of 2003, for example, the checkoff program delivered accurate information to consumers about the single case in Canada and the safety of American beef. And by August, consumer confidence in U.S. beef was an all-time high, despite the



consumers said they were confident that U.S. beef was safe, according to an August 2003 national consumer survey.

The beef industry certainly has a positive message to share, and the Cattlemen's Beef Board is committed to helping producers understand the depth of their investment in the Beef Checkoff Program. From this brief year in review, you can see that your checkoff dollars are being invested in programs that address primary demand drivers, including safety, nutrition and promotion.

ur in Review







heckoff-funded promotion programs focus on growing consumer demand for beef and veal through market research, advertising, new product development and partnerships with supermarkets and restaurants that leverage checkoff investments.

A new "Beef. It's What's for Dinner.""
advertising campaign targets both men
and women to fuel the passion
consumers have for beef. TV and print
advertising reached 93 percent of adults
ages 25-54 more than 12 times with a
cost-per-impression of less than a penny.
Print ads appeared in 19 consumer
magazines, and TV commercials ran
more than 1,500 times.

A public service announcement about grilling beef reached more than 4.7 million viewers through local television stations, and checkoff representatives conducted grilling demonstrations via satellite that reached an estimated 3.5 million viewers.

Checkoff-developed Homestyle Beef Pot Roast is in the hot foods deli of more than 1,000 Kroger, Ukrop's, and Super Target stores. More than 800 restaurants and five new retailers have sold more than 6 million steaks from the new Beef Value Cuts Program, among them the Flat Iron, Shoulder Tender, and Ranch Cut Steaks.

Through the National Cattlemen's Beef Association, the Beef Checkoff Program partnered with Domino's Pizza to introduce the Philly Steak Pizza nationwide. The pizza is made with premium quality sirloin steak.

Public relations efforts for veal earned an estimated \$1 million in foodservice trade publicity and \$1.4 million in consumer media coverage — a return of more than seven times of what was initially invested.

Managed by the American National
CattleWomen, the 2003 National Beef
Cook-Off* entry generation phase
garnered 1,100 media placements
earning 186 million consumer
impressions. Between July and September
2003, the Cook-Off garnered 26
placements in finalists' local markets,
earning 12.4 million additional
consumer impressions. Demos of the
winning recipe took place in 700
Albertson's stores in five divisions.

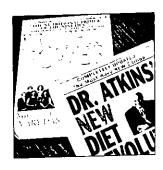
Promotion



Safety, Nutrition & Promotion







heckoff-funded research programs focus on consumer market development, studies related to the nutritional value of beef, and programs to enhance the quality and consistency of product offerings and beef safety.

During 2003, the Beef Checkoff Program funded research about how *E. coli* O157:H7 attaches to meat surfaces, how Listeria develops, and new detection methods for Listeria and *E. coli*. Research about BSE and other transferable diseases continues to collect data on the transmission vectors, environmental persistence and progression of these diseases. Research also has validated numerous interventions that can be used to ensure the safety of meat products.

Research efforts require cooperation and participation by a huge array of professionals: About 40 universities and more than 30 other private and government entities have carried out short- and long-term research projects funded with checkoff dollars during the

last four years. A research project focused on genetics and identification of carcass merit traits provided valuable data that more than a dozen beef breeds are using to improve beef tenderness and other quality traits that affect consumer buying trends.

Research indicates that overall beef tenderness has improved 20 percent during the last five years.

Other checkoff research has provided evidence about the benefits of higher-protein diets centered around beef for improving weight loss, lowering cholesterol, and increasing overall satisfaction with diets. Another study is under way to show how beef can enhance weight loss, maintain muscle tone and improve people's ability to keep weight off.

Meanwhile, consumer market research uncovers consumer attitudes and trends, and helps establish direction for programs.

Research









Mosmation (

onsumer information programs educate and inform consumers, students and health professionals about beef's wholesome nutrition and its safety. In addition, they solicit media coverage of beef recipes and cooking and purchasing information.

The checkoff-funded Council for Women's Nutrition Solutions (CWNS) continues to spread the message about beef's role in a healthful diet. CWNS cohosted a spokesperson retreat that reached more than 40 influential dietitians with cutting-edge beef nutrition information and research. The resulting media impressions totaled more than 27 million in just nine months. CWNS also generated more than 18 million impressions during fiscal 2003, and more than 135 million since it began in 1999.

Earned media coverage volume for the beef industry surpassed 6,500 articles, reaching an estimated audience of nearly 3 billion people. Checkofffunded programs designed to establish long-term relationships with food opinion leaders and promote beef included newspaper press releases, recipe cards, a beef update seminar for supermarket consumeraffairs professionals, a summer grilling media tour, and deskside visits to food editors.

By fiscal year-end 2003, results for the checkoff-funded programs included more than 6,700 print placements with a combined circulation of nearly 1.4 billion consumers.

The Fit for a Princess Girl Scout patch program promotes the ZIP — zinc, iron and protein — nutrient messages and continues to be in high demand. During fiscal 2003, about 130,000 copies of the program were printed and shipped to state beef councils and Girl Scout troops. Forty-one of 45 state beef councils are working with local Girl Scout troops to get the materials into the hands of Girl Scout leaders.







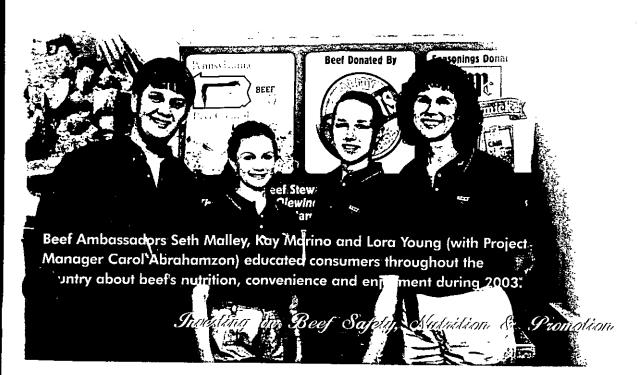
heckoff-funded industry information programs are developed to enhance the image of the beef industry and maintain a friendly marketing environment for beef.

On May 20, 2003, Canada announced a single case of BSE. The beef checkoff issues management team reached out to producers, consumers and stakeholders with factual information, reassurance about the safety of beef in the U.S. and the measures the U.S. has taken to prevent BSE. In August 2003, a checkoff-funded consumer opinion tracking survey found that 89 percent of Americans were confident in the safety of U.S. beef — matching the highest confidence figure ever measured.

The checkoff program is leading the beef industry initiative to develop and disseminate science-based best practices that will help reduce the risk of *E. coli*

O157:H7 in beef products. In January 2003, an *E. coli* Summit attracted more than 200 participants spanning the beef chain — from cattle producers and processors to retailers and foodservice operators — to discuss creation of the best practices document and to identify research needs to build the knowledge base about *E. coli* O157:H7.

Through science and education efforts, the checkoff recently developed and released an interactive mini-CD that summarizes the overall effects of the 1991, 1995 and 2000 National Beef Quality Audits on improving the quality and consistency of beef and beef products. By the end of fiscal 2003, more than 5,000 copies of the mini-CD were distributed to beef producers and extension educators nationwide.







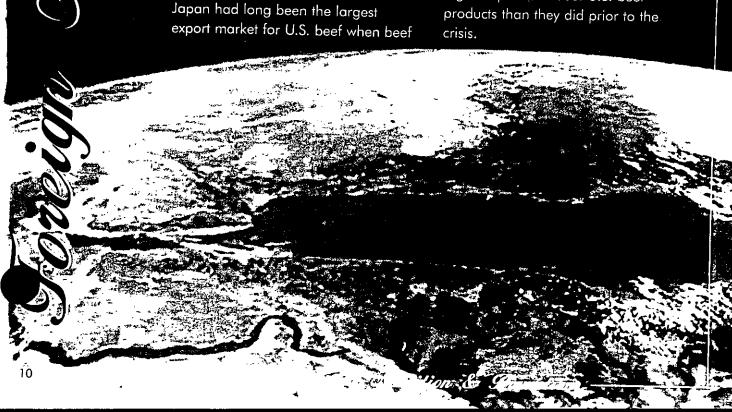


programs leverage checkoff dollars to promote U.S. beef in countries around the world.

Beef export volume nearly doubled between 1993 and 2002, thanks, in part, to checkoff-funded promotion and marketing initiatives managed by the U.S. Meat Export Federation. During the first half of 2003, export values increased 5 percent and were on track to top 1.3 million metric tons for the year — while values grew 17 percent during the first half and were estimated to approach \$3.6 billion for the year. Exports account for an estimated 13-plus percent of total U.S. production, or roughly the equivalent of the beef from 5 million head of fed cattle.

demand there fell 40 to 60 percent with news of BSE in Japan late in 2001. In 2002, Mexico took over as the leading export market for U.S. beef products by volume, though Japan remained the largest market in terms of value.

As beef checkoff dollars continue aiming to reassure consumers in Japan that U.S. beef is safe, wholesome and BSE-free, demand is rebounding. U.S. exports of beef and beef variety meat jumped 14 percent during the first six months of 2003, returning Japan to the top of the list of export markets for U.S. beef, both in volume and value. Since the checkoff has stepped up efforts in Japan, consumers there also report increased familiarity with and higher opinions about U.S. beef products than they did prior to the crisis.









roducer-communications
efforts funded with checkoff
dollars aim to keep beef
producers informed about how their
checkoff dollars are being invested.

During fiscal 2003, the checkoff disseminated information about checkoff programs to producers through national beef and dairy publications with a combined circulation of nearly 700,000 producers. Beef nutrition and safety messages aired on radio stations in Colorado, Kansas, Nebraska, South Dakota and Wyoming.

In addition, 37 state beef councils partnered to distribute an annual report carrying both state and national checkoff program information. Reports were distributed through agricultural publications or direct mail and had a combined reach of nearly 750,000. The amount of checkoff news going to producers through some 600 key trade media outlets increased significantly in 2003, up about 39 percent over 2002 levels. Checkoff representatives produced more than 100 interviews or reports about checkoff programs during the year

and disseminated them through the National Farm Broadcast Service (NFBS), as well as placing them on the www.beefboard.org Web site. NFBS promotes those programs to its farm broadcaster members, who share the information regionally with their listeners.

According to a July 2003 survey of producer attitudes — performed by an independent market-research firm — producer support for the \$1-per-head Beef Checkoff Program grew three points to 63 percent between January 2003 and July 2003. And, more than 90 percent say they want to continue to receive information about how their checkoff dollars are spent.



Communications

Cattlemen's Beef Promotion & Research Board

Financial Statements as of September 30, 2003 and 2002 Together With Report of Independent Auditors Independent Auditors' Report

To the Members of the Cattlemen's Beef Promotion and Research Board:

We have audited the accompanying statements of assets, liabilities and fund balances – modified cash basis of the Cattlemen's Beef Promotion and Research Board (the "Board") as of September 30, 2003 and 2002, and the related statements of revenues, expenses and changes in fund balances - modified cash basis for the years then ended. These financial statements and the exhibit referred to below are the responsibility of the Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As described in Note 2 to the financial statements, the Board's policy is to prepare its financial statements on the modified cash basis of accounting; consequently, certain revenues and related assets are recognized when received rather than when earned, and certain expenses are recognized when paid rather than when the obligations are incurred. Accordingly, the accompanying financial statements are not intended to present financial position and results of operations of the Board in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities and fund balances of the Board as of September 30, 2003 and 2002, and its revenues, expenses and changes in fund balances for the years then ended, on the modified cash basis of accounting described in Note 2.

The accompanying financial statements have been prepared assuming that the Board will continue as a going concern. As discussed in Note 8 to the financial statements, the Board received a Circuit Court decision denying the constitutionality of the beef check-off program. The impact of this decision has been stayed by the Circuit Court to give the Board the opportunity to appeal the decision to the U.S. Supreme Court. If the U.S. Supreme Court upholds the Circuit Court decision, it will eliminate the Board's only source of revenue which raises substantial doubt about the Board's ability to continue as a going concern. Management's plans in regard to this matter are also described in Note 8. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary statement of assessment revenues by state for the years ended September 30, 2003 and 2002 (Exhibit I) are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In connection with our audit, nothing came to our attention that caused us to believe the Board was not in compliance with the provisions of the Beef Promotion and Research Act of 1985 and the Beef Promotion and Research Order (the "Order") relative to the use of funds collected by the Board insofar as they relate to accounting matters. Further, in the connection with our audit, nothing came to our attention that caused us to believe the Board was not in compliance with the terms of section 1260.149(f) of the Order, or with the terms of the Agricultural Marketing Service Investment Policy, which describe the type of instruments in which the Board may invest, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.

This report is intended solely for the information and use of the members of the Cattlemen's Beef Promotion and Research Board and its management and the United States Department of Agriculture and is not intended to be and should not be used by anyone other than these specified parties.

KPMG, LLP

Denver, Colorado October 29, 2003

1-13-05 Missing pages were of Boad members
Photographs—
Investing in Beef Safety, Nutrition & Promotion

Statements of Assets, Liabilities and Fund Balances dified Cash Basis, Note 2) September 30, 2003 and 2002

ASSETS	2003	2002
CASH AND CASH EQUIVALENTS (Note 3)	\$ 7,115,047	\$ 9,203,039
SHORT-TERM INVESTMENTS (Note 3)	15,909,285	15,916,023
EQUIPMENT, net of accumulated depreciation of \$60,974 and \$56,174, respectively	9,685	14,486
OTHER	8,236	5,956
Total assets	\$23,042,253	\$25,139,504
LIABILITIES AND FUND BALANCES		
DUE TO STATE BEEF COUNCILS AND OTHER	\$ 848	<u> </u>
COMMITMENTS (Notes 4, 7 and 8)		
FUND BALANCES (Note 5):		
Appropriated for budgeted expenses	17,623,030	19,456,292
Board reserve	5,000,000	5,000,000
Unappropriated	408,690	667,871
Investment in equipment, net	9,685	14,486
• •	23,041,405	25,138,649
Total liabilities and fund balances	\$23,042,253	\$25,139,504

"atements of Revenues, Expenses and Changes in Fund Balances odified Cash Basis, Note 2)." For the Years Ended September 30, 2003 and 2002

	2003	2002
REVENUES:	4.5.005.504	 \$45,696,642
Assessments (Note 1)	\$45,925,584	793,714
Interest	406,224	45,527
Other	291,036	
Total revenues	46,622,844	46,535,883
EXPENSES:		
Program-	26,706,111	25,714,446
Promotion	5,138,396	5,099,219
Research	6,007,136	5,780,603
Consumer Information	1,793,213	1,613,768
Industry Information	5,127,115	5,178,498
Foreign Marketing	1,726,028	1,951,477
Producer Communications	171,569	130,000
Program Evaluation	86,100	96,780
Program Development		45,564,791
Total program expenses	46,755,668	43,304,771
USDA Oversight	309,517	397,212
Administration (Note 4)	1,654,903	1,581,328
Total expenses	48,720,088	47,543,331
Deficiency of revenues over expenses	(2,097,244)	(1,007,448)
BEGINNING FUND BALANCES	25,138,649	26,146,097
ENDING FUND BALANCES	\$23,041,405	\$25,138,649

The accompanying notes to financial statements are an integral part of these statements.

(1) ORGANIZATION

The Beef Promotion and Research Act of 1985 (the "Act"), approved on December 23, 1985 by the United States Congress, established a coordinated program of promotion and research designed to strengthen the beef industry's position in the market-place, as well as to maintain and expand domestic and foreign markets and uses for beef and beef products. As provided in the Act, the Secretary of the United States Department of Agriculture (the "Secretary") issued the Beef Promotion and Research Order (the "Order"), effective July 18, 1986, which provides the terms and conditions for the Act's administration. The Cattlemen's Beef Promotion and Research Board (the "Board"), which was created and approved by the Secretary to administer the Act, consists of 108 members who are representatives of the cattle industry in the United States, including importers. Board members are appointed by the Secretary.

The program is financed by a \$1 per head assessment on domestic sales of cattle and on imported cattle, beef, and beef products. The Board, as part of its responsibilities under the Act and Order, may certify no more than one Qualified State Beef Council (the "Council") in each state and authorize that Council to collect such assessments. The assessments are remitted to the Councils or the Board. The Board receives one-half of assessment monies from states with Councils and the Councils retain the remainder. The Board receives all assessment revenues from states without Councils and from imported cattle, beef, and beef products.

Pursuant to the Act, the Board's expenses for administration are limited to 5% or less of projected revenues. All remaining revenues are expended on programs related to promotion, research and information for the beef industry. The Board contracts with established national cattle- or beef-industry-governed nonprofit organizations for the implementation and conduct of these programs. Under the terms of these contracts, the entities which receive Board contracts are subject to annual audits and reviews.

(2) SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements have been prepared on the modified cash basis of accounting. Under this method, certain revenues are recognized when received rather than when earned and certain expenses are recognized when paid rather than when incurred. At September 30, 2003 and 2002, there were assessment receivables of approximately \$6,500,000 and \$6,100,000, interest receivables of approximately \$48,000 and \$105,000, and accounts payable of approximately \$4,400,000 and \$7,400,000, respectively, which are not reflected in the accompanying financial statements. Accounts payable relate to appropriated expenditures and are included in the fund balance appropriated for budgeted

expenditures in the accompanying statements of assets, liabilities and fund balances (Note 5).

As discussed in Note 1, the Board receives one-half of the assessment monies collected by the Councils and the remainder is retained by the Councils. The accompanying financial statements include only the Board's share of assessment monies and do not include amounts related to either revenues or expenses of the individual Councils.

Depreciation

Equipment is recorded at cost. Depreciation is provided using the straight-line method over the estimated useful lives of three to ten years.

Cash, Cash Equivalents and Short-Term Investments

For purposes of classifying investments, the Board considers all highly-liquid investments with original maturity dates of three months or less to be cash equivalents. Cash equivalents and short-term investments are recorded at cost.

(3) CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS

The Secretary has provided that excess cash may be invested, on a short-term basis, in obligations of the United States or in obligations of any U.S. Government agency or U.S. Government-sponsored corporation. Cash, cash equivalents and short-term investments at September 30, 2003 and 2002, by investment type, are as follows:

	Cash and Cash Equivalents	Short-Term Investments	Total Carrying Value	Total Fair Value	
Demand Deposit Account	\$ 27,673	\$ -	\$ 27,673	\$ 27,673	
U.S. Government Securities	7,794,812	15,909,285	23,704,097	23,740,258	
Less-Outstanding Checks	(707,438)		(707,438)	(707,438)	
Totals for 2003	\$7,115,047	\$15,909,285	\$23,024,332	\$23,060,493	
Totals for 2002	\$9,203,039	<u>\$15,916.023</u>	\$25,119,062	\$25,294.821	

The demand deposit account is insured by the Federal Deposit Insurance Corporation and fully collateralized by U.S. Government securities held at the Federal Reserve Bank in the Board's name.

(4) ADMINISTRATION EXPENSE

The Act limits expenses for the administration of the program to 5% or less of projected revenues. Projected revenues were \$46,000,000 for 2003 and \$45,000,000 for 2002. Accordingly, the administrative expenses incurred by the Board were limited to \$2,300,000 in 2003 and \$2,250,000 in 2002. Administrative expenses incurred by the Board on the accrual basis (versus modified cash basis amounts reflected in the accompanying statements

Notes to Financial Statements Continued

of revenues, expenses and changes in fund balances) were approximately \$1,640,000 (3.6% of projected revenues) in 2003 and \$1,595,000 (3.5% of projected revenues) in 2002. Expressed as a percentage of actual revenues, the Board's administrative expenses were 3.5% in 2003 and 3.4% in 2002.

The Board has entered into an Administrative Services Agreement with the National Cattlemen's Beef Association ("NCBA") whereby NCBA agreed to provide certain administrative services to the Board in return for reimbursement of all direct and indirect costs related to the provided services. During 2003 and 2002, respectively, the Board paid NCBA approximately \$171,000 and \$177,000 related to this agreement.

The Board leases office facilities from an outside third-party under an operating lease. Payments required under the lease were approximately \$84,000 during 2003 and \$55,000 during 2002. Future annual payments related to the lease are approximately \$85,000 in 2004, \$90,000 in 2005, \$93,000 in 2006, and \$39,000 in 2007 (five months).

(5) FUND BALANCES

Appropriated for Budgeted Expenditures

The balance reflected in the appropriated portion of the fund balance relates to unexpended program appropriations and unexpended amounts budgeted for administrative expenses.

Board Reserve

The Board has approved the establishment of a fund balance reserve in the amount of \$5,000,000 to be used as the Board may deem necessary, with the approval of the Secretary.

Unappropriated

At September 30, 2003 and 2002, respectively, \$408,690 and \$667,871 of the fund balance had not been appropriated by the Board and was available for budgeting to the various program areas. During October 2002, the Board appropriated \$400,000 of the funds available as of September 30, 2002, by amending the fiscal year, 2003 budget. No such appropriations have been made by the Board subsequent to September 30, 2003.

(6) INCOME TAX STATUS

The Board has received a ruling from the Internal Revenue Service stating that it is classified as a tax-exempt entity that engages in activities under the aegis of the United States Department of Agriculture ("USDA").

(7) PENSION PLAN

The Board provides pension benefits for all of its employees through a simplified employee pension plan under which annual contributions are provided based on a percentage of each employee's salary. Contributions required and funded by the Board were approximately \$81,000 and \$78,000 in 2003 and 2002, respectively.

(8) LITIGATION AND POTENTIAL IMPACT ON BOARD'S OPERATIONS

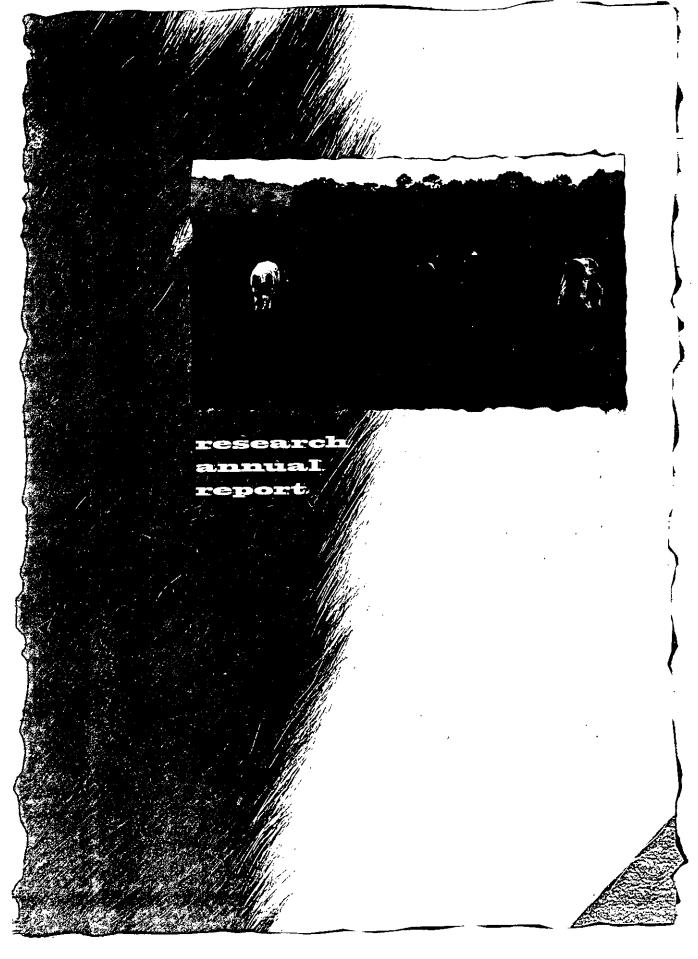
During fiscal year 2001, certain persons filed suit against the USDA and the Board alleging, inter alia, that the beef checkoff program violates beef producers' rights under the First Amendment. On June 21, 2002, a federal district court in South Dakota ruled that the beef checkoff program violated the First Amendment and issued an injunction prohibiting the collection of checkoff assessments that was to take effect on July 15, 2002. Before that date, the 8th Circuit Court of Appeals ("8th Circuit") stayed the injunction pending the resolution of the appeal. On July 8, 2003, the 8th Circuit upheld the decision of the federal district court but continued the stay while the U.S. Department of Justice sought a rehearing of the case. On October 16, 2003, the 8th Circuit denied the rehearing request, with two judges dissenting. On October 17, 2003, the U.S. Department of Justice filed a motion to further stay the injunction pending a possible appeal to the U.S. Supreme Court. On October 29, 2003, the 8th Circuit granted the stay of the injunction pending the filing of an appeal with the U.S. Supreme Court. The stay issued by the 8th Circuit on October 29 will remain in effect until January 27, 2004, or throughout the consideration of the appeal by the U.S. Supreme Court in the event the Supreme Court decides to consider the appeal on its merits. While the U.S. Department of Justice has not yet decided to seek Supreme Court review, all indications are that it is strongly leaning in favor of doing so.

A similar legal challenge was filed in the federal district court in Montana. On November 1, 2002, that court rejected the First Amendment challenge to the beef checkoff program, finding that the checkoff program does not violate the First Amendment because it produces government speech. This decision was based on the trial court record produced in the South Dakota case (discussed above). The challengers appealed this decision to the 9th Circuit Court, and the matter has been fully briefed. The matter has not yet been set for oral argument and management does not expect a ruling in this case until the previous case has been argued to the Supreme Court.

The USDA and the U.S. Department of Justice believe they have strong arguments in support of the constitutionality of the beef checkoff program. They have argued, and will continue to argue, that it does not violate the First Amendment. The constitutionality of the beef checkoff program has been defended successfully before. Two other Circuit Courts - the 3rd Circuit in the Frame case and the 10th Circuit in the Goetz case have found the Beef Act to be constitutional and have rejected the claim that the Beef Act violates the First Amendment. If, however, the beef checkoff program is ultimately determined to be unconstitutional, it would result in the termination of the continued collection of beef checkoff assessments and the Board would go out of existence.

	2003	2002
ASSESSMENT REVENUES:		
Qualified State Beef Councils-	\$ 429,843	\$ 392,336
Alabama	395,578	375,019
Arizona		457,823
Arkansas	452,097	1,404,735
California	1,585,790	2,023,288
Colorado	1,791,858	2,025,260
	8,046	7,179
Delaware	373,341	386,795
Florida	337,316	326,891
Georgia		12,829
Hawaii	20,453	912,112
Idaho	952,905	,,,,,,
	411,716	396,401
Illinois	272,562	260,487
Indiana	1,812,768	1,675,618
lowa	3,942,594	4,043,188
Kansas		682,923
Kentucky	743,891	002,7
	250,162	244,823
Louisiana	14,427	15,292
Maine	50,615	49,561
Maryland	250,145	225,808
Michigan		682,988
Minnesota	732,928	002//00
	322,308	301,183
Mississippi	1,439,709	1,325,412
Missouri	889,570	940,522
Montana		3,814,964
Nebraska	3,922,963	131,133
Nevada	160,510	101,100
M. I	7,855	7,411
New Jersey	590,839	526,573
New Mexico	326,255	311,585
New York	224,978	221,172
North Carolina	644,690	627,239
Norih Dakota	044,070	021,201
OL:	338,202	315,933
Ohio	2,049,389	2,003,568
Oklahoma	457,708	446,307
Oregon	459,511	422,514
Pennsylvania	114,264	108,711
South Carolina	114,204	100,7
C. Ile Delicates	1,621,863	1,523,026
South Dakota	554,658	508,069
Tennessee	6,068,665	5,955,370
Texas	309,717	315,483
Utah	57,783	56,700
Vermont	37,703	55,, 50
Virginia	404,757	431,713
Virginia	537,831	567,549
Washington	110,011	104,785
West Virginia	783,048	754,812
Wisconsin	501,381	563,110
Wyoming		
Total Qualified State Beef Councils	37,727,500	36,860,940
and the second second		
States Without Qualified State Beef Councils-	691	483
Alaska	17,501	16.549
Connecticut		18,001
Massachusetts	20,845	11,684
New Hampshire	11,671	1,281
Rhode Island	493	1,201
Total States Without Qualified State Beef Councils	51,201	47,998
Importers	8,146,883	8,787,704
Total Assessment Revenues	\$45,925,584	\$45,696,642

See the accompanying Independent Auditors' Report.



building demand through research



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Project Listings

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beef safety research priorities

PRE-HARVEST PATHOGEN INTERVENTIONS

- Novel Interventions
- Reducing microbial loads coming into plants
- Reduce shedding, incidence and prevalence of E.coli O157:H7

BEEF CHAIN INTERVENTIONS

- · Optimize Interventions in Plants
- New Interventions for Trim, Ground Beef and Non-Intact Products

TSE SCIENCE

- Transmission Vectors
- Environmental Persistence
- Progression of TSE's
- Rendering Interventions
- Infectious Dose
- · Assay Development

PATHOGEN BASIC SCIENCE

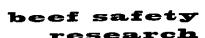
- Ecology and Epidemiology of E.coli in Production Settings
- Critical Entry Points and Transmission Vectors
- Virulence of E.coli, Listeria and Salmonella
- Survivability of E. coli, Listeria and Salmonella

DISSEMINATION OF BEEF SAFETY RESEARCH

- Fact Sheets
- Executive Summaries
- Industry Meetings









E. coli O157:H7 remains an elusive and troublesome bathoden for the beef industry. Significant progress has certainly been made over the bast 10 years in finding ways of eliminating this pathogen. However, the industry must remain focused on reducing the impact of this pathogen for the safety of beef as well as the consumer's image of beel products, this can only e accomplished through ttinued research at the product, processing and packaging levels. Through their Beef Checkoff Program, America's beef producers have taken a lead in conducting research for the further reduction of E. coli O157:H7 and other pathogens. They recognize the value of agaressive efforts that encourage a safer beef supply that retains the confidence of the U.S. consumer.

PATHOGEN SCIENCE

Checkoff-funded research conducted at Colorado State University for instance, found that the chilling method used on of carcasses (spray milling versus dry chilling) does not appear to influence organism levels on carcass surfaces.

Chilling;
method
used on bee;
carcasses
(spray chilling versus
dry chilling;
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organism,
levels on
carcass
surfaces.

Spray chilling is the inter-

mittent addition of potable water to the surface of carcasses during the first stage of chilling. The process reduces evaporative water losses from carcass surfaces that result in weight shrinkage, an important economic issue for the beef industry. But little science had been conducted to see whether spray chilling has an effect on microbial activity. The research was conducted at multiple packing plants and samples were collected from the round, flank and brisket. Results suggested that when carcasses are chilled more quickly (to less than 4°C in 12 hours), the prevalence of E. coli O157:H7 is reduced. In fact, at all three processing plants participating in this study, indicator organism prevalence was inversely proportional to the rates of surface temperature decline. The fastest surface temperature declines had the largest reductions

in indicator organism

populations during chilling.

Prevalence of E. coli O157:H7 recovered from groups.
of carcasses sampled before chilling, and following either spray-chilling or dry-chilling at 3 commercial packing facilities.

Escherichia coli O157: H7
prevalence in carcass samples from each plant
Pre-Chilled

Plant N *Positive *Positive N *Positive *Positive A 533 2 0.4 532 0 0
B 507 32 6.3 506 0 0
C 532 8 1.5 405 20 4.9

The research further suggested that "pockets" on The checkoff-funded study at The University of

The research further suggested that "pockets" on carcasses created during mechanical hide removal need to be addressed as potential accumulation sites for acid-tolerant pathogenic bacteria. For this reason, it suggested processors must be careful to administer lethal, rather than sublethal, injury to bacteria. More research of surface temperature changes and its effect on bacteria could lead to further reductions of surface bacterial loads on beef carcasses.

Other recent research suggests that when a certain form of *E. coli* has a sticky and waxy fiber called curli on its cells, it may stick to beef surfaces more firmly. Finding ways of reducing curli — named for its similarity to curly hairs under high-powered microscopes — may be associated with helping keep *E. coli* O 157:H7 from attaching to beef surfaces.

The checkoff-funded study at The University of Georgia was conducted on a group of *E. coli* called Enterohemorrhagic *Escherichia coli*, or EHEC. (*E. coli* O157:H7 is part of this group).

Cattle with EHEC may harbor the pathogen without showing signs of infection. And, if not handled properly, animals with the pathogen that enter a harvest facility could contaminate the processed and fresh meat in the plant with EHEC.

To conduct the research, fresh beef from the round as well as beef salami slices were inoculated with EHEC and evaluated for attachment levels during various time frames. Significant differences were observed between the two curli-expressing variants in the study. The two members of the pair attached differently on raw beef at 15 and 120 minutes of contact time, and on beef salami at 2 and 120 minutes of contact time. This





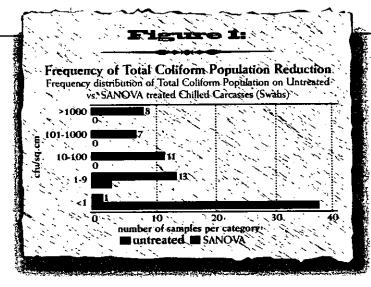
research determined that the environment affects the ability of EHEC to produce curli. In addition, if curli is present on the surface an *E. coli* cell it is more likely to attach to both the raw and processed product.

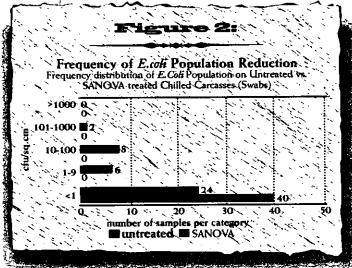
The attachment of bacteria to animal tissues is still a complicated issue, and is far from being fully understood. Future research is needed to identify chemical or enzymatic agents that could remove curli from EHEC cells. This would minimize curli-associated EHEC attachment on meat and meat contact surfaces.

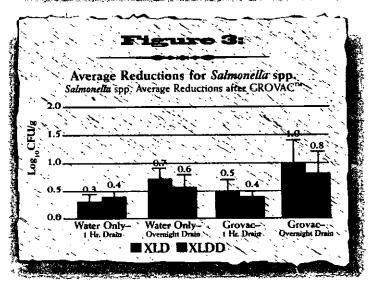
To validate the use of SANOVA treatment of beef carcasses in the reduction of bacterial contamination, a study was conducted at Kansas State University

The researchers collected data using two sampling methods over two days of testing that showed significantly less contamination after treatment. In fact, no *E. coli* was detected after SANOVA treatment for all samples.

SANOVA treatment also reduced total coliforms to below detection limit for 28 of 40 swab samples, and 7 of 8 excision samples (Figures 1-2). Aerobic plate count was reduced 99 percent on both sampling methods.







Eliminating the void in retail-level technology for reducing the incidence of *E. coli* O157:H7 is the catalyst for a research project at Kansas State University. This void puts the entire beef production chain at risk should an *E. coli* O157:H7 event occur by exposing it to USDA action, recalls, negative consumer publicity and litigation.

The Grovac Intervention System is designed to be used in a batch process and is adaptable to small volume, in-house grinding operations. It involves treating the beef trimmings in a mixture of citric acid and a hypotonic salt solution while tumbling them under vacuum.

The citric acid lowers the pH on the outside of the beef to a level at which the bacteria can no longer survive. It also acts as an antioxidant in the final product, delaying the conversion of oxymyoglobin to metmyoglobin, which stabilizes the bright red color for a longer period of time. As part of this study, beef trim was inoculated with both Salmonella and E. coli O157:H7 and then treated with the Grovac system to investigate reductions in pathogen levels. A water only treatment was run as control.

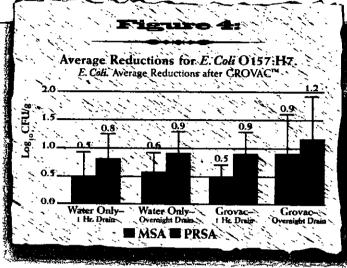




In all four replicate batches inoculated with Salmonella, a reduction in bacterial loads was seen with both the water treatment and the Grovac treatment (Figure 3). The samples that were taken from both treatments showed increased bacterial reductions when allowed to drain overnight.

Five replicates were run on *E. coli* O157:H7 inoculated beef trimmings. In one replicate, no bacterial reductions were seen for either treatment, while all four of the other replicates had bacterial reductions. Total reductions of *E. coli* O157:H7 ranged from 0.4 to 0.8 logs for water only to 0.4 to 1.1 logs for the Grovac after one hour and overnight drains, respectively.

While the differences in these reductions don't appear great, the fact is that when beef reaches the retail level it has most likely gone through multiple intervention processes. That means the bacterial load on the meat is already quite low. So a piece of beef containing an initial level of 100 CFU or less for E. coli O157:H7 that goes through the Grovac system could result in 10 CFU or less - a significant improvement (Figure 4).



Investigating shelf-life with the same system, the researchers found that the Grovac treated ground beef had lower aerobic plate counts and *E. coli* counts than the non-treated ground beef over the threeday test. Sensory analysis showed no difference between the Grovac treated product and the non-treated product.

NON-INTACT TENDERIZED BEEF PRODUCTS

In 1999 USDA/FSIS expanded its *E. coli* O157:H7 adulteration policy to include non-intact beef products, including beef primal/sub-primal cuts that are blade or needle tenderized or injected with chemicals, and steaks and roasts made by combining pieces of beef via restructuring.

The concern was the potential for contaminating sub-surface muscle tissue

with pathogenic microorganisms during mechanical tenderization or needle injecting. If that happened, these beef products may require a higher internal cook temperature to render the products safe for human consumption.

There are no documented cases of foodborne illness associated with mechanically tenderized or injected meat products. Nevertheless, the Joint Beef Safety Committee and the Beef Industry Food Safety Council (BIFSCo) recommended funding research studies to determine the risk associated with the translocation of *E. coli* O157:H7 in sub-surface muscle tissue.

Two subsequent surveys funded through the Beef Checkoff Program were designed to determine the prevalence of *E. coli* O157:H7 on the surface of

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beef sub-primals. Over 1,600 sub-primals were examined and only two were positive for *E. coli* O157:H7. The quantitative count for these two samples was <3.0 CFU per 200 cm². These surveys suggest *E. coli* O157:H7 is not common on the surface of beef sub-primals prior to mechanical tenderization or needle injection.

The degree of translocation of surface microorganisms into subsurface muscle tissue during mechanical tenderization was determined in two other independent studies. In the first, the surface of beef sub-primals was inoculated with *E. coli* O157:H7 at levels of 10⁶, 10⁵, 10⁴ and 10³ CFU /cm². The inoculated beef sub-primals were passed once





or twice through a mechanical tenderizer. Five core samples were aseptically collected from each tenderized primal and then tested at four different depths for the presence of *E. coli* O157:H7.

In the first study, greater translocation was observed as the inoculum level increased, and following single-pass tenderization, compared with double pass tenderization. No appreciable difference in translocation was observed for tenderization of fat side versus lean side, and regardless of the number of tenderization passes, or fat-side versus lean-side inoculation; the majority of the pathogen was deposited to a depth of 1 cm from the sub-primal surface.

In the second study, the surfaces of beef top sirloin sub-primals were inoculated with 10⁶ CFU/cm² *E. coli* O157:H7 and then passed once through a blade tenderizer. An examination of core samples from the inoculated beef showed that 3-4 percent of the inoculum was translocated from the surface to subsurface muscle tissue.

EFFECT OF COOKING

Two other studies were funded to determine the effect of cooking on the survival of *E. coli* O157:H7 in steaks cut from beef sub-primals that had been surface inoculated and then mechanically tenderized. In the first study, sub-primals were surface inoculated with 10⁶ CFU/cm² and passed once through a mechanical tenderizer. The sub-primal was cut into steaks 0.75, 1.0 and 1.25 inches thick and then heated on a gas grill to internal temperatures of 120, 130, 140, 150 160 and 170°F. After heating, each



steak was sampled in five pre-selected areas for the presence of *E. coli* O157:H7.

The results showed greater lethality as the target cooking temperature increased. With the exception of 130°F, greater lethality was also observed as the thickness of the steaks increased. Furthermore, greater lethality in some instances was observed for two specifically located core samples than from the other three core samples. . coli O157:H7 was recovered with direct plating methods from steaks cooked to an internal temperature of 120, 130 and 140°F whereas this pathogen was only recovered with enrichment procedures from some of the steaks that were cooked to 150°F and from all the steaks cooked to 160 and 170°E.

In the second study, top sirloin sub-primals were surface inoculated with *E. coli* O157:H7 at a level of 10⁷ CFU/cm². Half of the inoculated sub-primals were mechanically tenderized and half were not. All sub-primals were cut into steaks of various thickness i.e. weights) and then oven broiled to internal temperatures of 120, 130, 140, 150, 160 and 170°F.

While the level of destruction of *E. coli* O157:H7 in non-tenderized steaks cooked to 120°F was significantly greater than in tenderized steaks, the pathogen survived both treatments. At the 130°F target temperature, the level of destruction was of the same magnitude, i.e. approximately 5 logs, in both the tenderized and non-tenderized steaks.

In those steaks that were cooked to a target temperature of 140 to 170°F, the reduction of E. coli O157:H7 was greater than 6 logs for both the tenderized and non-tenderized steaks. It was also noted that after the steaks were removed from the broiler, the internal temperature continued to rise above the target temperatures by as much as 11°F. This rise in temperature suggests there is an increased margin of safety in regard to the destruction of this pathogen.

Consumer behavior with non-intact products is also an important part of the overall risk evaluation for this type of product. Five hundred consumers were surveyed to determine their cooking procedures for preparing steaks and roasts. The results showed that most people use color as an indicator of doneness for

steaks and cooking time was used mostly for roasts.

While information regarding cooking methods and safe final internal temperatures is available to the consumer, none of the people included in the survey knew that 145°F is the recommended minimum internal temperature for cooking steaks and roasts. However, the results showed that 82 percent of the people cook their steaks above this temperature to a level of doneness of medium or above.

While steaks and roasts sold at retail are required to have "Safe handling Instructions" on each package, very few have recommended cooking procedures. One vender of loin steaks and top sirloin (not tenderized) did include cooking recommendations for both grilling and pan-frying. When these recommendations were followed, the internal temperature of the steaks ranged from 148 to 155°F. In the food service trade, this temperature range is considered to be medium rare.

The effectiveness of two intervention treatments for beef sub-primals inoculated with *E. coli* O157:H7 was studied. Inoculated sub-primals were sprayed with

either acidified sodium chlorate (ASC) or peroxyacetic acid (PAA) prior to mechanical tenderization. Both ASC and PAA caused a modest 0.6 to 0.7-log reduction in the level of *E. coli* O157:H7 on the surface. However, there was no reduction in the level of *E. coli* O157:H7 in subsurface muscle issue.

The results from the checkoff-funded studies indicate that the potential for mechanically tenderized beef products to be a public health risk, in relation to E. coli O157:H7, is very low. In a survey of over 1,600 sub-primal beef cuts for the presence of E. coli O157:H7, only two were positive. And the level of contamination in these two samples was low. While the consumers that participated in the cooking surveys did not know the recommended minimum cooking temperature for steaks and roasts is 145°F. they were cooking these products to their preferred doneness and this was adequate to destroy pathogenic bacteria. In order to ensure that steaks and roasts are cooked properly, it was suggested that simple cooking instructions be included on all raw beef products.





product enhancement research priorities

SHORT-TERM MUSCLE APPLICATIONS

 Research on easily accessible/lowinput muscles from chuck & round = tenderness, flavor, aging, color, enhancement etc.

NATIONAL BEEF INSTRUMENT ASSESSMENT PLAN II

- Develop & evaluate instrumentation methods & equipment design to predict tenderness
- Quantification of value
- Development of Best Practices for palatability

GENOMICS

- Support for the completion of the Carcass Merit Study
- Support for sequencing the bovine genome & additional research that will enable the sequenced genome information to be developed
- Utilizable information for the beef industry

LONG-TERM MUSCLE APPLICATIONS

 Identification and application research on "next-phase" muscles that can be utilized by the industry to increase the value of cuts from the chuck & round (fed & market cows)
 palatability, enhancement, aging, shelf life etc.

RESEARCH DISSEMINATION

- Dissemination of research information
 fact sheets, executive summaries,
 FAQ's
- Support for dissemination/education through technology and organizational groups







product enhancement research

Although the U.S. is known throughout the world for its superior beef products, there is no upper limit on quality. The beef industry must continually explore ways of improving what we have to offer both domestic and foreign customers — whether it's in tenderness, packaging, convenience, consistency or myriad other attributes that have an impact on consumers.

For that reason, "Product Enhancement" isn't "Product Revitalization." It's creating methods of making a great beef product even better.

NATIONAL BEEF INSTRUMENT ASSESSMENT PLAN II

Identifying and eliminating the tough beef from the production system was the goal behind the National Beef Instrument Assessment Plan II. By removing "tough cattle and carcasses" from the system, the entire beef supply would become more tender, leading to genetic decisions to purge undesirable genetic lines from the system. It would also allow the industry to evaluate production practice effects on tenderness.

THE MAJOR TOPICS IN THE WHITE PAPER INCLUDED:

- Fundamental sources of variation in beef tenderness
- Pre-harvest nutritional imanagement and dietary
- Effects of hormonal implants and other growth modifiers,
- Cenetic inputs and their / effects on beet tenderness/
- Pre-harvest stress, cattle temperament and beef tenderness
- Sex effects on tenderness; and
- Effects of morbidity and intramuscular injections on tenderness,

Leaders from throughout the beef production and marketing chain met in 2002 to address the challenge. It was concluded that tenderness research should lead in three directions: Instrumentation. Economics and Optimum Production Practices. Key to beginning the research was a thorough understanding of what research had already been done, and what that research had provided to the information base. A White Paper was prepared by a researcher at Colorado State University

that sought to summarize

information and identify the

the current scientific

prevent the industry's development of an effective pre-harvest management plan for ensuring beef tenderness. The importance of the industry's efforts to improve beef tenderness and a total quality management approach to beef grading was also addressed. A key to establishing consistency in production practices research was determining whether shear slice force measurements — an important tool in evaluating beef tenderness - among research facilities was standardized. To accomplish this, the U.S.

Meat Animal Research

deficiencies that might

Most
institutions
conducted
slice shear
force
measurements
with a
very high
degree of
repeatability.

Center (US MARC) conducted a checkoff-funded project where six research institutions were trained to conduct standardized slice shear force measurements. Researchers found that most institutions conducted slice shear force measurements with a very high degree of repeatability. The repeatability estimates for slice shear force within the seven institutions were 0.91, 0.90, 0.89, 0.83 and 0.75, with one institution still completing data collection. Repeatability among institutions ranged from 0.39 to 0.87, partially due to differences among the institutions in the consistency of steak thawing and cooking procedures. The study showed that slice shear force can be used for routine beef ribeye and strip loin tenderness evaluation with substantial labor/time savings.



Slice
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and strip loin
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Lean meat yield in carcasses is also an important issue for America's cattle producers, as beef packers will pay more for high quality animals that yield more useable product. Today there is a large variation between beef carcasses in the yield of lean meat, and USDA beef graders have only about 9 seconds to visually evaluate a carcass and estimate a yield grade.

US MARC conducted an additional study on a system to objectively determine yield and carcass value. The study showed that use of an image analysis instrument to evaluate ribeye area and make necessary calculations to determine USDA yield grades could accurately predict fabrication yields and carcass value under commercial processing conditions.

The study was conducted at a commercial beef harvesting facility that processes 4,600 head per day. During routine

carcass grading, image analysis was conducted using the VBG2000 Vision Beef Grading system.

The amount of the variation in subprimal cut yields accounted for by this image analysis-predicted yield grade (74 percent) was similar to the amount of the variation in subprimal cut yields accounted for by expert yield grade (77 percent) and official on-line USDA yield grade (67 percent).

This research could help lead to quicker and more accurate yield grade classifications — and provide cattle producers more assurances that they are getting fair value for their animals.

BEEF PACKAGING

The retail industry's move to focus on case-ready beef is unmistakable. According to the American Meat Institute, more than 1.2 billion packages of case-ready meat products were sold in 2000, more than double the number sold in 1997. Furthermore, it's been estimated that about half of retail beef today is sold in modified atmosphere packaging (MAP). Along with vacuum packaging, MAP serves as a primary means for moving case-ready product to consumers.

impermeable film and a combination of nitrogen, carbon dioxide or monoxide, and oxygen gases to "flush" the package. It and other case-ready systems offer many advantages to consumers and retailers compared to traditional retail packaging systems, including lower labor costs in the store, fewer out-ofstocks, and a more consistent product to consumer's purchase-to-purchase. Significant challenges remain with the MAP system, however. For example, consumer perception of beef at the meat case is partially impacted by discoloration of bone in high oxygen MAP. This discoloration, or black bone as it is sometimes known, might be seen by potential purchasers as unwholesome and could lead to reduced purchases and overall poor impressions of the beef product. Since more and more beef is being sold in this type of packaging, research into the cause and a solution to the problem is needed. A checkoff-funded study at Kansas State University

successfully addressed both.

The study involved 36 beef

humerus, ribs, scapulas and

thoracic vertebrae from

MAP involves plastic trays,

USDA Select or Choice carcasses cut into 1-inch thick sections at four days postmortem. One of each of the bones was packaged into one of three packaging types: MAP, ultra-low oxygen MAP and PVC overwrap, then displayed under continuous fluorescent lighting for five days at 2°C.

The research found that ultra-low oxygen MAP had minimal bone discoloration, and that black bone is not an issue with humerus bones. However,

study
results
suggested
that dramatically higher
total iron and
hemoglobin
likely
corresponds
to black bone
condition.

rib, scapula and thoracic vertebrae, when packaged in PVC and high oxygen MAP, can lead to the black bone condition. In addition, study results suggested that dramatically higher





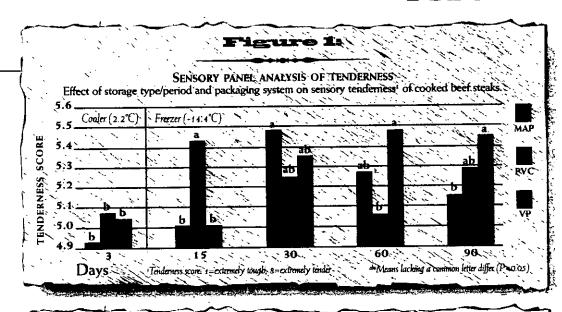
product enhancement research

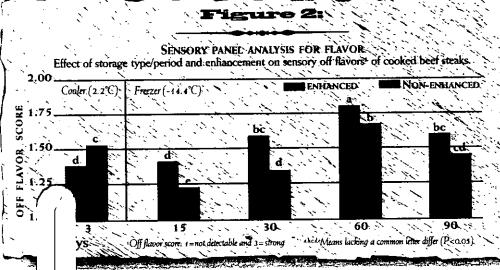
total iron and hemoglobin likely corresponds to black bone condition, and a 2.5 percent ascorbic acid treatment most effectively prevents it.

Further checkoff-funded research into ways of improving sales of beef sold in MAP was conducted at Oklahoma State University. The study sought to determine the effects of refrigeration and freezing of MAP beef steaks, and how beef should be treated for optimum palatability and quality. It utilized randomly selected USDA Select ribeye rolls and inside rounds at 48 hours post-mortem.

The enhancement solution and levels utilized in the study were based on industry standards.

The study results suggested that short-term refrigeration or longer-term freezing has no effect on tenderness, as measured by WBS values, and that extreme off-flavors can result in MAP steaks when exposed to high oxygen conditions for as few as three days in refrigerated conditions. Furthermore, the research indicated that in order to slow down oxygenation, vacuum packaging or the incorporation of an antioxidant via enhancement should be utilized.





Followi refriger were sit tenderr trained This is with sir ects wh was no type or tenderi packag atmosp additio were o steak to

e days of ill steaks i perceived rated by v panelists. ial agreement search projind that there of storage lon sensory ings of steaks rodified ackaging. In le differences l in frozen ess, in that

initially PVC over wrapped steaks at 15 days received higher tenderness scores than other packaging systems. For the advanced frozen steaks, vacuum packaged steaks appeared to receive higher sensory tenderness ratings compared to other packaging systems (Figure 1).

During refrigerated storage

During refrigerated storage, non-enhanced steaks showed significantly higher off-flavor scores than enhanced steaks. Interestingly, off-flavor scores were higher for enhanced steaks rather than for non-enhanced steaks over all frozen storage periods. In fact, from 15 to 60 days of frozen storage, off-flavor scores elevated significantly for both enhancement treatments but then dropped off after 90 days frozen storage. (Figure 2).





Table 1.

Enhancement Effects on Characteristics of Various Muscles

... ENHANCEMENT

Characteristie /// Control	// / Enhanced
Complexis Seriatus Vestus Vastus Longissiumus ventralis lateralis medialis dorsi	Complexus Serratus, Nastus, Vastus Longissitumus ventralis, laterglis medialis, dorsi
Oily mouth (1.874) 1.974 444/ 1.874/	4.65 5.03 2.77 3.72 2.65
Saltiness / 3 2.829 / 3.174 2.844 2.884 2.744 /	8.79% 7.90% 7.04% 8.124 7.486
L"/ 35,496 34.49m/ 36.569/ 34.51m /36,42*	32.21° 34.56° 33.66° 32.12 33.84°
a) // / 20.39h/ 21.85; 19.54h , 20.32h / 17.66h	18.94bg 18.38ch 18.42ch 17.05ch 16.73
Hise: // 21/77 / 20.11 / 23,861 / 22.00 17.004	16.76 18.04 20.68 17.84 16.64
Chroma 21.546 23.39 21.187 21.614 19.0544	19.21 (9.70h) 19.54 18.09 17.80

means within a row with different superscripts are different at P < 0.05

BEEF FLAVOR

Beef's flavor and texture are unmistakable, but enhancement of some beef products could offer distinct advantages to many consumers.

The study results suggested that short term refriger ation or longer-term freezing has no effect on tenderness, as measured by WBS values.

The poultry industry began enhancing its product more than 20 years ago, injecting water and polyphosphates into chicken meat. And the pork industry has begun taking advantage of injection technology to increase quality in caseready loins.

To help find out if similar advantages can be obtained with beef, research was conducted at the University of Illinois. Individual muscles from USDA Select carcasses

Table 2.

Enhancement Effects on Characteristics of Various Beet Muscles

ENHANCEMENT

Maracteristic.	11/11	14.11	Control	111	196	11/6	47	Enhanced	115 7	
	Gluteness medius	Infrashinatis	(psogs /s	Rectur	Teres major	Gluteus / medius /	Infraspindlus	Psoas . major	Rectus	Teres
Jenderness /	7,297	8.677	9694	7.27	9.44lez	8.96	10.369	(10.597)	8,520	10.31
Off-Flavor	1.20	1,0.70	0.97	0.97	9.55	0.60	/ a.62*,	0.415	0.62b	0.52
Red yisual	6,14	4.409	6.15	6.32	5.41	1.847	4.659	5.587	5.26	4.71 bes
Brown vigural	1904	3.24	1.47	2.3300	2:59	1494	4.38	1.93	2.726	/ 3.00 ⁵
Green, visual	2.98	10.21	4.50	3.14%	9.44	0.714	1,0,14	1.635;	0.519	9/159
% Forge Loss	4.450	11/1/	/4.42//	4.544	/1.70//	1,150	18.54	2.09	1.70%	2.97
W. Allen	37.46	. 37.40%	38,69	18,39	36.54%	33,384	32.87	37.69	.34.46	34.37
1. 111. 11.	19:69bd/	20,97	21,92	19.37	19/15	17.99	18,73	22.56	17.859	17.36
Hue fish, li	21.77	20/11	23.88	22.00	17.00	16.76	18.044	20.68	17.844	. 16.644
Chroma////	21,46%	22.61	23,95%	21:19	20.42 ^{bcs}	19,064	19.96	24:317".	19.06	18.284

- means within a row with different superscripts are different at P < 0.05.



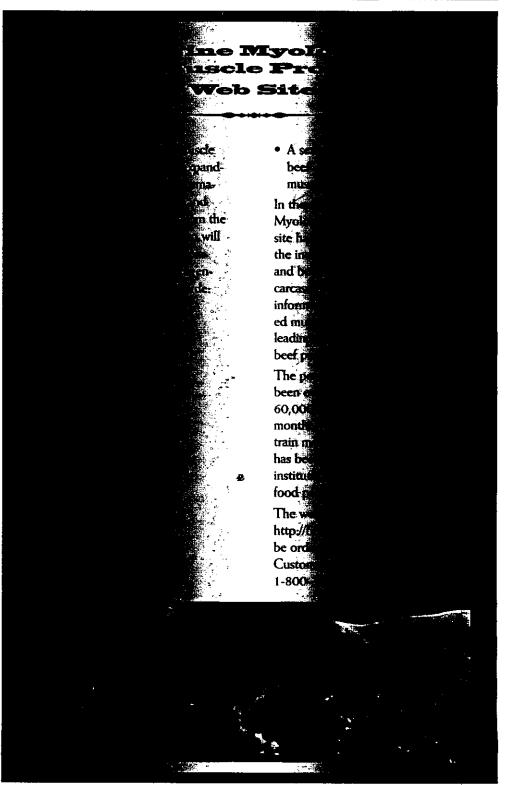


product enhancement research

For most beef muscles, enhancement increased tenderness, juiciness and color quality while decreasing fluid loss in the package.

were utilized for this project, samples were divided into treatments for aging time and enhancement. The study found that enhancement affected the sensory characteristics of various muscles differently. For most beef muscles, though, enhancement increased tenderness, juiciness and color quality while decreasing fluid loss in the package. It also increased beef flavor and saltiness, and decreased offflavors (Tables 1-2).

Because an enhancement solution changes the acidity of the meat, often increases water-holding capacity and increases moisture content, juiciness and tenderness often increase. The salt in the enhancement solution impacts flavor, possibly masking low levels of off-flavors originally present or found after aging.







nutrition research priorities

BEEF AS PART OF A BALANCED DIET/PARITY STUDIES

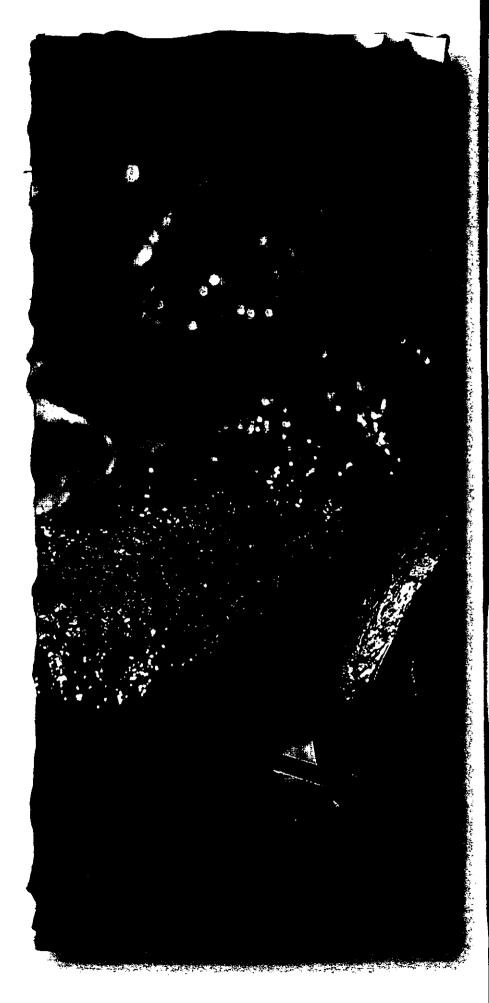
- Nutrient composition update of beef
- Nutrient density of beef
- Beef contribution to diet quality in overall balanced diets

BEEF'S ROLE IN DIET AND HEALTH

- Obesity beef as part of the solution
- Beef protein and management of metabolic syndrome
- Beef nutrients and cognition across the lifespan
- Nutrient needs of aging populations Beef nutrients and homocysteine

BEEF LIPIDS IN PERSPECTIVE

- · Total fatty acid profile of beef
- · Naturally occurring trans fatty acids
- Benefits of enhanced beef nutrient profiles







The fact that beef contains many nutrients that are vital to human health has been known for a long time. Putting that fact in context, though, and making sure it's surrounded by the appropriate supporting science-based information is a continuing process.

Those who make recommendations to the . American public about what constitutes a healthy diet depend on this kind of detailed, accurate information. It's up to the beef industry to provide it to them.

The concept of "Naturally Nutrient Rich" conveys to health professionals and consumers the message that a food provides many nutrients for the energy or calories that it contains. The 2005 Dietary Guidelines Advisory Committee report states that "Diets that include foods with a high nutrient content relative to calories are helpful in achieving recommended nutrient intakes without excess calories". Beef checkoff dollars helped fund esearch to make the concept of naturally nutrient rich actionable by developing a scientific, quantitative

Nutrient Density Index						
MEAT	DAIRY	NDI	FINITIANE C NOI	GRAINS	NDI.	
Beef, sirloin 305	Milk, skim	280	Strawberries 470	Chornos.	392	
Salmon, bake 225	Milk, 2%	211	Brussel sprout 402	Oalmoal	175	
Beef, ground 144	Yogurt, plain	200	Orange juice 297	Pasts	7.5	
Chicken Breast, 127	Cheese, chedda	96	Reaches, fresh 128	Whole wheat bread	80	
Pork, haip	Ice cream	50 v	Perato baked 78	Cookie	54	

index to assist in comparing foods on the basis of nutrient density.

Previous work on energy density of foods (calories per serving) was expanded on at the Center for Public Health Nutrition to create a nutrient density index (NDI). While the concept is fairly simple, the actual process of creating an NDI involves a number of decisions.

For example, a single food may contain 50 or more nutrients, so one must decide on a reasonable number of nutrients to include in the index. Additionally, a criterion or standard related to how much of a nutrient is provided relative to the requirement for that nutrient must be established. Additional factors can be considered such as bioavailability of the nutrient from a particular food

source and whether or not negative points should be assessed for nutrients like salt or saturated fat. For the research 12 nutrients were selected: protein, thiamin, riboflavin, vitamin C, vitamin A (retinol), vitamin D, vitamin E, monounsaturated fat, calcium, potassium, iron, and zinc, to develop a composite score for foods.

The scoring threshold criteria was based on percent daily value (%DV) per 2,000 kcals of a given food. Percent daily values for each of the nutrients were calculated based on the most recent Dietary Reference Intakes (DRI's). The nutrient composition of each food was based on the latest release of the USDA nutrient database.

The NDI for each food was calculated by taking the mean of %DV of the 12 selected nutrients, based on 2.000 kcal of food. A

nutrient dense food will provide a high percentage of the daily requirement for a variety of nutrients for a low number of calories. Therefore a high score reflects a "nutrient rich" food. (See Table 1.)

The impact of additional fat in a food selection among a food group is apparent in the comparison of scores between fat-free milk and milk containing 2% fat. While a few additional points would be gained for mono-unsaturated fats, the additional calories in the higher fat milk decrease the overall score. Likewise, foods with added sugars such as cookies or ice cream, generally fall on the low end of scores. Figures 1 and 2 illustrate how energy density, fat, and sugar relate to nutrient density of various foods.





Dietary recommendations based on a nutrient density scoring system would guide consumers to choose foods on the higher end of the scale from each of the food groups to ensure a balanced diet rich in nutrient dense foods. These preliminary findings as well as examples of other approaches to developing indices of nutrient density were presented to over 100 key opinion leaders in the nutrition community at a symposium in Washington, D.C. in March of 2004. These leaders expressed great interest in the concept and provided valuable input towards development of a fully representative score of nutrient density.

The beef industry has part-

nered with the dairy industry

and a broad selection of

trade groups representing

produce, grain, and other

commodities to continue

promote the concept of

"Naturally Nutrient Rich"

as a dietary guideline for

Americans.

research in this area and to

For years, a high intake of animal protein was suggested to compromise bone health by increasing the loss of calcium. An increasing number of studies indicate otherwise and demonstrate that, in fact, higher protein intakes improve bone status particularly for postmenopausal women.

Energy density (MJ/kg) versus NNR (T) score

meat/fish

40

pork bacon
turkey
beef chuck
turkey
beef sirloin
fiamt
fiver
Opgs
pork
clams/oysters
Score
0
100
1000

Research at the USDA-ARS Grand Forks Human Nutrition Research Center looked specifically at a high meat diet (20 percent of total energy) and the interaction of dietary protein with varying levels of calcium in the diet. Postmenopausal women were recruited to participate in the study.

One group received a low

calcium diet (600 mg) and the other consumed a high calcium diet (1500 mg). The low protein diet provided only 10 percent of total energy as protein while the high protein diet provided 20 percent of energy as protein, mostly as meat. Each diet was followed for 7 weeks. The investigators collected blood and urine samples to measure calcium retention (calcium absorbed minus calcium excreted) along with markers of bone turnover (bone synthesis and breakdown) and hormones that regulate bone and calcium metabolism.

The researchers found that high dietary protein did not have an antagonistic effect on calcium retention. In fact, when calcium intake was low (600 mg),

the high protein diet fared better in terms of calcium retention by enabling greater calcium absorption. They conclude that these findings refute the long held dogma that a high protein intake increases calcium loss and are consistent with the growing number of studies that show a positive synergy between animal protein and calcium in terms of bone health.

BENEFITS OF LEAN BEEF CHOICES IN THE DIET

The Beef Checkoff Program has consistently funded research to investigate the contribution of beef in the diet to diet quality and health. For instance, using the latest release of the National Health and Nutrition Examination 1999-2000, a study conducted at Nutrition Impact LLC looked at the nutrient intakes of those individuals consuming the recommended amount of beef daily to nutrient intakes of non-beef consumers. Additionally, health outcomes including measures of healthy body weight, body fat, and blood lipids

were compared between these groups.

The researchers found that those individuals who consumed between 2.0 to 3.4 ounces of beef each day were significantly more likely to meet their requirements for zinc and vitamin B12, and consumed more vegetables compared to those individuals who did not eat beef. Beyond improved diet quality, the beef consumers had equally healthy body weights as determined by body mass index and did not differ from non-beef consumers in terms of body fat or blood lipids.

A second nationally representative dataset, the Continuing Survey of Food Intakes of Individuals, was used to estimate the impact of consumers choosing lean beef products on total fat and saturated fat intakes. This analysis utilized the latest release of the USDA National Nutrient Database SR 16 which incorporates updated nutrient composition of the lean beef products available in today's marketplace. The results demonstrated that total fat and saturated fat intakes were significantly decreased when lean beef options were selected and when nutrient intakes were analyzed using the most current nutrient composi-



The state of the s

nutrition research

tion database. These findings highlight the important nutrient contributions that lean beef in the diet can provide.

SYMPOSIUM EXPLORES NUTRITION RESEARCH PRIORITIES AND STRATEGIC DIRECTION

The 2003 Discovery
Symposium was held in
Denver on Dec. 1, 2003.
Six researchers in diverse
areas of nutrition were
invited to present on their
area of expertise and to
rticipate in strategy planaing for the beef industry
nutrition research program.

The participants were Dr. Adam Drewnowski, University of Washington, Dr. Paul LaChance, Rutgers University, Dr. Nancy Rodriguez, University of Connecticut, Dr. Bill Evans, University of Arkansas Medical Center, Dr. Ronald Krauss, Children's Hospital of Oakland Research Institute, and Dr. Michael Rennie, University of Nottingham, England.

The investigators discussed a number of topics: the current state of Americans diets, the need to increase consumption of nutrient dense foods, health benefoods, and genetic variation in response to diet.

Obesity and its relationship

Full NNR range: from socia to spinach

fats/sweets | grains | meat/fish | evegetables | fruit | Delairy

Natural | Nutrient |
Density | Score |
0 10 100 1000 10000

to quality of the diet and barriers to healthy eating were also discussed. Other topics included healthy eating costs, nutrient needs of the elderly, optimal macronutrient composition of diets for weight management and weight loss, metabolic response to hypocaloric diets and exercise in lean and obese children, and the role of beef for nutritional maintenance of muscle and bone in healthy adults and elderly.

Exploring the importance of beef through the life span, the researchers identified key contributions that beef can provide to children, young women, and the elderly. For example, elderly people clearly benefit by consuming amounts of protein greater than currently recommended levels as they appear to have a relative amino acid resistance. Sarcopenia or muscle wasting occurs when protein intakes are not optimal. The elderly also tend to be deficient in other nutrients including zinc and B vitamins.

The discussions were enlightening and helped narrow the priorities for the industry to four areas;

Obesity — beef as part of the solution, Naturally Nutrient Rich, Beef Lipids in Perspective, and Innovation.

GLOBAL STRATEGIES TO IMPROVE DIET AND HEALTH

The Beef Checkoff
Program sponsored a full
day nutrition program at
the International Livestock
Congress meeting in
March 2004. The program
addressed the need for the
industry to understand the
importance of nutrition at a
time when global strategies
to improve diet and health
are being developed.

The meeting consisted of three Panel Discussion Groups addressing "Dietary Trends in the US and Abroad", "Building Effective Dietary Guidelines," and "Nutrition Issues Facing the Beef Industry Today."

Key outcomes of the discussions included:

- The Beef Industry needs to understand nutritional implications of increased meat consumption in developing countries;
- The beef industry needs to be more aggressive in communication of leaner nutrient profile;

- Population based guidelines, by definition, can not prescribe the perfect recommendations for everyone but should begin to try to start building in recognition of individual differences;
- It's imperative the food industry get involved both in helping to develop effective guidelines using our knowledge of meeting consumer demands and by providing information and choices to help people meet their individual needs;
- There is a universal need to stay true to the science and keep pushing it in spite of opposing political agenda and to engage third party experts to help deliver the science; and
- The industry needs to take some responsibility and can help by continuing to offer choices for consumers, provide clear information, and to educate children in particular.

The panels brought together people from industry, academia, and the government. The dialogue was valuable in understanding other perspectives and starting to move to compromises and actions that can make a difference.





new product development

TEAM BEGINS ANOTHER NEW PRODUCT DEVELOPMENT PUSH

The R&D Ranch® is back in the saddle developing new beef product concepts. The goal of this checkoff-funded team is to find ideas that will inspire beef processors to innovate and introduce new beef products that meet the needs of today's consumers and foodservice operators. This is the team's first new product development push since 1999.

Based upon past learning that successful concepts need to be tested with users to ensure they fit their needs, the approach this time included in-depth research that uncovers key user insights, involved the users in the creation of the concepts and then validated the concepts with users. This extensive research was conducted with both consumers and foodservice operators.

RETAIL NEW PRODUCT CONCEPT DEVELOPMENT Ethnography

The research started with extensive interviews of onsumers on their home urf — in their homes. Eleven women and one man in three cities shared

their feelings about cooking, meal preparation, their families, health concerns and beef. Consumers also revealed the contents of their kitchen cupboards. refrigerators and freezers. These interviews uncovered some universal truths in their lifestyles and attitudes toward beef. The individuals have busy lives and wanted meal solutions that were easy to prepare and "healthy-enough" for their families. Most interviewees said they liked beef, but only knew a few ways to prepare it.

Ideation

The ethnography research served as inspiration for a full-day new product concept ideation session. This one day session included consumers, market researchers and beef marketers and resulted in 30 new beef concepts with names like Beefalo Wings, Salad Adder Strips and Beef Bites. Twenty of these concepts were further defined and tested with consumers quantitatively.

Concept Testing

Internet concept testing exposed consumers to descriptions of the new beef concepts. Concepts

were evaluated based on purchase intent and overall product attributes. More traditional concepts such as Crock-Pot™ Readies scored the best. Among the concepts warranting further development are: Boneless Beef Filet, Salad Adder Strips, Beef Tenders, Crock Pot Readies, Ready Grill'd Steak, One-Step Meals, and Gourmet Beef Singles.

FOODSERVICE: NEW PRODUCT CONCEPT DEVELOPMENT

Operator Focus Groups

Focus groups were conducted in Chicago and Dallas with foodservice chefs and restaurant operators from both the commercial and non-commercial segments. This phase showed that chefs and restaurant operators are looking for products that can be prepared easily and safely that also fit well with new menu trends. Despite the current "low carb" craze, beef is still perceived as being not as healthy or as versatile as other proteins and foodservice chefs and operators are having difficulty fitting beef into their new salad, sandwich and kid menus.

chefs
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with new
menu
trends.

Ideation

The ideation phase incorporated chefs and restaurant operators along with market researchers and beef marketers. Operator insights gained in the focus groups were used to produce more than 30 new product ideas. The new concepts ranged from Fully Cooked Sandwich Steaks to Beef Thins to Beef Croutons. Twenty concepts were taken into the next round of testing.

Concept Testing

One hundred thirty foodservice operators evaluated these new concepts on the Internet and nine of the concepts rated strongly enough to warrant further exploration. These include: Pre-Seasoned Rotisserie-Roasted, Crispy Beef







Shreds, Beef Croutons, Beef Chips, Beef Tortilla Shells, Beef Thins, Buffalo Beef Wings, Beef Fillings for Lettuce Wraps and Fully Cooked Sandwich Steaks.

This new user-focused process has produced many new beef concepts. These concepts will be further refined and presented to processors as new products concepts that have been validated by their target market. This research process has also helped the R&D Ranch team further position itself as a valuable resource to beef processors looking for new, exciting beef product ideas. The continued dialogue and development will help create more excitement and innovation in the industry and ultimately result in greater demand and consumption of beef.

BEEF VALUE CUTS RETAIL TEST LAUNCHES

New steaks are showing up at the meat case and on the menu. Results of the beef Checkoff-funded Muscle Profiling Study provided quantitative data showing that there are several muscles in the Chuck and Round that make great steaks. The R&D Ranch



team, on behalf of America's Beef Producers, has been working to increase restaurant operator and consumer interest, create additional distribution and act as a catalyst in the development of new products using these cuts. The winning focus for the introduction of Beef Value Cuts has been taste, portion size and affordability within the foodservice channel. In the retail channel the focus is also on taste and affordability but, in most cases, the top-billing attribute is leanness. Five of the six major cuts meet the USDA's definition for lean or extra lean. Retailers are now

able to cater to their health-conscious shoppers by introducing these new cuts with a lean positioning. Since the muscle profiling research was released in 2000, state and national checkoff dollars have helped introduce the new cuts in retail. Currently these cuts are available in the meat cases of almost 300 supermarkets from Washington to Georgia and from New York to Texas. In most of these test markets, the retailer has expanded the initial launch from a small group of stores to a full companywide permanent offering. These steaks fill the customer's need for tender, juicy, lean steaks that are more moderately priced than T-Bone, Ribeye or Tenderloin steaks.

NEW STEAKS AT THE MEAT CASE

To date 10 retailers have partnered with the Beef Checkoff Program to introduce these products in their stores. These retailers have provided sales data to allow the industry to track and evaluate the progress of these new cuts. Most retailers experienced positive sales data and reported that the steaks were a profitable introduction to their meat department. Sales data indicate that these new cuts are meeting consumers' desire for moderately priced, lean and tender steaks.

The majority of the 10 test retailers have introduced all of the cuts in the Beef Value Cuts line: Beef Shoulder Top Blade Steak (Flat Iron), Beef Shoulder Center Steak (Ranch Steak), Beef Shoulder Petite Tender, Beef Round Sirloin Tip Center Steak, Beef Round Sirloin Tip Side Steak, and Beef Bottom Round Steak (Western Griller).

This year an additional steak from the Rump end of the Bottom Round sub-





new product development

primal has been added to the line: the Western Tip. Research conducted at South Dakota State University showed that roughly the top four inches of the Bottom Round subprimal were as tender as steaks cut from the Top Sirloin (or Top Butt). By using a slightly different fabrication technique retailers can cut Western Tip steaks, allowing them to merchandise even more of the Bottom Round as gher-value, tender eaks. This minimizes the number of slowmoving rump roasts in the meat case and allows the retailer to offer another tender steak to their shoppers.

Checkoff dollars were used to conduct in-store demonstration sampling, in the design and production of point of sale materials and on-pack cooking instruction labels and to support local promotion events and the advertisement of the new cuts in weekly retailer ad fliers. These efforts helped to increase consumer awareness of the new cuts driving traffic to the meat case and easing sales.

working with these retail partners has allowed the



industry to learn the best way to introduce these new cuts to consumers.
Following is a summary of other information that has been learned through these partnerships:

- Positioning the new cuts either with a Lean or a Value/Tenderness message to consumers drives the most interest;
- Initial meat manager, meat merchandiser and demonstrator training is essential;
- Audits of stores on a regular basis are needed to make certain the finished steaks are properly cut and that

point of sale materials are properly displayed;

- Meat manager incentive programs bring an important focus on the new cuts;
- Retailer ad circulars that feature the new cuts contribute significantly to the program's success;
- A well run and frequent sampling program is necessary for the Flat Iron Steak because of its flat, square shape;
- Retail partners must work with their packer suppliers to receive the individual muscle subprimals; and

 The program must have corporate office support with field staff focused on proper in-store execution.

The knowledge gained from these retail test launches has resulted in efficiencies in the introduction of these cuts into new markets. It has also created a winning partnership between the national program and state beef councils. Retail launches have been a dual effort drawing on the state beef councils' local presence and knowledge of the retailer and local demographics while tapping into the marketing resources of the national program.

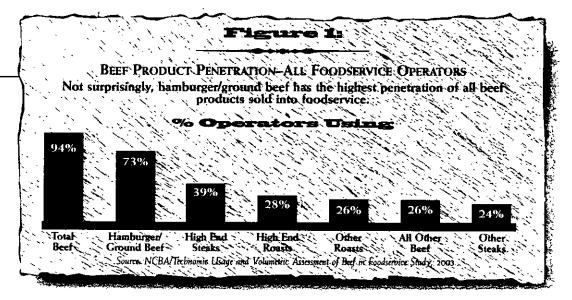
using:
a slightly
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retailers can
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market research

USAGE AND VOLUMETRIC ASSESSMENT OF BEEF IN FOODSERVICE

In June 2003, the Beef Checkoff Program contracted with Technomic. Inc., a recognized foodservice research firm to conduct a study designed to estimate the volume of beef and chicken sold in the foodservice channel. Findings of this research will be used to measure results of checkoff funded odservice programs as ell as obtain the most accurate measures of beef volume and expenditures in the commercial and noncommercial segments of the foodservice channel. Surveys were sent to 180 of the Top 200 restaurant chain headquarters. Executives in charge of purchasing proteins for these chains were targeted. These respondents were asked to provide annual system-wide volume for both beef and chicken. In total, 63 of 180 (35 percent response rate) surveys were completed and returned. The data from these 63 chains accounts for more than 40 ercent of total Top 200 hain restaurant sales. In addition, small chain and independent operators



were recruited by telephone to participate in the survey. Operators were encouraged to review their actual invoices to obtain typical monthly volumes of beef and chicken. Findings from this segment were gathered either by a follow-up telephone call or via a proprietary Web site. A total of 806 small chain and independent operators responded to the survey.

A build-up approach was used to estimate market size and share. Each operator interviewed provided their average monthly volume of beef and chicken. These operators also provided information relating to total food and non-alcoholic beverages on an annual basis. From this information, ratio analyses were calculated to obtain market size and share estimates.

Across all foodservice segments, both beef and chicken are used by approximately 95 percent of operators (Figure 1). On a volume basis, beef outpaces chicken in food-service by approximately 10 percent. However, foodservice operators spend nearly twice the amount of money on beef versus chicken on an annual basis.

Beef volume is dominated by ground beef, which accounts for 63 percent of all beef pounds purchased in foodservice. High-end steaks account for 13 percent of beef volume, but represent the largest share (37 percent) of beef expenditures.

Ground beef accounts for 63 percent of all beef pounds purchased in foodservice. High-end steaks represent the largest share (37 percent) of beef expenditures.

Limited service restaurants (e.g. McDonald's, Wendy's, etc.) account for the largest share of beef volume (44 percent of total) in foodservice. The next largest purchasers of beef are full-service restaurants, accounting for 24 percent of total beef volume.

Most of the beef that is purchased by foodservice operators is in the form of raw product, either fresh or frozen. Only about 11 percent of beef is purchased as fully cooked product, while chicken has almost twice the amount of share in fully cooked products.

ADVERTISING/BRAND TRACKING

In fiscal years 2001 and 2002 a cross-functional Strategy Working Group was assigned the task of reviewing all of the existing checkoff funded and secondary market/product research in order to develop recommendations for target audience(s), product positioning strategies and program strategies and



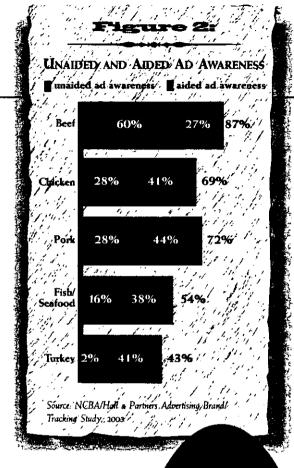


objectives. These recommendations were later reviewed and acted upon by industry volunteer leadership.

This Strategy Working Group is an outgrowth of the promise made by program staff in June 2001 to more closely review the Wirthlin beef consumer and category architecture research data in conjunction with other research in order to recommend future target audience(s), beef positioning and messages for our advertising and communications programs.

The previous advertising target for the beef industry was females, 25-54 years old, with kids at home and a convenience and/or nutrition orientation. This target had not been evaluated in years, and with that in mind the strategy working group began its mission to identify consumer segments that could be reached and that were large enough to affect beef demand.

From this process, a consumer segmentation model was developed that identified various consumer segments based on beef consumption, attitudes and behaviors.



Recommendations for a new advertising target were formulated from this segmentation model.

In fiscal year 2003, the national advertising campaign focused on adults 25 to 54, with higher than average household incomes (\$35,000+) and slightly higher education levels. The ad campaign was built on the platform of "enjoyment" or "unparalleled pleasure." This key theme emerged from the findings of both qualitative and quantitative research.

Findings confirm that the national advertising campaien has high recognition among the intended target and that the advertising is relevant, involving and succeeds in reinforcing passion

In April 2003, America's beef producers partnered with the firm Hall & Partners to conduct an assessment of the National advertising campaign. The objectives of this research were to measure advertising recall and gather consumers' attitudes and perceptions of beef in order to ascertain how consumer attitudes differ among those who were aware versus those who were not aware of the advertising.

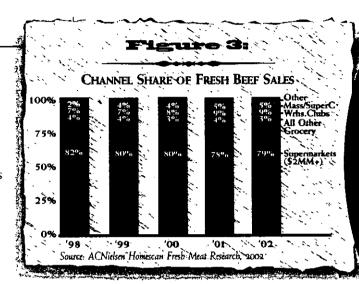
A total of 750 consumer surveys were conducted. 500 with respondents in the "Growth" target (consumers who have the upside potential to consume more or pay more for beef) and 250 in the "Nutrition" target (consumers who might consume more beef if barriers to consumption were overcome). (It should be noted that the "Nutrition" target is a subset of the "Growth" target, with consumers in this segment being older and having higher income and education levels and nutrition concerns.) This research was conducted, using an online research methodology, June 4-10, 2003 soon after the last wave of advertising.



Findings from this research confirm that the national advertising campaign has high recognition among the intended target and that the advertising is relevant, involving and succeeds in reinforcing consumers' passion for beef. Eighty seven percent of respondents have seen or heard an advertisement for beef compared to about 7 in 10 for pork or chicken (72 percent and 69 percent. respectively) (Figure 2).

nong respondents who v a television ad, nearly 9 in 10 (86 percent) could identify it as an ad for beef. Among respondents who recalled a print ad, approximately the same percentage (87 percent) could identify beef as the sponsor. Each of these figures is much higher than the average of ad tracking results conducted by Hall & Partners.

Overall, the findings of this study suggest that the advertising is being seen and recalled. Respondents who have seen the ads have a much better perception of beef than those who have not seen the ads. Consumers find the ads to enjoyable, involving dipersuasive.



RETAIL FRESH MEAT PURCHASE RESEARCH

The ACNielsen Homescan Fresh Foods Consumer Facts research consists of 20,000 households that report their purchases of random weight meat and fish from all retail channels. The Beef Checkoff Program purchased the year-ending 1998 to 2002 data sets in order to track and trend consumers' purchase habits and beef's share of the retail meat case versus competitive proteins. This research replaces the NCBA/NPD Group's Retail Fresh Meat Purchase Research at a significant cost savings.

Year-ending 2002 data shows that beef remains number one in the retail fresh meat case with 44 percent of all fresh meat pounds purchased and garnering 52 percent of consumers' spending in the fresh meat case. Chicken remains a distant second with 28 percent of fresh meat volume and 18 percent of fresh meat dollars. From 1998 to 2002, the average retail price for beef increased 18 percent while retail prices for the other competitive proteins (chicken, pork, turkey and seafood) increased only slightly.

These data further show that the percentage of beef purchased on a deal or sale reached a high of 37 percent in 2002, an eight percentage point increase from the low of 29 percent in 1998. Chicken showed a similar pattern, with 43 percent of chicken purchased on a deal, a 12 percentage point increase from a low of 31 percent in 1998. All other proteins followed a similar pattern in consumer dealing, with pork increasing from 28 to 38 percent, turkey increasing from 38 to 45 percent

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and seafood increasing from 26 to 36 percent during the same time period. The supermarket channel has lost beef market share of sales to warehouse clubs and supercenters from 1998 to 2002. In 1998. supermarkets sold 82 percent of all fresh beef compared to nine percent for warehouse clubs (7 percent) and supercenters (2 percent). By 2002, 79 percent of fresh beef was sold in supermarkets, a decline of three percentage points. Warehouse clubs (9 percent) and supercenters (5 percent) gained five percentage points to claim 14 percent of fresh beef sales by the end of 2002 (Figure 3).







ENJOYMENT STRATEGY

ENJOYMENT: Leverage beefs enjoyment advantages to differentiate beef from other proteins.

STRATEGY OBJECTIVES:

The following measurements were benchmarked in the 2003 Hall and Partners advertising/brand tracking research to be conducted each year in June. Achieve the following in the 2005 tracking:

- 60% or more of consumers that have seen the advertising say "beef is the best protein."
- 60% or more of consumers that have seen the advertising agree with the statement "beef is expensive, but worth it".
- 75% or more of consumers that have seen the advertising agree with the statement that "beef is a food I would have a hard time giving up."

BEEF SAFETY STRATEGY

BEEF SAFETY: Maintain and increase consumer confidence in beef safety.

STRATEGY OBJECTIVES:

 Through the end of 2005, maintain the percentage of consumers who are confident (give a grade of A or B) in the safety of steaks and roasts at 75 percent. (Index formula

- for objective: maintain steak/roast confidence at 104% of the number of consumers who are confident in the safety of U.S. food overall. FY2003 benchmark is 72% consumers confident in the safety of U.S. food. 104% of 72% = 75%).
- By the end of 2005. maintain the percentage of consumers who are confident (give a grade of A or B) in the safety of ground beef at 61 percent. (Index formula for objective: maintain ground beef confidence at 85% of the number of consumers who are confident in the safety of U.S. food overall. FY2003 benchmark is 72% consumers confident in the safety of U.S. food. 85% of 72% = 61%).

NUTRITION STRATEGY

NUTRITION: Protect beefs image as a healthful food and increase consumer and influencer understanding of beefs role in a healthful diet.

STRATEGY OBJECTIVES:

By January 2007, increase by four percent over the January 2005 new tracking study, the number of girls 8-12 years old who say beef is "very healthy" or "pretty healthy." (2003 tracking: 80%; 2001 benchmark: 67%).





beef industry strategies

 Through the end of 2004, maintain the number of adult consumers who say beef is an important part of a balanced diet and healthy lifestyle at a minimum of 50%.
 (2003 benchmark: 50%).

CONSUMER FRIENDLY BEEF STRATEGY

CONSUMER FRIENDLY BEEF: Realign beefs product offerings to serve the changing relationship consumers have with food.

TRATEGY OBJECTIVES:

- Increase the number of new beef products launched in the market place by 600 in 2004 through 2006. (Benchmark: 475 added in 2002; 515 added in 2003).
- Increase the Boxed Beef Cutout Value (Chuck, Round) by 4% by 2006, while increasing the Loin, Trimmings, Rib by 3% by 2006. (Benchmark = 3 year (2001 – 2003) Wholesale Demand Measure established by Cattle-Fax).
- Redefine the Chuck and Round subprimals in a more favorable light.
- Develop and market innovative new products and applications.
- Maximize beef demand building opportunities in Retail (including deli/ foodservice departments).

RETAIL STRATEGY

RETAIL STRATEGY:
Promote increased sales of beef at retail and drive innovation throughout retail outlets to increase beef's appeal to consumers.

Strategy Objectives:

- Increase consumer demand index at retail for beef consistent with objectives of the Long Range Plan.
- Facilitate launch of New Product Development initiatives such as Beef Value Cuts and Hot Foods Deli with retailers through manufacturers and State Beef Council partners. Make quarterly new product presentations in conjunction with New Product Development, State Beef Councils and Manufacturers.
- Redefine the Chuck and Round subprimals in a more favorable light.
- Develop and market innovative new products and applications.
- Maximize beef demand building opportunities in Retail (including deli/in-store foodservice departments).

FOODSERVICE STRATEGY

FOODSERVICE: Protect the foodservice sales base for beef and seize opportunities for growth.

STRATEGY OBJECTIVES:

- Increase the percentage of available beef supply sold in the foodservice channel.
- Redefine the Chuck and Round subprimals in a more favorable light.
- Develop and market innovative new products and applications.
- Maximize beef demand building opportunities in Retail (including deli/foodservice departments).

PRODUCTION/ PROCESSING STRATEGY

PRODUCTION/ PROCESSING: Enhance production/processing systems to improve value at

the next point in the system. **STRATEGY OBJECTIVES:**

 Increase the percentage of carcasses sold into a value added/USDA certified program from 14% to 20% by 2004.
 (Benchmark: 2001 = 14% of cattle harvested entered USDA certified programs) (data provided by USDA).

INDUSTRY RESOURCE STRATEGY

INDUSTRY RESOURCE: Establish the checkoff and NCBA as a resource for all industry segments to catalyze growth opportunities, create positive change, and protect the business climate for beef.

PRODUCER COMMUNICATIONS STRATEGY

PRODUCER COMMUNICATIONS: Elevate the relevance of checkoff efforts to the bottom lines of producers.

STRATEGY OBJECTIVES:

- By the end of 2005, increase from 47% to 51% the number of producers who understand the types of programs conducted by the beef checkoff, producers who can, unaided, name at least one checkoff program activity. (July 2003 Benchmark: 47% recall of a checkoff program.
 Aspen Market Research).
- By the end of 2005, maintain or achieve at least two-thirds of producers who consider themselves to be somewhat or very well informed about the checkoff. (July 2003 Benchmark: 65% informed. Aspen Market Research).



PRODUCT TECHNOLOGY RESEARCH

Completed and Ongoing Projects 2001, 2002, 2003

PROJECT	RESEARCHER/INSTITUTION	DURATION/STATUS	TOTAL GRANT COOPERATORS
BEEF SAFETY			
A Proteomic Approach for Specific Detections of <i>Listeria monocytogenes</i>	A.K. Bhunia, Ph.D. Purdue University	2002-2003 Completed	\$48,359
Analysis of Animal Washing Systems *22,23	J.W. Savell, Ph.D., G.R. Acuff, Ph.D. Texas Ag. Exp. Station	2001 Completed	\$78,550
Analysis of Animal Washing Systems Phase II *22,23	J.W. Savell, Ph.D., G.R. Acuff, Ph.D. Texas Ag. Exp. Station	2001 Completed	\$28,420
Can Prpcwd be Detected in Muscle of Deer, Elk or Cattle?	E.S. Williams, Ph.D. University of Wyoming	2002-2003 Completed	\$46,100
Characterization of <i>E. coli</i> O157:H7 on Subprimal Beef Cuts Prior to Mechanical Tenderization *5,6,37,38,42	G. Bellinger, M.S. Food Safety Net Services, Ltd.	2002 Completed	\$39,968
Chlorate Supplementation in Feed and (or) Water to Reduce Gut Concentrations of Salmonella and E. coli O157:H7 in Beef Cattle *1,2,10	R. Anderson, Ph.D. USDA/ARS, SPA	2000-2001 Completed	\$100,000
Chronic Wasting Disease in White-Tailed Deer in Wyoming: Interaction with Livestock, Movement Patterns and Evaluation of Ante-Mortem Diagnostic Tests	W.E. Cook, DVM University of Wyoming	2002-2003 Completed	\$42,850
Comparison of Analysis for E. coli O157:H7 of Samples from Commercial Beef Processing Plants Conducted in Different Laboratories	M. Koohmaraie, Ph.D. USDA/ARS	2002 Completed	\$106,000
Competitive Inhibition of E. coli O157:H7 and Salmonella spp. In Ground Beef Products *7,8,19,43,46,47,48	M. Brashears, Ph.D. Texas Tech University	2002 Completed	\$9,580 .
Consumer Perceptions Irradiation Project	J. Lundeen Sterling-Rice Group	2000-2001 Completed	\$242,000
Detection and Enumeration of E. coli O157:H7 in a Competitive Microbial Environment	W. Birbari, Ph.D. ABC Corporation	2001 Completed	\$22,200
Determination of the Incidence of E. coli O157:H7 and Salmonella Contamination on Hides and Carcasses at Cow/Bull Packing Plants	M. Koohmaraie, Ph.D. USDA/ARS	2003-2004 Completed	\$190,000
Development of a Diagnostic Assay for Chronic Wasting Disease	R. Rubenstein, Ph.D. New York Institute for Basic Research	2002-2003 Completed	\$122,147
Development of a Method for Shipping Samples for E. coli O15:H7, Listeria monosytogenes and Salmonella spp. Analysis	M. Koohmaraie, Ph.D. USDA/ARS	2001-2002 Completed	\$49,500
Development of an Integrated HACCP Plan and Microbiological Risk Assessment of Beef Trim and Intervention Treatments for Use as Raw Material for Ground Beef	J.L. Marsden, Ph.D. Kansas State University	2001-2002 Completed	\$34,125
Development of Ultra-Sensitive Assays for Prion Phenotypes in Biofluids and Tissues *11,12,13,14,15,16,18,33,34,35,45	1.S. Krull, Ph. D. N. Chiu, Ph.D. Northeastern University	2002-2003 Completed	\$199,855
E. coli O157:H7 Survival and/or Potential Introduction on Beef Carcass Surfaces During Initial Chilling and Characterization of Hotbox Best Practices	J.A. Scanga, Ph.D. Colorado State University	2003-2004 Completed	\$148,300
Effect of Cold Pasteurization on the Color and Flavor of Frozen, Vacuum Packaged Ground Beef Patties	D.D. Johnson, Ph.D. University of Florida	2001 Completed	\$9,440
Effects of Tasco - 14 on Carcass Characteristics, Retail Display, Shelf-Life and Levels of Escherichia coli and Salmonella spp. In Feedlot Steers *3	M.F. Miller, Ph.D. Texas Tech University	2001 Completed	\$22,890
Efficacy of De-hairing and Cetylpyridinium Chloride to Reduce <i>E. coli</i> O157:H7 in Commercial Beef Processing Plants	M. Koohmaraie, Ph.D. USDA/ARS	2002-2003 Completed	\$81,500
Efficacy of the Grovac System for Decontamination of Retail Beef Trimmings: Process Validation against Pathogens and Commercial Shelf-Life Study	R.K. Phebus, Ph.D. Kansas State University	2003-2004 Completed	\$47,916 (Washington State Beef Commission)
Escherichia coli 0157:H7 and Salmonella spp. and Listeria monocytogenes: Determination of D- and Z- Values in Ground Beef	J.L. Marsden, Ph.D. Kansas State University	2000-2001 Completed	\$31,080
Escherichia coli O157:H7 Indicator Organism	M. Koohmaraíe, Ph.D. USDA/ARS	2002-2003 Completed	\$59,500
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PRODUCT TECHNOLOGY RESEARCH

Completed and Ongoing Projects 2001, 2002, 2003 _

PROJECT	RESEARCHER/INSTITUTION	DURATION/STATUS	TOTAL GRANT COOPERATORS
BEEF SAFETY			
Aluation of Airborne Microbial Contaminants d Indicator Organisms in Beef Processing Facilities Using Commercially Available Air Samplers	G. Bellinger, M.S. Food Safety Net Services, Ltd.	2002 Completed	\$39,400
Evaluation of Cooking Instructions and Methods for Uncooked Beef Products	W. Warren, Ph.D. Food Safety Net Services, Ltd.	2001-2002 Completed	\$1 <i>5</i> ,175
Evaluation of Efficacy of Treatment of Cattle Hides with 1% Cetylpyridinium Chloride (CPC) in Reducing <i>E. coli</i> O157:H7 Incidence on Beef Carcasses	G. Bellinger, M.S. Food Safety Net Services, Ltd.	2003 Completed	\$46,390
Evaluation of External Temperature Decay for Ready-to-Eat Beef Products	W. Warren, Ph.D. Food Safety Net Services, Ltd.	2002 Completed	\$5,360
Evaluation of Hyperspectral NIR Spectroscopy and Imaging for Tenderness Determination in Cattle	S. Coleman, Ph.D. E USDA/ARS/SPA	2003-2004 Completed	\$28,770
Evaluation of Interventions to Reduce Microbial Contamination in the Manufacture of Blade Tenderized Beef	J.E. Kennedy, Ph.D. ABC Research	2003 Completed	\$104,870
Evaluation of Peroxyacetic Acid (Inspexx 200) as a Potential Post-Chilling Treatment for Control of Escherichia coli O157:H7 and Salmonella typhimurium*9	J.W. Savell, Ph.D. Texas Ag. Exp. Station	2002-2003 Completed	\$72,700
Evaluation of Peroxyacetic Acid (Inspexx 200) as a Potential Pre-Grinding Treatment for Control of Escherichia coli O157:H7 and Salmonella typhimurium on Beef Trimmings	J.W. Savell, Ph.D. Texas Ag. Exp. Station	2003-2004 Completed	\$28,720
Evaluation of Re-heating Recommendations for Ready-to-Eat Beef Products	W. Warren, Ph.D. Food Safety Net Services, Ltd.	2001-2002 Completed	\$5,180
Evaluation of the Effectiveness of Acidified Sodium Chlorite (Sanova®) for Decontaminating Commercial Beef Carcasses Post-Chill	J.L. Marsden, Ph.D. Kansas State University	2003-2004 Completed	\$79, 700 (Kansas Beef Council)
amination of the Seasonal Variation of Joli O157:H7 in Beef Cattle: Effect of Day Length and Subsequent Changes in Hormone Concentrations and Immune Function	T.S. Edrington, Ph.D. USDA/ARS/SPA	2003-2004 Completed	\$20,000
Hide-on Decontamination System using Sandia National Laboratories DF-200 Foam	J.L. Marsden, Ph.D. Kansas State University	2003-2004 Ongoing	\$44,800
High Pressure/Temperature Inactivation of TSE Infectivity	R. Meyer, Ph.D. Meyer and Associates	2003 Completed	\$9,200
Improving Sensitivity, Precision, and Repeatability of the GFAP-ELISA for Detecting CNS Contamination in AMR-Generated Tissues Compared to the Immunohistochemical Protocol used by USDA-FSIS	K.E. Belk, Ph.D. Colorado State University	2003 Completed	\$196,500
Incidence of LM in the Processing Environment of Fully Cooked, RTE Beef Products	T.L. Frederick Food Safety Net Services, Ltd.	2001 Completed	\$255,994
Incidence of LM in the Processing Environment of Fully Cooked, RTE Beef Products - Phase II	T.L. Frederick Food Safety Net Services, Ltd.	2002 Completed	\$247,574
Investigation of On-Farm Management Practices as Pre-Harvest Beef Microbiological Interventions	K.E. Belk, Ph.D. Colorado State University	2002-2003 Completed	\$80,285
Listeria Isolate Retention and Shipping	G. Bellinger, M.S., Food Safety Net Services, Ltd. J. Lucas, Silliker Laboratories of Texas, Inc.	2002 Completed	\$30,565
Literature Review: Current Research Leaders, Findings, Priorities, and Testing Methods for Mycobacterium avium subspecies paratuberculosis	W. Warren, Ph.D. Food Safety Net Services, Ltd.	2003 Completed	\$4,000
Microbial Sampling for Microbial Tracking Study	M. Brashears, Ph.D., Texas Tech University D.R. Buege, Ph.D., University of Wisconsin	2002 Completed	\$39,400
Microbial Validation Study	G. Bellinger, M.S., Food Safety Net Services, Ltd. J. Lucas, Silliker Laboratories of Texas, Inc.	2002 Completed	\$365,520
icrobiological Safety of Needle-Tenderized of Steaks, Cook and Uncooked, Surface oculated with Escherichia coli O157:H7	J.B. Luchansky, Ph.D. USDA/ARS,NAA	2003-2004 Completed	\$117,000
Mobility of Infectious Prion Proteins in Soil	J.A. Pedersen, Ph.D. University of Wisconsin	2003-2004 Ongoing	\$118,603
Molecular Characterization of <i>Escherichia coli</i> O157:H7 from Beef Animals, Environment and Foodborne Disease Outbreaks	J.L. Marsden, Ph.D. Kansas State University	2001-2002 Completed	\$48,750





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Completed and Ongoing Projects 2001, 20		DUD ATIONICTATIIC	TOTAL GRANT COOPERATORS
PROJECT BELLE SAFETY	RESEARCHER/INSTITUTION	DURATION/STATUS	COOPERATORS
NAMP/KSU Survey for Blade Tenderization	Ann Rasor, Ph.D. North American Meat Processors Association	2003-2004 Completed	\$75,000
NCBA Beef Patty Irradiation Panel *20,21,24	C.L. Lorenzen, Ph.D. University of Missouri - Columbia	2001 Completed	\$20,7 <i>5</i> 7
Preharvest Pathogen Reduction Practices: Reduction of Prevalence of <i>E. coli</i> O157:H7 in Feeder Cattle During the 45-day Preconditioning Period	J.A. Paterson Montana State University	2003-2004 Completed	\$74,600
Presence of Central Nervous System (CNS) Tissue in Advanced Meat Recovery (AMR) Products	C.R. Schmidt, Ph.D. Colorado State University	2000-2001 Completed	\$123,950
PrP Genetics and Expression in White-Tail Deer	J.M. Aiken, Ph.D. University of Wisconsin	2002-2003 Completed	\$74,876
Reduction of E. coli O157:H7 in Beef Feedlot Cattle using Varying Doses of a Direct-Fed Microbial	M. Brashears, Ph.D. Texas Tech University	2003-2004 Completed	\$77,495
Regional Variation in the Incidence of E. coli O157:H7 on Hides and Carcasses of Feedlot-Finished Cattle	M. Koohmaraie, Ph.D. USDA/ARS	2003-2004 Completed	\$20,000
Regulation of Shiga Toxin Production in E. coli from Bovine and Human Sources *17	J.T. LeJeune, Ph.D. The Ohio State University Research Foundation	2002-2003 Completed	\$69,653
Risk Assessment of Listeria monosytogenes and Salmonella in the Production and Cooking of Blade Tenderized Beef Steaks	J.E. Kennedy, Ph.D. ABC Research	2001 Completed	\$124,092
Role of Curli Fimbriae in Attachment of Shiga Toxin Producing and Enterohemorrhagic Escherichia coli (STEC and EHEC) on Raw and Ready-to-Eat Beef Products *4,25,26,27,28	J. Chen, Ph.D. University of Georgia	2002-2004 Completed	\$67,740
Role of Deer Behavior in the Transmission of Chronic Wasting Disease across a South Central Wisconsin Landscape	N.E. Matthews, Ph.D. University of Wisconsin	2002-2003 Completed	\$83,088
Role of Recto-Anal Junction E. coli O157:H7 Intestinal Colonization in Influencing Feedlot Cattle E. coli O157:H7 Dynamics	R.N. Cobbold, Ph.D. Washington State University	2003-2005 Ongoing	\$149,909
Samonella spp. and Listeria monocytogenes Risk Assessment for Production and Cooking of Blade Tenderized Beef Steaks	J.L. Marsden, Ph.D. Kansas State University	2000-2001 Completed	\$43,000
Sensory Testing of Beef Products after a Prion (BSE or Chronic Wasting Disease) Inactivation, High Pressure Treatment	R. Meyer, Ph.D. Meyer and Associates	2003 Completed	\$18,700
Sources and Extent of Microbial Contamination in the Manufacture of Blade Tenderized Beef	J.E. Kennedy, Ph.D. ABC Research	2002 Completed	\$138,960
Susceptibility of E. coli O157:H7, Salmonella spp., and Listeria monocytogenese Inoculated onto Beef Tissues, Steaks and TRE Products to Activated Lactoferrin vs. Lactoferrin B *30,32,36,40,44	G.C. Smith, Ph.D. Colorado State University	2002-2003 Completed	\$88,124
Thermal Inactivation of Mycobacterium paratuberculosis in Ground Beef	C. Bellinger, M.S. Food Safety Net Services, Ltd.	2001-2002 Completed	\$32,450
Treatment of Beef Hides with Cetylpyridinium Chloride Solution to Reduce Contamination before Slaughter of Beef Cattle *29,31,39,41	K.E. Belk, Ph.D. Colorado State University	2002 Completed	\$68,620
Update on the Scientific Literature Review on Cause and Transmission of Transmission Spongiform Encephalopathies, with Particular Reference to Bovine Spongiform Encephalopathy	R. Weiss, Ph.D. University of Wisconsin	2003 Completed	\$2,000
Validation of Antimicrobial Treatments to reduce E. coli and Salmonella spp. in Beef Trim and Ground Beef	M. Brashears, Ph.D. Texas Tech University	2002-2003 Completed	\$66,398
Validation of the Use of Composite Sampling for Listeria monocytogenes, E. coli O157:H7 and Salmonella in Trims	W. Lepper, M.S. Silliker Laboratories Group, Inc.	2002 Completed	\$168,547
Validation of the Use of Composite Sampling for Listeria monocytogenes in Ready-to-Eat Meat Product Types	W. Lepper, M.S. Silliker Laboratories Group, Inc.	2002 Completed	\$74,568



PRODUCT TECHNOLOGY RESEARCH Completed and Ongoing Projects 2001, 2002, 2003 -TOTAL GRANT COOPERATORS **DURATION/STATUS** RESEARCHER/INSTITUTION **PROJECT** RODUCT ENHANCEMENT 2002-2003 Completed \$85,800 M. Hunt, Ph.D. celerated Chilling Improves Pump Retention nd Packaging in High Oxygen and Ultra-low. Kansas State University Oxygen Atmosphere Improves Color, Oxidative Stability, Microbiological Profiles and Yield of Beef Round Muscles D. Adelson, Ph.D. C. Gill, Ph.D. 2002-2004 Ongoing \$191,060 AMP1: A Better Candidate Gene for Marbling in the Vicinity of Somatostatin Texas Ag. Exp. Station 2001-2002 Completed \$71,000 I.C. Brooks, Ph.D. An Economic Assessment of Value Added Meat Products Utilizing Beef Chuck from Oklahoma State University Various USDA Quality Grades \$32,721 2002-2003 Completed C. Faustman, Ph.D. An Investigation of Factors that Impact Premium Browning in Ground Beef University of Connecticut *87.88.89.95.96.97.98.99.100 2002-2003 Completed \$16,120 Antioxidant-impregnated Packaging Films to P. Dawson, Ph.D. Extend the Shelf-Life of Fresh Beef *59,60,79 Clemson University \$32,430 2002-2003 Completed R. Miller, Ph.D. Blade Tenderization and Vacuum-Tumbling to Improve the Visual and Palatability Characteristics Texas Ag. Exp. Station of Enhanced Supraspinatus, Triceps brachii and Biceps femorus Muscles S.J. Jones, Ph.D. 2002-2003 Completed \$122,875 Bovine Myology Version II - Phase I and II University of Nebraska-Lincoln *50,67,68,90,101 M. Dikeman, Ph.D., Kansas State University 1998-2003 Completed \$557,813 Carcass Merit Traits: Development of EPDs and C.A. Gill, Ph.D., Texas Ag. Exp. Station Genetic Marker Validation *61,62,63,78,84,85 S.R. Koontz, Ph.D., Colorado State University J. Pollak, Ph.D., Cornell University \$31,407 Cataloging Beef Muscles - Will they J.A. Scanga, Ph.D. 2002-2003 Completed Colorado State University Perform for Customers. A Comprehensive Review of Muscle Specific Research from both Fed and Non-Fed Cattle *64,65,66,93 \$23,729 2002 Completed aracterization of Denuded Beef Muscles C.R. Calkins, Ph.D. University of Nebraska-Lincoln d for Value-Added Products *50 \$295,597 2000-2005 Ongoing haracterization of Intramuscular Adipogenesis J.B. Morgan, Ph.D. (Oklahoma Beef Council) in Cattle *58,94 Oklahoma State University \$59,147 2002-2003 Completed Color Characteristics of Bovine Muscles in J.W. Savell, Ph.D. Texas Ag. Exp. Station Oxygen Permeable and Modified Atmosphere Packages *76,77 2001 Completed \$45,377 Consumer Preference and Acceptance of C.L. Lorenzen, Ph.D. University of Missouri-Columbia Steaks that have been Classified using Instrument Tenderness Classification Systems 2002 Completed \$37,095 Cookery Methods for Optimizing C.L. Lorenzen, Ph.D. Muscles from the Chuck *49,74,75 University of Missouri-Columbia \$126,208 C.R. Calkins, Ph.D. 2001 Completed Cow Muscle Profiling - Phase A *51,52,54,70 University of Nebraska-Lincoln D.D. Johnson, Ph.D. University of Florida \$63,365 2001 Completed Cow Muscle Profiling - Phase A C.R. Calkins, Ph.D. 2001-2002 Completed \$26,300 Cow Muscle Profiling - Phase B *70,51,52 University of Nebraska-Lincoln 2001-2002 Completed \$19,950 Cow Muscle Profiling - Phase B D.D. Johnson, Ph.D. University of Florida \$60,800 K.E. Belk, Ph.D. 2003-2004 Completed Development of a Beef Muscle "Aging Index" Colorado State University for Purposes of Managing Beef Palatability at the Consumption Level \$82,570 2003-2004 Completed Development of a Beef Muscle "Aging Index" K.E. Belk, Ph.D. for Purposes of Managing Beef Palatability Colorado State University

> M. Dikeman, Ph.D. Kansas State University

Texas A&M University D.D. Johnson, Ph.D.

University of Florida

J.B. Morgan, Ph.D.

Oklahoma State University

C. Gill, Ph.D. D.L. Adelson, Ph.D.

at the Consumption Level - Short-Term Muscles

Determination of Factors that Cause Livery Flavor Development in Various Beef Muscles from the Chuck and Loin

velopment of Proprietary Marker for arner-Bratzler Shear Force Tenderness

Effect of Aging on Warner-Bratzler Shear Values of Selected Muscles from the Chuck and the Round

Effect of Fresh and Frozen Storage on Palatability, Oxidative Rancidity and Color of Packaged Beef Steaks



\$138,343

\$191,005

\$21,924

\$31,800

2001-2002 Completed

2002-2004 Ongoing

2003-2004 Completed

2002 Completed

RESEARCE



Completed and Ongoing Projects 2001, 20 PROJECT	RESEARCHER/INSTITUTION	DURATION/STATUS	TOTAL GRANT COOPERATORS
PRODUCT ENHA		Duranoivalarus	COOLINATORS
Effects of the Meat Binding Agent, Activa RM, on Fresh Meats at the Retail Level (The) *72,73,74	J.W. Savell, Ph.D. Texas Ag. Exp. Station	2000-2001 Completed	\$20,162
Enhancement of Beef Subprimals prior to Aging and Retail Display *81	J.B. Morgan, Ph.D. Oklahoma State University	2002-2003 Completed	\$33,750
Evaluation of Factors Causing the 'Black Bone' Condition in Packaged Beef Retail Cuts and Ways to Decrease the Incidence	M.E. Dikeman, Ph.D. Kansas State University	2003-2004 Completed	\$47,430
Flavor Profile and Volatiles, Color and Warner-Bratzler Shear Changes of Five Beef Muscles Enhanced Prior to Aging - Long-Term Muscl	S. Brewer, Ph.D. University of Illinois es	2003-2004 Completed	\$98,000
Flavor Profile and Volatiles, Color and Warner-Bratzler Shear Changes of Five Beef Muscles Enhanced Prior to Aging - Short-Term Muscles	S. Brewer, Ph.D. University of Illinois	2003-2004 Completed	\$98,000
Identification of Cattle Production/Management Practices to Minimize Variation in Beef Tenderness	J.D. Tatum, Ph.D. Colorado State University	2003-2004 Completed	\$16,410
Impact of Feeding 2,500, 50,000, or 100,000 IU of Vitamin D ₃ Daily on Beef Tenderness and on Performance of Feedlot Cattle	J.B. Morgan, Ph.D. Oklahoma State University	2003-2004 Completed	\$63,307 (Oklahoma Beef Council)
Mapping the Muscle Fiber Orientation and Adapting Slice Shear Force for Major Beef Muscles	M. Koohmaraie, Ph.D. USDA/ARS	2003-2004 Completed	\$80,300
Novel Fabrication Methods of the Sirloin	J.C. Brooks, Ph.D. Oklahoma State University	2002 Completed	\$64,000
Objective Measurements for Tenderness *91,92,102	K.E. Belk, Ph.D. Colorado State University	1999-2001 Completed	\$88,650
Objective Measurements for Tenderness	M. Koohmaraie, Ph.D. USDA/ARS	1999-2001 Completed	\$49,500
Objective Measurements for Tenderness	D. Wulf, Ph.D. South Dakota State University	1999-2001 Completed	\$25,000
Optimize the Quality, Consistency and Shelf-Life of Marinated Fresh Beef Products	J. Marsden, Ph.D. Kansas State University	2002-2003 Completed	\$108,900 (Kansas Beef Council)
Packaging and Product Effects on Sensory, Shelf-Life and Color of Beef *55,56,57	C.R. Calkins, Ph.D. University of Nebraska-Lincoln	2002-2003 Completed	\$34,090
Prediction of Beef Carcass Cut-out Yields using the MARC Beef Image Analysis System	M. Koohmaraie, Ph.D. USDA/ARS	2003-2004 Completed	\$172,792
Prediction of Beef Tenderness from Spectral Reflectance *80,82,86	J.B. Morgan, Ph.D. Oklahoma State University	2002-2003 Completed	\$79,500
Process Upgrades for Beef Chuck Muscles Borderline in Palatability: Phase II - Supplement	D.D. Johnson, Ph.D. University of Florida	2001 Completed	\$29,800
Properties of Cow and Beef Muscles - Benchmarking the Differences and Documenting the Similarities	C.R. Calkins, Ph.D. University of Nebraska-Lincoln	2003-2004 Completed	\$66,510
Properties of Cow and Beef Muscles - Benchmarking the Differences and Documenting the Similarities	D.D. Johnson, Ph.D. University of Florida	2003-2004 Completed	\$52,695
Standardization of Slice Shear Force Measurements Across Research Institutions and Evaluation of Repeatability of Slice Shear Force Measurement at Multiple Institutions	M. Koohmaraie, Ph.D. USDA/ARS	2003-2004 Completed	\$9,200
Translation of Bovine Myology; Muscle Profiling CD *50,67,68,90,101	S.J. Jones, Ph.D. University of Nebraska-Lincoln	2002-2003 Completed	\$34,200
Use of a Carbon Monoxide Packaging System in Improving Retail Characteristics of "Compromised" Beef Cuts *69,83	J.B. Morgan, Ph.D. Oklahoma State University	2002-2003 Completed	\$35,750
Using a Combination of 25-hydroxyvitamin D ₃ and Vitamin E to Improve Beef Tenderness - Phase I	D.C. Beitz, Ph.D. Iowa State University	2003-2004 Completed	\$10,000
Using a Combination of 25-hydroxyvitamin D ₃ and Vitamin E to Improve Beef Tenderness - Phase II	D.C. Beitz, Ph.D. Iowa State University	2003-2004 Ongoing	\$12,863 (Iowa Beef Industry Council)



*SEE PAGES 39-
41 FOR PUBLISHED RESEARCH
SARCH FINDINGS.

Completed and Ongoing Projects 2001, 20	002, 2003		TOTALORIS
PROJECT	RESEARCHER/INSTITUTION	DURATION/STATUS	TOTAL GRANT COOPERATORS
ntioxidant Potential of Carnosine, eef Dipeptide	E.A. Decker, Ph.D. University of Massachusetts	1999-2001 Completed	\$46,272
to Improve Development of Infants Fed Low Amounts of Animal Products	L.H. Allen, Ph.D. University of California-Davis	2002-2004 Ongoing	\$450,000 (South Dakota Beef Council)
Beef in a Balanced Diet and Cancer Inhibition	M. Lipkin, M.D. Strang Cancer Prevention Center	2002-2004 Ongoing	\$150,727
Changing the Nutritional Composition of Beef: Can we Mitigate the Risk of Colon Cancer?	J.W. Finley, Ph.D. USDA/ARS	2002-2004 Ongoing	\$102,490
Chemoprevention of PhIP-induced Colon- and Prostate Carcinoma in Male F344 Rats by Dietary CLA	H.A.J. Schut, Ph.D. Medical College of Ohio	1999-2002 Completed	\$140,405
Determination of the Independent Effects of Zinc Intake and Zinc Status on Zinc Absorption from Beef-containing and Beef-free Mixed diets	K.H. Brown, M.D. University of California/Davis	2003-2005 Ongoing	\$195,144
Determination of the Nutrient Content of Beef Value Cuts	W.C. Ellefson Covance Laboratories, Inc. D.R. Buege, Ph.D. University of Wisconsin	2003 Complete	\$67,158
Developing Data for Comments on the Food Guide Pyramid	V. Fulgoni, III, Ph.D. Nutrition Impact, LLC	2003-2004 Completed	\$25,280
Diet Quality and Improvement in Child Health and Survival	C.G. Neumann, M.D., MPH University of California-Los Angeles	2002-2003 Completed	\$35,941
Effect of Beef and Heme Iron on Zinc Absorption in Children (The) *105,106"	I. Griffin, M.D. Baylor College of Medicine	2002-2004 Ongoing	\$83,160
Effect of Purified c9, t11 and t10, c12 Conjugated Linoleic Acid and Linoleic Acid on the Progression of the Early Atherosclerotic Lesion in the Hamsters Model	T.A. Wilson, Ph.D., M.P.H. University of Massachusetts-Lowell Research Fo	2000-2001 Completed undation	\$75,390
Effect of Dietary Beef on Weight-loss Induced Changes in Immune Function, Indicators of Zinc and Iron Status, and Body Composition, Older Women *110,112,115	W.W. Campbell, Ph.D. University of Arkansas	2001-2003 Completed	\$190,000
ects of Increasing Protein Intake on Protein Atilization in Endurance Athletes *103,104,109,113	N.R. Rodriguez, Ph.D., R.D. University of Connecticut	1999-2001 Completed	\$144,537
Increasing Rumenic Acid Content in Beef by Enhancing Endogenous Formation or Supplying Exogenous Source of CLA during the Period of Heightened Marbling Deposition *107,108,114	S.K. Duckett, Ph.D. University of Georgia Research Foundation	2000-2002 Completed	\$82,760
Influence of Major CLA Isomers on Atherogenesis and Plaque Regression in Rabbits *111	D. Kritchevsky, Ph.D. The Wistar Institution	2001-2002 Completed	\$70,295
In Vivo Enrichment of Beef with [14C] Vitamin B-12 for Bioavailability Studies in Humans	J.W. Miller, Ph.D. Regents of the University of California/Davis	2003-2004 Ongoing	\$26,333
Increasing Dietary Protein Improves Long-term Weight Management	D.K. Layman, Ph.D. University of Illinois	2003-2004 Ongoing	\$588,663
Meat Protein and Calcium: Do they Interact Synergistically or Antagonistically?	Z.K. Roughead, Ph.D. USDA/ARS	2003-2005 Ongoing	\$153,228
Modulation of Colon Carcinogenesis by Conjugated Linoleic Acid	J.P. Vanden Heuvel, Ph.D. Pennsylvania State University	2000-2002 Completed	\$104,513
Protein Against Atherosclerosis by Dietary Zinc	B. Hennig, Ph.D. University of Kentucky	2003-2005 Ongoing	\$38,948
Reduced Conjugated Linoleic Acid Requirement for Altered Mammary Tumorigenesis by Fatty Acids Found in Beef	K.L. Erickson, Ph.D. University of California/Davis	2003-2005 Ongoing	\$121,318
Relationship of Zn Intake and Zn Status to Insulin Levels in Severely Obese Adolescents Enrolled in a Weight Loss Intervention Trial	N.F. Krebs, M.D., M.S. University of Colorado School of Medicine	2002-2004 Ongoing	\$98,561
Repeat Ground Beef Study-Analysis for Moisture, Fat, Fatty Acid Profile	W.C. Ellefson Covance Laboratories, Inc.	2002 Completed	\$15,420
le of Beef in Improving Growth, Cognitive velopment and Health in Children	M. Sigman, Ph.D. C. Neumann, M.D. University of California-Los Angeles	1999-2001 Completed	\$210,000
Role of Conjugated Linoleate Metabolites in Lipid Metabolism	M.A. Belury, Ph.D. Molecular Medicine Northwest Hospital	2000-2002 Completed	\$144,838
Suppressive Effect of Conjugated Linoleic Acid on Mammary Gland Preneoplastic Lesions	C. Ip, Ph.D. Roswell Park Cancer Institute	2001-2003 Completed	\$144,838
Updated Analysis of CSFII Data for NCBA	O.I. Bermudez, Ph.D. Bermudez Consultenos International	2002 Completed	\$5,000







MARKET RESEARCH

Completed and Ongoing Projects 2001, 2002, 2003-

PROJECT	RESEARCHER/INSTITUTION	DURATION/STATUS	TOTAL GRANT COOPERATORS	
Advertising/Brand Tracking	Hall & Partners	2003 Completed	\$49,000	
Advertising Tracking/Evaluation Research	The Gallup Organization	2001 Completed	\$105,000	
Beef Category Architecture Study	Wirthlin Worldwide	2001 Completed	\$283,000	
Beef Demand and Its Response to the Beef Checkoff	Ronald W. Ward, Ph.D. University of Florida	2003 Completed	\$62,500	
CREST Away from Home Eating Trends	NPD Foodworld	2001 Completed	\$42,500	
CREST Away from Home Eating Trends	NPD Foodworld	2003 Completed	\$91,267	
Foodservice Beef Volumetric Study	Technomic, Inc.	2003 Completed	\$89,000	
Foodservice Brand Measure Study	NPD FoodWorld	2001 Completed	\$60,000	
Foodservice/Consumer Attitudes on BSE/FMD	NEXT Research	2001 Completed	\$9,500	
Foodservice/Retail Attitudes on BSE/FMD	NEXT Research	2001 Completed	\$21,000	
Foodservice Trade Advertising Creative Evaluation	Shugoll Research	2001 Completed	\$27,800	
Foodservice Trade Advertising Creative Evaluation	Shugoll Research	2002Completed	\$26,900	
Heat and Serve Product Focus Group Study	Shugoil Research	2001 Completed	\$27,600	
Lunch Daypart Study	Shugoll Research	2002 Completed	\$64,000	
NET In Home Eating Trends	The NPD Group	2001 Completed	\$36,400	
NET In Home Eating Trends	The NPD Group	2002 Completed	\$52,500	
NET In Home Eating Trends	The NPD Group	2003 Completed	\$58,500	
Nutrition Labeling Focus Group and Quantitative Research	Shugoll Research	2001 Completed	\$60,000	
Retail Meat Purchase Dairy	The NPD Group	2001 Completed	\$311,000	
Retail Meat Purchase Research	AC Nielsen, Inc.	2003 Completed	\$57,300	
Understanding the Obesity Issue and Its Impact on Foodservice	Technomic, Inc.	2003 Completed	\$18,500	
Understanding the Supermarket Meal Solutions Consumer	Turover Straus Group/Doyle Research	2001 Completed	\$40,000	



CTATE ETIMES	RESEARCH PROJECTS

PROJECT	RESEARCH AREA	RESEARCHER/INSTITUTION	DURATION/STATUS	TOTAL GRANT COOPERATORS
ARKANSAS				
	Beef Safety	Jason Apple, Ph.D. University of Arkansas	Ongoing	\$106,180.
Influence of Poultry Fat Addition to Finishing Rations on Carcass Characteristics, Retail Beef Shelf- Life and Cooked Beef Palatability	Product Enhancement	Jason Apple, Ph.D. University of Arkansas	Completed	\$47,612
Value Enhancement of Lower-Value Beef Cuts	Product Enhancement	Fred W. Pohlman, Ph.D. University of Arkansas	Ongoing	\$174,800
The Effects of Antimicrobial use on the Development of Anti- Microbial-Resistant Bacteria in Cattle	Beef Safety	Stacey Gunter, Ph.D. University of Arkansas	Completed	\$50,062
FLORIDA				
	Product Enhancement	Alex Stelzleni, M.S., Dwain Johnson, Ph.D. University of Florida	Ongoing	\$5,000
Feeding and Aging Effects on Cow Beef	Product Enhancement	Dwain Johnson, Ph.D. Alex Stelzleni, M.S. University of Florida	Ongoing	\$39,750
IDAHO Impact of Dietary Conjugated Linoleic Acid (CLA) on Neonatal Period of Mammary Development with Impact of Future Mammary Cancer	Nutrition	Mark McGuire, Ph.D. University of Idaho	Completed	\$27,886
Metabolism of Vaccenic Acid in Women: Impact on Fatty Acids in Circulation	Nutrition	Mark McGuire, Ph.D. University of Idaho	Ongoing	\$35,663
IOWA				\$12,683
Ving a Combination of 25- ydroxyvitamin D ₃ and Vitamin to Improve Beef Tenderness	Product Enhancement	Don Beltz, Ph.D. Iowa State University	Ongoing	\$12,003
KANSAS				
Hide-on Decontamination System using Sandia National Laboratories DF-2000 Foam	Beef Safety	J.L. Marsden, Ph.D. R.K. Phebus, Ph.D. C.L. Kastner, Ph.D. J.L. Drouillard, Ph.D. Kansas State University	Ongoing	\$45,000
Evaluation of the Effectiveness of Acidified Sodium Chlorite (Sanova) for Decontaminating Commercial Beef Carcasses Post-Chill		J.L. Marsden, Ph.D. Kansas State University	Ongoing	\$30,000
Decontamination of Escherichia coli O157:H7 and Salmonella spp. on Beef Carcasses, Subprimals and Trimmings using Ozone	Beef Safety	J.L. Marsden, Ph.D. H. Thippareddi, Ph.D. R.K. Phebus, Ph.D. C.L. Kastner, Ph.D. Kansas State University	Ongoing	\$100,000
Evaluation of Chemical Antimicrobials for Control of Clostridium Perfringens in Roast Beef	Beef Safety	J.L. Marsden, Ph.D. H. Thippareddi, Ph.D. R.K. Phebus, Ph.D. C.L. Kastner, Ph.D. Kansas State University	Completed	\$60,000
Optimize the Quality, Consistency and Shelf Life of Marinated Fresh Beef Products	Beef Safety	J.L. Marsden, Ph.D. M. Dikeman, Ph.D. D. Kropf, Ph.D. C.L. Kastner, Ph.D. J. Unruh, Ph.D. M. Hunt, Ph.D. Kansas State University	Completed	\$48,900 ·
KENTUCKY			•	f
eroxisome Proliferator Activated Receptors and Required Zinc for their Anti-inflammatory Properties in Porcine Vascular Endothelial Cells and Zinc Modulates PPAR Signalling and Activation of Porcin	;	Bernhard Hennig, Ph.D. University of Kentucky	Ongoing .	\$40,000





PROJECT	RESEARCH AREA	RESEARCHER/INSTITUTION	DURATION/STATUS	TOTAL GRANT COOPERATORS
			· · · · · · · · · · · · · · · · · · ·	
MINNESOTA Evaluation Strategies to Remove Specific Risk Materials (SRMs) from Dorsal Root Ganglia to Improve Salvage Value of Market Cow & Bull Muscle Cuts	Beef Safety	Deborah Roeber, Ph.D. Wil Hueston, Ph.D. Shaun Kennedy, Ph.D. University of Minnesota	Ongoing	\$24,250
Effect of a Starch-Limited Diet on Blood Glucose in Type 2 Diabetes	Nutrition	Mary Gannon, Ph.D. Frank Nuttal, Ph.D. VA Medical Center and University of Minnesota	Ongoing	\$15,000
The Role of Dietary Beef Tallow in Protection Against Low-Density Lipoprotein (Idl) Oxidation, a Risk Factor for Heart Disease	Nutrition	A. Saari Csallany, Ph.D. University of Minnesota	Ongoing	
A Reduction in Atheroscleroses by Using Beef Tallow: The Next Step in Examining the Hypocholesterolemic Effects of Beef Tallow-Expanding the Study	Nutrition	D. Gallaher, Ph.D. A. Saari Csallany, Ph.D. University of Minnesota	Ongoing	\$15,00
MISSISSIPPI Utilization of Strategies to Enhance Growth Efficiency and Muscle Deposition while Improving Tendemess and Processing Characteristics of Beef Product Enhancement	Product Enhancement	R.W. Rogers, Ph.D. Mississippi State University	Ongoing	\$20,00
Further Development of Value- Added Beef Products from Forage-Fed Cattle	Product Enhancement	J.M. Martin, Ph.D. R.W. Rogers, Ph.D. Mississippi State University	Ongoing	\$5,00
MISSOURI Rapid Quantitation of E. Coli O157:H7, Salmonella and Shigella in Raw and ready-to-eat Beef Products using Real-time PCR	Beef Safety	Azlin Mustapha, Ph.D. University of Missouri	Ongoing	\$29,81
Calibrating the Dual Binding Calpastatin Biosensor for Detection of Meat Tenderness	Product Enhancement	Carol Lorenzen, Ph.D. University of Missouri	Ongoing	\$19,8:
Association of Protein Profiles with Beef Tenderness	Product Enhancement	Jeremy Taylor, Ph.D. University of Missouri	Ongoing	\$22,50
The use of Microencapsulated Probiotics to Competitively Exclude E. coli O 157:H7 from Cattl	Beef Safety le	Azlin Mustapha, Ph.D. University of Missouri	Ongoing	\$7,51
NEBRASKA				\$50,0
Phase II E. coli Vaccination Intervention	Beef Safety	Terry Klopfenstein, Ph.D. University of Nebraska - Lincoln	Ongoing	
Flavor & Beef Value Cuts	Product Enhancement	University of Nebraska - Lincoln	Ongoing	\$33,5
Two Stage Strategy for Tenderness	Product Enhancement	Chris Calkins, Ph.D. University of Nebraska - Lincoln	Completed	\$32,4
NORTH DAKOTA				#a o
Effects of Protein on Calcium Retention and Bone Metabolism in Postmenopausal Women	Nutrition	Z.K. Roughead, Ph.D. USDA-ARS Human Nutrition Research Center	Completed	\$20,0
Meat Protein and Calcium: Do they Interact Synergistically or Antagonistically?	Nutrition	Z.K. Roughead, Ph.D. USDA-ARS Human Nutrition Research Center	Ongoing	\$20,0
Effects of High Weight Loss Diets on Bone Health	Nutrition	Z.K. Roughead, Ph.D. USDA-ARS Human Nutrition Research Center	Ongoing	\$25 ,0
SOUTH DAKOTA Associations of Candidate Gene Markers with Meat Traits in Cattl	Product Enhancement e	Don Marshall, Ph.D. South Dakota State University	Completed	\$20,0
Genetic Factors in Postmortem Muscle Metabolism that Influence Beef Tenderness	Product Enhancement	D.M. Wulf, Ph.D. South Dakota State University	Completed	\$66,5
Influence of CA Metabolism on Beef Tenderness	Product Enhancement	R.H. Pritchard, Ph.D. D.M. Wulf, Ph.D. K. Bruns, Ph.D. South Dakota State University	Ongoing	\$32,



TATE FUNDED RESEARCH PROJECTS

STATE FUNI	DED RES	Earch Pro	JECT'S	TOTAL GRANT
PROJECT	RESEARCH AREA	RESEARCHERAINSTITUTION	DURATION/STATUS	COOPERATORS
SOUTH DAKOTA				f2<010
Development of Consumer Friendly Crilling Instructions for Classic and Innovative Beef Steaks	Product Enhancement	D.M. Wulf, Ph.D. R.J. Maddock, Ph.D. South Dakota State University	Completed	\$36,018
Influence of Feeding Various Levels of Wet and Dry Distillers Grains on Feedlot Performance and Carcass Quality, Composition and Fatty Acid Profile of Growing and Finishing Steers	Product Enhancement	K. Tjardes, Ph.D. South Dakota State University	Completed	\$20,000
Impact of Castration Time and Method on Carcass and Palatability Traits in Steers	Product Enhancement	K. Bruns, Ph.D. R.H. Pritchard, Ph.D. D.M. Wulf, Ph.D. D. Boggs, Ph.D. South Dakota State University	Completed	\$21,500
Determining Optimum Rib Eye Size for Beef Retail Customers	Product Enhancement	D.M. Wulf, Ph.D. South Dakota State University	Completed	\$24,300
Evaluating Consumer Acceptance of the Various Muscles from the Chuck, Part 2	Product Enhancement	R.J. Maddock, Ph.D. South Dakota State University	Completed	\$31,800
Tenderness Evaluation of Calf Value Discovery Carcasses	Product Enhancement	C. Wright, Ph.D. South Dakota State University	Completed	\$4,500
Human Body Composition and Dietary Protein Source	Nutrition	K. Wosje, Ph.D. B. Specker, Ph.D. South Dakota State University	Completed	\$16,820
New Value Added Beef Product for South Dakota	Product Enhancement	Joel Dykstra South Dakota State University	Ongoing	\$50,000
TEXAS Blade Tenderization and Vacuum- Tumbling to Improve the Visual and Palatability Characteristics of Enhanced Supraspinatus, Triceps Brachii and Biceps femoris Muscles		R.K. Miller, Ph.D. Texas A&M University	Completed	\$32,430
Evaluation of Peroxyacetic Acid (Inspexx 200) as a Potential Pre- Grinding Treatment for Control of Escherichia coli O157:H7 and Salmonella typhimurium on Beef Trimmings	Beef Safety	J.W. Savell, Ph.D. Texas A&M University	Completed	\$28,720
In-Home Consumer Evaluations of Individual Muscles from Beef Rounds Subjected to Tenderization Treatments	Product Enhancement	J.W. Savell, Ph.D. Texas A&M University	Ongoing	\$21,235
Conjugated Linoleic Acid Reduces Fatty Acid Peroxidation in Irradiated Ground Beef Patties	Product Enhancement	S.B. Smith, Ph.D. Texas A&M University	Completed	\$27,150
Validation of Sampling Methods to Determine the Prevalence of E. coli O157:H7 in Beef Feedlot Cattle	Beef Safety	G. Loneragan, Ph.D. West Texas A&M University	Ongoing	\$19,375
VIRGINIA Improving Carcass Quality Using Ultrasound Technology	Product Enhancement	W.E. Beal, Ph.D. S.P. Greiner, Ph.D. Virginia Tech	Ongoing	\$2,000
Improving the Quality and Shelf Life of Beef Products using Low Cost Natural Antioxidants	Beef Safety	S. O'Keefe, Ph.D. Virginia Tech	Ongoing	\$9,900
WISCONSIN Tenderization of Beef with a Capacitor Discharge Hydrodynamic Shockwave System (CDS)	Product Enhancement	J.E. Claus, Ph.D. University of Wisconsin-Madison		\$5,650
Beef and Capacitor Discharge Systems Processor Factors Affecting Tenderization Efficacy	Product Enhancement	t J.E. Claus, Ph.D. University of Wisconsin-Madison	Ongoing	\$8,000





7

BEEF SAFETY RESEARCH

- Anderson, R.C., M.A. Carr, R.K. Miller, D.A. King, G.E. Carstens, K.J. Cenovese, R.O. Elder, T.R. Callaway, T.S. Edrington, Y.S. Jung, J.L. McReynolds, M.E. Hume, R.C. Beier, D.J. Nisbet, 2003. Experimental Chlorate Preparations as Feed and Water Supplements: I. Effects on E. coli Contamination of Beef Cattle. p. 13-17. Beef Cattle Research in Texas. Department of Animal Science, College Station, TX.
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North Dakota Corn Council Fargo, North Dakota

House and Senate Agriculture Committee Report For the Two-Year Period Ended June 30, 2004

Robert R. Peterson State Auditor



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

November 17, 2004

House and Senate Agriculture Committees:

Transmitted herewith are the financial statements and auditor reports of the North Dakota Corn Council as required by North Dakota Century Code section 4-24-10.

Specifically you will find the state auditor's report on the financial statements, the statement of revenues and expenditures, notes to the financial statements and the compliance and internal control report. Complete audit reports may be obtained by contacting my office.

The Office of the State Auditor would like to thank the commodity groups for their cooperation in preparing these reports.

Sincerely,

Robert R. Peterson

State Auditor



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 John Hoeven, Governor

Members of the Legislative Assembly

Jocie Iszler, North Dakota Corn Utilization Council Executive Director.

We have audited the special-purpose statement of revenues and expenditures of the North Dakota Corn Utilization Council for the two-year period ended June 30, 2004. This financial statement is the responsibility of the management of the North Dakota Corn Utilization Council. Our responsibility is to express an opinion on this special-purpose financial statement based on our audit.

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

The accompanying special-purpose financial statement was prepared to provide state decision makers, including the Legislative Audit and Fiscal Review Committee, with a comprehensive overview of the North Dakota Corn Utilization Council's operations. The revenues and expenditures are reported as discussed in the first note to the special-purpose financial statement. This special-purpose financial statement is not intended to be a presentation in conformity with generally accepted accounting principles.

In our opinion, the special-purpose financial statement referred to above presents fairly, in all material respects, the revenues and expenditures of the North Dakota Corn Utilization Council for the two-year period ended June 30, 2004, in conformity with the basis of accounting described in the first note to the financial statement.

Our audit was made for the purpose of forming an opinion on the special-purpose financial statement taken as a whole. The statement subsequent to the notes is presented for purposes of additional analysis and is not a required part of the special-purpose financial statement of the North Dakota Corn Utilization Council. The statement subsequent to the notes has been subjected to the auditing procedures applied in the audit of the special-purpose financial statement and, in our opinion, is fairly presented, in all material respects, in relation to the special-purpose financial statement taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated September 17, 2004 on our consideration of the North Dakota Corn Utilization Council's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

This report is intended solely for the information of the Governor, Legislative Audit and Fiscal Review Committee, and management of the North Dakota Corn Utilization Council and should not be used for any other purpose. However, this report is a matter of public record and its distribution is not limited.

Robert R. Peterson

State Auditor

September 17, 2004

COMPARATIVE STATEMENT OF REVENUES AND EXPENDITURES For the Two-Year Periods Ended June 30, 2004 and 2003

REVENUES:	2004-2003
Corn Assessments (Net of Refunds of \$27,420 and \$18,441)	\$1,133,551
Interest on Investments	2,437
Contract Revenue	38,400
Other Miscellaneous Revenue	2,760
Total Revenues	\$1,177,147
EXPENDITURES: Salaries and Benefits Operating Expenses Grant Expenditures Total Expenditures	\$ 157,159 538,015 310,581 \$1,005,755
Revenue Over/(Under) Expenditures	\$ 171,392

NOTES TO THE SPEICAL-PURPOSE FINANCIAL STATEMENT For the Two-Year Period Ended June 30, 2004

Note 1 - Summary of Significant Accounting Policies

The responsibility for the special-purpose financial statement, the internal control structure, and compliance with laws and regulations belongs to the management of the North Dakota Corn Utilization Council. A summary of the significant accounting policies follows:

A. Reporting Entity

For financial reporting purposes, the North Dakota Corn Utilization Council (Council) includes all funds, programs, and activities over which it is financially accountable. The Council does not have any component units as defined by the Government Accounting Standards Board. The Council is part of the state of North Dakota as a reporting entity.

The Council was established with the authority to contract and cooperate with any person for market maintenance and expansion, utilization research, transportation, and education; accept donations of funds, property, services, or other assistance from any source; and provide educational and informational materials. This is accomplished through the levying of an assessment on all varieties of corn grown in the state, except sweet corn and popcorn, or sold to a designated handler. The amount of the levy is one-quarter of one percent of the value of a bushel.

The Council and the North Dakota Corn Grower's Association (Association) agreed upon a policy in which the Association's Board of Directors will be the designated advisory board of the Council.

The Council has a close working relationship with the Association and Dakota Renewable Fuels. These relationships are further explained in Note 2 to the special-purpose financial statement. The special-purpose financial statement includes only activities of the Council, which is one department that has one division. The Council is responsible for and is funded under a continuing appropriation.

B. Reporting Structure

The special-purpose financial statement includes all activities of the reporting entity as defined above. These activities are funded from fund 270, the Corn Council fund. The comparative statement of revenues and expenditures is a combined statement to give the users an overview of the agency's activity.

C. Basis of Accounting

Revenues and expenditures on the comparative statement of revenues and expenditures are principally reported on the modified accrual basis of accounting, which is generally accepted accounting principles (GAAP) for governmental fund types.

Under the modified accrual basis of accounting revenues are recognized when susceptible to accrual (i.e., measurable and available). Measurable means the amount can be determined, available means due and collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues are considered available if they are collected within 30 days after fiscal year-end. Expenditures are recorded when goods or services are received. Exceptions include: principal and interest expenditures, which are recorded when due; compensated absences, which are recorded when paid; and claims and judgments.

There can be differences between revenues and expenditures reported on the state's accounting system and those reported by the Office of Management and Budget in the state's CAFR in accordance with GAAP. Examples of these differences include:

- A. Loan receipts and loan disbursements are accounted for as revenues and expenditures on the state's accounting system (and at times are budgeted as expenditures).
- B. Revenue reported on the statement of revenues and expenditures can differ from GAAP revenues because certain receivables are accrued for GAAP purposes while they were not recorded as revenue on the state's accounting system when they are received after the apply back period.
- C. Certain transfers are sometimes recorded as revenues and expenditures on the state's accounting system.
- D. Expenditures recorded on the state's accounting system do not report expenditures relating to capital lease and other financing arrangements.

D. Other GAAP Reporting Differences

GAAP financial statements would include a balance sheet by fund type and account group. Revenues and expenditures would also be reported by fund type. GAAP financial statements would also provide more complete note disclosures.

For this report, revenues and expenditures are reported on a departmental basis to give an overview of the Council's operations. All revenues and expenditures are included.

Note 2 – Related Parties

The Association is a related party of the Council. The Council contracts with the Association for administrative and record-keeping services. For fiscal years 2004 and 2003, the Council paid the Association \$94,223 and \$84,000, respectively, for administrative services and \$22,166 and \$17,044, respectively, for other activities. The Association and the Council share office space, basic office furnishings, office equipment including: supplies, copy machine, fax machine, and computer equipment. The Association owns all the above equipment and leases the office space. The Association also employs an administrative assistant that works one-half time for the Association and the other half for the Council. In turn, the Council reimburses the Association on a monthly basis for these shared items. The Council employs an executive director who works one-half the time for the Council and the other half for the Association. The Association reimburses the Council one-half of the executive director's salary each month.

Dakota Renewable Fuels is also a related party of the Council. They were established as a producer group to establish an ethanol plant in North Dakota. They share office space with the Council as well as office equipment with the Association. Two members of the Council board and the executive director of the Council are also on the board of directors of Dakota Renewable Fuels. For fiscal years 2004 and 2003, the Council paid Dakota Renewable Fuels \$1,438 and \$150, respectively.

Note 3 – Other Significant Items

The Council's deposits at June 30, 2004 were \$383,067. This amount represents approximately nine months of expenditures.



STATE OF NORTH DAKOTA OFFICE OF THE STATE AUDITOR STATE CAPITOL. 600 E. BOULEVARD AVE. - DEPT. 117

BISMARCK, ND 58505

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF SPECIAL-PURPOSE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable John Hoeven, Governor

Members of the Legislative Assembly

Jocie Iszler, North Dakota Corn Utilization Council Executive Director

We have audited the special-purpose financial statement of North Dakota Corn Utilization Council for the two-year period ended June 30, 2004, and have issued our report thereon dated September 17, 2004. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance:

As part of obtaining reasonable assurance about whether the North Dakota Corn Utilization Council's special-purpose financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that is required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting:

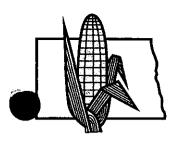
In planning and performing our audit, we considered the North Dakota Corn Utilization Council's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the special-purpose financial statement and not to provide assurance on the internal control over financial reporting. However, we noted one matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the North Dakota Corn Utilization Council's ability to record, process, summarize, and report financial data consistent with the assertions of management in the special-purpose financial statement. The reportable condition noted above is that there is a lack of segregation of duties in certain areas. However, no recommendation will be made, since implementation is not feasible and duties are segregated to the extent possible between the executive director and the administrative assistant.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition regarding segregation of duties is a material weakness. We also noted one matter involving the internal control over financial reporting that we have reported to the management of the North Dakota Corn Utilization Council in a separate letter date September 17, 2004.

This report is intended solely for the information of the Governor, Legislative Audit and Fiscal Review Committee, and management of the North Dakota Corn Utilization Council and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Robert R. Peterson State Auditor

September 17, 2004



North Dakota Corn Utilization Council

1325 23rd Street South Fargo, ND 58103 701-239-7258 Fax: 701-239-7260 ndcorn@state.nd.us

North Dakota Corn Utilization Council Report to the Legislative Council January, 2005

Summary of Activities

Description of Group:

The North Dakota Corn Utilization Council was created by SB 2282 adopted by the 52nd Legislative Assembly and was effective July 22, 1991. The NDCUC is governed by N.D.C.C. 4-10.6 through 4-10.14 and various other affecting chapters. The rate of assessment is one quarter of one percent of the value of a bushel of corn and is levied on all corn marketed and sold in North Dakota with the exception of popcorn and sweet corn. Growers choosing not to participate are entitled to a full refund of the total assessment collected by making a written request for a refund application and following guidelines established by the NDCUC. The Council is governed by seven directors who reside in and are participating growers in the district they represent.

Summary of Activities:

Organizations requesting funding submit a project proposal request and present the proposal tothe NDCUC Board of Directors at quarterly directors' meetings for discussion and a vote. The Council funds production research, expansion of the ethanol industry in North Dakota, animal agriculture, producer communications, new uses for corn, and world market development and maintenance. The Council works with the North Dakota Corn Growers Association in furthering these efforts.

The research goals of the NDCUC focus on production research and development of new uses. The primary production research emphasis has been on the development of early maturing varieties of corn with increased cold tolerance. The NDCUC supports research on new uses for corn through contributions to the National Corn Growers Association. Corn products are rapidly replacing petroleum in industrial applications. Polylactide (PLA), a biodegradable polymer made from corn, is being used successfully in the manufacturing of a wide variety of everyday items such as clothing, packaging, carpeting, recreational equipment and food utensils. Because these products are biodegradable and made from a renewable resource, they offer tremendous environmental benefits. Research on the development of corn based industrial solvents and related applications points to future high end value added opportunities.

The NDCUC's support for animal agriculture increased significantly from the last biennium. The majority of this support was for the dried distillers grains outreach program. This program provided participating cattle and dairy producers each with five tons of dried distillers grains on a trial basis. Geographic area and feed shortage due to drought or disaster were used as distribution criteria. Survey results indicated a high degree of satisfaction with the product and a high adoption rate. The NDCUC committed \$150,000 toward research projects supporting the Beef Center of Excellence at NDSU. In addition, the NDCUC contributed to the ND Dairy Coalition Executive Director position and a media campaign designed to educate the public about the benefits of the animal agriculture industry to North Dakota.

The NDCUC marketing efforts are directed to four areas: ethanol, marketing of new uses. export marketing, and producer communications. The NDCUC funds marketing of new uses and export marketing through contributions to the National Corn Growers Association, U.S. Grains Council and Northern Crops Institute. As the ethanol industry grows, the development of export markets for dried distillers grains into neighboring Canadian markets has grown in importance. The NDCUC partners with the American Coalition of Ethanol in sponsoring racing events featuring ethanol powered cars and supports ND racers using ethanol as their primary fuel source. In 2002, the NDCUC continued the ethanol coupon and marketing program designed to increase ethanol market share past 30%. Unfortunately, market share for ethanol has remained at or under 30%. This reinforces the findings of the NDCUC study that indicated that consumer buying habits for gasoline are primarily determined by pricing and availability, both of which are difficult to influence through marketing. In 2004, the ND Department of Commerce launched an ethanol marketing campaign. At that point, the NDCUC redirected its efforts primarily toward the marketing of E85 through the "Do You Drive E85?" marketing campaign.

The NDCUC collaborated with the National Ethanol Vehicle Coalition and the ND Department of Commerce to increase the gallons of E85 sold in North Dakota to over 100,000 gallons per year. Four new stations installed or converted an existing tank to E85: Cenex Fargo, Cenex West Fargo, Cenex Devil's Lake and Cenex Oakes. The NDCUC also supported language in the 2004 Jobs Bill that improved the way ethanol excise taxes and blender's credits are credited.

The NDCUC supported the development of the ethanol industry in North Dakota through securing legislation in the 2003 legislative session that provides for an ethanol production incentives for new plants in North Dakota. In addition, the NDCUC provided support for two new plants in North Dakota: Dakota Renewable Fuels, LLC and Red Trail Energy, LLC. Together, these plants would have the potential of using over 32 million bushels of corn per year and adding \$40 million annually in additional personal income for North Dakota households through the creation of jobs and additional business volume. Currently, 70% of the corn raised in North Dakota is exported. The NDCUC support of additional ethanol plants in North Dakota is in response to a need to capture the value added potential of the corn raised in North Dakota. Corn that is processed in North Dakota by plants that are owned by ND residents more than triples in economic value to the state when compared to corn that is exported.

Goals and Objectives of FY 2004-2006

Growth in the production and use of ethanol will continue to be a major focus of the NDCUC. The goal for E10 is to increase market share from the current 30% up to 50%. The goal for E85 is to reach the approximately 10,000 owners with registered flex-fuel vehicles in North Dakota, inform them of their vehicle's flex fuel capability and available fueling sites and provide incentives to purchase E85. In addition, the NDCUC plans to increase the number of E85 stations in North Dakota from five to 20. Pricing is the number one factor influencing consumer choice at the pump. Therefore, the NDCUC will pursue legislation that gives E85 a tax holiday for the next four years in order to give the product an opportunity to gain a place in the market. The NDCUC will also pursue legislation that increases investor incentives for investment in value added agricultural businesses such as ethanol plants. In recognition of the fact that expanded ethanol production will also expand the production of dried distillers grains NDCUC will continue with research and marketing programs targeted to provide a high quality, consistent feed product for ND livestock producers. Growth of the ethanol industry will require a consistent, reliable corn crop. NDCUC will partner with Extension, private industry and the ND Corn Growers Association to design a "Master Corn Grower Program" designed to provide ND corn producers with cutting edge information. The 2003 corn crop produced 134 million bushels with an average yield of 114 bushels per acre. Planted corn acreage for the 2004 crop year increased by 28%. The cool, wet 2004 season coupled with an early frost brought increased attention to the fact that ND corn producers need better risk management tools through crop insurance. The NDCUC will work with the Risk Management Agency on improved products and policies.

ND Corn Utilization Council Fargo, North Dakota

Statement of Proejcted Revenues and Expenditures For the current and next biennium 2002-2004 and 2004-2006 (UNAUDITED)

Prepared by the ND Corn Utilization Council

	2002-2004		2004-2006	
Beginning Balance	\$	236,520.00	\$ 411,386.00	
REVENUES:				
Assessment revenues collected from 1st purchasers:	\$	\$1,158,657.00	\$1,160,657.00	
Less: Refunds Paid to Growers		\$27,420	\$31,200	
Net Assessment Revenue	\$	1,131,237.00	\$ 1,129,457.00	
Shared Labor Contract	\$	38,400.00	\$ 14,600.00 \$ 2,500.00	
Interest Income	\$	2,437.00	\$ 2,500.00	
Miscellaneous income	\$,	2,760.00	•	
Total Revenue	\$	1,174,832.00	\$ 1,146,557.00	
EXPENDITURES:				
Program Expenditures (includes Administrative expense	and			
Livestock	\$	154,963.00	\$ 250,000.00	
Ethanol Marketing & Promotion	\$	268,596.00	\$ 300,000.00	
Export Marketing .	, \$	93,815.00	\$ 90,000.00	
Domestic Marketing: New Uses	\$	35,472.00	\$ 36,000.00	
Value-Added Business Development	\$	14,426.00	\$ 30,000.00	
Grower Services	\$	108,368.00	\$ 120,000.00	
Public Policy	\$	147,767.00	\$ 140,000.00	
Research	\$	117,646.00	\$ 150,000.00	
Total Program Expenditures	\$	941,053.00	\$ 1,116,000.00	
Administrative cost	\$	58,912.00	\$ 70,000.00	
Total Expanditures	\$	999,965.00	\$ 1,186,000.00	
Total Expenditures	Þ	999,965.00	\$ 1,100,000.00	
Revenues Over (Under) Expenditures	\$	174,867.00	\$ (39,443.00)	
Ending Balance	<u>\$</u>	411,386.00	\$ 371,943.00	

in Nations Through Ethano

ND Com Council Sponsored Legislation Gives Boost to ND's Ethanol Industry

North Dakota got a boost of energy at the end of the 2003 Legislative session when Governor John Hoeven signed Senate Bill 2222. The legislation. provides production incentives for new ethanol plants not to exceed \$1.6 million per year per plant with a \$10 million cap over the lifetime of any plant. The production incentive is a market based counter-cyclical program based on the price of corn and the price of ethanol. There are currently two ethanol plants in North Dakota. in Grafton and Walhalla that together produce approximately 37 million gallons per year of ethanol. The ND Corn Council has contributed toward? ne development of two proposed. thanol plants. Dakota Renewable Fuels near Valley City and Red-Trail Energy near Richardton (As of December 2004 both are in the equity raising phase of their respective projects



NDCGA President Mike Clemens and unfe Pame talls to detoers before a Redbawies Game

"Do You Drive E85?" Campaign

In 2004 the ND Corn Council launched the "Do You Drive E85?" campaign in North Dakota. The campaign focuses on informing vehicle owners that they drive a Flexible Fuel Vehicle which can utilize the 85% ethanol, 15% petroleum based fuel that costs an average of \$.20 less per gallon than regular unleaded fuel in North Dakota. Vehicle owners simply look at the inside cover of their fuel door, check their owners manual, or match a character in the Vehicle Identification Number or VIN. NDCC is informing the public through television, radio and print advertising, as well as events such as E85 Day at the F/M Redhawks game, the Punt, Pass and Kick event for an E85 truck at NDSU Bison football games, as well as booths at

numerous trade shows across the state. As of December 1, 2004 ND sold 110,000 gallons of E85 fuel. There are approximately 10,000 Flex Fuel Vehicles in ND



State efforts to increase ethanol use

The announcement by Minnesota Governor Tim Pawlenty in September of 2004, to increase the ethanol contents of gasoline in Minnesota from 10 to 20% boosted interest in an ethanol directive in North Dakota that all unleaded fuel except premium contain at least a 10% ethanol blend. Over the last two years, marketshare for 10% ethanol fuel in North Dakota has hovered in the 27-32% range. Market share refers to the percentage of gallons that contain 10% ethanol blend. The percentage volume of ethanol in North Dakota's fuel supply is about 2.7% which amounts to approximately 11-12 million gallons of ethanol per year. The state currently produces 37 million gallons. If two new plants come on line in the next year or two, the state could produce over 100 million gallons per year. If all unleaded fuel except premium contained 10% ethanol blend, the volume of ethanol used in North Dakota would increase to about 35 million gallons per year. Consumer studies conducted by the ND Corn Council of the gasoline buying practices of ND residents indicates that consumers have a positive attitude toward ethanol and make gasoline purchasing decisions based primarily on price. Iowa has instituted a petroleum retailer incentive that gives petroleum retailers 2.5 cents per gallon for every gallon of 10% ethanol blend they sell after the individual retailer's sales of 10% blend reaches 60% of total sales. This has increased lowa's market share of ethanol blend to 65%. During the 2005 legislative session the states of Idaho, Missouri, and Montana are considering bills that require the use of 10% ethanol in all gasoline. The ND Corn Council will continue working with petroleum marketers and consumers to help increase ethanol usage in North Dakota.

Corn Utilization annual Report -



E85 Grand Opening in Oakes



Governor Hoeven with the Andrews family at the E85 Grand Opening in Fargo.

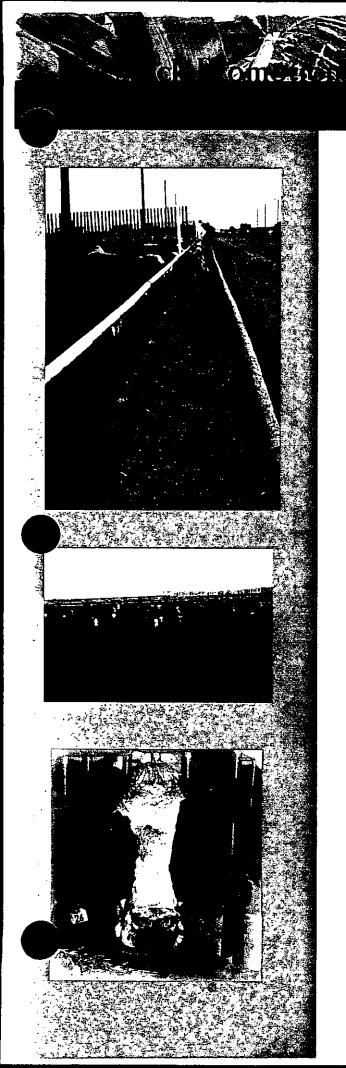
Gross Economic Return of 1 acre of ND Corn Exported vs. 1 acre of ND Corn Converted to Ethanol Corn Exported -115 bushel © \$2.00 = \$230 -115 bushels © .10 = \$11.50 -310 gal © \$1.70 = \$547 -115 bu @ 18lb DDGS = 1 ton @ \$100.00 = \$100 Total: \$847 Plus Corn: \$241 Total: \$241.50 Grand Tetal: \$888

Growing E85 in North Dakota

Since August of 2003, the ND Corn Council has helped fund four new E85 fueling pumps at Cenex stations in Fargo, West Fargo, Devil's Lake and Oakes. Each pump had a grand opening where E85 fuel was priced for just \$.85 per gallon. These new E85 fueling stations are a collaborative effort between the ND Corn Council, the National Ethanol Vehicle Coalition and the ND Governor's office. As part of the Fargo Cenex Grand Opening on September 10, 2003, marathon runner Tom Andrews of St. Paul, MN began a week long marathon from Fargo to St. Paul bringing attention to the importance of E85 fuel to producers, consumers, and most importantly... the environment.

Federal legislation predicted to increase ethanol use

The ND Corn Council supported the efforts of the National Ethanol Vehicle Coalition in achieving the passage of the Volumetric Ethanol Excise Tax Credit (VEETC). This provision, part of the Job Bill signed by President Bush in October 2004, extends the federal excise tax credit on ethanol to 2010. In addition, VEETC provisions will likely eliminate many of the tax barriers that may be limiting the growth of E85.



Approximately 55% of US corn is fed to livestock. In ND only 10% of the corn raised is fed to livestock. A goal of the ND Corn Council is to grow the livestock industry in ND as a value added market for ND grown corn.

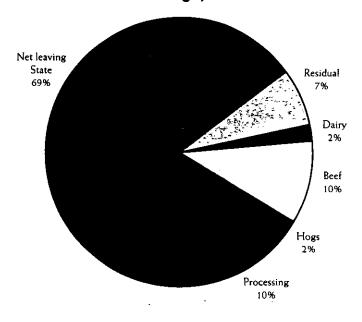
DRIED DISTILLER'S GRAINS OUTREACH PROGRAM

NDCC is continuing the success of the Dried Distiller's Grain Outreach Program. In 2003 and 2004 over 50 North Dakota livestock producers stricken by drought and poor hay quality received DDGS in both granular and lick tub forms through the ND Corn Council. This high protein-high energy livestock feed, which is a co-product of ethanol production, was well received and extended dwindling hay and feed supplies of participating livestock producers. Feedback from the livestock producers was very positive. The co-products improved the palatability of feed, worked well in total mixed ration feeding, and improved the overall appearance and health of their animals.

Dairy and Cattle

The ND Corn Council supported the growth of ND's dairy industry by contributing toward the funding of the ND Dairy Coalition's Executive Director's position. In addition, the Council has committed \$125,000 toward the Beef Center of Excellence program through these studies: Assessment of ND Beef Industry; Development of Best Management Practices for Cow-Calf Operations; Best Feedlot Management Practices, and Best Beef Cattle Slaughter Management Practices. The Beef Center of Excellence is a collaborative project between the ND Ag Innovation Center and North Dakota State University with the objective of developing state of the art beef processing facilities for processing North Dakota livestock.

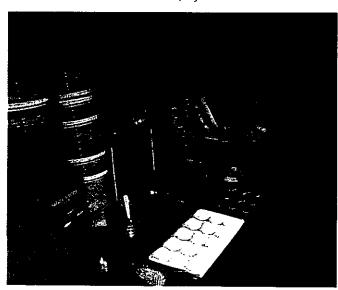
ND Corn Usage, 2003-04



PROMOTING NEW USE PRODUCTS

As a cooperator of the U.S. Grains Council, the ND Corn Council promotes the multifunctional uses of corn, which are beginning to make their way to the public mainstream in foreign countries thanks to Polylactic Acids (PLA) made from corn. Blankets, toys, picnic utensils, grocery bags and clothing are just a few of the over 600 non-food items that can be made from corn that can be found at www.ndcorn. com (click on "corn products"). For example, the uses for polylactic acid (PLA) in Japan are seemingly infinite. Japanese corporations have developed a "contactless card" made from PLA that can be used as an employee/student identification card, membership card, public transportation ticket, etc. Company officials claim the communications capability and durability of the PLA product are equivalent to conventional contactless cards. Also, Japan has developed an inkjet printer film made from PLA that is called "Primake HL PLA." There is also PLA-based film for use in food packaging and in the roofs and walls of agricultural greenhouses. The film contains higher heat resistance than conventional biodegradable plastics. Another Japanese company has eveloped computer memory cards and sticks made of PLA. LA based food containers are also making their way into

organic food stores. The Japanese PLA market, which the NDCC and USGC have supported for several years, is expected to utilize 120,000 metric tons of PLA (equivalent to 12.5 million bushels of corn) by 2010.



Products made from PLA include: containers, dinnerware and even burial urns used in Japan!

Aronand Corn has ge Harry Uses.

NDCC Executive Director Jocie Iszler and Captain Cornelius at Ag in the Classroom in Minot

Ag in the Classroom-Informing future corn users!

The ND Corn Council told the story of the many uses of corn to over 5000 students and consumers. These individuals learned about corn based products made from Polylactic Acid, (PLA) and other corn products by participating in North Dakota's Ag in the Classroom campaigns in Minot, Bismarck and Fargo. Fourth and Fifth grade students from surrounding communities are brought into the "classrooms" to learn about corn, as well as other commodities in North Dakota. The ND Corn Council uses this opportunity to inform students of corn based products, both food and non food, as well as ethanol, corn production and the environment. Many are very surprised to hear that corn can be made into diapers, toys, and containers. To learn more about the over 600 non-food items made from corn, go to www.ncga.com and click on "600 products made from corn"



Maintaining and Growing Foreign Markets

While North Dakota's primary objective is to increase the utilization of corn within the state through value added enterprises, the fact remains that the U.S. exports 20% of its corn crop and these exports are a strong market force influencing local price. ND Corn Council Executive Director Jocie Iszler accompanied the US Grains Council on a two week trade mission to Asia in August 2004 with the mission to assess mature and future markets in Taiwan, emerging markets in Vietnam, and evaluate the future of corn exports to China. Taiwan continues to be a strong customer of US corn with 95% of their corn coming from the US in the amount of 300 to 400 million bushels per year. Growth in the feed grains market in aiwan has leveled off due to a slowing in the growth of their swine and poultry industry. However, there is strong interest in developing the bio-plastics industry. With a population of 23.6 million people on an island roughly the size of Maryland and Delaware there are environmental landfill concerns. The market potential for corn through bio-plastics in Taiwan is estimated at 55

million bushels per year. Export goals of Taiwanese bioplastics compounders further increase the market potential for corn based bio-plastics. Market potential in the area of DDGS is expected to grow to 27 million bushels per year as Taiwanese dairy producers awareness of the relationship between DDGS use and increased production in their herds increases.

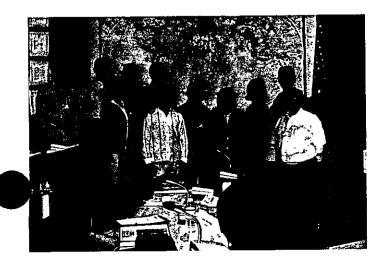
The feedmill industry in Vietnam has experienced an annual growth rate of 15% over the past 10 years.

This is due to increased per capita income and corresponding increased

demand for more animal protein, the shift from backyard feeding operations to large scale confined animal feeding operations (CAFOs), and improved infrastructure relating to ports. US Grains has facilitated this growth by providing technical assistance in the area of risk management to feed mill managers and introducing DDGS to CAFOs. Vietnam's ability to produce corn is rapidly being outpaced by the growth in their livestock industry. Local feedmills are increasingly seeing US corn is competitive with locally grown corn. Vietnam opened its first port able to receive a Panamax vessel

in August of 2004 thereby paving the way for US grain shipments. With a population of 80 million people that is growing at an annual rate of 1.8%, Vietnam is an emerging market for US corn.

China's major use for corn is related to the fact that 50% of the world's hogs or about 500 million head are raised in China. In contrast, the US produces about 50 million head of hogs on the same land mass as China but with a population of 295 million as compared to China's population 1.28 billion. The US Grains Council is facilitating the development of the swine industry in China by providing technical assistance to swine herdsmen on management issues, especially health protocol management of CAFOs. China's development of its CAFOs appears to be outpacing its ability to produce adequate quantities of corn. All signs would indicate that China will import corn but the government is keeping control of imports through its slow approval of biotech events. Existing port regulations and inspections can make it risky for buyers to bring in grain.



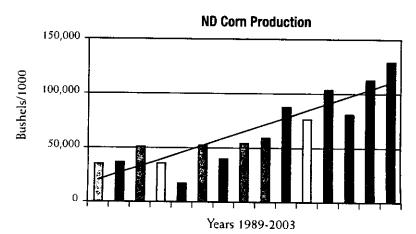
Mexican Corn Delegation Visits North Dakota

In May of 2004, a group of 11 corn buyers, representing feedmills, and livestock and poultry producers in Mexico attended a four day Northern Crops Institute (NCI) seminar "Procurement of Feed Grains in the US Grain Marketing System". During the week ND Corn Council and ND Corn Grower Association directors networked with the group and had the opportunity to point out the advantages of buying corn from North Dakota. During the seminar, ND Corn Council Director Wallie Hardie gave a presentation on biotechnology from the producer's perspective. In addition, the corn buyers had an opportunity to tour the Hardie farm near Fairmont, ND to get a glimpse of North Dakota agriculture in action.

ND Corn Utilization Council Fargo, North Dakota

Statement of Revenues and Expenditures Actual for 2002-2004; Projected for 2004-2006

Beginning Balance	\$236,520.00	\$411,386.00
REVENUES:		
Assessment revenues collected from 1st purchasers: Less: Refunds Paid to Growers Net Assessment Revenue	\$1,158,657.00 \$27,420 \$1,131,237.00	\$1,160,657.00 \$31,200 \$1,129,457.00
Shared Labor Contract Interest Income Miscellaneous income	\$38,400.00 \$2,437.00 \$2,760.00	\$14,600.00 \$2,500.00
Total Revenue	\$1,174,832.00	\$1,146,557.00
EXPENDITURES: Program Expenditures (includes Administrative expens Livestock Ethanol Marketing & Promotion Export Marketing Domestic Marketing: New Uses Value-Added Business Development Grower Services Public Policy Research Total Program Expenditures	se and payroll) \$154,963.00 \$268,596.00 \$93,815.00 \$35,472.00 \$14,426.00 \$108,368.00 \$147,767.00 \$117,646.00 \$941,053.00	\$250,000.00 \$300,000.00 \$90,000.00 \$36,000.00 \$30,000.00 \$120,000.00 \$140,000.00 \$150,000.00 \$1,116,000.00
Administrative cost	\$58,912.00	\$70,000.00
Total Expenditures	\$999,965.00	\$1,186,000.00
Revenues Over (Under) Expenditures	\$174,867.00	\$(39,443.00)
Ending Balance	\$411,386.00	\$371,943.00



North Dakota Dairy Promotion Commission Bismarck, North Dakota

House and Senate Agriculture Committee Report For the Two-Year Period Ended June 30, 2004

Robert R. Peterson State Auditor



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STATE OF NORTH DAKOTA OFFICE OF THE STATE AUDITOR STATE CAPITOL 600 E. BOULEVARD AVE. - DEPT. 117

BISMARCK, ND 58505

November 17, 2004

House and Senate Agriculture Committees:

Transmitted herewith are the financial statements and auditor reports of the North Dakota Dairy Promotion Commission as required by North Dakota Century Code section 4-24-10.

Specifically you will find the state auditor's report on the financial statements, the statement of revenues and expenditures, notes to the financial statements and the compliance and internal control report. Complete audit reports may be obtained by contacting my office.

The Office of the State Auditor would like to thank the commodity groups for their cooperation in preparing these reports.

Sincerely:

Robert R. Peterson

State Auditor





STATE AUDITOR'S REPORT

Honorable John Hoeven, Governor

Members of the Legislative Assembly

Jerry Messer, North Dakota Dairy Promotion Commission

The following pages were taken from the audit report of the North Dakota Dairy Promotion Commission for the two-years ended June 30, 2004. The financial statements are the responsibility of the management of the North Dakota Dairy Promotion Commission. The auditor's responsibility was to express an opinion on the financial statements.

The audit was performed in accordance with generally accepted auditing standards, 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 the auditors plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

The financial statements are presented to provide state decision makers, including the Agriculture Committees, with a comprehensive overview of the North Dakota Dairy Promotion Commission's operations. The revenues and expenditures are reported under the modified accrual basis of accounting. The financial statements are not intended to be a presentation in conformity with generally accepted accounting principles. The complete audit report should be reviewed to obtain a complete picture of the financial position and operations of the North Dakota Dairy Promotion Commission. The complete report may be obtained by contacting the Office of the State Auditor.

The audit resulted in a clean (unmodified) audit opinion. In accordance with *Government Auditing Standards*, a report was also issued on the auditor's consideration of the North Dakota Dairy Promotion Commission's internal control over financial reporting and the tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

This report is intended solely for the information of the meeting of the Joint Agriculture Committees and should not be used for any other purpose. However, this report is a matter of public record and its distribution is not limited.

Robert R. Peterson

State Auditor

November 17, 2004

NOTE: Pages 3 – 9 are left intentionally blank.

Statements of Revenues, Expenditures, and Changes in Net Assets For the Fiscal Years Ended June 30, 2004 and 2003

	2004	2003
Revenues:		,
Assessments	\$451,940	\$ 499,462
Interest income	414	901
Other revenue	25	25_
Total Revenues	452,379	500,388
Expenditures:		
Payments to Midwest Dairy Association	452,500	503,250
Bank fees	1,212	1,277
Legal	41	61
Audit .	-	2,542
Office supplies	48_	
Total Expenditures	453,801	507,130
Change in net assets	(1,422)	(6,742)
Net Assets - Beginning of Year	301,791	308,533
Net Assets - End of Year	\$300,369	\$ 301,791

Notes to the Financial Statements June 30, 2004 and 2003

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

For financial reporting purposes, the North Dakota Dairy Promotion Commission includes all funds programs, and activities over which it is financially accountable. The North Dakota Dairy Promotion Commission does not have any component units as defined by the Government Accounting Standards Board. The North Dakota Dairy Promotion 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 North Dakota Dairy Promotion Commission was established by NDCC chapter 4-27, and is responsible for promoting North Dakota dairy products through coordinated research, education, public relations, advertising, and other means. The Commission helps ensure the future operations of processing plants located in North Dakota cities and towns and maintains dairy markets particularly for the family farms. In addition, the Commission is to provide for the safekeeping of records, inspection thereof, and penalties for violation of unpaid assessment fees. The Commission receives its funding through an assessment of ten cents per hundredweight of all milk or some product there from produced in the State of North Dakota. The Commission operates on a continuing appropriation and received no funding from the state legislature.

B. Reporting Structure

The financial statements include all activities of the reporting entity as defined above. In accordance with NDCC chapter 4-27 these activities are funded on a continuing appropriation basis from a special revenue fund, (the Dairy Promotion Commission operating fund). The statement of revenues and expenditures is a combined statement to give the users an overview of the agency's activity.

C. Fund Financial Statements

The net assets are reported as unrestricted net assets with constraints on resources which are imposed by management, but can be removed or modified.

D. Fund Accounting Structure

The Commission uses funds 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 Dairy Promotion Commission operating fund as a major governmental fund. It is used to account for the collection of assessments and transactions relating to the promoting of North Dakota dairy products through coordinated research, education, public relations, advertising, and other means.

Notes to the Financial Statements - Continued June 30, 2004 and 2003

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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 as 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.

Major revenues that are susceptible to accrual, and therefore recorded on the accrual basis, include assessments and interest. All revenues are determined to be available if collected within one year of fiscal year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

F. Cash and Cash Equivalents

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

G. Investments

Investments include funds deposited into a money market with AG Edwards.

NOTE 2 CHANGE IN ACCOUNTING PRINCIPLES

For the fiscal year beginning July 1, 2002, the Commission implemented the following new accounting standards issued by GASB:

Statement No. 34, <u>Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments</u>

Statement No. 37, <u>Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments: Omnibus</u>, and

Statement No. 38, Certain Financial Statement Note Disclosures.

Statement No. 34 as amended by Statement No. 37, establishes new financial reporting standards for state and local governments. This statement's requirements represent a significant change in the financial formats and changes in fund types and account groups. In addition to fund financial statements, governments are required to report government-wide financial statements, prepared using the accrual basis of accounting.

Statement No. 38 requires certain note disclosures when Statement No. 34 is implemented. The provisions of these new standards have been incorporated into the financial statement notes.

Notes to the Financial Statements - Continued June 30, 2004 and 2003

NOTE 3 INVESTMENT IN MIDWEST DAIRY ASSOCIATION

Under the terms of a Dairy Research and Promotion Agreement dated July 1, 1993, the Commission provided capital of \$155,170 in the form of cash and equipment to Midwest Dairy Association (MDA, formerly American Dairy Association/Dairy Council of the Upper Midwest). This investment, along with investments made by American Dairy Association of South Dakota and Minnesota Dairy Research and Promotion Council totaled \$1,500,000. These investments enabled MDA to commence operations, and provided working capital for the activities of coordinating and implementing dairy promotion, research and education programs on behalf of dairy producers in North Dakota, Minnesota and South Dakota.

In the event the Dairy Research and Promotion Agreement between the Commission and MDA is terminated, the Commission may receive a refund of its contributed capital. Upon termination, MDA has the right to determine the appropriate disposition of the Commission's capital contribution. However, until the capital is refunded in full, and as long as MDA exists, the Commission's contribution shall be reflected as an investment on the Commission's financial statements.

NOTE 4 ORGANIZATION AND RELATED PARTY TRANSACTIONS

As stated in Note 1, the Commission is an entity of the state of North Dakota and as such, other state agencies of the state and political subdivisions are related parties.

NOTE 5 DEPOSITS AND INVESTMENTS

The GASB requires certain financial statement disclosure of deposits and investments such as the disclosure of carrying amount by type of investments and classification into one of three categories based upon credit risk. Category 1 includes deposits that are fully insured or collateralized with securities held by the Commission or by its agent in the Commission's name. Category 2 includes deposits which are collateralized with securities held by the pledging financial institution's trust department or agent in the Commission's name. Category 3 includes deposits which are not collateralized or are collateralized by the pledging financial institution, trust or agent, not in the Commission's name.

North Dakota Dairy Promotion Commission is required to maintain its operating funds at the Bank of North Dakota. All deposits at the Bank of North Dakota are uncollateralized, a category 3 risk as defined by the GASB, but guaranteed by the State of North Dakota according to N.D.C.C. 6-07-10.

Notes to the Financial Statements - Continued June 30, 2004 and 2003

NOTE 5 DEPOSITS AND INVESTMENTS - Continued

June 30, 2004:	Carrying <u>Amount</u>	Total Bank <u>Balance</u>	Category 1	Category 2	Category 3
Cash deposits Money market as investments	\$ 57,759 48,521	\$ 57,759 48,521	\$ - <u>48,521</u>	\$ - -	\$ 57,759
Totals	\$ 106,280	<u>\$ 106,280</u>	\$ 48,521	<u>\$</u>	\$ 57,759
<u>June 30, 2003:</u>					
Cash deposits Money market as investments	\$ 26,627 78,172	\$ 26,627 78,172	\$ - 78,172	\$ - 	\$ 26,627
Totals	\$ 104,799	\$ 104,799	\$ 78,172	\$ -	\$ 26,627

NOTE 6 RELATED PARTY TRANSACTIONS

The North Dakota Dairy Promotion Commission contracts with the Midwest Dairy Association (MDA), a related organization through similar control and management, to implement and administer programs intended to contribute to the betterment of North Dakota's dairy farmers and the state's dairy industry. Such programs include, but are not limited to: product advertising and promotion, nutrition programs, dairy food publicity, communications, public relations, and industry relations. All of the Commission board members are also members of the North Dakota Division of Midwest Dairy Association. Under the terms of the contract, MDA also provides the Commission with administrative, financial, and reporting services. Payments under these contracts were \$452,500 and \$503,250 for the years ending June 30, 2004 and 2003, respectively. As of June 30, 2004, the remaining balance of the 2004 contract was \$225,000.

NOTE 7 RISK MANAGEMENT

The Commission is exposed to various risks of loss related to torts, theft, damage, destruction of assets, errors and omissions, injuries to employees and natural disasters. The Commission participates in the following funds or pools:

The Risk Management Fund (RMF) was created in 1995 and is an internal service fund to provide a self-insurance vehicle for the liability exposure of state agencies resulting from the elimination of the state's sovereign immunity. The RMF manages the tort liability of the state, its agencies' employees, and the University System. All state agencies participate in the RMF and their fund contribution was 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.

Notes to the Financial Statements - Continued June 30, 2004 and 2003

NOTE 7 RISK MANAGEMENT - Continued

The State Bonding Fund currently provides the Commission with blanket fidelity bond coverage in the amount of \$150,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

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

NOTE 8 DUE TO / DUE FROM STATE AGENCIES

	20	2004		2003	
<u>Due to other state agencies</u> Bank of North Dakota Attorney General State Treasurer	\$	98 11	\$	98 - 14	
Total	\$	109	\$	112	
<u>Due from other state agencies</u> Bank of North Dakota	_\$	9	\$	19	



REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Governor of North Dakota The Legislative Assembly

The North Dakota Dairy Promotion Commission Bismarck, North Dakota

We have audited the financial statements of the governmental activities and the major fund of the North Dakota Dairy Promotion Commission, a department of the State of North Dakota, as of and for the years ended June 30, 2004 and 2003, which collectively comprise North Dakota Dairy Promotion Commission's basic financial statements and have issued our report thereon dated September 24, 2004. 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 Standard*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the North Dakota Dairy Promotion Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be a material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance

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

This report is intended solely for the information of the audit committee, management, the Legislative audit and Fiscal Review Committee, and other state officials, and is not intended to be and should not be used by anyone other than those specified parties.

BRADY, MARTZ & ASSOCIATES, P.C.

Brady, Marty

September 24, 2004

NDDPC North Dakota Dairy Promotion Commission

2015 Rice Street - St. Paul, MN 55113 651-488-0261 Fax 651-488-0265

North Dakota Dairy Promotion Commission Summary of Activities July 2003 - June 2005

Introduction

According to the North Dakota Century Code Section 4-27-02, the purpose of the North Dakota Dairy Promotion Commission is to "promote the sale and disposal of North Dakota dairy products through coordinated research, education, public relations and advertising." The intent of this summary is to explain how the North Dakota Dairy Promotion Commission (NDDPC) is fulfilling this legislative mandate.

Description of Group

In 1993, we successfully completed a consolidation with the dairy promotion organizations in two of our neighboring states: South Dakota and Minnesota. That new organization became known as American Dairy Association/Dairy Council of the Upper Midwest (ADA/DC of the Upper Midwest). Then, in year 2000, ADA/DC of the Upper Midwest further consolidated with the Midland Dairy Association resulting in the formation of our current organization, Midwest Dairy Association (MDA). This new organization, MDA, now covers nine states: North Dakota, South Dakota, Minnesota, Iowa, Kansas, Missouri, Arkansas, Illinois, and part of Oklahoma. MDA markets to 34 million consumers in the Upper Midwest and represents 13,000 dairy farmers. It currently administers a budget of approximately 18 million dollars. Roughly 46% of MDA's budget is invested in programs promoting cheese, North Dakota's priority product. It allocates roughly 29% to promote fluid milk. (More details on specific program activity to follow in this report.)

As a result of these changes, we believe North Dakota dairy farmers are making more efficient use of their promotion dollars. On behalf of North Dakota dairy farmers, MDA is now reaching consumers in heavily populated areas such as Chicago, Kansas City and Tulsa, doing a better job of promoting cheese, spreading overhead costs over a larger area, and specializing staff while maintaining local control through eight division boards.

Dairy farmers instituted these changes because North Dakota's milk production, like that of other Midwest states, has continued to fall over the past several years. That drop in production resulted in a significant decline in our promotion budget. Dairy farmers in other MDA states, experiencing this same production loss, are meeting these challenges by working together to get more bang for dairy farmers' promotion dollars.

It is important to note, however, that even though we are now part of a bigger organization, North Dakota dairy farmers still maintain control of their programs. The North Dakota Dairy Promotion Commission retains final approval of a contract each year with MDA to carry out its promotion programs. Further, all members of the North Dakota Dairy Promotion Commission serve as members of the MDA North Dakota Division board, along with additional North Dakota dairy producers. The MDA North Dakota Division board is represented on the MDA Corporate Board according to North Dakota's share of the total MDA budget. Thus, each year the MDA North Dakota Division elects two of its members to serve on the MDA board. That board currently has two members serving from North Dakota: Jerry Messer, Richardton, and Terry Entzminger, Jamestown. Through Jerry Messer's representation on the Midwest Dairy Association board, he acts as a director of the national UDIA (United Dairy Industry Association) board of directors and serves as Treasurer of DMI (Dairy Management Inc.)

It is important to note too that North Dakota dairy producers are informed about their dairy promotion programs now, more than ever. At local information meetings each year, MDA board and staff make a major effort to inform producers how their check-off dollars are invested and to solicit their direction and feedback. The meetings provide grassroots accountability back to those who fund the program. In addition, every dairy farmer in North Dakota receives an invitation to one of these informational meetings, an annual accounting of how check-off funds are spent, and periodic newsletter reports on promotion activity carried out on their behalf.

Program Description for Current Biennium

Cheese Promotion

For many years cheese promotion has been our main focus. Because dairy farmers in the Upper Midwest produce more milk than can be consumed locally, we convert much of our milk to cheese that is shipped and sold to consumers in other parts of the country. In fact, the largest part of MDA's budget is used to market our products in more highly populated areas in the Midwest and beyond.

MDA has promoted cheese through national promotions such as the "Ahh, the Power of Cheese" summer and fall cheese campaigns carried out during 2003. MDA has traditionally provided a major part of the funding to carry out these cheese campaigns nationwide, and now continues to implement advertising for cheese, milk and yogurt through a new farmer-funded effort called 3-A-Day, which we'll describe shortly.

During 2003, several memorable, humorous TV ads helped get the point across that cheese is a "must have" item for the fridge. An ad called "Closing Up Shop" depicted a late-night shopper who was put behind bars while trying to purchase Cheddar cheese. Another, called "Pinata," was geared for kids. It showed a magician at a kid's party who was flattened by a cheese-filled piñata. These entertaining television ads ran during prime-time programming on popular programs such as CSI, Law & Order, ER and on family network programming such as TV Food, Hallmark, The Agency, and Crossing Jordan.

As mentioned earlier, the check-off program launched a new 3-A-Day campaign, which included cheese ads on major market radio stations focusing on the nutritional attributes of three dairy servings each day. Since then, dairy advertising has consistently carried this new 3-A-Day theme.

Promoting Cheese through Foodservice

The main goal in foodservice is to promote new and more menu items which include cheese. To accomplish that goal, MDA provides expertise on consumers' preference for cheese-rich menu items and helps bring cheese-friendly items to market. Our foodservice partners provide the lion's share of the dollars to actually carry out the product promotions so it becomes a win-win partnership.

It was just such a partnership with Wendy's that proved to be extremely successful in selling cheese. The dairy check-off helped Wendy's develop its Wild Mountain Cheeseburger and Chicken sandwiches. The sandwiches were a huge hit with consumers; in fact Wendy's sold approximately 20 million of them and in the process sold over 900,000 pounds of cheese. Both sandwiches, featuring Colby Jack Cheese and a smoky cheese sauce, were credited with a 9.4% increase in sandwich sales. The dairy check-off invested dollars to test these sandwiches before they were added to the menu. The positive test results ultimately resulted in a national rollout at Wendy's 6,000 stores nationwide.

We share check-off-funded research with them, such as data on cheese trends, menu trends, and consumer preferences. We give them technical assistance and help them come up with new ideas on how to position cheese in a way that will give their menu items more consumer-appeal.

In 2003, the dairy check-off partnered with Pizza Hut in its "Summer of Cheese" promotion, which focused on cheese as the main ingredient in pizza that gives it its unique taste appeal.

Because of these and other efforts to promote cheese, per capita cheese consumption has topped the 30-pound level in the U.S. and per capita cheese consumption has doubled since 1975.

Milk Promotion

The dairy industry is continuing its popular "got milk?" advertising campaign to promote fluid milk sales. The humorous ads remind consumers that milk is an essential beverage that goes with their favorite foods. The "got milk?" slogan has become almost universally recognized in households across America.

MDA ran several new milk ads to reach kids including "Tumble" for chocolate milk and "Ant" for white milk. Both were run on the Nickelodeon and Cartoon Network. We also took advantage of the partnerships with Cartoon Network and Nickelodeon to enlist the Powerpuff Girls and The Wild Thornberrys in milk ads targeting kids.

Radio, however, became the main advertising tool for milk during 2003. The check-off program continued the radio milk campaign directed at Moms, the group that most strongly influences kids in what they eat and drink. Because Moms rarely have time to watch TV, the new milk ads have been run on radio and in magazines women read.

In the most recent "Celebrity Ode to Mom" radio campaign, music superstar LeAnn Rimes was featured. In her ad, Rimes said "Growing up, a favorite part of my day was drinking the milk from my cereal bowl. I knew I loved the taste, but what I didn't know was that milk was helping to give me strong and healthy bones."

Other famous singers in past ads have included Ray Charles, Aretha Franklin, Wynonna Judd and Aaron Neville who sang songs of appreciation to their moms for giving them milk as a kid.

During 2004 the milk campaign carried the 3-A-Day theme.

Check-off helps make milk a menu choice at McDonalds, Wendy's

The dairy check-off also teamed up with McDonald's to offer Milk Jugs in white and chocolate single-serve plastic containers as a choice in their Kids Happy Meal package. MDA staff planned approximately 30 media events and promotions with local McDonald's outlets this past summer, many of which included involvement of a local dairy farmer and a dairy princess who explained the care with which milk is produced. To help highlight this milk launch at McDonald's, MDA provided "got milk" crew buttons, coloring sheets and other support materials.

These new Milk Jugs, featuring Ronald McDonald surfing on a wave of Milk, are now offered nationwide in more than 13,500 McDonald's locations.

Wendy's too, with help from the dairy check-off, began offering milk in attractive kid-friendly plastic packaging. Wendy's announced recently that its sales of milk in 8-ounce, single-serve plastic containers of white and chocolate at its nearly 6,000 stores nationwide surpassed **1.6 million units**, compared to an average **65,000 units** per week before the introduction of the new milk offerings. McDonald's milk sales also made a huge jump—from about **625 thousand** milk cartons before instituting the new packaging to over **4.5 million** after changing to the new colorful plastic milk cartons.

Collectively, these efforts have the potential to move an additional 400 million pounds of milk annually!

Earlier last year, dairy farmers also partnered with McDonald's via colorful print ads directed at Kids and Moms in which Ronald McDonald wore a milk mustache to underscore the importance of milk

for growing, healthy bones. One ad targeted Moms to highlight their importance as a milk-drinking role model, while the other showed kids the fun of drinking milk.

Launched new "3-A-Day of Dairy" program

The Midwest Dairy Association worked with Dairy Management Inc. (DMI) and other dairy check-off groups around the country to launch <u>3-A-Day</u>, a nutrition-based marketing and education program that allows retailers, dairy manufacturers, health professionals, and others to deliver a unified dairy message.

The new program, which encourages consumption of three servings of dairy a day for stronger bones, received its official kick-off on March 3 (3/3/03), with special promotional activities carried out in grocery stores, schools and through consumer media.

MDA staff has continued to work with processors, manufacturers, retailers and other industry groups to encourage use of the "3-A-Day" logo on their product packaging. Nearly 60 retail chains have signed onto the program, representing more than 50 percent of grocery stores nationwide. They include Wal-Mart, Kroger, Cub, and Rainbow along with over 55 major manufacturers like Swiss Valley Farms, AMPI, Kraft, Borden, Land O'Lakes, Bongards, Sargento, Cass Clay, Dannon, Yoplait, and NesQuik. The new 3-A-Day of Dairy logo now appears on approximately **2.5 billion** qualified dairy product packages and the number keeps growing.

MDA's registered dietitians made more than 44 TV appearances about 3-A-Day throughout MDA's nine-state region, garnering millions of media impressions. In addition, more than 240,000 doctors and dietitians from leading health organizations were educated on the importance of 3-A-Day of Dairy for stronger bones and better bodies.

During 2004 the check-off added a new element—weight loss claims—to the campaign to give it even greater power and impact. Because of check-off-funded research proving that dairy foods help to control weight when used as part of a low calorie diet, those findings were incorporated into the 3-A-Day campaign. MDA worked with its many retail partners in major markets to support the connection between 3-A-Daya and weight loss through newspapers and TV ads, in-store sampling and custom radio. MDA also worked with processors to include the 3-A-Day/weight loss logo on more than 30 brands.

MDA's advertising for cheese and milk also incorporated the weight loss theme. In conjunction with the new national 3-A-Day TV spots, called "1...2...3...It's so easy," MDA produced two 3-A-Day radio spots. The first spot delivered a cheese message, the second communicated the importance of getting calcium from dairy for healthy bones and strong bodies.

Another key way the check-off is spreading information about 3-A-Day is through a three-year partnership between WebMD and 3-A-Day of Dairy. WebMD is an internet resource that reaches nearly two million consumers and 300,000 health professionals. The site helps explain dairy's important role in weight management.

MDA also generated substantial publicity throughout MDA's territory on the topic "New Study Shows 3 to 4 servings of Dairy Each Day Help Burn Fat," documenting Dr. Michael Zemel's clinical trial findings at the University of Tennessee on the positive impact of dairy calcium on weight loss.

Check-off instrumental in creating a Healthy School Environment

Throughout MDA's nine-state region, MDA staff members have been the driving force behind development of Action For Healthy Kids state teams. Those teams are now working toward making our schools healthier through better nutrition and physical activity. MDA staff organized a Healthy Schools Summit in nearly every state to bring together key health professionals and key school educators to showcase how they too can make their schools healthy. In some cases, the governor and other top leaders in the state helped lead the charge.

Here in North Dakota Action For Healthy Kids has joined with Healthy North Dakota and North Dakota Team Nutrition to form the North Dakota Healthy School Nutrition Alliance. This group is made up of over 30 health professionals and educators to help develop healthy school nutrition guidelines for North Dakota schools.

The Midwest Dairy Association has been active in promoting dairy nutrition in North Dakota by being a regular guest on TV stations in Fargo and Bismarck and by attending and exhibiting at several health professional and educator conferences such as the North Dakota Dietetic Association meetings, the North Dakota Medical Association Conference and the North Dakota School Board Association conference.

MDA is encouraging schools to take several easy steps: use MDA's nutrition education materials, make dairy foods available throughout the school day, offer milk cold in attractive coolers, provide a variety of flavors, and add milk vending machines.

MDA has participated in an exciting new program to encourage use of milk vending machines in schools and other public places. The check-off helped fund a study to determine the potential of milk sales in school vending machine to find out if this venue truly represents a good marketing opportunity for milk. The study indicated that if school milk vending were widespread, it could potentially increase school milk consumption by 131 million single-serve units per year and make a huge positive impact on milk's image with kids. MDA is now working with partners outside the dairy industry who are willing to purchase and operate the machines.

MDA shared the results of a major vending test done in lowa with processors, school administrators and the media. The test revealed that **all-dairy** vending machines could be profitable for both schools and processors—and add significantly to milk consumption in school. Another test done earlier this year in Kansas helped us understand that dairy vending can work equally well in **smaller schools**—provided students are directly involved in managing the machines.

More than 50 "Dairy Makes a Difference" grants were awarded to schools that featured creative ideas for reminding students, parents and staff that dairy foods are key to a healthy diet. Innovative classroom education projects, milk mustache photos, dairy snacks, vending machine promotions and poster contests were some of the imaginative ideas featured in these grant projects.

Linking student achievement with eating breakfast, MDA's breakfast grants provided 21 schools the opportunity to offer a grab-and-go breakfast, breakfast in the classroom or a breakfast after first period. The goal: increase the number of students who eat a breakfast including dairy foods.

Helped protect dairy's reputation through Dairy Confidence Campaign

Dairy farmers in the Midwest were instrumental in forming a dairy issues management system to challenge orchestrated misinformation campaigns by anti-dairy special interest groups. Our strategies and consumer-tested messages helped the dairy check-off keep consumers focused on the wholesome, nutritious benefits of dairy products.

Dairy farmer spokespersons, as part of a Spokesperson Network organized by the check-off, have been trained for providing an effective response in major Midwest markets including Chicago, St. Louis, Cedar Rapids/Dubuque/Waterloo, Des Moines, Springfield, Kansas City, Minneapolis/St. Paul, Little Rock, Tulsa, Wichita, the Quad Cities and Sioux Falls.

The check-off's issues monitoring system alerts us—often days or weeks ahead of time—when radical activists plan an attack on the dairy industry. As a result, dairy farmers are now able to respond quickly and effectively, so that consumers will remain confident in the care and concern dairy farmers have for their cows and in the wholesomeness of dairy products.

As part of a June Dairy Month campaign this past summer, MDA developed a "Cow Spa" graphic comparing a dairy farm to a "spa for cows" to illustrate the excellent care cows receive. The campaign received publicity in major newspapers around the country. Comparing a dairy farm to a spa helped get the important point across to consumers that farmers take good care of their cows.

MDA's Farmer Spokesperson Network and staff responded to a host of media inquiries about the rise in retail dairy product prices earlier this year, explaining to consumers that dairy farmers work hard to produce milk but do not set the price paid at the grocery checkout. At the same time, we reminded consumers that dairy products are still a great value in the supermarket, with great nutrition—including calcium and eight other essential nutrients—for just pennies per ounce.

Developed new partnership with NFL to leverage dairy promotion success

Early in 2004, the dairy check-off launched a new four-year partnership with the National Football League (NFL) formalizing a long-term relationship with individual NFL players and coaches. The new relationship is designed to drive dairy sales and to bring excitement to dairy product promotions.

Nationally, the check-off is capitalizing on events such as kickoff weekend and the Super Bowl. Here in the MDA area, the check-off is working with the Minnesota Vikings, Chicago Bears, Kansas City Chiefs, and St. Louis Rams to extend awareness of 3-A-Day and increase sales of milk, cheese and yogurt.

This year, the dairy check-off and the NFL rolled out a nationwide school program to show kids ages 6-14 the importance of including three servings of milk, cheese and yogurt in their diets each day. In several markets, MDA is working with processors to add NFL nutrition messages to milk cartons served at schools.

Here in the Upper Midwest, classrooms will receive a full-size growth chart of Viking Center Matt Birk wearing his milk mustache as he toasts the viewer with a glass of milk carrying the 3-A-Day logo.

Following are examples of dairy promotions MDA carries out in North Dakota:

- 1. <u>Television and radio advertising.</u> Dairy farmers in North Dakota are major advertisers. They sponsor events such as the North Dakota Football Championships, Hockey Championships, Girls' Class B Basketball, Boys' and Girls' Class A Basketball and Boys' Class B State Basketball tournaments. These activities generate high listener interest and place dairy products into a very receptive, friendly environment. MDA also sponsored outdoor billboard advertising in the Fargo and Bismarck markets. In addition, MDA worked with radio stations KLTA-FM and KVOX-FM in conjunction with Hornbacher's grocery stores in a promotion called "Back to School," a promotion encouraging families to get their 3-A-Day of dairy.
- 2. <u>Nutrition education programs in schools.</u> Dairy Council, dairy producers' nutrition education arm, provides teachers throughout the state with eye-catching materials to help explain the importance of dairy products in a balanced diet. Dairy Council programs are included in the curriculum in many of the school districts in North Dakota. It also distributes information and materials to North Dakota's health professionals who provide clients with dietary advice.
- 3. Restaurant and grocery store promotions. An MDA staff member works directly with North Dakota grocery stores to solicit their involvement in the major cheese promotions held throughout the year. Another staff member works with the North Dakota restaurant industry. MDA has partnered with national restaurant chains with a strong presence in North Dakota—chains such as McDonald's, Wendy's, Taco Bell, and Pizza Hut.
- 4. <u>Dairy's Image</u>. When the dairy industry is confronted with a challenge such as BSE in the news or a spike in dairy prices, through the check-off, North Dakota dairy farmers have a team of staff and

farmer spokespersons who are ready to respond on short notice. That helps protect the image of North Dakota dairy farmers and the foods they market.

5. <u>Local activity.</u> Even though we are now affiliated with a larger regional promotional organization, MDA has retained the local activities so important to local producers, such as involvement in the North Dakota State Fair and the Dairy Princess program. These activities help us deliver a positive image of the dairy industry to consumers.

Projected Activities

During the next biennium, we will build on the foundation of programming established during our long history. We will continue to produce advertising in the award-winning tradition of years past. We will continue to emphasize the 3-A-Day program because it holds the greatest potential for increasing dairy consumption.

We will continue to develop effective promotions with grocery stores and with restaurants where consumers make their purchasing decisions. We will continue to stress nutrition education in our schools so that tomorrow's consumers will include dairy products as part of a balanced diet. And, to stretch the impact of shrinking promotion dollars, we will continue to develop partnerships with local media and food manufacturers whose promotional interests are parallel with our own.

Conclusion

In closing, we'd like to share some very good news in the area of dairy consumption that is a tribute to the effectiveness of dairy promotion programs.

The dairy check-off promotion program was established in 1984 with one purpose: to increase demand for U.S. dairy products. When dairy farmers began the check-off program, there was a milk surplus of approximately 9.5 billion pounds. Today, that surplus is nearly gone and there are now no significant government dairy purchases, in spite of rising production nationally on the farm. Since the program began 20 years ago, per capita dairy consumption has increased from 533 pounds per year to approximately 594 pounds.

During this past year, 2003, total dairy consumption continued to climb by a total of 2.2 percent, according to USDA figures. Figures are not yet available for 2004.

Finally, in an article published in Hoards Magazine, dairy economist Harry Kaiser of Cornell University says: "If there were no check-off, the average price received by dairy farmers would have been 5.1% lower, or 73 cents per hundredweight lower."

Based on this information and other studies that have been conducted with respect to dairy promotion, it seems clear that dairy promotion is an excellent tool with which to improve sales and bring a positive return for North Dakota dairy producers.

NORTH DAKOTA DAIRY PROMOTION COMMISSION Bismarck, North Dakota

STATEMENT OF PROJECTED REVENUES AND EXPENDITURES For the Current and Next Biennium 2003-2005 and 2005-2007 (UNAUDITED)

Prepared by the North Dakota Dairy Promotion Commission

·	2005-2007 <u>Biennium</u>	2003-2005 <u>Biennium</u>	
REVENUES: Assessments Interest Miscellaneous	\$ 735,780 980 50	\$ 847,950 840 50	
Total Revenues	\$ 736,810	\$ 848,840	
EXPENDITURES: Program Expenditures: Contract Payment to Midwest Dairy Association	\$ 735,780	\$ 871,000	
Total Program Expenditures Administration	\$ 735,780 8,085	\$ 871,000 7,774	
Total Expenditures	\$ 743,865	\$ 878,774	
Revenues Over (Under) Expenditures	\$ (7,055)	\$ (29,934)	

North Dakota Dry Bean Council Frazee, Minnesota

House and Senate Agriculture Committee Report For the Two-Year Period Ended June 30, 2004

Robert R. Peterson State Auditor



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

November 17, 2004

House and Senate Agriculture Committees:

Transmitted herewith are the financial statements and auditor reports of the North Dakota Dry Bean Council as required by North Dakota Century Code section 4-24-10.

Specifically you will find the state auditor's report on the financial statements, the statement of revenues and expenditures, notes to the financial statements and the compliance and internal control report. Complete audit reports may be obtained by contacting my office.

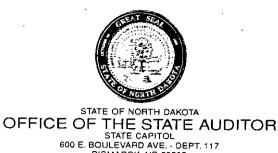
The Office of the State Auditor would like to thank the commodity groups for their cooperation in preparing these reports.

Sincerely,

Robert R. Peterson

State Auditor

STATE AUDITOR



BISMARCK, ND 58505

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

INDEPENDENT AUDITOR'S REPORT

Honorable John Hoeven, Governor

Members of the Legislative Assembly

Tim Courneya, North Dakota Dry Bean Council Administrator

We have audited the special-purpose statement of revenues and expenditures of the North Dakota Dry Bean Council for the two-year period ended June 30, 2004. This special-purpose financial statement is the responsibility of the management of the North Dakota Dry Bean Council. Our responsibility is to express an opinion on this special-purpose financial statement based on our audit.

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

The accompanying special-purpose financial statement was prepared to provide state decision makers, including the Legislative Audit and Fiscal Review Committee, with a comprehensive overview of the North Dakota Dry Bean Council's operations. The revenues and expenditures are reported as discussed in the first note to the financial statements. This special-purpose financial statement is not intended to be a presentation in conformity with generally accepted accounting principles.

In our opinion, the special-purpose financial statement referred to above presents fairly, in all material respects, the revenues and expenditures of the North Dakota Dry Bean Council for the two-year period ended June 30, 2004, in conformity with the basis of accounting described in the first note to the financial statements.

Our audit was made for the purpose of forming an opinion on the special-purpose financial statement taken as a whole. The statement subsequent to the notes is presented for purposes of additional analysis and is not a required part of the special-purpose financial statement of the North Dakota Dry Bean Council. The statement subsequent to the notes has been subjected to the auditing procedures applied in the audit of the special-purpose financial statement and in our opinion, is fairly stated in all material respects in relation to the financial statement taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 20, 2004 on our consideration of the North Dakota Dry Bean Council's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

This report is intended solely for the information of the Governor, Legislative Audit and Fiscal Review Committee, and management of the North Dakota Dry Bean Council and should not be used for any other purpose. However, this report is a matter of public record and its distribution is not limited.

Robert R. Peterson State Auditor

August 20, 2004

COMPARATIVE STATEMENT OF REVENUES AND EXPENDITURES For The Two-Year Periods Ended June 30, 2004 and 2002

	2004-2003	
REVENUES:		
Bean Assessments (net of refunds of \$194,674)	\$ 1,598,405	
Interest on Investments	8,221	
Total Revenues	\$ 1,606,626	
EXPENDITURES:		
Operating Expenses	\$ 12,612	
Management and Consulting Services	2,125,632	
Total Expenditures	\$ 2,138,243	
Revenue (Under)/Over Expenditures	\$ (531,617)	
NONOPERATING REVENUE:		
USDA Grant	\$ 375,000	
Total Nonoperating Revenue	\$ 375,000	
Revenue and Nonoperating Revenue		
(Under)/Over Expenditures	\$ (156,617)	

NOTES TO THE SPECIAL-PURPOSE FINANCIAL STATEMENT For The Two-Year Period Ended June 30, 2004

Note 1 - Summary of Significant Accounting Policies

The responsibility for this special-purpose financial statement, the internal control structure, and compliance with laws and regulations belongs to the management of the North Dakota Dry Bean Council. A summary of the significant accounting policies follows:

A. Reporting Entity

For financial reporting purposes, the North Dakota Dry Bean Council includes all funds, programs, and activities over which it is financially accountable. The North Dakota Dry Bean Council does not have any component units as defined by the Government Accounting Standards Board. The North Dakota Dry Bean Council is part of the state of North Dakota as a reporting entity.

The North Dakota Dry Bean Council was created by the 1977 Legislature through passage of the "Edible Bean Industry Promotion Act" pursuant to NDCC chapter 4-10.3. It being the intended purpose that the production, development, marketing, and promotion of dry beans in North Dakota is important to the general welfare of the people of North Dakota. The accomplishment of which required the establishment of the North Dakota Dry Bean Council for that purpose and with the objectives of contributing to the stabilization and improvement of the agriculture economy of the state.

The North Dakota Dry Bean Council is composed of one participating grower elected from each of the five districts established in chapter 4-10.3 of the North Dakota Century Code. An assessment of 10 cents per hundredweight is imposed on all dry beans grown in the state and sold to a designated handler. All moneys levied and collected by the North Dakota Dry Bean Council are to be deposited in an account designated "Dry Bean Fund" at the State Treasurer and used for carrying out Council objectives.

The Northarvest Bean Growers Association performs the administrative duties and the record-keeping requirements of the North Dakota Dry Bean Council under contract. This related party is further explained in Note 2 to the financial statement. The financial statement includes only activities of the North Dakota Dry Bean Council, which is one department with one division. The North Dakota Dry Bean Council is responsible for and is funded under a continuing appropriation.

B. Reporting Structure

The financial statements include all activities of the reporting entity as defined above. These activities are funded from fund 241, the Dry Bean Fund. The comparative statement of revenues and expenditures is a combined statement to give the users an overview of the agency's activity.

C. Basis of Accounting

Revenues and expenditures on the comparative statement of revenues and expenditures are principally reported on the modified accrual basis of accounting, which are generally accepted accounting principles (GAAP) for governmental fund types.

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., measurable and available). Measurable means the amount can be determined, available means due and collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues are considered available if they are collected within 30 days after fiscal year-end. Expenditures are recorded when goods or services are received. Exceptions include principal and interest expenditures which are recorded when due; compensated absences which are recorded when paid; and, claims and judgments.

There can be differences between revenues and expenditures reported on the state's accounting system and those reported by the Office of Management and Budget in the state's CAFR in accordance with GAAP. Examples of these include:

- 1. Loan receipts and loan disbursements are accounted for as revenues and expenditures on the state's accounting system (and at times are budgeted as expenditures).
- Revenue reported on the statement of revenues and expenditures can differ from GAAP revenues because certain receivables are accrued for GAAP purposes while they were not recorded as revenue on the state's accounting system when they are received after the apply back period.
- Certain transfers are sometimes recorded as revenues and expenditures on the state's accounting system.
- 4. Expenditures recorded on the state's accounting system do not report expenditures relating to capital lease and other financing arrangements.

D. Other GAAP Reporting Differences

GAAP financial statements would include a balance sheet by fund type and account group. Revenues and expenditures would also be reported by fund type. GAAP financial statements would also provide more complete note disclosures.

For this report, revenues and expenditures are reported on a departmental basis to give an overview of the North Dakota Dry Bean Council's operations. All revenues and expenditures are included.

Note 2 - Related Parties

The Northarvest Bean Growers Association (Association) is a related party of the North Dakota Dry Bean Council (Council). The Council contracts with the Association for management and consulting services. For fiscal years 2004 and 2003, the Council paid the Association \$978,998 and \$1,141,394, respectively, for services. The Association pays salaries and benefits for the Administrator and Secretary of the Council and the Association owns all fixed assets.

Note 3 - Other Significant Items

The North Dakota Dry Bean Council's deposits at June 30, 2004 were \$385,674. This amount represents approximately 4 months of expenditures.



OFFICE OF THE STATE AUDITOR

STATE CAPITOL 600 E. BOULEVARD AVE. - DEPT. 117 BISMARCK, ND 58505

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF SPECIAL-PURPOSE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable John Hoeven, Governor

Members of the Legislative Assembly

Tim Courneya, North Dakota Dry Bean Council Administrator

We have audited the special-purpose financial statement of the North Dakota Dry Bean Council as of and for the two-year period ended June 30, 2004, and have issued our report thereon dated August 20, 2004. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether North Dakota Dry Bean Council's special-purpose financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 one instance of noncompliance that is required to be reported under *Government Auditing Standards* and is described in the accompanying schedule of Findings, Recommendations, and Agency's response as item 04-1.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered North Dakota Dry Bean Council's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the special-purpose financial statement and not to provide assurance on the internal control over financial reporting. However, we noted one matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect North Dakota Dry Bean Council's ability to record, process,

summarize, and report financial data consistent with the assertions of management in the special-purpose financial statements. The reportable condition noted above is that there is no segregation of duties. However, no recommendation will be made, as it is not feasible to obtain proper segregation of duties due to the size of this entity.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is a material weakness. We also noted two matters involving the internal control over financial reporting that we have reported to management of the North Dakota Dry Bean Council in a separate letter dated August 20, 2004.

This report is intended for the information of the Governor, Legislative Audit and Fiscal Review Committee, and management of the North Dakota Dry Bean Council. However, this report is a matter of public record and its distribution is not limited.

Robert R. Peterson State Auditor

August 20, 2004

FINDINGS, RECOMMENDATIONS, AND AGENCY'S RESPONSE For The Two-Year Period Ended June 30, 2004

COUNCIL MEMBERS' PER DIEM (Finding 04-1)

The North Dakota Dry Bean Council members are receiving one hundred dollars of per diem per day starting in August of 2003; instead of the seventy-five dollars they are allowed.

North Dakota Century Code 4-10.3-05 states the North Dakota Dry Bean Council members are to receive compensation not exceeding seventy-five dollars per day while attending meetings or performing duties directed by the council.

RECOMMENDATION:

We recommend that the North Dakota Dry Bean Council:

- Comply with the Century Code and only compensate their council members a per diem of seventy-five dollars per day.
- 2) Contact their agency's representative in the Attorney General's office to determine the appropriate course of action.

RESPONSE:

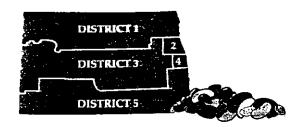
We concur with this recommendation in complying with the Century Code and will use legal counsel from the North Dakota Attorney General's office to determine what per diem rate is appropriate and if any corrective measures are required.

DESCRIPTION

NORTH DAKOTA DRY BEAN COUNCIL

The North Dakota Dry Bean Council was created by the 1977 Legislature through passage of the "Dry Bean Industry Promotion Act" pursuant to NDCC section 4-10.3. It being the intended purpose that the productions, development, marketing and promotion of dry beans in North Dakota is important to the general welfare of the people of North Dakota. The accomplishment of which required the establishment of the North Dakota Dry Bean Council for that purpose and with the objectives of contributing to the stabilization and improvement of the agriculture economy of the state.

The Council is composed of one participating grower elected from each of the five districts established in Chapter 4-10.3 of the NDCC. An assessment of 10 cents per hundred weight is imposed on all dry beans grown in the state delivered into this state, or sold to a designated handler. All moneys levied and collected by the Council are to be deposited in an account designated "Dry Bean Fund" at the State Treasurer and used for carrying out Council objectives. The administrative duties of the Council, and the record-keeping requirements of the Council are performed under contract by the Northarvest Bean Growers Association.



50072 E. Lake Seven Rd. • Frazee MN 56544 Phone (218) 334-6351 • Fax (218) 334-6360

PROGRAM SUMMARIES Biennium 2003-2005

PROMOTION

ND Dry Bean Ad Campaign Targets the U.S. Epicurious Audience. Uses Johnny Apple seed approach and goes city by city.

Why the epicurious and who is a epicurious?

- Epicurious are food savvy individuals that have knowledge and experience with beans, open to learning more.
- Young epicurious are cooking/entertaining on their own for the first time, awareness
 of beans from trendy new restaurants like Chipotle, willing to try new things and
 high comfort with web.
- Midlife epicurious like cooking for family and friends, always looking for something new and healthy for their family and utilize web as a time saving device for information.
- Mature Epicurious are concerned about health/nutrition, cook healthy for themselves, family and friends and enjoy cooking from scratch, utilizing web more for information.

PROGRAM RATIONAL

Objectives

- Raise awareness for North Dakota grown beans and their health benefits and keep them top-of-mind amongst a specific audience.
- Promote bean consumption among the target audience. Make beans relevant.
- Provide target audience with new reasons and new ways to use beans. Keep beans top of mind.

STRATEGIC APPROACH:

To Increase the general awareness of dry beans

- · Create a passion for beans by delivering positive, upbeat bean messages to the epicurious.
 - Focus primarily on developing an army of consumers that will help highlight versatility and health benefits
- · Utilized third parties to reach target audiences and lend credibility to messages, including:
 - High-profile TV coverage to promote the health benefits of beans.
 - Generate interest amongst U.S. packagers and canners for point of purchases.
 - Print media to reach audiences with credible bean messages
- Refined program, tactics and massaging further by gathering information to target perception of beans/barrier to usage.

How Did We Target Even Further?

- Our message will self select the audience.
- Message crafted to bring those most relevant to us.
- Arm them with information.
- Let them spill the beans, created our own army of supporters.

Other Essential Audiences:

- Growers
 - Continue to get them excited and motivated.
 - Instill pride in what the industry is doing.
- Trade
 - Specifically canner and packagers.
 - Give them an opportunity to get involved.
- National/local Media
 - Intrique.
 - Arm them to spread our word.

OUR THEME - What Is A Bean?

- · What do we want to tell them?
- · Beans are loaded with unexpected coolinary benefits.
- Intangible cool factor.
- · Interest and cache.
- Persona

Beaning of America - Selection Process

- · We utilized a "media efficiency index" as a guide to determine market feasibility.
- · We evaluated market size to ensure coverage.
- We balanced the coverage throughout U.S.

Beaning of America Goes Where?

· Fargo, Boston, Sacramento, Minneapolis/St. Paul, Chicago and San Antonio

Who Helped Promote Beans Along The Way?

- North Dakota State Governor
- · Minnesota State Governor
- · Mayor of Chicago

Mechanism Used To Raise The Awareness of Beans

- · Played off of the giggle factor that beans have.
- Message created were:
 - Who Cut The Cholesterol
 - Who's Laughing Now
 - Live To Be An Old Fart
 - Toot If You Like Beans
 - Without Beans, Chili Would Be Just A Bowl Of Meat
 - Shaped Like A Kidney But Good For Your Heart, Go Figure
 - The Pinto, Lousy Car, Great Bean
 - Ever Seen An Obese Cowboy
 - We're Letting It Slip Beans Are Rich In Folate

Elements Of The Campaign

- · Continue to use:
 - Street Furniture (Info Panels/Shelters, Benches, Phone Pillars)
 - Bulletins & Posters, Delivery Trucks, Train Wrap
 - Radio
- New:
 - Wallscapes
 - Coasters
 - Online

Accomplishments

- Over \$118,000 free press coverage.
- Over \$130,000 of bonus media.
- 5.7 million impressions through PR print coverage.
- · 295.3 million impression through paid media.
- 46,500 Web hits to date from five markets.

ONGOING PROMOTION

We continue our commitment to regional promotion by traveling throughout out the region meeting with dietitians, food service personnel, chefs, WIC, and providing educational units to our local schools, i.e. Ag In The Classroom.

Promoting dry beans to consumers is a task that North Dakota bean growers share with other bean organizations under the umbrella of the American Dry Bean Board.

A variety of consumer media projects were used. The goal was to position beans as part of today's healthy, active lifestyle; to communicate beans' great taste; generate awareness of beans; and to provide new reasons and ways to use beans.

First Ever Dry Bean Dietary Message was approved, "A diet including beans may reduce your risk of heart disease and certain cancers."

"Hunting For The Super Bean", North Dakota bean growers sponsored the first ever conference at the USDA-ARS Grand Forks, N.D., Human Nutrition Center. Nearly 40 scientist identified a dozen bioactive factors that plant breeders could work on to improve health-based marketing opportunities for dry beans.

North Dakota partnered with other bean organizations to form the Beans For Health Alliance.

- · What is the "BHA"?
 - Non-profit public-private partnership
 - Initial Funding Source
 - One-time grant from the U.S. Agency for International Development (USAID) totaling \$1.5 million over 2 years (2004-5) with Match required from Members (in-kind acceptable).
- · The "Case" for Beans
 - Emerging evidence shows that eating beans contributes to improved health:
 - Reduces risk of cancers (colon, breast, prostate)
 - Reduces risk of cardiovascular disease
 - Reduces obesity and risk of Type II diabetes
 - · Provides important nutrients for growth (especially children)
 - By increasing the overall health and nutritional status, can delay the onset of AIDS in HIV
 positive persons and is a critical component for the effectiveness of anti-virals.
- "BHA" supported \$600,000 worth of health related research projects.
 - Grand Forks Nutrition Center was a recipient of \$200,000
- "BHA" influences the USDA and the pending release of the 2005 U.S. Dietary Guidelines is expected to promote a 400-percent increase in bean consumption for women and a 200-percent jump for men.

RESEARCH

North Dakota grower identify research priorities

Research is so important to our profits that we maintain a strong financial commitment even when acres panted to dry beans were decreasing.

We lost our bean breeder (Ken Grafton) who took the position of Director of the College of Agriculture at NDSU, but we continue to allocate most of the research budget to the dry bean breeding program. In 2004 the program released a new black bean variety named Eclipse. The breeding project involves 45 acres of variety plots. The program is on going for screening dry bean lines for white mold, root rot, rust, anthracnose, common mosaic virus resistance, canning quality, color and identify white mold resistance genes and to insert the genes into new dry bean varieties. Yield tests, breeding nurseries, variety trails and a winter nursery are all part of the program. Other research trials will be conducted on, dry bean disease control, development of dry bean populations with possible resistance to while mold, resistance to bean rust, storage of dry edible beans on the farm, searching for the best combination of nitrogen fertilizer and inoculator for dry bean production, biotechnology to produce low-flatulence dehydrated pinto bean products, integrated strategies to control bean root rot, optimizing dry bean desiccants and weed control in dry edible beans. NDSU will continue to survey dry bean growers (sponsored by the growers) about the production practices and the problems they encountered in 2004. The survey guides the dry bean breeding, research and extension programs; supports pesticide registration applications, and documents production trends.

PRODUCER COMMUNICATIONS

Five issues of the Northarvest Bean Grower is distributed to more than 3,000 dry bean growers in North Dakota and Minnesota, and several hundred members of the industry in the U.S. and Canada - profiles several bean growers, and covers a wide variety of marketing, production and industry news. The U.S. Dry Bean Industry has requested that North Dakota market this magazine to all growing and processing regions in the U.S. plus distribute to U.S. embassies.

Other releases are used to report to the growers about seasonal items that pertain to markets, crop reports, chemical clearance, etc., and a 16 page Research Journal in magazine format devoted to the research funded by the bean growers rounds off our printed communication program.

THE WEB SITE

We maintain a comprehensive site focusing on dry bean issues that communicate with three primary audiences: Growers, Buyers and Consumers/Foodservice Professionals. The site developed uses cold fusion technology which allows for the rapid update of information on the site. Our continued goal is to make www.northarvestbean.org the premier information source for North Dakota producers and buyers of beans worldwide.

DEVELOPMENT

North Dakota growers investigate the potential for new foreign trade; servicing important traditional overseas buyers and increasing worldwide demand for U.S. beans are all part of a cooperative market development program. These market development initiatives are done in cooperation with other U.S. bean industry organizations. The program works with a variety of foreign trade initiatives — the Market Access Program, Food for Peace (PL480) and the Foreign Market Development Program. The cooperative market development initiative also serve as a voice for a united dry bean industry on trade and farm policy issues. Development activities are conducted around the globe. We set out to conduct activities in Brazil, Mexico, Russia, France, the Middle East, Italy, North Africa, Spain, the United Kingdom and much of Central America. All of this work is made possible by the U.S. Dry Bean Council (USDBC) support staff located in several countries around the world.

CUBA CONNECTION

Trade trip by North Dakota Dry Bean Growers did make what some are calling "historic" progress on trade with Cuba.

For the first time in 40 years, the U.S. shipped dry edible beans to Cuba and the beans came from North Dakota. Growers call the shipment "historic", not only because it's the first in 40 years, but because it was entirely managed locally.

Profiling Cuba shows it is the leading Caribbean importer of dry beans. During 2002, Cuba imported about 108,000 tons of dry beans. China was the dominant supplier of Cuba's dry bean imports in 2001/02, providing 79,398 tons. The 2002 sale of 20 tons of dry beans to Cuba by a North Dakota trader begin a significant shift of sales to this new market. Sales to Cuba from the U.S. now total 20,000 metric tons.

OBJECTIVES & GOALS Biennium 2005-2007

PROMOTION

Working Toward a Consolidation of the U.S. Dr Bean Industry To Support Creating Consumer Messages Based On Science

The food industry is getting larger and larger portions of growth and profits from "functional foods," i.e., foods have a health benefit beyond simple nutrition. The general category of food is growing in sales at about 2% per year, while functional food sales are the fastest growing sector, today accounting for about 5% of all food sales, but growing at 10-12% annually. All levels of the food business are paying high attention to functional aspects of foods, that is, the health attributes. If beans are not successfully positioned in part, on their functional traits (e.g., fiber, other nutrients), consumers will acquire and use substitutes. Soy-many consumers have learned it has high fiber, along with phytoestrogens that are heart healthy, and healthy for women in particular. Tragic irony: edible beans contain higher levels of some of those phyto-active compounds, and higher levels of dietary fiber. Yet, because the bean industry has not pursued a health claim with the speed of soy, and has not effectively communicated those attributes otherwise, consumers now reach for soy (and other products) for these elements. Edible beans are likely falling prey to substitution. Add to this the declining time for home cooking and food prep, and the failure of this generation to pass along those skills to our children, we don't see a rebound of sales here unless there is a major effort to rekindle demand through new product introductions, heavy promotion, and other partnerships.

The Bean Health Alliance has begun an industry-wide initiative to advance the science behind beans. The North Dakota grower has done the same, doing its part by supporting the first ever Edible Bean and Human Health Conference here in Grand Forks 18 months ago. These initiative must continue, and involve the whole industry. The science must be there for edible beans to have the basis to make effective claims; failing that, edible beans will see sales losses to other commodity products. How much? There is no reliable forecast available that we are aware of and we shall not wait around to find out, rather, we want to take the buil by the horns and manage the future.

The industry has got to get behind a two-pronged strategy for the re-positioning of edible beans to

- include a health aspect, the health aspect to result in one or more very defensible, science-based propositions, and
- 2) tell the world (consumers) about it! Conducting science and then burying it under the bushel basket wouldn't be good policy; nor would making claims without science be advisable. Doing nothing is not an option. Good claims should be a part of industry advertising, labeling, and sales promotion activities.

GOAL

North Dakota growers will develop a strategy for funding the science, one that includes all levels of stakeholders producers, elevators, packers and canners.

Market Research

Developing Market-oriented Strategies for Health and Nutrition, Food Technology, and Value-added Industrial Products

New and significant activities have been undertaken by the North Dakota grower in the last two years, including efforts to re-position beans through a new promotional strategy, and early studies of potential opportunities in the areas of new, value-added industrial products and new food technologies.

The need for basic research into these areas by marketing personnel has largely been satisfied through earlier reports. Now, in at least two of these disciplines (health & nutrition as well as value-added industrial products), the role of marketing has shifted to that of liaison between the grower and the affected federal labs. The latter include the Grand Forks Human Nutrition Research Center, and the National Center for Agricultural Utilization Research (NCAUR), Peoria, Illinois.

The third issue-area, new food technology, continues to be investigated in search of a "best-fitting" federal partner.

The grower has traditionally organized its research dollars and its committee structure around agronomic issues. We will likely continue to devote the lion's share of those funds in that manner, but are expressing considerable interest in the long-term development of these three new initiatives. In the case of health and nutrition, dramatic changes to communication strategy, and a significant new partnership with the Grand Forks Human Nutrition Research Center have occurred. These investigators hope that similar outcomes will occur as the grower builds successful partnerships with NCAUR, and a yet to be identified federal food technology laboratory.

GOAL

The goal is to maintain and further develop relationships on behalf of the grower by networking to improve the overall presence, usefulness, and image of the dry bean.

DEVELOPMENT

It has become a North American trend to import beans and distribute into our domestic market. On the average, 80 percent of all dry beans used in a 12 month period is consumed by our domestic consumer. We were dealt a major price depreciating factor in 2002/03 that did not support bean production in the state. Our crop of 2004 was affected by frost and disease, market prices jumped. U.S. importers and or end users are now purchasing Mexican produced beans to place bearish pressure on the supply side of the bean market equation.

GOAL

The tools of communication, possible trade legislation to increase food aid purchases, and increased food safely inspection will need to be given even greater attention since this phenomena continues to position our main market as part of a now world supply of dry beans.

RESEARCH (Dry Bean Plant Breeding)

Dr. Ken Grafton past state funded dry bean breeder stationed at NDSU left that position summer of 2003 and currently NDSU has not hired a person to fill this vacancy created when he left.

GOAL

The state (NDSU) hire a plant breeder to continue the development of varieties that are adapted to this region and to help sustain an industry that currently generates \$100,000,000 dollars to the states economy.

COMMUNICATION

Continued development of a web site to fit the North Dakota producers needs for current and easy access to information about research, markets, etc. The consumer link for accessing information on using dry beans grown in North Dakota, recipes and health issues will be current and linked to other sources providing info.

<u>GOAL</u>

The site will evolve into being market specific. Print publications will move into program announcements/reporting.

North Dakota Dry Bean Council Frazee, Minnesota

STATEMENT OF PROJECTED REVENUES AND EXPENDITURES For the Current and Next Biennium 2003-2005 and 2005-2007 (UNAUDITED)

Prepared by the North Dakota Dry Bean Council

	2005-2007 <u>Biennium</u>	2003-2005 <u>Biennium</u>
REVENUES: Assessment Revenues Collected from 1st Purchasers Less:	\$1,950,000	\$1,445,246
Refunds Paid to Producers	<u> 175.000</u>	130,072
Net Assessment Revenue Interest Income USDA Grant Income	\$1,775,000 8,000 \$?	\$1,315,174 6,400 \$ <u>375,000</u>
Total Revenues	<u>\$1,783,000</u>	<u>\$1.696.574</u>
EXPENDITURES: Program Expenditures: Promotion Research Producer Communications Development	\$ 576,000 400,000 80,000 256,000	\$ 537,273 375,577 79,970 241,110
Total Program Expenditures Administration	\$1,312,000 255,000	\$1,233,930 249,700
Total Expenditures	\$1,567,000	\$1,483,630
Revenues Over (Under) Expenditures	<u>\$ 216,000</u>	<u>\$ 212,944</u>

ORGANIZATION OVERVIEW

Working Together

Minnesota Dry Bean Research & Promotion Council

> Administers the Minnesota Dry Bean Promotion Act.

North Dakota Dry Bean Council

Administers the Dry Bean Industry Promotion Act of North Dakota.

Northarvest Bean Growers Association

Coordinates

Minnesota and North Dakota Bean Council promotion, development, and research programs.

Development

U.S. Dry Bean Council

Northern Crops Institute

Legislative Activities

Food Aid

National Promotion

GdB -

Gabriel deGrood Bendt

American Dry Bean Board

International Alliance to Promote the Health Benefits of Dry Beans and Other Pulses Regional Promotion

ND & MN

Ag in the Classroom

Minn Agri Growth Council

Regional Trade Shows

Reproduction of Pamphlets & Cookbooks Research

NOSU

UND

U of M

Communication

Magazine

Research Report

Talkin' Beans Flyer

Web Site

Mission Statement

NHBGA, growers representing growers through the check-off system, is North America's largest supplier of quality dry beans. Working together to better the industry through promotion, research, market development, education of consumers and monitoring of governmental policy.

Our future goals must be continued market exposure and careful monitoring of new ideas, consumer choices, and producer needs.

North Dakota Dry Pea and Lentil Bismarck, North Dakota

House and Senate Agriculture Committee Report For the Two-Year Period Ended June 30, 2004

Robert R. Peterson State Auditor



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

November 17, 2004

House and Senate Agriculture Committees:

Transmitted herewith are the financial statements and auditor reports of the North Dakota Dry Pea and Lentil as required by North Dakota Century Code section 4-24-10.

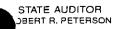
Specifically you will find the state auditor's report on the financial statements, the statement of revenues and expenditures, notes to the financial statements and the compliance and internal control report. Complete audit reports may be obtained by contacting my office.

The Office of the State Auditor would like to thank the commodity groups for their cooperation in preparing these reports.

Sincerely

Robert R. Peterson

State Auditor





STATE CAPITOL 600 E. BOULEVARD AVE. - DEPT. 117 BISMARCK, ND 58505

STATE AUDITOR'S REPORT

Honorable John Hoeven, Governor

Members of the Legislative Assembly

Eric Bartsch, North Dakota Dry Pea and Lentil Council

The following pages were taken from the audit report of the North Dakota Dry Pea and Lentil Council for the two-years ended June 30, 2004. The financial statements are the responsibility of the management of the North Dakota Dry Pea and Lentil Council. The auditor's responsibility was to express an opinion on the financial statements.

The audit was performed in accordance with generally accepted auditing standards, 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 the auditors plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

The financial statements are presented to provide state decision makers, including the Agriculture Committees, with a comprehensive overview of the North Dakota Dry Pea and Lentil Council's operations. The revenues and expenditures are reported under the modified accrual basis of accounting. The financial statements are not intended to be a presentation in conformity with generally accepted accounting principles. The complete audit report should be reviewed to obtain a complete picture of the financial position and operations of the North Dakota Dry Pea and Lentil Council. The complete report may be obtained by contacting the Office of the State Auditor.

The audit resulted in a clean (unmodified) audit opinion. In accordance with *Government Auditing Standards*, a report was also issued on the auditor's consideration of the North Dakota Dry Pea and Lentil Council's internal control over financial reporting and the tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

This report is intended solely for the information of the meeting of the Joint Agriculture Committees and should not be used for any other purpose. However, this report is a matter of public record and its distribution is not limited.

Robert R. Peterson State Auditor

November 17, 2004

Statements of Revenues, Expenditures, and Changes in Net Assets For the Fiscal Years Ended June 30, 2004 and 2003

	2004	2003
Revenues: Assessments Interest income	\$ 263,215 149	\$ 179,200 204
Total Revenues	263,364	179,404
Expenditures: Salaries and benefits Operating expenditures Grants	4,001 51,110 163,000	2,711 46,319 141,295
Total Expenditures	218,111	190,325
Revenues Over (Under) Expenditures Before Transfers	45,253	(10,921)
Transfer Transfer from Govenor's Office	· •	45,000
Change in net assets	45,253	34,079
Net Assets - Beginning of Year	59,078	24,999
Net Assets - End of Year	\$ 104,331	\$ 59,078

Notes to the Financial Statements June 30, 2004 and 2003

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

For financial reporting purposes, the ND Dry Pea and Lentil Council includes all funds programs, and activities over which it is financially accountable. The ND Dry Pea and Lentil Council does not have any component units as defined by the Government Accounting Standards Board. The ND Dry Pea and Lentil Council 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 ND Dry Pea and Lentil Council was created by the 1997 Legislature through passage of Senate Bill No. 2124 pursuant to NDCC chapter 4-10.7. It is the intended purpose that the production, development, marketing and promotion of dry peas and lentils in North Dakota are important to the general welfare of the people of North Dakota. The accomplishment of which required the establishment of the North Dakota Dry Pea and Lentil Council for that purpose and with the objectives of contributing to the stabilization and improvement of the agriculture economy of the state.

The Council is composed of one participating grower elected from each of the five districts established in section 4-10.3-04 of the NDCC. Funds are derived from an assessment at the rate of one percent of the net value of dry peas and lentils grown in the state or sold to a first purchaser. All moneys levied and collected by the Council are to be deposited in an account designated "Dry Pea and Lentil Fund" at the State Treasurer and used for carrying out Council objectives.

B. Reporting Structure

The financial statements include all activities of the reporting entity as defined above. These activities are funded from fund 227, the Dry Pea and Lentil Fund, and fund 002, which are federal grant funds. The grant funds were a USDA Promotion and Specialty Crops Allocation administered by the USDA-Commodity Credit Corp. and passed through from the ND Office of the Governor. The statement of revenues and expenditures is a combined statement to give the users an overview of the agency's activity.

C. Fund Financial Statements

The net assets are reported as unrestricted net assets with constraints on resources which are imposed by management, but can be removed or modified.

D. Fund Accounting Structure

The Council uses funds 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 Council reports the Dry Pea and Lentil Council operating fund as a major governmental fund. It is used to account for the collection of assessments and transactions relating to the production, development, marketing and promotion of dry peas and lentils within the state.

Notes to the Financial Statements - Continued June 30, 2004 and 2003

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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 as 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.

Major revenues that are susceptible to accrual include assessments and interest. All revenues are determined to be available if collected within one year of fiscal year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

F. Cash and Cash Equivalents

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

G. Investments

Investments include funds deposited in a money market with AG Edwards.

NOTE 2 CHANGE IN ACCOUNTING PRINCIPLES

For the fiscal year beginning July 1, 2002, the Council implemented the following new accounting standards issued by GASB:

Statement No. 34, <u>Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments</u>

Statement No. 37, <u>Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments: Omnibus</u>, and

Statement No. 38, Certain Financial Statement Note Disclosures.

Statement No. 34 as amended by Statement No. 37, establishes new financial reporting standards for state and local governments. This statement's requirements represent a significant change in the financial formats and changes in fund types and account groups. In addition to fund financial statements, governments are required to report government-wide financial statements, prepared using the accrual basis of accounting.

Statement No. 38 requires certain note disclosures when Statement No. 34 is implemented. The provisions of these new standards have been incorporated into the financial statement notes.

Notes to the Financial Statements - Continued June 30, 2004 and 2003

NOTE 3 ORGANIZATION AND RELATED PARTY TRANSACTIONS

As stated in Note 1, the Council is an entity of the state of North Dakota and as such, other state agencies of the state and political subdivisions are related parties.

NOTE 4 DEPOSITS AND INVESTMENTS

The GASB requires certain financial statement disclosure of deposits and investments such as the disclosure of carrying amount by type of investments and classification into one of three categories based upon credit risk. Category 1 includes deposits that are fully insured or collateralized with securities held by the Council or by its agent in the Council's name. Category 2 includes deposits which are collateralized with securities held by the pledging financial institution's trust department or agent in the Council's name. Category 3 includes deposits which are not collateralized or are collateralized by the pledging financial institution, trust or agent, not in the Council's name.

ND Dry Pea and Lentil Council is required to maintain its operating funds at the Bank of North Dakota. All deposits at the Bank of North Dakota are uncollateralized, a category 3 risk as defined by the GASB, but guaranteed by the State of North Dakota according to N.D.C.C. 6-07-10.

<u>June 30, 2004:</u>	Carrying <u>Amount</u>	Total Bank <u>Balance</u>	Category 1	Category 2	Category 3
Cash deposits Money market as investments	\$ 9,389 44,577	\$ 9,389 <u>44,577</u>	\$ - 44,577	\$ - 	\$ 9,389
Totals	\$ 53,966	\$ 53,966	\$ 44,577	<u>\$</u>	\$ 9,389
June 30, 2003:					
Cash deposits Money market as investments	\$ 4,415 27,470	\$ 4,415 27,470	\$ - <u>27,470</u>	\$ - 	\$ 4,415
Totals	\$ 31,885	\$ 31,885	\$ 27,470	<u>\$</u>	<u>\$ 4,415</u>

NOTE 5 DUE TO STATE AGENCIES

	2004		2003	
<u>Due to other state agencies</u> Information Technology Department	\$	-	\$	5

Notes to the Financial Statements - Continued June 30, 2004 and 2003

NOTE 6 RELATED PARTY TRANSACTIONS

North Dakota Dry Pea and Lentil Association and United States Dry Pea and Lentil Council are related parties of the Council. They provide promotion and research services for the Council. The Council has made payments to the North Dakota Dry Pea and Lentil Association of \$163,000 and \$141,295 for the years ended June 30, 2004 and 2003, respectively. The Council has made payments to the United States Dry Pea and Lentil Council of \$36,000 and \$35,000 for the years ended June 30, 2004 and 2003, respectively.

The Council had a service contract with Progressive Consulting, Inc. to provide all the administrative functions for the North Dakota Dry Pea and Lentil Council. Payments were made to Progressive Consulting of \$4,799 and \$4,521 for the years ended June 30, 2004 and 2003, respectively. The contract between the Council and Progressive Consulting expired on July 31, 2004 and was not renewed.

The Council has signed a contract with the North Dakota Dry Pea and Lentil Association as of August 2004 to provide all the administrative functions for the Council.

NOTE 7 RISK MANAGEMENT

The Council is exposed to various risks of loss related to torts, theft, damage, destruction of assets, errors and omissions, injuries to employees and natural disasters. The Council participates in the following funds or pools:

The Risk Management Fund (RMF) was created in 1995 and is an internal service fund to provide a self-insurance vehicle for the liability exposure of state agencies resulting from the elimination of the state's sovereign immunity. The RMF manages the tort liability of the state, its agencies' employees, and the University System. All state agencies participate in the RMF and their fund contribution was 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 Council pays an annual premium to the Fire and Tornado Fund to cover property damage to personal property. Replacement cost coverage is provided by estimating 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 one million dollars per occurrence during a twelve-month period.

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



STATE OF NORTH DAKOTA OFFICE OF THE STATE AUDITOR STATE CAPITOL 600 E. BOULEVARD AVE. - DEPT. 117

BISMARCK, ND 58505

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable John Hoeven, Governor

Members of the Legislative Assembly

Eric Bartsch, North Dakota Dry Pea and Lentil Council

We have audited the financial statements of the North Dakota Dry Pea and Lentil Council as of and for the fiscal year ended June 30, 2004, and have issued our report thereon dated August 11. 2004. 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.

Compliance

As part of obtaining reasonable assurance about whether North Dakota Dry Pea and Lentil Council's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grants, and the Soybean Promotion and Research Order (the "Order") relative to the use and investment of funds collected by the State Council and with terms described in Sections 1220.228(a) and 1220.211(j) of the Order relative to prohibited uses of funds collected by the North Dakota Dry Pea and Lentil Council, 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 that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered North Dakota Dry Pea and Lentil Council's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to

the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information of the Governor, Legislative Audit and Fiscal Review Committee, and management of the North Dakota Dry Pea and Lentil Council and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Robert R. Peterson

State Auditor

August 11, 2004



North Dakota Dry Pea & Lentil Council

PO Box 1352 • Bismarck, ND 58502

Background

In 1997 the ND State Legislature created the North Dakota Dry Pea and Lentil Council. The Council is in charge of assessing a 1% net value check-off of dry peas, lentils, chickpeas and lupins grown or sold in ND. The Council uses the funds for promotion, market development, education and research of these specific crops. Since the creation of the Council the North Dakota pulse industry has increased dramatically. In 1997 North Dakota represented 85,000 acres of pulse crops and in 2004 North Dakota planted over 415,000 acres of dry peas, lentils and chickpeas and is now the number one growing state in the United States. Since 1997 the processing capacity has increased from one processor to seven processing plants in 2004. The processing plants are value added ventures that employ anywhere from five to thirty people. In addition to the seven processing plants, several country elevators have expanded their facilities to handle both food and feed grade peas.

Organization

The Council is made up of five elected council members and an Ex-officio member. Each council member represents the district in which he lives. Each board member serves a maximum of three, three year terms.

The Council hired Progressive Consulting Inc. until July 31, 2004 to provide staff to administer the collection and perform the duties assigned by the council members. Progressive Consulting Inc provided the NDDPLC with an Executive Director to carry out the policies of the Council.

The Council contracts with the North Dakota Dry Pea and Lentil Association for its efforts in market promotion, research coordination, industry education and domestic policy. In addition the council is contracting with the NDDPLA to provide administrative services for the council. Currently the NDDPLA has an Executive Director, Director of Marketing and a State Promotions Director.

The council also contracts with the US Dry Pea and Lentil Council (USDPLC) to work in the areas of international market development and research coordination.

Current Activities

Since inception in July 1997, the Council has been collaborating efforts with the ND Dry Pea and Lentil Association and the US Dry Pea and Lentil Council. The council enters into contracts with these organizations giving direction where to spend the contracted funds.

The North Dakota Dry Pea and Lentil Council has:

- Been in constant contact with elevators, processors and growers; educating them about the 1997 law requiring the 1% check-off.
- Expanded the list of first purchasers and promoted the establishment of new processors.

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Telephone: 701/222-0128 Fax: 701/223-4130 • E-mail: nddpla@btigate.com

- Working with the US Dry Pea and Lentil Council in forming a new national organization that represents all states to address national issues that affect dry pea, lentil and chickpea producers across the nation.
- North Dakota Dry Pea and Lentil Association The North Dakota Dry Pea and Lentil Association has worked as a team with the NDDPLC in marketing, research and education. Below is a brief description of the activities under contract between the NDDPLA and NDDPLC.
 - Marketing The NDDPLC has contracted with the NDDPLA to develop and conduct foreign and domestic market programs for dry peas, lentils, chickpeas to increase demand and product recognition with consumers and the trade.
 - International Trade Missions
 - Cuba Cuba is the western hemispheres largest market for dry peas with an annual import volume of about 225,000 metric tons of peas. Recent federal legislation has allowed for ND exporters to negotiate with Cuban officials on a cash only basis. The NDDPLA has put an emphasis on expanding the Cuban market. Since the partial lifting of the embargo ND has shipped over 35,000 mt of yellow peas into Cuba.
 - Philippines The Philippine market is a strong feed and high quality food market for US peas. The NDDPLA organized a three person trade team to the Philippines to visit with several food and feed grade dry pea buyers. The mission resulted in several sales of high quality green peas for the snack market in SE Asia.
 - China The NDDPLA traveled with the ND Trade Office on a trade mission to China. The mission featured visits with several potential feed buyers who are looking for high protein feed ingredients. In addition to the high protein feed market the trade team also visited with several noodle manufactures that are looking to purchase yellow peas. The trade team gained several contacts and the potential for sales to China are extremely high. China remains potentially a very large buyer of ND and US dry peas.
 - International Trade Teams
 - Eastern Europe and Bulgaria Through a USDA cooperative grant the NDDPLA hosted two trade teams from Eastern Europe and Bulgaria. Both trade teams featured buyers of lentils and dry peas. Both markets are small but remain as a new and emerging market for North Dakota pulse crops.
 - Domestic Feed Market The dry pea industry in North Dakota is committed to developing a strong feed pea market in North Dakota and the United States. Dry peas are a high source of both protein and energy and have been proven to be a high value feed ingredient in several livestock feed rations. The NDDPLA has hired a marketing director to focus on the development of the feed industry. The NDDPLA is working on educating the feed industry of the true feed value of feed peas in several different livestock rations.
 - Education The NDDPLC has contracted with the NDDPLA to host an annual convention, conduct grower meetings and maintain a website to educate growers about new technologies, disease control, weed control products and other related production tools.
 - Grower Convention The NDDPLA Education Committee each year hosts an annual convention. At the annual convention producers have the opportunity to listen to experts on pulse production, marketing, government affairs and important industry issues. The convention attracts 150 plus dry pea, lentil and chickpea producers from the Midwest region.

- Winter Meetings The NDDPLA hosts several production workshops throughout the state of North Dakota. The spring production meetings are informative for producers who want to learn more about dry pea, lentil and chickpea production, markets and industry news. In addition, the NDDPLA participates in several trade shows around the state educating the public about growing, feeding and marketing pulse crops.
- Pulse News The NDDPLA sends out a quarterly newsletter, "PULSE NEWS", to the members of the association. The newsletter updates the growers on industry events.
 The NDDPLC and NDDPLA also send an annual report of activities to all checkoff paying producers in North Dakota.
- The NDDPLA maintains a website at <u>www.ndpealentil.org</u>. The website offers information
 to producers on production, marketing and government affairs. Producers utilize the
 website to stay informed on all activities of the pulse industry.
- Research The NDDPLC has contracted with the NDDPLA to coordinate and enter into contracts
 with third parties to conduct, dry pea, lentil and chickpea research to solve dry pea, lentil and
 chickpea production problems and increase yield.
 - The NDDPLA Research Committee worked to garner \$250,000 worth of research funding for ND dry peas, lentils and chickpeas. The funds were generated from state checkoff funds and the Cool Season Food Legume grant fund that was strongly supported by the ND Dry Pea and Lentil Association.
 - The NDDPLA research committee granted \$6,000 towards a chickpea weed control study conducted by Brian Jenks of North Dakota State University. Weed control options in chickpeas are very limited and the weed control study researched other potential options for weed control in pulse crops.
 - The NDDPLA research committee granted \$2,900 towards a study on field pea response to nitrogen applications conducted by Bob Henson of the Carrington Research Extension Center. The study is looking at the yield and protein level of peas when nitrogen was added to the soil when planting peas.
 - The NDDPLA research committee granted \$9,100 to the construction of a feed mill at the Carrington Research Extension Center, no till drill at the Dickinson Research Extension Center and the Agronomy Seed Lab at the North Central Research Extension Center in Minot ND. All three investments are beneficial to conduct and complete quality research on dry peas, lentils and chickpeas.
 - The North Dakota Dry Pea and Lentil Association has been working with the North Dakota Department of Agriculture applying for Section 18's. The pulse industry received section 18's for Gramoxone on peas, LSP seed treatment on lentils, Quadris on chickpeas, and Spartan on chickpeas and dry peas.

Government Affairs

Pesticide Harmonization – Pulse crops are being used as a pilot program for pesticide harmonization within the NAFTA TWG on pesticide harmonization. The goal of the pilot project is to eliminate all trade barriers in North America due to pesticide use. The goal of the pulse growers in ND and the US is to establish a NAFTA label, harmonization of maximum residue limits and to expedite the pesticide registration process. The project has been successful in harmonizing several MRLs that are potential trade irritants. The NDDPLA is continuing to work with EPA and the NAFTA TWG on developing a NAFTA label.

- Crop Insurance The NDDPLA worked to improve the t-yields for dry pea, lentil and chickpea producers around the state of North Dakota. In addition the NDDPLA asked the Risk Management Agency to evaluate the premiums for summerfallow vs. continuous crop. Producers who are using pulse crop in their rotation were experiencing better yield and quality wheat crops then when they were planting wheat in a summer fallow rotation. The NDDPLA was successful in convincing RMA to lower premiums for producer who are using pulse crops in their rotation and RMA is going to continue to evaluate the rotation benefits of continuous crop vs summerfallow rotations.
- The NDDPLA supported crop disaster legislation, increased PL 480 purchases, free market trade and improved crop insurance.
- US Dry Pea and Lentil Council The NDDPLC contracts with the USDPLC to work on foreign market development, US research coordination and pesticide registration issues.

International Marketing

- Trade Offices The USDPLC has seven trade office located throughout the world located at Mexico, China, Spain, France, India and Thailand. The trade offices work on the market development of US peas, lentils and chickpeas.
- Trade Teams North Dakota has hosted trade teams from India and the Philippines through funding from the USDPLC. The trade teams featured several major buyers of pulse crops. India is the world's largest buyer of pulse crops and the Philippine are the largest buyer of dry peas. The trade teams had the opportunity to visit with several of the states processors on purchasing ND pulse crops. Both trade team missions resulted in pulse crop sales.
- Trade Missions Through USDPLC trade missions ND processors and the pulse industry have had the opportunity to promote our products in markets such as India, China, Mexico, and Europe. In addition, the USDPLC and ND had representation at several large trade shows such as ANUGA, Alimentarian and Confitexpo.
- The funds that are contributed to the USDPLC are used as matching funds to leverage over \$900,000 in USDA Foreign Market Development funds. The USDPLC uses these funds for trade missions and funding foreign trade offices throughout the world.

Research

- The USDPLC coordinates pulse research in the United States to prevent research duplication. The USDPLC is currently working with the NDDPLA to increase federal research funding for pulse crops.
- The USDPLC works with the Environmental Protection Agency to establish full labels for effective fungicides, insecticides and herbicides for pulse crops. The USDPLC works with the NDDPLA on writing Section 18 applications.

Future Activities

The Council has set the following goals for the coming biennium. The goals would be accomplished through contracts with the ND Dry Pea and Lentil Association and the US Dry Pea and Lentil Council:

Research

- Continue to conduct research on pulse crops to improve overall production, end use development and marketability of pulse crops.
- Establish an extension of the USDA/ARS breeding program in the Midwest. Currently the USDA/ARS pulse breeders are located at Pullman Washington. The NDDPLA Research Committee is working to establish funding to place a person in North Dakota that will work with the current USDA/ARS breeding program to breed varieties specific to ND growing conditions.
- Establish a pulse quality lab in North Dakota that would test the quality of dry peas, lentils and chickpeas.
- Work with North Dakota Department of Agriculture and USDPLC on labeling of new and improved chemical control options for pulse crops.

Marketing

- Continue to promote North Dakota peas, lentils and chickpeas domestically and on a world wide basis to bring the highest value back to the ND producer and industry.
- Continue to push to open free trade with Cuba. Cuba currently imports about 250,000 mt of peas annually and would be a major buyer of ND peas if the embargo would be completely lifted.
- Continue to coordinate with the USDPLC and work with the current seven USDPLC trade offices
 to promote ND pulse crops on a world wide scope. The Council will work with the USDPLC to
 maximize matching of federal marketing funds for oversees promotion.
- Continue to promote feed peas as a high value feed ingredient in livestock rations. Feed peas feature several feeding characteristics that make it an attractive feed ingredient in several livestock rations.

Education

 Continue conducting seminars and developing education brochures on the production and marketing of pulse crops.

Government Affairs

- Continue to push for NAFTA labels for all pesticide products and to eliminate any trade barriers on a world wide basis due to pesticide uses.
- Continue to support legislation on trade agreements, disaster, farm bill legislation and all legislation that will benefit the ND producer.

Industry

- Continue to develop the processing capacity and industry in North Dakota to reflect the growth in the ND pulse industry.
- Educate the growers and industry on the importance and the benefit of the checkoff law.
- Improve the transportation of pulse crops out of North Dakota to the market place. Currently ND exporters and producers are at a disadvantage because of freight rates and container availability out of North Dakota. The ND pulse industry is going to continue to work on developing and promoting competitive shipping from North Dakota to the market place.

North Dakota Dry Pea and Lentil Council Bismarck, North Dakota

Statement of projected Revenues and Expenditures For the Current and Next Biennium 2003-2005 and 2005-2007 (UNAUDITED)

Prepared by the North Dakota Dry Pea and Lentil Council

	2005-2007 Biennium	2003-2005 Biennium
REVENUES:		
Assessment Revenues Collected from 1 st Purchasers Less:	\$1,440,136	\$683,124
Refunds Paid to Producers	\$28,500	\$15,000
Net Assessment Revenue Interest Income	\$1,411,636 \$1,412	\$668,124 \$668
	<u> </u>	
Total Revenues	\$1,413,048	\$668,792
EXPENDITURES:		
Program Expenditures:		
Market Development	\$543,200	\$268,497
Research	\$430,276	\$141,523
Domestic Policy	\$233,240	\$61,444
Producer Education	\$104,913	\$87,536
Council Function	\$100,000	\$76,464
Total Expenditures	\$1,411,629	\$635,464
Revenue Over (Under) Expenditures	\$1,419	\$33,328



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600 E Boulevard Ave., Dept. 602 Bismarck, ND 58505-0020

North Dakota Honey Promotion Fund Summary of Activities 2003-2005

The Honey Promotion Fund is governed by the Board of Directors of the North Dakota Beekeepers Association. The Board consists of ten members that include a Director at Large, a President, a Vice-President, a Secretary-Treasurer, and the six remaining members represent different geographic areas of the state. The North Dakota Department of Agriculture administers the fund.

The mission of the Honey Promotion Fund is "Market Development," which is defined in state law as "research, promotion, and education programs toward better and more efficient production, marketing, and utilization of honey for resale."

The Honey Promotion Fund is funded by a five cent per colony assessment on all bee colonies that are required by law to be registered with the North Dakota Department of Agriculture. Assessments are refundable after receipt of a written request from a contributing beekeeper within 30 days of the remission of fees to the Commissioner of Agriculture.

One main focus area of our promotion activities includes participation in the "Living Ag Classroom", an educational program that teaches fourth grade students where their food comes from. Students from the Fargo, Bismarck, and Minot rotate through about 15 booths learning about a variety of commodities produced in North Dakota. We also participated in the Morton County Ag Day and the North Dakota Farm Bureau's "Special Assignment Pizza" in Williston which also targets young students.

The Honey Promotion Fund is also used to pay travel costs of speakers attending the annual convention of the ND Beekeepers Association. These speakers are generally USDA bee research scientists, extension specialists, and other honey bee experts brought in to educate our state beekeepers about diseases, pests, and other issues of importance to the industry.

An annual contribution is made to the University of Minnesota Haydak Fund for support of applied research done by Dr. Marla Spivak and her associates. Dr. Spivak's research has centered on breeding hygienic honey bees to lessen dependence on chemicals for control of honey bee pests and diseases.

Our promotional activities include: providing honeystix, promotional brochures, and educational materials such as videos and teacher's guides to schools, Extension Service, etc.

The future activities and goals of the Honey Promotion Fund will continue to be education of youth, industry promotion, and research.

Respectfully submitted by: Bonnie Woodworth, President, North Dakota Beekeepers Association.

HONEY PROMOTION FUND

Bismarck, North Dakota

STATEMENT OF PROJECTED REVENUES AND EXPENDITURES

For the Current and Next Biennium 2003-2005 and 2005-2007 (UNAUDITED)

Prepared by North Dakota Honey Promotion

	2005-2007		2003-2005		
	<u>Biennium</u>		<u>Biennium</u>		
Revenues:					
Honey Promotion Fees Less:	\$	30,000		\$	30,000
Refunds Paid to Beekeepers		2,000			2,000
Net Assessment Revenue		28,000			28,000
Miscellaneous Sales		300			300
Interest Income		50			50
Total Revenues	_\$	28,350		\$	28,350
Expenditures:					
Travel		10,000			10,000
Postage		275			275
Copier Rental		15			15
Conference Expenses		400			400
Dues & Memberships		65			65
Stipends		2,200			2,200
Awards, Rewards, Prizes		350			350
Freight		700			700
Research Fees		3,000			3,000
Operating Fees		400			400
Audit		35			35
Copies/Printing		500			500
Educational Supplies		3,000			3,000
Service Contract-Office equip		10			10
Promotional Supplies		4,000			4,000
Miscellaneous Supplies	•	1,500			1,500
Total Expenditures	\$	26,450		\$	26,450
Revenues Over (Under) Expenditures	\$	1,900		\$	1,900

North Dakota Milk Marketing Board Bismarck, North Dakota

House and Senate Agriculture Committee Report For the Two-Year Period Ended June 30, 2004

Robert R. Peterson State Auditor



STATE OF NORTH DAKOTA

MILK MARKETING BOARD

410 E. Thayer Ave. Bismarck, ND 58501-4049 Telephone (701) 328-9588 Fax (701) 328-9596 E-mail - ndmilk@state.nd.us



John E. Weisgerber, Jr.
DIRECTOR

Shirley Gummer, Mandan Chairperson, Consumer Member

> Galen J. Erb, Amenia Producer Member

Barbara Lang, Jamestown Consumer Member

Jeff T. Beyer, Bottineau Processor Member

Mike Kraft, Williston Retailer Member

December 27, 2004

House and Senate Agriculture Committees

Board Members - - North Dakota Milk Marketing Board

Transmitted herewith is the biennial report of the North Dakota Milk Marketing Board. This report contains a Statement of Revenues and Expenditures for the two-year period ended June 30, 2004 and a Statement of Projected Revenues and Expenditures for the current and next biennium. North Dakota Century Code section 4-24-10 contains the reporting requirements for North Dakota commodity groups.

Sincerely,

Shirley Gummer

Chairperson

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

November 17, 2004

House and Senate Agriculture Committees:

Transmitted herewith are the financial statements and auditor reports of the North Dakota Milk Marketing Board as required by North Dakota Century Code section 4-24-10.

Specifically you will find the state auditor's report on the financial statements, the statement of revenues and expenditures, notes to the financial statements and the compliance and internal control report. Complete audit reports may be obtained by contacting my office.

The Office of the State Auditor would like to thank the commodity groups for their cooperation in preparing these reports.

Sincerely

Robert R. Peterson

State Auditor



STATE AUDITOR'S REPORT

BISMARCK, ND 58505

Honorable John Hoeven, Governor

Members of the Legislative Assembly

John E. Weisgerber, Jr., North Dakota Milk Marketing Board

The following pages were taken from the audit report of the North Dakota Milk Marketing Board for the two-years ended June 30, 2004. The financial statements are the responsibility of the management of the North Dakota Milk Marketing Board. The auditor's responsibility was to express an opinion on the financial statements.

The audit was performed in accordance with generally accepted auditing standards, 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 the auditors plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

The financial statements are presented to provide state decision makers, including the Agriculture Committees, with a comprehensive overview of the North Dakota Milk Marketing Board's operations. The revenues and expenditures are reported under the modified accrual basis of accounting. The financial statements are not intended to be a presentation in conformity with generally accepted accounting principles. The complete audit report should be reviewed to obtain a complete picture of the financial position and operations of the North Dakota Milk Marketing Board. The complete report may be obtained by contacting the Office of the State Auditor.

The audit resulted in a clean (unmodified) audit opinion. In accordance with *Government Auditing Standards*, a report was also issued on the auditor's consideration of the North Dakota Milk Marketing Board's internal control over financial reporting and the tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

This report is intended solely for the information of the meeting of the Joint Agriculture Committees and should not be used for any other purpose. However, this report is a matter of public record and its distribution is not limited.

Robert R. Peterson

State Auditor

November 17, 2004

NORTH DAKOTA MILK MARKETING BOARD

Statements of Revenues, Expenditures, and Changes in Fund Balances For the Fiscal Years Ended June 30, 2004 and 2003

	2004	2003
Revenues:		
Assessments	\$ 204,906	\$ 223,575
Interest income	1,211	2,301_
Total Revenues	206,117	225,876
Expenditures:		
Salaries and benefits	166,047	172,853
Operating expenses	39,722	39,607
Equipment	1,222	3,222
Total Expenditures	206,991	215,682
Revenues Over (Under) Expenditures	(874)	10,194
Fund Balance - July 1	325,267	315,073
Fund Balance - June 30	\$ 324,393	\$ 325,267

NORTH DAKOTA MILK MARKETING BOARD

Notes to the Financial Statements June 30, 2004 and 2003

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

For financial reporting purposes, the North Dakota Milk Marketing Board includes all funds programs, and activities over which it is financially accountable. The North Dakota Milk Marketing Board does not have any component units as defined by the Government Accounting Standards Board. The North Dakota Milk Marketing Board 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 North Dakota Milk Marketing Board was established by NDCC chapter 4-18.1, and is vested with the powers and has the duty to supervise, regulate, and control the fluid milk industry of the state including the production, transportation, processing, storage, distribution, and sale of milk in the state and to conduct hearings upon any subject pertinent to its duties. They may act as a mediator or arbitrator to settle any controversy or issue pertaining to fluid milk among or between producers, processors, distributors, retailers, or consumers.

B. Reporting Structure

The financial statements include all activities of the reporting entity as defined above. In accordance with section 4-18.1-12 these activities are funded on a continuing appropriation basis from a special revenue fund, fund 219 (the Milk Marketing Board operating fund).

C. Government-Wide and Fund Financial Statements

The Statement of Net Assets and Statement of Activities report information on all non-fiduciary activities of the Board. The Board reports all activities as governmental activities which are financed through assessments. The Statement of Net Assets presents the reporting entity's assets and liabilities, with the difference reported as net assets. The net assets are reported as unrestricted net assets with constraints on resources which are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Program revenues include charges for assessments on the sale of milk products.

Separate fund financial statements are provided for the Milk Marketing Board governmental fund.

D. Fund Accounting Structure

The Board uses funds 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.

NORTH DAKOTA MILK MARKETING BOARD

Notes to the Financial Statements - Continued June 30, 2004 and 2003

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

D. Fund Accounting Structure - Continued

The Board reports the Milk Marketing Board operating fund as a major governmental fund. It is used to account for the collection of assessments and transactions relating to the supervision, regulation, and control of the fluid milk industry within the state.

E. Basis for Accounting

The government-wide statements are reported using the economic resources management focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows.

Governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as 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.

Major revenues that are susceptible to accrual include assessments and interest. All revenues are determined to be available if collected within one year of fiscal year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences 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 funds deposited in a money market with AG Edwards.

H. Accumulated Unpaid Annual and Sick Leave

N.D.C.C 54-06-14 allows employees to accrue annual leave at a variable rate between one and two days per month based on years of service. In general, accrued annual leave cannot exceed thirty days at each calendar year end. Employees are paid for unused annual leave upon termination or retirement.

Sick leave is accrued at the rate of one day per month without limitation on the amount that can be accumulated. Employees vest in sick leave at ten years of service at which time the State is liable for ten percent of the employee's accumulated unused sick leave.

Notes to the Financial Statements - Continued June 30, 2004 and 2003

NOTE 2 CHANGE IN ACCOUNTING PRINCIPLES

For the fiscal year beginning July 1, 2002, the Board implemented the following new accounting standards issued by GASB:

Statement No. 34, <u>Basic Financial Statements and Management's Discussion and Analysis</u> – for State and <u>Local Governments</u>

Statement No. 37, <u>Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments: Omnibus</u>, and

Statement No. 38, Certain Financial Statement Note Disclosures.

Statement No. 34 as amended by Statement No. 37, establishes new financial reporting standards for state and local governments. This statement's requirements represent a significant change in the financial formats and changes in fund types and account groups. In addition to fund financial statements, governments are required to report government-wide financial statements, prepared using the accrual basis of accounting.

Statement No. 38 requires certain note disclosures when Statement No. 34 is implemented. The provisions of these new standards have been incorporated into the financial statement notes.

NOTE 3 ORGANIZATION AND RELATED PARTY TRANSACTIONS

As stated in Note 1, the Board is an entity of the state of North Dakota and as such, other state agencies of the state and political subdivisions are related parties.

NOTE 4 DEPOSITS AND INVESTMENTS

The GASB requires certain financial statement disclosure of deposits and investments such as the disclosure of carrying amount by type of investments and classification into one of three categories based upon credit risk. Category 1 includes deposits that are fully insured or collateralized with securities held by the Board or by its agent in the Board's name. Category 2 includes deposits which are collateralized with securities held by the pledging financial institution's trust department or agent in the Board's name. Category 3 includes deposits which are not collateralized or are collateralized by the pledging financial institution, trust or agent, not in the Board's name.

North Dakota Milk Marketing Board is required to maintain its operating funds at the Bank of North Dakota. All deposits at the Bank of North Dakota are uncollateralized, a category 3 risk as defined by the GASB, but guaranteed by the State of North Dakota according to N.D.C.C. 6-07-10.

Notes to the Financial Statements - Continued June 30, 2004 and 2003

NOTE 4 DEPOSITS AND INVESTMENTS - Continued

<u>June 30, 2004:</u>	Carrying <u>Amount</u>	Total Bank <u>Balance</u>	Category 1	Category 2	Category 3
Cash deposits Money market as investments	\$ 184,325 129,317	\$ 184,325 129,420	\$ - 100,000	\$ - 	\$ 184,325
Totals	\$ 313,642	\$ 313,745	\$ 100,000	<u> </u>	\$ 213,745
June 30, 2003:					
Cash deposits Money market as investments	\$ 188,104 128,624	\$ 188,104 	\$ - 100,000	\$ - 	\$ 188,104 28,969
Totals	\$ 316,728	\$ 317,073	\$ 100,000	<u>\$ -</u>	\$ 217,073

NOTE 5 GENERAL LONG TERM DEBT

Governmental Activities:	Balance <u>7/1/2003</u>	Additions	Reductions	Amounts Due Within One Year	Amounts Due <u>Thereafter</u>
Other long-term liabilities: Compensated absences	\$ 30,400	\$ 13,822	\$ 12,857	\$ 12,857	\$ 18,508
Governmental Activities: Other long-term liabilities:	Balance 7/1/2002	Additions	Reductions	Amounts Due Within One Year	Amounts Due Thereafter
Compensated absences	\$ 31,740	\$ 6,290	\$ 7,630	\$ 7,630	\$ 22,770

NOTE 6 PENSION PLAN

The Milk Marketing Board participates in the North Dakota Public Employees' Retirement System administered by the State of North Dakota. The following is a brief description of the plans.

Defined Benefit Pension Plan — NDPERS is a cost-sharing multiple-employer defined benefit pension plan covering substantially all classified employees of the Milk Marketing Board. The plan provides retirement, disability and death benefits. If an active employee dies with less than three years of credited service, a death benefit equal to the value of the employee's accumulated contributions, plus interest, is paid to the employee's beneficiary. If the employee has earned more than three years of credited service, the surviving spouse will be entitled to a single payment refund, life-time monthly payments in an amount equal to 50% of the employee's accrued normal retirement benefit, or 60 monthly payments equal to the employee's accrued normal retirement benefit calculated as if the employee were age 65 the day before death occurred or monthly payments in an amount equal to the employees' accrued 100% joint and survivor retirement benefit if the member had reached normal retirement age prior to date of death. If the surviving spouse dies before the employee's accumulated pension benefits are paid, the balance will be payable to the surviving spouse's designated beneficiary.

Notes to the Financial Statements - Continued June 30, 2004 and 2003

NOTE 6 PENSION PLAN - Continued

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

Employees are entitled to unreduced monthly pension benefits equal to 2.00% of their final average salary for each year of service beginning when the sum of age and years of credited service equal or exceed 85, or at normal retirement age (65). The plan permits early retirement at ages 55-64, with three or more years of service.

Benefit and contribution provisions are administered in accordance with chapter 54-52 of the North Dakota Century Code. This state statute requires that 4% of the participant's salary be contributed to the plan by either the employee or by the employer under a "salary reduction" agreement. The Milk Marketing Board has implemented a salary reduction agreement and is currently contributing the employees' share. The Milk Marketing Board is required to contribute 4.12% of each participant's salary as the employer's share. 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 Milk Marketing Board's required and actual contributions to NDPERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$12,683, \$13,008, and \$13,897, respectively.

NDPERS issues a publicly available financial report that includes financial statements and the required supplementary information for NDPERS. That report may be obtained by writing to NDPERS; 400 East Broadway, Suite 505, PO Box 1214, Bismarck, ND 58502-1214.

NOTE 7 RISK MANAGEMENT

The Board is exposed to various risks of loss related to torts, theft, damage, destruction of assets, errors and omissions, injuries to employees and natural disasters. The Board participates in the following funds or pools:

The Risk Management Fund (RMF) was created in 1995 and is an internal service fund to provide a self-insurance vehicle for the liability exposure of state agencies resulting from the elimination of the state's sovereign immunity. The RMF manages the tort liability of the state, its agencies' employees, and the University System. All state agencies participate in the RMF and their fund contribution was 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 Board pays an annual premium to the Fire and Tornado Fund to cover property damage to personal property. Replacement cost coverage is provided by estimating 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 one million dollars per occurrence during a twelve month period. The State Bonding Fund currently provides the Board with blanket fidelity bond coverage in the amount of \$50,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

Notes to the Financial Statements - Continued June 30, 2004 and 2003

NOTE 7 RISK MANAGEMENT - Continued

Workforce Safety and Insurance is 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 year and settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

NOTE 8 DUE FROM / DUE TO STATE AGENCIES

Due to other state agencies		004	2	003
Information Technology Department Department of Transportation Central Services	\$	152 156 25	\$.	67 102
Total	\$	333	\$	169
<u>Due from other state agencies</u> Bank of North Dakota	<u>\$</u>	52	\$	48

NOTE 9 OFFICE LEASE COMMITMENT

The Board leases office space owned by the North Dakota Education Association. The lease requires a monthly payment of \$568. The current lease is a month to month lease. The lease expense was \$6,818 and \$6,818 as for the years June 30, 2004 and 2003, respectively.



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Governor of North Dakota The Legislative Assembly

The North Dakota Milk Marketing Board Bismarck, North Dakota

We have audited the financial statements of the governmental activities and the major fund of the North Dakota Milk Marketing Board, a department of the State of North Dakota, as of and for the years ended June 30, 2004 and 2003, which collectively comprise North Dakota Milk Marketing Board's basic financial statements and have issued our report thereon dated September 2, 2004. 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 Standard*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the North Dakota Milk Marketing Board 's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance

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

This report is intended solely for the information of the audit committee, management, the Legislative audit and Fiscal Review Committee, and other state officials, and is not intended to be and should not be used by anyone other than those specified parties.

Brady, Marty BRADY, MARTZ & ASSOCIATES, P.C.

September 2, 2004

MILK MARKETING LAW

North Dakota's fluid milk industry has operated under a pricing structure and fair trade practice law since July 1, 1967; that affects producers, processors, distributors, retailers, and consumers.

North Dakota's 1967 Legislature enacted the law that established a Milk Marketing Board with powers to regulate fluid milk prices and fair trade practices within the dairy industry and establish milk-marketing areas within the state. Experts in the field consider it to be the best and most flexible state milk law in the country.

The five-member Board appointed by the governor includes one grade A producer, one processor, one food retailer and two consumers.

Milk regulation is a complicated business. Listed below are some of the ways that the Milk Board helps stabilize and maintain a market for North Dakota milk.

1. The Milk Board establishes minimum prices for Grade A milk to be paid by processors to producers. Grade A. producers are paid a blend price for milk based on their utilization rate between milk used for bottling and for other products. The utilization rate in the Upper Midwest Federal Milk Marketing Order is roughly 39% and the utilization rate under the jurisdiction of the Milk Board is roughly 70%. This means that producers regulated by the Milk Board generally have a higher utilization rate and receive a higher price. In addition, minimum producer prices established by the Milk Board have often been greater than those established in the Upper Midwest Federal Milk Marketing Order. Although the Milk Board does not regulate the manufacturing grade price, a healthy Grade A market supports and promotes a healthy manufacturing grade market.

- 2. The Milk Board regularly audits processing plants to insure that producers are properly paid.
- 3. The Milk Board has authority to license processors, distributors and retailers. Processors and distributors must agree to provide retailers, schools, hospitals, nursing homes and restaurants the same frequency of delivery and services as are customary in the community. This provision has proved to be very helpful in maintaining delivery of milk to remote rural areas.
- 4. The Board has discretionary authority to adopt and enforce a wide variety of fair trade practice regulations. These include such things as gifts from dealers to retailers, free equipment, unauthorized advertising allowances, unauthorized loans and the like. The enforcement of fair trade practice regulations protects small operators from predatory and monopolistic trade practices.
- 5. The Board establishes minimum wholesale and retail prices for milk. This is the best way to prohibit sales below cost by retailers and dealers and prevent destructive price wars. It also establishes a floor price sufficient to keep reasonably efficient processors, distributors and retailers in business.

The Milk Board recognizes that it does not have authority to do all things for all people. The Interstate Commerce Clause of the United States Constitution prohibits the Milk Board from regulating transactions, which occur outside the geographical limits of the state even though such transactions can have an adverse impact within the state. The limitations of interstate commerce require that regulation of milk within North Dakota be such that prices and trade practices within the state remain competitive with surrounding states. North Dakota is a sparsely populated state resulting in extremely high distribution costs. In spite of this, milk prices in North Dakota have generally been at about the median of prices charged for milk in the United States.

Producers also recognize that they need local plants to purchase their product who could earn a reasonable rate of return on their investment. They also recognize that the plants need retailers to market North Dakota milk to North Dakota consumers at a price which is fair to both. The Milk Board does not guarantee a profit to anyone. The Milk Board establishes a safety net so that milk wars and predatory trade practices will not force reasonably efficient producers, processors and retailers to go out of business. The proponents of economic development and growth in North Dakota State the best opportunity for such development and growth is the processing and finishing of agricultural products. This is what the North Dakota dairy industry has done in the past and would like to continue in the future.

The dairy industry of North Dakota believes that the Milk Board is essential to give North Dakota people the privilege of drinking milk which is produced by North Dakota farmers, processed in North Dakota plants and sold at a fair price to North Dakota consumers with some North Dakota milk production left over for export.

It is conceded in the North Dakota dairy industry that if the Milk Board became ineffective or was lost, that all of North Dakota would soon be included in the Upper Midwest Federal Milk Marketing Order. The choice is not whether or not there will be milk regulation; the choice is whether there will be state regulation or federal regulation.

The overwhelming majority of persons in the dairy industry of North Dakota believe that the North Dakota Milk Marketing Board is an essential element in maintaining a strong and viable dairy industry in North Dakota.

BOARD'S MISSION STATEMENT

Promote and ensure an adequate supply of fresh and wholesome milk to the public of the State and recognizing the perishable nature of milk to set minimum dairy farmer, wholesale and retail prices on milk products, to eliminate unfair and demoralizing trade practices and to provide economic stabilization to the dairy industry. The Board through public hearings and audits, supervises, investigates and regulates all segments of the Grade A dairy industry. The Board may also act as a mediator or arbitrator in connection with any controversy or issue among or between dairy farmers, processors, distributors, retailers or consumers if such controversy or issue pertains to the production, transportation, processing, storage, distribution or sale of milk products. The Board through its licensing functions provides a viable market for Grade A dairy farmer milk and Grade A milk products manufactured within the State and strives to protect the State from becoming a dumping ground for dairy products from other States at the expense of our North Dakota dairy farmers, independent distributors and processing plants.

PROGRAM OBJECTIVES

Set minimum dairy farmer, wholesale and retail prices on milk products. Eliminate unfair and demoralizing trade practices and to provide economic stabilization to the dairy industry. Audit, supervise, investigate and regulate all segments of the Grade A dairy industry. Act as a mediator or arbitrator in connection with any controversy or issue among or between dairy farmers, processors, distributors, retailers or consumers if such controversy or issue pertains to the production, transportation, processing, storage, distribution or sale of milk products. Provide a viable market for Grade A dairy farmer milk and Grade A milk products manufactured within the State and strives to protect the State from becoming a dumping ground for dairy products from other States.

SERVICES PROVIDED

Establish, publish and audit monthly minimum Grade A dairy farmer Class I, II and III prices. Promulgate and enforce regulations governing farm-to-plant dairy farmer hauling rates. Promulgate and enforce regulations governing dairy farmer purchasing agreements. Enforce regulations governing milk classification, reporting and auditing procedures. Conduct a processing plant audit program to insure compliance of item 1 through 4 above. Conduct cost studies and economic surveys regarding the production and marketing of Grade A milk products. Establish minimum and/or maximum wholesale and retail prices and audit for compliance of such. Eliminate unfair, unjust and demoralizing trade practices through audit and investigation of such. Recover dairy farmer underpayments and assessment underpayments. Issue dairy farmer, processor, distributor and retailer licenses. Hold public hearings, take sworn testimony, study exhibits, and enter into deliberations and issue marketing plans.

PROGRAM STATISTICAL DATA

The audit program has recovered over \$978,875 in under payments to Grade "A" dairy farmers to date and assessment underpayments recovered to date amount to over \$267,228. The Board has ensured that an adequate supply of milk is available to consumers in all areas of the State. The Board has brought economic stability to the Grade A dairy industry of this State and eliminated the chaotic, destructive trade practices within the dairy industry. The Board has ensured that this State has not become a dumping ground for surplus dairy products from other States at the expense of our North Dakota dairy industry.

Funds to administer the law are obtained from a check off/assessment of ten cents per hundredweight on the total volume of Class I and Class II milk sales in the State by all licensed processors and distributors.

MILK MARKETING BOARD Bismarck, North Dakota

SUMMARY OF ACTIVITIES For Fiscal Years Ended June 30, 2003 and 2004

	<u>2003</u>	<u>2004</u>
Board Meetings	6	7
Official Orders and Supplements Issued	20	30
Public Hearings	1	1
Administrative Hearings	1	1
Hearing Notices Issued	191	191
Official Orders and Supplements Issued	1,362	3,486
Complaints of Violations Received	46	45
Violations Investigated	55	54
Plant-Distributor Cost Studies	3	3
Producer Cost Studies	3	3
Hauling Rate Cost Studies	3	3
Citations Issued	0	0
Injunctive Actions	0	0
Administrative Complaints Filed	0	0
Number of Plants Audited for Producer Payments and Assessments.	17	19
Number of Months Audited	204	228
Number of Producer Adjustments	1,008	1,020
Total Underpayments Recovered for Dairy Farmers	\$27,997	\$ 54,274
Total Underpayments Recovered for Dairy Farmers to Date	\$924,601	\$978,875
Total Assessment Underpayments Recovered to Date	\$260,721	\$267,228
North Dakota Processors and Distributors Licenses	69	68
Out-of-State Processors and Distributor Licenses	23	22

MILK MARKETING BOARD Bismarck, North Dakota

GRADE "A" RECEIPTS/UTILIZATION For Fiscal Years Ended June 30, 2003 And 2004

			2003		<u>2004</u>	
GRADE A RECEIP	ΓS		376,054,342	Lbs	348,794,501 Lbs	
UTILIZATION						
	Class	I	178,324,969	Lbs	178,757,182 Lbs	
	Class	II	25,185,126	Lbs	24,834,168 Lbs	
	Class	Ш	172,544,247	Lbs	145,203,151 Lbs	
	%	I	47.42	%	51.25 %	
	%	II	6.70	%	7.12 %	
	%	Ш	45.88	%	41.63 %	
BOARD MEMBERS	5		5	•	5	
STAFF			4		4	
EXPENSES			\$215,681.5	52	\$206,991.53	
Fluid Consu	ımptio	n.	178,324,969		178,757,182 Lbs	
	In Qua		82,941,846		83,142,875 Qts	
Cost of Adı	-		\$.002600	•	\$.00249	
Population			633,837 I		633,837 Est.	
Per Capita 1	Fluid C	onsumption	281.34 Lb	s	282.02 Lbs	
, .	In Qua	rts	130,86 Qt	s	131.17 Qts	
Cost of Ada	nin. Pe	r Person	\$.3403		\$.3266	
Revenue			\$.10 per CV	VT	\$.10 per CWT	
			Class I and	i II	Class I and II	
			Processor	S _.	Processors	

MILK MARKETING BOARD Bismarck, North Dakota

MILK UTILIZATION IN NORTH DAKOTA For Fiscal Years Ended June 30, 2003 and 2004

	<u>2003</u>	<u>2004</u>
Grade "A" Receipts North Dakota Producers	376,054,342 Lbs.	348,794,501 Lbs.
Gross \$ Payment	\$ 43,543,357.04	\$ 54,515,315.15
State Wide Blend Price Per CWT	\$ 11.58	15.62
Average Butterfat Test	3.68 %	3.69 %
Class I Price Range Per CWT Within F.M.O	\$ 12.27 to \$11.29	\$ 22.78 to \$11.42
Average Class I Price Per CWT Within F.M.O	\$ 11.86	\$ 15.54
Class I Price Range Per CWT State Ordered	\$ 13.76 to \$13.76	\$ 23.42 to \$13.76
Average Class I Price Per CWT State Ordered	\$ 13.76	\$ 16.44
Premium Range Per CWT Class I Over F.M.O	\$ 2.47 to \$1.49	\$ 2.34 to \$0.64
Average Premium Per CWT Class I Over F.M.O	\$ 1.90	\$ 0.90
Gross Premium Payment	\$ 4,362,230.37	\$ 4,743,605.21
Average Premium Blend Per CWT Over F.M.O.	\$ 1.16	\$ 1.36
Average Class II Price Paid Per CWT	\$ 10.9 7	\$ 12.44
Average Class III Price Paid Per CWT	\$ 9.35	\$ 14.04

North Dakota Milk Marketing Board Bismarck, North Dakota

STATEMENT OF PROJECTED REVENUES AND EXPENDITURES

For the Current and Next Biennium 2003-2005 and 2005-2007

(UNAUDITED)

Prepared by the North Dakota Milk Marketing Board

	2005-2007	2003-2005		
	<u>Biennium</u>	<u>Biennium</u>		
REVENUES:				
Assessments Interest	\$ 437,920 2,660	\$ 413,396 <u>2,550</u>		
TOTAL REVENUES	\$ 440,580	\$ 415,946		
EXPENDITURES:				
Salaries Operating Expenditures Equipment	\$ 357,150 81,760 <u>920</u>	\$ 333,400 80,044 <u>1,622</u>		
TOTAL EXPENDITURES	\$ 439,830	415,066		
Revenue Over Expenditures	\$ 750	\$ 880		

North Dakota Oilseed Council Bismarck, North Dakota

House and Senate Agriculture Committee Report For the Two-Year Period Ended June 30, 2004

Robert R. Peterson State Auditor



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November 17, 2004

House and Senate Agriculture Committees:

Transmitted herewith are the financial statements and auditor reports of the North Dakota Oilseed Council as required by North Dakota Century Code section 4-24-10.

Specifically you will find the state auditor's report on the financial statements, the statement of revenues and expenditures, notes to the financial statements and the compliance and internal control report. Complete audit reports may be obtained by contacting my office.

The Office of the State Auditor would like to thank the commodity groups for their cooperation in preparing these reports.

Sincerely

Robert R. Peterson State Auditor



OFFICE OF THE STATE AUDITOR

STATE CAPITOL 600 E. BOULEVARD AVE. - DEPT. 117 BISMARCK, ND 58505

STATE AUDITOR'S REPORT

Honorable John Hoeven, Governor

Members of the Legislative Assembly

Lerrene Kroh, North Dakota Oilseed Council

The following pages were taken from the audit report of the North Dakota Oilseed Council for the two-years ended June 30, 2004. The financial statements are the responsibility of the management of the North Dakota Oilseed Council. The auditor's responsibility was to express an opinion on the financial statements.

The audit was performed in accordance with generally accepted auditing standards, 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 the auditors plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

The financial statements are presented to provide state decision makers, including the Agriculture Committees, with a comprehensive overview of the North Dakota Oilseed Council's operations. The revenues and expenditures are reported under the modified accrual basis of accounting. The financial statements are not intended to be a presentation in conformity with generally accepted accounting principles. The complete audit report should be reviewed to obtain a complete picture of the financial position and operations of the North Dakota Oilseed Council. The complete report may be obtained by contacting the Office of the State Auditor.

The audit resulted in a clean (unmodified) audit opinion. In accordance with *Government Auditing Standards*, a report was also issued on the auditor's consideration of the North Dakota Oilseed Council's internal control over financial reporting and the tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

This report is intended solely for the information of the meeting of the Joint Agriculture Committees and should not be used for any other purpose. However, this report is a matter of public record and its distribution is not limited.

Robert R. Peterson State Auditor

November 17, 2004

Statements of Revenues, Expenditures, and Changes in Fund Balances For the Fiscal Years Ended June 30, 2004 and 2003

	2004	2003
Revenues: Assessments (net of refunds of \$44,075 and \$57,183) Interest income	\$1,038,293 6,230	\$1,004,409 12,915
Total Revenues	1,044,523	1,017,324
Expenditures: ' Salaries and benefits Operating expenses Equipment	53,002 801,411 1,810	50,302 1,201,163
Total Expenditures	856,223	1,251,465
Revenues over (under) expenditures	188,300	(234,141)
Fund Balance - July 1	1,443,161	1,677,302
Fund Balance - June 30	\$1,631,461	\$1,443,161

Notes to the Financial Statements June 30, 2004 and 2003

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

For financial reporting purposes, the North Dakota Oilseed Council includes all funds programs, and activities over which it is financially accountable. The North Dakota Oilseed Council does not have any component units as defined by the Government Accounting Standards Board. The North Dakota Oilseed Council 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 North Dakota Oilseed Council was established as a result of the Sunflower Industry Promotion Act of North Dakota (Chapter 52, 1977 Session Law, House Bill 1423). The Council was established with the objective and purpose of contributing to the stabilization and improvement of the agricultural economy of the State of North Dakota. The Council shall promote, through research and advertising, sunflower, safflower, canola or rapeseed, crambe, and flax produced and marketed for sale in the State of North Dakota.

B. Reporting Structure

The financial statements include all activities of the reporting entity as defined above. In accordance with section 4-10.2-08 these activities are funded on a continuing appropriation basis from a special revenue fund, fund 245 (the Oilseed Council operating fund).

C. Government-Wide and Fund Financial Statements

The Statement of Net Assets and Statement of Activities report information on all non-fiduciary activities of the Council. The Council reports all activities as governmental activities which are financed through assessments. The Statement of Net Assets presents the reporting entity's assets and liabilities, with the difference reported as net assets. The net assets are reported as unrestricted net assets with constraints on resources which are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Program revenues include charges for assessments on the sale of sunflower, safflower, canola or rapeseed, crambe, and flax.

Separate fund financial statements are provided for the Oilseed Council governmental fund.

C. Fund Accounting Structure

The Council uses funds 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.

Notes to the Financial Statements - Continued June 30, 2004 and 2003

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

C. Fund Accounting Structure - Continued

The Council reports the Oilseed Council operating fund as a major governmental fund. It is used to account for the collection of assessments and transactions relating to the promotion, through research and advertising, of sunflower, safflower, canola or rapeseed, crambe, and flax produced within the state.

D. Basis for Accounting

The government-wide statements are reported using the economic resources management focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows.

Governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as 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.

Major revenues that are susceptible to accrual include assessments and interest. All revenues are determined to be available if collected within one year of fiscal year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences are recorded only when payment is due and payable.

E. Cash and Cash Equivalents

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

F. Investments

Investments include certificates of deposit and funds deposited in a money market with AG Edwards.

G. Prepaid Items

Prepaid items reflect payments for costs applicable to future accounting periods. Prepaid items are reflected as a reservation of fund balance on the balance sheet.

H. Accumulated Unpaid Annual and Sick Leave

N.D.C.C 54-06-14 allows employees to accrue annual leave at a variable rate between one and two days per month based on years of service. In general, accrued annual leave cannot exceed thirty days at each calendar year end. Employees are paid for unused annual leave upon termination or retirement.

Sick leave is accrued at the rate of one day per month without limitation on the amount that can be accumulated. Employees vest in sick leave at ten years of service at which time the State is liable for ten percent of the employee's accumulated unused sick leave.

Notes to the Financial Statements - Continued June 30, 2004 and 2003

NOTE 2 CHANGE IN ACCOUNTING PRINCIPLES

For the fiscal year beginning July 1, 2002, the Council implemented the following new accounting standards issued by GASB:

Statement No. 34, <u>Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments</u>

Statement No. 37, <u>Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments: Omnibus</u>, and

Statement No. 38, Certain Financial Statement Note Disclosures.

Statement No. 34 as amended by Statement No. 37, establishes new financial reporting standards for state and local governments. This statement's requirements represent a significant change in the financial formats and changes in fund types and account groups. In addition to fund financial statements, governments are required to report government-wide financial statements, prepared using the accrual basis of accounting.

Statement No. 38 requires certain note disclosures when Statement No. 34 is implemented. The provisions of these new standards have been incorporated into the financial statement notes.

NOTE 3 ORGANIZATION AND RELATED PARTY TRANSACTIONS

As stated in Note 1, the Council is an entity of the state of North Dakota and as such, other state agencies of the state and political subdivisions are related parties.

NOTE 4 DEPOSITS AND INVESTMENTS

The GASB requires certain financial statement disclosure of deposits and investments such as the disclosure of carrying amount by type of investments and classification into one of three categories based upon credit risk. Category 1 includes deposits that are fully insured or collateralized with securities held by the Council or by its agent in the Council's name. Category 2 includes deposits which are collateralized with securities held by the pledging financial institution's trust department or agent in the Council's name. Category 3 includes deposits which are not collateralized or are collateralized by the pledging financial institution, trust or agent, not in the Council's name.

North Dakota Oilseed Council is required to maintain its operating funds at the Bank of North Dakota. All deposits at the Bank of North Dakota are uncollateralized, a category 3 risk as defined by the GASB, but guaranteed by the State of North Dakota according to N.D.C.C. 6-07-10.

Notes to the Financial Statements - Continued June 30, 2004 and 2003

NOTE 4 DEPOSITS AND INVESTMENTS - Continued

June 30, 2004;	Carrying Amount	Total Bank <u>Balance</u>	Category 1	Category 2	Category 3
Cash deposits Certificates of deposits as investments Money market as investments	\$ 764,012 197,000 182,357	\$ 764,012 197,000 182,357	\$ - 197,000 	\$ - - -	\$ 764,012 - 82,357
Totals	\$ 1,143,369	\$ 1,143,369	\$ 297,000	<u>\$</u> -	\$ 846,369
June 30, 2003:		•			
Cash deposits Certificates of deposits as investments Money market as investments	\$ 400,089 296,000 181,383	\$ 400,089 296,000 181,383	\$ - 296,000 100,000	\$ - -	\$ 400,089 - 81,383
Totals	\$ 877,472	\$ 877,472	\$ 396,000	<u>\$</u>	\$ 481,472

NOTE 5 GENERAL LONG TERM DEBT

Governmental Activities:	Balance <u>7/1/2003</u>	Additions	Reductions	Amounts Due Within One Year	Amounts Due <u>Thereafter</u>
Other long-term liabilities: Compensated absences	\$ 8,167	\$ 4,150	\$ 4,773	\$ 4,773	\$ 2,771
Governmental Activities: Other long-term liabilities:	Balance 7/1/2002	Additions	Reductions	Amounts Due Within One Year	Amounts Due Thereafter
Compensated absences	\$ 8,565	\$ 2,028	\$ 2,426	\$ 2,028	\$ 6,139

NOTE 6 DUE TO / DUE FROM STATE AGENCIES

	2	2004		003
Due to other state agencies Information Technology Department Attorney General Office of Management & Budget	\$	507 30	\$	645 38 111
Central Services		<u>-</u>		164
Total	<u>\$</u>	537	\$	958
<u>Due from other state agencies</u> Bank of North Dakota	\$_	232	\$	140

Notes to the Financial Statements - Continued June 30, 2004 and 2003

NOTE 7 RELATED PARTY TRANSACTIONS

The North Dakota Oilseed Council contracts with the National Sunflower Association for the promotion, research, production and marketing of sunflower products. The members of the North Dakota Oilseed Council are also members of the National Sunflower Association board. The annual contracts extend from January 1 to December 31. The contract payments for the years ended June 30, 2004 and 2003 were \$223,333 and \$490,000, respectively. The 2004 contract remaining payment of \$126,667 is due by August 1, 2004.

The North Dakota Oilseed Council contracts with Northern Canola Growers for the promotion, research, production and marketing of canola products. The annual contracts extend from January 1 to December 31. The contract payments for the years ended June 30, 2004 and 2003 were \$234,199 and \$579,145, respectively. The 2004 contract remaining payment of \$133,333 is due by August 1, 2004.

The North Dakota Oilseed Council contracts with AmeriFlax for the promotion, research, production and marketing of flax products. The annual contracts extend from January 1 to December 31. The contract payments for the years ended June 30, 2004 and 2003 were \$104,500 and \$168,448, respectively.

NOTE 8 RISK MANAGEMENT

The Council is exposed to various risks of loss related to torts, theft, damage, destruction of assets, errors and omissions, injuries to employees and natural disasters. The Council participates in the following funds or pools:

The Risk Management Fund (RMF) was created in 1995 and is an internal service fund to provide a self-insurance vehicle for the liability exposure of state agencies resulting from the elimination of the state's sovereign immunity. The RMF manages the tort liability of the state, its agencies' employees, and the University System. All state agencies participate in the RMF and their fund contribution was 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 Council pays an annual premium to the Fire and Tornado Fund to cover property damage to personal property. Replacement cost coverage is provided by estimating 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 one million dollars per occurrence during a twelve month period. The State Bonding Fund currently provides the Council with blanket fidelity bond coverage in the amount of \$50,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

The North Dakota Workforce Safety & Insurance is 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 year and settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

Notes to the Financial Statements - Continued June 30, 2004 and 2003

NOTE 9 PENSION PLAN

The Oilseed Council participates in the North Dakota Public Employees' Retirement System administered by the State of North Dakota. The following is a brief description of the plans.

Defined Benefit Pension Plan — NDPERS is a cost-sharing multiple-employer defined benefit pension plan covering substantially all classified employees of the Oilseed Council. The plan provides retirement, disability and death benefits. If an active employee dies with less than three years of credited service, a death benefit equal to the value of the employee's accumulated contributions, plus interest, is paid to the employee's beneficiary. If the employee has earned more than three years of credited service, the surviving spouse will be entitled to a single payment refund, life-time monthly payments in an amount equal to 50% of the employee's accrued normal retirement benefit, or 60 monthly payments equal to the employee's accrued normal retirement benefit calculated as if the employee were age 65 the day before death occurred or monthly payments in an amount equal to the employees' accrued 100% joint and survivor retirement benefit if the member had reached normal retirement age prior to date of death. If the surviving spouse dies before the employee's accumulated pension benefits are paid, the balance will be payable to the surviving spouse's designated beneficiary.

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

Employees are entitled to unreduced monthly pension benefits equal to 2.00% of their final average salary for each year of service beginning when the sum of age and years of credited service equal or exceed 85, or at normal retirement age (65). The plan permits early retirement at ages 55-64, with three or more years of service.

Benefit and contribution provisions are administered in accordance with chapter 54-52 of the North Dakota Century Code. This state statute requires that 4% of the participant's salary be contributed to the plan by either the employee or by the employer under a "salary reduction" agreement. The Oilseed Council has implemented a salary reduction agreement and is currently contributing the employees' share. The Oilseed Council is required to contribute 4.12% of each participant's salary as the employer's share. 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 Oilseed Council's required and actual contributions to NDPERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$3,660, \$3,520, and \$3,374, respectively.

NDPERS issues a publicly available financial report that includes financial statements and the required supplementary information for NDPERS. That report may be obtained by writing to NDPERS; 400 East Broadway, Suite 505, PO Box 1214, Bismarck, ND 58502-1214.

Notes to the Financial Statements - Continued June 30, 2004 and 2003

NOTE 10 COMMITMENTS

The Oilseed Council has various commitments for research projects. These projects call for half of the grant to be paid upon the approval of the research project. The remaining half is to be paid at the completion of the project and presentation to the Board of Directors. The balance of the contracts for the research projects committed and unpaid as of June 30, 2004 is \$65,795.



REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Governor of North Dakota The Legislative Assembly

The North Dakota Oilseed Council Bismarck, North Dakota

We have audited the financial statements of the governmental activities and the major fund of the North Dakota Oilseed Council, a department of the State of North Dakota, as of and for the years ended June 30, 2004 and 2003, which collectively comprise North Dakota Oilseed Council's basic financial statements and have issued our report thereon dated August 12, 2004. 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 Standard*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the North Dakota Oilseed Council's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted one matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect North Dakota Oilseed Council ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition noted above is that there is no segregation of duties. However, no recommendation will be made as it is not feasible to obtain proper segregation of duties due to the size of this entity.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. However, we believe that the reportable condition described above is not a material weakness.

Thief River Falls, MN

Compliance

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

This report is intended solely for the information of the audit committee, management, the Legislative audit and Fiscal Review Committee, and other state officials, and is not intended to be and should not be used by anyone other than those specified parties.

Brady, Marry BRADY, MARTZ & ASSOCIATES, P.C.

August 12, 2004



North Dakota Oilseed Council

For the Marketing and Promotion of: Canola, Crambe, Flax, Safflower, Sunflower

REPORT TO THE 2005 NORTH DAKOTA LEGISLATIVE ASSEMBLY SENATE AND HOUSE AGRICULTURE COMMITTEES

Background

Sunflowers became a popular oilseed crop in North Dakota in the mid-to-late 1970's. Growers requested better methods of production, processing and marketing of their sunflowers and therefore requested the state legislature to establish the North Dakota Sunflower Council in 1977. Producers funded the Council with a 1 cent per hundredweight assessment for promotion, marketing and research.

Because of the increased interest in the production of the rapeseed/canola, crambe, safflower and flax, there was a move to include these oilseeds under the ND Sunflower Council during the 1989 legislative session. The N.D. Sunflower Council was renamed the ND Oilseed Council and became the umbrella organization for the five oilseed crops. The assessment was also increased from 1 cent to 2 cents per hundredweight for sunflower, safflower, canola/rapeseed and crambe and 2 cents per bushel for flax.

During the 1997 Legislative Session, the North Dakota Oilseed Council members requested an increase in the assessment for sunflower and the other oilseeds from 2 cents to 3 cents per hundredweight. An exception to this request was flax, which is already 3.8 cents/cwt. Growers may request a refund of the assessment, if they choose, within sixty days after it is paid.

Organization

Sunflower producers initially directed the ND Sunflower Council by electing representatives at the county level, who in turn elected seven district representatives. These seven producers made up the board of directors. In 1989, when the law changed to include safflower, canola/rapeseed, crambe and flax, it provided for the governor to appoint a safflower grower, a canola/rapeseed grower and a flax grower as well as someone from the ND Ag Experiment Station. The Ag Commissioner serves as an ex officio member. During the 1997 Legislative Session, the NDOC members requested that the law be changed to include an appointment of a crambe representative on the board. Because of the substantial increase in canola acres, there needed to be more canola representation on the board. During the 2001 Legislative Session, the Council requested the law to be changed to delete the appointed canola position and to elect county canola representatives who in turn would elect three district canola representatives. The fifteen elected and appointed individuals develop policy and programs, oversee their implementation and approve budget expenditures. The staff consists of one full-time permanent employee as the NDOC contracts with the following groups:

- National Sunflower Association for the majority of its sunflower work; (1)
- Northern Canola Growers Association for the majority of its canola work; (2)
- AmeriFlax, Inc. for the majority of its flax work. (3)

4023 State St. 58503-0620

Bismarck, ND SUNFLOWER - SUMMARY OF ACTIVITIES FOR THE 2003-05 BIENNIUM

Phone 701-328-5100 FAX: 01-328-5101

The National Sunflower Association (NSA) and the ND Oilseed Council are important partners. The NSA is able to match each Council dollar on a 10 to 1 ratio. The NSA is able to get matching dollars from other state grower groups, the sunflower industry, federal government and from various grants.

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- (3) AmeriFlax, Inc. for the majority of its flax work.

SUNFLOWER - SUMMARY OF ACTIVITIES FOR THE 2003-05 BIENNIUM

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PROGRAMS

Production Research

Weeds: Great strides have been gained in weed control in sunflower. CLEARFIELD sunflower allows farmers to control most broad leaf and grassy weeds post-emergent. There are efforts underway to gain additional post-emerge herbicides including Express.

Sclerotinia: A major focus has been to identify tolerance/resistance to Sclerotinia head rot. Three irrigated misting system have been established within North and South Dakota to test hybrids and breeding/genetic material. The misting systems mimic the weather requirements for the disease to occur. Thus, testing can take place at three locations each year and the incidence of disease is guaranteed. Progress in identifying hybrid tolerance has already been made. In addition, the NSA was instrumental in gaining federal funding for the Sclerotinia Initiative. Nearly \$1 million was allocated in the first year and that has been increased to \$1.4 million. The Initiative is a multi-state and multi-crop funding source in order to make significant progress in reducing the severity of this disease on several crops. Also, a fungicide has been labeled by EPA for sunflower Sclerotinia control. More testing is required before the company will label the product.

insect control: A new insecticide seed treatment was labeled in 2004 to control early season soil insects. Developing genetic resistance continues to be a long-term goal.

Blackbirds: Cattail eradication continues to be a major program assisting in dispersing blackbird flocks. Lure plots were used for the first time in 2004. The concept is to plant up to 20 acre lure plots near troublesome wetlands. This theoretically will keep the birds out of commercial fields. USDA is paying producers for the lure plots. The plots also have other wildlife benefits over winter. Efforts to reduce blackbird numbers in states south of here continue. Avicides work well in feedlot settings. Often feedlots can have multi-million member flocks at feedlots for the entire winter. USDA's Wildlife Services continues to search for other novel approaches for this serious problem.

Utilization Research and Promotion

NuSun: This oil was developed to better compete in the domestic market. Great strides have been made in a few short years. The majority of the sunflower acres are now the NuSun type. Many national and regional food companies are using the oil to fry potato chips, nuts, seeds and other food products. Farmers have gained additional value. High oleic type sunflower is also expanding due to market demand.

Confections: SunButter™ is now a market reality and the manufacturers have also gained 'commodity status' at USDA for school food service eligibility. This is a major achievement and opens many doors and opportunities. In-shell confection sunflower continues to enjoy strong domestic growth in demand. Several major food companies are marketing in-shell and the distribution is national and the products have been improved significantly.

International Market Development:

The NSA continues to conduct aggressive promotion programs in Mexico, China, Taiwan, Spain and Germany. The NSA has an agreement with the USDA Foreign Agricultural Service which provides most of the operating dollars. Although the sunflower producer is no longer as reliant on the export market, it continues to play a vital role in determining the value of sunflower.

information Transfer:

The Sunflower magazine and the NSA website www.sunflowernsa.com continue to be the direct link to producers, the industry and consumers. The website is of utmost importance. In October, more than 33,000 persons spent significant time on the NSA website. For example, the site offers daily price information for producers and others.

SUNFLOWER - PROJECTED ACTIVITIES FOR 2005-2007

Research and Production:

Emphasis will continue to be placed on research and gaining additional crop protection product labels. An effort will be made to gain an additional plant geneticist position for the USDA ARS Sunflower Research Unit located in Fargo. The position would breed sunflower for insect tolerance/resistance.

Blackbirds will continue to gain a great deal of time and effort. Programs to eliminate a greater number of over-wintering blackbirds will be pursued. Destruction of desirable habitat (cattails) in the production region will remain a high priority. Researching additional dispersing agents will considered.

Better production tools in the hands of the producer will result in higher yields and a more competitive crop.

Promotion and Market Development:

The NSA will maintain an active role in promoting the various sunflower products both domestically and overseas. There are new and ever expanding opportunities. The sunflower industry has innovative companies that are willing to invest and pursue new products. The NSA must continue to provide the basic research and information to the professionals such as nutritionists and other opinion leaders.

CANOLA - SUMMARY OF ACTIVITIES FOR THE 2003-2005 BIENNIUM EDUCATION

Canola Forum

The Northern Canola Growers Association hosted a Canola Forum in Minot in December in 2003 and 2004. This meeting provided updates on the canola industry to canola growers from the north central part of the state.

Various topics covered at these meetings including a market outlook, NCGA report of activities, an update on fertilizer research in canola to reduce input costs, an insect survey update and the latest research findings in blackleg control in canola. In addition, the NCGA gave a report on the quality of the U.S. canola crop and its comparison to the Canadian crop.

Canola Day

The Northern Canola Growers Association hosted its Annual Canola Days in Langdon in 2003 and 2004. Approximately three hundred people attended the events and speaker forum. Speakers included Derwyn Hammond – Straight-cut canola research in Canada, Ron Beneda– Blackleg Issues in Canola and NDSU researchers reporting on sclerotinia in 2003 and canola fertilization research, NDSU researchers, and market analysts specializing in the oilseeds markets.

The 2005 Canola Day will be held in Langdon on February 9th.

Producer Meetings

The NCGA conducted several grower meetings in the biennium to attempt to generate more interest in growing canola and to convey methods to reduce input costs. Meetings were held in Mohall and Garrison which covered topics such as contract marketing opportunities for growers, canola production and weed control and rotational issues in canola production. The Garrison meeting was held in conjunction with a local Crop Improvement Meeting.

Summer Field Days

The Northern Canola Growers Association collaborated with the NDSU North Central Research Extension Center and the Langdon Research Center in the biennium to provide agronomic information for canola growers. The research tours consisted of three hours of morning presentations and were followed by an industry-sponsored golf tournament. The events provided producers with an opportunity to review canola

research taking place at the Research Extension Centers. Topics covered during the tours included insect and disease management as well as a review of a rotation trial and a new misting system designed to evaluate fungicides on canola, blackleg trials in canola, voluntary control of canola in selected crops and fertilization research in canola.

Blackleg incidence was not a concern in 2004. Many reports came back to the NCGA office that the blackleg CD's it developed and the education of growers during the winter meetings on blackleg management greatly helped avoid increased infestations in 2004. The NCGA produced and mailed out over 350 CD's in 2003-2004 to the industry on how to manage blackleg in canola.

Scierotinia Risk Map for Canola

The first Sclerotinia risk maps for each year of the biennium were released in early June. The maps provided information on sclerotinia risk, crop stage and soil moisture conditions. The NCGA received positive feedback from growers who indicated the maps aided them in their decisions to apply a fungicide. Growers are requesting even more detailed information on an individual field level and the NCGA will be working with NDSU to identify new methods to meet this need of growers.

Information Services

The NCGA published the *Northern Canola News* during the biennium. The NCGA also published a magazine, the *Canola Journal*, in December, March, June and October, which is distributed to over 3,100 growers in the region. This magazine is published on a regular basis during the winter months by the NCGA.

The Northern Canola Growers Association had a very active year of marketing and promotion activities. NCGA joined up with Canada in a collaborative marketing campaign, a U.S. Canola Oil Promotion Committee, (COPC) focused solely on promoting canola in the U.S. Barry and Sheri Coleman were formally accepted to the committee as representatives of the U.S. canola industry. This committee created a new theme: Canola...One Oil, Infinite Possibilities! This theme is carried through by both the US and Canada in joint and independent marketing.

Additionally, the NCGA has been involved in its own multitude of activities in canola promotion and marketing. At a spring conference held by the Canola Council of Canada, we learned that agricultural groups have done a good job of 'preaching to the choir' and need to refocus its message delivery system to gain increased general knowledge to the consumer using all forms of media and targeted groups. In a recent Omnibus survey conducted by the COPC, it was found that 50% of Americans have canola oil in their kitchen. Of those, only 50% of them know why they use it. Our goal is to reiterate why the 50% have canola oil in their kitchen, as well as to engage the remaining 50% to using canola oil. We have divided our marketing into several focus areas:

- Primary purchasing consumers age 16-54,
- Healthcare Professionals.
- Dietary Professionals, and
- Culinary Professionals

The NCGA has developed new and updated materials to promote the health message of canola. New displays have been developed, along with new brochures and portfolios, as well as a proposed change in the look of the NCGA website to include health and consumer information with links. The NCGA developed and printed 10,000 booklets by the American Heart Association highlighting the health benefits of canola oil. Sheri Coleman has been accepted as an American Heart Association Council member at the national level as well as a committee member at the ND affiliate branch.

Relationships are being cultivated in the medical community, particularly cardiologists, endocrinologists and specialists in childhood obesity. We want to establish and promote speaking engagements across the U.S. during major medical events to support the health benefits and research of canola oil. For example: Dr. Robert Vogel, Vascular Biologist that has written the upcoming book: Virtual Blondes, Dog

Walking and Canola Oil: A prescription for a healthy American Diet, Dr. Farzad Deyhim, Texas A & M researcher is conducting a study on Diabetes and Canola Oil, and Dr. Walter Willett-Harvard School of Public Health is researching obesity and vegetable oils.

Collaborative Marketing with Canada

Collaborative projects were conducted with staff from NCGA and the Canadian Provinces that promote canola in the US market. The focus was on health professionals, culinary professionals and overall media.

- **ACC Conference**
- IACP Conference
- Media Campaign
- International Congress of Dietetics
- Canola Camp
- Canola Camper Collaboration/articles/publications/recipe development
- Janice Newell-Bissex, canola spokesperson secured
- American Dietetics Association Conference
- American Heart Association Conference

Medical/Health Research

Canola/Diabetes Research Underway at Texas A & M

International Projects

- Mexican Culinary Collaboration/Los Amigos
- MIATCO: Marketing Collaboration NCGA/MCC Fancy Foods Show, NYC Media Interviews

National Projects

- Spice Company Collaborative Marketing
- Coleman Joins AHA as Professional Council Member
- Oil Bottling Companies: Collaboration, gourmet market
- **Culinary School Collaboration**
- **IFT Conference**
- Canola Luncheon Capitol Hill

State/Local Projects

- KMOT Ag Days/Minot
- Tastebuds Culinary Show: Bismarck Civic Center
- Collaborative Work with NDSU Extension
- Promoting canola oil with Dan's Super Market
- Pilot Project Written: Standing Rock Indian Reservation/Diabetes Study
- NDSU Annual Meeting Presentation
- Culinary Section Added to Greeter Magazine
- Canola Links with School Nutrition Alliance

Foreign Market Development

The Northern Canola Growers Association participated with the Minnesota Canola Council in developing an exhibit in New York that also targeted Mexican companies. Spanish brochures on canola oil health benefits were also developed that will be distributed to hospitals and nutritionists, primarily in the Monterrey area of Mexico.

The 5th Annual U.S. Canola Quality Survey was conducted by the NCGA which shows the oil characteristics of the U.S. crop as well as the grade characteristics. The sample region included North Dakota and the northwest canola growing region of Minnesota.

NCGA Officials also met with Regasa, a canola crusher in Monterrey, Mexico, to discuss plans to promote canola oil to health professionals in the hospital industry in Monterrey. A plan will be sent to MIATCO for 2005 to conduct several educational sessions on canola oil in this targeted market. CHS Milton and the Bottineau Farmers Elevator have made sales of canola seed to this crusher in Monterrey in the past three years. The NCGA will seek to solidify canola consumption in this market.

USCA Marketing Committee

Barry Coleman, Executive Director of the Northern Canola Growers Association, serves as a representative on the U.S. Canola Association's Marketing Committee. The committee meets twice annually to identify ways in which to promote canola oil both domestically and in foreign markets. The committee realizes that the U.S. Canola Association has limited funds and staff with which to engage in marketing activities, therefore the NCGA serves as the primary marketing arm of the canola industry in the United States.

REGULATORY

Full Section 3 Pesticide Labels

Our pesticide harmonization activities continue to reap benefits for U.S. canola growers. In 2003, our efforts resulted in a full Section 3 pesticide label for Prosper on canola and in 2004, Decis on canola.

The NCGA has been persistent in securing these labels for U.S. canola producers. Fortunately, many of the limitations to growing canola have been removed as new crop protection products have been labeled for canola.

Desiccant on Canola

Early this year the Northern Canola Growers Association voted to pursue a label for a desiccant on canola to complement our research to increase the utilization and interest of straight-cutting canola for harvest. Dr. Brian Jenks agreed to carry the request forward for the canola industry to IR-4 at its Food Use Workshop in September. Brian was able to secure an "A" priority for Gramoxone Max from IR-4, which means IR-4 will fully fund all studies (\$150,000) to gather the necessary residue data to support a registration for Gramoxone Max on canola. We also ensured that when a label is issued, it will cover canola in all states, not just the northern region. The NCGA Research Committee is in the process of finalizing specifics for the label.

Listed below are the crop protection products now available for use on canola:

Herbicides		Seed Treatments	insecticides	Fungicides
Assure II Poast Treflan Liberty Roundup Beyond Muster Select Prism	Raptor Stinger Sonalan	Allegiance FL Thiram Gaucho Helix, Helix Xtra Carboxin Prosper	Capture Ethyl Parathion Methyl Parathion Decis	Quadris Ronilan Topsin M Endura

CANOLA - PROJECTED ACTIVITIES FOR 2005-2007

The primary focus of the NCGA in the next biennium will be the promotion of canola in the domestic market as this is the largest market for U.S. grown canola. Dietitians and health educators will be the primary target audience. The NCGA plans to cooperate with the Canola Information Service of Saskatoon, Saskatchewan to conduct joint efforts in promoting canola as well as with the Canola Council of Canada. These activities will include attending food shows of the Institute of Food Technologists, the Cardiology Institute and the American Heart Association. In addition, the NCGA seeks to collaborate with spokespeople from the health industry to give lectures at key symposiums on the health benefits of canola oil and seek researchers to write grants to the National Inst

FLAX - MARKETING - SUMMARY OF ACTIVITIES FOR THE 2003-2005 BIENNIUM

Prepared by Kaye Effertz, Executive Director to AmeriFlax, Inc.

Marketing projects supported with funds from the "flax check-off" via NDOC are listed and briefly described below:

- 1. Co-developed and funded the "Flax Facts" brochure with the Saskatchewan Flax Development Commission. Brochure is a health and nutrition brochure based on North American research.
- 2. Co-developed and funded the "World Class Recipes" book with the Saskatchewan Flax Development Commission. Recipes feature flaxseed as a main ingredient in many world-class recipes.
- 3. Retained the Northern Crops Institute staff to develop commercial bakery formulas for the food processing industry. In addition, NCI developed a flaxseed fact sheet for bakers and food scientists to use in existing or new formulations.
- 4. Trade Show Exhibit A portable double-sided trade show booth was developed to promote flaxseed to the livestock industry and the pet food industry.
- 5. Retail Baker's Association Expo (RBA) Exhibited at the RBA Expo in 2003-2004. The RBA is the largest retail bakery show in the U.S. and has 3,500 member companies including supermarkets, independent bakeries and food service facilities.
- 6. International Association of Culinary Professionals (IACP) Exhibited with the Saskatchewan Flax Development Commission at the IACP Expo in 2003-2004. The show is the largest gathering of culinary professionals in North America.
- 7. International Baking Industry Expo (IBIE) Exhibited at the IBIE Show in 2004. The show is the largest bakery show in the world and is held every third year.
- 8. Institute of Food Technology Food Expo (IFT) –Exhibited with the Saskatchewan Flax Development Commission at the IFT in 2003 and 2004. IFT is the largest gathering of food research and development scientists in the United States. Dr. Cliff Hall, NDSU attended the meeting with AmeriFlax and served as the technical advisor.
- National Cattlemen's Beef Association Expo (NCBA) Exhibited at the NCBA in 2003 and 2004.
 The ND Dept. of Agriculture sponsored the booth. Dr. Greg Lardy, NDSU attended the meeting with AmeriFlax and served as the technical advisor.
- 10. National Agriculture Publications Summit (APS) Exhibited at the largest gathering of agriculture editors and livestock editors in the United States in 2003 and 2004. Flaxseed feeding research from Kansas State University was featured during the event.

- 11. Kansas State Livestock Days Exhibited at Kansas State University during the annual livestock event. Producers and feedlot managers from the Midwest attended the event.
- 12. High Plains Nutrition Conference Attended the High Plain Nutrition Meeting in 2004. Attendees included US livestock nutritionists.
- 13. National Media Relations Promoted ND produced flaxseed to national food media in the United States. Articles and mentions were printed in several national publications including Baking Management, Food Product Design, Milling and Baking News, etc. National media coverage was also achieved in several livestock publications such as John Deere Furrow Magazine, American Angus Association, Feedlot Magazine, Beef Magazine, etc.
- 14. Local/Regional Media Relations –Substantial media coverage was achieved during the biennium. Articles on the flaxseed loan rate and multiperil crop insurance were published in Agweek, Farm & Ranch Guide, Red River Farm Network and several TV and radio networks throughout ND.
- 15. Website Development –Website updates were made throughout the biennium including additions such as new photographs, new consumer recipes, bakery formulations, food processing info, livestock research, data base improvements, new company listings, etc. The AmeriFlax address is www.ameriflax.com.
- 16. ND Producer/Consumer Relations New marketing projects and NDOC research projects were promoted to ND producers and consumers through various media and trade show events throughout the state. "World Class Recipes" books were sent to ND Extension Service and nutritionists for use in health seminars. Meetings were set up with flaxseed industry representatives throughout the biennium.
- 17. Collaboration AmeriFlax worked jointly with NDSU, USDA Grand Forks Human Nutrition Center, UND School of Medicine, Saskatchewan Flax Development Commission, Flax Council of Canada, Archer Daniel Midland (ADM) Company, Cargill Company and other flax related companies throughout the biennium. Highlights included a meeting and tour through ADM and a meeting with the Saskatchewan Flax Development Commission.

FLAX - MARKETING - PROJECTED ACTIVITIES FOR THE 2005-2007 BIENNIUM

- Consumer Recipe Books Continue to promote the "Flax World Class Recipes" cookbook that features flaxseed as a versatile ingredient. This book was co-developed with the Saskatchewan Flax Development Commission.
- 2. Flax Facts Brochure Continue to promote the "Flax Facts" brochure, a health and nutrition brochure. This information was co-developed with the Saskatchewan Flax Development Commission.
- Culinary Institute of America/Harvard School of Public Health Promotion Participate in an
 invitational retreat and new media initiative for restaurants, supermarkets and volume
 foodservice. Promote flaxseed via the Culinary Institute of America website www.prochef.com.
 This site receives 2 million hits per month.
- American Society of Baking Conference (ASB) Exhibit at the ASB Expo, which is an
 organization whose mission is to facilitate interaction between professional bakers and ingredient
 suppliers.
- 5. Research Chefs Association Annual Conference (RCA) Exhibit at the RCA Expo which is the leading professional community for food research and development.

- 6. Retail Bakers Association Expo (RBA) Exhibit at the RBA Expo, which is the largest retail baker's show in the United States.
- 7. Institute of Food Technology Expo (IFT) Exhibit at the IFT Show to pitch new product development ideas to the food processing industry. Dr. Cliff Hall, NDSU attends the show with AmeriFlax as a technical advisor.
- 8. Recipe Formulation for Food Processors Develop and promote recipe formulations to U.S. food processing companies and bakeries.
- 9. Promotional Material Development Create new promotional materials for upcoming trade shows. Existing materials will be reprinted.
- 10. Food Media Relations Key food editors will be contacted throughout the year to create awareness of AmeriFlax projects and the positive attributes of using flaxseed as an ingredient.
- 11. National Cattlemen's Beef Association (NCBA) Exhibit at the NCBA Expo to create awareness of flaxseed feeding research from Kansas State University and ND State University.
- 12. Agriculture Publications Summit (APS)/Livestock Media Relations Attend the APS convention to create awareness of flaxseed feeding research to national livestock media.
- 13. Livestock Conventions/Livestock Meetings Promote flaxseed feeding research at various meetings including livestock conventions in ND, SD, NE, IA, and KS. Meetings may also be conducted with feedlots and/or beef alliances.
- 14. Livestock Promotion Information New information will be written about the latest livestock feeding research. This information will be distributed to interested feedlots, extension representatives, livestock producers and/or livestock media.
- 15. Website Development Continue to add new information to the AmeriFlax website. Additions will include production information, database updates, research, recipes, photographs and the latest news and events.
- 16. Producer Relations Feature AmeriFlax marketing projects and NDOC research projects through various media and trade show events. Trade shows include Marketplace of Ideas, the ND Ag Expo and the ND Stockmen's Expo.
- 17. Collaboration AmeriFlax will continue to work jointly with NDSU, USDA Grand Forks Human Nutrition Center, UND School of Medicine, Saskatchewan Flax Development Commission, Flax Council of Canada, Archer Daniel Midland Company, Cargill Company and other flax related companies throughout the biennium.

FLAX - RESEARCH - SUMMARY OF ACTIVITIES FOR THE 2003-2005 BIENNIUM

Prepared by Dr. Jack F. Carter, Professor Emeritus, NDSU, and Flax Consultant to North Dakota Oilseed Council

Activities of Dr. Jack Carter, Plant Science, NDSU, Fargo partly as Flax Consultant to NDOC

- 1. a. The NDOC has partially funded research at KState Univ., Manhattan, KS for 5 years via an NDSU "pass through" project feeding flaxseed to beef cattle in the "receiving and finishing" rations. Feeding 5% to 8% ground flaxseed in standard rations replacing part of soybean oil meal and/or tallow has significantly reduced morbidity and mortality and need for re-vaccination in receiving cattle. Feeding flaxseed to finishing cattle has increased gain/feed unit, rate of gain and carcasses grading Prime and Choice worth an extra \$6/cwt of carcass.
 - b. Holstein steers fed finishing rations as in 1a. above produced the same results as with beef cattle and shortened the feeding period to slaughter. Holstein steers compose 25% of the cattle finished for slaughter in the U.S. (Re 1a./1b., if 50% of the beef feeding industry place flaxseed in the ration, SEVERAL HUNDRED THOUSAND ACRES of new flax production will be required to supply this new market.)
- 2. Another "pass through" project written with Dr. Dwivedi of Pharmaceutical Science, S.D. State Univ., Brookings, related to feeding flaxseed oil in the first experiment and ground flaxseed in second experiment to rats in which colon cancers were induced with a chemical. Tumor incidence was reduced from 100% to 54%, and tumors/rat from 3.1 to 0.7, in rats fed corn oil (control) or flaxseed oil, resp. Very similar and supporting results were obtained when the rats were fed ground flaxseed.
- 3. The NDOC funded a small part of a clinical trial with human subjects and Dr. Carter arranged a gift of the flaxseed oil used from a donor. The research was at the University of Massachusetts, Worcester, Medical School, feeding flaxseed oil tending to reduce total and LDL cholesterol and triglycerides. The trial was too small for statistical significance and will be repeated in 2005-2007 with NDOC and NDSU invited to participate.
- 4. A similar experiment to #3 above was done with people in clinical trials or rats at Univ. of Pennsylvania, Philadelphia to study effect of feeding flaxseed or durum wheat bran on serum glucose and blood lipids with positive results. A third experiment involved feeding ground flaxseed from NDOC vs. a purified lignan from Chromadex re incidence of an inflammatory lung disease in mice. All experiments will be repeated in 2005-2007. NDSU/NDOC supplied durum wheat bran as a "placebo" with high fiber and low fat for U. Penn. experiments. (The same materials were provided to Dr. Rhee, NDSU, in a similar clinical experiment which obtained supporting data to that obtained by the U. Penn clinical trial with people. (See Rhee)
- 5. The flaxseed consultant to NDOC arranged a gift of flaxseed oil to an aquaculture experiment producing walleye fish (an attempt to increase omega 3 fatty acid in fish) for the commercial fillet market. No results have been reported yet. (See report on feeding perch fish with flaxseed processed to remove some fiber at Carrington R/E Center in 2001-2003 Legislative Report.)
- 6. The Flax Consultant to NDOC routinely responds to inquiries about flaxseed and oil via e-mail, postal, phone, personal visits, etc. as described briefly below. Made an extensive literature search and a report on alpha linolenic acid (ALA) consumption re prostate cancer risk. The report and copies of first page of key publications were sent to about 30 key "flaxworkers" in North America.

Revised Flax Leaflet as published by NDSU.

7.

II. Reviewed research proposals on flax and supported, or <u>did not</u> support, with testimonial letter for funding by NDOC or other agencies.

- Prepared TABLE of fatty acids in various plant seeds, animal sources, etc. for QUICK 111. REFERENCE by "flax workers, and others".
- Evaluated and collected data on Ruling by FDA on HEALTH CLAIMS ALLOWED with IV. foods containing omega 3 fatty acids, specifically ALA.
- Assisted with using flaxseed as major new component of so-called LoCarb foods -V. flaxseed is relatively low carb/seed with balanced nutrients.
- Arranged a Sept. 24, 2004 meeting with the Akin flax stem fiber research group in VI. Georgia with Composites America in Fargo, latter using flax stem fiber in composites.
- Prepared a suggested new format for Proposals for funding to flax section, NDOC. VII.
- Arranged free voluntary CADMIUM TESTING of flaxseed for mainly the annual Omega VIII. production in ND, some in SD and Montana, to provide essential information for export and some domestic utilization. A map of ND is provided with 12 years of data of great value to those companies contracting flaxseed produced with low cadmium.

Research and "Extension" Activities of Departments and R/E's, NDSU, other than those of Dr. Jack Carter, 2003 - 2005

Dr. Greg Lardy, Beef Cattle Specialist, Animal and Range Sciences Department, NDSU, Fargo The North Dakota Oilseed Council partially funded research on flaxseed inclusion at 25% in creep feed for nursing steer calves resulted in no significant differences in calf growth or creep feed intake. Flaxseed processing for use in finishing beef feedlot diets also was evaluated. Cattle fed processed flaxseed had better performance than cattle fed whole flaxseed. Cattle fed flaxseed tended to have better USDA Quality Grade than cattle not fed flaxseed. Processing (rolling or grinding) flaxseed is required for

optimum utilization in high concentrate beef feedlot diets.

Greg Endres, Area Extension Specialist, Carrington, ND R/E Center

Flax Response to Nitrogen and Seeding Rates

Field research was conducted during 2001-04 at Research Extension Centers in Carrington, Langdon and Minot to evaluate flaxseed yield and quality response to selected soil nitrogen levels (<60, 60, 90 and 120 lb/acre) and seeding rates (20, 32, 44 and 56 lb/acre). Soil N levels of <90 lb N/acre were sufficient to support yield (trial average yield from each site-year ranged from 9.5 to 26.5 bushels/acre). Generally seed oil content decreased with >60 lbs N/acre, and omega 3 ALA concentration decreased with increasing soil N rates. Seeding rates of 20 lb/acre (average of 33 plants/ft²) provided similar seed yield as higher rates.

Dr. Clifford Hall III, Food Scientist, Cereal Science Department, NDSU

Flaxseed gum was extracted from mechanically separated hull using distilled water at 85°C and a pH of 6-6.5 for a 3 hour period. Both defatted and non-defatted hulls were used. The water:seed ratio of 35:1 was greater than that used by previous researchers working with whole seed. Their resulting % solids content was 0.85 and 0.80% for the defatted and non-defatted hull, respectively. When using a water:seed ratio of 13.5, other researchers achieved 1.1-1.6% solids. In our case using more than twice the amount of water gave nearly as much solids content. This is logical because the gum is more concentrated in the hull fraction than in the whole seed.

Dr. Yeong Rhee, Assistant Professor, Health, Nutrition and Exercise Science, NDSU

The NDOC has partially funded a research project to investigate effects of flaxseed or wheat bran supplementation on serum glucose and lipid profiles in people with impaired glucose tolerance. The study results suggested that flaxseed may lower fasting blood glucose and triglycerides levels in glucose intolerant individuals.

Scott Halley, Crop Protection Specialist, Langdon R/E Center, NDSU, Langdon

a. A study was concluded with 2003 crop comparing fungicides azoxystrobin, prothioconazole, sulfur, and vinclozolin on cultivars Omega, Webster, AC Watson and Rahab 94 flax for control of pasmo disease, Septoria linicola. Azoxystrobin, trade name Quadris, increased yield by 4.7 bu/acre. Prothioconazole, an experimental fungicide from Bayer, also increased yields. Azoxystrobin reduced pasmo severity by 12% over the untreated. AC Watson and Rahab 94 had greater yields than Omega and Webster. Omega had less pasmo severity than the other cultivars. A paper "Distribution and Severity of Pasmo on Flax in North Dakota and Evaluation of Fungicides and Cultivars for Management" was published in the Plant Disease Journal in October of 2004 as a result of this funded project.

b. Additional research has been funded by the ND Oilseed Council for 2004 and 2005 with completion in 2006. The objective is to evaluate 10 flax cultivars at Langdon for pasmo severity with or without pasmo inoculation. A complementary study will evaluate several fungicides that have been effective to control pasmo at several different times of application.

Dr. Carl Bradley, Plant Pathologist, NDSU

- a. The NDOC funded a flax field disease survey for ND in 2003. A total of 87 flax fields were surveyed. The most prominent disease found was pasmo, which had a ND average incidence of 17.7%. The information collected in the field surveys will serve as a basis for setting flax disease research priorities.
- b. The NDOC funded a 2-year field research trial in 2003 and 2004 to evaluate the effect of fungicide seed treatments on flax cultivars differing in seed color, report in 2005. The goal of the project was to identify management options for seed and seedling diseases, especially for yellow colored flaxseed, which may be more disease susceptible. In 2003, neither plant stand nor yield were improved by a fungicide seed treatment compared to an untreated control. Data for 2004 are being prepared and interpreted to report in 2005.

Dr. James Hammond, Professor, Plant Sciences, NDSU

Effect of Latitude/Longitude, Fargo to Northern sites Saskatchewan & Manitoba, on Oil Content and Quality of Flaxseed

Nearly 60 years of data on oil content and oil quality (measured as Iodine Number which correlates positively with alpha linolenic acid content, ALA) data have been entered into a database. The oil quality data have been prepared for analysis. Based on 57 years of data at 70 locations in the United States and Canada of 465 flax lines, the Iodine Number increases approximately 1.5 units per 100 miles North and increase approximately 0.2 units per 100 miles West. One year of data has been collected and processed in a common laboratory for oil content and ALA content. A second year of data is being collected during the fall 2004. A poster at the annual Crop Science Society meeting on the results of the 57 years of regional data on oil quality is in preparation for the 2004 meetings in Nov. 2004 and for Flax Institute in 2006.

Evaluate the potential to select a pure stable yellow-seeded flax cultivar

Initially plans were to start selecting individual plants in the greenhouse during 2003-2004, but funds were not available until late spring 2004. Hand selected yellow seed of the cultivars 'Omega' and 'Carter' was seeded in isolation in the spring 2004. At present the seed on these plants is still not mature. At least 1000 plants of each cultivar will be harvested individually, threshed, cleaned and seed color determined. A second generation of plant lines will be planted in isolation in 2005 to determine seed purity (brown seeds would suggest mutation or unstable genes). In addition, lines will be planted with alternate rows of a brown-seeded line to determine potential outcrossing in later generations. This research will continue into 2005 - 2007 biennium.

Kent McKay, Area Extension Agronomist, Minot R/E Center, NDSU, Minot

An experiment that evaluated the effect of swathing versus straight combining of six flax cultivars on seed yield, boll and seed shatter, lodging and see quality was conducted in 2003. The experiment was lost in 2003 due to adverse environmental conditions but was repeated in 2004. The experiment in 2004 was successful and results will be reported to NDOC as a Progress Report.

Projected Activities for the 2005-07 Blennium

Dr. Jack F. Carter as Flax Consultant to NDOC, and as President of the Flax Institute.

- a. Continue all activities to "keep up-to-date" to react to, answer questions, keep aware and knowledgeable about the latest research about flaxseed, all uses, in the world mainly as published in scientific literature and public press to best serve the scientific community, North Dakota flax growers, flax in commerce, etc.
- b. Take flaxseed samples from field to determine cyanogens in flaxseed and small flax plants re a report prepared on cyanogens in flax in late 2004, related to cyanogens/cyanides, HCN as in sudangrass/sorghum, cassava, etc. re potential harm to people consuming flaxseed. This need results from Law or Regulation in JAPAN requiring ZERO TOLERANCE for cyanogens in flaxseed, The problem has been ongoing since 1990 with provision of guidelines to individual flax merchants wishing to export to Japan. Results from an intensive search of the literature is being sent to all known potential flaxseed exporters. Briefly, cyanogens in flaxseed is considered a NON-ISSUE (I tell them NOT TO WORRY!) by the nutritional and "safety" community in foodstuffs, at the level of cyanogens in flaxseed. The result may be to persuade Japan to change the law or regulations in this regard.
- c. Probably write a pass through project to continue cooperative research feeding flaxseed to beef cattle with Animal Science, Kansas State Univ., continuing research started in 1999. Specifically research to "fine-tune" feeding flaxseed to "receiving cattle (just coming to finishing yard) and flaxseed feeding procedures, e.g., rates, etc. Further, NDSU/NDOC may participate more in the Extension program at KState in a program to get the flax feeding research results and their application to beef feeders in Kansas and adjacent states, ND too, more rapidly. (The present "high" price of flaxseed at \$8/bu at country elevators is a barrier to use of research results in commercial feedyards.)

Dr. Cliff Hall, Food and Cereal Science, NDSU

Present research shows that more of gum from flaxseed can be extracted using somewhat more water but somewhat increases drying problems. Research will continue in 2005-07 regarding efficient drying of wet gum and the influence of drying on physical and chemical properties of the gum. The gum is potential replacement for imported gums such as gum arabic, carrageenan, etc.

Dr. Yeong Rhee, Assistant Professor, Health, Nutrition and Exercise Science, NDSU

Determination of antioxidant role of flaxseed in prevention of cardiovascular disease development in individuals with impaired glucose tolerance. This project will investigate if 20 grams of defatted flaxseed hull (500 mg lignan) per day will reduce the risk of cardiovascular disease in individuals with impaired glucose tolerance. This project is proposed as supplemental research to the current pending research project "determination of antioxidant role of flaxseed in improvement of glycemic control in individuals with impaired glucose tolerance" which is submitted to USDA for potential funding by Nov. 2004.

Dr. Dwivedi, Pharmaceutical Sciences, South Dakota State University, Brookings

Dr. Dwivedi will request flax funds, NDOC, to supplement a possible grant from another source on control/prevention of colon cancer by feeding flaxseed to mice engineered to develop colon cancer.

Kent McKay, Area Extension Agronomist, Minot R/E Center, NDSU, Minot

The NDOC will be asked to provide partial funding for the "swathing vs. straight combining" experiment in 2005 and 2006.

Dr. James Hammond, Professor, Plant Sciences, NDSU

Research will be proposed to conduct traditional breeding to determine the potential to increase the omega 3 alpha linolenic fatty acid content (lodine number for linseed oil processors) in flaxseed beginning with the 2005 production season.

Dr. Greg Lardy, Beef Cattle Specialist, Animal and Range Sciences Department, NDSU

- a. The effect of heat and xylose treatment of flaxseed on escape protein and fatty acid content.
- The effect of lignans in flaxseed consumption of ovariectomized ewes.
- c. The effect of flaxseed consumption on reproduction of beef cows.

SAFFLOWER

Production and Markets

North Dakota acreage was nearly 29,000 acres in 2004, an increase over prior years. Yields were lower in 2004 due to numerous frosts throughout the summer and drought conditions in southwest North Dakota. The average production will be 650/lbs per acre which is below the normal yearly average.

Recently there has been a surge in the bird seed markets and that market may account for more than 75% of the 2003 production. The remainder of the oleic production is being crushed at Montola Growers at Culbertson, Montana for safflower oil. Acreage and production may decrease next year due to the environmental conditions experienced this past growing season and at this time there are no contracts being offered locally for safflower production.

In 2000 a Sunflower Growers Association was formed to promote and advance the interests of safflower producers and lobby representatives in promotion, chemical registration, and cooperation among all segments in the safflower industry.

Research and Disease Control

Evaluation of Quadris fungicide to control Alternaria on safflower was funded by the NDOC in 2002. This successful project has helped with a Section 18 labeling of this fungicide and in developing recommendations for its use.

New Research in progress includes:

- 1. Herbicide evaluation and labeling.
- 2. Use of sulfur to enhance oil content.
- 3. Determining ways to enhance seedling vigor.
- 4. Use of fungicides to control diseases and enhance full season maturity.
- 5. Selecting varities for herbicide tolerance and disease resistance.
- 6. Development of new bird seed varities.

Herbicide Labeling

Safflower has very few herbicides available to control weeds. Trifluralin and Sonalan are the only effective herbicides registered for use on safflower that will control Russian Thistle and Kochia; but with very inconsistent results. Poast, a herbicide used to control grasses, was given full label clearance in 2003. Harmony GT, Kerb, Paraquat, and Roundup for spring burndown of weeds and as a preharvest dessiccant have been submitted for full registration. Select, a grass herbicide, is also being evaluated for full label. Evaluation and trials of Spartan herbicide are now in progress for use as a preplant chemical for control of small broadleaf weeds in notill safflower. Many herbicides have been evaluated for broadleaf weed control in safflower and new herbicides will continue to be evaluated in the future.

CRAMBE

Pesticide Registration

The main emphasis for pesticide registration was the labeling of glyphosate herbicide for preharvest application on crambe. AROA has been working with Brian Jenks of the North Central Research and Extension center and Jim Gray of the ND Dept. of Ag on applying for a section 18 for glyphosate on crambe. It was discovered that the expected residues in crambe meal fed to livestock would potentially be a concern. These residue issues will need to be resolved before a section 18 can be granted.

Federal Government Relations

1. Loan Rate

The implementation of the 2002 US Farm Bill eliminated the crambe support price structure. The American Renewable Oil Association worked with Senator Dorgan, Senator Conrad and Representative Pomeroy to reinstate the marketing loan and loan deficiency payment for crambe. Reinstatement of the marketing loan for crambe was successful. The current loan rate for crambe is \$.0930/lb.

2. Terminal Point

The Terminal point to determine the posted county price for crambe is located in Carrington, ND. Currently the only crush point available in the region is located in Culbertson MT where the majority of the crambe production is located. AROA worked with USDA to use Culbertson as the terminal point in determining the posted county price.

3. Crop insurance

The federal crop insurance program for crambe was a pilot program for a few select counties in North Dakota. Producers outside of the pilot program counties could only obtain crop insurance through a written agreement, which provides them with low yield history and poor crop insurance coverage. The AROA asked the USDA Risk Management Agency to convert the pilot program into a full crop insurance coverage program for crambe. The pilot program was dropped by the RMA in 2004 and the AROA is currently seeking the reinstatement of the program.

Crambe Agronomic Research Coordination

The American Renewable Oil Association submitted a funding request of \$10,000 for the North Central Research Extension Center fund drive to build an agronomy seed lab. Quality seed is a major factor in successful production of crambe. To maintain quality crambe seed and accurate seed testing, it is important to have a good facility to handle the seed testing requirements and quality storage which the proposed agronomy seed lab would provide.

Crambe Marketing

Traditionally crambe has been produced under production contracts offered by companies such as Kings and Oilseed Partners. In 2004, no contracts were made available to US crambe producers. Recently there has been discussion with Springdale Crop Synergies in the United Kingdom with the possibility of North Dakota producing crambe to fulfil the oil demand they have in Europe. AROA is working with Springdale Crop Synergies to help them meet their needs. There were no contracts offered this year for crambe.

Grower Meeting

AROA conducted an annual meeting on February 27, 2004. The meeting featured the election of new board members, review of the past year's financials and an update on the activities of 2003. The meeting notice was sent to over 500 crambe producers in North Dakota.

NORTH DAKOTA OILSEED COUNCIL Bismarck, North Dakota

STATEMENT OF PROJECTED REVENUES AND EXPENDITURES For the Current and Next Biennium 2003-2005 and 2005-2007 UNAUDITED

Prepared by the North Dakota Oilseed Council

	2005-2007 <u>Biennium</u>	2003 -2005 <u>Biennium</u>
REVENUES		
Assessment Revenues Collected from 1st Purchasers	\$2,427,800.00	\$2,180,706.16
Less: Refunds Paid to Producers	<u>121,390.00</u>	<u>110,279.65</u>
Net Assessment Revenue Interest Income	\$2,306,410.00 <u>12,225.30</u>	\$2,070,426.51 <u>12,215,67</u>
TOTAL REVENUES	\$2,318,635.30	\$2,082,642.18
EXPENDITURES:		
Program Expenditures	\$1,587,567.43	\$1,458,399.45
Administration	<u>110,777.08</u>	<u>106,516.44</u>
Total Expenditures	\$1,698,344.51	\$1,564,915.89
Revenues Over (Under) Expenditures	\$ 620,290.79	\$ 517,726.29

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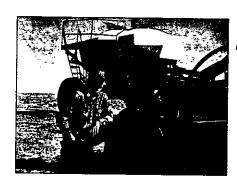
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COVER: Part of the Northern Sun processing plant near Goodland, Kan., appears behind this 2004 irrigated sunflower field. Photo by Don Lilleboe



Sunflower Briefs

2004 Sunflower Harvest a Mixed Bag

It's no surprise that given the cool growing season, the rowcrop harvest for many producers in the Northern Plains extended into November. Harvest yields and quality are a mixed bag in the Dakotas and Minnesota, generally better as one travels further south.

Sunflower harvest reports out of the High Plains are generally favorable for yields and test weights, both confection and oil types. Preliminary USDA estimates in Kansas put average yield at about 1,530 lbs/acre this year, well above last year's 1,165-lb yield. Final yield reports could push that number higher. Limited irrigated sunflower in the High Plains is doing very well, with yields up to 3,000 lbs/acre.

Limited irrigation is a practice which might be described as "strategic watering," prewatering if need be prior to planting, and watering again at stand establishment, just prior to flowering through seed fill. Increasing numbers of crop producers in the High Plains are finding that limited irrigation of sunflower is more profitable than irrigating other crops, with good yields and less water use that also saves on irrigation pumping costs.

President Signs Bill with Biodiesel Tax Incentive

The tax incentive will take effect January 1, 2005, and lasts for two years. It is expected to provide an economic surge in sev-

eral sectors of the U.S. economy including manufacturing, agriculture, and all sectors that provide support services to these industries. The incentive is expected to increase biodiesel demand from an estimated 30 million gallons in fiscal year 2004 to at least 124 million gallons per year, based on a USDA study. However, depending on a number of other factors including crude oil prices, the industry projects that demand could grow much higher than that in the next decade.

The growing biodiesel market over the long-term will be positive for oilseed demand, but the positive impact on sunflower prices will likely be limited. The NSA's Larry Kleingartner points out that biodiesel processors prefer to use lower-priced vegetable oils, such as soy and palm. Biodiesel consumption will help eat away soy and palm oilseed supplies, which helps the entire vegetable oil complex.

New Sunflower Bread in Mexico

The National Sunflower Association has been aggressively promoting the use of confection sunflower kernel in bakery products in Mexico for the last three years. As a result of this promotion, the largest Mexican baker has started using confection sunflower kernel in one of its breads. The bread is being distributed nationwide in all major supermarkets. The NSA plans to work directly with the baker to promote this product to consumers.



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NuSun is a registered trademarks of and are used under license from the National Sunflower Association. CLEARFIELD and CLEARFIELD Production System are trademarks of and used under license from BASF Corporation. Flaxseed possesses a very healthy fatty acid profile. The oil from the seed is low in saturated fat (approximately 9%), contains moderate amounts of monounsaturated fat (approximately 18%), and is high in polyunsaturated fats (approximately 73%). Of the nutritionally beneficial polyunsaturated fats, almost 16% belong to the amega-6 family primarily as linoleic acid (LA), whereas the remaining 57% belong to the omega-3 family primarily as alpha-linolenic acid (ALA). Both LA

and ALA are essential fatty acids (EFAs). EFAs are termed essential because they are

> "essential to life", meaning they cannot be produced by the body and therefore must be obtained

> > from the diet. EFAs are

incorporated into the membranes of our body cells to keep them fluid.

As a result, they act as "gate-keepers" to allow the entry into cells of important nutrients as well as the removal of toxins. More importantly, EFAs are converted to hormone like substances known as eicosanoids that effect physiological

Nutritional Properties of Flaxseed

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functions such as cell growth and division, platelet aggregation (blood clotting), inflammatory responses, hemorrhage, vasoconstriction and vasodilation of blood vessels, blood pressure, and immune function. The activity of the eicosanoids impacts clinical conditions involved in cardiovascular health, inflammatory disorders, immunity, and certain cancers.

Critical for proper functioning of body cells is an optimal dietary ratio of omega-6:omega-3 fatty acids. This is because the omega-6 and the omega-3 fatty acid families form different eicosanoids with different activities and they compete with one another for the enzymes responsible for the synthesis of these eicosanoids. For instance, some eicosanoids stimulate pro-inflammatory and hypertensive events whereas other eicosanoids have opposite effects. Thus, a proper balance of essential fatty acids in the diet is important. For optimal health, Health Canada recommends an omega-6:omega-3 fatty acid dietary ratio of 4:1 to 10:12. The U.S. Food and Drug Administration has yet to set an official recommendation in this area.

It is speculated that in today's Western society the ratio of omega-6: omega-3 fatty acids may be as high as 20-30:13. Today's elevated dietary omega-6:omega-3 ratio is largely attributed to the plethora of vegetable oils currently available and consumed that are high in the omega-6 fatty acid, LA. A distinction needs to be made, however, between LA, which is widely available, and another omega-6 fatty acid, gamma linolenic acid (GLA), which has numerous health benefits. GLA has been shown promise in the treatment and prevention of symptoms associated with rheumatoid arthritis, diabetes, skin problems and most recently, immune system disorders. A healthy body can convert LA into GLA, but due to a number of lifestyle (i.e. high meat intake) and environmental factors (i.e. pollution), this conversion is limited leaving many in today's society deficient in GLA.

Technological developments, such as food processing, have also depleted much of the ALA and omega-3 content from foods, which further contributes to an imbalanced omega-6:omega-3 ratio. Overall, we are consuming too much LA and not enough ALA and other omega-3 fatty acids, a situation that may negatively impact health. A great deal of attention, therefore, has been focused on ALA and the omega-3 fatty acid family due to their deficiency in today's diet, as well as their beneficial effects in numerous clinical conditions.

Clinical Effects of ALA

Cardiovascular Disease (CVD)

CVD is an area of research where the consumption of ALA appears to show the greatest potential for health benefit. Three distinct, but interdependent, pathological phenomena may occur that ultimately lead to CVD: thrombosis, fibrillation and atherosclerosis various clinical manifestations such as stable angine.



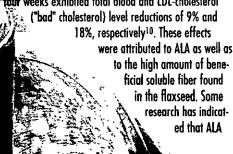
from atherosclerosis; infarction (obstruction of blood vessels) and stroke from thrombosis; and sudden death (cardiac arrhythmia) as a result of fibrillation, may result. Numerous intervention studies have established the beneficial effects of ALA on cardiac events.

- The Health Professional Follow-up Study⁴, which began in 1986 with a cohort of 51,529 health professionals, demonstrated that a 1% increase in ALA intake expressed as percent of energy was associated with a 40% reduction in the risk of non-fatal coronary heart disease (CHD).
- The landmark Lyon Diet Heart Study⁵ included participants who had
 previously survived a myocardial infarction. The experimental group
 consumed a typical Mediterranean style diet rich in ALA, whereas
 the control group consumed a typical Western-type diet low in ALA.
 Results demonstrated a 75% reduction in non-fatal myocardial
 infarction, and a 70% reduction in total death amongst the experimental group, in comparison to the control group.
- The Nurse's Health Studyé consisted of a 10-year follow-up of 76,283 women with no previously diagnosed cancer or CVD. After adjustment for age, standard coronary heart disease risk factors, and dietary intake, results demonstrated that a higher intake of ALA was associated with a lower relative risk of fatal and non-fatal myocardial infarction.
- In the Moselle study⁷, the diets of two groups of fifty Moselle farmers were analyzed for different constituents. It was reported that a lower dietary intake of LA, coupled with higher intakes of ALA (dietary LA:ALA ratio of approximately 5:1), markedly decreased platelet reactivity (i.e. the tendency of platelets to "clot").
- A recent review of studies focusing on flax and ALA8 concluded that the fatty acid can reduce ventricular fibrillation, and may be more effective than either eicosapentaenoic acid (EPA) and docosa-

hexaenoic acid (DHA) which are found in high levels in fatty fish and fish oils.

• ALA has been shown to inhibit the growth of atherosclestatic plaques⁹.

Women who consumed 50 g of milled flaxseed a day for four weeks exhibited total blood and LDL-cholesterol



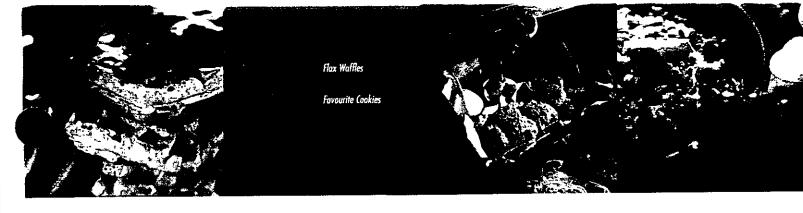
FLAXSEED NUTRITIONAL ANALYSIS

Nutrients	as per 100 g	Minerals	mg/100g	
Total Fat	34.0 - 42.0 g	Calcium Copper	199.0 - 236.0 1.0	
		Iron	5.0 - 6.2	
Polyunsaturated Fat	27.4 - 30.0 g-	Magnesium	362.0 - 421.0	
		Manganese	3.0 - 3.2	
Alpha - Linolenic	18.1 - 24.0 g-1	Phosphorus	498.0 - 622.0	
Recent for call		Potassium	681.0 - 831.0	
Total Carbohydrate	34.0 - 38.0 g 1	Sodium	27.0 - 34.0	
States y City	28.0	Zinc	4.2 - 5.0	
Protein:	21.0 g		microg/100 g	
		Selenium	5.0	
Vitamins			mg/kg	
		Aluminum	3.00	
Tocopherols/vitamin E (m	g ATE) 5.0	Barium	2.00	
	mg/100g	Cadmium	0.25	
Ascorbic acid/vitamin C	0.50 - 1.30	Chromium	<1.00	
Thiamin/vitamin B1	0.17 - 0.53	Cobalt	0.17	
Riboflavin/vitamin B2	0.16 - 0.20	Lead	<0.25	
Niacin/nicotinic acid	1.40 - 3.21	Molybdenum	<0.50	
Pyridoxine/vitamin 86	0.90 - 0.61. ,	Nickel	1.70	
Pantothenic acid	0.57 - 1.50	Tin	<3.00	
	microg/kg	A range of values is prov		
Folic acid	112.0 - 278.0	ences in nutrient content environmental effects suc	ot tlaxseed due to h as temperature and rain-	
Biotin	6.0	fall on seed development		
		Vitamin E values are given in ATEs (Alpha-tocopherol equivolents): I mg alpha-tocopherol = 1 mg ATE x 0.8 mg alpha-tocopherol/mg ATE		
************************************		References Adapted from:		

Adapted from

USDA Nutrient Data Laboratory website http://www.nal.usda.gov/fnic/foodcomp

Vaisey-Genser, M. and Morris, D.H. Flaxseed: Health Nutrition and Functionality. Flax Council of Canada. Winnipeg, Manitoba.



Whole and milled flax are easily incorporated into breakfast, lunch or dinner fare. from flaxseed may reduce serum triglyceride levels, another blood lipid associated with CVD, without altering HDL- cholesterol ("good" cholesterol) levels⁸. Altering lipid profiles is especially important in the prevention and management of CVD.

Researchers believe that the protective effects of ALA against cardiac events such as thrombosis, fibrillation, and atherosclerosis are partly due to ALA's ability to improve blood lipid profiles. In addition, once incorporated into cellular membrane phospholipids, ALA increases membrane fluidity resulting in changes in membrane function. These alterations may decrease the risk of CVD via an influence on calcium ion exchange across the membrane¹¹. In addition, ALA has been shown to decrease the production of thromboxane B2 (TXB2), and prostaglandin E2 (PGE2), which are proaggregatory eicosanoids produced from the omega-6 fatty acid, arachidonic acid¹.

In addition to cardiovascular health, research suggests that ALA shows potential in other clinical conditions:

• Inflammatory Disorders

ALA may have protective effects in inflammatory disorders such as rheumatoid arthritis¹² and systemic lupus erythmetosus¹³. The anti-inflammatory actions of ALA are attributed to its ability to inhibit the aroduction of pro-inflammatory eicosanoids such as TXB2.

• Immune Function

ALA in flaxseed has been shown to have positive effects on immune function, which is the body's ability to defend itself against infection. This may be particularly important in the management of autoimmune disorders such as lupus nephritis¹⁵. In a 1995 study, nine patients were fed 15 g of flaxseed daily for four weeks¹⁴. The dosage was then increased to 30 g and then 45 g daily for subsequent periods of four weeks. The researchers concluded that 30 g of flaxseed showed benefit in terms of kidney function as well as other inflammatory parameters. The positive effects of ALA on immune function are believed to be due to its effects on membrane phospholipids, as well as eicosanoid and cytokine production¹¹.

Cancer

A review of the literature 16 on the anti-carcinogenic properties of ALA and omega-3 fatty acids indicated an inhibitory effect of dietary ALA on turnor incidence and growth in animal models using chemically induced, transplantable and spontaneous turnors. These results have been reported for cancers of the breast, colon, pancreas, and splenocytes.

Flaxseed as the best choice for omega-3's from plants

Flaxseed oil contains more than three times as much amega-3 fatty acids than omega-6 fatty acids. The omega-6 to omega-3 ratio of flaxseed is 0.3:1¹⁷. When comparing to other common plant based oils, corn oil has an omega-6:omega-3 ratio of 58:1, soybean oil 7:1, and canola oil 2:1¹⁸. Due to the current high dietary intake of the omega-6 fatty acid LA, coupled with the deficiency of omega-3 fatty acids in taday's typical North American diet, flaxseed oil clearly provides the best overall dietary EFA ratio. Supplementing the diet with flaxseed provides a good source of the plant based omega-3 fatty acid ALA, low levels of LA as well as a healthy and optimal omega-6:omega-3 ratio.

Flaxseed as an excellent source of lignans

Flaxseed is one of the richest sources of lignans providing 75-800 times higher levels than other plant sources. Lignans represent approximately 0.7 to 1.5% of flaxseed¹⁹. Lignans are phytoestrogens—"phyto" meaning derived from plants, and "estrogen" referring to the hormone produced in the body. Phytoestrogens are beneficial compounds that affect the metabolism of hormones such as estrogen in humans. The major lignan in flaxseed is seicoisolariciresinol diglucoside, commonly referred to as SDG¹⁹. Once ingested, SDG is converted in the colon to the mammalian lignans enterodiol and enterolactone, which are responsible for numerous beneficial biological effects.

• Lignans provide protection against certain forms of cancer due to estrogenic and anti-estrogenic activity in the body. Lignan consumption may be particularly beneficial in hormone sensitive cancers such as those of the breast, endometrium, and prostate²⁰. A recent clinical trial was conducted involving 50 women diagnosed with breast cancer²¹. While waiting for surgery, half of the women received muffins containing 25 g of milled flaxseed daily while the other half received ordinary muffins. The women who received the flaxseed muffins had slower-growing tumors compared to the other group. A further study was conducted with 116 women suffering from cyclical mastalgia (breast pain)²². Women were fed either a muffin containing 25 g of flaxseed or a placebo for 4 menstrual cycles. The women who received the flax muffins had significant reductions in breast swelling and pain. Mastalgia has been linked to the development of certain forms of breast cancer.





- Lignans from flaxseed exhibit strong antioxidant properties^{23,24}
 which may play a positive role in certain cancers. This characteristic
 of lignans may also be responsible for reductions in atherosclerotic
 plaque formation noted in animal studies²³.
- The development of both Type-1 and Type-2 diabetes has been shown to be due, in part, to oxidative stress. The flax lignan SDG has been found to be effective in lowering the onset of both types of diabetes due to its potent antioxidative ability^{32,33}.
- Flax lignans also have the ability to lower serum cholesterol, an
 effect believed to be due to a modulation of enzymes involved in
 cholesterol metabolism²⁵.

Flaxseed as an excellent source of dietary fiber

Flaxseed contains approximately 28% dietary fiber, with a ratio of soluble to insoluble fiber between 20:80 and 40:60²⁶. The insoluble dietary fiber fraction plays an important role in the relief of constipation, a common problem among many individuals who consume low fiber diets, are inactive, or are using certain medications for other conditions but that may promote constipation. Diets high in insoluble fiber result in a healthy bacterial environment in the colon, which may have protective effects against colon cancer²⁷. The soluble dietary fiber fraction of flaxseed is found primarily as mucilage gums, which have been shown to play a role in lowering serum cholesterol levels²⁷, an effect that ultimately benefits cardiovascular health.

Flaxseed as an excellent source of protein

The protein found in flaxseed is very similar to that of soybean protein, which is considered one of the most nutritious plant proteins. This is due to the type of amino acids present, which are the building blocks of protein. Flaxseed contains numerous "essential amino acids", which the body cannot produce and therefore must obtain from the diet. Flaxseed protein has significance to vegetarians relying on plant sources to meet their daily protein requirements.

Different forms of flax

Whole and Milled Flaxseed:

Both whole and milled flaxseed are rich in dietary fiber, lignans, protein, and the essential fatty acid, ALA. Careful chewing will break the seed coat of whole flaxseed to allow the release of nutrients contained within, whereas milled flaxseed is already pre-ground. It is a personal choice whether to use whole or milled flaxseed.

Flaxseed Oil:

Flaxseed oil results from pressing the oil from the seed. Flaxseed oil provides more ALA (approximately 55-58%) on a per weight basis in comparison to whole or milled seed (approximately 15-18%).

Flaxseeds' medicinal popularity through the ages is in part due to the many forms it was used in and continues to be utilized today.

Stability of flaxseed

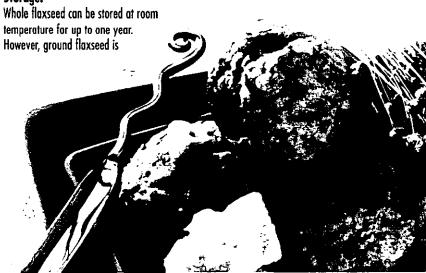
Baking:

Studies have shown that both the ALA and lignans in flaxseed remain stable under common baking temperatures of 178°C (350°F)²⁸. Muffins containing whole or milled (flour) flaxseed or oil (15g/kg) showed no differences in levels of lipid oxidation products (i.e. oxygen dervied breakdown) when compared to muffins containing wheat flour with no flax ingredients²⁸. In baking, milled flax can be substituted for the fat used in recipes at a ratio of 3:1. For example, 375 mL (1½ cups) of milled flaxseed can replace 125 mL (½ cup) of butter, margarine, cooking oil, or shortening. Adding whole or milled flaxseed or oil to baked goods such as muffins and breads is an excellent way to obtain the healthy constituents found in flax.

Frying:

Using flax oil for frying is not recommended as once the oil is extracted from the seed, the polyunsaturated fatty acids may undergo thermal oxidation when exposed to the high temperatures used in food frying²⁹. This will give off flavors and odors to the finished product.

Storage:





Flax, a precious commodity in the ancient world, was prized for its multitude of uses.
Today's research not only validates its historical worth, but promises a future of expanded utilization.

more susceptible to oxidation and therefore rancidity. As a result, grinding whole flaxseed in a coffee grinder just prior to use will ensure the highest quality. Ground flaxseed can be stored in an airtight, opaque container and refrigerated for up to 90 days, or frozen to ensure the preservation of quality. Similarly, once opened, flax oil should be kept in an airtight, opaque container and refrigerated.

Recommended intake of flaxseed and flaxseed oil

At the present time, there is no Recommended Dietary Allowance (RDA) for EFAs in the United States³⁰. However, Health Canada has established a Recommended Nutrient Intake (RNI) for EFAs, specifying the minimum daily intake of ALA should be 0.5% of total energy³. Similarly, the British Nutrition Task Force also recommends a minimum daily intake of 0.5% energy from ALA³¹. In September of 2002, the National Academy of Sciences' Institute of Medicine (IOM) released recommendations for several dietary constituents directed towards reducing the onset of chronic disease³⁴. The Health and Human Service's Office of Disease Prevention and Health Promotion (U.S.) commissioned the report, "Dietary Reference intakes for Energy, Carbohydrates, Fiber, Fat, Protein and Amino Acids (Macronutrients¹¹), in collaboration with Health Canada. In this report, the IOM set an acceptable level of intake of ALA as 1.6 grams/day for men and 1.1 grams/day for women.

To put the Health Canada recommendation into perspective, based on an average intake of 2500 calories per day, the following forms of flax would provide the RNI for ALA:

Flaxseed oil: 2 to 3 grams of flaxseed oil, which is equivalent to 2 to 3 softgels (1000mg), or approximately 2 mL (½ tsp.) of oil.

Whole or milled flaxseed: Approximately 15 to 25 mL (1 - 2 tbsp.) of milled flaxseed (approximately 30g) may provide adequate supplementation of both ALA and lignans.

Difference Between Brown and Yellow Flaxseed, Solin, and Linola™

Brown and yellow flaxseed both contain the same nutritional benefits in terms of ALA, lignan, protein and dietary fiber content. It is a matter of personal choice which seed is consumed as both are rich in all the nutrients for which flax is known. It is important to note, however, there exists another type of flaxseed that closely resembles yellow flaxseed but is actually a derivative of flax known as Solin. Solin contains low levels of ALA (< 5%). Solin varieties, such as LinalaTM, are used to produce a vegetable oil that is used primarily for frying applications.

Weight and calorie content of flaxseed (per specific measurement)

Ground Flaxseed

15 mL-	=	1 tbsp.	=	8 grams	=	.3 ounces	=	36 calories
5 mL	in the second	i lex	3	(2.7 grams	* ***********************************	, ounces		(12 calories
Whole Flaxseed								
250 mb	FARE T	OPW	E E	180 grams	` = 1	6.3 ounces		810 calories
LJU IIIL								50 calories

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The Clear Choice For Good Health

Canola oil is the lowest in saturated fat of any vegetable oil. It has half the saturated fat of olive oil and almost as much monounsaturated fat.

Canola oil is the only vegetable oil that is rich in Omega 3's (ALA). It also has an optimum ratio of Omega 3's to Omega 6's.

Canola oil is rich in monounsaturated fats that have been show to reduce blood cholesterol levels, and has moderate amounts of essential polyunsaturated fatty acids.

Like all vegetable oils, canola oil is cholesterol-free. Nutritional research is confirming that the fatty profile of canola oil appears to be beneficial in preventing and treating coronary heart disease risk factors including high blood cholesterol and lipid levels as well as thrombosis.

Specialty canola oils have been developed that do not require hydrogenation to be processed into margarines. These canola oils are becoming more readily available as consumer preferences change. These oils are:

- 1. Low linolenic canola oil (LLCO), where a decrease in ALA is offset by an increase in the monounsaturated level.
- 2. High oleic canola oil (HOCO), which has higher levels of oleic acid, coupled with reductions in ALA.

These oils have superior stability and improved frying performance, therefore they are being marketed for extended use in food applications requiring high cooking and frying temperatures as well as in snack food products that require a long shelf life.



For more information on the health benefits of using canola oil in your diet, contact the Northern Canola Growers Association at 701-223-4124 or visit our website at northerncanola.com.











Presentation before the 2005 North Dakota State Legislature

January 7, 2005

North Dakota Soybean Council Chairman, Matt Mechtel

Senator Tim Flakoll, Representative Eugene Nicholas, committee members and visitors ... Good Morning. My name is Matt Mechtel, and I am the Chairman of the North Dakota Soybean Council. I have served on the Council for six years. My farm is located near Page, North Dakota where I currently raise 5,000 acres of soybeans and corn.

The North Dakota Soybean Council, established in the 1985 Legislative Session currently operates under the authority of the federal Soybean Promotion and Research and Consumer Information Act (SPARC) which was established in 1991. The soybean program is a mandatory program under the scrutiny of the United States Department of Agriculture. Annual audits of the Soybean Council are required by USDA and these audits are conducted by the Office of the ND State Auditor. Every three to five years the ND Soybean Council is also audited on behalf of the United Soybean Board (a federal board whose members are appointed by the United States Secretary of Agriculture). The United Soybean Board reports directly to the USDA.

The North Dakota Soybean Council board consists of eight soybean growers elected by soybean farmers who represent a specific district of the State.

The ND Commissioner of Agriculture, or his/her designee, is also an exofficio and voting member of the ND Soybean Council. Over 6800 soybean



producers from across North Dakota are represented through this commodity check off program.

Although The North Dakota Soybean Council is a ND State entity and operates as such, the Council also needs to retain certification status from USDA for the collection of their check off funds. The soybean check off program requires all soybean farmers to pay 0.5 percent of the market price per bushel of soybeans sold. Soybean farmers across the nation are investing in their future. The Council is required by federal law to transfer 50% of this collected revenue to the national program overseen by the United Soybean Board. However, half of the funds are used at the state level, supporting marketing and research programs right where beans are grown. The other half forwarded to the United Soybean Board (USB), is invested in five major areas: Communications, Domestic Marketing, International Marketing, New Uses and Production. Annual collections at this time exceed over \$3 million dollars.

The objective of the Council is to improve soybean profitability through investment in research, market development, promotions and education. In the past, production research has been the Council's number one priority. The Council still feels soybean production research is a top priority for ND soybean farmers and allocates over 25% of the available funds to this area of research. However, currently, the Council is putting increased emphasis on new uses research, including biodiesel, and market development for biodiesel and ND grown soybeans. To support this new focus, the Council has added a Marketing Specialist position to their staff, a new position since the last report to this committee.

At the time of the last report, we had approximately 24 biodiesel retail sites in ND. Today we have over 90 sites! We are told in 40 years our petroleum resources will be depleted and the need to develop alternative fuels is imperative. Biodiesel is an alternative fuel and a renewable resource made from soybean oil!

Biodiesel is a clean burning fuel. Biodiesel works in any diesel engine with few or no modifications and can be used in pure form (B100), or blended with petroleum diesel at any level- for example, B2. It offers similar fuel economy, horsepower and torque to petroleum diesel. Pure biodiesel is biodegradable, virtually non-toxic and can help clear the air with reduced emissions of hydrocarbons, carbon monoxide, sulfates and particulate matter. Biodiesel produces up to 50 percent less dangerous particulate matter than petroleum diesel and reduces lifecycle carbon dioxide by 78 percent according to a U.S. Department of Energy study. It is the only alternative fuel to have completed the Health Effects testing requirements of the Clean Air Act.

The Council's efforts in biodiesel include the placement of Kiosks in major ND airports and shopping malls that promote the benefits of biodiesel use. The Council has provided biodiesel awareness meetings for fuel marketers, farmers, and consumers now for three years. Last year alone, we held 39 such meetings. Currently the Council has supported the use of biodiesel in school buses by working with interested ND School Districts to help "buy down" the difference in cost between petroleum diesel and biodiesel. Biodiesel is also a major focus of trade shows participated in by the Council across this state, such as the ND State Fair, and the Big Iron Farm Show.

The North Dakota Soybean Council is also a proud member of the National Biodiesel Board. The National Biodiesel Board is the national trade association representing the biodiesel industry as the coordinating body for research and development in the US. A North Dakota Soybean Council representative Joel Thorsrud from Hillsboro, ND, attends regular National Biodiesel Board meetings representing North Dakota soybean farmers.

And you may have seen the biodiesel truck parked outside. The Council does not own this vehicle, but soybean farmers belonging to the ND Soybean Growers Membership Association, who do own the truck, have provided the Council the opportunity to place biodiesel advertising on this vehicle. This biodiesel truck can be seen traveling across the state when Council employees or Board members are on official business of the Council. In all biodiesel promotions the Council emphasizes the following:

Biodiesel has the highest performance of any other alternative fuel.

a. Biodiesel has the highest energy content (BTUs) of any alternative fuel.

Biodiesel has higher cetaine then petroleum diesel, and similar fuel economy, horsepower and torque as petroleum diesel fuel.

Lubricity

a. Biodiesel has significantly improved lubricity, which can decrease maintenance costs and reduce engine wear. Blend levels as low as one percent can improve engine lubricity by as much as 65%. Testing is underway to determine specific blends that would be required in ultra-low sulfur diesel fuel below 15 ppm.

b. Biodiesel is supported by the Fuel Injection Equipment Industry as an option to solve the lubricity problem with petroleum diesel fuel.

Safety

- a. Research conducted in the United States showed biodiesel emissions have significantly decreased levels of all target polycyclic aromatic hydrocarbons (PAH) and nitrated PAH compounds, as compared to petroleum diesel exhaust. Polycyclic aromatic hydrocarbons and nitrated polycyclic aromatic hydrocarbons have been identified as potential cancer causing compounds. Results of sub chronic inhalation testing showed no toxic results from biodiesel exhaust emissions—even at the highest concentrations physically possible to achieve. These results conclusively demonstrate biodiesel's health and environmental benefits as a non-toxic, renewable fuel.
- b. Biodiesel has been registered with the U.S. Environmental Protection Agency as a fuel and as a fuel additive and has complied with all health effects testing required by 211(b) of the Clean Air Act Amendments of 1990.
- c. Storage and Handling-
 - 1. Tests sponsored by the United States Department of Agriculture confirm that biodiesel is less toxic than petroleum diesel and biodegrades as fast as dextrose (a test sugar). In addition, biodiesel has a flash point of over 300°F which makes it safer to store and handle than petroleum diesel fuel.

Seamless Transition

- a. Biodiesel can be used as a pure product or blended at any percentage with petroleum diesel
- b. No engine modifications are needed to burn a blended biodiesel.

c. Biodiesel is the only alternative fuel that can be used immediately and seamlessly to transition an entire diesel fleet to a cleaner burning alternative fuel program.

Least cost option of alternative fuels

- a. For every one unit of energy needed to produce biodiesel, 3.24 units of energy are gained.
- b. The cost of a 20% blend (B20) would increase the price of a gallon of fuel.

 The benefit would come from the added engine life and the lower input

 cost of an alternative fuel vehicle.

Renewable energy source

Availability

a. It is available nation wide. Virtually any fuel supplier can deliver B20 and B100 to any centrally fueled location. During the last legislative session when soybean producers were seeking a 2% mandate, there were no retail sites in North Dakota. Today there are more than two-dozen sites around the state, which is a marketing success for the Council

Testing

a. 30 million miles of successful over the road testing for Environmental

Protection Agency

With ongoing tensions in the Middle East, our nation continues to look for ways to free itself from the grip of foreign oil dependency. The North Dakota Soybean Council feels the solution lies in the soybean fields of our state. If a 20% biodiesel blend was used in all diesel sold in the state, approximately a third of North Dakota's soybean crop would be consumed. If just a 2% biodiesel blend was used in all diesel fuel in North Dakota, over 3 million gallons of biodiesel would be needed, which would use over 1.5% of the North Dakota's annual soybean production supply, and generate a great deal of revenue for the state!

Since North Dakota's diesel consumption does not exceed 10 million gallons, and biodiesel is currently sufficiently supplied from other areas of the country to North Dakota, a biodiesel plant may not be feasible at the current time for our state. But the future looks promising, and with biodiesel consumption increasing tremendously every year, a biodiesel plant most likely will be feasible for North Dakota in the future.

The North Dakota Soybean Council realizes that biodiesel is not only good for the farm economy, but it can help to reduce our country's dependence on foreign oil and protect our air quality. We will continue our biodiesel efforts with hopes of this alternative fuel becoming more affordable and more widely used across the state to increase domestic utilization of our North Dakota produced soybeans.

Over the past two years the Council has continued to focus heavily on soybean related research. In the Soybean Council section of your binders you will find the research record of funded projects during the last two fiscal years. To summarize this research, we are focused on disease and pest control and management; new variety research (since the inception of the Council we have realized 14 new varieties for ND soybean farmers); production management practices; soybean storage; soybean nutrition research; and soybean fuel research. As the research program is expanding we found the need this past year to not only publish our Annual Report (required by federal law) but to also publish a new resource titled, "Soybean Research Update". Both of these publications are in your binders.

To further assist farmers in getting this needed information, the Council provides annual fall soybean field tours across the state where researchers summarize the results of their research and provide the opportunity for farmers to get their questions answered. In addition, the Council also publishes a quarterly newsletter, a sample of which is also in your binders. The Council places high importance on keeping ND soybean farmers informed on Council activities and program results. There is also the Annual Northern Soybean Expo, an educational event where farmers are brought together to hear the latest in soybean production practices and marketing their soybean crop.

Since the last session, the Council has taken a more aggressive stance in international marketing and market development for ND grown soybeans. Currently, the Council is funding market development promotion for the Grays Harbor loading facility located in Aberdeen, Washington.

Approximately 1/3 of the ND soybean crop is marketed off the Pacific Northwest. This harbor loads only soybean meal and corn meal and although a new facility (only two years old) it has been more successful than ever expected. Our Asian markets are open to high quality ND grown soybeans. The Council has also sent representatives to Guatemala to promote the use of soy milk and soy protein in child feeding programs; and the Council sent representatives on a fact finding mission to Japan to visit an International Trade Show and promote ND grown soybeans.

Council staff also exhibit at major health fairs in North Dakota such as Women's Way; major farm shows such as the International Crops Exp; school educational events such as "Living AG Classroom" where 4th graders are brought together to learn about all crops and livestock raised in ND; and industry shows such as the ND Grain Dealers Association Annual Convention.

We often hear comments on the soybean check off program where producers are pleased to see the high visibility of the ND Soybean Council. This check off is a mandatory program and I am proud to say, we are serving ND soybean farmers well.

If anyone has any questions, I'd be more than happy to address them. If not, I thank you very much for your time.

North Dakota Soybean Council Our World Is Growing.



REPORT TO THE 2005 LEGISLATIVE ASSEMBLY

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North Dakota Soybean Council Fargo, North Dakota

House and Senate Agriculture Committee Report For the Two-Year Period Ended June 30, 2004

Robert R. Peterson State Auditor



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

November 17, 2004

House and Senate Agriculture Committees:

Transmitted herewith are the financial statements and auditor reports of the North Dakota Soybean Council as required by North Dakota Century Code section 4-24-10.

Specifically you will find the state auditor's report on the financial statements, the statement of revenues and expenditures, notes to the financial statements and the compliance and internal control report. Complete audit reports may be obtained by contacting my office.

The Office of the State Auditor would like to thank the commodity groups for their cooperation in preparing these reports.

Singerely

Robert R. Peterson State Auditor

STATE AUDITOR **3ERT R. PETERSON**



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

STATE OF NORTH DAKOTA OFFICE OF THE STATE AUDITOR STATE CAPITOL 600 E. BOULEVARD AVE. - DEPT. 117

BISMARCK, ND 58505

STATE AUDITOR'S REPORT

Honorable John Hoeven, Governor

Members of the Legislative Assembly

Deborah Johnson, North Dakota Soybean Council

The following pages were taken from the audit report of the North Dakota Soybean Council for the two-years ended June 30, 2004. The financial statements are the responsibility of the management of the North Dakota Soybean Council. The auditor's responsibility was to express an opinion on the financial statements.

The audit was performed in accordance with generally accepted auditing standards, 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 the auditors plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

The financial statements are presented to provide state decision makers, including the Agriculture Committees, with a comprehensive overview of the North Dakota Soybean Council's operations. The revenues and expenditures are reported under the modified accrual basis of accounting. The financial statements are not intended to be a presentation in conformity with generally accepted accounting principles. The complete audit report should be reviewed to obtain a complete picture of the financial position and operations of the North Dakota Soybean Council. The complete report may be obtained by contacting the Office of the State Auditor.

The audit resulted in a clean (unmodified) audit opinion. In accordance with Government Auditing Standards, a report was also issued on the auditor's consideration of the North Dakota Soybean Council's internal control over financial reporting and the tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

This report is intended solely for the information of the meeting of the Joint Agriculture Committees and should not be used for any other purpose. However, this report is a matter of public record and its distribution is not limited.

Robert R. Peterson State Auditor

November 17, 2004

NORTH DAKOTA SOYBEAN COMMISSION

Statements of Revenues, Expenditures, and Changes in Fund Balances For the Fiscal Years Ended June 30, 2004 and 2003

	2004	2003
Revenues:		
Assessment revenues collected from 1 st Purchasers Less:	\$ 3,019,440	\$ 2,407,503
Assessment revenue remitted to Qualified State Soybean Brd	(95,100)	(46,548)
Assessment revenue remitted to United Soybean Board	(1,461,748)	(1,180,737)
Net Assessment Revenues	1,462,592	1,180,218
Interest income	7,769	7,431
Miscellaneous revenues	<u>102,805</u>	61,105
Total revenues	1,573,166	1,248,754
Expenditures:		
Program Expenditures:		
International marketing	74,651	-
Promotion	•	66,410
Consumer information	130,844	64,483
Industry information		140,049
Domestic Marketing	317,204	-
Producer communications	296,848	165,285
Research	310,433	282,128
Total Program Expenditures	1,129,980	718,355
Administration	163,872	<u>152,185</u>
Total Expenditures	1,293,852	870,540
Revenues over expenditures	279,314	378,214
nd Balance, Beginning of Year	869,650	491,436
nd Balance, End of Year	<u>\$ 1,148,964</u>	<u>\$ 869.650</u>

NOTES TO THE FINANCIAL STATEMENTS June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the North Dakota Soybean Council (hereafter Council) 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 Council has included all funds, and has considered all potential component units for which the Council is financially accountable, and other organizations for which the nature and significance of their relationship with the Council are such that exclusion would cause the Council's financial statements to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. This criteria includes appointing a voting majority of an organization's governing body and (1) the ability of the Council to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the Council.

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

B. Basis of Presentation

The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America as prescribed by the GASB.

Pursuant to the provisions of GASB Statement No. 34, Basic Financial Statements, and Management's Discussion and Analysis for State and Local Governments, effective for the Council's year ended June 30, 2004, the full scope of the Council's activities is considered to be governmental activity.

C. Basis of Accounting

The government-wide statements are reported using the economic resources management focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows.

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 30 days of year-end. The revenues that are determined to be susceptible to accrual are soybean assessment revenue.

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.

D. Budgetary Policies and Procedures

The Council is not legally required to budget expenditures because a continuous appropriation of all monies collected is granted to the Council under section 4-10.5-12 of the North Dakota Century Code.

Encumbrances, which represent commitments related to unperformed contracts for goods or services, have not been recorded in the financial statements, as encumbrance accounting is not utilized.

E. Cash and Cash Equivalents

Cash and cash equivalents for reporting purposes includes cash and short-term, highly liquid investments that are readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rate. This includes investments with original maturity of three months or less. Also, cash, as reported, may be under the control of the State Treasurer or by other administrative bodies as determined by law.

F. Receivables

Receivables include assessments receivable on soybeans, accounts receivable for reimbursement of program expense, and interest receivable on investments.

G. Capital Assets

Capital assets are stated at cost. Equipment with an original cost of \$5,000 or more and an estimated useful life in excess of one year are capitalized and reported in the government-wide financial statements.

Depreciation is computed on a straight-line basis over the estimated useful life of the assets. The useful life for equipment is 20 years.

H. 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. The government-wide financial statements present the cost of compensated absence as a liability. The governmental fund

financial statements recognize compensated absence when the liability is incurred and payable from available expendable resources.

I. Net Assets/Fund Balance

The difference between fund assets and liabilities is "Net Assets" on the government-wide statements and "Fund Balance" on the governmental fund statements.

J. Restatement of Beginning Net Assets

In connection with the implementation of GASB Statement No. 34, the amounts previously reported for June 30, 2003 have been restated to reflect the addition of equipment, net of accumulated depreciation and compensated absences:

Net assets, beginning of the year, as restated	_\$	910,192
Compensated absences		(15,590)
Equipment, net of accumulated depreciation of \$24,489		56,132
Fund balance, beginning of the year, as previously reported	\$	869,650

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.

At June 30, 2004 the carrying amount of deposits was \$707,222, and the bank balance was \$693,525. All deposits are considered a category 3, which includes uncollateralized deposits, including any bank balance that is collateralized with securities held by the financial institution, or by its trust department or agent but not in the entity's name. All of the Council's deposits are at the Bank of North Dakota. Deposits with the Bank of North Dakota are considered uninsured; however, these investments are guaranteed by the state of North Dakota (NDCC Chapter 6-09-10).

B. Investments

At June 30, 2004, the reported value of the investments (all certificates of deposit) was \$500,000, and the fair value was \$500,000. All investments are considered a category 1, which includes investments that are insured or registered in the name of the governmental entity, or securities held by the entity or its agent in the entity's name, and treasury bills at the Bank of North Dakota.

NOTE 3 - CAPITAL ASSETS

The following is a summary of capital assets for the year ended June 30, 2004:

		3alance 7/1/03	Increases	Decreases	Balance 6/30/04
Capital assets, depreciable:					
Equipment	\$	80,621			\$ 80,621
Less accumulated depreciation		(24,489)	\$ (3,628)		(28,117)
Total capital assets, depreciable		56,132	\$ (3,628)	\$ -	\$ 52,504
Depreciation expense (allocated to re	sear	ch)			\$ 3,628

NOTE 4 - LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities for June 30, 2004 is presented as follows:

	_	alance 7/1/03	Д	Additions Reductions		ections Balance 6/30/04		Current Portion		
Compensated Absences	\$	15,590	\$	12,221	\$	(5,974)	\$	21,837	\$	2,184

NOTE 5 – LEASE OBLIGATIONS

The Council has two operating leases, rent of office space, a mailing system, and no capital leases. Expenditures for operating leases were \$24,460 for the year ended June 30, 2004. Debt service requirements to maturity for operating lease obligations at June 30, 2004 are as follows:

Years Ended June 30	Minimum Lease		
2005	\$	27,792	
2006		27,792	
2007		11,067	
Total Minimum Lease Payments	\$	66,651	

NOTE 6 - PENSION AND POST-RETIREMENT PLANS/BENEFITS

The Council participates in the North Dakota Public Employees' Retirement System (NDPERS), administered by the state of North Dakota. The following is a brief description of the plan:

A. Description of Pension Plan

NDPERS has a cost-sharing multiple-employer defined benefit pension plan covering substantially all classified employees of the state. The plan provides retirement, disability, and death benefits. If an active employee dies with less than three years of credited service, a death benefit equal to the value of the employee's accumulated contributions, plus interest, is paid to the employee's beneficiary. If the employee has earned more than three years of credited service, the surviving spouse will be entitled to either a single payment refund, life-time monthly payments in an amount equal to 50% of the employee's accrued normal retirement benefit, or 60 monthly payments equal to the employee's accrued normal retirement benefit calculated as if the employee were 65 the day before death occurred, or monthly payments in an amount equal to the employees' accrued 100% joint and survivor retirement benefit, if the member had reached normal retirement age prior to date of death. If the surviving spouse dies before the employee's accumulated pension benefits are paid; the balance will be payable to the surviving spouse's designated beneficiary.

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

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

B. Pension Plan Funding Policy

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

C. State Group Health Plan

Section 54-52.1-03.2 of the North Dakota Century Code establishes a Retiree Health Benefits Fund to provide members who receive retirement benefits from the Public Employees Retirement System a credit toward their monthly health insurance premium under the state health plan based upon the member's years of credited service. The employer contribution for the Public Employees Retirement System is set by statute on an actuarially determined basis (projected unit actuarial cost method) at 1% of covered compensation. Employees participating in the retirement plan, as part-time/temporary members are required to contribute 1% of their covered compensation to the Retiree Health Benefits Fund.

The North Dakota Retirement Board was created by the state legislature and is the governing authority of NDPERS. Benefit and contribution provisions are administered in accordance with chapter 54-52 of the North Dakota Century Code. The Council's required

and actual contributions to NDPERS for the fiscal years ending June 30, 2004, 2003, and 2002 were \$16,248, \$13,087, and \$11,438, respectively.

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

NOTE 7 - RISK MANAGEMENT

The Council 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 Council 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 \$1,000,000 per employee. The State Bonding Fund does not currently charge any premium for this coverage.

The Council 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.

NOTE 8 - RELATED PARTIES

As noted in Note 1 of these financial statements, the Council is an agency of the state of North Dakota, as such; other agencies of the state are related parties. The Council had contracts with North Dakota State University and the University of North Dakota for \$264,890 during fiscal year 2004. The Council also has a particularly close working relationship with the North Dakota Soybean Growers Association.

NOTE 9 - COMMITMENTS

At June 30, 2004, the Council had approved research contracts with North Dakota State University and the University of North Dakota for \$334,508 and the North Dakota Soybean Growers Association for \$28,700.





OFFICE OF THE STATE AUDITOR

STATE CAPITOL 600 E. BOULEVARD AVE. - DEPT. 117 BISMARCK, ND 58505

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable John Hoeven, Governor

Members of the Legislative Assembly

Deborah Johnson, Executive Director North Dakota Soybean Council

We have audited the financial statements of the North Dakota Soybean Council as of and for the fiscal year ended June 30, 2004, and have issued our report thereon dated August 11, 2004. 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.

Compliance

As part of obtaining reasonable assurance about whether North Dakota Soybean Council's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grants, and the Soybean Promotion and Research Order (the "Order") relative to the use and investment of funds collected by the State Council and with terms described in Sections 1220.228(a) and 1220.211(j) of the Order relative to prohibited uses of funds collected by the North Dakota Soybean Council, 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 that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered North Dakota Soybean Council's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial

statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information of the Governor, Legislative Audit and Fiscal Review Committee, and management of the North Dakota Soybean Council and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Robert R. Peterson State Auditor

August 11, 2004



1411 32nd Street SW • Fargo, ND 58103 • Tel: 701.239.7194

Free: 888,469,6409 • Fax: 701,239,7195 • www.ndsoybean.org

SECTION 2

SUMMARY OF ACTIVITIES

CENTURY CODE

4-10.5-02

There is hereby established a North Dakota Soybean Council. The council must be composed of one participating grower elected from each of the districts established in section 4-10.5-03.

The chairman of the council must be a member of the council elected by a majority vote of the council. The : Commissioner is an ex officio/voting member of the puncil. Every elected council member must be a cit-n of the state and a bona fide resident of and participating grower in the district the member represents.

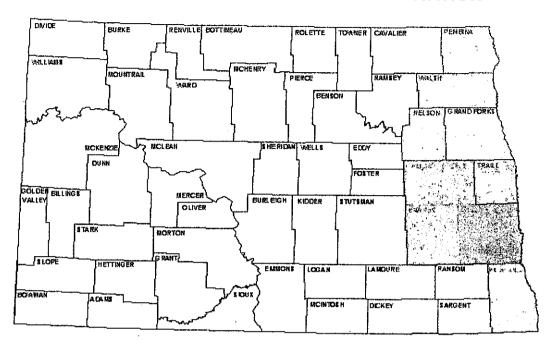
The term of each elected member is three years, beginning on April first of the year of election, except that initially two members must be elected for three-year terms; three members must be elected for two-year terms; and three members must be elected for one-year terms as designated by the commissioner. If at any time during a member's term the member ceas-

es to possess any of the qualifications provided for in this chapter, the member's office is deemed vacant and the council shall, by majority vote, appoint another qualified participating grower for the remainder of the term of the office vacated.

The commissioner, or a county agent designated by the commissioner, in cooperation with the cooperative extension service, shall conduct all elections under this section in each district in the manner the commissioner deems fair and reasonable.

All election must be conducted no later than April first of each year. No elected member of the council is eligible to serve more than two consecutive three-year terms.

NORTH DAKOTA SOYBEAN COUNCIL BOARD REPRESENTATION



DISTRICT 1 REPRESENTATIVE
DISTRICT 2 REPRESENTATIVE
DISTRICT 3 REPRESENTATIVE

DISTRICT 3 REPRESENTATIVE

DISTRICT 4 REPRESENTATIVE

DISTRICT 5 REPRESENTATIVE

DISTRICT 6 REPRESENTATIVE

DISTRICT 7 REPRESENTATIVE

DISTRICT 8 REPRESENTATIVE

EX OFFICIO MEMBER
ND COMMISSIONER OF AGRICULTURE

North Dakota Soybean Council

FY 2004 Board of Directors

North Dakota Soybean Council

FY 2005 Board of Directors

Matt Mechtel Chairman Page, ND District 3

Brett Johnson Vice Chairman Mooreton, ND District 1

Michael Satrom
Secretary/Treasurer
Galesburg, ND
District 4

Raymond Martinson Board Member Milnor, ND District 2

Joel Thorsrud Board Member Hillsboro, ND District 5 Robin Pratt **Board Member**Northwood, ND

District 6

Darren Kadlec Board Member Pisek, ND District 7

Dennis Renner Board Member Mandan, ND District 8

Roger Johnson

Ex Officio Member

ND Commissioner of
Agriculture

Matt Mechtel Chairman Page, ND District 3

Brett Johnson Vice Chairman Mooreton, ND District 1

Michael Satrom
Secretary/Treasurer
Galesburg, ND
District 4

Dennis Feiken Board Member La Moure, ND District 2

Joel Thorsrud Board Member Hillsboro, ND District 5 Robin Pratt Board Member Northwood, ND District 6

Darren Kadlec Board Member Pisek, ND District 7

Dennis Renner Board Member Mandan, ND District 8

Roger Johnson

Ex Officio Member

ND Commissioner of
Agriculture

PROGRAM DESCRIPTION

Over 6,800 soybean producers from across the state are represented through this grass roots program. Soybean's importance is a result of increased demand for traditional products and an expanding array of new uses. The optimistic future of soybeans is tied to the future of a growing percentage of producers. Therefore, the importance and need for the Council has grown as well. Every soybean producer participates in the checkoff, at the rate of 0.5% of the market price per bushel, when the crop is first sold. Checkoff funds vary from year to year, but currently total more than \$3 million annually, 50 percent of which is forwarded to the United Soybean Board.

The soybean checkoff includes a commitment to six funding areas: international marketing, domestic marketing, consumer information, producer communications, research and administration. Producer communications, an essential component in the successful implementation of the soybean checkoff, involves the accurate and timely delivery of useful information and valuable programs to soybean producers.

op a strong working relationship and support network with private industry, as well as potential and current soybean consumers. Throughout each of these program areas, promotion is an essential element.

The Council is highly committed to funding a strong soybean research program and allocates approximately 25% of available revenues for soybean production research. The North Dakota Soybean Council also contributes research funds to the North Central Soybean Research Program (NCSRP). NCSRP was established in 1992 to coordinate soybean production research efforts on a regional level. NCSRP is comprised of 12 state soybean checkoff boards. NCSRP invests soybean checkoff funds in research programs to better manage soybean cyst nematodes, white mold, sudden death syndrome, precision agriculture, soybean rust, soybean aphids and the value of biotech genetics.

Research and development of new soy uses is a crucial and effective component of the soybean checkoff. It creates new products and solutions that are not only better for the environment, but are also proving to be effective at adding value to soybeans. From carpets to lubricants, burgers to feed, there are soy-based products for many everyday uses.

The soybean checkoff thinks strategically, fostering alliances at national and state levels, and working to keep our largest and most important customer- an entire livestock industry- strong and growing.

The soybean checkoff works hard to tout the high value and quality of North Dakota and U.S. soybeans to markets worldwide. It's why the United States is the largest soybean exporter in the world.

The Council understands that there is a lot more to the soybean industry than simply growing and harvesting beans. That's where the soybean checkoff comes in. The Council helps drive demand, boost soybean quality, find new uses for soybeans, and make U.S. and North Dakota soybeans the world leader.

RESEARCH PROGRAM

FY 2004 Funded Soybean Research

			Match pd					
Researcher	Project Title	NDSC	SBARE	by NDSC	Other			
Ted Helms	Breeding of Improved Conventional Cultivars	\$48,600.00						
R. Jay Goos	Screening Soybean Varieties for Resistance to Iron Deficiency Chlorosis	\$22,650.00						
Phillip McClean	Identification of Markers for Iron Deficiency Chlorosis Tolerance in Soybeans	\$3,359.00						
Berlin Nelson	Control of Soybean Diseases	\$48,300.00			,			
Berlin Nelson	Effect of Inoculum Density on Fusarium Root Rot of Soybean	\$18,100.00						
Ted Heims	Soybean Cyst Nematode Cultivar Breeding	\$5,400.00						
Ted Helms	Food Grade Cultivar Breeding	\$7,280.00						
R. Jay Goos	Survey of Soybean Germplasm for Drought Tolerance	\$9,820.00						
Ted Helms	Roundup Ready Breeding of Improved Cultivars	\$38,400.00						
Sam Chang	Effect of Storage on the Quality of Soybeans Added on 9/08/03	\$6,758.00 \$5,000.00						
SBARE FUNDING								
Phillip McClean	See above		\$ 15,668.00	\$ 5,223.00				
Phillip Glogoza	Soybean Aphid Establishment, Impact, and Management for ND		\$ 18,000.00	\$ 6,000.00				
Wayne Seames	Evaluating Soy-Derived Fuel- JP8 Blends for Jet Aircraft Applications		\$ 15,000.00	\$ 5,000.00	\$ 75,000.00			

Total of Proposals Submitted:

\$213,667.00 \$ 48,668.00 \$ 16,223.00 \$ 75,000.00



FY 2005 Funded Soybean Research

				Match pd	
	Project Title	NDSC FY 05	SBARE FY04	NDSC	Other
Berlin Nelson (2/2 yr)	Effect of Inoculum Density on Fusarium Root Rot of Soybean	\$ 18,100.00			
Berlin Nelson (2/3 yr)	Control of Soybean Diseases	\$ 49,300.00			
R.J. Goos (3/3yr)	Screening of Soyberan Varieties for Resistance to Iron Deficiency Chlorosis	\$ 29,480.00			
Duane Berglund	Soybean Production Survey (funded 12/18/03 for FY 05)	\$ 15,000.00			
Scott Greelis	Industrial Soybean-Based Cab Liner System	\$ 21,500.00			\$21,500
Sam Chang (3/3 yr)	Effect of Storage on Soybean	\$ 12,000.00			
Vern Anderson	Soybean hulls in receiving diets:The value of digestible fiber	\$ 29,490.00			
Ted Helms	Breeding of Improved Cultivars	\$ 110,000.00			
Ted Helms	Breeding for Central ND	\$ 10,000.00			
Ted Heims	Phytophthora Root Rot Tolerance & Water-Saturated Soil	\$ 15,000.00			
SBARE FUNDING			L		
Berlin Nelson	A Soybean Plant Growth System/cyst Nematode		\$ 5,110.00	\$ 2,200.00	
Carl Bradley	Efficacy and economics of soybean fungicide seed treatments for disease management		\$ 3,000.00	\$ 1,000.00	
Bob Henson	Soybean Research to Nitrogen Fertilizer		\$ 2,925.00	\$ 975.00	
Wayne Seams (1/1 yr)	Developing a FessibleSoy-Derived Aviation Turbine Fuel		\$ 16,303.00	\$ 5,000.00	\$ 80,000.00
Rich Zollinger	Controlling RR volunteer plants in RR crops		\$ 3,000.00	\$ 750.00	
Phil McClean	Identification Markers for Iron Def Chlorosis Tolerance		\$18,641.00	\$ 6,213.00	

Total of Proposals Submitted:

\$309,870.00 \$ 48,979.00 \$ 16,138.00 \$ 101,500.00

PROMOTION PROGRAM

Knowledge and understanding are perhaps the most valuable tools a soybean producer can possess as it is these tools which will influence every action taken on the farm. The North Dakota Soybean Council, recognizing the importance of a strong education in the prosperity of soybean farming, offers several educational programs throughout the year.

Annual Soybean Research Field Tours are held at various NDSU test plots in the fall. These tours include informative presentations on various research endeavors represented in the actual test plots.

During the winter of 2003, the North Dakota Soybean Council sponsored over 30 statewide Biodiesel Informational Meetings for diesel consumers and industry. Upon invitation and requests, the Council continues to sponsor and speak at industry and public meetings around North Dakota on biodiesel. As a result, the merits of approximately 80 North Dakota diesel retail sites carry biodiesel. Prior to Council's efforts in 2001 and 2002, there were no known North Dakota fuel retail sites carrying biodiesel.

In 2001, the Council became a member of the National Biodiesel Board (NBB). The NBB is the national trade association representing the biodiesel industry as the coordinating body for research and development in the US. It was founded in 1992 by state soybean commodity groups, who

were funding biodiesel research and development programs. Since that time, the NBB has developed into a comprehensive industry association, which coordinates and interacts with a broad range of cooperator including industry, government, and academia. The mission of the National Biodiesel Board is to increase the demand of commercially produced biodiesel in the United States through education, communication, and quality assurance programs and by serving as the national coordinating entity and clearing-house of biodiesel information.

In the winter, the ND Soybean Council and the Soybean Growers Association produce the Annual Northern Soybean Expo and tradeshow in Fargo. This educational program together with an expansive trade show provides for an informative and entertaining event.

Various consumer promotion exhibits are conducted statewide to provide education on the health benefits of enhancing the diet with soyfoods.

Finally, a strong media presence is supported to disseminate soybean education to producers and consumers.



NORTH DAKOTA SOYBEAN COUNCIL

STATEMENT OF PROJECTED REVENUES & EXPENDITURES FOR THE CURRENT AND NEXT BIENNIUM

(UNAUDITED)

	2003-2005 <u>Biennium</u>	2005-2007 <u>Biennium</u>
REVENUES:		
Assessment Revenues Collected from 1 st Purchasers Penalties	\$6,259,400	\$6,885,340 —————
Total Assessment Revenue	\$6,259,400	\$6,885,340
Less: Assessment Revenues Remitted to Other QSSB's Assessment Revenues Remitted to USB	\$ 190,200 \$3,081,748	\$ 209,200 \$3,442,670
Total Assessment Revenues Due to Other QSSBs and USB	<u>\$3,271,948</u>	<u>\$3,651,890</u>
Net Assessment Revenues	\$2,987,492	\$3,233,450
Interest Income Miscellaneous Revenues	\$ 16,009 \$ 181,105	\$ 17,610 <u>\$ 199,216</u>
Total Revenues	\$3,184,606	\$3,450,276
EXPENDITURES:		
Program Expenditures:		
International Marketing Consumer Information Industry Information Domestic Marketing Producer Communications Research	\$ 292,961 \$ 298,224 \$ 267,600 \$ 317,204 \$ 618,478 \$ 766,916	\$ 322,257 \$ 328,046 \$ 294,360 \$ 348,924 \$ 680,325 \$ 843,608
Total Program Expenditures Administration	\$2,561,383 \$ 371,427	\$2,817,520 \$ 408,570
Total Expenditures	\$2,932,810	\$3,226,090
Revenues Over (Under) Expenditures	\$ 251,796	\$ 224,186
Fund Balance, Beginning of Year	\$2,018,614	\$2,270,410
Fund Balance, End of Year	\$2,270,410	\$2,494,596



PRODUCER MARKETING YEAR IN REVIEW FINANCIAL REPORT

\$3,267,839 THE PROPERTY OF THE PARTY OF TH 24% Domestic Marketing \$313,9QE 7% International Marketing \$77,434 21% Producer Communications \$272,860 . 10% Consumer Programs \$129,887 24% Research \$312,534, *** TOTAL PROPERTY IN STREET < \$1,106,61**6** 14% Administration and Compliance \$187,408 ova Baursk, \$1,294,024 USB/State of Origin \$1,706,231 KETTEE JAMES \$3,000,255 ANTEROS MOLACITATO TOTAL PROBLEMY ARREST Administration International Research Marketing 24% Consume Programs Producer Communications 21% Marketing

OUR WORLD IS GROWING



The North Dakota Soybean Council contracted with an advertising agency in Fargo to develop a new logo and slogan to position the Soybean Council and growers as part of an expanding, thriving worldwide market. It instills an international flavor while maintaining a "local" feel.

There is great symbolism and meaning in the Soybean Council's new logo. The soybean has many uses and is a global product — on the "grow." This idea says to consumers, "How can something so small do such big things?"

REPRESENTATIVES

Willie J. Piatz

Napoleon

Greg Shanenko	Carl Lindlauf	Nathan Neameyer
Valley City	Voltaire	Mylo
Doug Goehring	Tony Neu	Mike Martinson
Menoken	Ashley	Delamere
Matt Mechtel	Ward Eichhorst	Larry Frueh
Page	Coleharbor	Goodrich
Michael Dick	Dennis Renner	Mike Satrom
Munich	Mandan	Galesburg
Greg Richter	Keith Deutsch	Glen Nagel
Monango	Plaza	Jamestown
Steve Huizenga	Doug Stein	Paul Grann
Hauge	Lakota	Perth
George Topp	Tom Schulz	Joel Thorsrud
Grace City	Crystal	Hillsboro
Robin Pratt .	Mike Heidlebaugh	Darren Kadlec
Northwood	Rugby	Pisek
Todd Edland	Daryl Evenson	Larry Widdel
Cooperstown	Devils Lake	Minot
Kenny Meier	Pat Freeberg	Loren Patrie
Steele	Lisbon	Bowdon
Dennis Feiken La Moure	Jeff Volk Sherwood	~

Brett Johnson

Mooreton

CHAIRMAN'S REPORT WHAT CAN I SAY? WHAT A YEAR THIS HAS BEEN FOR NORTH DAOKTA SOYBEANS!



Again, we had a record soybean crop for North Dakota with approximately 3.03 million acres harvested. We can all be proud of that!

We are a big part of the reason that our United States is still competitive in the world market for soybeans. Our future here in North Dakota for soybean production is really bright. But, there are still some

concerns...concerns that the North Dakota Soybean Council has been addressing. Soybean aphids, soybean rust, soybean cyst nematode, sudden death syndrome...and the list goes on and on. Research on these concerns is taking place, and your checkoff funds being spent wisely to help combat these yield obbing threats.

I believe that farmers here in North Dakota are the best in the world. And I know that farmers want to deliver a quality product to their customers. I am sure you have all heard of the issues that our beans are lower in protein and oil than those raised in southern climates. It is a concern for the United Soybean Board, and with assistance from our National Board, the Select Yield & Quality program was created. Last year was our first full year collecting North Dakota soybean samples from across the state to create a true picture of our protein and oil levels in North Dakota. It was discovered that our beans are better quality than most thought. The study, when completed in 2005, will also yield a great deal of information that will help us make better agronomic decisions to grow better beans. This will make us, North Dakota soybean producers, even more competitive nationally and internationally.

Speaking of better beans, the potential that lies in shipping beans to the Pacific Northwest with AGP's Grays Harbor facility is incredible. If we can assure the Pacific Rim countries that North Dakota can provide the beans they desire, we will become the rea of choice for those countries for their soybean urchases. It holds lots of potential for us in the form of a much better basis and increased demand! The Council continues to support the Grays Harbor facility since it is such a benefit to North Dakota soybean farmers.

Over the past year, the Council also stepped up efforts in International Marketing. In April, I, along with our Executive Director, Deborah Johnson, returned from a successful mission trip to Guatemala. We had the opportunity to witness the signing of an historic document. The American Soybean Association, the World Initiative for Soy in Human Health (WISHH) and Tetrapak Corp signed a letter of intent with the Guatemalan Government and a local soy processor, pledging to work together to put more U.S. soy protein into Guatemalan feeding programs. While on the trip, we also met with the Ministers of education and agriculture and U.S. Department of Agriculture officials, as well as representatives of a private company that uses 15 tons of value added soy protein per month in processed meats and several food aid distributing organizations. Successful international marketing trips like this one help increase third world country's rural income and economic activity and provide a new market for our soybeans. Knowing the potential to increase our bottom line here in North Dakota, the Council plans to take on even more International Marketing work in the next year.

Lastly, on the home front, the Council funded a radio campaign over the past year promoting the livestock industry. Unfortunately, the livestock industry has been suffering over the years, and we as a board realize the importance of the industry to our state. The livestock industry, as a whole, contributes \$3.25 billion dollars to North Dakota's economy and provides over 32,000 jobs. The radio campaign generated excellent publicity and raised consumer awareness. The Council was thrilled to have received such positive feedback.

Soybean farmers in North Dakota have much going for them, for soybeans in this state have a very positive future. The North Dakota Soybean Council remains dedicated to investing your checkoff dollars into programs and projects that will benefit your bottom line and help you remain profitable. We continue to serve you proudly, and we look forward to more exciting years ahead.

Sincerely,

Matt Mechtel, Chairman North Dakota Soybean Council



DOMESIC FARRENCE REPEAR GROWN FOR THE SO ABEAN INDUSTRIC

Biodiesel Enthusiasm and Interest Continues to Thrive in North Dakota

With its popularity growing at a staggering pace across the state, the North Dakota Soybean Council (NDSC) continues to heavily promote the alternative fuel, Biodiesel. Promotional efforts have focused on increasing biodiesel availability for North Dakota farmers and consumers aimed at both the supply side and demand side.

During the holidays, NDSC offered a free and safe ride in Fargo. A yellow school bus shuttled West Acres Mall shoppers to several area shopping locations. The complimentary shuttle was powered by a 2% blend of biodiesel (B2). With the Council encouraging more school districts in North Dakota to consider using biodiesel in their school buses, the school bus was a perfect fit for the holiday promotion.

During the March Class B Boys State Basketball Tournament in Fargo, NDSC sponsored the school bus biodiesel shuttle again to transport players, family and friends to and from the Fargodome and West Acres Mall.

- The North Dakota Soybean Growers Association recently purchased a new pick-up, which runs year-a-round on biodiesel. NDSC purchased advertising on the pick-up, and many North Dakotans see this distinctive black truck traveling around the state of North Dakota promoting biodiesel.
- New kiosks promoting the alternative fuel are set up in West Acres Mall, Fargo's Hector Airport, Grand Forks' Columbia Mall, Bismarck's airport and the Grand Forks airport. These kiosks provide interested consumers informational brochures on biodiesel.

Finally, 40 biodiesel educational presentations were given this year to retailers, consumers, and various groups. Biodiesel continues to show soybean farmers a brighter future for their soybeans.

First Biodiesel B20 Pump Opens in North Dakota

The North Dakota Soybean Council, diesel consumers and biodiesel enthusiasts celebrated the opening of biodiesel pumps across the state. Currently, there are more than 80 locations that offer biodiesel at a variety of blends. On June 15, at one Stamart station located at the corner of I-29 and 13th Ave S. in Fargo, a mixture of 20 percent biodiesel and 80 percent petroleum diesel was offered to the public for a limited time.

According to Joel Thorsrud, North Dakota Soybean Council's representative to the National Biodiesel Board, the new pumps were a giant step forward for North Dakota in terms of commitment to renewable fuels, energy efficiency and environmental health. Biodiesel represents a tremendous opportunity — both environmentally and economically — for the region.

Many retailers in the state offer biodiesel, but Stamart is the first biodiesel retailer offering B20 at the pump.

More information about biodiesel can be found at www.biodiesel.org.

TRACTOR TREK

KFYR's Tractor Trek was a trek from Moffit, ND to "Buckstop Junction" in Bismarck on June 18. Anyone with a tractor was able to participate...and ALL types of tractors (especially tractor collectors) turned out to participate. It was an opportunity for tractor collectors to celebrate their hobby and for the community to reminisce about the days gone by while showcasing tractors of the current era.

Doug Goehring (a member of the North Dakota Soybean Council Research Committee) rode in a tractor that was fueled with biodiesel. The North Dakota Soybean Grower's Association biodiesel pick-up was also there.

"This is a giant step forward or our tare it is my of committee to ear, take see-

BIODIESEL: SCHOOL BUSES

With parents increasingly concerned about the harmful effects of diesel emissions exposure on children who ride school buses, more school districts across the U.S., including the Mandan Public School District in North Dakota, have turned to an American-made fuel to help reduce the amount of dangerous soot and smog-causing pollution from their diesel-powered school buses. In fact, the start of the 2003 school year marked the most widespread use of biodiesel in schools yet in the United States.

Biodiesel is a homegrown solution for school districts concerned about diesel exhaust. Its widespread use could immediately benefit the health of children while helping to protect the environment, boost domestic energy security, increase farm income and create jobs. This can be done without sacrificing performance or efficiency.

BIODIESEL TASK FORCE ENCOURAGES BIODIESEL USE

This year the North Dakota Biodiesel Taskforce decided not to pursue the construction of a biodiesel facility in North Dakota. In addition to conducting a feasibility study funded by state and local funds, the Taskforce met with biodiesel producers in Iowa and with oil seed crushing operations in South Dakota. The Taskforce also met with interested producers from Minnesota.

The Taskforce is considering redirecting its' efforts to look more comprehensively at opportunities to refine vegetable oil. Noting that three plants in North Dakota and one in nearby Montana currently crush oil seeds and export that oil for final refining, the taskforce is curious as to whether or not edible oil refining might be possible. In the event that an edible oil refining operation could be financially viable, it could be expanded to include biodiesel when and if economics would support such a decision.

NDSC EXHIBITS STATEWIDE

The North Dakota Soybean Council exhibits at events around the state promoting soybean research, biodiesel, new uses, and other checkoff programs. including:

- Big Iron 2003 (West Fargo)
- International Crops Expo (Grand Forks)
- North Dakota State Fair (Minot)
- North Dakota Grain Dealers Association Annual Convention (Fargo)
- North Dakota Ag Association Northern Ag Expo (Fargo)
- Northern Soybean Expo (Fargo)
- Renewable Energy Summit (Bismarck)
- North Dakota Petroleum Marketers Association Annual Convention (Fargo)
- 2004 Rib Fest (Fargo)
- NDSU Harvest Bowl (Fargo)
- North Dakota Motor Carriers Annual Convention (Bismarck)

THE 2003-2004 RESEARCH UPDATE

Since soybean research continues to be a priority for the North Dakota Soybean Council, a new separate publication has been created to report on Council funded research. *The 2003-2004 Soybean Research Update* will highlight researcher's reports on their FY 2004 projects.



INTERNATIONAL MARKETING WISHH & GUATEMALAN AG MINISTRY FIGHT HUNGER AND HELP REBUILD U.S. SOY MARKET

WORLD



North Dakota Soybean Council (NDSC) Chairman Matt Mechtel and Executive Director Deborah Johnson traveled to Guatemala in April 2004, where they witnessed the signing of an historic document. World Initiative for

Soy in Human Health (WISHH) and ASA/Mexico City pledged support in efforts to increase soy protein's role in feeding Guatemalans. The delegation from the U.S. met with officials of the newly-elected government of Guatemala — a country hit with several years of drought and a drastic decline in earnings from coffee. As a result, malnutrition is on the rise, especially among children and in rural areas. Both the Guatemalan and U.S. governments are considering various solutions to improve nutrition and provide opportunities for economic activity.

The delegation's trip included the following visits:

- A pilot project, managed by CARE, Inc., testing soy drinks produced locally with imported U.S. soy.
- A rural school and community center, supported by Caritas and Food for the Poor, which uses soy-textured soy protein, corn soy blend and soybean oil, as well as buckwheat from North Dakota.
- Offices of the Minister of Education and the Minister of Agriculture, who are eager to get school feeding back on track, especially with highly nutritious foods.

The Minister of Agriculture signed a document with WISHH, ASA/Mexico City, a local soy food manufacturer and Tetrapak (a drink packaging manufacturer) pledging to develop project concepts that use soy to improve nutrition and peoples' lives.

North Dakota Soybean Council Chair Matt Mechtel and State Executive Deborah Johnson found soy and other products from their home state were well received in Guatemala. Food for the Poor is using U.S. food assistance from the McGovern-Dole

International Food for Education and Child Nutrition Program to help Guatemalan kids as well as economic recovery that will assist restored trade with the United States.

HUNGER ORGANIZATIONS AND GOVERNMENT REPS ATTEND WISHH FOOD AID CONFERENCE AND SOY PROTEIN WORKSHOP

WISHH organized a conference Feb. 25-26 in Washington, D.C., for private volunteer organizations (PVOs), government representatives from the U.S. Department of Agriculture (USDA) and U.S. Agency for International Development (USAID), soybean processors and other commodity groups.

WISHH Advisory Panel farmer leader members Darren Kadlec of North Dakota, Kristen Weeks-Duncansen of Minnesota and Sharon Covert of Illinois participated along with other Qualified State Soybean Board representatives from Illinois and Iowa. The group examined how to use more soy protein in the wide array of food assistance programs and develop project funding by the U.S. government. Currently, Pisek producer, Darren Kadlec, North Dakota Soybean Council director from District VII, represents NDSC on the WISHH Advisory Council.

TRADE TEAM UPDATES

The North Dakota Soybean Council hosted dinners throughout the fiscal year for visitors from Algeria, Morocco, Tunisia, Pakistan and Bangladesh, who participated in soybean education courses at the Northern Crops Institute.

Soybean Checkoff Meeting Explained Why Quality Counts

As most U.S. soybean farmers choose varieties based on yield potential, United Soybean Board (USB), in partnership with state soybean checkoff boards, the American Soybean Association (ASA), Monsanto and others in the soybean industry, explained the benefits of evaluating protein and oil levels in addition to yield potential at the Quality Counts Forum on December I, 2003, at the Ramada Plaza Suites in Fargo. More than 100 North Dakota soybean producers and industry representatives attended the event.

Consumer Marketing A FOCUS ON SOYFOODS

EOOD

SOYBEAN CHECK OFF STUDY REVEALS CONSUMER CONFUSION

Approximately 127 million people in America are overweight, according to the American Obesity Association, and with 60 million obese people, consumers are paying closer attention to food labels. In a new study, conducted by the soybean checkoff, consumers said total fat remains the most noted item on the "Nutrition Facts" label at 17 percent, followed by calories (14 percent), and saturated fat (13 percent). While consumers look for saturated fat percentages on the label and 90 percent report saturated fats as unhealthy, approximately 50 percent also classified beneficial fats (monounsaturated, polyunsaturated) as unhealthy, showing confusion about fats in the diet.

General health is the biggest reason consumers review nutrition labels (43 percent), however the urge to lose weight is not far behind at 21 percent. Fortunately, consumers do recognize foods that may help fight obesity and increase the healthiness of their diet. In fact, 62 percent of Americans believe that eating soy-based foods may play a role in reducing obesity. Even more Americans, 74 percent, perceive soy products as healthy.

COUNCIL PROMOTES SOYFOODS AT STATEWIDE EVENTS

The North Dakota Soybean Council exhibited at the following events promoting soyfoods and the health benefits of soy:

- Women's Showcase (Fargo)
- "For Women Only" Seminar (Grafton)
- North Dakotans Partnering for Women's Health – 2003 Women's Health Summit (Bismarck)
- SENDCAA Child Care Provider's Seminar (Fargo)
- Women's Expo 2003 (Jamestown)
- North Dakota Nutrition Council Annual Conference (Fargo)
- North Dakota Dietetic Association Spring Convention (Bismarck)
- Life's Focus 2004 (Jamestown)
- Life's Options (Fargo)

• NDSC joined Soyfood Association of North America (SANA) in recognizing April as National Soyfoods Month. In the past, soyfoods have suffered from a negative image regarding taste and texture, and the North Dakota Soybean Council and soybean checkoff is continuously striving to clear up that misconception. To show consumers how delicious and accessible soyfoods are and to celebrate 2004's Soyfoods Month in April, the Council partnered with supermarkets by sponsoring demonstrations featuring soyfoods.

SOY REDUCES RISK OF PROSTATE CANCER

With all the articles in women's magazines, most women are aware of the health benefits of soyfoods, but soyfoods are not just for women. In fact, studies are showing that soy may be more beneficial for men.

Primarily, soy has been shown to reduce the risk of prostate cancer. So much so, that the American Cancer Society included soyfoods consumption as one of its seven steps to reduce risk of prostate cancer. Also, a new study done at Children's Hospital of Cincinnati, found that equol—an obscure molecule that's created when soy is digested—is a natural and powerful blocker of the male hormone involved in prostate cancer. And here's a bonus, it's also the hormone responsible for male pattern baldness. Apparently equol can completely halt the male hormone dihydrotestosterone (DHT), which stimulates prostate growth and causes male pattern baldness.

Compared to the United States, the rate of prostate cancer in China and Japan, where soyfood consumption is high, is extremely low. In fact, it's about as low as breast cancer rates in those countries.



LIVESTOCK INITIATIVE NORTH DAKOTA SOYBEAN COUNCIL RALLIES TO PROTECT NUMBER ONE CUSTOMERS

NDUSTRY

The U.S. livestock and poultry industries are the number one consumer of soybeans. The North Dakota Soybean Council (NDSC) and the soybean checkoff know the importance of a strong partnership between producers of both soybeans and livestock and are working at both the state and national levels to forge a stronger alliance.

In partnership with the United Soybean Board (USB), the livestock Industry Initiative has been created and in working with academia, agricultural and soybean industry representatives and the soybean checkoff, volunteer farmer-leaders will develop a strategic plan to ensure the long-term growth of the domestic livestock industry.

The impact and importance of the livestock industry to the economy is very clear. The soybean checkoff already contributes more than \$1.5 million a year to help build poultry, pork and beef exports, but enhancing the opportunities for these industries to remain connected will only increase soybean producers' profit opportunities. The North Dakota Soybean Council and the soybean checkoff are committed to the support of the livestock and poultry industries.

- In March, the North Dakota Soybean Council launched an extensive statewide radio campaign promoting North Dakota's livestock industry. The radio ads were placed on numerous radio stations and continued though the end of May. In April, the NDSC radio ads focused on the hog industry, and in May, ads focused on the beef industry.
- NDSC has also funded North Dakota livestock projects to enhance the livestock industry in the state and provide value-added back to soybean farmers.

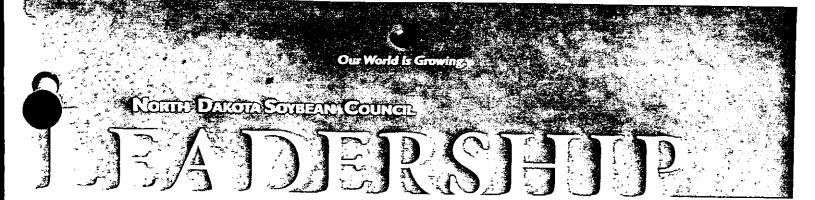




- To help rejuvenate the dairy industry, NDSC has committed funds to the newly assembled North Dakota Dairy Coalition aided in part with the North Dakota Association of Rural Electric Cooperatives. Their mission is to ensure that by the year 2020 there are 1,000 operating dairies in North Dakota.
- The North Dakota Agricultural Innovation Development Center was recently formed to provide technical and other assistance to North Dakota agricultural producers to help them establish businesses that provide and sell value-added agricultural commodities and other products. The North Dakota

Soybean Council is financially supporting an Agricultural Innovation Development Center feasibility study and market analysis focusing on the use of North Dakota soybeans and soybean byproducts in pet food. The purpose of this project is to determine if a pet food processing plant using North Dakota soybeans could be profitable.

• The hog producers have also begun efforts to revitalize their industry in North Dakota. Hog producers in the Cando area have recently joined the North Dakota Pork Producers and various commodity groups to begin a public relations campaign to promote and enhance the swine industry in the state. A steering committee has recently been assembled to bring together representatives of commodity groups to initialize efforts. The committee plans to begin an educational print, radio and editorial campaign across the state.



BOARD



(From left to right):

Darren Kadlec of Pisek; Michael Satrom of Galesburg, secretary/treasurer; Matt Mechtel of Page, chairman; Dennis Renner of Mandan; Chuck Fleming of Bismarck serving as the North Dakota Agriculture Commissioner's representative; Joel Thorsrud of Hillsboro; Brett Johnson of Mooreton, vice chairman; and Dennis Feiken of La Moure. (Not pictured: Robin Pratt of Northwood)

USB Members



UNITED SOYBEAN BOARD REPRESENTATIVE KENT GRONLIE, Northwood, ND, has served on the United Soybean Board (USB) since 1999. Gronlie is currently a member of USB's executive committee and is the chairman of the Domestic Marketing Committee. He is also a member of the USB's Trade Analysis Committee.



UNITED SOYBEAN BOARD REPRESENTATIVE VANESSA KUMMER, Colfax, ND, has served on the United Soybean Board since 2003. Kummer currently is on USB's International Marketing Committee focusing on Asia. She is also a committee member of the Select Yield and Quality Initiative.

STAFF



(FROM LEFT TO RIGHT):

Suzanne Wolf, Communications Director; Tim Radermacher, Marketing Specialist; Deborah Johnson, Executive Director; Bob Muellenbach, Administrative Services; and Beverly Swenson, Business Manager.





2003 - 2004 Soybean Research Update

Research for North Dakota Soybean Producers

The volunteer soybean producers on the North Dakota Soybean Council (NDSC) are taking a balanced approach and investing soybean checkoff funds to solve problems *and* create opportunities that expand value-added markets for soybeans.

The North Dakota Soybean Council oversees a soybean research program based on farmer priorities to ensure that research remains focused on the challenges farmers face today. Farmers and researchers familiar with pertinent soybean research issues form the NDSC research committee. This committee identifies farmer priorities, sets the Council's research objectives, and requests studies to meet these priorities. The primary goal of the North Dakota Soybean Council's investment in research is to increase soybean farmers' opportunities for increased soybean quality, greater yields, better pest and disease control, and expanded market options.

New and continuing research in the fiscal year beginning July 1, 2003, and ending June 30, 2004, totaled \$312,534. This represents approximately 24 percent of the North Dakota Soybean Council's budget. The 2003-2004 Soybean Research Update is not only intended to help keep soybean farmers current on agronomic research, but to bring farmers the results of applicable research for soybean management decision making.



North Dakota Soybean Council Research Committee

Chairman:

Michael Satrom - Galesburg

Dennis Feiken - La Moure

Darren Kadlec - Pisek

Robin Pratt - Northwood

Chris Johnson - Wahpeton

Jeff Leinen - Great Bend

Claude Richards - Fargo

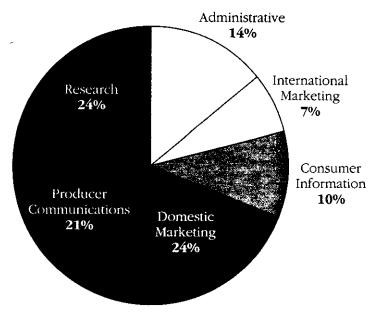
Chuck Nelson - Thompson

Doug Goehring - Menoken

Research Consultant:

Keith Smith & Associates Farmington, MO

North Dakota Soybean Council Program Areas





ND Soybean Council Research Programs

(Total Research Budget \$312,534)

Dr. Ted Helms Breeding of Improved Conventional Cultivars

\$48,600

Screening Soybean Varieties for Resistance To Iron Deficiency Dr. R. Jay Goos

Chlorosis

\$22,650

Dr. Phillip McClean Identification of Markers for Iron Deficiency Chlorosis

Tolerance in Soybeans

\$8,582

Dr. Berlin Nelson Control of Soybean Diseases

\$48,300

Dr. Berlin Nelson Effect of Inoculum Density of Fusarium Root Rot of Soybean

\$18,100

Dr.Ted Helms Soybean Cyst Nematode Cultivar Breeding

\$5,400

Dr. Ted Helms Food Grade Cultivar Breeding

\$7,280

Dr. R. Jay Goos Survey of Soybean Germplasm for Drought Tolerance

\$9,820

Dr. Ted Helms Roundup Ready Breeding of Improved Cultivars

\$38,400

Dr. Sam Chang Effect of Storage on the Quality of Soybeans

\$11,758

Phillip Glogoza Soybean Aphid Establishment, Impact and Management

for North Dakota

\$6,000

Dr. Wayne Seames Evaluating Soy-Derived Fuel- JP-8 Blends for Jet Aircraft

Application

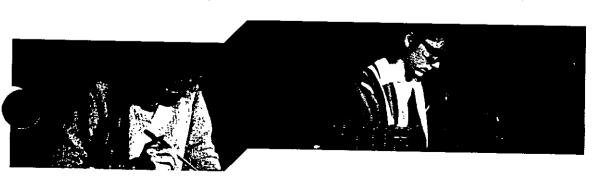
\$5,000

North Central Soybean Research Program

\$75,000

Contracts, Fees and Administrative

\$7,644





Research Updat

Control of Soybean Diseases

cipal Investigator: Dr. Berlin D. Nelson, essor, Department of Plant Pathology, NDSII

Cooperating Scientists: Dr. Ted Helms, Professor, Plant Sciences, NDSU

Research Goals: The primary goal of this project is to develop controls for major diseases of soybean.

Objectives:

- 1. Ścreen breeding lines and cultivars for resistance to *Phytophthora sojae*, soybean cyst nematode (SCN) and *Sclerotinia sclerotiorum*.
- 2. Monitor pathogen populations for new virulent types.

Benefits to North Dakota soybean growers:

There are serious diseases that can dramatically reduce yields and quality of soybeans. Some of these diseases, such as Phytophthora root rot, Sclerotinia stem rot, Fusarium root rot, and now soybean cyst nematode, are already problems in North Dakota. Developing controls, especially through host resistance, are needed to give swers management tools to reduce the s from these diseases. Controlling or diseases are important to the success of the soybean industry in North Dakota.

Description of Research:

Additional information was added to the Soybean Diseases web site established at North Dakota State University (the URL is www.ndsu.nodak.edu/soydiseases/). The information on the races of *Phytophthora sojae* in North Dakota for 2002 was added to the web site.

An extensive screening program is in progress to incorporate resistance to *Phytophthora sojae* into public soybean cultivars. This is a cooperative project between Dr. Ted Helms and Dr. Berlin Nelson. During this past year, the researchers screened **1,300 breeding lines and inoculated over 15,000 plants** to identify resistant lines. About 64% of the lines were resistant, indicating that the breeding-screening program is progressing well. Several different resistance genes are being bred into the soybean germplasm. Two new public soybean cultivars (La Moure and RG405RR) were recently

eased with resistance to Phytophthora rot, demonstrating the importance of cooperative effort.

In addition to the work on resistance to Phytophthora root rot, work is being done to characterize the races of P. sojae in North Dakota soils. This information is needed to determine changes in the virulence of the pathogen and to decide which resistance genes should be used in this area. Soil samples were collected from 151 fields in the eastern soybean growing areas in 2003. The pathogen was baited from the soils and the virulence phenotypes were determined on the eight differentials with Rps genes la, lb, lc, ld, lk, 3a, 6 and 7. Seventy-six isolates of P. sojae from 43 fields were identified. Forty-seven percent of the isolates were Race 4 and 30% were Race 3. Other races identified were Race 28 (7.8%), Race 25 (6.5%), and Race 44 (1.3%). Several new Races (6.5%) were also identified. These results, plus those from 2002, indicated that the pathogen has become more diverse in virulence in the past 10 years. In the early 1990s the dominant race was Race 3 (-85 % of isolates) with a few other races (1, 4 and 9) occasionally found. Race 3 has now become less important, Race 4 more important, and there are now different races appearing. Some of these races can defeat the common resistance genes (Rps lc, lk and 6) used in North Dakota. Of the total isolates collected in 2003, 58%, 17% and 4% could defeat the Rps genes Ic, Ik and 6, respectively.

Dr. Helms, NDSU soybean breeder, and Dr. Nelson, are cooperating in an effort to incorporate resistance to the soybean cyst nematode into breeding material for North Dakota. SCN was discovered in North Dakota in August of 2003. During the summer of 2003, molecular markers were used to detect SCN resistance in the crossing blocks used to transfer the SCN resistance gene (rh1)) into breeding material. Leaf tissues were tested for the presence of the SCN resistance gene using the microsatellite mater SATT 309. Plants with the molecular marker were identified and Dr. Helms made additional crosses to these plants. Molecular markers were used in this process to increase the chances of transferring the resistance gene and thus speed up the development of SCN resistant breeding material. Molecular markers were used to screen another group of 150 breeding lines with potential SCN resistance genes. Fiftyfive lines with the SCN resistance marker were identified. The cooperative effort to put SCN resistance into North Dakota germplasm is progressing on schedule.



A Sclerotinia stem rot screening nursery was established in 2003 at Fargo to evaluate 110 public and private cultivars, plant introductions and breeding material for resistance. The site was irrigated and plants were artificially inoculated. There were no differences among cultivars because of poor disease development due to hot weather at inoculation. In cooperation with a North Central team of scientists, another white mold screening nursery was established to examine resistance among 50 lines developed by various plant scientists in the North Central region. Two different inoculation dates were tested. Differences among lines were detected with a fall, but not a July inoculation. Material with partial resistance to S. sclerotiorum has been identified in these cooperative studies.

Field studies were initiated on the survival of the eggs of the soybean cyst nematode in North Dakota soils. Six infested fields were identified in 2003 and egg numbers per 100 cc of soil were determined. These egg populations will be monitored over the years while the fields are in rotation to crops other than soybean. Data on egg population decline will be used to develop recommendations on using crop rotation to control SCN.

Outcomes, Findings and Deliverables:

Releasing public soybean cultivars with resistance to Phytophthora root rot is of direct benefit to growers. Also, the information on races of Phytophthora is useful to the private and public breeding programs that are producing resistant cultivars for North Dakota. This research with soybean cyst nematode will eventually result in cultivars resistant to this major pest and new recommendations on management.



Principal Investigator: Dr. Ted Helms, Professor, Plant Sciences, NDSU Cooperating Scientists: Dr. Berlin Nelson, Professor, Department of Plant Pathology, NDSU; Dr. R. Jay Goos, Professor, Department of Soil Science, NDSU

The NDSU Soybean Breeding Project started in 1986. Released cultivars include: Council, Danatto, Traill, Norpro, Jim, Daksoy, Barnes, Walsh, Sargent, RG200RR, Nornatto, Nannonatto, La Moure, and RG405RR. Testing sites that were maintained by the project include: La Moure, Great Bend, Wyndmere, Mooreton, Fargo, Casselton, Prosper, Arthur, Grandin, Northwood, ND. Additional test sites are conducted by the Research and hision Centers include: Devils Lake, Minot, Carrington (dryland and irrigated), Dazey, Park River, Cavalier, and Langdon.

La Moure was released in 2004. La Moure is a maturity 0.7 conventional cultivar that is high-yielding, lodging-resistant, moderately resistant to iron-deficiency chlorosis, and has the Rps1c allele (gene) for resistance to phytophthora root rot. La Moure was released through the North Dakota Crop Improvement Association. The North Dakota Soybean Council provided the funds to develop this cultivar. Resistance to phytophthora root rot was identified by Dr. Berlin Nelson and iron deficiency chlorosis ratings were conducted by Dr. R. Jay Goos.

Two conventional experimental lines were pre-released. The pre-release designation indicates that a decision to invest resources in seed multiplication has been made. The final decision regarding whether to release these lines will be made in January, 2005. ND99-4022 and ND99-2282 were the two lines that were pre-released. ND99-4022 is intended for the tofu specialty et. ND99-4022 is a yellow hila bean

arge seed size, high-protein, high-

Breeding of Improved Conventional Cultivars

yield and moderate tolerance to iron deficiency chlorosis. ND99-2282 is a 00.5 maturity, conventional bean with yellow hila, the Rps4 (gene) for resistance to phytophthora root rot, high yield and lodging resistance. The intention is for ND99-2282 to replace the cultivar Jim.

Two advanced conventional lines are being increased this summer (ND99-2621 and ND99-2169). These lines are about a 0.5 maturity and are high yielding with the Rps1c allele (gene) for phytophthora root rot resistance. Iron deficiency chlorosis data will be determined in the summer of 2004. These lines could be pre-released in March, 2005 with a targeted release date of January 2006.

First-year replicated yield tests of 465 conventional experimental lines are being conducted in 2004. Advanced lines include 168 conventional lines. Approximately 5,000 conventional plant-rows are being tested.

Roundup Ready Breeding of Improved Cultivars

Principal Investigator: Dr. Ted Helms, Professor, Plant Sciences, NDSU Cooperating Scientists: Dr. Berlin Nelson, Professor, Department of Plant Pathology, NDSU; Dr. R. Jay Goos, Professor, Department of Soil Science, NDSU

Roundup Ready cultivars developed by NDSU include RG200RR and RG405RR. RG405RR was released in 2004. RG405RR is a 0.5 maturity Roundup Ready cultivar that is high yielding, susceptible to iron deficiency chlorosis and has the Rps6 allele (gene) for resistance to phytophthora root rot. RG405RR will be marketed by the non-profit corporation, Roughrider Genetics. Resistance to phytophthora root rot was identified by Dr. Berlin Nelson and iron deficiency chlorosis ratings were conducted by Dr. R. Jay Goos.

Four advanced Roundup Ready experimental lines are being increased this summer. These lines have high-yield, lodging resistance, and the Rps1k allele (gene) for phytophthora root rot resistance. Iron chlorosis data will be determined this summer. A decision has been made to increase the seed of two of these lines in Chile in the 2004-2005 winter season, provided the 2004 data is supportive. These lines could be released in January 2005, contingent on approval by the Dean of the Experiment Station.

First-year replicated yield tests of 450 Roundup Ready experimental lines are being conducted in 2004. Advanced lines that are in the second or third year of testing at multiple locations include 98 Roundup Ready lines. About 4,000 Roundup Ready plant-rows are being tested.

Soybean Cyst Nematode Breeding

Principal Investigator: Dr. Ted Helms, Professor, Plant Sciences, NDSU Cooperating Scientists: Dr. Berlin Nelson, Professor, Department of Plant Pathology, NDSU; Dr. R. Jay Goos, Professor, Department of Soil Science, NDSU

Soybean Cyst Nematode (SCN) was identified for the first time in North Dakota in August 2003. ND01-3535 is a maturity 1.0 experimental line that has been found to be highly resistant to Race 3 of SCN. Dr. Berlin Nelson (NDSU) and Dr. Nieblack (University of Illinois) cooperated to determine that this line is resistant. ND01-3535 was developed by Ted Helms at the NDSU Soybean Breeding Project. The cross to develop this line was made in 1998 at Fargo, ND. ND01-3535 is highyielding and has the Rps1c allele (gene) for resistance to phytophthora root rot. ND01-3535 has the PI88788 source of SCN resistance. About 4 acres of seed increase of this line is being conducted in the summer of 2004. This line could be prereleased in March of 2005 and released in January 2006. This is a high-yielding conventional line, but further yield and chlorosis data is needed for this line.

Dr. Berlin Nelson screened 174 NDSU experimental lines for SCN resistance in the 2003-2004 winter season using the Satt309 molecular marker. Of these 174 lines, 81 have been identified with some level of SCN resistance using the Satt309 marker. These 81 lines are being tested in preliminary, replicated yield tests this year. Approximately 2000 plant-rows that have the potential to have SCN resistance are being evaluated in the 2004 growing season. Lines that have been visually selected will then be screened for the Satt309 marker this coming winter. F2 and F4 populations have been developed that have at least one SCN resistant parent in their pedigree. Many crosses are being made in the summer of 2004 to incorporate SCN resistance into populations.

Food Grade Cultivar Breeding

Principal Investigator: Dr. Ted Helms, Professor, Department of Plant Pathology,

perating Scientists: Dr. Berlin Nelson, ofessor, Department of Plant Pathology, NDSU; Dr. R. Jay Goos, Professor, Department of Soil Science, NDSU; Dr. Sam Chang, Professor, Cereal and Food Sciences, NDSU

Preliminary seed increases of four experimental lines that have the potential for the specialty tofu market were increased in Chile in the 2002-2003 winter nursery. ND99-4022 was selected for yield testing in multiple locations in 2003 and 2004. Dr. Sam Chang evaluated this line for tofu quality in 2003 and 2004. Based on agronomic data as well as tofu quality data, this line was pre-released in March 2004. This line is high yielding and a 0.8 maturity with yellow hila. This line will be considered for release in January 2005.

Crosses to develop new experimental lines for the natto and sprout specialty markets were conducted in the summer of 2003. These F1 seeds were sent to Chile and the F2 populations were planted at Fargo



Casselton. Crosses to develop new tofu lines were also made in 2003 and the resultant F2 populations are being grown in Fargo and Casselton in 2004.

Screening soybean varieties for resistance to iron deficiency chlorosis (IDC)

Principal Investigator: Dr. R. Jay Goos, Professor, Soil Science Department, NDSU

is a common problem when soybeans grown on high pH soils. The problem is usually worse on poorly-drained, wet soils. Selection of a resistant variety is the most important control measure. Each

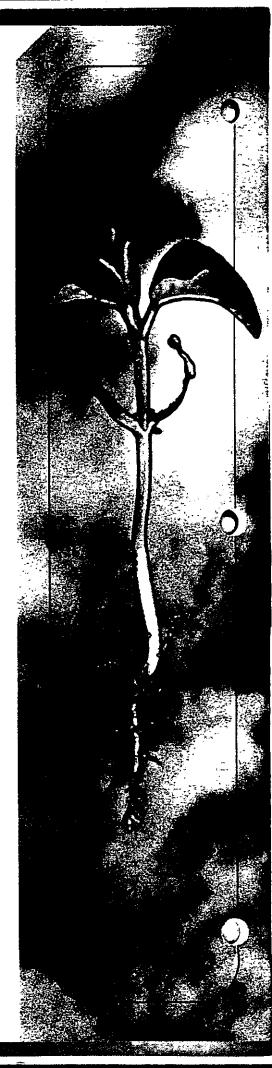
year, 200 varieties are tested for resistance to IDC under field conditions. Some of these varieties are "standards", varieties with which there is a lot of experience.

Some are NDSU breeding lines, but typically 170 varieties are commercial entries. The majority of soybean varieties sold in North Dakota are not highly resistant to chlorosis, and farmers must be very careful when selecting varieties for alkaline soils. For fields giving temporary or moderate chlorosis, or chlorosis in only small parts of the field, varieties with resistance generally greater than 'Council' are recommended. For fields giving prolonged, widespread, or severe chlorosis, it is recommended that only the most resistant varieties be grown, consistent with the other objectives of the farmer (e.g. maturity). More than 500 varieties have been tested during the past three years. The results can be found at: www.soilsci.ndsu.nodak.edu/yellowsoybeans

Preliminary studies on the drought tolerance of soybean varieties

Principal Investigator: Dr. R. Jay Goos, Professor, Department of Soil Science, NDSU

Soybeans are a full-season crop, capable. of using much more water than falls in a normal summer. Drought stress will limit soybean yields in most years in North Dakota, particularly west of the high water table soils of the Red River Valley. Previous studies from other areas have indicated that soybean varieties differ in drought tolerance, primarily related to their ability to manufacture compounds that assist in the retention of water when presented with drought stress. Ten varieties, previously shown to be drought tolerant or drought susceptible, were obtained from the USDA collection, the seed increased, and evaluated for drought tolerance. Thirty-two NDSU breeding lines or varieties were also evaluated for drought tolerance. Two methods of screening for drought tolerance were used. One method involved growing the plants in hydroponic solutions, using polyethylene glycol (a large molecular weight compound) in the hydroponic solution, to induce water stress. The other method involved growing plants in soil with only a limited amount of daily watering, to cause water stress. Reproducible amounts of water stress could be induced in soybean plants, by either method, but were not able to show meaningful differences in the drought resistance of different varieties using these techniques. It was concluded that greenhouse screening for drought tolerance was probably not feasible.



Influence of storage on characteristics oal Investigator: Dr. Sam Chang, of soybean, soymilk and tofu

Principal Investigator: Dr. Sam Chang, Professor, Cereal and Food Sciences, NDSU

E utive Summary

e is one of the main factors to ce soybean quality for soy food g. During storage/shipping, the physical and biochemical characteristics of soybean may change to various degrees, depending upon the initial soybean moisture and storage/shipping conditions, including various humidity and temperatures. The changes in soybean characteristics include darkening in surface color, reduction in solid and protein solubility, decrease in phytate content, changes in isoflavones, protein structures, sugar pattern and lipid oxidation. The vield and quality of soymilk and tofu are also negatively affected by adverse storage conditions. Proper storage/shipping management is necessary to keep soybean quality for making high-quality soy foods. Therefore, storage research provides important information for the soybean industry to better manage soybean during harvest, storage, and transportation to maintain quality for soymilk/tofu making.

Introduction

Soy foods have many health benefits and their market is increasing rapidly. Soybean affects final utilization, and is an int factor for trading soybean. an may be stored up to one year or longer after harvest in a wide variety of environmental circumstances. During shipping in a boat, the temperature of soybeans placed in close proximity of the engine compartment may be heated to higher than 50°C. The magnitude of the quality deterioration depends on storage time, temperature, and relative humidity (I/H). During an American Soybean A sociation sponsored trip in May, it was o served that Brazilian soybeans shipped to Taiwan for oil extraction were deeply colored due to improper storage and processing, and the soy meal produced had very poor functional quality for making soy protein ingredients.

Tofu is a complex food system; it requires a series of processing steps. The coagulation of soymilk is the most critical step to influence yield and texture qualities because it involves complex interactions among soy proteins, coagulants (usually calcium or magnesium or food acids), and other biochemical components, such as placed in the process of the process of

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soybeans under several conditions on soybean biochemical changes, soymilk and tofu quality characteristics and coagulant requirements.

Experiments

Tbree series of the laboratory model studies were conducted. The first series involved the storage of Proto cultivar soybean in four conditions, including adverse conditions (84% RH, 30°C), mild conditions (57% RH, 20°C), cold conditions (4°C), and uncontrolled ambient conditions (in a garage in Fargo) for various periods of time. Soybean major storage proteins, glycinin and B-conglycinin were isolated and their composition and structures were characterized. Soymilk and soft tofu were prepared and their quality characteristics were determined. The second series involved the determination of the amount of coagulant requirements needed for stored soybeans to make filled tofu. The third series involved in the storage of three cultivars in a wide range of temperature (20-55°C) and an intermediate range of RH (60 to 80% RH).

Results

The first study series showed that soybean color significantly darkened over time during adverse storage (84% RH and 30°C). The lipid, proteins, ash and total carbohydrate content in the beans did not change significantly over time of storage. However, sugar content decreased significantly under the adverse storage conditions.

Phytate content in soybeans stored under the adverse conditions showed a linear decrease with storage time. Titratable acidity (free acids from oil hydrolysis and oxidation) in soybean stored under the adverse conditions increased linearly with storage time. The phytate content and titratable acidity of soybean stored under the three other mild conditions did not change much. The yield of tofu made from soybean stored under the adverse conditions decreased significantly with soybean storage time from 512 g at the month zero (initial storage time) to 71 g after the seven months of storage.

Under the adverse storage condition of 84%RH and 30°C, the solids content in soymilk remained above 8% for four months, then was reduced to about 7.5% in six months and continually decreased to less than 2.4% in eight months. The

protein content in the soymilk showed a similar decreasing trend with the solids content of soymilk. It was reduced from 4.9% to 4.4% in the first month then remained above 4% until six months. By the end of the eighth month, the protein content in the soymilk was only about 1%. The molecular structures of the major storage proteins in soybean changed significantly during storage. Isoflavones were changed from glucosides and malonylglucosides to more aglycone forms during adverse storage. Isoflyaones changed slightly for beans stored at 57%RH and in the ambient conditions. Beans stored at 4°C did not change in its isoflavone pattern. Isoflavones are health-promoting compounds. Storage under the other three mild conditions for up to 18 months did not change bean quality substantially. The storage conditions affected the coagulant requirements. Results from the second series of the study showed that the higher the temperature and relative humidity, the less coagulant is needed for making tofu. This information is very useful for tofu manufacturers. Results from the third series of the study showed that color darkened and tofu quality decreased under some intermediate humidity and high-temperature conditions. Garage storage of three cultivars up to 10 months did not change quality substantially.

Conclusion

High relative humidity (80-85%) or intermediate humidity (60-75% RH) combined with high temperature (30-50°C) decreased protein extraction, tofu yield and textural quality. The color darkening may be used as an indicator to predict the quality of soybeans. Soybeans stored in a ventilated garage in this Northern region for up to 18 months could maintain their qualities for food making. Based on the model studies, storing beans at 70% RH (13% moisture content) or lower, and a temperature lower than 30°C is recommended. Higher humidity or higher temperature than these will be damaging to the bean quality. The research provided useful information for the farm and processing industry to manage the storage practice of the soybean to maximize the quality for food uses. The study is also important to alert the tofu makers that coagulant concentrations should be modified if the optimal concentration is significantly affected by storage.

We thank NDSC for providing funding, which has served as leverage for us to obtain federal competitive grants such as National Science Foundation and USDA-National Competitive grant program for this research.

Identification of Molecular Markers for Iron Chlorosis Tolerance in Soybeans

Principal Investigator: Dr. Phil McClean, Professor, Plant Sciences, NDSU

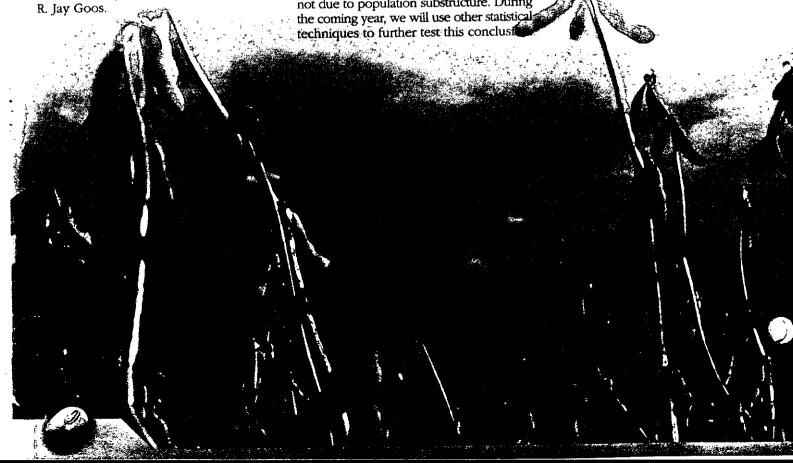
Cooperating Scientists: Dr. Ted Helms, Professor, Plant Sciences, NDSU; Dr. R. Jay Goos, Professor, Department of Soil Science, NDSU

Iron chlorosis greatly reduces yield and the profits associated with soybean production on the high pH soils that are common in the Red River Valley. Under field conditions, soil variability makes it difficult to identify iron chlorosis tolerant experimental lines. The application of molecular markers combined with a highly accurate greenhouse evaluation system for iron chlorosis has the potential to make identification of iron chlorosis tolerant lines more dependable. By targeting the genetic material that is adapted to the northern Great Plains, the development of molecular marker systems will aid both public and private efforts to develop superior cultivars for this important growing region.

crosatellite research has continued to be a focus of research for this year. We extended last year's work by isolating DNA from an additional 150 entries from the iron deficiency chlorosis (IDC) trial of Dr. These lines were then scored with the four microsatellite (Satt020, Satt114, Satt199, and Satt239) makers previously shown to be associated with IDC tolerance. For each marker, the lines containing the "tolerance" alleles on average had a 0.5 lower IDC score than those lines containing the susceptible allele. Furthermore, it was determined that those lines (n= 33) containing the tolerant allele for all four markers had a significantly lower IDC score than those lines (n=133) with the susceptible alleles. As noted in a previous report, one of these markers mapped near a known IDC locus, yet the other three markers represent new markers. This suggests that we have uncovered new genomic regions associated with IDC tolerance.

All of the lines were also screened with 17 markers distributed throughout the soybean genome. The goal was to determine if lines demonstrating high levels of IDC tolerance were related. A neighborjoining analysis showed the relatedness among the lines. Importantly, the highly tolerant lines did not cluster as a group. This one test suggests that the association between the markers and tolerance was not due to population substructure. During the coming year, we will use other statistical the first sea for the statistical conclusions.

The goals for the upcoming year are to 1) further analyze the statistical association between the markers and population substructure; 2) continue searching for markers with stronger associations; and 3) search for additional markers that have a minor effect on IDC tolerance. The first goal will be accomplished by performing additional more powerful statistical tests. The goal is to determine if a substructure exists in the population that might explain the observed associations. To achieve the second goal, we will perform candidate gene cloning. We will target genes known to be involved in Fe nutrition from other species and attempt to clone those in soybean. The goal is to determine if one of these genes acts as a major factor in IDC tolerance. Finally, populations, derived from the crosses Stine 0480 x Traill and Traill x Glacier, were developed and currently being advanced to later generations. These populations will be analyzed using traditional quantitative analysis to uncover new markers.



Effect of Inoculum Density on Fusarium Root Rot of Soybean

Principal Investigator: Dr. Berlin D. Nelson, Professor, Department of Plant Pathology, NDSU

Research Goals: Increase the understanding of the biology and control of Fusarium root rot.

Objectives:

Determine the effects of inoculum densities (ID) of virulent isolates of *Fusarium solani* on Fusarium root rot of soybean.

Benefits to ND soybean growers:

Fusarium root rot of soybean is an important disease in North Dakota, but little is known about the biology of the disease or control. This research examined one of the most important aspects of the biology of disease. The information gained helps in understanding how important this disease is to soybean growers and was needed to develop controls.

escription of Research:

The production of large quantities of inoculum was investigated using various types of media. It was determined that conidia production was greatest on a special casamino

acids medium developed in our lab. The fungus was grown under UV and fluorescent light to enhance macroconida production. Spores are then frozen for future studies.

Preliminary investigations on the effect of ID on disease in a sandy loam soil were initiated to provide information on approximate spore concentrations that would result in disease. Inoculum densities that allowed sufficient numbers of surviving plants and a high level of root rot were different for various isolates. High ID (>5 x 10^8 spores/gr soil) resulted in complete seedling damping-off and no plants to evaluate. At lower densities plants survived but had poor root systems. Rating tap roots or lateral roots for lesions or discoloration was a poor measure of disease, since there were often few roots to evaluate. Measuring root growth via root volume was a more accurate method to assess the effect of root rot. It appeared that roots either rotted away very fast or simply did not develop in infested soils. The same studies were also conducted in Sunshine Mix, a standard potting medium used in greenhouses. Disease development was not as consistent and was generally at lower levels in Sunshine Mix. We obtained software (WinRhizo) to quantify the characteristics of soybean roots in attaigen infested soil. The system er to divinge the root system. Strongenables

Subsequent experiments focused on seedlings and examined ID ranging from 1 x 10 ³ to 1 x 10⁶ spores per gram of a silty loam soil. Both plant emergence and root growth were measured. Effects on emergence were observed at 1 x 10⁴ ID and higher. At 1×10^6 ID there were few emerging plants. There were significant reductions in root length at 1×10^4 ID and higher, with almost no lateral roots formed at 1 x 10⁵ ID. Root length is an excellent measurement of the total root system in the soil, and appears to be the most accurate way to measure the effect of ID on root growth. Total root diameter is less useful as a measurement of root damage, since short stubby roots can have large diameters. At higher ID, roots were stubby and short, but above ground parts of the plants still developed within the first three weeks of planting. Plants can develop substantial above ground growth in highly infested soil when growing conditions are optimal, but as soon as these plants are stressed, the poor root system results in a rapid decline of above ground plant health. Experiments are still in progress examining various aspects of the relationship of ID on root rot of soybean.

Outcomes, Findings and Deliverables:

An improved understanding of the biology of disease will help in developing controls to manage this problem.

Soybean aphid establishment, impact, and management for North Dakota.

incipal Investigator: Phillip Glogoza, MS Indidate, Extension Entomologist, NDSU

Objective 1. Document the life history of the soybean aphid, Aphis glycines, its spatial and temporal distribution, and its relationship with its alternate host buckthorn (Rhamnus spp.).

BUCKTHORN (RHAMNUS SPP.)

It has been difficult to find soybean aphid on the overwintering host, buckthorn (Rhamnus cathartica). No soybean aphids or eggs were found on buckthorn plants at surveyed locations in three North Dakota counties in the spring or fall of 2002 or 2003.

However, in the fall of 2003, soybean aphid were found on common buckthorn growing in Moorhead, Minnesota. Young saplings, 12" to 24" in height, were found with large populations of aphids in October. All colonies were nymphs. Upon a eek after finding them, y few aphids were found e to large numbers of multi-colored Asian lady beetles feeding on the aphids. Plants were marked with surveyor flags for future reference, however, by January all saplings had been destroyed by rabbit and/or deer browsing the shelterbelt. Some infested plants were returned to the lab where males from a lab colony were provided to the female oviparae and eggs were laid on the voung plants. No eggs hatched in the lab.

SOYBEAN (GLYCINE MAX)

In both 2002 and 2003, two 80+ acre commercial soybean fields were surveyed weekly for soybean aphid. The fields were geo-referenced with 92-96 samples sites mapped across the field (grid sampling layout). The geo-reference points were used weekly to record aphid populations served on leaflets. Variables recorded luded total aphids recorded by nymphs, wingless adults, and winged adults, key predators, presence of disease, and location

of aphids on the plant. Surveys continued until plants began to defoliate at the end of August to the first two weeks of September.

Seasonal Variation of Population

Aphids were first detected in early July at all locations on late vegetative stage soybeans. The first population peak was observed both years around July 22 on R2-R3 stage soybeans. After this very minor peak, populations per trifoliate decreased but populations became more uniformly distributed in the field. The second, and greatest population peak was observed in late August to early September on late reproductive stage soybeans (R5-R7). Populations in 2002 were smaller than

those in 2003. Rainfall may have contributed to the difference. Measurable rainfall in 2002 occurred on 12 days of August, with the greatest rain events being 0.2" on 8/01, 8/08, and 8/11; 0.4" on 8/16; and 0.3" on 8/31 for a total of 1.75". There were seven days of rain recorded in 2003, and all but one were less than 0.2"; 0.3" was received on 8/25. Total rainfall in August 2003 was 0.96".

Within-field distribution of soybean aphid

In 2002 and 2003, aphids were first detected in early July on late vegetative stage soybeans on the shelterbelt side of the field or near the field edge. After four to five weeks, aphid populations increased and had spread more uniformly in the field. Uniformity occurred after the first population peak in late July. Aphid populations increased rapidly by late August to early September, at the R6-R8 stages in 2002. Populations in August 2003 began increasing a little earlier and were peaking at R5. In one of the 2003 production fields, the population began to decline shortly thereafter; the populations remained high in the second. In this field, the foliage was greener longer.

Some general observations that may be important for our region, with our large fields and open areas, include the likelihood that shelterbelts influenced site of initial colonization. It appeared that after 3 to 4 weeks of first aphid detection, aphids were observed throughout the field, though below currently recognized economically significant populations. The greatest numbers of aphids in the July peak were associated with the sites of first colonization. Recommendations for field surveys include the suggestion of scouting these border areas beginning in early July to detect the initial colonization of aphi

Objective 2. Evaluate currently available soybean varieties from the northern production area for possible tolerance/resistance to the soybean aphid. Lab Screening of Varieties

A varietal screening program was set up to evaluate commonly grown Northern soybean "00" and "0" soybean varieties for identifying natural resistance and/or tolerance in the. Wingless adult aphids were placed on plants at the VC stage. Aphid counts per plant were taken after one and two weeks of aphid infestation. Plant damage was recorded after two weeks on a 1-4 scale. The aphid counts were also assigned a value on a 1-4 scale. An index was calculated by multiplying the two values together, having a range of 1-16, with a low score being desirable. The mean Index Rating for the forty northern, "0" varieties, varied from 2.7 to 11.4. The mean Index Rating for the forty southern, "00" varieties, varied from 1.2 to 7.8. In the majority of the cases, large aphid populations caused significant damage. However, MN0302 and Dyna 3072 had large aphid populations which did not result in significant damage. Five



carieties with small aphid populations blayed significant levels of damage (TR-608RR, Korada, Thunder 0598, PB-0601RR ind Proseed 0069). Generally, aphid populations increased rapidly after the first week of infestation. There were some varieties in which populations decreased considerably by the second week (DAC Vision, S00-N7, Proseed 0059, Proseed 0079RR, NT 0505RR, NS0134RR, Proseed 0069 and DSR 0301RR). Damage to these varieties was very significant, with damage ratings ranging from 3.4 to 4. However, the calculated Index was moderate due to low aphid numbers remaining on the plants at two weeks.

Field Screening of Select Varieties Selected varieties from the controlled screening study were tested in the field to compare results observed under controlled conditions to field situations. The field study used 12 varieties out of the 80, representing two varieties each for high-middle-low index scores for both maturity types. For each selected variety, two treatments were used. The first was an untreated treatment and aphid infestations were allowed to develop hout interference. In the second atment, thiamethoxam (CRUISER 5SC®) treated seed (@30 g a.i. per 100 kg seed) was used to prevent or delay aphid infestation during the season. Aphids were sampled weekly, using whole plant counts. Comparisons included yield and yield component analysis among the various treatments with the seed treatment representing the maximum yield potential. Yield component analysis was done measuring variables such as plant height, number of nodes, number of pods, yield and seed weight. Seed quality analysis was done measuring protein and oil

Aphid populations failed to establish during early vegetative stages of soybeans and aphid introductions were unable to create conditions similar to the controlled study. Aphid populations increased during early reproductive stages with an average of 50 aphids per plant by R4 stage soybeans in untreated plots and by R5 stage soybeans in treated plots. Two varieties with high Aphid Index values (P90B72 and TF-

percentages.

49RR) had high aphid numbers bughout the sampling period, but they rformed differently with respect to seed yields. TF-6149RR performed very poorly

but P90B72 unexpectedly yielded quite high. There were no significant differences between yield, seed weight, number of nodes, pods and protein and oil percentages of treated and untreated treatments. The reason could be the late establishment of aphid populations in the plots after reproductive stages had been reached and yield parameters were determined.

Objective 3. Evaluate the efficacy of insecticides for their ability to effectively control soybean aphid.

The variety screening study used thiamethoxam (Helix and Cruiser) as a seed treatment to delay or prevent aphid establishment on plants. Aphid infestations, which increased in early August in all plots, became established on the seed treated plots during the first week of August, about three weeks after the untreated plots. The seed treatment delayed aphid establishment but did not prevent it. The insecticide appeared to have lost effectiveness at the same time populations began increasing throughout the region.

Objective 4. Cooperate on a region wide soybean aphid yield-component study for determining an economic threshold.

North Dakota participated in the common experimental protocol for refining the soybean aphid economic threshold. "Treatments" were designed to be varying aphid populations. Due to late development of aphid populations, treatments were applied to coincide with reproductive growth stages. Treatments began at R2 (two treatments to keep plots aphid free: 7-28-03 and 8-04-03), R3 (treatments timed with 7-14 days after aphid colonization: 8-04-03), R4 (treatments timed with 14-21 days after aphid colonization: 8-11-03), and R5 (treatments timed with 2-28 days after aphid colonization: 8-21-03). All insecticide treatments were made using

lambda-cyhalothrin at 3.2 fl. oz. of product per acre. The variety was Asgrow 0801 (Roundup Ready). Aphids were sampled weekly using whole plant counts. Yield component analysis measured the variables: plant height, number of nodes, pods per node, seed weight, protein content and oil content.

There were no significant differences in yield, plant height, pods per plant, hundred seed weight, or percent oil. Percent protein was significantly greater for one untreated check compared to the R5 treatment. The general conclusion is that the aphid infestation level was not great enough, nor did they establish early enough to cause significant impact on the variables evaluated.

Objective 5. To educate ND soybean growers on the soybean aphid in the region

NDSU Extension Circular E-1232, Soybean Aphid, Aphis glycines, Management in North Dakota - 2002, was prepared and published in June 2002. The circular is currently in review for an updated printing.

In cooperation with the NDSU Integrated Pest Management Program (Dr. Marcia McMullen, IPM Program Coordinator), soybean fields were surveyed from late June until late July for detection and characterization of soybean aphid infestations in 2002 and 2003. The survey effort coincided with the late vegetative to R4 growth stages. The first detections of soybean aphid in commercial fields were during the first week of July.

Soybean aphid survey information was delivered using the World Wide Web (WWW). the North Dakota Crop and Pest Report newsletter, the Agdakota area-wide list server, and news releases with media outlets. Internet infromation can be reviewed at:

www.ag.ndsu.nodak.edu/aginfo/ndipm/02IPMSur/HTML/SoybeansIPMsurvey2003.htm

www.ag.ndsu.nodak.edu/aginfo/entomology/ndsucpr/index.htm

www.ag.ndsu.nodak.edu/aginfo/entomology/entupdates/Soybean_Aphid/sybn_aphd.htm

Evaluating Soy-Derived Fuel

JP-8 Blends for Jet Aircraft Applications

Principal Investigator: Dr. Wayne Seames, Associate Professor of Chemical Engineering at the University of North Dakota.

Cooperating Scientists: Dr. Michael Mann, Associate Professor, UND Chemical Engineering; Mr. Ted Aulich, Research Manager, UND Energy and Environmental Research Center.

Can you imagine a world where airplane engines run on fuels derived from soybean oil? That world may be closer than you think! UND researchers have completed the first year of a multi-year development program aimed at developing soy-derived aviation fuels that can serve as a substitute for conventional JP8 aviation fuel, which is produced from crude oil.

There were two objectives to this work. First, to test blends of JP8 and soymethyl ester (also known as soy biodiesel or SME) in a commercial aviation turbine order to evaluate the operating and environmental performance. The second objective was to perform a series of standard chemical tests on JP8/SME blends and to compare the results to the current test result standards required for JP8-certified fuels.

In response to the first objective, blends of 2, 10, and 20% SME in JP8 were tested using a T63A-700 turboshaft helicopter engine located in the Engine

Environmental Research Facility at the Wright-Patterson Air Force Base (see diagram). Tests were performed with the turbine operating at three common conditions: idle, cruise, and takeoff. During these tests, exhaust samples were taken and evaluated using a number of online analyzers and analytical tests. At idle conditions, the engine ran rough compared to pure IP-8 fuels and therefore there was a slight increase in emissions. This occurred because SME is a slightly heavier fuel than IP-8 and the T63A engine is optimized for JP-8. However, at cruise and takeoff conditions, the differences in fuel properties no longer affected engine performance and environmental emissions decreased.

To achieve the second objective a detailed analysis of IP8 and blends of 2, 10, and 20% SME in JP8 was performed. Comparing the results to the specifications found that the blends complied with many, but not all of the specifications. Non-compliance generally falls into two categories: those due to the presence of glycerol (a byproduct of the esterification process) in the SME and those related to cold flow properties associated with the heavier esters present in the SME. Glycerol content can be controlled by careful processing of soybean oil into SME and by downstream phase

separation. However, the cold flow properties issue remains to be solved. Tests were also conducted to determine the trace metals content of SME and JP-8. Since SME is derived from an agricultural product, there is the potential for update of residuals inorganics from the soil. The results show fairly significant concentrations of iron (105 mg/liter) and copper (10 mg/liter) with lower concentrations of arsenic (320mg/liter), antimony (295 mg/liter), and selenium (166 mg/liter).

Based on these promising results, efforts are now underway to chemically manipulate the chemical composition of the soybean oil-derived fuel in order to overcome the cold flow limitations of SME. These efforts are focused on mild thermal and catalytic cracking techniques to transform the heaviest of the molecules present in the fuel feedstock and thus produce a fuel more amendable to cold conditions.

The potential market impact from this project is substantial. If only 1% of the current U.S. military jet fuel supply is replaced by this biojet fuel, it will require the production of 26 million gallons per year of this new product with gross sales of approximately \$42 million per year. Can you imagine a world where airplanes fly because of soybeans?



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Council Looks to Expand Pacific Northwest Opportunities

To keep North Dakota soybean farmers well positioned in the world marketplace, the North Dakota Soybean Council has enhanced their International Marketing efforts recently by capitalizing on opportunities to expand export markets for North Dakota soybeans.

In July, North Dakota Soybean Council (NDSC) Chairman Matt Mechtel, NDSC Director Robin Pratt and NDSC Marketing Specialist Tim Radermacher traveled to Japan for the American Soybean Association's (ASA) Food Bean Seminar in Tokyo. Numerous Japanese firms attended the seminar representing an array of facets of the soybean industry; for example, Tofu, Miso, Natto and whole bean.

While in Japan, the Council's delegation took the opportunity to meet the U.S. Minister - Counselor for Agricultural Affairs in Japan. During their meeting, the North Dakota delegation discussed U.S. soybean quality, price and supply. The Council delegation also met with representatives from the Japanese office of the American Soybean Association and U.S. representatives of the Midwest Shippers' Association.

The group also had the opportunity to visit the Kikkoman Corporation in Shinbashi and tour their soy sauce plant.



From left to right: North Dakota Soybean Council (NDSC) Marketing Specialist Tim Radermacher, NDSC Director Robin Pratt and NDSC Chairman Matt Mechtel tour Kikkoman Soy Sauce Corporation.



ND Soybean Council board members, along with other state soybean board members, tour the Grays Harbor loading facility in September.

The tour gave the men a good understanding of how Kikkoman's products are made and the large amount of feed stock the corporation requires to produce their products.

The Council feels building face-to-face relationships with key international customers and potential new customers is essential to a successful International Marketing program.

On the home front in September, members of the North Dakota Sovbean Council traveled to Washington State to get a first-hand look at AGP's Grays Harbor Terminal. NDSC has financially supported AGP's Grays Harbor project, past and present, due to the port's tremendous benefit to North Dakota soybean farmers. NDSC Chairman Matt Mechtel, NDSC Secretary/Treasurer Mike Satrom, NDSC Marketing Specialist Tim Radermacher, NDSC Board Members Joel Thorsrud, Dennis Feiken and Dennis Renner traveled to the West Coast's newest hub for business development and international trade.

Grays Harbor is bulk loading facility that conveys agricultural commodities direct from rail cars to vessels. This facility allows AGP to ship their products considerably faster than any other West Coast port to Pacific Rim locations.

CHAIRMAN'S COMMENTS

BY MATT MECHTEL, PAGE



harvest a little late this year, along with some weather set backs, hopefully all of you are fairing well in your

oybean fields.

3ut the weather has not slowed down he North Dakota Soybean Council. The summer has been a busy time of year with many projects undertaken. Our international marketing program has been stepped up this last year, and a Council delegation traveled to Japan this summer to begin relations in that country. The Council plans to continue broadening our international marketing projects even more throughout the next

In September, the Council was invited to tour AGP's Grays Harbor loading facility in Washington state. What a great state-of-the-art facility! We had the opportunity to see how the

complete terminal operated. It was surprising to learn that the facility has no storage facilities, but everything was managed for timeliness and total cost effectiveness. When unloading their soy meal, it was impressive how the operation ran like a "well oiled machine." The cleanliness of the facility was also unbelievable! We were all privileged to be given the opportunity to view this new facility that has been a true benefit to North Dakota soybean producers by opening the door in transportation and commerce for our northern beans.

Biodiesel promotion also continues to top our project list. This summer, the Council continued to spread the good word of biodiesel across the state. The North Dakota Soybean Growers Association black biodiesel pick-up continues to log many miles, while striking up interest rolling down the highway. It's amazing how many farmers and diesel consumers are aware of biodiesel and are now fans of the alternative fuel, versus only a few short years ago when biodiesel was

unknown by many. The Council promises to continue promoting our own vegetable oil-based renewable fuel with hopes to see all diesel consumers in North Dakota using a blend of biodiesel.

And also, the Council is in the midst of collecting soybeans across the state for a second year as part of a three-year soybean collection project analyzing protein and oil in our North Dakota grown soybeans to gather accurate

Remember, our Pacific Northwest customers purchase soybeans on quality. We need to continue working on improving our oil and protein levels so these countries will continue to look to us for their soybeans. But I am very confident our North Dakota soybeans will meet our PNW customer's needs.

Best of luck with harvest!

Matt Mechtel NDSC Chairman

UPCOMING NDSC EVENTS MARK YOUR CALENDARS!

October 5 4 1

- ND Medical Assoc. Annual Convention - Soy sponsored luncheon
- Women's Showcase at the 2 Fargodome - Soyfoods promotion Health Fair at the Gateway Mall in Bismarck - Soyfoods Promotion
- American Heart Assoc. "Go Red" heon in Grand Forks - Council nsorship

Women's Expo in Bismarck at

the Ramkota - Soyfoods promotion

26-27 ND Petroleum Marketers Assoc. Annual Convention in Bismarck at the Ramkota Inn - Biodiesel Promotion

- ND Dietetics Convention in Valley City - Soyfoods luncheon
- NDSU Harvest Bowl Football 30 Game - Council sponsorship

November

NDAA Northern Ag Expo 30 - Dec. 1

- Soybean promotion

<u>December</u>

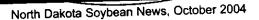
6-9 United

Soybean Board Meeting in St. Louis, MO

ND Soybean Council Board Meeting at the Ramada in Fargo

February

ANNUAL NORTHERN SOYBEAN EXPO AT THE RAMADA PLAZA SUITES IL FARGO



18

NORTH DAKOTA NATIONAL REPS TRAVEL OVERSEAS TO LEARN HOW TO BETTER EXPAND FOREIGN MARKETS

aving only been on the board since December, United Soybean Board (USB) Director Vanessa Kummer of Colfax, ND has enthusiastically jumped into her new position to better serve North Dakota and United State soybean farmers. As a USB board member, Kummer was appointed to USB's International Marketing Committee, Asia sub-committee, and has had the opportunity to travel overseas in the last six months. Her most recent trip was to People's Republic of China.

Kummer, along with USB Trade Analysis Committee Chair Bryan Hieser, accompanied a delegation July 19-29th to China. During their stay, they met with Chinese Agricultural ministry officials at the federal and provincial levels, toured soybean research facilities and met with soybean producers. The objective of the trip was to determine China's capacity to increase soybean production, determine their level of research technology, what research technology could be transferred to the U.S., and to analyze the country's strategic direction for soybean utilization. The team determined that China could double their soybean production, but in reality it is highly unlikely. In China, competitive products, such as more

sure on soybean production to decline rather than increase. ASA Chairman Ron Heck and a representative from the North America Export Grain Association and the USDA Economic Research Service accompanied the USB directors on this mission.

Along with her International efforts on USB, Kummer has also kept busy on USB's Select Yield and Quality Committee. During Big Iron September 14-16 in West Fargo, Vanessa, along with USB Director Kent Gronlie of Northwood, ND, was present at the USB exhibit booth talking to farmers about the

Above: USB Director Vanessa Kummer

importance of selecting quality soybean varieties. Soybean checkoff farmer-leaders like Vanessa are working to ensure U.S. soybean farmers get the most out of their crop. The United Soybean Board is satisfying this need by urging farmers to select high-yielding varieties that also have high protein and oil content. This year, the soybean checkoff is encouraging farmers to choose

Right: Rick Ostlie (fourth from the right) was a member of the Japanese Partnership Team in August and traveled to Japan with ASA to discuss important issues facing today's soybean industry.



high-yielding soybeans that target 19 percent oil and 35 percent protein, to help ensure a stable future for the entire U.S. soybean industry.

ewly elected American Soybean Association (ASA) Vice President Rick Ostlie of Northwood recently traveled to Japan this past summer to promote U.S. soybeans and soybean products to our international customers.

A Japanese Partnership Team, comprised of Ostlie, along with ASA President Neal Bredehoeft, United Soybean Board (USB) International Marketing Vice Chair Mark Pietz, USB International Marketing Asia Subcommittee Chair Curt Raasch, USB Executive Director Janice Dahl, ASA International Marketing Asia Division Director Paul Burke represented the United State's soybean industry August 22-27. Also, accompanying the team was special guest member Randy Gordon from North American Export Grain Association, Inc. who is also Vice President of National Grain and Feed Association.

The delegation traveled to Japan to attend the 8th Annual Partnership meetings. The team, along with Japan Country Director Tom Nishio and USB International Marketing Japan Consultant Karl Sera, had meetings with key customers from the crushing industry and trading firms. Meeting topics included: the new crop outlook, an update on Select Yield & Quality Initiative, soybean supply and demand outlook and agricultural chemical management on soybean farms. From the Japanese side, an update on soybean and soy oil markets in Japan and analysis of imported soybean quality were presented. In addition to the meetings and a reception, the team visited Hannan Plant of Fuji Oil Company and No.2 Plant of J-Oil Mills in Osaka and Kobe areas and Kashima Plant of Showa Sangyo Company. The partnership program provides an opportunity to discuss and exchange views on key issues facing the two industries, and reinforces the U.S. soybean industry's commitment to the Japanese market.

NORTH DAKOTA'S DARREN KADLEC HELPS CHART NEXT STEPS FOR WISHH PROGRAM

Program Builds Demand for U.S. Soy orth Dakota Soybean Council Board Member Darren Kadlec likes seeing a program that is built from the ground up, and even better, he likes a program that builds demand for U.S. soy. The World Initiative for Soy in Human Health (WISHH) program is both.

This year, Kadlec helped guide the WISHH program as one of nine farmer leaders from across the country to participate in the WISHH strategic planning process. With three years experience complete, WISHH undertook a strategic planning effort to help chart its path for the next four.

"The WISHH strategic plan has outlined a business plan on, how we will succeed," says Kadlec. "We are creating allies through food assistance. The relationships we build through WISHH will allow us to partner in countries that we know geographically fit with where we can ship U.S. soy."

Soy for human consumption is expected to continue to grow worldwide, but especially in Asia, Africa and Central America. Global demand for protein by 2025 is expected to increase by re than 80% from today's consumption levels, according to liversity of Illinois Assistant Dean, College of Agricultural, Consumer, and Environmental Sciences Steve Sonka. Such dramatic protein needs will create many opportunities for both livestock and soy protein sources.

Opportunity to impact that growth for U.S. soy is why the North Dakota Soybean Council is one of 17 state soybean organizations that support the program along with the American Soybean Association (ASA) and United Soybean Board. Their goal is to build more bridges between America's bounty and sustainable nutrition programs in countries where rapidly growing populations of all income levels can benefit from soy in their diets.

WISHH accomplishments to date have included:

Gaining USDA and U.S. Agency for International
Development (USAID) approval of five value-added soy
protein products, defatted soy flour, TSP, soy protein
concentrates, isolated soy protein and soy milk replacer, for
use in international food assistance programs. USDA and
USAID have begun purchasing several of these products.
Through WISHH education and outreach to private
voluntary organizations, like Africare and Counterpart
International, at least eight groups have requested these

products in their food assistance programs.

- Supported the feeding of 43,600 children through school feeding programs in Cote d'Ivoire, Honduras, Kenya, Senegal and Zimbabwe.
- Leveraged soybean grower support for WISHH by securing outside funding from the USDA, USAID and soybean industry partners, such as Archer Daniels Midland and Cargill. The strategic planning team helped craft a mission statement for WISHH that is to create sustainable solutions for the protein demands of people in developing countries through the introduction and use of U.S. soy products. Their work also identified more than 15 strategic goals and objectives that fall into a number of major results areas, including:
- Increase the use of soy products in food assistance and commercial market development and improve communication of results with quantitative and qualitative data;
- Grow and diversify the resources from outside donors:
- Obtain a charitable tax status to support fundraising and establish a formal board of directors;
- Ensure WISHH is well represented in Washington, D.C. where many food assistance programs, Private Voluntary Organizations and other key stakeholders are located.

Kadlec says that WISHH's work is a good complement to ASA's international livestock market development programs. He also likes the fact that WISHH can make such a difference to the health of children around the world. "Protein is the basic need of life that we forget in this country," he says.



Salesian Missions added Textured Vegetable Protein (TM) to rice and vegetable dishes for school children in Cambodia after WISHH helped provided information about soy products to Catholic organization. Salesion Missions then requested the product through the U.S. Department of Agriculture's Food for Progress Program. Photo credit: Ernest Kuhn

DELICIOUS RECIPES WITH SOY PROMOTE GOOD HEALTH FOR THE WHOLE FAMILY

Great Health, Great Taste Everyday!

The all try to maintain a healthy diet. We look for ways to improve our family's meals, but for kids and adults alike, taste still rules at the dinner table. Easy to follow step-by-step recipes will help you add flavorful and healthful soyfoods to all your meals. From soynuts to soymilk, soy appears in many products and adds a powerful dose of protein without sacrificing taste.

A new study published in the Journal of the American Medical Association shows that obesity is quickly closing in on tobacco as the nation's number one preventable killer. According to dietitian Lynn Grieger, RD, soy provides a natural solution.

"Along with exercise, a balanced diet rich in soy contributes to a healthy body," Grieger commented.

Not only is soy a versatile ingredient, but studies show there are many possible health benefits to a soy-enriched diet. Soy may help prevent heart disease, osteoporosis and and prostate cancers.

According to United Soybean Board's Consumer Attitudes about Nutrition study, 89 percent of Americans indicate nutrition is important when choosing food products and 74 percent recognize soy products as healthy.

No matter what the craving, soy can be incorporated into all types of cuisine, including a low-carbohydrate diet. If you would like to learn more about soyfoods or receive free

recipes, call the North Dakota Soybean Council at 1-888-469-6409 or log onto www.ndsoybean.org

CORN AND SOY MUFFINS

1 1/2 cup All purpose flour 1/2 cup Yellow cornmeal

1/4 cup Soy flour

1/4 cup Sugar

1 Tbsp. Baking powder

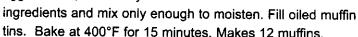
1/2 tsp. Salt

1 cup Light soymilk

2 Eggs

1/4 cup Soybean oil (vegetable oil)

Mix flour, cornmeal, soy flour, sugar, baking powder and salt. Combine soymilk, eggs and oil; add to dry



Nutritional Analysis per muffin: 162.4 calories, 4.2 gm protein, 22.8 carbohydrates, 6.2 gm fat, 35.4 mg cholesterol, 1.0 gm saturated fat, 237.9 mg sodium, 1.0 gm dietary fiber.



LOCATE YOUR NEAREST BIODIESEL RETAILER

For a list of current fuel retailers in North Dakota who offer a 2% (B2) or higher blend of biodiesel, be sure to log on to North Dakota Soybean Council's website at www.ndsoybean.org or call the Soybean Office at 1-888-469-6409.

To learn all about biodiesel, be sure to log on to the National Biodiesel
Board's (NBB) website at www.biodiesel.org
e North Dakota Soybean Council is a proud member of NBB.

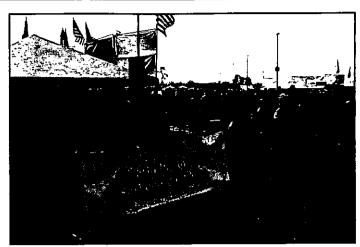


The number of biodiesel retails sites continues to grow throughout the state, with a few sites selling the alternative fuel at the pump... even B20!

NORTH SOYBEAN COUNCIL IN PICTURES Making your Checkoff Payoff!



3rd Annual KFYR Tractor Trek: The 2004 3rd Annual KFYR's Tractor Trek was held June 18th, and the Council was a proud sponsor. All kinds of tractors turned out to take part in the fun. KFYR's Tractor Trek was an opportunity for tractor collectors to celebrate their hobby and for the community to reminisce about the days gone by and to showcase tractors of the current era. The North Dakota Soybean Growers Association's Biodiesel Pick-up was also present during Tractor Trek.



Fargodome's Annual Rib Fest: Fargodome's Annual Rib Fest was held June 9-12. The North Dakota Soybean Council sponsored this event and passed out soynuts to all entering guests. The North Dakota Soybean Growers Association's Biodiesel Pick-up was parked for the duration of the event. Since livestock continues to be our number one customer of soybeans, the North Dakota Soybean Council continues to actively promote and support the North Dakota livestock industry.

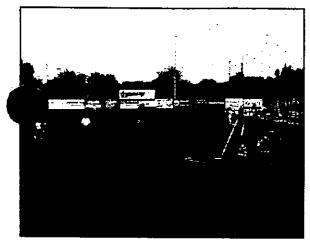


Minnesota Soybean Research & Promotion Council and Minnesota Soybean Growers Association visit North Dakota: Soybean farmer leaders of Minnesota visited the Red River Valley in June. On the evening of June 23rd, the North Dakota Soybean Council hosted a dinner for both North Dakota and Minnesota state soybean leadership to meet and discuss soybean related issues at the Holiday Inn in Fargo. Above: Council Secretary/Treasurer Mike Satrom of Galesburg welcomes Minnesota leaders. At Mike's far left is fellow council Director Joel Thorsrud of Hillsboro. To Mike's right is North Dakota Soybean Growers Association President Jeff Leinen of Great Bend.



North Dakota State Fair: Since the North Dakota State Fair is home to the largest annual event in North Dakota, the North Dakota Soybean Council exhibited again this year in Minot, July 23-31. Biodiesel was heavily promoted during the fair, but soy recipes, soyfood information and soybean production information was also available for fair guests. Biodiesel demand has increased out in the western part of the state as well, with biodiesel even being sold at the pump. Above: A family receives soy coloring books along with soy color crayons. Next year's

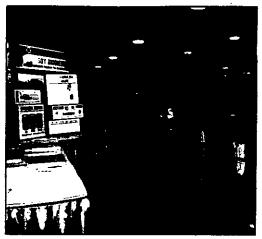
State Fair will be July 22-30, 2005.



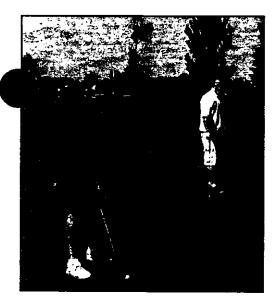
Red Hawk's Game Sponsorship: On August 2nd, the North Dakota Soybean Council sponsored a Red Hawk's Baseball Game in Fargo. The Council promoted soyfoods and soy health during the game. The scoreboard and announcer touted the merits of soy throughout the game and all Red Hawk guests received soynuts upon entering the stadium. Above: Council Vice Chairman Brett Johnson of Mooreton throws out the first ball of the game, while Redhawk's mascot Hawkeye catches.



2004 Field Tours: Council
Board Member Dennis Renner
(pictured right) of Mandan
speaks to local soybean
farmers during Carrington's
Research Field Tour September
9th. The Council sponsored
five field tours this year in Park
River, La Moure, Arthur, Great
Bend and Carrington.



Big Iron: The North Dakota Soybean Council again heavily promoted Biodiesel this year at Big Iron in West Fargo, September 14-16. Biodiesel, courtesy of the North Dakota Soybean Council, was used in field demonstration tractors at Big Iron this year. Above: NDSC Marketing Specialist Tim Radermacher speaks to farmers about the advantages of biodiesel and answers questions at Big Iron.



Golf Tournament: The North Dakota Soybean Council was a sponsor of the 1st Annual North Dakota Soybean Growers Association Golf Tournament, which was held at Rose Creek Golf Course in Fargo August 31, 2004. The event was open to all soybean farmers and generated new membership for the North Dakota Growers Association. Above: Kim Alberty (left) of Agassiz Seed and Supply and Aaron Skyberg 19th) of SK Food enjoy the beautiful on the course during their four-man scramble tournament.



Fargo Heart Walk: The Council is a proud sponsor this year of the American Heart Association's North Dakota Heart Walks. Heart Walks are a non-competitive walking event that raises money to fight heart disease and stroke. Donations are collected to help fund lifesaving research and community education programs for adults and children. Along with the Council's sponsorship, soynuts were passed out to walkers at the September 11th Fargo Heart Walk.

THE COUNCIL INTRODUCES NEW LOGO

The North Dakota Soybean Council is excited and proud to unveil their re-designed state soybean logo.

The success of today's North Dakota soybean farmers depends on more than just a good harvest. It also relies on increasing the market share and growing demand for our northern soybeans. This is why the Council has decided to change their "look." The North Dakota Soybean Council and North Dakota farmers are part of an expanding, thriving worldwide market. Most importantly, the North Dakota Soybean Council's top priority is to help North Dakota soybean farmers become more profitable and the logo represents this mission.



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More North Dakota School Buses Will Roll Along with Biodiesel

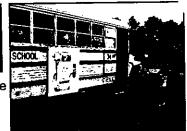
With fall around the corner and kids now heading back to the classroom, the North Dakota Soybean Council (Council) has approved a new project designed to help more school districts across North Dakota try the alternative fuel, biodiesel, in their school bus fleets.

Recently, North Dakota school districts around the state were given the opportunity to apply for the North Dakota Soybean Council's School Bus Biodiesel Grant Program. The Council is offering funds to offset the incremental cost of biodiesel. With this grant program, the Council hopes to help schools with tight budgets and show districts how easy using biodiesel in school buses can be.

Biodiesel can be used in existing engines with no modifications, which saves budget-strapped school districts from the expense retrofitting buses or purchasing costly new alternative buses.

With some children riding in school buses for long periods of time, children are exposed to sooty, black, exhaust that

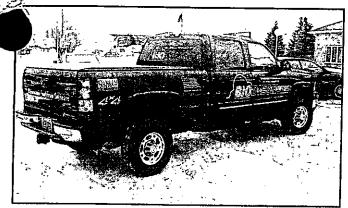
pollutes the air children breathe on a school bus.



National studies, including one completed by the United States Environmental Protection Agency (EPA), confirm that diesel exhaust contains harmful particulate matter that can lodge deep in the lungs and exacerbate asthma, a condition most prevalent among children. This particulate matter also contains carcinogenic compounds and has been linked with heart and lung disease. Last year, the EPA issued standards to clean up dirty diesel trucks and busses, which would prevent more than 360,000 asthma attacks and 8,300 premature deaths annually.

In 2003, the Mandan School District was the first school district in North Dakota to begin using biodiesel in their buses. The Council hopes this new School Bus Biodiesel Grant Program will encourage more school districts to take advantage of the domestically-produced, renewable fuel and also help improve children's health.

NORTH DAKOTA SOYBEAN COUNCIL BIENNIUM PROGRAM HIGHLIGHTS

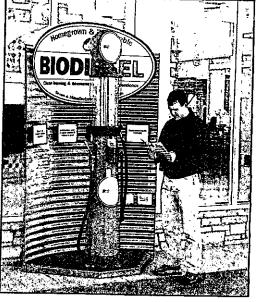


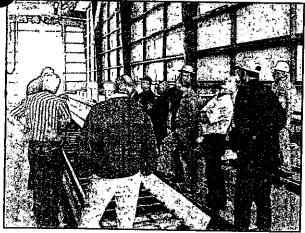
Left: The ND Soybean **Growers Association** purchased a biodiesel pick-up in 2003. The ND Soybean Council purchases advertising of biodiesel on the pick-up. Right: The Council has funded projects to assist school districts' usage of biodiesel in their school buses.



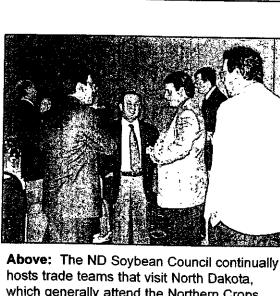


Left: The Council sponsored a Holiday Shuttle in 2003 that shuttled shoppers between the mall and various stores in Fargo. A school bus was used for high visibility. Right: The Council purchased several biodiesel kiosks that are set up in high traffic locations in North Dakota, For example, major malls and airports in Fargo, Grand Forks and Bismarck.



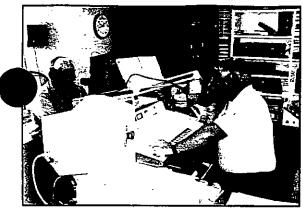


Top left: The ND Soybean Council toured AGP's Gravs Harbor facility in 2004. The Council helped fund the initial marketing program for AGP's new facility located in Washington state. The facility is a day closer to the markets of the Pacific Rim than any other West Coast port. Bottom left: The Council traveled to Guatemala in 2004 to help promote the consumption of soy in underdeveloped countries. The Council is a member of WISHH (World Initiative for Soy in Human Health), which organized the South



which generally attend the Northern Crops Institute or sponsored by the American Soybean Association.





Left: Council leaders have a good relationship with ND media and address soybean issues with the media regularly. Right: The Council attends numerous ag shows throughout the year, including the ND State Fair, Big Iron, International Crops Expo, Northern Ag Expo, KMOT Ag Show, KFYR Ag Expo and the ND Grain Dealers Convention. among others.





Above: During 2004's Soyfoods Month, the Council sponsored soyfood demonstrations tables at various grocery stores throughout the state.



Above: The Council is a statewide sponsor of the American Heart Association. Council advertisements of soy foods and health are promoted at statewide Heart Walks, Go Red Luncheons and American Heart Association Galas.



sponsorship.



bove: The Council annually sponsors NDSU's Harvest Bowl game. As part of the sponsorship, soy nuts are passed out to attendees, along with the biodiesel truck showcased on the field.

Top right: The Council exhibits at numerous health and women conventions promoting soyfoods and soy health. Bottom right: The Council annually participates in the statewide North Dakota Living Ag Classroom events, which take place in Fargo, Bismarck and Minot and help educate 4th graders on various commodities in the state.





North Dakota State Potato Council

PO Box 5674
Grand Forks, ND 58206-5674
Roger Johnson, Chairman
Commissioner of Agriculture

REPORT TO THE 2005 NORTH DAKOTA LEGISLATIVE ASSEMBLY SENATE AND HOUSE AGRICULTURE COMMITTEES

LEADERSHIP

The North Dakota Potato Council is composed of the commissioner of agriculture or his designated representative, who is chairman of the council, and one participating grower elected from each of the five districts. Every elected council member must be a citizen of the state and a bona fide resident of and participating grower in the district he represents. The term of each elected member is three years and begins on July first of the year of election. If at any time during a member's term he ceases to possess any of the qualifications, his office is deemed vacant and the council shall appoint another qualified participating grower for the remainder of the term of the office vacated. All such elections must be conducted in the month of June. No elected member of the council is eligible to serve more than two consecutive three-year terms.

SERVICES

The production, development, marketing and promotion of Irish potatoes in North Dakota are important to the general welfare of the people of the state of North Dakota. It is in the public interest that better methods of production, processing, marketing, advertising and promoting of potatoes grown in the State of North Dakota be fostered, encouraged, developed, and improved so that the people of the state, potato industry and people employed by said industry, directly or indirectly, should be benefited.

Providing research for producers on control of insect, weeds and diseases, as well as better cultural and storage practices. Provide market information to producers so that they may more profitable sell their crop. Provide advertising and promotion for better identification of North Dakota products.

RELATED PARTIES

The Northern Plains Potato Growers Association located in East Grand Forks, Minnesota is a related party of the North Dakota Potato Council. The NPPGA contracts with the Potato Council to provide promotion, advertising, research and development of Irish potatoes grown in North Dakota.

FUNDING

An assessment at the rate of three cents per hundredweight must be levied and imposed upon all potatoes grown in the state or sold to a designated handler. The Council, in its discretion, may increase the assessment by not more than one-half cent per hundredweight per year until a maximum assessment of four cents per hundredweight is reached.

Growers/designated handlers may claim a refund of their assessments paid to the council. To claim a refund, a nonparticipating grower shall notify the council, in writing, on or before July fifteenth of each year, of his intention not to participate and to claim a refund of assessments paid in on potatoes grown by him during that current year. The grower, if he has notified the council of his intentions not to participate, must then write a second letter postmarked between June 1st and June 15th of the following year, to claim a refund of assessments paid.

About US

The ND Potato Council is composed of the Commissioner of Agriculture or his designated representative, serves as the chairman of the Council, and one participating grower elected from each of the five districts. Every elected council member must be a citizen of the state and a bona fide resident of and participating grower in the district he represents.

The term of each elected member is three years and begins on July first of the year of the election. No elected member of the council is eligible to serve more than two consecutive three-year terms.

The ND Potato Council is committed to providing research for producers on varietal development, control of insects, weeds and diseases as well as better cultural and storage practices. Along with extensive research funding, the Council also puts forth funds to gather market information and develop advertising and promotional campaigns for North Dakota potatoes.

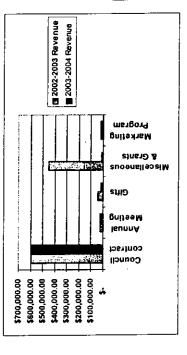
How the council Operates

The North Dakota Potato Council operates with funds collected from an assessment at the rate of three centes per hundredweight. This assessment is collected on all potatoes grown in the state or sold to a designated handler. The Council, in its discretion may increase the assessment by not more than one-half cent per hundredweight per year until a maranassessment of four cents per hundr. Ight is reached.

Council/NPP Relationship

To carry out the objectives of research, marketing, product development and promotion of North Dakota potatoes, the Council contracts with the Northern Plains Potato Growers Association (NPPGA) located in East Grand Forks, MN. Approximately 90 to 95 percent of the annual budget of the Council goes to the Association for the following purposes.

The NPPGA attends several conventions and trade shows around the US promoting Red River Valley potatoes as well as administering research programs and grant funds.



NPPGA Organizations:

- Valley Potato Grower magazine
- . Minn-Dak Bargaining Cooperative
 - . Northern Plains Market Development LLC
- . Northern Plains Research & Educational Foundiation
- . Northern Plains Potato Associates
- . Northern Plains Women's Auxiliary

Research, research,

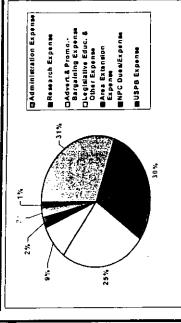
n 1946, the growers of ND and MN together formed the NPPGA as well as a grower owed research farm located south of Grand Forks, ND. The NPPGA recently purchased a second research farm located near Tappen, ND. The research farm sontract with NDSU and U of MN to conduct extensive potato research. The NPPGA also partially funds the Area Extension Agent-Potato Specialist, Duane Preston, who is very knowledgeable in regards to all aspects of potato production. He conducts research throughout ND, travels and speaks throughout the region as well as abroad, educating growers, educators and industry professionals on potato production.

The NPPGA pays dues to the National Potato Council (NPC) in Washington, DC. The NPC's mission is to provide a single unified voice on a national level to maintain the the success of the potato industry.

NPPGA Divisions

· Promotion Division (promote potatoes; communication with growers, industry & consumer; education/extension; National Potato Council; US Potato Board; Legislative Educational Programs which include domestic issues, farm bill, international trade issues, sanitary & phytosanitary issues; trade & reverse trade missions.

. Research & Farm Division (Grand Forks and Tappen Farms)



Ocument Members

Roger Johnson, Chairman ND Dept. of Agriculture Bismarck, ND 58505 (701) 328-4759

Josh Heuchert- District I Hensel, ND (701) 265-8177

Randy Hurtt- District II Hoople, ND (701) 894-6380 Dale Collette- District III Grafton, ND (701) 352-2074

Jeff Lazur- District IV Reynolds, ND (701) 847-2660 Jeff VanRay- District V Pingree, ND (701) 847-2660

In Sulmary

√ ND POTATO COUNCIL

Collects the assessment and contracts with the NPPGA to conduct research, marketing, product developement and promotion of ND potatoes.

√ NORTHERN PLAINS POTATO GROWERS ASSN.

Contracts with ND Potato Council and MN Area One Potato Council. Mission Statement reads... "To Promote profitability and unity of the potato growers on the adjoining states of ND and MN through the development and promotion of quality potato products."

√ US POTATO BOARD

USPB Mission Statement reads as follows. "The mission of the United States Potato Board is to increase demand for potatoes and potato products through an integrated promotion program, thereby providing US producers with expanding markets for their production."

√ NATIONAL POTATO COUNCIL

The NPC is committed to providing a unified voice for the US industry on national legislative, regulatory, environmental, and trade issues to promote increase profitability for growers and greater consumptic potatoes.

North Dakota Late Potato Council

Roger Johnson

Commissioner of Agriculture Chairman Everything You Need To Know About Where

Your Checkoff Dollars

North Dakota Potato Council Grand Forks, North Dakota

House and Senate Agriculture Committee Report For the Two-Year Period Ended June 30, 2004

Robert R. Peterson State Auditor



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

OFFICE OF THE STATE AUDITOR STATE CAPITOL 600 E. BOULEVARD AVE. - DEPT. 117

BISMARCK, ND 58505

November 17, 2004

House and Senate Agriculture Committees:

Transmitted herewith are the financial statements and auditor reports of the North Dakota Potato Council as required by North Dakota Century Code section 4-24-10.

Specifically you will find the state auditor's report on the financial statements, the statement of revenues and expenditures, notes to the financial statements and the compliance and internal control report. Complete audit reports may be obtained by contacting my office.

The Office of the State Auditor would like to thank the commodity groups for their cooperation in preparing these reports.

Sincerely,

Robert R. Peterson

State Auditor

STATE AUDITOR
DBERT R. PETERSON



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

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 John Hoeven, Governor

Members of the Legislative Assembly

Diane Peycke, North Dakota Potato Council Executive Director

We have audited the special-purpose statement of revenues and expenditures of the North Dakota Potato Council for the two-year period ended June 30, 2004. This financial statement is the responsibility of the management of the North Dakota Potato Council. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, 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 statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying special-purpose financial statement was prepared to provide state decision-makers, including the Legislative Audit and Fiscal Review Committee, with a comprehensive overview of the North Dakota Potato Council's operations. The revenues and expenditures are reported as discussed in the first note to the financial statement. This special-purpose financial statement is not intended to be a presentation in conformity with generally accepted accounting principles.

In our opinion, the special-purpose financial statement referred to above present fairly, in all material respects, the revenues and expenditures of the North Dakota Potato Council for the two-year period ended June 30, 2004, in conformity with the basis of accounting described in the first note to the financial statement.

Our audit was made for the purpose of forming an opinion on the special-purpose financial statement taken as a whole. The Detailed Statement of Revenues and Expenditures subsequent to the Notes to the Financial Statement is presented for purposes of additional analysis and is not a required part of the special-purpose financial statement of the North Dakota Potato Council. The detailed statement has been subjected to the auditing procedures applied in the audit of the special-purpose financial statement and in our opinion, is fairly stated in all material respects in relation to the special-purpose financial statement taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 13, 2004, on our consideration of the North Dakota Potato Council's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

This report is intended solely for the information of the Governor, Legislative Audit and Fiscal Review Committee, and management of the North Dakota Potato Council and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Robert R. Peterson State Auditor

August 13, 2004

IMPARATIVE STATEMENT OF REVENUES AND EXPENDITURES (Budgetary Bas As Budgeted Including Nonappropriated Expenditures For The Two-Year Periods Ended June 30, 2004 and 2002

··	2004-2003	
REVENUES:		
Potato Assessments (Net of Refunds of \$214,442)	\$	951,205
Interest		3,537
Total Revenues	\$	954,742
EXPENDITURES:		•
Operating	\$	12,927
Contract Payments		1,127,600
Total Expenditures	\$	1,140,527
Revenue Under Expenditures	\$	(185,785)

NOTES TO THE SPECIAL-PURPOSE FINANCIAL STATEMENT For The Two-Year Period Ended June 30, 2004

Note 1 - Summary of Significant Accounting Policies

The responsibility for the financial statement, the internal control structure, and compliance with laws and regulations belongs to the management of the North Dakota Potato Council (Council). A summary of the significant accounting policies follows:

A. Reporting Entity

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

The Council is established by section 4-10.1-02 of the North Dakota Century Code for the purpose and objectives of contributing to the stabilization and improvement of the agricultural economy of the state - it being the intended purpose of this chapter that the Council through research and advertising shall promote North Dakota grown Irish potatoes. Section 4-10.1-08 provides that the Council shall have the following powers and duties:

- 1. Contact and cooperate with any person or agency for research, education, publicity, promotion, and transportation.
- 2. Expend the funds collected and appropriated for its administration.
- 3. Employ and prescribe the duties of such personnel as it may deem necessary.
- 4. Accept donations for council objectives.
- 5. Investigate and prosecute to enforce the payment of taxes authorized by this chapter.

Section 4-10.1-09 provides for an assessment on all potatoes grown in the state or sold to a designated handler. All moneys levied and collected under this chapter shall be paid to the Council for deposit in the state treasury to the credit of a fund designated as the "spud fund."

B. Reporting Structure

The financial statement includes all activities of the reporting entity as defined above. These activities are funded from a special revenue fund, fund 220 (the Spud Fund). The statement of revenues and expenditures is a combined statement to give the users an overview of the agency's activity.

C. Basis of Accounting

Revenues and expenditures on the statement of revenues and expenditures are principally reported on the modified accrual basis of accounting, which are generally accepted accounting principles (GAAP) for governmental fund types.

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., measurable and available). Measurable means the amount can be determined, available means due and collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues are considered available if they are collected within 30 days after fiscal year-end. Expenditures are recorded when goods or services are received. Exceptions include principle and interest expenditures that are recorded when due, compensated absences that are recorded when paid, and claims and judgments.

As stated above, there can be differences between revenues and expenditures reported on the state's accounting system and budget basis and those reported by the Office of Management and Budget in the state's CAFR in accordance with GAAP. Basically there are two types of differences, accounting and statutory.

Accounting differences can include:

- A. Loan receipts and loan disbursements are accounted for as revenues and expenditures on the state's accounting system (and at times are budgeted as expenditures).
- B. Revenue reported on the statement of revenues and expenditures can differ from GAAP revenues because certain receivables are accrued for GAAP purposes while they were not recorded as revenue on the state's accounting system when they are received after the apply-back period.
- C. Certain transfers are recorded as revenues and expenditures on the state's accounting system.
- D. Expenditures recorded on the state's accounting system do not report expenditures relating to capital lease and other financing arrangements.

Statutory differences can occur because of North Dakota Century Code section 54-44.1-11. This section requires the Office of Management and Budget to cancel most unexpended appropriations 30 days after the end of each biennial period. Certain GAAP expenditures are not recorded as budgetary expenditures because the agency does not have the ability to pay the expenditures within 30 days after the end of the biennium. These are relatively rare occurrences, and when significant, will be clearly disclosed.

D. Other GAAP Reporting Differences

GAAP financial statements would include a balance sheet by fund type and account group. Revenues, expenditures, and expenses would also be reported by fund type. GAAP financial statements would also provide more complete note disclosures.

For this report, revenues and expenditures are reported on a departmental basis to give an overview of the Council's operations. All revenues and expenditures are included regardless of the nature of the activities (proprietary fund types are included with governmental fund types when applicable).

Note 2 - Related Parties

The Red River Valley Potato Growers Association (RRVPGA) located in East Grand Forks, Minnesota, is a related party of the Council. The RRVPGA is under contract with the Council to provide promotion, advertising, research, and development of Irish potatoes grown in North Dakota. The amount paid under contract was \$550,000 for each fiscal year ended June 30, 2004 and 2003.

The Executive Director of the Council, who performs all the administrative duties of the Council, is under contract with the Council as an independent contractor, not as a state employee. Under the contract, the Executive Director is paid \$13,800 per year, effective July 1, 2001. The Executive Director also performs the administrative duties for the RRVPGA and for a region of the Minnesota Potato Council.

Note 3 - Other Significant Items

The Council's deposits and investments at June 30, 2004 were \$14,505 and \$6,772, respectively. These amounts represent approximately 9 days of expenditures considering a 250-day year.

North Dakota Century Code 4-10.1-09 states the Council shall levy an assessment of two cents per hundredweight on all potatoes grown in the state or sold to a designated handler. The Council may increase the assessment by not more than one-half cent per hundredweight per year until a maximum assessment of four cents per hundredweight is reached.

The Council chose to assess potatoes at three cents per hundredweight during fiscal years 2004 and 2003.



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

OFFICE OF THE STATE AUDITOR

STATE CAPITOL 600 E. BOULEVARD AVE. - DEPT. 117 BISMARCK, ND 58505

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF SPECIAL-PURPOSE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable John Hoeven, Governor

Members of the Legislative Assembly

Diane Peycke, North Dakota Potato Council Executive Director

We have audited the special-purpose financial statement of the North Dakota Potato Council as of and for the two-year period ended June 30, 2004, and have issued our report thereon dated August 13, 2004. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the North Dakota Potato Council's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 two instances of noncompliance that are required to be reported under *Government Auditing Standards* and are described in the accompanying schedule of Findings, Recommendations, and Agency's response as item 04-2 and the Status of Prior Audit Findings as Prior Finding #2.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the North Dakota Potato Council's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the special-purpose financial statement and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the North Dakota Potato Council's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. Reportable conditions are described in the accompanying schedule of Findings, Recommendations, and Agency's response as item 04-1, the Status of Prior Audit Recommendations as Prior Finding #1 and question 4 of the Special Comments Requested by the Legislative Audit and Fiscal Review Committee.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described in the accompanying Special Comments Requested by the Legislative Audit and Fiscal Review Committee as question 4 to be a material weakness. We also noted other matters involving the internal control over financial reporting that we have reported to management of the North Dakota Potato Council in a separate letter dated August 13, 2004.

This report is intended solely for the information of the Governor, Legislative Audit and Fiscal Review Committee, and management of the North Dakota Potato Council and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Robert R. Peterson

State Auditor

August 13, 2004

FINDINGS, RECOMMENDATIONS, AND AGENCY'S RESPONSE For The Two-Year Period Ended June 30, 2004

TIMELY PAYMENTS (Finding 04-1)

Payments by the Council need to be made timely. Specifically, we noted:

- 1. Monthly payments to the executive director were five months in arrears as of June 30, 2004:
- 2. The Council is paying late fees;
- 3. Contract payments with Northern Plains Potato Growers Association are not being made quarterly, as outlined in the contract.

Good business practices require that statements and outstanding invoices be paid at or before the due date.

RECOMMENDATION:

We recommend that the executive director make payments in a timely manner.

RESPONSE:

The Executive Director acknowledges the recommendations set forth and will follow the proper procedures.

ELIGIBILITY OF REFUNDS (Finding 04-2)

The Council did not maintain the first letter for 1 of 8 (12.5%) refunds tested out of a population of 30. The amount inappropriately refunded was \$1,161.80, which projects against the population to an error of \$10,514.

To be eligible for a refund, a nonparticipating grower must complete several steps. The first, as noted in North Dakota Century Code section 4-10.1-12, to notify the council, in writing, on or before July fifteenth of each year, of his intention not to participate under the program and to claim a refund of the assessment herein levied on potatoes grown by him during that current year.

RECOMMENDATION:

We recommend that the Council comply with state law and issue refunds only to eligible growers that have notified the council in writing and claimed a refund.

RESPONSE:

The Executive Director acknowledges the recommendation set forth and did comply with state law and issued refunds only to eligible growers that have notified the council in writing and claimed a refund.



Phone Toll Free Fax

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(701) 328-4567

600 E Boulevard Ave., Dept. 602 Bismarck, ND 58505-0020

North Dakota Turkey Promotion Summary of Activities 2003-2005

The North Dakota Commissioner of Agriculture administers the North Dakota Turkey Promotion fund in consultation with the North Dakota Turkey Federation. Approximately 16 active turkey farms and about 16 growers raise turkeys in North Dakota. The North Dakota Agriculture Statistics Service estimated 1.1 million turkeys were raised in 2003. This is consistent with 2003 figures.

The funds used to operate the North Dakota Turkey Promotion Act come from a per-turkey check-off based on the weight of the turkey. The North Dakota Turkey Promotion Act check off is currently levied at one cent for 18 lbs. and under, one and one-half cents for 18.01 to 28 lbs. and one and three quarters cents for 28.01 lbs. and higher. Turkey processors collect these check-off funds and remit them to the North Dakota Department of Agriculture.

The goals and objectives of the North Dakota Turkey Promotion Act include:

- 1. Improvement of the turkey industry in North Dakota
- 2. Conducting research and education programs directed toward more efficient productions and marketing for turkey producers in North Dakota.
- 3. Promotion activities for the sale of turkey and turkey products.
- 4. Increasing consumer awareness and consumption of turkey and turkey products.
- 5. Participation in the National Turkey Federation.

The North Dakota Turkey Promotion fund conducts a variety of activities to accomplish their goals and objectives. The North Dakota Turkey Promotion fund sponsors the North Dakota Poultry Industries Convention held each year in December.

Turkey samples and recipes are distributed at the North Dakota State Fair and at 4-H demonstration projects. Funds are also used to participate in Pride of Dakota events and to conduct in-store demonstrations at local grocery stores. In 2003 and 2004, \$30.00 was given to every school in North Dakota with a home economics department. The money was used for the purchase of turkeys for classroom instruction. Requests are received for recipes from individuals, groups and organizations. As a result, the North Dakota Turkey promotion fund prints a recipe booklet for distribution. Finally, funds are used for radio, television and magazine advertising.

Revenue for the 2005-2007 biennium is estimated to be between \$35,000 and \$40,000 depending on the number of turkeys raised in North Dakota, the number of growers who request refunds and the amount of interest accrued.

NORTH DAKOTA TURKEY PROMOTION FUND

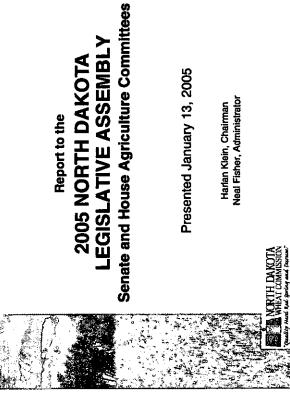
Bismarck, North Dakota

STATEMENT OF PROJECTED REVENUES AND EXPENDITURES

For the Current and Next Biennium 2003-2005 and 2005-2007 (UNAUDITED)

Prepared by the North Dakota Turkey Promotion

Davanasa	2005-2007 <u>Biennium</u>		2003-2005 <u>Biennium</u>
Revenues: Turkey Tax Assessment Interest Income	\$	36,000 63	\$ 40,000 70
Total Revenues	_\$	36,063	\$ 40,070
Expenditures:			
Telephone	\$	90	\$ 100
Travel		3,100	3,500
Postage		360	400
Copier Rental		20	20
Conference Expenses		4,000	4,500
Dues & Memberships		12,775	14,600
Radio-TV-Newspaper Advertising		3,800	4,400
Operating Fees		10	10
Audit		80	80
Purchase of Service (update website)		700	900
Printing		275	275
Service Contract - Office Equip		10	10
Promotional Supplies		10,100	11,500
Total Expenditures	\$	35,320	_\$ 40,295
Revenues Over (Under) Expenditures	\$	743	\$ (225)

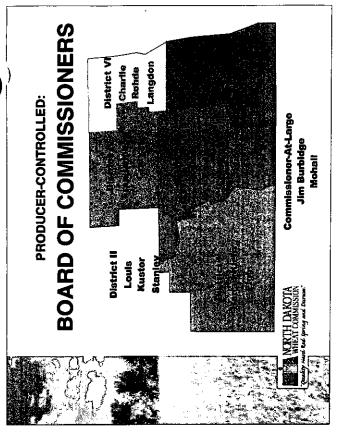


MSSION

agricultural economy of the state developing the orderly marketing and processing of North Dakota To stabilize and improve the by promoting, aiding and

NDWC Act, N.D. Century Code ch 4-28 as Amended.







□ \$3.56 billion economic mpact

 2.21 billion secondary o \$1.35 billion direct

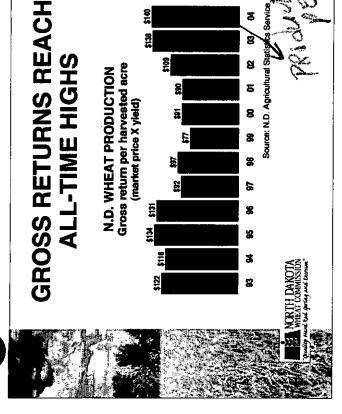
Each acre generates \$393 in total economic activity plus \$13.88 in □20% of all farm tax revenue

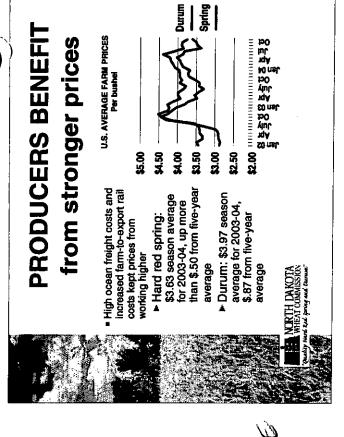
marketings

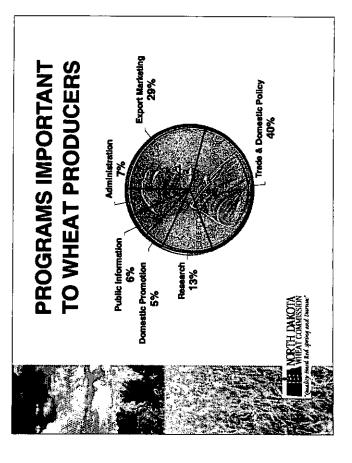


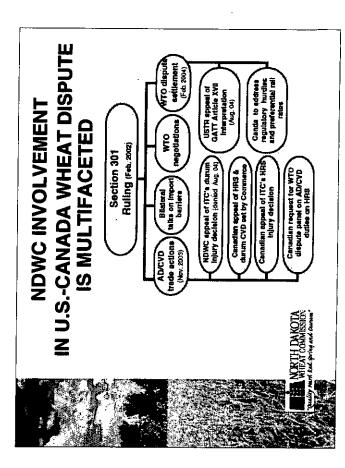


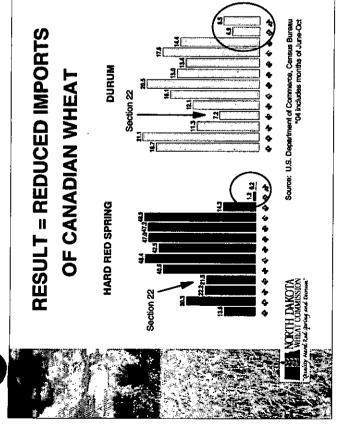












Conservative estimate of positive impact

▶ due to improved market access and pricing

* \$50 million annually (with potential to

stick 4 more years)

20¢ PER BUSHEI

■ Reality: spring wheat imports of 1.2 million bushels in 2003-04 and 0.2 so far in 04-05

spring wheat imports to 18.4 million bushels

► 24¢ to 30¢ per bushel and \$84 million to \$105 million in improved incomes, if quota had held

■ 2003 NDSU analysis

opportunities

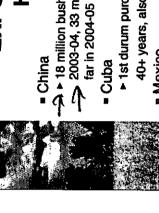


- Nearly 100 countries buy wheat grown in
- ▶ Durum exports, 35% ► HRS exports, 47%
- ²⁰⁰³⁻⁰⁴ marketing season
- at 272 million
 Durum up 38% to 44
 million bushels

► HRS highest since 1996







EXPORT MARKETING HGHLIGHTS

- 2003-04, 33 million so → 18 million bushels in
- ◆ 1st durum purchase in 40+ years, also HRS
 - Mexico
- each of last two years (now 9th ranked Sales double to 6-7 million bushels in
- narket)



TRKD ORGANIATION



OTHER TRADE POLICY

- WTO negotiations
- Gains made on permanent solution to State Trading Enterprises (STEs) like Canadian and Australian wheat board
- WTO dispute settlement
- ► Canada has to dismantle trade barriers
- Moroccan Trade Agreement
- ▶ gives U.S. durum growers better access to market than Canada
- Australian Trade Agreement
- ▼ missed opportunity to discipline Wheat Board
 - CAFTA: would benefit U.S. wheat exports but understand sugar's problems



RESEARCH HIGHLIGHTS

- Steele-ND: new HRS variety with disease resistance, yield and quality
- Scab resistant durum will be available when breeders rid experimental varieties of unwanted traits
- White wheat in process
- ■Biotech continues to offer promise
- Mill from Nestle to help with durum and HRS end-use research and product development

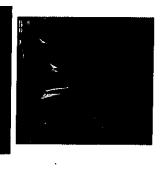
NORTH DAKOTA WIIFAT COMMISSION



technique (pollinating wheat plants w/ maize) helps breeders ■ Double haploid breeding produce pure lines in single generation

DOMESTIC POLICY

- \$200 in million disaster aid expected for N.D.
 - ► NDWC funded two Grower delegations to D.C.
 - Crop insurance reform
- Producer education: best Pesticide harmonization
- production and marketing practices Rail rates and service
- federal and state funding support federal complaint Support more adequate for wheat research





(PRODUCT PROMOTION) DOMESTIC MARKETING

- Fewer Americans are
 - cutting carbs (<5%) ■ New book debunks myths
- to support role of grains generate new science ■Research study will in healthy diet
 - carb-bashers miss essential nutrients, ■Media kits explain benefits that
- The myths and truths of carbohydrates

CALORIES It's the

Not the Carbs

- # Lowa walght and mahisain it EOR (IFE)
 - Increase energy for back and mind * Note provent chronic dispare! # Ent foods you touch

Karin Kratina, Ph.D., R.D. Glenn A. Gaesser, Ph.D

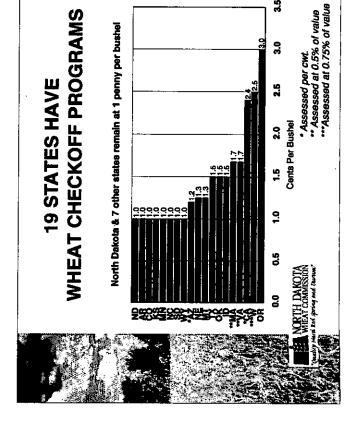




PUBLIC INFORMATION

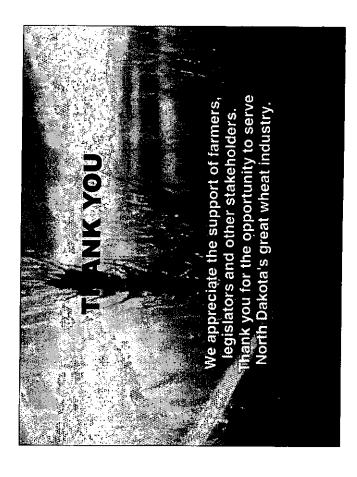
- Newsletter, web site, producer meetings e-mail bulletins,
- and support with better increase satisfaction **■**2004 survey shows opportunities to communication





3.5

CHECKOFF INCREASED NEEDED A 1/2 penny increase would generate about \$1.2 million in additional funding per about \$3.8 million annually or about \$7.6 per biennium ■ To assure a strong future ■ To pay for today's trade Total funding would be victories year.



U.S.-Canada Wheat Trade Dispute

Issue Definition

The United States and Canada are both important producers, traders, and consumers of wheat. The two countries are joined with Mexico in the North American Free Trade Agreement (NAFTA), which calls for essentially unrestricted, duty-free wheat trade among the three nations.

Although U.S. wheat imports remain very small relative to domestic supplies, large U.S. imports of Canadian durum and spring wheat since the early 1990s have been a source of concern to U.S. northern-tier wheat producers, who claim that imports from Canada are subsidized and have a large negative impact on local grain prices. This situation is aggravated by the operations of the Canadian Wheat Board (CWB), which has been granted certain special market powers and financial guarantees by the Canadian government, according to U.S. grain producers and U.S. trade officials, and by certain Canadian import practices that appear to disfavor imported over domestic wheat. Canada maintains that Canadian grain import practices and the CWB wheat export practices comply fully with international trade rules and its WTO obligations.

Concern over alleged unfair trade practices has led to numerous investigations and charges by U.S. trade officials of the wheat trading practices of Canada and the CWB. The United States has pursued legal action on two fronts: countervailing duty and anti-dumping investigations of hard red spring (HRS) and durum wheat imports from Canada by the U.S. International Trade Commission (ITC) and a dispute settlement case (DS276) at the World Trade Organization (WTO) to review the trading practices of the CWB and the treatment of grain imports by Canada. This report provides background for understanding the U.S. and Canadian wheat trade disputes, as well as timelines, rulings, and other details for the ITC and WTO cases brought by the United States against Canadian wheat trading practices and the CWB.

Background

Hard Wheats and Durum Introduced. HRS is one of three classes of hard wheat, the other two classes being hard red winter (HRW) and hard white (HW). Hard wheats are high in protein and gluten content, making them well suited for milling into bread flour. HRS tends to have higher protein and gluten content than either HRW or HW. As a result, HRS wheat is especially valued for blending with lower-protein wheat to be milled into premium bread flour. Durum also qualifies as a type of hard, high-protein wheat, but its end use separates it from other types of hard wheats. Durum is highly valued because it is the sole wheat class that can be milled into semolina, a coarse meal that can be processed into various pasta products such as macaroni, spaghetti, and vermicelli. As a result, both HRS and durum tend to have significant price premiums over other wheat classes in most markets.

U.S.-Canada Wheat Trade Dispute

Summary

U.S. trade officials and northern-tier wheat producers have long expressed concerns that Canadian wheat trading practices — both import and export — are inconsistent with Canada's international trade obligations. The U.S. wheat industry has raised three general charges against the Canadian Wheat Board (CWB) and Canadian wheat trading practices. First, they contend that Canadian wheat trading practices, particularly the export practices of the CWB, are inconsistent with Canada's WTO obligations and disadvantage U.S. wheat exporters in Canadian and international markets. Second, U.S. trade officials contend that the Canadian government has certain rules and regulations in place that discriminate against imported grains at grain elevators and within Canada's rail transportation system. Third, U.S. northern-tier wheat producers have long argued that Canadian wheat entering the U.S. market was being supported by various subsidies and that these wheat imports have been harmful to U.S. producers.

Canadian officials claim that the CWB operates as a valid state trading enterprise (STE) under WTO rules. Canada maintains that its import practices and the CWB wheat export practices comply fully with international trade rules and its WTO obligations, and that Canada does not subsidize its wheat exports. In addition, U.S. wheat millers and pasta manufacturers have expressed a strong interest in maintaining their access to Canadian grain and oppose trade restrictions that might limit their access.

The allegations against Canadian wheat trading practices have led to a series of investigations by U.S. agriculture and trade authorities at various levels. First, the charge that Canadian wheat exports to the United States are aided by subsidies that disadvantage U.S. wheat producers has been investigated under countervailing duty and anti-dumping investigations by the U.S. International Trade Commission (ITC). The ITC, in its final ruling (October 3, 2003), imposed punitive duties on Canadian hard red spring (HRS) wheat imports, but not on Canadian durum imports. The ITC's positive ruling on Canadian HRS is being appealed under NAFTA provisions by the CWB and Canadian national and provincial governments. In addition, the Canadian government announced its intention to call for the formation of a WTO dispute settlement panel to review the ITC injury ruling. The North Dakota Wheat Commission has announced its intent to appeal the ITC's negative ruling on Canadian durum.

Second, charges concerning the trading practices of the CWB and the treatment of wheat imports by Canada are being pursued under a WTO Dispute Settlement Case (DS276). In its final ruling (April 4, 2004), a WTO Dispute Settlement Panel produced a mixed verdict that has left both parties dissatisfied. The United States has already announced (June 1, 2004) its intent to appeal the panel's decision. The U.S.-Canada wheat trade dispute remains contentious and both sides continue to pursue legal actions on both the ITC and WTO cases. This report will be updated as events warrant.





STATE OF NORTH DAKOTA OFFICE OF THE STATE AUDITOR STATE CAPITOL 600 E. BOULEVARD AVE. - DEPT. 117-

BISMARCK, ND 58505

November 17, 2004

House and Senate Agriculture Committees:

Transmitted herewith are the financial statements and auditor reports of the North Dakota Wheat Commission as required by North Dakota Century Code section 4-24-10.

Specifically you will find the state auditor's report on the financial statements, the statement of revenues and expenditures, notes to the financial statements and the compliance and internal control report. Complete audit reports may be obtained by contacting my office.

The Office of the State Auditor would like to thank the commodity groups for their cooperation in preparing these reports.

Sincerely,

Robert R. Peterson

State Auditor

NORTH DAKOTA WHEAT COMMISSION Bismarck, North Dakota

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"Measures of Our Success" 2002-03 Annual Report to Producers "The Shape of Things to Come" 2003-04 Annual Report to Producers NDSU Center for Agricultural Policy and Trade Studies Newsletter (January National Association of Wheat Growers Reports for Fiscal Years 2002-03 and North Dakota Grain Growers Association Reports for Fiscal Years 2002-03 and 2003	d 2003-04 nd 2003-04





North Dakota Wheat Commission Bismarck, North Dakota

House and Senate Agriculture Committee Report For the Two-Year Period Ended June 30, 2004

Robert R. Peterson State Auditor



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Sincerely,

Robert R. Peterson

State Auditor





PHONE (701) 328-2241 FAX (701) 328-140

STATE AUDITOR'S REPORT

Honorable John Hoeven, Governor

Members of the Legislative Assembly

Neal Fisher, North Dakota Wheat Commission

The following pages were taken from the audit report of the North Dakota Wheat Commission for the two-years ended June 30, 2004. The financial statements are the responsibility of the management of the North Dakota Wheat Commission. The auditor's responsibility was to express an opinion on the financial statements.

The audit was performed in accordance with generally accepted auditing standards, 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 the auditors plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

The financial statements are presented to provide state decision makers, including the Agriculture Committees, with a comprehensive overview of the North Dakota Wheat Commission's operations. The revenues and expenditures are reported under the modified accrual basis of accounting. The financial statements are not intended to be a presentation in conformity with generally accepted accounting principles. The complete audit report should be reviewed to obtain a complete picture of the financial position and operations of the North Dakota Wheat Commission. The complete report may be obtained by contacting the Office of the State Auditor.

The audit resulted in a clean (unmodified) audit opinion. In accordance with Government Auditing Standards, a report was also issued on the auditor's consideration of the North Dakota Wheat Commission's internal control over financial reporting and the tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

This report is intended solely for the information of the meeting of the Joint Agriculture Committees and should not be used for any other purpose. However, this report is a matter of public record and its distribution is not limited.

Robert R. Peterson

State Auditor

November 17, 2004

Statements of Revenues, Expenditures, and Changes in Fund Balances For the Fiscal Years Ended June 30, 2004 and 2003

	2004	2003
Revenues:		
Assessments	\$ 2,957,038	\$ 2,477,813
Sale of publications	369	596
Miscellaneous income	872	3,376
Interest income	5,002	7,425
Total Revenues	2,963,281	2,489,210
Expenditures:		
Salaries and benefits	423,417	411,646
Operating expenses	3,309,426	3,336,192
Equipment	299,749	269,108
Total Expenditures	4,032,592	4,016,946
Revenues Under Expenditures	(1,069,311)	(1,527,736)
Fund Balance - July 1	(889,853)	637,883
Fund Balance - June 30	\$(1,959,164)	\$ (889,853)

Notes to the Financial Statements June 30, 2004 and 2003

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

For financial reporting purposes, the North Dakota Wheat Commission includes all funds programs, and activities over which it is financially accountable. The North Dakota Wheat Commission does not have any component units as defined by the Government Accounting Standards Board. The North Dakota Wheat 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 North Dakota Wheat Commission was formed under North Dakota Century Code (NDCC) chapter 4-28, to foster and promote programs aimed at increasing the sale, utilization, and development of wheat, both at home and abroad. The Commission disseminates reliable information on the value of wheat and wheat products for any purpose for which they are valuable and useful to both processor and consumer. The Commission is to search for and promote new uses of wheat and wheat products, to seek improvement of the export quality of wheat, and to contract and cooperate with any person, firm, corporation or association or with any local, state, or federal department or agency for executing or carrying on a program or programs of research, education and publicity. The Commission is responsible for and is funded under a continuing appropriation.

B. Reporting Structure

The financial statements include all activities of the reporting entity as defined above. These activities are funded from fund 228, the Wheat Commission fund. The statement of revenues and expenditures is a combined statement to give the users an overview of the agency's activity.

C. Government-Wide and Fund Financial Statements

The Statement of Net Assets and Statement of Activities report information on all non-fiduciary activities of the Commission. The Commission reports all activities as governmental activities that are financed through assessments. The Statement of Net Assets presents the reporting entity's assets and liabilities, with the difference reported as net assets. The net assets are reported as unrestricted net assets with constraints on resources which are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Program revenues include charges for assessments on the sale of wheat.

Separate fund financial statements are provided for the ND Wheat Commission governmental fund.

Notes to the Financial Statements - continued June 30, 2004 and 2003

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

D. Fund Accounting Structure

The Commission uses funds 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 ND Wheat Commission operating fund as a major governmental fund. It is used to account for the collection of assessments and transactions relating to the promotion of programs aimed at increasing the sale, utilization, and development of wheat, both at home and abroad.

E. Basis for Accounting

The government-wide statements are reported using the economic resources management focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows.

Governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as 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.

Major revenues that are susceptible to accrual include assessments and interest. All revenues are determined to be available if collected within one year of fiscal year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences 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 and funds deposited in a money market with AG Edwards.

Notes to the Financial Statements - continued June 30, 2004 and 2003

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

H. Accumulated Unpaid Annual and Sick Leave

N.D.C.C 54-06-14 allows employees to accrue annual leave at a variable rate between one and two days per month based on years of service. In general, accrued annual leave cannot exceed thirty days at each calendar year end. Employees are paid for unused annual leave upon termination or retirement.

Sick leave is accrued at the rate of one day per month without limitation on the amount that can be accumulated. Employees vest in sick leave at ten years of service at which time the State is liable for ten percent of the employee's accumulated unused sick leave.

NOTE 2 CHANGE IN ACCOUNTING PRINCIPLES

For the fiscal year beginning July 1, 2002, the Commission implemented the following new accounting standards issued by GASB:

Statement No. 34, <u>Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments</u>

Statement No. 37, <u>Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments: Omnibus</u>, and

Statement No. 38, Certain Financial Statement Note Disclosures.

Statement No. 34 as amended by Statement No. 37, establishes new financial reporting standards for state and local governments. This statement's requirements represent a significant change in the financial formats and changes in fund types and account groups. In addition to fund financial statements, governments are required to report government-wide financial statements, prepared using the accrual basis of accounting.

Statement No. 38 requires certain note disclosures when Statement No. 34 is implemented. The provisions of these new standards have been incorporated into the financial statement notes.

NOTE 3 ORGANIZATION AND RELATED PARTY TRANSACTIONS

As stated in Note 1, the Commission is an entity of the state of North Dakota and as such, other state agencies of the state and political subdivisions are related parties.

Notes to the Financial Statements - continued June 30, 2004 and 2003

NOTE 4 DEPOSITS AND INVESTMENTS

The GASB requires certain financial statement disclosure of deposits and investments such as the disclosure of carrying amount by type of investments and classification into one of three categories based upon credit risk. Category 1 includes deposits that are fully insured or collateralized with securities held by the Commission or by its agent in the Commission's name. Category 2 includes deposits that are collateralized with securities held by the pledging financial institution's trust department or agent in the Commission's name. Category 3 includes deposits that are not collateralized or are collateralized by the pledging financial institution, trust or agent, not in the Commission's name.

North Dakota Wheat Commission is required to maintain its operating funds at the Bank of North Dakota. All deposits at the Bank of North Dakota are uncollateralized, a category 3 risk as defined by the GASB, but guaranteed by the State of North Dakota according to N.D.C.C. 6-07-10.

June 30, 2004:	Carrying <u>Amount</u>	Bank Balance	Category 1	Category 2	Category 3
Cash deposits Certificates of deposit as investments Money market as investments	\$ 597,441 198,000 <u>801</u>	\$ 597,441 198,000 <u>801</u>	\$ - 198,000 801	\$ -	\$ 597,441
Totals <u>June 30, 2003:</u>	\$ 796,242	\$ 796,242	\$ 198,801	\$	\$ 597,441
Cash deposits Certificates of deposit as investments Money market as investments	\$ 255,515 198,000 797	\$ 256,312 198,000 797	\$ - 198,000 <u>797</u>	\$ - - -	\$ 256,312
Totals	\$ 454,312	\$ 455,109	\$ 198,797	<u>\$</u>	\$ 256,312

NOTE 5 GENERAL LONG TERM DEBT

Governmental Activities:	Balance 7/1/2003	Additions	Reductions	Amounts Due Within One Year	Amounts Due Thereafter
Other long-term liabilities: Compensated absences	\$_44,606	\$ 29,518	\$ 24,215	\$ 24,215	\$ 25,694
Governmental Activities:	Balance 7/1/2002	Additions	Reductions	Amounts Due Within One Year	Amounts Due Thereafter
Other long-term liabilities:					

Notes to the Financial Statements - continued June 30, 2004 and 2003

NOTE 6 PENSION PLAN

The ND Wheat Commission participates in the North Dakota Public Employees' Retirement System administered by the State of North Dakota. The following is a brief description of the plans.

Defined Benefit Pension Plan – NDPERS is a cost-sharing multiple-employer defined benefit pension plan covering substantially all classified employees of the ND Wheat Commission. The plan provides retirement, disability and death benefits. If an active employee dies with less than three years of credited service, a death benefit equal to the value of the employee's accumulated contributions, plus interest, is paid to the employee's beneficiary. If the employee has earned more than three years of credited service, the surviving spouse will be entitled to a single payment refund, life-time monthly payments in an amount equal to 50% of the employee's accrued normal retirement benefit, or 60 monthly payments equal to the employee's accrued normal retirement benefit calculated as if the employee were age 65 the day before death occurred or monthly payments in an amount equal to the employees' accrued 100% joint and survivor retirement benefit if the member had reached normal retirement age prior to date of death. If the surviving spouse dies before the employee's accumulated pension benefits are paid, the balance will be payable to the surviving spouse's designated beneficiary.

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

Employees are entitled to unreduced monthly pension benefits equal to 2.00% of their final average salary for each year of service beginning when the sum of age and years of credited service equal or exceed 85, or at normal retirement age (65). The plan permits early retirement at ages 55-64, with three or more years of service.

Benefit and contribution provisions are administered in accordance with chapter 54-52 of the North Dakota Century Code. This state statute requires that 4% of the participant's salary be contributed to the plan by either the employee or by the employer under a "salary reduction" agreement. The ND Wheat Commission has implemented a salary reduction agreement and is currently contributing the employees' share. The ND Wheat Commission is required to contribute 4.12% of each participant's salary as the employer's share. 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 ND Wheat Commission's required and actual contributions to NDPERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$28,895, \$28,027, and \$28,756, respectively.

NDPERS issues a publicly available financial report that includes financial statements and the required supplementary information for NDPERS. That report may be obtained by writing to NDPERS; 400 East Broadway, Suite 505, PO Box 1214, Bismarck, ND 58502-1214.

Notes to the Financial Statements - continued June 30, 2004 and 2003

NOTE 7 RISK MANAGEMENT

The Commission is exposed to various risks of loss related to torts, theft, damage, destruction of assets, errors and omissions, injuries to employees and natural disasters. The Commission participates in the following funds or pools:

The Risk Management Fund (RMF) was created in 1995 and is an internal service fund to provide a self-insurance vehicle for the liability exposure of state agencies resulting from the elimination of the state's sovereign immunity. The RMF manages the tort liability of the state, its agencies' employees, and the University System. All state agencies participate in the RMF and their fund contribution was 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 pays an annual premium to the Fire and Tornado Fund to cover property damage to personal property. Replacement cost coverage is provided by estimating 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 one million dollars per occurrence during a twelve month period. The State Bonding Fund currently provides the Commission with blanket fidelity bond coverage in the amount of \$500,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

Workforce Safety and Insurance is 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 year and settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

NOTE 8 DUE FROM / DUE TO STATE AGENCIES

Due to other state agencies	2004	2	003
Information Technology Department Legal Services NDSU Central Services - Motor Vehicle Pool	\$ 401 971 11,100 290	\$	403 109 - 312
Total	<u>\$ 12,762</u>	<u>\$</u>	824
Due from other state agencies Bank of North Dakota	\$ 210	\$	83

Notes to the Financial Statements - continued June 30, 2004 and 2003

NOTE 9 OFFICE LEASE COMMITMENT

The Commission leases office space owned by Nodak Mutual Insurance Company. The lease requires a monthly payment of \$2,367. The current lease is a 67 month lease that began December 1, 2000 and extends through June 30, 2005. The lease expense was \$30,877 and \$31,775 for the years June 30, 2004 and 2003, respectively.

NOTE 10 DEFICIT FUND BALANCE

The Commission has deficits of \$2,009,073 and \$934,459, at June 30, 2004, and 2003, respectively. A significant amount of expenditures for legal and other professional fees, related to the Canadian Wheat Board Trade Case, have created the deficits. The Commission's Board approved the possibility of seeking an increase in the assessment charged wheat producers. This additional assessment would have a sunset clause that expires after the legal fees are paid. This increase in the assessment should reduce the deficit.

NOTE 10 SUBSEQUENT EVENT

The Commission has contracts with the US Durum Growers Association and the ND Grain Growers Association for research, domestic policy, and agriculture policy issues relating to the North Dakota wheat industry. The annual contracts extend from July 1 to June 30 for the Commission's fiscal year. The contract payments for the US Durum Growers Association for the years ended June 30, 2004 and 2003 were \$26,000 and \$30,000, respectively. The contract payments for the ND Grain Growers Association for the years ended June 30, 2004 and 2003 were \$40,000 and \$50,000, respectively. As of the date of our report, these contracts have not been renewed.



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH **GOVERNMENT AUDITING STANDARDS**

Governor of North Dakota The Legislative Assembly

The North Dakota Wheat Commission Bismarck, North Dakota

We have audited the financial statements of the governmental activities and major fund of the North Dakota Wheat Commission, a department of the State of North Dakota, as of and for the years ended June 30, 2004 and 2003, which collectively comprise North Dakota Wheat Commission's basic financial statements and have issued our report thereon dated August 19, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the North Dakota Wheat Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted matters involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect North Dakota Wheat Commission's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition noted above deals with the liabilities incurred in the Commission's case against the Canadian Wheat Board and a lack of internal controls surrounding their management of a fund deficit and the failure to report the liabilities, for financial statement purposes, to OMB's fiscal management division, as reported in finding 04-1 of the findings, recommendations, and agency's response section of this report. We also noted certain additional matters that we reported to management of the North Dakota Wheat Commission in a separate letter dated August 19, 2004.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. However, we believe that the reportable condition described above is a material weakness.

Compliance

As part of obtaining reasonable assurance about whether the North Dakota Wheat Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the findings, recommendations, and agency's response section of this report (item 04-1).

This report is intended solely for the information of the audit committee, management, the Legislative audit and Fiscal Review Committee, and other state officials, and is not intended to be and should not be used by anyone other than those specified parties.

BRADY, MARTZ & ASSOCIATES, P.C.

rady, Marty

August 19, 2004

FINDINGS, RECOMMENDATIONS AND AGENCY'S RESPONSE For the Fiscal Years Ended June 30, 2004 and 2003

Unpaid legal and professional fees (04-1)

The ND Wheat Commission is currently involved in a case against the Canadian Wheat Board involving unfair Canadian wheat trade. The case was started in 1999 and is still ongoing as of June 30, 2004. To date, the Wheat Commission has spent approximately \$6.4 million in legal and other professional fees. The Wheat Commission had been current with their professional fees until September 2002. However, with ongoing legal proceedings and other professional services directly involved with the case, the liabilities increased to \$3,004,678 and \$1,711,133 at June 30, 2004 and 2003, respectively. The Wheat Commission did not have the resources necessary to stay current with their obligations. This has resulted in deficit fund balances of \$2,009,073 and \$934,459 at June 30, 2004 and 2003, respectively.

The Wheat Commission Board, at its June 2004 meeting, established a committee to explore the possibility of seeking an assessment increase with a sunset clause for the purpose of paying the liabilities incurred in the case. As of our audit date, the Wheat Commission does not have an approved plan in place to pay off the legal fees and restore their fund balance.

It was also noted during our audit that the Wheat Commission failed to report these liabilities on their "closing packages", submitted to OMB's fiscal management division, for purposes of compiling North Dakota's Comprehensive Annual Financial Report. The failure to report these liabilities results in an understatement of liabilities and expenditures, and an overstatement of fund equity on the State's annual financial statements. The amount of these liabilities may be considered material to the State's financial statements. In addition, failure to report these liabilities is not in compliance with OMB Policy 200 – Financial Statement Fiscal Year Cutoff. The policy states: "Every agency and institution is required to identify and record liabilities, receivables, inventories and other financial statement data at the close of each fiscal year. The financial data must be recorded in accordance with generally accepted accounting principles relating to year-end accruals of receipts and expenditures." The Commission has not implemented adequate internal controls to insure that all activity and account balances are properly reported to OMB.

We recognize the Wheat Commission has continuing appropriation authority, but it is clear they have overspent their available resources, by not having available funds to pay their legal fees and significant deficit fund balances. We question whether the Wheat Commission has the legal authority to overspend their resources. Since the case is ongoing and the Wheat Commission continues to incur legal expenses, we feel it is important to determine if the Wheat Commission has legal authority to overspend its existing resources.

North Dakota Century Code Chapter 4-28, Section 07, paragraph 4 states: "The commission may use the amount raised by two mills of the levy provided for in this section to support the commission's involvement in trade issues throughout the world." We would question whether the legal fees incurred and paid over the last two fiscal years violates this section of the North Dakota Century Code.

RECOMMENDATIONS:

 We recommend the ND Wheat Commission obtain immediate advice and approval from appropriate legislative authority and the Office of the Attorney General, on a plan to fund the outstanding liabilities. In addition, the Wheat Commission should not incur any additional legal fees without approval and the aforementioned plan in place.

- We recommend the Wheat Commission develop procedures and controls to insure that all
 activities are properly recorded and reported.
- We recommend the Wheat Commission obtain a formal legal opinion from the Office of the Attorney General to determine the legality of the legal fees incurred in excess of available resources.
- We recommend the Wheat Commission obtain a formal legal opinion from the Office of the Attorney General to determine if they are in violation of NDCC Chapter 4-28, Section 07, paragraph four.

AGENCY'S RESPONSE:

The North Dakota Wheat Commission concurs with the Auditor's recommendation to obtain advice from the legislature and the Attorney General in developing a plan to fund the outstanding liabilities associated with the trade case against the Canadian Wheat Board, and for these entities to jointly approve such a plan.

The Chair, Vice-chair and the Administrator of the North Dakota Wheat Commission met with Attorney General, Wayne Stenehjem, on July 17, 2004, to discuss the mounting legal bills associated with the case and to consider the most acceptable options available to the Commission at that time. Discussion included the potential pursuit of an increase in the Wheat Commission check off. Since then the Commission has adopted a formal position to pursue a check off increase in the 2005 legislative session and is currently assessing stakeholder support. The Wheat Commission continues to be in contact with the Attorney General's office and will diligently pursue this matter as it considers all appropriate options.

The trade case against the Canadian Wheat Board is the largest, most comprehensive effort of this nature ever undertaken by the North Dakota Wheat Commission, or possibly any agency of the state of North Dakota to date. The Commission recognizes that mistakes have been made regarding the Commission's accounting of and ability to pay growing legal bills incurred in the execution of case itself. The Commission is committed to working with the legislative body and the Office of Management and Budget to develop and implement the appropriate procedures required to correct the current situation.

It is also important to acknowledge that much has been accomplished in this case to date, and that significant and measurable results can be directly attributed to the intensity and effectiveness of the case thus far. It is the assessment of the Commission, legal counsel and many stakeholders that a great deal will also hinge on the final outcome of this important case, strongly suggesting that continuation of this effort is in the best interests of North Dakota's more than 19,000 wheat producers, the state's agricultural industry, and the economy of North Dakota.

The most immediate, measurable benefits are expressed in the dramatic declines in imports of Canadian spring wheat and durum that have been achieved over the past two marketing years, providing much needed relief from the onslaught of unfairly traded Canadian wheat and durum that has plagued the region's producers for more than a decade.

The North Dakota Wheat Commission concurs with the Auditor's second recommendation that the Wheat Commission develop written procedures and controls to insure that all such activities are appropriately recorded and reported according to state budget requirements. The Wheat Commission will work with the state Auditor's office and the Office of Management and Budget in developing these procedures.

The North Dakota Wheat Commission concurs with the Auditor's third recommendation and will obtain a formal legal opinion from the Office of the Attorney General to determine the latitude of a state agency with a continuing appropriation, its limitations and more specifically whether such an agency can incur expenses beyond current levels of revenue generated by the check off.

The North Dakota Wheat Commission concurs with the Auditor's fourth recommendation and will obtain a formal legal opinion from the Office of the Attorney General to determine if the Commission is in compliance with NDCC Chapter 4-28, Section 07, paragraph four and other aspects of the Commission's authority under its enabling legislation.

For additional agency commentary, please refer to Appendix A at the back of this report.



REPORT TO THE 2005 NORTH DAKOTA LEGISLATIVE ASSEMBLY SENATE AND HOUSE AGRICULTURE COMMITTEES

BACKGROUND

ECONOMIC IMPORTANCE OF WHEAT INDUSTRY

- wheat remains king in North Dakota. With an annual economic impact of \$3.56 billion, it is one of the most important economic activities in the state, agricultural or otherwise, according to a new study by North Dakota State University agricultural economists.
 - Average impact was assessed from 2001 to 2003 when plantings ranged from 8.6 million to 9.5 million acres and production ranged from 216 million to 317 million bushels.
- Main street benefits. Direct annual impacts from all wheat activities in North Dakota are estimated at \$1.35 billion. These direct impacts generated an additional \$2.21 billion in secondary impacts including 35,000 full-time jobs.
- Every acre counts. Each acre of wheat planted generates about \$393 in total economic activity annually plus about \$13.88 in state tax revenue. The wheat industry is responsible for an annual average of \$1.2 billion in retail trade activity and \$1.1 billion in economy-wide personal income.
- Leading all commodities. North Dakota Agricultural Statistics Service data indicates that wheat leads the state in cash receipts from farm marketings, accounting for an average 20 percent during the study period.
- ➤ Production is widespread. Wheat production impacts every person and every community in North Dakota because wheat is produced in all areas of the state. Only 6 of 53 counties fell below the 1 million bushel mark for production in any of the last three years. Production is most concentrated in the Red River Valley and northern third of the state.

CREATION OF CHECKOFF

Average annual wheat production in North Dakota was only 113 million bushels (38 percent of the current average) and average yields were only 15 bushels per acre (half the current average) in 1959 when farmers in North Dakota decided they needed a self-help program to fuel their durum and hard red spring wheat industry. A motivating factor was the passage in 1954 of Public Law 480, which authorized federal money for overseas market development if matched in part with producer dollars. Legislative action established the North Dakota Wheat Commission for this primary purpose.

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e-mail: ndwheat@ndwheat.com web site: http://www.ndwheat.com Wheat producers finance the effort entirely themselves with a per bushel checkoff assessed at time of sale. The checkoff initially was set at 2/10 of a cent for each bushel of wheat sold. The checkoff was increased in 1979 to 3/10 of a cent, in 1983 to 5/10 of a cent, and in 1997 to 8/10 of a cent per bushel after considerable consultation with producers. In 1999, the checkoff was again increased to the current level of 1 cent per bushel, giving the commission greater authority and resources to address trade issues throughout the world. In 2003, the legislature granted the NDWC additional authority address domestic policy issues with existing funding.

ORGANIZATION

Wheat producers direct the North Dakota Wheat Commission through a grassroots approach. Producers meet at the county level to elect representatives, who in turn elect six district commissioners. The governor appoints a seventh commissioner from a list of nominees submitted by major farm and grower organizations. These seven producers make up the board of commissioners. They develop policy and programs, oversee their implementation and approve budget expenditures. Commissioners can serve no more than three four-year terms. Six full-time, permanent employees administer wheat checkoff programs and activities.

PURPOSE

The NDWC's mission as outlined in its enabling legislation is to stabilize and improve the agricultural economy of the state by promoting, aiding and developing the orderly marketing and processing of North Dakota wheat. In summary, specific objectives include:

- 1. To foster and promote programs aimed at increasing the sale, utilization, and development of wheat, both at home and abroad,
- 2. To publish and disseminate reliable information on the value of wheat and wheat products for any purpose for which they are valuable and useful to both the processor and consumer,
- 3. To carry on programs of research, education and publicity,
- 4. To promote North Dakota opportunities as afforded by development of the St. Lawrence Seaway, and
- 5. To seek improvement in the export quality of wheat.

Much has improved and changed since this legislation was drafted in 1959, but the need to continue expanding worldwide use of hard red spring, durum and any other wheat produced in the state remains just as important. To achieve its many objectives, the NDWC carries out programs in five main areas:

- export marketing,
- domestic promotion and education,
- > research and customer service,
- >> policy and issues, and
- >> public information.

To leverage funds contributed by North Dakota wheat producers, the NDWC frequently partners with other state wheat organizations in regional and national efforts to expand markets for U.S. wheat.

PROGRAM OVERVIEWS AND HIGHLIGHTS

EXPORT MARKET DEVELOPMENT

The biggest and best ripples in the market have historically been motivated by strong export sales. About 30 percent of the NDWC budget is devoted to export marketing conducted in cooperation with U.S. Wheat Associates. USW is a partnership between 20 state wheat commissions. USW secures a match of about \$2.75 from USDA market programs for each producer dollar invested.

In marketing year 2003-04 (which ended May 31), U.S. market share gained as export sales reached 1.16 billion bushels, the highest level since 1995 and up sharply from 849 million bushels in 2002. Hard red spring wheat exports were the highest since 1996 at 272 million bushels. Good demand came from all major regions with the best gains in Europe.

Robust demand for durum, up 38 percent from the previous season, came from all three major export regions—Europe, North Africa and Latin America—despite a record world crop. Sales to North Africa and Venezuela, in particular, were larger than expected, pushing total exports for the year to 44 million bushels, up from 32 million in 2002.

Halfway through the 2004-05 marketing year, spring wheat exports are up 25 percent, continuing the growth pattern of the past two seasons. Buyer willingness to pay for high protein points to a bright future for wheat produced in North Dakota and the surrounding region. Durum exports are expected to decline in 2004-05 due to a record world durum crop and back-to-back good harvests in North Africa, a key traditional demand center.

Here's a sampling of some of the marketing efforts supporting the numbers.

IN ASIA

China emerges as prominent spring wheat customer. China imported 18 million bushels of U.S. hard red spring wheat in marketing year 2003-04, up from 2 million the previous year and enough to advance the country to the fourth ranking export destination for this premium class of wheat. Exports to China have already far surpassed that impressive level in 2004-05 at 33 million bushels to date.

Persistence by U.S. Wheat Associates and U.S. government officials on trade issues over the last decade helped open the door to the China market. Quality samples for private buyers, technical milling assistance, promotional seminars, and trade team visits subsequently convinced government and private buyers that HRS brings value in end-use quality and performance.

Faced with urbanization and other pressures on wheat acreage, China will likely continue to require imports in the future to feed its 1.3 billion people, says Matt Weimar, USW regional vice president. Weimar also predicts that China's preference for quality wheat imports is here to stay.

- Japanese durum team sees strengths in U.S. durum. A visit to North Dakota in 2004 coordinated by USW and the NDWC exposed this technical team to new varieties of U.S. durum. This visit will be helpful in swaying Japan's durum business, about 7 million bushels annually, away from Canada.
- Philippine mill changes to U.S. origin after "Contracting for Quality" workshop. Managers from a flour mill in the Philippines saw the advantages of using U.S. hard red spring wheat in making Asian style products during baking comparisons at a USW-sponsored course at the Wheat Marketing Center in Portland, Ore. Grain procurement managers and quality specialists from mills in Malaysia, Thailand and Vietnam were also in attendance and may possibly increase their purchases as well.

IN EUROPE

Italy and Spain purchase record amount of hard red spring wheat. Exports to Italy reached 25 million bushels in 2003-04, compared to 16 and 17 million bushels in years previous, and exports to Spain totaled 15 million bushels, almost double the prior high. The sales to Italy were enough to rank it second behind Japan as an export destination for spring wheat. The sales were achieved in part because USW took advantage of some favorable market factors (including a European drought in the 2003 growing season and more favorable European exchange rates) by ratcheting up its service calls in these key countries.

IN LATIN AMERICA

- ➤ Spring wheat sales to Mexico double, ranking it 9th among export markets. Mexico imported 6 million bushels of U.S. hard red spring wheat in the 2002-03 marketing year and 7 million bushels in 2003-04, double sales there in any previous season. The increase is fueled by joint USW-NDWC efforts to facilitate direct rail shipments from elevators in the region to large mills in Mexico.
- Cuba buys durum for first time in 40-plus years. Cuba has purchased 380,000 bushels of U.S. durum so far in 2004-05, bringing producers a step closer to a nearby and prospective durum market twice that size. The durum sale follows the first commercial sale of spring wheat (202,000 bushels) in May 2003 which as been followed up with additional sales of 584,000 bushels in 2003-04 and 191,000 bushels so far in 2004-05. USW and the NDWC worked to improve trade relations with Cuba in recent years and provided assistance on optimum contract specifications. NDWC Administrator Neal Fisher went there twice in 2002 to re-instill demand and Berthold farmer Alan Lee, who served as USW Chairman at the time, was there in 2003 to again ask for their business. USW has been promoting combined cargoes of U.S. hard red spring, durum and soft red winter wheat.
- Restoring Venezuelan durum business. Venezuela purchased 6 million bushels of U.S. durum in 2003-04, up from levels ranging from 260,000 bushels to 1.3 million bushels in recent years. Sales of spring wheat were also up to 14 million bushels, compared to a range of 5 million to 11 million bushels over the last five years. USW and NDWC marketing experts made personal plant visits to make sure processors were aware of new, high quality varieties of spring wheat and durum as well as steps that have been taken to prevent quality losses due to crop disease.

IN THE MID-EAST AND AFRICA

South Africa back in U.S. durum market after two-year absence. After helping to address concerns related to karnal bunt, USW was successful in getting 500,000 bushels of U.S. durum into South Africa in 2003-04. About 350,000 bushels have also been exported there in marketing year 2004-05. Quality conscious flour millers in the country have also been importing increased amounts of U.S. hard red spring wheat, up to 4.7 million bushels so far in 2004-05, compared to levels of 1 million to 3 million bushels in the previous five years.

POLICY AND ISSUES

Cooperation is essential to educating elected officials about how trade policies and issues affect a wheat producer's ability to compete for domestic and export market share. It takes a united front. The North Dakota Wheat Commission works with U.S. Wheat Associates, the National Association of Wheat Growers, the Wheat Export Trade Education Committee, and state grower and farm organizations to help lawmakers craft solutions to problems and to explain potential impacts of future decisions.

Here is a snapshot of activities, progress and results attained:

U.S.-CANADA TRADE DISPUTE

➤ Trade case delivers 20¢ per bushel. That's a conservative estimate of return to North Dakota farmers from a 14 percent import duty on Canadian hard red spring wheat. The duty, which forces U.S. buyers to pay about 50 cents per bushel more to access Canadian wheat, has held imports to a minimum in 2003 and 2004. The result is improved market and pricing opportunities for U.S. farmers. The duty is credited with generating an additional \$50 million from North Dakota's spring wheat crop in each year imports are held down. It was imposed as a result of countervailing duty and antidumping challenges brought forth by the North Dakota Wheat Commission.

The estimate of benefit from the trade challenge is based in part on a study that indicates prices for U.S. hard red spring wheat would have increased by 24¢ to 30¢ per bushel and incomes would have improved by \$84 million to \$105 million annually between 1997 and 2002 had a tariff-rate quota been in place that could have limited annual imports from Canada to 18.4 million bushels of non-durum (spring) wheat. The analysis was published in January 2003 by North Dakota State University agricultural economists Dr. Won Koo and Jeremy Mattson in a Center for Agricultural Policy and Trade Studies newsletter.

In reality, spring wheat imports from Canada have been held to far lower levels (14.3, 1.2 and only 0.2 million bushels respectively) in each of the last three marketing years. Jim Bobb, merchandiser with Southwest Grain, Gladstone, N.D., said at the November 2004 Crop Outlook and Issues Forum that "... the trade case brought our producers at least 50 cents a bushel because it gave us access to markets all over the country where they (buyers) couldn't go into Canada and get the same."

- Aggressive legal defense required to retain duty for four more years. Provided the two-part duty withstands Canada's appeals under the North American Free Trade Agreement and an annual review process, producers will accrue similar benefits for another four years. The North Dakota Wheat Commission continues to retain legal counsel to aggressively defend the Department of Commerce and International Trade Commission rulings that led to the duty. One bi-national NAFTA dispute panel is now examining the countervailing duty imposed to offset subsidization while another panel studies the connection between Canadian imports and injury to U.S. hard red spring wheat growers. Both are important components to keeping the current duty. The panels will each issue decisions in 2005.
- Purum prices respond to legal scrutiny of Canadian trade practices and temporary duties.

 From the time preliminary DOC and ITC rulings imposed temporary bonding on Canadian durum in March 2003 through the appeal process initiated by the NDWC and denied by the U.S. Court of International Trade in August 2004, imports remained the lowest they'd been since a Section 22 trade investigation in the mid-1990s. Producers experienced a positive price response. The NDWC is now closely monitoring sales of Canadian durum to the U.S. market. If the Canadian Wheat Board again abuses its access to the U.S. market and import levels climb dramatically at unfairly low prices, and if the financial backing is available, the NDWC would consider another anti-dumping or countervailing duty case, or even an anti-trust suit.

- ➤ Canada's barriers begin to crumble. Meanwhile, trade investigations launched by the NDWC prompted the U.S. government to file a World Trade Organization complaint. The WTO ruled in 2004 that Canada is in violation of the agreement with its regulatory hurdles that prevent the import of U.S. grain and higher rail transportation rates for imported grain. The NDWC's attorney is monitoring the situation to assure Canada complies.
- ➤ Gains made on permanent solution to unfair Canadian wheat trade via WTO negotiations.

 Further efforts by the NDWC, in concert with national organizations, have resulted in a framework document for WTO negotiations that calls for:
 - elimination of subsidies to and by state trading enterprises,
 - · an end to government financing and loss underwriting of STEs, and
 - · it puts monopoly powers on the table.

OTHER TRADE ISSUES

- Moroccan agreement improves access for U.S. durum. U.S. farmers now have an advantage in competing for durum business in Morocco, typically Canada's second largest export market. An expanded import quota and reduced tariffs are among gains made by the U.S. government in committing to a Free Trade Agreement with Morocco in 2004. National wheat organizations supported the agreement ratified by Congress in July.
- Australian FTA a missed opportunity to reform government monopoly. Wheat groups opposed the Free Trade Agreement with Australia after negotiators failed to require disciplines of the Australian Wheat Board monopoly. Australia did, however, commit to negotiations on state trading enterprises in WTO talks. Congress approved the agreement in July.

DOMESTIC POLICY

The 2003 Legislative Assembly broadened objectives to be addressed with the wheat checkoff to include domestic policy issues. The NDWC established an advisory committee to develop consensus about issues upon which to focus. The committee consists of representatives of major constituencies and stakeholders including the North Dakota Farm Bureau, North Dakota Farmers Union, North Dakota Grain Growers, U.S. Durum Growers and North Dakota Grain Dealers. Issues identified for the NDWC to address are:

- · crop insurance,
- · chemical harmonization,
- rail rates and service, and
- adequacy of funding for wheat research.

Key initiatives for which the NDWC provided financial and/or moral support are:

- securing an expected \$200 million in aid for producers of wheat, corn, soybeans, oilseeds and other crops who suffered weather-related losses in 2004,
- achieving Environmental Protection Agency registration of pesticides,
- ⇒ gaining restoration of \$2.5 million in federal funding for crop research at USDA's Agricultural Research Service center on the campus of NDSU, Fargo, and
- ⇒ assisting with an investigation of grain rail shipping rates that has led to a recommendation of a state challenge before federal regulators that could result in rate reductions.

The NDWC has contracted with and provided grants to the National Association of Wheat Growers, the North Dakota Grain Growers and U.S. Durum Growers Associations for assistance on these and related issues. Contracts and special project grants totaled \$184,000 in fiscal year 2003-04 and \$158,950 is budgeted in fiscal year 2004-05. For complete reports of all services performed, please see the three separate grower association reports provided with this submission. Examples of services provided and results achieved by each organization are provided below.

National Association of Wheat Growers

Like other national wheat organizations, state affiliate dues to NAWG are based on five-year production history. The North Dakota Grain Growers Association assessment for 2003-04 and 2004-05 was \$109,000 each year. NDGGA committed an additional \$10,000 in 2004-05 to help offset other states' shortfalls in meeting the overall budget. The NDWC approved \$50,000 toward this commitment in its budget established in July 2004 and in January 2005 voted to cover the remaining \$69,000, bringing the total commitment for fiscal year 2004-05 to \$119,000. In turn, NAWG provides the NDWC with national representation on issues pertaining to trade, research, crop protection and the environment, plus producer communications and public education services.

- Disaster assistance secured for 2003 and 2004 crops. Working with a larger agriculture coalition, NAWG was instrumental in getting disaster provisions attached to a hurricane relief bill. While NAWG opposed offsets in farm program spending, Congress decided to reduce the budget for the Conservation Security Program. Crop producers will be eligible for assistance if crop losses due to natural disaster were in excess of 35 percent in either 2003 or 2004.
- "Home Grown" program educates reporters about need for solid agricultural policy. NAWG has met with reporters of prominent newspapers and magazines to explain benefits and realities of the 2002 Farm Bill. A strong base of support will be essential to successfully defending the 2002 bill from budget reconciliation.
- Fixing crop insurance. NAWG supported NDGGA, USDGA and N.D. Farm Bureau among others in an effort to secure changes in Risk Management Agency crop insurance rules regarding durum and spring wheat yields. New rules caused durum growers to lose crop insurance coverage in 2004, which was a factor in the reduction in planted durum acres. At the same time, NAWG is seeking enhancements to crop insurance including:
 - higher available coverage levels,
 - prevention of losses in Actual Production History (APH) from successive droughts or disasters,
 - use of risk management accounts to cover large uninsured deductibles, and
 - not requiring producers to harvest a crop where harvest costs exceed the crop value to qualify for insurance indemnities.
- ➤ Pesticide harmonization. NAWG continues to seek a joint registration system between the United States and Canada system for pesticides.
- ➤ Involvement in Alliance for Rail Competition builds support for Congressional action in 2005. HR2924 is a bill that would restore balance needed to allow competition.

North Dakota Grain Growers Association

- Explaining need for disaster aid in Washington, D.C. NDGGA representatives along with State Senator Jerry Klein and State Representative Phil Mueller met with lawmakers and their aides in September 2004 to explain the need for help with quantity and quality losses. The NDWC provided information in support of the effort and covered the delegation's travel expenses.
- E-tour educates Environmental Protection Agency officials. Annual tours have addressed topics such as seed treatments, minimization of spray drift, and advantages of experimental fungicides as compared to products currently registered for application on wheat.
- Addressing crop insurance inadequacies through representation in Washington, D.C. In March 2004, NDGGA members urged members of Congress to make improvements.
- Addressed problems with prevent plant rules. The NDDGA worked with USDA's Risk Management Agency to expand rules pertaining to prevent plant coverage.
- Educating producers about best production and marketing practices. The NDWC provided financial support for information opportunities coordinated by NDGGA including its annual Small Grains Conference, a marketing seminar and booth at the Big Iron farm show, and a series of marketing seminars in three locations in the spring of 2004. Checkoff dollars have also provided support for the NDGGA's *Gleanings* newsletter, *ndmarketmanager.org* website, and distribution of Prairie Grains magazine to more than 11,000 producers in North Dakota. The NDGGA and USDGA also recently received a joint special project grant from the NDWC to hold a series of four "Best of the Best" Wheat Production meetings in North Dakota during February 2005. The meetings will showcase research from North Dakota State University and Minnesota State University.
- ➤ Conveying N.D. concerns in national discussions. Checkoff dollars help offset costs of NDGGA representatives' participation in NAWG/USW meetings where priorities are determined and policies set.

U.S. Durum Growers Association

- ➤ Washington, D.C. briefings on impacts of wet/dry conditions lay groundwork for disaster aid.

 A delegation from North Dakota met with White House and USDA advisers and key House and
 Senate staffers in July 2004. Three USDGA board members as well as crop insurance specialists and
 agricultural bankers accompanied Gov. John Hoeven in the briefing sessions to explain the need for
 disaster assistance due to extremes in weather patterns. The NDWC covered the USDGA
 representatives' travel expenses.
- Developing durum milling insurance policy. The intent is to help provide a more reliable supply of high quality durum by providing producers with some assured return on investment in crop inputs such as fungicide that are important in producing quality grain, especially in areas prone to crop disease. USDGA selected five producers from some of the seven pilot counties (Hardy MT, McLean, Renville, Towner, Divide, Burke and Benson) to run trials in 2004 to determine if the insurance is feasible for the underwriter (John Deere, Inc.) and the producer. Contracts for delivery are initially with Dakota Growers Pasta Company.
- ➤ Changes needed in crop insurance to secure durum acres. New rules imposed by USDA's Risk Management Agency inadvertently caused durum growers to lose crop insurance coverage in 2004, which was a factor in reduced durum acres. Remedies sought included reinstating the use of simple average yields for farmers who have grown both spring and durum wheat and establishing an advisory board in each region to look at the effect of any proposed changes to crop insurance history.

▶ USDGA learns about customer's end-use needs through visit to Barilla plant. USDGA received special project funding from the NDWC to send a delegation of board members, staff and a local elevator manager to Barilla's pasta plant in lowa. Information they gleaned reinforces the importance of meeting customer needs through the NDWC's ongoing efforts to develop and promote the production of durum varieties with strong gluten properties.

RESEARCH AND CUSTOMER SERVICE

RESEARCH

North Dakota farmers achieved strong returns from 2003 and 2004 wheat crops, thanks in part to research programs that have improved productivity and quality while at the same time preventing losses from diseases and insects. Because economic benefits of wheat production are so widespread, the majority of funding for vital research comes from the public sector via federal and state tax dollars. The NDWC supplements this foundation of support with checkoff dollars for additional needed research, 26 projects in fiscal years 2003-04 and 2004-05 amounting to \$222,313 and \$230,566, respectively. For a full listing of the projects, please see the two reports to producers included with this submission.

Here are some highlights:

- **Steele ND' offers yield, quality, disease resistance. NDSU released a new hard red spring wheat variety in 2004 named Steele ND with a secondary or alternate type of scab resistance than the already hugely popular Alsen, which incorporates the Chinese or Sumai-3 type of resistance. This breakthrough, along with Steele ND's overall disease resistance package, gives North Dakota wheat producers another important tool in the fight against economic losses caused by fusarium head blight (scab). Along with excellent yield and quality potential, Steele ND provides one of the strongest defenses against other foliar diseases of any variety available in the region. NDSU's breeding pipeline contains potential spring wheat and durum varieties with even better agronomic and quality traits that are undergoing additional performance testing for release in the very near future.
- ▶ Durum breeders clean house to rid scab resistant experimental lines of undesirable traits. It has to look like durum and behave like durum to be durum. To get to that point, NDSU researchers are crossing scab resistant durum lines with varieties adapted to North Dakota to eliminate numerous bad traits that came in the original transfer of disease resistance from a wild wheat relative. The durum breeding team is now advancing experimental lines with the best agronomic, yield and quality traits. Meanwhile a new variety for western North Dakota may be considered for release in 2005.
- Some white varieties have comparable yields to red varieties. Three hard white spring varieties (AC Vista, MTHW9420, and Lolo) produced yields similar to hard red spring varieties Parshall and Keene in 90 percent, 67 percent and 57 percent of 21 North Dakota and Montana locations over a three-year study period.
- ➤ Hard red spring variety with sawfly resistance increased for possible release. NDSU's specialty wheat breeding program is developing solid-stemmed varieties to resist sawfly infestations under production conditions in western North Dakota. Midge resistance is another area where progress is being made.
- ⇒ Alien genes provide source of wheat improvements. Screening wild wheat relatives and alien species has identified lines with resistance to harmful pests and diseases such as Hessian fly, tan spot, stem rust and scab. Researchers have even developed a wheat line with a "stay green" gene reported to be associated with drought tolerance.

- Disease forecasting system helps farmers make and/or save money. More bushels of higher quality wheat are being harvested by North Dakota farmers thanks to always improving scientific guidance from NDSU on if and when they need to apply fungicide to prevent disease damage. Based on 500 acres of wheat, a \$3.50 per bushel market price for wheat, and fungicide costs of \$14 per acre, researchers estimate the system:
 - boosts net revenue by \$8,400 on a crop under disease pressure by preventing average yield losses of 10 bushels per acre, or
 - saves \$7,000 in input costs on a crop if fungicide application is not needed.
- Glutograph will help researchers develop stronger gluten durum to better compete with Desert varieties. Equipped with a new instrument for testing gluten strength in durum, researchers can now better select for the strong gluten trait in upcoming durum lines. The glutograph better differentiates between durum varieties that might otherwise appear to have identical dough properties using a more conventional mixograph test.

CUSTOMER SERVICE

Quality reports are chief sales tool. The NDWC, Montana Wheat and Barley Committee, Minnesota Wheat Council, South Dakota Wheat Commission and U.S. Wheat Associates partner in the funding of an annual crop survey. Samples are collected during harvest directly from growers, farm bins and local elevators with assistance from the N.D. Agricultural Statistics Service and are analyzed by NDSU cereal science technicians for grade and other kernel characteristics plus milling, dough mixing and baking characteristics in the case of hard red spring and milling and pasta processing traits for durum. The results are published in report form and distributed directly to domestic and international customers as well as posted on the web site www.ndwheat.com.

NDWC Marketing Director Jim Peterson and Northern Crops Institute Technical Director Brian Sorenson shared highlights with customers in Latin American and Asia during USW-sponsored seminars in the fall of 2004.

- Buhler mill donated by Nestle will help in research and product development. A durum milling expert hired as a consultant by U.S. Wheat Associates and the NDWC visiting the Northern Crops Institute in the spring of 2004 with a Japanese durum team examined a pilot scale mill donated to North Dakota State University by Nestle. Counter to previous advice, he determined that the mill is intact and sufficiently modern to be very useful in both durum and spring wheat applications. His input has spurred a flurry of activity that will lead to installation of the mill in the coming biennium, pending legislative approval of NCI authority to raise the necessary funds.
- Courses provide buyers in private industry with knowledge to successfully buy spring wheat and durum. To help increase exports and customer satisfaction through sales and procurement strategies that lead to enhanced quality and better value in shipments, the NDWC annually provides a grant to NDSU agricultural economist Dr. Bill Wilson for studies of pertinent marketing topics. Wilson shared insights with participants in Northern Crops Institute short courses in 2004 on traceability and strategies for end-use quality assurance such as purchasing by variety. This constant stream of new information is a main attraction for buyers identified and often sponsored by U.S. Wheat Associates for enrollment in NCI's basic and advanced grain procurement courses. Other NCI courses conducted in 2004 with partial sponsorship from the NDWC and surrounding wheat states addressed pasta processing, wheat and flour quality, and blending issues.

DOMESTIC PROMOTION AND EDUCATION

"You're in pretty good shape for the shape you are in," wrote Dr. Seuss. Today, all too many Americans are <u>not</u> in good shape. Estimates indicate 60 to 65 percent of us are obese and overweight. Obesity captured considerable attention in 2003-04 from reporters and policymakers alike. Looking for a scapegoat, diet book authors and media villainized bread and pasta, proclaiming carbs the problem.

Science tells us calories are the problem and that grain foods contain essential nutrients. Cutting through the onslaught of misinformation to communicate factual, positive messages about bread, pasta and other wheat foods is a challenge. Armed with only a \$1.2 million budget from state wheat commissions (including North Dakota's) and industry partners, the Wheat Foods Council makes up in credibility what it lacks in funding. Credibility earned from 32 years of providing sound nutrition information to dieticians, physicians, fitness leaders and other health leaders. "Influencing the Influencers" is what the Council does best.

Partly due to WFC efforts in assisting the nutrition community with getting the word out on the need for wheat foods, 2004 has brought a reduction in carb counting. According to the NPD Group, American adults on a low-carb diet peaked at nearly 10 percent in February 2004. By November, that number had dipped below 5 percent with few following the diet's recommendations.

Following is a sample of recent projects and endeavors that multiply positive messages:

➤ Speaking up for grains in Dietary Guidelines review. The shape illustrating eating advice to consumers since 1991 is the Food Guide Pyramid. The graphic communicates Dietary Guidelines for Americans, which have been under review in 2003-04. New guidelines will be issued in 2005. Much is at stake for the category including the six to 11 recommended daily servings.

The Wheat Foods Council has been vigilant in explaining why both whole grain and enriched grain foods are essential to good health by:

- submitting comments on three separate occasions, plus 14 scientific studies, to the Dietary Guidelines Advisory Committee,
- responding to a Federal Register notification regarding the Food Guide Pyramid, and
- meeting with public policy leaders from USDA's Center for Nutrition Policy and Promotion, the National Institutes of Health, and staff of key U.S. Senators and Congressman.
- Folic acid white paper explains need for white bread, pasta and other enriched grains. This summary of existing research supports messages on the risk of diminishing enriched grains in the Dietary Guidelines by emphasizing to media, government and health leaders that white bread and traditional pasta have twice the folic acid content of whole grains. In addition to preventing birth defects, folic acid is linked with reducing the incidence of chronic diseases. A recent study by General Mills, Inc. reports that 62 percent of the folic acid/folate in the American diet comes from grain foods.
- ▶ Book debunks myths, provides solutions. While meat is wonderfully nutritious and delicious, eating a whole cow and no bread— is not healthy. In a new book commissioned by the Wheat Foods Council, authors Glenn Gaesser, Ph.D., and Karin Kratina, Ph.D., R.D., use scientific research to explain the pitfalls of fad diets. Titled "It's the Calories, Not the Carbs," the book has been endorsed by leaders within the health community. National media outreach to key health, nutrition, and science reporters is raising awareness about this new resource. A radio tour featuring Gaesser recently reached more than 3 million consumers.

- ⇒ "What You're Missing" media kit tells what carb-bashers lack. Fact sheets and news releases distributed to key media contacts nationwide explain the health benefits of eating wheat foods and the health problems that can result if they are eliminated and/or reduced in our diets.
- Newspaper feature reaches 18 million consumers. The Wheat Foods Council and American Bakers Association have teamed up to annually develop full-page newspaper features. The page released in 2004 under the theme "BREAD FOR SUCCESS: Foundation of a Healthy Diet," quoted Karin Kratina, Ph.D, R.D., explaining how families need the energy and nutrients of grain foods more than ever before.

IN-STATE ACTIVITIES

While the NDWC focuses most of its product promotion budget where the people are—nationally—we also conduct activities to make sure our citizens are aware of the role bread and pasta play in a nutritionally sound diet, to provide them with new recipe and serving ideas, and to make sure they know where these foods come from. These activities include:

- Exhibits at conferences of N.D. Dietetic Association and N.D. Nutrition Council and sponsorship of the conference for NDSU Extension Service food and nutrition specialists.
- Reaching roughly 3,000 fourth graders with the story of wheat through Living Ag Classrooms in Minot, Bismarck and Fargo.
- Generating awareness among media and consumers about the role of North Dakota farmers in
 putting pasta on our plates and the benefits of pasta through "Use Your Noodle" crossword and
 trivia contests for 38 newspapers and 13 radio stations.
- Annual pasta recipe contests culminating in a "20 Years of Pasta" cookbook that has been very
 popular with 550 "Use Your Noodle" contest winners as well as numerous consumers who order
 them directly.
- Coordination of "Bake and Take Day," a service project for 4-H, homemakers and other civic groups whereby the NDWC provides recipe brochures and stickers for them to place on packages of freshly baked wheat foods to be delivered the fourth Saturday in March.

PUBLIC INFORMATION

The NDWC has used several means to update producers and other stakeholders about progress and activities conducted with the wheat checkoff:

- > regular statewide news releases
- >> presentations at producer meetings including district elections and Extension functions
- >> hosting of annual Crop Outlook and Issues Forum in Minot
- → Dakota Gold newsletter (6 times per year to 21,000 producers, other stakeholders and industry allies)
- → Annual Report to Producers
- web site: www.ndwheat.com (monthly average of 8,000 user sessions by 4,000 unique users making 226,000 hits)
- >> weekly e-mail bulletins

Survey shows potential for increased producer support through better communication. A survey of 388 randomly selected wheat producers from across the state underscores that producers cannot be expected to fund and support a program, especially a request for increased funding, unless they are informed about activities and results.

The survey conducted in the late winter/early spring of 2004 by AdFarm, Fargo, found that only 25 percent were "somewhat informed" or "very informed" about the North Dakota wheat checkoff program. This was down from 69 percent being "somewhat" to "well- informed" in a similar survey in 2001. The difference may be due partly to a reduction in the scope and frequency of NDWC communication. Informational ads on the radio have been eliminated and newsletters have been cut back under budget constraints resulting from a shift in resource allocation to respond to needs in the policy arena.

Asked if satisfied with work being conducted with the wheat checkoff, the majority of respondents (54 percent) provided "neutral" or "do not know" responses, indicating they did not feel informed enough to give a firm response. "Most informed" respondents tended to be "most satisfied" with the wheat checkoff.

Likewise, asked if they would support an increase in the wheat checkoff from 1 cent a bushel to 1.5 cents per bushel, the share of respondents who indicated they "would definitely support the increase" or "would probably support the increase" improved from 31 percent among those "not well informed" to 52 percent among those "very informed." Of the total, 35 percent indicated some level of support for the increase. AdFarm pointed out an opportunity to move another 28 percent from a "probably not support" stance into the "probably support" category through education and communications.

Asked about reasons for supporting an increase, the share of respondents rating potential initiatives as "very important" is as follows:

- improving exports, 72 percent
- · improving rail rates and service, 59 percent
- · addressing unfair trade practice, 58 percent
- · retaining and improving the farm bill, 53 percent
- improving wheat-based foods consumption, 46 percent, and
- developing better wheat varieties, 38 percent.

The NDWC is using the survey results and a subsequent evaluation by AdFarm of its communication program to better tell the story of what is being accomplished on producers' behalf. A slight increase in funding for public information and producer outreach is included in the 2004-05 budget to help build producer awareness and satisfaction.

ADMINISTRATION

Revenue collection. The Commission collects the checkoff from first purchasers on a quarterly basis. Revenue collections basically match production estimates after allowances for seed and other farm use.

Refunds. Growers who do not agree with the checkoff or programs directed by the NDWC may request a refund within 60 days after they sell wheat. In fiscal year 2003-04, the Commission granted 1,533 refunds (up from 1,263 in 2002-03) accounting for 6.9 percent of revenue (up from 5.9 percent in 2002-03) or \$206,480 (up from \$159,758 in 2002-03). Of the producers who requested refunds, 97 had not done so previously. The smallest refund was \$0.44, the largest \$2,250.00 and the average was \$134.69.

Financial overview. Net revenues in the 2003-05 biennium, currently estimated at \$5.549 million, have been aided by two years of near-record yields at 37 bushels per acre in 2003 and 39 bushels in 2004. The higher yields produced larger-than-average crops of 317 million bushels and 309 million bushels, respectively, despite reductions in planted and harvested acres.

Total expenditures are projected to be \$5.5 million for the biennium, which closes June 30, 2005. In addition, there will remain an outstanding trade case balance (interest free based on a gentlemen's agreement with the legal firm) projected to be \$2.850 million, based on the NDWC's plan to pay \$783,000 toward legal expenses in 2004-05. If the NDWC is forced to limit this expenditure in 2004-05, in light of a recent Attorney General's opinion, to the two mills (roughly \$1.190 million for the biennium) raised for this particular cause, then the account payable will likely rise to about \$3.2 million.

PROJECTIONS FOR 2005-07 BIENNIUM

Outlook is bright. North Dakota wheat producers can look forward to expanding opportunities and a bright future for the high quality, premium wheats grown in this state and region. Events of the past two seasons and general improvements in the local wheat economy are expected to instill renewed interest in wheat production. There's a strong prospect for significantly increased plantings in 2005. The wheat industry will continue to be one of the most important activities in the state of North Dakota, agricultural or otherwise.

Continued services of trade attorney needed to retain import duties. In the area of trade policy, the Commission continues to retain services of a legal firm with expertise in trade law to defend duties on imports of Canadian hard red spring wheat in two separate appeal processes initiated by the Canadian Government. Canada filed the appeals under provisions in the North American Free Trade Agreement. Two separate bi-national dispute panels are now reviewing two separate aspects of decisions that put the duties in place: 1) the countervailing duty (5.29 percent) to offset subsidization as determined by the U.S. Department of Commerce, and 2) the decision linking imports from Canada with economic injury to U.S. hard red spring wheat producers as determined by the U.S. International Trade Commission. The latter ruling will be most critical to keeping in place both the countervailing duty of 5.29 percent and the antidumping duty of 8.86 percent as economic injury must be linked to imports. The link between imports and economic injury to U.S. farmers ultimately became the pitfall in the case on imports of durum wheat.

Assuming the DOC and ITC decisions stand and that the duties remain, legal counsel will also be needed for an annual review process in each of the next four years. The NDWC will also likely need to continue to retain legal counsel to provide assistance to the Office of the U.S. Trade Representative in assuring that Canada institutes appropriate fixes to its trade barriers as identified in the WTO dispute settlement process and in gaining reform of its government monopoly marketing system in future trade talks. While not as costly as the actual case itself, the NDWC anticipates that about \$300,000 may be needed to cover these services in each of the next two years.

Present funding insufficient to meet obligations. The revenue projection for the next biennium (included with this submission on page 37) is based on averages. It assumes planted acres of all wheat at 8.9 million, harvested acreage at 8.7 million and a five-year average yield of 34 bushels per acre for total production of 296 million bushels annually. Roughly 15 million bushels is subtracted for seed and feed use with 281 million bushels remaining to be sold and collected upon. Less the typical amount returned to producers who request refunds, net revenue is thus projected to be \$2.6 million in each fiscal year at the assessment of 1 penny per bushel (10 mills).

At the current level—or in other words without a checkoff increase—the Commission would strive to meet national assessments for export and domestic marketing programs as well as fulfill legislative intent with regard to domestic policy issues and research funding while at the same time continuing payments on outstanding trade case expenses, yet not in an amount sufficient to retire the entire debt on a timely basis.

If the debt must be retired in the 2005-07 biennium, the Commission would have to cut core marketing and research programs. Ramifications would likely be felt by producers in years to come in the form of customer frustration with a lack of service leading to stagnant or reduced demand for their wheat in combination with stagnant or reduced productivity and end-product innovation within the state's wheat industry.

Checkoff increase needed to pay for today's victories and assure a strong future. Based on the producer survey conducted in 2004 and after consulting with major farm organizations, the NDWC is seeking an increase in the checkoff from 1 penny per bushel (10 mills) to 1.5 cents per bushel (15 mills). The primary purpose is to retire debt accumulated through legal challenges of unfair Canadian trade practices. NDWC elected county representatives in five of six districts expressed support for this proposal at their annual meeting in December 2004. The southwest district, while supportive of the purpose, was concerned about the level of the increase and producer willingness to pay (without spurring sharp increases in producers requesting refunds).

At an assessment level of 1.5 cents per bushel (15 mills), net revenue would increase by an estimated \$1.2 million, reaching a projected \$3.8 million in each fiscal year. The funding would enable the Commission to retain its focus on core export marketing, product promotion and research programs, while increasing funding for domestic policy issues and at the same time retiring the lion's share of the trade case debt in the 2005-07 biennium.

If approved by the 2005 Legislative Assembly and if the two mill "cap" on trade issue expenditures is lifted, the increase would take effect on July 1, 2005. Such legislation would allow the NDWC to accelerate payments. The budget projection on page 37 of this report under the proposed assessment level of 1.5 cents per bushel, or 15 mills, depicts a payoff of existing and estimated future trade case maintenance costs. Since the illustration results in a depletion of the NDWC fund balance and results in a negative ending balance, the trade case cannot be paid off entirely in the 2005-07 biennium without other budget adjustments.

An emergency clause provision in the checkoff increase legislation could potentially increase gross revenues by \$220,000 in the current biennium (2003-05). This feature and the lifting of the 2-mill cap would reduce the level of debt carried into the 2005-07 biennium.

Ultimate retirement of the trade case debt will free funds for the NDWC to address other issues and programs of importance to North Dakota wheat producers and will lay a strong foundation for the future.

If you have questions or concerns about the wheat checkoff program, please contact the North Dakota Wheat Commission, 4023 State Street, Bismarck, ND 58503-0690, phone 701-328-5111, e-mail: ndwheat@ndwheat.com. For additional information, please refer to the printed reports to producers for fiscal years 2002-03 and 2003-04, included with this submission.

NORTH DAKOTA WHEAT COMMISSION Bismarck, ND

STATEMENT OF PROJECTED REVENUE AND EXPENDITURES For the Bienniums Ended June 30 UNAUDITED

Prepared by the North Dakota Wheat Commission

	Actual Budget 2003-2005 Biennium (w/10 mills)	Projected Budget 2005-2007 Biennium (w/10 mills)	Projected Budget 2005-2007 Biennium (w/15 mills)
BEGINNING BALANCE	\$656,308	\$678,479	\$678,479
REVENUES:			
Assessment Revenue Collected from 1st Purchasers Less:	\$5,948,512	\$5,620,000	\$8,430,000
Refunds Paid to Producers	(412,280)	(387,780)	<u>(758,700)</u>
Net Assessment Revenue	5,536,232	5,232,220	7,671,300
Interest income	9,247	18,456	18,456
Promotional Sales/Miscellaneous	<u>3,172</u>	<u>2,750</u>	<u>2,750</u>
Total Revenue	<u>\$5,548,651</u>	<u>\$5,253,426</u>	<u>\$7,692,506</u>
EXPENDITURES:			
Administration	\$430,368	\$436,708	\$436,708
Domestic Product Promotion	282,869	289,284	289,284
Export Marketing	1,658,309	1,848,162	1,848,162
Policy & Issues	. =		
Trade Domestic	1,742,437	1,279,753	3,697,799
Research/Customer Service	342,950	394,000	1,025,667
Public Information	709,120 360,427	717,120 <u>406,673</u>	717,120 <u>406,673</u>
	<u>555, 127</u>	400,070	100,070
Total Expenses	<u>\$5,526,480</u>	<u>\$5,371,700</u>	<u>\$8,421,413</u>
Revenues Over (Under) Expenditures	<u>\$22,171</u>	<u>(\$118,274)</u>	(\$728,907)
ENDING BALANCE	<u>\$678,479</u>	<u>\$560,205</u>	<u>(\$50,428)</u>
Outstanding Trade Case Legal Expenses (Including Est. future costs of \$300,000/yr)	<u>\$2,850,747</u>	<u>\$2,385,166</u>	
ADJUSTED ENDING BALANCE	(\$2,172,268)	<u>(\$1,824,961)</u>	

Excerpt from complete audit report

ND WHEAT COMMISSION

Additional Agency Commentary
For the Periods Ended June 30, 2004 and 2003

Canadian wheat imports averaged less than 20 million bushels prior to the North American Free Trade Agreement (NAFTA). However, soon after NAFTA implementation in 1989, imports began to grow and soon topped 70 million bushels per year, displacing upwards of 20 percent of domestic spring wheat and durum usage in the United States. Today, and for most of the 2003 and 2004 marketing years, wheat imports from Canada have been pressed back to pre-NAFTA levels. This feat has been accomplished entirely through features of this comprehensive trade case, including the imposition of meaningful import duties at the Canadian border. In economic terms, positive impacts are conservatively estimated at a minimum of \$50 million per year in improved prices paid directly to North Dakota spring wheat and durum producers. Larger benefits measured through a modest multiplier indicate a collective benefit to the state's economy of \$350 million or more over the past two years.

Continuation of this effort through the all-important appeals phases, where-in the present accomplishments of the case are defended and maintained, could potentially extend these benefits for a period of five years, the typical life expectancy of import duties of this nature. Likewise, there appear to be serious negative implications and direct negative economic impacts to the state, its wheat producers and the wheat industry of North Dakota and the surrounding region if pivotal decisions in the case are not met with appropriate legal responses.

It is generally accepted that legal costs associated with the later phases of such a case accumulate at a more modest rate. However, the unpredictability of legal maneuvers of the opposition (CWB) and the offsetting measures required in an action of this scope and complexity continues to make it difficult to estimate actual and future costs that may be incurred. Just as in the earlier stages of the case, the need for some level of confidentiality regarding critical aspects of case strategy also continues as an extenuating circumstance in projecting cost estimates.

Managements Discussion and Analysis - continued June 30, 2004 and 2003

Economic Factors

2002-03 Background

The revenue situation for the North Dakota Wheat Commission was reduced in the 2002-03 fiscal year due to a smaller wheat crop in 2002. A one-cent per bushel assessment on the state's annual wheat crop at first point of sale is the only significant source of revenue for the Commission. Less than optimal weather and production conditions reduced average yield per acre to 27.3 bushels, well below the five-year average of 31.8 bushels per acre. As a result, total wheat production in North Dakota amounted to 216.2 million bushels; also well below the five-year average output of 277.1 million bushels.

A wheat crop of that magnitude has the potential to generate gross check-off revenue of \$2,162,000 if it were all marketed during the fiscal year. Actual annual revenues are typically reduced by the amount of producer refunds that are deducted from collections (typically averaging 6 – 7 percent) and by reductions in cash sales by on-farm seed use and wheat stocks that are carried over as inventory for sale at a future date. Fiscal year revenues are also potentially enhanced by sales of old crop stocks remaining on hand in any given year. Producer marketings are typically influenced by factors such as commodity availability, market price and cash flow needs of individual operations. In preparing its annual budget the Commission uses the current potential crop size (often just shortly after spring seeding is completed) and these related factors in estimating potential revenues for the coming year. According to the audit report, net assessment revenues collected by the North Dakota Wheat Commission in 2002-03, totaled \$2,477,813 with additional miscellaneous and interest income bring total revenues from all sources to \$2,489,210.

2002-03 Budget

The North Dakota Wheat Commission began the 2002-03 fiscal year with a balance of \$374,341.01 in the state treasury and approved a budget of \$2,484,194 at the annual reorganization meeting in July. Due to the reduced income outlook, budget authorizations in the five major program areas of export marketing, trade policy and issues, domestic promotion, research and customer service, and public information were evaluated and reprioritized. Comparatively strong budget emphasis was placed on trade policy and issue analysis, almost entirely related to the trade case against the Canadian Wheat Board and its unfair trading practices, in spite of the smaller crop and reduced revenue forecast for the 2002-03 fiscal year. In doing so the Commission considered the urgency of the issue and the need for continuity of the effort in a case against such a formidable and well financed opponent as the Canadian Wheat Board.

The Commission had been granted a 2 mill increase in the check-off in the 1999 legislative session to pursue trade policy issues throughout the world, and had been attempting to allow the additional revenue which was collectible as of July 1, 1999, to accumulate in a legal fund or so-called war chest for an impending trade action against the Canadian Wheat Board. However, the Commission was also under considerable pressure from stakeholders and policymakers at the local, state and national levels to ramp up the effort, soon. Those pressures continued to mount at all levels as the year progressed.

Additional Measures Taken in the Trade Case

The trade case moved forward, eventually entering the more aggressive and expensive phases of the case, with countervailing duty and antidumping petitions being filed by the North Dakota Wheat Commission against the Canadian Wheat Board in 2002-03. In an effort to stay current with already mounting legal bills incurred in persuit of relief from unfairly traded Canadian spring wheat and durum, the Commission had also approved a substantial upward adjustment to the previous (2001-02) budget late in the 2001-2002 fiscal year, drawing down reserves that had been accumulated for this effort. The

NORTH DAKOTA WHEAT COMMISSION

Managements Discussion and Analysis - continued June 30, 2004 and 2003

Commission's aggressive action resulted in actual expenditures in the trade policy and issues program area of \$1,268,468, significantly overspending the original 2001-02 amount budgeted for the trade policy program area of \$501,024. As a result, actual total expenditures in the 2001-02 budget expanded to \$3,539,407, one of the largest annual expenditure levels ever approved by the North Dakota Wheat Commission.

The Wheat Commission's trade case and related trade policy expenditures through the end of the 2002 fiscal year covered primarily the work done by attorneys, economists and trade policy consultants in preparation for and completion of the successful Section 332 and Section 301 investigations. These important investigations found the Canadian Wheat Board guilty of unjust subsidies and disruptive trade practices that were documented by the International Trade Commission (ITC) and the United States Trade Representative (USTR), and were instrumental in building the necessary platform for the more intense and much more expensive antidumping and countervailing duty cases that followed in 2002-03 and 2003-04.

These actions were also necessary in garnering vital Administration and Congressional support required to eventually move the countervailing duty and antidumping cases forward successfully. Although the Administration could still not be convinced to impose tariff rate quotas or self initiate antidumping or countervailing duty petitions against Canadian wheat imports, which had now grown to more than 60 million bushels and 20 percent of the U.S. spring wheat and durum markets, in April 2002 the United States Trade Representative's office unveiled its alternative offer to the North Dakota Wheat Commission.

The USTR presentation made in Mandan, North Dakota, before the Commission and numerous state policymakers and stakeholders, involved a four pronged approach designed to comprehensively provide relief to wheat and durum producers. The plan included provisions to curb imports through countervailing duty and anti-dumping petitions, allow U.S. wheat producers greater access to the Canadian market, initiate a dispute settlement case against the Canadian Wheat Board (CWB) in the World Trade Organization (WTO), and provide comprehensive and meaningful reform of state trading enterprises and marketing monopolies such as the CWB.

As the 2002-03 budget year progressed the expenses associated with the trade case ramped up immensely, and the Commission's earlier discussions of an extended payment plan with the law firm retained to coordinate most of the legal economic analysis required, began to take on a more serious nature, since the 2002-03 budget contained only \$547,000 for trade case related issues. Late in 2002 the Commission and the law firm had discussed options that expenses for legal and economic analysis work required in pursuit of the case could potentially be spread out over a three year period in order to maintain the intensity and continuity required in such a complex and costly legal undertaking, while at the same time attempting to maintain budgets and some level of reserves for other critical program areas of the North Dakota Wheat Commission.

2003-04 Background

The 2003-04 wheat crop started out with reduced acreage and relatively positive conditions with the exception of the dry southwestern region of the state. As the season progressed the potential revenue situation for the North Dakota Wheat Commission improved substantially in the 2003-04 fiscal year due to much improved yields and a significantly larger crop. Optimal weather and growing conditions allowed for very little disease or other stress on the 2003 crop, raising average yields to 37.3 bushels per acre, up 10 bushels per acre from the previous year and significantly above the five-year average of 31.8 bushels per acre. Very good quality ratings also enhanced the marketability of the 2003 crop resulting in strong demand and increased sales. Total wheat production in North Dakota in 2003 expanded to 317.1 million bushels, with a potential for gross check-off revenue of \$3,171,000.00.

NORTH DAKOTA WHEAT COMMISSION

Managements Discussion and Analysis - continued June 30, 2004 and 2003

According to the audit report, net assessment revenues collected by the North Dakota Wheat Commission in 2003-04 totaled \$2,957,038 with additional miscellaneous and interest income bringing total revenues from all sources to \$2,963,281.

Early 2003-04 Budget Considerations

The North Dakota Wheat Commission began the 2003-04 fiscal year with a balance of \$454,341.31 in the state treasury after underspending the 2002-03 budget by nearly \$120,000 and approved a budget of \$2,545,443 at the annual reorganization meeting in July, 2003. The Commission remained cautiously optimistic that favorable growing conditions might continue, but at the time the budget was approved, harvest was still several weeks away and the promising crop had not yet been realized. Modest budget enhancements were implemented in the Commission's program areas of research and customer service, domestic promotion and export marketing. The budget allocation for trade policy and the trade case were held at approximately the same levels as in the previous budget with the provision that any significant improvement in crop conditions or resulting assessment revenues should be allocated to the trade case to keep the billings as current as possible.

Trade Case Milestones

Late in 2002 and 2003 the U. S. International Trade Commission (ITC) and the U. S. Department of Commerce both arrived at affirmative decisions on their respective determinations of preliminary injury and counter available subsidies, resulting in significant duties being assessed against Canadian spring wheat and durum imports. Final announcements on the level of duties were provided by the Commerce Department in August 2003, which amounted to higher duties than earlier reported. The final duties amounted to an average of 14 percent on spring wheat and durum imports from Canada. Duties at these levels were the equivalent of approximately 55 cents per bushel based on per bushel values at the time, a significant deterrent to the otherwise unfettered imports. This represented a tremendous victory for U.S. spring wheat and durum producers seeking relief from the onslaught of unfairly traded Canadian spring wheat and durum.

Import levels of spring wheat and durum had already been dramatically reduced during the period after the filing of the petitions as the CWB tried to avoid scrutiny during the period when the duties were being determined. The overall result was a dramatic reduction in imports due to the North Dakota Wheat Commission's trade case against the Canadian Wheat Board. Although the overall trade case effort is larger in scope, including the WTO aspects of ultimately disciplining or eliminating the monopoly powers of the CWB, the results of the antidumping and countervailing duty features of the case have been distinctly positive and measurable

Later in October 2003, the ITC released its final ruling, finding that injury could be established only in the case of spring wheat and unfortunately the durum duty was rescinded. This was a huge disappointment for producers, other stakeholders and policymakers and all involved in supporting the case. However, the dramatic reduction imports and the improvement in price and income opportunities continue to be very significant for producers and the economy of the state of North Dakota. Imports of Canadian spring and durum have both fallen to pre-NAFTA levels, dropping by 75 – 80 percent in the 2003 and 2004 marketing years. A conservative estimate of the direct benefits to producers in enhanced prices is 20 cents per bushel or more than \$50,000,000 per year on an average North Dakota wheat crop, according to economists at North Dakota State University's Agribusiness and Applied Economics Department. Application of even a modest multiplier dramatically increases the positive impact in the state and region. Major reductions in imports were also noted in the 2002 marketing year due to the impacts of filing the various petitions involved and to the comprehensive nature of the case. The process of appeals required to maintain the spring wheat duties continues and an attempt to overturn the durum decision has resulted

NORTH DAKOTA WHEAT COMMISSION

Managements Discussion and Analysis - continued June 30, 2004 and 2003

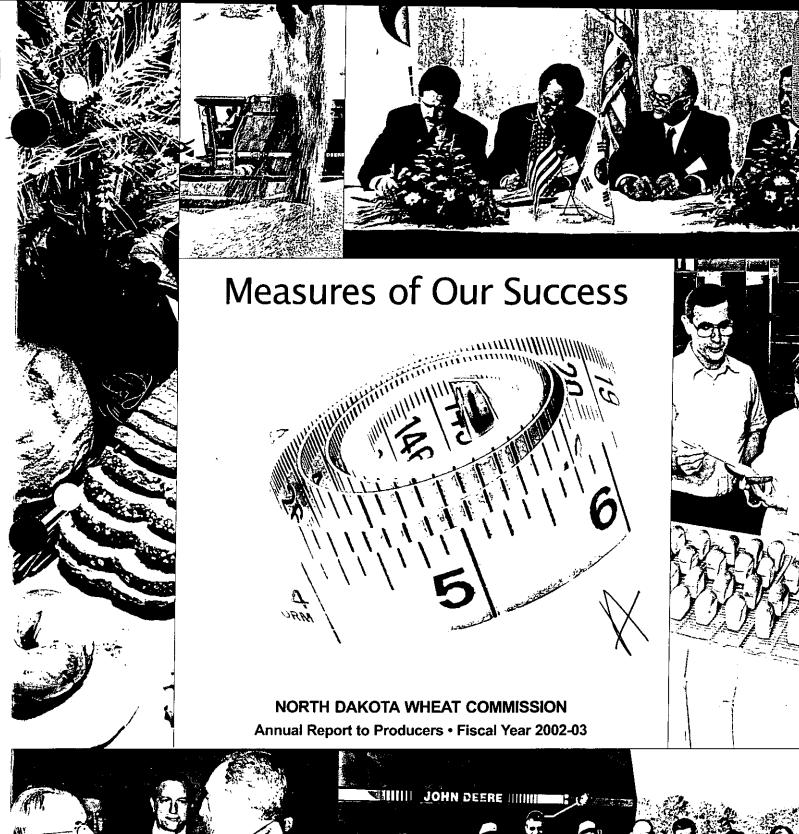
in significant additional legal costs being incurred throughout the 2003-04 fiscal year and at more modest levels in the current fiscal year.

2003-04 Budget Adjustments

The 2003 North Dakota wheat crop proved to be one of the better in recent memory in both quantity and quality, providing a significant boost for producers and the state's economy. The Commission decided in its March, 2004 meeting to increase the budget allocation for trade policy, specifically for the trade case by \$299,000 to offset the growing legal bill associated with the trade case.

Requests for Information

This financial report is designed to provide a general overview of the Commission's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the North Dakota Wheat Commission, 4023 State Street, Bismarck, N.D. 58503-0690.









SUCCESS delivered in results

2003 was a year of important, measurable successes for North Dakota wheat producers.

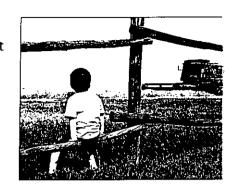
First, the much improved crop situation and bigger, better crop is positively impacting our economy. Larger yields, great quality, and the absence of disease and other damage top the list, along with higher prices.

Second, we made tremendous progress in our fight to eliminate the unfair practices of the Canadian Wheat Board. Our antidumping and countervailing duty cases in May 2003 resulted in sizeable bonding requirements on imports of Canadian hard red spring and durum. A 14 percent duty on spring wheat imports became permanent in November upon the U.S. International Trade Commission's final ruling on injury. We are elated with this outcome, but disappointed durum growers weren't given the same enduring relief, a decision we're vigorously appealing. The battle has been long, yet worthwhile. Our trade challenges have dramatically curtailed imports from Canada in the 2002-03 and the 2003-04 marketing years.

Third, in research, the threat of fusarium headblight or scab is unlikely to ever be eliminated, but today producers are much better equipped to deal with the disease. Measurable progress is again evident in the high quality, disease-fighting variety Alsen, which continues to grow in popularity. New and improved fungicides, application procedures, and disease forecasting systems give producers additional, effective tools to defeat or lessen the threat of infection and crop loss. Resistance similar to Alsen's is being incorporated into the more complicated durum

breeding program.

Most of the nine recent durum varieties released from NDSU are much less susceptible to fusarium than earlier varieties and those from other sources, most notably Canada.



Market fundamentals are also improving, with continued growth in world wheat use, evertightening stocks estimates and a weaker dollar painting a more optimistic market outlook. The brightest future for the U.S. wheat industry lies in the high performance wheats such as hard red spring.

Numerous challenges also face wheat growers. Competition from alternate suppliers was more subdued in 2003, but will likely re-emerge in future years. At the same time, new or renewed market opportunities are surfacing in China, Indonesia, Cuba, Mexico and other potentially large demand centers.

Market acceptance of new products produced with biotechnology is another challenge. U.S. Wheat Associates is actively working with leading technology providers and other industry partners to reassure customers worldwide that the safety and wholesomeness of U.S. wheat will remain paramount as these new technologies are eventually adopted and advanced.

Rising ocean freight rates may work to our disadvantage in distant markets such as Asia, where the Australian Wheat Board has an

OPTIMISTIC





about production, research and marketing

MISSION

To stablize and improve the agricultural economy of the state by promoting, aiding and developing the orderly marketing and processing of: North Dakota wheat:

NDWC Act, North Dakota Century Code Ch: 4-28 as Amended+

obvious logistical advantage. Other concerns also arise regarding the competitiveness of U.S. inland rail and barge

freight and the overall condition of the nation's grain handling infrastructure. Remaining competitive will continue to be a challenge for the U.S. wheat industry.

Proliferation of regional and bilateral trade pacts between our customers and competitors threaten U.S. exports if we don't get involved at some level. Favorable tariff treatment between member countries of Mercosur and the Andean Pact has nearly shut U.S. wheat producers out of major markets like Brazil, which now imports most of its wheat needs from fellow Mercosur member, Argentina. While no agreement is better than a bad agreement, there is a measurable cost associated with not being involved.

On the domestic front, fad diets have made carb-bashing vogue, challenging nutritious foods made from wheat and other grains. The Wheat Foods Council is working to inform consumers of the healthful benefits of wheat as one of the cornerstones in a balanced and truly healthy diet, while the milling and baking industries contemplate an even larger publicity initiative.

Competition for acreage with other crops presents a special challenge. Some view current trends as a threat to wheat; others see it as welcome diversity in cropping options and an expected response to a more flexible farm program.

As we take time to appreciate the wheat industry's accomplishments and plan for the future, it is a given there will always be challenges-some familiar, some not yet recognized. It is also clear wheat is and will be, for the foreseeable future, one of the most export-dependent U.S. commodities, requiring constant attention to competitive forces and market opportunities.

Producers can be thankful their industry is served every day by a team of seasoned professionals well established in key markets worldwide. These individuals, representing U.S. wheat producers first and foremost, develop new markets, expand existing markets and provide beneficial technical and trade service to existing and emerging customers worldwide. It really is a time for appreciation and thanksgiving. Have a great year!

Larry Lee Chairman

Neal Lisher Neal Fisher

Administrator







2002-03 season delivers higher prices



The U.S. marketing year begins June 1 and ends May 31.

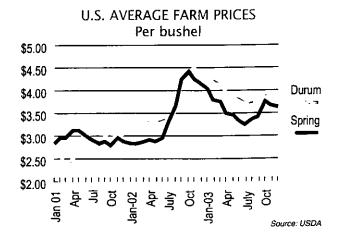
STRONG export demand and tighter world supplies of high quality milling wheat

pushed market values higher for hard red spring wheat in marketing year 2002-03. Demand for durum was flatter, but a smaller domestic crop and temporary bonding on Canadian imports helped secure better prices.

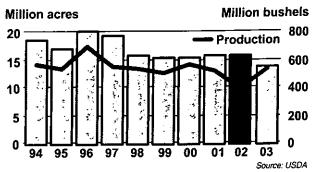
Drought over much of the hard red spring and hard red winter areas in 2002 led to a 17 percent reduction in the nation's crop, the smallest in 30-plus years. Severe drought also hurt Canada and Australia. Prices spiked in the fall of 2002 as world buyers became concerned about available supplies of high quality wheat. However, the Black Sea region's larger-than-expected supplies and rapid sales of low quality wheat soon became the main driver in world markets, causing prices to decline.

HARD RED SPRING WHEAT

Planted acres increased slightly in 2002, but production potential was quickly challenged by widespread drought. Southern areas suffered early losses, forcing acreage abandonment.



U.S. SPRING WHEAT PLANTINGS



Northern areas fared better, but also saw yields trimmed. U.S. spring wheat production fell 13 percent to 394 million bushels, the lowest level since 1988. The 2002 crop averaged a No. 1 grade and 15.3 percent protein, attracting good export demand and helping push average prices \$.80 per bushel above the previous year to the highest level in six years.

Exports improve in all global regions. An 18 percent expansion in export demand for hard red spring ran contrary to an 11 percent reduction in overall U.S. wheat exports. Exports increased to all regions with the strongest year-to-year growth occurring in Latin America as limited supplies kept the Canadian Wheat Board in check. In Europe, an oversupply of low protein wheat actually fueled the need for high quality U.S. hard red spring for blending.

DURUM WHEAT

A 6 percent increase in world production in 2002 reduced opportunities. Europe's near record crop and a 30 percent increase in Canada offset smaller U.S. and North African crops. This pressured world prices, but U.S. prices still increased over 2001. The U.S. crop dipped 5 percent to 80 million bushels as drought cut yields and harvested acres.



2003 brings improved crop

shipped from June to December 2002. Imports

stabilized prices in the second half of the year.

2003 OFFERS QUANTITY AND QUALITY

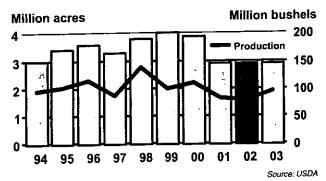
The 2003 production season delivered a nearly

negatively impacted U.S. prices in the fall and

early winter, but stronger domestic buying

U.S. DURUM WHEAT PLANTINGS

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Exports down due to large EU crop. U.S. durum exports in marketing year 2002-03 dipped 25 percent to 37 million bushels. Although Italy remained the top market, larger supplies in Europe reduced U.S. durum imports by nearly 50 percent from 2001's record and made the

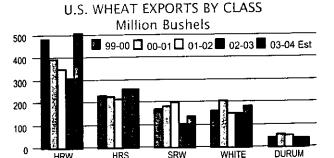
EU a net exporter. Despite added competition, the United States still posted larger exports to North Africa and Latin America.

Canadian durum imports drop. Domestic durum use declined slightly in 2002 with flat to declining pasta consumption. On a positive note, more U.S. grown durum was milled domestically as Canadian imports fell 50 percent. The ongoing trade investigation caused the CWB to pull offers in the fall of 2002. Nearly all imports were pre-sold and

ideal mix of rain and temperatures. This led to the second highest yield on record and helped push per acre gross returns on wheat in North Dakota to levels posted during banner price years of 1995 and 1996. U.S. spring wheat production increased to 533 million bushels, up 35 percent despite a 12 percent cut in plantings. The U.S. durum crop was larger as

well, up 21 percent to 97 million bushels.

Complementing gains in production is tremendous quality in both the hard red spring and durum crop. This is supporting increases in both domestic and export demand and providing stronger mid-year prices compared to last year. Market values are also getting an overall boost from a 35 percent increase in exports of all U.S. wheat, primarily hard red winter, due to a more favorable world situation including less Black Sea wheat, greater Chinese import demand and a weaker dollar.



Source: USDA January 2004 Projections

Gross return per harvested acre (market price X yield) \$134 \$131 \$131 \$116 \$109 \$92 \$97 \$91 \$90 01 02 99 00 95 96 97 98 94 Source: N.D. Agricultural Statistics

N.D. WHEAT PRODUCTION

4



SUCCESS

measured in new markets



U.S. WHEAT ASSOCIATES

In describing demand sources for U.S.

hard red spring and durum wheat, the export market is more than the icing on the cake. Exports accounted for 54 percent of total spring wheat usage in marketing year 2002–03 (which ended May 31) while foreign markets bought a third of the durum used. The North Dakota Wheat Commission, in partnership with U.S. Wheat Associates, has developed much of this export demand through years of providing reliable information and customer service.

Exports of U.S. spring wheat finish 18 percent ahead. The United States exported 255 million bushels of hard red spring wheat in 2002-03 to buyers in 55 countries. The top ten export markets varied only slightly with Venezuela returning to the list and Mexico and Indonesia re-appearing for only the second and third times, respectively.

Venezuela buys twice as much. Venezuela was not the only Latin American country to buy more U.S. spring wheat in 2002-03. Sales were up 50 percent to the region as a whole. USW and NDWC marketing experts work hard



SPRING WHEAT SALES TO MEXICO ALMOST DOUBLE The 2002-03 increase is fueled by efforts to facilitate direct rail shipments from elevators in North Dakota to large mills in Mexico. Here, North Dakota Wheat Commissioner-At-Large Jim Burbidge (standing center), Mohall, and other U.S. Wheat Associates representatives meet with millers in Mexico.

through personal plant visits to make sure processors were aware of new, high quality varieties of spring wheat and durum as well as steps being taken to prevent quality losses due to crop disease. Both the 2002 and 2003 crops have been well-received. Another factor in our favor in marketing the 2002 crop was a more subdued Canadian Wheat Board. Its price-cutting practices were less prevalent with fewer bushels to sell due to drought.



A first in more than 40 years CUBA BUYS U.S. HARD RED SPRING WHEAT

Obamadele listommedalpudasser US-laudich spiligwheit (202) 000 bushels) lin May 2006. Gillowhe essisance from USW with optimal purchase specifications Obaboughi enroller spilomente from size in the fall of 2008 and yet another hip spurny 2004. Orbanas been buying US-hardust winter spice the hundernein 2001.

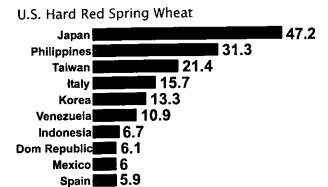
Here Coben Residence del Cestro gressadis V Crelimen Asi Les Concusto de Cestro de La Companio e de Companio e de Companio de U.S. hard red spring wheat. The USW-sponsored mission is resulting in mills that had never before purchased spring wheat wheat wheat willion bushels as of December. Another 10.7 million bushels is booked for sale with delivery pending.

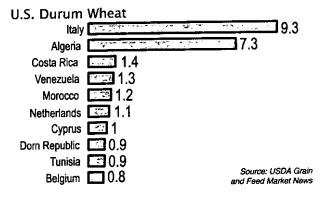
RESULTS



delivered in loyal customers

TOP 10 EXPORT DESTINATIONS IN MARKETING YEAR 2002-03 Million Bushels







50-YEAR TRUSTED RELATIONSHIP REASON TO CELEBRATE Governor John Hoeven and NDWC Chairman Larry Lee recognize the Korea Flour Mills Association for their loyalty to U.S. wheat. South Korea is typically a top five export market for U.S. hard red spring wheat.

Durum exports have tougher road to hoe with large European crop. The 2002-03 marketing year delivered a more difficult environment for marketing durum. Exports totaled 35 million bushels, down from the previous year. Italy was still the lead export market, but purchased only 9.3 million bushels compared a record 25 million bushels the previous season.

JAPAN BUYS ALMOST 50 MILLION BUSHELS OF U.S. SPRING WHEAT ANNUALLY Japanese millers consistently provide the largest source of export demand for U.S. hard red spring wheat. We must not take their business for granted. We need to respect their quality demands and concerns about marketing flour milled from biotech wheat. Here, a delegation of millers visits the CHS Southwest Grain terminal near Gladstone to learn about the 2003 crop.

Durum sales to Costa Rica shine. USW and the NDWC worked to regain important markets for durum in both Costa Rica and Guatemala by providing mills there with high quality samples to illustrate the difference discriminating contract specifications can make. Costa Rica's purchases doubled and sales to Guatemala were up 60 percent in 2002–03.





SUCCESS

measured in trade victories



Photo credit: USDA Agricultural Resi

14% IMPORT DUTY TELLS CANADIAN WHEAT BOARD WE MEAN BUSINESS

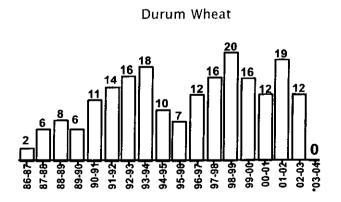
The North Dakota Wheat Commission made huge strides in 2002-03 towards the ultimate goal of ending the unfair wheat trading practices of Canada and bringing true and meaningful reform to the manner in which the Board operates.

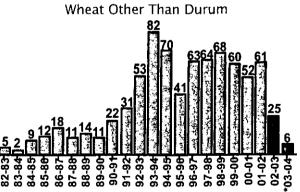
Countervailing duty and antidumping cases against the Canadian Wheat Board forced the government monopoly to exercise considerable restraint as the cases played out in 2002–03. Import duties preliminarily imposed in April and May of 2003, and made official on imports of hard red spring wheat in October, have kept import levels low. Even durum shipments stand at zero as our appeal of the International Trade Commission's decision on injury moves through the court system.

Formal complaint filed against Canada in World Trade Organization. In December 2002, the U.S. Trade Representative initiated a dispute settlement case that culminated with a formal hearing in Geneva in October. U.S. government attorneys argued that the Canadian Wheat Board operates in a non-commercial manner, and that laws and regulations in Canada make clear that U.S. wheat entering Canada does not receive national treatment, is segregated and indeed greatly discriminated against.

The matter is before the WTO dispute panel for final consideration. An interim confidential report was released to the governments in late December. Canadian officials claimed victory. This is inaccurate, and in response to press inquiries U.S. trade officials respond that: (1) The panel's findings contain some good news for America's wheat and grain farmers. (2) The panel found that indeed, Canada unfairly

IMPORTS FROM CANADA million bushels.





*03-04 data is for 6 months only (June to November)
Source: Canadian Grain Commission

The threat of import restrictions and ultimately bonafide restrictions reduced Canadian Wheat Board sales of durum wheat to the United States by 27 percent in 2002-03. Non-durum imports (typically hard red spring wheat) were down 59 percent over the same time period. Of the small amount of non-durum wheat imported to date in the 2003-04 marketing year, most is winter wheat not subject to the 14 percent duty.



RESULTS

delivered in a fairer market



discriminates against American wheat and grains. (3) The report calls for a level playing field by agreeing that the Canadian Wheat Board should pay fair market value for transporting Canadian wheat and stop discriminating against U.S. wheat. (4) The report highlights how the Canadian Wheat Board and other state trading enterprises around the world limit fair and open trade.

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The final panel decision is expected in February 2004. We can expect an appeal by either side, whatever the outcome.

PACT WITH CHILE BENEFITS U.S. DURUM

A bilateral Free Trade Agreement between Chile and the United States coming into effect in 2004 will put U.S. wheat on an even playing field with wheat from Canada, which already has a trade agreement with Chile. Under the new agreement, U.S. durum will no longer be subject to a 6 percent import duty. U.S. durum will be able to compete with Canadian durum for a share of the Chilean pasta market.

GROWER ASSOCIATIONS WORK TOWARD DOMESTIC POLICY GOALS

The National Association of Wheat Growers' top priorities for 2004 include preparing for the 2007 Farm Bill, maintaining funding for existing farm programs, enhancing crop insurance, and consolidating wheat industry organizations. NAWG also plans to work on pesticide harmonization, biotechnology, developing new uses for wheat, and furthering its "HomeGrown" communications program (to demonstrate to the American public the benefits of a farm bill in terms of a safe, inexpensive, and abundant food supply).

The N.D. Grain Growers and U.S. Durum Growers associations were active in the past year lobbying for disaster aid. Other Grain Growers projects include an annual educational tour for Environmental Protection Agency officials and marketing training for farmers. The Durum Growers are developing a milling durum insurance policy in cooperation with private industry to reduce the risk in producing durum and generate a more stable supply.

(CHECKOEF SUPPORTES STUDY OF RAIL RATE COMPLAINT

If we can lower all rates by 1 cent for every bushakor wheat transported from North Dakota sive can save \$2.5 million a year. Saving having North Dakota wheat more competitive in world man special (4.00) saving having work on a railinate competitive.

Revented in the constration are a measure of a little constration are a measure of a little constration and a little constraint and a little constrain

The Philic Service of monission requested \$250 stoles of a paintal season of a rail rate: companies on mine season of a rail rate: Legislative season mission with Grain Dealers Association at the property of the Union and N.D. Carm Bureau and violative remainder.

Preliminary works to use esult in negotiations or a lawsuit acausis at the culticads: A formal complaint to the essential sould cost \$2 million.



SUCCESS

measured in improved varieties, tools to fight disease

OVER \$6 MILLION is being invested in wheat research at North Dakota State University. With most of the funding coming from state and federal sources, the North Dakota Wheat Commission gives the research effort a needed boost. The checkoff investment in research at NDSU totaled \$196,378 during fiscal year 2002-03. The projects are listed at right.

Alsen region's best answer to scab. Up again in popularity at 37 percent of total hard red spring wheat acreage in North Dakota during 2003, Alsen was planted on nearly 70 percent of the most scab prone regions of the state. It is part of the toolbox that significantly reduced the presence of disease in the 2002 crop and combined with more favorable weather during flowering, virtually eliminated it in 2003.

Farmers get quality variety in Dapps in 2003. Dapps is a new hard red spring wheat variety with excellent milling and baking qualities. Named for Bert D'Appolonia, professor emeritus of cereal science at North Dakota State University, the variety is best adapted to western North Dakota. Dapps has very high protein content, with an average 1.2 percentage points greater than that of Parshall and 1.6 percentage points greater than Amidon. Dapps' yield potential is average, but it did very well in 2003 in some locations. It has a good defensive disease package.

Spring wheat variety to be released in 2004. The North Dakota Agricultural Experiment Station will be releasing a new hard red spring wheat in 2004 with broad adaptation to the state. Not yet named, ND741 combines good test weight and milling and baking properties



Mohamed Mergoum is NDSU's hard red spring wheat breeder.

with increased yield potential as well as a strong disease package including good resistance to leaf and stem rust.

NDSU reports progress in developing hard white spring wheat varities. Due to the incentive plan in the most recent U.S. Farm Bill, there is increased interest among farmers in white wheat. The NDSU variety Argent has sometimes been mistakenly graded as hard red spring. Improving white kernel color is among the objectives of the NDSU specialty wheat breeding team. Project leader Bill Berzonsky indicates that a white wheat with bread quality will likely be released before a white wheat with noodle quality as sought by the Asian market.

Advanced breeding techniques speed transfer of genes. NDSU scientists have been successful using molecular marker technology in rapidly transferring genes for important traits such as disease resistance, high gluten, high protein and low amylose (the grain starch component) into widely grown varieties of durum, hard red

RESULTS



delivered in more bushels of higher quality wheat

TOTAL

spring and hard white spring wheat. Additional backcrossing is needed to restore good quality characteristics. Work is also being conducted to transfer genes for tolerance to drought, salt and low soil fertility.

Scab resistance focus of durum breeding. With resistance genes from bread wheat and a wild wheat relative now transferred to durum, NDSU scientists are advancing and screening hundreds of lines, searching for the best combination of disease protection, end-use quality, and agronomic performance.

Cytogenetics project reveals potential drought resistance. NDSU researchers crossing common wheat lines with wild relatives of wheat in an effort to secure desirable traits have identified "stay-green" common wheat lines that may be drought resistant.

Disease forecasting system guides growers in management decisions. The 2003 crop season fortunately did not favor disease. In a year when the forecasting system correctly predicts no fungicide is needed, growers can save about \$14 per acre in unnecessary variable expense. In an epidemic year, the system can increase returns by roughly \$13 per acre by enhancing yields, test weight and quality.

CHECKOFF SUPPORTED: WHE	AT RESE	ARCH AT	NDSU
CHECKOTT SOTT ON LES. WITE	ACTUAL	ACTUAL	BUDGET
	2001-02	2002-03	2003-04
END-USE QUALITY	\$83,355	\$89,120	\$71,500
Technical & Information Services	33,500	32,000	32,000
Regional HRS/Durum Quality Survey	31,000	731,000	32,000
Basic Wheat Quality Research	10,000	10,000	-
HRS/Durum Variety Evaluation Program	1,000	2,500	2,500
Glutograph for Durum Quality Testing	-	- '	5,000
DON Analysis of 2001 Durum Crop	2,520	-'	-
**Waxy Wheat for Extending Shelf Life	5,335	4,800	-
**Intogression of Valuable Traits into H	RS –	8,820	-
BREEDING/GENETICS	\$94,993	\$70,323 ¹	\$67,870
HRS Wheat Breeding	7,500	7,500	7,500
Technician: Second HRS Breeder	33,370	33,370	40,370
Durum Breeding	10,000	7,500	7,500
Germplasm Enhancement	15,000	7,500	7,500
Hard White Spring Wheat Breeding	4,000		-
Cytogenetics	_	5,000	5,000
**Durum Breeding w/ Double Haploid	10,666	4,953	-
**HRS Breeding w/ Double Haploid	9,457	_`	-
**Intogression of Scab Resistance into F	IRS 5,000	4,500	-
DISEASE/PEST MANAGEMENT	\$30,950	\$21,935	\$4,200
Orange Wheat Blossom Midge Survey	6,200	4,500	4,200
Quantitative Scab Forecasting System	10,000		_
**Variety Response to Root Rot	1,000	_1	_
**Wheat Disease Forecasting System	10,000	4,301	-
**Screening for Midge Resistance	3,750	3,000	_
**Identify Sources of FHB Resistance	_	6,435	-
**Resistance of HRS to Leaf Rust	-	. 3,699	-
ECONOMICS/MARKETING	\$76,500	\$15,000	\$38,000
Market Development Support	15,000	15,000	18,000
Marketing Wheat on Nil Moisture Basis	8,000	<u>-</u>	-
Segregating Biotech Wheat	18,000		-
Marketing on Variety Basis	_	· _'	15,000
Upper Great Plains Transportation Institute	35,500	, -	5,000
SBARE MATCHING FUND	-		\$40,000
	120F 200	£100 370	£221 E7A

^{**}Checkoff match to grant from agricultural research fund of the State Board of Agricultural Research and Extension

RETIRED BUT NOT FORGOTTEN

Although this team is now retired from the USDA ARS Northern Crops Science Lab, Fargo, results of their research remain instrumental in the effort to develop scab-resistant durum.

Here, plant pathologist James Miller (right) inoculates progeny of a durum-emmer cross with Fusarium fungus as geneticists Leonard Joppa (left) and Norman Williams assist in selecting flowering heads for testing.



Photo credit: USDA Agricultural Research Service (Bruce Fritz)

\$285,798 \$196,378 \$221,570



CHALLENGED BY mainstream carb-bashing



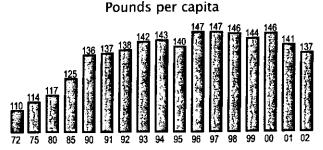


DFMAND for U.S. hard red spring and durum wheat was about 45 percent and 60 percent Meat Food c dependent on the U.S. market in 2002-03. Strengthening this

important market is a primary objective of the North Dakota Wheat Commission.

The Commission's membership in the Wheat Foods Council allows North Dakota farmers to be part of an industry-wide partnership dedicated to educating consumers about the role of grain foods in a healthy diet.

"Grains: The Feel-Good Food" was the program launched in July 2002. Unfortunately, while consumers were seeking to feel-good about what they eat, diet book authors and the media stopped them with a constant barrage of misinformation and confusion about carbohydrates. The Council shifted gears quickly and responded to controversial issues by publishing media alerts, fact sheets, and



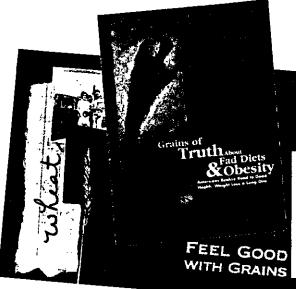
U.S. WHEAT FLOUR DISAPPEARANCE

Source: Department of Commerce, Census of Manufacturers

letters to parties responsible for generating misperceptions about grain foods. Guarding the image of grain foods and refocusing target audiences on the benefits of eating grain foods were primary responsibilities in 2002-03. Here are some accomplishments:

Research paper on glycemic index discredits new diets like South Beach. Diets based on glycemic index or glycemic load are biased against enriched white flour products and pasta. The Council-sponsored paper lists pitfalls of the index as a guide to healthy eating.

Media kits garner positive news coverage. Fad diets give bread and pasta an undeserved black eye. American consumers now eat 300 more calories per day compared to 1985. Media tours and press kits explain this and other real reasons for obesity, the effectiveness of highcarb, low-fat diets, and the helpful role of grain foods in weight control.



restriction of the control of the co

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reater support to address challenges to the image of bread, pasta and other carbs. The American Millers associations template a \$4 million effort.

RESULTS



delivered in positive media coverage



"PLEASE PASS THE COMFORT"

Together with the American Bakers Association, the Wheat Foods Council released this newspaper feature in February 2003. Placed in 46 states, an investment of \$63,000 resulted in over \$794,000 of advertising value with nearly 19 million media impressions.

New York media cour counters carb-bashing. Nutrition and diet experts recently corrected misperceptions in the largest market in the United States. The New York Times, Curves, Marie Claire, Eating Light, and Woman's Day were very interested in "the other side" of the low-carb story. Satellite interviews with 13 network television news programs reached audiences across the nation.

"IF YOU WANT TO EAT FOR ENERGY, FORGET THE ATKINS DIET. MUSCLES RUN ON CARBOHYDRATES."

This is the main message in a July 2003 *Cooking Light* feature, a result of this year's aggressive public relations campaign.



Generating awareness across the state

The North Dakota Wheat Commission actively builds awareness of the benefits of

wheat foods through involvement in numerous in-state projects and events which in 2002-03 included:

 Exhibits at annual conferences of the N.D. Dietetics Association and N.D. Nutrition Council,



Bake and Take Day is a popular community service activity for 4-H clubs and family and community education groups:

- Consumer-friendly booths at the North Dakota State Fair and KFYR Sunbutter Fest,
- "Use Your Noodle" contests for newspapers and radio stations during National Pasta Month in October,



- An annual pasta recipe contest featuring breakfast entrees,
- Living Ag Classrooms in Minot, Fargo and Bismarck, and
- Educational information to teachers upon request.

"Let Them Eat Bread," is a news recipe brochure showcasings breads made with flour milleds from North Dakota wheats.

FINANCIAL STATEMENT FOR JULY 1 TO JUNE 30

	Actual	Actual	Projected
	FY 2001-02	FY 2002-03	FY 2003-04
Beginning Balance			1
Checkoff Collected	2,592,947	2,973,958	3,050,099
Interest Income	15,156	7,826	7,500
Sales/Miscellaneous	1,073	<u>4.060</u>	1.150
Total Receipts	3,908,672	3,360,185	3,715,858
Refunds to Producers	174,195	159,758	190,200
Expenditures	3,360,137	2,544,120	2,545,443
Ending Balance	\$374,341	\$656,308	\$980,215

¹The expenditure level listed in the financial statement differs from that listed under operating expenditures due to accrued expenses.

FY 2002-03 OPERATING EXPENDITURES (\$2,364,849)





OPERATING EXPENDIT	JRES						
	ACTUAL	ACTUAL	BUDGET		ACTUAL		
	2001-02	2002-03	2003-04		2001-02	2002-03	2003-04
ADMINISTRATION	\$202,197	\$208,278	\$234,988	RESEARCH			
Salaries, Commissioner Per Dien	I ,			& CUSTOMER SERVICE	\$477,080	\$320,242	\$377,06!
Employer Taxes, Benefits	101,114	110,494	116,528	Salaries, Commissioner Per Die		•	į
Travel & Expenses	7,876	12,929	18,060	Employer Taxes, Benefits	32,130		34,8 12,
General Operating	93,207	84,855	100,400	Travel & Expenses	15,288	9,224	12,
				North Dakota State University			
EXPORT MARKETING	\$833,692	\$763,670	\$784,117	End-Use Quality	83,355		71,500
Salaries, Commissioner Per Diem	· I,			Wheat Breeding/Genetics	94,993		
Employer Taxes, Benefits	107,099	110,099	116,311	Disease/Pest Management	30,950		4,20
Travel & Expenses	50,962	30,748	42,840	Marketing/Economics	76,500	15,000	38,000
U.S. Wheat Associates	675,631	622,824	624,966	SBARE Matching Contingency	-		40,000
		ì		Other:			i
POLICY & ISSUES	1,620,793	\$845,209	\$807,757	Northern Crops Institute	50,000		30,000
Salaries, Commissioner Per Diem				NCI-HRS for Asian Market	-	-	
Employer Taxes, Benefits	74,970	77,069	81,417	Consultant Fees & Expenses	27,688		25,000
Travel & Expenses	35,673	21,523	29,988	Wheat Marketing Center	25,000	10,000	15,000
Legal Counsel & Consultants	1,227,444	505,000	455,000	Wheat Quality Council	4,000	4,000	4,000
National Association of Wheat Growers	119,500	113,000 ′	109,000	N.D. Variety Survey	3,500	3,750	3,750
Wheat Export Trade Education Committee	41,024	38,117	41,352	Miscellaneous Support	33,676	17,916	20,000
N.D. Grain Growers Association	76,072	50,000	40,000				}
U.S. Durum Growers Association	41,110	30,000	26,000	PUBLIC INFORMATION	\$157,485	\$163,425	\$195,672
USDGA-Durum Milling Insurance	_	_ !	5,000	Salaries, Commissioner Per Die			•
Domestic Policy Special Projects	-	- :	20,000	Employer Taxes, Benefits	51,597	68,796	72,612
Alliance for Rail Competition	5,000	- }	_	Travel & Expenses	21,123	18,021	25,060
PSC Rail Rate Study	-	10,500	-	Advertising	3,203	535	1,000
,				Postage (<i>Dakota Gold</i> /Other)	35,337	31,516	34,000
DOMESTIC PROMOTION	\$248,159	\$64,025	\$145,844	Printing (<i>Dakota Gold</i> /Other)	27,693	28,095	35,000
Salaries, Commissioner Per Diem	-			Web Site	5,895	6,000	21,000
Employer Taxes, Benefits	51,487	12,158	13,044	Premiums/Scholarships/Prizes	4,595	4,500	4,000
Travel & Expenses	13,338	7,996	11,200	General Support	8,042	5,962	3,000
Wheat Foods Council	93,725	20,075	98,325				
WFC Special Projects	72,500	· -	-				Œ.
National Pasta Association	2,500	2,500	2,500				Q.
Postage/Printing/Other Support	14,608	21,296	20,775	TOTAL	62 520 407	\$2,364,849	\$2,545,443

OUR COMMITMENT is to North Dakota wheat producers

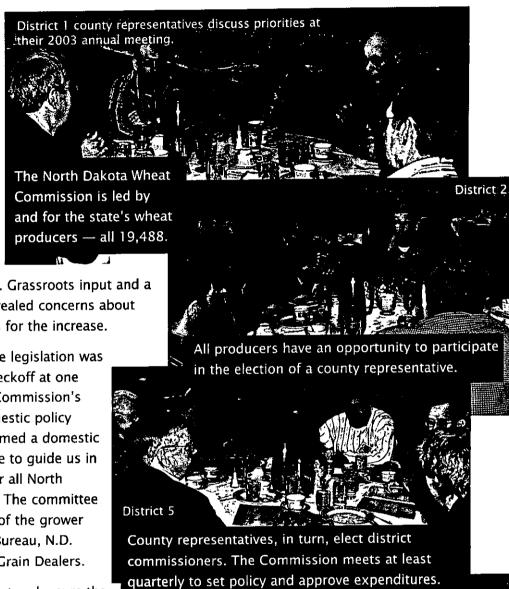


The North Dakota
Wheat Commission
entered 2003 in a
position we never want
to repeat—in
opposition to the N.D.
Grain Growers and U.S.
Durum Growers
associations. The issue
was a proposal to
increase the wheat
checkoff by a half-cent
per bushel to fund

domestic policy activities. Grassroots input and a survey of county reps revealed concerns about the timing and intentions for the increase.

Through compromise, the legislation was amended to leave the checkoff at one penny and broaden the Commission's authority to address domestic policy issues. We have since formed a domestic policy advisory committee to guide us in making decisions best for all North Dakota wheat producers. The committee includes representatives of the grower associations, N.D. Farm Bureau, N.D. Farmers Union and N.D. Grain Dealers.

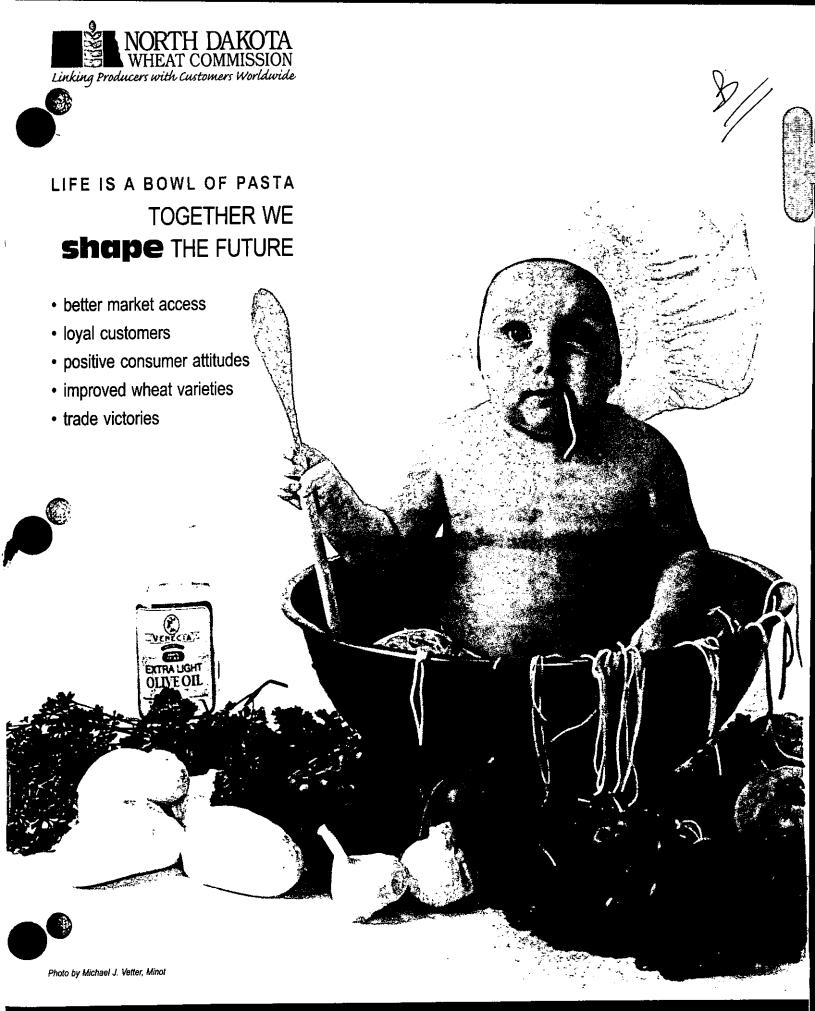
As we go forward, we must make sure the next time a checkoff increase is sought, we do so in harmony. And only after giving producers ample opportunity for input on the amount and uses for an increase. There are growing needs to be addressed with the wheat checkoff in marketing, research and policy, both international and domestic. We invite all wheat producers to get involved in their industry and help chart the course for the future!



District 6

County representatives meet at least annually to

County representatives meet at least annually to receive updates and provide the seven-person Commission with input and advice.



LETTER TO **stakeholders**

SHAPING PRODUCTIVITY FROM CHALLENGE

1

Dear North Dakota Wheat Producers:

Talk about spinning gold from straw. You collectively achieved near record yields in 2004, averaging 39 bushels per acre, despite less than ideal conditions in some regions of the state. Gross revenue per acre also reached a record, averaging \$140. The total North Dakota wheat crop, estimated at 306 million bushels, will generate in excess of \$1.1 billion in direct sales and contribute more than \$4.0 billion in total economic activity to the state.

Of course not all producers are benefiting uniformly from this year's generally bountiful harvest. In some instances, fields were left unplanted due to a cold, wet spring, while others were faced with drought, frost damage and/or difficult harvest conditions. Coming into play in these situations is \$200 million intended to assist North Dakota producers of numerous crops as part of a national \$2.9 billion disaster aid package. The North Dakota Grain Growers and U.S. Durum Growers were among those who worked to secure disaster aid for affected producers. The

North Dakota Wheat Commission provided support for the effort and covered expenses for association leaders and state legislators to explain the need for emergency assistance to the Administration and Congress in Washington, D.C.

domestic mill and export demand has induced higher prices and protein premiums, badly needed by those wi drought-reduced yields, yet exceptional quality. Protein spreads are particularly evident in markets oriented toward the Pacific Northwest, where premiums reached decade highs.

Domestic demand for U.S. hard red spring wheat is up 13 percent. In the export arena, spring wheat sales are up 25 percent at the mid-point of the 2004-05 marketing season, continuing the growth pattern of the past two marketing years. Buyers' willingness to pay for high protein points to a bright future for the wheats produced in North Dakota and the surrounding region.

Growing interest from China.

After considerable work by U.S. wheat and trade officials on persistent trade issues over the last decade, China have emerged as a prominent spring wheat customer. U.S. Wheat Associates and the North Dakota Wheat Commission

our mission

To stablize and improve he agricultura, economy of the state by promoting, aiding and developing the orderly marketing and processing of North Dakota wheat.

> , 11 Auf North Dakota Cuntury Code On 4-28 as Amended



BOARD OF COMMISSIONERS (left to right): sitting, Fran Leiphon, Chairman Harlan Klein, Charles Rohde; standing, Maynard Satrom, Jim Burbidge, Don Paulson, Louis Kuster.

performance. As a result, Chinese government and recently emerging private sector buyers imported 18 million bushels of U.S. HRS in 2003-04. These same buyers have already almost doubled their U.S. spring wheat purchases to 33 million bushels, or nearly 1 million metric tons, at the halfway point of the 2004-05 marketing year. China is on pace to challenge our traditional largest foreign market, Japan, which purchases nearly 50 million bushels of HRS annually.

Durum sales finished the 2003-04 marketing year 38 percent ahead of the previous season. But durum exports are expected to decline this year due to a record world durum crop and back-to-back good harvests in North Africa, a traditional demand center. Improving uemand domestically will help offset declines in foreign demand and provide support for durum prices A locally.

decisions were reached slightly over a year ago in countervailing duty and antidumping cases brought forth by the North Dakota Wheat Commission against under-priced imports of Canadian hard red spring and durum wheat. These cases have been effective for the region's farmers with a 14 percent duty on spring wheat imports holding imports at minimum (pre-NAFTA) levels.

A prominent North Dakota State
University economist estimated that
imports were costing our farmers 20
its per bushel in lost income. So it's
easonable to project that current
restrictions on imports have added at

least 20 cents to spring wheat prices since imports have all but been eliminated. That equates to an additional \$50 million in income from the 2003 crop alone. We can expect similar benefits for four more years, provided we continue the effort and prevail in NAFTA appeals filed by the Canadian government.

Preliminary import duties on durum, achieved through proof that sales of Canadian durum are dumped and subsidized, were lifted when the International Trade Commission failed in October 2003 to link imports with economic injury to U.S. durum farmers. Nonetheless, the ongoing process of the trade challenge and an appeal limited durum imports for a two-year period, again providing significant pricing benefits and market opportunities to producers.

A HALF-PENNY INCREASE IN THE WHEAT CHECKOFF WILL PAY FOR TODAY'S **trade victories** AND ASSURE A STRONG FUTURE.

tnvesting in our future. We have a substantial portion of the bill yet to pay for the legal work it took to achieve these results. Consequently, we are seeking an increase in the wheat checkoff from the current penny per bushel to 1.5 cents per bushel. If approved by the 2005 Legislative Assembly, the increase initially will be used to retire debt accumulated in the legal challenges, but will eventually make additional dollars available for other priority programs.

Research, partially funded by checkoff dollars through the North Dakota Wheat

Commission, is yielding additional benefits to North Dakota wheat producers. In 2004, the NDSU wheat research team continued the battle against scab and other serious wheat diseases that are either constant or potential threats to the viability of the state's wheat industry. The result is more resistant varieties that are competitive in both yield and quality.

Outlook is bright. As we reflect on the past year and look forward to the upcoming season, North Dakota wheat producers can anticipate expanding opportunities and a bright future for the high quality, premium wheats grown in this state and region. Events of the past two seasons and general improvements in the local wheat economy are expected to instill renewed interest in wheat production. There's a strong prospect of significantly increased plantings in 2005. The wheat industry will continue to be one of the most important economic activities in the state of North Dakota, agricultural or otherwise.

We appreciate your continued support and thank you for the opportunity to serve North Dakota's great wheat industry.

Sincerely,

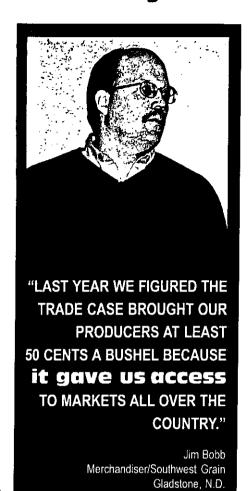
Harlan Klein

Chairman

Neal Fisher Administrator

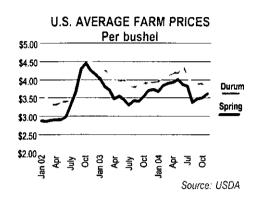
Nial Lisher

market year IN REVIEW



DISCIPLINES ON UNFAIR CANADIAN IMPORTS SHAPE SALES OPPORTUNITIES

Strong returns characterized the 2003 marketing year as prices \$.50 to \$.80 per bushel above five-year averages complemented above average yields. Per acre returns reached an all-time high.





N.D. WHEAT PRODUCTION

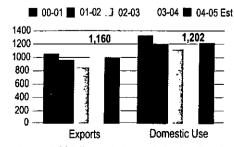
Source: N.D. Agricultural Statistics Service

U.S. production rebounded to 2.3 billion bushels, up from 1.6 billion in 2002. This larger U.S. crop coincided with smaller world production, primarily due to poor crops in the European Union and former Soviet Union.

U.S. market share gained as export sales reached 1.16 billion bushels, up sharply from 849 million in 2002, and the highest level since 1995. Domestic use was also up from 2002.

Increased overall usage kept seasonal average farm prices for all classes at \$3.40 per bushel, well above the five-year average of \$2.80. High

DEMAND FOR U.S. WHEAT Million bushels



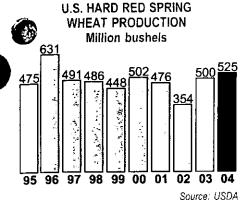
Source; USDA Economic Research Service (Dec. 04)

ocean freight rates and increased farmto-export rail costs during much of the marketing year prevented farm prices from working higher.

HARD RED SPRING WHEAT

Production was up 40 percent from 2002 at 500 million bushels, despite reduced acres prompted by declining prices prior to planting and lingering drought in western areas. Ideal moisture and growing conditions during the early season in most of the region allowed yields to compensate. Yields reached 39.7 bushels per acre, up from 29 in 2002 and second only to 1992's record 41.8 bushels per acre.

Exceptional quality enhanced the crop size with more than 80 percent grading No. 1, test weight averaging 61 pounds per bushel, and protein at 14.1 percent. Flour and bake quality followed suit, attracting repeat business throughout the year.



Exports were the highest

since 1996 at 272 million bushels. Good demand came from all major regions with the best gains in Europe. China also emerged as a top five customer with purchases of 18 million bushels, up from 2 million the previous year.

million bushels, up from 200 million the vious year. Lower average protein in the 2003 hard red winter crop increased mill demand for hard red spring. The excellent grade and functionality of the HRS crop boosted value for buyers.

Strong overall demand led to an advance in prices from \$3.30 in July to \$4-plus by May 2004. The season average finished at \$3.63 per bushel, up more than \$.50 from the five-year average. A limit on Canadian imports due to a 14.16 percent duty was key in allowing an increasing price trend, despite larger production.

DURUM WHEAT

Record world production of

1.39 billion bushels in 2003 was driven by tremendous crops in North Africa and higher production in both Canada and United States. The U.S. crop rebounded to 97 million bushels with increased yields.

A LIMIT ON CANADIAN IMPORTS DUE TO A 14.16 PERCENT DUTY WAS KEY IN ALLOWING AN **increasing price trend**, DESPITE LARGER PRODUCTION.

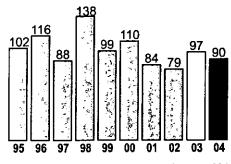
Ouglity was an added bonus

to producers and end-users alike. The 2003 crop had an average No. 1 grade, 92 percent vitreous kernels, 0.3 percent damage, and 14.5 percent protein.

Robust export demand came from all three major regions—Europe, North Africa and Latin America—despite the record world crop. Sales to North Africa and Venezuela, in particular, were larger than expected, pushing total exports for the year to 44 million bushels, up from 32 million in 2002.

durum is attributable to ongoing U.S. and WTO investigations of Canadian Wheat Board selling practices. The investigations brought discipline to Canadian pricing. In the U.S. domestic market, temporary duties on imports from March 2003 to October 2003 shifted mill demand to U.S. origins. This tempered effects of declining pasta consumption. Low-carb diets had some manufacturers suffering a near 10 percent drop in demand.

U.S. DURUM WHEAT PRODUCTION Million bushels



Source: USDA

Average farm-level prices

ranged from \$3.80 to \$4.20 per bushel with a seasonal average of \$3.97. This was down marginally from 2002's value of \$4.05, but up significantly from the five-year average of \$3.10 per bushel.

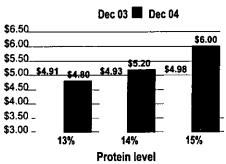
2004 ALSO A STRONG YEAR

producers are benefiting from a second year of strong yields and above-average prices, although diverse conditions challenged some. North Dakota spring and durum yields of 41 and 33 bushels per acre are among the best ever. Depending on second-half prices, gross returns may top 2003's.

Strong premiums for hard red spring wheat with 14 percent and higher protein are prevalent. The premiums are driven by lower crop protein and strong demand with both export and domestic use on pace to exceed 2003 levels.

For durum, back-to-back record world crops are tempering exports, but domestic demand may be rebounding with stable to increasing pasta sales.

U.S. HARD RED SPRING WHEAT PACIFIC NORTHWEST EXPORT PRICES Per bushel



Source: U.S. Wheat Associates Price Report

export Marketing

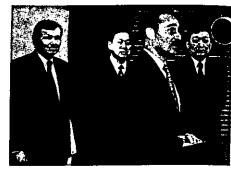


Officials from COFCO, which controls 90 percent of China's wheat imports, were greeted during their March 2004 visit to North Dakota by representatives of the North Dakota Wheat Commission and Gladstone area producers at the Southwest Grain terminal.

The biggest and best

ripples in the market have historically been motivated by strong export sales. Federal funding for overseas market development was first authorized in 1954. The program required a partial match with producer dollars, inspiring the creation of commodity checkoff programs. The North Dakota Wheat Commission was established in 1959 so the state's producers could market their wheat worldwide.

Today, about 30 percent of the Wheat Commission's budget continues to be devoted to export marketing conducted in cooperation with U.S. Wheat Associates. USW is a partnership between 20 state wheat commissions. In 2003-04, USW secured a \$2.75 match for each producer dollar invested from USDA market programs.



During COFCO's visit to Bismarck, Matt Weimar describes how vigilance to reduce trade barriers and subsequent end-use quality demonstrations have fueled China's purchases of U.S. spring wheat.

CHINA'S PREFERENCE FOR HIGH PROTEIN, QUALITY WHEAT HERE TO STAY

That's a prediction made by Matt Weimar in a recent presentation about opportunities for future wheat sales to this country of 1.3 billion people. Weim is U.S. Wheat Associates' regional vice president stationed in Hong Kong. China joins many other Asian, European and Latin American customers who are raising the bar on quality expectations.



The Wheat Commission sent NDSU Spring Wheat Breeder Mohamed Mergoum (left) to Europe in 2004 to acquaint him with the quality needs of important customers.

grain merchandisers are all striving to provide the qualities customers demand. Trading companies in southern China's Guangdong province, selling 14.5 percent protein U.S. Dark Northern Spring wheat, at times in the 2003-04 year commanded a premium of \$24 per metric ton (\$.65 per bushel) over competitive Canadian western spring wheat. They tried DNS because USW's China office and the North Dakota Wheat Commission had provided them with quality samples.

possible. Many Chinese milling companies were not familiar with the quality of U.S. spring wheat exportable from U.S. Pacific Northwest ports. In the 80s and 90s, when China's imports from the Gulf of Mexico. Though not present in U.S. hard red spring wheat, they cited TCK smut as the reason for banning imports from the PNW.

Following the resolution of this trade issue and China's accession into the World Trade Organization, USW sponsored promotional seminars for milling companies and decision makers.

Trust builds. Buyers from China's government grain agency came to North Dakota in 2004 to gather details on the marketing and transportation infrastructure for gathering hard spring wheat and moving it to PNW ports. "I can say with full confidence we can trust the system in North Dakota and buy the grain long-term," said COFCO Vice President Mr. Xubo Yu, after the working sessions coordinated by the Wheat Commission.

sales result. China imported 18 million bushels of U.S. hard red spring wheat in marketing year 2003-04, enough to rank it fourth among export destinations. Exports to China have already far surpassed that impressive level in 04-05 at 33 million bushels to date.



SEEING IS BELIEVING. Grain procurement managers and quality specialists from mills in the Philippines, Malaysia, Thailand and Vietnam see advantages in using U.S. spring wheat in blends during a "Contracting for Quality" workshop at the Wheat Marketing Center, Portland.



JAPANESE TEAM SEES STRENGTHS
IN PASTA MADE FROM U.S. DURUM. A visit
to North Dakota coordinated by the Wheat
Commission and USW exposed this technical
team to new varieties of U.S. durum. We want
to sway Japan's durum business, about 7
million bushels annually, away from Canada.

Mennene (Suscentional Constant)

- hard red spring wheat, 25 million bushels compared to 16 and 17 million bushels in years previous.
- spain also sets a record for imports of hard red spring with 15 million bushels purchased, almost double its prior high.
- Venezuela increased its durum imports five-fold to 6 million bushels.
- Nigeria, Switzerland and Egypt appeared on the top 10 durum export market list for the first time.
- South Africa is back in the U.S. durum market after a two-year absence.

policy & ISSUES



Cooperation is key in

educating elected officials about how trade policies and issues affect a wheat producer's ability to compete for domestic and export market share. It takes a united front.

The North Dakota Wheat
Commission works with U.S. Wheat
Associates, the National Association
of Wheat Growers, the Wheat Export
Trade Education Committee, and
state grower and farm organizations
to help lawmakers craft solutions to
problems and to explain potential
impacts of future decisions. Here are
some results from 2003-04:

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Who	eat tar	iff nets	\$100M
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TRADE CASE DELIVERS 20¢ PER BUSHEL

That's the return to North Dakota farmers from a 14 percent import duty on Canadian hard red spring wheat. The duty, which forces U.S. buyers to pay about 50 cents per bushel more to access Canadian wheat, has held imports to a minimum in 2003 and 2004. The result is improved market and pricing opportunities for U.S. farmers.

The duty is credited with generating an additional \$50 million from North
Dakota's spring wheat crop in each year imports are held down. It was imposed as a result of countervailing duty and antidumping challenges brought forth by the North Dakota Wheat Commission.

Duty worth retaining. Provided the two-part duty withstands Canada's appeals under NAFTA and an annual review process, producers will accrue similar benefits for another four years.

HARD RED SPRING DURUM WHEAT 40.5 48.4 42.5 47.0 47.2 48.9 18.7 11.2 0.2 11.3 12.1 11.3 12.1 14.4 15.0 14.4 16.5 16.5 16.5 16.5 16.5 17.6 18.7 18.7 18.8 1

Source: U.S. Department of Commerce, Census Bureau *04 includes months of June to October

The North Dakota Wheat Commission aggressively defend the Department of Commerce and International Trade Commission rulings that led to the duty. One bi-national NAFTA dispute panel is now examining the countervailing duty imposed to offset subsidization while another panel studies the connection between Canadian imports and injury to U.S. hard red spring wheat growers. Both are important components to keeping the current duty. The panels will each issue decisions in 2005.

Durum benefited too. From the time preliminary DOC and ITC rulings imposed temporary bonding on Canadian durum in March 2003 through our appeal, denied by the U.S. Court of International Trade in August 2004,

shoorts remained the lowest they'd been since a Section 22 trade investigation in the mid-90s. Producers experienced a positive price response.

Canada's barriers crumble.

Meanwhile, trade investigations launched by the Wheat Commission prompted the U.S. government to file a World Trade Organization complaint. The WTO ruled in 2004 that Canada is in violation of the agreement with its regulatory hurdles that prevent the import of U.S. grain and higher rail transportation rates for imported grain. The Commission's attorney is monitoring the situation to assure Canada complies.

Permanent solution. Further efforts by the Wheat Commission, in concert with national organizations, have resulted in a framework document for WTO negotiations that calls for:

- the elimination of subsidies to and by state trading enterprises,
- the end of government financing and loss underwriting on STEs, and
- · puts monopoly powers on the table.

MOROCCAN AGREEMENT IMPROVES DURUM ACCESS

U.S. farmers now have an advantage in competing for durum business in Morocco, typically Canada's second largest export market. An expanded import quota and reduced tariffs are among gains made by the U.S. government in committing to a Free Trade Agreement with Morocco in 2004. National wheat organizations supported congressional ratification in July.

AUSTRALIAN FTA MISSED REFORMING MONOPOLY

Wheat groups opposed the Free Trade Agreement with Australia after negotiators failed to require disciplines of the Australian Wheat Board monopoly. Australia did, however, commit to negotiations on state trading enterprises in WTO talks. Congress approved the agreement in July.

DOMESTIC POLICY PROVIDES SAFETY NET FOR FARMERS

The state legislature broadened the Wheat Commission's scope in 2003 to include domestic policy. An advisory committee has established consensus on issues to be addressed — crop insurance, chemical harmonization, rail rates and service, and adequacy of funding for wheat research. In this regard, the Wheat Commission has assisted the N.D. Grain Growers and U.S. Durum Growers associations in:

- developing a durum milling insurance policy,
- · achieving Environmental Protection Agency registration of fungicides,
- addressing crop insurance inadequacies through representation in Washington,
 D.C., and
- securing aid for farmers who have suffered weather-related losses in 2004.

The Wheat Commission also joined in successfully urging for restoration of \$2.5 million in federal funding otherwise being cut from crop research programs at USDA's center in Fargo, and has supported a rail rate investigation that now recommends a state challenge of grain rail shipping rates before federal regulators.



\$200 MILLION IN DISASTER AID.
Past President Bruce Freitag, State
Representative Phil Mueller, State Senator
Jerry Klein, and NDGGA Executive
Director Dan Wogsland met with
lawmakers in Washington, D.C. to explain
the need for help with quantity and quality
losses. North Dakota farmers are
expected to receive \$200 million.

research & CUSTOMER SERVICE

CHECKOFF SUPPORTED WHEAT RESEARCH AT NDSU

WHEAT RESEARCE	HALNE	
	ACTUAL 2003-04	
END- USE QUALITY	\$71,500	\$83,000
Technical & Information Services	32,000	32,000
Regional Crop Quality Surveys	32,000	32,000
HRS/Durum Variety Evaluation	2,500	-
Glutograph for Durum Testing	5,000	-
Durum Quality Research Support	· -	8,000
Specialty Wheat Quality Researc	h -	11,000
	•••	
WHEAT BREEDING	\$88,636	\$67,870
HRS Wheat Breeding	7,500	7,500
Durum Breeding	7,500	7,500
White/Specialty Wheat: Technicia		40,370
Germplasm Enhancement	7,500	7,500
Cytogenetics	5,000	5,000
**Durum Breeding w/ D. Haploid	4,933	-
**Scab Resistance in HRS	4,500	-
**Valuable Traits in HRS	8,667	-
**Intensive Wheat Management	2,666	
DISEASE/PEST MANAGEMENT	\$21,577	\$4,200
Midge Survey	4,200	4,200
**Wheat Disease Forecasting	5,133	-
**Sources of FHB Resistance	1,667	-
**Resistance of HRS to Leaf Rust	4,000	-
**Wheat Disease Survey	4,577	-
**Hessian Fly Resistance	2,000	
MARKETING ECONOMICS	\$40,500	\$35,496
Market Development Support	18,000	18,000
Marketing on Variety Basis	15,000	-
Upper Great Plains Transportation Institute	e 5,000	5,000
Economic Contribution Study	_	12,496
**Traceability/Marketing HRS Whe	at 2,500	
SBARE MATCHING FUND	•	\$40,000
TOTAL	\$222,213	\$230,566

^{**}Checkoff match to grant from agricultural research fund of the State Board of Agricultural Research and Extension



Checkoff dollars supplement federal and state funding for wheat research at North Dakota State University. The North Dakota Wheat Commission provided an additional \$222,213 in support in fiscal year 2003-04. Here are some highlights:

'STEELE ND' OFFERS YIELD, QUALITY, DISEASE RESISTANCE

with a secondary or alternate type of scab resistance than the already hugely popular Alsen, which incorporates the Chinese or Sumai-3 type of resistance. This breakthrough, along with Steele ND's overall disease resistance package, gives North Dakota wheat producers another important tool in the fight against economic losses caused by fusarium head blight (scab). Along with excellent yield and quality potential, Steele ND provides one of the strongest defenses against other foliar diseases of any variety available in the region.



Looking ahead, NDSU's breeding pipeline contains potential spring wheat and durum varieties with even better agronomic and quality traits that are undergoing additional performance testing for release in the very near future.

DURUM LINES SCREENED FOR SCAB. Jason Bloom, NDWC Stark County Representative, watches a technician at NDSU inoculate durum lines with scab spores to test for resistance.

"A-MAIZING" WHEAT. NDWC Steele County Representative Tom Klabo learns that NDSU wheat clear pollinate wheat plants with maize to speed the release of wheat varieties by two to three clears. Using a technique known as double haploid production, technicians rescue the developing embryos on artificial media and chemically double the chromosomes in the plants, resulting in pure lines in a single generation.

CLEANING HOUSE FOR SCAB RESISTANT DURUM

thas to look like durum and behave like durum to be durum. To get to that point, NDSU researchers are ridding scab resistant durum lines of numerous bad traits that came in the transfer from a wild wheat relative. The durum breeding team is now advancing experimental lines with the best agronomic and quality traits. Meanwhile a new variety for western North Dakota may be considered for release in 2005.

SPECIALTY PROGRAM UDIES WHITE, RED YIELDS

Three hard white spring varieties (AC Vista, MTHW9420, and Lolo) produced yields similar to hard red spring varieties Parshall and Keene in 90 percent, 67 percent and 57 percent of 21 North Dakota and Montana locations over a three-year period.

In other news, a hard red spring variety with sawfly resistance was increased in 2004 for possible release.

ALIEN GENES SOURCE OF WHEAT IMPROVEMENTS

screening wild wheat relatives and alien species has identified lines with resistance to harmful pests and diseases such as Hessian fly, tan spot, stem rust and scab. Researchers have an developed a wheat line with a "stay green" gene reported to be associated with drought tolerance.

FORECASTING SYSTEM KEEPS GETTING BETTER

More bushels of higher quality wheat are being harvested by North Dakota farmers thanks to always improving scientific guidance from NDSU on if and when they need to apply fungicide to prevent disease damage. Based on 500 acres of wheat, a \$3.50 per bushel market price for wheat, and fungicide costs of \$14 per acre, researchers estimate the system:

- boosts net revenue by \$8,400 on a crop under disease pressure by preventing average yield losses of 10 bushels per acre, or
- saves \$7,000 in input costs on a crop if fungicide application is not needed.



NDSU Durum Breeder Dr. Elias Elias shares data from field plot trials indicating that farmers don't have to give up yield to raise high quality durum varieties.

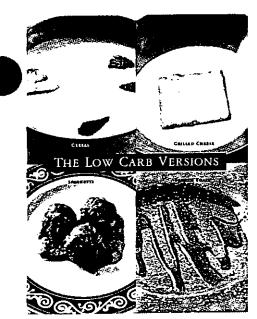
EURARIA TO

Monsanto's won't commercialize
Roundup Ready wheat until it can be
coupled with other biotech traits.
Biotechnology has much to offer
farmers, processors and consumers.
The Wheat Commission looks
forward to the day when researchers
put together in new wheat varieties a
package of traits that benefits all
segments of the food chain.



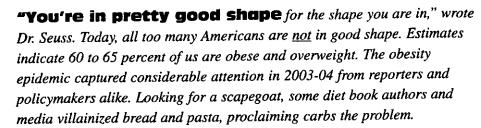
NDSU Specialty Wheat Breeder Dr. Bill Berzonsky (at left) discusses the program to develop white spring wheat varieties as well as sawfly and midge resistant hard red spring varieties with NDWC District III Commissioner Don Paulson, Richland County Representative Dave Fixen and Divide County Representative Bruce Verlinde.

domestic PROMOTION



MEATBALLS WITHOUT SPAGHETTI AREN'T THE SAME; NEITHER IS YOUR HEALTH. Key media contacts learned about essential nutrients that carb-bashers lack with this "What You're Missing" kit from the Wheat Foods Council.

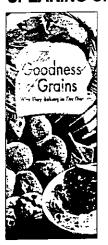
SHAPING POSITIVE CONSUMER ATTITUDES



Science tells us calories are the problem and that grain foods contain essential nutrients. But cutting through the onslaught of misinformation to communicate factual, positive messages about bread, pasta and other wheat foods is a challenge. Armed with only a \$1.2 million budget from state wheat commissions (including North Dakota's) and industry partners, the Wheat Foods Council makes up in credibility what it lacks in funding. Credibility earned from 32 years of providing sound nutrition information to dieticians, physicians, fitness leaders and other health leaders. "Influencing the Influencers" is what the Council does best.

Following is a sample of projects and endeavors from 2003-04 that have multiplied positive messages about wheat foods:

SPEAKING UP FOR GRAINS IN DIETARY GUIDELINES REVIEW



The shape illustrating eating advice to consumers since 1991 is the Food Guide Pyramid. The graphic communicates Dietary Guidelines for Americans, which have been under review in 2003-04. New guidelines will be issued in 2005. Much is at stake for the category including the six to 11 recommended daily servings. The Wheat Foods Council has been vigilant in explaining why both whole grain and enriched grain foods are essential to good health by:

- submitting comments on three separate occasions, plus 14 scientific studies, to the Dietary Guidelines Advisory Committee,
- responding to a Federal Register notification regarding the Food Guide Pyramid, and
- meeting with public policy leaders from USDA's Center for Nutrition Policy and Promotion, the National Institutes of Health, and staff of key U.S. Senators and Congressman.

WHITE PAPER TELLS BENEFITS TO MEDIA, GOVERNMENT AND HEALTH LEADERS. Enriched and fortified grain foods such as white bread and traditional pasta have twice the folic acid content of whole grains. In addition to preventing birth defects, folic acid is linked with reducing incidence of many chronic diseases. A recent study by General Mills, Inc. reports that 62 percent of the folic acid/folate in the American diet comes from grain foods.





Our Daily Bread

With more than 1,000 varieties of bread now on the market, distinguishing between similar sounding ingredients and knowing what to look for on bread puckaging can be challenging. While most store-bought breads have relatively similar calone, fat, and carbohydrates alues, their nutrient demittees can vary widely. Ship smarter with these tips.

— "Whole' is the word. Look for the word whole, whether it's whole wheat or whole grain on the label, whether it's whole wheat or whole grain on the label, whether it's whole whole, in such as harley outs, or wheat. Since mothing has been removed, it contains the highest amount of vitamins, minerals, and antimixalants. It also has about four times as much filter as white bread.

— Not all wheats are created opeat. Be careful: Breads.

samply termed "wheat" often contain as much as 75 percent enriched white flour with molasses or caramel added for coloring. To get the most nutrents business that says 100 percent while wheat, or break that lasts whole wheat than as the first ingredient.

B. White broad has nearly twice as much tolar acid as whole wheat hierad—37 micrograms compared to 17 micrograms, says. Wheat Foods Council President lush Adams M.S. R.D. Monts-to-be who want to increase tolate consumption should consider mixing white hread with other types of bread in order to meet their nutritional needs.

—Aliankus Climbe.

PUBLIC RELATIONS EFFORTS GARNER 625 MILLION MEDIA IMPRESSIONS. The Council's "Great Grain Campaign" in 2003-04 resulted in broadcast, newspaper and magazine coverage of positive messages for grain foods. This March 2004 Cooking Light magazine article tells the story how both whole wheat and white bread have a place in a healthy diet.

NEWSPAPER FEATURE REACHES 18 MILLION CONSUMERS

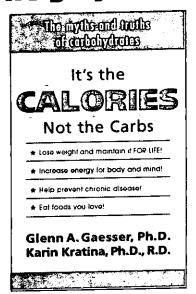
The Wheat Foods Council and American Bakers Association teamed up to develop a full-page newspaper feature. The page quoted Karin Kratina, Ph.D, R.D., explaining how families need the energy and nutrients of grain foods more than ever before.

COMMISSION PROMOTES VIA STATEWIDE ACTIVITIES

- Exhibits at conferences of N.D. Dietetic Association and N.D. Nutrition Council,
- Living Ag Classrooms in Minot, Bismarck and Fargo,
- "Use Your Noodle" crossword and trivia for newspapers and radio stations, and
- Culmination of 20 years of pasta recipe contests with a new cookbook.

Food Food Figure 1 American and the control of th

weighty MATTERS



BOOK DEBUNKS MYTHS, PROVIDES SOLUTIONS

Eating a whole cow — and no bread— is not healthy. In a new book commissioned by the Wheat Foods Council, authors Glenn Gaesser, Ph.D., and Karin Kratina, Ph.D., R.D., use scientific research to explain the pitfalls of fad diets.

The book has been endorsed by leaders within the health community. National media outreach to key health, nutrition, and science reporters is raising awareness about this new resource. A radio tour featuring Gaesser reached more than 3 million consumers.

LESS Carb CUTTING

American adults on a low-carb diet peaked at nearly 10 percent in February 2004. By November, that number had dipped below 5 percent with few following the diet's recommendations.

Source: NPD Group

financial INFORMATION

CHECKOFF INCREASE WOULD RETIRE LEGAL DEBT

-

Expenses for the trade challenge total \$6.3 million as of December 2004. The Wheat Commission has paid \$3.4 million with \$2.9 million outstanding. A half-penny checkoff increase would generate about \$1.2 million in additional funding annually. If approved by the 2005 Legislative Assembly, the increase

would take effect July 1, 2005. The Wheat Commission would accelerate payments (already at an interest-free rate). By the end of the next legislative biennium, June 30, 2007, the debt should be retired, freeing funds to address other issues or programs of importance to North Dakota wheat producers.

FINANCIAL STATEMENT FO	FINANCIAL STATEMENT FOR JULY 1 TO JUNE 30					
	Actual FY 2003-04	Projected FY2004-05				
Beginning Balance	\$656,308	\$796,242				
Checkoff Collected						
Interest Income	4,747	4,500				
Sales/Miscellaneous						
Total Receipts						
Refunds to Producers	206,480	205,800				
¹Expenditures	2,667,916	<u>2,787,150</u>				
Ending Balance		<u>\$749,892</u>				
Outstanding Trade Case Expense	3,004,678	2,850,747				
Adjusted Ending Balance	(\$2,208,436)	. (\$2,100,854)				

¹The expenditure level listed in the financial statement differs from that listed under operating expenditures due to accrued expenses.

FY 2003-04 OPERATING EXPENDITURES \$2,739,329





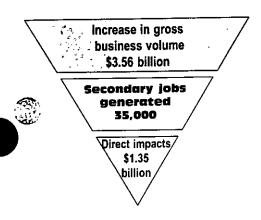
-		***	OPERATING EXP	ENDITU	RES			
	ACTUAL 2003-04	BUDGET 2004-05		ACTUAL 2003-04	BUDGET 2004-05		ACTUAL 2003-04	BUDGET 2004-05
ADMINISTRATION	\$201,938	\$228,430	RESEARCH			DOMESTIC PROMOTION	\$138,227	\$144,642
Salaries, Commissioner Per Diem,			& CUSTOMER SERVICE	\$357,681	351,439	Salaries, Commissioner Per Diem,		
Employer Taxes, Benefits	110,841	113,030	Salaries, Commissioner Per Diem,			Employer Taxes, Benefits	12,786	•
Travel & Expenses	13,542	15,400	Employer Taxes, Benefits	34,312	35,213	Travel & Expenses	6,734	7,000
General Operating	77,555	100,000	Travel & Expenses	13,466	14,910	Wheat Foods Council	98,325	101,775
EXPORT MARKETING	\$784,228	\$874,081	North Dakota State University			National Pasta Association	1,100	2,500
Salaries, Commissioner Per Die		#01 -4 ,001	End-Use Quality	71,500	83,000	Postage/Printing/Other Support	19,282	20,325
Employer Taxes, Benefits	114,374	117,377	Wheat Breeding/Genetics	88,636	67,870	PUBLIC INFORMATION	\$166,773	\$193,654
Travel & Expenses	44,888	49,700	Disease/Pest Management	21,577	4,200	Salaries, Commissioner Per Diem,		
U.S. Wheat Associates	624,966	707,004	Marketing/Economics	40,500	35,496	Employer Taxes, Benefits	71,042	73,904
POLICY & ISSUES	\$1,090,483	\$994.904	SBARE Matching Contingency		40,000	Travel & Expenses	15,651	18,200
Salaries, Commissioner Per Diem,	\$1,U3U,403	4 334,304	Other:			Advertising	139	15,000
Employer Taxes, Benefits	80,062	82,164	Northern Crops Institute	30,000	30,000	Premiums/Scholarships/Prizes	4,010	4,000
Travel & Expenses	31,421	34,790	Consultant Fees & Expenses	15.724	10.000	Postage (Dakota Gold/Other)	33,319	34,500
Legal Counsel & Consultants	775,000	783,000	Wheat Marketing Center	15,000	.0,000	Printing (Dakota Gold/Other)	31,449	35,000
National Assoc. of Wheat Growers	109,000	50,000	Wheat Quality Council	4.000	4.000	Producer Survey	6,110	-
Wheat Export Trade Education Comm.	20,000	5,000	N.D. Variety Survey	3.750	3.750	Web Site	2,970	6,000
N.D. Grain Growers	40,000	3,000	Miscellaneous Support	19,215	23,000	General Support	2,083	7,059
U.S. Durum Growers	26,000	_	Milscellarieous oupport	10,210	20,000			
Durum Milling Insurance	5.000	-		3		TOTAL	2,739,329	\$2,787,150
Domestic Policy Sp. Projects	4,000	39,950						

WHEAT GENERATES \$3.56 BILLION A YEAR

Wheat is still king in North Dakota. With an annual economic impact of \$3.56 billion, it is one of the most important economic activities in the state, agricultural or otherwise, according to a new study by North Dakota State

Average impact was assessed from 2001 to 2003 when plantings ranged from 8.6 million to 9.5 million acres and production ranged from 216 million to 317 million bushels.

University agricultural economists.



Main street benefits. Direct annual impacts from all wheat activities in North Dakota are estimated at \$1.35 billion. This includes:

- \$1.1 billion from production,
- \$32 million from grain handling,
- \$73 million in expenditures retained in North Dakota's economy for truck and rail transportation (of \$199 million spent), and
- \$100 million from wheat processing.

ese direct impacts generated an additional \$2.21 billion in secondary impacts including 35,000 full-time jobs.



1 acre wheat State of the state

Every acre counts. Each acre of wheat planted generates about \$393 in total economic activity annually plus about \$13.88 in state tax revenue. The wheat industry is responsible for an annual average of \$1.2 billion in retail trade activity and \$1.1 billion in economy-wide personal income.

Leading all commodities.

North Dakota Ag Statistics show wheat leads all commodities produced in the state in cash receipts from farm marketings, accounting for an average 20 percent during the study period.

Production is widespread.

Wheat is produced in all areas of the North Dakota, but is most concentrated in the Red River Valley and northern third of the state.

Center for Agricultural Policy and Trade Studies North Dakota State University

NEWSLETTERD

Issue 03-1

FEB 07 2003

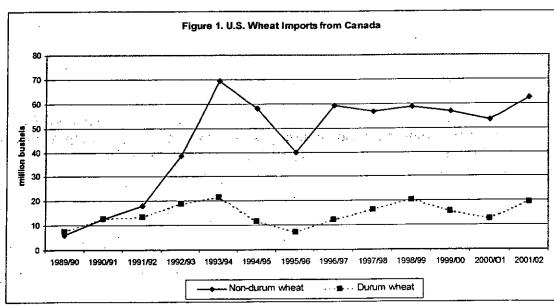
The U.S. - Canada Wheat Trade Dispute and the Possible Effect of Import Restrictions

Won Koo and Jeremy Mattson

On December 17, 2002, U.S. Trade Representative Robert Zoellick announced that the United States will file a case against Canada in the World Trade Organization (WTO) over the wheat trading practices of the Canadian Wheat Board (CWB). The United States is also challenging Canada's requirements to segregate imported grain in the Canadian grain handling system and the country's discriminatory policy that affects U.S. grain access to the Canadian rail transportation system.

In addition to the case against Canada in the WTO, the U.S. Department of Commerce initiated antidumping and countervailing duty investigations last October at the request of the North Dakota Wheat Commission, the U.S. Durum Growers Association, and the Durum Growers Trade Action Committee. In November, the U.S. International Trade Commission ruled that undervalued Canadian wheat exports to the United States may burt U.S. farmers by driving down the price of wheat. This preliminary ruling allows the Department of merce to proceed with an investigation into whether tariffs should be imposed on imports of hard red spring (HRS) and durum wheat from Canada. Meanwhile, members of the CWB and the Canadian exernment argue that their policies are legal under international trade agreements and that there is no evidence to show that Canada is dumping grain in the U.S. market.

These are the latest in a number of wheat trade disputes that have arisen between the United States and Canada since the Canada -U.S. Free Trade Agreement (CUSTA) was implemented in 1989. Figure 1 shows the dramatic increase in nondurum and durum wheat imports from Canada since 1989. Most of the non-durum wheat imports consist of HRS wheat. Wheat imports from Canada increased dramatically in the early In marketing year 0s.



Source: Foreign Agricultural Service, USDA

1993/94, non-durum wheat imports from Canada reached a high of 69 million bushels, while durum wheat imports reached a high of 22 million bushels. After a dispute in 1994 and a negotiated settlement that stricted Canadian exports, imports from Canada declined, but then increased again after 1995/96.

Center for Agricultural Policy and Trade Studies North Dakota State University • Fargo, North Dakota 58105 uring the five years from 1996/97 to 2000/01, non-durum wheat imports from Canada were fairly stable, averaging 57 million bushels per year. Meanwhile, durum imports increased to 20 million bushels in 1998/99, but then decreased to 13 million bushels in 2000/01. After five years of stable or slightly declining non-durum wheat imports and two years of declining durum wheat imports, there was a significant increase in both non-durum and durum wheat imports from Canada in 2001/02. In the 2001/02 marketing year, Canadian non-durum and durum wheat exports to the United States totaled 62.4 and 19.3 million bushels, respectively. These imports equaled about 20 and 24 percent of U.S. domestic consumption of HRS and durum wheat, respectively.

The North Dakota Wheat Commission has requested a tariff-rate quota (TRQ) of \$50 per metric ton (\$1.36 per bushel) for imports of durum exceeding 300,000 tons (11 million bushels) annually and for imports of non-durum wheat exceeding 500,000 tons (18.4 million bushels) annually. The Commission has proposed that the TRQ should be established for two crop years and then adjusted or eliminated in subsequent years as fundamental reforms of the CWB are implemented. If this TRQ were to be implemented, it would substantially decrease the volume of wheat imported from Canada; non-durum imports would drop to a third of the level in recent years. Imports beyond the TRQ restrictions would be unlikely because the tariffs would eliminate their cost-competitiveness.

Data were analyzed to estimate the effect that this proposed TRQ would have on U.S. HRS and durum wheat farm price and income. To do this, we estimated what the effect would have been in previous years had imports been restricted to the TRQ levels. Table 1 shows the estimated increases in income and price for U.S. S and durum wheat producers that would have resulted in each of the last five years had imports from canada been restricted to the proposed quotas of 18.4 million bushels of non-durum wheat and 11 million bushels of durum wheat.

Imports were highest in 1998/99 for durum wheat and in 2001/02 for non-durum wheat, which explains why the effects would have been greatest in those years. If we assume that the United States would continue importing from Canada at the 2001/02 level without a TRQ, then implementing the TRQ proposed by the North Dakota Wheat Commission would increase HRS and durum wheat prices by \$0.30 and \$0.43, respectively, and HRS and durum wheat producer income by \$105 million and \$19 million, respectively.

By comparison, a less restrictive TRQ level of 40 million bushels of non-durum at and 14 million bushels of durum

Table 1. Retrospective effects of the proposed TRQ on U.S. HRS and durum wheat farm price and income¹

	Income Increase (million \$)	Price Increase (\$/bushel)
Hard Red Spring Wheat		
1997/98	83.8	\$0.24
1998/99	90.5	\$0.26
1999/00	87.5	\$0.25
2000/01	96.6	\$0.24
2001/02	104.5	\$0.30
Durum Wheat	•	
1997/98	3.6	\$0.25
1998/99	32.9	\$0.45
1999/00	24.9	\$0.23
2000/01	5.7	\$0.08
2001/02	19.4	\$0.43

. This table shows the estimated increases in U.S. HRS and durum wheat farm income and price that would have resulted from restricting imports in each year to the proposed TRQ levels of 18.4 million bushels of non-durum wheat and 11 million bushels of durum wheat.

wheat would increase HRS and durum wheat prices by \$0.15 and \$0.27, respectively, and HRS and durum wheat producer income by \$49 million and \$14 million, respectively.

TRQs may provide a short-term solution, but a more permanent alternative to solving the U.S. - Canada wheat trade problem is to harmonize marketing practices and agricultural policy in the two countries. The first step in this process is to restrict the activities of the CWB and make its marketing activities transparent.

Why an Increase to the Wheat Checkoff?

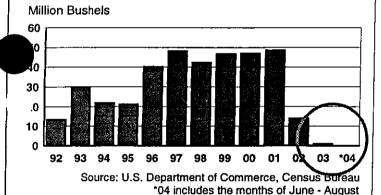
The North Dakota Wheat Commission is seeking to increase the wheat checkoff from the present 1 penny per bushel (10 mills) to 1.5 cents (15 mills) per bushel.

If approved, the increase would initially be used to retire debt accumulated in legal challenges against unfair Canadian wheat trade, but would eventually make additional dollars available for other priority programs.

STANDING UP AGAINST UNFAIR CANADIAN TRADE

The North Dakota Wheat Commission went to battle on behalf of hard red spring and durum wheat producers against unfair Canadian wheat trade through legal challenges under U.S. and international trade law.

Imports of Canadian Hard Red Spring Wheat



IMPORTS OF SPRING WHEAT PRACTICALLY SHUT OFF

Checkoff-funded trade actions brought forth by the Wheat Commission have held imports of Canadian hard red spring wheat to levels not seen since implementation of the North American Free Trade Agreement.

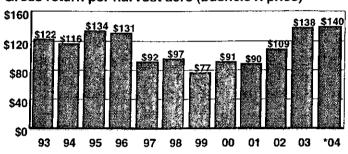
Disciplines on Canada's dumping and subsidization in the form of a 14 percent duty (about \$.50 per bushel) have limited imports to 1.2 million bushels in marketing year 2003-04, which ended in May. Imports have been minimal so far in MY04-05.

CASE YIELDS 6 TO 1 RETURN IN BETTER PRICES

nport duties on Canadian hard red spring wheat are credited with adding at least \$.20 to the price of hard red spring wheat, providing North Dakota producers with an additional

Value of N.D. Wheat Production

Gross return per harvest acre (bushels X price)



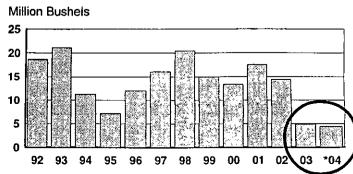
*04 projected Source: N.D. Agricultural Statistics Service

\$50 million for the 2003 crop. Provided the duties withstand appeals under NAFTA by Canada and annual reviews, hard red spring wheat producers should continue to accrue similar benefits for another four years.

TRADE ACTIONS ALSO HELD DOWN DURUM IMPORTS

From the time preliminary rulings imposed a temporary bonding requirement on Canadian durum in March 2003 through the appeals process, imports have remained low. Producers have experienced a positive price response.

Imports of Canadian Durum Wheat



Source: U.S. Department of Commerce, Census Bureau *04 includes the months of June - August

frogress on More Permanent Solutions in WTO fforts by the North Dakota Wheat Commission, in concert with national wheat and farm organizations, have further resulted in a framework document for World Trade Organization negotiation that calls for:

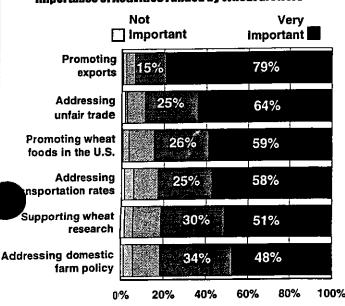
- the elimination of subsidies to and by state trading enterprises,
- the end of government financing and loss underwriting on STEs, and
- puts monopoly powers on the table.

TRADE ISSUES IMPORTANT TO N.D. PRODUCERS

Commissioners decided to seek a checkoff increase after conducting a random survey of a statistically reliable sample of North Dakota producers and consulting with major farm organizations. "There's general agreement that the trade challenges were needed, are beneficial at that the results need to be aggressively aefended in the face of Canadian Wheat Board appeals," says Harlan Klein, NDWC chairman and Elgin-area farmer.

- 64% of respondents to the survey consider addressing unfair trade practices to be "very important" and,
- another 25% of respondents say this activity is "somewhat important."

Importance of Activities Funded by Wheat Growers



Source: AdFarm Survey 2004

COMMISSION NEEDS TO MAINTAIN AGGRESSIVE STANCE ON TRADE ISSUES TO RETAIN BENEFITS WON

While the bulk of the legal work is complete, the North Dakota Wheat Commission must defend the import duty on Canadian hard red spring wheat in appeals filed by the Canadian government.

Legal representation is also needed in connection with the WTO dispute settlement to assure Canada takes necessary steps to comply with findings of violations with regard to regulatory hurdles preventing the import of U.S. grain and higher rail transportation rates for imported grain.

CHECKOFF INCREASE WOULD RETIRE LEGAL DEBT

Expenses for legal work to address unfair Canadian trade practices will continue to mount, though at a much more modest rate. Billings for legal counsel and economic analysis for components of the trade challenge total \$6.2 million as of October 2004. The Wheat Commission has paid \$3.3 million to date with \$2.9 million outstanding.

A half-penny checkoff increase would generate an estimated \$1.2 million in additional funding annually, based on an average North Dakota wheat crop (less wheat used for seed and refund requests). If approved, the increase would take effect July 1, 2005.

The Wheat Commission would accelerate payments (already at an interest-free rate). By the end of the next legislative biennium, June 30, 2007, the debt should be retired, freeing funds for other trade issues or programs of importance to North Dakota wheat producers.

Wheat producers are encouraged to call their District Wheat Commissioner or the office with questions, suggestions or comments.



Linking Farmers with Customers Worldwide 4023 State Street • Bismarck, ND 58503-0690

Phone (701) 328-5111 • Fax (701) 328-5115 ndwheat@ndwheat.com • www.ndwheat.com





National Association of Wheat Growers

415 Second Street, NE • Suite 300 • Washington, DC 20002 • Phone: 202-547-7800 • Fax: 202-546-2638

Activity report to the North Dakota Wheat Commission December 31, 2004

Thank you for the ongoing support of the North Dakota Wheat Commission for activities of the National Association of Wheat Growers. Your involvement and that of our other member states has been a critical element in our successful efforts on behalf of the nation's wheat producers.

Following is a report of our activities on your behalf, as well as other NAWG activity, covering the first half of fiscal 2005, from July 1, 2004 – December 31, 2004. Thank you for the privilege of working on your behalf.

W. Daren Coppock

Chief Executive Officer

National Association of Wheat Growers

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NAWG Priority Goals

Major policy emphases of NAWG were established at the October 2004 Board Meeting in Denver, and include the following:

- Farm Bill: defend the 2002 bill from budget reconciliation, continue the *Home Grown* project to explain the benefits of a Farm Bill, and prepare proposals for the 2007 Farm Bill.
- © Crop Insurance: improve the product to better deal with consecutive droughts.
- Consolidate the three Washington-based wheat organizations into one coordinated, highimpact voice for wheat producers.
- © Competition Issues: Rail competition, pesticide regulatory harmonization with Canada, other drivers of competitiveness
- Biotechnology: Build market acceptance for biotechnology traits in wheat.
- New Uses: Develop new uses to expand the demand for wheat.
- © Conservation Security Program (CSP)/Conservation implementation
- Research funding
- Update legislation for USDA collection of state commission assessments (accomplished).
- Fuel spill and containment

Federal Farm Policy

NAWG continually keeps an ear to the ground on federal farm policy issues. Agricultural disaster assistance, once thought a remote possibility due to the budget deficit, is now on the radar screen of possibility. This is due in no small part to the efforts of NAWG and its member state associations, along with support from many other national farm organizations and key members of the Senate. However, the prospects of budget reconciliation and the outcome of Brazil's WTO cotton case loom over farm bill funding for the next several years.

DISASTER ASSISTANCE

NAWG devoted substantial effort to passage of a disaster assistance program for 2003/04 crops. NAWG's Board of Directors stipulated goals that the program apply to both years, be modeled after the Crop Disaster Program used in the late 1990s, and not be offset by cuts in farm program spending. Working with a larger agriculture coalition, NAWG was able to attach disaster provisions to a hurricane relief bill and satisfied two of the three goals set out by the Board. NAWG maintained its opposition to offsets until the very end, but in order to cut the deal, Congress decided to offset the agriculture disaster spending by reducing the budget for Conservation Security Program (CSP) spending in the latter years of the Farm Bill.

The following description (in italics) was taken from a Congressional Research Service report on disaster assistance, issued September 17, 2004. It provides a concise but thorough description of the disaster package adopted by the Senate on September 14.

The Senate-passed disaster provision provides "such sums as necessary" from USDA's Commodity Credit Corporation (CCC) to fully fund payment formulas for three disaster programs — crop loss assistance, livestock assistance, and tree assistance. CBO estimates the cost of these three programs at \$2.5 billion for crop losses, \$475 million

for livestock assistance, and \$20 million for tree replantings. If these estimates fall short of program needs, CCC funds would be available for any shortfall.

As mandated by the Senate-passed bill, the crop loss payments would be implemented in the same fashion as the 2000 crop disaster program. A crop producer would be eligible for assistance if crop losses due to any natural disaster were in excess of 35% in either 2003 or 2004. For losses in excess of the 35% threshold, an eligible producer would receive a payment equal to 65% of the relevant price for the commodity. Producers who had the opportunity to insure the crop and waived insurance for the year would be slightly penalized and receive a payment equal to 60% of the relevant price. Payments would be made to all eligible producers regardless of whether a farmer was in a declared disaster area. A producer would have to choose between 2003 or 2004 losses, and would not be eligible for payments for both year's losses. As implemented for 2000 crop losses, recipients would be subject to an \$80,000 per person payment limit, and any producer with gross income in excess of \$2.5 million would not be eligible for assistance. Some policymakers are concerned either that the payment and income limitation would exclude Florida nursery and greenhouse operations from the program, or that any benefits received would be minimal compared with their hurricane losses. Hence, the Florida delegation is expected to seek additional assistance to assist their producers.

The package conforms very closely to the desired policy set by the NAWG Executive Board in a conference call on July 6, 2004. During that meeting, the Executive Board passed a motion calling for "a disaster program that provides relief for either 2003 or 2004 crop years, either in federally-declared disaster counties or for producers who suffered at least a 35% loss on a program crop." Focus now turns to implementation questions, such as the calculation of the 95% crop value cap and quality provisions.

CROP INSURANCE FIXES

NAWG and several of the state wheat grower associations obtained a revision in Risk Management Agency procedures for documenting quality losses due to sprout damage. Previous RMA procedures require that for grain delivered to a commercial elevator, every truckload of grain must be tested for sprout at a cost of at least \$10 per sample. These procedures were instituted several years ago, after a USDA Inspector General's report found excessive indemnities paid from allegedly manipulated grain samples. In contrast, grain in farm-stored bins can be accumulated and one test per bin will suffice. NAWG had pointed out that this treatment imposes additional cost and inefficiency on growers delivering to commercial elevators, and deviates from the standard practice of the industry for determining grades on grain. Some producers in Kansas and elsewhere had sprout claims denied because their samples were commingled according to standard commercial practice. RMA's revision will address the needs of producers who were still harvesting at the time the change was made, and also apply to those who had already finished harvest and had claims denied due to commingled samples.

NAWG also supported an effort by the U.S. Durum Growers Association, North Dakota Grain Growers Association, Montana Grain Growers Association, Minnesota Association of Wheat Growers and North Dakota Farm Bureau to secure changes in Risk Management Agency crop insurance rules regarding durum and spring wheat yields. New rules adopted by Risk Management Agency caused durum growers to lose crop insurance coverage in 2004, and also

resulted in a dramatic reduction in durum acres, according to a news release from the U.S. Durum Growers Association. The Durum Growers had requested segregation of yields between durum and spring wheat, but did not expect or intend to have coverage or planted acres result from the policy change. The position of separating yields is consistent with previous NAWG policies in support of separating yields for spring vs. winter plantings and irrigated vs. dryland plantings.

Three remedies to the present problem were offered by the organizations:

1. Reinstate the Simple Average Yields in 2004 for farmers who have grown both wheat and durum in a county.

2. Allow an APH yield descriptor of "F" when splitting the databases in 2004. The "F" descriptor is a RMA/RO determined yield and would consist of the actual approved combined database for 2003. The split would begin with the actual 2003 production by type.

3. Establish a Company/agent/farmer advisory Board in each region to look at the effect and or consequences of any proposed change to the Crop Insurance Handbook.

CROP INSURANCE ENHANCEMENT

NAWG has developed key principles for crop insurance enhancements, including: (1)Higher available coverage levels; (2) Prevent the erosion of Actual Production History (APH) from successive droughts; (3) Utilizing Risk Management Accounts to cover large uninsured deductibles; (4) Not requiring producers to harvest a crop where harvest costs exceed the crop value simply to qualify for insurance indemnities. A full briefing paper on this topic is available on the NAWG web site, from the NAWG office, or from state association offices. NAWG's Domestic Policy Committee will be working on this proposal in coming months to offer a refined product to Congress.

No action is anticipated on a reform proposal until 2005 at the earliest, despite a round of hearings in 2004 by the House Agriculture Committee on the subject. Focus now is on the likely budget reconciliation that federal programs will face in 2005, and how to best defend the suite of agricultural programs in place. The budget situation also requires that any changes proposed in crop insurance essentially be budget neutral.

FARM CREDIT SYSTEM

NAWG President Mark Gage sent a letter to Farm Credit Administration CEO Nancy Pellett in late August, and testified before a Congressional subcommittee on September 29, objecting to the proposed merger of Farm Credit Services of America (FCSA) and Rabobank.

NAWG has long supported the Farm Credit System, recognizing its value as a tool for producers. NAWG fully supports the right of Rabobank and other non-System lenders to offer agricultural financing, and believes that competition among lenders is good for farmers. Our concern was the impact this merger would have on the Farm Credit System as a whole. The letter and testimony expressed NAWG's concerns, outlined below, and called for Congressional hearings on the merger as well as FCA to exercise its authority to halt a merger that would have detrimental consequences for the rest of the Farm Credit System.

NAWG believes the proposed merger would have:

- Replaced farmers with commercial bankers on the board of an FCS institution, violating a key tenet of NAWG policy (II-D-8).
- Required recapitalization of a new System institution in the region served by FCSA, draining capital from other System institutions.
- Invited other FCS institutions to be cherry-picked from the System. Other banks would target the most attractive institutions, removing them from the System, which would trigger more recapitalizations and further weaken the remaining System.
- The Farm Credit System has a Congressional mandate to serve farmers in good times and bad; Rabobank is under no such restriction.
- The assets of FCSA include an excessive amount of unallocated capital, and may also
 include capital that was transferred from other System institutions during the credit crisis
 of the 1980s and was never repaid. Those institutions have a rightful claim on any
 unrepaid capital.
- There are lingering questions about the value of the transaction; one source says that Rabobank would have acquired the assets of FCSA for 41¢ on the dollar, when these types of transactions are currently valued between one and two times book value. Public hearings would have illuminated many facets of the transaction, and would assist the FCSA shareholders in making their decisions.

On October 20, FCSA withdrew its proposed merger with Rabobank and also rejected a competing offer from AgStar Financial Services. Rabobank expressed regret at the failed merger, but expressed its intent to become a player in US agricultural finance through other means.

CONSERVATION TECHNICAL ASSISTANCE

NAWG and other farm groups were able to fix a conservation technical assistance funding issue in the last days of the 108th Congress. Congress passed S. 2856, which stipulates that each conservation program must pay for its own technical assistance.

Under a previous administrative interpretation and confusing Congressional direction, the Administration's Office of Management and Budget (OMB) insisted that technical assistance costs for the Conservation Reserve Program (CRP) and the Wetlands Reserve Program (WRP) had to be paid for out of the program costs of the Environmental Quality Incentives Program (EQIP) the Farmland Protection Program (FPP), the Grassland Reserve Program (GRP) and the Wildlife Habitat Incentive Program (WHIP). This was annually diverting nearly \$200 million of EQIP funds alone to cover the CRP and WRP technical assistance costs.

The legislation provides that funds for one conservation program cannot be spent on another programs technical assistance. It further provides that the Commodity Credit Corporation would cover the costs of technical assistance for each conservation program, as originally provided in the 2002 Farm Bill.

FSA COMMITTEE MAKEUP

NAWG joined a number of other farm organizations making comment on the proposed guidelines for conducting Farm Service Agency County Committee elections as published in the Federal Register on August 17, 2004. These guidelines seek to fulfill mandates of Section 1078 of the Farm Security and Rural Investment Act of 2002 "to ensure that FSA County Committees are fairly representative of the agricultural producers covered by the relevant county or counties, including fair representation of socially disadvantaged (SDA) farmers and ranchers on FSA County committees."

The comments to USDA acknowledged the effort to improve the democratic process, but went on to express concern that some of the guidelines "will further erode the effectiveness and authorities of our county committees and jeopardizes their abilities to manage the programs passed by congress and administered by the FSA." The letter highlighted the following concerns.

- Discretionary appointment by the Secretary should be resorted to if, and only if, both the County and State committees, respectively, have been unable to complete the slate of nominees.
- The proposal provides that producers send ballots to state offices that would then sort into Local Administrative Areas (LAA) boxes and ship to the county. County offices have effectively conducted transparent elections for years, and fair representation will not be furthered through centralization of the election process.
- The guidelines seek the reduction from three year terms to two year terms, eroding the
 institutional knowledge required to carry out the programs. The proposal does not
 acknowledge the difficulty in finding eligible producers and costs associated with training
 additional members if terms are reduced.
- The legislation provides first for county committee election outreach and communication
 followed by election procedures. The letter points out that the first phase is a year-long
 process, and the implementation of the guidelines should be postponed until the first phase
 is complete.
- The letter expresses concern for the lack of inclusion of all stakeholders in drafting these guidelines, and that such organizations were not consulted in the process.

In a letter to Members of the Senate Agriculture committee, National Association of Farmer Elected Committees (NAFEC) laid out a number similar concerns.

Because of the importance of the issue and the fact that most organizations had not had an opportunity to respond, a 30 day extension for remarks was requested. Further it was requested that the Secretary direct FSA to facilitate a stakeholder meeting prior to the conclusion of the extension.

Competitiveness

NEW USES FOR WHEAT

NAWG met with the USDA/ARS laboratory in Albany, California, during another business trip to Sacramento in August. We discussed with them our ongoing strong interest in new uses development, and learned from the program leaders what sorts of development using wheat products is underway at the center.

NAWG's Foundation Development Committee also met with the NAWG Foundation officers in August, and discussed (among other things) how to further the efforts toward new uses. Development Committee members had been previously asked to circulate NAWG's New Uses Audit within their companies and see if there were any additional issues identified that NAWG could address. The discussion yielded the following observations and questions:

- Wheat is "Under researched" compared to soybeans and corn; need more applied research on functional properties. Need to run the traps with CSREES and ARS again to raise wheat utilization on the research priority radar.
- Need to identify and understand barriers/constraints that are holding the industry back from investing in new wheat uses.
- Should focus on non-starch applications; wheat will never compete with other low-cost starch sources.
- Should we develop a high-yielding feed wheat?
- May need to consider embarking on consumer oriented campaigns to communicate the benefits of wheat consumption (cancer and antioxidants, etc.)
- Should the focus shift to the non-food grade opportunities? Producing ethanol as a
 byproduct from wheat protein extraction is a much better economic proposition than
 producing ethanol as the primary product.

OBESITY AND LOW-CARB DIETS

NAWG continues to monitor how diet fads impact the interests of wheat producers, though the lead work is done by the Wheat Foods Council and the new Foundation for Grain Based Foods formed by the North American Millers Association and the American Bakers Association.

RAIL COMPETITION

Broad support for rail competition continues to build, through the constraints on the Congressional calendar will prevent action on the bill in 2004. Still, the broadest and largest coalition ever assembled in support of rail competition continues to recruit sponsors for the bill and is well positioned for addressing the issue in 2005. NAWG, in the person of Pat Buschette, has invested a considerable amount of time working this issue. Jennifer Spurgat will be taking the reins on this effort in January 2005.

Some important points about the legislation that the coalition has developed:

- HR 2924 is a bill that restores public policy and balance of fairness to the monopolized railroad industry.
- In 1980, when Congress acted to remove major portions of regulatory oversight from the railroad industry, it saw an industry of 40+ Class I railroads and it envisioned that its public policy would allow the railroad to compete and bring innovation and stability to the industry while serving the U.S. public transportation needs. Those intentions of elected legislators have been skewed over time by business forces and unelected regulators. The law needs fixing to restore balance.
- HR 2924 restores the balance needed to allow competition and the innovation that comes from increased competition. HR 2924 allows and encourages market place solutions to disputes between rail customers and the railroads through Final Offer Arbitration. It further encourages the balance sought in the 1980 Staggers Rail Act by defining quote a rate and terminal access precisely as they were in 1980.
- HR 2924 is not re-regulatory. It does not cap rail rates and it does not open up the nation's railroad system to 'open access'. While those railroad assertions were made in the S.919 Rail Competition hearings they were proved to be untrue.

Railroads continue to oppose the bill, service continues to decline, and rates (for the not-provided service) continue to climb; but the coalition formed to advance rail competition is getting real traction and attention drawn to this important competitive issue.

PESTICIDE HARMONIZATION

Work continues on this priority, though legislation has not made recent progress. One new area of work is increased collaboration with Canadian grain interests, who also believe that a merged registration system would be of benefit to producers on both sides of the border. As a result of cross-border coalition building initiated by NAWG and the Grain Growers of Canada, a coalition letter that included producer groups, CropLife America and CropLife Canada was sent to the U.S. and Canadian governments, supporting and requesting more progress on a joint registration system. (See discussion under Outreach below).

Trade Policy

WTO FRAMEWORK AGREEMENT

NAWG joined with WETEC and USW in supporting the WTO Framework Agreement as a way to advance the Doha Round forward. According to US Trade Representative Robert Zoellick, the agreement makes specific gains for US agriculture:

- Export Subsidies. Achieving a goal of U.S. farmers for decades, the framework
 eliminates agricultural export subsidies, ensuring that the European Union will have to
 phase-out billions of dollars that directly displace our wheat, beef, sugar, dairy, and
 other producers.
- Canadian Wheat Board. The framework agreement also commits to disciplines, for the first time ever, on monopoly state trade enterprises like the Canadian Wheat Board that hurt wheat growers in your home state and in others. It even advances negotiations toward our goal of eliminating the monopoly power of state trading enterprises.

- Harmonizing Domestic Support. The framework establishes that countries that have trade-distorting agricultural subsidies two to three times higher than ours -- such as the European Union and Japan -- will be required to cut their subsidy programs more than we do, a long-sought goal of the United States and a fact favorably noted by cattle ranchers, and corn and wheat farmers.
- Safety Net Provided by the 2002 Farm Bill Maintained. The framework even creates an opportunity to place partially decoupled U.S. safety-net programs created in the 2002 Farm Bill -- known as counter-cyclical support -- into the "blue box," something not possible under current rules. This change will especially benefit South Dakota's wheat, corn, barley, oats, and soybean farmers.
- Food Aid. The framework text preserves disciplined food aid programs for humanitarian and development needs, a win cited in favorable statements by corn, soybean, dairy, and wheat farmers. The food aid community recognizes that U.S. negotiators improved the text so that it protects U.S. food aid programs and the United States' continued ability to provide crucial humanitarian assistance to millions of starving people throughout the world.
- Increased Market Access for Agricultural Products. Tariffs will be cut using a tiered
 ("banded") formula that will lead to greater equalization of tariff levels across countries
 (other than the poorest), with countries that have higher tariffs required to make deeper
 cuts. In addition, we will continue to evaluate the use of a tariff cap as part of the
 negotiations. These changes will help to ensure that exporters in your state and
 throughout the country will have increased access to more customers overseas.
- Sensitive Products. At the same time, we will have the option to designate a certain number of "sensitive products" that will be handled through a combination of expanded tariff quotas and tariff reductions. This provides flexibility for agriculture sectors especially sensitive to import competition.

BRAZIL COTTON CASE

Brazil won – at least partially – two WTO dispute panel decisions in cases lodged against Europe's support system for sugar exports and the US cotton program. Europe is considering an appeal of their decision, and the US government is pursuing an appeal of the cotton decision.

The 377-page report – not counting several hundred pages of appendices – was released publicly in September, and is posted on the World Trade Organization (WTO) web site at www.wto.org.

The National Cotton Council quickly criticized the findings of the panel. NCC Chairman Woody Anderson expressed doubt that, "...the United States — or, for that matter, any WTO member - intended that the WTO Agreements would be interpreted as this Panel has done. Now that the report has been publicly released, we are even more convinced that neither the facts, the economics nor the agreements support the Panel's primary decisions."

Most of the conclusions from the cotton case will also have impacts on other commodities in the Farm Bill, including wheat. Among the findings in the Recommendations of the panel report are the following:

Production Flexibility Contract payments and direct payments, as well as the regulations
which establish them, do not comply with Article 13 (the Peace Clause) of GATT.
Interestingly, Brazil claimed that because there is a planting restriction against fruits and

vegetables on contract acres, the program is not fully decoupled from production. However, the US Trade Representative did successfully defend the programs from allegations that they caused harm to Brazil's interests. Specifically, the panel agreed with the United States that income support provided to US cotton farmers and others that is fully decoupled from production has not suppressed or depressed world cotton prices.

• The cotton program granted more support than the allowed limit of 1992 levels, which violates the Peace Clause exemption.

• GSM export credit guarantee programs for cotton, rice, and some other "unscheduled" products constitute export subsidies and are inconsistent with US commitments under Article 13 of the GATT agreement. Other products not specifically named in Brazil's case are still considered exempt.

• The Step 2 program for both upland cotton and extra long staple cotton also constitutes a prohibited export subsidy.

On the positive side, the panel found that Brazil had failed to show that US domestic support programs caused an increase in US world market share for upland cotton, and also found that certain U.S. export credit guarantees (for scheduled products including wheat) were consistent with US WTO obligations.

The findings are being appealed by the US government, so they are not yet final. To the extent that a decision in this case would affect direct and countercyclical payments to wheat producers, impact the use of GSM export credit guarantees, and encourage other challenges to US farm law, wheat interests could be impacted. NAWG and WETEC will be monitoring them closely.

The Panel ruled that Europe's sugar regime resulted in surplus production, which of necessity is exported and thereby reduces world sugar prices.

CHINA WTO COMPLIANCE

NAWG and WETEC joined four other agricultural organizations on a letter to US Trade Representative (USTR) Robert Zoellick, requesting strong monitoring and enforcement of China's commitments under the World Trade Organization (WTO). NAWG and WETEC both worked hard to secure Permanent Normal Trading Relations for China a few years ago as a preparatory step to their WTO accession, and supported China's membership in the WTO. Now there must be follow-through on the commitments China made to gain membership in the international trade body.

The letter was also signed by the American Soybean Association (the lead drafter), the National Corn Growers Association, the US Grains Council, and the American Farm Bureau Federation. It commended the efforts of USTR, along with the cooperation of China in implementing its commitments under World Trade Organization accession agreement. U.S. agriculture and Chinese consumers in particular have come to rely on and enjoy a growing trade in agricultural products. However, in spite of our growing successful trade relationship, China has announced and implemented policies that inappropriately manage trade flows and are non-compliant with WTO commitments.

The letter identified several new trade restrictions imposed by China over the past 18 months which are additional standards for the import of plant and animal agricultural products that: (1) are applied without prior notice and geographic consistency; (2) fail to provide for comment

periods and/or time for trading partners to institute practices to readily comply; (3) encourage and support actions by Chinese firms to avoid contractual commitments; (4) inappropriately discriminate against specific private entities through the broad-based imposition of company-specific trading bans (blacklisting); and (5) result in unjustified management and delay in the issuance of Permits for Quarantine Inspections in order to control imports for political or economic reasons.

These measures fail to comply with China's WTO obligations, and USTR was asked to address them as quickly and effectively as possible in upcoming meetings with Chinese diplomats and officials.

CUBA, FOOD AID

NAWG has also supported WETEC efforts related to trade with Cuba, and worked with WETEC and U.S. Wheat Associates on food aid and use of the Bill Emerson Humanitarian Trust (BEHT). Commercial trade with Cuba has been put at risk by the Treasury Department's Office of Foreign Asset Control (OFAC), who is attempting to redefine prepayment rules for exports of goods to Cuba. The risk to shippers first became urgent when, OFAC, without notifying shippers, informed U.S. banks they were not to release funds to shippers. WETEC has been the lead in resolving this issue, and NAWG has been supporting it all along.

An effort is also underway to ramp up U.S. food aid donations to meet an unexpectedly high need for emergency food supplies. USDA has released 200,000 MT of wheat from the BEHT for export to Sudan, but this only begins to address the global need. Domestic difficulties with the use of the BEHT – primarily concerns from elevators storing Trust stocks – must be overcome so that the BEHT is a flexible and useful tool in addressing aid needs.

Biotechnology

NAWG continues its efforts to implement the joint policy of its board, WETEC, and US Wheat Associates relative to biotechnology. We believe the biggest challenge before the industry is to bridge the gap between strong grower interest in the technology and customer acceptance of enhanced varieties. NAWG also believes that Monsanto's decision to shelve RoundUp Ready Wheat gives us time to comprehensively address the situation, but should not be treated as a justification for ceasing or slowing down our activity on this issue. NAWG, USW and WETEC have approved a set of Principles for Commercialization for biotech traits in wheat, and NAWG has also approved in concept a specific strategic plan for addressing the challenges that complicate commercialization of such advanced traits in wheat. WETEC approved the plan in October 2004, but the USW Board rejected the plan at the same meeting.

NAWG has also met with a number of potential partners and allies in Washington to explain the components of the plan and to solicit suggestions. Groups on the list to date include the North American Millers Association (NAMA), North American Export Grain Association (NAEGA), National Grain & Feed Association (NGFA), and the National Grain Trade Council (NGTC).

The AgBiotech Planning Committee (ABPC), a coalition of farm, producer, food manufacturing and processing organizations, merchandisers and biotechnology providers, has retained counsel to file suit at the WTO against Europe's Traceability and Labeling regulation. NAWG and

WETEC are active members of the committee, and NAWG committed modest financial support to help fund the advance legal work necessary to bring a case. Enacted in April 2004, the EU's labeling and traceability laws require all shipments to list the specific amount of genetically modified materials contained in the products. Anything containing 0.9 percent or more of biotechnology content must be labeled. U.S. agriculture groups feel that the new law is a trade barrier that discriminates against imports.

In December, NAWG participated in a two-day meeting in Washington on appropriate biotechnology standards and roles for government in setting them. The roundtable meeting was organized by the Pew Initiative on Food and Biotechnology, and involved a broad spectrum of experts from food companies, technology providers, grain companies, grocery retailers, academics, farm organizations, consumer groups, government agencies, and international representatives. The forum served as a platform for candid discussion of issues related to biotechnology commercialization, including standards for products vs. process standards, contracting issues, liability, and whether policy interventions or market forces were the most appropriate ways to address particular issues.

Domestic Regulatory

LICENSING FOR WAREHOUSES AND MERCHANTS

NAWG has been monitoring discussions between warehousemen, state agriculture departments, and farm organizations on an update to the federal grain warehouse licensing law. The proposed updates are intended to remove confusion and overlap between federal and state licensing systems, provide payables protection to producers for delivered grain, and strengthen the standards for federal warehouse licenses.

Major elements of the proposal include:

- Federal Preemption: The U.S. Warehouse Act would be clarified to vest in USDA the sole
 authority, responsibility and liability for regulating and conducting examinations at federally
 licensed grain warehouses for storage <u>and</u> producer grain-payable obligations.
- Type of License: Grain warehouses licensed under the U.S. Warehouse Act would obtain a combined license covering both storage and producer grain-payable obligations. Companies choosing to have one or more facilities licensed under the U.S. Warehouse Act would be required to so-license all of their facilities on a state-by-state basis. An exception would be provided for grain warehouses required to be federally licensed by commodity futures exchanges to be regular for delivery; in these cases, companies would retain the option to license all remaining grain warehouses within the state under either the federal or state systems.
- **Storage Bond:** Retain the current individual storage bond requirement for federally licensed warehouses. The existing <u>maximum</u> storage bonding requirement of \$500,000 per company per state also would be retained.
- Coverage of Stored Grain, Producer Grain Payables: Depositor and producer grainpayable protection would be enhanced by adding base levels of financial protection at the following levels: 1) 100 percent for stored grain obligations; 2) 100 percent for producer

cash grain payables for which payment is due within 30 days of delivery (basically, the time it takes for checks to clear); and 3) 50 percent for cash and credit-sale producer grain payables for which payment is due 31 to 365 days after delivery.

- Net Worth: Increase the minimum net worth for federally licensed grain warehouses from the current \$50,000 to \$200,000, phased in over a period of several years. The proposal also would change the method used to calculate net worth so that it is based upon both licensed storage capacity <u>and</u> annual producer grain purchased at the first point of sale (to account for grain-payable obligations).
- **Financial Statement:** Require an annual financial statement that is a review-level or better prepared by a certified public accountant.
- Enhance Federal-State Cooperation: This aspect of the proposal would include sharing of expertise concerning prudent examination procedures for regulating producer grain-payable obligations.

NAWG opposes the bill as presently written, as we believe it infringes on state programs — particularly indemnity funds that have already been established at the state level. However, we also are prepared to participate more directly in the discussions, which have stalemated as of this writing, to develop a compromise position. Many of the components of the bill are attractive, and we are hopeful a workable compromise can be found. Lead negotiators on the issue have been the National Grain and Feed Association, American Farm Bureu Federation, National Farmers Union, and the National Association of State Departments of Agriculture (NASDA). This group may be broadened to include NAWG and other groups as work continues toward a compromise.

Appropriations and Research

RESEARCH PROJECTS AND PROGRAM FUNDING

Congress passed in late November an omnibus appropriations bill which included agriculture appropriations legislation. A last-minute controversy erupted over language that would give Appropriations Committee staff the right to look at individual tax returns, and delayed final enrolling of the bill. Despite this controversy, the agriculture provisions of the bill remain settled providing \$83.3 billion in agriculture program spending for 2005. Discretionary spending, at \$17 billion, is just under 1% more than was appropriated in 2004. Mandatory spending, for programs such as food stamps, school lunches and farm program commodity payments, at \$66.3 billion, is \$3.5 billion less than was spent in 2004. Much of this reduction is due to lower than expected farm program expenditures because of higher farm prices.

Several conservation programs survived at a spending level below that authorized in the 2002 Farm Bill. The Environmental Quality Incentives Program (EQIP), which pays producers for water quality improvements, will receive \$1 billion in 2005. This is 17% below the level mandated in the 2002 Farm Bill. The new Conservation Security Program, which was authorized to provide "such sums as are necessary" to carry out it's purposes, has been capped at \$202 million for 2005 which is an increase of \$160 million above 2004 spending for the program.

NAWG also met with the program leaders for the National Science Foundation's Plant Genome Initiative, making the case that wheat should be the next major crop to have its genome sequenced. Wheat is falling behind some other major crops in new uses development, and the consequences of that fact are showing up in declining wheat acreage and production in the United States. Sequencing the wheat genome will allow more application of the findings of the New Uses Audit, facilitate more substantial and faster variety improvement, and provide stimulus to a variety development infrastructure that is more dependent on public research than other major US commercial crops.

COMMODITY ASSESSMENT COLLECTION

WETEC and NAWG tag-teamed a bill to address problems with USDA collection of state commodity commission assessments. USDA has collected such assessments for a number of years under agreements with state commodity commissions, but recently began to question its legal authority to execute these agreements. Without what the Agriculture Department considered explicit authority, USDA declined to update the agreements with new assessment rates or other changes, and state commissions were left with the choice of collecting the remainder directly from producers or terminating the agreement and collecting the entire assessment directly.

The path to passage was unnecessarily complicated, due to delays in the Senate and initial Senate passage of the wrong version of the bill. However, the situation was corrected in the lame duck Congressional session and the bill passed Congress in early December.

Environmental and Regulatory Issues

CROP PROTECTION

NAWG filed two comments on the Environmental Protection Agency pesticide docket in August, one on Storcide grain protectant and one on the longtime herbicide 2,4-D.

NAWG pointed out that the registration for Reldan is scheduled to be phased out by December 31, 2004, and it is critical there be no lapse in the availability of an equally effective stored grain product suitable for export grain. Storcide II is an effective replacement for Reldan and its registration is currently pending with EPA. NAWG's comment urged EPA to expedite the registration of Storcide II so that it is commercially available for use before December 31, 2004. If there is any question that Storcide II may not be approved for use by that date, NAWG requested an extension of the existing registration for Reldan until the registration of Storcide II can be approved.

NAWG also posted comments supporting the re-registration of 2,4-D. This product has been a staple in the weed control arsenal for wheat growers for many years, providing safe, effective, and economical control of problem broadleaf weeds in crops. Failure to renew the registration for this product would greatly complicate wheat farming. Use of 2,4-D allows wheat growers to control broadleaf weeds in the wheat crop, making more efficient use of water and soil nutrients by removing weed competition, and also helps prevent the spread of noxious broadleaf weeds like field bindweed. 2,4-D has been used for decades and has an outstanding record of safety and efficacy. It is available from multiple manufacturers, which keeps its price competitive and makes it a good value for farmers.

ENDANGERED SPECIES & PESTICIDES

In response to the potentially negative impact on growers in the Pacific Northwest and elsewhere, NAWG has led the lobbying effort for the adoption of counterpart regulations to reconcile the requirements of the Endangered Species Act, FIFRA and the Food Quality Protection Act (FQPA). This effort was aided by great grassroots assistance from NAWG state associations. After months of work, the U.S. Fish and Wildlife Service finally published a final rule in late July that will streamline the process for pesticide approvals and decisions about the likely affect pesticides may have on endangered plants and wildlife.

The new rule will allow the Environmental Protection Agency to work with the Fish and Wildlife Service and the National Oceanic and Atmospheric Administration to ensure that the crop protection products farmers need will continue to be available and also allow for continued protection for endangered species. Despite criticism from activist lawyers, the new rules will actually bring the Environmental Protection Agency's pesticide decision-making into compliance with the Endangered Species Act and minimize legal challenges that can block access to the crop protection tools agricultural producers need. One such legal challenge in the Pacific Northwest has resulted in the imposition of no-spray buffer zones around all endangered salmon rivers and streams.

CONSERVATION SECURITY PROGRAM

USDA conducted its first signup under the new Conservation Security Program. As indicated in our year-end 2004 report, the number of contracts was severely limited by the number of eligible watersheds determined by NRCS. NAWG has testified before Congress and met with NRCS representatives to discuss CSP implementation, with the following general themes:

- The proposed requirement that an applicant must include all lands that he or she has under his or her control and the requirement that an applicant must have control of the land for the life of the contract will be challenging, especially when applied to diversified, commercial operations. We have encouraged NRCS to be consistent and adopt the same farm definitions used by other farm and conservation programs administered by USDA.
- Enactment of the 2004 Omnibus Appropriations measure removed funding limits previously imposed on CSP. CSP was intended to be operated as a mandatory program, and the final rule should reject arbitrary limitations on participation. The proposed rules are constructed as if the program will be capped instead of based on the law. CSP is supposed to be a program for all producers on all working lands addressing one or more resources of concern on all or part of their farming operation. In this light, the concept of priority watersheds remains problematic.

CONSERVATION RESERVE PROGRAM

NAWG has also been engaged in the discussions over what to do with the large number of Conservation Reserve Program contracts that will expire over the next few years. Much of this land had wheat or barley base when it was enrolled in the program, and NAWG has supported reinstituting whatever base was given up when the contract was signed, but not allowing new base to be created or shifting that base to different crops. We believe this approach is the most fair, the most compliant with WTO requirements for fixed and unchanging bases, the easiest to administer, and the best outcome for wheat growers.

GLYPHOSATE RESISTANCE

NAWG participated in a forum with Monsanto, Bayer and Syngenta in cooperation with Ohio State, North Dakota State, Texas Tech, Kansas State and Iowa State Universities to discuss potential problems resulting from glyphosate resistance developing in certain weed species.

While the potential threat of glyphosate-resistant weeds exists for all crops, those of the most immediate concern are corn, cotton and soybeans. Among the recommendations offered to avoid herbicide resistant weed problems were; Use herbicides only when necessary, rotate crops, rotate the mode of action (MOA) - do not make more than two consecutive applications of herbicides with the same MOA against the same weeds, combine mechanical weed control practices with herbicide treatments and scout fields regularly and identify weeds present - respond quickly to changes in weed population.¹

¹ There is also research showing that full-rate applications of glyphosate in successive years does *not* increase the chance of developing resistant weeds.

Nearly all producer participants, including NAWG, emphasized the need for voluntary, cooperative approaches rather than regulatory actions, and bottom-up solutions rather than top-down command and control initiatives.

Leadership Development, Conferences/Meetings

LEADERSHIP DEVELOPMENT

The NAWG Foundation-Monsanto Wheat Industry Leaders of Tomorrow (WILOT) program was held in St. Louis, Missouri, in early November. The program, targeted toward younger members who are becoming involved at the state level, provides NAWG and affiliated state associations with an important team of leaders who could speak for the NAWG and the wheat industry. The weeklong session in St. Louis included sessions on leadership development, identification and discussion of key issues, extensive coalition-building training, media training, presentation skills training and coaching on lobbying skills and techniques. The group will also participate in the NAWG Board Meeting and Mission to Washington in March 2005. There are also periodic refresher courses and social events for WILOT program graduates.

Participants in the 2004/05 class include:

Nick Midcap — Colorado Kurt Thompson — Colorado Scott Brown - Idaho David Schemm - Kansas Tony Zinne - Montana Keith Schott - Montana David Thompson - North Dakota Ken A. Grieb - Oregon Jeff Emtman - Washington Clint Jessen - Wyoming

The NAWG Foundation, and sponsors Bayer CropScience and Altria Corporate Services, launched a new leadership program, named the Wheat Organization Leaders of the Future (WOLF). The WOLF program is being offered to incoming vice presidents (of NAWG state affiliates) the year before they begin serving on the NAWG Board of Directors. Through involvement in WOLF, participants will build upon their leadership skills, gain a better understanding of the mechanics of the lobbying process, participate in media training and increase their knowledge of association governance. Applications were distributed in November, and the inaugural program session will be held in March 2005 directly before the NAWG Board Meeting in Washington.

OUTREACH - NORTH AMERICA COOPERATION

NAWG President Mark Gage and Environmental Policy Director Mark Gaede joined with top officers from the National Barley Growers Association, National Corn Growers Association, American Soybean Association and their Canadian counterparts at a Canada/United States meeting for a discussion of issues of common concern.

The purpose of the summit was to discuss growing international competitive pressures on grain producers in both Canada and the U.S. with a specific focus on the growth of non-tariff trade barriers, market distortions and the role of the WTO, regulatory harmonization with an emphasis on pesticide regulations, combating common disease threats and market issues arising

from modern biotechnology. The participants found they had more issues of common agreement than perhaps some had anticipated and the productive discussions led to agreements to work jointly to address many of those issues.

In the area of growing competitive pressures, there was general agreement that technology was the North American producers competitive advantage and that technology should focus on value added products as well as maintaining low cost production. And there was an agreement to work toward equitable rules for all developed agriculture in trade and investment.

There was also a discussion of policies to promote market access and combat non-tariff barriers and an agreement to support a science based approach to labeling and testing, nutritional guidelines, environmental concerns and new product approvals. There was broad based support expressed for biotechnology and the improved traits that can result and an agreement to work jointly on a road forward to allow for new releases and to synchronize approvals and commercial releases. There was also agreement on the need to promote greater consumer awareness.

The discussions have already produced action on two issues, market distortions and the W.T.O. and pesticide harmonization. There will be a joint U.S./Canadian letter to our trade representatives emphasizing continued support for the W.T.O. process and the specific goals of reduced and harmonized tariffs, elimination of export subsidies and continued reduction and harmonization of domestic support programs. However, the letter will also emphasize that non-trade distorting domestic support programs remain important. And while the ultimate disposition of the Canadian Wheat Board could not be resolved, there was agreement to require discipline and transparency for exporting state trading enterprises.

A joint letter to be signed not only by NAWG and the Grain Growers of Canada but also by CropLife America and CropLife Canada to the U.S. EPA and Canada's PMRA, will emphasize that a lack of regulatory harmonization on pesticide issues imposes cost burdens on both sides of the border. The letter will also ask that incentives be developed so that the value of marketing a common product under a common or NAFTA label in both Canada and the U.S. (or Mexico where appropriate) outweighs the value of marketing common products with different labels under a differential pricing scheme in each country.

The meeting concluded with an agreement to meet at least on an annual basis, with the National Corn Growers Association volunteering to host the next summit. There was also an agreement to form a joint government communications working group and to develop a common vision for agriculture between Canada and the United States.

"HOME GROWN" PROGRAM

Home Grown has expanded to include nearly every national farm organization. Underpinning the program are primary financial commitments from NAWG, the National Corn Growers Association, the National Cotton Council, the American Farm Bureau Federation, the American Sugar Alliance, the USA Rice Federation, US Rice Producers, and the United Soybean Board.

Home Grown aims to dispel the growing misperceptions that farmers are either country bumpkins or operate "factory farms." Americans are now two generations removed from their rural roots. Home Gown is meant to put them back in touch. It's meant to show Americans that the food they're eating and the clothes they wear come from the hard work of farming families...

that farmers are worth an investment of public funds...that they use the latest technologies to keep our food supply the most abundant, cheapest and safest in the world.

EDUCATIONAL PROGRAMS

NAWG has entered an agreement with the National Grain Sorghum Producers (NGSP) to hold joint conventions in 2005 and 2006. Considerable planning activity has gone into the 2005 event, scheduled for February 19-22, 2005, at John Ascuaga's Nugget Resort and Casino in Reno, Nevada. More information about this conference were distributed to member states in November 2004.

COMMUNICATIONS

The weekly NAWG Newsletter continues to be a good source of information for farmers and state wheat organizations, and is also circulated to a number of Congressional and news contacts to communicate the stories and issues of the industry. NAWG also issued several press statements during the quarter and responded to numerous press inquiries.

Other Congressional Activity

WHEAT LEADER OF THE YEAR

Kansas Congressman Jerry Moran was named the 2004 Wheat Leader of the Year by the NAWG, WETEC, and USW in November. The award is presented each year to one Representative or Senator who has gone beyond the call of duty on behalf of wheat producers, and is the highest Congressional honor bestowed by the wheat organizations.

Moran represents the "Big 1st" District of Kansas, the fabled wheat country of western Kansas, encompassing 69 counties and 53,275 square miles. A perennial champion of wheat interests, Moran chairs the House Agriculture Subcommittee on General Farm Commodities, which has jurisdiction over the commodity title of the farm bill and crop insurance, among other issues. With two of NAWG's priorities being disaster aid and improving the ability of crop insurance to handle successive years of drought, Congressman Moran has been ideally placed to be of service to wheat growers — and he has delivered.

Moran also co-chairs the House half of the Congressional Grains Caucus with Congressman Earl Pomeroy (D-ND), a group formed to provide information to the Congress on grain-related issues. The Senate co-chairs of the caucus are Pat Roberts (R-KS) and Max Baucus (D-MT).

Custom Harvester Issues

The United States Custom Harvesters Incorporated (USCHI) has several issues that have been supported by NAWG. Among them include:

1. Allowance for states to have leeway in allowing exemption of the length laws for movement of farm equipment.

- a. USCHI's concern is that with the technological advances and ever growing size of farm and harvesting equipment, there is a need for states to be allowed some leeway to allow exemption of the length laws for movement of farm equipment. Most states have a 65' front of front to back of back limit. This was frozen with the last transportation bill. They would like to change to the allowance of a 75' allowance. NAWG helped identify key Congressional offices to approach.
- b. NAWG staff (Pat Buschette) has been in contact with several Congressional offices on the issue.
- 2. Revenue Policy to insure cost of operation in event of a catastrophic loss.
 - a. We have worked with RMA to determine whether there are opportunities within the Congressional mandate of RMA to develop a revenue plan for custom harvesters. No specific resolution has been identified at this point. Alan Ott, Special Assistant to the Administrator is NAWG's contact person at RMA. NAWG has met with Alan on a couple of occasions, attempting to develop a creative concept under which harvesters can receive the same type of protection farmers have available to them under crop insurance. He had indicated that a large agribusiness firm was working on a concept through product development and thought that this product was a "perfect link" with the Custom Harvester need. The most recent NAWG contact on this issue was in early November.
- 3. <u>H2A reform.</u> There have been a number of bills that have been introduced in Congress. The bill introduced by Chris Cannon, HH.R.3142, was the bill of choice. Its purpose was to provide for the adjustment of status of certain foreign agricultural workers, to amend the Immigration and Nationality Act to reform the H-2A worker program under that Act, to provide a stable, legal agricultural workforce, to extend basic legal protections and better working conditions to more workers, and for other purposes. Custom Harvesters sought the correction of the inequity relating to AWER wage rates and allowable meal charges. NAWG worked with Austin Perez of Farm Bureau on this bill in the provisions of the various bills.
- 4. NAFTA Enforcement, enforcing provisions and requirements of NAFTA. Custom Harvesters are facing unfair competition from Canadian custom grain harvesters who are being improperly admitted to the United States and are not in compliance with the applicable provisions of NAFTA.
- 5. Energy Cost: When the House Ag minority committee through the organization of Lisa Kelley scheduled a June 17, 2004 briefing for staffers on energy, NAWG summer intern Kim Karst coordinated the response of NAWG. Pat Buschette contacted Tim Baker and asked him to provide information relating to the energy costs relating to harvest. He provided the requested documentation, and Kim included comments from USCHI in her report to the Ag staffers in the House.
- 6. <u>In addition</u> to the above specific needs of the Custom Harvesters, NAWG has been the organization's "voice in Washington" providing basic research and information to the leadership when assistance has been requested.

Organizational Consolidation

NAWG continues in its support for the consolidation of the wheat industry organizations. NAWG Vice President Sherman Reese leads the NAWG delegation to the latest incarnation of the Wheat Industry Consolidation Committee (WICC), and is joined by Al Skogen (ND), David Cleavinger (TX), and Dusty Tallman (CO) on the committee. The NAWG officers provided a

NAWG Activity Report to the North Dakota Wheat Commission December 31, 2004 Page 22 of 22

letter of suggestions to WICC in late October, and most of the suggestions were adopted by WICC. The NAWG officers also provided an article to state associations and selected media contacts expressing NAWG's support of and interest in the consolidation effort, clarifying issues and explaining the benefits NAWG believes will accrue to a consolidated organization and the producers its will represent.

Summary

NAWG appreciates the support of its member states, both in terms of financial contributions and also in terms of support on issues. Member states are indispensable for formation and implementation of NAWG policy, and are vital components of NAWG's outreach and effectiveness in Washington. We value the support of the North Dakota Wheat Commission, and look forward to continuing to work with and for you in fiscal 2005.



National Association of Wheat Growers

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Activity report to the North Dakota Wheat Commission June 30, 2004

Thank you for the ongoing support of the North Dakota Wheat Commission for activities of the National Association of Wheat Growers. Your involvement and that of our other member states has been a critical element in our successful efforts on behalf of the nation's wheat producers.

Following is a report of our activities on your behalf, as well as other NAWG activity, covering the entirety of fiscal year 2004 (July 1, 2003 – June 30, 2004). Thank you for the privilege of working on your behalf.

W. Daren Coppock Chief Executive Officer

National Association of Wheat Growers

NAWG Priority Goals

Major policy emphases of NAWG presently include rail competition, pesticide harmonization, appropriations for fiscal 2005, crop insurance enhancements, biotechnology acceptance, consolidation of industry organizations, environmental regulations, the *Home Grown* communications program, and new uses development.

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Federal Farm Policy

NAWG continually keeps an ear to the ground on federal farm policy issues. At present, crop insurance is front and center in that radar screen. However, the prospects of budget reconciliation and the outcome of Brazil's WTO cotton case loom over farm bill funding for the next several years.

CROP INSURANCE

NAWG continues its work to develop refinements to federal crop insurance, though an extremely tight budget climate dictates that any changes be essentially budget-neutral. We're advancing four key fundamentals: (1)Higher available coverage levels; (2) Prevent the erosion of Actual Production History (APH) from successive droughts; (3) Utilizing Risk Management Accounts to cover large uninsured deductibles; (4) Not requiring producers to harvest a crop where harvest costs exceed the crop value simply to qualify for insurance indemnities. A full briefing paper on this topic is available on the NAWG web site, from the NAWG office, or from state association offices.

NAWG and other farm organizations have been involved in the successive revisions of the Standard Reinsurance Agreement (SRA) that provides guidelines and reimbursements for crop insurance companies. USDA's Risk Management Agency (RMA) has issued three successive drafts of the SRA, and is aiming to slice \$41 million from the costs of crop insurance. The farm groups have been unanimous in insisting that RMA not offer up reductions voluntarily in the program, particularly with budget reconciliation looming in 2005.

FARM PROGRAM PAYMENTS

NAWG also informed producers when USDA announced that due to prices above target levels, there would be no second countercyclical payments for wheat, corn, grain sorghum, barley, oats, upland cotton, soybeans and other oilseeds. NAWG advised members to stay focused on market prices, because USDA also stated that if current market forecasts are realized, "some repayment

of the first partial countercyclical payments for these crops would be required."

Target Price for Wheat	\$3.86
Direct Payment rate	.52
Loan Rate	2.80
Projected price (midpoint)	3.38
Higher of Loan Rate/Price	3.38
Plus Direct payment	.52
Equals effective price	3.90
Target price	3.86
Less effective price	3.90
Projected CC rate	-0-
First CC payment of 35%	0.0315
Second CC payment	-0-
Total Advances	0.0315
Final payment rate	-0.0315

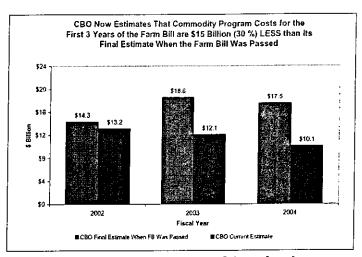
The determination of the counter-cyclical rate will be on July 1, 2004, and current prices make it clear that it will be necessary for producers to refund counter-cyclical payments in not only wheat, but corn, sorghum, rice, cotton and peanut programs. The 2003 crop projected counter-cyclical payment rate as of the end of April 2004 will net a refund with projections for wheat as indicated in the adjacent table. Producers may have these amounts deducted from future Commodity Credit Corporation payments, as required by the 2002 Farm Bill.

NAWG President Mark Gage testified before the House Agriculture Subcommittee on General Farm Programs May 20 at a hearing to mark the anniversary of the 2002 Farm Bill and provide

feedback on its policies. Gage pointed to the effectiveness of the 2002 Farm Bill, noting that the program "offers stability to the agricultural community as well as the food supply of the nation."

Gage also pointed out that despite the good planning of producers and the effectiveness of the program, weather conditions sometimes interfere with production, and neither efficiency nor technology will produce a crop. Thus farmers must have an improved crop insurance safety net.

April information obtained from the House Agriculture Committee shows the cost of the 2002 Farm Bill well below its Congressional Budget Office (CBO) estimate at the time it was passed into law. For counter-cyclical payments alone, the first three fiscal years of the bill (2002-2004) were \$7.1 billion below CBO's best guess at the time the Farm Bill was passed (March 2002 CBO baseline). Marketing loan benefits over the same period (including LDPs) are \$12 billion lower than CBO's best estimate. Overall, commodity program expenditures for the first



three years are \$15 billion below the CBO estimate when the bill was passed (see chart).

NAWG Joined a coalition of farm organizations in questioning a proposed definition of a family farm that had been put forward in a Farm Service Agency (FSA) rule on farm loan programs. The proposal would arbitrarily cap family farm eligibility for direct and guaranteed loan programs based on farm income limits. Only farms that in a typical year generate annual gross farm income that does not exceed the greater of \$750,000 or 95 percent of the statistical distribution of the income of farms in the state with gross sales in excess of \$10,000 will be eligible for Farm Service Agency assistance.

Marketing

Upon an invitation from US Wheat Associates, NAWG President Mark Gage is participating in a USW mission to South Africa June 28-July 8, 2004.

NEW USES FOR WHEAT

NAWG continues efforts to facilitate the introduction of straw-based ethanol production and the successful launch of Hard White Wheat. Progress continues toward commercialization of the straw ethanol technology, and IOGEN (the developer of the technology) has increased its ties with the association by joining the NAWG Foundation Development Committee.

HARD WHITE WHEAT

USDA began issuing Hard White Wheat Incentive Program payments in early October of 2003. NAWG supported efforts of the Nebraska Wheat Board to establish and implement this

program. Attention now turns to a projected funding shortfall for the program during the 2004/05 marketing year, but delays in making payments (and subsequent unobligated balances in the CCC account for this program) as well as an extremely tight budgetary climate in Washington have caused us and the USW Hard White Wheat Working Group to not seek additional funds to complete the program in the fiscal 2005 budget.

OBESITY AND LOW-CARB DIETS

Low-carbohydrate diets took a significant slice out of domestic wheat demand this year. By one informal estimate, reduced consumption of wheat products due to these fad diets contracted demand for wheat by over 60 million bushels (basing on the reduction in per capita flour consumption). Layered on top of this was a new national emphasis on obesity, highlighted by the June 2004 Time/ABC News Summit on Obesity. While NAWG generally defers to the Wheat Foods Council on these issues, there were some specific activities NAWG conducted in fiscal 2004 to address these challenges.

Because of a December 2003 broadcast on *ABC News with Peter Jennings* entitled "How to Get Fat Without Really Trying", NAWG assumed that the Time/ABC Summit would be used by some as another platform from which to attack federal farm programs. In the December broadcast, Jennings had floated a trial balloon that farm programs make the wrong kinds of food — primarily corn sweeteners — too inexpensive and therefore contribute to the obesity problem. NAWG contacted the Summit sponsors to make program recommendations, and organized an online petition for public protest at this spurious allegation. The petition garnered nearly 2300 signatures, and was delivered to Time on the day the Summit started.

Despite the outrageous \$1995 registration fee (\$1395 for nonprofits), NAWG CEO Daren Coppock participated in the Summit. [A separate brief report on this Summit is available from the NAWG office]. Consensus appears to be emerging around exercise — both motivation to do it and available facilities, particularly in lower-income urban settings — and responsible diet choices, choosing quality of food over quantity. Solutions will require incentives to move society toward serving needs for convenience and cost while improving nutrition quality, educating people to make better choices when buying or consuming food, and providing exercise opportunities and motivation. Farm programs were not a part of the main program, despite the early literature suggesting they would be, and we believe the NAWG petition drive and media attention surrounding it helped bring about this result.

NAWG attended a conference organized by the Consumer Federation of America also focused on obesity, which previewed a number of the topics and speakers that were scheduled for the Obesity Summit.

NAWG participated in a cross-commodity working group organizational meeting in June with other foods (bananas, tortillas, sugar, potatoes, millers, and the Wheat Foods Council) to collaborate on how the groups are dealing with low-carb fad diets.

Competitiveness and Trade

RAIL COMPETITION

Considerable effort invested by NAWG and other coalition partners in laying the groundwork for rail competition legislation paid off with a hearing in the House of Representatives on March 31, before the Rail Subcommittee of the House Transportation and Infrastructure Committee. Representing agriculture and the Alliance for Rail Competition was Steve Strege, Executive Director of the North Dakota Grain Dealers Association. Other captive shippers on the panel included Chuck Platz with Basell Chemical and Terry Huval from the City of Lafayette, Lousiana.

This hearing was an important opportunity for wheat growers and others to tell our story with respect to captive shipper issues. NAWG contacted each member of the full committee in advance of the hearing, requesting their attention to and support of captive shipper issues. NAWG also posted a sample letter on our web site for submission by individual wheat growers to their Representatives and Senators.

Some important points about the bill:

• HR 2924 is a bill that restores public policy and balance of fairness to the monopolized railroad industry.

In 1980, when Congress acted to remove major portions of regulatory oversight from the
railroad industry, it saw an industry of 40+ Class I railroads and it envisioned that its public
policy would allow the railroad to compete and bring innovation and stability to the industry
while serving the U.S. public transportation needs. Those intentions of elected legislators
have been skewed over time by business forces and unelected regulators. The law needs
fixing to restore balance.

HR 2924 restores the balance needed to allow competition and the innovation that comes
from increased competition. HR 2924 allows and encourages market place solutions to
disputes between rail customers and the railroads through Final Offer Arbitration. It further
encourages the balance sought in the 1980 Staggers Rail Act by defining quote a rate and
terminal access precisely as they were in 1980.

HR 2924 is not re-regulatory. It does not cap rail rates and it does not open up the nation's
railroad system to 'open access'. While those railroad assertions were made in the S.919 Rail
Competition hearings they were proved to be untrue.

Railroads continue to oppose the bill, service continues to decline, and rates (for the not-provided service) continue to climb; but the coalition formed to advance rail competition is getting real traction and attention drawn to this important competitive issue.

PESTICIDE HARMONIZATION

NAWG President Mark Gage testified June 23 at a hearing on Senate legislation to provide for access to crop protection products that are available for lower prices in Canada. The hearing was on the Pesticide Harmonization Act S.1406 introduced by Senators Byron Dorgan (D-ND) and Conrad Burns (R-MT). The bill was co-sponsored by Senators Max Baucus (D-MT), Kent Conrad (D-ND), Michael Crapo (R-ID), Tom Daschle (D-SD), and Tim Johnson (D-SD). The bill would give the Environmental Protection Agency (EPA) the authority to register a Canadian

pesticide in the United States if it is identical or substantially similar to a product presently registered for use in the United States by the EPA.

"While prices on crop protection products between the United States and Canada have fluctuated over the years due to a variety of reasons, a number of these products have been consistently priced lower in Canada – after taking exchange rate differences into account – than their identical counterparts sold in the United States. And considering the fact that expenditures on crop protection products represent a significant percentage of the cost of ongoing farming operations – anywhere from 10% to 15% – what may seem to be a small difference in price can add up to be a major factor in keeping an operation running," he said.

NAWG is also participating in some joint meetings with registrants and EPA to encourage more rapid harmonization of the Canadian and US registration systems. NAWG issued a joint letter with the Grain Growers of Canada, addressed to EPA and Canada's Pesticide Management Regulatory Agency (PMRA), requesting both agencies to speed up efforts toward a harmonized regulatory structure between the two countries.

TRADE POLICY

The eventual outcome of Brazil's case against the US cotton program is not yet known, as the US government is appealing the decision. A final decision will likely not be reached until after the November elections. What we know of the case so far is that it takes issue both with the unique Step 2 program in cotton, but also in the aggregate support provided to cotton producers through marketing loans, direct payments, and other forms of assistance. While the Step 2 outcome will not directly affect wheat producers, any decisions on the other programs will change the rules for permissible programs in the future and may necessitate reforms of existing programs.

Momentum is building for a restart of the Doha Round World Trade Organization (WTO) negotiations, with Europe offering to eliminate its export subsidies in exchange for "parallel" treatment on what it considers any export incentive. From the European perspective, this includes food aid, export credit, and state trading enterprises as well as export subsidies. NAWG joined WETEC and USW representatives, along with others in an export credit working group in Washington, for a meeting with European negotiators in June to exchange positions on the export credit issue.

Free Trade Agreements (FTAs) are also moving ahead, and NAWG Domestic Policy Chairman Lochiel Edwards (Montana) presented testimony on behalf of WETEC, NAWG, and USW in support of the Morocco FTA before the Senate Finance Committee. While in Washington, Edwards also presented testimony for the wheat industry on rebuilding the market for US agricultural goods in Iraq.

Working in conjunction with WETEC and U.S. Wheat Associates, NAWG participated in several joint statements and letters in the trade policy arena. A letter on January 16 supported actions of the United States Trade Representative to restart the World Trade Organization (WTO) agricultural talks. In a joint statement, the organizations expressed the belief that the negotiations are too important to languish, as this is the only comprehensive way to address export subsidies, market access, and disciplines on state trading enterprises. They also noted that all countries – both developed and developing ones – need to participate in the negotiations materially in order for them to conclude successfully.

NAWG also issued a press statement and a joint letter with WETEC and USW to Congress, expressing the disappointment of the wheat industry in the recently-negotiated US-Australia Free Trade Agreement. This agreement falls short of the industry's goal of ending the export monopoly of AWB Ltd. (the Australian Wheat Board). Reform of the AWB was the principal

aim of wheat growers in this agreement, and though that aim was not achieved, the US negotiators were able to secure an agreement from Australia that they would work to develop disciplines on an entity's right to export in a multilateral context at the World Trade Organization (WTO). This statement is a significant change in the prior Australian position, and supports a NAWG policy goal to negotiate STE disciplines at the WTO. It also leaves Canada isolated as the only major competitor opposed to negotiating such disciplines.

The potential conflict between these two goals — ending the monopoly vs. negotiating disciplines at the WTO—caused the delay in NAWG's issuance of a statement on the agreement. NAWG's International Policy Committee, which includes representatives from both the Wheat Export Trade Education Committee (WETEC) and U.S. Wheat Associates (USW), addressed the perceived conflict and settled on the position of not supporting the agreement.

Excerpt from press statement by NAWG President Mark Gage, March 25 2004

"There is broad understanding among producers and in the food chain about the safety and benefits of biotechnology," he said. "But we simply must engage the issue of market acceptance if we are to capture those benefits to society, the environment, producers and customers. We must address and answer the concerns of everyone in the food chain before we can successfully adopt this technology."

"We stand today on the threshold of traits that can bring us improved disease resistance, drought tolerance, reduced pesticide applications and reduced soil erosion, and it's time that wheat growers begin to tell the story."

"The path forward must be comprehensive and inclusive up and down the food chain," he said. "It must be based on sound science and safety, and coordinate both domestic and international components. It must include production, handling, transportation, marketing, processing, end-use applications, environmental and consumer perspectives...."

"If we as growers fail to engage, we cede the debate and the future of our industry to anti-technology activists who are spreading their message of fear, and have neither producer nor consumer interests at heart. That outcome would be bad news for the wheat industry, and for our customers too."

The domestic wheat industry had little to gain from a free trade agreement with Australia, as the two counties are fierce competitors in wheat sales to third country markets. Chances of either nation shipping wheat to the other are slim. Australia's position on negotiating STE disciplines is very similar to the US position on negotiating trade-distorting domestic supports; that it will not be done in a bilateral agreement, but can be addressed in WTO talks.

BIOTECHNOLOGY

NAWG continues its efforts to implement the joint policy of its board, WETEC, and US Wheat Associates relative to biotechnology. We believe the biggest challenge before the industry is to bridge the gap between strong grower interest in the technology and customer acceptance of enhanced varieties.

NAWG organized a meeting of the wheat organizations and two technology companies in January 2004 to develop a coordinated plan to address acceptance issues. NAWG has been

tapped by the Joint Biotechnology Committee to draft an acceptance action plan for the wheat industry, which was delivered in draft form for the three boards to consider in July 2004. NAWG participates extensively in the Agriculture Biotechnology Planning Committee, a forum of agricultural and biotechnology organizations that work on biotech policy issues in Washington, and NAWG CEO Daren Coppock assumed the Chairmanship of the Agriculture Biotechnology Forum discussion group in March of this year.

NAWG also drafted comments for the three wheat industry organizations on an announced Environmental Impact Statement process by USDA's Animal Plant Health Inspection Service (APHIS). APHIS is responsible for biotechnology regulation, and proposed the EIS process to review and refine their regulatory procedures for new biotech traits. The comments were submitted on behalf of NAWG, USW, and WETEC on March 23.

At its March 2004 meeting, NAWG's Board approved the organization to step up its activity to bridge the gap between benefits and acceptance, and to more actively promote the benefits of the technology to a skeptical marketplace.

NAWG also advised its members of the ratification of the Biosafety Protocol, and is monitoring the progress of implementation discussions including the first Conference of the Parties that occurred in February 2004.

NAWG, US Wheat Associates and WETEC consulted extensively with Monsanto up to and through the point at which Monsanto decided to suspend development of RoundUp Ready Wheat. From NAWG's perspective, this decision gives the industry some time to do the groundwork that will be necessary before the first trait is commercialized, but it does not give us the freedom to suspend our own biotechnology efforts. Syngenta has a promising scab-resistant biotech wheat variety in development, and there is a biotech drought-resistant wheat in field trials at CIMMYT. NAWG President Mark Gage circulated an article to the state wheat grower associations in April outlining the case for why the wheat industry must proactively engage the biotechnology issue, as a way to share the rationale with the rank and file wheat producer.

FOOD AID

NAWG, WETEC and U.S. Wheat Associates participated in a joint letter to Congress requesting a stronger commitment to PL480 Title I funding. The letter represented a broad coalition of organizations, including farm organizations, shipping groups, and farmer cooperatives.

Funding commitments to Title I have declined sharply in recent years. The Title I appropriation in 2003 was \$118 million; it declined to \$106 million this year and is proposed by the Administration at only \$90 million in the next year.

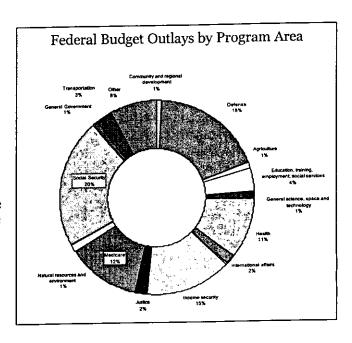
The letter stated that the Title I program supports meeting America's humanitarian obligation to sustain food assistance programs, and serves as a stepping stone for economic growth and development. It also promotes respect worldwide for American values and our economic system, thereby enhancing goodwill toward America among disadvantaged populations that may be breeding grounds for terrorism. As it advances these unique and broad foreign policy goals, Title I is deserving of sustained financial support.

¹ The article, entitled Embracing Change – why the Wheat Industry Must Engage Proactively in Support of Biotechnology, is available from the NAWG office.

The coalition recommended that Title I program levels be increased in the next fiscal year and in succeeding fiscal years, and also requested that the Agriculture Department be directed to more aggressively market the program to countries who would qualify for its terms. This commitment, in conjunction with continued commitments to Title II and Section 416(b) programs, would demonstrate U.S. commitment to providing significant food aid assistance to the world's hungry. The letter supported the principle of the U.S. providing half of the global food aid commitment, with a commitment to an annual grain equivalent of between 4 and 6 million tons.

Appropriations and Research

The NAWG newsletter has kept members informed on the status of budget developments in Washington. The past spectre of budget reconciliation instructions - and resulting cuts in programs - casts a long shadow over the discussions this year, as do the unknown costs of the war in Iraq. Even though agriculture accounts for less than 1% of the federal budget, there are some who believe that farm programs should be cut to balance the budget. NAWG staff continually monitors the progress of budget resolutions, reconciliations, and appropriations bills of interest to wheat growers.



RESEARCH PROJECTS

NAWG and the National Wheat Improvement Committee (NWIC) prepared and submitted a joint list of research funding priorities to the Appropriations Committees. Those requests were carried to Capitol Hill by a coalition including NWIC and NAWG, as well as representatives from the North American Millers Association and other interested groups. The projects on the wheat industry priority list for FY2005 are:

USDA-ARS Budget Requests

- Increased funding for ARS Wheat Quality Laboratories (\$1.6 million). Labs have a national mandate to improve the competitiveness of US wheat by enhancing grain quality.
- Increased funding for ARS Genotyping Labs (\$1.1 million). Labs have a national mandate to apply DNA molecular marker technology to key breeding problems from grain quality to disease resistance, and will serve programs in 36 states.
- 3. <u>National Stripe Rust Initiative</u> (\$1.5 million): Limit losses to wheat and barley from stripe rust through breeding, epidemiology, biotechnology, biotechnology and development of fungicide decision making tools.

- 4. <u>Increased Funding for ARS Cereal Disease Laboratory</u> (\$150,000). Expand rust screening capacity and develop a closer partnership with breeding programs that need additional assistance in developing rust resistant wheat, barley and oats.
- 5. <u>Graingenes</u> (\$300,000). Increased funding is required to modernize the database to make it more useful to breeders as they use modern genomics tools to develop improved wheat, barley and oat varieties.
- 6. <u>Preharvest sprout tolerance research at Fargo, ND</u> (\$350,000). Preharvest sprouting of wheat and barley destroys the value of the crop. This position will focus on discovering and characterizing genes to reduce preharvest sprouting wheat and barley.

Buildings

- 1. <u>Facility needs of ARS, Pullman, WA</u>. FY 2005 Goal: funding of \$40 million or a partial installment towards that goal.
- 2. Facility needs at the Red River Valley Agricultural Research Center (RRVAC), Fargo, ND: FY 2005 Goal: Funding of \$4 million for planning and design (10% of total cost.)
- 3. Facility Needs at the USDA Plant Science Research Unit at Raleigh NC: Seed storage/equipment storage unit (\$500,000).

USDA-CSREES Special Grants

Invasive Weeds in Wheat (\$2 million). An integrated, multidisciplinary effort involving over 35 state and federal scientists in 12 states which will focus primarily on individual management practices, biology, and ecology of ryegrass, feral rye, and other invasive weeds in wheat.

Bringing Genomics to the Wheat Field (\$3.5 million). A consortium of wheat growing states requests \$3.5 million to use new findings in molecular biology to improve the value and productivity of the wheat produced by American Farmers.

<u>Strengthen research and extension on Karnal Bunt</u> (\$600,000). Focus on disease management, cooperative research with CIMMYT, alternative cropping and marketing systems to reduce or prevent damage to the wheat industry from quarantines associated with Karnal Bunt.

Environmental and Regulatory Issues

CROP PROTECTION

NAWG continues its efforts to secure an extension of the registration for Reldan grain storage protectant, and to get a replacement for it registered. While Storcide has received EPA approval as a seed and grain protectant in the U.S., Codex, the international standards organization for pesticide residues, has not established the tolerance for the use of cyfluthrin as a stored grain protectant.

NAWG published a disclaimer in its August 22, 2003, newsletter, and reprinted it on February 20, 2004, reminding producers to be sure that they are using protectants appropriate for the ultimate market for their grain. "In plain English, grain that is possibly destined for export should not be treated with cyfluthrin. Only grain that is destined solely for domestic use should be treated with this product. The manufacturer of Storcide (Gustafson) has placed this

information on their product label. Many importing countries test for pesticide residues, and could reject grain shipments treated with cyfluthrin if residues are present."

NAWG also filed a letter in support of a Section 18 request from Kansas and Oklahoma for use of Olympus herbicide. Propoxycarbazone-sodium, the active ingredient in Olympus, is used to treat cheat, downy/Japanese brome, wild oats and other grassy weeds. Kansas had proposed to treat up to 1,200,000 acres of wheat to control Japanese brome, and Oklahoma proposed to treat 150,000 acres.

ENDANGERED SPECIES & PESTICIDES

NAWG has been working with a coalition of groups in Washington DC to get the government to implement counterpart regulations, providing that the fish and wildlife review done by EPA when they register a new pesticide would also meet the Section 7 consultation requirements of the Endangered Species Act. Environmentalist groups have been attempting to require involvement by the Fish & Wildlife Service and/or the National Marine Fisheries Service in pesticide registration decisions at EPA. NAWG posted a sample letter at its online advocacy center, and encouraged members to submit a letter expressing their support for counterpart regulations.

NAWG has been monitoring the developments in the *Washington Toxics* legal case which contends that pesticide applications have had adverse impacts on endangered species. Imposition of buffer strips may be mandated by court order, affecting hundreds of western farmers, and setting a dangerous precedent for other parts of the country. The U.S. Department of Agriculture Office of the Chief Economist (OCE) has completed an analysis showing that the cost of imposing pesticide restriction areas around rivers and streams in the Pacific Northwest will reach into hundreds of millions of dollars. In the analysis, where 100 yard aerial spray restriction zones were applied around perennial and intermittent water bodies, the <u>single-year</u> economic losses would reach \$538 million. Where the 20 yard ground spraying restriction was applied around perennial and intermittent water bodies the <u>single-year</u> economic losses would reach \$110 million.

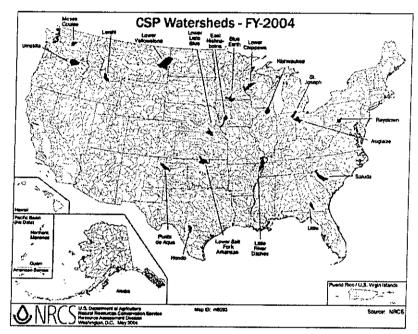
CONSERVATION SECURITY PROGRAM

Draft regulations for the Conservation Security Program (CSP) were published by the Agriculture Department on December 17, and published an interim final rule in early June. This major conservation program was authorized in the 2002 Farm Bill, but has been subject to funding and rulemaking delays which have slowed its implementation. To encourage action on this program, NAWG was joined on a letter earlier this fall by the American Farm Bureau Federation, the American Soybean Association, the National Corn Growers Association, the National Cotton Council and the USA Rice Federation in writing to President Bush to expedite the adoption of regulations for this program. NAWG also requested members to file comments, and posted a sample comment document on its web site for use by members.

In mid-May, NAWG Environmental Policy Committee Chairman Gordon Gallup (Idaho) testified before the Senate Subcommittee on Forestry, Conservation and Rural Revitalization regarding the current status of conservation programs authorized in the 2002 Farm Bill. In remarks representing NAWG and several other farm groups, Gallup noted that passage of the 2002 Farm Bill had marked a giant leap forward in advancing private land conservation in the United States and pointed out that when President Bush signed the bill into law he called the

conservation title "The single most significant commitment of resources toward conservation on private lands in the nation's history."

While pointing to the creation of several new conservation programs, Gallup suggested that the program with the greatest promise, as yet unfulfilled, was the Conservation Security Program. "Unfortunately, when the draft regulations were published the program outlined in these draft rules appeared to be far different than the program suggested in the statute...Some have suggested that a person is more likely to win at Lotto than to become eligible to participate in the CSP program, and I myself have not been very lucky at playing the Lotto."



NAWG Vice President
Sherman Reese testified on
CSP implementation before
the House Agriculture
Committee on June 15, again
reinforcing the Lotto
comparison. Reese's farm in
eastern Oregon happens to be
in one of the priority
watersheds identified for
participation in CSP.
However, participation is still
a big question mark.

"If I, or one of my neighbors, fails to qualify [this year] for the program because of any number of the additional, arbitrary eligibility restrictions, we would be unable to participate again for

at least five to seven years," he said. "I believe this sets the program up for failure."

His testimony, representing NAWG and several other farm organizations, concluded with three points:

1. Each conservation program should pay for its own technical assistance.

2. The Conservation Security Program should be implemented and funded as originally intended by Congress in the 2002 Farm Bill.

3. The organizations represented will continue to oppose any attempt to amend, alter, or divert funding away from Farm Bill programs as authorized by Congress and signed by President Bush nearly two years ago.

NAWG joined with eight other agriculture associations including the American Soybean Association, the National Corn Growers Association, the U.S. Rice Producers Association, and the National Cotton Council in submitting comments on the draft Conservation Security Program regulations.

While commending the Natural Resources Conservation Service for developing the proposed regulations under difficult and changing circumstances, the group noted several areas where

changes should be made because, once again, the law has changed. Specifically, the joint comments noted that "Enactment of the 2004 Omnibus Appropriations measure removed funding limits previously imposed on this program. The CSP was created to be operated as a mandatory program without arbitrary limits and we believe the Final Rule must reflect the mandatory status of the program at the current time and must include extensive revisions to the budget driven application, implementation and eligibility requirements in the proposed regulation. These modifications are essential to allow the CSP to be implemented on an equitable nationwide basis."

The comments focused on three major areas of concern. The definition of Agricultural Operations is too broad in scope and subject to inconsistent interpretations; the concept of "watershed prioritization" and the ranking of "enrollment categories" were unnecessary eligibility restrictions and ought to be eliminated; and the proposed rental payment placed too much emphasis on enhancement activities rather than base, cost-share or maintenance payments.

DIESEL FUEL REGULATIONS

EPA published new rules on off-road diesel sulfur content in May, setting aside concerns from farm organizations about the cost increases in both fuel and equipment that will result from the change. The new rule will reduce sulfur content in diesel fuel by 99% from current levels by 2010.

Standards for new engines will be phased in starting with the smallest engines in 2008 until all but the very largest diesel engines meet both NO_{x^2} and PM (particulate matter) standards in 2014. Some of the largest engines, 750+ horsepower, will have one additional year to meet the emissions standards.

Diesel fuel currently contains about 3,000 parts per million (ppm) sulfur. The new rule will cut that to 500 ppm in 2007 and 15 ppm by 2010.

EPA's press release accompanying the announcement stated that, "when the full inventory of older nonroad engines has been replaced, the nonroad diesel program will annually prevent up to 12,000 premature deaths, one million lost work days, 15,000 heart attacks and 6,000 children's asthma-related emergency room visits."

The anticipated costs vary with the size and complexity of the equipment, but EPA estimates them between one to three percent of the total purchase price for most equipment categories. EPA also believes that the 7¢ per gallon increase in fuel cost will be reduced to about 4¢ because the use of ultra-low sulfur fuel could significantly reduce engine maintenance expenses. Their analysis shows the benefits of the program outweigh the costs by a ratio of 40 to 1.

FUEL SPILL PREVENTION

NAWG and other major agriculture associations has submitted suggested revisions to the EPA's Spill Prevention, Control and Countermeasure rules (SPCC) that require oil or oil-based product storage facilities having a capacity greater than 1,320 gallons to develop safety plans, have containment structures, and other measures that would prevent a potential spill from entering

² NO_x refers to nitrogen+oxygen compounds, such as nitrous oxide (NO) and nitrogen dioxide (NO₂).

any navigable water of the United States. Developing and installing these measures could cost producers thousands of dollars.

The current SPCC definition of a "facility" covers non-transportation related onshore or offshore facilities that store oil (1,320 gallons or greater) in above-ground storage containers that could discharge oil into or upon navigable waters of the United States or adjoining shorelines. The comments suggested that the rules adopt a definition of a farming operation similar to that used by the USDA Farm Service Agency, designating farms by farm serial number or equivalent unit in each county.

In addition, the comments recommended that farming operations should be excluded from the rule if they do not have tankage greater than 5,000 gallons. Farming operations with tankage between 5,001 to 12,000 gallons would have written safety plans but not require Professional Engineer (PE) certification. Farms with 12,001 gallons or more would need both a plan and PE certification.

Fencing and monitoring requirements should be dropped for all farms. Since farming operations do not fit the definition of a facility in the current SPCC rule, the fencing and electronic monitoring requirements are very impractical. Containment requirements should not be required on storage below 5,000 gallons. Farmers should be authorized to file, and EPA should be able to grant, an exemption from the regulations for any farm with storage between 5,001 and 12,000 gallons. Storage over 12,000 gallons would require containment.

CONSERVATION RESERVE PROGRAM

USDA's Economic Research Service (ERS) completed the study on the economic impacts of the Conservation Reserve Program (CRP) required in the 2002 Farm Bill. NAWG policy requested this analysis to describe the economic and social effects of the Conservation Reserve Program on rural communities. The study has been completed and submitted to Congress.

Major findings, according to ERS are that:

- 1. While CRP enrollment is high in counties that have experienced long-term decline in population, CRP did not contribute to a systematic decline in population or public services.
- 2. Though CRP enrollments may have temporarily slowed job growth or amplified job losses in some communities, such impacts were relatively small and dissipated over time.
- 3. CRP enrollment was associated with long-term decline in some industries, such as farm input suppliers and grain elevators.
- 4. Differential per acre payment rates have little impact on the productivity of acres enrolled into the CRP.
- 5. The CRP has improved hunting and fishing opportunities in rural areas. Implications are that travel expenditures are up to \$300 million per year.

Leadership Development, Conferences/Meetings

CONGRESSIONAL WEEK

State wheat grower associations traveled to Washington in March for the annual spring board meeting. NAWG organized a number of meetings, speakers for the joint general session, and a Wheat Reception on Capitol Hill to launch the Congressional Grains Caucus. NAWG provided background briefing materials for its state delegations on the following topics (several of these were joint papers prepared with or by WETEC and/or USW):

- Central American Free Trade Agreement (CAFTA)
- Foreign Market Development (FMD) and the Market Access Program (MAP)
- Hard White Wheat
- Crop Insurance Enhancements
- PL 480
- Pesticide Harmonization
- Research Priorities (summary and full version)
- **Rail Competition**

In the space of this one week, NAWG member state associations make well over 100 visits to Congressional and Administration offices advocating national and state wheat industry prioritites.

LEADERSHIP DEVELOPMENT

The NAWG Foundation, in cooperation with project sponsor Syngenta, conducted the Syngenta Womens' Leadership at its Best® program in April, 2004. This program features training in maximizing organizational effectiveness, interpersonal communications, public speaking and working with media for female leaders in the industry.

Participants in the 2004 program were:

- Marcella Swanson of Walsh, CO
- Kim Wood of Springfield, CO
- Sandy Zenner of Craigmont, ID
- Constance Gunderson of Bejou, MN
- Theresia Gillie of Hallock, MN
- Karen K. Lundwall of Dillon, MT
- Madeleine Ballback of Rapelje, MT

- Michelle Van Laningham of Ogallala, NE
- Debra L. Osler of Elisie, NE
- Dawn M. Watson of Bismarck, ND
- Karen Krehbiel of Hydro, OK
- Molly Reynolds of Merrill, OR
- Gretchen Borck of Ritzville, WA
- Lauri Vaughn of Amarillo, TX

Participants in the 2003/04 class of Monsanto Wheat Industry Leaders of Tomorrow (WILOT) received continuing training at the March Board meeting. Members of the 2003/04 class include:

- Larry Hunn California
- Randy Wilks Colorado
- Ron Elkin Idaho
- Paul D. Penner Kansas
- Jeff Dahl Minnesota

- Keven W. Bradley- Montana
- Terry Wanzek North Dakota
- J.T. Winters, Jr. Oklahoma
- Brad Anderson Oregon
- Ron Jirava Washington

OUTREACH

NAWG has facilitated interactions between wheat growers in states without checkoffs that are interested in establishing them and states that have successful checkoffs in operation. NAWG President Mark Gage has identified this task as a priority for the NAWG Membership Committee in 2004. Copies of the North Carolina statute were provided to producers in Ohio and New Mexico, and dialogue continues between NC representatives and the Ohio contingent on how to accomplish this goal.

NAWG has also selected an intern for the summer of 2004 from a field of strong candidates, and named Kim Karst of Missoula, Montana, as the summer intern this year. Ms. Karst joined the NAWG staff in late May and will stay through most of August. This program is an economical way to extend the reach of the NAWG governmental affairs staff, and to provide practical public policy experience to college students with interests in agriculture.

"HOME GROWN" PROGRAM

NAWG continues its work and commitment to communicating the value of farm policy and farm programs to urban media writers under the *Home Grown* program. A number of interviews were held during the March board meeting with representatives from Reuters, Business Week, the Wichita Eagle, the Washington Post, ABC, and Bloomberg. NAWG representatives also met with other commodity groups at the Commodity Roundtable – comprised of the Chairs and CEOs of major commodity organizations – to discuss ways that a program like *Home Grown* can be expanded to a more intercommodity and sustainable effort. A workgroup of communications staff from the groups is meeting to consider proposals and compare them with objectives set by the Roundtable, and is directed to report back with recommendations.

To date, the program has been funded by two grants from Altria Corporation's *Shared Solutions* program, donations from the National Cotton Council and the USA Rice Federation, and a \$10,000 donation from the NAWG Foundation. Several contributions from individual farmers have also been received. For the modest amount of resources applied to this effort, it has generated impressive results.

Home Grown has now evolved to a new level, with an increased program level starting July 1, 2004. Underpinning the program are primary financial commitments from NAWG, the National Corn Growers Association, the National Cotton Council, the American Farm Bureau Federation, the Sugar Alliance, and the USA Rice Federation. Smaller support is also expected from groups like the Sheep Alliance and the National Grain Sorghum Producers.

EDUCATIONAL PROGRAMS

NAWG led efforts to coordinate and produce the joint Wheat Industry Conference in Atlanta, Georgia, in January 2004. (see schedule highlights). The event provided an educational program in the general sessions, the research forum, and breakouts; hands-on policy work in committee and board sessions; an informative trade show; and a number of networking events,

including a very successful WheatPAC Auction at Turner Field.

COMMUNICATIONS

The weekly NAWG Newsletter continues to be a good source of information for farmers and state wheat organizations, and is also circulated to a number of Congressional and news contacts to communicate the stories and issues of the industry. NAWG also issued several press statements during the quarter and responded to numerous press inquiries.

Other Congressional Activity

CONGRESSIONAL GRAINS CAUCUS

NAWG, in conjunction with the North American Millers Association and General Mills, established the Congressional Grains Caucus in March 2004. The Caucus is a Congressional group designed to focus Capitol Hill attention on issues of importance to the wheat industry. It will be co-chaired in the House by Congressmen Jerry Moran (R-KS) and Earl Pomeroy (D-ND), and co-chaired in the Senate by Senators Pat Roberts (R-KS) and Max Baucus (D-MT).

The purpose of this caucus will be to promote the growth and stability of the small grains industry through educational seminars for members and staff with an interest in issues important to the industry. Specific issues that may be addressed by the caucus include, but are not limited to, foreign aid food programs, international trade issues, and transgenic wheat. The Senate co-chairs indicated that their hope is that this caucus will bring to the Congress a better understanding of issues impacting the wheat industry from producer to consumer.

CONGRESSIONAL AWARDS

NAWG also presented annual Congressional awards this quarter. The Wheat Leader of the Year, a joint

SCHEDULE HIGHLIGHTS 2004 WHEAT INDUSTRY CONFERENCE

Saturday 1/24

- Policy Committee meetings, including NAWG and USW committees and the Joint Biotechnology Committee
- USW Cash Bar Reception

Sunday 1/25

- Board meetings of WETEC, NAWG, USW, and NAWG Foundation
- Trade Show Opening "Old South" Reception

Monday 1/26

- NAWG General Session featuring:
 - o Charlie Cook, National Journal the 2004 political races
 - o Katherine Trent, Altria Farm impacts of corporate social responsibility
 - o John Hamilton, Treasure Valley Renewable Resources – fractionating wheat for value-added products
 - o Linda Thrane, Council for Biotechnology Information – update on global trends in consumer acceptance of biotechnology
- USW committee meetings and Board meeting
- Trade Show Luncheon and Open Exhibits
- Breakout sessions
- Evening Reception

Tuesday 1/27

- NAWG Past Presidents' Breakfast and Open Hosted Breakfast
- Joint General Session featuring:
 - o USDA Undersecretary J.B. Penn
 - o Congressional Wheat Leader of the Year
 - o Dan Amstutz, former USDA Agricultural representative to Iraq
 - Wheat Research Forum:
 - o Low-carbohydrate diets
 - o Reflectance Techniques for Wheat Stress and Protein Management
 - Nitrogen Management for Hard Red Winter Wheat Production in the Mid-Atlantic.
 - Evaluation of Five Fungicide-use Strategies in Hard Red Spring Wheat.
 - Effect of Imperfect Wheat Stands on Yield.
 - On-farm No-till Wheat Research, and its Effect on the Soil and Rotational Crops.
- Hedging & Risk Management Workshop
- WheatPAC Dinner and Auction at Turner Field

award presented with WETEC and USW, went to Senator Conrad Burns (R-MT). This award is typically presented at the Wheat Industry Conference, but since Senator Burns was not able to attend the conference this year, it was delivered to his Capitol office by NAWG in early March.

NAWG presented Wheat Champion awards to Senator Kay Bailey Hutchison (R-TX), Congressman Jerry Moran (R-KS) and Congressman Earl Pomeroy (D-ND). Friend of Wheat Awards were presented to Travis Jones, staff to Senator Larry Craig (R-ID) and Jarrod Thompson, staff to Senator Conrad Burns (R-MT).

Organizational Consolidation

NAWG continues in its support for the consolidation of the wheat industry organizations. NAWG Vice President Sherman Reese leads the NAWG delegation to the latest incarnation of the Consolidation Committee, and is joined by Al Skogen (ND), David Cleavinger (TX), and Dusty Tallman (CO) on the committee.

Summary

NAWG appreciates the support of its member states, both in terms of financial contributions and also in terms of support on issues. Member states are indispensable for formation and implementation of NAWG policy, and are vital components of NAWG's outreach and effectiveness in Washington. We value the support of the North Dakota Wheat Commission, and look forward to continuing to work with and for you in fiscal 2005.



National Association of Wheat Growers

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Activity report to the North Dakota Wheat Commission June 2003

Thank you for the ongoing support of the North Dakota Wheat Commission for activities of the National Association of Wheat Growers. Your involvement and that of our other member states has been a critical element in our successful efforts on behalf of the nation's wheat producers.

Following is a report of our activities on your behalf over fiscal year 2002/2003.

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NAWG Priority Goals

The Board of Directors of NAWG established priority goals in September of 2002 which have been guiding the work of the organization since that time. The goals will updated annually, and are on the agenda for NAWG's Fall 2003 board meeting in Minneapolis. Those goals include:

- Priority 1: pass disaster assistance legislation; prepare a crop insurance reform proposal to better accommodate chronic drought; guide the 2002 Farm Bill through the implementation process; promote the need and benefits of farm policy in America; and work toward effective consolidation of the various wheat industry organizations.
- Priority 2: Balance budget (short-term); make sure our interests are protected in regional trade agreements and the WTO Round (level playing field); provide incentives for improving quality; biotechnology research issues; Public Policy -- Industry Partnering; Communication of biotech policies and issues to legislators and decision-makers.
- Priority 3: Develop a financial reserve for priorities (long-term); Food Aid Policy on USDA internal operations relative to the Emerson Trust; preserving agriculture's interests in water rights; public education on biotechnology, including our membership, reassessment of our policy positions, and development of a program to ensure consumer choice.

Progress on these goals will be reported in the appropriate subject category below.

Federal Farm Policy

The focus on farm bill issues is now mostly in implementation, though there are efforts on Capitol Hill to reduce farm spending (mostly via payment limitations) to fund other priorities. The budget situation and the costs of the war in Iraq will require constant vigilance to maintain priority programs in the agricultural budget.

CONSERVATION

NAWG has been consulting with USDA on implementation issues in the Conservation Title of the Farm Bill, and will be providing responses to USDA questions on the Conservation Security Program. NAWG prepared testimony on behalf of Wheat, Corn, Soybeans, and Cotton to a House Agriculture Subcommittee hearing in June 2003. USDA has also consulted with NAWG on wheat loan rates for 2004.

CROP INSURANCE

In October 2002, NAWG also provided comments to USDA on its proposed crop insurance rule. NAWG highlighted flexibility, distinctions between fraud and accidents, the definition of Substantial Business Interest, elimination of arbitration, timely payment of indemnities, and prevented planting provisions as areas that needed additional attention.

NAWG is now looking to 2003 for opportunities in the area of crop insurance. While USDA is only now implementing some of the provisions from the 2000 Agricultural Risk Protection Act, NAWG is seeking ways to reduce the cost of insurance, provide higher revenue guarantees, allow for more flexibility, and provide uniform protection. Beginning its efforts to craft a crop

NAWG Activity Report to the North Dakota Wheat Commission June 2003 Page 3 of 17

insurance reform proposal, NAWG's Domestic Policy Committee arranged for a panel on crop insurance at the Wheat Industry Conference in January. Panelists included Rob Coultis, an Insurance Management Specialist with USDA's Risk Management Agency (RMA), who currently works in RMA's Kansas City office; Dr. Art Barnaby, faculty member of Kansas State University Agricultural Economics Department; Doug Fraley, Assistant Vice President of Marketing for Great American's Crop Insurance Division; and Eddie Bowman, both a farmer and a crop insurance agent.

New Uses for Wheat

HARD WHITE WHEAT INCENTIVE PROGRAM

While speaking at the Wheat Industry Conference, USDA Deputy Secretary Jim Moseley announced the release of regulations for the Hard White Wheat Incentive Program (HWWIP) authorized in the 2002 Farm Bill. Regulations were published in the *Federal Register* on February 29, 2003. The Farm Service Agency (FSA) will administer HWWIP through the 2005 crop year beginning with the 2003 hard white wheat crop. Key components of the HWWIP include:

- Sign-up for 2003 HWWIP was scheduled to begin March 3.
- Both hard white winter wheat and hard white spring wheat are eligible for payment.
- A production incentive in the amount of \$0.20 per bushel is provided for a minimum of #2 or better Hard White Wheat as established by Federal Grain Inspection Service.
- Payment can be earned on a maximum of 60 bushels for each planted acre.
- An additional incentive in the amount of \$2.00 per acre is provided for each acre planted to certified seed.
- Producers are eligible to earn both the production incentive and the certified seed incentive in the same year.
- Total Commodity Credit Corporation outlay for the three years is to be based on not more than 2 million acres or equivalent volume of production.
- Settlement sheets must be provided to FSA upon disposal of the production certified on the application, to be eligible to earn the production incentive.
- The end use of the hard white wheat may not be for feed use.

In March, a group of wheat representatives met with Farm Service Agency staff to discuss timing of payments. Under the initial rules, payments for use of certified seed and the incentive payments themselves would only be paid at the end of the marketing year; producers would end up waiting well over a year to see any of the proceeds from the program. FSA was requested instead to offer the payments as soon as documentation could be provided for use of certified seed or proof of marketing as required by the enabling legislation.

FSA has indicated that the payment schedule will be revised as requested, and also indicated that funds are expected to fall short of demand in the last two years of the program. An agreement was reached to waive the certified seed reimbursement in 2004 and 2005 to provide more complete funding for the incentive payment in those years. Software is expected to arrive in FSA county offices shortly that will make the timing changes. The certified seed portion for 2003 should be available shortly thereafter (with documentation supplied) and the incentive payments made after harvest.

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NAWG and the Nebraska Wheat Board played central roles in developing language for the program's implementation.

NEW USES AUDIT

A New Uses Audit for wheat was completed in September 2002 and distributed to a broad audience. The audit was designed to review work that had been done to find new uses for wheat and assign priorities for increased efforts based on development costs, technical feasibility, time to develop, market potential, and premium potential. Results are summarized in the accompanying table.

New Uses	Years to Market	Premium Potential (¢/bu equivalent	Volume Potential (mbu equivalent)	Technical feasibility (1=difficult 7=easy)	Develop- ment cost (1=low 7=high)
Wheat Beer	1	36	4	7	1
Biodegradable Plastics	5	0	30	5	3
Wheat Starch Blasting	1	0	1	6	2
Wheat Cat Litter	2	4	6	6	3
Cosmetic materials	2		9	6	6
Ethanol from Wheat	1	0	50	7	2
Aquaculture/Turkey Feed	1	0	30	7	1
Meat Substitutes	1	0	20	7	4
New Traits Antioxidants	9	200		5	
Hard White Wheat	3		300	6	_
High Molecular Weight Glutenin	9			5	
Low Calorie/Carbohydrate	8	200		3	_
Nonallergenic wheat (initial)	5	30		3	
Nonallergenic wheat (long term)	10	0			
Nutraceutical/Pharmaceutical	8	500	0.5		
Organic wheat	1	100	40	7	1
Waxy wheat	4	. 15	70	6	4
Byproduct Uses					
Wheat Straw Composites	6	38	90	4	
Ethanol from straw/midds	9		300	4	
Straw Plastic Filler	4	38	20	6	3

Disaster Assistance

The first project on the priority list was passing disaster assistance legislation to mitigate the impacts of chronic drought in wheat country. NAWG, along with Farm Bureau and the National Farmers Union, orchestrated a fly-in in January 2003 with many member states participating which played a critical role in getting disaster assistance passed. NAWG's state representatives and officers blanketed Capitol offices the first two weeks of Congress' return to Washington to describe the severity of the drought situation and the acuteness of the need for relief.

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NAWG's principles for the disaster package were these three points:

1. Disaster assistance must be all-inclusive

- ◆ Cover production and quality losses for field crops, specialty crops and livestock.
- ♦ Address all natural disasters including drought, flood and excessive rain, insect infestation, frost, freeze.

2. Disaster assistance must be comprehensive

- Cover losses for both 2001 and 2002 production years.
- Producers suffering disaster losses both years are the most economically fragile.
- Assistance to producers will benefit their rural communities.

3. Funding must be "emergency" -- Do not cut farm bill program spending

- Protect farm bill programs intended for other priorities (market assistance, conservation, environmental protection, nutrition, and rural development).
- Capture savings in farm bill spending. Because of disasters, actual farm bill expenditures are lower than estimated.
- Assistance for other disasters (hurricanes, floods, tornadoes) is typically designated as emergency spending.

During the disaster debate, the *Washington Post* newspaper took the initiative to criticize the disaster proposal as wasteful spending in an editorial entitled "Compassion for Catfish". Newly-elected NAWG President Tommy Womack responded to the *Post* editorial, articulating the need for disaster assistance but supporting the newspaper's assertion that the initial proposal in the Senate did not adequately target disaster assistance to those who truly had losses. (The initial proposal was a supplemental AMTA payment to anyone with a contract, regardless of actual loss).

"This is a national natural disaster, just like a hurricane in Florida or an earthquake in California," wrote Womack. "Approximately 90% of US counties were declared disaster areas in 2001 or 2002. The *Post* pointed out that crop insurance payments have risen to \$5.2 billion. Yet crop insurance, purchased by farmers, only covers an average 65 percent of crop losses. Imagine having your home burn down and only receiving 65% of the replacement value from your insurance company.

"Regarding the 2002 farm bill, the funds that go to farmers represent less than fifteen hundredths of one percent (0.0015) of the total US budget. Disaster assistance of \$3.1 billion, which has nothing to do with the farm bill, only begins to address natural disaster. We encourage the conferees to target disaster assistance to farmers who actually experienced losses."

Disaster assistance finally cleared the Congress on February 13 as part of the Fiscal 2003 Omnibus Appropriations bill. The bill provided such sums as may be needed in disaster assistance funds, paid for largely by a \$3.7 billion cap on authorized spending for the Conservation Security Program (CSP) for the period of fiscal years 2003 through 2013. Details of the program included:

Producers may elect either 2001 or 2002 for the disaster program, but not both.

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- > To qualify, your yield in the year you elect must be less than 65% of your Actual Production History (APH) or approved county yield, whichever is greater. (Using the APH method, if your APH is 40 bushels, your actual crop must be 26 bushels or less to qualify.) The national average APH is 36.4 bushels for wheat.
- > For producers who purchased catastrophic (CAT) or "buy-up" crop insurance coverage or for whom crop insurance was not available, the rate is 50% of the crop insurance price election for the year. The crop insurance election price for 2002 is \$3.15.
- > For producers who could have purchased CAT or buy-up crop insurance coverage and chose not to, the rate is 45% of the crop insurance price election.
- > For a crop that is not insurable, the rate will be 50% of the 5-year national average price based on USDA price data.
- > The benefit is calculated by multiplying the qualifying loss times the payment rate. The total benefit will be limited so that the benefit, plus the value of the crop not lost, plus any crop insurance indemnities received, do not exceed 95% of what the value of the crop would have been in the absence of the losses.

NAWG has also visited with USDA Undersecretary J.B. Penn and officials from USDA's Farm Service Agency and Risk Management Agency about implementation of the disaster provisions. During successive meetings with USDA leaders, NAWG requested that implementation of the disaster program be crafted so it does not penalize producers who attempted to manage their risk by purchasing buy-up crop insurance products. NAWG believes that if efforts by producers to protect themselves are not considered in the calculation of disaster benefits, a negative signal will be sent to producers that will result in weakening of the crop insurance system. To accomplish this goal, NAWG advocated using consistent prices throughout for calculating indemnities, payment caps, and the salvage value of the remaining crop. Due in part to NAWG work, the disaster formula counted net indemnities instead of gross indemnities toward the payment cap, which is a significant positive change for producers.

Competitiveness and Trade

RAIL COMPETITION

NAWG continues its cooperative efforts with the Alliance for Rail Competition on legislation to address captive shipper problems. Significant groundwork was laid in 2002, and a comprehensive bill (S.919) was introduced in April of early 2003. A companion bill is expected to be introduced very soon in the House of Representatives. NAWG is working this issue through the Alliance for Rail Competition (ARC), in a coalition that which includes industries such as coal, consumer products, industrial products, forest and paper products, minerals, chemical as well as port and industrial development authorities industrial shippers and uses. NAWG serves as its lead agricultural organization on the national level. ARC is joined by all of the major rail customer groups in their endorsement of S.919, as well many other rail customer groups in Washington, have agreed the elements of this bill – the first time in history that so many shipper interests have agreed on a single piece of legislation.

The fundamental elements of the bill are as follows:

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- Clarification of National Rail Policy: Clarifies that the STB has the following primary objectives: (1) ensuring effective competition among rail carriers at origins and destinations; (2) maintaining reasonable rates in the absence of effective competition; (3) maintaining consistent and efficient rail transportation service for rail shippers, including the timely provision of rail cars; and (4) ensuring that small carload and intermodal shippers are not precluded from accessing the rail system.
- > Arbitration of Certain Rail Rate, Service and Other Disputes: Provides "final offer" arbitration (baseball arbitration), at the choice of the non-rail party to a dispute, for all rail rate matters and other disputes at the STB involving a railroad charge.
- > Removal of "Paper Barriers:" Prohibits including "paper barriers" in future sales or leases of rail line to short line or regional railroads and allows the STB to invalidate such provisions that have been in existence for 10 years.
- Removal of "Anti-Competitive Conduct" Test from Terminal Area and Switching Agreements Policy of ICC/STB: Changes the "antitrust" test added in mid-1980s by the former Interstate Commerce Commission to the statutory "public interest" test included in the terminal area and switching agreement provisions of the ICC Termination Act.
- Requirement that Railroads Must Quote Rates to Their Customers: In order to increase rail customer access to competition, railroads must quote rates between any two points on their systems where freight movements can originate, terminate or be transferred, when requested by the customer.
- > Tri-Annual DOT Study of Extent of Rail-to-Rail Competition
- > Areas of Inadequate Rail Competition: On petition of a state, the STB may declare all or part of a state to be an area of inadequate rail competition. Special rail customer remedies apply in such areas.
- > Rail Customer Advocacy Office Established at Department of Agriculture

PESTICIDE HARMONIZATION

Similarly, pesticide harmonization is also likely to move in some form in 2003. In addition to language in the Omnibus Appropriations bill on harmonization, legislation is also likely. NAWG is trying to craft a proposal that meets the needs of producers but also addresses the concerns of registrants, so that the solution has a reasonable chance of passage. NAWG prefers to have an enacted solution instead of a political statement, and is in the middle of Senate negotiations on a bill, whose ultimate goal would be a harmonized registration system for the US and Canada. NAWG is also participating in some joint meetings with registrants and EPA to encourage more rapid harmonization of the Canadian and US registration systems.

OTHER TRADE ISSUES

NAWG assisted the efforts of WETEC to secure Trade Promotion Authority for negotiating trade agreements. TPA provides Congress with an up-or-down vote on negotiated trade deals, but prevents them from amending specific terms of the agreements. It is necessary so that other national negotiators can deal in good faith with the US team, and will allow the US to participate

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in the Doha Round WTO talks as well as develop regional or bilateral agreements. Prior to securing TPA, the United States had been on the sidelines while over a hundred trade agreements were negotiated by our competitors and customers. The TPA bill was signed into law by President Bush on August 7, 2002.

NAWG is active in food aid discussions in Washington, coordinating policy positions with WETEC and US Wheat Associates. The rebuilding of Iraq, discussions over whether and how to replenish the Bill Emerson Humanitarian Trust, and the composition of food aid in general are important for US wheat producers.

NAWG worked with other national farm organizations to determine the causes of feed wheat and soybean meal imports into Wilmington, North Carolina. The intent of the effort was to identify and highlight competitive issues which make imports attractive to this domestic feed markets, and find ways to address those issues. However, due to shortcomings in the final report, NAWG withdrew from this effort prior to its completion. We continue to work to identify the issues that must be resolved to preserve wheat producers' domestic and international markets.

NAWG participated with a number of other export-dependent industries in a working group to highlight the negative effects of a dollar which is too strong. Related to the activities of this coalition, a conference was held on the subject of the appropriate exchange rate for the dollar by the Institute for International Economics (IIE) in Washington.

NAWG publicly and strongly encouraged both management and the longshoremen in the West Coast port dispute to resolve their differences and get cargo moving again. NAWG was in contact with White House staff to encourage them to invoke the President's Taft-Hartley powers, which he subsequently did.

NAWG also rendered assistance and support to the North Dakota Wheat Commission in their trade action against the Canadian Wheat Board. NAWG also provided comment on a Coast Guard rule that would have prevented foreign lease financing of US-flag bulk cargo ships, arguing that this provision may raise costs for producers and shippers.

NAWG has also participated in a number of joint letters drafted by WETEC or US Wheat on various trade issues, including the Morocco Free Trade Agreement, WTO priorities, flag smut, Trade Adjustment Assistance (TAA), end-use certificates, and others. The three organizations also jointly endorsed the United States' proposal to the World Trade Organization agricultural talks, which included components on market access, export subsidies, and domestic programs.

Appropriations and Research

Each year, NAWG and the National Wheat Improvement Committee (NWIC) prepare joint priorities for federal agricultural research funding. These priorities are communicated to the two agricultural appropriations subcommittees during the March Board meeting by state delegations with members on those subcommittees.

Priorities for Fiscal 2004 included the following projects:

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- ➤ Increased funding for ARS Wheat Quality Laboratories (\$2,375,000). Facilities included Pullman, WA (\$475,000), Manhattan, KS (\$800,000), Fargo, ND (\$300,000), and Wooster, OH (\$800,000).
- > Increased funding for ARS Cereal Disease Laboratory (\$50,000).
- ➤ Increased funding for ARS Genotyping Labs (\$1,900,000). Facilities included Pullman, WA (\$750,000), Manhattan, KS (\$500,000), Fargo, ND (\$150,000), and Raleigh, NC (\$500,000).
- > Strengthen research and extension on karnal bunt¹ (\$1,550,000). Within the context of eventual deregulation of this minor disease, growers and others are impacted by quarantine costs as long as KB remains a quarantine pest.
- > Preharvest sprout tolerance research at Fargo, ND (\$350,000).
- > Invasive aphid research at Stillwater, OK (\$300,000).
- Direct ARS to conduct a facility study to assess facility needs at the Red River Valley Agricultural Research Center (RRVARC), Fargo, ND.
- > Take action to address the facility needs of ARS, Pullman, WA as indicated in the FY2003 facility study Congress directed ARS to conduct.

Environmental and Regulatory Issues

One of the most significant achievements in fiscal 2003 was the ability to hire a full-time Director of Government Affairs for Environmental Policy. Mark Gaede joined Patricia Buschette on NAWG's Government Affairs team and brought a great deal of experience, expertise, and energy to a host of issues. In addition to the pesticide harmonization issue described under the Competitiveness and Trade section above, work in the environmental area in 2002 centered on implementation of the conservation title of the farm bill, registrations for crop protection products, and potential intrusion from regulatory agencies like the National Marine Fisheries Service or the Fish and Wildlife Service into the registration process for agricultural chemicals. Due to the active involvement of NAWG staff, EPA, USDA, and the Interior Department are working on counterpart regulations to minimize the impact that these other agencies could have under their Endangered Species Act authority.

SPRAY DRIFT

NAWG commented on EPA spray drift proposed rules in March 2003, criticizing the rules as establishing a zero tolerance for drift, which is unachievable. The proposed rules also included "no-spray zones" for some agricultural chemicals which were ambiguous and would have posed compliance problems for applicators. NAWG continues to support a re-registration for Reldan, a widely used grain storage fumigant, and has been active in development of counterpart regulations so that EPA's registration activities for pesticides are considered sufficient for purposes of the Endangered Species Act. Opponents of pesticides have argued that EPA needs to consult with the National Marine Fisheries Service or the US Fish and Wildlife Service on all pesticide registrations, which would impose costly and onerous burdens on the approval process.

¹ The initial draft of this proposal was rewritten at NAWG's request to comply more fully with efforts at eventual deregulation of karnal bunt. USW's SPS Task Force still has reservations about this project.

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BIOFUELS & CARBON SEQUESTRATION

NAWG participated in a series of Biomass Energy Colloquies across the country in the spring of 2003, and is working to elevate ethanol production from wheat straw as a viable energy source. The goal of the colloquies is to develop a roadmap to commercial production of ethanol from biomass sources. NAWG Environmental Policy Chairman Gordon Gallup and Environmental Policy Director Mark Gaede participated in the first Colloquy on March 18 in Washington, and NAWG provided representatives to subsequent meetings on April 16 & 17 in Minneapolis, Minnesota; April 24th in Boise, Idaho; and May 13th in Oklahoma City, Oklahoma. The workshops are also being carried out under the authority of the Department of Energy (DOE) Biomass Program which is to coordinate and accelerate all federal biobased products and bioenergy research and development in accordance with the Biomass Research and Development Act of 2000.

NAWG is also working with a private company to hasten commercialization of a viable technology for this purpose.

NAWG also attended a USDA and Department of Energy workshop on greenhouse gas (GHG) accounting. USDA and DOE are developing the system together so that the energy component and the agricultural component are consistent. NRCS Chief Bruce Knight challenged the group to make sure that the program developed is consistent with working lands conservation and doesn't impair the primary function of agricultural enterprises.

DIESEL FUEL REGULATIONS

Fairly new to the list of issues is a proposal from the Environmental Protection Agency (EPA) on diesel fuel standards. EPA unveiled a proposed diesel fuel rule that phases in sulfur content requirements for non-road engines over the course of seven years.

➤ A cap on sulfur content for all non-road diesel fuel of 500 parts per million (ppm) to be in place by mid-2007. Current non-road fuel contains a sulfur content ranging from 2000 – 5000 ppm.

> This 500 ppm cap will apply to agriculture, mining and construction equipment as well as marine engines.

> By mid-2010, diesel fuel used for agriculture equipment will likely drop to a sulfur

content of 15 ppm. Other nonroad engines, such as those used for marine vessels will freeze at 500 ppm.

The proposal announced in April would take effect for new engines starting as early as 2008 and be fully phased in by 2014. EPA is proposing to reduce emissions of soot, known as particulate

Rated Power and the First Year that the Standards will Apply

less than 25 hp	2008
more than 25 hp but less than 75 hp	
more than 75 hp but less than 175 hp	2012-2014
more than 175 but less than 750 hp	2011-2013
more than 750 hp	2011-201

matter (PM), and nitrogen oxides (NOx) from today's engines by more than 90 percent. When fully phased in, annual reductions will be 825,000 tons of NOx and 125,000 tons of PM. For the first time ever, advanced emission control systems will be incorporated into nonroad equipment. The sulfur content of diesel fuel will be dramatically phased down from its current

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unregulated level of 3400 parts per million to 500 parts per million (ppm) beginning in 2007 and then to 15 ppm in 2010 – a 99 percent reduction.

Estimated cost impacts are significant for the agricultural sector. EPA estimates an expected 5¢ per gallon increase in the cost of diesel fuel, and a 5% increase in the cost of new equipment. At least one petroleum industry source estimates the fuel cost impact between 8-9¢ per gallon. The significance of the costs – totaling between \$150 and \$300 million annually – becomes more important because of the nature of cost distribution in agriculture; most cost increases are pushed back to farmers.

CONSERVATION PROGRAMS

NAWG joined the National Cotton Council and the National Corn Growers Association in submitting comments to the Natural Resources Conservation Service (NRCS) on implementation of the Conservation Security Program (CSP). NRCS had posed a series of questions in an Advanced Notice of Proposed Rulemaking, and the three agricultural groups provided joint responses to the questions.

In general, the groups contended that resource concerns and mitigation plans should be based on NRCS Field Office Technical Guides with input from local groups and conservation districts. Regulations should include the flexibility for innovative plans that incorporate such practices as precision farming. CSP funds should be focused on plans that maximize environmental benefits at economical levels and funds should be equitably distributed to all regions of the country. Tenants and landowners should share payments based on their contribution of costs toward achieving the resource mitigation. The definition of an "agricultural operation" for purposes of implementing and administering the CSP should be similar to Farm Service Agency farm definitions and allow for tenants to work with multiple landowners.

CROP PROTECTION PRODUCT REGISTRATIONS

NAWG also works with states and agribusiness companies to expedite registrations for priority crop protection products. Two specific products that have seen NAWG emphasis recently are Reldan® and Storcide II® for grain storage and Folicur® for control of *Fusarium Head Blight*. Storecide II is an effective storage fumigant replacement for Reldan and has foreign CODEX tolerances which were not available with other potential replacement products.

OIL SPILL MITIGATION RULES

NAWG joined with other agricultural organizations in writing Administrator Whitman at EPA to oppose the July 17, 2002, rules regarding oil spill mitigation requirements in light of the potential impact on production agriculture. NAWG and its coalition partners met with representatives of EPA's Office of Solid Waste and Emergency Response and raised the following concerns:

- a) The rule underestimates the economic impact by using 1991 data for a 2002 rule.
- b) It shows a lack of understanding of farm operations, farms are mentioned only six times in a 112 page rule.
 - c) It inappropriately applies bulk terminal rules to private family property.
- d) It prematurely certified compliance with the Small Business and Regulatory Enforcement Act and the Unfunded Mandates Reform Act.

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e) It overextended the intent of a 1971 EPA/DOT Memorandum of Understanding (MOU) beyond commercial entities to farms.

WAREHOUSE LICENSING

NAWG has been involved in discussions over proposed new grain warehouse licensing rules proposed by USDA. The rules would amend the licensing requirements for warehouses, and also contemplate establishment of an indemnity program at the national level to protect depositors of grain. According to USDA, the changes are intended to improve producer protection requirements already in place for grain storage obligations and extend, for the first time ever, protection to producers who sell grain to federal licensees. The new warehousing agreements would include a modification of the existing financial requirements for federal licensees in order to lower the risks and enhance protection for producers and depositors. The requirements a warehouse operator must meet in order to qualify for a license include an increase of net worthfrom the current \$50,000 to \$150,000; and an increase in the level of auditing required of the warehouse operator's financial statements by an independent certified public accounting firm.

The coverage in the event of insolvency for producers and other entities (depositors) that hold title to grain stored in a federally licensed warehouse is 100% coverage for these storage obligations. For producers with non-credit type sales contracts where grain has been delivered but payment has not been received, there is 80% coverage; and producers with credit type sales contracts, where grain has been delivered but payment has not been received, 80% coverage on the first \$25,000 and 50% coverage on the balance.

NAWG has been assured by USDA officials that Federal license agreement or federal examinations will not regulate certain activities in federally licensed grain warehouses. Those activities such as security interests, the calibration and testing of scales conducted by state weights and measures officials, producer-funded commodity promotion and research programs, producer-funded indemnity funds and environmental programs will be specifically exempted in the licensing agreement. USDA has assured NAWG that checkoff programs will be unaffected by the licensing agreements.

Prompted by concern over cost from elevators, Congress prohibited implementation of the new rule in a rider on the Omnibus Appropriations bill.

OTHER REGULATORY ISSUES

NAWG also raised questions about the proposed transfer of the Animal Plant Health Inspection Service (APHIS) from USDA to the new Homeland Security Department. APHIS inspections and negotiations on issues like karnal bunt receive priority in an agricultural agency, but NAWG feared that they would become an unimportant priority in a department focused on security. Questions were raised both in Congressional testimony and in a visit with White House Homeland Security Director Tom Ridge, and the eventual Homeland Security bill transferred only border inspection functions of APHIS to the new Homeland Security department.

NAWG joined US Wheat Associates and WETEC in providing extensive comments on a karnal bunt rule proposed by USDA. Deficiencies in addressing needs of custom harvesters, compensation for second-year impacts, and punitive limits on reimbursements for compelled decontaminations were all raised as issues that needed to be revisited.

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The Senate considered in late 2002 a bill on food allergens which would have imposed strict and draconian labeling requirements on foods known to be allergens, which would have impacted any product made with wheat. Due to the efforts of Senator Pat Roberts of Kansas and others, with support of NAWG, this bill was amended to the satisfaction of wheat growers and food manufacturers.

Biotechnology

NAWG continues its efforts to implement the joint biotechnology policy and goals established by NAWG, WETEC, and US Wheat Associates. Recently there has been considerable concern and discussion about appropriate ways to handle information on biotechnology in a way that provides useful information to growers, the public, and the press, while also serving the objectives of the organizations.

Reuters News Service made the surprising and controversial decision to criticize the new policy on this topic that was established in January by publicly circulating a critique. NAWG President Tommy Womack responded to their letter to further clarify the policy, stating that the policy is common-sense way to coordinate information distribution, not an attempt to limit access to industry opinion on biotechnology. The letter also pointed out that the national wheat organizations have taken a positive position on biotechnology, recognizing the promise it holds for the future. The positions taken in preparation for commercialization of the technology are based on honest, free and open discussion with our customers and with the industry. Policy positions taken by the organizations will continue to be discussed openly with other interested stakeholders and adopted in meetings open to the media.

NAWG is working toward bringing about acceptance, instead of waiting and hoping it will happen on its own. NAWG representatives serve on two separate advisory committees to Monsanto, participate in a broad spectrum biotechnology planning committee in Washington, DC, participated in the Pew Agriculture Biotechnology project, and convened in February the first meeting of decision makers from all components of the wheat industry to discuss and work toward consumer acceptance of biotechnology in wheat. The first meeting was very positive, and NAWG is now working to coordinate additional interaction and expand the participation in the group.

NAWG participates in a number of other activities on biotechnology, including a group called the Agricultural Biotechnology Planning Committee, a coalition of food chain organizations in Washington. ABPC provides a forum for coordinating comments on all aspects of biotechnology, including international agreements and institutions, pharmaceutical crops, and government regulatory oversight.

NAWG also met with USDA Undersecretary J.B. Penn on March 19 to request that the regulatory process at USDA for biotechnology remain purely a scientific process. While market concerns are legitimate and need to be addressed prior to commercialization of biotech wheat, NAWG believes that the regulatory safety review process done by USDA's Agricultural Plant Health Inspection Service (APHIS) should remain only a scientific safety process. Opponents of biotechnology have attempted to add numerous other concerns to the review criteria, including market, social impacts, alleged impacts on migratory birds, religious effects, and have even

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suggested that herbicide-resistant wheats introduced through biotechnology be classified as noxious weeds and thus outlawed for production.

NAWG, US Wheat Associates, and WETEC sent a joint letter to USDA on April 25, 2003, reiterating the industry's position that the regulatory process remain based solely on science, and suggested that any non-scientific issues be dealt with in other forums.

Conferences and Meetings

Each winter, NAWG takes the lead role in organizing the annual Wheat Industry Conference. The 2003 annual meeting was held in January in Albuquerque, New Mexico. Keynote speakers for the meeting include USDA Deputy Secretary Jim Moseley and Special Agriculture Negotiator Allen Johnson from the Office of the United States Trade Representative. Conference general sessions also included informative panel discussions on biotechnology, both from the perspective of other commodity organizations and customers, and on the Doha Round of trade negotiations under the World Trade Organization.

A critical part of the conference is updating organizational policy positions. NAWG reviewed every one of its policy resolutions, and published a new 2003 Resolutions document which is available on the NAWG web site (www.wheatworld.org). This document was slightly modified at the March Board meeting in Washington with amendments to policies on biotechnology and international trade. The current version of NAWG policies may always be found on our web site.

This conference is the premier educational and networking opportunity for US wheat producers, and offers an unmatched set of informational, networking, social, leadership, and policy-setting opportunities for producers.

In March of 2003, NAWG held a joint board meeting with US Wheat Associates and WETEC in Alexandria, Virginia. Co-locating the meetings and sharing the general session allowed the groups to draw an impressive array of speakers, including USDA Secretary Ann Veneman, USTR Agriculture Negotiator Allen Johnson, EPA Counselor to the Administrator Jean-Mari Peltier, 2002 Wheat Leader of the Year Senator Max Baucus, Ryan Weston of the House Agriculture Committee's professional staff, USW Vice President Paul Dickerson, and Terry Whiteside and Mike Grisso from the Alliance for Rail Competition.

The meeting in Washington also provides an opportunity for the NAWG member states to take their delegations to Capitol Hill and to appointments in various Administration offices. NAWG provided briefing papers on a number of subjects, which may be downloaded from our web site, as background material for these visits; several of these were joint papers with WETEC and US Wheat Associates. Issues covered included Biotechnology, Crop Insurance, Disaster Assistance Implementation, Food Aid, Hard White Wheat, Rail Competition, Research priorities, Trade issues, and WTO issues.

Leadership Development

NAWG and its corporate partners continue to provide exceptional leadership training opportunities for producers in our member states. Additional Wheat Industry Leaders of Tomorrow (WILOT) training was provided to participants in March, and reunion activities for

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all of the leadership programs were held at the annual conference. WILOT participants for 2002 were Mike Bouris, CA; Dale Schuler, MT; Bradley Warren, CO; Bruce Freitag, ND; Robert Blair, ID; Jeff Krehbiel, OK; Joe Kejr, KS; Karl Scronce, OR; and Darin Arganbright, MT. WILOT is sponsored for NAWG by Monsanto.

Syngenta's Womens Leadership program was offered in April to a class of 11 outstanding women, providing training in speaking, handling the media, lobbying, and other issues. The 2003 participants included: Michelle Ivey, Colorado, Belinda Wilkes, Colorado; Rhonda Blair, Idaho; Mary Meinhart, Illinois; Kadie Herseth, Minnesota; Rhonda Larson, Minnesota; Kim Herzog, Montana; Linda Payne, Nebraska; Connie J. Ova, North Dakota; Francie Tolle, Oklahoma; Kristi K. Olson, Texas; Amy Natasha Thomas, Virginia; Becky Cochraine, Washington, Geraldine Baldwin, Washington and Jessica Marie Jessen, Wyoming.

Monsanto also provided Young Grower Leadership stipends to young farmers to attend the Wheat Industry Conference in Albuquerque, New Mexico. Recipients of this award included: H. Kurtis Thompson, CO; Marty Fehringer, ID; David K. Schemm, KS; Melisa M. Pety, MN; Courtney Herzog, MT; Doug Fitterer, ND; Ryan Jay Pjesky, OK; Chris Schanno, OR; Bryan Bishop, TX; and Craig Giese, VA.

This year saw the conclusion of the BASF Ambassador Program due to funding cutbacks from the sponsor, and NAWG is seeking other sponsorship to restore this program in future years. NAWG is also actively seeking to re-establish an internship program for college students in the summer of their junior year to work in Washington. As of this report, we are in discussions with another corporate partner about replacing this program.

Communications & Outreach

"HOME GROWN" PROGRAM

NAWG has received a grant from Altria Corporation's Shared Solutions® to launch a program to educate the public on the benefits and necessity of federal farm policy. NAWG is reaching out to other national commodity organizations to coordinate this project. The effort, dubbed Home Grown, will focus on media and influencers of public opinion, and will be developed to better explain the story of American agriculture, and the changes that have taken place that are often unrecognized by consumers.

One of the components of the plan is a media tour during which time producers and NAWG staff will brief reporters. Washington was chosen because it is home to more than 30,000 reporters, including political correspondents for news outlets nationwide. *Home Grown* plans on leveraging the resources available, by bringing to specialty media, the issues that interest them. New techniques used by farmers to protect the environment would be pitched to environmental publications, technology reporters will appreciate stories about advanced technology used in farming, and business reporters will have the opportunity to report the business side of farming that includes the real numbers.

Surveys consistently report that consumers do not have the information they need, and consumers often make decisions in a vacuum or based on negative editorials and news articles.

NAWG Activity Report to the North Dakota Wheat Commission June 2003 Page 16 of 17

NAWG believes that it is time for a concerted effort by the agricultural community to provide the information that consumers need to understand the value both of the food dollar as well as the value of farm programs. To that end, NAWG and other farm groups are working to identify ways in which that can be accomplished.

NAWG continues to provide a weekly newsletter and periodic press releases on issues of importance and interest to wheat producers. NAWG also maintains and continually updates a public web site with news articles and other information about the wheat industry.

OUTREACH

Building on past outreach efforts with organizations like the North American Millers Association, crop insurance organizations, the Alliance for Rail Competition, the Commodity Classic (Corn and Soybeans' annual conference), and the National Association of Farm Broadcasters, NAWG representatives attended the annual conventions of the US Custom Harvesters, the National Grain Sorghum Producers Association, and the National Grain Trade Council in the first quarter of 2003, as well as a meeting with the Research and Development Baking Specialist for Subway in March.

NAWG participated in a producer-agribusiness meeting coordinated by the National Grain and Feed Association and Farm Bureau, and participated in the World Agriculture Forum in St. Louis in May 2003. NAWG representatives also met with their Canadian and French counterpart organizations in June of 2003.

Organizational Consolidation

In January 2002, the boards of NAWG, WETEC, and US Wheat Associates board authorized a study to examine the benefits and methods to consolidate the activities of the four national wheat organizations — WETEC, NAWG, US Wheat Associates, and the Wheat Foods Council. A consultant, Association Partners Plus (APP), was retained to analyze the structure of the industry organizations and recommend changes. They interviewed most of the directors and staff of the national organizations and their state affiliates, and their report was presented at the summer meeting of US Wheat Associates in July.

APP recommended that the organizations consolidate into one central board of directors and one central staff with one chief executive. They founded this recommendation on three main points: first, the budgetary concerns brought forward by the states who initiated the study. APP believes there will be certain efficiencies from combining the operations of the organizations. Secondly, APP found that the industry does not have a mechanism to strategically allocate resources between functions. A central board could make deliberate decisions to emphasize timely priorities and pull funding from lower priority issues to make that happen. At present, funding decisions are essentially competitions between the national organizations. Third, consolidating the organizations will lead to more accountability and avoid differing interpretations of standing policy, particularly in the area of biotechnology, where there are some perceived interpretational differences between the organizations.

Additional action was taken in early 2003, reconstituting the study committee, establishing funding from the three participating organizations (Wheat Foods Council withdrew from the effort), and laying out some working parameters. NAWG's Board of Directors remains

NAWG Activity Report to the North Dakota Wheat Commission June 2003 Page 17 of 17

committed to the effort to consolidate and coordinate the industry organizations, and we are looking forward to the anticipated proposals from the newly-constituted study committee.

Summary

NAWG appreciates the support of its member states, both in terms of financial contributions and also in terms of support on issues. Member states are indispensable for formation and implementation of NAWG policy, and are vital components of NAWG's outreach and effectiveness in Washington. We value the support of the North Dakota Wheat Commission, and look forward to continuing to work with and for you in the remainder of 2003.

W. Daren Coppock Chief Executive Officer

National Association of Wheat Growers



North Dakota Grain Growers Association 2003-2004 Annual Report to the North Dakota Wheat Commission



The North Dakota Grain Growers have completed another successful year with involvement in many issues of importance to North Dakota wheat producers. The majority of our activities during the year were directed in areas prescribed in the terms of the contract with the Wheat Commission.

The NDGGA has participated in Wheat commission meetings and invited Commission representatives to NDGGA meeting and functions. The NDGGA participated in the Wheat Commission Domestic Policy advisory committee, and initiated a committee of representatives of the Wheat Commission, North Dakota Grain Growers, and the US Durum Growers to find ways in which the three organizations can better cooperate to serve North Dakota wheat producers.

Communications:

- The NDGGA published the Gleanings newsletter, which informs members of issues of importance to the industry.
- The NDGGA also assisted in distribution of Prairie Grains magazine in cooperation with the Minnesota Association of Wheat Growers. This information filled magazine is mailed free of charge to over 11,000 producers in North Dakota.
- The NDGGA also maintains the Marketmanager web site, which provides a wealth of information on the association, news, weather, and market information, and is available free of charge to all producers.
- The NDGGA also transmits email reports from the NAWG and from time to time on state issues to its members.

Producer Meetings:

- The NDGGA held the Small Grains Conference in Bismarck in December with 130 producers participating in sessions on marketing, risk management, production, and updates on association and commission activities.
- The NDGGA along with the Minnesota Growers again sponsored the marketing seminar at Big Iron in Fargo, with hundreds of producers in attendance. This event has been growing each year and will be held in a larger facility next year to accommodate the crowd.
- The NDGGA along with Minnesota sponsored a series of marketing seminars via conference calls and interactive TV to growers in both states that were successful in bring in participation from a broad range of producers that may not have attended meetings.

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The NDGGA sponsored three grower meetings in March in Carrington, Rugby, and Dickinson with Jerry Gulke from SMS Marketing giving a marketing outlook and Judge Barth providing an update from the Wheat Commission. These meetings drew good crowds with approximately 240 producers attending all three meetings.

Crop Insurance:

- The NDGGA chaired the NAWG crop insurance task force which developed policy priorities for improvements to crop insurance.
- The NDGGA was successful in getting key proposals for crop insurance important to North Dakota producers as domestic policy priorities at NAWG. These proposals included an outline for a Risk Management Account, a tax deferred government matched savings account to be used to supplement crop insurance in times of crop loss. Another proposal called for a study of current premiums and subsidies for whole-farm, enterprise, and optional units. The intent is to find a way to make higher percentage coverage more affordable.
- In March the NDGGA met with members of congress and pushed for improvements to crop insurance in four key areas:
 - Higher coverage levels at affordable premiums
 - · Addressing loss of APH in multiyear disasters
 - Using Risk Management Accounts to cover the large uninsured deductible
 - Rule changes to allow zeroing out crops that aren't worth the cost of harvesting.
- The NDGGA had meetings with David Hatch in Bismarck and Ross Davidson in Washington, DC, both of RMA to explore the feasibility of the concept of a whole farm policy coupled with a risk management savings account.
- The NDGGA had meetings with RMA in Bismarck and Washington, DC urging RMA to modify its rules concerning separating production history for spring wheat and durum.
- The NDGGA attended meetings sponsored by the Ag Commissioner concerning cost of production crop insurance and expressed concern about the complexity of the proposal.
- The NDGGA attended a meeting in Mandan with RMA, the Pea and Lentil Association, ARS, and NDSU to explore the possibility of premium discounts for wheat for producers who precede a wheat crop following a pulse crop. Problems with prevent plant rules were also brought to RMA's attention and a discussion took place on the possibility of Master yields being used on optional units.
- The NDGGA has been gathering weather data for a supplier who is interested in providing product use insurance. This would provide a rebate on products used if weather caused a no crop situation.

Research:

- The NDGGA has a newly elected member on the State Board of Agriculture Research and Education who will represent wheat producers in decisions involving research at NDSU.
- The NDGGA has a member on the NAWG Research Committee to represent North Dakota producers on priorities for research in the industry.
- The NDGGA has supported research funding for wheat, including funding for the areas ARS stations in visits to congressional offices.
- The NDGGA has a member on the NAWG-USW-WETEC Biotechnology committee, and has worked to encourage private and public funding of biotechnology for the benefit of wheat producers.
- The NDGGA participated in the Spring Wheat Quality Tour and helped educate industry representatives on weather and production practices which affect wheat quality.
- The NDGGA has begun work on a state wide wheat yield contest. We have commitment from four major sponsors and hope to have the contest ready for the 2005 crop year. Most of the contest rules have been formulated.

Environmental Issues:

- The NDGGA again hosted four EPA officials from Washington, DC for the 2004 E-tour, which took place June 23rd and 24th. The agenda included sessions on biotechnology, nitrogen use efficiency, joint pesticide labeling along with visits to an aerial applicator, AGSCO's chemical facilities, and the Greg Daws farm. Evening meals provided a chance to talk about the issues of the day. Chemical harmonization, changing some of the factors in making risk cup assessments, spray drift, border areas and buffer strips where the main issues. Both aerial and ground spraying demonstrations were given to show how drift can be minimized.
- The NDGGA has two members on the North Dakota Crop Protection Harmonization and Registration Board. This board has been working for the harmonization of pesticide registration between the US and Canada.
- The NDGGA has worked with NAWG to support legislation in Congress to allow for the registration of Canadian crop protection products. This included meetings with EPA, and members of Congress from several states to urge support for the legislation.
- The NDGGA maintains contact with state and federal regulatory personnel and has provided comments on the Section 18 label for Folicur and the need for full registration of other crop protection products for wheat.

Conservation:

The NDGGA attended a meeting with Bruce Knight, head of the NRCS, in Bismarck, and provided comments on implementation of the Conservation Security Act and wetland issues. Transportation

• The NDGGA in March visited at length with members of Congress on the rail competition legislation in Congress.

• The NDGGA now has a member on the Upper Great Plains Transportation Institute Advisory Council.

Other Highlights:

Terry Wanzek attended the WILOT program in St. Louis, MO. This program
is sponsored by Monsanto and seeks to improve communication skills of the
nation's wheat leaders.

 Dawn Watson attended the NAWG/Syngenta Women's Leadership Development Program in Greensboro, NC. This program helps develop leadership skills of women leaders in agriculture.

Mark Gage, past president of the NDGGA was elected president of the National Association of Wheat Growers in January at the national convention in Atlanta, GA.



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Working for you, the producer!

North Dakota Grain Growers 2003-2004 Funding Request

- 1. The North Dakota Grain Growers Association had a busy year last year educating growers on a number of issues ranging from the new farm bill to biotechnology. NDGGA was one of the first groups in the nation to have an accurate and reliable spreadsheet available for growers to work the numbers on their farms to see how the new farm bill affected their operations. We traveled around the state putting on several seminars explaining the new farm bill and increased our membership by approximately 150 new wheat producers. Along with the new producer members we had over 1000 people attend our seminars ranging from bankers to extension service people and just people wanting to pay a fee to have access to the information. This gave us a real opportunity to interact with the North Dakota wheat producer. Also at these seminars we cooperated with Agrimark marketing service to allow producers some insight as to what the commercial marketing side of the equation of the new farm bill would be.
- 2. We had planned on doing the same type of program with the Conservation Security Program but unfortunately it the rules were not in place last year. However, it does appear that the program should be in place this year and we intend to do an educational tour of the state concerning this program. At that time we once again plan on coordinating with a marketing service that will put on a presentation for growers on marketing the 2003 crop.

3. We once again put together an environmental tour for members of the EPA late last June. We expanded upon our past tour by taking the participants to Agvise where they were able to go through the laboratory first hand and see the science that is put into the North Dakota Wheat producers' fertilizer application process.

4. Late last fall we traveled throughout the state to listen to producers over their concerns dealing with biotechnology. We were accompanied on this tour with Michael Doane who is the Wheat Team Leader for Monsanto company. Michael gave the growers the opportunity to ask questions about a wide range of issues, from foreign market resistance to roundup ready weed resistance. Many growers were apprehensive to the technology at that time. However, they do see the benefits to the technology and remain interested in the technology. It was our perception that growers are coming to realize that we cannot compete as the lowest cost producer of wheat in the world, so we must become the producer of the best quality and most health beneficial product.

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5. In January we traveled to Washington, DC, along with other farm and commodity groups to lobby for disaster assistance for the 2001 and 2002 crop year. The combined efforts of all of the groups helped raise awareness of the issue, which was a priority for NAWG. This resulted in passage of disaster assistance shortly afterwards. In March we also made visits concerning the calculation of the individual cap on disaster assistance. This cap would have put producers who bought up crop insurance at a significant disadvantage. The cap was eventually modified to lessen those effects.

6. Crop Harmonization. We recently lobbied many members of congress to support a hybrid joint chemical registration program promoted by the North Dakota Department of Agriculture. This program would allow our state department of agriculture to contract with the Environmental Protection Agency to determine if certain chemical products in Canada are substantially similar to ones in the United States and if they were our producers would be given the opportunity to gain access to these products. This could save our growers an estimated 20 million dollars a year in crop protection products.

7. Our web site has become an old stand by for many growers in the state who visit the site on a daily basis for market quotes and producer news. We recently started selling advertisements on the site and got our first participant, which is Agripro.

8. With the difficulty in obtaining a disaster bill, we have began the process of looking at a new concept of crop insurance that would allow our producers a higher level of coverage, at a reasonable premium level. Following meetings with officials at the Risk Management Agency and members of congress, we found significant interest in our ideas. The federal government has begun to take a hard look at our current systems misgivings and we want to be at the table when changes are made.

9. The last legislative session was a busy one of which NDGGA was actively involved in a number of issues. We lobbied had to see to it that research at NDSU was enhanced and that come to be. An additional 750,000 dollars of general fund money was appropriated for the "biotechnology centers of excellence" at NDSU. This money is available on a matching fund basis that will be able to leverage millions of dollars in additional funding. This will help to give an edge to our North Dakota producer in this new and exciting field as it begins to develop. Along with that funding another 75,000 dollars of general fund money was appropriated to the Department of Commerce to develop the North Dakota Trade Promotion Authority. This money is available under the same type of matching grant program. It can be used to promote the benefits of North Dakota Products around the world including wheat and barley. We also lobbied to maintain adequate funding in the Ag in the Classroom program and were not only able to maintain the current 50,000 but add an additional 45,000 to the program and leave the carry over of 5,000 in the program for a total of 100,000. We lobbied to maintain the current sales tax exemption on used machinery and parts, which was a success. We lobbied on many biotechnology issues that would have put North Dakota Producers behind the rest of the country as this technology develops.

10. Once again we put on a marketing seminar at Big Iron with the Minnesota Association of Wheat Growers and the Minnesota Association of Barley Growers.

Goals and Objectives for 2003-2004

- 1. Study the feasibility of implementing a new crop insurance program. If the program is actuarially sound, develop and implement as a pilot project.
- 2. Lobby for a chemical harmonization bill in congress.
- 3. Work to maintain farm program funding, and specifically commodity program funding in budget debates.
- 4. Represent North Dakota Wheat Producers on the national level at all National Association of Wheat Grower meetings.
- 5. Seminars around the state to educate producers on the effects of the new Conservation Security Program along with marketing information.
- 6. Educational tour for members of the Environmental Protection Agency in June of 2004.
- 7. Educational and listening tours around the state in response to concern over biotechnology and wheat production.
- 8. Producer Marketing Seminar at Big Iron
- 9. Prairie Grains conference in December, 2003 in Bismarck.
- 10. Continue to sell advertising on NDMARKETMANAGER
- 11. Continue to Support the Prairie Grains Magazine and see to it that it is delivered to all North Dakota Wheat Producers.
- 12. Continue to monitor grower interests on both a national and state level.

Funding Request:

NDGGA: \$84,000.00 NAWG: \$109,000.00



U.S. Durum Growers Association

PROMOTING THE PRODUCTION AND MARKETING OF DURUM AND SEMOLINA

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U.S. Durum Growers Association 2003-2004 Annual Report to the ND Wheat Commission

Over the past year the U. S. Durum Growers Association (USDGA) has had eight regular board meetings, two executive board meetings, and four conference call meetings. We have eleven board members. Two from the East part of North Dakota, three from the central part of North Dakota, four from the Western part of North Dakota and two At Large.

Over the past year USDGA has been dealing with several issues. One of the issues has been on going for the last two years, and continues to take financial resources and considerable time is the Milling Durum Insurance that we are working in conjunction with Dakota Growers Pasta Company and John Deere. For the 2004 crop year there is a pilot program with five Durum growers from some of the seven designated counties that were selected (Hardy, McLean, Renville, Towner, Divide, Burke, and Benson) to be pilot counties.

These five growers have a contract with Dakota Growers Pasta Company to deliver Milling Durum to the plant at Carrington, at a price of \$5.00 per bushel. On June 30th USDGA had a meeting in Minot with Dakota Growers Pasta Company, John Deere and an interested durum producers to explain how the program is unfolding and tell us how the data gathering is coming along. Although there is o premium and indemnity for the insurance exercise this year, there is a solid contract with the Dakota Growers Pasta Company. Hopefully we will see an expanded program for the 2005 season.

A burning issue for the durum and wheat grower has been a change in how the Risk Management Agency (RMA) is figuring the APH for durum and wheat for 2004. It impacts almost all producers to some extent, if new land was added. We have been in contact with Montana and Minnesota durum and wheat growers to see if we can get together with our Congressional Delegation to change it for the 2005 crop year.

Recently the USDGA, along with other groups and political people have been looking the problem of durum and wheat production areas in North Dakota, both from drought and excessive moisture. There may be a need to work toward some sort of disaster aid that would help with losses due to weather related problems.

Over this past winter the USDGA has been in contact with a number of people at NDSU, NCI, and Jerry Doan, President of SBARE, and Legislators to help in finding a home for the Durum Mill that was donated to NDSU. I now understand that it may be put to use in the NCI. The USDGA is very pleased to hear this.

Due to a tight budget for the ND Wheat Commission, USDGA requests the same amount of dollars that was granted last year of \$26,000. We feel this is minimal as in keeping with the North Dakota Legislature intent of HB 1486 of 2003. At this time no special projects are requested.

The U. S. Durum Growers Association would like to thank the ND Wheat Commission for their consideration of this request.

Edward L. Loraas, President



U.S. Durum Growers Association

PROMOTING THE PRODUCTION AND MARKETING OF DURUM AND SEMOLINA

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U. S. Durum Growers Association Annual Report for ND Wheat Commission June 19, 2003

At the time this report is being written the crop in North Dakota and Montana appears to have about average potential. Some areas in the West are in need of moisture, but the crop is holding together pretty well. Some areas in the North Central and North East look to have excellent potential, while some areas in the Eastern range of the Durum growing area are too wet with drown out areas and the potential for leaf disease in the Durum crop is present. This is being addressed with fungicide application of tilt, stratego, or headline.

Over the past year, the U.S. Durum Growers Association (USDGA) has held eight (8) regular board meetings, three (3) Executive meetings and three (4) conference call board meetings.

Our Annual International Durum Forum meeting was held in Minot, in November in conjunction with the ND Grain Growers Association Annual meeting (Small Grains Conference). The attendance was down due to the amount of harvesting that was left to complete.

We currently have twelve (12) board members, all from North Dakota. We now have two (2) members from the Southwest corner of the state because durum acres are increasing in that area. Keith Witte from New England is our most recent board member. We have had trouble keeping a member from Montana due to the distance of travel to the meetings.

In January the USDGA was in Washington D.C. to lobby for Agricultural Disaster Aid. We were part of an agricultural coalition of forty (40) farm organizations.

On June 9-12, 2003 we were back in Washington D.C. to lobby for the passage of the Chemical Harmonization Bill that Senator Dorgan introduced last Fall.

As you know, we are in the middle of a Crop Insurance Project. It is a Milling Durum Endorsement that can be added to an MPCI Policy. It will be a private Insurance Policy, so it can be sold at the discretion of the selling party. It will be vertically integrated with a miller or processor. One will not be able to buy the policy without a contract with a processor. The company that wants to bring this product forth is going to fund about two-thirds of the cost of the development. That leaves the Durum Growers to fund the

rest, which is about \$55,000. We have already paid \$25,000 of the cost. \$20,000 of the cost came from the pasta industry and \$5,000 came from the USDGA budget.

In early June our Past President, Bruce Lewallen was at the National Pasta Association convention and secured another \$20,000 from the same people to further develop this project. We have appealed to our USDGA membership to assist financially with this development. They have responded with the amount of \$5,000. I personally would like to thank the Commissioners that responded to and gave money to this Insurance Proposal. We still owe Watts and Associates \$5,000 from first part of the agreement. We request \$5,000 from the ND Wheat Commission as a special project for this Insurance Proposal.

The USDGA would like to thank the ND Wheat Commission for all the work that has been done on the Anti-dumping Suit.

This year the International Durum Forum is going to be held in Minot at the Holiday Inn on November 11-12, 2003. It is going to be a day and one-half program with details to be completed at a later date. We are hoping that the ND Wheat Commission would again present their Annual Crop Report on the first morning of the Forum.

Our budget request from ND Wheat Commission for the fiscal year 2003-2004 is somewhat higher than last year. This is due to an expanded program that is needed, and following through with the Legislative intent of HB 1486.

We thank the ND Wheat Commission for they're past, present and future financial commitment to the USDGA.

Ed Loraas
President
U. S Durum Growers Association

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2005

SENATE AND HOUSE AGRICULTURE COMMITTEE
HEARINGS WITH NORTH DAKOTA STOCKMEN'S ASSOCIATION
National animal identification system

General Discussion

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□ Rules Committee

□ Confirmation Hearings

□ Delayed Bills Committee

☐ House Appropriations

□ Senate Appropriations

Other

Meeting with the Senate Agriculture Committee and the North Dakota Stockmen's Association - Update on Electronic Cattle ID

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Minutes:

Chairman Flakoll called the meeting of the Senate Agriculture Committee to order.

Wade Moser, Executive Director of the North Dakota Stockmen's Association, presented an update on electronic cattle identification at the request of Senator Flakoll. (written testimony)

The North Dakota Stockmen's Association has been working with USDA for 4 years on national animal identification system (NAIS). This system has come faster, perhaps, with the BSE case in Washington State.

General Discussion
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Senate Agriculture Committee
January 14, 2005

The North Dakota Stockmen's Association will renew all brands in July and will give producers an opportunity at that time to apply for a national premises ID number.

Senator Klein asked if the NAIS will be an international program, will Brazil and Argentina participate. Will it give us a marketing advantage to be using the system.

Mr. Moser said perhaps but we will be using the system primarily because we have a disease problem.

Senator Klein asked if it was a matter of time before some of the South American countries find a case of BSE.

Mr. Moser said yes but Argentina has foot and mouth which is a bigger problem.

Senator Taylor asked about the situation in Australia and New Zealand.

Mr. Moser said Australia is working on a similar system, they have a system in place now but it is not mandatory.

Senator Urlacher asked if the system will blend with ours.

Mr. Moser said they are all adopting international standards. Technology is moving faster than the standards, however.

There is a lot of debate about whether the national database should be held by the federal government, the state governments or private industry. (meter 2777)

The North Dakota Stockmen's Association is very concerned about the reader technology that has to be in place. Our sale barns in North Dakota are not equipped to run cattle into a chute individually. Will sale barns have to update their equipment every couple of years when technology changes. Will the equipment work in our cold North Dakota winters.

General Discussion
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Senate Agriculture Committee
January 14, 2005

The official identification device is going to be a button, like the back of an eartag. Each species group is working on what works best for their industry.

The receiving premise is the one that has to record the movement. (meter 3087)

Senator Urlacher asked what happens with a lost or damaged tag?

Mr. Moser said it is called an event, it is reported to the government and a new tag is put on the animal, cross referenced to the old tag if possible.

Senator Klein asked what is the percentage of animals that lose their tags.

Mr. Moser said any tags in the system will have minimum standard for performance. There may be some incentive not to tag until cattle go to market because cattle will lose tags on the ranch.

The North Dakota Stockmen's Association thinks we should be able to tie our brand inspection system into the NAIS. (meter 3330)

Senator Flakoll asked how many cattle we have nationally.

Senator Taylor said 30 million cows, that would be

Kris Ringwall, Dickinson Research Center, has done some research with NAIS. He tagged and shipped feeder cattle to Decateur County Federal, a very good federal. They cut out every tag because their technology wasn't as advanced as NDSU and they couldn't read the tags. This same scenario could happen at sale barns across the US as technology changes.

Senator Flakoll asked what a realistic ramp up time would be.

Mr. Moser said USDA is saying 1 - 2 years. People who really know the industry and technology are saying 10 - 15 years. (meter 5210)

Senator Klein asked about liability as the cattle move through the system, is the producer more at risk.

General Discussion
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Senate Agriculture Committee
January 14, 2005

Mr. Moser said you have that liability now. This system could reduce the liability.. Maybe you could prove you didn't own an animal when it contracted a disease.

Senator Klein asked about the cost of maintaining the records.

Mr. Moser said they haven't estimated the human cost.

Senator Klein asked if we currently have any ability to trace back.

Mr. Moser said we do that right now.

Mr. Moser said the non brand states do not have a system in place and they need something.

Senator Klein asked if this will be a federal mandate.

Mr. Moser said yes.

Senator Taylor asked if on a national level is there an exemption from the freedom of information act.

Mr. Moser said no, there is some proposed legislation.

Senator Taylor asked how fast Canada can do a traceback.

Mr. Moser said the system in Washington state failed when we had the BSE case. In Canada, their system wasn't really tested because the affected cows were too old to be required to be on their system. They used brands to do the tracebacks.

Senator Urlacher said it will eventually have to be mandatory.

Mr. Moser said yes. No one will want to incur the expense until it is mandatory. (meter 5920)

Senator Flakoll said a producer could use the tag number to record his production data. A

producer only has access to data gathered when he was the owner.

(End of side A)

Senator Klein asked about data from the kill floor.

General Discussion
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January 14, 2005

Mr. Moser said USDA says the tag will be retired on the kill floor but he fully expects the ID to travel somehow with the carcass. Walmart and McDonalds want source identifiable product.

They don't want to know the source data but they want to know that someone can trace it back if necessary.

Senator Klein said he is surprised they are concerned about it, don't they use imported hamburger meat.

Mr. Moser said there can be many, many animals in one batch of hamburger.

Senator Klein asked how you trace a pound of hamburger that has come through a facility that kills 12,000 head per day?

Senator Flakoll asked if this system will replace bangs tattoos.

Mr. Moser said yes, it will replace all other government numbers on animals.

Chairman Flakoll adjourned the meeting of the Senate Agriculture Committee.

the

2005 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. WADE MOSER PRESENTATION

House Agriculture Committee

☐ Conference Committee

Hearing Date 1--14--05

Tape Number ONE	Side A A	Side B	Meter # 00 TO END
Committee Clerk Signature	Teu	red D	Elson

Minutes:

Chairman Nicholas: Committee Members, Wade Moser with the Stockman's Association asked to have a few minutes here to visit with us about identification and animal identification and also ask any questions you might have. I am going to Evan Lips funeral so I will be leaving.

WADE MOSER: I am going to talk to you about a system that we have been involved with. We want you guys to be kept informed. We are all working in the same direction and hopefully we can get this thing through but we also want to have an opportunity to show you what are proposal has been to the National. We have got some support from the last proposal which is to use the brand inspection program as part of this system to tie it together to get the cattle to move through. I will show you just how we do that. The is the reason that on the National Level. What is the system? It is a system that regardless of what state you are from or what species you

Page 2
House Agriculture Committee
Bill/Resolution Number MOSER PRESENTATION
Hearing Date 1--14--05

are working with, this is not only cattle it is all food animals species. There is going to be a system in place so that technology meshes and everyone is working on the same page. That is tough to get when you are talking about how diverse out beef cattle industry is and then tying it across different species levels. What is the main focus? The focus is on health. Again there are going to be different focus when you start putting an electronic tags in however this is just to adapt the health aspect of it. The goal is that that if there is a diseased animal that will attract our industry that we would be able to trace back within forty eight hours. That is the goal. As soon as you spot a disease it is how you can identify where the animal has been in its life time. {{please read brochure as to national premise numbers etc. It would be a good idea to read the attached brochure completely}} Individual cow number. We are basic in the first stage. Larry Schuller wrote a grant for the federal government got over five hundred thousand dollars. We are sharing on it. The board of animal health is sharing and the NDSU is sharing. We are trying to get this first phase of this program put together. The national premise identification system, there gets to be some confusion as to what the premise and the individual animal identification. Basically it is a unique number that is going to be assigned to a location. It may be a rancher, it may be an auction market, it could be any place where cattle are co-mingled. It is going to be a seven digit number {{cc brochure attached}} A combination of numbers and letters. You will not be able to look at that

Number to see what state it is in. You will have the data base to go back and find out.

What is a premise. It is a physical location and Dr. Keller will be working on this definition because it is not like it is you or I having our cattle we a certain chunk of land that is our

Page 3
House Agriculture Committee
Bill/Resolution Number MOSER PRESENTATION
Hearing Date 1--14--05

things together.

premise. What do we do about share cattle? What do we do about absentee owners. What do we do when we have land north of Bismarck. And also land in the Waterford City area. Is that one or two premises? That is for the state veterinarian to work out. So we don't have to create a larger burgracy what we already are. I can tell you that early on a pasture was going to be a premise. So that if I move my cattle from one pasture to another I was going to have to report that to the Federal Government. They went to state vets and told to determine this. What do you think would be the best way to do a trace back. What information do you need? According to Dr. Keller she wants to talk to the person in charge. We don't care where your cattle are located. We want to talk to you, you can tell us where your cattle have been. And what other animals they have come in contact with to trace back the disease. This is part of our brand application. What dose brand recording have to do with the national identification? The fact that every producer is going to have to get that premise number. That seven charter number. In July of this year we will be sending out applications to some 29 thousand brand holders in ND. This will be an opportunity for people and we are going to re-de sign this application so that they can renew there brands and request a premise application. Now if they don't have a brand we are going to have an application available so that we can still enter this into the same data base and keep one system of numbers. This will be at no additional cost to the producer to do this because of the federal grant that we got. We hired Mary Gore. She is our coordinator. She has a lot of knowledge as to how brands work. She will be tying these

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House Agriculture Committee
Bill/Resolution Number MOSER PRESENTATION
Hearing Date 1--14--05

If you don't brand what is going to happen. What we will do is have a separate application where you will be able to make application. Where you will be able to make application for a premise number. This whole system is voluntary. It is not mandatory however we expect it will be. You talk to USDA they are saying it will be mandatory. The federal government, the state and the producer will pay for this new technology. Ultimately the producer will pay for it. Some of the problems with the technology is in the environment. Readers {scanners} are not always working. Sometimes you have to scan two or three time for the scanner to work. When scanning cattle there are multi-problems because of dust wax etc. There is technology work to This is being done to identify disease. Other countries will be doing this so we will know as packers where the cattle came from. There is difficulty in this system. Technology might not work. Then you have to do the job over again. Say you have the initial cost per cow etc. And then you have to stand the cost all over again because of non working technology and you have twice amount invested that what you initially thought. The tags might not work. Then you have to get new scanners. We might be talking about two to ten to fifteen years before the scanners. Different countries will be identifiable. Again please see brochure for technology, This is expensive. Is this technology going to work in cold weather. We have a concern about it. A tag will not work in a horse. Sheep, goats work different if at all. If you loose a tag you have to report it and buy another. If you loose a tag all the information is lost on that cow. Once the cow has been slaughtered the number on the tag will be retired. Brand inspection can be used along with this technology. If you get an animal in a feed lot in all probability it will be slaughtered. We can do a 48 hour trace back with in 48 hours.

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House Agriculture Committee
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Hearing Date 1--14--05

All auction markets will have to get a premise number. The cattle have to be tagged at the feed lot. It is more involved when cattle are comingled on a truck. There are several different owners. AGAIN PLEASE SEE BROCHURE FOR ADDITIONAL INFORMATION.

The National Animal Identification System: An Overview



Why Do We Need ID?

- National animal identification will enhance disease preparedness
- ID will help gain market access and increase consumer demand
- Promote continued confidence in animal products
- Will reduce the financial and social impacts of animal health events

What is the NAIS?

"The National Animal Identification System (NAIS) defines the standards and framework for implementing and maintaining a phased-in national animal identification system for the United States."



NAIS Focus and Goal...

"Maintaining the of the U.S. herd is the most urgent issue for the industry and animal health officials to address, and therefore, is the most significant focus of the National Animal Identification System."

"...the goal of the National Animal Identification System is to have the capability to identify all premises that had direct contact with a foreign animal disease (FAD) within after discovery."

Essential Components

- National Premises Identification System
- Individual Animal Identification System
- Group / Lot Identification System
- Required infrastructure

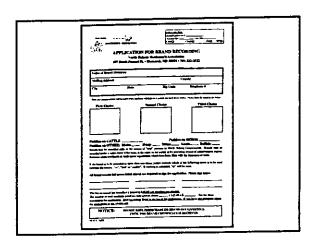
National Premises Identification System

- Provides a nationally unique number for each premises (location) involved in animal agriculture
- 7-character iD
- States to define and identify premises using national "premises allocator" to assign number
- Example: A123R69

What is a 'Premises'?

"A premises is an identifiable physical location that, in the judgment of the State Animal Health Official or Area Veterinarian in Charge, and when appropriate in consultation with the affected producer, represents a unique and describable geographic entity (where activity affecting the health and/or traceability of food producing animals may occur) or represents the producer contact location when extensive grazing operations exist."

- (Section III.A.1, USAIP)



Individual Animal Identification System

- National system to provide <u>unique</u> numbers for individual animals
- Will follow ISO code structure standard for Radio Frequency Identification (RFID)
- Lifetime number imprinted and encoded with individual number
- Example: 840 223 456 789 101

Required Infrastructure

- · National Premises Allocator
- National Premises Database
- Individual ID Database
- "Reader" technology in order to "track" animal movements
 - Markets, collection points, expositions, slaughter facilities, feedlots, etc.

Official Identification Devices

- Will require attachment of a device with the appropriate ID number printed on it as well as encoded electronically
- Uniform method is preferred within species, but will vary across species groups
- The most appropriate devices will be determined by species working groups

The Process (Simplified)

- 1. A Farm / Ranch receives a premises identification number (e.g. A23L449)
- 2. Producer receives and applies individual tags associated to his premises (840 834 502 584 384)
- 3. Tags are "observed" and recorded as animals move through system
- 4. Tag numbers retired at slaughter / death

WHAT ROLE CAN BRAND INSPECTION PLAY IN THE NAIS?

NAIS HAS IDENTIFIED AND FORWARDED THE FOLLOWING RECOMMENDATIONS CONCERNING THE USE OF BRAND INSPECTION:

GUIDING PRINCIPLE

Existing state brand inspection systems should be recognized and utilized whenever possible for traceback. USDA/APHIS is encouraged to thoroughly investigate opportunities for integrating state brand inspection with the NAIS.

(Of the thirteen guiding principles, this one pertains to brand inspection.)

OTHER BRAND INSPECTION REFERENCES

- · Premises Validation Testing
 - Demonstrate the integration of existing brand state ID systems with the NAIS.
- Individual Identification Validation Testing
 - Demonstrate current state brand inspection programs ability to accomplish the 48-hour traceback goal.
- · Exceptions to the Individual ID Requirements
 - Cattle moving under a brand inspection certificate that officially identifies the premises and owner, with individual identification occurring at the receiving location, if required.

NATIONAL DATABASE INFORMATION RECOMMENDATION

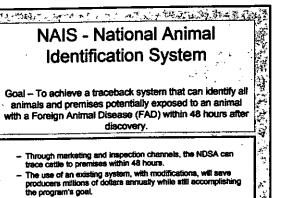
State brand inspection programs will continue to play an integral role in the cattle industry.

The Cattle Work Group believes that the integration of state brand inspection protocol with the NAIS can work for the benefit of all.

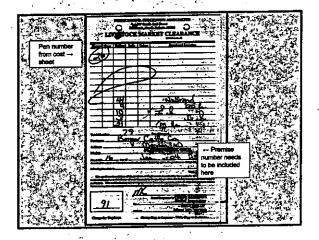
To assist in the recognition/integration of the two identification systems, the Cattle Work Group recommends that the state brand inspection certificate number be included in the NAIS database.

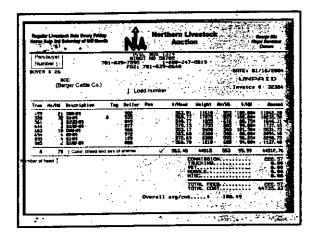
NORTH DAKOTA STOCKMEN'S ASSOCIATION

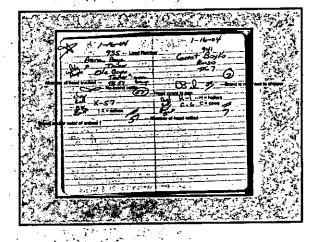
USING BRAND INSPECTION FOR TRACEBACK



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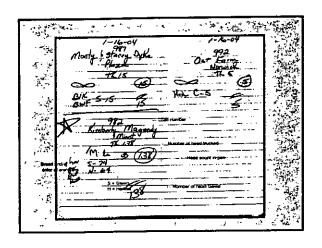


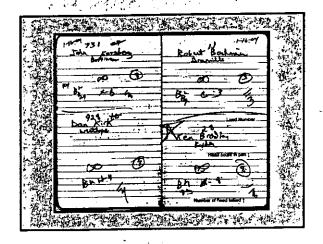


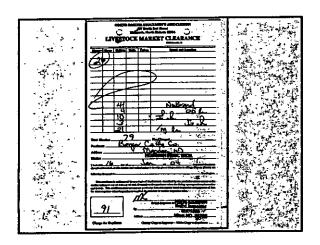


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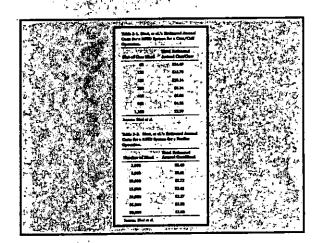
What modifications need to be made to fully implement a brand inspection system that will allow for the 48 hour traceback capability? 🚁 🔭

- Must include a premises ID number on the brand
- Must include a premises ID number on the brand inspection certificate (minor change).

 Must pass legislation allowing the brand inspectors (NDSA) to have access to market and dealer information (invoices) to assist in the traceback procedures (minor change).

 May, at some point, require mandatory brand inspection
- for intra-state sales (major change).

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It is the North Dakota Stockmen's
Association's goal to use an existing
system that is already being paid for by
producers to accomplish the goals of an
animal disease traceback system.

NORTH DAKOTA STOCKMEN'S ASSOCIATION

407 S. 2nd St.

Bismarck, ND 58504

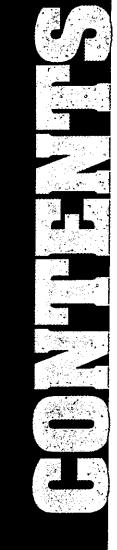
701-223-2522

ndsa@ndstockmen.org

www.ndstockmen.org

Wade Moser, Executive Vice President Darryl Howard, Chief Brand Inspector Mary Goeres, Animal ID Coordinator





On our cover...

cover photograph by Clint Peck, senior editor

Sustaining members of:













2005 Beef ID Issue

4 One Year Later

BSE in the U.S. prompted a new urgency for an animal ID system.

2005 RFID Survey

A comprehensive compilation of the who, what and wherefore of RFID for cattle.

10 An ID Q & A

Answers to the most common questions regarding ID and traceback.

12 More ID Resources

A listing of non-RFID commercial services.

14 Pick A Number

No one seems to know how many cattle are traceable beyond the feedyard today.

16 Taking Shape

Producers will soon be able to tag individual animals to comply with NAIS.

24 Management ID

A day is coming when producers with source-verified cattle will have the advantage.

26 For Biosecurity's Sake

Utah's livestock premises registration system is up and running.

28 Chokepoint Or Checkpoint?

Auction markets stand to be big players in the move to build a traceback program.

35 Do Hot Irons Have A Role?

Proponents of brands say the traditional tool can be part of a national ID system.

40 **ID Registration By State**

Here's a list of contact numbers by state for ID registration.

42 Who Holds The Cards?

departments

My Perspective

Market Advisor

Officials debate the merits of a privately held vs. government-operated ID database.

BEEF Online

www.beefcowcalf.com

The online resource for cow-calf management research.

www.beefstockerusa.org

Check out our interactive list on RFID suppliers.

www.beef-mag.com

Sign up here for BEEF Cow-Calf Weekly, and view the current issue.

beef-mag.com

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December 2004 3



North Dakota

STOCKMEN'S ASSOCIATION

407 SOUTH SECOND STREET BISMARCK, NORTH DAKOTA 58504 Ph: (701) 223-2522

Fax: (701) 223-2587 e-mail: ndsa@ndstockmen.org www.ndstockmen.org

January 6, 2005

The Honorable Ann M. Veneman Secretary, Department of Agriculture 14th and Independence, SW Washington, DC 20250

Re: Docket No. 03-080-3, "Bovine Spongiform Encephalopathy; Minimal-Risk Regions and Importation of Commodities"

purposes - by Wade Moser

Dear Secretary Veneman:

Affiliates and producer-members of NCBA have always been, and continue to be, active participants in discussions relating to the development of science-based policies to reduce the risk of Bovine Spongiform Encephalopathy (BSE) in the United States. Preventing BSE by supporting the design and implementation of multiple firewalls remains our highest priority.

Following the agency's announcement on December 29, 2004 of the final rule to establish Canada as a minimal risk region for BSE, and the government's decision to resume trade of some cattle and beef products with Canada effective March 7, 2005, we want to provide the agency with our comments and concerns on this rule (Docket No. 03-080-3, "Bovine Spongiform Encephalopathy; Minimal-Risk Regions and Importation of Commodities").

As we look at these complex international trade and animal health issues, please keep in mind that U.S. cattle producers have four specific priorities:

- 1. Regain the loss in value of exports to U.S. producers (equal to \$175 per head) that occurred after the occurrence of BSE on December 23, 2003, through normalization of trade and create a foundation for growth in our export markets
- 2. Protect the health of our cattle herd
- 3. Mitigate economic harm to our cattlemen as trade is resumed with all international partners
- 4. Maintain consumer confidence in U.S. beef

We support the normalization of trade based on sound-science. It is in our own best interest to restore trade with Canada so that our own trading partners such as Japan, South Korea and others will, in turn, restore trade with the U.S. based on the same science-based trading principals. However, a number of concerns about this rule remain.

• If we resume trade with Canada, the U.S. cattle industry will experience a damaging trade imbalance and negative economic impact without having our own trade with Japan and other export markets resumed. What is being done to help mitigate that negative impact?

 Are Canadian producers complying with their feed ban, and what assurances do we have of their compliance?

• Why was meat from animals over 30 months of age included under this rule and what economic impact will this have on our own beef supply? What assurances do we have that Canada is following appropriate safeguards in processing meat from older animals?

Based on these concerns, it is imperative that the following actions occur prior to the permitting of additional Canadian product into the U.S.:

- Trade should immediately be reestablished with Japan, S. Korea, and Mexico. Subsequently, other measures should be taken to accelerate the resumption of trade.
- FDA should conduct an audit of Canada's compliance with its feed ban.
- USDA should amend the Canadian rule to only allow beef from animals under 30 months of
 age to allow for a more regulated flow of beef into the United States and to avoid economic
 disparity.
- USDA should provide clarification of the Canadian rule regarding the importation of heifers, age verification, procedures for importation of live cattle, and other related issues.
- USDA needs to explain the contradictory language concerning the SRM removal requirements.
- USDA should call for the creation of an international commission from major beef-producing and beef-consuming countries to establish a science-based protocols relating to BSE for normalization of trade.

Thank you for the opportunity to allow us to communicate these concerns.

Sincerely,

Wade Moser

Executive Vice President

WM/sls

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2005

HOUSE APPROPIATIONS COMMITTEE

GENERAL DISCUSSION MINUTES

General Discussion

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	Committee	On.	Committees
_	Communica	\mathbf{o}	Committees

□ Rules Committee

Confirmation Hearings

□ Delayed Bills Committee

▼ House Appropriations

■ Senate Appropriations

□ Other

Tape Number	Side A	B Side	Meter #
1	X	X	34.3 ending
2	X	X	8.0 ending

Minutes:

Rep. Ken Svedjan, Chairman called the discussion to order and roll call was taken. Chairman Svedjan welcomed everyone to the Assembly, and. introduced the representatives, the clerks and the Legislative Council Staff..

Sheila Peterson from Fiscal Management introduce the staff from Office of Management and Budget.

Rep. Ken Svedjan, Chairman discussed the new division under House Appropriations called "Government Performance." Chairman Svedjan commented that this division was designed to deal with special initiatives coming out of Legislative discussions as well as looking at the Performance and Accountability of government to improve efficiency. This division will also

General Discussion
Page 2
House Appropriations Full Committee
January 4, 2005

deal with many of the "re-reffered bills," and will also deal with newly introduced bills as well and look at some budgets as well. The recommendation from the interim committee was to aim for a balance of membership and workload for all house appropriation subcommittees. This committee will have 3 republicans and 1 democrat.

Rep. Ken Svedjan, Chairman reviewed the scheduled agenda for the week and discussed the directions given to each agency to prepare an "overview" (handout 1-1, attached) so that every member of the appropriations committee will get a chance to hear from each agency regarding their 2003-05 budget, their requests for the 2005-07 budget and the variances between the two. Each agency was also asked to give a list of defining goals and objectives they hope to achieve within the next biennium that might help to explain the overall vision of the agency. All details regarding the proposed budget for each agency will be discussed within upcoming subcommittees. The idea behind having them explain the variances between the two budgets is to identify the movement of the agency through where the money is spent.

Rep. Ken Svedjan, Chairman discussed the new changes in the format of writing bills. The first section of each bill shows what was appropriated in the 2003-05 biennium. The second section show any adjusts, enhancements or recommended changes. Section three is a total of both section one and section two, which ends up being the proposal for 2005-07. Chairman Svedjan noted that these changes were made to help show the growth of the agency.

Rep. Jim Smith from the Legislative Council Office noted that when considering amendments, you should understand that the changes reflected in both sections 2 and 3 will effect both sections. Mr. Smith continued by discussing the function of the Legislative Council representatives during committee hearings and the purpose of the "Budget Status Reports"

General Discussion
Page 3
House Appropriations Full Committee
January 4, 2005

regularly updated by the Legislative Council. "Green Sheets" will be done for each bill as a reference before each hearing. Mr. Smith distributed hard copies of the power point presentation made regarding budget and fiscal trends (handout #1-2, attached). (meter #35.9)

2005-07 Executive Budget (The Blue Book, handout # 1-3, attached). (meter #17.2, side B)

Ms Roxanne Woeste from Legislative Council explained the fiscal documents as they can be found on the web site and how to access them. (Handouts #1-5 and #1-6, attached) (meter #19.3, Tape #2, side A)

Mr. Alan Knutson from Legislative Council spoke in explanation of the "Analysis of the

Mr. Don Wolf of Legislative Council spoke concerning the Budget Status Reports that will be updated weekly on Fridays, at first, and then more regularly as the Assembly speeds up. (handout #1-4, attached).

Ms Stephanie Johnson from Legislative Council reviews the "ND Legislative Council Tour Group Reports to the 59th Legislative Assembly." (handout #1-7, attached) (meter #36.4, Tape #2, side A)

Ms Pam Sharp Director of the Office of Management and Budget introduced her staff and their responsibilities, and gave a brief overview of OMB.

Ms Sheila Peterson discussed the notebook containing the proposed 2005-07 Executive Budget (handout #1-8, attached Notebook and CD). (meter # 47.6 of Tape #2, side A)

Mr. Joe Morrisette from OMB explained where you could find the materials in the Budget Book on the web site, (handout #1-9, attached). This material is also available on the distributed CD so you can access the information even if you cannot go online.

General Discussion
Page 4
House Appropriations Full Committee
January 4, 2005

Rep. Ken Svedjan, Chairman thanked the staff of the Legislative Council and the Office of

Management and Budget and adjourned the discussion. (meter #8, Tape #2, side B).

Tentative Agenda

59TH LEGISLATIVE ASSEMBLY HOUSE APPROPRIATIONS COMMITTEE ORIENTATION

Tuesday, January 4, 2005 Roughrider Room, State Capitol Bismarck, North Dakota

√ 8:30 a.m.	Committee organization and comments by committee chairman
√ 8:45 a.m.	Comments by Mr. Jim W. Smith, Legislative Budget Analyst and Auditor, regarding Legislative Council fiscal services during the 59th Legislative Assembly and a review of North Dakota budget and fiscal trends
₽ 8:55 a.m.	Presentation by Mr. Allen H. Knudson, Assistant Legislative Budget Analyst and Auditor, of the Legislative Council review of the executive budget
1 ∕10:15 a.m.	Presentation by Ms. Roxanne Woeste, Senior Fiscal Analyst, regarding the availability of legislative fiscal documents on the computer
√10:25 a.m.	Presentation by Mr. Donald J. Wolf, Senior Fiscal Analyst, on budget status reports prepared by the Legislative Council staff during the legislative session
∕ 10:35 a.m.	Presentation by Ms. Stephanie A. Johnson, Fiscal Analyst, of the Budget Section tour group report
√ 10:45 a.m.	Presentation by Ms. Pam Sharp, Director, and Ms. Sheila Peterson, Executive Budget Analyst, Office of Management and Budget, regarding the executive budget, budget forms, and other services available during the legislative session
11:30 a.m.	Recess
3:00 p.m.	Continuation of orientation, if necessary
3:30 p.m.	Conclusion of House Appropriations Committee orientation

Handout 1-1 1/4/05 House Apps Full emtée

AGENCY NAME

Overview Presentation to the House Appropriations Committee

January ____, 2005

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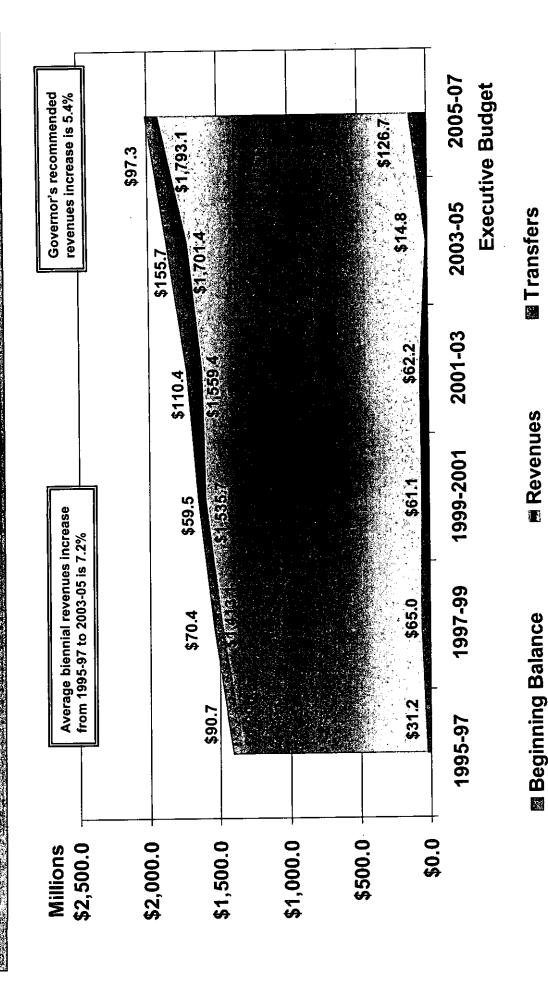
5.

Funding					<i>(</i> 2)
	2003-05 Legislative Appropriation	2003-05 Estimated Expenditures or Currently Filled FTE Positions	(1) Variance	2005-07 Executive Recommendation	(2) 2005-07 Recommendation Change (Variance) to 2003-05 Legislative Appropriations
Salaries and wages Operating expenses Equipment Capital assets Grants					
Total =	\$0	\$0	\$0	\$0	\$0
General fund Federal funds Special funds					
Total _	\$0	\$0	\$0	\$0	\$0
FTE _					, , , , , , , , , , , , , , , , , , ,
(1) Explanation of Major.Fu	nding and FTE Varia	ances for the 2003-05 La	gislative Appropriat General Fund	ion to 2003-05 Current Federal and Special Funds	t Estimates Total
J ^{1.}					
2.	•			· · ·	
3.					
4. 5.	•				·
(2) Explanation of Major Fu	nding and FTE Cha	nges (Variances) for the	2005-07 Recommend	dation to 2003-05 Legi	slative Appropriations
		FTE	General Fund	Federal and Special Funds	· Total
1.	,		r unw	opecial runds	IOGI
2.					
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5 .		•			·
Summary of Major Goals an	d Objectives and Re	elated Performance Mea	surement Data for the	e 2005-07 Biennum (to	the extent available)

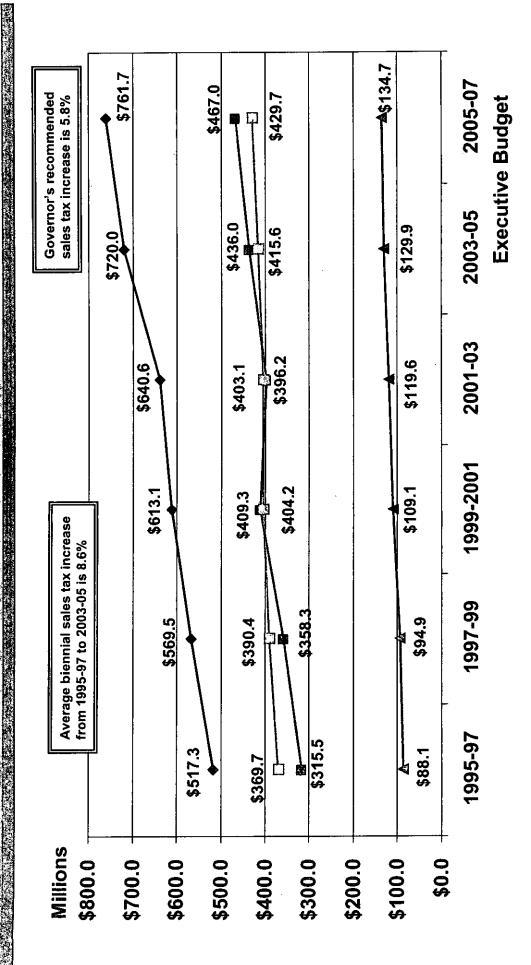
2005 Legislative Assembly Budget and Fiscal Trends

Prepared by North Dakota Legislative Council staff January 4, 2005

Revenues - Beginning Balance, Revenues, and Transfers

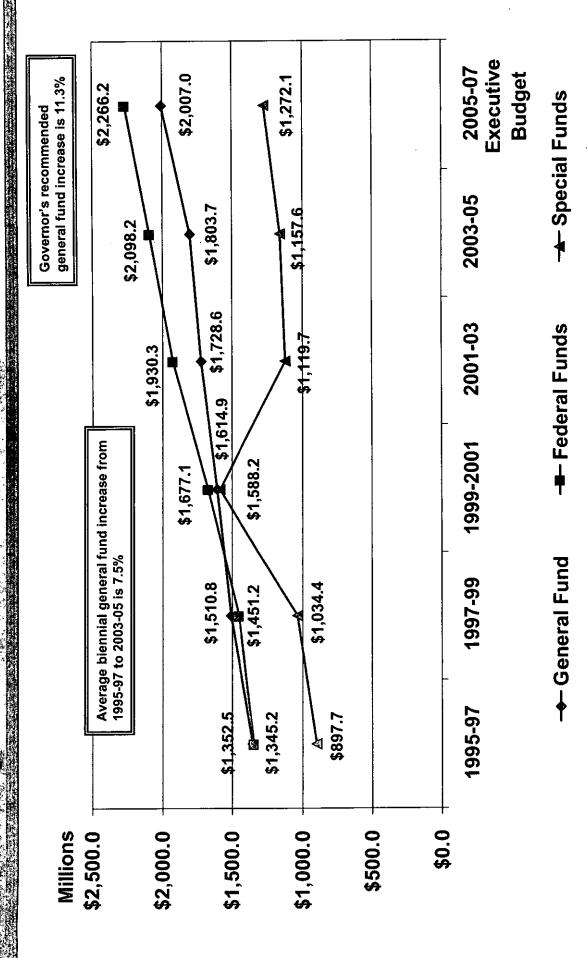


Revenues - Major Revenue Types

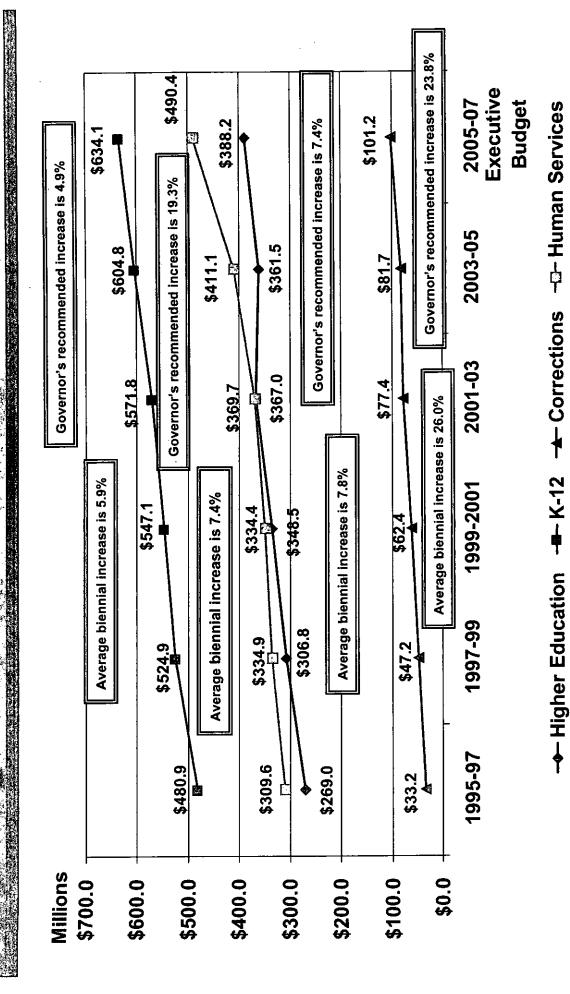


→ Sales Tax — Individual Income Tax → Motor Vehicle Excise Tax → Others

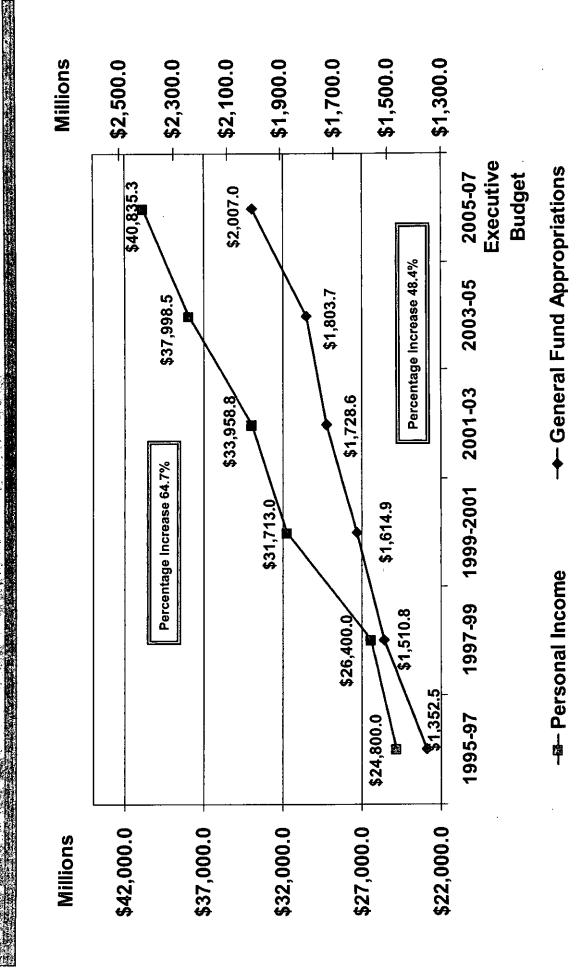
iations—General Fund, Federal Fund, and Special **Fund Appropriations**



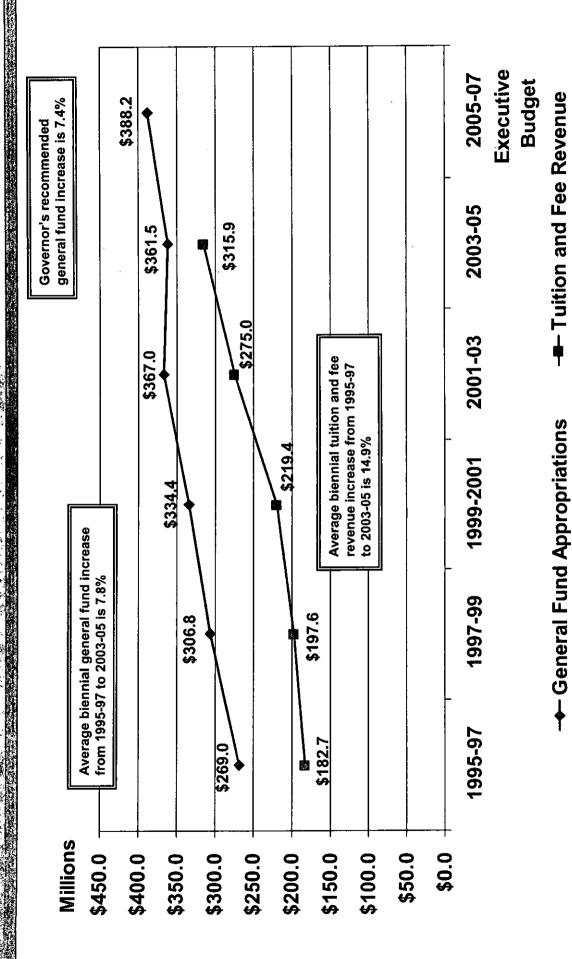
Major General Fund Appropriations



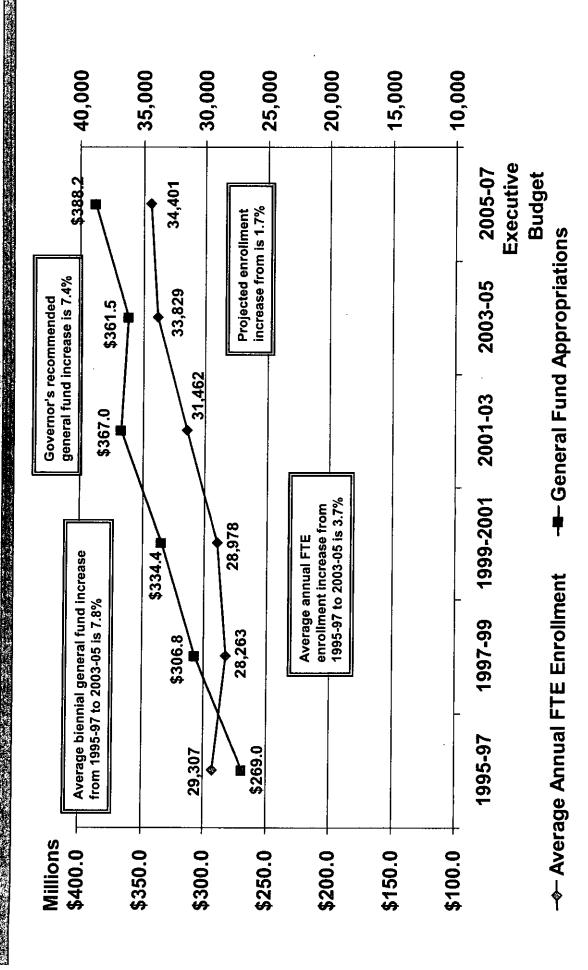
lations - Comparison of General Fund Appropriations and Total Personal Income



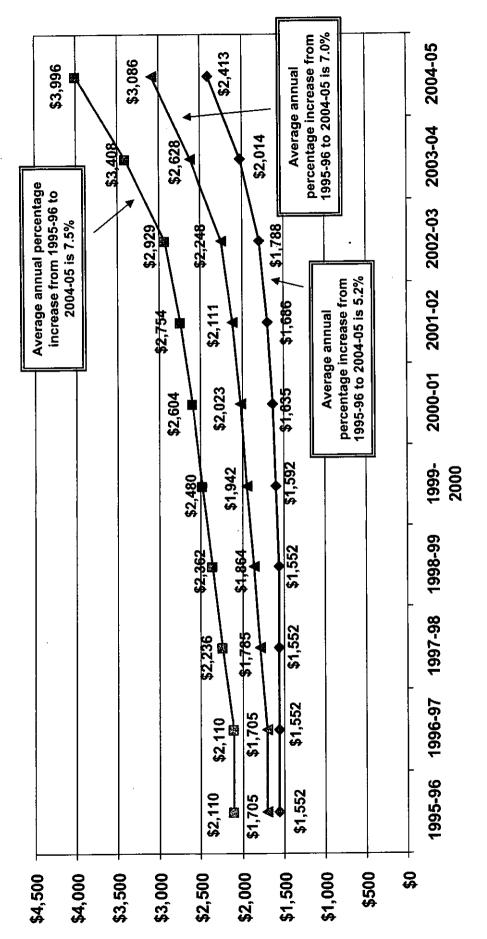
cation - General Fund Appropriations and Tuition and Student Fee Revenue



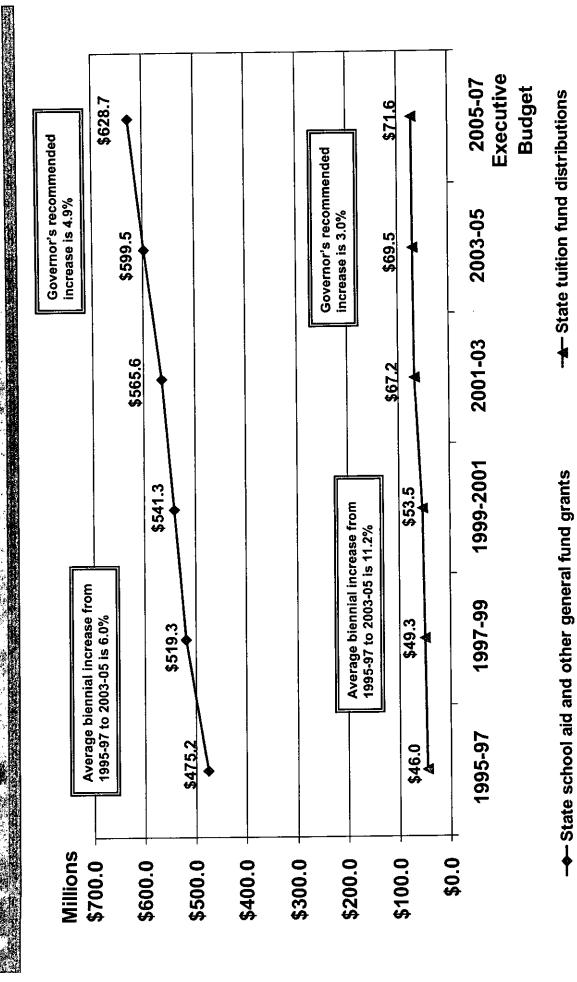
Education - General Fund Appropriations and Full-Time Equivalent Enrollments



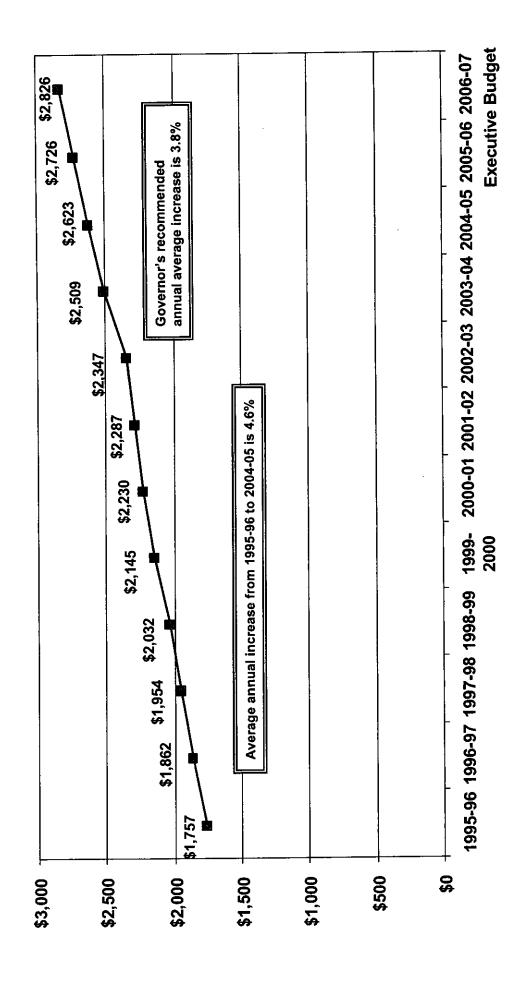
Resident Tuition Rates



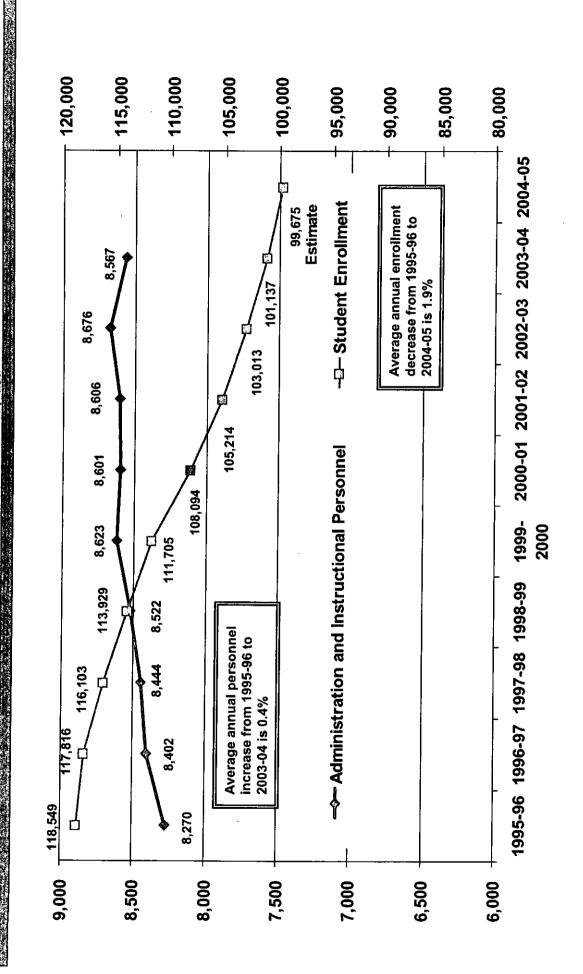
hrough Grade 12 - State School Aid Funding garte



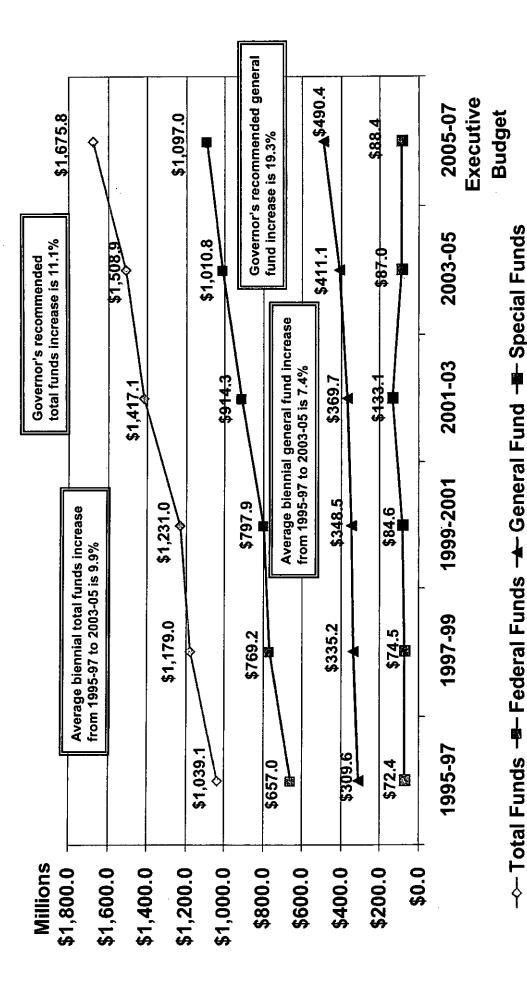
ugh Grade 12 - Per Student Payments



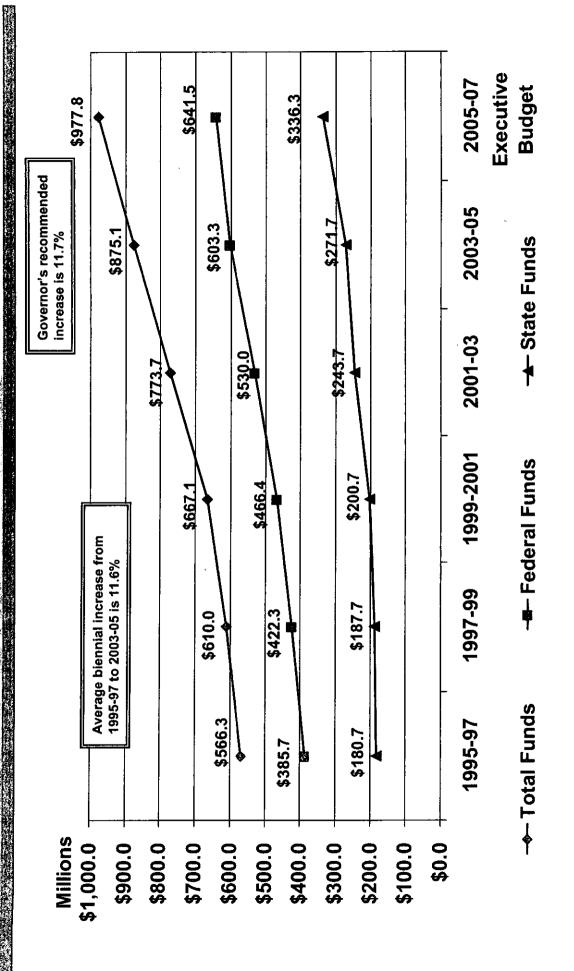
hrough Grade 12 - Personnel and Student Enrollment



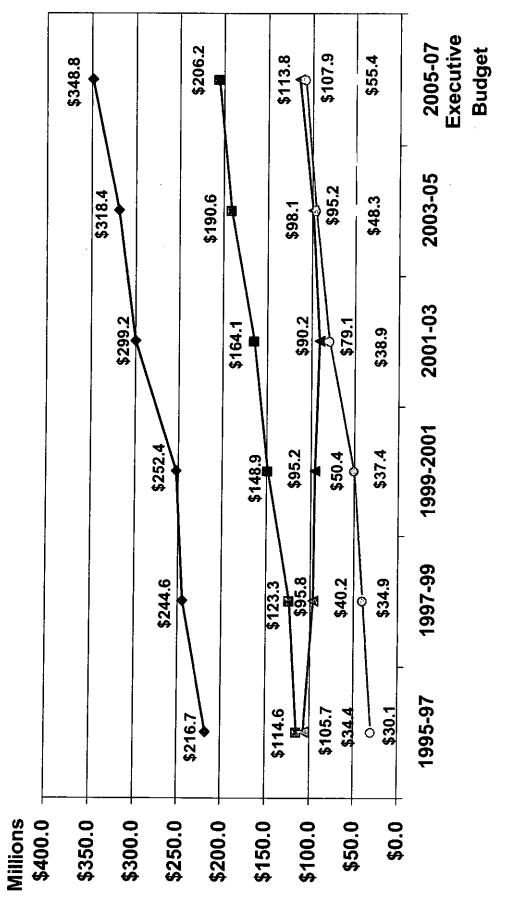
Human Services – General Fund and Total Fund Appropriations



man Services - Medicaid Funding



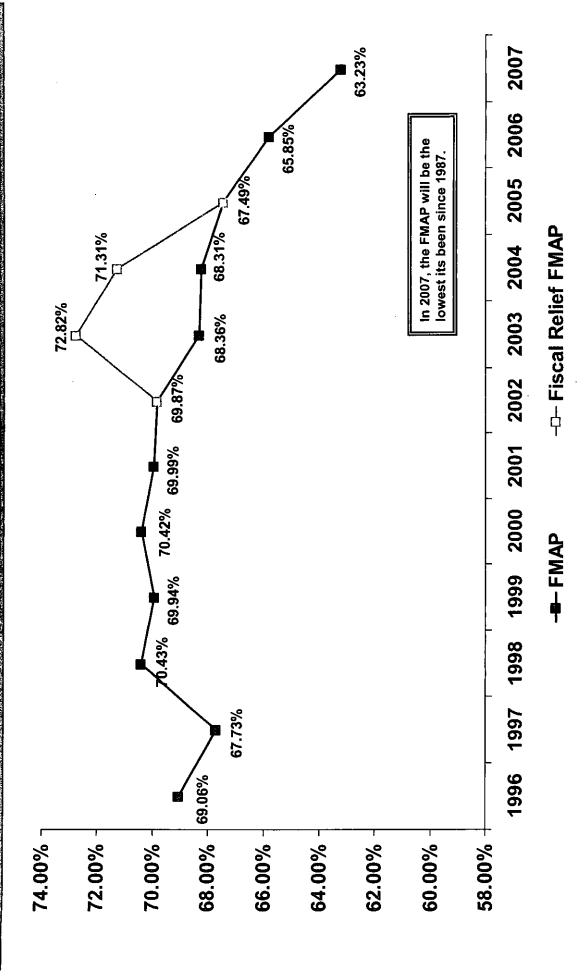
Jiman Services - Major Medicaid Costs



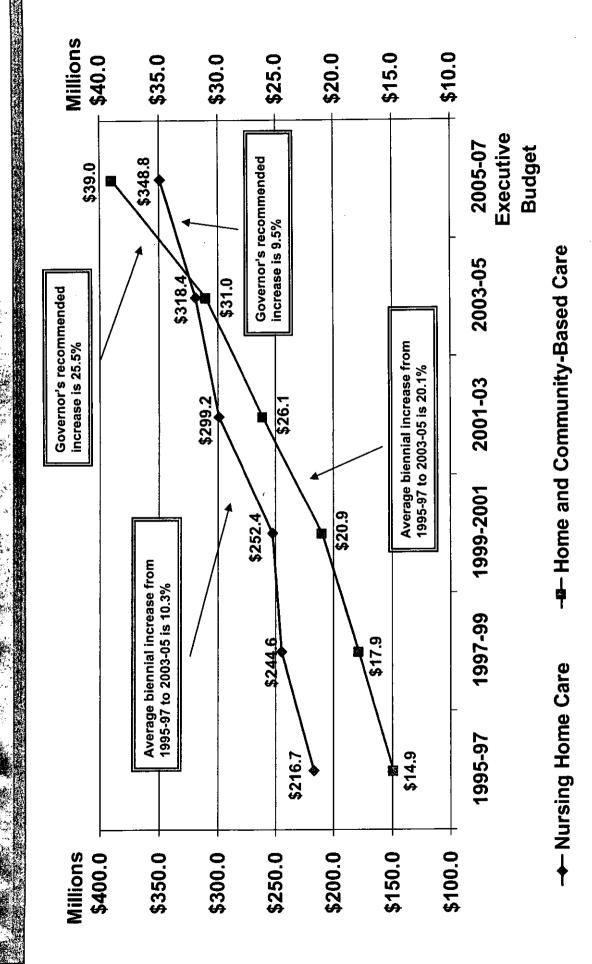
-◆- Nursing Homes -≅- Developmental Disabilities -★- Hospitals

Physicians --- Drugs

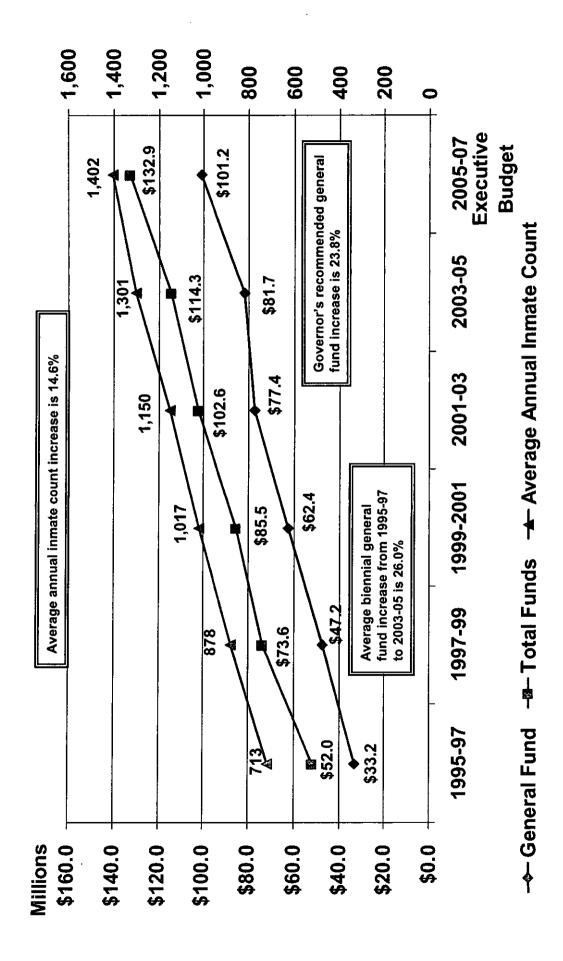
tment of Human Services - Federal Medicald Assistance Percentage (FMAP)



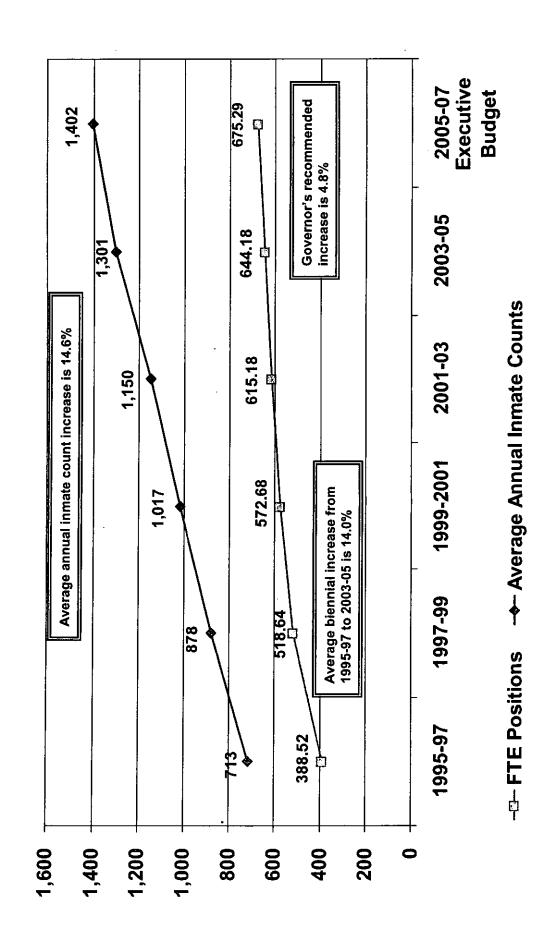
nt of Human Services - Nursing Home and Home mmuntyBased Care Funding - Total Funds



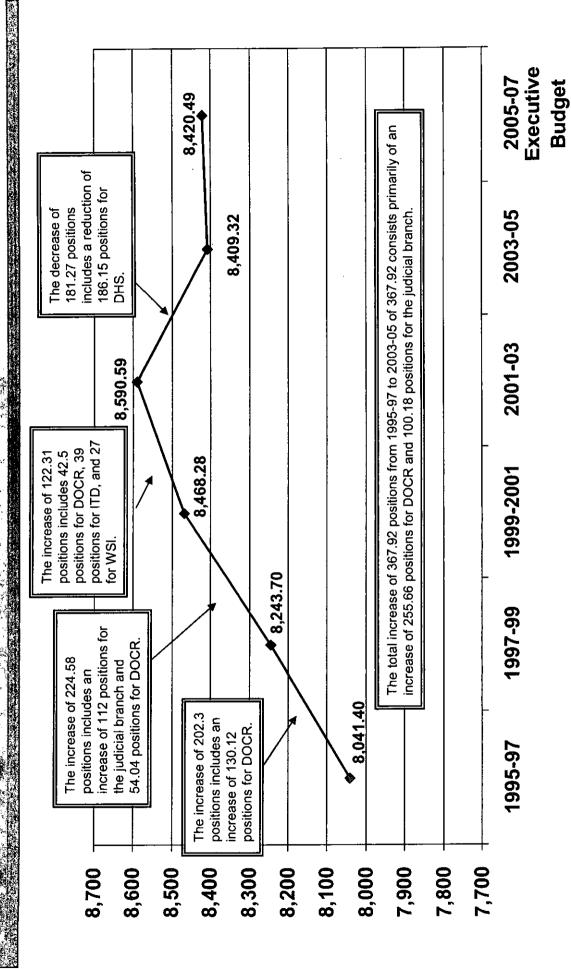
epartment of Corrections and Rehabilitation -Appropriations and Inmate Counts



nent of Corrections and Rehabilitation - FTE Positions and Inmate Counts



oyees - Total FTE Positions Excluding Higher Education



House Apps Full Comm. House Apps-Full
1-4-05
Don Wolf
49 AM

From:

Sent:

Friday, December 31, 2004 9:49 AM

To:

Cc:

Subject: Budget Status - January 4, 2005

The following links provide information regarding the current status of the legislative action affecting the 2005-07 state budget:

Budget Status - Executive Summary. This is an executive summary of the current status of the 2005-07 general fund state budget.

Budget Status - Detail Reports. These reports provide detail regarding the current status of the 2005-07 state budget including revenue and appropriation comparisons to the executive recommendation and the 2003-05 state budget and statements of purpose of amendments.

Analysis of Fiscal Impact. This report provides information regarding bills under consideration which contain an appropriation, state fiscal impact, or state revenue impact. Paper copies of the report are available in the Legislative Council office.

January 3, 2005

\$0

\$126,707,496

2005-07 BUDGET STATUS SUMMARY **AS OF JANUARY 3, 2005**

Beginning Balance and Revenues egislative budget estimate of unobligated general fund cash balance - July 1, 2005 \$126,707,496 ¹ Add 2005-07 estimated revenues Proposed executive budget general fund revenues \$1,890,447,500 2 Legislative revenue changes Major increases None \$0 Major decreases None 0 Other increases (decreases) 0 Total legislative changes affecting revenues \$0 Total estimated general fund revenues and beginning balance - 2005-07 \$2,017,154,996 **Appropriations** Executive budget general fund appropriations - 2005-07 \$2,007,001,269 Legislative appropriations changes Major increases None \$0 Major decreases None ٥ Other increases (decreases) net በ Total legislative changes affecting appropriations \$0 Current status of 2005-07 general fund appropriations \$2,007,001,269 **Estimated Ending Balance** Estimated budget status general fund balance - June 30, 2007 \$10,153,727 Comparison of 2005-07 General Fund Appropriations to 2003-05 Appropriations Current status of 2005-07 general fund appropriations \$2,007,001,269 2003-05 legislative general fund appropriations 1,803,661,161 Increase (decrease) \$203,340,108 **Footnotes** Beginning balance - Executive budget unobligated general fund cash balance - July 1, 2005 \$126,707,496 a Legislative action affecting the July 1, 2005, balance O Total legislative changes affecting the beginning balance

Estimated unobligated general fund cash balance - July 1, 2005

The beginning balance is based on the 2003-05 general fund beginning balance of \$14,790,311, the 2003-05 revised general fund revenue forecast of \$1,913,564,488 (the forecasted amount of \$1,857,107,907 plus \$56,456,581 received in the form of federal fiscal relief and enhanced Medicaid payments), and appropriation authority of \$1,801,647,303 (general fund appropriations of \$1,803,661,161 plus proposed deficiency appropriations of \$10,886,142 and less estimated general fund turnback of \$12.9 million).

² The executive budget general fund revenue forecast includes a transfer from the health care trust fund to the general fund of \$16.9 million; however, as of December 27, 2004, legislation to provide for this transfer has not been introduced.

Tentative Budget Status Report Budget Status Summary As of January 03, 2005 State of N

Legislative Budget Status - General Fund Summary Estimated beginning balance Add estimated revenue Total funds available Less appropriations Estimated ending balance - June 30, 2007

Legislative Changes to the Executive Budget

	General Fu	General Fund Appropriations and Revenues	Sevenues
	Executive Budget	Legislative Changes	Current Budget Status
Estimated beginning balance	\$126,707,496	\$	\$126,707,496
Add estimated revenue	1,890,447,500	0	1.890.447.500
	\$2,017,154,996	0\$	\$2.017 154 996
	2,007,001,269	0	2.007.001.269
Estimated ending balance	\$10,153,727	0\$	\$10,153,727
	A	All Funds Appropriations	
	Executive Budget	Legisfative Changes	Current Budget Status
General fund appropriations	\$2,007,001,269	90	\$2,007,001.269
	3,540,685,029	0	3,540,685,029
l otal all funds appropriations	\$5,547,686,298	\$0	\$5,547,686,298

Revenue Type

Fransfer - Lands and minerals trust fund Business privilege/financial inst. tax Fransfer - Gas tax administration Fransfer - Bank of North Dakota Fransfer - Student loan trust Estimated beginning balance Transfer - Mill and Elevator Oil and gas production tax Cigarette and tobacco tax Departmental collections Motor vehicle excise tax Insurance premium tax Corporate income tax Wholesale liquor tax ndividual income tax Mineral leasing fees Coal conversion tax Sales and use tax Oil extraction tax nterest income Gaming tax ottery

As of January 03, 2005

2005-07 Executive **Budget Revenue** \$126,707,496 Forecast

761,726,000 134,704,000 467,019,000 83,123,000

Legislative Changes

2005-07 Current **Budget Status**

\$126,707,496

134,704,000 761,726,000 467,019,000

83,123,000 64,753,000 5,200,000 36,148,000

47,270,000

48,719,000 37,000,000

> 48,719,000 20,130,000 10,000,000 12,277,000

47,270,000 37,000,000

36,148,000

64,753,000 5,200,000 20,130,000 10,000,000

12,277,000 5,431,500

10,522,000

49,125,000

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\$2,017,154,996

\$2,017,154,996

Total

Fransfer - Health care trust fund



Tentative Budget Status Report Appropriations by Department As of January 03, 2005 State of North Dakota

59th Legislative Assembly

2005-07 Current Budget Status

Legislative Changes

2005-07 Executive Budget

Department	Bill No.	Action By	General Fund	Estimated Income	Ail Funds	General	Estimated	₹	General	Estimated	₹
	HB1001		\$2,590,772	\$2,560,000	\$5,150,772	2		runds	Fund	Income	Funds
Secretary of State	HB1002		4,205,287	10,316,535	14 521 822				\$2,590,772	\$2,560,000	\$5,150,772
Public Printing	HB1002		327,000		327,000				4,205,287	10,316,535	14,521,822
Office of Management and Budget	HB1015		22,269,688	11 683 281	33 053 060				327,000		327,000
	SB2023			3 155 000	33,832,808				22,269,688	11,683,281	33,952,969
Total Office of Management and Budget		'		2,100,000	0,100,000					3,155,000	3,155,000
Information Tochool of the Control o	ļ	1	\$22,269,688	\$14,838,281	\$37,107,969	\$0	\$0	0\$	\$22,269,688	£14 838 201	697 407 000
Commence recursoogy Department	SB2021		10,810,359	98,830,575	109,640,934				200 000	107,000,11	806, 101, 106
State Auditor	HB1004		4,875,991	2,426,990	7.302.981				955,018,01	98,830,575	109,640,934
State Treasurer	HB1005		2,332,600		2 332 600				4,875,991	2,426,990	7,302,981
Attorney General	HB1003		18,269,636	17,788,541	38.058.177				2,332,600		2,332,600
	SB2023			3,632,691	3,632,691			•	18,269,636	17,788,541	36,058,177
Total Attorney General		,	619 260 636	700						3,632,691	3,632,691
State Tax Commissioner	900100	1	000'807'014	\$21,421,232	239,690,868	90	\$0	\$0	\$18,269,636	\$21,421,232	\$39,690,868
Office of Administrative Hearings	SB2047		24,996,259	120,000	25,116,259				24,996,259	120,000	25,116,259
Polisiative Assembly	10000			1,306,482	1,306,482					1,306,482	1 306 482
	262001		13,117,952		13,117,952				13,117,952		13 447 050
	SB2001		7,598,596		7,598,596		-		7 508 500		706'111'51
Supreme Court	SB2002		8,541,119	2,500	8,543,619				080,080,7		7,598,596
District Courts	SB2002		57,686,091	2,237,521	59,923,612				9,041,119	2,500	8,543,619
Judicial Conduct Commission	SB2002		319,139	286,787	605.826				57,686,091	2,237,521	59,923,612
Retirement and Investment Office	HB1023			2,966,923	2.966.923				319,139	286,787	605,926
Public Employees Retirement System	HB1023			4 692 005	4 602 006					2,966,923	2,966,923
Total General Government		ĺ	\$177.940.489	C162 006 034	000,000,					4,692,005	4,692,005
Department of Public Instruction	250,50	ł	2006	100,000,000	026,346,320	05	95	8	\$177,940,489	\$162,005,831	\$339,946,320
Iniversity Contract Office			034,144,940	295,876,672	930,021,612				634,144,940	295.876.672	930 021 612
Ourselong oystem Once	SB2003		385,589,539	2,337,276	387,926,815				385 580 530		210,120,000
Land Department	SB2013			7,818,995	7,818,995			-	800,000,000	4,337,276	387,926,815
Bismarck State College	SB2003			2,302,800	2,302,800					7,818,995	7,818,995
Lake Region State College	SB2003		343,875		343.875					2,302,800	2,302,800
Williston State College	SB2003			6,910,000	6.910.000				343,875		343,875
University of North Dakota	SB2003			54,331,554	54.331.554					6,910,000	6,910,000
	SB2023			2,331,554	2331564			•		54,331,554	54,331,554
				•	1			-		2,331,554	2,331,554

Page 1 of 6

State of North Dakota Tentative Budget Status Report Appropriations by Department As of January 03, 2005

2005-07 Executive Budget

Legislative Changes

2005-07 Current Budget Status

										1.	
Department	Bill No.	Action By	General Fund	· Estimated Income	All Funds	General Fund	Estimated Income	All Funds	General Fund	Estimated Income	All Funds
Total University of North Dakota		•	0\$	\$56,663,108	\$56,663,108	\$0	\$0	\$0	0\$	\$56,663,108	\$56,663,108
North Dakota State University	SB2003			\$34,000,000	\$34,000,000					\$34,000,000	\$34,000,000
	SB2023			3,500,000	3,500,000					3,500,000	3,500,000
Total North Dakota State University			0\$	\$37,500,000	\$37,500,000	0\$	\$0	\$0	0\$	\$37,500,000	\$37,500,000
State College of Science	SB2003			368,920	368,920					368,920	368,920
	SB2023			736,000	738,000					736,000	736,000
Total State College of Science			0\$	\$1,104,920	\$1,104,920	0\$	\$0	\$0	0\$	\$1,104,920	\$1,104,920
Dickinson State University	SB2003			5,000,000	5,000,000					5,000,000	5,000,000
	SB2023			4,100,557	4,100,557					4,100,557	4,100,557
Total Dickinson State University			0\$	\$9,100,557	\$9,100,557	0\$	0\$	\$0	0\$	\$9,100,557	\$9,100,557
Mayville State University	SB2003			1,500,000	1,500,000					1,500,000	1,500,000
Minot State University	SB2003			3,535,000	3,535,000					3,535,000	3,535,000
Valley City State University	SB2003		250,000	32,000	282,000				250,000	32,000	282,000
Forest Service	SB2003		2,054,653	975,001	3,028,654				2,054,653	975,001	3,029,654
Subtotal Higher Education			\$388,238,067	\$121,960,662	\$510,198,729	0\$	\$0	\$0	\$388,238,067	\$121,960,662	\$510,198,729
State Library	HB1013		3,501,626	1,658,575	5,160,201				3,501,626	1,658,575	5,160,201
School for the Deaf	HB1013		5,488,553	1,326,566	6,815,119				5,488,553	1,326,566	6,815,119
Vision Services - School for the Blind	HB1013		2,503,495	845,535	3,349,030				2,503,495	845,535	3,349,030
Board for Career and Technical Education	SB2019		17,155,866	11,270,900	28,426,766				17,155,866	11,270,900	28,426,766
Total Education			\$1,051,032,547	\$440,757,905	\$1,491,790,452	S	0\$	S	\$1,051,032,547	\$440,757,905	\$1,491,790,452
State Department of Health	SB2004		14,439,108	112,120,210	126,559,318				14,439,108	112,120,210	126,559,318
Veterans' Home	SB2007		4,381,104	6,986,627	11,367,731				4,381,104	6,986,627	11,367,731
Indian Affairs Commission	SB2005		386,228	20,000	406,228				386,228	20,000	406,228
Department of Veterans Affairs	SB2007		677,337		677,337				677,337		677,337
Department of Human Services	SB2023			455,000	455,000					455,000	455,000
DHS - Management	HB1012		23,164,639	48,374,575.	71,539,214				23,164,639	48,374,575	71,539,214
DHS - Program/Policy	HB1012		368,423,517	1,027,728,022	1,396,151,539				368,423,517	1,027,728,022	1,396,151,539
DHS - State Hospital	HB1012		32,117,667	15,610,871	47,728,538				32,117,667	15,610,871	47,728,538
DHS - Developmental Center	HB1012		11,696,425	31,349,952	43,046,377				11,696,425	31,349,952	43,046,377
DHS - Northwest HSC	HB1012		3,688,546	3,691,210	7,379,756				3,688,546	3,691,210	7,379,756
										(

Page 2 of 6

State of North Dakota

59th Legislative Assembly

Legislative Change	2005-07 Executive Budget
	As of January 03, 2005
	Appropriations by Department
	Tentative Budget Status Report
	State of North Dakota

				2005-07 Executive Budget	e Budget		Legislative Changes	8	2005	2005-07 Current Budget Status	l Status
Department		Action	General	Estimated	¥	ference	, , , , , , , , , , , , , , , , , , ,	;			
DHS - North Central HSC	OIL NO.	B Ž	Fund	Income	Funds	Fund	Estimated	All All	General	Estimated	₹
OHS - Lake Book of Control of Con	HB1012		\$8,163,022	\$7,270,196	\$15,433,218	!		8000	Fund	Income	Funds
OFFI PORT OFFI OFFI	HB1012		4,974,499	4,221,881	9,196,380				\$8,163,022	\$7,270,196	\$15,433,218
CIO - Notheast Hoc	HB1012		8,484,532	12,211,610	20.696 142				4,974,499	4,221,881	9,196,380
DHS - Southeast HSC	HB1012		10,148,529	13,673,717	23 822 246				8,484,532	12,211,610	20,696,142
DHS - South Central HSC	HB1012		5,916,635	6,322,357	12,238,992				10,148,529	13,673,717	23,822,246
DHS - West Central HSC	HB1012		9,025,416	9,675,203	18.700.619				5,916,635	6,322,357	12,238,992
DHS - Badlands HSC	HB1012		4,569,614	4,819,177	9.388.791				9,025,416	9,675,203	18,700,619
Subtotal Department of Human Services		•	\$490,373,041	\$1,185,403,771	\$1,875,778,812				4,569,614	4,819,177	9,388,791
Protection and Advocacy Project	HB1014		810,464	2,902,975	3.713.439	2	20	0\$	\$490,373,041	\$1,185,403,771	\$1,675,776,812
Job Service North Dakota	SB2016		1,480,724	58,139,352	59,620,076				810,464	2,902,975	3,713,439
rotal neam and Welfare	-	1	\$512,548,006	\$1,365,572,935	\$1 878 120 644				1,480,724	58,139,352	59,620,076
Insurance Department	HB1010	,	!	12 497 92B	42 407 000	0.4	05	95	\$512,548,006	\$1,365,572,935	\$1,878,120,941
Industrial Commission	SB2014		6,861,925	43.654.885	50 650 050					12,497,926	12,497,926
Labor Commissioner	HB1007		958,622	488 215	1 466 634				6,861,925	43,654,885	50,516,810
Public Service Commission	HB1008		5,156,601	5 985 139	14 444 740				958,622	498,215	1,456,837
Aeronautics Commission	SB2006		550,187	5 237 814	11,141,140				5,156,601	5,985,139	11,141,740
Department of Financial Institutions	SB2008		•	4.207.793	4 207 709				. 550,187	5,237,914	5,788,101
Securities Department	HB1011		1,455,563	217 199	4 670 760					4,207,793	4,207,793
Bank of North Dakota	SB2014		5,700,000	45.704.797	51 404 707				1,455,583	217,199	1,672,762
Housing Finance Agency	SB2014			33,895,707	33 895 707				5,700,000	45,704,797	51,404,797
Mill and Elevator	SB2014			32,657,254	32 657 254					33,895,707	33,895,707
Workforce Safety and insurance	HB1022			33,440,814	33 440 814					32,657,254	32,657,254
Total Regulatory Agencies		•	\$20,682,898	\$217.997.643	£228 690 644					33,440,814	33,440,814
Highway Patrol	SB2011		19.805.490	14 554 139	120,000,002	0.6	04	2	\$20,682,898	\$217,997,643	\$238,680,541
Division of Emergency Management	HB1016		5.106.239	56 961 521	34,338,628				19,805,490	14,554,138	34,359,628
Department of Corrections and Rehab.	SB2015		101,188,393	28,150,416	129.338.809				5,106,239	56,961,521	62,067,760
	SB2023			3,586,510	3,586,510				101,188,393	28,150,416	129,338,809
Total Department of Corrections and Rehab.		1	\$101,188,393	£31 738 00g	6433 005 040					3,586,510	3,586,510
Adjutant General	HB1017	l	16.424 837	31 384 016	61-000-1019	04	\$0	8	\$101,188,393	\$31,738,926	\$132,925,319
Total Public Safety		1	\$142,524,959	\$134,637,500	\$277,162,459	5			16,424,837	31,384,915	47,809,752
Department of Commerce	SB2018	!	23,129,164	105,432,496	128,561,660		₽ 	2	\$142,524,959	\$134,637,500	\$277,162,459
01/03/2005					- :			_	23,129,164	105,432,496	128,561,660

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2005-07 Current Budget Status

Legislative Changes

2005-07 Executive Budget

State of North Dakota Tentative Budget Status Report Appropriations by Department As of January 03, 2005

Department	BIII No.	Action By	General Fund	· Estimated Income	All	General	Estimated	All	General	Estimated	W.
Department of Agriculture	HB1009		\$4,885,958	\$9,368,014	\$14,253,972	!		9715	FUND \$4 885 058	10COM6	Funds
Seed Department	SB2022			5,924,650	5,924,650					#10,000,014	414,233,872
Transportation Institute	SB2020		501,045	15,263,028	15,764,073				501 045	15 263 028	3,824,630
Branch Research Centers	SB2020		8,175,257	11,072,534	19,247,791				8,175,257	11.072.534	19 247 791
	SB2023		-	1,320,000	1,320,000					1,320,000	1,320,000
Total Branch Research Centers			\$8,175,257	\$12,392,534	\$20,567,791	0\$	0\$	0\$	\$8.175.257	\$12 392 534	S20 587 791
NDSU - Extension Service	SB2020		15,241,062	22,989,228	38,230,290				15.241.062	22 989 228	38 230 290
Northern Crops Institute	SB2020		812,844	950,741	1,763,585				812,844	950,741	1.763.585
Main Research Station	SB2020		29,761,962	36,810,218	66,572,180				29,761,962	36,810,218	66.572.180
	SB2023			4,500,000	4,500,000	٠		_		4,500,000	4,500,000
Total Main Research Station			\$29,761,962	\$41,310,218	\$71,072,180	0\$	0\$	0\$	\$29,761,962	\$41.310.218	\$71 072 180
Agronomy Seed Farm	SB2020			1,199,685	1,199,685					1,199,685	1 199 685
State Fair Association	SB2009		590,000		000'069				590,000		590,000
Total Agriculture and Economic Development	nent	' '	\$83,097,292	\$214,830,594	\$297,927,886	0\$	0\$	S	\$83,097,292	\$214.830.594	\$297,927,886
State Historical Society	HB1019		7,580,724	2,425,455	10,006,179	 			7,580,724	2,425,455	10.006.179
	SB2023			1,600,000	1,600,000					1,600,000	1,600,000
Total State Historical Society			\$7,580,724	\$4,025,455	\$11,606,179	0\$	0\$	\$0	\$7,580,724	\$4,025,455	\$11,606,179
Council on the Arts	SB2010		1,028,422	1,268,318	2,296,740				1,028,422	1,268,318	2,298,740
Game and Fish Department	HB1018			48,465,166	48,465,166					48,465,166	48,465,166
Parks and Recreation Department	HB1020		7,899,721	12,286,253	20,185,974			•	7,899,721	12,286,253	20,185,974
	SB2023			200,000	200,007					700,000	700,000
Total Parks and Recreation Department		, ,	\$7,899,721	\$12,986,253	\$20,885,974	0\$	0\$	0\$	\$7,899,721	\$12,986,253	\$20,885,974
International Peace Garden	HB1020		602,854		602,854				602,854		602,854
Water Commission	HB1021	·	2,063,357	110,724,477	112,787,834				2,063,357	110,724,477	112,787,834
iotal Recreation and Natural Resources			\$19,175,078	\$177,469,669	\$196,644,747	0\$	0\$	S	\$19,175,078	\$177,469,669	\$196,644,747
Department of Transportation	SB2012	1		827,412,952	827,412,952					827,412,952	827,412,952
iotal iransponduon		'	0\$	\$827,412,952	\$827,412,952	0\$	0\$	8	0\$	\$827,412,952	\$827,412,952

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State of North Dakota Tentative Budget Status Report Appropriations by Department As of January 03, 2005

59th Legislative Assembly

Grand Total

\$2,007,001,269 \$3,540,685,029 \$5,547,686,298

2,007,001,269 \$3,540,685,029 \$5,547,686,298 얆

State of North Dakota Tentative Budget Status Report Appropriations by Department As of January 03, 2005

NOTES

2005-07 Executive Budget Revenue Forecast

The executive budget general fund revenue forecast includes a transfer from the health care trust fund to the general fund of \$16.9 million; however, as of December 27, 2004, legislation to provide for this transfer has not been introduced.

2005-07 Executive Budget Estimated Income

The estimated income shown for the 2005-07 executive budget recommendation includes funding of \$2,331,554 for energy improvement projects at University of North Dakota inadvertently included in both Senate Bill Nos. 2003 and 2023. Therefore, the estimated income and total funds appropriations for the 2005-07 executive budget recommendation has been inadvertently overstated by \$2,331,554. Page 6 of 6

tative Budget Status Report General Fund Revenues As of January 03, 2005 State of North Dakota

59th Legislative Assembly

Ten	Tentz G
Revenue Type	
Estimated beginning balance Sales and use tax Motor vehicle excise tax Individual income tax Corporate income tax Insurance premium tax Business privilege/financial inst. tax Cigarette and tobacco tax Oil and gas production tax Oil extraction tax Coal conversion tax Coal conversion tax Mineral leasing fees Interest income Departmental collections Transfer - Bank of North Dakota Transfer - Bank of North Dakota Transfer - Lands and minerals trust fund Transfer - State bonding fund Transfer - Water development trust fund Transfer - Water development trust fund Transfer - Health care trust fund Transfer - Health care trust fund	

2005-07 Current	Budget Status		\$126,707,496	761,726,000	134,704,000	467,019,000	83,123,000	64,753,000	5,200,000	36,148,000	47,270,000	37,000,000	48,719,000	20,130,000	10,000,000	12,277,000	5,431,500	10,522,000	49,125,000	000'000'09	000'000'6	5,000,000	1,400,000	5,000,000				16,900,000	
Increase (Decrease)			\$121,257,316	86,962,000	7,919,160	31,764,000	(8,327,000)	8,884,000		(561,000)	4,921,281	8,348,719	1,498,000	(3,015,000)	8,569,000	643,000	1,216,500	(2,107,000)	(5,285,473)		(17,258,969)		3,800	3,000,000	(2,800,000)	(11,910,000)	(10,070,373)	(19,011,035)	(1,400,000)
2003-05	Legislative	Budget	\$5,450,180	674,764,000	126,784,840	435,255,000	91,450,000	55,869,000	5,200,000	36,709,000	42,348,719	28,651,281	47,221,000	23,145,000	1,431,000	11,634,000	4,215,000	12,629,000	54,410,473	60,000,000	26,258,969	5,000,000	1,396,200	2,000,000	2,800,000	11,910,000	10,070,373	35,911,035	1,400,000

Total

\$1,813,914,070	



2005-07 Current Budget Status

Increase (Decrease)

2003-05 Adjusted

Tentative Budget Status Report Appropriations Comparison Report As of January 03, 2005 State of North Dangla

Department	2005 Bill No.	Action By	General Fund	Estimated Income	All Funds	General Fund	Estimated Income	All Funds	General Fund	Estimated Income	All Funds
insurance I ax to Fire Departments											
Total Insurance Tax to Fire Departments		; I	0\$	\$5,304,000	\$5,304,000	0\$	(\$5,304,000)	(\$5,304,000)	\$0	0\$	0\$
Governor's Office	HB1001			~					2,590,772	2,560,000	5,150,772
Total Governor's Office		1 1	\$2,331,886	\$780,000	\$3,111,886	\$258,886	\$1,780,000	\$2,038,886	\$2,590,772	\$2,560,000	\$5,150,772
Secretary of State	HB1002		i						4,205,287	10,316,535	14,521,822
Total Secretary of State		1 !	\$3,806,844	\$9,880,363	\$13,687,207	\$398,443	\$436,172	\$834,615	\$4,205,287	\$10,316,535	\$14,521,822
Public Printing	HB1002]]		327,000		327,000
Total Public Printing		1 1	\$336,000	0\$	\$336,000	(\$9,000)	0\$	(\$9,000)	\$327,000	0\$	\$327,000
Office of Management and Budget	HB1015 SB2023								22,269,688	11,683,281	33,952,969
Total Office of Management and Budget		ı I	\$19,740,511	\$7,888,476	\$27,628,987	\$2,529,177	\$6,949,805	\$9,478,982	\$22,269,688	\$14,838,281	\$37,107,969
Information Technology Department	SB2021	1							10,810,359	98,830,575	109,640,934
Total Information Technology Department		. '	\$8,194,803	\$98,117,301	\$106,312,104	\$2,615,556	\$713,274	\$3,328,830	\$10,810,359	\$98,830,575	\$109,640,934
State Auditor	HB1004								4,875,991	2,426,990	7,302,981
Total State Auditor		1 1	\$4,581,232	\$2,117,976	\$6,699,208	\$284,759	\$309,014	\$603,773	\$4,875,991	\$2,426,990	\$7,302,981
State Treasurer	HB1005								2,332,600		2,332,600
Total State Treasurer		1 1	\$2,626,384	\$0	\$2,626,384	(\$293,784)	\$0	(\$293,784)	\$2,332,600	0\$	\$2,332,600
Attorney General	HB1003 SB2023								18,269,636	17,788,541 3,632,691	36,058,177
Total Attorney General		1 1	\$17,054,217	\$17,429,474	\$34,483,691	\$1,215,419	\$3,991,758	\$5,207,177	\$18,269,636	\$21,421,232	\$39,690,868
State Tax Commissioner	HB1006								24,996,259	120,000	25,116,259
Total State Tax Commissioner		1 1	\$21,154,695	\$115,044	\$21,269,739	\$3,841,564	\$4,956	\$3,846,520	\$24,996,259	\$120,000	\$25,116,259
Office of Administrative Hearings	SB2017			•						1,306,482	1,306,482
Total Office of Administrative Hearings		1 1	0\$	\$1,242,958	\$1,242,958	0\$	\$63,524	\$63,524	\$	\$1,306,482	\$1,306,482
Legislative Assembly	SB2001								13,117,952		13,117,952
Total Legislative Assembly		1 1	\$8,561,252	0\$	\$8,581,252	\$4,556,700	0\$	\$4,556,700	\$13,117,952	0\$	\$13,117,952
								•			





			2003	2003-05 Adjusted			Increase (Decrease)		2005-07	2005-07 Current Budget Status	tatus
Department Legislative Council	2005 Bill No.	Action By	General Fund	Estimated income	All Funds	General Fund	Estimated Income	Ail Funds	General Fund	Estimated Income	All Funds
Total Legislative Colonia	SBZUUI	1.				i			\$7,598,596		\$7,598,596
Judicial Branch		ı	\$7,532,856	0\$	\$7,532,858	\$65,740	\$0	\$65,740	\$7,598,596	0\$	\$7,598,596
Total Judicial Branch		1	64E 000						i		-
Supreme Court	SBOOM	ı	000,000	O.A.	\$45,999	(\$45,999)	0\$	(\$45,989)	0\$	\$0	\$0
Total Supreme Court	700700	J	200						8,541,119	2,500	8,543,619
District Courts	00000	l	\$7,632,689	0\$	\$7,632,689	\$908,430	\$2,500	\$910,930	\$8,541,119	\$2,500	\$8,543,619
Total District Courts	2 B 2002	ı	1						57,686,091	2,237,521	59,923,612
Judicial Conduct Commission	00000	1	\$47,150,839	\$1,762,735	\$48,913,574	\$10,535,252	\$474,786	\$11,010,038	\$57,686,091	\$2,237,521	\$59,923,612
Total Judicial Conduct Commission	28200Z	ı							319,139	286,787	605,926
Retirement and Investment Office	200	I	\$257,842	\$280,801	\$538,643	\$61,297	\$5,986	\$67,283	\$319,139	\$286,787	\$605,926
Total Betrement but the transfer	570191	ı						•		2,966,923	2,986,923
		ı	\$0	\$4,843,329	\$4,843,329	\$0	(\$1,876,406)	(\$1,876,406)	90	\$2,966,923	\$2,966,923
Public Employees Retirement System	HB1023									4,692,005	4.692.005
Total Public Employees Retirement System	Ę	1 1	0\$	\$4,391,158	\$4,391,158	80	\$300,847	\$300,847	09	\$4 692 005	\$4 692 005
Department of Public Instruction	HB1013				ı				634 144 940	206 976 677	550 500 EGG
Total Department of Public Instruction		ı	\$604,765,006	\$266,058,803	\$870.823.809	\$20 970 037	£20 917 960	650 407 000	004, 144, 940	7/9/9/9/687	930,021,612
University System Office	SR2003	I			000000000000000000000000000000000000000	#C8,519,82#	800'110'674	\$58,187,803	\$634,144,940	\$295,876,672	\$930,021,612
		1					;		385,589,539	2,337,276	387,926,815
I otal University System Unice		j	\$50,273,529	\$3,855,507	\$54,129,036	\$335,316,010	(\$1,518,231)	\$333,797,779	\$385,589,539	\$2,337,276	\$387,926,815
Land Department	SB2013				-,,,					7,818,995	7,818,995
Total Land Department		ı !	g	\$7,573,834	\$7,573,834	0\$	\$245,161	\$245,161	\$0	\$7,818,995	\$7,818.995
Bismarck State College	SB2003									2,302,800	2.302.800
Total Bismarck State College		; 	\$16,362,327	\$1,785,000	\$18,147,327	(\$16,362,327)	\$517,800	(\$15,844,527)	9	\$0 300 BDD	200 000 04
Lake Region State College	SB2003			· !					343 875	42,002,000	945,502,80U
Total Lake Region State College		İ	\$5,077,513	\$375,000	\$5.452.513	(64 733 639)	/*************************************				343,875
Williston State College	SB2003	ľ				(000,000,000)	(000,575%)	(\$5,108,638)	\$343,875	\$0	\$343,875
										6,910,000	6,910,000



59th Legislande Assembly

2005-07 Current Budget Status

Increase (Decrease)

2003-05 Adjusted

Tentative Budget Status Report Appropriations Comparison Report As of January 03, 2005

12 12 12 12 12 12 12 12	Department	2005 Bill No.	Action By	General Fund	Estimated Income	Ail Funds	General Fund	Estimated Income	All Funds	General Fund	Estimated income	Ail Funds
SECONO S	Total Williston State College		'	\$5,525,787	0\$	\$5,525,767	(\$5,525,767)	\$6,910,000	\$1,384,233	0\$	\$6,910,000	\$6,910,000
Control Cont	University of North Dakota	SB2003 SB2023	ı					: :			\$54,331,554 2,331,554	\$54,331,554 2,331,554
Communication Second Sec	Total University of North Dakota		' '	\$89,224,673	\$53,300,000	\$142,524,673	(\$89,224,673)	\$3,363,108	(\$85,861,565)	0\$	\$56,663,108	\$56,663,108
SECURA S	UND Medical Center		,						100 100			[2
Section Sect	Total UND Medical Center North Dakota State University	SB2003	•	\$30,165,865	0,	\$30,165,865	(\$30,165,865)	2.5	(\$30,105,805)	000	34,000,000	34,000,000
SBB2023 SBB2023 <t< td=""><td>Total North Dakota State University</td><td></td><td>•</td><td>\$73,181,597</td><td>\$26,000,000</td><td>\$99,181,597</td><td>(\$73,181,597)</td><td>\$11,500,000</td><td>(\$61,681,597)</td><td>0\$</td><td>\$37,500,000</td><td>\$37,500,000</td></t<>	Total North Dakota State University		•	\$73,181,597	\$26,000,000	\$99,181,597	(\$73,181,597)	\$11,500,000	(\$61,681,597)	0\$	\$37,500,000	\$37,500,000
SB2003 SB	State College of Science	SB2003 SB2023					i				368,920 736,000	368,920 736,000
SB2003 \$1,005,049 \$1,005,67	Total State College of Science		•	\$24,642,931	\$3,668,920	\$28,311,851	(\$24,642,931)	(\$2,564,000)	(\$27,206,931)	\$0	\$1,104,920	\$1,104,920
University SB2003 \$14,063,495 \$10,065,000 \$\$14,063,495 \$\$14,063,495 \$\$14,063,495 \$\$14,005,000 \$\$11,005,000 \$\$11,000,000	Dickinson State University	SB2003 SB2023									5,000,000	5,000,000
SB2003 \$8.866,924 \$1.4371,924 (\$8.866,924) (\$4.005,000) (\$12.871,924) \$1.500,000 1,500,000	Total Dickinson State University		•	\$14,063,495	\$10,882,047	\$24,945,542	(\$14,063,495)	(\$1,781,490)	(\$15,844,985)	\$	\$9,100,557	\$9,100,557
Figuresity SB2003 \$1,371,076 \$14,371,924 (\$8,666,924) (\$4,005,000) (\$12,871,924) \$15,000,000 \$1,500,000 \$1	Mayville State University	SB2003					•				1,500,000	1,500,000
SB2003	Total Mayville State University			\$8,866,924	\$5,505,000	\$14,371,924	(\$8,866,924)	(\$4,005,000)	(\$12,871,924)	0\$	\$1,500,000	\$1,500,000
SB2003 \$40,003,190 \$15,655,306 \$15,655,306 \$40,053,300) \$40,53,200 \$50,000 \$20,000 \$20,000 \$20,000 \$20,000 \$282,000	Minot State University	SB2003		004 000	9	628 503 198	(\$26.503.186)	\$3.535.000	(\$22,968,196)	0\$	\$3,535,000	\$3,535,000
Ity \$11,570,006 \$4,085,306 \$15,655,306 \$11,320,006 \$4,053,300 \$4,053,300 \$4,053,300 \$5260,000 \$32,000 \$282,000 SB2003 \$4,312,519 \$64,312,519 \$64,312,519 \$64,312,519 \$64,312,519 \$64,312,519 \$64,312,519 \$66,312,519 \$	Total Minot State University Valley City State University	SB2003		970000	3					250,000	32,000	282,000
SB2003 \$4,312,519 \$0 \$4,312,519 \$0 \$4,312,519 \$0 \$64,312,519 \$0 \$0 \$64,312,519 \$0 \$0 \$0 \$0 \$0 \$0 \$0 \$0 \$0 \$0 \$0 \$0 \$0	Total Valley City State University			\$11,570,006	\$4,085,300	\$15,655,306	(\$11,320,006)	(\$4,053,300)	(\$15,373,306)	\$250,000	\$32,000	\$282,000
State University - Bottineau \$4,312,519 \$0 \$4,312,519 \$0 \$	Minot State University - Bottineau											
SB2003 \$1,771,076 \$1,090,001 \$2,861,077 \$283,577 (\$115,000) \$168,577 \$2,054,653 975,001 HB1013 3,501,626 1,658,575	Total Minot State University - Bottineau			\$4,312,519	\$0	\$4,312,519	(\$4,312,519)	0\$	(\$4,312,519)	0\$	0\$	0\$
st Service #81013 \$1,771,076 \$1,090,001 \$2,861,077 \$2,863,577 (\$115,000) \$168,577 \$2,054,653 \$975,001	Forest Service	SB2003								2,054,653	975,001	3,029,654
3,501,626 1,658,575	Total Forest Service			\$1,771,076	\$1,090,001	\$2,861,077	\$283,577	(\$115,000)	\$168,577	\$2,054,653	\$975,001	\$3,029,654
	State Library	HB1013								3,501,626	1,658,575	5,160,201



Appropriations Comparison Report Tentative Budget Status Report As of January 03, 2005 State of North

nave Assembly

			200	2003-05 Adjusted	٠	-	Increase (Decrease)	â	2002.0	2005 07 Campaign	
Department	2005 Bill No.	Action By	General Fund	Estimated Income	Funds	General	Estimated	₹	General	Fishimated	
Total State Library		,				pun.	Income	Funds	Fund	Income	Funds
School for the Deaf	HR1013	ı	\$3,027,046	\$1,629,979	\$4,657,025	\$474,580	\$28,596	\$503,176	\$3,501,628	\$1,658,575	\$5 160 201
Total School for the Deaf		ı	65 072 040					!	\$5,488,553	\$1,326,566	\$6,815,119
Vision Services - School for the Blind	HB1013	ŀ	247'010'00	\$8/1,449	\$5,944,691	\$415,311	\$455,117	\$870,428	\$5,488,553	\$1,326,566	\$6,815,119
Total Vision Services - School for the Blind	0	ŀ	\$2 089 R25	\$4.407.00m				j	2,503,495	845,535	3,349,030
Board for Career and Technical Education	SB2019	ļ	2201	200, 101, 10	\$3,257,208	\$413,670	(\$321,848)	\$91,822	\$2,503,495	\$845,535	\$3,349,030
Total Board for Career and Technical Education	cation	ı	\$14,673,473	\$10 874 500					17,155,866	11,270,900	28,426,768
State Department of Health	SB2004	ı		000,410,010	\$25,547,973	\$2,482,393	\$396,400	\$2,878,793	\$17,155,866	\$11,270,900	\$28,426,766
Total State Department of Health		ļ	\$13 101 092	\$106 484 ato					14,439,108	112,120,210	126,559,318
Veterans' Home	SB2007	ł	300'101'111	909,104,001	\$119,582,748	\$1,338,016	\$5,638,554	\$6,976,570	\$14,439,108	\$112,120,210	\$126,559,318
Total Veterans' Home		ı	\$3.046.072	\$7 971 123	644 047 407				4,381,104	6,986,627	11,367,731
Indian Affairs Commission	SB2005	į			C81, 110, 114	\$1,335,032	(\$984,496)	\$350,536	\$4,381,104	\$6,986,627	\$11,367,731
Total Indian Affairs Commission		ļ	\$355.243	5	6055 040		j		386,228	20,000	406,228
Department of Veterans Affairs	SB2007	1		9	a355,243	\$30,985	\$20,000	\$50,985	\$386,228	\$20,000	\$406,228
Total Department of Veterans Affairs		İ	\$480,798	\$43 494	\$674.700	0074			677,337		877,337
Children's Services Coordinating Comm.		ı			4924,282	9196,539	(\$43,494)	\$153,045	\$677,337	S	\$677,337
Total Children's Services Coordinating Comm.	'nŒ.	1 .	\$0	\$2,514,600	\$2.514.600		(2) 514 600)				
Department of Human Services	SB2023						(000,*10,54)	(95,514,600)	\$0	\$0	0\$
Total Department of Human Services		ł	\$1,000,000	£2 125 000	400 100					455,000	455,000
DHS - Management	HB1012	Ţ		45, (20,000	000,621,54	(\$1,000,000)	(\$1,670,000)	(\$2,670,000)	0\$	\$455,000	\$455,000
Total DHS - Management			\$13,717,616	\$34 130 107	647 047 770				23,164,639	48,374,575	71,539,214
DHS - Program/Policy	HB1012	l		1000	671,140,146	\$9,447,023	\$14,244,468	\$23,691,491	\$23,164,639	\$48,374,575	\$71,539,214
Total DHS - Program/Policy		"	\$309,747,679	\$956 967 082	\$1 268 714 784	4			368,423,517	1,027,728,022	1,396,151,539
DHS - State Hospital	HB1012	ļ		70011001	1,200,/14,/01	\$28,675,838	\$70,760,940	\$129,436,778	\$368,423,517	\$1,027,728,022	\$1,396,151,539
Total DHS - State Hospital		İ	\$25,484,201	\$16,405,360	641 880 581	60 000 100			32,117,667	15,610,871	47,728,538
		İ			100'200'149	30,033,456	(\$794,489)	\$5,838,977	\$32,117,667	\$15,610,871	\$47,728,538

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59th Legislauve Assembly

2005-07 Current Budget Status

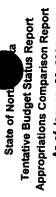
Increase (Decrease)

2003-05 Adjusted

Tentative Budget Status Report Appropriations Comparison Report As of January 03, 2005

State of North Danota

Department	2005 Bill No.	Action By	General Fund	Estimated Income	All Funds	General Fund	Estimated Income	Ail	General Fund	Estimated income	All Funds
DHS - Developmental Center	HB1012								\$11,696,425	\$31,349,952	\$43,046,377
Total DHS - Developmental Center			\$8,811,229	\$31,949,828	\$40,781,057	\$2,885,196	(\$599,876)	\$2,285,320	\$11,696,425	\$31,349,952	\$43,046,377
DHS - Mental Health Contingency						-				•	
Total DHS - Mental Health Contingency			\$250,000	0\$	\$250,000	(\$250,000)	\$0	(\$250,000)	0\$	\$0	\$0
DHS - Northwest HSC	HB1012								3,688,546	3,691,210	7,379,756
Total DHS - Northwest HSC			\$3,630,039	\$3,645,640	\$7,275,679	\$58,507	\$45,570	\$104,077	\$3,688,546	\$3,691,210	\$7,379,756
DHS - North Central HSC	HB1012					٠			8,163,022	7,270,196	15,433,218
Total DHS - North Central HSC			\$7,841,196	\$6,723,674	\$14,564,870	\$321,826	\$546,522	\$868,348	\$8,163,022	\$7,270,196	\$15,433,218
DHS - Lake Region HSC	HB1012								4,974,499	4,221,881	9,196,380
Total DHS - Lake Region HSC			\$4,637,960	\$3,782,973	\$8,420,933	\$336,539	\$438,908	\$775,447	\$4,974,499	\$4,221,881	\$9,196,380
DHS - Northeast HSC	HB1012								8,484,532	12,211,610	20,696,142
Total DHS - Northeast HSC		•	\$7,996,363	\$11,444,820	\$19,441,183	\$488,169	\$766,790	\$1,254,959	\$8,484,532	\$12,211,610	\$20,696,142
DHS - Southeast HSC	HB1012								10,148,529	13,673,717	23,822,246
Total DHS - Southeast HSC			\$9,509,320	\$11,215,222	\$20,724,542	\$639,209	\$2,458,495	\$3,097,704	\$10,148,529	\$13,673,717	\$23,822,246
DHS - South Central HSC	HB1012								5,916,635	6,322,357	12,238,992
Total DHS - South Central HSC		! !	\$5,627,107	\$5,731,868	\$11,358,975	\$289,528	\$590,489	\$880,017	\$5,916,635	\$6,322,357	\$12,238,992
DHS - West Central HSC	HB1012							_	9,025,416	9,675,203	18,700,619
Total DHS - West Central HSC			\$8,463,209	\$9,121,635	\$17,584,844	\$562,207	\$553,568	\$1,115,775	\$9,025,416	\$9,675,203	\$18,700,619
DHS - Badlands HSC	HB1012								4,569,614	4,819,177	9,388,791
Total DHS - Badlands HSC			\$4,365,904	\$4,558,723	\$8,924,627	\$203,710	\$260,454	\$464,164	\$4,569,614	\$4,819,177	\$9,388,791
Protection and Advocacy Project	HB1014								810,464	2,902,975	3,713,439
Total Protection and Advocacy Project		1 1	\$782,723	\$2,443,532	\$3,226,255	\$27,741	\$459,443	\$487,184	\$810,464	\$2,902,975	\$3,713,439
Job Service North Dakota	SB2016								1,480,724	58,139,352	59,620,076
Total Job Service North Dakota			\$1,250,000	\$56,204,717	\$57,454,717	\$230,724	\$1,934,635	\$2,165,359	\$1,480,724	\$58,139,352	\$59,620,076
Insurance Department	HB1010					-				12,497,926	12,497,926
											÷





As of January 03, 2005

			2003	2003-05 Adjusted		-	Increase (Decrease)	•	2005-02	2005.07 Current Budget States	
Department	2005 Bili No.	Action By	General Fund	Estimated Income	All Funds	General	Estimated Income	All	General	Estimated	
oartment .		1].	\$100,000	\$6,449,411	\$6,549,411	(\$100,000)	\$6.048.515	\$5 948 515		шсоше	Funds
Industrial Commission	SB2014							515,545,54	2	\$12,497,926	\$12,497,926
Total Industrial Commission		!	\$7,026,884	£37 204 838	644 240 700		j		\$6,861,925	\$43,654,885	\$50,516,810
Labor Commissioner	HB1007	1		0001000	944,318,720	(\$164,959)	\$6,363,049	\$6,198,090	\$6,861,925	\$43,654,885	\$50,516,810
Total Labor Commissioner		ł	\$877 947	000000					958,622	498,215	1,456,837
Public Service Commission	HB1008	ı	16,110	869'627¢	\$1,107,645	\$80,675	\$268,517	\$349,182	\$958,622	\$498,215	\$1,456,837
Total Public Service Commission		I	\$3.911.494	727 070 88					5,156,601	5,885,139	11,141,740
Aeronautics Commission	SB2006	I		40,012,101	\$9,984,261	\$1,245,107	(\$87,628)	\$1,157,479	\$5,156,601	\$5,985,139	\$11,141,740
Total Aeronautics Commission		i	\$522 500	60 600 050					550,187	5,237,914	5,788,101
Department of Financial Institutions	SB2008	j	405-5100	000,000,00	\$9,152,850	\$27,687	(\$3,392,436)	(\$3,364,749)	\$550,187	\$5,237,914	\$5,788,101
Total Department of Financial Institutions		i	5							4,207,793	4,207,793
Securities Department	HB1011	ļ		40,049,084	\$3,649,384	0\$	\$558,409	\$558,409	80	\$4,207,793	\$4,207,793
Total Securities Department		i	\$1 080 18E	202					1,455,563	217,199	1,672,762
Bank of North Dakota	SB2014	I	601,000,100	086,1166	\$1,391,745	\$375,398	(\$94,381)	\$281,017	\$1,455,563	\$217,199	\$1,672,762
Total Bank of North Dakota		ı	\$8.075.000	020 024 004					5,700,000	45,704,797	51,404,797
Housing Finance Agency	SB2014	ļ	000,010,000	8/7'0/ J'87¢	437,853,279	(\$2,375,000)	\$15,926,518	\$13,551,518	\$5,700,000	\$45,704,787	\$51,404,797
Total Housing Finance Agency		ļ	OS	£13 680 787	F20 F00 T04					33,895,707	33,895,707
Mill and Elevator	SB2014	j		101,000,000	/0/ 500 ccc		\$305,940	\$305,940	0\$	\$33,895,707	\$33,895,707
Total Mill and Elevator]	S	22,000,004					ı	32,657,254	32,657,254
Workforce Safety and Insurance	HB1022	ı	2	251,286,324	\$29,982,152	Q\$	\$2,675,102	\$2,675,102	0\$	\$32,657,254	\$32,657,254
Total Workforce Safety and Insurance		I		620 202 624						33,440,814	33,440,814
Highway Patrol	SB2011	İ	3	100,180,200	\$32,397,631	80	\$1,043,183	\$1,043,183	0\$	\$33,440,814	\$33,440,814
Total Highway Patrol			\$18 211 522	#4E 404 000					19,805,490	14,554,138	34,359,628
Division of Emergency Management	HB1016]	- 1056	/80,184,614	\$33,692,609	\$1,593,968	(\$926,949)	\$867,019	\$19,805,490	\$14,554,138	\$34,359,628
Total Division of Emergency Management		ļ	\$1.369.035	247 247 144	417 004				5,106,239	56,961,521	62,067,760
			2001	141,112,104	\$38,386,176	\$3,737,204	\$19,744,380	\$23,481,584	\$5,106,239	\$56,961,521	\$62,067,760



2005-07 Current Budget Status

Increase (Decrease)

2003-05 Adjusted

State of North Danca Tentative Budget Status Report Appropriations Comparison Report As of January 03, 2005

Department	2005 Bill No.	Action By	General Fund	Estimated Income	All . Funds	General Fund	Estimated Income	All Funds	General Fund	Estimated Income	All Funds
Department of Corrections and Rehab.	SB2015								\$101,188,393	\$28,150,416	\$129,338,809
	SB2023									3,586,510	3,586,510
Total Department of Corrections and Rehab.	lab.	•	\$81,736,611	\$32,580,087	\$114,316,698	\$19,451,782	(\$843,161)	\$18,608,621	\$101,188,393	\$31,736,926	\$132,925,319
Adjutant General	HB1017	•							16,424,837	31,384,915	47,809,752
Total Adjutant General		•	\$9,170,983	\$20,718,716	\$29,889,698	\$7,253,854	\$10,666,199	\$17,920,053	\$16,424,837	\$31,384,915	\$47,809,752
Department of Commerce	SB2018	•							23,129,164	105,432,496	128,561,660
Total Department of Commerce		•	\$19,014,723	\$52,353,107	\$71,367,830	\$4,114,441	\$53,079,389	\$57,193,830	\$23,129,164	\$105,432,496	\$128,561,660
Department of Agriculture	HB1009	•							4,885,958	9,368,014	14,253,972
Total Department of Agriculture		-	\$4,233,525	\$8,318,849	\$12,552,374	\$652,433	\$1,049,165	\$1,701,598	\$4,885,958	\$9,368,014	\$14,253,972
Seed Department	SB2022							-		5,924,650	5,924,650
Total Seed Department			\$0	\$5,629,950	\$5,629,950	\$0	\$294,700	\$294,700	0\$	\$5,924,650	\$5,924,650
Transportation Institute	SB2020								501,045	15,263,028	15,764,073
Total Transportation Institute			\$483,099	\$10,361,651	\$10,844,750	\$17,946	\$4,901,377	\$4,919,323	\$501,045	\$15,263,028	\$15,764,073
Branch Research Centers	SB2020								8,175,257	11,072,534	19,247,791 1,320,000
	SB2023									700 000 074	107 723 004
Total Branch Research Centers			\$7,467,679	\$8,967,403	\$16,435,082	\$707,578	\$3,425,131	\$4,132,709	\$8,175,257	\$12,392,534	181,100,024
NDS11 - Exension Service	SB2020		í						15,241,062	22,989,228	38,230,290
Total NDS11 - Extension Service			\$13,859,446	\$20,486,830	\$34,346,276	\$1,381,616	\$2,502,398	\$3,884,014	\$15,241,062	\$22,989,228	\$38,230,290
Northern Crops Institute	SB2020	_							812,844	950,741	1,763,585
Total Northern Crops Institute			\$746,002	\$777,345	\$1,523,347	\$66,842	\$173,396	\$240,238	\$812,844	\$950,741	\$1,763,585
Main Research Station	SB2020	_		į		-			29,761,962	36,810,218	66,572,180
	SB2023						771	200 199 074	*20 784 083	641 240 248	\$71.072.180
Total Main Research Station			\$28,210,740	\$32,306,474	\$60,517,214	\$1,551,222	\$9,003,744	\$10,554,955	708,107,824	14,010,14	400 005
Agronomy Seed Farm	SB2020	•								C89,881,1	1,199,063
Total Agronomy Seed Farm			\$0	\$1,166,604	\$1,166,604	0\$	\$33,081	\$33,081	0\$	\$1,199,685	\$1,189,685
State Fair Association	SB2009	•							280,000		590,000

01/03/2005



State of North Ta Tentative Budget Status Report Appropriations Comparison Report As of January 03, 2005



			200:	2003-05 Adjusted		Ē	Increase (Decrease)		2005-07	2005-07 Current Budget Status	tatus
Department	2005 Bili No.	Action By	General Fund	Estimated Income	All Funds	General Fund	Estimated Income	All Funds	General Fund	Estimated Income	All Funds
Total State Fair Association		1 1	\$581,750	\$20,000	\$601,750	\$8,250	(\$20,000)	(\$11,750)	\$590,000	0\$	\$590,000
State Historical Society	HB1019 SB2023								\$7,580,724	\$2,425,455	\$10,006,179
Total State Historical Society		I f	\$7,259,934	\$4,391,042	\$11,650,976	\$320,790	(\$365,587)	(\$44,797)	\$7,580,724	\$4,025,455	\$11,606,179
Council on the Arts	SB2010								1,028,422	1,268,318	2,296,740
Total Council on the Arts		1 1	\$1,004,403	\$1,222,215	\$2,226,618	\$24,019	\$46,103	\$70,122	\$1,028,422	\$1,268,318	\$2,296,740
Game and Fish Department	HB1018									48,465,166	48,465,166
Total Game and Fish Department		ł J	25	\$43,365,763	\$43,365,763	0\$	\$5,099,403	\$5,099,403	0\$	\$48,465,166	\$48,465,166
Parks and Recreation Department	HB1020 SB2023								7,899,721	12,286,253	20,185,974
Total Parks and Recreation Department		1 1	\$6,703,659	\$10,772,107	\$17,475,766	\$1,196,062	\$2,214,146	\$3,410,208	\$7,899,721	\$12,986,253	\$20,885,974
International Peace Garden	HB1020								602,854		602,854
Total International Peace Garden			\$352,854	\$0	\$352,854	\$250,000	0\$	\$250,000	\$602,854	0\$	\$602,854
Water Commission	HB1021								2,063,357	110,724,477	112,787,834
Total Water Commission		1 1	\$9,385,396	\$150,473,458	\$159,858,854	(\$7,322,039)	(\$39,748,981)	(\$47,071,020)	\$2,063,357	\$110,724,477	\$112,787,834
Department of Transportation	SB2012									827,412,952	827,412,952
Total Department of Transportation		1 1	0.5	\$784,385,918	\$784,385,918	0\$	\$43,027,034	\$43,027,034	0\$	\$827,412,952	\$827,412,952
Grand Total		1-, 11	\$1,803,661,161	\$3,255,715,994	\$5,059,377,155	\$203,340,108	\$284,969,035	\$488,309,143	\$2,007,001,269	\$3,540,685,029	\$5,547,686,298

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State of North Dancia
Tentative Budget Status Report
Appropriations Comparison Report
As of January 03, 2005

NOTES

2003-05 Adjusted Appropriations

The amounts shown include adjustments to reflect \$62,241 of special fund reductions required by Section 3 of House Bill No. 1505 (2003) and to reflect permanent general fund allocations between the entities under the control of the State Board of Higher Education. The amount shown for the Department of Public Instruction includes \$40,000 appropriated from the general fund to the Education Standards and Practices Board for the national certification of teachers. 59473 House Apps Full Comm. Overview

Prepared by the North Dakota Legislative Council

December 2004

1-5-Handour Roxanne Worston

FISCAL INFORMATION SUMMARY

This memorandum provides fiscal information reflecting the December 2004 executive budget revenue forecast regarding major tax types and key cost areas.

 Sales and use tax revenue. The estimated impact on state general fund revenues of a one percentage point change in the state's 5 percent sales and use tax, including the motor vehicle excise tax, is approximately \$186 million per biennium, or \$93 million per year for the 2005-07 biennium based on the December 2004 executive budget revenue forecast. The following schedule shows general fund revenue collections from sales and use taxes, including motor vehicle excise taxes, for the 1997-99 through 2005-07 bienniums:

Biennium	Actual or Estimated Revenue (In Millions)	Percentage Change From Previous Blennium
1997-99	\$664.4	
1999-2001	\$722.2	8.7%
2001-03	\$760.2	5.3%
2003-05 (revised forecast)	\$849.9	11.8%
2005-07 (executive forecast)	\$896.4	5.5%

2. Individual income tax revenue. House Bill No. 1399 (2001) decoupled the state income tax from the federal income tax to a rate based on federal taxable income. The equivalent tax rates range from approximately 2.1 to 5.54 percent of taxable income. The estimated impact on state general fund revenues of a 10 percent change in the state income tax rates (for example, the 3.92 percent rate would increase to 4.31 percent) is approximately \$44 million per biennlum or \$22 million per year for the 2005-07 biennium based on the December 2004 executive budget revenue forecast. The following schedule shows general fund revenue collections from individual income taxes for the 1997-99 through 2005-07 bienniums:

Blennium	Actual or Estimated Revenue (in Millions)	Percentage Change From Previous Biennium
1997-99	\$358.3	
1999-2001	\$409.3	14.2%
2001-03	\$396.2	(3.2%)
2003-05 (revised forecast)	\$436.0	10.1%
2005-07 (executive forecast)	\$467.0	7.1%

- 3. Gas tax revenues. A one-cent gas tax increase over the current 21 cents per gallon raises an estimated \$3.5 million per year or \$7 million for a biennium. A one-cent special fuels (diesel) tax increase over the current 21 cents per gallon raises an estimated \$1.55 million or \$3.1 million per biennium. Of the \$10.1 million total, \$6.4 million, or 63 percent, would be deposited in the state highway fund and \$3.7 million, or 37 percent, would be distributed to counties and cities.
- 4. Oil tax revenue. The estimated impact on state revenues of a \$1 increase or decrease in the price of a barrel of oil is approximately \$3.5 million per biennium based on the December 2004 executive budget revenue forecast for oil and gas production and oil extraction tax collections. The 2005-07 estimated impact on state revenues of a \$1 change in the price of oil is \$1.1 million more than the \$2.4 million estimate for the 2003-05 biennium due, in part, to the oil extraction tax increasing from 4 to 6.5 percent as a result of higher oil prices which has triggered the higher tax rate. The following schedule presents general fund revenue collections from oil and gas taxes for the 1997-99 through 2005-07 bienniums:

Filonolum	Actual or Estimated Revenue (In Millions)	Percentage Change From Previous Biennium
Biennium 1997-99 1999-2001 2001-03 2003-05 (executive budget estimate) 2005-07 (executive budget estimate)	\$43.7 \$62.0* \$62.0* \$71.0* \$84.3*	41.9% 0.0% 14.5% 18.7%

*Transfers to the permanent oil tax trust fund were \$13.2 million for the 1999-2001 biennium and \$7.6 million for the 2001-03 biennium. It is estimated that \$40.8 million will be transferred to the permanent oil tax trust fund for the 2003-05 biennium. The 2005-07 executive budget recommends amending North Dakota Century Code Section 57-51.1-07.2 to increase from \$71 million to \$84.5 million the maximum general fund portion of oil extraction tax and oil and gas gross production tax. The executive budget estimates that oil tax collections during the 2005-07 biennium will total \$84.3 million. Therefore, the executive budget does not anticipate any transfers to the permanent oil tax trust fund during the 2005-07 biennium.

Oil prices. The following schedule compares estimates during the 2003 Legislative Assembly to actual oil
prices during the 2003-05 biennium:

Quarter/ Month	Estimated Average Price Per Barrel During 2003 Legislative Assembly	Actual Average Price Per Barrei¹	Amount Over (Under) Original Estimate
July-September 2003 October-December 2003 January-March 2004 April-June 2004 July-September 2004 October-November 2004	\$26.24	\$25.18	(\$1.06)
	\$23.95	\$25.78	\$1.83
	\$23.23	\$29.45	\$6.22
	\$23.06	\$32.86	\$9.80
	\$22.86	\$37.99	\$15.13
	\$22.29	\$44.92	\$22.63

¹The actual market price per barrel of oil is the Tesoro-posted field price for North Dakota sweet crude, including the Montana counties of Sheridan, Roosevelt, and Richland.

6. Tobacco settlement payments. North Dakota has received \$129.8 million as of December 2004 as a result of the tobacco settlement, which has been deposited in the tobacco settlement trust fund. The tobacco settlement trust fund collections, through June 30, 2005, are allocated among the community health trust fund, common schools trust fund, and water development trust fund pursuant to North Dakota Century Code Section 54-27-25, as follows:

	Community Health Trust Fund (10%)	Common Schools Trust Fund (45%)	Water Development Trust Fund (45%)	Total Tobacco Settlement Collections \$52,900,784
1999-2001 (actual) 2001-03 (actual) 2003-05 (as of December 2004) 2003-05 (estimated remaining payments)	\$5,290,078 5,363,637 2,323,863 2,297,207		24,136,363 10,457,382	53,636,363 23,238,627 22,972,067
Total estimated through June 30, 2005	\$15,274,785	\$68,736,528	\$68,736,528	\$152,747,841

Total collections for the next 10 years as estimated by the Office of Management and Budget are:

2005-07	\$45,944,100	
2007-09	\$73,687,000	
2009-11	\$73,687,000	
2011-13	\$73,687,000	
2013-15	\$73,687,000	

Collections are estimated to total \$777,144,000 through the year 2025. This compares to a total of \$866,800,000 originally projected during the 1999 Legislative Assembly.

7. State school aid payments. The estimated cost of a \$10 increase in the state school aid per student payment is approximately \$1 million per year. This is based on the current estimate of an average of 104,475 weighted students for each year of the 2005-07 biennium. Statutory per student payments for the 2003-05 biennium are \$2,509 for the first year and \$2,623 for the second year.

- 8. **Teacher payments.** The estimated cost to provide additional teacher compensation payments of \$1,000 per third-year returning teacher in the first year of the 2005-07 biennium and an additional \$1,000 per fourth-year returning teacher in the second year of the biennium is approximately \$25.9 million. This is based on the current estimate of 8,650 full-time equivalent instructional personnel for the 2004-05 school year. The 2001 Legislative Assembly provided teacher compensation payments of \$1,000 for the first year of the 2001-03 biennium and \$2,000 for the second year (second-year total of \$3,000).
- 9. **State employee salary increase, excluding higher education.** The estimated cost of a 1 percent state employee salary increase **per year**, including fringe benefits, is \$3.4 million, of which \$1.7 million is from the general fund. This estimate excludes higher education employees.
- 10. **Inflationary increases.** The historic and projected consumer price indexes as recorded or projected by Economy.com based on the consumer price index for all urban consumers are:

	1991	4.2%	2000	3.4%	
	1992	3.0%	2001	2.8%	
1	1993	3.0%	2002	1.6%	
II.	1994	2.6%	2003	2.3%	
1	1995	2.8%	2004	2.7%	- !
	1996	2.9%	2005	2.2%	
	1997	2.3%	2006	2.2%	Ì
	1998	1.5%	2007	2.4%	
1	1999	2.2%	2008	2.1%	- 1

House Apps Full Comm.

Prepared by the North Dakota Legislative Council staff

January 4, 2005

7-le Handout Roxanne Woeste 1-4-05

NORTH DAKOTA'S BUDGETING PROCESS

North Dakota's bicameral Legislative Assembly meets for up to 80 legislative days beginning in January and usually concluding in April of each odd-numbered year. By the close of each regular legislative session, the Legislative Assembly approves North Dakota's biennial budget, which takes effect on July 1 of that year and ends on June 30 of the following odd-numbered year.

North Dakota's budgeting process begins in March of the year prior to the legislative session with the Governor's budget guidelines and state agencies and institutions preparing and submitting their biennial budget requests to the Office of Management and Budget (OMB) beginning in July. The Office of Management and Budget holds selected executive budget hearings to allow agencies an opportunity to explain and justify their budget requests for inclusion in the Governor's budget recommendation to the Legislative Assembly. The legislative budget analyst and auditor's staff attends these budget hearings. Revenue forecast information used by the Governor in the development of the executive budget recommendation is based on information provided by the Tax Department and an economic forecasting firm under contract with the state. A revenue consensus group is used by OMB for additional input. The Legislative Assembly also uses this revenue information as well as updated revenue information provided in March during the legislative session as it develops the legislative budget.

The Legislative Assembly receives the Governor's executive budget recommendation during its organizational session in the December preceding the legislative session. The Legislative Council's Budget Section meets following the organizational session to receive more detailed information regarding the executive budget recommendations. Prior to the convening of the legislative session, the legislative fiscal staff prepares a comprehensive analysis of the executive budget. This analysis is presented to the Appropriations Committees and is made available to all members of the Legislative Assembly for the members' use in developing the legislative budget. The legislative fiscal staff, headed by the legislative budget analyst and auditor, is a division of the Legislative Council, a nonpartisan legislative services agency providing bill drafting, research, fiscal analysis, and other services to members of the Legislative Assembly.

The Office of Management and Budget introduces bills to provide for the revenue and appropriations levels recommended in the Governor's budget. Individual legislators may also introduce bills affecting state revenues or appropriations for an agency. As it develops the legislative budget, the Legislative Assembly considers the Governor's recommendations and information received through public hearings held in each chamber on each appropriation and revenue bill. Bills for a deficiency appropriation relating to the prior biennium may also be considered. Each bill having an appropriation of \$5,000 or more or a bill with a fiscal note indicating a fiscal impact of \$50,000 or more on an agency's appropriation is by rule required to be referred to the Appropriations Committee.

The Senate Appropriations Committee consists of members and the House Appropriations Committee consists of 23 members. The Senate Appropriations Committee forms ad hoc subcommittees to consider specific issues or funding levels for select agencies. The House Appropriations Committee organized into four formal subcommittees--Education and Environment, Human Resources, Government Operations, and Government These subcommittees hold budget Performance. hearings on assigned agencies, develop budget recommendations, and report their recommendations to the full Appropriations Committee. The legislative fiscal staff serves the Appropriations Committees and members of the Legislative Assembly conducting research, analyzing budgets, preparing amendments, and monitoring the status of revenues, appropriations, and fund balances included in the legislative budget. The fiscal staff also publishes the Budget Status report throughout the legislative session which provides the updated status of general fund revenues, appropriations, and ending general fund balance for the next biennium's budget.

Once passed by both chambers of the Legislative Assembly, each bill is delivered to the Governor for signature. When signed, the bill becomes law. Unless otherwise indicated, an appropriations bill or a tax measure bill becomes effective on July 1 following the legislative session, and other bills become effective on August 1. The Legislative Assembly approves approximately 75 appropriation bills each session, providing funding for the operations of state government for the subsequent biennium.

North Dakota Century Code Chapter 54-16 establishes the Emergency Commission which has authority to approve agency requests for line item transfers, for acceptance of additional federal and other funds, and for use of state contingencies appropriations. Budget Section approval is required for transfers or additional spending of federal or other funds exceeding \$50,000.

NORTH DAKOTA LEGISLATIVE COUNCIL

2003-04
BUDGET SECTION



TOUR GROUP REPORTS TO THE 59TH LEGISLATIVE ASSEMBLY

(Including Land and Building Utilization Information)

Handout 1-9 Joe Morrisette OMB 1-4-05

House Apps-

BARS REPORT ACCESS INSTRUCTIONS

Executive Budget Summary

1. Access the Office of Management and Budget Fiscal Management Division web site at: http://www.state.nd.us/fiscal/.

2. Select the link labeled 2005-07 Executive Budget Recommendation to access the title page of the Governor's Executive Budget Summary book.

3. Scroll to the table of contents and select the link for the desired report or agency budget summary.

Executive Budget Detail

1. Access the Office of Management and Budget Fiscal Management Division web site at: http://www.state.nd.us/fiscal/.

2. Select the link labeled 2005-07 Budget Detail to access the table of contents for both agency summary and detail reports.

3. Select the link for the desired agency.

4. Select from the available reports, including the following:

Overview Reports	
Agency overview	Narrative relating to the agency's statutory authority, description, mission, performance measures, major accomplishments, and future critical issues
Request summary	One-page summary of agency budget request information
Request detail	Object code and funding source detail information for agency budget request
Change package summary	Summarizes all change packages included in the agency base and optional budget request , including funding source and FTE for each change package
Budget changes narrative	Narrative description of each base and optional change package included in the agency budget request
Program Reports	
Program narrative	Narrative for each agency program, including program goals and objectives, services provided, statistical data, and an explanation of program costs
Request detail by program	Object code and funding source detail information for each program included in the agency budget request
Change package detail	Summarizes, by program, all change packages included in the agency base and optional budget request, including funding source and FTE for each change package
Supporting Schedules	
General fund collections	Description of each fee collected by the

	agency and deposited in the general fund (as submitted by the agency)
Licensing, regulation, and inspection	Description of all fees collected by the agency (as submitted by the agency)
Lease purchase agreements	Description of each current or proposed lease for items of \$50,000 or more (as submitted by the agency)
Grants	Summary of all grants in 2003-05 and 2005-07 bienniums (updated to reflect executive recommendation)
Equipment over \$5,000	Summary of all equipment items over \$5,000 proposed for 2005-07 (updated to reflect executive recommendation)
IT equipment over \$5,000	Summary of all IT equipment items over \$5,000 proposed for 2005-07 (updated to reflect executive recommendation)
Extraordinary repairs	Summary of all extraordinary repair items proposed for 2005-07 (updated to reflect executive recommendation)
Special fund balance	Status statement for 2003-05 and 2005-07 for each special fund (updated to reflect executive recommendation)
Capital projects detail	Summary schedule for each proposed capital project, including project total cost, related operating costs, and project justification (updated to reflect executive recommendation)
Recommendation Reports	
Request/recommendation comparison summary	One-page summary of line item and major program agency level data, including current biennium appropriation, agency request, and executive recommendation
Request/recommendation comparison detail	Object code and funding source detail information at the agency level for current appropriation, agency request, and executive recommendation
Change package summary	Summarizes, at the agency level, all change packages included in the executive budget recommendation, including funding source and FTE for each change package
Recommendation detail by program	Object code and funding source detail information at the program level for current appropriation, agency request, and executive recommendation

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General Discussion

- ☐ Committee on Committees
- □ Rules Committee
- □ Confirmation Hearings
- □ Delayed Bills Committee
- House Appropriations
- □ Senate Appropriations
- □ Other

Tape Number	Side A	B Side	Meter #
1	X	X	
2	X	X	
3	X	X	
4	X		3.0 ending

Minutes:

Rep. Ken Svedjan, Chairman called the discussion to order and roll call was taken.

Ms Pam Sharp from the Office of Management and Budget distributed handouts #3-1 and #3-2 (attached). Ms Sharp reviewed handout #3-2 and noted that there was a net of \$5 million in adjusted appropriations from a "carry over" as accounted for on the last page. Ms Sharp continued by explaining the variances between the 2003-05 Budget and the requests for 2005-07 as listed in the handout, and defined the goals and major objectives for the department in the next biennium.

General Discussion
Page 2
January 6, 2005
House Appropriations Full Committee

Rep. Ken Svedjan, Chairman thanked Ms Sharp for her presentation and noted that OMB's budget will be reviewed by the new Government Performance Committee and will be the jump start for this committee.

Dr. Wayne G. Sanstead of the <u>Department of Public Instruction</u> gave introductory information regarding the department (handout #3-3 (attached). (Meter #24.3)

Ms Bonnie Miller reviewed the distributed spreadsheet that listed the requested information concerning the variances between the 2003-05 budget and the requests for 2005-07. (handout #3-5, attached). Ms Miller explained an adjustment of \$105,000 due to a "carry over" in grant funds from the state. The major variance noted was a shortfall in federal spending authority. Ms Miller continued by discussing the goals and objections of the department in the next biennium and reviewed the performance measurements that were already in place.

Mr. Rocklyn Cofer from the School for the Deaf reviewed the variances and goals and objectives for the school as described in handout #3-6 (attached). (meter Tape #1, Side B, #1) All variance numbers listed on page 2 of handout should be listed as negative numbers, meaning they were moneys not spent. Mr. Cofer explained that the school was not eligible for E-Rate funds since the school is considered a state agency as well as a school. This concern that will be dealt with in more detail during the subcommittee hearings.

Ms Carmen Grove Suminski from the School for the Blind reviewed the variances within the school's proposed budget and explained their goals and objectives as doing more with less.

(meter # Tape #1, Side B, #17.0) Need for center-based services is increasing. Ms Suminski described their "carry over" authority within the general funds and their special funds. They are

General Discussion
Page 3
January 6, 2005
House Appropriations Full Committee

becoming too dependent on their special funds and are requesting that more appropriations be made to the general fund so they do not use all of their special funds.

Ms Doris Ott from the State Library distributed handout #3-7 (attached) (meter Tape #1, Side B, #25.5) and discussed their need for additional funds in the next biennium in order to add to the online library resources, provide state aid to public libraries regarding materials and technology, and to increase employee salaries.

Mr. Dale Frink for the State Water Commission distributed handout #3-8 (attached) and discussed the goals and objectives of the Commission. (meter Tape #1, Side B, #29.6)

Variances between 2003-05 and 2005-07 were detailed on page 2 of handout. Discussion ensued regarding the issue on bonding authority within state agencies and information regarding who has the authority to bond and what other agencies also have issued bonds that are still outstanding was requested of the Legislative Council. Also requested was information regarding the history of how the Legislature was involved in deciding what projects were contracted in these instances. Specific dollar information regarding the Water Commission will come to the subcommittee hearing regarding HB1153.

Ms Brenda Weisz spoke on behalf of Human Services. (meter Tape #2, Side A, #14) (meter Tape #2, Side A, #13) Ms Weisz distributed written testimony from Ms Carol Olson, Director of Human Services (handout #3-9a) and asked that all representatives please read this on their own as she reviewed handout #3-9 (attached) discussing variances and goals and objectives. Ms Weisz noted that most of the variances come from 3 emergency actions approved in March of 2004 for \$18.3 million. These changes concern Food Stamps, Child Welfare, and LIHEAP (Fuel Assistance) and are specified on page 2 of handout. Ms Weisz gave further explanations of Basic

General Discussion
Page 4
January 6, 2005
House Appropriations Full Committee

Care, Home and Community Based Care, Foster Care, Subsidized Adoption Grants, Indian County Allocations, State Hospital Traditional Services and the Technology budget.

Mr. David Zentner spoke on the Medicaid Management Information System (handout #3-10, attached). (Meter Tape #2, Side B, #20.7) and asked that decisions concerning this system be made as soon as possible so that they could begin their process for finding vendors. A project schedule can be found on Attachment E of handout.

Human Services distributed additional material concerning "Government Performance and Accountability Measures" (handout #3-11, attached) with no discussion.

Ms Sheila Peterson from the Office of Management and Budget reviewed <u>HB1024 concerning</u>

<u>Deficiency appropriation.</u> (Meter Tape #2, Side B, #35.9)

Rep. Eliot Glassheim clarified by saying that the funds to provide services were just a surcharge to reduce ITD's General Fund Budget and then it was decided that they were not allowed to use special funds to pay this so ITD now has a deficiency.

Ms Sandy Blunt from Workforce Safety and Insurance distributed handout #3-12 (attached).

(meter Tape #3, Side A, #9.9) Ms Peterson described variances as needed because of the change in the number of FTE's, a lesser expense in professional services, and less software purchases.

Ms Peterson discussed goals and objectives listed on page 5 of handout.

Gen. Michael Haugen spoke for the Adjutant General's Office (handout #3-13, attached). (meter Tape #3, Side A, #34.3) Gen. Haugen reviewed page 2 of handout covering all variances between 2003-05 and 2005-07, and noted that they would bring their information regarding performance measurement to the subcommittee hearing.

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#3-14, attached) (meter Tape #3, Side A, #46.8). Mr. Schlobohm discussed variances described in handout and noted that their only carry over authority was in capital assets within Lewis and Clark. The decrease is due to the fact that the project is complete. Mr.. Paaverud noted that services were needed throughout the state and that funding is being sought for FTE positions.

Mr. Wayne Stenehjem Attorney General, distributed handout #3-15 and discussed the 7 variances listed on page 2. (meter Tape #3, side B, #3.8) While discussing these, it was determined that the figures in the handout were in the wrong columns and would be corrected for the committee. (corrected version of handout is attached). Discussion ensued regarding "off Budget" positions in budgets and information was requested from Legislative Council concerning all agencies with off budget employees and whether or not these funds were included in the budgets and where.

Mr. Merl Paaverud and Robert Schlobohm spoke for the State Historical Society. (handout

Ms Teresa Larson spoke for <u>Protection and Advocacy</u>. (handout #3-16, attached) (meter Tape #3, side B, #15.5) Ms Larson read her written testimony and explained that this is the first time they have ever seen a decrease in federal dollars (mental Health Grant) which means an increase in operating expenses. Ms Larson continued by explaining their performance measurements listed on page 4 of handout.

Mr. Paul Shadwall from the <u>Game and Fish Department</u> reviewed the 8 variances listed on distributed handout #3-17 (attached). (meter Tape #3, side B, #33.2)

Mr. Sparb Collins from Public Employee Retirement System Distributed and reviewed handout #3-18 (attached). (meter Tape #3, side B, #44.7) Mr. Collins explained that the increase in Health Insurance is found in each agency's salary line and that the \$3000,000 increase is all

General Discussion
Page 6
January 6, 2005
House Appropriations Full Committee

under special funds. Mr. Collins explained that the contingency line has never been accessed but it is there for things like having to fulfill federal requirements that may come up.

Mr. Steve Cochrane from Retirement and Investment Office reviewed the distributed handout # 3-19 (attached). (meter Tape #4, side A, #2).

Rep. Ken Svedjan, Chairman asked for any further testimony. Seeing none, meeting was adjourned. (Meter Tape #4, side A, #3.0)

Office of Management and Budget

Overview Presentation to the House Appropriations Committee

January 6, 2005

1-6-05 OMB Parn Sharp Full House Apps Handout 3-1

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Funding

	2003-05 Legislative Appropriation	2003-05 Estimated Expenditures or Currently Filled FTE Positions	(1) Variance	2005-07 Executive Recommendation	2005-07 Recommendation Change (Variance) to 2003-05 Legislative Appropriations
Salaries and wages	15,388,231	14,773,000	615,23 1	13,558,925	(1,829,306)
Operating expenses	11,328,756	12,716,807	(1,388,051)	11,233,906	(94,850)
Capital assets	733,000	2,893,989	(2,160,989)	2,644,000	1,911,000
Grants	179,000	179,000	0	179,000	0
Prairie Public Broadcasting			0	1,337,138	1,337,138
Statewide Equity Pool			0	5,000,000	5,000,000
Total	\$27,628,987	\$30,562,796	(2,933,809)	\$33,952,969 *	6,323,982 *
General fund Federal funds	\$19,740,511	\$19,792,044 3,870,752	(51,533) (3,870,752)	\$22,269,688	2,529 ,177
Special funds	7,888,476	6,900,000	988,476	11,683,281	3,794,805
Total	\$27,628,987	\$30,562,796	(2,933,809)	\$33,952,969	\$6,323,982
FTE	162	162	0	130.5	(31.5)

^{*} Executive Recommendation includes additional \$3,155,000 Bonding authority included in SB 2023 Capital Projects bill for Fire Suppression System for the Capitol Building.

(1) Explanation of Major Funding and FTE Variances for the 2003-05 Legislative Appropriation to 2003-05 Current Estimates

		FTE	General Fund	Federal and Special Funds	Total
1.	Federal Funds	Funding for migration from analog to digital radios		(3,870,752)	(3,870,752)
2.	Unemployment Fund	Remaining fund for unemployment claims		300,000	300,000
3.	Central Services Fund	Unable to project exact costs and volume of business a surplus appropriation amount.	s, which results in	600,000	600,000

(2) Explanation of Major Funding and FTE Changes (Variances) for the 2005-07 Recommendation to 2003-05 Legislative Appropriations FTE General Federal and Fund **Special Funds** Total Moved State Radio from OMB to the Division (29.5)(4,105,585)(630,752)(4,736,337)of Emergency Management Moved Security from Facility Management to 2. (4.0)(421,675)Highway Patrol (421,675)Transferred Prairie Public Broadcasting from ITD to OMB, as required in the 2003 Session 1,337,138 1,337,138 Law, Chapter 36, Section 44. Funding for the Statewide Equity Pool 2,500,000 2,500,000 5,000,000 Ongoing maintenance and support for 1,500,000 1,500,000 ConnectND

6	Implementation of additional modules for ConnectND		600,000		600,000
7	Salary Compensation package		594,799	149,663	744,462
8	Facility Management Energy Improvement Project for the Capitol Building Complex			1,800,000	1,800,000
9	New position in the Procurement Division of Central Services	1.0	122,234		122,234
10	New position in Fiscal Management Division for ConnectND	1.0	118,492		118,492

Summary of Major Goals and Objectives and Related Performance Measurement Data for the 2005-07 Biennium (to the extent available)

- Fiscal Management Goal/Objective: To produce a comprehensive annual financial report (CAFR) and the governor's biennial budget recommendation and provide timely, quality support to state agencies in all financial and budget transactions.
 - Measurement Data: Receipt of GFOA Certificate of Achievement for Excellence in Financial Reporting and the GFOA Effective Budget Presentation Award. Fiscal Management also surveys agencies to measure customer service.
- 2. Human Resources Management Services Goal/Objective: To promote effective management in North Dakota state government by providing leadership and expertise in human resource services.
 - Measurement Data: HRMS keeps statistical data of the services provided to agencies to monitor the effectiveness of technical assistance provided and to plan for future service needs.
- Division of Central Services Goal/Objective: To provide agencies with economical and timely centralized services through the administration of Central Duplicating, Central Supply, the State Procurement Office and Surplus Property.
 - Measurement Data: Central Services measures performance from responses to customer surveys.
- 4. Facility Management Goal/Objective: To provide a clean, safe, and friendly environment to all who use the capitol complex.

 Measurement Data: A work order system tracks the progress and time of completion of all work orders submitted by agencies.
- Risk Management Goal/Objective: To promote safety and reduce loss resulting from tort liability and employee injury claims.
 Measurement Data: Risk Management benchmarks against loss history and compares North Dakota's cost of risk with other state government entities.

Office of Manage nt and Budget

Overview Presentation to the House Appropriations Committee

•	OMB	arp	tandoct 3-2											
	1-6-05	Pam Sharp	Full Hous (2) (2) 2005-07 Recommendation Change (Variance) to 2003-05 Legislative Appropriations	(1,829,306)	(94,850)		1,911,000	0	1,337,138 5,000,000	6,323,982	2,529,177	3,794,805	\$6,323,982	(31.5)
			2005-07 Executive Recommendation	13,558,925	11,233,906		2,644,000	179,000	1,337,138 5,000,000	\$33,952,969	\$22,269,688	11,683,281	\$33,952,969	130.5
d Budget	riations Committee		(1) Variance	887,231	770,883	000'069	12,000	0		2,300,114	989,638	1,288,476	2,300,114	0.0
of Manage nt and Budget	Overview Presentation to the House Appropriations Committee	January 6, 2005	2003-05 Estimated Expenditures or Currently Filled	14,773,000	11,811,000	905,807	2,893,989	179,000		\$30,562,796	\$19,792,044	000'006'9	\$30,562,796	162
Office of M	verview Presentation		2003-05 Adjusted Appropriation	15,660,231	12,581,883	1,535,807	2,905,989	179,000		\$32,862,910	\$20,791,682	8,188,476	\$32,862,910	162.0
	O		2003-05 Legislative Appropriation	15,388,231	11,328,756	0	733,000	179,000		\$27,628,987	\$19,740,511	7,888,476	\$27,628,987	162
			Funding	Salaries and wages	Operating expenses	Carryover	Capital assets	Grants Projeto Briblio Brandonetino	Fraine Fublic Broadcasting Statewide Equity Pool	Total	General fund Federal funds	Special funds	Tota!	FTE

^{*} Executive Recommendation includes additional \$3,155,000 Bonding authority included in SB 2023 Capital Projects bill for Fire Suppression System for the Capitol Building.

(1) Explanation of Major Funding and FTE Variances for the 2003-05 Legislative Appropriation to 2003-05 Current Estimates

rederal and Special Funds Total	300,000	000'006	000'069
Fund			000'069
<u> </u>	Remaining funds for unemployment claims.	Unable to project exact costs and volume of business, which results in 2. Central Services Fund a surplus appropriation amount.	Remaining carryover funds used for unplanned expenses for statewide accounting, payroll and budget systems.
	 Unemployment Fund Remaining 1 	2. Central Services Fund	3. Carryover

FTE General Federal and Fund Special Funds

Total	(4,736,337)	(421,675)	1,337,138	5,000,000	1,500,000	000'009	744,462	1,800,000	122,234	118,492
	(630,752)			2,500,000			149,663	1,800,000		
	(4,105,585)	(421,675)	1,337,138	2,500,000	1,500,000	000'009	594,799		122,234	118,492
	(29.5)	(4.0)							1.0	1,0
Married State Deals from Otto to the District		Moved Security from Facility Management to Highway Patrol	Transferred Prairte Public Broadcasting from ITD to OMB, as required in the 2003 Session Law, Chapter 36, Section 44.	Funding for the Statewide Equity Pool	Ongoing maintenance and support for ConnectND	Implementation of additional modules for ConnectND	Salary Compensation package	Facility Management Energy Improvement Project for the Capitol Building Complex	New position in the Procurement Division of Central Services	New position in Fiscal Management Division for ConnectND
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Summary of Major Goals and Objectives and Related Performance Measurement Data for the 2005-07 Biennium (to the extert available)

- Measurement Data: Receipt of GFOA Certificate of Achievement for Excellence in Financial Reporting and the GFOA Effective Budget f. Fiscal Management Goal/Objective: To produce a comprehensive annual financial report (CAFR) and the governor's biennial budget recommendation and provide timely, quality support to state agencies in all financial and budget transactions. Presentation Award. Fiscal Management also surveys agencies to measure customer service.
- 2. Human Resources Management Services Goal/Objective: To promote effective management in North Dakota state government by providing Measurement Data: HRMS keeps statistical data of the services provided to agencies to monitor the effectiveness of technical assistance leadership and expertise in human resource services. provided and to plan for future service needs.
- Division of Central Services Goal/Objective: To provide agencies with economical and timely centralized services through the administration of Measurement Data: Central Services measures performance from responses to customer surveys. Central Duplicating, Central Supply, the State Procurement Office and Surplus Property. က
 - Measurement Data: A work order system tracks the progress and time of completion of all work orders submitted by agencies. Facility Management Goal/Objective: To provide a clean, sale, and friendly environment to all who use the capitol complex. 4
- Measurement Data: Risk Management benchmarks against loss history and compares North Dakota's cost of risk with other state government entities. Risk Management Goal/Objective: To promote safety and reduce loss resulting from tort liability and employee Injury claims. က်

Office of Managment and Budget

Adjustments to Legislative Appropropriation

	General	Federal	Special
Carry Over	1,535,807		
Risk Management			300,000
Risk Management		11,337	
Risk Management		288,663	
State Radio		250,000	
State Radio		127,500	
State Radio		681,600	
State Radio		000'06	
State Radio		272,000	
State Radio		1,000,000	
State Radio		1,161,652	
Contingency Fund	(5,000)		
Contingency Fund	(150,000)		
Contingency Fund	(5,400)		
Contingency Fund	3,714		
Contingency Fund	(3,825)		
Contingency Fund	(91,125)		
Contingency Fund	(25,000)		
Contingency Fund	(208,000)		
Total Adjustments	(484,636)	0	0
Original Appropriation	19,740,511		7,888,476
Adjusted Appropriation	19,255,875	0	7,888,476

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General Discussion

- □ Committee on Committees
- □ Rules Committee
- □ Confirmation Hearings
- □ Delayed Bills Committee
- House Appropriations
- ☐ Senate Appropriations
- □ Other

Date January 7, 2005			
Tape Number	Side A	B Side	Meter #
1	X	X	
2	X	X	
Committee Clerk Signatu	ire Chris 9	Gevander	

Minutes:

The Full Committee of the House Appropriations Committee was called to order by Rep. Ken Svedjan, Chairman and roll call was taken.

Agency Overview

- HB1002

Secretary of State - Testifying was Mr Al Jaeger

Mr Jaeger reviewed the handout # 4-1 (attached) highlighting variances between the 03-05 Biennium and the requests for 05-07 Biennium. Mr Jaeger explained that the budget requested for 05-05 was the same as the current biennium, with only 2 enhancements regarding FTE's and Salary and benefit adjustments, and the migration of the agency's database platform. Review of the 5 variances of the 03-05

General Discussion
Page 2
House Appropriations - Full Committee
January 7, 2005

appropriations on the handout were explained. Rep. Ken Svedjan, Chairman pointed out that all variances just explained were negative numbers, meaning that the agency is spending less than the monies appropriated for their 03-05 budget. Rep. Francis J. Wald asked what interaction this agency has had with the Protection and Advocacy agency regarding the Voter Act. Mr Jaeger answered that they have been working together throughout this planning process. Rep. Al Carlson asked why "off-budget FTE's" are not reflected in the budget since it is so hard to track. Rep. Ken Svedjan, Chairman asked if the monies for these positions showed anywhere in any of the agency's budgets. Sandy, from Office of Management and Budget (OMB) aswered that yes, these positions show in the budget as special line items. Rep. Jeff Delzer asked for clarification of these "off-budget" positions. Rep. Al Carlson asked how many of the "off-budget" positions are in state government now. Alan from the Legislative Council clarified that the Legislature has authorized continued appropriations for each agency's budget which they use for these FTE positions. Rep. Bob Skarphol pointed out that the salaries and wages line in the budget for the Secretary of State's budget did not reflect a number large enough to account for expenses incurred from and FTE position. Sandy, from Office of Management and Budget (OMB) answered that the expenses for this position were in a special line item in this budget. Rep. Ken Svedjan, Chairman said that this issue concerning off budget positions was something that the committee would take a closer look at along the way and that Mr Jaeger should continue his overview. Mr Jaeger continued explaining the 2 major funding variances in the 05-07 requested budget (#2 on handout #4-1) (meter

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#13.1). Rep. Ken Svedjan, Chairman asked if it was the expectation of the counties that they should pay their share of the matching funds for the HAVA bill and Mr Jaeger answered that the counties had no problem paying their share, but that the requirements of the monies meant that the "appropriation" for the monies needed to be shown and that some adjustment may need to be made to this bill (HB 1002) to reflect this language. Mr Jaeger finished his overview by reviewing the major goals and objections of the agency.

Rep. Jeff Delzer asked the Legislative Council if when the agencies spoke of "100% Budget" that that meant that it did not include the pay packages and wondered if that meant that if they dropped any FTE's would the agencies be allowed to re-allocate these monies elsewhere in their budget. Alan, from the Legislative Council answered that yes, each agency could do this and they would start from a slightly higher base figure than they did for the 03-05 budget.

State Auditor - Testifying was Mr Bob Peterson (meter #20.0)

Mr Peterson pointed out that all the numbers in the variance column in handout #4-2 were negative numbers, meaning the agency was spending less monies than were appropriated for the 03-05 budget. Mr Peterson reviewed the variances from his handout. Rep. Ken Svedjan, Chairman noted that this agency was leasing one copy machine and buying the other and asked if the agency was considering moving toward buying the second machine. Mr Peterson answered that they were not. Rep. Francis J. Wald asked if "royalties" meant mineral royalties? Mr Peterson answered that that was correct for federal land royalties. Mr Peterson finished his overview by explaining

General Discussion
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the major goal s and objections of this agency (meter #23.2) and the graph depicting State Agency Financial Auditor Turnover Percentages (page 3 of the handout).

Parks and Recreation - Testifying was Doug Prchal NO1620

Mr Prchal reviewed the variances from handout #4-3 (attached).

Rep. Ken Svedjan, Chairman asked if this difficiency appropriation was the one appropriated in the 03-05 Assembly or if it was being asked of this Assembly. Mr Prchal answered that it was appropriated in 03-05. Rep. Ken Svedjan, Chairman clarified that if this bill doesn't pass in the Senate (SB2145), then these FTE's will be removed. Mr Prchal agreed. Rep. Ken Svedjan, Chairman asked where the carryover that was listed cam from. Mr Prchal clarified that the work at Lake Sakakawea would continue and funding would come from projects that were scheduled but not done. The projects will carryover into the next biennium, but the monies would not. Mr Prchal finished his overview by asking the representatives to read through the section concerning the goals and objectives of the agency.

ルタリングと Tax Commissioner - Testifying was Mr Rick Clayburgh (meter #41.4)

Mr Clayburgh reviewed the negative variances dipicted on handout #4-4 (attached).

Rep. Ken Svedjan, Chairman asked if the increase in spending in the budget was part of the Governor's recommended budget that reflected how the governor wants to change the Homestead Tax Credit program? Mr Clayburgh answered yes and stated that a bill regarding eligibility would be forthcoming. In response to a statement regarding the difficulty in hiring qualified employees, Rep. Mike Timm, Vice Chairman asked how state agencies could be competing for employees if all positions were

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classified. Mr Clayburgh answered that their agency is competeing with other state agencies because of the allowed signing bonuses for some agencies. Rep. Francis J. Wald asked the Legislative Council about the monies appropriated in the last Assembly for helping these agencies compete for employee. Alan from the Legislative Council answered that there were monies in the 01-03 Biennium and there are monies requested for the 05-07 biennium, but not for the 03-05 biennium. Rep. Ole Aarsvold asked if audit proceeeds were included in the chart (pg 4, Handout #4-4). Mr Claybourgh answered that this was correct. Rep. Ken Svedjan, Chairman asked for a clarification of the decrease in federal funds. Mr Clayburgh answered that they did not expect any additional dollars for the administration of the Federal Motor Fuel Tax. Mr Clayburgh continued explaining the critical issues facing the agency. Rep. Ken Svedjan, Chairman asked if the \$12.6 million for the ITD project was coming from general funds. Mr Claybiurgh answered, yes. Rep. Bob Skarphol asked if there was a separate bill referring to this ITD project. Mr Clayburgh answered that there was no bill written as of yet but that they were looking for guidance from Appropriations Committee as to whether they should ammend an already existing bill or if they should write a new bill to account for this project. Rep. Francis J. Wald asked about how we stand concerning efficiency regarding the cost of collections in comparison with other states. Mr Clayburgh explained that it was hard to measure this data and can be skewed in comparisons but seem to be doing well in comparison with Montana and said that he would give more comparison information in the extended hearing. Mr Clayburgh finished his overview by thanking the committee.

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<u>Labor Commission - testifying was LeeAnn Birch (meter #2.8)</u>

Ms Birch reviewed the variances listed in handout #4-5 (attached). She highlighted the change in FTE's saying thatall changes would be paid for with federal dollars, and explained the descrepancy of the figures onthe handout concerning compensation by saying that it represents the percentage that they apply to the federal funds for compensation. Ms Birch finished her review by discussing the goals and objectives for the agency.

Public Service Commision - testifying was Kevin Kramer (meter #15.2)

Mr Kramer reviewed the notes in the distributed handout #4-6 (attached) regarding the variances from 03-05 and 05-07. Rep. Mike Timm, Vice Chairman asked about the Rail Rate Court Case and asked if we could accomplish a positive result for the requested \$900,000 when Montana has been fighting this same case for years and has spent millions of dollars. Mr Kramer answered that we are trying this case within a new method that would help keep both time spent and costs, lower. Rep. Ron Carlisle asked how many years Montana has been pursuing this issue. Mr Kramer answered that he believed it was 3-4 years. We expect 1-2 years within the new method. Rep. Chet Pollert explained that he knew a lot about this case and would be willing to visit with any representative who had any questions. Rep. Ken Svedjan, Chairman asked if the counsel for this case was being hired outside the Attorney General's office. Mr Kramer confirmed this. Rep. Ole Aarsvold asked about the costs of Connect ND and other storage fees. Mike Pillard answered that all indirect costs would be recovered from federal funds.

General Discussion
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State Securities - testifying was Karen Tyler (meter #32.3)

Ms Tyler read through the attached testimony (handout 4-7, attached). Rep. Ken Svedjan, Chairman asked if the \$92.8 turnback funds would be going into Special Funds. Ms Tyler answered yes. Rep. Jeff Delzer asked why they spent the general fund dollars first instead of the special funds. Ms Tyler answered that the special funds were restricted to financial educational costs only. Rep. Ken Svedjan, Chairman and Rep. Eliot Glassheim noted that it seemed as though general funds were being requested to pick up for the loss of special funds. Special funds will be replaced by other monies that cannot be projected or budgeted and additional recoveries would benefit the genral fund. The variance only represents that there will be no funds granted for financial education this year. Rep. Ken Svedian, Chairman asked how much money does the recovery efforts give to the general fund. Ms Tyler answered that \$11 million was added to the general fund in the current biennium and they anticipate it growing to \$17 million before July 2005, and explained that these revenues are budgeted or projected in the Departmental Collections line. Rep. Bob Skarphol asked if there was a regular revenue stream for special funds. Ms Tyler answered that there was no consistent stream and explained that most revenues came in by way of private donations for financial education. Ms Tyler explained that if the federal grants for these programs were ever depleted, they would still be responsible for fulfilling federal regulations of the program. Ms Tyler noted that the chart on the last page of the handout represented "total Revenues" and finished her review by discussing their need for enhanced legal services and explained that the Attorney General's office was

General Discussion
Page 8
House Appropriations - Full Committee
January 7, 2005

assisting, but that the expertise of the enforcement actions may cause their agency to seek counsel outside of the Attorney General's office. Δe^{Q}

Agriculture - testifying was Roger Johnson (meter Tape #2, # 4.4)

Mr Johnson reviewed handout #4-8 (attached) highlighting the significant issues listed on pages 1-2 of handout. Rep. Mike Timm, Vice Chairman asked if they were asking for a fully funded SafeSend project or only to restore what was cut from appropriations last biennium. Mr Johnson answered that they were requesting \$680,000 to restore what was cut because they have had to use their special funds to cover the loss and the program has run badly because of the loss. Rep. Tom Brusegaard asked if ND had applied for any Section 18 labels. Mr Johnson responded yes and said that most requests have been approved. Rep. Al Carlson asked if the federal grants were coming from the Homaland Security project. Mr Johnson asnswered that all grants are federal funds coming from USDA and most are Homeland dollars while a couple are from Disease Control. Rep. Al Carlson asked what authority they were given to spend these funds. Mr Johnson said he did not have specific figures available.

Rep. Al Carlson asked if the FTE's realize their jobs may end if these funds end. Mr Johnson answered that they were all aware. (meter Tape #2, #11.1)

Mr Jeff Weispfenning reviewed the Analysis of the variances within the handout (#4-8 page 3) and mentioned that the crop harmonization appropriation was a duplicate and is unnecessary appropriation because the Minor Use Fund has a continuing appropriation. Rep. Ken Svedjan, Chairman asked that the performance measurment section should be read by the representatives and any questions on these could be

General Discussion
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House Appropriations - Full Committee
January 7, 2005

shift in budget categories. **Mr Weispfenning** answered that the State Water Bank program is responsible for the decrease in leases since there is no state funding and the professional services decrease would be in specialized contracting. **Rep. Al Carlson** asked if anyone in this department recieved a raise in the last biennium. **Mr Weispfenning** answered yes, but mostly through workload adjustments. Rep. **Al Carlson** asked that the details of this and the authority to do this spending be brought to the hearings on this budget. **Mr Weispfenning** discussed the Minor Use Fund, The Honey Promotion Fund, and the Turkey Fund. **Rep. Jeff Delzer** asked if the Minor Use Fund is within the Crop Harmonization Board. **Mr Weispfenning** discussed the distinctions of the two line items, but **Rep. Jeff Delzer** asked that this confusion be looked at and clarified in hearing.

Insurance Commisioner - testifying was Jim Poolman (meter Tape #2 #24.3)

Mr Poolman distributed handout #4-9 (attached) and mentioned that the major adjustment to this year's budget request was the fact that the Perscription Connection program was created in the last biennium but that their were insufficient fund to run it so they are asking for an increase in this budget. Mr Poolman assured the committee that they have built in enough of an increase to fully staff the program so that there would be an increase in the amount of one to one help with filling out the forms needed for eligibility since each pharmisceutical company has different rules.

Emergancy Management - testifying was Doug Friez (meter Tape #2, #37.6)

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General Discussion
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House Appropriations - Full Committee
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Mr Friez reviewed handout # 4-10 (attached) and mentioned there was a big push to change the public saftey system from analog to digital. This would be done mostly through federal funding but need the authority to use the funds. Rep. Jeff Delzer asked what authority they were presently using. Mr Friez answered that legislative approval comes alongside and allocated funding. Rep. Jeff Delzer continued by asking by what authority do they sign leases and enter into contracts since these actions mean that the state is ultimately responsible. Mr Friesz explained how the federal provisions worked and said that there is a provision in all contracts or leases mentioning that the contract was void if the federal funds were removed. Rep. Mike Timm, Vice Chairman asked if any Homland funds could be set aside to cover this if they were needed. Mr Friesz answered that there were rules attached to the Homeland dollars that would make this impossible. Rep. Francis J. Wald asked if local emergancy response companies were reimbursed for costs for this. Mr Friesz answered that some are and some aren't, since the funds have to be requested. Rep. Bob Skarphol asked how much was borrowed from the general fund to match the federal funds. Mr Friesz answered a total \$5.9 million. He continued that there was a defficiency bill introduced for \$6.2 million. Rep. Jeff Delzer asked if private emergancy responses were getting any of the funding. Mr Friesz reported that the process for distributing the funds were decided locally and it was sometimes hard to get people to attend these meetings. Rep. Ken Svedjan, Chairman asked about the 29 FTE's listed but that we were unsure what would happen to this, so be prepared to get the details in hearing.

State Treasurer - testifying was Kelly Schmidt (meter Tape #2, Side B, 4.1)

HB1005

General Discussion
Page 11
House Appropriations - Full Committee
January 7, 2005

Ms Schmidt reviewed handout # 4-11 (attached), explaining that funds were increased in this budget request to account for any transition costs occuring from the change of State Treasurer. The only changes planned in staff are in 2 non-classified positions.

Rep. Bob Skarphol asked if there was money requested for an upgrade in computers.

Ms Schmidt answered that they were planning a study to determine the needs of the office. Rep. Francis J. Wald asked if the adjustments needed for the School Districts were being paid. Ms Schmidt said that some of the smaller ones had been repaid and that they were working on a schedule for repaying the others. A descrepancy in the handout was found and Ms Schmidt assured the committee that she would send a corrected version to the committee.

Office of Governor - testifying was Bill Goetz (meter Tape #2, Side B, 13.2)

Mr Goetz reviewed handout #4-12 (attached). Mr Goetz mentioned that adjustments were made in the last biennium to keep their 18 FTE's with funding for only 16.3, but was requesting funding for 17.3 FTE's in this biennium. Rep. Jeff Delzer asked about the E-Rate for the Schools for the Deaf and Blind. Mr Goetz answered No and said that this was an ITD issue and that the E=Rate issue has been resolved. Rep. Pam Gulleson asked if salary adjustments were made to make it possible for 18 FTE to keep working on a funding for 16.3 FTE's. She continued her question by asking what authority was used for those adjustments. Mr Goetz answered that some adjustments were made but authority was unnecessary since it was a simple re-allocation of funds. Rep. Ken Svedian, Chairman adjourned the meeting. (meter Tape #2, Side B, #22.5)

General Discussion

□ Committee on Committees

□ Rules Committee

□ Confirmation Hearings

☐ Delayed Bills Committee

M House Appropriations

☐ Senate Appropriations

Other

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Tape Number	Side A	B Side	Meter #
1	X		3-6242
		X	0-2604

Minutes: Chairman Carlson opened the hearing on General Discussion.

House Appropriations Government Performance committee discussed Initiatives that will evolve committee areas that don't get studied to improve Government efficiency. (See Attached)

Hearing closed, will resume after Legislative floor session.

Hearing reopened by Chairman Carlson at 1355 hrs.

House Appropriations Government Performance committee further discussed Initiatives,

highlighting topics, and reviewing to see if bills were already drafted for some of these areas.

(See attached Initiatives table)

General discussion hearing closed.

January 10, 2005

January 10, 2005		1
Initiatives		
Policies on continuing appropriations		
Long range policies for bonding		
Contracts and borrowing authority		
Off Budget Employees		
Lottery: continuing appropriations for FTE's		
Understand decling funds		
Lost federal money		
Privatization		
Employee issues, proper compensation		
Dealing with bills, concerns with policy issues		
Be involved in hearings/Bridge tie between policy and money		
Education- Cell phone issues		
ITD (Second Half)		
State owned property-Assets, use of land, misuse of taxpayers		
Unfunded mandates		
Legislative Practices- Consult other States		
Property taxes-cause for increase, political subdivisions		
Property tax relief		
Bank of ND- Amounts borrowed, Scheduled repayments		
Uniform pay for Performance/ Wage Program		
Trust Funds- Current status, how used, replenish themselves		
Resolution- Vacation, Holiday Sick leave/Payed Time off		
program		:
Medicade- Should be privatized		
Human Resources-Buyer and Payer		
Smooth Functioning of Gov/Purpose/ Done efficiently	•	
Legislative mess ups- when instructing costing money		
Raises		
Continuing Appropriations		
IT -Prices of computers		
Identify where bills are coming/ Realistic Focus		

January 10, 2005

January 10, 2005			
Initiatives	Bill	Study Re- solution	Request Inform- ation
Policies on continuing appropriations			
Bonding Anaylsis			
Contracts, borrowing authority, and leasing			 -
Identifying Declining Federal Funds & Unfunded			
Mandates		1	
Privatization/Outsourcing			
Comp & Benefits			
-Equity			
-Uniform Pay for Performance			
-Sick Leave- Vacations- Paid Time Off			
State owned Property/Assets			1
Off-Budget FTE's			
OMB Budget		-	
-Cell Phone Issues			
IT Issues			
Legislative Best Practices			
-NCSL		İ	
-CSG			
Study Resolution for property taxes/Property Tax			
Relief .			
FTE Analysis			
Trust Funds			
-Current Status			
-Purpose of Funds			
Centers of Excellence			
Tax payer Bill of Rights			
Homeland Security Dollars			
Legislative Budgeting Process		-	
Legislative Self Analysis			
Medicaid Privatization			
Unfunded Mandates/Lost Federal Dollars			
Bank of North Dakota- Policies			
		 	

General Discussion

- ☐ Committee on Committees
- □ Rules Committee
- □ Confirmation Hearings
- □ Delayed Bills Committee
- M House Appropriations
- ☐ Senate Appropriations
- □ Other

Tape Number	Side A	B Side	Meter #
1	X		1-6206

Minutes: Chairman Carlson opened the hearing on General Discussion.

House Appropriations Government Performance committee further discussed their drafted Initiatives, with intent to fine tune, and finalize the list. (See attached Initiatives Table)

General discussion hearing closed.

Initiatives	Bill	Study Re- solution	Request Inform- ation
Off-Budget Funds			
• Sources			
• Uses			
• Status			
• Authority			
Bonding Analysis			
• Authority			
• Limits			
 Type of Bond 			
 Payback 			
 Duration 			
 Total Cost 			
 Source of Repayment 			
 Pecking Order 			
Unutilized Authority	-		
Contracts, Borrowing Authority, & Leasing		-	
 Authorization Required 			
 Where do you get your statuatory 			
authority to borrow, contract, or lease			
 Payback 			
 Length of Duration 		ļ	
 Total Cost 		ŀ	
• Limits			
 Repayment Penalties/Granted Authority 			
 Applied Authority 			
 Bank of North Dakota 			
 Who has access to bank 	-		
 Capitalization Rating 			
Federal to State/State to Political Subdivisions			
 Types 			İ
 Current impact on Budgets & Future]		
Budgets/Fiscal Effect			
See NCSL Document			
Privatizations/Outsourcing			
Are there cost savings			
Compensation & Benefits			
• Equity			
 Uniform Pay for Performance 			
 Sick Leave-Vacations-Paid Time Off 			
Healthcare			
What was Granted			1

 Authority for Granting 		
How much Granted		
 Sources of Funds 		
 Justification 		
 Meritpay Bonuses, Raises, Pay for 		
Performance, Incentives, Sign-In Bonuses		
Human Resources		
Enterprise Performance		
Management System		
 Enabled to be better Managers 	1	
More Accountable		<u> </u>
State owned Property/Assets		
• Type		
How their using Assets		
Potential		
Value of it		
Do we need it		
Asset Management		
Unutilized Land & Realestate		
Realestate	!	
• (Ken has Info)		
Off-Budget FTE's		
How many		
Where are they		
 How are they being Funded 		
 Phantom FTE's 		
OMB Budget		
 Cell Phone Issues 		:
IT Issues		, "
 Cost/Benefit 		
Overall Legislative Plan for IT		
Legislative Best Practices		
• NCSL		
• CSG		
• ALEC		
FTE Analysis		
Trust Funds & Other Funds		
How Many		
Intended Purposes		
Current Status		
How Replenished		
Who has the Authority to Borrow Money		<u> </u>
Centers Of Excellence		
What is it		
Tax Payer Bill of Rights		

Budget Stabilization Fund		
Homland Security Dollars		
• Track		
How Used	İ	
How Distributed		
Who Receives]
 Who makes Decision where Money goes 		
Any Requirements		
Sustainability of Funds		
Establishing Program/Funding		
Legislative Budgeting Process		
Legislative Self Analysis		
Medicaid Privatization		
Performance & Accountability		

General Discussion

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- □ Committee on Committees
- □ Rules Committee
- □ Confirmation Hearings
- □ Delayed Bills Committee
- House Appropriations, G.O.
- ☐ Senate Appropriations
- □ Other

Tape Number	Side A	B Side	Meter #
2	X		266-5929
2		X	00-1590

Minutes:

Chairman Carlisle called the General Discussion to order.

Re: HB 1002, Secretary of State budget

Members discussed the problem of how to meet the 5 % requirement to secure the federal grant and how to reconcile the differences of opinion from the OMB and the Secretary of State's Office. The committee asked Sandy Paulson if she would arrange a meeting between OMB, Legislative Council and the Secretary of State's Office to hash out their differences and come up with a proposal within four or five days.

General Discussion
Page 2
Government Operations
January 12, 2005

Re: HB 1007, Labor Commissioner

Members discussed why the budget seemed to bounce around so much and Sandy Paulson explained that HUD changed the reporting requirements to a per case format. The budget is adapting to those changes; this is the transition. Members discussed the Memo dated 1/11/05 which clarified the request for salary increase. Rep. Timm agreed to carry HB 1007 to the floor.

Re: HB 1011, Securities Department

Members discussed the FTE request and generally agreed that this position pays for itself. The estimates for outside counsel seemed within reason. Rep. Kempenich agreed to carry HB 1011 to the floor (Meter #1955)

Re: HB 1005, Treasurer's Department

Members discussed the IT costs. Sandy Paulson estimates that the Tresurer has enough now in the budget to work on a study and do a quick fix. Rep. Thoreson pointed out that it's the application software that's costly. IT can help find that and adjust it to our state laws. Members also discussed the CO2 pipeline. Sandy Paulson will get more information regarding which counties are involved.

Re: HB 1001, Governor's Office

Discussed briefly that the office is authorized for 18 people and that adding one person still funds to 17.3. Noted that Governor & Lt. Governor did not take salary increases for the past two sessions. (Meter #3597)

Re: HB 1010, Insurance Commission

Chairman Carlisle Members discussed the amendment and generally agreed a flat amount would be most efficient and each session it could be re-evaluated. Members asked Roxanne

General Discussion
Page 3
Government Operations
January 12, 2005

Woeske to draft amendment to provide 1 million per year plus a grant to the Association form \$104-120,000. Members discussed whether or not they needed to do anything to insure Rep. Wald has sufficient travel funds for 2006 and noted the Commissioner didn't seem to be worried about it.(Tape 2, Side B #1590)

Meeting Adjourned.

General Discussion

Committee on Committees

Rules Committee

Confirmation Hearings

Delayed Bills Committee

House Appropriations, Gov. Operations

Senate Appropriations

□ Other

Tape Number	Side A	B Side	Meter #
1	X		00-2197

Minutes:

Chairman Carlisle called the General Discussion to order.

The Committee divided into groups of three to examine issues more closely. See Attachment #1 for assignments.

(Meter #1093)

Re: Public Service Commission

Ms. Paulson, OMB, sent a note today to get information from ITD. She stated that PSC used rates different from agency rates. These calculations were not done in conference with ITD.

Re: Metrologist

General Discussion Page 2 General Discussion Tuesday, January 18, 2005

Ms. Paulson, OMB, explained that the Dept. considered moving the lab to the east. The Metrologist said he will go to Iowa if the lab is moved. Iowa offered a 30% increase. If the lab were moved, it's questionable whether or not the \$35,000 would cover the annual rent. There was speculation about economic development groups and whether or not there were interest in building a lab. If most clients in the east, might be more cost effective to locate there. There are many things to work out.

Re: Ebert Ranch

It was noted that Game & Fish is not setting this acquisition as a priority. There is a question about mineral rights.

(Meter #2197)

Meeting adjourned

[Note from the Clerk: The tape did not record this session. I've been having trouble with the connection between the mics and the recorder. It's loose because the machine is old.]

General Discussion

Committee on Committees

Rules Committee

Confirmation Hearings

Delayed Bills Committee

House Appropriations

Senate Appropriations

Other

	B Side	Meter #
X		00-3430
	X	x view. In who with

Minutes:

Chairman Carlisle called the General Discussion to order.

The purpose of the meeting is to summarize some of the Committee's work to be done on bills for the benefit of Chairman Svedjan and to discuss the process for doing that work. Chairman Carlisle reminded Committee members of the Hearing on HB 1006, Tax Commission on Monday, 1/24 at 9:00 a.m. The big question for the Tax Commissioner is the Integrated Tax System.

Re: HB 1001, Governor's Budget

Consideration of the 1 FTE request.

General Discussion
Page 2
General Discussion
Thursday January 20, 2005

Re: HB 1002, Secretary of State

How to protect & secure the HAVA grant funds. OMB, Legislative Council and Secretary of State are working on a proposal and that should be available Monday.

Re: HB 1003, Attorney General

Losing the Bryne Grant funds is the major concern. Ms. Paulson, OMB, brought up an idea for a temporary fix which the Committee will investigate and that would be to put refund monies into the general fund to cover part of the loss for the Bryne Grant. The estimated amount would be \$5-600,000. Ms. Paulson agreed to speak with Ms. Roll.

Also of concern is a new FTE, extra supply costs to support increased demands for forensics, and how to retain agents in a competitive salary market.

(Meter #2039)

Re: HB 1005, State Treasurer

The \$30,000 appropriation for an IT study seems sufficient with the existing turn back of approximately \$25,000 to implement temporary fixes and to start long-term plan. In reference to working out problems with the State Treasurer, **Rep. Williams** stated, "It's refreshing to see such a good attitude."

Re: HB 1008, Public Service Commission

Two major issues: The dispute between PSC and ID regarding the IT exemption and whether or not to fund the rail rate case.

The Committee will schedule a meeting with Comm. Clark Friday at 10:00 a.m. to get more information on the ITD dispute.

General Discussion
Page 3
General Discussion
Thursday January 20, 2005

Ms. Paulson agreed to research last session to find out if any money had been taken from the Rail Trust Fund for the rail rate case. Chairman Svedjan advised the Committee to evaluate the case and come to the Full Committee with a their best recommendation. Chairman Svedjan voiced concern as to whether of not BNSF would take any negations seriously unless the money is on the table.

Re: HB 1009, Agriculture Department

At issue are three FTE's, 2 for the Animal Board of Health staff (a vet and support staff) and 1 for a meat inspector.

Also at issue is the request for \$250,000 for the saltcedar problem. There's a miss in EARP which is unobligated. The Dept. might be able to use that.

The request for \$85,000 for the Ag in the Classroom which is an optional request.

The request for the Pride of Dakota program. Ms. Paulson informed the Committee that this program has always been off budget or it's an on-going program. The program can only spend whatever it brings in.

Re: HB 1010, Insurance Commission

Firefighters want a larger portion of the premium money. The cap is 2.6 million. The Committee is drawing up an amendment to allow them \$1 million more per year out of that fund, which currently has \$4 million. The increased appropriation will bump the cap to 3.6 million.

Re: HB 1018, Game & Fish

Moving the flora from \$10-15 million to deal with problems: Sweet Briar dam is leaking, carp at D.L., & a road into Graham's Island that's going under water. The Director is not interested in buying that ranch.

General Discussion

□ Committee on Committees

□ Rules Committee

□ Confirmation Hearings

□ Delayed Bills Committee

Mouse Appropriations, Gov. Operations

☐ Senate Appropriations

□ Other

Date Monday, 1/24/05 Tape Number	Side A	B Side	Meter #
1		X	17.7-49.2
2	X		00-4.5

Minutes:

Co Sarah

Chairman Carlisle called the General Discussion to order.

He confirmed with members that the following bills are about ready to be sent to the Full Committee: HB 1005, HB 1006 (with regard to the budget. The amendment will be considered in Full Committee), HB 1007, and HB 1011.

(Meter #20.7)

Re: HB 1089, a bill for an Act to amend and reenact subsection 2 of section 53-06.1-03 of the North Dakota Century Code, relating to games of chance license fees.

The bill has been approved by the Judiciary Committee, 14-0, and has been referred to House Appropriations, Government Operation Division because of the fiscal note. **Chairman Carlisle**

General Discussion

Page 2

House Appropriations, Government Operations

Monday, January 24, 2005

said the \$68,000 in question is already included in the operating expenses of the Attorney

General's budget. Chairman Carlisle said he would carry the bill to Full Committee.

There was a question as to why two fiscal notes were attached to the bill, one dated 12/22 and the

other dated 1/12. Chairman Carlisle called Kathy Rowe, Director of the Finance &

Administration Division and asked if she would come to the House Conference Room and

explain. When she arrived, she explained what happened with the first fiscal note was that the

\$204,000 that goes into the general fund for this fee was reflected, and it was already included in

the executive recommendation. The Dept. revised it to just include the \$68,000, which is the fee

increase. She confirmed that the operating expenses for HB 1089 are already in the A.G.'s

budget.

Chairman Carlisle asked for a Motion for "Do Pass" for HB 1089. Rep. Timm so moved and

Rep. Thoreson seconded the motion.

(Meter #27.8)

Re: HB 1018

Committee members discussed the Ebert Ranch. Rep. Kempenich explained that the ranch is

approximately 5,600 acres and the asking price is \$600 per deeded acre, which seems a bit high.

There are unresolved easement questions. There is discussion to have the Park Service run the

ranch and they'd need 2 FTE's to do this. (Meter #35.6) There is discussion as to whether the

State should buy it or the Federal Government. The Eberts have been charging bow hunters to

use the land. The Game & Fish Department has \$400,000 to pick up the grassland portion.

General Discussion
Page 3
House Appropriations, Government Operations
Monday, January 24, 2005

Re: HB 1010

Chairman Carlisle told Committee members that the amendments for the firefighters have been placed in their books.

Re: 1003

The biggest issue is the Bryne grant and the possibility of using refund money will certainly help.

Rep. Kroeber pointed out that the Dept. has funding for the first six months of the new biennium, but something that hasn't been considered is that the match is going up from 28% to 31%. **Ms. Paulson** thinks the Dept. accounted for that.

Chairman Carlisle mentioned that Attorney General Stenehjem just got back for speaking with the federal delegation. Any relief will have to come from some type of add-on.

Meeting Adjourned.

(Meter #4.5)

General Discussion

☐ Committee on Committees

□ Rules Committee

Confirmation Hearings

☐ Delayed Bills Committee

House Appropriations, Gov. Ops.

☐ Senate Appropriations

□ Other

Tape Number	Side A	B Side	Meter #
1	X		17.2-36

Minutes:

General Discussion began after the Committee finished work on HB 1018. (Tape 1, Side A,

Meter #17.2)

Chairman Carlisle reviewed the status of subcommittee work on the following bills:

Re: HB 1001, Governor's Budget

College Color

Rep. Thoreson said the Governor's budget is ready to go.

Re: HB 1002, Secretary of State Budget

Rep. Thoreson said that the Secretary of State has been working on a proposal. There should be some more information soon. **Chairman Carlisle** asked if this could be provided by Friday.

General Discussion

Page 2

Committee Work

Wednesday, January 26, 2005

Re: HB 1003, Attorney General Budget

Chairman Carlisle said the subcommittee will meet later in the morning.

Re: HB 1005, State Treasurer

Rep. Timm reported that this budget is ready to go.

(0. × 6 %

Re: HB 1006, Tax Commissioner

Rep. Kroeber asked about the whether a decision had to be made regarding the Integrated Tax System and **Chairman Carlisle** said that this would be discussed in the Full Appropriations Committee.

Re: HB 1007, Labor Commissioner

Rep. Timm reported that this budget is ready to go.

Re: HB 1009, Agriculture Department

Chairman Carlisle said that since Rep. Kempenich is absent until Friday, the Committee would wait until then to do any further work.

Re: HB 1010, Insurance Commission

Chairman Carlisle told the Committee that Proposed Amendments to House Bill No. 1010 .0103 and 0.102 are ready for review and that the previous Proposed Amendment to House Bill No. 1010.0101 can be pitched. Rep. Timm asked if all amendments to a bill are supposed to be put on one sheet of paper. Ms. Woeste confirmed. She also pointed out that she drafted two amendments, but that the Committee hasn't taken any formal action either one. If both of these amendments were approved by the Committee, they would be incorporated into one and that amendment would be brought before the Full Appropriations Committee. Rep. Timm reported that the rest of the budget is ready to go.

General Discussion
Page 3
Committee Work
Wednesday, January 26, 2005

Re: HB 1008, Public Service Commission

Chairman Carlisle said he would follow up today on the meeting with the State Metrologist, which is to take place today.

Re: HB 1011, Securities Commission

Rep. Thoreson visited with the Commission. The Committee agrees the new FTE will pay for itself.

Re: Future bills

Chairman Carlisle said the Committee will get HB 1189 and another, but they haven't come up yet. The Committee's bills have to be down to Full Appropriations by Thursday, Feb. 3.

(Meter #36)

Discussion adjourned.

General Discussion

☐ Committee on Committees

□ Rules Committee

□ Confirmation Hearings

☐ Delayed Bills Committee

House Appropriations, Gov. Operations Div.

☐ Senate Appropriations

□ Other

Date WW.	212/05		
Tape Number	Side A	B Side	Meter #
1	X		26.5-30.4
Committee Clerk Signa	iture William	W. Talah	enh

Minutes:

Chairman Carlisle asked the Committee to review the progress on various bills:

Re: HB 1001 regarding the Governor's Office

Rep. Thoreson reported there were no amendments.

Rep. Kroeber got the answers from the Olmstead Commission and the extra information on the Standards and Practices. **Chairman Carlisle** noted the grant for the No Child Left Behind, the

3-year allocation, is a pass through to the Education Standards & Practices Board.

Chairman Carlisle noted that the request for 17 FTE's is authorized; just backfilling with the money.

General Discussion
Page 2
House Appropriations, Government Operations Division
Wednesday, February 2, 2005

Re: HB 1005 regarding the Treasurer's Office

Rep. Timm said that budget is ready.

(Meter #28.2)

Re: HB 1006 regarding the Tax Commission

Rep. Timm said budget is a straight forward appropriation. The Tax Commissioner will take up his new tax plan with the Full Committee.

Re: HB 1007 regarding the Labor Commissioner

Chairman Carlisle and **Rep. Thoreson** met with the Commissioner and got the answer regarding the \$20,000. The money is necessary for that attorney due to a conflict of interest.

Re: HB 1008 regarding Public Service Commissioner

Rep. Kempenich will take this one and the amendment for \$1.8 million will be a subject of debate. The Metrology Lab issue is settled. There is the letter regarding IT.

HB 1011 regarding Securities Commission

Rep. Kempenich didn't raise anything of concern.

Chairman Carlisle called a recess until 10:00 a.m.

(Meter No. 30.4)

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2005

SENATE APPROPRIATIONS COMMITTEE

GENERAL FUND DISCUSSION

General Discussion

- ☐ Committee on Committees
- □ Rules Committee
- □ Confirmation Hearings
- ☐ Delayed Bills Committee
- House Appropriations
- Senate Appropriations
- □ Other

Tape Number	Side A	B Side	Meter #
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		·	

Minutes:

Chairman Holmberg distributed the General Fund Revenue Forecast Decisions.

Senator Tallackson motioned to approve the General Fund Revenue Revision, Senator Andrist seconded. A voice vote was taken, all present were in favor. Motion carried.

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JOINT HOUSE AND SENATE APPROPRIATIONS COMMITTEE HEARING GENERAL DISCUSSION MINUTES ON:

Information technology
Significant audit findings
State health and retirement plans
State employee compensation

2005 JOINT STANDING COMMITTEE MINUTES BILL/RESOLUTION NO. JOINT COMMITTEE HEARING

Senate and House Appropriations Committee

☐ Conference Committee

Hearing Date 1/5/2005

	Side A	Side B	Meter #
1	A	В	
2	A	В	

Committee Clerk Signature

Minutes:

Chairman Svedjan called the Senate and House Joint Appropriations Committee to order and announced the order of business. Roll call was taken. The Information and Technology Department presentation by Kent Wolf; after the break the NDPERS would present the compensation report and Human Resource Management Services will review employee salary and benefit package.

Curt Wolf, reviewed the Information Technology Department Documentation for the Legislative Joint Appropriations Committees (See handout notebook Documentation for the Legislative Joint Appropriations Committee) on a section by section basis. The Information Technology budget for 2005-2007 is at \$175,179.632 (meter #580) excluding ITD Agency billing and higher education computations. The higher education only budget is \$22,208,939. Do not know budget for each of 11 college campuses. The budget by department and funding source was reviewed. The Information Technology Department has established a standardized system for desktop PC

Page 2 Senate and House Appropriations Committee Bill/Resolution Number House and Senate joint Hearing Hearing Date 1/5/05

replacement and main frame changes. Savings in the budget was discussed (meter #688). Several questions were asked and responded to by Curt Wolf of ITD.

Curt Wolf Indicated monies come from three sources the general fund, special funds, or federal funds. There are three types of initiatives in the budget, major enhancements replacement of personal computers and main frame system devices. The contracts in place were discussed. It was indicated that some items such as mobile systems are not included in the budget.

Pam Sharp, Office of Management and Budget, indicated the budget was built on the initial projected PC replacement estimates and subsequently lower prices were bid. The amount of difference is quite insignificant compared to the whole budget and the difference was not. We cut out of the budget as the difference could go back into the department budgets. However, we could go back and recalculate this. The Office of Management and Budget was asked to recalculate and clarify the totals in the budget. Pam Sharp indicated each department may have to shift the difference to other areas in the budget.

Curt Wolf responded to several questions regarding the borrowing authority of various agencies as well as the signing of contracts. (meter #4209) The response was that some agencies have that authority.

Questions were raised regarding the main frame migration (meter #4430) as well as PC and PC replacements. (meter #4740). Responses were made and referred to age of systems, increase of maintenance costs, and impact of changing technologies. Questions arose regarding the People Soft products and Legacy products (Tape 1 side B meter 1689). Questions were responded to, but further discussion will take place during budget hearings.

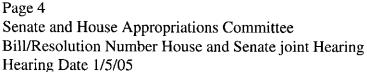
Page 3
Senate and House Appropriations Committee
Bill/Resolution Number House and Senate joint Hearing
Hearing Date 1/5/05

Dave Zentner, Director of Medical Services, Department of Human Services, spoke to clarify (Meter 3950) the MMIS system and whether it be outsourced or kept in the department. The point is that the federal government pays 75 percent of the cost and the state pays 25 percent. The federal government will still pay 75 percent whether outsourced or in house. A full presentation will be made to the full house appropriations committee.

Ed Nagel, Director of State Auditors office, Reviewed handouts Significant Audit Findings for the 2003-2004 Interim which was prepared at the request of the Senate and House Appropriations Chairmen to formalize to a greater extent the findings of the audits. Included in the documents are the agency findings, the recommendations to the agencies and the responses of the various agencies (See handouts for full disclosures as well as the name and phone number of each auditor.) All audit reports can be viewed at the web site in full. Ed Nagel reviewed some of the significant concerns in selected sections as well as recommendations of the Auditor's Office. In addition a Performance Audit Report of the Administrative Committee on Veterans' Affairs as well as the Performance Audit Report of the Office of Driver and Vehicle Services as per the request of the Appropriations Chairmen. Ed Nagel was asked to present this information again in more detail.

Representative Wald Recommendation to committee would be to have a Study How Legislature deals with commodity groups and how we interact with those councils and I will take that on and draft a study resolution (Tape 2 Side A Meter 1000).

Barb Collins, Executive Director, ND Public Employee Retirement System, presented a brief overview of the State Health Insurance and Retirement plans. Handouts were distributed and a slide presentation was made (See handouts). Bids from insurance companies were requested the



only responses were from Blue Cross Blue Shield for active members and Core Source for retirees only. No response was received from several other companies. The proposed fully insured rate for the 2005-2007 years will be \$579.33, an increase of \$70.45. Discussion took place as to funding sources and plan changes (meter 2700). The one change in the plan is a maximum of \$1000 for formulary drugs. In addition PERS is submitting a proposal to put into place an employer based wellness plan (meter 3700) and a proposal to increase the percentage to 5 percent of retiree health credit benefit program (HB 1072). An overview of the retirement programs conducted through PERS was reviewed (meter 5000). HB 1069 will be submitted and relates to returning veterans compensation programs. HB 1070 will be submitted regarding one time payment to retirees. HB 1074 will be submitted relating to the OASIS plan requesting funds. Discussion took place regarding the presentation (Tape 2 side B meter 250).

Ken Purdy, Classification and Compensation Manager in Office of Management and Budget, presented the North Dakota State Employee Compensation Report (See handout). Currently

presented the North Dakota State Employee Compensation Report (See handout). Currently 7316 employees with 6409 classified employees, average age of employees is 45.9, average years of service is 13 and average salary is \$32,604. Handout includes information on salary distribution, turnover information, salary increase history, salary survey results, and compensation analysis (see handout). An additional handout distributed is a North Dakota State Employee Fact Sheet compiled December 2004. **Representative Gulleson** requested the same information for non-classified employees.

Handout
2-4
1-5-05.
Compensation
Manager for
Manager for
Human Sources
OMB

2004

North Dakota State Employee Compensation Report to the

Joint House & Senate Appropriations Committees

ND Human Resource Mgmt Services Office of Management & Budget State Capitol – 14th Floor 701-328-3290 www.discovernd/hrms

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INTRODUCTION

This report is provided as a resource describing and analyzing the compensation of North Dakota State Employees. The report focuses on "career service" employees.

North Dakota currently employs approximately 7,316 'regular' employees. This number does NOT include the University System. This number does not include temporary employees

Generally, the 7,316 employees is comprised of:

6,409	Classified	Career or Civil Service employees under the jurisdiction of HRMS Personnel System
907	Unclassified	Includes State Officials (Elected, Appointed, Deputies); Legislative Council staff; ND Court System; Workforce Safety & Insurance; Dept of Commerce; Physicians; Teachers; and other miscellaneous categories

This report focuses on the compensation of the Classified or Career Service employees under the jurisdiction of the classification system administered by the Human Resource Management Services (HRMS) Division of the Office of Management and Budget. The North Dakota Class Evaluation System administered by HRMS provides a consistent basis for determining the relative value of jobs within state government and for comparing that value to the compensation for jobs outside of North Dakota state government.

CLASSIFIED EMPLOYEE INFORMATION

The following tables provide a snapshot of facts and figures describing the classified workforce of the state. The first table describes an average employee over the years.

AVERAGE CLASSIFIED STATE EMPLOYEE

700000000000000000000000000000000000000	Years of Age	Years of Service	Annual Salary	Actual Increase	Appropriated	Compa- Ratio	
January-93	42.0	9.5	22,189			and a second second second second second second second second second second second second second second second	
January-94	42.0	11.0	22,812	2.8%	\$60/mo		
January-96	46.0	11.4	25,476	11.7%	5.0%		····
January-97	43.0	12.2	26,273	3.1%	3.0%	g rekitira firer erikiningkamelik, safti	mananan denam
January-98	43.8	12.1	27,034	2.9%	3.0%	0.98	,
August-98	44.0	12.1	27,963	3.4%	3.0%	0.97	
November-99	44.2	12.2	28,860	3.2%	2.0%	0.96	*
August-00	44.4	12.3	29,993	3.9%	2.0%	0,97	**
August-01	44.8	12.5	31,467	4.9%	3.0%	0.96	*
December-02	45.4	12.6	32,262	2.5%	2.0%	0.96	Many - Many or - Many - Agent that &
December-03	45.7	13.2	32,627	1.1%	0.0%	0.96	unifelia II. elecciónsor es
December-04	45.9	13.2	32,604	0.0%	0.0%	0.96	

6,409 Classified Employees - Dec Included 1999 & 2001 Market/Equity Fund Increases (\$5.4 mill & \$5.0 mill respectively)

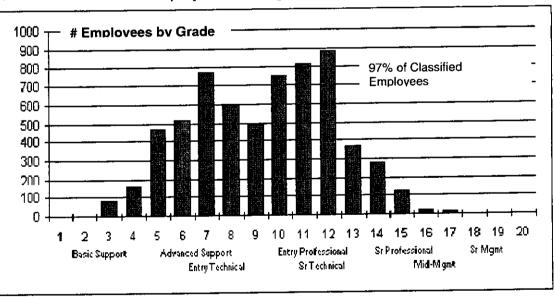
**Included authorization for agencies to "self-fund" additional 1.0%

The following table details the averages by grade level.

# FMPL	OYEES.	AND AVER	AGES BY	GRADE

		Γ ·	gaggamen magamet t	Avei	age			
Grade	Midpoint	# Employees	Age	Yrs Service	Salary	Compa-Ratio		
1	14,580	1	43.1	17.1	1,196_	0.98		
2	16,032	0		and the second s		addigina to consiste con a compression and the consistency of the special field of the consistency of the co		
2 3	17,640	81	53.0	9.4	1,414	0.96		
4	19,404	159	43.9	10.3	1,562	0.97		
5	21,348	472	46.8	10.3	1,643	0.92		
6	23,472	519	46.9	11.6	1,804	0.92		
7	25,824	773	46.6	13.2	2,153	0.97		
8	28,404	597	47.5	15.9	2,390	1.01		
9	31,296	493	41.3	10.6	2,608	0.90		
10	34,092	750	44.6	12.4	2,661	0.94		
11	37,824	816	46.0	12,3	2,951	0.94		
12	41,964	883	45.0	14.3	3,351	0.96		
13	46,512	368	45.5	15.1	3,863	1.00		
14	50,556	278	47.3	18.0	4,307	1.02		
15	57,066	121	49.8	16.8	4,986	1.05		
16	63,156	18	51.5	20.0	5,494	1.04		
17	69,888	16	49.7	22.0	6,082	1.04		
18	77,328	2	52.7	18.8	6,444	1.02		
19	85,500	2	46.2	22.3	6,532	0.92		
20	94,608	0	7/1	2				

There are 20 grades in the pay plan although there are no employees currently in grade 1 or 20. 97% of classified employees are in grades 4 through 15.



SALARY DISTRIBUTION

SALARY DISTRIBUTION

Classified E Salary Dist		# of Employees	Percent
upto	\$10,000	.=	0.0%
\$10,000 to	\$15,000	11	0.2%
\$15,000 to	\$20,000	613	9.6%
\$20,000 to	\$25,000	1,157	18.1%
\$25,000to	\$30,000	1,192	18.6%
\$30,000 to	\$35,000	1,229	19.2%
\$35,000 to	\$40,000	790	12.3%
\$40,000 to	\$45,000	561	8.8%
\$45,000 to	\$50,000	358	5.6%
\$50,000 to	\$55,000	227	3.5%
\$55,000 to	\$60,000	103	1.6%
\$60,000 to	\$65,000	71	1.1%
\$65,000 to	\$70,000	63	1.0%
\$70,000to	\$75,000	19	0.3%
\$75,000to	\$80,000	11	0.2%
\$80,000 to	\$85,000	2	0.0%
\$85,000 to	\$90,000	. 2	0.0%
	And the second second second second second	6,409	3

- Over 46% of the classified workforce earns less than \$30,000/yr
- 22% of the classified workforce earns more than \$40,000/yr

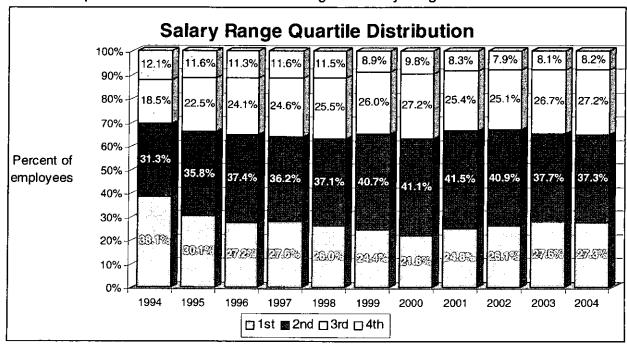
These pay levels may be put further into context with some information regarding the education levels of the workforce:

- 82% of Classified Employees have formal education or trade school beyond high school
- 54% of Classified Employees have a bachelors degree or higher

In the North Dakota general workforce:

- 84% of workers have completed high school
- 22% have a bachelors degree or higher

One goal of a pay plan is to establish salary ranges that are competitive within the employment market. A second goal is to pay employees properly within the salary range based on individual value to the organization (performance, training, experience, etc). One issue facing North Dakota is that funds have not been available to distribute pay of existing employees through the ranges. Consistently, over 2/3 of our employees have been paid in the lower half of their assigned salary range.



TURNOVER INFORMATION

Turnover rates are often used to evaluate the workplace. Compensation is one employment factor that can affect turnover rates. Other working conditions, benefits, employee/management relations, personal opportunities, and personal issues such as family and spouse employment opportunities can also play a role at least as significant as pay in job retention.

Detailed analysis can identify certain occupations or other demographic segments with more significant turnover issues. The following tables show an overall rate of 8.4% but identify some specific segments of our workforce where turnover is a more significant issue.

Turnover Rate Summaries

	Rate	# Sep'ns	Avg # E'ee
2001	9.0%	571	6,333
2002	7.7%	509	6,587
/2003 - 2/2004	8.4% *	535	6,333

Implementation of the ConnectND HR module has improved the capability to separate Inter-Agency Transfers when analyzing turnover information.

Percent of Total Turnover By Reason

Reason	2001	2002	2003
Involuntary	10.5%	9.4%	12.1%
Retirement	14.4%	17.5%	22.2%
Other Employment/Personal	66.9%	66.4%	44.7%
Health or No Reason	8.2%	6.7%	20.9%

The reasons people leave state employment show a steady increase in retirement which is consistent with overall workforce demographics.

Although there is a reduction shown in resignations for 'Other Employment/Personal', it appears that may be offset by the increase in 'Health or No Reason'. Some resigning employees simply will not reveal their reasons or future plans.

Turnover rates by occupation are generally confirmed by agency observations of areas where recruiting is difficult. Agencies report that it's more and more difficult to find well-qualified administrative support staff. Educational positions are difficult to fill. Medical/Health occupations continue to see high demand. Custodial & Food Service have shown a significant increase from 2002 to 2003. Lower turnover rates showing up in Information Technology and Engineering

	Occupation	2001	2002	2003
	Admin Support	9.1%	8.2%	9.7%
	Info Tech	7.8%	6.0%	6.0%
s .	Misc Admin	7.6%	7.6%	6.6%
	Education	9.6%	13.2%	9.3%
	Engineering	5.3%	3.6%	4.7%
,	Medical/Health	9.1%	10.7%	13.6%
and the second	Social Services	11.6%	9.9%	10.1%
	Public Safety	10.2%	7.3%	8.3%
	Natl Res/Agric	5.3%	2.5%	4.3%

Labor/Trades

Custodial & Food Svc

Turnover Rate by Occupation

12.4%

6.5%

20.7%

6.0%

occupations is probably due to aggressive salary administration triggered by high demand in those occupations for a number of years.

6.6%

5.2%

Finally, when turnover occurs in terms of years of service gives us further clues of what issues might exist. A very large portion (nearly 50%) of our total turnover occurs with employees who have less than 5 years of service.

Especially noteworthy is the rate of 27% for employees with 1-2 years of service; in other words, we lose over ¼ of our employees between their 1 and 2 year anniversaries!

	Over 40	26.0%	50
The rate reduces significantly	Over 40	20.0%	30
after 5 years and stays low all the wa	y to 30 years of s	ervice. The De	fined Benefit
retirement plan is most likely a signifi-	cant factor in kee	ping turnover lo	w among those
employees once they pass 5 years of	f service.	. •	•

Obviously then, turnover increases dramatically as employees with 30 and over 40 years of service qualify for retirement.

RETIREMENT PROJECTIONS

A few basic projections done the ND Public Employees Retirement System in March of this year showed that just over 6% of current employees are eligible for 'Normal' or 'Rule of 85' retirement. Another 15% meet requirements for early retirement.

Those same projections advanced to March 2007 showed 13% of current employees eligible for 'Normal' or 'Rule of 85' retirement. Another 19% would meet requirements for early retirement at that time.

The aging 'Baby Boomer' workforce impacting employment throughout the country is also being felt in North Dakota.

Yrs Total # Employees Turnover Rate 329 Less than 1 7.7% 1 - 1.927.1% 357 2 - 2.914.2% 331 3 - 3.914.2% 333 4 - 4.9 304 11.8% Less than 5 yrs 14.6% 1,654 5 - 9.9 1,265 7.5% 10 - 14.9 5.2% 965 15 - 19.9 5.1% 880 20 - 29.9 5.0% 1,289 30 - 39.9 14.6% 309

Turnover Rate by Years of Service

The following table compares salary increases appropriated for classified state employees with Market Increases reported through annual Salary Budget Surveys conducted by World at Work (formerly the American Compensation Ass'n) and with the annual reported CPI increase.

Date	Amount	Specific Provisions	Mkt Inc *	CPI	
7/1/83	2%	Ret Cont'n in lieu of salary increase	6.8%	3.2%	
5/1/84	\$60/mo	Not appropriated but allowed by Governor within			
J	Ψοσ,	available agency funds	<u> </u>		
7/1/84	2%	Ret Cont'n in lieu of salary increase	6.4%	4.3%	
4/1/85	5.50%	Minimum increase of \$50	6.2%	3.6%	
7/1/86	4%	Minimum increase of \$50	5.7%	1.9%	
7/1/87	0%		5.0%	3.6%	
7/1/88	0%		5.1%	4.1%	
7/1/89	7.10%	Minimum increase of \$50	5.2%	4.8%	
7/1/90	0%		5.4%	5.4%	
7/1/91	4%	Minimum increase of \$50	5.0%	4.2%	
7/1/92	\$40/mo	Averaged approximately 2%	4.6%	3.0%	
7/1/93	\$60/mo	Averaged approximately 3.2%	4.2%	3.0%	
7/1/94	3%		4.0%	2.6%	
7/1/95	2%		3.9%	2.8%	
7/1/96	3%	2% across the board; 1% for performance, range			
		compression, & equity	4.0%	3.0%	
7/1/97	3%	\$30 across the board; remainder of 3%	T		
		appropriation based on merit & equity	4.1%	2.3%	
7/1/98	3%	Same as 1997	4.2%	1 <u>.6%</u>	
7/1/99	2%	\$35 across the board; remainder of 2%			
		appropriation based on merit & equity	4.2%	2.2%	
7/1/00	2%	\$35 across the board; remainder of 2%			
		appropriation based on merit & equity (additional	1		
		1% allowed with funding from existing	1 1		
		appropriations)	4.4%	3.4%	
7/1/01	3%	\$35 across the board; remainder of 3%	1 1		
		appropriation based on merit & equity	4.4%	2.8%	
7/1/02	2%	\$35 across the board; remainder of 2%			
		appropriation based on merit & equity	3.7%	1.6%	
7/1/03	0		3.4%	2.3%	
7/1/04	0		3.4%	3.2%	(Projected
verage in ast 10 yrs	2.0%		4.0%	2.5%	

^{*} Mkt Increase data from annual surveys by World at Work

SALARY SURVEY

Salary survey information is obtained from two sources. North Dakota participates with 26 other states in the Central States Compensation Association. The CSCA is a consortium formed to lessen the burden of states surveying each other and to ensure and improve the quality of salary survey information.

North Dakota focuses on the following 10 state governments for a comparative employment Market:

Colorado

Iowa

Kansas

Minnesota

Missouri

Montana

Nebraska

Oklahoma

South Dakota

Wyoming

The second source is Job Service North Dakota through Occupational Employment Surveys.

Data from both of these sources provide the basis for the following payline charts. Specific data from the two surveys are shown in Appendix 1 – CSCA and in Appendix 2 – Job Service ND.

The following payline charts show comparisons of State Classified pay, Salary Range Midpoints, and Employment Market pay.

Chart 1 – Shows the relationship of average salaries, salary range midpoints, and the employment market as of December 2004.

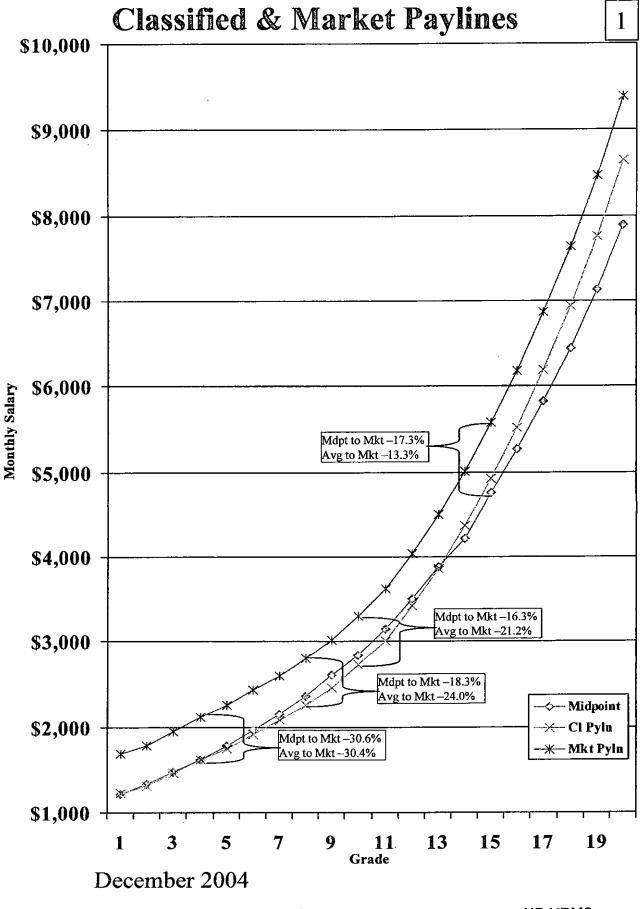
Chart 2 – Shows the same information as Chart 1 but 'zooms' in on grades 4 - 15 to show more detail. 97% of classified employees are in grades 4 - 15.

- Average Salaries are lagging market pay ranging from 14 to over 30%
- Classified Midpoints are behind market pay by 17 to 30%

Chart 3 – Shows where the midpoints <u>should be</u> to maintain a relationship of 95% of market pay

Salary ranges need to be moved from 10 to 24%

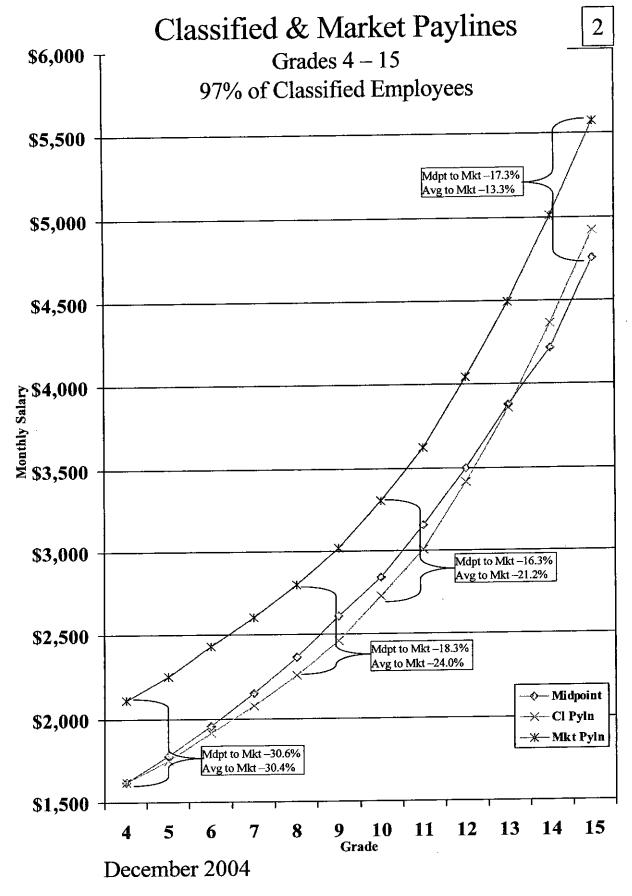
Chart 4 – Shows that IF the midpoints are restored to 95% of market, average salaries would range from about 8% to 24% below the midpoints.

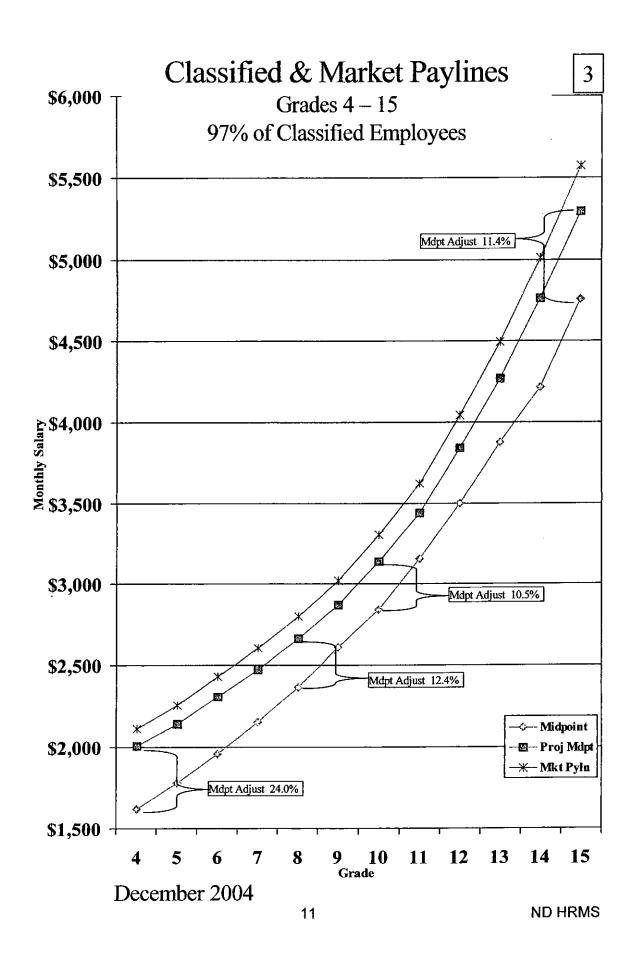


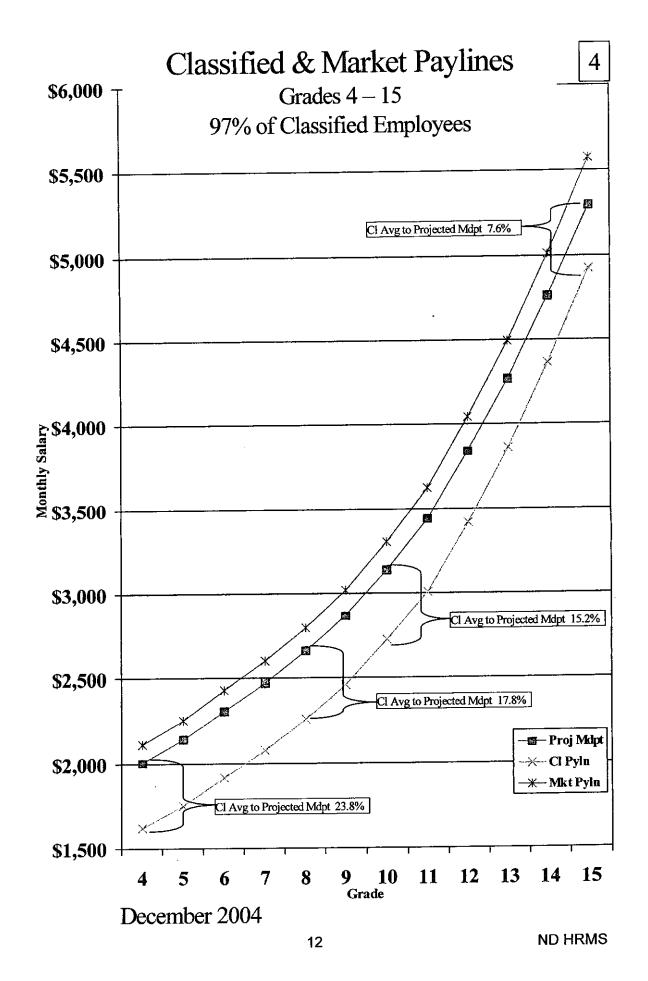
pool 15 Hank

9

ND HRMS







BENEFITS

Another significant component of employee compensation is the fringe benefit package. The CSCA includes benefits in the association's annual survey. Generally, the comparisons focus on the cost of benefits to the employer. Quality of benefits, especially insurances, is extremely difficult if not impossible to compare due to all the variables in coverage options. In general, North Dakota's benefit package is competitive. The following tables compare benefits among the states.

"Table 36 – Central States Regional Total Compensation Analysis (Classified Only)" is taken from the CSCA Benefit Survey Report. The table calculates a 'Total Compensation' value for each state based on the reported average salary for the respective state classified employees and calculates leave based on a 5 year employee. The analysis calculates the hourly value for each benefit and includes that in a Total Compensation value.

Table 36 -	Central St	tates F	Region	al Tota	l Com	pensa	tion	Analy	sis	(Class	sified	Only)	
: State	Average Salary	Vacation Hours	Sick Hours	Holiday Hours	Health	(nsura: Dental	ice Vision	Life	Retirement	Social Security	Total Benefit	% of Salary	Total Comp'n
COLORADO	\$45,425.00	120	80	80	\$326.46	\$16.26		\$0.14	10.15%		:		
per hour	\$21.84	\$1.26	\$0.84	\$0.84	\$1.88	\$0.09		\$0.03	\$2.22		\$7.17	32.82%	\$29.01
AWOI	\$45,545.00	120	144	88	\$687.86	\$20.19		\$0.23	5.75%	6.20%			
per hour	\$21.90	\$1.26	\$1.52	\$0.93	\$3.97	\$0.12		\$0.05	\$1.26	\$1,36	\$10.46	47.77%	\$32.36
KANSAS	\$32,139.00	120	96	80	\$513.57	\$21.72		\$0.42	4.87%	6.20%			
per hour	\$15.45	\$0.89	\$0.71	\$0.59	\$2.96	\$0.13		\$0.10	\$0.75	\$0.96	\$7.09	45.91%	\$22.55
MINNESOTA	\$44,621.00	130	104	88	\$848.39	\$19.10			4.00%	6.20%			
per hour	\$21.45	\$1.34	\$1.07	\$0.91	\$4.89	\$0.11			\$0.86	\$1.33	\$10.52	49.03%	\$31.97
MISSOURI	\$29,477.00	120	120	96	\$703.00			\$0.49	10.64%				
per hour	\$14.17	\$0.82	\$0.82	\$0.65	\$4.06			\$0.11	\$1.51		\$7.97	56.21%	\$22.14
MONTANA.	\$32,524.00	120	96	84	\$511.00	\$28.60		\$0,23	6.90%				-
per hour	\$15.64	\$0.90	\$0.72	\$0.63	\$2.95	\$0.17		\$0.05	\$1.08		\$6.50	41.57%	\$22.14
NEBRASKA	\$33,877.00	120	112	96	\$785.16			\$0.14	6.75%	6.20%			
per hour	\$16.29	\$0.94	\$0.88	\$0.75	\$4.53			\$0.03	\$1.10	\$1.01	\$9.24	56.73%	\$25.53
NORTH DAKOTA	\$32,600.00	120	96	84	\$489.00			\$0.19	4.12%				
per hour	\$15.67	\$0.90	\$0.72	\$0.63	\$2.82			\$0.04	\$0.65		\$5.77	36.82%	\$21.44
OKLAHOMA	\$29,963.00	144	120	80	\$858.74			\$0.24	10.00%	6.20%			
per hour	\$14.41	\$1.00	\$0.83	\$0.55	\$4.95		ĺ	\$0.06	\$1.44	\$0.89	\$9.73	67.51%	\$24.13
SOUTH DAKOTA	\$31,424.00	120	112	92	\$407.32			\$0.21	6.00%				
per hour	\$15,11	\$0.87	\$0.81	\$0.67	\$2.35			\$0.05	\$0.91		\$5.66	37.45%	\$20.76
WYOMING	\$36,106.00	120	96	72	\$828.29	\$10.74		\$0.29	11.25%	6.20%			
per hour	\$17.36	\$1.00	\$0.80	\$0.60	\$4.78	\$0.06		\$0.07	\$1.95	\$1.08	\$10.34	59.57%	\$27.70
Avg per Hour =	\$17.21	\$1.02	\$0.88	\$0.71	\$3.65	\$0.11	О	\$0.06	\$1.25	\$1.10	\$8.22	\$0.48	\$25.43
		123	107	85	633	19	0	\$ 0.26	\$ 0.07	1	:	- 1	

For our standard 10-state employment market, the Total Compensation values range from \$20.76/hr in South Dakota to \$32.36/hr in Iowa. The overall average Total Compensation is \$25.43. North Dakota's value is \$21.44 (18.6% below the average). If we include the additional 1% retirement contribution for retiree health insurance, North Dakota's value increases to \$21.60 (17.7% below the average). If we further include the 4% contribution made by the State on behalf of the employee, the value is \$22.23 (14.4% below the average).

ND HRMS

The following table provides a further detailed look at health insurance premiums paid by the ten states in our employment market. The health plans in various states include many variables and ranges of plan options making comparisons such as this very complex. The focus of the table is to compare the premiums (or range of premiums) paid by each state.

	Estimated	Single Premium Split					Family Premium Split					
State	Total SINGLE Premium	Employe	er Portion		oyee Portion	Estimated Total FAMILY Premium		oyer Portion	Empl	oyee P	ortion	
CO	\$261 - \$283	57% \$	156 - \$156	43%	\$105 - \$127	\$673 - \$740	70%	\$326 - \$326	30%	\$347	- \$414	
IA	\$287 - \$431	100% \$2	287 - \$431	0%	\$0 - \$0	\$688 - \$1,008	86%	\$688 - \$778	14%	\$0	- \$230	
KS	\$326 - \$357	90% \$3	307 - \$308	10%	\$19 - \$50	\$916 - \$1,000	54%	\$514 - \$514	46%	\$402	- \$487	
MN	\$320 - \$320		320 - \$320	0%	\$0	\$942 - \$942	90%	\$848 - \$848	10%	\$93	- \$93	
MO	\$316 - \$409		281 - \$342	14%	\$35 - \$67	\$934 - \$1,236	74%	\$703 - \$910	26%	\$231	- \$326	
MT	\$328 - \$365		328 - \$365	0%	\$0 - \$0	\$572 - \$628	89%	\$511 - \$560	11%	\$61	- \$68	
NE	\$280 - \$306		221 - \$241	21%	\$59 - \$64	\$994 - \$1,085	79%	\$785 - \$857	21%	\$209	- \$228	
ОК	\$371 - \$372		371 - \$371	0%	\$0 - \$0	\$916 \$1,037	88%	\$859 - \$859	12%	\$57	- \$178	
SD	\$407 - \$407		407 - \$407	0%	- \$0	\$615 - \$693	62%	\$407 - \$407	38%	\$208	- \$286	
WY	\$400 - \$400		372 - \$372	7%	\$28 - \$28	\$1,200 - \$1,200	69%	\$828 - \$828	31%	\$372	- \$372	
Avg	\$330 - \$365		305 - \$331	9%	\$31 - \$34	\$845 - \$957	76%	\$647 - \$689	24%	\$198	- \$268	
ND *	\$230	100%	\$230	0%	\$0	\$568	100%	\$568	0%		\$0	

Observations:

Single Plan

- The average premium ranges from \$318-\$365; the lowest is a CO plan at \$261
- States average 91% of the premium with average employer cost ranging from \$305-\$331
- Employees average 9% of the premium with the average employee cost ranging from \$31-\$34
- ND pays \$230 per month for 100% of the premium; less than the average minimum of \$305 paid by states
- Only 2 states contribute less than ND for the minimum employee only plan; CO
 @ \$156 (57%) and NE @ \$221 (70%)

Family Plan

- The average premium ranges from \$803-\$957; the lowest is a MT plan at \$572
- ND is the only state paying 100% of the premium
- States average 76% of the premium with employer cost ranging from \$326-\$910
- Employees average 24% of the premium with the average employee cost ranging from \$198-\$268
- ND pays \$568 per month for 100% of the premium
- 4 states contribute less than ND for the minimum family plan

North Dakota's 100% premium is less than the average 76% premium paid by the survey states.

OBSERVATIONS/CONCLUSIONS

- With no salary range movement and little salary increase activity this biennium, the State has continued to fall further behind employment market pay
- Both Salary Ranges and Average pay levels are far below market averages
- Fringe Benefit package which has been a key to retaining and recruiting is competitive but not a market leader
- The State must strive to maintain competitive salary ranges
- The State must strive to advance employees into/through their ranges with training and experience
- Distribute salary increases strategically to address inequities among employees and between agencies in order to maximize available funds

ND HRMS

APPENDIX

					2004						
CIs Code	Match Title	# Ee's	_	Salary Ra		Average	Median	State	L	Difference	
	<u> </u>	600	Min	Mid	Max	1 -	_	40.00	Avg	Median	Mdpt-Avg
CL0032	Office Assistant II	608	,	24,161	28,784		21,720	10-State	† 		
		8:		+			18,480	ND 45.5:	-24.1%	-17.5%	-21.5%
CL0033	Office Assistant III	409	 	23,214		+	21,180	10-State	 		
	 	16	+	21,348	+	+	19,884	ND	-11.1%	6.5%	-6.2%
CL0041	Administrative Assistant I	1248	+	33,686	40,813	—	33,717	10-State	1	-	
	 	193	+	23,472	29,340	22,302	22,260	ND	49.1%	-51.5%	-41.6%
CL0043	Administrative Assistant III	1417	+	36,245	43,662	37,087	31,848	10-State			<u> </u>
		74	+	28,404	35,508	30,048	30,534	ND	-23.4%	-4.3%	-30.6%
CL0115	Computer Prod Operator II	146	_	30,806	36,877	30,111	27,569	10-State	<u> </u>		
			 	25,824	32,280	28,812	28,392	ND	-4.5%	2.9%	-16.6%
CL0125	Computer Operations Mgr	54		52,491	63,432	59,012	58,311	10-State	ļ		ļ
<u> </u>			***	41,964	52,452	45,000	45,000	ND	-31.1%	-29.6%	-40.6%
CL0138	Directors, Software Dev/ Tele-	74		76,876	92,083	82,206	80,589	10-State	ļ		
	comm/Cmptr Sys/Info Mgmt-DHS		1	63,156	78,948	70,632	70,128	ND	-16.4%	-14.9%	-30.2%
CL0142	Programmer Analyst II	1024	33,332	42,446	51,234	41,632	40,720	10-State			
		30	31,476	41,964	52,452	39,975	40,332	ND	-4.1%	-1.0%	0.8%
CL0143	Programmer Analyst III	813	42,584	53,579	64,371	56,154	55,361	10-State	<u> </u>		
		55	34,884	46,512	58,140	46,874	46,944	ND	-19.8%	-17.9%	-20.7%
CL0144	Sr Programmer Analyst	296	48,420	61,472	74,321	65,722	64,235	10-State			
020177	or registration randitysi	32	37,920	50,556	63,192	53,585	53,712	ND	-22.7%	-19.6%	-30.0%
CL0150	DB Design Analyst III	800	45,811	58,346	70,610	61,666	60,642	10-State			
020130	DD Design Analyst III	4	37,920	50,556	63,192	55,476	55,698	ND	-11.2%	-8.9%	-22.0%
CLOSEZ	Talasawa Tark II	169	30,085	36,985	43,651	36,943	39,362	10-State			
CL0157	Telecomm Tech (I	5	25,572	34,092	42,612	36,780	35,280	ND	-0.4%	-11.6%	-8.4%
01.04.00	T	1152	40,216	51,337	62,188	54,205	55,513	10-State	0,1,0		
CL0162	Tech Support Spec II	4	34,884	46,512	58,140	48,813	48,372	ND	-11.0%	-14.8%	-16.5%
		304	51,988	66,385	80,602	70,072	71,654	10-State	-11.076	-14.076	-10.576
CL0163	Tech Support Spec III	9	37,920	50,556	63,192	56,603	56,640	ND	-23.8%	-26.5%	-38.6%
		840	36,191	46,413	56,350	46,763	45,343	10-State	-23.0 /6	-20.576	-30 th
CL0169	Telecomm Analyst II	15	31,476	41,964	52,452	43,308	44,604	ND	0.00		44.494
		1265	35,862	45,562	54,967	45,434			-8.0%	-1.7%	-11.4%
CL0174	Computer & Network Sp It	20	28,368	37,824			44,502	10-State			
		532	40,622	_	47,280	34,798	33,536	ND 40 State	-30.6%	-32.7%	-20.1%
CL0175	Computer & Network Sp III		34,884	51,943	63,062	55,933	55,734	10-State			
		13		46,512	58,140	44,010	45,252	ND	-27.1%	-23.2%	-20.3%
CL0194	Info Sys Security Analyst	888	38,323	51,030	63,738	50,473	45,631	10-State			
		2	31,476	41,964	52,452	46,188	46,188	ND	-9,3%	1.2%	-20.3%
CL0211	Account Technician f	821	21,388	26,602	31,794	25,788	24,394	10-State			
		19	16,008	21,348	26,688	20,983	21,420	ND	-22.9%	-13.9%	-20.8%
CL0222	Accounting/Budget Specialist II	721	29,825	37,143	44,279	37,836	37,160	10-State			
		17	25,572	34,092	42,612	32,549	32,474	ND	-16.2%	-14.4%	-11.0%
CL0225	Accounting Manager II	163	52,134	66,086	81,196	68,677	66,490	10-State			
		16	42,792	57,060	71,328	60,140	60,468	ND	-14.2%	-10.0%	-20.4%
CL0242	Auditor II	309	31,902	40,101	48,025	38,147	36,438	10-State			
		33	28,368	37,824	47,280	34,150	33,516	ND	-11.7%	-8.7%	-0.9%
CL0243	Auditor III	291	33,012	41,743	50,167	41,071	41,377	10-State	T		
020210		33	31,476	41,964	52,452	39,461	38,460	ND	-4.1%	-7.6%	2.1%
CL0251	Asst Exec Budget Analyst	65	43,793	55,503	66,878	54,462	53,642	10-State			
OLUZO,	Addi Exec Budget Allalyst	3	37,920	50,556	63,192	56,244	57,900	ND	3.2%	7.4%	-7.7%
CL0302	Collections Officer II	126	26,148	31,530	36,783	30,034	27,219	10-State			
CL0302	Collections Officer II	3	21,300	28,404	35,508	26,683	26,988	ND	-12.6%	-0.9%	-5.7%
		608	26,309	32,888	39,402	31,651	31,340	10-State	12.070	0.070	-0.7 /6
CL0311	Compliance Officer i	4	25,572	34,092	42,612	35,279	35,388	ND	10.3%	11.4%	7 20/
		108	35,033	45,992	56,629	44,529	42,598	10-State	10.3%	11.4%	7.2%
CL0402	Financial Institutions Examiner II	4	31,476	41,964	52,452		36,960		00.00/	45.004	2.40
		123	32,948	42.541	51,786	37,095		ND 10 State	-20.0%	-15.3%	-6.1%
CL0410	oss Control Analyst	2	31,476			41,006	38,147	10-State			——
+			$\overline{}$	41,964	52,452	35,232	35,232	ND 10 Ctota	-16.4%	-8.3%	2.3%
CL0421	Grants & Contracts Officer I	749	32,247	41,617	50,987	41,794	38,303	10-State			
		5	25,572	34,092	42,612	31,881	32,892	ND	-31.1%	-16.5%	-22.6%
CL0442	Customer Service Spec	1278	26,224	32,896	39,414	31,882		10-State			
		86	25,572	34,092	42,612	29,142	28,494	ND	-9.4%	-2.3%	6.5%
CL0443	Customer Service Cons	589	28,251	35,615	42,838	34,958	_	10-State			
		57	28,368	37,824	47,280	34,183	33,816	ND	-2.3%	4.2%	7.6%
CL0446	Customer Service Mgr		35,685	45,172	54,372	45,262		10-State			
	· · · · · · · · · · · · · · · · · · ·	9	37,920	50,556	63,192	46,276	44,328	ND	2.2%	2.0%	10.5%

					2004						
Cls Code	Match Title	# Ee's		dary Rang		Average	Median	State	Avg	Difference Median	Mdpt-Avg
			Min	Mid	Max	43,612	41,240	10-State	Avy	Medibit	
CL0455	Policyholder Clms Invest	63	34,499	44,420	54,014	32,329	32,329	ND	-34.9%	-27.6%	-53.5%
		1	21,300	28,404	35,508 52,020	42,692	39,024	10-State	-34.576	-27.070	00:075
CL0460	Ins Co Financial Analyst	20	30,285	41,375	47,280	39,480	39,480	ND	-8.1%	1.2%	-12.9%
<u> </u>		- 1	28,368	37,824		50,671	50,899	10-State	-0.1 76	1.270	1 12.3
CL0462	Ins Co Examiner	61	35,687	48,069	60,061 42,612	35,700	35,700	ND ND	-41.9%	-42.6%	-48.6%
		- 1	25,572	34,092			39,013	10-State	-41.570	72.076	40.070
CL0556	Benefit Prog Admin	737	30,701	40,975	51,248	40,843	38,856	ND	-6.3%	-0.4%	2.7%
		3	31,476	41,964	52,452	38,424 41,521	40,322	10-State	-0.3%	70.476	2.170
CL0606	State Procurement Officer II	820	33,189	42,049	50,611		42,864	ND ND	3.1%	5.9%	1.1%
		1	31,476	41,964	52,452 38,274	42,864	30,879	10-State	3.176	3.870	, <u>.,.</u>
CL0701	Legal Assistant I	1443	24,574	31,424		31,578 26,927	26,550	ND ND	-17.3%	-16.3%	-22.3%
		4:	19,368	25,824	32,280	30,687	29,075	10-State	-17.376	-10.076	
CL0801	Human Resource Tech I	1447	23,908	30,715	37,288	25,802	25,842	ND ND	-18.9%	-12.5%	-8.0%
		6	21,300	28,404	35,508		37,565	10-State	-10.570	-12.070	J. J.
CL0803	Human Resource Ofcr I	967	30,767	38,971	46,878	40,363	36,298	ND	-7.1%	-3.5%	-6.7%
		6	28,368	37,824	47,280	37,699		10-State	-7.176	-3.370	<u> </u>
CL0804	Human Resource Ofcr II	741	38,030	49,669	60,939	51,092	51,563	ND ND	10.09/	-20.7%	-9.8%
		13	34,884	46,512	58,140	42,862	42,732		-19.2%	-20.776	-9.0 %
CL0806	Human Resource Director II	397	46,997	60,716	75,008	62,876	57,424	10-State ND	7.09/	1.5%	-10.2%
		2	42,792	57,060	71,328	58,296	58,296		-7.9%	1,3/6	-10.2 A
CL0807	Class & Comp Manager	213	49,651	63,335	78,050	67,110	66,789	10-State ND	40.00	10.09/	-32.7%
		1	37,920	50,556	63,192	56,016	56,016	_	-19.8%	-19.2%	-32.1 /4
CL0818	Training Officer I	1041	30,724	38,744	46,570	40,107	39,095	10-State	05.00/	00.58/	-17.6%
		1	25,572	34,092	42,612	31,920	31,920	ND 10 State	-25.6%	22.5%	-17.07
CL0823	Public Information Specialist III	900	33,587	42,791	51,689	42,681	40,601	10-State		C 40/	10.00
		12	28,368	37,824	47,280	39,352	38,154	ND .	-8.5%	-6.4%	-12.8%
CL0835	Ins/Form Rate Analyst II	71	33,293	42,580	51,609	42,103	41,501	10-State		10.10	44.00
020000		3	28,368	37,824	47,280	38,208	36,683	ND .	-10 <u>.2%</u>	-13.1%	-11.3%
CL0902	Research Analyst II	175	32,587	41,227	49,609	42,267	42,566	10-State			
00002	Trescarer / maryer m	4	25,572	34,092	42,612	31,047	31,734	ND	-36.1%	-34,1%	-24.0%
CL1206	Library Associate II	242	23,539	28,741	33,944	29,513	28,049	10-State			44.00
CL1200	Cibrary Associate ii	2	19,368	25,824	32,280	25,332	25,332	ND	-16.5%	-10.7%	-14.3%
CL1212	Librarian II	816	30,603	38,642	46,499	38,351	37,153	10-State			
CETZIZ	Cibi Bildis ()	4	28,368	37,824	47,280	31,524	31,524	ND	-21.7%	-17.9%	-1.49
CL1213	Librarian III	560	39,176	49,746	60,317	54,022	57,928	10-State	<u> </u>	 	
CEIZIS		3	34,884	46,512	58,140	37,008	36,636	ND	-46.0 <u>%</u>	-58.1%	-16.19
CL1232	Museum Specialist II	55	28,626	35,728	42,468	34,945	32,163	10-State			
CLIZOZ	Mascarri operation i	4	25,572	34,092	42,612	30,624	30,894	ND	14.1%	-4.1%	-2.5%
CL1242	Historian II	62	30,575	38,654	46,515	38,358	36,105	10-State		ļ	
OLIZAZ	The storiage of the storiage o	2	25,572	34,092	42,612	31,332	31,332	ND	22.4%	-15.2%	-12 <u>.5</u> %
CL1604	Asst Dir, P/S Educ Prgms	401	37,688	47,837	57,986	49,933	47,749	10-State	 		
GE 1004	TOOL DIT 170 COOL 1 19110	9		46,512	58,140	41,955	40,704	ND	-19.0%	-1 <u>7.3</u> %	-7.49
CL2004	Engineering Tech IV	1581	26,272			33,732	29,524	10-State	 		+
VL2004	Chigh sching 100177	69		34,092	42,612	35,652	35,676	ND	5.4%	17.2%	1.19
CLODE	Transportation Project Manager	1199	30,282	37,932	45,336	39,945	36,307	10-State			
CL2015	transportation r toject manager	29	28,368	37,824	47,280	38,220	39,240	ND	-4.5%	7.5%	-5.69
010010	Transportation Project Sr Manage	579	33,847	43,293	52,739	46,788	43,691	10-State		 	
CL2016	manaponacon Project Si Manage	28	31,476	41,964	52,452	45,493	45,840	ND	-2.8%	4.79	-11.59
CI 2001	Transportation Engineer I	319	33,189	41,462	49,775	39,073	37,303	10-State		 	
CL2021	Transportation Engineer 1	20	25,572	34,092	42,612	36,152	36,600	ND	-8.1%	-1.99	-14.69
CL2022	Transportation Engineer II	950	42,188	52,607	63,218	53,881	48,420	10-State			
CL2022	Transportation Engineer in	27	31,476	41,964	52,452	40,844	40,368	ND	-31.9%	-19.99	-28.49
01.0000	Transportation Engineer III	633	49,528	62,151	74,942	65,656	57,911	10-State		 	
CL2023	Transportation Engineer III	56	34,884	46,512	58,140	48,691	47,934	ND	-34.8%	-20.89	-41.2
0.5555	Davis Torre Carinos D	247	58,871	75,269	91,667	84,501	84,247	10-State		<u> </u>	ļ
CL2025	Admin Trans Engineer II	15	47,364	63,156	78,948	68,962	68,760	ND	-22.5%	-22.59	6 -33.8
	0.1.4.T	175	67,021	83,614	105,314	96,262	100,124	10-State			
CL2030	Chief Trans Engineer	1	64,128	85,500	106,872	84,660	84,660	ND	-13.7%	-18.39	6 -12.6
		530	47,598	60,224	72,680	62,853	58,676	10-State		<u> </u>	ļ .
CL2043	Environmental Engineer III	14		46,512	58,140	44,055	45,276	ND	-42.7%	-29.69	6 -35.1
		374	† 	47,682	57,774	48,228	45,457	10-State			<u> </u>
CL2057	Hydrologist 11	1	31,476	41,964	52,452	37,452	37,452	ND	-28.8%	-21.49	6 -14.9
		203	42,735	53,891	64,588	55,548	53,168	10-State			
CL2058	Hydrologist III	5	•	46,512	58,140	44,218	42,960	ΝĐ	-25.6%	-23.8	/6 -19.4

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Cls Code	Match Title	# Ee's		alary Ran	-	Average	Median	State	ļ <u>.</u>	Difference	
			Min	Mid	Max	_			Avg	Median	Mdpt-Avg
CL2059	Hydrologist Manager I	411	48,668	62,357	76,046	66,810	61,647	10-State			
	<u> </u>	4	37,920	50,556	63,192	56,394	56,448	ND 10 State	-18.5%	-9.2%	-32.2%
CL2065	Facility Construction Engineer	471	48,413	60,923	73,229	63,805	58,418	10-State	 		
		1	37,920	50,556	63,192	52,848	52,848	ND 40 Outs	-20.7%	-10.5%	-26.2%
CL2082	Geologist II	201	33,544	43,093	52,275	42,549	39,800	10-State	<u> </u>		<u> </u>
ļ		<u> </u>	34,884	46,512	58,140	38,496	38,496	ND 10.01	-10.5%	-3,4%	B.5%
CL2083	Geologist III	154	39,249	49,779	60,309	53,901	51,876	10-State	<u> </u>	ļ	ļ.—.—
		4	37,920	50,556	63,182	51,297	51,558	ND	-5.1%	-0.6%	-6.6%
CL2092	Petroleum Engineer II	179	31,094	39,820	48,546	40,445	41,453	10-State			
		7	31,476	41,964	52,452	38,389	37,380	ND	-5.4%	-10.9%	3.6%
CL2102	Planner II	936	32,100	40,668	49,019	41,391	40,810	10-State			
		3	25,572	34,092	42,612	36,476	38,460	ND	-13.5%	-6.1%	-21.4%
CL3018	Physician Assistant	170	50,501	64,598	78,695	65,374	65,750	10-State			
Q23010		1	42,792	57,060	71,328	65,856	65,856	ND	0.7%	0.2%	-14.6%
CL3020	Nurse Practitioner	207	49,432	62,493	75,555	63,458	64,596	10-State			
023020	THOUSE I TACHUONEI	5	42,792	57,060	71,328	57,526	56,736	ND	-10.3%	-13.9%	-11.2%
CL3030	Director of Nursing-NDSH	87	50,358	63,277	76,196	67,690	62,422	10-State			
OL3030	Priestor or Norsing-NEST	. 1	47,364	63,156	78,948	74,616	74,616	ND	9.3%	16.3%	-7.2%
CL3052	Licensed Prac Nurse I	1945	24,503	30,915	37,262	31,118	30,032	10-State			
OL3032	LICENSOU FIAC MUISE I	61	21,300	28,404	35,508	29,184	29,112	ND	-6.6%	-3.2%	-9.6%
C1 2000	Repictored Nurses II	1768	32,531	41,889	50,988	42,195	40,973	10-State			
CL3062	Registered Nurse II	90	28,368	37,824	47,280	39,013	39,‡14	ND	-8.2%	-4.8%	-11.6%
C/ 0000	Degistered Normal III	888	37,813	47,739	57,491	50,464	47,596	10-State			
CL3063	Registered Nurse III	33	31,476	41,964	52,452	43,233	44,720	ND	-16.7%	-6.4%	-20.3%
DI 0075	Dut the store Cont	267	39,170	49,320	59,471	51,493	55,343	10-State			
CL3075	Pub Hith Nurse Cons I	4	25,572	34,092	42,612	32,220	32,592	ND	-59.8%	-69.8%	-51.0%
		88	35,116	44,622	53,851	46,002	46,244	10-State			
CL3103	Aud/Speech Lang Path II	3	28,368	37,824	47,280	36,264	38,196	ND	-26.9%	-21.1%	-21.6%
0	Photograph The Control of the Contro	27	39,344	50,541	61,738	58,967	53,703	10-State			
CL3123	Physical Therapist	2	37,920	50,556	63,192	54,581	54,581	ND	-8.0%	1.6%	-16.6%
·		61	36,821	46,859	56,624	49,700	50,408	10-State	5.576		70
CL3133	Occupational Therapist	8	34,884	46,512	58,140	40,796	40,776	ND	-21.8%	-23.6%	-6.9%
61.6:		267	27,925	35,032	42,012	36,056	34,195	10-State			
CL3172	Therapeutic Rec Spec II	5	25,572	34,092	42,612	32,446	32,604	ND	-11.1%	-4.9%	-5.8%
DI 855 /		98	22,880	28,465	34,029	27,532	26,128	10-State			22
CL3201	Medical Lab Tech I	1	21,300	28,404	35,508	27,948	27,948	ND	1.5%	6.5%	3.1%
DI 0		81	28,868	36,420	43,754	38,068	35,963	10-State			•
CL3225	Medical Technologist II	1	25,572	34,092	42,612	34,872	34,872	ND	-9.2%	-3.1%	-11.7%
01.0000	[a	132	34,360	43,752	52,821	43,745	42,166	10-State		Ī	
CL3232	Chemist II	5	28,368	37,824	47,280	35,928	36,108	ND	-21.8%	-16.8%	-15.7%
CI 2022	Forencia Paintellet V	262	37,337	47,120	57,110	46,912	46,746	10-State			
CL3236	Forensic Scientist II	6	28,368	37,824	47,280	29,561	29,364	ND	-58.7%	-59.2%	-24.0%
01.00:-	Edia	172	33,306	42,377	51,152	41,611	38,891	10-State			
CL3242	Microbiologist II	5	28,368	37,824	47,280	35,112	35,220	ND	-18.5%	-10.4%	-10.0%
01.000	Obs	54	46,861	60,158	73,066	67,369	66,904	10-State			
CL3261	Pharmacist I	3	42,792	57,060	71,328	66,080	67,956	ND	-2.0%	1.5%	-18.1%
		15	29,274	36,279	43,011	44,976	47,780	10-State	2.0,0	<u></u> *	
CL3326	Dental Hygienist	1	31,476	41,964	52,452	49,080	49,080	ND	8.4%	2.6%	-7.2%
		323	32,335	41,328	49,952	41,924	38,506	10-State	U. 7/8	2.076	, 76
CL3402	Env Hith Practitioner II	4	25,572	34,092	42,612	30,843	30,540	ND	-35.9%	-26.1%	-23.0%
 	-	152	36,829	46,709	56,395	46,340	40,766	10-State	-33.9/6	-20.1/8	-23.076
CL3412	Epidemiologist II	15	25,572	34,092	42,612	31,076	29,748	ND	-49.1%	-37.0%	-35.9%
		321	32,482	40,969	49,260	39,490	38,205	10-State	~43.1%	-31.0%	-35.9%
CL3429	Health Education Spec II	2	25,572	34,092	42,612	33,696	33,696	ND	-17.2%	-13.4%	-15.8%
		331	34,199	43,353	52,289	43,319	41,266	10-State	-17.2%	-13.4%	-13.6%
CL3512	Hith Care Fac Surveyer II					33,789			90.00	05.00	
		15 88	28,368 32,616	37,824	47,280		32,856	ND 10 State	-28.2%	-25.6%	-14.5%
CL3544	Dietitian II			40,315	47,727	42,195	40,292	10-State			
		47	25,572	34,092	42,612	37,454	36,670	ND 10 State	-12.7%	-9.9%	-23.8%
CL3701	Veterinarian I	47	51,498	61,960	72,943	62,946	63,150	10-State			
		1	42,792	57,060	71,328	46,800	46,800	ND 10 Stele	-34.5%	-34,9%	-10.3%
CL4003	Eligibility Worker II	302	29,270	35,429	41,588	35,943	36,764	10-State			
		1	23,472	31,296	39,120	29,844	29,844	ND 10.0	-20.4%]	-23.2%	-14.8%
CL4033	Human Service Prog Admin III	469	42,110	54,323	67,109	56,834	56,056	10-State			
	-	52	28,368	37,824	47,280	36,671	36,708	ND	-55.0%	-52.7%	-50.3%

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Cls Code	Match Title	# Ee's	S: Min	alary Rang Mid	ge Max	Average	Median	State	Avg	Difference Median	Mdpt-Avg
		249	39,737	50,371	60,738	52,360	46,706	10-State			ļ <u></u>
CL4034	Human Service Prog Admin IV	62	31,476	41,964	52,452	41,443	41,022	ND	-26.3%	-13.9%	-24 <u>.</u> 8%
CL 4027	Transmost Ligit Director	93	57,252	72,289	87,430	76,596	73,668	10-State			
CL4037	Treatment Unit Director	2	42,792	57,060	71,328	70,356	70,356	ND	-8.9%	-4.7%	-34.2%
01.4404	Martin Linetth Core Page 1	5208	19,115	23,896	28,691	23,729	22,307	10-State			
CL4101	Mental Health Care Spec !	28	14,556	19,404	24,252	16,758	16,349	ND	-41.6%	-36.4%	-22.3%
61.4400	Marchael I I and Care Care II	4825	23,264	29,046	34,717	28,500	25,833	10-State			
CL4102	Mental Health Care Spec If	126	17,604	23,472	29,340	20,652	20,412	ND	-38.0%	-26.6%	-21.4%
0:4444	Di esa Terleiro Teab II	1576	21,993	27,643	33,268	26,925	24,854	10-State			
CL4111	Direct Training Tech II	29	19,368	25,824	32,280	22,631	22,464	ND	-19.0%	-10.6%	-4.3%
DI 4446	Livit Consum Coordinates	310	33,510	42,158	50,531	43,031	39,099	10-State			
CL4116	Unit Program Coordinator	11	28,368	37,824	47,280	35,619	36,924	ND .	-20.8%	-5.9%	-13.8%
01.4400	hard San Sanaialiat I	1220	25,779	32,717	39,450	32,734	31,014	10-State			
CL4120	Juv Inst Res Specialist I	26	23,472	31,296	39,120	25,642	24,402	ND '	-27.7%	-27.1%	-4.6%
01.4400	A delication Commonles II	197	29,667	36,379	42,872	35,024	33,862	10-State			
CL4133	Addiction Counselor II	63	28,368	37,824	47,280	34,789	34,200	ND	-0.7%	1.0%	7.4%
CI 4140	Human Relations Counselor	600	32,653	40,185	47,388	39,518	38,269	10-State			
CL4142	Human Helations Courselor	20	28,368	37,824	47,280	34,307	34,170	ÜИ	-15.2%	-12.0%	-4.5%
CL4164	Linesend Revokologist I	206	43,272	54,621	65,711	56,844	57,087	10-State			
C14104	Licensed Psychologist I	12	42,792	57,060	71,328	57,673	58,650	ND	1.4%	2.7%	0.4%
CL4171	Charleia	74	31,026	38,865	46,703	37,183	35,532	10-State			
CLATTI	Chaplain	1	28,368	37,824	47,280	44,054	44,054	ND	15.6%	19.3%	1.7%
01.4040	Social Worker III	3927	29,096	36,557	43,817	35,169	33,429	10-State		_	-
CL4213	Social Worker III	45	28,368	37,824	47,280	35,164	35,148	ND	0.0%	4.9%	7.0%
CI 4045	Communication (Clinician	620	34,537	43,776	52,797	43,194	42,167	10-State			
CL4215	Supervisor/Clinician	6	31,476	41,964	52,452	45,030	44,748	ND	4.1%	5.8%	-2.9%
01.4000	Mar Dahah Causa II	526	30,665	38,688	46,711	38,190	36,967	10-State			
CL4222	Voc Rehab Couns II	23	25,572	34,092	42,612	31,013	31,140	ND	-23.1%	-18, <u>7%</u>	-12.0%
0) 4000	Marian Cabab Sana II	232	31,293	39,026	46,436	38,396	35,499	10-State			
CL4226	Vision Rehab Spec II	5	28,368	37,824	47,280	33,029	32,760	ND	-16.2%	-8.4%	-1.5%
0) 4050	Di Olivina Arabart II	1006	27,310	34,844	42,379	35,289	35,756	10-State			ļ
CL4252	Dis Claims Analyst II	4	25,572	34,092	42,612	27,804	27,180	ND	-26. <u>9%</u>	-31.6%	-3.5%
0: 4000	I. I. O in a Done Admin II	135	37,065	47,430	57,488	49,416	41,974	10-State			ļ
CL4323	Job Service Prog Admin II	В	31,476	41,964	52,452	39,447	37,886	ND	-25.3%	-10.8%	-17. <u>8%</u>
		146	43,686	55,318	66,607	56,105	50.542	10-State			
CL4360	Appeals Referee	2	31,476	41,964	52,452	41,274	41,274	ND	-35.9%	-22.5%	-33.7%
51.4400	Human Service Aide II	406	18,410	23,393	28,376	21,124	22,116	10-State			
CL4402	Human Service Alde II	15	17,604	23,472	29,340	21,910	20,604	ND	3.6%	-7.3%	10.0%
01.5000	Communications Spec II	434	24,628	30,728	36,670	29,971	28,851	10-State			
CL5022	Communications Spec II	15	21,300	28,404	35,508	28,457	27,648	ND	-5.3 <u>%</u>	-4.4%	-5.5%
0) 5025	Deputy Boiler Inspector	23	33,057	41,180	48,842	44,182	43,389	10-State			<u> </u>
CL5035	Deputy Boiler Inspector	1	28,368	37,824	47,280	41,632	41,632	ND	-6. <u>1%</u>	-4.2%	-16.8%
CLEMA	Compliance Investigator	750	31,004	39,397	47,791	40,518	38,950	10-State			
CL5038	Compliance Investigator	6	28,368	37.824	47,280	35,098	35,196	ND	-15.4%	-10.7%	-7.1%
CLEACO	Pototy Officer	347	36,004	46,962	57,920	51,686	53,661	10-State		<u> </u>	
CL5050	Safety Officer	2	28,368	37,824	47,280	37,002	37,002	ND	-39.7%	-45.0%	-36.6%
CL 5400	Parole & Prob Officer II	870	28,236	36,646	44,852	36,266	35,630	10-State	ļ	ļ	ļ. —
CL5102	raide a riou Unicer ii	42	31,476	41,964	52,452	35,470	35,220	ND	-2.2%	-1.2%	13.6%
01 5100	Parole & Prob Officer III	323	38,866	48,993	58,753	49,480	41,454	10-State		<u> </u>	ļ
CL5103	raidie & Pioti Officer III	6	34,884	46,512	58,140	38,998	38,820	ND	-26.9%	-6.8%	-6.4%
01.5400	Competing Communication	980	30,196	38,172	45,930	38,569	36,192	10-State			
CL5108	Correctional Caseworker	36	23,472	31,296	39,120	27,204	26,688	ND	-41.8 <u>%</u>	-35.6%	-23.2%
01.5115	C	11947	24,998	30,940	36,771	30,283	27,883	10-State			<u> </u>
CL5112	Correctional Officer II	173	23,472	31,296	39,120	25,947	25,152	ND	-16.7%	-1 <u>0.9</u> %	3.2%
		2126	31,466	39,279	46,891	41,710	38,841	10-State			
CL5113	Correctional Officer III	7	25,572	34,092	42,612	32,374	33,324	ND	-28.8%	-16.6%	-22.39
		204	36,722	47,060	57,004	48,725	44,843	10-State			
CL5114	Correctional Officer IV	9	31,476	41,964	52,452	37,012	36,600	ND	-31.6%	-22.5%	-16.19
		269	54,078	71,664	89,653	75,791	75,604	10-State			
CL5120	Dir, Prisons Div/Warden	1	52,416	69,888	87,360	67,572	67,572	ND	-12.2%	-11.9%	-8.49
		410		50,723	60,372	49,963	47,241	10-State			
CL5212	Criminal Investigator II	8	+	41,964	52,452	35,102	35,124	ND	-42.3%	-34.5%	-19.19
	<u> </u>	526		29,451	35,220	29,163	27,276	10-State			
CL5242	Drivers License Exmnr II										

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Cls Code	Match Title	# Ee's		alary Ran		Average	Median	State	L	Difference	
			Min	Mid	Max				Avg	Median	Mdpt-Avg
CL5250	Weights & Measures Insptr	298	28,334	35,364	42,223	36,498	37,045	10-State	ļ		
	Troights a Measures Mapo	5	19,368	25,824	32,280	26,616	25,740	ND	-37.1%	-43.9%	-41.3%
01.0004	Shief Issues BOO	743	31,776	40,632	49,233	42,134	38,649	10-State			
CL5254	Chief Inspector - PSC	1	28,368	37,824	47,280	36,876	36,876	ND	-14.3%	-4.8%	-11.4%
		544	30,290	38,534	46,596	37,630	39,495	10-State			
CL5272	Environ Scientist (I	42	28,368	37,824	47,280	32,875	32,424	NO	-14.5%	-21.8%	0.5%
		251	48,433	61,589	75,192	64,900	63,005	10-State	-14.576	42 1.U /6	0.576
CL5275	Environ Sciences Admin II		_		-		, 	 			40.70
		4	42,792	57,060	71,328	58,866	58,812	ND	-10.2%	-7.1%	-13.7%
CL5331	Public Utility Analyst II	50	38,477	49,615	60,333	50,173	44,741	10-State			
		1	31,476	41,964	52,452	43,404	43,404	ND	-15.6%	-3.1%	-19.6%
CL5531	Security Officer I	221	20,002	24,765	29,503	25,677	25,681	10-State			
		12	19,368	25,824	32,280	22,368	21,792	ND	-14.B%	-17.8%	0.6%
CL5702	Cornrol Mtr Carrier Ins I	683	27,471	34,255	41,193	34,136	32,541	10-State			
CL9702	Confict Mit Carrier ins /	14	21,300	28,404	35,508	29,855	30,492	ND	-14.3%	-6.7%	-20.2%
		3014	34,528	43,232	51,939	42,639	39,601	10-State			
CL5706	Hwy Patrol Officer II	83	31,476	41,964	52,452	38,798	39,420	ND	-9.9%	-0.5%	-1.6%
		744	45,294	55,150	65,464	56,240	52,046	10-State	0.070	0.070	,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,
CL5707	Hwy Patrol Sergeant	14	34,884	46,512	58,140	45,521	46,512	ND	20.50	44.50/	00.004
		-							-23.5%	-11.9%	-20.9%
CL5710	Hwy Patrol Staff Officer	37	60,543	72,388	84,553	77,693	76,664	10-State	ļ		
		13	37,920	50,556	63,192	53,451	54,492	ND	-45.4%	-40.7%	·53.7%
CL6002	Wildlife Tech II	244	32,904	40,847	48,790	38,999	37,793	10-State			
000000		2	25,572	34,092	42,612	33,150	33,150	ND	-17.6%	-14.0%	-14.4%
CL6012	Gama Wardon II	827	34,701	44,625	53,746	43,226	42,053	10-State			
CLOUIZ	Game Warden II	25	31,476	41,964	52,452	42,471	43,548	ND	-1.8%	3.4%	-3.0%
		256	30,764	38,130	45,127	35,902	35,184				
CL6040	Park flanger	8	25.572	34,092	42,612	27,863	27,345	ND	-28.9%	-28.7%	-5.3%
		192	34,030	43,141	52,252	43,073	38,221		-20.070	- EU. 7 70	- 0.010
CL6046	Park Manager II	_						ND	0.00/	4.50/	7 494
		6	34,884	46,512	58,140	39,191	40,020		-9.9%	4.5%	7.4%
CL6072	Biologist II	492	35,060	45,040	54,218	42,262	40,758	10-State	ļ		
		24	31,476	41,964	52,452	44,212	44,982	ND	4.4%	9.4%	-0.7%
CL6306	Agri Marketing Specialist II	61	39,673	48,020	56,366	47,552	44,533	10-State			
0	Prigrama in group opconduct in	2	31,476	41,964	52,452	39,929	39,929	ND	-19.1%	-11.5%	-13.3%
CL6403	Food Analyst III	185	26,469	33,787	40,833	36,871	36,723	10-State	[
CC0403	Seed Analyst III	2	21,300	28,404	35,508	29,850	29,850	ND	-23.5%	-23.0%	-29.8%
		2192	17,357	21,259	25,176	21,203	20,530	10-State			
CL7010	Custodian	50	13,236	17,640	22,056	16,819	16,535	ND	-26.1%	-24.2%	-20.2%
		63	34,232	43,462	52,473	46,755	45,193	10-State		L4,270	LU.L N
CL7163	Food Service Director II	4	31,476	41,964	52,452	41,112	38,616	ND	40 70/	17.09/	11 49/
		812	32,002	40.197	48,428				-13.7%	-17.0%	-11.4%
CL8055	Highway Mtc Foreman			-		41,422	38,529	10-State			
		2	23,472	31,296	39,120	37,224	37,224	ND	-11.3%	-3.5%	-32.4%
CL8122	Piłot II	29	35,394	45,403	55,412	50,094	50,104	10-State			
		3	31,476	41,964	52,452	47,664	46,884	ND	-5.1%	-6.9%	-19.4%
CL8133	Physical Plant Dir III	302	41, 6 77	53,315	65,399	56,537	55,141	10-State			
	y	3	37,920	50,556	63,192	49,100	48,456	ND	-15.1%	-13.8%	-11.8%
CLESTO	Gen Trades Maint Will II	819	24,238	29,383	34,527	30,571	30,858	10-State	<u> </u>		
CL8210	Gen Trades Maint Wkr II	6	21,300	28,404	35,508	25,796	25,182	ND	-18.5%	-22.5%	-7.6%
		524	25,600	31,672	37,573	32,598	31,235	10-State			
CL8222	Carpenter II	9	21,300	28,404	35,508	26,029	26,040	ND	-25.2%	-20.0%	-14.8%
		227	27,144	33,586	39,858	34,424	33,714	10-State	-23.276	-20.076	- 14.076
CL8232	Plumber II	$\overline{}$		_							
		4	25,572	34,092	42,612	33,381	33,372	ND 40 Out	-3.1%	-1.0%	-1.0%
CL8242	Electrician II	242	28,026	34,605	41,012	35,810	33,429	10-State			
		7	25,572	34,092	42,612	32,990	33,600	ND	-8.5%	0.5%	-5.0%
ì	Systems Mechanic II	201	28,175	34,721	41,041	36,176	34,671	10-State			
CLROSO	Cystolina Miceriai III II	6	25,572	34,092	42,612	33,176	33,600	ND	-9.0%	-3.2%	-6.1%
CL8262											
	F. (1.11.11 Q.11.11	5292	24,611	30,010	35,486	31,230	32,325	10-State	;	l	
	Equipment Operator II	5292	_	_		$\overline{}$			-23 3%	-26 2%	-20 9%
	Equipment Operator II	_	24,611 19,368 28,709	30,010 25,824 35,419	35,486 32,280 41,807	31,230 25,324 35,387	32,325 25,608 36,294	ND 10-State	-23.3%	-26.2%	-20.9%

JOB SERVICE NORTH DAKOTA 2004

		т		004				0.11	
Cls Code	Match Title	# Ee's	Min	alary Rang Mid	ge Max	Average	State	Avg	rence Mdpt-Avg
Code		5770	MINT	IVITU	IVIGA	20,410	JSND		
CL0032	Office Assistant II	83	14,556	19,404	21,828	19,008	ND	-7.4%	-5.2%
	<u> </u>	5770	1 1/000	101/10		23,302	JSND		<u> </u>
CL0033	Office Assistant III	167	16,008	21,348	26,688	20,408	ND	-14.2%	-9.2%
		3130	,	,		28,343	JSND		
CL0042	Administrative Assistant II	141	19,368	25,824	32,280	25,340	ND	-11.9%	-9.8%
		3130				32,220	JSND		
CL0043	Administrative Assistant III	74	21,300	28,404	35,508	30,048	ND	-7.2%	-13.4%
		460				57,218	JSND		
CL0142	Programmer/Analyst II	30	31,476	41,964	52,452	39,975	ND	-43.1%	-36.4%
		460				67,085	JSND		
CL0143	Programmer/Analyst III	55	34,884	46,512	58,140	46,874	ND	-43.1%	-44.2%
		900				45,822	JSND		
CL0131	Programmer	8	23,472	31,296	39,120	30,528	ND	-50.1%	-46.4%
01.0474	Communication of National Consisting III	250				43,862	JSND		
CLU174	Computer & Network Specialist II	20	28,368	37,824	47,280	34,798	ND	-26.0%	-16.0%
CI 0175	Computer & Maturals Specialist III	250				50,686	JSND		
CL0175	Computer & Network Specialist III	13	34,884	46,512	58,140	44,010	ND	-15.2%	-9.0%
CI 0000	Association (Pudget Considiet II	1890				48,115	JSND		
CLU222	Accounting/Budget Specialist II	17	25,572	34,092	42,612	32,549	ND	-4 <u>7.8</u> %	-41.1%
CLAGGA	Accounting/Budget Specialist III	1890				58,175	JSND		
GL0223	Accounting/Budget Specialist III	28	31,476	41,964	52,452	40,530	ND	-43.5%	-38.6%
CI 0712	Attomey II	650				71,627	JSND		
OLU/ 12	Attorney ii	7	37,920	50,556	63,192	44,729	ND	-60.1%	-41.7%
CI 0713	Attorney III	650				90,688	JSND		
OLO7 10	Automoy III	5	47,364	63,156	78,948	63,240	ND	-43.4%	-43.6%
CI 2003	Engineering Tech III	400		<u></u>		33,132	JSND		
012000	Zingwiceling 7501111	41	21,300	28,404	35,508	30,517	ND	-8.6%	-16.6%
CI 2004	Engineering Tech IV	400				37,642	JSND		
		69	25,572	34,092	42,612	35,652	ND	-5.6%	-10.4%
CL2022	Transportation Engineer It	610				52,368	JSND		
		27	31,476	41,964	52,452	40,844	ND	-28.2%	-24.8%
CL2023	Transportation Engineer III	610				59,261	JSND		97.48
		56	34,884	46,512	58,140	48,691	ND	-21.7%	-27.4%
CL2042	Environmental Engineer II	90				56,158	JSND		22.22
		15	31,476	41,964	52,452	37,672	ND	-49. <u>1%</u>	-33.8%
CL2043	Environmental Engineer III	90			55.445	64,830	JSND		20.40
		14	34,884	46,512	58,140	44,055	ND	-47.2%	-39.4%
CL3051	Licensed Prac Nurse I	2670		07.004	00.000	27,873	JSND	4.00/	7.00/
		8	19,368	25,824	32,280	26,751	ND	-4.2%	-7.9%
CL3052	Licensed Prac Nurse II	2670	04.555	00.404	0F 500	29,715	JSND	3 60:	4.000
		61	21,300	28,404	35,508	29,184	ND	-1.8%	-4.6%
CL3062	Registered Nurse II	6180		07.001	47.000	43,961	JSND	40 ===	10.000
		90	28,368	37,824	47,280	39,013	ND	-12.7%	-16.2%
CL3063	Registered Nurse III	6180	04 170	44.004	50.450	49,031	JSND	40.404	10.000
		33	31,476	41,964	52,452	43,233	ND	-13.4%	-16.8%

JOB SERVICE NORTH DAKOTA 2004

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Cls	Match Title	# Ee's		alary Rar		Average	State	Diffe	rence
Code			Min	Mid	Max	Avelage	Julia	Avg	Mdpt-Avg
CL3232	Chemist II	130				43,408	JSND		
		5	28,368	37,824	47,280	35,928	ND	-20.8%	-14.8%
CI 3233	Chemist III	130				51,418	J\$ND		
	onomic m	3	31,476	41,964	52,452	41,816	ND	-23.0%	-22.5%
CI 4133	Addiction Counselor II	210	•			35,740	JSND		
	/ todiotion obdinacion in	66	28,368	37,824	47,280	34,355	ND	-4.0%	5.5%
CI 4134	Addiction Counselor III	210			1	38,924	JSND		
	/ Idalotton Counsciol III	15	31,476	41,964	52,452	42,726	ND	8.9%	7.2%
CL 4212	Social Worker II	260				33,420	JSND		
024212	Godal Worker II	24	25,572	34,092	42,612	31,231	ND	-7.0%	2.0%
CI 4213	Social Worker III	260				37,788	JSND		
024210	Social Worker III	45	28,368	37,824	47,280	35,164	ND	-7.5%	0.1%
CI 5112	Correctional Officer II	180				29,654	JSND		
023112	- Our ectional Officer II	176	23,472	31,296	39,120	25,862	ND	-14.7%	5.2%
C! 5113	Correctional Officer III	180				33,340	JSND		
023113	Obtrectional Officer III	7	25,572	34,092	42,612	32,374	ND	-3.0%	2.2%
CI 6072	Biologist II	100				49,707	JSND		
OL0072	L	26	31,476	41,964	52,452	44,212	ND	-12.4%	-18.5%
CI 6072	Biologist III	100		_		56,428	J\$ND		
00073	Diologist III	7	34,884	46,512	58,140	49,347	ND	-14.3%	-21.3%
CI 7010	Custodian	6470				18,673	JSND		
CL7010	Custodian	50	13,236	17,640	22,056	16,819	ND	-11.0%	-5.9%
CL7122	Cook I	1370				18,293	J\$ND		
QL/122	COOK I	34	16,008	21,348	26,688	18,495	ND	1.1%	14.3%
CL7123	Cook II	1370				20,379	JSND		
OE7 123	COOK II	13	17,604	23,472	29,340	21,960	ND	7.2%	13.2%
Cl 7202	Laundry Worker	630				17,486	JSND		
OL7203	Lauriury Worker	4	13,236	17,640	22,056	18,813	ND	7.1%	0.9%
CI 9412	Fauinment Operator II	510				26,641	JSND		
OL0412	Equipment Operator II	250	19,368	25,824	32,280	25,324	ND	-5.2%	-3.2%
CI 9442	Equipment Operates (III	510				30,538	JSND		
CL8413	Equipment Operator III	84	21,300	28,404	31,956	31,736	ND	3.8%	·7.5%

1999 & 2001 Market/Equity Distribution Plan

								apeciai	ma noveq	uity Incres	~								
-	Prec	ared by	ND Central Personnel Division						$\overline{}$							Salary Inc.		# Employees	revg:
			Office of Management & Budge	et .				겠는데	raniii		0)0)8	∜∟					4%	65 386	
_								1000	<u> </u>		ששעע	515	ļ				1%	2,058	
													1				.9%	1,717	
$\equiv \Gamma$			Increase Information					General In	formation						+				
		└						mployees:	6,572							-			
٦.		}	Total # E'ees:	6,572				.IIIpioyees.	0,512			4		HA	NGE COMPRES	SION MATRIX			
-∤.									Current	New		Yr	Svc		2		3-tile		
			E'ees Receiving Increases:	4,226				vg Salary:	\$2,448	\$2,474		Fram	Up To		1	2	3		
-1		Tot	al Market/Equity Salary Increase:		4,006,968			mpa-Ratio:	0.92	0.93		12	99		4.8%	3.4%	2.1%	0.9%	
+		ļ	1			-		/c (7/1/01):	12.6			7	12		3.4%	2.1%	0.5%	0.0%	- 1
┥		····	Total Market/Equity Cost:	\$	4,675,303		Yrs in Cls/C		7.0	1		0	7		2.1%	0.9%	0.0%	0.0%	
		ł	Total General Fund Cost	\$	2,694,343		Avg	ncrease \$	\$25.41										-
- †·			Total Special Fund Cost		1,980,960		Avg le	crease %:	1.1%				1						
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1			DRAFT				•	7	2	-									
		<u> </u>				Current	Current		Yrs Svc	Yrs in	Tol	tal Increase	Cost with		Gen Fund Cost	Spol Fund Cost	Salary % Inc	New Salary	
	Dept_	Div	Name	Class	Grade	Current Salary	Current C-Ratio	B	Yrs Svc on 7/1/01	Yrs in Cls/Grd	To:			Fund	Cost	Cost	% Inc		Ċ
\neg	Depi_	Drv 50%	Name a	Class 33	Grade 5	Current Salary 767.00	Current C-Ratio		Yrs Svc on 7/1/01 1.9	Yrs in Cls/Grd 1.9	# 0	tal Increase \$ Increase/mo	Cost with Benefits	Fund 100%				Salary	Ċ
))		-	Name a b	Class 33	Grade 5	Current Salary 767.00	Current C-Ratio 0.88 0.72	8-tile 3	Yrs Svc on 7/1/01 1.9 0.7	Yrs in Cls/Grd 1.9	To:	al Increase \$ Increase/mo	Cost with	Fund	Cost 0.00	Cost 0.00	% Inc 0.0%	Salary 767.00	Ċ
) 	77 77 77	-	Name a b	Class 33 33 32	Grade 5 5 5	Current Salary 767.00 1,262.00 1,463.00	Current C-Ratio 0.88 0.72 0.84	8-tile 3 1	Yrs Svc on 7/1/01 1.9 0.7 1.7	Yrs in- Cls/Grd 1.9 0.7	0 1	tal Increase \$ Increase/mo	Cost with Benefits	Fund 100% 100%	0.00 31.50	0.00 0.00 0.00 0.00	% Inc 0.0% 2.1% 0.9% 0.0%	5alary 767.00 1,289.00 1,476.00 1,555.00	Ċ
) -) -)	779 779 779	-	Name a b c d	Class 33 33 32 32 32	Grade 5 5 5 5 5 5 5	Current Salary 767.00 1,262.00 1,463.00 1,555.00	Current C-Ratio 0.88 0.72 0.84 0.89	8-tile 3	Yrs Svc on 7/1/01 1.9 0.7 1.7	Yrs in Cls/Grd 1.9	To:	al Increase \$ Increase/mo	Cost with Benefits	Fund 100% 100% 100%	0.00 31.50 15.20 0.00 0.00	Cost 0.00 0.00 0.00 0.00 0.00	% Inc 0.0% 2.1% 0.9% 0.0%	Salary 767.00 1,289.00 1,476.00 1,555.00 1,533.00	Ċ
) 	7y 7y 7y 7y	-	Name a b	Class 33 33 32 32 33	Grade 5 5 5 5 5 5 5 5 5 5	Current Salary 767.00 1,262.00 1,463.00	Current C-Ratio 0.88 0.72 0.84	8-tile 3 1 2	Yrs Svc on 7/1/01 1.9 0.7 1.7	Yrs in- Cls/Grd 1.9 0.7 1.7	Tol	al Increase \$ Increase/mo	Cost with Benefits 31.50 15.20	Fund 100% 100% 100% 100% 100%	0.00 31.50 15.20 0.00 9.00 37.30	Cost 0.00 0.00 0.00 0.00 0.00 0.00	% Inc 0.0% 2.1% 0.9% 0.0% 0.0% 2.1%	Salary 767.00 1,289.00 1,476.00 1,555.00 1,533.00 1,579.00	C
) -) -) -)	777 779 779 779 779	-	Name a b c d	Class 33 33 32 32 32	Grade 5 5 5 5 5 7	Current Salary 767.00 1,262.00 1,463.00 1,555.00 1,533.00	Current C-Ratio 0.88 0.72 0.84 0.89	8-tile 3 1 2 3 3	Yrs Svc on 7/1/01 1.9 0.7 1.7 1.8 3.1 0.7	Yrs in- Cls/Grd 1.9 0.7 1.7 1.8 3.1 0.7	To: # 0 1 1 0 0 1 1 1 1 1 1 1 1 1 1 1 1 1 1	\$ 13.00	Cost with Benefits 31.50 15.20	Fund 100% 100% 100% 100% 100% 100%	0.00 31.50 15.20 0.00 0.00 9.00 37.30 39.70	Cost 0.00 0.00 0.00 0.00 0.00 0.00 0.00	% Inc 0.0% 2.1% 0.9% 0.0% 0.0% 2.1% 2.1%	Salary 767.00 1,289.00 1,476.00 1,555.00 1,533.00 1,579.00 1,669.00	C
) -) -)	777 777 779 779 779 779	-	Name a b c d d	Class 33 33 32 32 33 42	Grade 5 5 5 5 5 7 7 7	Current Salary 767.00 1,262.00 1,463.00 1,555.00 1,533.00 1,547.00	Current C-Ratio 0.88 0.72 0.84 0.89 0.88	8-tile 3 1 2 3 3 1 1	Yrs Svc on 7/1/01 1.9 0.7 1.8 3.1 0.7 1.8 7.2	Yrs in- Cls/Grd 1.9 0.7 1.7 1.8 3.1 0.7 1.8	To: # 0 1 1 0 0 0 1 1 0 0 0 1 1 0 0 0 0 1 1 0	\$ 13.00	Cost with Benefits 31.50 15.20	Fund 100% 100% 100% 100% 100% 100% 100%	Cost 0.00 31.50 15.20 0.00 9.00 37.30 39.70 0.00	Cost 0.00 0.00 0.00 0.00 0.00 0.00 0.00	% Inc 0.0% 2.1% 0.9% 0.0% 0.0% 2.1% 2.1%	Salary 767.00 1,289.00 1,476.00 1,555.00 1,533.00 1,579.00 1,669.00 1,731.00	c
) -) -)	777 779 779 779 779	-	Name a b c d e f	Class 33 33 32 33 42 42 42 33 34 41	Grade 5 5 5 5 5 7 7 7 5 6 8	Current Salary 767.00 1,262.00 1,463.00 1,555.00 1,533.00 1,547.00 1,635.00 1,731.00	Current C-Ratio 0.88 0.72 0.84 0.89 0.68 0.73 0.77	8-tile 3 1 2 3 3	Yrs Svc on 7/1/01 1.9 9.7 1.7 1.8 3.1 0.7 1.8 7.2 13.3	Yrs in Cls/Grd 1.9 0.7 1.7 1.8 3.1 0.7 1.8 7.2 13.3	To: # 0 1 1 1 0 0 1 1 0 0 0 0 0 0 0 0 0 0 0	\$ 13.00 \$ 32.00 \$ 34.00	Cost with Benefits 31.50 15.20 37.30 39.70	Fund 100% 100% 100% 100% 100% 100% 100% 100	0.00 31.50 15.20 0.00 9.00 37.30 39.70 0.00 0.00	Cost 0.00 0.00 0.00 0.00 0.00 0.00 0.00 0.	% Inc 0.0% 2.1% 0.9% 0.0% 0.0% 2.1% 0.0%	Salary 767.00 1,289.00 1,476.00 1,555.00 1,533.00 1,579.00 1,669.00 1,731.00	C
))	777 777 777 777 777 777 777	-	Name a b c d e f	Class 33 32 33 442 42 42 42	Grade 5 5 5 5 5 7 7 7 5 6 8 7 7	Current Salary 767.00 1,262.00 1,463.00 1,555.00 1,533.00 1,635.00 1,731.00 1,943.00 2,042.00	Current C-Ratio 0.88 0.72 0.84 0.89 0.88 0.73 0.77 0.99	8-tile 3 1 2 3 3 1 1	Yrs Swc on 7/1/01 1.9 0.7 1.7 1.8 3.1 0.7 1.8 7.2 13.3	Yrs in Cls/Grd 1.9 0.7 1.7 1.8 3.1 0.7 1.8 7.2 13.3	Tol # 0 1 1 0 0 1 1 0 0 0 1 1	\$ 18.00	Cost with Benefits 31.50 15.20 37.30 39.70	Fund 100% 100% 100% 100% 100% 100% 100% 100	Cost 0.00 31.50 15.20 0.00 9.00 37.30 39.70 0.00 0.00 0.00 21.00	Cost 0.00 0.00 0.00 0.00 0.00 0.00 0.00 0.00 0.00 0.00 0.00	% Inc 0.0% 2.1% 0.9% 0.0% 0.0% 2.1% 2.1%	Salary 767.00 1,289.00 1,476.00 1,555.00 1,533.00 1,579.00 1,669.00 1,731.00	c
7	777 777 777 777 777 777 777	-	Name a b c d f g h J k	Class 33 33 32 33 34 42 42 212 212	5 5 5 5 5 5 7 7 7 5 6 8	Current Salary 767.00 1,262.00 1,463.00 1,555.00 1,533.00 1,547.00 1,635.00 1,731.00 1,943.00 2,042.00 2,042.00	Current C-Ratio 0.88 0.72 0.84 0.89 0.88 0.73 0.77 0.99 1.01	8-tile 3 1 2 3 3 1 1	Yrs Svc on 7/1/01 1.9 0.7 1.8 3.1 0.7 1.8 7.2 13.3 13.0	Yrs in Cls/Grd 1.9 0.7 1.7 1.8 3.1 0.7 1.8 7.2 13.3 13.9	Tol # 0 1 1 0 0 1 1 0 0 0 1 1 1 1 1 1 1 1 1	\$ 13.00 \$ 32.00 \$ 34.00	Cost with Benefits 31.50 15.20 37.30 39.70	Fund 100% 100% 100% 100% 100% 100% 100% 100	Cost 0.00 31.50 15.20 0.00 0.00 37.30 39.70 0.00 0.00 21.00 21.00	Cost 0.00 0.00 0.00 0.00 0.00 0.00 0.00 0.	% Inc 0.0% 2.1% 0.9% 0.0% 2.1% 0.0% 0.0% 0.0%	Salary 767.00 1,289.00 1,476.00 1,555.00 1,533.00 1,579.00 1,669.00 1,731.00 1,943.00 2,060.00	C
) -) -) -) -)	777 777 777 777 777 777 777 777 777 77	-	Name a b c d i g h h l j k l	Class 33 33 32 3 42 42 33 41 42 42 212 33 33	Grade 5 5 5 5 5 5 7 7 7 5 6 6 7 7 5 5 5 7 7 7 7	Current Salary 767.00 1,262.00 1,463.00 1,555.00 1,537.00 1,635.00 1,731.00 1,943.00 2,042.00 2,042.00	Current C-Ratio 0.88 0.72 0.84 0.89 0.73 0.77 0.99 1.01 0.97 0.97	8-tile 3 1 2 3 3 1 1	Yrs Svc on 7/1/01 1.9 0.7 1.7 1.8 3.1 0.7 1.8 7.2 13.3 13.3 13.9 20.2	Yrs in Cls/Grd 1.9 0.7 1.7 1.8 3.1 0.7 1.8 7.2 13.3 13.9 20.2	Tol	\$ 18.00 \$ 18.00 \$ 18.00	Cost with Benefits 31.50 15.20 15.20 37.30 39.70 21.00 21.00	Fund 100% 100% 100% 100% 100% 100% 100% 100	Cost 0.00 31.50 15.20 0.00 9.00 37.30 39.70 0.00 0.00 0.00 21.00	Cost 0.00 0.00 0.00 0.00 0.00 0.00 0.00 0.00 0.00 0.00 0.00 0.00	% Inc 0.0% 2.1% 0.9% 0.0% 0.0% 2.1% 2.1% 0.0% 0.0%	Salary 767.00 1,289.00 1,476.00 1,555.00 1,533.00 1,579.00 1,669.00 1,731.00 1,943.00 2,060.00 2,014.00 2,280.00	C
))))))	777 777 777 777 777 777 777 777 777 77	-	Name	Class 33 33 33 32 42 42 33 41 42 212 33 43	Grade 5 5 5 5 7 7 6 7 7 5 8 8	Current Salary 767.00 1,262.00 1,555.00 1,533.00 1,547.00 1,633.00 1,633.00 1,943.00 2,042.00 2,042.00 2,014.00 2,014.00 2,260.00	Current C-Ratio 0.88 0.72 0.84 0.89 0.88 0.73 0.77 0.79 1.01 0.97	8-tile 3 1 2 3 3 1 1	Yrs Svc on 7/1/01 1.9 0.7 1.8 3.1 0.7 1.8 1.3 1.3 1.3 1.3 1.3 1.3 1.3 1.3 1.3 1.3	Yrs in Cls/Grd 1.9 0.7 1.8 3.1 0.7 1.8 7.2 1.33 1.33 1.33 1.35 2.02 2.02	Tol # 0 1 1 0 0 1 1 0 0 0 1 1 1 1 1 1 1 1 1	\$ 18.00	Cost with Benefits 31.50 15.20 37.30 39.70 21.00 23.30	Fund 100% 100% 100% 100% 100% 100% 100% 100	Cost 0.00 31.50 15.20 0.00 0.00 0.00 37.30 39.70 0.00 21.00 21.00 0.00	Cost 0.00 0.00 0.00 0.00 0.00 0.00 0.00 0.	% Inc 0.0% 2.1% 0.9% 0.0% 2.1% 0.0% 0.0% 0.0% 0.9% 0.0% 0.0% 0.0% 0.0	Selary 767.00 1,289.00 1,476.00 1,555.00 1,555.00 1,579.00 1,699.00 1,731.00 2,060.00 2,060.00 2,080.00 2,280.00 2,084.00	C
) - 2 - 3 - 3 - 3 - 3 - 3 - 3 - 3 - 3 - 3 - 3	YY	-	Name a b c d f g h i k i m n	Class 33 33 32 32 33 33 34 34 34 34 34 34 34 34 34 34 34	Grade 5 5 5 5 7 7 7 6 7 7 8 8 8	Current Salary 767.00 1,262.00 1,463.00 1,555.00 1,533.00 1,731.00 1,943.00 2,042.00 2,042.00 2,042.00 2,269.00 2,269.00 2,269.00	Current C-Ratio 0.88 0.72 0.84 0.89 0.88 0.73 0.77 0.99 1.01 0.97 0.97 0.97	8-tile 3 1 2 3 3 1 1	Yrs Svc on 7/1/01 1.9 0.7 1.7 1.8 3.1 0.7 1.8 7.2 13.3 13.3 13.9 20.2	Yrs in Cls/Grd 1.9 0.7 1.7 1.8 3.1 0.7 1.8 7.2 13.3 13.9 20.2	Tol	\$ 18.00 \$ 18.00 \$ 27.00 \$ 13.00 \$ 32.00 \$ 34.00 \$ 18.00 \$ 18.00	Cost with Benefits 31.50 15.20 37.30 39.70 21.00 23.30	Fund 100% 100% 100% 100% 100% 100% 100% 100	Cost 0.00 31.50 15.20 0.00 0.00 37.30 0.00 0.00 21.00 0.00 23.30 22.20 0.00 0.00 0.00 0.00	Cost 0.00	% Inc 0.0% 2.1% 0.9% 0.0% 0.0% 2.1% 2.1% 0.0% 0.9% 0.9% 0.9% 0.9%	Salary 767.00 1,289.00 1,476.00 1,555.00 1,533.00 1,579.00 1,669.00 1,731.00 1,943.00 2,060.00 2,060.00 2,060.00 2,060.00 2,060.00 2,060.00 2,060.00 2,060.00 2,060.00 2,060.00 2,060.00	C
) - 2 - 3 - 3 - 3 - 3 - 3 - 3 - 3 - 3 - 3 - 3	797 797 797 797 797 797 797 797 797 797	-	Name	Class 33 32 33 33 42 42 42 33 41 42 42 212 33 43 43	Grade 5 5 5 5 7 7 5 8 8 7 7 5 8 8 8 8	Current Salary 767,00 1,262,00 1,463,00 1,555,00 1,533,00 1,547,00 1,547,00 1,943,00 2,042,00 2,042,00 2,014,00 2,260,00 2,265,00 2,122,00	Current C-Ratio 0.88 0.72 0.84 0.89 0.88 0.73 0.77 0.79 1.01 0.97	8-tile 3 1 2 3 3 1 1	Yrs Svc on 7/1/01 1.9 0.7 1.8 3.1 0.7 1.8 3.3 13.0 13.9 20.2 15.6 15.6 15.6	Yrs in Cls/Grd 1.9 0.7 1.7 1.8 3.1 0.7 1.8 7.2 13.3 13.9 20.2 15.3 10.8	To! # 0 1 1 0 0 1 1 0 0 1 1 1 0 0 1 1 1 1 0 0 1	\$ 18.00 \$ 18.00 \$ 27.00 \$ 13.00 \$ 32.00 \$ 34.00 \$ 18.00 \$ 18.00	Cost with Benefits 31.50 15.20 37.30 39.70 21.00 23.30	Fund 100% 100% 100% 100% 100% 100% 100% 100	Cost 0.00 31.50 15.20 6.00 9.00 37.30 39.70 6.00 21.00 21.00 21.00 23.30 22.20 0.00 0.00 0.00 0.00 0.00	Cost 0.00	% Inc 0.0% 2.1% 0.0% 0.0% 0.0% 2.1% 0.0% 0.0% 0.0% 0.0% 0.9% 0.0% 0.9% 0.0%	Selary 767.00 1,289.00 1,476.00 1,555.00 1,553.00 1,579.00 1,791.00 1,791.00 1,943.00 2,060.00 2,014.00 2,014.00 2,014.00 2,122.00 2,122.00 2,122.00 2,122.00 2,122.00 2,122.00 2,122.00	C
) -) -) -) -) -) -)	777 777 777 777 777 777 777 777 777 77	-	Name a	Class 33 33 32 32 33 33 34 34 34 34 34 34 34 34 34 34 34	Grade 5 5 5 5 7 7 7 6 7 5 8 8 8 8	Current Salary 767.00 1,262.00 1,463.00 1,555.00 1,533.00 1,731.00 1,943.00 2,042.00 2,042.00 2,042.00 2,269.00 2,269.00 2,269.00	Current C-Ratio 0.88 0.72 0.84 0.89 0.88 0.73 0.73 0.77 0.99 1.01 0.97 0.97	8-tile 3 1 2 3 3 1 1	Yrs Svc on 7/1/01 1.99 0.7 1.7 1.8 3.1 0.7 1.8 7.2 13.3 13.3 13.9 20.2 22.9 14.4 15.6	Yrs in Cls/Grd 1.9 1.7 1.7 1.8 3.1 3.7 1.5 7.2 13.3 13.9 20.2 15.3 10.8 22.9	To! # 0 1 1 1 0 0 0 1 1 1 0 0 1 1 1 0 0 0 1 1 1 0 0 0 1 1 1 0 0 0 1 1 1 0	\$ 18.00 \$ 18.00 \$ 27.00 \$ 13.00 \$ 32.00 \$ 34.00 \$ 18.00 \$ 18.00	Cost with Benefits 31.50 15.20 37.30 39.70 21.00 23.30	Fund 100% 100% 100% 100% 100% 100% 100% 100	Cost 0.00 31.50 15.20 0.00 0.00 37.30 0.00 0.00 27.30 0.00 21.00 21.00 21.00 22.20 0.00 0.00	Cost 0.00	% Inc 0.0% 2.1% 0.9% 0.0% 0.0% 2.1% 2.1% 0.0% 0.0% 0.9% 0.9% 0.9% 0.0% 0.0% 0.0	Selary 767.00 1,289.00 1,289.00 1,476.00 1,555.00 1,579.00 1,579.00 1,579.00 1,731.00 1,943.00 2,060.00 2,014.00 2,280.0	C
) - 1 - 1 - 1 - 1 - 1 - 1 - 1 - 1 - 1 - 1	797 797 797 797 797 797 797 797 797 797	-	Name	Class 33 33 33 34 32 42 42 33 34 43 43 43 33 43 33 43 33 34 34	Grade 5 5 5 5 7 7 7 6 6 7 7 5 6 8 8 8	Current Salary 767.00 1,262.00 1,463.00 1,555.00 1,537.00 1,635.00 1,731.00 1,731.00 2,042.00 2,042.00 2,014.00 2,014.00 2,015.00 2,015.00 2,015.00 2,016.00 2,016.00 2,016.00 2,016.00 2,016.00 2,016.00 2,016.00 2,016.00	Current C-Ratio 0.88 0.72 0.84 0.89 0.73 0.77 0.99 1.01 0.97 0.97 0.97 0.97 1.15 0.97	8-tile 3 1 2 3 3 1 1	Yrs Svc on 7/1/01 1.99 0.7 1.7 1.8 3.1 0.7 1.8 3.1 13.9 20.2 15.6 10.55 22.9 14.4 15.6 22.9	Yts in Cls/Grid 1.9 9 0.7 1.7 1.8 3.1 1.3 1.3 1.3 1.3 1.2 1.5 3.1 1.4 4.4 1.4 1.4 1.4 1.4 1.4 1.4 1.4 1	To: # 0 1 1 1 0 0 0 1 1 1 0 0 0 0 0 0 0 0 0	\$ 18.00 \$ 18.00 \$ 27.00 \$ 13.00 \$ 32.00 \$ 34.00 \$ 18.00 \$ 18.00	Cost with Benefits 31.50 15.20 37.30 39.70 21.00 23.30	Fund 100% 100% 100% 100% 100% 100% 100% 100	Cost 0.00 31.50 15.20 0.00 9.00 9.00 37.30 39.70 0.00 21.00 21.00 0.00 0.00 0.00 0.00 0	Cost 0.00 0.00 0.00 0.00 0.00 0.00 0.00 0.	% Inc 0 0% 2 1% 0 9% 0 0% 0 0% 0 0% 2 1% 0 0% 0 0% 0 0% 0 0% 0 0% 0 0% 0 0% 0	Selary 767.00 1,289.00 1,476.00 1,555.00 1,579.00 1,579.00 1,689.00 1,731.00 2,060.00 2,014.00 2,212.00 2,122.00 2,122.00 2,142.00 2,142.00 2,446.00 2,446.00	C
)))))))))	199 199 199 199 199 199 199 199 199 199	-	Name a	Class 33 33 32 3 32 42 42 42 42 43 43 44 45 45 45 45 45 46 46 46 47 47 48 48 48 48 48 48 48 48 48 48 48 48 48	Grade 55 55 55 57 77 75 68 77 58 88 88 88 66	Current Salary 767,00 1,262,00 1,463,00 1,553,00 1,553,00 1,547,00 1,637,00 1,943,00 2,042,00 2,042,00 2,042,00 2,042,00 2,042,00 2,042,00 2,042,00 2,122,00 2,122,00 2,122,00 2,122,00 2,1446,00 2,446,00	Current C-Ratio 0.88 0.72 0.84 0.73 0.89 0.09 1.01 0.97 0.97 0.97 0.97 1.15 0.89 1.22 1.05	8-tile 3 1 2 3 3 1 1	Yrs Sve on 7/1/01 1.9 0.7 1.7 1.8 3.1 0.7 1.8 3.1 13.9 20.2 15.6 10.5 15.6 22.9 24.1	Yts in) Cls/Grd 1.9 0.7 1.7 1.8 3.1 0.7 1.8 7.2 13.3 13.9 20.2 15.3 10.8 15.3 21.6 24.1	Tol # 0 1 1 1 0 0 1 1 1 0 0 0 0 0 0 0 0 0 0	\$ 18.00 \$ 18.00 \$ 27.00 \$ 13.00 \$ 32.00 \$ 34.00 \$ 18.00 \$ 18.00	Cost with Benefits 31.50 15.20 37.30 39.70 21.00 23.30	Fund 100% 100% 100% 100% 100% 100% 100% 100	Cost 0.00 31.50 15.20 0.00 6.00 37.30 39.70 0.00 21.00 21.00 21.00 22.00 0.00 0.00	Cost 0.00 0.	% Inc. 0 0% 2 1% 0 9% 0 0% 0 0% 0 0% 0 0% 0 0% 0 0% 0 0	Selary 767.00 1,289.00 1,289.00 1,476.00 1,555.00 1,555.00 1,579.00 1,579.00 2,060.00 2,060.00 2,060.00 2,280.00 2,280.00 2,122.0	C
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2 2 2 2 2 2 2 2 2 2 2 2 2 2 2 2 2 2 2	99	-	Name a b c d e f g h l j k I m n o p q f s l f g h l l f g h l l f g h l f g h l f g h l l f g h l f g h l f g h l l f g h l l g h l l g h l l g h l g h l l g h l l g h l g h l g h l l g h l l g h l l g h l l g h l g h l l g h l l g h l l g h l l l l l l l l l l l l	Class 333 33 33 34 42 42 42 42 42 42 42 42 42 42 42 42 42	Grade 5 5 5 5 5 5 5 7 7 7 7 7 5 8 8 8 8 8 8 6 6 8 6 6 10 10	Current Salary 767,00 1,262,00 1,863,00 1,555,00 1,531,00 1,731,00 1,731,00 2,042,00 2,042,00 2,014,00 2,269,00 2,122,00 2,122,00 2,146,00 2,146,00 2,269,00 2,269,00 2,269,00 2,269,00 2,269,00 2,269,00 2,269,00 2,269,00 2,269,00 2,269,00 2,269,00 2,269,00	Current C-Ratio 0.889 0.72 0.84 0.899 0.89 0.73 0.77 0.99 1.01 0.97 0.97 1.15 0.97 1.12 1.02 1.05 1.09 1.01 1.01 1.01	8-title 3 1 1 2 3 3 1 1 4 4 4 4 5 5 5 5 5 5 5 5 5 5	Yrs Sve on 7/1/01	Yrs in) Cls/Grd 1.9 0.7 1.8 3.1 0.7 1.8 7.2 13.3 13.9 20.2 15.3 21.6 22.9 21.6 24.1	To: ## 0 1 1 1 0 0 0 0 0 0 0 0 0 0 0 0 0 0	\$ 18.00 \$ 18.00 \$ 27.00 \$ 13.00 \$ 32.00 \$ 34.00 \$ 18.00 \$ 18.00	Cost with Benefits 31.50 15.20 37.30 39.70 21.00 23.30	Fund 100% 100% 100% 100% 100% 100% 100% 100	Cost 0.00 31.50 15.20 0.00 0.00 0.00 0.00 0.00 21.00 21.00 0.00 0	Cost 9,00 9,	% Inc 0 0% 2 1% 0 9% 0 0% 0 0% 0 0% 2 11% 0 0% 0 0% 0 0% 0 0% 0 0% 0 0% 0 0%	Selary 767.00 1,289.00 1,476.00 1,555.00 1,555.00 1,579.00 1,689.00 1,731.00 2,060.00 2,014.00 2,280.00 2,122.00 2,122.00 2,244.00 2,244.00 2,249.00 2,249.00 2,249.00 2,249.00 2,269.00 2,269.00	

Explanation of Market/Equity Model

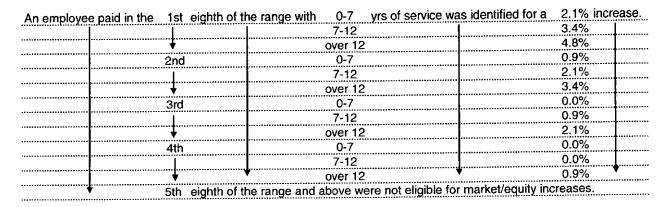
Employee List

- 1 8-tile Identifies which 8th of the range the employee's salary is in (5 indicates pay above midpoint).
- 2 Yrs Svc Employees total years of state service on 7/1/01

Range Compression Matrix

- 3 8-tile -1st, 2nd, 3rd, 4th octile (or eighth) of the salary range; 5 indicates any pay above midpoint.
- 4 Yrs Svc -3 groupings of years; 0-7 years, 7-12 years, over 12 years.

The spreadsheet bases the calculated salary increases on range position and years of service.



NORTH State Employee DAKOTA Fact Sheet

mployees

Total State

14,005

Classified employees under HRMS (ND's Civil Service) are covered by basic 'rules' adopted by HRMS. The rules ensure reasonably consistent employment conditions regardless of size, function, or location of agency. Generally, the rules provide for equitable pay, open & competitive selection, and protection from arbitrary personnel actions.

Classified employees under the University System are covered by and subject to the policies adopted by the State Board of Higher Education.

Non-Classified employees do NOT have grievance appeal rights under HRMS. The terms and conditions of employment vary by agency, category of employee, or even by individual employee.

		Percent	%0.0	0.5%	9.6%	18.1%	18.6%	19.2%	12.3%	8.8%	2.6%	3.5%	1.6%	1.1%	1.0%	0.3%	0.5%	0.0%	0.0%		
anai eilipioyee.	#of	Employees	0	1	613	1,157	1,192	1,229	190	561	358	227	103	71	63	. 19	11	2	, 2	6,409	-1
מו הא יומואי	nployee	ibution	\$10,000	\$15,000	\$20,000	\$25,000	\$30,000	\$35,000	\$40,000	\$45,000	\$50,000	\$55,000	\$60,000	\$65,000	\$70,000	\$75,000	\$80,000	\$85,000	\$90,000		
chipioyee, or even by maintana employee.	Classified Employee	Salary Distribution	up to	\$10,000 to	\$15,000 to	\$20,000 to	\$25,000 to	\$30,000 to	\$35,000 to	\$40,000 to	\$45,000 to	\$50,000 to	\$55,000 to	\$60,000 to	\$65,000 to	\$70,000 to	\$75,000 to	\$80,000 to	\$85,000 to		

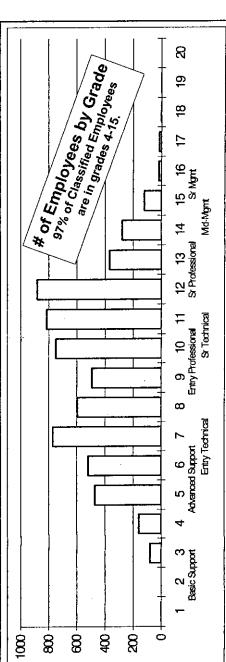
In the North Dakota general workforce:

- 84% of workers have completed high school
- 22% have bachelor's degrees or beyond

In the Classified workforce of the State:

- 99% have completed high-school
- 82% have formal education or trade school beyond hs 54% have a bachelor's degree or beyond

Miscellaneous (Statutory, SPB Action, & Gov Staff) In Agencies reporting to Boards & Commissions In Cabinet Agencies reporting to the Governor Employees classified under the ND University System Workforce Safety & Insurance In Elected Official's Agencies Assistant Attorney's General 2,710 University System Officials & Faculty Department of Commerce **Employees classified under HRMS** Deputies & Assistants Physicians & Dentist 10,388 Classified Employees (i.e. Civil Service) Legislative Council ND Court System Other Non-Classified Appointed **Feachers** Non-Classified Employees Elected State Officials 5,189 617 216 48 20 27 51 97 3,979) (6,409)820 87 3,617



sources. MHMS services include: FAX: it & equity; quity Fund inder of 2% inder of 3% inder of 2% inder of 3% inder of 2% it & equity funding quity Fund it & equity; performit & equity it & equity equity

HRMS also makes current information readily avail-HRMS offices are located on the 14th Floor of able to agencies via the world wide web at: Model Policies, Handbooks, & Guides Legislative & Regulatory Compliance www.discovernd.com/hrms Employee Compensation Services Recruitment/Selection Assistance Performance Management Tools Supervisor/Employee Training Management Consulting the State Capitol. Phone Number: Mediation Please feel for

member:	Phone	
ase feel free to contact any HRMS staff member:	Name	
ontact any	Phone	1 1 1 1 1
sel free to c	Д	
ase fe	me	

(701) 328-1475

(701) 328-3290

Name	Phone	Name	Phone
Laurie Sterioti- Hammeren	328-4735	328-4735 Ken Purdy	328-4739
Linda Jensen	328-3299	328-3299 Lee Lundberg	328-1638
Virginia Rivinius 328-3374 Kim Wassim	328-3374	Kim Wassim	328-4737
Jan Kolding	328-3347	328-3347 Leanne Schmidt	328-4738
Bill Gumeringer	328-3345 Maureen Vo	Maureen Vosberg	328-3293

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and

(HRMS)

North Da-

13 largest agencies:

	2
Dept of Corrections & Rehab	289
Job Service ND	348
Health Dept	298
Information Technology Dept	244
Highway Patrol	178
Dept of Public Instruction	169
Bank of ND	152
Office of Mgmt & Budget	150
Game & Fish Dept	142
Attorney General's Office	132
Tax Dept	122
Average Classified State Employee	oovol

,	Average Classified State Employee	Classif	ied State	Emp	oyee	
	Years of Age	Years of Service	Annual Salary	Actual Increase	Approp'd	Compa- Ratio
Jan 1993	42.0	9.5	\$ 22,189			
Jan 1994	42.0	11.0	22,812	2.8%	\$60/mo	
Jan 1996	46.0	11.4	25,476	11.7%	2.0%	
Jan 1997	43.0	12.2	26,273	3.1%	3.0%	
Jan 1998	43.8	12.1	27,034	2.9%	3.0%	96.0
Aug 1998	44.0	12.1	27,963	3.4%	3.0%	76.0
Nov 1999	44.2	12.2	28,860	3.2%	2.0%	96.0
Aug 2000	44.4	12.3	29,993	3.9%	2 + 1%	76.0
Aug 2001	44.8	12.5	31,467	4.9%	3.0%	96.0
Dec 2002	45.4	12.9	32,262	2.5%	2.0%	96.0
Dec 2003	45.7	13.2	32,627	1.1%	0.0	96.0
Dec 2004	45.9	13.2	32,604	0.0%	0.0%	96.0

PERS-Director 1-5-05 Handout 2-3.

	7
State Health Insurance	
& Retirement Plan	
Up <u>date</u>	
Opuate	
NDPERS	
1/4/2005	
	7
Health Plan Update	
1/4/2005 2	<u></u>
•	
II li pii o	1
Health Bid Overview	
■ RFP were issued this last summer	
 Issued RFP to all companies authorized to provide health coverage in North Dakota 	
 Responses due by mid summer 	
1/M 2005 3	

	٦
Two Responses	
■BCBS	
■ Core Source (Retirees only)	
·	
1	
1/4/2005	
	7
Declines (11)	
(11)	
■ Aetna	
Guarantee Life	
Principal Trustmark	
- CIGNA	
Mutual of Omaha First Health	
First Administrators	
 Harrington Benefit Services Benesight 	
■ Bankers Life	
1/4/2005 5	
	_
NT- D	
No Response - 8	
■ Allianz	
Medical Health Plans	
Mn LifeCare Entrée	
Care Entree ACS State Healthcare	
Great West Life	
United Healthcare	
■ HOA	
1/4/2005 6	•
<u></u>	

BID QUESTION

- Q. The plan specs detail access to the BC/BS PPO network, as well as a supplemental network contracted by the State (ND PERS). Is this network accessible to other parties (TPAs)?
- A. This network is not accessible to other parties.

PERS provider network is not portable, consequently little interest by other firms

1/4/200

7

Enhance competition – HB 1071

- Authorizes PERS to set up a portable health care provider network (limited to PERS use only)
- Allows PERS to self administer the plan
- Provides additional flexibility in the bid process.

1/4/2005

8

2003-2005 Rates

■BCBS rate \$498.70

□ Less buydown (10.00)

■ Billed rate to State \$488.70

Prefiminary Estimates – will change based upon further refinement

2005-2007 BCBS Proposed

■ BCBS Proposed Fully Insured Rate

\$579.33

GBS Projection within approx. 2%

Preliminary Estimates – will change based upon further refinement

Draft Estimated Total

■ BCBS Bid

\$579.33

Other Initiatives

4.54

Less possible buydown & other

(24.52)

■ Estimated total

\$559.15

■ Employer Wellness Incentive

5.59 \$564.74

Preliminary Estimates – will change based upon further refinement

Estimate Gain for 2005-2007

- \$14,000,000 more or less

- If allocated back it could reduce premiums by about
 - **\$24.52**

Preliminary Estimates – will change based upon further refinement

Comparison

2003-2005 Billed rate

\$488.70

= 2005-2007 Billed rate

\$559.15

□ Increase

\$ 70.45

□ % increase

14.40%

■ Additional 1% Employer Based Wellness Incentive to be added to above rates.

Preliminary Estimates – will change based upon further refinement

How does 7.2% compare?

Insurance premiums soar 11%

Premiums for employer-sponsored plans rose by 11.2 percent in 2004 - their fourth straight year of double-digit growth - despite a modest pull back from 13.9 percent a year earlier, according to a study released Thursday by the Kaiser Family Foundation and the Health Research and **Educational Trust.** By <u>Deshundra Jefferson</u>, CNN/Money staff writer

14

How does this compare historically? Health Premium Percentage Increase From Previous Biennium

Other Initiatives

Plan Initiatives

Disease Management

\$2.98

■ Wellness Pilot

\$.41 \$<u>1.15</u>

Rx Max

\$4.54

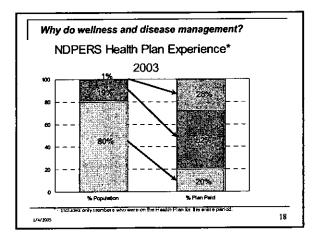
Employer Initiative

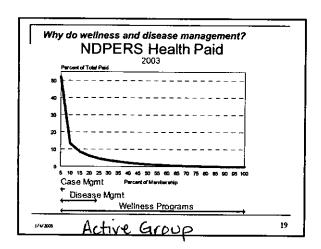
■ Employer Based Wellness

1% - \$5.59

1/4/200

Max	Over	Avg mbr. paid
\$ 1,000	562	\$1,817
\$2,000	150	\$3,278
\$3,000	74	\$4,183
\$4,000	22	\$5,846
\$5,000	10	\$7,590





Disease Management

- Focused on high prevalence, high cost, high volume and complex conditions.
- Is designed to augment and supplement primary care efforts which lack the time for patient education or health coaching in order to improve patient outcomes thereby reducing costs
- Provides health coaches to work with members, web based material, direct informational mailings and provider support.

1/4/20

20

Employer Based Wellness

54-52.1-14. Weliness program. The board shall develop an employer-based wellness program. The program must encourage employers to adopt a board-developed wellness program by either charging extra health insurance premium to nonparticipating employers or reducing premium for participating employers.

Rates for employer groups without an employer based wellness program will be 1% higher beginning this July.

1/4/200

Employee Based Wellness Pilot UND School of Medicine Center for Health Promotion Pilot program with 4 employers for 3 years

- Purpose: To determine if employees who receive comprehensive health promotion services will have improved health outcomes and reduced healthcare costs
 - Health risk appraisals
 - On site screening
- Individual health coaching
- Enhanced smoking cessation, weight/physical activity and depression/stress reduction services.

/4/300S

22

Other Initiative & Issues

- Rx Network Change
 □ Rx Dakota (present network)
 □ Prime National Network
- Rx Mail Order

1/4/300

23

Retire Health Program
Update

1/4/200

RETIREMENT - RETIREE HEALTH CREDIT PROGRAM

BENEFIT FORMULA:

\$4.50 for each year of credited service Example: \$4.50 x 25 = \$112.50

BENEFITS PAID

\$3,893,070 to 3,519 members, Avg benefit - \$94 per month

CONTRIBUTION

1% of payroll

1/4/2005

25

Year	Credit	Credit with 20 Years of Service	NonMedicare Family Premium	%	Medicare Family Premium	%	
1989	\$3.00	\$60.00	\$360.07	17%	\$190.50	31%	
1991	\$4.00	\$80.00	\$321.00	25%	\$230.00	35%	┪
1993	\$4.50	\$90.00	\$368.00	24%	\$230.00	39%	1
1995	\$4.50	\$90.00	\$390.00	23%	\$239.00	38%	\dashv
1997	\$4.50	\$90.00	\$438.48	21%	\$264.98	34%	Ⅎ
999	\$4.50	\$90.00	\$500.38	18%	\$308.62	29%	┪
2001	\$4.50	\$90.00	\$570.00	16%	\$339.30	27%	\dashv
2003	\$4.50	\$90.00	\$702.47	13%	\$415.18	22%	┪
995.	\$4.50	\$90.00	\$835	11%	\$502	18%	۲,

Proposed Legislation - HB 1072

- Increase credit to \$5
- Increase contribution to 1.45% to support \$5 benefit and set up funding mechanism for future increase.
- Estimated biennial cost:
 - □ 1.2 million general funds
 - a 3.3 million other funds
- Unfavorable recommendation from Legislative Employee Benefits Committee

1/4	V2	005

PERS Retirement Plans

	Actuarial Accrued Liabilities (millions)	Actuarial Value of Assets (millions)	Funded Ratio	
2000 2001 2002 2003 2004	\$57 59 60 61 62	\$71 71 68 66 68	125% 121% 113% 109%	
#138615 1/4/3005				29

•	ed Ratio	Retirement S	•
- ruid	eu Nauo		
	Actuarial Accrued Liabilities (millions)	Actuarial Value of Assets (millions)	Funded Ratio
1994	\$20.7	\$18.3	88%
1995	22.3	20.0	90%
1996	23.8	22.2	93%
1997	27.5	24.9	90%
1998	28.9	28.1	97%
1999	32.2	32.0	99%
2000	34.0	35.9	105%
2001	38.1	38.8	102%
2002	40.5	39.5	97%
2003	42.4	39.6	93%
2004	44.5	40.0	90% 95%

Law Enforcement Without Prior Main Service Actuarial Accrued Actuarial Value of Assets Funded Ratio 2004 \$10,430 \$11,388 109%

	Actuarial Accrued Liabilities	Actuaria of Assets	l Value
	(millions)	(millions)	Funded Ratio
2004	\$2.43	\$2.11	87%

	Actuarial Accrued Liabilities (millions)	Actuarial Value of Assets (millions)	Funded Ratio
1998	\$1.34	\$1.51	113%
1999	1.61	1.81	112%
2000	0.85	1.16	135%
2001	1.02	1.27	125%
2002	0.94	1.31	139%
2003	1.05	1.32	126%
2004	1.15	1.38	120%

	Actuarial Accrued Liabilities (millions)	Actuarial Value of Assets(millions)	Funded Ratio
1998	\$710	\$788	111%
1999	831	901	109%
2000	879	1,010	115%
2001	994	1,096	110%
2002	1,087	1,130	104% 98%
2003 2004	1,170	1,145 1,172	1 77.77
2004	1,251	1,172	94% 99.2%

Retirement	Plan
History of ma	rgins:
a 2004 -2.18	(Funding ratio 94%)
2003 -1.39	(98.1%)
2002 -0.30	(104.2%)
2001 0.29	(110.6%)
2000 1.80	(115.1%)
1/4/2005	36

Investment Returns

- ■FY 2004 16.6%
- ■FY 2005 approx 6.5% YTD

161/100

37

Retirement Fund - Market Value

- ■Margin would be about -1.21%
- ■Funding ratio would be about 99.2%

1/4/2009

38

Main, Judges, Nat. Guard & Law Enforcement Systems (HB 1069)

- Veterans Reemployment
- Partial Lump Sum option add.
- 20 Yr term certain option add.
- Elimination of 5 yr term option
- Update IRS compliance provisions
- Temporary Employee Participation in DC Plan

1/4/2005

Main, Judges, Nat. Guard & Law Enforcement Systems (FIB 1070) ■ One time payment of ½ of the monthly annuity in a 13th Check for Retirees if return is greater then 11.2% ■ Change definition of Final Average Salary OASIS Retirement Plan ■ \$19,000 requested to pay continuation of benefits for 3 remaining members and an increase in monthly benefit for 2005-2007.

41

1/4/2005



OFFICE OF THE STATE AUDITOR

STATE CAPITOL 600 E. BOULEVARD AVE. - DEPT. 117 BISMARCK, ND 58505

TESTIMONY BEFORE THE SENATE AND HOUSE APPROPRIATION COMMITTEES January 5, 2005

Significant Audit Findings - 2003-04 Interim

Testimony - Presented By: Ed Nagel Jr., CPA

Director

Chairmen Holmberg and Svedjan, and members of the Senate and House Appropriations Committees. Thank you for your invitation to present a report on the significant audit findings from the 2003 – 2004 interim.

There were six meetings of the Legislative Audit and Fiscal Review Committee (LAFRC) during the 2003-04 interim, including the January 2003 meeting. This document includes significant findings, recommendations & agencies' responses from selected audit reports presented to the LAFRC. There are findings from 2 performance audits and 17 financial audits included in the document SIGNIFICANT AUDIT FINDINGS – 2003-04 Interim.

The findings from the two performance audits are listed first. After that, the findings are listed in numerical sequence by agency department number. For each audit included in the report we have listed a primary contact person from our office, along with their phone number and email address. We have included that information to enable legislators to get answers to questions on findings in this document, that you may have at some later date.

This report includes significant audit findings and recommendations from our two performance audits, the Office of Driver and Vehicle Services, and the Administrative Committee on Veterans' Affairs and Department of Veterans' Affairs. We have also made available to you complete copies of each of those performance audit reports. Section 3, of HB 1007, 2003 session, required that a copy of the performance audit of the Department of Veterans' Affairs and the Administrative Committee on Veterans' Affairs be filed with the appropriations committees during the 2005 legislative assembly.

In preparing for this presentation, we realized that we would not be able to determine with certainty, which findings and recommendations would be of the greatest interest to appropriation committee members as a group. However, I have selected five items I thought most of you would be interested in and I will point them out now.

The first recommendation is on page 3 of the report, top of the page, item 3-1, "Approving the Loan Application and Approval Processes". This finding is more fully discussed on pages 23 & 24 of the performance audit of the Department of Veterans Affairs & the Adminstrative Our finding noted that in the 2001-2003 biennium, Committee on Veterans' Affairs. approximately \$157,000 of Veterans' Postwar Trust Fund moneys were used by the Department of Veterans' Affairs for grants to individuals. In addition, approximately \$72,000 of Veterans' Postwar Trust Fund moneys were used to pay Department employees' salaries and benefits as well as other Department operating expenditures. No appropriation authority was obtained by the Department for those grant or operating expenditures. It was our opinion that the NDCC would need to be amended to obtain the necessary appropriation authority for the Veterans Affairs Dept.

The second item I would point out is from the performance audit of the Department of Transportation's Office of Driver and Vehicle Services, page six, 3-1, "Enhancing the Efficiency of Driver's License Sites". This finding is discussed on pages 28 through 31 of the performance audit report. Based on our work we recommended that either certain driver 's license sites be closed or significant changes be made to the high-cost and low-productivity sites.

A third item would be the findings on pages 26 through 32 of the report, which deal with tax distribution problems found at the State Treasurer's Office. The errors affected many local governments throughout the state.

The fourth item is on page 40 and deals with 2 weaknesses we found with the new PeopleSoft system which was used by 2 pilot universities during the time covered by this audit. The first weakness we encountered was lack of access to the system during our audit. The other weakness we identified was that the 2 pilot universities were unable to complete bank reconciliations as of June 30, 2003. It is our understanding that these 2 institutions are still having difficulties with their bank reconciliations.

about the Court of the some success to The last item I will refer you to starts on page 55 of the report. This finding dealt with the Wheat Commission and their incurring of legal expenses which they were unable to pay for. The Attorney General issued an opinion on December 28th, concerning the legality of the Wheat Commission's actions in this matter.

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If there are any questions, we will try to answer them for you.

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Thank you.

SIGNIFICANT AUDIT FINDINGS 2003-04 Interim

Prepared at the Request of the Senate and House Appropriations Chairmen

> Robert R. Peterson State Auditor



December 27, 2004

The Honorable Senator Ray Holmberg Chairman, Senate Appropriations

The Honorable Representative Ken Svedjan Chairman, House Appropriations

In response to your letter dated December 8, 2004, I am pleased to submit this report which includes the most significant findings and recommendations included in audits presented to the Legislative Audit and Fiscal Review Committee during the past interim. Findings and recommendations included in the statutorily required performance audits of Workforce Safety and Insurance and Job Service North Dakota are not included. These performance audits will be presented to the Industry, Business and Labor committees by Octagon Risk Services, Inc. and Brady, Martz & Associates later in the session. You may obtain copies of these reports by contacting my office.

Our performance audits entitled "Office of Driver and Vehicle Services" (on the internet at: www.state.nd.us/auditor/reports/3020_03.pdf) and "Administrative Committee on Veterans' Affairs" (on the internet at: www.state.nd.us/auditor/reports/3021_04.pdf) will be distributed in their entirety. Our identification of the most significant recommendations for these audits can be found in this report's table of contents.

In response to Section 8 of HB 1506, the performance audit of the Department of Corrections and Rehabilitation will be presented to the legislature after the report is finalized. The report will be available later in January.

The findings and recommendations from our other audits are organized by department number. These findings are the result of four different types of audits. The different types of audits include: Performance Audits; Financial Statement Audits; Information System Audits, and; Operational Audits (our biennial agency audits). These findings will not be discussed in detail at our meeting scheduled for January 5, 2005. However my staff will be prepared to address questions regarding findings you or your committee members would like to discuss.

Thank you for this opportunity to be of service to your committees. Please don't hesitate to call if you have any questions.

Respectfully submitted.

Robert R. Peterson State Auditor

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Administrative Committee on Veterans' Affairs and Department of Veterans' Affairs

Performance Audit - Contact: Gordy Smith 328-4990 gsmith@state.nd.us

Ensuring Compliance with Century Code (2-2)

We recommend the Administrative Committee on Veterans' Affairs:

Comply with North Dakota Century Code Section 37-18.1-03 and ensure proper supervision and monitoring of the Department of Veterans' Affairs is provided; and Ensure the effective dates of changes or additions to North Dakota Century Code are complied with.

Developing a Policy Manual (2-3)

We recommend the Administrative Committee on Veterans' Affairs develop formal policies and procedures. At a minimum, these policies and procedures should address:

- a) The supervision and monitoring of the Department of Veterans' Affairs;
- b) The application process for requesting funds from the Veterans' Postwar Trust Fund;
- c) The use of the Veterans' Aid Fund and the Veterans' Postwar Trust Fund moneys; and
- d) The approval process for grant and loan requests made by members of the Committee or employees of the Department.

Reducing Committee Size and Modifying Appointment Process (2-4)

We recommend the Administrative Committee on Veterans' Affairs take appropriate action to modify North Dakota Century Code Section 37-18.1-01 to reduce the Committee membership size and modify the Committee appointment process.

Adding a Conservatorship Program (2-5)

We recommend the Administrative Committee on Veterans' Affairs and the Department of Veterans' Affairs take appropriate action to add a conservator program to the Department's responsibilities and duties. The Administrative Committee and the Department should:

- a) Review this area with the Office of Attorney General to identify legal requirements and issues with conservatorships;
- b) Review the resources required for this new program and determine whether job duties and responsibilities need to be reassigned between the Fargo main office and the Bismarck branch office:
- c) Establish formal guidelines and policies for the operation of a conservator program and review the guidelines on a periodic basis; and
- d) Establish management controls to ensure compliance with the guidelines and policies and to monitor the programs efficiency and effectiveness.

Reviewing a Position's Duties and Responsibilities (2-6)

We recommend the Department of Veterans' Affairs, in conjunction with the Administrative Committee on Veterans' Affairs, conduct a thorough, documented analysis of the Department's position at the Fargo Regional Veterans' Administration Office to determine whether this position should continue processing federal claims for benefits or if the position could be used to perform other responsibilities of the Department of Veterans' Affairs. This analysis should:

- a) Identify relevant and accurate information regarding the authority and resources available to the claims position and the number of claims processed by this position;
- b) Compare this information to the authority, resources, and claims information of the National Veterans' Service Officers; and
- c) Include input from the County and Tribal Veterans' Service Officers, the National Veterans' Service Officers, representatives of the Fargo Regional Veterans' Administration Office, and other significant stakeholders.

If it is determined that the position will no longer be used to process federal claims for benefits, the Department of Veterans' Affairs should:

- a) Establish sufficient monitoring techniques for County and Tribal Veterans' Service Officers;
- Work closely with and/or have periodic meetings with National Veterans' Service Officers to assist in identifying where improvements are required and offer the necessary training; and
- c) Review the functions and responsibilities of the Department of Veterans' Affairs and determine whether the allocation of resources between the Fargo main office and Bismarck branch office is reasonable.

Developing Strategic Plans (2-13)

We recommend the Administrative Committee on Veterans' Affairs and the Department of Veterans' Affairs develop a strategic plan with significant input from stakeholders establishing a long range plan for the Committee and the Department as well as performance measures and standards for the Department. The information provided in this performance audit should be considered and included in the planning process.

Improving Dissemination of Information (2-14)

We recommend the Department of Veterans' Affairs comply with North Dakota Century Code Section 37-18-04 regarding dissemination of information and be more proactive in informing veterans and the public about programs and services available. At a minimum, the Department should:

- a) Develop an effective way of distributing information and brochures;
- b) Add the Department's web site address and the Bismarck branch office phone number to brochures:
- Update information on the Department's web site and information in the brochure regarding County and Tribal Veterans' Service Officers' hours of operation; and
- d) Contact Job Service North Dakota regarding the accessibility to veterans service information on the Job Service web site.

Obtaining Appropriation Authority (3-1)

We recommend the Department of Veterans' Affairs take the necessary action to ensure proper appropriation authority is obtained for accepting and expending moneys the Department receives from the Veterans' Postwar Trust Fund or take the necessary action to modify North Dakota Century Code related to the Veterans' Postwar Trust Fund.

Approving the Loan Application and Approval Process (3-2)

We recommend the Department of Veterans' Affairs review and make the necessary changes to the Veterans' Aid Loan Program Policy Manual and application form. At a minimum, the Department should review:

- a) How information related to residency and the applicant's income can be verified;
- b) What guidelines to establish for obtaining and analyzing a credit report for applicants;
- c) What action is to be taken when loan applicants have been approved for a grant; and
- d) What the County and Tribal Veterans' Service Officers responsibilities are in the loan application and approval process.

Making Improvements in Accounts Turned Over for Collection (3-7)

We recommend the Department of Veterans' Affairs make improvements in the processes and procedures related to loan accounts turned over for collection by:

- a) Establishing a formal contract for collection work to be performed;
- b) Establishing monitoring controls to determine collection performance;
- c) Ensuring accurate information on accounts turned over is maintained; and
- d) Reviewing the contract on a periodic basis and contacting other providers to determine the reasonableness of the amounts being charged.

Reviewing Expenditures from the Veteran's Aid Fund (3-9)

We recommend the Department of Veterans' Affairs conduct a formal review of expenditures from the Veterans' Aid Fund including a time study of employees' duties and determine whether the administrative expenses paid by the Veterans' Aid Fund are reasonable. This review should occur after other recommendations to enhance the efficiency and effectiveness of the loan program have been implemented.

Improving the Grant Application and Approval Process (3-11 and 3-12)

We recommend the Department of Veterans' Affairs review and make the necessary changes to the Emergency Hardship Assistance Grant Program Policy Manual and application form. At a minimum, the Department should review:

- a) How information related to residency, spouse or widow status, monthly income, and cash assets can be verified;
- b) What action is to be taken, if any, when applicants have received an unreasonable number of grants or appear to use the grants for non-emergency purposes;
- c) What action is to be taken when grant applicants have been approved for a loan;
- d) When requests for immediate grant approval are acceptable and the documentation required for this; and
- e) What the County and Tribal Veterans' Service Officers responsibilities are in the grant application and approval process.

Improving the Obligated and Outstanding Grant Amount (3-12)

We recommend the Department of Veterans' Affairs establish management controls to ensure compliance with criteria, policies, and procedures of the Emergency Hardship Assistance Grant Program. At a minimum, the Department should:

- a) Ensure grant funds are used for qualified purposes;
- b) Obtain copies of tax forms or pay stubs of applicants;
- c) Ensure cash assets of applicants are \$2,000 or less;
- d) Ensure compliance with the grant category replacement time periods; and
- e) Ensure grant requests are disapproved in accordance with the criteria of the grant program.

Office of Driver and Vehicle Services

Performance Audit - Contact: Gordy Smith 328-4990 gsmith@state.nd.us

Awarding Branch Office Contracts Competitively (2-4)

MTG recommends the Department of Transportation's Motor Vehicle Division evaluate the current process for awarding branch office contracts including the need for a change in North Dakota Century Code and consider competitive contracts for branch office operations. Contracts should be awarded based upon the ability to perform the work, relative experience, vendor performance, and cost considerations.

Making Improvements to Branch Office Contracts (2-5)

We recommend the Department of Transportation's Motor Vehicle Division conduct a review of the contracts entered into with the motor vehicle branch offices and establish management controls to ensure compliance with North Dakota Century Code and contract requirements. At a minimum, the division should:

- Review contract language to ensure it is clear and in compliance with North Dakota Century Code requirements;
- b) Review the requirements of the contracts and establish controls to ensure the division no longer pays for costs that they are not obligated to pay; and
- c) Review the practice of paying the operational and equipment costs of a contracted private firm to conduct work on behalf of the Department of Transportation.

Changing the Title Review Process (2-6)

We recommend the Department of Transportation's Motor Vehicle Division, in conjunction with the Risk Management Division of the Office of Management and Budget, review the process of having the Bismarck office review and issue all new titles and title transfer work initiated at motor vehicle branch offices and:

- a) Authorize the branch offices to issue new titles and complete title transfer transactions;
- b) Establish accountability in issuing new titles and completing title transfer transactions with the branch offices;
- c) Conduct a limited review of new title and title transfer transactions completed by both the Bismarck office and the branch offices;
- d) Document and report errors identified in the review process to the Bismarck office and branch offices; and
- e) Reduce the number of title review staff.
- a) If branch offices are not given the authority to issue new titles and complete title transfer transactions, the division should conduct statistical sampling of new titles and title transfers, document errors, and report errors to the branch offices as well as reduce the number of title review staff.

Implementing Additional Management Controls (2-8)

We recommend the Department of Transportation's Motor Vehicle Division implement additional management controls for registering and titling vehicles and establish an employee policy and procedure manual. At a minimum, the division should:

- a) Comply with North Dakota Century Code or introduce legislation to have it changed;
- b) Determine, prior to January 1, 2007, if Lewis and Clark plates will continue to be used or if a new plate will be issued;
- c) Develop written guidelines regarding grounds for refusing registration and certification of title and exemptions from registration or titling requirements;
- d) Require proof of the existence of a current surety bond before issuing multi-year decals to fleet owners; and
- e) Follow up in a timely manner on notices sent to vehicle owners regarding noncompliance issues to ensure all vehicles are properly registered and/or titled.

Making Changes to 30- Day Registration Permits (2-9)

We recommend the Department of Transportation's Motor Vehicle Division:

- Review the process of allowing registration permits to be issued for motor vehicles for which no registration fees are being collected and no registration information is being tracked; and
- b) Introduce legislation to change the requirements regarding the availability of the permits or establish policies and procedures for identifying whom the permits were issued to.

Evaluating Acceptability of 3-Week Turnaround Time (2-10)

MTG recommends the Department of Transportation's Motor Vehicle Division evaluate the acceptability of a 3-week maximum turnaround to its customers. If this is deemed acceptable, the division should redesign its business processes to reduce staffing while providing a 3-week turnaround.

Enhancing the Efficiency of Driver's License Sites (3-1)

We recommend the Department of Transportation's Drivers License and Traffic Safety Division review cost information, work performed per examiner per hour information, and other information identified in this audit and either close certain sites or make significant changes to the sites that are high in cost and/or have low productivity and outputs. If significant changes are made rather than closing sites, the division should consider:

- a) The hours of operation for the driver's license sites;
- b) The number of days driver's license sites are open;
- c) The number of examiners sent to each field site; and
- d) Making non-automated field sites automated.

Ensuring Sponsorship is obtained for Minors (3-4)

We recommend the Department of Transportation's Drivers License and Traffic Safety Division comply with North Dakota Century Code requirements and obtain sponsorship for all permits and licenses issued to minors.

Changing the Requirements of Surrendering a Suspended Permit/License to DOT (3-9)

We recommend the Department of Transportation's Drivers License and Traffic Safety Division take appropriate action to change the requirements in North Dakota Century Code related to the surrender of licenses that have been suspended. The changes in Century Code should:

- Remove the requirement that all licenses that have been suspended be surrendered to the Department; and
- b) Grant authority to the Director of the Department to establish criteria for when suspended licenses should be surrendered.

The Department of Transportation should communicate the changes made to all law enforcement officials and agencies.

Making Improvements to Current Staffing Levels (3-13)

MTG recommends that the entire operations of the Department of Transportation's Drivers License and Traffic Safety Division be assessed and:

- a) Identify additional tasks that driver's license examiners could perform during non-peak times or when no customers are present, including assistance with central office transaction processing;
- b) Develop a formal cross-training program for central office functions; and
- c) Analyze the staffing levels of the central office staff for key functions to ensure adequate business continuity.

Making Improvements With Call-Tracking (4-1)

MTG recommends the Department of Transportation conduct a study regarding call-tracking at the Motor Vehicle Division and the Drivers License and Traffic Safety Division. The study should cover the following areas:

- a) Implementation of a call-tracking program to monitor and prioritize calls and to track questions, problems, resolutions, and responses;
- Evaluation of the time Drivers License and Traffic Safety Division central staff spends on telephone support;
- c) Evaluation of a joint call center for the two divisions to reduce costs; and
- d) Review of customer service policies related to the level of customer telephone support.

Discontinuing the Licensing of Certain Dealers (5-1)

We recommend the Department of Transportation's Motor Vehicle Division:

- a) Comply with North Dakota Century Code and the Attorney General's Opinion and discontinue licensing dealers of snowmobiles, all-terrain vehicles, and low speed vehicles; and
- b) Conduct a review of the advantages and disadvantages of licensing snowmobile, allterrain vehicle, and low speed vehicle dealers and present such information to the 2005 Legislative Session for their consideration.

108 - Secretary of State

Information Systems Audit - Contact: Don LaFleur 328-4744 dlafleur@state.nd.us

Inaccuracy of Reports

The AC1-630 Production Report does not properly compute work orders completed or amount of services completed and the AC1-660 Services by Division Report does not reflect revenue correctly.

For the AC1-630 report, the logic for the "Work Orders Completed" column does not reflect work orders completed, but work orders that were started in the time period of the report and had a service completed. Also, because of how refunds are recorded on the system, the amount of the "Services Completed" column would not be correct if there were refunds during the time period. Lastly, negative numbers in the "Amount of Services Completed" column show up as positive. These errors may cause confusion by a user who is not familiar with the report or what it is used for.

For the AC1-660 report, the amount fields are incorrectly calculated. This is due to the fact that refund records do not have a corresponding revenue entry to offset the refunds. This report is used to transfer revenues from the general fund for special revenue funds on the Statewide Accounting and Management Information System (SAMIS). Because of this error, special revenue funds revenues may be misstated on SAMIS when refunds are issued.

Recommendation:

We recommend the Secretary of State review the validity and accuracy of all reports.

Agency Response:

The design of the management reports currently on the agency's system was produced based on the specifications of the previous administration. The present administration has not fully understood those specifications. Therefore, it has never used the reports for management purposes. Therefore, the programs associated with these reports are scheduled for review, revision, replacement, or deletion.

Although the program used for the calculation of the transfer of revenue from the agency's general services operating fund to the general fund was discovered to be inaccurate, the audit concluded that any shortages created were located in the special fund and not in the general fund. Corrective programming is scheduled.

110 - Office of Management and Budget

Operational Audit - Contact: Ron Tolstad 328-2243 rtolstad@state.nd.us

Computer Access Controls Weakness - Central Duplicating Billing System (110 03-2)

During our review of the financial information system access controls for the Central Duplicating billing system, it was noted that individuals from other agencies who have access to purchase items online also have access to update the prices of those items in the inventory screen of the program. Personnel who are not employed by Central Services should not have access to the financial systems of Central Services. Proper internal control dictates that access to data should be limited to individuals who need access to the data to perform their duties. Furthermore, Central Services personnel should only have access to the computer screens necessary to perform their duties. Without proper access controls, personnel have the opportunity to bypass important controls, especially segregation of duties. Therefore, there is an increased risk of unauthorized transactions and a greater chance of corruption of data. The Central Services Division failed to properly monitor access to the Central Duplicating billing system.

Recommendation:

We recommend the Central Services Division review the access to the Central Duplicating billing financial information system, removing access to the inventory pricing screen for individuals who do not need access to perform their duties.

Office of Management and Budget Response:

This recommendation has been implemented. Access has been changed so that individuals have access only to those functions in Central Duplicating billing financial information system that are necessary to perform their duties, thereby maintaining the integrity of data and the segregation of duties.

Budget Stabilization (110 03-1)

The first financial policy we address relates to budget stabilization funds. Budget stabilization funds (also known as rainy day or contingency funds) are used by responsible governments to address revenue shortfalls caused by unanticipated economic downturns, temporary cash flow shortages, and emergencies. The Council recommends: "A government should develop policies to guide the creation, maintenance, and use of resources for financial stabilization purposes. Governments should maintain a prudent level of financial resources to protect against reducing service levels or raising taxes and fees because of temporary revenue shortfalls or unpredicted one-time expenditures. The policies should establish how and when a government builds up stabilization funds and should identify the purposes for which they may be used. Development of a policy on minimum and maximum reserve levels may be advisable. A government should have a policy to guide the financial actions it will take in the event of emergencies, natural disasters, or other unexpected events."

The state does not have an adequate and effective budget stabilization fund policy. The state's budget stabilization fund has not been used for the past three bienniums (the 1997 Legislative Assembly transferred the \$17 million balance in the budget stabilization fund to the BND to broaden its capital base to further enhance the potential for increasing bank profits). Instead, the state has relied on contingent transfers from the Bank of North Dakota to cover revenue shortfalls.

One of the problems with using the BND as the budget stabilization fund is there are no long-term policies in place to ensure the BND maintains adequate capitalization levels and to ensure the state has adequate resources set aside for revenue shortfalls. While the session laws setting up the contingent transfers do set out a minimum capital level for the BND, these amounts are set as part of the budget process, and without a policy in place, there is a danger the capitalization levels will not be based on sound business rational. Another concern is that inadequate amounts may be set aside for budget stabilization. The latter occurred in 2003 when only \$9 million, or less than ½ of 1% of projected general fund revenues was set aside for revenue shortfalls. It should be noted that the revenue shortfall for the past biennium resulted in a contingent transfer of over \$18 million being made to the general fund.

Best practice examples cited by the GFOA set aside levels of approximately 5% of projected revenues. The National Association of State Business Officer's fiscal survey of the states, in April of 2004, revealed that North Dakota's set aside is significantly lower than the other states in our region as well as three states with budgets the approximate size of North Dakota's budget.

Over-reliance on the BND's resources could put the bank at an unacceptable high risk. This could happen at the same time the state experiences serious revenue shortfalls considering how closely the bank depends on North Dakota's economy. These factors could result in serious strains on essential government services.

Recommendation:

The Office of Management and Budget should work with the Bank of North Dakota and the Industrial Commission to develop a transfer policy, based on sound business principles, setting out minimum capitalization levels for the BND. Additionally, OMB should develop a policy setting out a prudent level of financial resources needed to protect the state against potential

revenue shortfalls. This policy should include provisions that the state's budget should be prepared with adequate contingent budget stabilization transfers and that all potential transfers from the BND would not cause the BND to drop below its predetermined minimum capitalization levels. OMB is encouraged to obtain legislative approval (through legislation or working with the Budget Section) of such policies.

In the absence of such policies we recommend OMB work with the legislature to develop a method for funding the budget stabilization fund set out in NDCC Chapter 54-27.2.

Office of Management and Budget Response:

The Office of Management and Budget is appreciative of the Auditor's Office recognition of the overall high quality budgeting process currently in place. It is the desire of OMB to continually improve our process.

Although the Office of Management and Budget has a statutory responsibility to submit a budget proposal to the Legislature, the Legislature is the policy making branch of government and has a constitutional duty to set all spending policy and appropriate the necessary funds each biennium. The Legislature is under no obligation to adopt the budget as proposed.

In the future it may be more appropriate to recommend improvements in legislative spending policies in a report other than an audit of OMB.

In the 1997 legislative session, the Legislature determined it was more prudent to maintain the state's rainy day fund at the Bank of North Dakota (BND) where it could be used to make money and add to the bank's capital base. Both the executive branch and the legislative branch have endorsed this policy in subsequent biennia. Statutory language each legislative session ensures the continuation of adequate capitalization of the BND. The BND's capitalization rate exceeds industry standards and the Legislature considers industry standards when setting the capitalization levels.

In addition to the rainy day fund at the Bank of North Dakota, other tools are in place to ensure the stability of the general fund. The allotment process allows for across the board cuts of general fund expenditures in the case of a revenue shortfall, and the foundation aid stabilization fund ensures foundation aid payments are held harmless in the event of an allotment.

OMB will work to draft a policy regarding this process.

Enterprise Fund Transfers (110 03-2)

A financial policy which shares some of the same rational as addressed by the prior finding relates to establishing an enterprise fund transfer policy. Currently OMB does not have a formal policy relating to enterprise fund transfers. The problem with not having an enterprise fund transfer policy is that without a sound policy, the decision to transfer funds, as well as the amount of the transfer, could be determined by the needs of the current budget, rather than sound business analysis.

As with Bank of North Dakota transfers, there should be a policy in place to ensure transfers don't cause the capital structure of any enterprise fund to fall below a certain predetermined level. The predetermined level should be based on a thorough analysis of the enterprise fund and its capital needs. While this applies to entities like the Mill and Elevator and the Student Loan Trust, it also applies to other enterprise funds, some of which may have never transferred funds. Along with the next recommendation relating to available financial resources, this policy should help to ensure there are not enterprise funds maintaining capital in excess of their needs.

The Standard and Poor's Rating Group's publication Rating Practices and Criteria has stated that prior to transferring funds, the long-term implications for all of the affected funds and enterprises should be fully explored. Typically, some form of well-researched, flexible, consistent, and well-communicated transfer policy will enhance credit quality. The amount of the transfer is less important than the method or policy from which it is derived. It is important that the transfer is based on a consistently applied and well thought out policy.

Recommendation:

We recommend the development of a policy relating to enterprise fund transfers that is consistently applied and results in predictability for both the enterprise fund and the general fund. OMB is encouraged to obtain Legislative approval (through legislation or working with the Budget Section) of such a policy.

Office of Management and Budget Response:

Enterprise fund transfers recommended by the executive branch and passed by the legislative branch are thoroughly researched, discussed and considered during each legislative session. OMB will work to develop a policy reflecting our process that ensures enterprise funds are not jeopardized.

Available Financial Resources (110 03-3)

Earlier in this report NDCC section 54 44.1 06 was mentioned as legislation which requires OMB to provide critical information to the Legislative Assembly. This legislation states: "The director of the budget, through the office of the budget, shall prepare budget data which must contain and include the following:

- Summary statements of the financial condition of the state, accompanied by the detailed schedules of assets and liabilities as the director of the budget determines desirable, which must include the following:
 - a. Summary statements of fund balances and assets showing in detail for each fund the surplus or deficit at the beginning of each of the two fiscal years of the previous biennium and the first fiscal year of the present biennium, the actual revenue for those years, the total appropriations for the previous and present biennium, and the total expenditures for those fiscal years; and
 - b. Similar summary statements of the estimated fund balances and assets for the current fiscal year and each of the fiscal years of the next biennium. Summary statements may include a comparative consolidated balance sheet showing all the assets and liabilities of the state and the surplus or deficit, as the case may be, at the close of the first fiscal year of the current biennium."

These summary statements are important to the legislators as they provide information about available financial resources. Summary statements are presented in the Executive Budget and the Agency Budget Detail. The Executive Budget presents 15 funds in the financial summary section. The Agency Budget Detail includes summary statements for certain other funds and is available to legislators. In addition to limited information being included in the Executive Budget and not all funds being included in the Agency Budget Detail, certain enterprise funds incorrectly report no beginning or ending fund balance in the Agency Budget Detail. Additionally, when fund balances are presented, no information about restrictions or availability of fund balances are presented.

Legislators should have more complete information about available financial resources. Additional disclosure is supported by GFOA Distinguished Budget Presentation Award criteria which include:

"The document shall present a summary of major revenues and expenditures, as well as other financing sources and uses, to provide an overview of the total resources budgeted by the organization."

"The document shall include projected changes in fund balances, as defined by the entity in the document, for governmental funds included in the budget presentation, including all balances potentially available for appropriation."

GFOA budget reviewers have rated North Dakota's budget submission as lacking and insufficient for these budget criteria. Additionally, the Council's Recommended Budget Practices state:

"The overview should clearly describe the current and projected financial position and fund balances, the financial activities and expectations for the budget period, and the expected

implications for future periods. The manner of presenting materials on fund balances, including available amounts and reserve funds, should be carefully considered. A clear distinction should be made between total fund balance (or reserves), the amount restricted by legislative policy (as opposed to statutory requirements), and the amount considered available for expenditures."

A recent change in financial reporting standards adds to the potential benefit of reporting additional information relating to fund balances. The change relates to GASB 34's requirement to report fund balances in 3 categories, including restricted and unrestricted balances. Restricted amounts would not normally be available to the legislature, while unrestricted amounts would normally be available to the legislature. Further, audited balances would be available for historical periods.

While it may not be practical to include summary statements for all state funds, additional funds should be included in the Executive Budget. Funds with continuing appropriations should be included to ensure the Legislative Assembly has a complete picture of the state's available financial resources. The smaller funds could be grouped by function where necessary.

Recommendation:

We recommend OMB expand the reporting of available financial resources in the <u>Executive Budget</u> to include all state funds (including funds and departments with continuing appropriations). While the level of detail may vary depending on the significance of the fund, whenever possible the fund balances should be identified as restricted or unrestricted following GASB 34 criteria.

Office of Management and Budget Response:

The budget system includes over 200 funds. The fund statements for these funds are provided to the Legislature in both hard copy and electronic format as well as listed on the Fiscal Management web site. OMB will work to make the legislators more aware of these fund statements and will continue to provide additional analyses upon request. GASB 34 is not applicable to the State's cash basis budgeting system.

Use of One-Time Revenues (110 03-4)

One-time revenues are nonrecurring revenues which cannot be relied upon for future budget periods. The OMB does not have a financial policy for budget recommendations relating to the proper use of one-time revenues. A policy on the use of one-time revenues provides guidance to minimize disruptive effects on services due to over reliance on nonrecurring revenue sources. Without such a policy, future tax increases and program cuts or eliminations might be necessary.

The Council's Recommended Budget Practices include the following: "A government should adopt a policy limiting the use of one-time revenues for ongoing expenditures. The policy should be publicly discussed before adoption and should be readily available to stakeholders during the budget process. The policy, and compliance with it, should be reviewed periodically."

Examples of expenditures for which the state may wish to use one-time revenues include: startup costs, budget stabilization funds, early debt retirement, and capital purchases. We noted several examples in budget recommendations where one-time revenue sources were used for ongoing programs. These one-time revenues were in the form of transfers from the Developmental Disabilities Revolving Loan Fund, Student Loan Trust, State Bonding Fund, and Permanent Oil Tax Trust Fund.

Recommendation:

We recommend OMB develop and implement a policy on the use of one-time revenues. This policy should limit the use of one-time revenues for ongoing expenditures in budget recommendations. One-time revenues and allowable uses for those revenues should be explicitly defined and readily available during the budget process. OMB is encouraged to obtain Legislative approval (through legislation or working with the Budget Section) of such a policy.

Office of Management and Budget Response:

The legislative and executive branches of government have been extremely cautious in recommending or using one-time revenues to fund ongoing expenditures. A good example is the approach the Legislature used in phasing down the use of health care trust fund dollars over multiple bienniums and slowly replacing those dollars with general fund money.

In addition to one-time revenues, each biennial budget also contains one-time expenditures. In addition, revenue growth each biennium has been adequate to replace the one-time revenues used. Ultimately, the Legislature sets the level of both one-time revenues and one-time expenditures regardless of the executive budget recommendation.

OMB will work to develop a policy regarding the use of one-time revenues in the executive budget recommendation.

Revenue Manual (110 03-5)

One of the areas the Budget Office has done well with is revenue forecasting. The Director is extremely knowledgeable and has an excellent track record. The use of the Advisory Council on Revenue Forecasting made up of representatives of the state's largest industries, legislators, state agencies, and academia has proven to be a valuable tool for refining the forecasts from Economy.com.

The use of a properly constructed and maintained revenue manual would enhance the state's revenue forecasting system. In addition to helping maintain institutional knowledge a revenue manual would make revenue forecasting more transparent for legislators and other interested parties.

A revenue manual documents significant revenue sources and factors relevant to present collections and forecasts of those revenues. Such factors would include trend data and the underlying assumptions and rational used in forecasting revenues. The Council's Recommended Budget Practices state:

"Documentation of revenue sources in the form of a revenue manual that uses a consistent format for each revenue source is suggested. Major revenue sources are the most important to document. The budget document may also include documentation of major revenue sources, either as summary material or in lieu of a revenue manual. The format for documentation in a revenue manual could include the following: brief description of the revenue source; statute section providing authorization and any limitations; dedication or earmarking of the revenue; collection methodology and any collection issues; definition of the revenue base and tax or rate structure; historical revenue trends and projected future levels; equity impacts on taxpayers or rate-payers; effect of changes in economic circumstances or other external factors; and historical information such as legislative history, impact of other laws, rate changes, exemptions, etc. The revenue manual or other documentation should be made available to all interested parties."

The state of North Dakota has not maintained a revenue manual for a number of years. In its place OMB has included limited revenue information in various locations including the <u>Executive Budget Summary</u>, the state CAFR, and OMB's monthly publication <u>Rev-E-News</u>. The lack of a revenue manual, or having the needed information readily available, makes it difficult for legislators to obtain an adequate understanding of revenue sources and forecasts.

In addition to the Council's recommended practice, the GFOA budget reviewers have pointed out that major revenue sources and assumptions should be better described, the use of charts/graphs could be used to help highlight financial and statistical information, and a crosswalk section summarizing how various revenues relate to departments and funds is crucial for communication.

While a revenue manual should be maintained by all state governments, North Dakota's biennial budget and the practice of budgeting a small ending fund balance makes it even more important for legislators to keep a close eye on revenue forecasts. This is because leaving such small ending fund balance means revenue forecasting must be extremely conservative. Since it would be easy for revenue forecasts to become less and less conservative, putting the state at higher risk, legislators need to monitor revenue forecasts closely.

Recommendation:

We recommend the OMB follow best practices by preparing and maintaining a revenue manual that documents revenue sources and factors relevant to current and projected levels of significant revenues. This revenue manual should be made available to all interested parties.

Office of Management and Budget Response:

OMB will work on updating our current revenue manual.

Long-Term Perspective (110 03-6)

Long-term financial planning is necessary for governments to ensure they have sufficient resources to fund existing programs and services in the future. Long-term financial planning also helps governments develop appropriate strategies to address anticipated changes in financial condition. The Council's Recommended Budget Practices state:

"A government should have a financial planning process that assesses the long-term financial implications of current and proposed policies, programs, and assumptions and that develops appropriate strategies to achieve its goals. A government should prepare multi-year projections of revenues and other resources. Governments should prepare multi-year projections of expenditures for each fund and for existing and proposed new programs. A review of expenditure projections for individual programs, particularly those with significant unexpected increases or decreases, is critical."

The GFOA also encourages long-term financial planning recommending:

"...that governments at all levels forecast major revenues and expenditures. The forecasts should extend at least three to five years beyond the budget period and should be regularly monitored and periodically updated. The forecast, along with its underlying assumptions and methodology, should be clearly stated and made available to participants in the budget process. It should also be referenced in the final budget document. To improve future forecasting, the variances between previous forecast and actual amounts should be analyzed. The variance analysis should identify the factors that influence revenue collections, expenditure levels, and forecast assumptions."

Relating to long-term financial planning, as mentioned earlier, OMB does do a good job with revenue forecasts for the budget period. However, revenues are not forecast beyond the budget period. Additionally, OMB monitors economic cost drivers such as population shifts and student numbers for their possible affect on certain projected expenditures and does do some expenditure forecasting. OMB forecasts new programs, and changes to existing programs, using an internal fiscal note process. This internal fiscal note process does extend beyond the budget period, but this information is not generally shared with people outside of OMB. Expenditures for existing programs are not normally forecast beyond the budget period.

Since revenues are not forecasted, and expenditures for existing programs are typically not projected beyond the budget period, decision-makers cannot determine if expenditure levels can be sustained. Thus, decision-makers do not have the information needed to determine if new programs are affordable or whether current and future costs are acceptable compared to program benefits and projected revenue availability.

The lack of a properly developed long-range financial plan can limit the legislature's awareness of options and potential problems, and their ability to confront those problems timely. Potential problems may become more severe because the essential decisions that permit necessary and

corrective actions to be taken, might not be made timely. In addition, there is an increased likelihood that services will not be sustainable in the future. Multi-year projections are advised so as to better identify how revenues and costs change over time, to isolate non-recurring revenues and costs, and to understand the impact of revenues and costs once fully phased in.

Recommendation:

We recommend OMB implement long-term financial planning. Major revenues and expenditures should be forecasted two to three bienniums beyond the budget period and should be regularly monitored and periodically updated. As part of monitoring, the forecast variances should be analyzed to identify factors that influence revenue collections, expenditure levels, and forecast assumptions.

The forecast and its underlying assumptions and methodology should be made available to legislators and referenced in the OMB's budget recommendation.

Office of Management and Budget Response:

Both the capital construction budget and the IT large project report include information for six years out. In the legislative branch, the fiscal note process provides estimates for a six-year period for any proposed statutory changes to revenues or expenditures. In addition, agencies forecast important cost drivers in their respective budgets. For example, the Department of Public Instruction has long-term forecasts on enrollments, the Department of Human Services forecasts Medicaid eligibles and the Department of Corrections and Rehabilitation forecasts inmate populations. These forecasts are very useful to both the legislative and executive branches of government in looking at the long-term impact of current decisions.

At the time of budget preparation, forecasts are three years out. Unpredictable factors including business cycles, inflation, federal tax policy, federal spending, federal mandates, court decisions, voter decisions, natural disasters and other major events such as September 11 make forecasts beyond three years unreliable.

OMB will continue to refine budget forecasting and improve estimates of longer-term financial effects.

112 - Information Technology Department

Operational Audit - Contact: Ron Tolstad 328-2243 rtolstad@state.nd.us

Computer Access Controls Weakness (112 02-1)

During our review of the Data Processing System, Telecommunications System, Micrographics System, Customer Information System, and SAMIS system access controls, we noted the following:

- Employees approving transactions also have access to add, delete, and update records.
- Employees have access to a system and do not have any job duties related to the system.
- Employees taking annual inventories also have access to computerized records.

Proper internal control dictates that access to data should be limited to those who need access to the data to perform their duties. Employees who approve transactions should not have access to process transactions. Without proper access controls, personnel have the opportunity to bypass many important controls, especially segregation of duties. Therefore, there is an increased risk of unauthorized transactions and also a greater chance of corruption of data.

Recommendation:

We recommend the Information Technology Department restrict access to the Data Processing System, Telecommunications System, Micrographics System, Customer Information System, and SAMIS to ensure that personnel have access only to the information necessary to perform their job duties and keep the approval function separated from the processing function.

Information Technology Department's Response:

ITD agrees with the recommendation and will comply. Although we already restrict access to the systems noted above, we agree that some of the permissions granted were incompatible with some employee's job functions. We will review access granted to the systems noted above and remove unnecessary access.

Development of Performance Measures (112 02-4)

Challenge:

ITD has implemented a performance measurement program that gauges progress and provides focus for accomplishing ITD's business strategies. Within this program ITD has developed 17 performance measures, which are listed in ITD's annual report (Building Connections). Each of these performance measures is derived from one of four business drivers developed by ITD within its strategic business plan. The objectives of the performance measurement program can only be met by the creation of well-designed performance measurers. Listed below are the four business drivers with the related performance measure listed below it:

Provide Value to Customers	Statewide Direction and Leadership	Customer Relationships and Satisfaction	Learning and Growth
(1) Percentage of strategic initiatives completed.	(5) Number of coordinated statewide initiatives.	(10) Percent of problems resolved within support center (unassigned).	(15) Voluntary employee turnover.
(2) Percentage of completed strategic initiatives meeting objectives.	(6) ITD's compliance with legislative mandates.	(11) Percent of reported and assigned problems responded to within one hour.	(16) Average training hours and dollars spent per employee.
(3) Percentage of system availability.	(7) IT percent of overall state budget.	(12) Median time working hours required to resolve reported and assigned problems.	(17) Employee satisfaction index.
(4) Percentage of ITD projects completed on schedule, within scope and budget.	(8) Percent of large IT projects completed successfully.	(13) Percent of statewide IT budgets directed to ITD.	
	(9) Number of web- enabled applications available to citizens.	(14) Customer satisfaction surveys.	

Assessment:

Each performance measure was evaluated to:

Determine whether the performance measure indicates the effectiveness and efficiency of ITD's operations.

Determine what benchmark was used, where it comes from, and its value as a benchmark.

Determine whether or not the benchmark was met and its effect, if any, on management's strategic planning.

Determine the accuracy of the documentation supporting the data behind each performance measure.

Based on our evaluations we noted ITD did a commendable job creating their performance measures. All of the performance measures are related to a specific business driver, which gives more direction as to why the performance measure is important and provides a connection between the specific performance measure and ITD's strategic business plan. Listed below are suggestions for improvement for the following performance measures:

Performance Measure Needs More Clarity

(2) – Percentage of Completed Strategic Initiatives Meeting Objectives.

At the time of the annual report, there was no baseline (benchmark) established. For 2002, as of the report date, it was indicated that 100 percent of the initiatives met objectives. It appears, based on discussions with management, that there are not always clear written objectives so "meeting objectives" is somewhat subjective and not measured against anything definitive.

Therefore, we recommend that if ITD is going to use this performance measure, clear written objectives need to be established. We feel this would then be a useful performance measure.

(4) – Percentage of ITD projects completed on schedule, within scope and budget.

Per discussion with management, this measurement only includes development projects. This needs to be clearly identified, otherwise this measure is deceiving. In addition, it was noted that some budget, scope, and scheduled completion dates were adjusted as the projects progressed, so it is not clear to the reader if the above measures *original* schedule, scope, and budget amounts or *adjusted* amounts.

Therefore we recommend that the agency clarify the meaning of the performance measure.

(8) – Percent of large IT projects completed successfully.

Per discussion with management, it was determined that there is no set standard for what "successful" means. Per management, successful could mean that the project was completed or it could mean the project was not going to work and therefore quit the project, not wanting to waste additional money. "Successful" needs to be more objective, not so subjective, to be useful.

We recommend ITD develop a clear written meaning of "successful" if they are to use this performance measure. Otherwise, this measure should not be used.

Comparative Benchmark may be better than Historical Performance Benchmark

(3) - Percentage of System Availability.

(4) - Percentage of ITD projects completed on schedule, within scope and budget.

(10) - Percent of problems resolved within support center (unassigned).

(11) - Percent of reported and assigned problems responded to within one hour.

(12) - Median time working hours required to resolve reported and assigned problems.

(16) - Average training hours and dollars spent per employee.

These performance measurements, based on Internet research, are measures that other states and the private sector track. While it appears ITD does have a good target range and is in line with what other states have, they are using their own historical performance as a benchmark. Because these can be compared to other entities, using other state or private sector performance as a benchmark would be more useful.

In section 9 of chapter 500, the fifty-seventh Legislative Assembly required that each performance measure include a benchmark for targeted department performance based on national, other states, or private sector performance.

We recommend ITD use national, other state, or private sector performance as a benchmark for these performance measures.

Measurement not a Performance Measurement

- (5) Number of coordinated statewide initiatives.
- (6) ITD's compliance with legislative mandates.

(7) - IT percent of overall state budget.

(9) - Number of web-enabled applications available to citizens.

(13) - Percent of IT budgets directed to ITD.

These particular measurements are not good performance measurements. They may be worthwhile to monitor as ITD has been able to see what kinds of trends there are, and to help the agency see where new projects or services may be necessary. However, performance measures by definition are measurable indicators used to determine the ability of an entity to accomplish a program's goals or purpose.

It also appears some of these, such as (5), (6), and (9) may be included more as a list of accomplishments, rather than a measurement of performance. Number (7) is an item that ITD has very little control over and does not necessarily show the performance of their agency. Overall, ITD has too many performance measures (17) to be useful and manageable.

We recommend ITD eliminate these measurements and others, as determined by management, to a useful and manageable number and only include those that have a measurable goal associated with the measurement.

Information Technology Department's Response:

ITD has expended a great deal of effort in the development of our performance measures and appreciates the efforts put forth by the State Auditor's Office to validate the measures and provide recommendations for improvements.

A few of the recommendations in this area center around clarifying the meaning of the performance measures or some of the underlying assumptions. ITD will continue to refine the measures and provide more information or clarification as appropriate.

One of the recommendations in this area discusses using external benchmarks versus historical performance for some of the performance measures. This recommendation will work for some of the measures noted, but ITD feels some of the performance measures are more useful if we compare to historical performance.

The last recommendation in this area discusses performance measures that may be monitoring trends, noting accomplishments, or outside of ITD's direct control. While these are valid observations, it was ITD's intent that the annual report not only focus on ITD specifically but on the state's overall IT progress.

The development and analysis of performance measures is an ongoing effort at ITD. It is an iterative process where we determine if the measures still provide value and what additional metrics would help us to better manage ITD and report on the state's overall IT investments. We will continue to work the Legislative IT Committee, our Advisory Committees and consider these recommendations in our efforts to provide information and accountability to our stakeholders.

Website Analysis – ND State Homepage (112 02-5)

Challenge:

In the previous audit a comparative analysis was done between several states' homepages to determine the websites innovation, efficiency, economy, and functionality. During the review it was noted that North Dakota's homepage did not contain as many quick links as the other states in the comparative analysis. Quick links are a critical element of web-design as they improve the efficiency of the user and the likelihood that the information sought is obtained.

Assessment:

We evaluated the North Dakota homepage by compiling a list of quick links included on the North Dakota homepage and comparing that list to the quick links included on seven other states. The seven other states were South Dakota, Montana, Kansas, Nebraska, California, Minnesota, and Wyoming. During our review we noted that all the states included the following quick links:

- Tourism
- State Parks
- · Health Issues
- Road Reports
- Business Information
- Homeland Security
- Amber Alert

In addition to the links listed above, North Dakota also provides a quick link called "newsroom". This link provides information about current events and relevant news items for a limited number of agencies. Several of the state's web-pages reviewed provided links to "state news," whereby all press releases coming from the state were listed in chronological order.

We recommend the Information Technology Department expand the "newsroom" link to include all news items originating from or relating to state government.

Information Technology Department's Response:

ITD welcomes suggestions for possible improvements to the state portal. ITD receives suggestions every month from citizens and state agencies on potential enhancements to the site. Web site design and content is a subjective art. As part of ITD's on-going maintenance of the portal, we review all suggestions and attempt to incorporate those that enhance the value and functionality of the portal.

ITD is committed to keeping the content and design of the state portal current with trends in this area. We will keep the "newsroom" recommendation in mind as we continue to modify the content and design of the state portal to ensure it meets the needs of the citizens and businesses who use the portal to interact with state government.

120 - State Treasurer

Operational Audit - Contact: Paul Welk 328-2320 pwelk@state.nd.us

Controller Job Classification (120 03-1)

The Office of State Treasurer has a controller position which is responsible for various professional accounting duties. Based on these duties and the function of the State Treasurer's Office, it is imperative that the office have a controller that, at a minimum, has an accounting degree. The classifications that most closely fit the duties of the controller are either an Accounting Manager or an Accounting/Budget Specialist II or III.

Prior to February 2002, the controller position was classified as an Accounting Manager I. The duties of that classification are consistent with the duties of the current controller. The minimum qualifications for an Accounting Manager I require a bachelor's degree with a major in accounting and four years of professional accounting experience. The controller position up until that time was filled by an individual with a degree in accounting. That individual left the employ of the Office of State Treasurer in February 2002. Although the duties of the position were not reduced, the Office of State Treasurer reclassified the controller position to an Administrative Staff Officer III at that time. The duties of that classification relate mostly to administrative support, and are not consistent with the duties performed by the controller. The minimum qualifications for an Administrative Staff Officer III require ten years of work experience in high-level administrative support duties. We have noted during our audit that accounting type problems have increased since the position was reclassified.

Recommendation:

We recommend the State Treasurer's Office reclassify the controller position to an Accounting Manager or Accounting/Budget Specialist II or III classification.

Office of State Treasurer Response:

The Auditor's Office dispute with the classification of the Controller position as Administrative Officer III is unfounded. The fact is that the reclassification request was made in an appropriate manner and Human Resources Management Services (HRMS) approved the request after reviewing all the task information for the position. We have spoken with HRMS and they stand by their decision to reclassify this position. HRMS designs the criteria for the positions and their judgment should not be overridden by another agency not well versed in HRMS policies and approval responsibilities.

The current controller has only been in that position since February of 2002. The biennium timeframe being audited only allowed this person a few months to get acclimated to all the responsibilities before the auditor's dissected mistakes that could equally have been made by a person with a degree. The situations they are directing attention to are minor errors made in the early stages of this individual's tenure in that position. We believe that every person has a right to a learning curve and this person has taken every opportunity to obtain knowledge to do the job effectively. This individual has knowledge in the upcoming statewide Peoplesoft transition and has made significant progress in learning the Controllers duties. We feel she is competent and qualified to continue in this position. All agencies have opportunities to improve their employee's efficiencies and expertise and the State Treasurer's Office will continue to welcome those opportunities.

Coal Conversion Tax Distribution (120 3-2)

Distributions of coal conversion taxes to school districts were made incorrectly during fiscal year 2003. The quarterly distributions are made to school districts in the four counties which have a coal conversion facility. Section 57-60-15 of the North Dakota Century Code states that 30 percent of the coal conversion taxes allocated to any county must be distributed to school districts within the county based on average daily enrollment. The average daily enrollment numbers are certified annually to the Office of State Treasurer by the county superintendent of schools. Although the annual certifications were received prior to the fiscal year 2003 distributions, the Office of State Treasurer calculated the distributions using the fiscal year 2002 average daily enrollment numbers.

The total amounts that were distributed within a county were proper; however the individual school districts did not receive the correct amount. We tested the November 2002 coal conversion tax distribution and noted that all 19 of the payments made directly to school districts were incorrect. The errors for each school district ranged from \$2,430 to \$2.

Recommendation:

We recommend the Office of State Treasurer:

- 1) Use the current average daily enrollment numbers to calculate the distribution of coal conversion taxes in accordance with section 57-60-15 of NDCC.
- 2) Consult with the Office of the Attorney General regarding the proper remedy for the erroneous payments made to school districts.

Office of State Treasurer Response:

The enrollments have been updated so that future distributions will be sent out correctly and the calculations have been made to adjust the payments accordingly. Letters addressing this issue will go out to the school districts with the next distribution. Adjustments to correct the payments will be made when the overpaid dollars are recouped.

Coal Severance Tax Distribution (120 03-3)

The monthly distributions of coal severance taxes were made incorrectly. There were three different types of errors that resulted in the improper distribution amounts.

The first type of error is the result of the Office of State Treasurer using incorrect average daily enrollment figures for fiscal year 2003. Section 57-62-02 of the North Dakota Century Code (NDCC) requires that a portion of the coal severance tax distribution be made to school districts based on average daily enrollment. The average daily enrollment numbers (certified by the county superintendent of schools) are received annually by the Office of State Treasurer. Although the certifications were received prior to the fiscal year 2003 distributions, the Office of State Treasurer calculated the distributions using the fiscal year 2002 average daily enrollment numbers.

The second type of error is the result of the Office of State Treasurer using incorrect land assessment values. NDCC section 57-62-02 states that a portion of the coal severance taxes must be divided between the coal producing county and any non-coal producing county when any portion of the latter county lies within fifteen miles of the tipple (the initial place where the coal is unloaded after being severed from the mine) of the currently active coal mining operation

in the coal-producing county. The non-coal producing county portion must be based upon the ratio which the assessed valuation of all quarter sections of land in that county, any portion of which lies within fifteen miles of the tipple, bears to the combined assessed valuations of all land in the coal-producing county and the quarter sections of land in the non-coal-producing county within fifteen miles of the tipple. Certifications of land assessment values are provided by the county director of tax equalization. The Office of State Treasurer did not use the current certifications when making the distributions for fiscal years 2002 and 2003.

The third type of error resulted from the Office of State Treasurer not properly implementing a change in legislation. NDCC section 57-62-02 was changed, effective August 1, 2001, so that seventy percent of the coal severance taxes are to be distributed to the counties, rather than thirty-five percent as the former law stated. The Office of State Treasurer made the change to their calculation to get the correct total distributed to the counties, but in their spreadsheet they did not change the percentage in the calculation to allocate the money between coal producing counties and non-coal producing counties where any part of the non-coal producing county lies within fifteen miles of the tipple of a currently active coal mining operation. This error affected the distributions to the counties and schools, but not cities, as Morton County does not have any cities within fifteen miles of the tipple of a currently active coal mining operation.

We reviewed the March 2003 coal severance tax distribution and due to the three types of errors mentioned above, noted that incorrect amounts were distributed to both school districts and counties. Twenty school districts received incorrect amounts, ranging from an underpayment of \$3,750 to an overpayment of \$4,239. Morton and Oliver counties were the only counties that received incorrect distribution amounts. In the March 2003 distribution, Morton County received less than it should have and Oliver County received more than it should have by \$4,981.

Recommendation:

We recommend the Office of State Treasurer: Use current average daily enrollment numbers, current land assessment values, and correct percentages when calculating coal severance tax distributions in accordance with NDCC section 57-62-02.

Consult with the Office of the Attorney General regarding the proper remedy for the erroneous payments made to counties and school districts.

Office of State Treasurer Response:

The enrollments, the land assessment value and county share percentage have been updated so that future distributions will be sent out correctly and the calculations have been made to adjust the payments accordingly. Letters addressing this issue will go out to the school districts with the next distribution. Adjustments to correct the payments will be made when the overpaid dollars are recouped.

Incorrect Population Figures Used In State Aid Distribution (120 03-4)

Incorrect population numbers were used by the Office of State Treasurer in calculating the quarterly state aid distributions to cities and counties.

Section 57-39.2-26.1 of the North Dakota Century Code (NDCC) states that through July 31, 2003, distributions from the state aid distribution fund to the counties and cities are to be based on the 1990 federal decennial census population figures unless an official special census was conducted between the 1990 federal decennial census and January 1, 1997.

For distributions made prior to July 2003, the Office of State Treasurer correctly used the 1990 federal decennial census figures. However, during our audit period, the population figures used for ten cities and five counties did not match the federal decennial census. The Office of State Treasurer did not have support for the differences. We reviewed the January 2003 distribution and noted that these errors, along with those addressed in paragraph two of finding 03-5, resulted in incorrect distributions to cities ranging from an underpayment of \$251 to an overpayment of \$689.

For the distribution made in July 2003, the Office of State Treasurer Office incorrectly used the 2000 federal decennial census numbers for the distributions when the NDCC required the use of the 1990 federal decennial census. This resulted in incorrect distributions to counties ranging from an underpayment of \$27,834 to an overpayment of \$53,311, and incorrect distributions to cities ranging from an underpayment of \$54,016 to an overpayment of \$69,146.

After the July 2003 distribution, the Office of State Treasurer used population numbers for five counties that did not agree to the 2000 decennial census figures and the Office of State Treasurer did not have support for the differences. We reviewed the December 2003 distribution and noted that these errors, along with those addressed in paragraph three of finding 03-5, resulted in incorrect distributions to counties ranging from an underpayment of \$47,441 to an overpayment of \$63,345, and incorrect distributions to cities ranging from an underpayment of \$26,905 to an overpayment of \$68,516.

Recommendation:

We recommend the Office of State Treasurer:

- Use correct population figures in the calculation of the state aid distribution in accordance with NDCC section 57-9.2-26.1 and maintain support for any changes made to population numbers.
- Consult with the Office of the Attorney General regarding the proper remedy for the erroneous payments made to cities and counties.

Office of State Treasurer Response:

Calculations for the quarter using the 1990 census have been made to adjust the payments accordingly. Letters addressing this issue will go out to the counties and cities with the next distribution. Adjustments to correct the payments will be made when the overpaid dollars are recouped.

Improper Calculations Used In State Aid Distributions (120 03-5)

Distributions made from the state aid distribution fund were incorrectly calculated by the Office of State Treasurer. The improper calculations noted below are in addition to the errors caused by using incorrect population figures as noted in finding 03-4. In this finding we note three additional areas that resulted in distribution errors.

Section 57-39.2-26.1 of the North Dakota Century Code (NDCC) states that a percentage of the amount in the state aid distribution fund shall be distributed to cities based on their population. The NDCC provides various levels for the cities based on their population. A different allocation percentage is applied to the cities based on the level they fall into. The computer system used by the Office of State Treasurer uses a database that contains population numbers to calculate the distribution. This database is also used by the Highway Tax Distribution System which requires the cities to be separated by county. There are five cities that have a portion of their population in two different counties. When this breakdown is used by the state aid distribution computer system, it results in three of these cities being included in the wrong population level. For example, the city of Reynolds has 107 people located in Grand Forks County and 192 people located in Traill County. The computer system lists Reynolds under each of these counties and puts them into the less than two hundred population level; however the city actually has two hundred ninety-nine people and thus should be in the two hundred to five hundred population level. This affects the distribution to all of the cities in each of these tiers.

Amendments to section 57-39.2-26.1 of the NDCC, effective August 1, 2003, affected the calculation of the amounts cities and counties are to receive from the state aid distribution fund. The distributions to both cities and counties are calculated based on population, within levels assigned by NDCC. The amendments changed both the number of population levels and the allocation percentage applied to each level. However, the Office of State Treasurer did not change the computer system used to calculate the distribution until after the quarterly distribution in January 2004. This resulted in incorrect distributions to most cities and all counties.

The Office of State Treasurer does not have a system in place to ensure that only "incorporated" cities received distributions. It took up to nine months for the Office of State Treasurer to receive notification that four cities had been dissolved during the audit period. Cities that are no longer incorporated may still be receiving distributions for which they are not entitled. These distributions would include state aid, highway taxes, cigarette taxes, and oil and gas production taxes.

Recommendation:

We recommend the Office of State Treasurer: Update the computer system to correctly calculate state aid distributions to cities based on their total population, regardless of county location.

Ensure that computer systems are updated in a timely manner for law changes which effect the calculation of distributions.

Implement a system, which could include contacting the Secretary of State, to ensure timely removal of dissolved cities.

Consult with the Office of the Attorney General regarding the proper remedy for the erroneous payments made to cities and counties.

Office of State Treasurer Response:

We acknowledge the programming issue with State Aid with five cities not receiving the total apportioned dollars. The State Aid Program was set-up attached to the Highway and Cigarette distributions, which are set up the same way, which apparently became more evident to the auditors when the State Aid program was separated due to legislative change of census use. An ITD cost estimate request has been submitted to have the system corrected for the five affected cities. This will determine if the State Treasurer's Office will need to make a request to the Emergency Commission before work can proceed. At that time we will recalculate the payments and disburse the money accordingly.

We have addressed the calculation changes made in the 2003 session for the new biennium. The programming changes have been made and implemented into the production system.

We have prepared a letter to the Secretary of State's office requesting that they notify the State Treasurer's office of any city dissolutions.

Oil And Gas Production Tax Distribution (120 03-6)

The Office of State Treasurer has not properly calculated the per capita limitation on oil and gas production taxes for the city of Medora.

Subsection 3 of section 57-51-15 of the North Dakota Century Code (NDCC) limits the amount of oil and gas production tax distributed to cities to five hundred dollars per capita. However, in determining the population for any city in which total employment increases by more than two hundred percent seasonally due to tourism, a special calculation is necessary. The only city in North Dakota affected by this special calculation is Medora. The calculation of the population starts with the last official federal decennial census and adds numbers based on seasonal employment and visitors. The last time the Office of State Treasurer updated the population number used in determining the per capita limitation was 1998. This number should be calculated annually based on the employment and visitor information for the prior year.

Since the calculation of the population to be used in determining the per capita limitation has not been performed, we are unable to determine whether Medora received the proper amount of oil and gas production taxes.

Recommendation:

We recommend the Office of State Treasurer:

- Compute Medora's population on an annual basis for purposes of determining the per capita limitation.
- Work with Billings County and the city of Medora to correct any distributions that were made in error.

Office of State Treasurer Response:

The population will be updated when we receive confirmation from Medora so that future distributions will be sent out correctly and the calculations will be made to adjust payments

accordingly. A letter addressing this issue went out to Medora requesting the population numbers. When the recalculation is complete we will work with Billings County to ensure Medora received the appropriate share.

Highway Tax Distribution (120 03-7)

Distributions from the state highway tax distribution fund were made incorrectly from December 2000 through December 2002.

Subsection 2 of section 54-27-19 of the North Dakota Century Code (NDCC) states that thirty-seven percent of the amount to be distributed from the highway tax distribution fund is the counties' share and must be allocated based on the number of registered motor vehicles in each county as a percentage of all registered motor vehicles in the state. A portion of each county's share is then allocated to the incorporated cities within that county.

The State Treasurer's Office uses a computer system to calculate the amounts to be distributed to the counties and cities. The number of registered vehicles in each county is uploaded by the highway tax distribution computer system from the Vehicle Registration and Title System maintained by the Department of Transportation. There was a problem with the uploading of the registration data that caused the total number of registered vehicles used by the highway tax distribution system to be incorrect, while the number of vehicles within each county was correct. The Department of Transportation corrected this computer system problem in January of 2003.

The total of all registered vehicles in the state used by the computer system was understated each month. This caused each county's allocation to be larger than what it should have been, except for Williams County. The computer system has an edit check in place to ensure that only the thirty-seven percent is distributed to the counties, so when the amount for Williams County was calculated (the last county in the alphabetic listing), there wasn't enough of the thirty-seven percent left to be allocated. The computer system automatically lowered the amount for Williams County so that the total amount distributed to the counties was thirty-seven percent.

We reviewed the distributions for November of 2001 and May of 2002 and noted that Williams County was allocated \$25,722 less than it should have been for those two months. A portion of this money would have been allocated to the incorporated cities within Williams County. The money that should have been allocated to Williams County was instead distributed to all of the other counties and cities in the state.

Recommendation:

We recommend the Office of State Treasurer:

- Implement controls to ensure that the numbers used in the distribution of monies in the highway tax distribution fund are proper.
- 2) Consult with the Office of the Attorney General regarding the proper remedy for the erroneous payments made to cities and counties.

Office of State Treasurer Response:

We understand there was a totaling error with the Department of Transportation's vehicle registration file that was uploaded into the Highway Tax Distribution program. Apparently the file writes over previous data so there is no way to identify where the problem was occurring. Letters addressing this issue will go to the counties with the next distribution. Adjustments to

correct the payments will be made when the overpaid dollars are recouped. In the future, a manual total will be tallied off the vehicle registration file to ensure the total is correct.

Oil and Gas Production Tax Law (120 03-8)

The law regarding the limit on deposits of oil and gas tax revenue into the oil and gas impact grant fund is not clear.

Section 57-51-15 of the North Dakota Century Code (NDCC) states that thirty-three and one-third percent of the oil and gas production "tax revenues collected" are to be deposited into the oil and gas impact grant fund, but not in an amount exceeding five million dollars per biennium.

The Office of State Treasurer limits the amount deposited into the oil and gas impact grant fund based on the biennium the oil and gas was produced, regardless of when the tax revenue is collected. This has allowed more than \$5 million to be deposited into the fund in both the 1999-2001 and 2001-2003 biennia, since tax revenue is still being collected for production from the 1997-1999 biennium.

NDCC is not clear whether amounts deposited into the oil and gas impact grant fund are to be based on the biennium the oil and gas was produced or biennium in which the revenue is collected. Since the NDCC is ambiguous, we were unable to determine if the Office of State Treasurer was in compliance with section 57-51-15 of the NDCC.

Recommendation:

We recommend the Office of State Treasurer propose legislation to amend NDCC section 57-51-15 to clarify whether the five million dollar per biennium limitation for the oil and gas impact grant fund is based on when the oil and gas is produced or when the revenue is collected.

Office of State Treasurer Response:

According to the Assistant Attorney General assigned to the State Treasurer's Office, this law is not ambiguous. The law required both distribution and the appropriate limitation to be applied as of the month of production. However, we are requesting a bill draft to present to the legislature that will clarify the Century Code.

125 - Office of the Attorney General

Operational Audit - Contact: Paul Welk 328-2320 pwelk@state.nd.us

Noncompliance With Requiring Gaming Organizations to Submit Dissolution Plans (125 02-2)

The Attorney General Gaming Division did not have a dissolution action plan on file for all gaming organizations that had dissolved their operations. It was noted that the Gaming Division did not have formal procedures in place to ensure that an action plan was received from every dissolving organization with net proceeds to disburse. Additionally, the plans need to be monitored to ensure that the amount of net proceeds was properly computed and that the steps of disbursement outlined were clearly and completely followed by the organization.

NDCC section 53-06.1-06 states that if an organization does not renew its license or its license is denied, relinquished, or revoked and it has not disbursed all of its net proceeds, the organization shall file an action plan as prescribed by the gaming rules with the Attorney General. Net proceeds would be defined as the total gaming revenues received less an allowable expense amount.

The provisions of this statute would only apply to those organizations that have net proceeds that have not been disbursed. Typically, those organizations that discontinue gaming or have their licenses denied are those that are not profitable and therefore have no net proceeds available.

Recommendation:

We recommend the Office of Attorney General comply with NDCC 53-06.1-06 (3) in properly requiring organizations to submit action plans for net proceeds upon dissolution of its gaming activities and subsequently monitor to ensure compliance with the action plans.

Attorney General Response:

To the extent possible, the agency currently requires action plans. For many organizations that fall into this category, no money remains and consequently, there are no net proceeds to distribute. We will continue to work with organizations to ensure that action plans are developed.

Gaming Tax Return Process Review (125 02-1)

Overview:

An overview was conducted of the Gaming Division of the Office of Attorney General. We primarily reviewed the processes and procedures for receipting, processing, and auditing of gaming tax returns. Additionally, we covered licensing, as it relates to gaming organizations and procedures used for tracking gaming stamps. Our focus was on the gaming tax return system. In addition to processing the gaming tax returns, the Gaming Division also conducts audits of gaming organizations, distributors, and manufacturers. Investigators on staff look into allegations of fraud or theft. For purposes of this overview, we interviewed staff, inspected forms, and reviewed the information system which processes the gaming tax returns.

Background:

The Licensing Division determines that gaming organizations are active (valid) charitable organizations by verifying the information with the Secretary of State. There are 9 gaming manufacturers, 11 gaming distributors, and approximately 350 gaming organizations (about 850 licensed sites) licensed to do business in the state of North Dakota.

The licensed gaming organizations are required to file quarterly gaming tax forms which are batched into groups and sent to the data input officer for entry into the gaming tax return system. The system processes the return by running it through a series of edit checks, looking for possible errors. An error report is generated and all errors must be resolved in order for the tax return to be posted.

The new gaming tax return system went online in January 2003, after not being operational since the September 1999 quarter, because the old system wasn't Y2K compliant. The Gaming Division has been working on processing old gaming tax returns and is currently only two quarters behind. The system is set up to process the gaming tax returns in chronological order. The gaming and distributor systems track the gaming stamps which are sold to each distributor as well as which stamps were affixed to games that were played. The system will match up the gaming stamp numbers to ensure that all information correlates.

If a concern arises during the processing of a gaming organization's tax return, it is mentioned to the gaming auditors for audit consideration. A list of all prospective audits is compiled and prioritized. An annual report, noting which gaming stamp numbers are still shown to be outstanding, is sent to both the distributor and the gaming organization for verification of their existence. Audits of gaming organizations have primarily been reactionary or conducted because of a specific concern or allegation that has been raised either by an individual or through the tax return review process. Since audit selection is primarily reactive, an estimated 60 percent of gaming organizations have never been audited. Investigators will get involved with audits of gaming organizations if fraud or embezzlement is discovered.

Observations (missing control procedures to be re-implemented):

Due to the time commitment of catching up on the processing of the gaming tax returns, there were a few procedures that have not been performed since September 1999. It is important that these control procedures are re-implemented after the system is back on a normal operating schedule beginning in 2004. Two such controls include having gaming organizations

file the appropriate gaming tax return and applying certain procedures to verify the accuracy of that return.

Recommendations:

The "Level of Activity" report can be run to determine the most appropriate form (short or long version of the gaming tax return) that the gaming organization should be completing. This report shows both the type of form submitted and the amount paid. Based on results, all affected organizations could be notified of the need to submit their tax return information on the correct form beginning with the next fiscal year.

An individual should be assigned to randomly send out confirmations or make phone contacts with recipients listed on the Schedule C (listing of gaming fund recipients) to confirm their viability. This should be done for all gaming organizations that have had problems in this area.

Observations (system enhancements):

Several items were noted to be omitted from the new gaming tax return system that would either greatly increase the efficiency of the users if modifications were made to the system or would allow greater control over the information contained within the system.

Recommendations:

Changes should be made to the gaming tax return system to add a 'notes' field to include managerial or editorial comments and a 'status' field added that allows notes on the status of the tax return if additional work is needed.

The system should be able to generate a transaction log both prior to final processing of the gaming tax return and after completion so that management can monitor all adjustments made to a gaming tax return.

The system should allow for accounts to be zeroed out for instances in which collection can never be obtained such as the dissolution of an organization, liquidation of assets, and bankruptcy. A report could be generated of such actions for approval by the Director.

An additional field should be added in the system to allow a date for extensions granted and it should flag that organization if a return hasn't been processed by the extension expiration. Additionally, the system should generate a report noting all extensions filed for a quarter. Also, there should be a field noting when a gaming organization has had past violations.

With a newly integrated system between licensing and gaming it becomes increasingly important, in the event of employee turnover, to have adequate documentation available on the system's operations. A "users manual" needs to be developed outlining processes, procedures, and reporting functions so that the continuity of the division is not compromised. This would need to be a joint effort by the licensing, gaming, and auditing sections in order to be fully comprehensive.

The system was originally meant to have specialized reports for auditing. These reports would help identify potential auditees, as well as aid in compiling necessary information for the audit process. The programmers have put this on hold but these reports should be set up by the programmers to facilitate the compiling of data by the auditors.

Observations (noted inefficiencies):

A significant amount of time is spent to transfer the information from approximately 350 gaming tax returns to the gaming tax return system every quarter, in addition to the monthly distributor reports on sale of gaming stamps. This includes such processes as batching the gaming tax returns, entering data input into the system, and the time gaming account technicians spend tracking down data entry errors.

Recommendation:

Given that the gaming tax returns are on standardized forms, the options could be made available to receive this data electronically, or allow the gaming organization to input their tax return information directly into the system or a database that could upload to the system. The same could be done with the monthly gaming stamp reports received from the distributors. This would cut down on time usage by gaming division employees, input errors, and facilitate the receipt of the information. This could pave the way for the eventual receipt of wire transfers or ACH payments.

The Gaming Division has already devised a sample invoice form, available to distributors for reporting sales of gaming stamps to gaming organizations, and therefore should establish and require standardized reporting.

Observations (gaming auditor concerns):

Several procedures could be implemented to facilitate the auditing process. However, it was noted that the Gaming Division has limited options since there is not sufficient time or personnel available to conduct all audits that should be done.

Once all of the past gaming tax returns have been input into the system, there are several reports that could be run to analyze the data to identify potential audit candidates with the results passed onto the audit director for prioritization.

Recommendation:

The viability of performing more desk reviews should be explored, looking for obvious errors while allowing more organizations to be reviewed in a year's time. At a minimum, as resources are made available, those gaming organizations that have never been reviewed should have a limited scope audit whereby inventory was reconciled, primary controls checked, and key support documentation inspected.

Resources should be made available to conduct follow-up reviews since the limited time spent conducting a review is more efficient than having to go back to the same gaming organization and conduct a full audit for repeat offenders.

Attorney General Response:

The Attorney General concurs with this recommendation and will implement it accordingly. It should be noted that since the conclusion of this audit, the new system is now caught up and many of the recommendations have already been implemented

Reconciliation of Wagering Data - Racing Commission (125 02-2)

Observation:

The auditor for the Racing Commission receives a monthly report from Racing Services, Inc. (RSI), listing the total wagers on a weekly basis, for each site in the North Dakota Racing Association (NDRA). The report itemizes separate totals for each type of wage such as win, place, show, and exotic. Similar reports are also received from American Totalisator (AmTote), RSI's tote provider. These two reports are compared to assure that they are in balance.

It was noted that the information received on the AmTote report is actually provided to them by RSI. As both sets of report data are provided by RSI, it does not appear that the auditor for the Racing Commission is receiving any assurance that the numbers reported by RSI are correct.

Possible Solution:

The Racing Division could obtain weekly or monthly reports directly from each of the ten racing sites in North Dakota. The racing sites are already reporting the wager amounts to the charities they represent; therefore it should not cause an undue burden for those amounts to also be reported to the Racing Commission's auditor. Their auditor could then compare these amounts to that which is reported by RSI in order to confirm the validity of the wagers since two independent sources of data are being used.

Disposition:

The Director of Racing will look into the possibility of implementing the recommendation.

127 - Tax Department

Operational Audit - Contact: Paul Welk 328-2320 pwelk@state.nd.us

Computer Access Controls Weakness (127 03-1)

Access to the Corporate Income Tax System, Individual Income Tax System, Accounts Receivable System, and the SAMIS System was not properly restricted. Proper internal control dictates that access to data should be limited only to those who need access to the data to perform their duties. Furthermore, personnel should only have access to the computer screens necessary to perform their duties. Without proper access controls, personnel have the opportunity to bypass many important controls, especially segregation of duties, and have unnecessary access to confidential taxpayer information. Therefore, there is an increased risk of unauthorized transactions and also a greater chance of data corruption.

Recommendation:

We recommend the Office of State Tax Commissioner restrict access to the Corporate Income Tax System, Individual Income Tax System, Accounts Receivable System, and SAMIS System to ensure that personnel have access only to the information necessary to perform their duties.

Tax Department Response:

The Tax Department is committed to protecting the information its employees receive and process. At the time of the audit, a full review of the procedures for monitoring employee access to all applications was underway.

In August 2003, as a result of that internal review, the Tax Department implemented advanced security measures which included quarterly reviews of employee access rights to specific applications by the Security Officer. Under these advanced measures, the Security Officer and supervisors are responsible for ensuring proper computer access controls on all staff. Additionally, requests to add or remove employee access to applications have been included on all employee orientation checklists to ensure ongoing verification of access to applications.

The Tax Department will continue to review this process and look for ways to enhance its abilities to monitor access rights to applications.

Agri-business Tax Credit (127 03-3)

The Office of State Tax Commissioner is not ensuring the limitations on the agri-business tax credit as required by state law are being followed. Three of the twenty returns reviewed had a credit claimed that was in excess of the limitations. The excess credit claimed totaled \$4,616 and was paid out to taxpayers through refunds. There are no controls built into the individual income tax computer system to ensure that these limitations are not exceeded, and there have been no audits performed of returns claiming this type of tax credit.

Section 57-38.6-03 of the North Dakota Century Code (NDCC) sets forth the limitations of the tax credit. The tax credit is thirty percent of the investment in a qualified agricultural processing business, limited to annual investment of \$20,000. In any taxable year, a taxpayer may claim no more than fifty percent of the credit which is attributable to qualified investments in a single taxable year. The amount of the credit is further limited to 50 percent of the taxpayers liability. Controls are necessary to ensure that these limitations are not being exceeded.

Recommendation:

We recommend the Office of State Tax Commissioner implement controls to ensure that the allowed agri-business tax credits are not exceeded in accordance with NDCC 57-38.6-03.

Tax Department Response:

The Agri-business tax credit is a new credit available for taxpayers beginning with the 2001 tax year. Of approximately 330,000 individual income tax filers, only about 400 taxpayers, or .12%, may potentially be eligible for any business investment tax credit, including the Agri-Business tax credit.

Building controls into the individual income tax computer system for so few potential filers would be very complicated and cost-prohibitive. The Tax Department anticipated the need for control in this area and initiated the development of its Audit Plan, which includes a tracking program created to read the individual income tax computer system and list all taxpayers claiming a business tax credit (i.e., agricultural investment tax credit, seed capital investment tax credit, and renaissance zone credit), thus identifying tax returns to then be audited.

Development of the Tax Department's automated Audit Plan was completed after the state audit. Minimal costs to the Tax Department were associated with this development, and the Audit Plan now provides an effective method of identifying taxpayers reporting business tax credits. An income tax auditor is now able to utilize the information from this program to identify and audit all tax returns identifying business investment credits.

At the time of the state audit, the Tax Department was still within the three-year statute of limitations period within which it must audit the returns identified by the state auditors. The statute of limitations on those returns identified will not expire until at least 2005.

220 - University System

Financial Statement Audit - Contact: John Grettum 701 239-7289 jgrettum@state.nd.us

Peoplesoft And Other System Weaknesses (220 03-1)

The Office of the State Auditor (OSA) did not receive:

Timely access related to the newly installed PeopleSoft system for the pilot campuses at Mayville State University (MASU) and Valley City State University (VCSU).

Timely information from the various campuses and the NDUS office.

Completed June 30, 2003 bank reconciliations and outstanding check registers for the pilot campuses at MASU and VCSU.

In mid September of 2003 when it became apparent that the pilot campuses were not providing sufficient supporting documentation to aid in the audit of financial balances and activity, we requested access to the online PeopleSoft financial system. Access to the PeopleSoft financial system was granted in late October of 2003. The access was limited.

The OSA mailed the annual request letter to each of the institutions and the Board office on May 6, 2003, in preparation for the annual NDUS audit. All schools and the Board office missed established deadline dates. Some schools still do not have some of the requested information submitted. The financial statements from the two pilot schools were received months after the requested due dates. The NDUS combined financial statements were initially due September 26, 2003, however our office was not provided with a first draft until October 24, 2003 (VCSU and MASU information still missing). On November 24, 2003, our office was provided with the final draft.

Additionally, the two pilot schools have not been able to reconcile their cash accounts since they went on to the PeopleSoft system. The difference in cash between the book balance and the bank balance at VCSU was \$7,460 and at MASU it was \$9,257 on June 30, 2003. Although the differences are not great, neither school was able to produce bank reconciliations or an outstanding check register for any of its accounts as of 6-30-03. Failure to resolve the problems associated with the cash reconciliation process and identifying at least the major problem areas could lead to significant problems when the remaining campuses convert to PeopleSoft on July 1, 2004. These problems could result in an unfavorable audit opinion.

Recommendation:

We recommend that:

- 1. The NDUS provide complete system access to the auditors in a timely manner.
- 2. All institutions and the NDUS office provide requested information by or near the requested due dates.
- The pilot campuses complete cash reconciliations as soon as practical and identify and correct major problems prior to the remaining campuses converting to PeopleSoft on July 1, 2004.

Client Response:

1. Agree.

The SAO request for access to the PeopleSoft system was prioritized along with other critical project needs, delaying the NDUS response to establishing security to the finance system for the SAO. The ConnectND project is still in its infancy and as such, security for all users is still being defined for each module (student administration, finance and human resource management system). Security is defined based on user roles for each system user. The Student Admin and HRMS systems were far enough along to have roles set up so that these could be easily assigned to the auditors when access was requested. The Finance module had no such defined roles established and to set them up was a significant task. Security in the finance module is much more difficult than in the other two modules. Additionally, staff resources to complete the security task are limited.

Access to the student system was granted on October 1 and access to the HRMS was granted on October 2. Access to the financial system was available the last week of October. Security access for the SAO has been resolved based on the completed set-up. Once we have passed through go-live in the summer of 2004, we expect no further delays in this area.

Agree. However, our ability to meet deadlines over the next year will continue to be impacted by the time and resources required to ensure a timely implementation of ConnectND due to the significant staff resources assigned to the project and unfamiliarity with the new system.

Per conversations with the SAO, all campus and system office financial statements and footnotes were due September 12 and the consolidated financial statements were due September 26. Completed information from seven campuses and the system office was submitted between August 29 and September 11, including the two largest campuses. Information for two additional campuses was submitted by September 19. The two ConnectND pilot campuses information packets were submitted October 17 and 22. The first draft of the consolidated statements was completed immediately after receipt of the final campus information and was submitted to the SAO on October 24. The first draft did not include a few footnotes and interagency adjustments since we were waiting for additional information on the latter. On October 31, review notes were received from the SAO and a new consolidated financial statement draft was prepared and sent to the SAO five working days later, on November 10. This draft was also submitted to OMB (within their deadline.) Additional review notes were received from the SAO on November 18. Changes were made and a final draft of the consolidated statement was prepared and submitted on November 24 to OMB and the SAO.

The NDUS was in constant communication with the SAO on the availability of information at specific due dates and was diligent in providing information on a timely basis as possible, given the following circumstances:

 Three campuses had new controllers' preparing the financial statements for the first time (BSC, UND, and MiSU). Statement preparation is complicated and the learning curve is significant.

One new campus controller was on maternity leave beginning in September. Assistance was provided by the System Office to complete the campus financial statements.

Two pilot campuses and the System Office were in the midst of ConnectND implementation. Significant staff time (including the controllers) was dedicated to ConnectND implementation to ensure successful student registration, financial aid packaging and awarding, student billing and collection, payroll processing and other key operational activities during this same time period.

Given the ConnectND system is new to all, there is a significant learning curve for all NDUS staff on the use of the system and where and how to access data of all kinds, including data needed to prepare the financial statements. ConnectND staff assisted the pilot campuses, where necessary with this effort. However, ConnectND staff also needed to simultaneously continue work on the project in order to ensure that the project stays on schedule. Campus and project staff worked significant amounts of overtime to prepare the statements.

Several of the non-pilot campus controllers are also heavily involved in the ConnectND project, with 20-25% of their time assigned to the project. Their involvement is critical to ensuring that the system meets their needs and to keeping the project on schedule.

We anticipate ongoing challenges in FY2005. Although we have learned from the pilot campus implementation, as we expected, there will be many more implementation challenges as we roll out ConnectND to nine additional campuses, many of which are much more complex, with the same number of staff. Financial staff will be simultaneously involved in development of biennial budgets, annual budgets, year-end closing and financial statement preparation on the old system; implementation of the new system; and performing day-to-day operations on the new system, as well as the shut-down of the old. Although NDUS staff will continue to try to be responsive and timely, it will be difficult given the workload and unfamiliarity of the new system. We ask for patience and understanding.

Agree, a process to assist with the process is under development. After several failed attempts to use the PeopleSoft delivered product, the project team began manually entering cleared check information into the system to complete the reconciliation process. Since that time, the project team has identified or developed queries and reports that can be used to get "key" information needed for the bank reconciliation. The project team is working with the campuses to make sure all of the necessary steps have been identified and will develop any additional queries or reports, as necessary. Once this process is finalized at the pilot campuses to ensure accurate and timely reconciliation, it will also be used at the other nine campuses as the finance system is rolled out in July 2004.

Identifying potential future risks is inherent to the project implementation methodology and as a result risks are identified on almost a daily basis. In any given week we may have dozens of these risks identified, and by the end of the week have most of them resolved. Those that remain are estimated, scheduled, and watched closely and tracked on an "Issues Log". At this point we cannot tell which will remain or which will emerge in the coming months, but can give assurance that to this point none have proven insoluble. In both the coming months, and in retrospect, we are sure that either the state or higher education project manager or the SAO staff assigned to the project can assist in your analysis of the Issues Log.

Veteran's Dependent Tuition Waivers (220 03-2)

Fees were not being properly waived for the Veterans' Dependent tuition waiver. The technology fee was not being properly waived at Dickinson State University (DSU), North Dakota State University (NDSU), Minot State University (MISU), Minot State University – Bottineau Campus (MISU-BC) and the University of North Dakota (UND). The ConnectND fee was not being waived at MISU, MISU-BC and UND.

NDCC 15-10-18.3 states that any child, spouse, widow, or widower of a resident veteran, as "veteran" is defined in section 37-01-40, who was killed in action or died from wounds or other service-connected causes, was totally disabled as a result of service-connected causes, died from service-connected disabilities, was a prisoner of war, or was declared missing in action must be allowed to obtain a degree free of any tuition and fee charges, except those charged to retire outstanding bonds. Therefore, only the portion of the technology fee that is not used to retire the outstanding debt should be waived. The entire ConnectND fee should be waived because it is not being used to retire outstanding debt.

Recommendation:

We recommend that all NDUS institutions comply with NDCC Section 15-10-18.3 and specifically:

- 1. DSU, MISU, MISU-BC and UND only waive the portion of the technology fee that is not used to retire the outstanding bonds.
- 2. MISU, MISU-BC and UND waive the entire ConnectND fee.

Client Response:

The NDUS agrees with the noted conditions regarding campus practices for technology and ConnectND fee waivers. That portion of both fees that is related to debt service should not be waived.

The ConnectND student fee was established in Fall 2002. A major portion of the fee will be used to pay the NDUS's portion of the ConnectND debt (71%). Although the bonds were not sold until Fall 2003, a portion of the revenues collected in FY03 were set aside and carried forward for debt retirement and other project expenses. Under current state statute that portion of the ConnectND fee that is used to pay debt retirement should not be waived.

The cost of setting up the financial accounting system to calculate the portion of the fees relating only to debt retirement has been cost restrictive from a cost-benefit relationship and will continue to be cost restrictive even with implementation of the PeopleSoft system.

The NDUS will consider alternative solutions to comply with state statute or possibly pursue a statutory revision during the next legislative session. A final plan will be in place July 1, 2005, using the new PeopleSoft system (which will be implemented on all campuses in fiscal year 2005), consistent with any legislative changes that would be effective July 1, 2005.

230 - University of North Dakota

Financial Statement Audit - Contact: John Grettum 701 239-7289 jgrettum@state.nd.us

Lack of Approval for Improvements Financed by Gifts (230 03-1)

The University of North Dakota did not receive approval from the Legislature or Budget Section to spend gift funds of \$400,000 for infrastructure improvements for the Hilton Garden Inn - a private, west campus development. Per North Dakota Century Code section 15-10-12.1, the consent of the Legislative Assembly or Budget Section is required for campus improvements financed by gifts if the cost of the improvement is more than \$385,000.

Recommendation:

We recommend that the University of North Dakota comply with NDCC section 15-10-12.1 and request approval from the Legislature or Budget Section for all improvements greater than \$385,000.

University of North Dakota Response:

UND operated under the premise that NDCC section 15-10-12.1 does not apply. That section governs donations, gifts, grants, and bequests to institutions for campus improvements and building maintenance. There was no donation, gift, grant, or bequest made to UND or the State Board of Higher Education.

On April 17, 2002 and June 26, 2002, the University of North Dakota informed the Budget Section that the University of North Dakota has agreed to lease University property to a developer for the construction of a Hilton Garden Inn hotel. The State Board of Higher Education approved the lease. The lease required the lessee to bear all costs of construction. The lease also required the lessor to request, on behalf of the lessee, financial assistance from the city of Grand Forks for the purpose of constructing infrastructure improvements on the premises.

This facility is not owned by UND or the State Board of Higher Education. The lessee is not required to transfer title of the building to the University of North Dakota at the end of the lease. UND did not use a donation, gift, grant, or bequest for a campus improvement or building maintenances. In fact, the grant of \$400,000 was for the private development, and not a campus improvement or building maintenance. UND was involved in the transaction only because the city used UND as a conduit to pass through the funds to the developer.

However, since the auditors concluded that the Joint Powers Agreement between UND and the City of Grand Forks gave UND ownership of the infrastructure improvement, if a similar situation arises in the future, we will ask the Budget Section if approval is required.

Capital Leases (230 03-3)

UND had six capital leases totaling \$1,142,531 paid with appropriated funds. Of these six leases, two leases totaling \$208,518 were reported in the state budget for 2001-2003 or 2003-2005. The remaining leases, totaling \$1,047,758, were not included in the state budget. NDCC section 54-44.1-06, subpart 8, states that the office of the budget shall prepare budget data which must contain and include a list of every individual asset or service, excluding real estate,

with a value of at least fifty thousand dollars and every group of assets and services comprising a single system with a combined value of at least fifty thousand dollars acquired through a capital or operating lease arrangement or debt financing arrangement by a state agency or institution. The list must include assets or services acquired in the current biennium and anticipated assets or services to be acquired in the next biennium.

Recommendation:

We recommend that UND comply with section 54-44.1-06, subpart 8 and properly report all leases and anticipated leases that are greater than \$50,000 in the budget.

University of North Dakota Response:

Historically, UND has reported capital lease agreements over \$50,000 assigned to appropriated funds at the time the biennial budget is being prepared. After the submission of the biennial budget, UND enters new leases or will revise the funding source on current leases, neither case is always anticipated during the biennial budget process. Because of legislative flexibility, new appropriated leases or funding revisions to current leases are allowable.

The four leases mentioned above were obligated or funding revised after the 03-05 biennial budget process was complete on campus. UND will continue to report leases assigned to appropriated funds in the biennial budget process. If the UND Budget Office is aware of a planned obligation to appropriated funds over \$50,000 for anticipated leases, we will report in the biennial budget process.

Motor Pool Surcharge (230 03-4)

UND added per mile and per hour surcharges to North Dakota Department of Transportation (NDDOT) state fleet rental rates. For fiscal years 2002 and 2003, the additional surcharge totaled \$79,238. NDCC section 24-02-03.3 provides that the NDDOT shall regulate the operation, maintenance, and management of all motor vehicles owned or leased by the state. The Director shall provide a uniform method of documenting the use and cost of operation of motor vehicles and motor vehicle-related equipment in the system. Every state agency and institution, unless exempted, must use the system.

Recommendation:

We recommend that UND discontinue the surcharge to the NDDOT fleet rental rates.

University of North Dakota Response:

NDDOT does not provide adequate reimbursement to cover all costs related to the operation of registered motor vehicles at UND. In order to recover those costs, a fee was established to charge users of the services. This fee is reviewed and updated annually.

UND will meet with NDDOT to request additional reimbursement to cover these costs. We will notify the auditors on the resolution of the outcome.

239 - Dickinson State University

Financial Statement Audit - Contact: John Grettum 701 239-7289 jgrettum@state.nd.us

Lack of Authorization for a Construction Project (239 03-1)

Dickinson State University did not receive authorization from the Board of Higher Education (BHE) to proceed with the flag court project. Total project expenses were \$137,282.

Board of Higher Education policy 902.3 requires approval by the Board for projects for which the cost exceeds \$100,000.

Recommendation:

We recommend that Dickinson State University comply with Board of Higher Education policy and request approval for construction projects that exceed \$100,000.

Dickinson State University Response:

Dickinson State University expended \$137,282 on the Flag Court project funded totally with philanthropic dollars. Of the total expended, \$12,482 was for the purchase of flags and \$47,025 was expended for the flag poles. When the project was initially conceived, total costs were less than \$100,000. As the project developed, demand for and interest in additional flag poles and related concrete and landscaping costs pushed the cost of the overall project over the \$100,000. Had Dickinson State University known the full scope of the project when construction first began, approval would have been obtained from the Board.

240 - Mayville State University

Financial Statement Audit - Contact: John Grettum 701 239-7289 jgrettum@state.nd.us

PeopleSoft Conversion Problems (240 03-2)

There were several problems with the conversion from the Higher Education Computer Network (HECN) to PeopleSoft and with the proper recognition of revenues and net assets, as follows:

Auxiliary revenue was classified as sales and services of educational departments instead of auxiliary enterprises due to the use of incorrect account numbers. This resulted in the misclassification of revenue of at least \$720,000.

Activity between the institution's departments and between internal service funds was recorded as sales and services of educational department revenue rather than as a reduction to expenses. This resulted in the overstatement of revenue and expense by at least \$142,000. Amounts recorded as accounts payable on the general ledger were not supported by a detailed listing at year-end.

Budget reports were not adjusted timely to reflect anticipated changes in expenses, limiting their value as a management tool. For example, Report ID GLS8020, Budget Status Report for fiscal year 2003 showed a budget of \$1,965,994 for support service expenses, but actual expenses were \$2,156,131, for a difference of \$190,137.

GASB Codification of Governmental Accounting and Financial Reporting Standards section 1100.101 states that a governmental accounting system must make it possible to present fairly and with full disclosure the funds and activities of the governmental unit in conformity with generally accepted accounting principles.

Recommendation:

We recommend Mayville State University set up their accounts on PeopleSoft to present fairly their activities in conformity with generally accepted accounting principles.

Mayville State University Response:

We agree with the recommendation. The conversion from HECN to PeopleSoft Financial System continues to be a challenging undertaking. We will make every effort to present financial activity in conformity with generally accepted accounting principles.

242 - Valley City State University

Financial Statement Audit - Contact: John Grettum 701 239-7289 jgrettum@state.nd.us

Peoplesoft Conversion (242 03-1)

We noted the following problems with the conversion from the Higher Education Computer Network (HECN) to PeopleSoft:

Auxiliary revenue was classified as sales and services of educational departments instead of auxiliary enterprises due to the use of incorrect account numbers. This resulted in the misclassification of revenue of at least \$734,800.

Equipment rental relating to information technology was classified as operating expense instead of data processing expense due to the use of incorrect account numbers. This resulted in the misclassification of expense of at least \$573,118.

Amounts recorded as accounts payable on the general ledger were not supported by a detailed listing at year-end.

GASB Codification of Governmental Accounting and Financial Reporting Standards Section 1100.101 states that a governmental accounting system must make it possible to present fairly and with full disclosure the funds and activities of the governmental unit in conformity with generally accepted accounting principles.

Recommendation:

We recommend Valley City State University: Set up their accounts on PeopleSoft to present fairly their activities in conformity with generally accepted accounting principles, and Provide detailed listings of accounts payable at year end.

Valley City State University Response:

- Valley City State University will review the use of account codes to ensure that the proper ones are used.
- 2. Valley City State University is in the process of providing detailed listings of accounts payable at year end.

321 - North Dakota Department of Veterans Affairs

Operational Audit - Contact: John Grettum 701 239-7289 jgrettum@state.nd.us

Grant Expenditure Improvements (321 02-3)

During our test of grant expenditures, we noted that procedures involving 13 of 16 transactions could have been improved, as follows:

Ten of the expenditures were not supported by adequate documentation. Three of these 10 expenditures (totaling \$14,400) did not have grant agreements and/or invoices showing how the monies should be or were spent. These three items were approved in the minutes of the Administrative Committee on Veteran's Affairs.

In addition, \$12,000 of the \$14,400 was referred to as "donations" in some correspondence. Nine of the expenditures were coded to object code 6505, indirect costs; instead of 2160, travel non-employees. These expenditures were to assist with the lodging cost of volunteer van drivers.

Good internal control requires that adequate documentation be available to support expenditures. In addition, Article X, Section 18 of the North Dakota Constitution provides that the State shall not loan or give its credit or make donations to or in aid of any individual, association or corporation.

Recommendation:

We recommend that the North Dakota Department of Veterans Affairs: Maintain proper documentation to support grant expenditures. This would include the use of grant agreements, with adequate monitoring to ensure that monies were used for the intended purposes. Code expenditures to an object code that best describes the transaction.

North Dakota Department of Veterans Affairs Response:

Department concurs. Commissioner to request Attorney General's Opinion on Administrative Committee's usage of the Post War Trust Fund interest earnings in funding monetary requests prohibited in Article X, Section 18 of the ND Constitution. Grant agreements and supporting documentation to be required on approved requests.

325 - Human Services

Operational Audit - Contact: Paul Welk 328-2320 pwelk@state.nd.us

Regional Office Automation Project (ROAP) Data Integrity (325 03-1 a.)

Observations (system controls):

During our audit period the Department began the implementation phase of the Regional Office Automation Project (ROAP) for the eight Human Service Centers (HSCs). One HSC had been on the system for several months and two others were in the beginning stages of the conversion.

We recognize that during the development of a new computer program, system controls are often suspended or omitted in order to allow greater access to the data, ensuring that all the program bugs are found and corrected. Thus, it is critical that a change log or some type of report be generated showing all changes made to the data within the system after it has been input, including any 'recomputes' performed. An individual such as the business manager should be monitoring the reports for the type of corrections being made, whether payment types are being changed, and to evaluate if the errors or omissions committed may be high risk. This procedure is a preventative control for unauthorized changes, as well as a form of managerial oversight.

In addition, the system should be able to do system audits, whereby an exception report would show any broken links made to any one of the five key fields of data input. These could then be tracked down and reconciled. The reconciliation should include verification that the Service Activity Log entries have a corresponding progress note.

Although it was noted that approval is being obtained prior to issuing refunds on the system, there is no control or procedure in place to ensure that the client's account is properly credited. A report of all refunds issued should be generated and reviewed to ensure they were processed appropriately and to ensure refunds were not made without the proper approval. Recommendation:

We recommend the Department of Human Services implement the necessary procedural or programming changes within the ROAP system to aid in the protection of the data integrity.

ROAP Input Control Weaknesses (325 03-1 b.)

Therapists at the Human Service Centers (HSCs) maintain Service Activity Logs (SAL) which are collected and input weekly into the ROAP system by support staff. This information is then used to generate the monthly billings. Considerable time and effort is spent completing this manual process, which remains unchanged from what it was under the previous system. Due to the fact that information is written up by the therapist and re-entered by support staff, there is the risk of data entry errors. The developer of the ROAP system is creating a Front Desk Plus module, which will allow for the electronic submission of SAL's directly from the therapist. Implementation of this module deserves priority, as electronic submission of the SAL would eliminate handwriting interpretations, aid in reducing input errors, ensure data is received timely, and eliminate the need for support staff to re-key the data. Because the Department anticipated

this module would be available to them when the ROAP system went online, no form of appointment verification was implemented to ensure the accuracy of the SAL.

Recommendation:

As the completion date for the Front Desk Plus module is not known, we recommend the Department of Human Services implement data input controls (such as appointment verification).

System Policies/Procedures to Maximize Revenue Collections (325 03-1 b.)

The HSC's would also benefit from standardizing policies and procedures. In particular, the following four areas should be standardized to maximize the revenue received on collections:

1) the Title XIX cross-reference report needs to be run and reviewed every month to ensure clients eligible for Medicaid obtain the proper referrals prior to receiving services; 2) a policy, requiring therapists to notify the business office of clients who are planning to get a medical referral or who have applied for Medicaid, should be implemented. The business office could flag the individual's account as needing a referral prior to services being performed; 3) clients receiving services who are eligible for Medicaid, but who have not received the necessary medical referrals should be tracked and services suspended until the proper referrals are received; and 4) all HSCs should be consistently billing clients for recipient liability.

Recommendation:

We recommend the Department of Human Services implement standardized policies/procedures at the Human Service Centers to maximize revenue collections.

Department of Human Services Response to Operational Improvements:

The Department recognizes the importance of data integrity. We will continue to work with the vendor to improve the systems tracking capabilities. In addition, the Department has and will continue to develop policies and procedures to aid each HSC in their efforts to review, authorize, and approve transactions in a consistent manner.

325 - Human Services - MMIS

Information Systems Audit - Contact: Don LaFleur 328-4744 dlafleur@state.nd.us

Inadequate Controls Surrounding Duplicate Payments

In the area of professional services, we identified 19,787 claims that had potential duplicates. Since some of these claims had more than one potential duplicate, there were a total of 23,870 potential duplicates for \$1,326,768. We selected 50 claims to review, which consisted of 66 potential duplicates for \$3,041. We identified eight duplicate claims for \$378. Prior to our testing, adjustments had been made and the money recovered for six of these claims totaling \$358.

In the area of institutional services, we identified 272 claims that had 285 potential duplicates for \$140,430. We selected 30 claims to review, which comprised 32 potential duplicates for \$12,181. We identified ten duplicate claims for \$9,636. Prior to our testing, adjustments had been made and the money recovered for all ten duplicate claims.

We noted the following reasons duplicate payments had occurred:

- Claims that had been suspended as exact or suspect duplicates, but were improperly approved for payment by reviewers.
- Timing differences in the payment of claims and the posting to appropriate files caused duplicate payments to not be detected.

Crossover claims (claims which are passed to MMIS by Medicare) are given a generic procedure code by MMIS, making it difficult to detect duplicate payments.

Recommendation:

We recommend the Department of Human Services implement additional edit checks to ensure that duplicate claims are detected and suspended.

Agency Response:

The MMIS system is almost 25 years old and as such, lacks certain edit checks that would aid in preventing the possibility of duplicate payments. The program changes necessary to alleviate duplicate payments would be very costly and time consuming. The Department has received authorization from the Legislature to begin the process of developing a new MMIS. We plan to incorporate the required controls when a new system is implemented.

While most duplicates noted in this audit were detected and corrected prior to the audit, the Department does agree that additional action is necessary to reduce the number of duplicate claims paid through MMIS. We will provide additional training to reviewers to ensure they better understand how to adjudicate claims that have been suspended as a potential duplicate payment. Also as of April 2003, the Department has changed the way it processes Medicare crossover claims. Providers will be required to submit Medicare claims using standard claim forms and standard data elements. As a result payments for Medicare crossover claims will be subject to the same edits as other claims processed through MMIS.

Inefficiencies in the Automatic Denial of Claims

From the suspended claims file of September 16, 2002, we noted 4,283 electronic claims with a total of 6,438-errors that had been suspended and not yet reviewed. Of the 6,438 errors for the electronic claims in suspense 915 were one of the 56 error codes identified as being error codes that could be automatically denied. These 915 error codes occurred on 587 unique claims. By not automatically denying these claims, the department is increasing the workload for reviewers, adding to the backlog of suspended claims, and creating the potential that these claims may not be correctly denied by the reviewers.

Recommendation:

We recommend the Department of Human Services modify MMIS to automatically deny claims that do not need to be reviewed.

Agency Response:

We agree with the recommendation and will revise the edit program to automatically deny electronically submitted claims that contain errors that do not need to be resolved by claims reviewers. This should result in increased productivity of the claims reviewer staff.

504 - Highway Patrol

Operational Audit - Contact: Paul Welk 328-2320 pwelk@state.nd.us

Maximizing Use of Federal Grant Funds (504 02-2)

Challenge:

The North Dakota State Highway Patrol has not been spending all of the federal grant funds awarded to them. It was noted in each of the past three years over \$400,000 of the Motor Carrier Safety Assistance Program (MCSAP) grant funds available to the agency had not been requested for use.

Possible Solution:

Per discussion with the North Dakota State Highway Patrol's grant administrator and review of the MCSAP grant compliance requirements, there are several areas where they could be charging additional expenditures to the grant, especially in the areas of salaries and indirect costs.

The North Dakota State Highway Patrol should implement procedures to adequately plan and budget for maximum use of the Motor Carrier Safety Assistance Program (MCSAP) grant and other federal grants. The grant administrator, accountant, and budgeting personnel should reevaluate the grants to determine which additional expenditures could be charged to the grants in order to save state funds.

Disposition:

This operational improvement will require ongoing evaluation. Initial evaluations have taken place and will continue.

625 - Wheat Commission

Financial Statement Audit - Brady Martz & Associates

Unpaid Legal and Professional Fees (625 04-1)

The ND Wheat Commission is currently involved in a case against the Canadian Wheat Board involving unfair Canadian wheat trade. The case was started in 1999 and is still ongoing as of June 30, 2004. To date, the Wheat Commission has spent approximately \$6.4 million in legal and other professional fees. The Wheat Commission had been current with their professional fees until September 2002. However, with ongoing legal proceedings and other professional services directly involved with the case, the liabilities increase to \$3,004,678 and \$1,711,133 at June 30, 2004 and 2003, respectively. The Wheat Commission did not have the resources necessary to stay current with their obligations. This has resulted in deficit fund balances of \$2,009,073 and \$934,459 at June 30, 2004 and 2003, respectively.

The Wheat Commission Board, at its June 2004 meeting, established a committee to explore the possibility of seeking an assessment increase with a sunset clause for the purpose of paying the liabilities incurred in the case. As of our audit date, the Wheat Commission does not have an approved plan in place to pay off the legal fees and restore their fund balance.

It was also noted during our audit that the Wheat Commission failed to report these liabilities on their "closing packages", submitted to OMB's fiscal management division, for the purposes of compiling North Dakota's Comprehensive Annual Financial Report. The failure to report these liabilities results in an understatement of liabilities and expenditures, and an overstatement of fund equity on the State's annual financial statements. The amount of these liabilities may be considered material to the State's financial statements. In addition, failure to report these liabilities is not in compliance with OMB Policy 200 – Financial Statement Fiscal Year Cutoff. The policy states: "Every agency and institution is required to identify and record liabilities, receivables, inventories and other financial statement data at the close of each fiscal year. The financial data must be recorded in accordance with generally accepted accounting principles relating to year-end accruals of receipts and expenditures." The Commission has not implemented adequate internal controls to insure that all activity and account balances are properly reported to OMB.

We recognize the Wheat Commission has continuing appropriation authority, but it is clear they have overspent their available resources, by not having available funds to pay their legal fees and significant deficit fund balances. We question whether the Wheat Commission has the legal authority to overspend their resources. Since the case is ongoing and the Wheat Commission continues to incur legal expenses, we feel it is important to determine if the Wheat Commission has legal authority to overspend its existing resources.

North Dakota Century Code Chapter 4-28, Section 07, paragraph 4 states: "The commission may use the amount raised by two mills of the levy provided for in this section to support the commission's involvement in trade issues throughout the world." We would question whether the legal fees incurred and paid over the last two fiscal years violates this section of the North Dakota Century Code.

Recommendations:

We recommend the ND Wheat Commission obtain immediate advice and approval from appropriate legislative authority and the Office of the Attorney General, on a plan to fund the outstanding liabilities. In addition, the Wheat Commission should not incur any additional legal fees without approval and the aforementioned plan in place.

We recommend the Wheat Commission develop procedures and controls to insure that all activities are properly recorded and reported.

We recommend the Wheat Commission obtain a formal legal opinion from the Office of the Attorney General to determine the legality of the legal fees incurred in excess of available resources.

We recommend the Wheat Commission obtain a formal legal opinion from the Office of the Attorney General to determine if they are in violation of NDCC Chapter 4-28, Section 07, paragraph four.

Agency Response:

The North Dakota Wheat Commission concurs with the Auditor's recommendation to obtain advice from the legislature and the Attorney General in developing a plan to fund the outstanding liabilities associated with the trade case against the Canadian Wheat Board, and for these entities to jointly approve such a plan.

The Chair, Vice-chair and the Administrator of the North Dakota Wheat Commission met with Attorney General, Wayne Stenehjem, on July 17, 2004, to discuss the mounting legal bills associated with the case and to consider the most acceptable options available to the Wheat Commission check off. Since then the Commission has adopted a formal position to pursue a check off increase in the 2005 legislative session and is currently assessing stakeholder support. The Wheat Commission continues to be in contact with the Attorney General's office and will diligently pursue this matter a sit considers all appropriate options.

The trade case against the Canadian Wheat Board is the larges, most comprehensive effort of this nature ever undertaken by the North Dakota Wheat Commission, or possibly any agency of the state of North Dakota to date. The Commission recognizes that mistakes have been made regarding the Commission's accounting of and ability to pay growing legal bills incurred in the execution of case itself. The Commission is committed to working with the legislative body and the Office of Management and Budget to develop and implement the appropriate procedures required to correct the current situation.

It is also important to acknowledge that much has been accomplished in this case to date, and that significant and measurable results can be directly attributed to the intensity and effectiveness of the case thus far. It is the assessment of the Commission, legal counsel and many stakeholders that a great deal will also hinge on the final outcome of this important case, strongly suggesting that continuation of this effort is in the best interests of North Dakota's more that 19,000 wheat producers, the state's agricultural industry, and the economy of North Dakota. The most immediate, measurable benefits are expressed in the dramatic declines in imports of Canadian spring wheat and durum that have been achieved over the past two marketing years, providing much needed relief from the onslaught of unfairly traded Canadian wheat and durum that has plagued the region's producers for more than a decade.

The North Dakota Wheat Commission concurs with the Auditor's second recommendation that the Wheat Commission develop written procedures and controls to insure that all such activities are appropriately recorded and reported according to state budget requirements. The Wheat Commission will work with the state Auditor's office and the Office of Management Budget is developing these procedures.

The North Dakota Wheat Commission concurs with the Auditor's third recommendation and will obtain a formal legal opinion from the Office of the Attorney General to determine the latitude of a state agency with a continuing appropriation, its limitations and more specifically whether such an agency can incur expenses beyond current levels of revenue generated by the check off.

The North Dakota Wheat Commission concurs with the Auditor's fourth recommendation and will obtain a formal legal opinion from the Office of the Attorney General to determine if the Commission is in compliance with NDCC Chapter 4-28, Section 07, paragraph four and other aspects of the Commission's authority under its enabling legislation.

740 - Department of Tourism

Operational Audit - Contact: Paul Welk 328-2320 pwelk@state.nd.us

Maah Daah Hey Trail Website's Positioning to Attract Visitors (740 01-2) Challenge:

In their most recent travel trends study, the Travel Industry Association of America has noted that ½ of United States adults (98 million) have taken an adventure trip within the past 5 years. Mountain biking vacations accounted for 27 million of those travelers and now ranks as the 3rd most popular outdoor vacation activity in America (following camping and hiking). The study further revealed that the people taking biking trips tend to be young and affluent. About half are between the ages of 18-34 and one-fourth are from households with an annual income > \$75,000. This profile closely parallels that of today's internet users for planning vacations. It is for these reasons that it was decided to do an analysis of the ND Tourism's Maah Daah Hey Trail website and its positioning to attract visitors.

Process:

In the promotion of the Maah Daah Hey mountain bike trail the focus was on the Department of Tourism's efforts to meet those goals relating to the production of and the development of a website for the purposes of internet marketing efforts. Additionally, it noted if there were any management controls surrounding the accomplishment of strategic goals and whether there were any missing elements to the agency's efforts to accomplish their objective of "attracting more mountain biking enthusiasts through promotion of the Maah Daah Hey Trail."

Based on the StatMarket Ratings we utilized the six most popular search engines to conduct both a keyword and a categorical search. The six search engines reviewed account for approximately 91.4% of all search engine web traffic. The keyword search is the most likely method of surfing and for our search we used the words "Mountain Bike Trails". In a categorical search, you surf by 'clicking' your way through categories until you obtain a listing of related websites pertaining to your topic of choice. The most common path was to go through sports/extreme_sports/mountain_biking.

Solution:

Based on our reviews, research and observations, the following items were noted:

The US Forest Service recently completed a fold-out guide with a comprehensive and detailed map of the trail; however the cost of this publication is \$6/apiece. In reviewing the Department of Tourism's website, it was noted that there is a short write-up on the trail, along with two links to personal webpages, but there is no direct link to the Tourism's own Maah Daah Hey Trail website.

It should also be noted that it is very difficult to find mountain biking information from the Tourism website. To get from the main page to the section that talks about the bike trails you have to go through the links of *activities* and then choose *trails*, from one of four regions, and finally see a link for *biking* that gets you only a short description of the trail. If you were looking specifically for the Maah Daah Hey Trail then you'd also need to know in what the region of the state it could be found. Not once was the ND Tourism's home page or Maah Daah Hey Trail

website listed within the top 20 choices, nor was it noted in a cursory review of the top 50 selections.

Additionally, only once was the Maah Daah Hey Trail website even linked from one of the other top 20 websites. There was also a lack of information about the availability of any mountain bike trails in North Dakota.

Based on our analyses, interviews, observations and research, we developed the following recommendation:

There is a missing element in their objectives for both promoting the Maah Daah Hey Trail and in their internet marketing and that is that the agency does not appear to consider whether the potential traveler is gaining access to the information that they have made available. Most of the websites listed have some method for people to update the information found within their webpages. We recommend that the Department of Tourism contact the applicable websites to update the information on the trails available in the state and/or provide a direct link to their own Maah Daah Hey Trail website. Additionally, we recommend that the agency review what words are indexed within their website or specify the 'meta tags' used within their own website (what the search engines focus on) so that their website would get selected by someone doing a search on "mountain bike trails".

Most of these same elements would carry over and apply to any marketing efforts conducted over the Internet.

Result:

The Department of Tourism concurs with this recommendation and will attempt to implement it to the extent possible but due to the lack of resources (available staff knowledge and available time) the agency may not be able to implement this recommendation immediately but will take it under consideration.

Website Improvements (740 01-2)

Issue:

We conducted a comparative analysis of the state of North Dakota's tourism website in relation to neighboring states in this region and a few other states with comparative tourist attractions or comparative tourism budgets. Our purpose was to ascertain what some of the outstanding features were of other websites and to see if any of those could be incorporated into the Department of Tourism's website to improve the agency's overall ability to best serve the public in relating tourism information.

Solution:

In our analysis, it was noted that the ND Tourism's webpages have incorporated many good ideas, as indicated in the Noteworthy Accomplishments section of this audit report.

However; while the North Dakota website was comparatively better than the other states reviewed, there were a few other features noted at other states that could serve to improve the Department of Tourism's webpages if implemented.

The addition of a visual, logo-type link to the Department of Tourism's website from the state's portal (home page) would increase website visits to the Tourism's website and increase the chance of persuading the traveler to visit North Dakota's attractions or at least note that there are attractions in North Dakota worth visiting. Currently, there is just a box dropdown menu labeled "Visiting ND" where "Tourism" is one of nine choices – this can be easily overlooked.

The map of North Dakota, geographically divided into regions, that are used to locate attractions can be confusing if the traveler is unfamiliar with the state. The addition of main highways and interstates, along with major cities would help the traveler relate to where items of attraction are located within the state.

Another feature that would make the website more appealing to the traveler would be to include scenic pictures, particularly on the main webpages. The adage "a picture is worth a 1000 words" is especially true when the average internet surfer spends an average of only 30 seconds to either find where they want to go or leave your website. A photo to go along with all attractions listed would more likely catch and hold the potential traveler's attention.

An interesting feature to consider would be the addition of a vacation planner/itinerary. A vacation planner would let the traveler pull together information from throughout the website into a personalized vacation planner that the traveler could view, print or e-mail to others.

Once the traveler has registered, they would just browse the website and click the "Add to Trip Planner" icon on any lodging, attraction, or event page that may be of interest. From there, the traveler could make reservations for those places and the trip is completely planned from the computer.

Another method of planning trips would be to utilize the idea of vacation packages whereby the traveler pays so much per person and receives admission tickets or passes to events, hotel rooms for a certain number of nights, etc. This idea would appeal to the traveler who is not familiar with the area. North Dakota could put together some packages of their own centering on

their historic sites. Additionally, packing checklists could be provided that would help the traveler know what type of items, clothing and appropriate camping gear for outdoor-oriented activities.

Result:

The Department of Tourism concurs with these recommendations and will explore the possibility of implementation keeping in mind the restrictions imposed on the agency due to available budgeted monies to cover additional costs should it become too excessive.

PERFORMANCE AUDIT REPORT

of the

Office of Driver and Vehicle Services

North Dakota Department of Transportation

July 11, 2003

Report No. 3020

PERFORMANCE AUDIT REPORT

of the

Administrative Committee on Veterans' Affairs

and

Department of Veterans' Affairs

March 22, 2004 Report No. 3021

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2005

JOINT APPROPRIATIONS COMMITTEE HEARING
INFORMATION TECHNOLOGY DEPARTMENT DOCUMENTATION

Documentation for the Legislative Joint **Appropriations Committees**

January 5, 2005

Information Technology Department 600 East Boulevard Ave, Room 103 Bismarck, ND 58505-0100

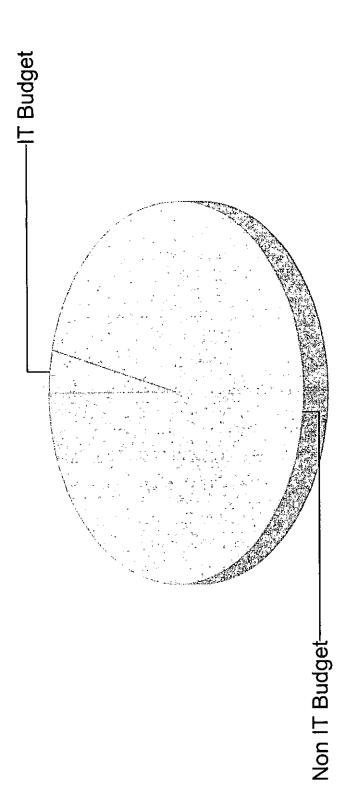
Phone: 701.328.3190 Fax: 701.328.3000

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COZ 05-07 Executive Recommendation IT

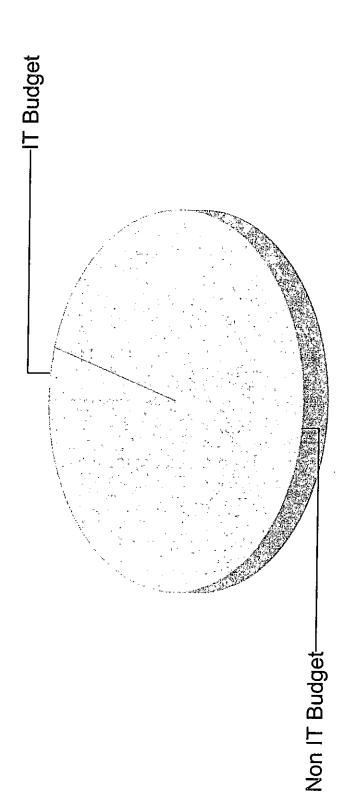
Excludes ITD Agency Billing and Higher Ed



IT Budget \$175,179,632 3.5% Non IT Budget \$4,789,523,059 96.5% Total: \$4,964,702,691 100.0%

05-07 Executive Recommendation IT

Higher Ed Only



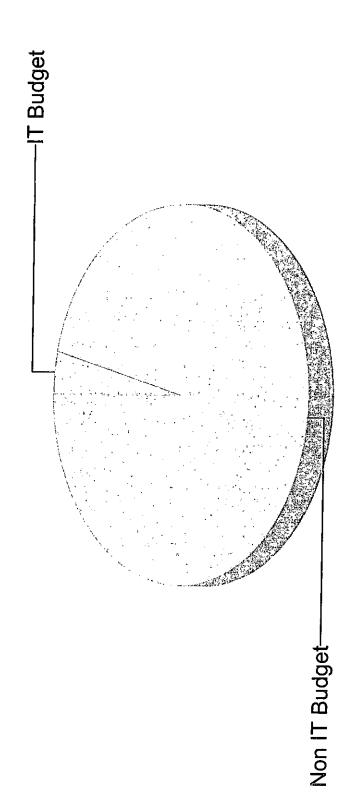
IT Budget \$22,208,939 4.4%

Non IT Budget \$482,628,582 95.6%

Total: \$504,837,521 100.0%

05-07 Executive Recommendation IT

Excludes ITD Agency Billing

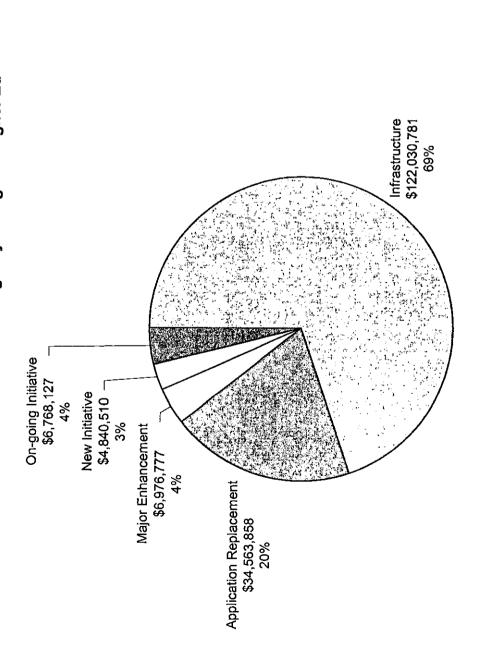


IT Budget \$197,388,571 3.6%

Non IT Budget \$5,272,151,641 96.4%

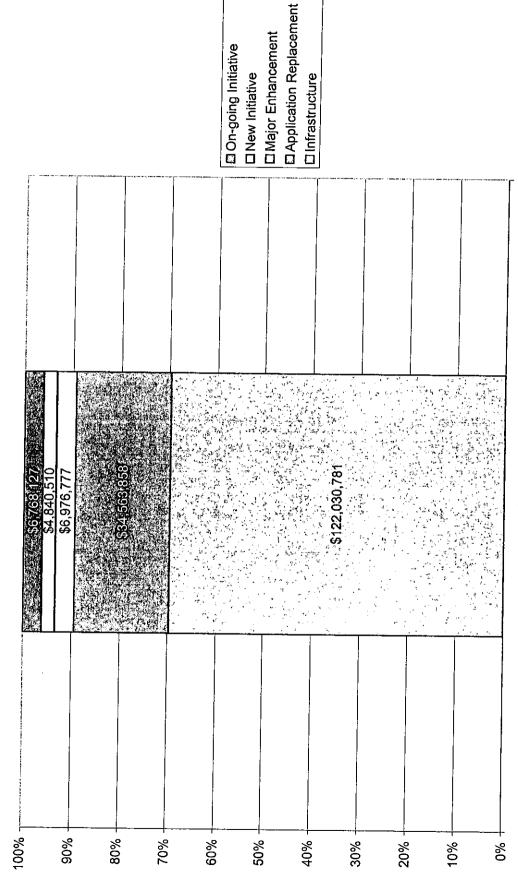
Total: \$5,469,540,212 100.0%

05-07 Executive Recommendation by Activity Type Excludes ITD Agency Billing and Higher Ed

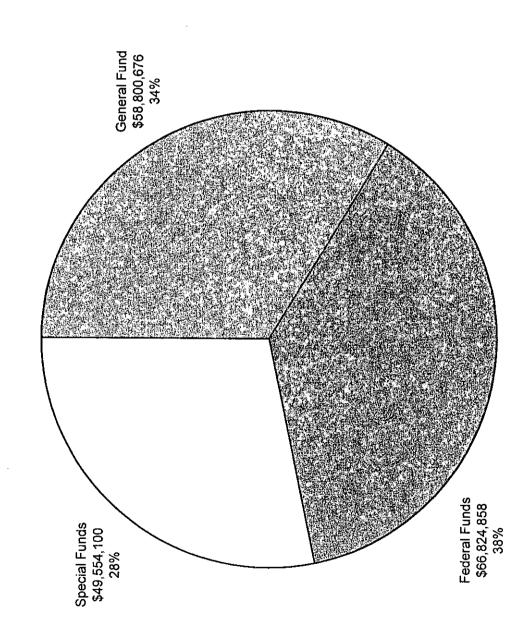


☐ Infrastructure☐ Application Replacement☐ Major Enhancement☐ New Initiative☐ On-going Initiative

05-07 Executive Recommendation by Activity Type Excludes ITD Agency Billing and Higher Ed



05-07 IT Budget by Funding Source Excludes ITD Agency Billing and Higher Ed

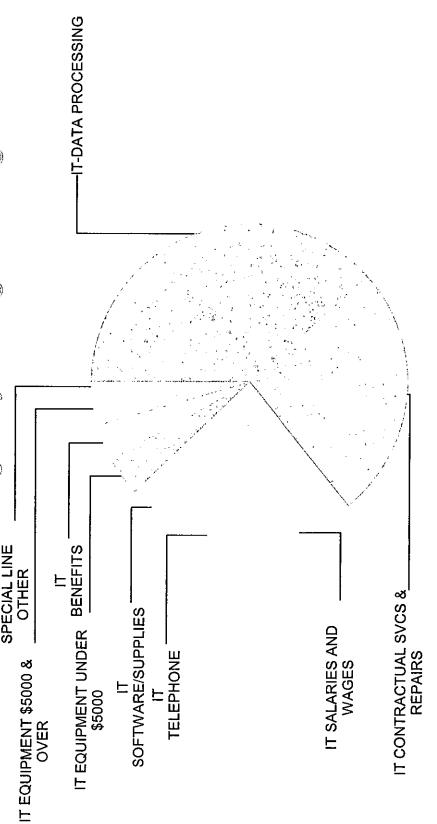


05-07 IT Budget by Funding Source

Excludes ITD Agency Billing and Higher Ed General Fund Federal Funds Special Funds

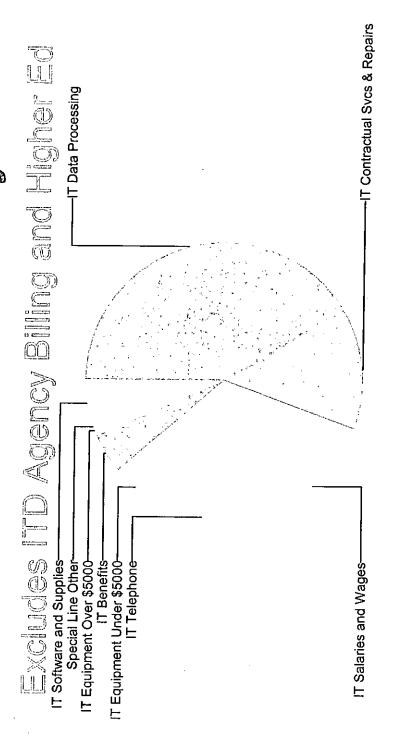
	General Fund	Federal Funds	Special Funds
OFFICE OF THE GOVERNOR	\$112,300	_	
SECRETARY OF STATE	\$1,903,680	\$1,000,000	\$58,231
00110 OFFICE OF MANAGEMENT AND BUDGET	\$3,459,734		\$227,571
00112 INFORMATION TECHNOLOGY	\$5,387,503	\$500,000	\$8,348,119
00117 OFFICE OF THE STATE AUDITOR	\$170,870	\$11,900	\$35,155
00120 OFFICE OF THE STATE TREASURER	\$100,733		
00125 OFFICE OF THE ATTORNEY GENERAL	\$1,741,457	\$331,168	\$386,841
00127 OFFICE OF STATE TAX COMMISSIONER	\$2,880,219	\$120,000	
00140 OFFICE OF ADMINISTRATIVE HEARINGS			\$80,247
00150 LEGISLATIVE ASSEMBLY	\$5,878,041		
00160 LEGISLATIVE COUNCIL	\$1,398,679		
00180 JUDICIAL BRANCH	\$3,720,853		
00190 RETIREMENT AND INVESTMENT OFFICE			\$576,989
00192 PUBLIC EMPLOYEES RETIREMENT SYSTEM			\$1,121,905
00201 DEPT OF PUBLIC INSTRUCTION	\$819,844	\$3,072,510	
00226 STATE LAND DEPARTMENT			\$209,438
00244 NORTH DAKOTA FOREST SERVICE	\$17,000		
00250 STATE LIBRARY	\$93,509	\$93,015	
00252 SCHOOL FOR THE DEAF	\$177,172	\$2,016	\$118,797
00253 ND VISION SERVICES	\$135,310		\$87,968
00270 CAREER AND TECHNICAL EDUCATION	\$132,225	\$17,513	
00301 ND DEPARTMENT OF HEALTH	\$452,055	\$3,706,752	\$237,068
00313 VETERANS HOME	\$5,500		\$222,000
00316 INDIAN AFFAIRS COMMISSION	\$11,563		
00321 DEPARTMENT OF VETERANS AFFAIRS	\$42,159		
00325 DEPARTMENT OF HUMAN SERVICES	\$20,660,661	\$38,270,485	\$1,555,813
00360 PROTECTION AND ADVOCACY	\$31,896	\$86,500	·
JOB SERVICE NORTH DAKOTA		\$10,445,029	\$35,701
OFFICE OF THE INSURANCE COMMISSIONER		\$32,000	\$643,699
C. SINDUSTRIAL COMMISSION	\$367,928		\$37,750
00406 OFFICE OF THE LABOR COMMISSIONER	\$62,440	\$1,560	
00408 PUBLIC SERVICE COMMISSION	\$427,033	\$144,974	
00412 AERONAUTICS COMMISSION	· · · · · · · · · · · · · · · · · · ·	· · ·	\$160,576
00413 DEPT OF FINANCIAL INST	#70.040		\$149,218
00414 SECURITIES DEPARTMENT	\$73,849		\$10.274.00E
00471 BANK OF NORTH DAKOTA 00473 ND HOUSING FINANCE AGENCY			\$10,374,085 \$486,976
00475 ND MILL AND ELEVATOR ASSOCIATION			\$399,398
00485 WORKFORCE SAFETY AND INSURANCE		· ·	\$5,973,453
00504 HIGHWAY PATROL	\$1,308,001	\$8,000	\$642,156
00512 DIV OF EMERGENCY MANAGEMENT	\$1,716,000	\$5,158,269	\$149,634
00512 DIV OF EMERGENCY MANAGEMENT 00530 DEPT OF CORRECTIONS AND REHAB	\$2,254,798	\$59,442	\$583,390
00540 ADJUTANT GENERAL	\$2,254,796 \$90,267	\$872,000	<u> </u>
00601 DEPT OF COMMERCE	\$481,750	\$173,869	\$29,533
00602 DEPARTMENT OF AGRICULTURE	\$210,023	\$362,822	\$47,387
00616 STATE SEED DEPARTMENT	Ψ <u>Ε</u> ΙΟ, ΟΖ-J	ψυυΖ,ΟΖΖ	\$155,658
00627 UPPER GREAT PLAINS TRANS INST		\$937,751	\$418,159
00628 BRANCH RESEARCH CENTERS	\$92,054	Ψοσιμισι	\$107,495
00630 NDSU EXTENSION SERVICE	\$783,409	\$191,796	\$542,212
00638 NORTHERN CROPS INSTITUTE	\$20,000	ψ131,730	\$13,000
00640 NDSU MAIN RESEARCH CENTER	\$350,000	-	\$472,880
00649 AGRONOMY SEED FARM	Ψ000,000		\$3,500
00701 HISTORICAL SOCIETY	\$235,062	\$63,785	
00709 COUNCIL ON THE ARTS	\$2,710	\$37,267	\$0
02300 GAME AND FISH DEPARTMENT	Ψ=11.10	ψοι μοι	\$1,534,901
PARKS AND RECREATION DEPT	\$311,778	\$28,750	\$231,034
WATER COMMISSION	\$680,611	\$1,625	\$19,617
0cc21 DEPT OF TRANSPORTATION	410-11	\$1,094,060	\$13,076,546
Total	\$58,800,676	\$66,824,858	
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03-07 IT EXECUTIVE RECOMMENDATION



5-07 IT Executive Recommendation

infrastructure only

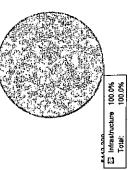


IT Data Processing	\$50,666,128.00	41.5%
IT Contractual Svcs & Repairs	\$17,257,179.00	14.1%
IT Salaries and Wages	\$19,749,216.00	16.2%
IT Telephone	\$13,620,476.00	11.2%
IT Equipment Under \$5000	\$6,884,860.00	2.6%
IT Benefits	\$5,844,063.00	4.8%
IT Equipment Over \$5000	\$1,199,123.00	1.0%
Special Line Other	\$17,000,00	%0.0
IT Software and Supplies	\$6,792,736.00	5.6%
Total:	\$122,030,781.00 100.0%	100.0%

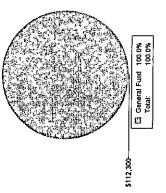
Executive Recommentation by Activity Type

00101 - OFFI GOVERNOR	00101 - OFFICE OF THE GOVERNOR		Infrastructure	Total
	Infrastructure	General Fund	\$112,300	\$112,300
		Total	\$112,300 \$112,300	\$112,300
Total			\$112,300	\$112,300

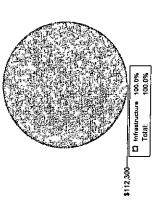




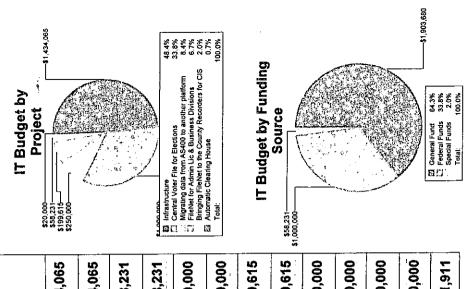
IT Budget by Funding Source

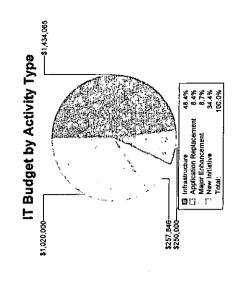


IT Budget by Activity Type

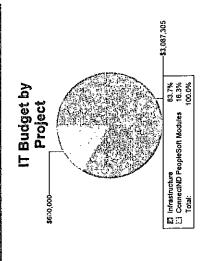


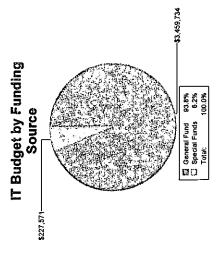
IT Budget by Project	\$25,000 \$52,000 \$199,615 \$250,000						IT Budget by Funding	\$58,231 Source \$1,000,000					Coneral Fund 64.3% Tederal Funds 33.8% Speakal Funds 20.0%
Total	\$1,434,065	\$1,434,065	\$58,231	\$58,231	\$1,000,000	\$1,000,000	\$199,615	\$199,615	\$20,000	\$20,000	\$250,000	\$250,000	\$2,961,911
New Initiative	0\$	0\$	\$0	05	\$1,000,000	\$1,000,000	\$	0\$	\$20,000	\$20,000	\$0	0\$	\$1,020,000
Major Enhancement	0\$		\$58,231	\$58,231	\$	95 Start Control of the Control of t	\$199,615	\$199,615	0\$	OS The state of th	\$0	05 10 10 10 10 10 10 10 10 10 10 10 10 10	\$257,846
Application Replacement	0\$	05 (1) (1) (1) (1) (1) (1) (1) (1) (1) (1)	0\$	OS S. S. S. S. S. S. S. S. S. S. S. S. S.	\$0	0\$	0\$	0\$	\$0	Statement of Statement of the statement	\$250,000	\$250,000	\$250,000
infrastructure	\$1,434,065	\$1,434,065	0\$	OS Company Street, No. 1999	\$0	05 (1) (1) (1) (1) (1) (1) (1) (1) (1) (1)	\$0	05	0\$	be a supplied to the supplied of the supplied	0\$	0\$	\$1,434,065
NRY OF STATE Infrastructure Application Major Replacement Enhance	General Fund	Total	Special Funds	Total	Federal Funds	Total	General Fund	Total	General Fund	Total	General Fund	Total	
10108 - SECRETARY OF STATE	Infrastructure		Bringing	County	Central Voter	Elections	FileNet for	Business	Automatic	Oleaning nouse	Migrating data	another	
0108 -			~						2				Total

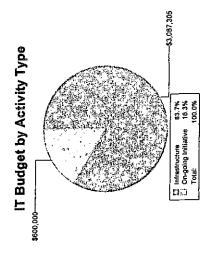




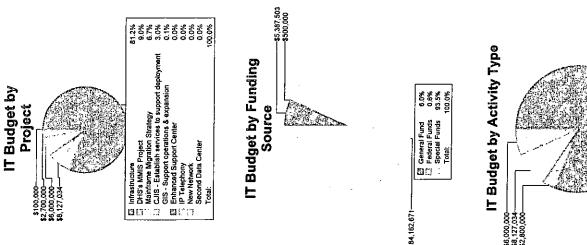
00110 - OFFIC AND BUDGET	00110 - OFFICE OF MANAGEMENT AND BUDGET	AGEMENT	Infrastructure	On-going Initiative	Total
	Infrastructure	General Fund	\$2,859,734	\$0	\$2,859,734
		Special Funds	\$227,571	0\$	\$227,571
		Total Commence of the Commence	\$3,087,305	0\$ 37.2.5	\$3,087,305
-	ConnectND	General Fund	0\$	\$600,000	\$600,000
	Modules	Total	0\$	000'009\$	\$600,000
Total			\$3,087,305	\$600,000	\$3,687,305







Infrastructure General Funds	00112 - TECHN	00112 - INFORMATION TECHNOLOGY		Infrastructure	On-going Initiative	Application Replacement	New Initiative	Total	
Total Funds \$88,535,637 \$60 \$60		Infrastructure	General Fund	\$4,587,503	0\$	\$0	\$0	\$4,587,503	\$2,77 \$5,0 \$8,0
Total			Special Funds	\$68,535,637	0\$	0\$	0\$	\$68,535,637	
New Network Special Funds \$0 \$0 \$0 CJIS-Establish General Funds \$0 \$700,000 \$0 Establish Federal Funds \$0 \$700,000 \$0 Services to Special Funds \$0 \$1,500,000 \$0 Mainframe Special Funds \$0 \$2,700,000 \$0 \$0 Mainframe Special Funds \$0 \$0 \$0 \$0 \$0 Mainframe Special Funds \$0 \$100,000 \$0 \$0 \$0 \$0 GiS- Support General Fund \$0 \$100,000 \$0			Total	1.74.2	0\$	1. 1	4. The state of th	\$73,123,140	Ĺ
Cuils - Establish services to Establish services to Establish services to Establish services to Establish services to Special Funds \$0 \$700,000 \$0 Mainframe Nigration Strategy Total Funds \$0 \$1,500,000 \$0 \$6,000,0 Strategy Total Funds \$0 \$1,500,000 \$0 \$6,000,0 GIS - Support Center Fund Support Center Fund Support Center Foral Fund Support Center Fotal Funds \$0 \$100,000 \$0 \$6,000,0 Enhanced Support Center Fotal Funds \$0 \$100,000 \$0	_	New Network	Special Funds	0\$	0\$	0\$	0\$	0\$	80
CuilS - Establish services to Establish services to Establish services to Establish Services to Establish Services to Special Funds \$0 \$700,000 \$0 Mainframe Milgration Strategy Special Funds \$0 \$2,700,000 \$0 \$6,000,0 GIS - Support Center General Fund \$0 \$100,000 \$0 \$6,000,0 Enhanced Support Center General Fund \$0 \$100,000 \$0 \$0 Second Data Support Center Total \$0 \$0 \$0 \$0 Second Data Center Special Funds \$0 \$0 \$0 \$0 IP Telephony Special Funds \$0 \$0 \$0					A Company of the Comp		And the second of the second o	0\$	
Services to Federal Funds \$0 \$500,000 \$0	2	CJIS -	General Fund	0\$	\$700,000	0\$	0\$	\$700,000	<u> </u>
Mainframe Special Funds \$0 \$1,500,000 \$0 Mainframe Special Funds \$0 \$2,700,000 \$0 Milgration Strategy Total \$0 \$1,00,000 \$0 Strategy Total \$0 \$1,00,000 \$0 Strategy Total \$0 \$1,00,000 \$0 Enhanced General Fund \$0 \$1,00,000 \$0 Second Data Special Funds \$0 \$0 \$0 Second Data Special Funds \$0 \$0 \$0 Total \$0 \$0 Total \$0 \$0 \$0 Total \$0 \$0 T		services to	Federal Funds	0\$	\$500,000	0\$	0\$	\$500,000	
Mainframe Nation Strategy Total Funds \$0 \$2,700,000 \$0 \$6,000,00 Migration Strategy Total Fund \$0 \$100,000 \$6,000,00 \$6,000,00 GiS - Support operations & expansion General Fund \$0 \$100,000 \$0 \$6,000,00 Enhanced Support Center Total General Fund \$0 \$100,000 \$0 \$0 Second Data Special Funds \$0 \$0 \$0 \$0 \$0 PHS's MMIS Special Funds \$0 \$0 \$0 \$0 DHS's MMIS Special Funds \$0 \$0 \$0 \$0			Special Funds	0\$	\$1,500,000	0\$	0\$	\$1,500,000	
Mainframe Nation Strategy Special Funds \$0 \$0 \$6,000,00 Strategy Total \$6,000,00 \$6,00					1 4	2 2 2 2 2 2 2 2 2 2 2 2 2 2 2 2 2 2 2 2		\$2,700,000	
Strategy Total Strategy Total Strategy Total Strategy Total Strategy Support Center Total Second Data Special Funds	က	Mainframe	Special Funds	0\$	\$0	\$0	\$6,000,000	\$6,000,000	
GiS - Support operations & Enhanced expansion General Fund \$0 \$100,000 \$0 Enhanced Support Center Support Center Total \$0 \$100,000 \$0 Second Data Center Total \$0 \$0 \$0 Second Data Center Total \$0 \$0 \$0 IP Telephony Special Funds \$0 \$0 \$0 DHS's MMIS Special Funds \$0 \$0 \$0		Strategy	\$\frac{1}{2}				\$6,000,000	\$6,000,000	
Enhanced Support Center Total \$0 \$100,000 \$0 \$0 Support Center Total \$0 \$0 \$0 \$0 \$0 Second Data Center Special Funds \$0 \$0 \$0 \$0 \$0 IP Telephony Special Funds \$0	4	GIS - Support	General Fund	0\$	\$100,000	0\$	0\$	\$100,000	\$84,162,671-
Enhanced Support Center General Fund \$0 \$0 \$0 Second Data Center Special Funds \$0 \$0 \$0 IP Telephony Special Funds \$0 \$0 \$0 IP Telephony Special Funds \$0 \$0 \$0 DHS's MMIS Special Funds \$0 \$8,127,034 \$0		expansion	dan la canada	05			9\$	\$100,000	
Second Data Special Funds \$0 \$0 \$0 Center Total \$0 \$0 \$0 IP Telephony Special Funds \$0 \$0 \$0 DHS's MMIS Special Funds \$0 \$0 \$0	5	Enhanced	General Fund	0\$	0\$	\$0	0\$	0\$	
Second Data Center Special Funds \$0 \$0 \$0 IP Telephony Special Funds \$0 \$0 \$0 DHS's MMIS Special Funds \$0 \$0 \$0		ampo Hoddino			05			0\$	\$6,000,000
Total Special Funds \$0 \$0 \$0 \$0 \$0 \$0 \$0 \$	ဖ	Second Data	Special Funds	0\$	0\$	\$0	0\$	0\$	\$2,800,000
IP Telephony Special Funds \$0 \$0 \$0 Total \$0 \$0 \$0 DHS's MMIS Special Funds \$0 \$8,127,034		191190	, i					0\$	
DHS's MWIS Special Funds \$0 \$0 \$0		IP Telephony		0\$	0\$	0\$	0\$	0\$	
DHS's MMIS Special Funds \$0 \$8,127,034	i			0\$	0\$	0\$	0\$	0\$	
	ω	DHS's MMIS	Special Funds	\$0	0\$	\$8,127,034	\$0	\$8,127,034	



-\$73,123,140

El infrastructure 81.2%

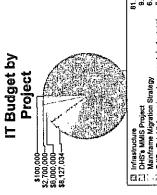
17 On-going Initiative 3.1%

Application Replacement 9.0%

18 New Initiative 6.7%

Total:

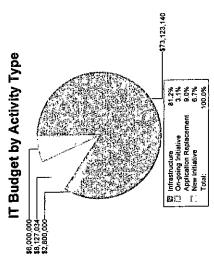
8 DHS's IMMIS Total \$0 \ \prec{\preck}}}}}}}}}}}}}}}}}}}}}}}}}}}}}}}}}}}}	00112 - TECHN	00112 - INFORMATION TECHNOLOGY		Infrastructure On-going Initiative	On-going Initiative	Application Replacement	New Initiative	Total
\$73,123,140 \$2,800,000 \$8,127,034	ω	DHS's MMIS	Total	0\$	05	\$8,127,034	05	\$8,127,034
	Total			\$73,123,140	\$2,800,000	\$8,127,034	\$6,000,000	\$90,050,174



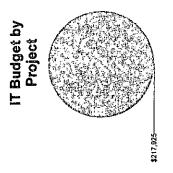
		١
	Infrastructure	81.2%
器品	DHS's MMiS Project	9.0%
Main	Maintrame Migration Strategy	6.7%
SIS	CJIS - Establish services to support deployment	3.0%
SiS	GIS - Support operations & expansion	0.1%
E E E	Enhanced Support Center	%0:0
	IP Telephony	0.0%
New :	New Network	0.0%
Sec	Second Data Center	0.0%
Total:	-	100.0%
Sec	ond Data Center	





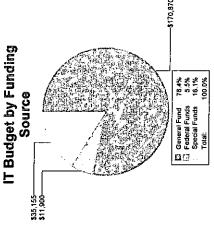


Infrastructure General Fund \$170,870 \$170,870 Federal Funds \$11,900 \$11,900 Special Funds \$35,155 \$35,15 Total \$217,925 \$217,925 \$217,925 Total \$5217,925 \$217,925 \$217,925 Total \$5217,925 \$5217,925 Total	00117 - OF AUDITOR	00117 - OFFICE OF THE STATE AUDITOR	STATE	Infrastructure	Total
Federal Funds		Infrastructure	General Fund	\$170,870	\$170,870
Special Funds \$35,155 Total \$217,925 \$217,925			Federal Funds	\$11,900	\$11,900
Total \$217,925 \$217,925			Special Funds	\$35,155	\$35,155
\$217,925			Total	\$217,925	\$217,925
	Total			\$217,925	\$217,925

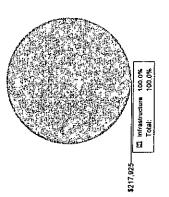




23 Infrastructure 100.0% Total: 100.0%

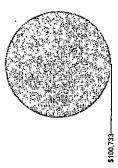


IT Budget by Activity Type



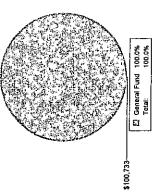
0120 - OFFIC	Ж	OF THE STATE	Infrastructure	Total
	Infrastructure	General Fund	\$100,733	\$100,733
	9.1.0	Total	\$100,733 \$100,733	\$100,733
Total			\$100,733	\$100,733

IT Budget by Project

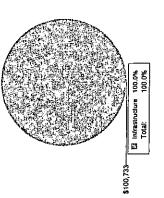


は Infrastructure 100.0% Total: 100.0%

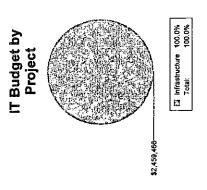
IT Budget by Funding Source

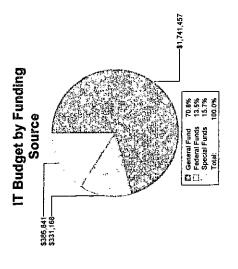


IT Budget by Activity Type

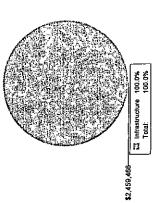


00125 - OFFICE OF THE ATTORNEY GENERAL	THE VAL	Infrastructure	Total
Infrastructure	ure General Fund	\$1,741,457	\$1,741,457
	Federal Funds	\$331,168	\$331,168
	Special Funds	\$386,841	\$386,841
·	Total	\$2,459,466	\$2,459,466
Total		\$2,459,466	\$2,459,466

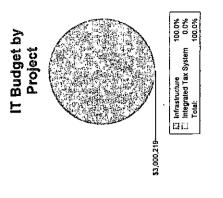


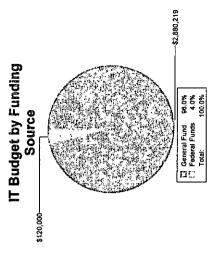


IT Budget by Activity Type

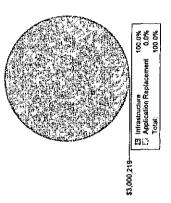


00127 - COMMI	00127 - OFFICE OF STATE TAX COMMISSIONER	ЕТАХ	Infrastructure	Application Replacement	Total	
	Infrastructure	General Fund	\$2,880,219	0\$	\$2,880,219	
		Federal Funds	\$120,000	0\$	\$120,000	
		Total	\$3,000,219	05 2 2 2 2 2 2 2 2 2 2 2 2 2 2 2 2 2 2 2	\$3,000,219	
~	Integrated Tax	General Fund	0\$	0\$	0\$	
	oystelli	Total	0\$	05	0\$	
Total			\$3,000,219	0\$	\$0 \$3,000,219	
						١ .

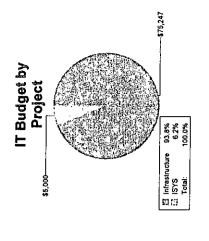




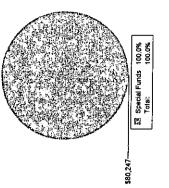


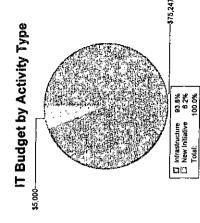


00140 - ADMINI	00140 - OFFICE OF ADMINISTRATIVE HEARINGS		Infrastructure New Initiative Tota	New Initiative	Total	
	Infrastructure	Special Funds	\$75,247	0\$	\$75,247	
		Total	\$75,247	0\$ 100000000000000000000000000000000000	\$75,247	
_	ISYS	Special Funds	0\$	\$5,000	\$5,000	
		Total	0\$	\$5,000	\$5,000	
Total			\$75,247	\$5,000	\$80,247	

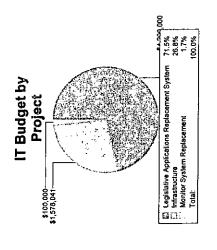




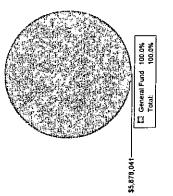


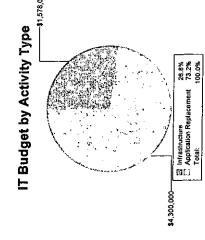


0150	00150 - LEGISLATIVE ASSEMBLY	SEMBLY	Infrastructure	Application Replacement	pplication Total eplacement
	Infrastructure	General Fund	\$1,578,041	0\$	\$1,578,041
		Total	\$1,578,041	0\$	\$1,578,041
_	Legislative	General Fund	\$0	\$4,200,000	\$4,200,000
	Replacement	Total	0\$	\$4,200,000	\$4,200,000
7	Monitor	General Fund	90	\$100,000	\$100,000
	Replacement	Total	0\$	\$100,000	\$100,000
Total			\$1,578,041	\$4,300,000	\$5,878,041

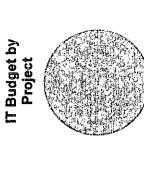


IT Budget by Funding Source



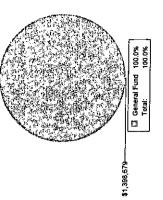


00160 -	00160 - LEGISLATIVE COUNCIL	UNCIL	infrastructure	Application Replacement	Total	
	Infrastructure	General Fund	\$1,398,679	0\$	\$1,398,679	
		Total	\$1,398,679	0\$	\$1,398,679	
-	Interim	General Fund	\$	0\$	0\$	
ļ	Replacement	Total	0\$	0\$	95 × 10 × 10 × 10 × 10 × 10 × 10 × 10 × 1	
Total			\$1,398,679	0\$	\$1,398,679	

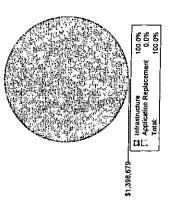




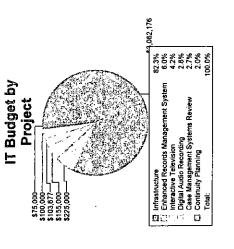
IT Budget by Funding Source



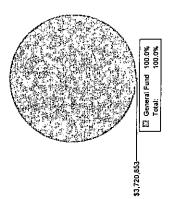
IT Budget by Activity Type



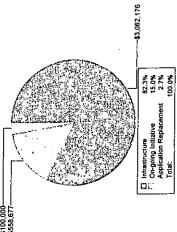
			, 	1	T		1	_	1		r	1	т
Total	\$3,062,176	\$3,062,176	\$225,000	\$225,000	\$75,000	\$75,000	\$100,000	\$100,000	\$103,677	\$103,677	\$155,000	\$155,000	\$3,720,853
Application Replacement	0\$	0\$	0\$	0\$	0\$	0\$	\$100,000	\$100,000	\$0	0\$	0\$	0\$	\$100,000
On-going Initiative	0\$	05	\$225,000	\$225,000	\$75,000	\$75,000	0\$	0\$	\$103,677	\$103,677	\$155,000	\$155,000	\$558,677
Infrastructure	\$3,062,176	\$3,062,176	0\$	0\$	\$0	0\$	\$	0\$	\$0	0\$	0\$	0\$	\$3,062,176
I	General Fund	Total	General Fund	Total	General Fund	Total	General Fund	Total	General Fund	Total	General Fund	Total	
00180 - JUDICIAL BRANCH	Infrastructure		Enhanced	Management	Continuity		Case	Systems	Digital Audio		Interactive		
00180 -			_		2		ო						Total



IT Budget by Funding Source





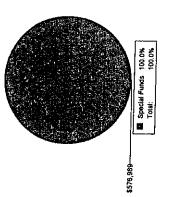


00190 -	00190 - RETIREMENT AND INVESTMENT OFFICE	۵	Infrastructure	Total
	Infrastructure	Special Funds	\$576,989	\$576,989
		Total Canada	\$576,989	\$576,989
Total			\$576,989	\$576,989

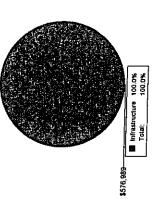




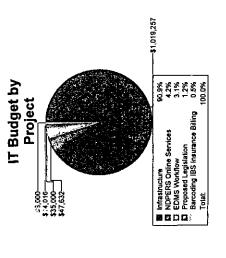
IT Budget by Funding Source



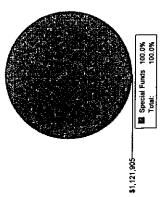
IT Budget by Activity Type

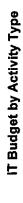


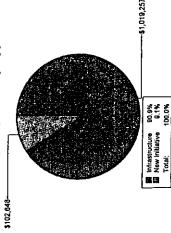
00192 - RETIRE	30192 - PUBLIC EMPLOYEES RETIREMENT SYSTEM	EES	Infrastructure	New Initiative	Total	
	Infrastructure	Special Funds	\$1,019,257	\$0	\$1,019,257	
		Total	\$1,019,257	08 11 11 11 11 11 11 11 11 11 11 11 11 11	\$1,019,257	
2	Proposed egislation	Special Funds	0\$	\$14,016	\$14,016	
	Legisianon	Total	05.1	\$14,016	\$14,016	
4	NDPERS	Special Funds	0\$	\$47,632	\$47,632	
	Services	Total of the way were	0\$	\$47,632	\$47,632	
5	Barcoding IBS	Special Funds	0\$	\$6,000	\$6,000	,
	Billing	Total	05 100 100 100 100 100 100 100 100 100 1	000'9\$	000'9\$	
9	EDMS	Special Funds	\$0	\$35,000	\$35,000	,——
	NO INICA	Total	1.12.12.12.12.12.12.12.12.12.12.12.12.12	**************************************	\$35,000	
Total		;	\$1,019,257	\$102,648	\$1,121,905	,



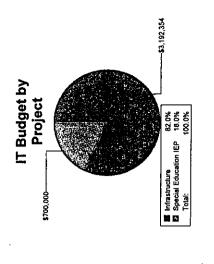
IT Budget by Funding Source

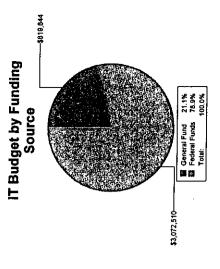


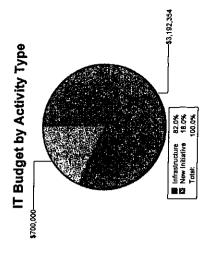




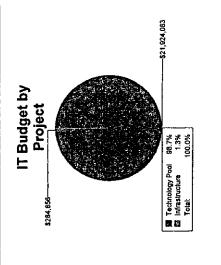
00201 - INSTRI	00201 - DEPT OF PUBLIC INSTRUCTION		Infrastructure	New Initiative	Total
	Infrastructure	General Fund	\$819,844	\$0	\$819,844
		Federal Funds	\$2,372,510	0\$	\$0 \$2,372,510
		Total English	\$3,192,354		53,192,354
7	Special Education IEP	Federal Funds	0\$	\$700,000	\$700,000
		Total Total	08	000'002\$	\$700,000
Total			\$3,192,354	\$700,000	\$3,892,354

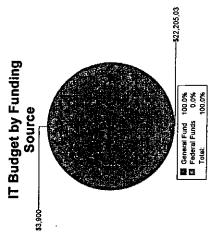


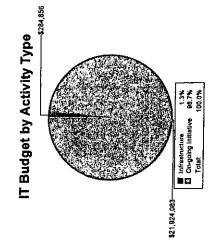




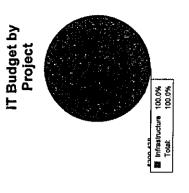
00215 -	00215 - ND UNIVERSITY SYSTEM	SYSTEM	Infrastructure	On-going Initiative	Total
	Infrastructure	General Fund	\$280,956	0\$	\$280,956
	-	Federal Funds	\$3,900	\$0	\$3,900
		Total Carte	\$284,856	0\$ 200	\$284,856
-	Technology Pool	General Fund	0\$	\$21,924,083	\$21,924,083
		Total 1 - 1 - 1 - 1 - 1	0\$	\$21,924,083	\$21,924,083
Total			\$284,856	\$21,924,083 \$22,208,939	\$22,208,939

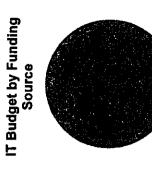






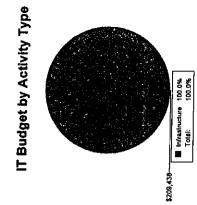
30226 - SEPAR	00226 - STATE LAND DEPARTMENT		Infrastructure	Total
	Infrastructure	Special Funds	\$209,438	\$209,438
		Total	\$209,438	\$209,438
Total			\$209,438	\$209,438





Special Funds 100.0% Total: 100.0%

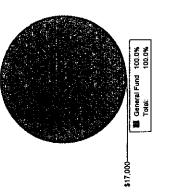
\$209,438-



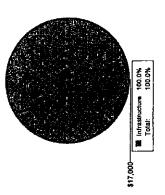
00244 - NC SERVICE	00244 - NORTH DAKOTA FOREST SERVICE	FOREST	Infrastructure	Total
	Infrastructure	General Fund	\$17,000	\$17,000
	ļ	Total	\$17,000	1.817,000
Total			\$17,000	\$17,000



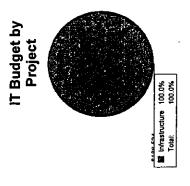


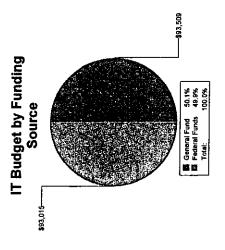


IT Budget by Activity Type

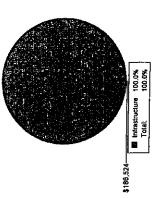


00250 -	00250 - STATE LIBRARY		Infrastructure	Total
	Infrastructure	General Fund	\$93,509	\$93,509
		Federal Funds	\$93,015	\$93,015
		Total	\$186,524	\$186,524
Total			\$186,524	\$186,524

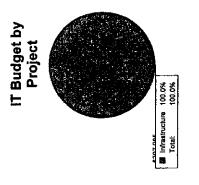


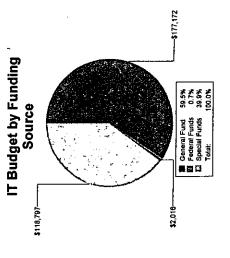


IT Budget by Activity Type

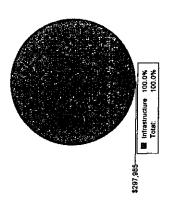


00252 -	00252 - SCHOOL FOR THE DEAF	E DEAF	Infrastructure	Total
	Infrastructure	General Fund	\$177,172	\$177,172
		Federal Funds	\$2,016	\$2,016
		Special Funds	\$118,797	\$118,797
	,	Total	\$297,985	\$297,985
Total			\$297,985	\$297,985



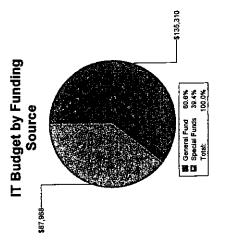




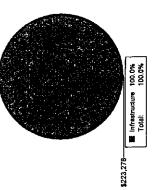


Infrastructure General Fund \$135,310 \$135,316 Special Funds \$87,968 \$87,968 Total \$223,278 \$223,278 Total \$223,278 \$223,278	00253 -	00253 - ND VISION SERVICES	CES	Infrastructure	Total
Special Funds \$87,968 Total		Infrastructure	General Fund	\$135,310	\$135,310
Total			Special Funds	\$87,968	\$81,968
\$223,278			Total	\$223,278	\$223,278
	Total			\$223,278	\$223,278

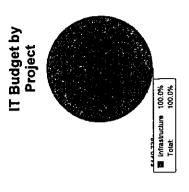


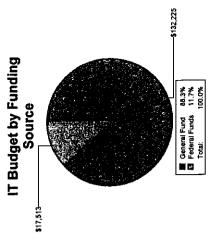


IT Budget by Activity Type

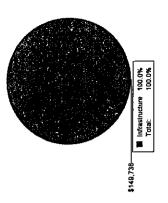


Infrastructure General Fund \$132,225 \$132,2 Federal Funds \$17,513 \$17,5 Total \$149,738 \$149,7	00270 - CARE EDUCATION	00270 - CAREER AND TECHNICAL EDUCATION	CHNICAL	Infrastructure	Total
Federal Funds \$17,513		Infrastructure	General Fund	\$132,225	\$132,225
Total \$149,738			Federal Funds	\$17,513	\$17,513
\$149,738			Total	\$149,738	3149,738
	Total			\$149,738	\$149,738

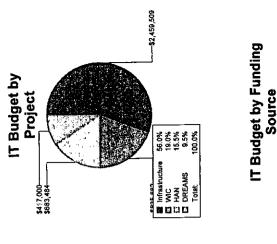


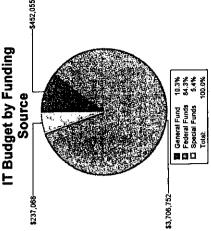


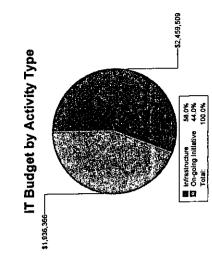




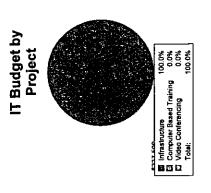
00301 - N НЕАLTH	00301 - ND DEPARTMENT OF HEALTH	r of	Infrastructure	On-going Initiative	Total
	Infrastructure	General Fund	\$452,055	\$0	\$452,055
		Federal Funds	\$1,770,386	0\$	\$1,770,386
		Special Funds	\$237,068	0\$	\$237,068
		Total	\$2,459,509	05	\$2,459,509
_	DREAMS	Federal Funds	0\$	\$417,000	\$417,000
<u> </u>		Total Life Control of the Control of	08	\$417,000	\$417,000
2	HAN	Federal Funds	0\$	\$683,484	\$683,484
		Total Andrews	0\$	\$683,484	65 \$683,484
ო	WIC	Federal Funds	0\$	\$835,882	\$835,882
		Total	20	\$835,882	\$835,882
Total			\$2,459,509	\$1,936,366	\$4,395,875

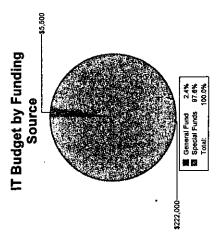




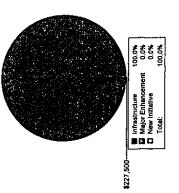


00313 -	00313 - VETERANS HOME	=	Infrastructure	Major Enhancement	New Initiative	Total
	Infrastructure	General Fund	\$5,500	0\$	0\$	\$5,500
		Special Funds	\$222,000	0\$	0\$	\$222,000
		Total service a service	\$227,500		05	\$227,500
₹-	Computer Resed Training	General Fund	0\$	0\$	0\$	\$0
	Dasca II all lillig	Total	05	0\$	0\$ 1 1 2 2 2 2 3	
2	Video	General Fund	0\$	0\$	0\$	0\$
		Total	0\$	0\$ 317 317	08 11 11 11	0\$ 500000000000000000000000000000000000
Total			\$227,500	\$0	\$0	\$227,500



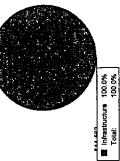




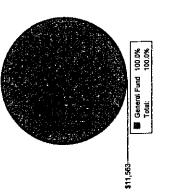


00316 - INDIAN COMMISSION	00316 - INDIAN AFFAIRS COMMISSION		Infrastructure	Total
	Infrastructure	General Fund	\$11,563	\$11,563
	:	Total	\$11,563	\$11,563
Total			\$11,563	\$11,563

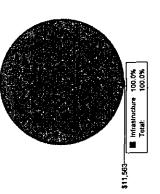




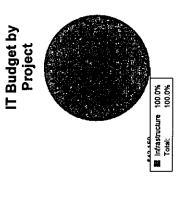
IT Budget by Funding Source



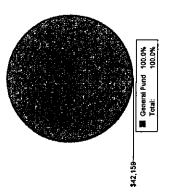
IT Budget by Activity Type



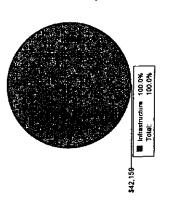
00321 - VETER	00321 - DEPARTMENT OF VETERANS AFFAIRS		Infrastructure	Total
	Infrastructure	General Fund	\$42,159	\$42,159
		Total	\$42,159	\$42,159
Total			\$42,159	\$42,159



IT Budget by Funding Source



IT Budget by Activity Type



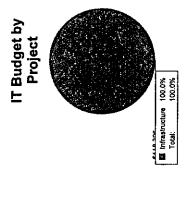
00325 - DE SERVICES	00325 - DEPARTMENT OF HUMAN SERVICES	F HUMAN	Infrastructure	Application Replacement	Major Enhancement	New Initiative	Total	IT Budget by Project
	Infrastructure	General Fund	\$16,992,841	0\$	0\$	\$0	\$16,992,841	
		Federal Funds	\$12,749,446	\$	0\$	0\$	\$12,749,446	
		Special Funds	\$1,555,813	0\$	0\$	0\$	\$1,555,813	
		Total	\$31,298,100	08	08/1/2/2/2	05.24.20	\$31,298,100	
~	MMIS Rewrite	General Fund	0\$	\$3,667,820	0\$	0\$	\$3,667,820	County Staff Assistance for MMIS Rewrite project If implement 4 year replacement cycle for desktop Pt Three and Attendance Total Total
····		Federal Funds	0\$	\$25,521,039	0\$	0\$	\$25,521,039	l Cuts.
	· · · ·	Total	OS TO THE PROPERTY OF THE PARTY	\$29,188,859	0\$	0\$////	\$29,188,859	IT Budget by Funding
2	Implement 4	General Fund	0\$	0\$	0\$	0\$	0\$	\$1,555,813
	year replacement	Federal Funds	0\$	0\$	\$0	0\$	80	
		Total	0\$	1. 1. 1. 1. 1. 1. 1. 1. 1. 1. 1. 1. 1. 1	08 12 22 13 13 14 14 14 14 14 14 14 14 14 14 14 14 14	05	0\$	
က	County Staff	General Fund	0\$	0\$	0\$	0\$	0\$	
	Assistance for MMIS Rewrite	Federal Funds	0\$	0\$	0\$	\$0	\$	General Fund
	-	Total Property of the Control of the	05 14 March 200 15 15 15 15 15 15 15 15 15 15 15 15 15	05: 27: 22: 32: 32: 32: 32: 32: 32: 32: 32: 32	08 1 2 2 2 2 3	\$ 55 5 5 5 5 5 5 5 5 5 5 5 5 5 5 5 5 5	0\$	Total: Total:
4	Time and	General Fund	0\$	0\$	0\$	0\$	0\$	F. 45. 34. 4
	Attendance	Federal Funds	0\$	0\$	0\$	0\$	0\$	11 Buaget by Activity 1)
		Total	(1) (1) (1) (1) (2) (1) (1) (1) (1) (1) (1) (1) (1) (1) (1	05	0\$ 1 7 7 1 1	0	98	
Total			\$31,298,100	\$29,188,859	0\$	\$0	\$60,486,959	

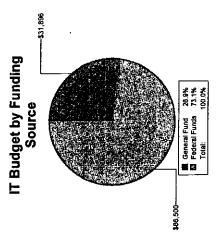
00360 - PRO ADVOCACY	00360 - PROTECTION AND ADVOCACY	Ω	Infrastructure Total	Total
	Infrastructure	General Fund	\$31,896	\$31,896
		Federal Funds	\$86,500	\$86,500
		Total Constitution of the	\$118,396 \\$118,396	\$118,396

\$118,396

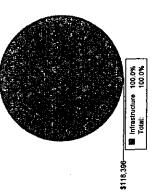
\$118,396

Total

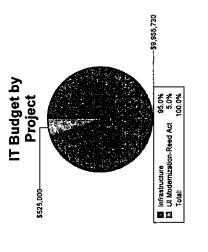


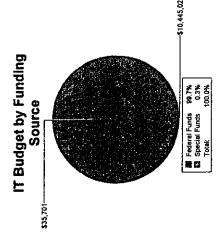


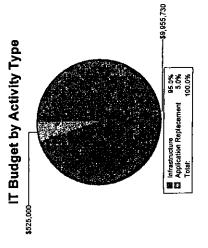




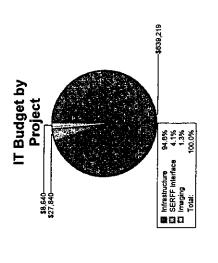
00380 - J(DAKOTA	00380 - JOB SERVICE NORTH DAKOTA	ктн	Infrastructure	Application Replacement	Total	
	Infrastructure	Federal Funds	\$9,920,029	0\$	\$9,920,029	
		Special Funds	\$35,701	0\$	\$35,701	
		Total seminary of the seminary	\$9,955,730	0\$	\$9,955,730	
-	Ul	Federal Funds	0\$	\$525,000	\$525,000	
	Reed Act	Total The state of the state of	0\$	\$525,000	\$525,000	
Total			\$9,955,730	\$525,000	\$525,000 \$10,480,730	

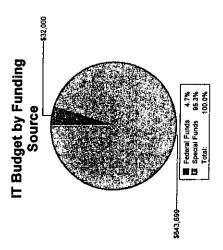


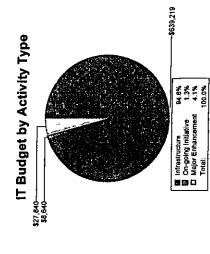




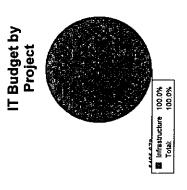
00401 - INSUR	00401 - OFFICE OF THE INSURANCE COMMISSIONER	NER	Infrastructure	On-going Initiative	Major Enhancement	Total
	Infrastructure	Federal Funds	\$32,000	\$0	0\$	\$32,000
_		Special Funds	\$607,219	\$0	0\$	\$607,219
		Total	\$639,219	05	05	\$639,219
~	SERFF Interface	Special Funds	0\$	\$0	\$27,840	\$27,840
		Total	05	95	\$27,840	\$27,840
7	Imaging	Special Funds	0\$	\$8,640	0\$	\$8,640
		Total Total	05.17.77.77.70	\$8,640	05	\$8,640
Total			\$639,219	\$8,640	\$27,840	\$675,699

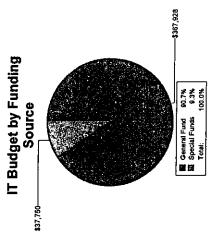




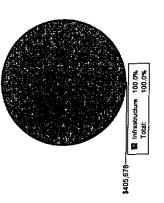


00405 -	00405 - INDUSTRIAL COMMISSION	MMISSION	Infrastructure	Total
	Infrastructure	General Fund	\$367,928	\$367,928
		Special Funds	\$37,750	\$37,750
		Total Table Services	\$405,678	\$405,678
Totai			\$405,678	\$405,678
			,	

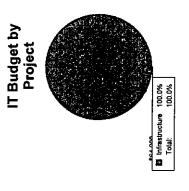


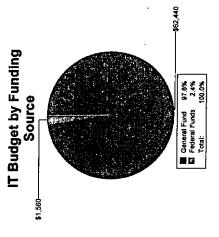


IT Budget by Activity Type

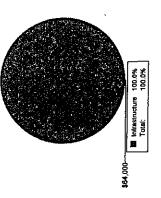


00406 - COMMI	00406 - OFFICE OF THE LABOR COMMISSIONER	ABOR	Infrastructure	Total
	Infrastructure	General Fund	\$62,440	\$62,440
		Federal Funds	\$1,560	\$1,560
		Total Section 1	5. 1. 1. 1. 1. 1. 1. 1. 1. 1. 1. 1. 1. 1.	\$64,000
Total			\$64,000	\$64,000

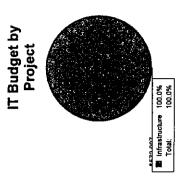


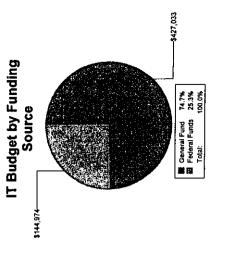


IT Budget by Activity Type

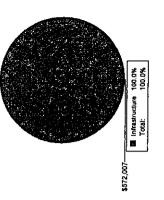


00408 - PUBLI COMMISSION	00408 - PUBLIC SERVICE COMMISSION		Infrastructure	Total
	Infrastructure	General Fund	\$427,033	\$427,033
		Federal Funds	\$144,974	\$144,974
		Total The meaning of the last	\$572,007	\$572,007
Total			\$572,007	\$572,007





IT Budget by Activity Type

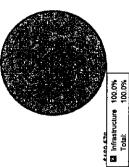




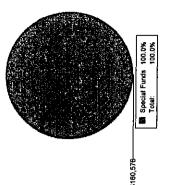


00412 - AERON COMMISSION	00412 - AERONAUTICS COMMISSION		Infrastructure	Total
	Infrastructure	Special Funds	\$160,576	\$160,576
		Total	\$160,576 \$160,576	\$160,576
Total		THE STREET	\$160,576	\$160,576

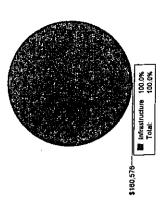




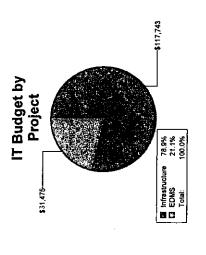
IT Budget by Funding Source



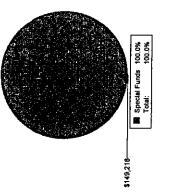
IT Budget by Activity Type

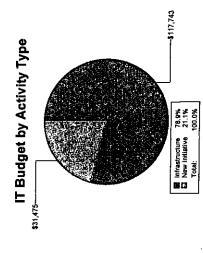


00413 -	00413 - DEPT OF FINANCIAL INST	SIAL INST	Infrastructure	New Initiative	Total
	Infrastructure	Special Funds	\$117,743	0\$	\$117,743
		Total	\$117743	0\$	\$117,743
τ-	EDMS	Special Funds	90	\$31,475	\$31,475
		Total Targetting	05	\$31,475	531,475
Total			\$117,743	\$31,475	\$149,218

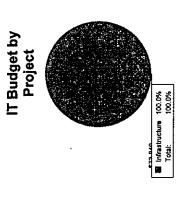


IT Budget by Funding Source

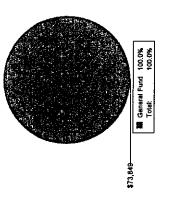




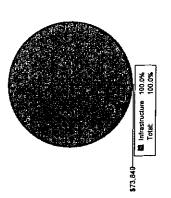
00414 - DEPAR	00414 - SECURITIES DEPARTMENT		Infrastructure	Total
	Infrastructure	General Fund	\$73,849	\$73,849
		Total September 1	\$73,849	\$73,849
Total			\$73,849	\$73,849



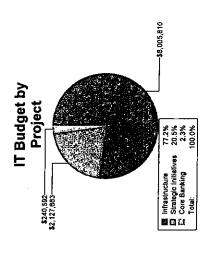
IT Budget by Funding Source



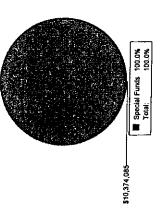
IT Budget by Activity Type

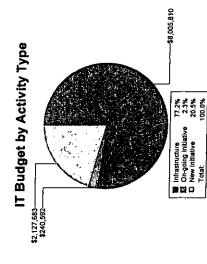


00471	00471 - BANK OF NORTH DAKOTA	БАКОТА	Infrastructure	On-going Initiative	New Initiative	Total
	Infrastructure	Special Funds	\$8,005,810	90	0\$	\$8,005,810
		Total Total	\$8,005,810	05 19.	05	\$8,005,810
-	Core Banking	Special Funds	0\$	\$240,592	0\$	\$240,592
		Total	0\$ 40.00	\$240,592	0\$	\$240,592
	Strategic Initiatives	Special Funds	0\$	0\$	\$2,127,683	\$2,127,683
		Total	0\$	0\$ 177.	\$2,127,683	\$2,127,683
Total			\$8,005,810	\$240,592	\$2,127,683	\$2,127,683 \$10,374,085



IT Budget by Funding Source

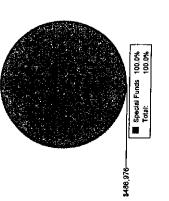




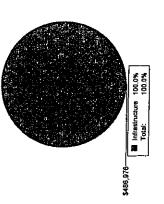
00473 - N AGENCY	00473 - ND HOUSING FINANCE AGENCY	ANCE	Infrastructure	Total
	Infrastructure	Special Funds	\$486,976	\$486,976
		Total sections to a section of the s	\$486,976	\$486,976
Total		1110000	\$486,976	\$486,976







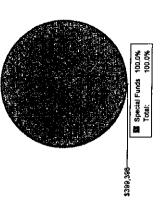
IT Budget by Activity Type



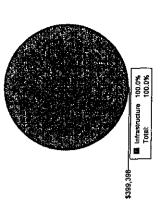
00475 - ASSOC	00475 - ND MILL AND ELEVATOR ASSOCIATION	EVATOR	Infrastructure	Total
	Infrastructure	Special Funds	\$399,398	\$399,398
		Total	\$399,398	\$399,398
Total	i marine		\$399,398	\$399,398



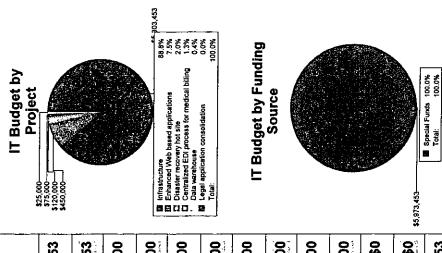
IT Budget by Funding Source

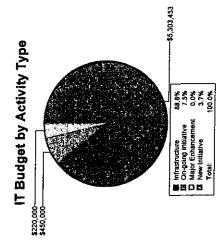


IT Budget by Activity Type

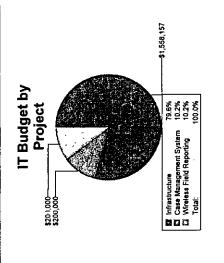


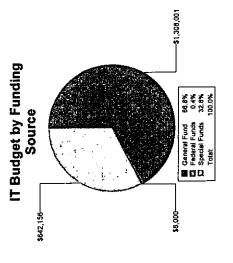
00485 - AND IN	00485 - WORKFORCE SAFETY AND INSURANCE	FETY	Infrastructure	On-going Initiative	Major Enhancement	New Initiative	Total	
	Infrastructure	Special Funds	\$5,303,453	0\$	90	0\$	\$5,303,453	\$ 2.2.2.8
		Total Extension	\$5,303,453	0\$ 14 2 14 20	08	0\$	\$5,303,453	
-	Enhanced Web	Special Funds	0\$	\$450,000	0\$	0\$	\$450,000	
	applications	Total	05	\$450,000	1,41,41,40	05 12 12 12 12 12 12 12 12 12 12 12 12 12	\$450,000	
7	Data	Special Funds	0\$	0\$	0\$	\$25,000	\$25,000	800.
		Total	OS of the state of	0\$ 445.	9	\$25,000	\$25,000	
ო	Disaster	Special Funds	0\$	0\$	\$	\$120,000	\$120,000	
	site	Total Programme	Charter Control of the Control of th	OS Arrange To the Control of the Con	05 11 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1	\$120,000	\$120,000	
4	Centralized EDI	Special Funds	0\$	0\$	0\$	\$75,000	\$75,000	
	medical billing	Total States and Total	08-2-2-2-3	OS TOTAL CONTRACTOR OF THE PARTY OF THE PART	0\$	000'92'8	\$75,000	
ري د	Legal	Special Funds	0\$	0\$	0\$	0\$	\$0	
	consolidation	Total Control	05	05.	S - driver of the state of the	05	08	\$5,973,4
Total	-		\$5,303,453	\$450,000	0\$	\$220,000	\$5,973,453	

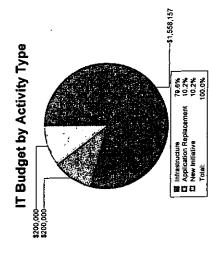




00504 -	00504 - HIGHWAY PATROL	JC.	Infrastructure	Application Replacement	New Initiative	Total
	Infrastructure	General Fund	\$1,108,001	0\$	\$0	\$1,108,001
		Federal Funds	\$8,000	0\$	0\$	\$8,000
		Special Funds	\$442,156	0\$	0\$	\$442,156
	· ·	Total	\$1,558,157	98	20	\$1,558,157
~	Case	General Fund	0\$	\$200,000	0\$	\$200,000
	System	Special Funds	0\$	0\$	0\$	0\$
		Total Services	0\$	\$200,000	0\$	\$200,000
	Wireless Field	Special Funds	0\$	0\$	\$200,000	\$200,000
		Total		0\$	\$200,000	\$200,000
Total			\$1,558,157	\$200,000	\$200,000	\$1,958,157

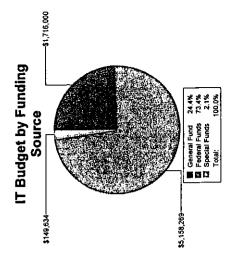


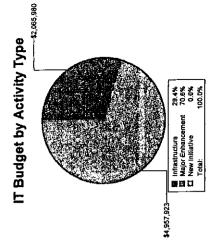




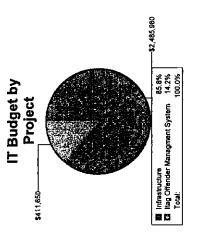
00512 - DIV OF MANAGEMENT	00512 - DIV OF EMERGENCY MANAGEMENT	JCY	Infrastructure	Major Enhancement	New Initiative	Total
	Infrastructure	General Fund	\$1,716,000	0\$	\$0	\$1,716,000
		Federal Funds	\$200,346	\$0	0\$	\$200,346
		Special Funds	\$149,634	0\$	0\$	\$149,634
		Total Street Street	\$2,065,980	08		\$2,065,980
-	N D Public	General Fund	0\$	0\$	0\$	\$0
	Communicatio	Federal Funds	0\$	\$4,957,923	\$0	\$4,957,923
		Total	05	\$4,957,923	18 18 18 18 80	\$4,957,923
2	Tower T1	General Fund	0\$	0\$	0\$	0\$
	Infrastructure	Total		05 77 77 70	100 A 100 A	05
ю	CAD Computer	General Fund	0\$	0\$	0\$	0\$
	Alded Dispatch	Total	08 422 10 20 20	08 12 20 20 20 20 20 20 20 20 20 20 20 20 20		200
Total			\$2,065,980	\$4,957,923	0\$	\$7,023,903

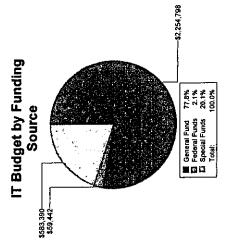


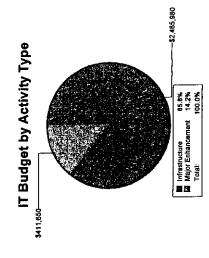




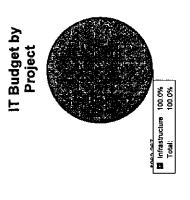
00530 - DEPT AND REHAB	00530 - DEPT OF CORRECTIONS AND REHAB	CTIONS	Infrastructure	Major Enhancement	Total
	Infrastructure	General Fund	\$1,843,148	0\$	\$1,843,148
		Federal Funds	\$59,442	\$0	\$59,442
		Special Funds	\$583,390	0\$	\$583,390
:		Total Total	\$2,485,980	08 30 11 11 11 12	\$2,485,980
100	Itag Offender	General Fund	0\$	\$411,650	\$411,650
	System	Total	0\$	\$411,650	\$411,650
Total			\$2,485,980	\$411,650	\$2,897,630

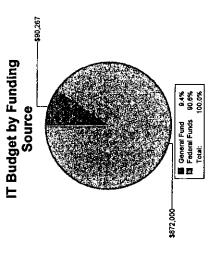




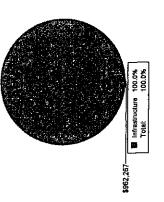


00540 - ADJUTANT GENERAL	RAL	Infrastructure	Total
Infrastructure	General Fund	\$90,267	\$90,267
	Federal Funds	\$872,000	\$872,000
	Total and second of the second	\$962,267	\$962,267
		\$962,267	\$962,267

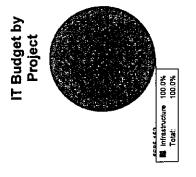


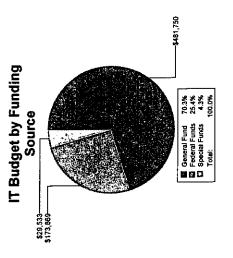




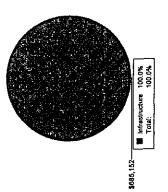


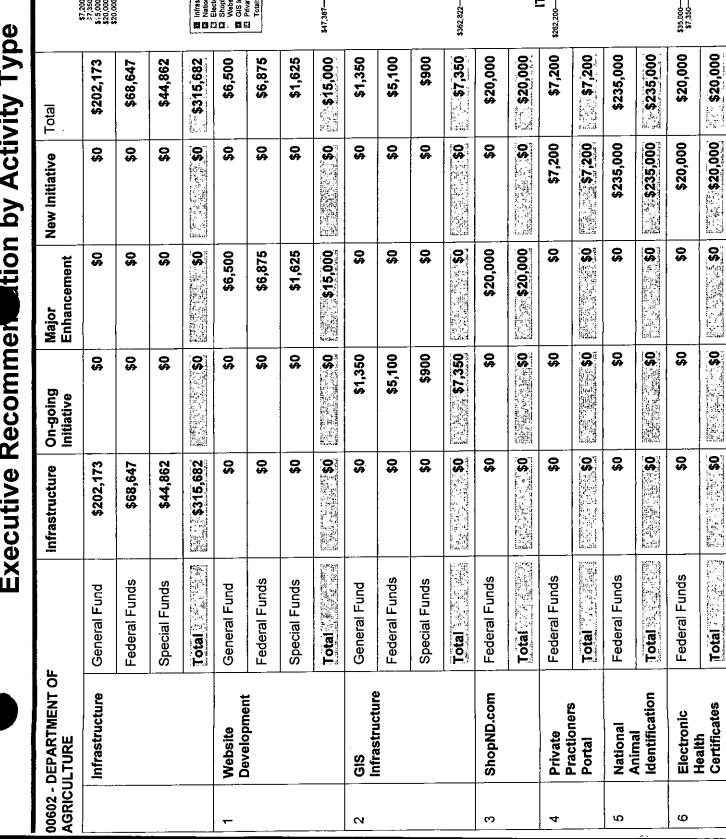
0601 -	00601 - DEPT OF COMMERCE	ERCE	Infrastructure	Total
	Infrastructure	General Fund	\$481,750	\$481,750
		Federal Funds	\$173,869	\$173,869
		Special Funds	\$29,533	\$29,533
		Total Programme Total	\$685,152	\$685,152
Total			\$685,152	\$685,152

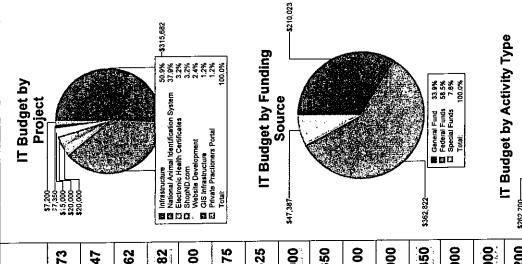


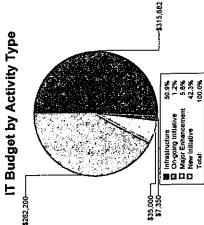


IT Budget by Activity Type

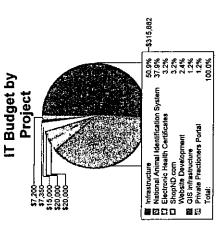


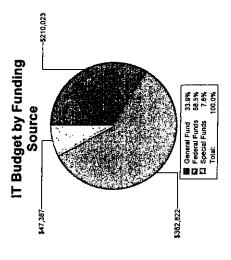


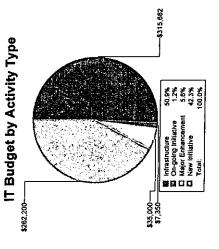




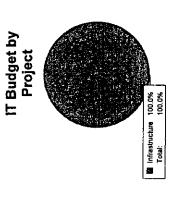
00602 - DEPARTMENT OF AGRICULTURE	Infrastructure	On-going Initiative	Major Enhancement	New Initiative	Total
Total	\$315,682	\$7,350	\$35,000	\$262,200	\$620,232



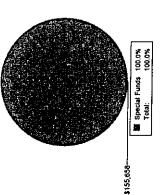




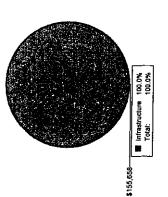
00616 - DEPAR	00616 - STATE SEED DEPARTMENT		Infrastructure	Total
	Infrastructure	Special Funds	\$155,658	\$155,658
		Total Control of the	\$155,658	\$155,658
Total			\$155,658	\$155,658







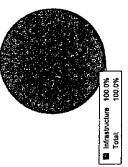
IT Budget by Activity Type



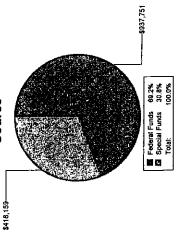
Total	
Infrastructure	
LAINS	
ER GREAT PLAINS	
00627 - UP TRANS INS	

	751 \$937,751	159 \$418,159	910 \$1,355,910	910 \$1,355,910
	\$937,751	\$418,159	1,355,910	\$1,355,910
	Federal Funds	Special Funds	Total	
Ž	Infrastructure			13 15 15
RANS IN				Total

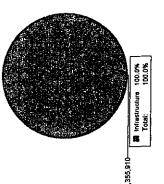
IT Budget by Project



IT Budget by Funding Source



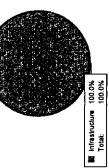
IT Budget by Activity Type



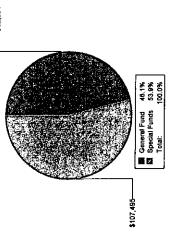
00628 - BRANCH RESEARCH	Infrastructure	Total
CENTERS		

Infrastructure General Fund \$92,054 \$92,054 Special Funds \$107,495 \$107,495 Total \$199,549 \$199,549					
Special Funds \$107,495		Infrastructure	General Fund	\$92,054	\$92,054
Total			Special Funds	\$107,495	\$107,495
\$199,549			Total Temperature of the second	E 1 2 2 2 2 2 2 2 2 2 2 2 2 2 2 2 2 2 2	\$199,549
	Total			\$199,549	\$199,549

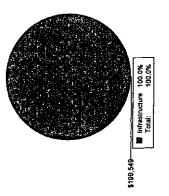








IT Budget by Activity Type

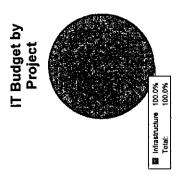


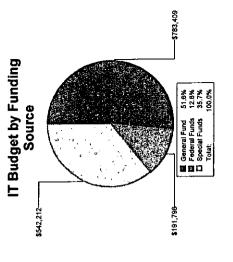
00630 - NDSU EXTENSION SERVICE	NO	Infrastructure	Total
Infrastructure	General Fund	\$783,409	\$783,409
	Federal Funds	\$191,796	\$191,796
	Special Funds	\$542,212	\$542,212
	Total	\$1,517,417	\$1,517,417

\$1,517,417

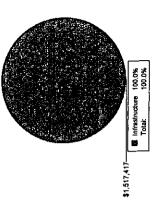
\$1,517,417

Total



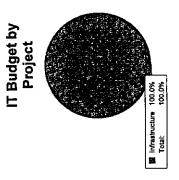


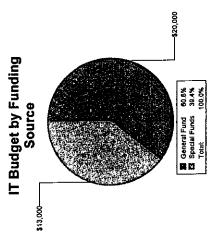
IT Budget by Activity Type



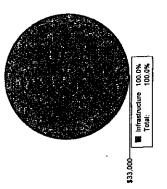
00638 - NORTHERN CROPS	Infrastructure	Total
INSTITUTE		

10638 - NORTHERN CRO NSTITUTE	S	Infrastructure	Total
Infrastructure	General Fund	\$20,000	\$20,000
	Special Funds	\$13,000	\$13,000
	Total figures of the second	\$33,000	\$33,000
		\$33,000	\$33,000
	NORTHERN CRO	RTHERN CROP	rastructure General Fund Special Funds Total

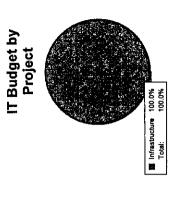


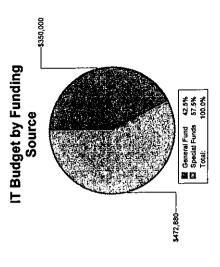


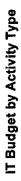
IT Budget by Activity Type

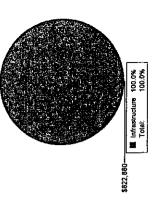


Infrastructure General Fund Special Funds Total	00640 - N CENTER	00640 - NDSU MAIN RESEARCH CENTER	EARCH	Infrastructure	Total
Special Funds		Infrastructure	General Fund	\$350,000	\$350,000
Total			Special Funds	\$472,880	\$472,880
			Total Reserved	\$822,880	\$822,880
	Total			\$822,880	\$822,880

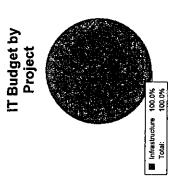




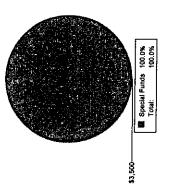




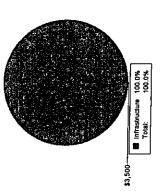
00649 -	00649 - AGRONOMY SEED FARM	D FARM	Infrastructure	Total
	Infrastructure	Special Funds	\$3,500	\$3,500
		Total Table	\$3,500	\$3,500
Total			\$3,500	\$3,500



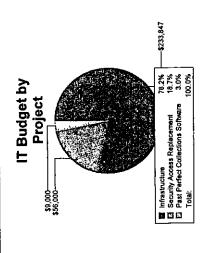


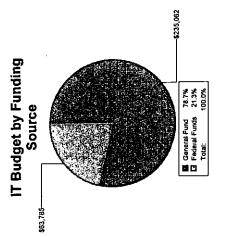


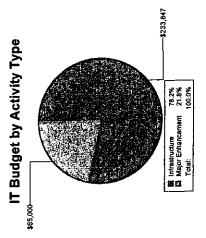
IT Budget by Activity Type



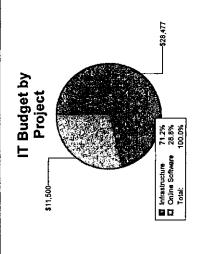
- 10700	00701 - HISTORICAL SOCIETY	SIETY	Infrastructure	Major Enhancement	Total
	Infrastructure	General Fund	\$226,062	0\$	\$226,062
		Federal Funds	\$7,785	0\$	\$7,785
		Total	\$233,847		\$233,847
-	Security	General Fund	0\$	0\$	\$0
	Replacement	Federal Funds	0\$	\$56,000	\$56,000
		Total The State of the State of	0\$	\$56,000	\$56,000
2	Past Perfect	General Fund	0\$	000'6\$	\$9,000
	Software	Total	05	000'6\$	000'6\$
Total			\$233,847	\$65,000	\$298,847
	(I)				

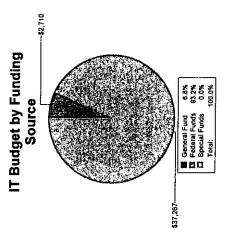


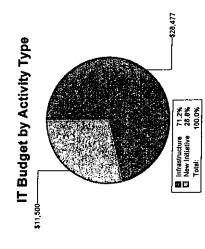




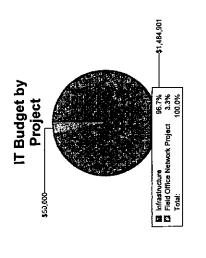
00709 - COUNCIL ON THE ARTS	ICIL ON THI	E ARTS	Infrastructure	New Initiative	Total
Infras	Infrastructure	General Fund	\$2,710	0\$	\$2,710
		Federal Funds	\$25,767	\$0	\$25,767
		Special Funds	0\$	0\$	0\$
Try the		Total	\$28,477	05	\$28,477
1 Online	le Kare	Federal Funds	0\$	\$11,500	\$11,500
	<u> </u>	Total	OS 17 CONTRACTOR EN	\$11,500	\$11,500
Total			\$28,477	\$11,500	\$39,977
				7 - 7 - 7 - 7 - 7 - 7 - 7 - 7 - 7 - 7 -	



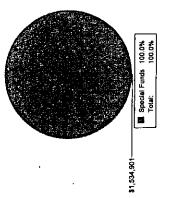


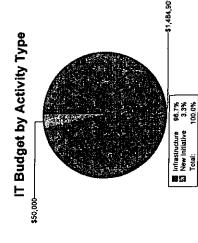


00720 DEPAF	00720 - GAME AND FISH DEPARTMENT		Infrastructure New Initiative	New Initiative	Total
	Infrastructure	Special Funds	\$1,484,901	0\$	\$0 \$1,484,901
		Total Polyce To The State of th	\$1,484,901	0\$	\$1,484,901
_	Field Office	Special Funds	0\$	\$50,000	\$50,000
	Project	Total Start	OS CONTRACTOR OF THE PROPERTY	\$50,000	\$50,000
Total			\$1,484,901	\$50,000	\$1,534,901

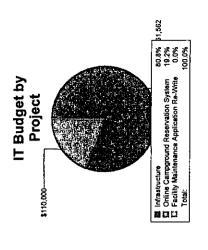


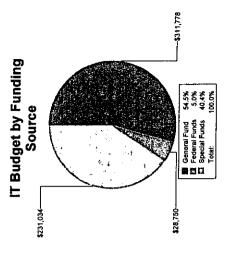


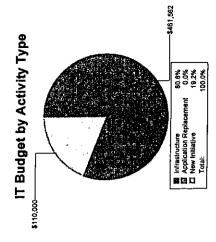




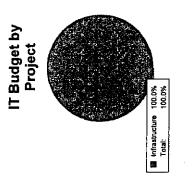
00750 - DEPT	00750 - PARKS AND RECREATION DEPT	REATION	Infrastructure	Application Replacement	New Initiative	Total
	Infrastructure	General Fund	\$311,778	0\$	\$0	\$311,778
		Federal Funds	\$28,750	9	\$0	\$28,750
		Special Funds	\$121,034	0\$	0\$	\$121,034
		Total	\$461,562	0\$	0\$	\$461,562
-	Facility	General Fund	0\$	0\$	0\$	80
	Application	Total Commence	OS The last the life wind	OS THE STATE OF TH	08	0\$33.61.25
7	Online	General Fund	0\$	\$0	0\$	\$0
	Reservation	Special Funds	0\$	\$0	\$110,000	\$110,000
		Total		0\$ 32 30	\$110,000	\$110,000
Total			\$461,562	\$0	\$110,000	\$571,562

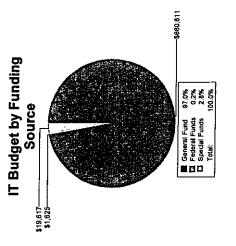




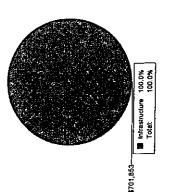


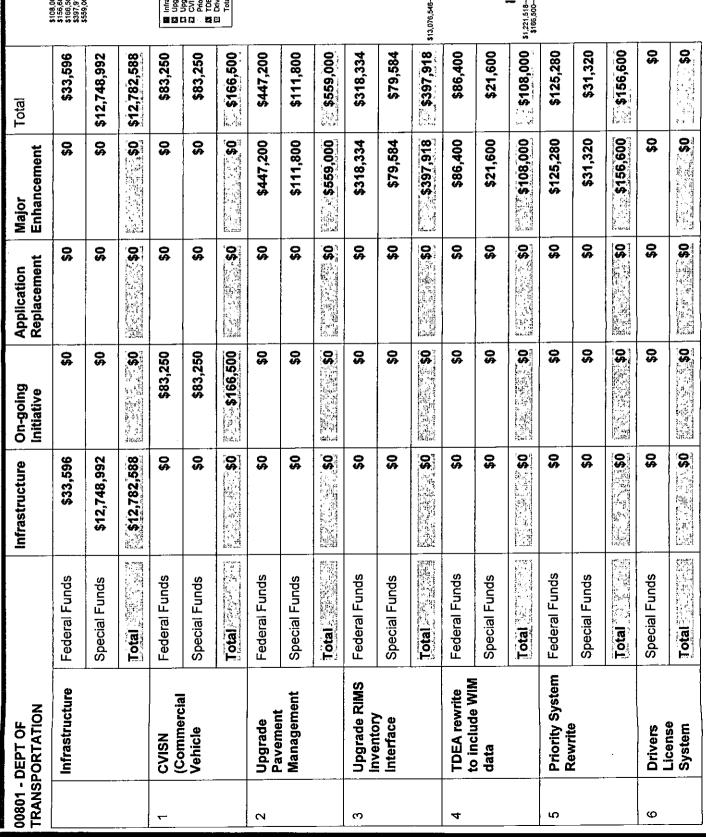
- 02200	00770 - WATER COMMISSION	SION	Infrastructure	Total
	Infrastructure	General Fund	\$680,611	\$680,611
		Federal Funds	\$1,625	\$1,625
		Special Funds	\$19,617	\$19,617
		Total	\$701,853	\$701,853
Total			\$701,853	\$701,853

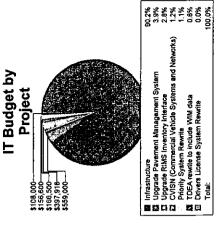










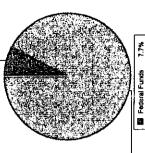




IT Budget by Funding

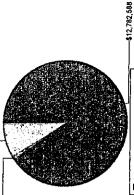
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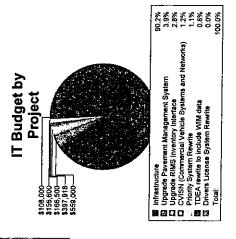
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Total:

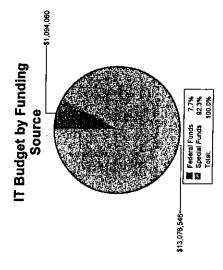
IT Budget by Activity Type

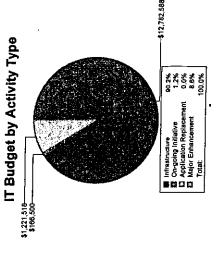


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00801 - DEPT OF TRANSPORTATION	Infrastructure	On-going Initiative	Application Replacement	Major Enhancement	Total	
Total	\$12,782,588	\$166,500	\$0	\$1,221,518	\$1,221,518 \$14,170,606	







Personal Computer Budget Guidelines¹ FOR 2005-2007 BIENNIUM

	DESCRIPTION	2005-2007 BUDGET
		202321
OMB	One-Time Purchase Cost	
Object Code	For PC Standard Configurations:	
3038	Desktop – Office Automation	780.00
3038	Desktop – Power User	880.00
3038	Laptop – Mainstream	1,860.00
3038	Laptop – Power User	2,000.00
3038	Desktop/Laptop Custom Configuration	Agency Estimate
	Desktop Monitors and Peripherals	
	Add-on/substitution Cost:	
3038	17-inch CRT Monitor	120.00
3038	19-inch CRT Monitor	195.00
3038	21-inch CRT Monitor	470.00
3038	17-inch Flat Panel Display	420.00
3038	19-inch Flat Panel Display	620.00
3038	Other Peripherals not included in the	Agency Estimate
	Standard Specifications above	

¹ Based on typical pricing received from the Enterprise Architecture Desktop Study RFI conducted January-February 2004.

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The increase is due to the replacement of the PC's and the transfer of ownership from ITD to the Office of the Governor.

Numbe	er of Desktog	Number of Desktop Computers		-	13	Windows 98		0
Numbe	er of Desktor	Number of Desktop Computers planned to be replaced	planned to b	be replaced	13	Wndows NT		0
Aveage	e cost of De	Aveage cost of Desktop Computer Replacements	ter Replacer	ments	780	Windows 2000	8	100
Numbe	Number of Laptop Computers	Computers			7	Windows XP		0
Numbe	er of Laptop	Number of Laptop Computers Planned to be replaced	lanned to be	Feplaced	7	Other		0
Aveage	e cost of Lap	Aveage cost of Laptop Computer Replacements	er Replacem	ents	1860			
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Date: 12/29/2004

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IT Capture Afrastructure Summary - Executive Recommiendation 00110 OFFICE OF MANAGEMENT AND BUDGET

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Date: 12/29/2004

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Date: 12/29/2004

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Page 5 or

Date: 12/29/2004

The budget for IT-Equipment under \$5,000 has gone down by approximately \$20,000 due to expected savings from the Desktop replacement contract.

The budget for IT Data Processing has gone up due to ConnectND.

The budget for iT Software/Supplies has gone up due to the costs of Software Assurance for Microsoft Office and maintenance for our audit software (ACL). In the past we did not pay for maintenance on either of these and upgraded by purchasing new copies.

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endation frastructure Summary - Executive Reco 00120 OFFICE OF THE STATE TREASURER 2005R0200120 Version:

Page 6 ol

Date: 12/29/2004

The infrastructure amount requested is the same as the prior biennium. We do not have intentions to replace any of the computers at this point because the dollars need to be directed to maintaining mainframe systems for tax distributions and critical issues. We do intend to update all the computers to an equivalent operating system. Currently there are two computers operating on Windows 95; the other 6 are Windows 2000 or XP. The one Windows 95 computer is not used for main business functions.

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Date: 12/29/2004

See information provided separately.

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12/29/2004 Date:

The operating line for equipment < \$5,000 is higher this biennium because Tax Department is scheduled to replace the desktop PC and laptops. The desktop PC is on a four year replacement cycle. The expense of replacing the PC and laptop hardware was offset within the data processing line item and other areas throughout the Tax Department budget.

Number of Desktop Computers Number of Desktop Computers planned to be replaced Aveage cost of Desktop Computer Replacements Number of Laptop Computers Number of Laptop Computers Planned to be replaced Aveage cost of Laptop Computer Replacements Number of PC's by Region
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Date: 12/29/2004

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IT Captur Afrastructure Summary - Executive Reconstinution 200150 LEGISLATIVE ASSEMBLY 2005R0200150 Version:

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Date: 12/29/2004

If the Legislative Applications Replacement System (LARS) is completed and implemented for the 2007 Legislative Session, maintenance and mainframe cpu costs will be reduced.

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Date: 12/29/2004 Page 11 o

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Number 1	Number of PC's by Region	Region 3	4	ಬ	9	7	∞
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IT Captur frastructure Summary - Executive Recd rendation 00180 JUDICIAL BRANCH

Date: 12/29/2004

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Number of PC's by Region 1 2 3 4 11 7

IT Captul Ifrastructure Summary - Executive Reconocide RETIREMENT AND INVESTMENT OFFICE Version: 2005R0200190

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Date: 12/29/2004

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endation frastructure Summary - Executive Reco 00201 DEPT OF PUBLIC INSTRUCTION Version: 2005R0200201

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Date: 12/29/2004

Costs show a slight increase due to a People Soft charge of \$167,747 for the agency and also a increase in funding of \$195,000 from the federal government to maintain and enhance the state TetraData warehouse for improving school accountability and student assessment related to No Child Left Behind.

Numbe	er of Desktor	Number of Desktop Computers			8	Windows 98		0
Numbe	er of Desktor	Number of Desktop Computers planned to be replaced	planned to t	be replaced	45	Wndows NT		0
Aveage	s cost of Des	Aveage cost of Desktop Computer Replacements	iter Replacei	ments	1857	Windows 2000	00	20
Numbe	Number of Laptop Computers	Computers	•		31	Windows XP	_	80
Numbe	r of Laptop (Number of Laptop Computers Planned to be replaced	lanned to be	replaced	15	Other		0
Aveage	cost of Lap	Aveage cost of Laptop Computer Replacements	ər Replacem	ents	2638			
Numbe	Number of PC's by Region	y Region						
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IT Captur — frastructure Summary - Executive Reco dendation 00215 ND UNIVERSITY SYSTEM 2005R0200215 Version:

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Date: 12/29/2004

The decrease from 2003-05 to 2005-07 is due to significant one-time costs incurred in the current biennium for web costs associated with ADA compliance issues.

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Date: 12/29/2004

Nump	er of Desktop	Number of Desktop Computers			23	Windows 98		0
Numb	er of Desktop	Number of Desktop Computers planned to be replaced	planned to t	be replaced	7	Wndows NT		0
Aveag	e cost of Des	Aveage cost of Desktop Computer Replacements	ter Replace	ments	1700	Windows 2000	8	0
Numbe	Number of Laptop Computers	Computers	•		2	Windows XP		100
Numbe	er of Laptop (Number of Laptop Computers Planned to be replaced	lanned to be	e replaced		Other		0
Aveag	e cost of Lap	Aveage cost of Laptop Computer Replacements	er Replacem	ents	1700			
Numb	Number of PC's by Region	/ Region						
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frastructure Summary - Executive Reco 00230 UNIVERSITY OF NORTH DAKOTA Version: 2005R0200230 Captur

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Date: 12/29/2004

Number of PC's by Region 3 4 5

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endation frastructure Summary - Executive Reco 00244 NORTH DAKOTA FOREST SERVICE Version: 2005R0200244 Captur

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Date: 12/29/2004

No major changes proposed for 2005-07

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00250 STATE LIBRARY
Version: 2005R0200250

Date: 12/29/2004

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endation IT Capture frastructure Summary - Executive Recolon 00252 SCHOOL FOR THE DEAF IT Captur

Date: 12/29/2004

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The increase in the infrastructure budget is due to following the state guidelines for PC replacement which recommend replacement of 50% of the agencies computers each biennium.

Windows XP Other	Number of Desktop Computers Number of Desktop Computers planned to be replaced Aveage cost of Desktop Computer Benjacements	Number of Desktop Computers Number of Desktop Computers p Aveage cost of Desktop Comput	planned to l	be replaced	58 29	Windows 98 Whdows NT	c	7 50
	of Laptop of Laptop cost of Lap	Computers Computers Computers Computers	lanned to be Replacem	e replaced ents	24 12 1800	Windows XP Other		73 11 13
	•	75	7	2	0	7	0	

I Capture Afrastructure Summary - Executive Recondendation 00253 ND VISION SERVICES

Date: 12/29/2004

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Version: 2005R0200253

ND Vision Services/School for the Blind was on the Edutech program. It recently was determined that NDVS/SB does not qualify for the Edutech services and will need to pay for the T1 line to our building: This will result in an additional \$840 per month to the agency.

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Date: 12/29/2004

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Number of PC's by Region 1 2 3 0 0 0	C's by Re	agion 3 0	4 0	0	ဖ ဝ	7 30	80 O	

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Date: 12/29/2004

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IT infrastructure costs have increased in the following areas: the data processing line item new charges include: Connect ND (\$113,696), Liquid Office Fee (12,726); EDMS User Fee (\$11,242); and Toolset upgrades (\$8.700). Increased costs include VPN Client Fees (\$30,408); and web application fees and oracle and sequel data base fees (\$60,000). There is also an increase of \$33,000 in the IT Equipment < \$5,000, which is for pc replacements based on a four year replacement plan.

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Date: 12/29/2004

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Windows 98 Windows NT Windows 2000 Windows XP Other	7 8
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Capture infrastructure Summary - Executive Recommendation 00321 DEPARTMENT OF VETERANS AFFAIRS Version: 2005R0200321

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Data processing costs increased due to device connection charges, web site hosting fees, ConnectND costs, and a toll-free number.

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frastructure Summary - Executive Reco DEPARTMENT OF HUMAN SERVICES 2005R0200325 Captur 00325 Version:

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Date: 12/29/2004

Networking licenses are not included in 05-07 request due to IT consolidation. The initial licenses/maintenance for the Regional Office Automation Project (ROAP) that was included in the current biennium will not be a reoccuring cost in subsequent bienniums. Other items not included in 05-07 due to discontinued use include Viprs, ASI and Dictaphone. Additional infrastructure costs have been included in 05-07 to cover the licensing fees for the SAMS 2000 system for Aging Services. (BOC 3005)

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Windows 98 Wndows NT Windows 2000 Windows XP Other	7 550
1650 528 800 200 45 2200	6 375
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frastructure Summary - Executive Recommendation 00360 PROTECTION AND ADVÓCACY Version: 2005R0200360 Captun

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Date: 12/29/2004

The 05-07 budget request includes less money for IT-related contracts and for IT equipment. (See narrative for further explanation.)

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Capture infrastructure Summary - Executive Recommendation 00380 JOB SERVICE NORTH DAKOTA

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Version: 2005R0200380

The decrease in our infrastructure cost from last biennium to this biennium are related to (1) reduction in force (2) spending in yearly desktop replacement (3) reduction in 1-800 charges with implementation of claim center (4) completed amortization of one time costs for the implementation of NDWORKS (5) not implementing Microsoft Product Upgrades.

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Windows 98 Wndows NT Windows 2000 Windows XP Other	7 262
450 226 780 100 50 1860	6 25
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IT Capture infrastructure Summary - Executive Recommendation 00406 OFFICE OF THE LABOR COMMISSIONER

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Ifrastructure Summary - Executive Reco 00408 PUBLIC SERVICE COMMISSION 2005R0200408 Captur Version:

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Date: 12/29/2004

IT 3002 - explanation for the increase: The increase is due to: network upgrade, increased costs for dialup due to VPN, enterprise forms charge, e-mail consolidation and unusual microfilm charges. IT 3038 - explanation for increase: Costs associated with moving to replacement schedule for PCs.

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Windows 98 Wndows NT Windows 2000 Windows XP Other	7	49
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Date: 12/29/2004

There are no anticipated extraordinary increases or decreases in our infrastructure costs. The costs indicated are replacement costs for existing equipment and maintenance of existing systems.

Number of Desktop Computers Number of Desktop Computers planned to be replaced Aveage cost of Desktop Computer Replacements Number of Laptop Computers Number of Laptop Computers Planned to be replaced Aveage cost of Laptop Computer Replacements	13 3000 1 1 2000	Windows 98 Wndows NT Windows 2000 Windows XP Other	0 0 0 0 0
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IT Capture frastructure Summary - Executive Reconstitution 00413 DEPT OF FINANCIAL INST

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2005R0200414

Changes include; \$3136 decrease due toncreases in Data Processing; due to maintenance, upgrades and continuing development of ITD Microsoft Access Program. Installation and configuration of new equipment. Contractual services; for web site maintenance. Equipment: Replacement of desktop and laptop computers and printers. Decrease in Telephone due to increases in computer and cell phone communications. IT Optional budget expenditures include adding equipment and support for 1 additiona FTE.

Numbe	Number of Desktop Computers	Computers			ന	Windows 98		0
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Aveage	e cost of Des	Aveage cost of Desktop Computer Replacements	er Replacen	nents	1800	Windows 2000	2	0
Numbe	Number of Laptop Computers	Somputers			5	Windows XP		100
Numbe	er of Laptop C	Number of Laptop Computers Planned to be replaced	anned to be	replaced	ιΩ	Other		0
Aveage	e cost of Lapi	weage cost of Laptop Computer Replacements	r Replaceme	ents	4200			
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(See Narrative on Agency Technology Activities - Infrastructure)

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The operating expenses for the 05-07 bienium dropped do to a change in hardware replacement cycle from 2 to 3 years as well as one time cost to change the Microsoft Select Agreement in 03-05.

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Windows 98	Wndows NT	Windows 2000	Windows XP	Other			7	46
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Windows 98 Wndows NT Windows 2000 Windows XP Other	0 0
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Additional Homeland Security grant funds have been loaded into current biennium budget. This caused the next biennium infrastructure budget lines to reflect a decrease.

Number	of Desktop	Number of Desktop Computers			9/	Windows 98		17	
Number	of Desktop	Computers	Number of Desktop Computers planned to be replaced	be replaced	38	Wndows NT	,	0	
Aveage	cost of Desi	ktop Compu	Aveage cost of Desktop Computer Replacements	nents	2500	Windows 2000	8	42	
Number	Number of Laptop Computers	Computers			8	Windows XP	^	30	
Number	of Laptop C	computers P	Number of Laptop Computers Planned to be replaced	replaced	12	Other		=	
Aveage	cost of Lapt	top Compute	Aveage cost of Laptop Computer Replacements	ents	3000				
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HB1505 has increased our operational I.T. budget considerably.

Windows 98 Whidows NT Windows 2000 Windows XP Other	7 8 10 100
500 250 1200 70 1500	6 20
replaced ents replaced nts	5
lanned to be or Replacem onned to be or Replacement	4 20
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endation frastructure Summary - Executive Reco 00540 ADJUTANT GENERAL Captun Version:

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2005R0200540

IT-Data Processing 3002 was increased by \$14,499 in Operations and \$32,271 in Army Guard. These budget increases are all related to ConnectND charges. The general fund portion is \$14,499 and federal fund portion is \$32,271. Our federal/state agreements with National Guard Bureau do not allow us to request reimbursement for indirect costs, therefore, we also have a general fund optional request of \$32,271.

Number of Desktop Computers Number of Desktop Computers planned to be replaced Aveage cost of Desktop Computer Replacements Number of Laptop Computers Number of Laptop Computers Aveage cost of Laptop Computer Replacements	Computers Computers ktop Computers Computers Computers top Computers	s planned to k uter Replace Planned to be er Replacem	oe replaced ments e replaced ients	30 8 1500 7 2 2500	Windows 98 Wndows NT Windows 2000 Windows XP Other	8 ⊢ 000 d;	0 20 0
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The number of replacements indicated reach their 4 yr life cycle at one point during the 05-07 biennium. We have 7 users that currently have desktops that are switching to laptops. That is the reason for the low desktop replacement compared to the laptop replacement. No Computers are scheduled to be replaced under their 4 year life cycle. There is also an increase in IT Expenditures relating to the Connect ND initiative and File & Print services which are now handled through ITD.

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Date: 12/29/2004

Numbe Numbe Aveage Numbe Numbe Aveage	Number of Desktop Computers Number of Desktop Computers Aveage cost of Desktop Computers Number of Laptop Computers Number of Laptop Computers Pl Aveage cost of Laptop Computers Pl	Computers Computers Somputers Computers Computers F	Number of Desktop Computers Number of Desktop Computers planned to be replaced Aveage cost of Desktop Computer Replacements Number of Laptop Computers Number of Laptop Computers Planned to be replaced Aveage cost of Laptop Computer Replacements	e replaced nents replaced	55 27 1000 54 20 2100	Windows 98 Wndows NT Windows 2000 Windows XP Other	,	4 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0
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2005R0200627

The UGPTI will see a significant increase in IT expenditures during the next couple of years. The Transportation Safety Systems Center, located in Denver, CO, has relocated their offices and are now required to pay for all telephone and data lines and expenses for their offices. The UGPTI, through the TEL8 program, will increase data and telephone expenses for the videoconference system. This increase will be the result of more programming being offered over the system.

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Windows 98 35 Windows NT 0 Windows 2000 7 Windows XP 51 Other	7 8 15 46
142 20 1300 37 10 2000	37
e replaced nents replaced	0 22
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IT Captur frastructure Summary - Executive Recd endation 00701 HISTORICAL SOCIETY Version:

2005R0200701

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If funds allow, optional adjustment increases may be for pc's to bring the Society into the IT cyclical maintenance program.

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planned to ter Replace lanned to b sr Replacen	4 0
Number of Desktop Computers Number of Desktop Computers planned to be replaced Aveage cost of Desktop Computer Replacements Number of Laptop Computers Number of Laptop Computers Planned to be replaced Aveage cost of Laptop Computer Replacements	y Region 3 2
Number of Desktop Computers Number of Desktop Computers Neage cost of Desktop Comp Number of Laptop Computers Number of Laptop Computers Number of Laptop Computers	Number of PC's by Region 1
Numb Numb Aveag Numb Numb Aveag	Numk

Capture Afrastructure Summary - Executive Recommendation 00709 COUNCIL ON THE ARTS Version:

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Date: 12/29/2004

2005R0200709

In the next biennium we will be purchasing a new laptop computer for reporting level 5000. That position is off-site and will also require additional costs of an internet hook-up through blinet. Agency estimated increase due to ConnectND is \$1867.00 for the biennium. Added costs of object 3008 are due to development of the IT grants online project and anticipated need for outside consultants.

Number Number Aveage Number Number Aveage	Number of Desktop Computers Number of Desktop Computers planned to be replaced Aveage cost of Desktop Computer Replacements Number of Laptop Computers Number of Laptop Computers Planned to be replaced Aveage cost of Laptop Computer Replacements	Computers Computers p Computers Computers Computers Computers Computers	lanned to be er Replaceme anned to be r Replacemer	replaced ents eplaced tts	4 0 0 1 1 2500	Windows 98 Windows NT Windows 2000 Windows XP Other	0	0 100
Number 1	Number of PC's by Region 1	Region 3	4	വ	ဖ		ω	
0	0	0	0	7-	0	4	0	

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2005R0200720

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0 30 70 0 0	
8	8 8
Windows 98 Wndows NT Windows 2000 Windows XP Other	7 93
170 55 1200 51 22 1900	6 20
be replaced ements e replaced nents	დ 4
planned to ter Replace lanned to t	4 κ
Number of Desktop Computers Number of Desktop Computers planned to be replaced Aveage cost of Desktop Computer Replacements Number of Laptop Computers Number of Laptop Computers Planned to be replaced Aveage cost of Laptop Computer Replacements	y Region 3 15
Number of Desktop Computers Number of Desktop Computers Neage cost of Desktop Comp Number of Laptop Computers Number of Laptop Computers Number of Laptop Computers	Number of PC's by Region 1 2 3 7 10 15
Numbé Numbé Aveag Numbé Numbé Aveag	Numb 1 7

endation IT Capture frastructure Summary - Executive Recologo750 PARKS AND RECREATION DEPT

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Date: 12/29/2004

Numbe Numbe Aveage Numbe	Number of Desktop Computers Number of Desktop Computers Aveage cost of Desktop Computers Number of Laptop Computers	Number of Desktop Computers Number of Desktop Computers planned to be replaced Nveage cost of Desktop Computer Replacements Number of Laptop Computers	anned to be ı r Replaceme	replaced nts	51 23 850 17	Windows 98 Windows NT Windows 2000 Windows XP	0	0 0 2 2 3
Numbe Aveage	r of Laptop C cost of Lapt	Number of Laptop Computers Planned to be replaced	nned to be re Replacemen	placed ts	8 2000	Other		0
Numbe 1	Number of PC's by Region 1	Region	4	2	ဖ	7	ထ	
7	œ	တ	Ŋ	7	-	41	0	

frastructure Summary - Executive Reco 00770 WATER COMMISSION 2005R0200770 Captur Version:

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The IT processing has increased due to the Connect ND charges. The IT Equipment was increased to approach the 4 year replacement cycle for desktop PC's. In addition, IT salaries were decreased because the agency retasked the duties of 2 FTE's to functions other than IT.

0 0 62 1 36	
0.	ω Ο
Windows 98 Wndows NT Windows 2000 Windows XP Other	7 114
102 50 2000 13 6 2700	ဖ ဝ
Number of Desktop Computers Number of Desktop Computers planned to be replaced Neage cost of Desktop Computer Replacements Number of Laptop Computers Number of Laptop Computers Planned to be replaced Neage cost of Laptop Computer Replacements	۲ ک
s planned to uter Replace Planned to t	4 0
o Computers o Computers sktop Comp Computers Computers I	y Region 3 0
Number of Desktop Computers Number of Desktop Computers planned to be replace Aveage cost of Desktop Computer Replacements Number of Laptop Computers Number of Laptop Computers Planned to be replaced Aveage cost of Laptop Computer Replacements	Number of PC's by Region 1 2 3 0 0 0
Numb Numb Aveag Numb Numb Aveag	Numk 1

endation frastructure Summary - Executive Reco DEPT OF TRANSPORTATION 2005R0200801 Captur Version:

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Dat

ConnectND - \$441,628; Server Hosting fees after migration - \$323,400; New ports - \$24,388; EDMS Storage, Usage and other costs - \$648,128;New Computers - \$150,760; MS Office Suite - \$276,000 (conversion from CorelSuite)

Numbe	r of Desktop	Number of Desktop Computers			763	Windows 98		0
Numbe	r of Desktop	Number of Desktop Computers planned to be replaced	planned to b	e replaced	324	Wndows NT		0
Aveage	cost of Des	Aveage cost of Desktop Computer Replacements	ter Replacer	nents	850	Windows 2000	8	100
Numbe	Number of Laptop Computers	Somputers			258	Windows XP		0
Numbe	r of Laptop (Number of Laptop Computers Planned to be replaced	lanned to be	replaced	159	Other		0
Aveage	cost of Lapi	Aveage cost of Laptop Computer Replacements	r Replacem	ents	1700			
Numbe	Number of PC's by Region	' Region						
τ	,	ო	4	5	9	7	∞	
15	25	25	25	78	25	317	23	

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Governance

State IT Advisory Committee (SITAC)

The State Information Technology Advisory Committee (SITAC) is responsible for providing input to ITD on the deployment of new and existing products and services. ITD will consult with the committee to obtain advice and feedback during ITD's annual business planning process and other planning efforts. Members will assist in developing and prioritizing strategic initiatives for state government for the statewide information technology plan.

During the 2003 legislative session, House Bill 1043 established this committee in statue and identified the membership as follows:

State information technology advisory committee. The state information technology advisory committee consists of the chief information officer; the commissioner of higher education or the commissioner's designee; the attorney general or the attorney general's designee; the secretary of state or the secretary of state's designee; the tax commissioner or the commissioner's designee; the chief justice of the supreme court or the chief justice's designee; two members of the legislative assembly appointed by the legislative council; a minimum of eight members representing state agencies, appointed by the governor; and two members with technology management expertise representing private industry, appointed by the governor. The appointees of the governor serve at the pleasure of the governor. The governor shall designate the chairman of the committee. Additional members may be asked to participate at the request of the chairman. The department shall provide staff services to the committee. The members of the committee representing private industry are entitled to be compensated for time spent in attendance at meetings of the committee and for other travel as approved by the chairman of the committee at the rate of sixty-two dollars and fifty cents per day and are entitled to reimbursement for actual and necessary expenses incurred in the same manner as other state officials. The compensation and expenses are to be paid from appropriations for the department. The committee shall advise the department regarding statewide information technology planning, and developing other budgeting, services of the information technology department, and statewide information technology initiatives and policy.

This committee will also fulfill the requirements established by the 2003 legislative session in House Bill 1505 as follows:

Department shall establish certain standards for agencies - Advisory committee - Exceptions. The department shall appoint an advisory committee consisting of representatives of state agencies for the purposes of prioritizing major computer software projects and establishing policies, standards, and guidelines for executive branch state agencies, departments, and institutions, excluding institutions under control of the state board of higher education and agencies of the judicial and legislative branches with respect to the purchase of computer software and computer systems. The chief information officer shall submit recommendations of the advisory committee regarding major software projects to the information technology committee for consideration by the

committee and the drafting of appropriate legislation to implement the recommendations. The judicial and legislative branches shall annually notify the advisory committee on their major computer software projects and priorities. The chief information officer may exempt an agency from the policies, standards, and guidelines established by the committee to address situations unique to that agency.

SITAC Membership

Member	Agency
Curtis L. Wolfe	Information Technology Department
Eric Hardmeyer	Bank of North Dakota
Laura Glatt	University Systems
Carol K. Olson	Department of Human Services
David A. Sprynczynatyk	Department of Transportation
Maren Daley	Job Service North Dakota
Pam Sharp	Office of Management and Budget
Sandy Blunt	Workers Safety and Insurance
Arvy Smith	North Dakota Department of Health
Sparb Collins	North Dakota Public Employees Retirement System
Sandi Tabor	Office of Attorney General
Alvin A. Jaeger	Secretary of State
Rick Clayburgh	Office of State Tax Commissioner
Ted Gladden	North Dakota Supreme Court
Representative Bob Skarphol	Legislative Assembly
Senator Rich Wardner	Legislative Assembly
Dan Fisher	Community First Bankshares, Inc.
Craig Hewitt	MeritCare Health

Enterprise Architecture

Mission Statement

To provide a process that sets common goals and coordinates the delivery of information technology services to state government that are responsive and cost effective.

The Goals of Enterprise Architecture

For state government to be as responsive and cost effective as possible, it is essential to have a clear view of enterprise goals and how to achieve them. EA offers a model that

connects business objectives to IT strategy, and creates a formal communication structure to support the attainment of a common vision.

Through the Enterprise Architecture (EA) process, state agencies will guide the future direction of information technology. The success of this highly collaborative process will depend on the strength of its governance structure and the commitment of the participants to its goals and guiding principles.

Enterprise Architecture is not a one-time event, nor limited to specific projects or agencies. EA is an on-going, iterative process that provides:

- A common vision of the future shared by business and information.
- Guidance in the selection, creation and implementation of solutions driven by business requirements.
- Support for the business of government through improved information sharing.
- A means to control growing complexities of technology by setting enterprise-wide, leveragable, standards for information technology.
- Assurance to policy-makers that agencies are creating new systems and migrating old systems through a consistent process.

Enterprise Architecture is critical because it provides the plan for the integration of information and services at the design level across agency boundaries.

For more information visit the Enterprise Architecture web site at http://www.state.nd.us/ea/.

ETC Chief Information Officer Director Curt Wolfe Dan Pullen State IT Advisory Committee Enterprise Project Mgmt Office StageNet Executive Committee EA Architecture Review Board StageNet Ad hoc Management subcommittees & Committee EA Architecture research Team Network Tech. Committee Storage Video Technical Committee Applications E-Government Document Mgmt Platforms/ OS Security Office Automation Integration

Figure 1. Enterprise Architecture Governance Diagram

State Information Technology Advisory Committee (SITAC) Executive Recommendation for Ranked IT Projects
December 2004

			,				
			Prelii	Preliminary Estimates	Executive	Executive Recommendation	
SITAC	Project	Agency	Total	General Fund	Total	General Fund	Comments / Status
Rank			Cost	Portion		Portion	
1	ND Public Safety Mobile	Division of Emergency	\$5,700,000	\$3,000,000	\$4,957,923	0\$	Federal Homeland
	Communications	Management					Security funds are being obtained for 05-07 costs.
2	MMIS Rewrite	Department of Human Services	\$29,188,159	\$3,667,820	\$29,188,859	\$3,667,820	Fully Funded.
ю	CJIS - Establish services to support deployment	Information Technology Department	\$1,000,000	\$1,000,000	\$2,700,000	\$700,000	Fully Funded Operations. Continue to look for Federal Funds for the
							Interfaces.
4	Integrated Tax System	Office of State Tax Commissioner	\$12,625,000	\$12,625,000	0\$	80	Not Funded.
5	CAD - Computer Aided Dispatch	Division of Emergency Management	\$500,000	\$500,000	80	80	Not Funded.
9	ITAG	Department of Corrections and Rehabilitation	\$375,000	\$375,000	\$411,650	\$411,650	Fully Funded at revised estimate.
7	Mainframe Migration	Information Technology Department	\$6,300,000	\$6,300,000	86,000,000	80	ITD will borrow funds and repay loan through savings.
∞	AS/400 Migration	Secretary of State	\$500,000	\$500,000	\$250,000	\$250,000	Fully Funded revised estimate
6	Time and Labor	Enterprise Architecture	\$700,000	\$700,000	0\$	0\$	Not Funded. Some agencies may be able to fund from agency budgets from various funding
						**	sources. (**See footnote.
10	Enhanced Support Center	Information Technology Department	\$1,800,000	\$1,000,000	0\$	80	Not Funded.
[=	GIS	Information Technology Department	\$325,000	\$325,000	\$100,000	\$100,000	Restores funding to base budget level
12	HIPAA	Department of Human Services	\$3,190,000	\$319,000	80	80	This project is not needed because MMIS project is fully funded.
		Total	\$62,203,159	\$30,311,820	\$43,608,432	820 \$43,608,432 \$5,129,470	

^{**} OMB has funded \$600,000 for ConnectND modules. Each individual project will likely not reach the level of the \$250,000 large project threshold.

		Recommended Amount	Budget Request
00108 SECRETARY OF STATE			
Agency Project			
Priority			
1 Bringing FileNet to the County Rec	corders for CIS		
Special Fund		\$58,231	A
Project Total		\$58,231	\$58,231
1 Central Voter File for Elections		#4 000 000	
Federal Fund		\$1,000,000	£4 000 000
Project Total 1 FileNet for Admin Lic & Business [Divisions	\$1,000,000	\$1,000,000
General Fund	JIVISIONS	\$199,615	
Project Total		\$199,615	\$199,615
2 Automatic Clearing House		ψ139,013	Ψ133,010
General Fund		\$20,000	
Project Total		\$20,000	\$20,000
2 Migrating data from AS400 to anot	ther platform	4_1,000	4_0, 000
General Fund	production of the second of th	\$250,000	
Project Total		\$250,000	\$250,000
00108 SECRETARY OF STATE		\$1,527,846	\$1,527,846
	General Fund Total	\$469,615	. , ,
	Federal Fund Total	\$1,000,000	
	Special Fund Total	\$58,231	
General Fund Project Total		\$600,000 \$600,000	\$600,000
0110 OFFICE OF MANAGEMENT AND	D BUDGET		
		\$600,000	\$600,000
	General Fund Total	\$600,000 \$600,000	
0112 INFORMATION TECHNOLOGY			
Agency Project			
gency Project Priority			
gency Project riority 1 New Network		\$600,000	
gency Project riority 1 New Network Special Fund		\$600,000 \$0	\$600,000
agency Project Priority 1 New Network Special Fund Project Total	General Fund Total	\$600,000	
Agency Project Priority 1 New Network Special Fund Project Total 2 CJIS - Establish services to suppo	General Fund Total	\$600,000 \$0 \$0	\$600,000
Agency Project Priority 1 New Network Special Fund Project Total 2 CJIS - Establish services to suppo General Fund	General Fund Total	\$600,000 \$0 \$0 \$700,000	\$600,000
Agency Project Priority 1 New Network Special Fund Project Total 2 CJIS - Establish services to suppo General Fund Federal Fund	General Fund Total	\$600,000 \$0 \$0	\$600,000
Igency Project Priority 1 New Network Special Fund Project Total 2 CJIS - Establish services to suppo General Fund	General Fund Total	\$600,000 \$0 \$700,000 \$500,000	\$600,000
Agency Project Priority 1 New Network Special Fund Project Total 2 CJIS - Establish services to suppo General Fund Federal Fund Special Fund	General Fund Total	\$600,000 \$0 \$0 \$700,000 \$500,000 \$1,500,000	\$600,000 \$0
Agency Project Priority 1 New Network Special Fund Project Total 2 CJIS - Establish services to suppo General Fund Federal Fund Special Fund Project Total	General Fund Total	\$600,000 \$0 \$0 \$700,000 \$500,000 \$1,500,000	\$600,000 \$0 \$3,000,000
Agency Project Priority 1 New Network Special Fund Project Total 2 CJIS - Establish services to suppo General Fund Federal Fund Special Fund Project Total 3 Mainframe Migration Strategy Special Fund Project Total	General Fund Total	\$0 \$0 \$0 \$700,000 \$500,000 \$1,500,000 \$2,700,000	\$600,000 \$0
Agency Project Priority 1 New Network Special Fund Project Total 2 CJIS - Establish services to suppo General Fund Federal Fund Special Fund Project Total 3 Mainframe Migration Strategy Special Fund Project Total 4 GIS - Support operations & expans	General Fund Total	\$0 \$0 \$700,000 \$500,000 \$1,500,000 \$2,700,000 \$6,000,000	\$600,000 \$0 \$3,000,000
Agency Project Priority 1 New Network Special Fund Project Total 2 CJIS - Establish services to suppo General Fund Federal Fund Special Fund Project Total 3 Mainframe Migration Strategy Special Fund Project Total 4 GIS - Support operations & expans General Fund	General Fund Total	\$0 \$0 \$700,000 \$500,000 \$1,500,000 \$2,700,000 \$6,000,000 \$100,000	\$600,000 \$0 \$3,000,000 \$6,000,000
Agency Project Priority 1 New Network Special Fund Project Total 2 CJIS - Establish services to suppo General Fund Federal Fund Special Fund Project Total 3 Mainframe Migration Strategy Special Fund Project Total 4 GIS - Support operations & expans General Fund Project Total	General Fund Total	\$0 \$0 \$700,000 \$500,000 \$1,500,000 \$2,700,000 \$6,000,000	\$600,000 \$0 \$3,000,000
Agency Project Priority 1 New Network Special Fund Project Total 2 CJIS - Establish services to suppo General Fund Federal Fund Special Fund Project Total 3 Mainframe Migration Strategy Special Fund Project Total 4 GIS - Support operations & expans General Fund Project Total 5 Enhanced Support Center	General Fund Total	\$600,000 \$0 \$700,000 \$500,000 \$1,500,000 \$2,700,000 \$6,000,000 \$100,000 \$100,000	\$600,000 \$0 \$3,000,000 \$6,000,000
Agency Project Priority 1 New Network Special Fund Project Total 2 CJIS - Establish services to suppo General Fund Federal Fund Special Fund Project Total 3 Mainframe Migration Strategy Special Fund Project Total 4 GIS - Support operations & expans General Fund Project Total 5 Enhanced Support Center General Fund	General Fund Total	\$600,000 \$0 \$700,000 \$500,000 \$1,500,000 \$2,700,000 \$6,000,000 \$100,000 \$100,000	\$600,000 \$0 \$3,000,000 \$6,000,000 \$425,000
Agency Project Priority 1 New Network Special Fund Project Total 2 CJIS - Establish services to suppo General Fund Federal Fund Special Fund Project Total 3 Mainframe Migration Strategy Special Fund Project Total 4 GIS - Support operations & expans General Fund Project Total 5 Enhanced Support Center General Fund Project Total	General Fund Total	\$600,000 \$0 \$700,000 \$500,000 \$1,500,000 \$2,700,000 \$6,000,000 \$100,000 \$100,000	\$600,000 \$0 \$3,000,000 \$6,000,000
Priority 1 New Network Special Fund Project Total 2 CJIS - Establish services to suppo General Fund Federal Fund Special Fund Project Total 3 Mainframe Migration Strategy Special Fund Project Total 4 GIS - Support operations & expans General Fund Project Total 5 Enhanced Support Center General Fund	General Fund Total	\$600,000 \$0 \$700,000 \$500,000 \$1,500,000 \$2,700,000 \$6,000,000 \$100,000 \$100,000	\$600,000 \$0 \$3,000,000 \$6,000,000 \$425,000

General Fund

Project Total

2005-07 Executive Recommendation IT Projects excludes Higher Ed

	II Projects exclu	des Higner Ed	
_		Recommended	Budget
		Amount	Request
IP Telephony			
Special Fund		\$0	¢ο
Project Total		\$0	\$0
8 DHS's MMIS Project Special Fund		\$8,127,034	
Project Total		\$8,127,034	\$0
00112 INFORMATION TECHNOLOGY		\$16,927,034	\$10,167,800
	General Fund Total	\$800,000	. , .
	Federal Fund Total	\$500,000	
	Special Fund Total	\$15,627,034	
00127 OFFICE OF STATE TAX COMMIS	SIONER		
Agency Project			
Priority			
1 Integrated Tax System		^	
General Fund		\$0 * 0	\$40 BOE 000
Project Total	NONED	<u>\$0</u>	\$12,625,000 \$12,625,000
00127 OFFICE OF STATE TAX COMMISS	General Fund Total	\$0	\$12,625,000
	General Fund Total	\$ 0	
00140 OFFICE OF ADMINISTRATIVE HE	ARINGS		
Agency Project			
Priority			
1 ISYS		# 000	
Special Fund		\$5,000	¢ E 000
Project Total		\$5,000 \$5,000	\$5,000 \$5,000
00140 OFFICE OF ADMINISTRATIVE HE	ARINGS	\$5,000	#5,000
00150 LEGISLATIVE ASSEMBLY			
Agency Project			
Priority			
1 Legislative Applications Replacemen	t System	£4 000 000	
General Fund		\$4,200,000	\$4.200.000
Project Total 2 Monitor System Replacement		\$4,200,000	\$4,200,000
General Fund		\$100,000	
Project Total		\$100,000	\$100,000
00150 LEGISLATIVE ASSEMBLY		\$4,300,000	\$4,300,000
	General Fund Total	\$4,300,000	•
00160 LEGISLATIVE COUNCIL			· · · · · · · · · · · · · · · · · · ·
Agency Project			
Priority			
1 Interim Applications Replacement (2)	007-2009)		
General Fund		\$0	
Project Total		<u>\$0</u>	\$0
00160 LEGISLATIVE COUNCIL	<u> </u>	\$0	\$0
	General Fund Total	\$0	
00180 JUDICIAL BRANCH	· · · · · · · · · · · · · · · · · · ·		
A Project			
o vertical de la company de la			
1 Enhanced Records Management Sys	stem		
Conoral Fund		\$225 በበበ	

\$225,000

\$225,000 **\$225,000**

	Ր Projects exclud	les Higher Ed	
_		Recommended	Budget
		Amount	Request
Continuity Planning			
General Fund		\$75,000	
Project Total		\$75,000	\$75,000
Case Management Systems Review General Fund		\$100,000	
Project Total		\$100,000 \$100,000	\$100,000
3 Digital Audio Recording		ψ100,000	
General Fund		\$103,677	
Project Total		\$103,677	\$103,677
3 Interactive Television			
General Fund		\$155,000	*455.000
Project Total		\$155,000	\$155,000
00180 JUDICIAL BRANCH	General Fund Total	\$658,677	\$658,677
	General Fund Total	\$658,677	
00192 PUBLIC EMPLOYEES RETIREMEN	IT SYSTEM		
Agency Project			
Priority			
2 Proposed Legislation			
Special Fund		\$14,016	
Project Total		\$14,016	\$14,016
4 NDPERS Online Services		#47.000	
Special Fund		\$47,632 \$47,632	\$47,632
Project Total 5 Barcoding IBS Insurance Billing		441,032	441,032
Special Fund		\$6,000	
Project Total		\$6,000	\$6,000
6 EDMS Workflow			
Special Fund		\$35,000	***
Project Total		\$35,000	\$35,000
00192 PUBLIC EMPLOYEES RETIREMEN		\$102,648 \$402,648	\$102,648
	Special Fund Total	\$102,648	
00201 DEPT OF PUBLIC INSTRUCTION			
Agency Project			
Priority			
2 Special Education IEP			•
Federal Fund		\$700,000	* =0.00
Project Total		\$700,000	\$700,000
00201 DEPT OF PUBLIC INSTRUCTION		\$700,000	\$700,000
00301 ND DEPARTMENT OF HEALTH			
Agency Project			
Priority			
1 DREAMS			
Federal Fund		\$417,000	
Project Total		\$417,000	\$417,000
2 HAN		\$683,484	
Federal Fund Project Total		ъооз,4о4 \$683,484	\$683,484
3 WIC		φυυυ, 1 04	Ψ000, 1 0 1
Federal Fund		\$835,882	
Project Total		\$835,882	\$835,882
00301 ND DEPARTMENT OF HEALTH		\$1,936,366	\$1,936,366
	Federal Fund Total	\$1,936,366	

11 Projects exclu	ides nigher Ed	
	Recommended Amount	Budget Request
05-3 VETERANS HOME		
Agency Project		
Priority		
Computer Based Training General Fund	\$0	
Project Total	\$0	\$17,250
2 Video Conferencing	••	• •
General Fund	\$0	
Project Total		\$34,350 \$54,600
00313 VETERANS HOME General Fund Total	\$0	\$51,600
General Pullu Total	\$0	
00325 DEPARTMENT OF HUMAN SERVICES		
Agency Project		
Priority		
1 MMIS Rewrite Phase II	\$3,667,820	
General Fund Federal Fund	\$25,521,039	
Project Total	\$29,188,859	\$29,188,859
2 Implement 4 year replacement cycle for desktop PCs		
General Fund	\$0	
Federal Fund	\$0 * 0	\$362,800
Project Total 3 County Staff Assistance for MMIS Rewrite project	\$0	\$362,600
General Fund	\$0	
Federal Fund	\$0	
Project Total	\$0	\$219,020
4 Time and Attendance	\$0	
General Fund Federal Fund	\$0 \$0	
Project Total	\$0	\$45,508
00325 DEPARTMENT OF HUMAN SERVICES	\$29,188,859	\$29,816,187
General Fund Total	\$3,667,820	
Federal Fund Total	\$25,521,039	
00380 JOB SERVICE NORTH DAKOTA		
Agency Project		
Priority		
1 UI Modernization-Reed Act	4505 000	
Federal Fund Project Total	\$525,000 \$525,000	\$525,000
00380 JOB SERVICE NORTH DAKOTA	\$525,000 \$525,000	\$525,000 \$525,000
- OUSSO SERVICE NORTH DAROTA		4010 ,000
00401 OFFICE OF THE INSURANCE COMMISSIONER		
Agency Project		
Priority 1 SERFF Interface		
Special Fund	\$27,840	
Project Total	\$27,840	\$27,840
2 Imaging	**	
Special Fund	\$8,640	\$8,640
Project Total 00401 OFFICE OF THE INSURANCE COMMISSIONER	\$8,640 \$36,480	\$8,640 \$36,480
004रण OFFICE OF THE INSURANCE COMMISSIONER Special Fund Total	\$36,480 \$36,480	φυσ,του
	, , , , , , , , , , , , , , , , , , , 	

	i rojecto exerat	Recommended	Budget
		Amount	Request
Assicy Project			·
Priority			
1 EDMS		***	
Special Fund		\$31,475	¢24.725
Project Total		\$31,475	<u>\$31,725</u> \$31,725
00413 DEPT OF FINANCIAL INST		\$31,475 	ψ31,723
00471 BANK OF NORTH DAKOTA			
Agency Project			
Priority			
Core Banking Special Fund		\$240,592	
Project Total	•	\$240,59 2	\$225,972
1 Strategic Initiatives		ψ <u>2</u> -10,00m	V =0,01=
Special Fund		\$2,127,683	
Project Total		\$2,127,683	\$2,101,260
00471 BANK OF NORTH DAKOTA		\$2,368,275	\$2,327,232
	Special Fund Total	\$2,368,275	
00485 WORKFORCE SAFETY AND INSURA	ANCE		
Agency Project			
Priority			
1 Enhanced Web based applications		0.450.000	
Special Fund		\$450,000	6450 000
Project Total		\$450,000	\$450,000
Data warehouse		\$25,000	
Special Fund Project Total		\$25,000 \$25,000	\$25,000
3 Disaster recovery hot site		Ψ 2 3,000	ψ 2 0,000
Special Fund		\$120,000	
Project Total		\$120,000	\$120,000
4 Centralized EDI process for medical bill	ing	· ·	
Special Fund		\$75,000	
Project Total		\$75,000	\$75,000
5 Legal application consolidation		* ***	
Special Fund		\$0 \$0	\$0
Project Total			\$670,000
00485 WORKFORCE SAFETY AND INSURA	Special Fund Total	\$670,000 \$670,000	\$010,000
	Special fund fotal	4010,000	
00504 HIGHWAY PATROL			
Agency Project Priority			
1 Case Management System			
General Fund		\$200,000	
Special Fund		\$0	Anna acc
Project Total		\$200,000	\$200,000
1 Wireless Field Reporting		\$200,000	
Special Fund		\$200,000 \$200,000	\$200,000
Project Total			\$400,000
00504 HIGHWAY PATROL	General Fund Total	\$400,000 \$200,000	Ψ+υυ,υυυ
	Special Fund Total	\$200,000 \$200,000	
	opoolari aria rotar	Ψ <u></u> 200,000	

		Recommended	Budget
		Amount	Request
gency Project			
Priority			
1 N D Public Safety Mobile Communicati	ons Project	••	
General Fund		\$0	
Federal Fund		\$4,957,923	40.000.000
Project Total		\$4,957,923	\$3,000,000
2 Tower T1 Circuit Infrastructure			
General Fund		\$0	A 000
Project Total		\$0	\$200,000
3 CAD Computer Aided Dispatch		•	
General Fund		\$0	4
Project Total			\$500,000
00512 DIV OF EMERGENCY MANAGEMEN		\$4 <u>,957,923</u>	\$3,700,000
	General Fund Total	\$0	
	Federal Fund Total	\$4,957,923	
00530 DEPT OF CORRECTIONS AND REP	IAB		
	-		
Agency Project Priority			
100 Itag Offender Managment System			
General Fund		\$411,650	
		\$411,650	\$411,650
Project Total			\$411,650
00530 DEPT OF CORRECTIONS AND REH		\$411,650	φ + ε 1,030
	General Fund Total	\$411,650	
Priority			
Priority 1 Website Development		\$6 500	
Priority 1 Website Development General Fund		\$6,500 \$6 875	
Priority 1 Website Development General Fund Federal Fund		\$6,875	
Priority 1 Website Development General Fund Federal Fund Special Fund		\$6,875 \$1,625	\$15 000
Priority 1 Website Development General Fund Federal Fund Special Fund Project Total		\$6,875	\$15,000
Priority 1 Website Development General Fund Federal Fund Special Fund Project Total 2 GIS Infrastructure		\$6,875 \$1,625 \$15,000	\$15,000
Priority 1 Website Development General Fund Federal Fund Special Fund Project Total 2 GIS Infrastructure General Fund		\$6,875 \$1,625 \$15,000 \$1,350	\$15,000
Priority 1 Website Development General Fund Federal Fund Special Fund Project Total 2 GIS Infrastructure General Fund Federal Fund		\$6,875 \$1,625 \$15,000 \$1,350 \$5,100	\$15,000
Priority 1 Website Development General Fund Federal Fund Special Fund Project Total 2 GIS Infrastructure General Fund Federal Fund Special Fund Special Fund		\$6,875 \$1,625 \$15,000 \$1,350 \$5,100 \$900	
Priority 1 Website Development General Fund Federal Fund Special Fund Project Total 2 GIS Infrastructure General Fund Federal Fund Special Fund Special Fund Project Total		\$6,875 \$1,625 \$15,000 \$1,350 \$5,100	\$15,000 \$7,350
Priority 1 Website Development General Fund Federal Fund Special Fund Project Total 2 GIS Infrastructure General Fund Federal Fund Federal Fund Special Fund Project Total 3 ShopND.com		\$6,875 \$1,625 \$15,000 \$1,350 \$5,100 \$900 \$7,350	
Priority 1 Website Development General Fund Federal Fund Special Fund Project Total 2 GIS Infrastructure General Fund Federal Fund Special Fund Special Fund Project Total 3 ShopND.com Federal Fund		\$6,875 \$1,625 \$15,000 \$1,350 \$5,100 \$900 \$7,350 \$20,000	\$7,350
Priority 1 Website Development General Fund Federal Fund Special Fund Project Total 2 GIS Infrastructure General Fund Federal Fund Special Fund Special Fund Project Total 3 ShopND.com Federal Fund Project Total		\$6,875 \$1,625 \$15,000 \$1,350 \$5,100 \$900 \$7,350	
Priority 1 Website Development General Fund Federal Fund Special Fund Project Total 2 GIS Infrastructure General Fund Federal Fund Special Fund Special Fund Special Fund Project Total 3 ShopND.com Federal Fund Project Total 4 Private Practioners Portal		\$6,875 \$1,625 \$15,000 \$1,350 \$5,100 \$900 \$7,350 \$20,000 \$20,000	\$7,350
Priority 1 Website Development General Fund Federal Fund Special Fund Project Total 2 GIS Infrastructure General Fund Federal Fund Special Fund Special Fund Project Total 3 ShopND.com Federal Fund Project Total 4 Private Practioners Portal Federal Fund		\$6,875 \$1,625 \$15,000 \$1,350 \$5,100 \$900 \$7,350 \$20,000 \$20,000	\$7,350 \$20,000
Priority 1 Website Development General Fund Federal Fund Special Fund Project Total 2 GIS Infrastructure General Fund Federal Fund Special Fund Special Fund Special Fund Project Total 3 ShopND.com Federal Fund Project Total 4 Private Practioners Portal Federal Fund Project Total		\$6,875 \$1,625 \$15,000 \$1,350 \$5,100 \$900 \$7,350 \$20,000 \$20,000	\$7,350
Priority 1 Website Development General Fund Federal Fund Special Fund Project Total 2 GIS Infrastructure General Fund Federal Fund Special Fund Special Fund Project Total 3 ShopND.com Federal Fund Project Total 4 Private Practioners Portal Federal Fund Project Total 5 National Animal Identification System		\$6,875 \$1,625 \$15,000 \$1,350 \$5,100 \$900 \$7,350 \$20,000 \$20,000 \$7,200 \$7,200	\$7,350 \$20,000
Priority 1 Website Development General Fund Federal Fund Special Fund Project Total 2 GIS Infrastructure General Fund Federal Fund Special Fund Special Fund Project Total 3 ShopND.com Federal Fund Project Total 4 Private Practioners Portal Federal Fund Project Total 5 National Animal Identification System Federal Fund		\$6,875 \$1,625 \$15,000 \$1,350 \$5,100 \$900 \$7,350 \$20,000 \$20,000 \$7,200 \$7,200 \$7,200	\$7,350 \$20,000 \$7,200
Priority 1 Website Development General Fund Federal Fund Special Fund Project Total 2 GIS Infrastructure General Fund Federal Fund Special Fund Project Total 3 ShopND.com Federal Fund Project Total 4 Private Practioners Portal Federal Fund Project Total 5 National Animal Identification System Federal Fund Project Total		\$6,875 \$1,625 \$15,000 \$1,350 \$5,100 \$900 \$7,350 \$20,000 \$20,000 \$7,200 \$7,200	\$7,350 \$20,000
Priority 1 Website Development General Fund Federal Fund Special Fund Project Total 2 GIS Infrastructure General Fund Federal Fund Special Fund Special Fund Project Total 3 ShopND.com Federal Fund Project Total 4 Private Practioners Portal Federal Fund Project Total 5 National Animal Identification System Federal Fund Project Total 6 Electronic Health Certificates		\$6,875 \$1,625 \$15,000 \$1,350 \$5,100 \$900 \$7,350 \$20,000 \$20,000 \$7,200 \$7,200 \$235,000 \$235,000	\$7,350 \$20,000 \$7,200
Priority 1 Website Development General Fund Federal Fund Special Fund Project Total 2 GIS Infrastructure General Fund Federal Fund Special Fund Special Fund Special Fund Project Total 3 ShopND.com Federal Fund Project Total 4 Private Practioners Portal Federal Fund Project Total 5 National Animal Identification System Federal Fund Project Total 6 Electronic Health Certificates Federal Fund		\$6,875 \$1,625 \$15,000 \$1,350 \$5,100 \$900 \$7,350 \$20,000 \$20,000 \$7,200 \$7,200 \$7,200 \$235,000 \$235,000	\$7,350 \$20,000 \$7,200 \$235,000
Priority 1 Website Development General Fund Federal Fund Special Fund Project Total 2 GIS Infrastructure General Fund Federal Fund Special Fund Special Fund Project Total 3 ShopND.com Federal Fund Project Total 4 Private Practioners Portal Federal Fund Project Total 5 National Animal Identification System Federal Fund Project Total 6 Electronic Health Certificates		\$6,875 \$1,625 \$15,000 \$1,350 \$5,100 \$900 \$7,350 \$20,000 \$20,000 \$7,200 \$7,200 \$7,200 \$235,000 \$235,000 \$20,000	\$7,350 \$20,000 \$7,200 \$235,000 \$20,000
Priority 1 Website Development General Fund Federal Fund Special Fund Project Total 2 GIS Infrastructure General Fund Federal Fund Special Fund Special Fund Project Total 3 ShopND.com Federal Fund Project Total 4 Private Practioners Portal Federal Fund Project Total 5 National Animal Identification System Federal Fund Project Total 6 Electronic Health Certificates Federal Fund Project Total		\$6,875 \$1,625 \$15,000 \$1,350 \$5,100 \$900 \$7,350 \$20,000 \$20,000 \$7,200 \$7,200 \$7,200 \$235,000 \$235,000	\$7,350 \$20,000 \$7,200 \$235,000
Priority 1 Website Development General Fund Federal Fund Special Fund Project Total 2 GIS Infrastructure General Fund Federal Fund Special Fund Special Fund Project Total 3 ShopND.com Federal Fund Project Total 4 Private Practioners Portal Federal Fund Project Total 5 National Animal Identification System Federal Fund Project Total 6 Electronic Health Certificates Federal Fund Project Total	General Fund Total	\$6,875 \$1,625 \$15,000 \$1,350 \$5,100 \$900 \$7,350 \$20,000 \$20,000 \$7,200 \$7,200 \$7,200 \$235,000 \$235,000 \$20,000	\$7,350 \$20,000 \$7,200 \$235,000 \$20,000
Priority 1 Website Development General Fund Federal Fund Special Fund Project Total 2 GIS Infrastructure General Fund Federal Fund Special Fund Special Fund Special Fund Project Total 3 ShopND.com Federal Fund Project Total 4 Private Practioners Portal Federal Fund Project Total 5 National Animal Identification System Federal Fund Project Total 6 Electronic Health Certificates Federal Fund	General Fund Total Federal Fund Total	\$6,875 \$1,625 \$15,000 \$1,350 \$5,100 \$900 \$7,350 \$20,000 \$20,000 \$7,200 \$7,200 \$7,200 \$235,000 \$235,000 \$20,000 \$20,000 \$304,550	\$7,350 \$20,000 \$7,200 \$235,000 \$20,000

		-	
		Recommended	Budget
		Amount	Request
As you Broject			•
Agency Project			
Priority 1 Security Access Replacement			
General Fund		\$0	
Federal Fund		\$56,000	
		\$56,000	\$56,000
Project Total 2 Past Perfect Collections Software		400,000	400,
		\$9,000	
General Fund		\$9,000	\$9,000
Project Total	<u></u>		\$65,000
00701 HISTORICAL SOCIETY		\$65,000	\$65,000
	General Fund Total	\$9,000	
	Federal Fund Total	\$56,000	
	liti 		i i i i i i i i i i i i i i i i i i i
00709 COUNCIL ON THE ARTS			
Agency Project			
Priority			
Online Software			
Federal Fund		\$11,500	• • • • • •
Project Total		\$11,5 <u>00</u>	\$11,500
00709 COUNCIL ON THE ARTS	•	\$11,500	\$11,500
00720 GAME AND FISH DEPARTMENT			
Agency Project			
Priority			
Field Office Network Project			
Special Fund		\$50,000	
Project Total		\$50,000	\$50,000
		\$50,000	\$50,000
00720 GAME AND FISH DEPARTMENT		\$30,000	430,000
00750 PARKS AND RECREATION DEPT		· · · · · · · · · · · · · · · · · · ·	
Agency Project			
Priority	Alvita		
Priority 1 Facility Maintenance Application Re-	Write	go.	
Priority 1 Facility Maintenance Application Re- General Fund	Write	\$0 ***	¢ 50,000
Priority 1 Facility Maintenance Application Re- General Fund Project Total		\$0 \$0	\$50,000
Priority 1 Facility Maintenance Application Re-Vince General Fund Project Total 2 Online Campground Reservation Sys		\$0	\$50,000
Priority 1 Facility Maintenance Application Re-Number of Seneral Fund Project Total 2 Online Campground Reservation Systems of Systems (Seneral Fund)		\$0 \$0	\$50,000
Priority 1 Facility Maintenance Application Re-Number of Seneral Fund Project Total 2 Online Campground Reservation Systems General Fund Special Fund		\$0 \$0 \$110,000	
Priority 1 Facility Maintenance Application Re-Number of Seneral Fund Project Total 2 Online Campground Reservation Systems of Systems (Seneral Fund)		\$0 \$0	\$110,000
Priority 1 Facility Maintenance Application Re-Number of Seneral Fund Project Total 2 Online Campground Reservation Systems General Fund Special Fund		\$0 \$0 \$110,000	
Priority 1 Facility Maintenance Application Re-Vice General Fund Project Total 2 Online Campground Reservation Systems General Fund Special Fund Project Total		\$0 \$0 \$110,000 \$110,000	\$110,000
Priority 1 Facility Maintenance Application Re-Vice General Fund Project Total 2 Online Campground Reservation Systems General Fund Special Fund Project Total	etem General Fund Total	\$0 \$0 \$110,000 <u>\$110,000</u> \$110,000	\$110,000
Priority 1 Facility Maintenance Application Re-Vice General Fund Project Total 2 Online Campground Reservation Systems General Fund Special Fund Project Total	stem 	\$0 \$0 \$110,000 \$110,000 \$110,000	\$110,000
Priority 1 Facility Maintenance Application Re-Vice General Fund Project Total 2 Online Campground Reservation Systems General Fund Special Fund Project Total	etem General Fund Total	\$0 \$0 \$110,000 \$110,000 \$110,000	\$110,000
Priority 1 Facility Maintenance Application Re-Vince General Fund Project Total 2 Online Campground Reservation Systems General Fund Special Fund Project Total 00750 PARKS AND RECREATION DEPT	etem General Fund Total	\$0 \$0 \$110,000 \$110,000 \$110,000	\$110,000
Priority 1 Facility Maintenance Application Re-Note General Fund Project Total 2 Online Campground Reservation Systems General Fund Special Fund Project Total 00750 PARKS AND RECREATION DEPT 00801 DEPT OF TRANSPORTATION Agency Project	etem General Fund Total	\$0 \$0 \$110,000 \$110,000 \$110,000	\$110,000
Priority 1 Facility Maintenance Application Re-Note General Fund Project Total 2 Online Campground Reservation System General Fund Special Fund Project Total 00750 PARKS AND RECREATION DEPT 00801 DEPT OF TRANSPORTATION Agency Project Priority	General Fund Total Special Fund Total	\$0 \$0 \$110,000 \$110,000 \$110,000	\$110,000
Priority 1 Facility Maintenance Application Re-Note General Fund Project Total 2 Online Campground Reservation Systems General Fund Special Fund Project Total 00750 PARKS AND RECREATION DEPT 00801 DEPT OF TRANSPORTATION Agency Project Priority 1 CVISN (Commercial Vehicle Systems	General Fund Total Special Fund Total	\$0 \$110,000 <u>\$110,000</u> \$110,000 \$0 \$110,000	\$110,000
Priority 1 Facility Maintenance Application Re-Note General Fund Project Total 2 Online Campground Reservation Systems General Fund Special Fund Project Total 00750 PARKS AND RECREATION DEPT 00801 DEPT OF TRANSPORTATION Agency Project Priority 1 CVISN (Commercial Vehicle Systems Federal Fund	General Fund Total Special Fund Total	\$0 \$110,000 \$110,000 \$110,000 \$0 \$110,000	\$110,000
Priority 1 Facility Maintenance Application Re-Note General Fund Project Total 2 Online Campground Reservation Systems General Fund Special Fund Project Total 00750 PARKS AND RECREATION DEPT 00801 DEPT OF TRANSPORTATION Agency Project Priority 1 CVISN (Commercial Vehicle Systems Federal Fund Special Fund	General Fund Total Special Fund Total	\$0 \$110,000 \$110,000 \$110,000 \$0 \$110,000 \$83,250 \$83,250	\$110,000 \$160,000
Priority 1 Facility Maintenance Application Re-Note General Fund Project Total 2 Online Campground Reservation Systems General Fund Special Fund Project Total 00750 PARKS AND RECREATION DEPT 00801 DEPT OF TRANSPORTATION Agency Project Priority 1 CVISN (Commercial Vehicle Systems Federal Fund Special Fund Project Total	General Fund Total Special Fund Total s and Networks)	\$0 \$110,000 \$110,000 \$110,000 \$0 \$110,000	\$110,000
Priority 1 Facility Maintenance Application Re-Nogeral Fund Project Total 2 Online Campground Reservation Systems General Fund Special Fund Project Total 00750 PARKS AND RECREATION DEPT 00801 DEPT OF TRANSPORTATION Agency Project Priority 1 CVISN (Commercial Vehicle Systems Federal Fund Special Fund Special Fund Project Total 2 Upgrade Pavement Management Systems	General Fund Total Special Fund Total s and Networks)	\$0 \$110,000 \$110,000 \$110,000 \$0 \$110,000 \$83,250 \$83,250 \$166,500	\$110,000 \$160,000
Priority 1 Facility Maintenance Application Re-Nogeral Fund Project Total 2 Online Campground Reservation Systems General Fund Special Fund Project Total 00750 PARKS AND RECREATION DEPT 00801 DEPT OF TRANSPORTATION Agency Project Priority 1 CVISN (Commercial Vehicle Systems Federal Fund Special Fund Project Total Upgrade Pavement Management Systems Federal Fund Project Total Upgrade Pavement Management Systems	General Fund Total Special Fund Total s and Networks)	\$0 \$110,000 \$110,000 \$110,000 \$0 \$110,000 \$83,250 \$83,250 \$166,500 \$447,200	\$110,000 \$160,000
Priority 1 Facility Maintenance Application Re-Nogeneral Fund Project Total 2 Online Campground Reservation Systems General Fund Special Fund Project Total 00750 PARKS AND RECREATION DEPT 00801 DEPT OF TRANSPORTATION Agency Project Priority 1 CVISN (Commercial Vehicle Systems Federal Fund Special Fund Project Total Upgrade Pavement Management Systems Federal Fund Special Fund Special Fund Special Fund Special Fund	General Fund Total Special Fund Total s and Networks)	\$0 \$110,000 \$110,000 \$110,000 \$0 \$110,000 \$110,000 \$83,250 \$83,250 \$166,500 \$447,200 \$111,800	\$110,000 \$160,000 \$166,500
Priority 1 Facility Maintenance Application Re-Nogeral Fund Project Total 2 Online Campground Reservation Systems General Fund Special Fund Project Total 00750 PARKS AND RECREATION DEPT 00801 DEPT OF TRANSPORTATION Agency Project Priority 1 CVISN (Commercial Vehicle Systems Federal Fund Special Fund Project Total Upgrade Pavement Management Systems Federal Fund Special Fund Special Fund Special Fund Project Total	General Fund Total Special Fund Total s and Networks)	\$0 \$110,000 \$110,000 \$110,000 \$0 \$110,000 \$83,250 \$83,250 \$166,500 \$447,200	\$110,000 \$160,000
Priority 1 Facility Maintenance Application Re-Nogeral Fund Project Total 2 Online Campground Reservation Systems General Fund Special Fund Project Total 00750 PARKS AND RECREATION DEPT 00801 DEPT OF TRANSPORTATION Agency Project Priority 1 CVISN (Commercial Vehicle Systems Federal Fund Special Fund Project Total 2 Upgrade Pavement Management Systems Federal Fund Special Fund Project Total 3 Upgrade RIMS Inventory Interface	General Fund Total Special Fund Total s and Networks)	\$0 \$110,000 \$110,000 \$110,000 \$0 \$110,000 \$110,000 \$447,200 \$111,800 \$559,000	\$110,000 \$160,000 \$166,500
Priority 1 Facility Maintenance Application Re-Nogeral Fund Project Total 2 Online Campground Reservation Systems General Fund Special Fund Project Total 00750 PARKS AND RECREATION DEPT 00801 DEPT OF TRANSPORTATION Agency Project Priority 1 CVISN (Commercial Vehicle Systems Federal Fund Special Fund Project Total Upgrade Pavement Management Systems Federal Fund Special Fund Special Fund Special Fund Project Total	General Fund Total Special Fund Total s and Networks)	\$0 \$110,000 \$110,000 \$110,000 \$0 \$110,000 \$110,000 \$83,250 \$83,250 \$166,500 \$447,200 \$111,800	\$110,000 \$160,000 \$166,500

	Recommended	Budget
	Amount	Request
Special Fund	\$79,584	•
Project Total	\$397,918	\$397,918
4 TDEA rewrite to include WIM data		
Federal Fund	\$86,400	
Special Fund	\$21,600	
Project Total	\$108,000	\$108,000
5 Priority System Rewrite		
Federal Fund	\$125,280	
Special Fund	\$31,320	
Project Total	\$156,600	\$156,600
6 Drivers License System Rewrite		
Special Fund	\$0	
Project Total	\$0	<u>\$2,019,930</u>
00801 DEPT OF TRANSPORTATION	\$1,388,018	\$3,407,948
Federal Fund Total	\$1,060,464	
Special Fund Total	\$327,554	
GRAND TOTAL	\$67,276,301	\$74,592,209
Total less \$8,127,034 - ITD's DHS MMIS Project	\$59,149,267	
General Fund Total	\$11,124,612	
Federal Fund Total	\$36,562,467	
Special Fund Total	\$11,462,188	

2005-07 Executive Recommendation IT Projects Higher Ed Only

\$21,924,083

	Recommended Amount	Budget Request
00215 ND UNIVERSITY SYSTEM		
Agency Proejct		
Priority		
1 Technology Pool		
General Fund	\$21,924,083	*** ***
Project Total	\$21,924,083	\$22,10 <u>5,</u> 783
00215 ND UNIVERSITY SYSTEM	\$21,924,083	\$22,105,783
GRAND TOTAL	\$21,924,083	\$22,105,783

General Fund Total Federal Fund Total Special Fund Total

PTI Recommendations

House Bill 1505, section 13 (2003) required Legislative Council to conduct an information technology organization and management study. Legislative Council contracted with Pacific Technologies, Inc to complete the study. Following are their key findings and major recommendations along with the current status. The complete study can be found at www.state.nd.us/lr/assembly/58-2003/docs/pdf/ndoandmstudy.pdf.

PTI Key Findings	PTI Major Perommondations	Current Status
The State has a highly fragmented approach to help desk services and workstation support.	PTI Major Recommendations Consolidate all labor associated with installing, maintaining, and supporting personal computers within the Information Technology Department (ITD).	Agencies are gathering data to see where centralized services can provide measurable benefits. ITD will provide support services to agencies as requested. The need for further consolidation will be reviewed after standardized workstations have been deployed (2007-09).
2. Inconsistent standards and policies surround workstation platforms, configurations, and replacement.	Move to a highly standardized workstation environment on a statewide basis – with ITD managing the replacement cycles.	 Standard configurations were developed through EA and a contract has been issued. ITD is in the process of developing a service offering for PC management. Implementation of a desktop management solution will be a critical next step.
3. The State can achieve additional savings and improve alignment with long-term goals (post-HB 1505) through continued server consolidation efforts.	Consolidate all servers into ITD – reducing over 150 servers from the State's inventory and making corresponding reductions to agency and ITD server administration labor.	 102 servers were eliminated during consolidation. Further reductions will occur over time as outdated applications and servers are replaced. Investments may be required to achieve additional server consolidation, i.e. email.
4. The State lacks consistent methods, tools, and performance measures to assess and prioritize requests for major IT investments.	Build on existing IT governance processes – including mechanisms for cost containment and meaningful statewide IT management reporting.	 A project prioritization process has been implemented. The Enterprise Architecture process is maturing and provides a good vehicle for inter-agency collaboration. Procurement and asset management have been a focus. Eventually PeopleSoft will provide better asset reporting.

State Contract for Standard PC Configurations

A new State contract for acquisition of PC equipment based on standard specifications was awarded to Hewlett Packard Company December 1, 2004. The HP contract is the culmination of a project started by ITD, OMB, and the Enterprise Architecture program in early 2004 to begin moving state government toward a standardized PC environment.

- The contract will supply the State's standard desktop and laptop configurations (two desktop configurations and two laptop configurations—"Mainstream" and "Power User").
- 3-year contract term with option to extend up to 5 years.
- Available to all North Dakota state government agencies and Higher Education institutions; Political subdivisions and K-12 schools may also participate under cooperative purchasing agreements with the State.
- North Dakota resellers may participate (HP authorized State & Local Government and Education Partners).
- Prices for the standard configurations are significantly discounted below standard government pricing such as that under the WSCA program used in the past. For example, the State's mainstream desktop configuration (Pentium 4 - 3 Gigahertz processor with 500 Megabytes of memory) is priced at \$550 as compared to a typical WSCA price of \$906.
- For State government's approximately 5000 mainstream desktop PCs, there is an estimated cost avoidance of \$1,275,000 over a 4-year replacement cycle.
- In order to keep the standard specifications current as technology advances, the State will conduct quarterly reviews with HP to identify updates to our standard configurations.
- A custom web site is available for North Dakota agencies to obtain information about the
 equipment available on the contract, create quotes, and place orders. The HP State of
 North Dakota web site address is http://www.hp.com/buy/NorthDakota.
- In approving the HP contract, The State Information Technology Advisory Committee (SITAC) designated the contract as a "mandatory term contract" for state agencies. This means that state agencies must purchase from the HP contract if they are purchasing PC equipment where the requirements can be met by the standard configurations available in the contract, unless the agency obtains a waiver from the State Procurement Office.
- HP will be providing reports of purchasing volumes to the State for monitoring compliance with the term contract and achievement of standardization goals.
- The State's Standard PC contract is an example of the purchasing power that state government can exercise when we coordinate and aggregate our procurements. The standardization of PC equipment also brings longer term benefits in terms of simplifying technical support and lowering support costs.

State Term Contract - HP Contract Pricing Effective December 1, 2004

Desktop Equipment:

	Office Automation Desktop
Processor	Intel Pentium 4, 3.0Gigahertz
Memory	512 Megabytes
Hard Drive	40 Gigabytes, 7200 RPM spindle speed
Operating System	Microsoft Windows XP Professional or Windows 2000
Base Warranty	Next Business Day, 3 year parts and labor
Price	\$550

-	Power User Desktop
Processor	Intel Pentium 4, 3.2Gigahertz
Memory	1 Gigabyte
Hard Drive	40 Gigabytes, 7200 RPM spindle speed
Operating System	Microsoft Windows XP Professional or Windows 2000
Base Warranty	Next Business Day, 3 year parts and labor
Price	\$795

Laptop Equipment:

	Mainstream Laptop
Processor	Intel PM 1.7 Gigahertz
Memory	512 Megabytes
Hard Drive	40 Gigabytes, 5400 RPM spindle speed
Display	15" TFT 1024 x 768
Operating System	Microsoft Windows XP Professional or Windows 2000
Input Devices	Touchpad and Ballpoint
Base Warranty	Next Business Day, 3 year parts and labor
Price	\$1334

	Power User Laptop
Processor	Intel PM 1.7 Gigahertz
Memory	1 Gigabyte
Hard Drive	40 Gigabytes, 5400 RPM spindle speed
Display	15" TFT 1024 x 768
Operating System	Microsoft Windows XP Professional or Windows 2000
Input Devices	Touchpad and Ballpoint
Base Warranty	Next Business Day, 3 year parts and labor
Price	\$1720

Monitor Equipment:

Mionitor Equip	III CAI CI	
Model	Price	
17" CRT	\$115	
19" CRT	\$168	
22" CRT	\$450	
17" Flat Panel	\$325	
19" Flat Panel	\$500	

North Dakota Information Technology Functional Consolidation Project

Post Project Review Report

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Purpose of this Document

The Post Project Review Report will be the last formal document issued for the IT Functional Consolidation Project. It provides a summary of the project and captures actual expenditures and projected savings. Any future modifications will be documented in the appendices.

Project Overview

The IT Functional Consolidation Project was created to meet the legislative intent of Sections 10, 11, and 16 of North Dakota House Bill 1505, of the 58th Legislative Assembly.

Section 10 required 24 full-time equivalent positions relating to information technology (IT) services, including electronic mail, file and print server administration, database administration, storage, application server and hosting services, be reduced and transferred from 15 various agencies to the Information Technology Department (ITD), unless exempt by the Chief Information Office, Curtis Wolfe and the Project Executive Committee. Each affected agency is required to purchase these services from ITD.

Section 11 requires the Office of Management and Budget (OMB) to achieve efficiencies during the 2003-05 biennium, relating to the required consolidation of IT functions. OMB and ITD are to achieve accumulated net savings totaling \$1,400,000, and may exercise full discretion in achieving efficiencies and cost-savings expected from the proposed consolidation.

Section 16 required each state agency and institution, excluding the legislative and judicial branches, institutions under the control of the state board of higher education, the Public Employees Retirement System (PERS), the Retirement and Investment Office (RIO), the Attorney General's Office, and any entity exempt by OMB and ITD, to obtain electronic mail, file and print server administration, database administration, storage, application server, and hosting services through a delivery system established by ITD and OMB.

In order to meet the requirements of this legislation, several project teams were assembled as outlined in Appendix III to develop a project plan, analyze the technical, financial, and human resource aspects, and develop recommendations for implementing functional consolidation.

Development of Initial Recommendations

A report was created with the initial recommendations of the Executive Committee.

The recommendations were established from data gathering meetings with affected agencies. On July 18, 2003, a draft version of the report was sent to the 15 agencies listed in Section 10. During the week of July 21-25, 2003, those agencies had an opportunity to ask questions and provide additional information after viewing the preliminary document. The final report, Version 1.0, was issued on August 11, 2003 after approval from the Governor.

A similar process was followed for the remaining agencies impacted by Section 16. That report was issued on August 21, 2003, and the agencies had an opportunity to ask questions and comment from August 21 to August 28, 2003.

IT Functional Consolidation Project Post Project Review Report September 15, 2004

Impacted Agencies

The following agencies were impacted by Section 16, but are also specified in Section 10 to transfer FTEs:

- 1. Office of Management and Budget
- 2. Tax Department
- 3. Department of Public Instruction
- 4. State Department of Health
- 5. Department of Human Services
- 6. Job Service North Dakota
- 7. Industrial Commission
- 8. Bank of North Dakota

- 9. Housing Finance Agency
- 10. Workforce Safety and Insurance
- 11. Highway Patrol
- 12. Dept. of Corrections and Rehabilitation
- 13. Game and Fish Department
- 14. State Water Commission
- 15. Department of Transportation

The remaining agencies impacted include:

- 1. Adjutant General
- 2. Aeronautics Commission
- 3. Children's Service Coordinating Committee
- 4. Council on the Arts
- 5. Department of Agriculture
- 6. Department of Commerce
- 7. Dept. of Financial Institutions
- 8. Dept. of Parks & Recreation
- 9. Dept. of Veterans Affairs
- 10. Emergency Management
- 11. Governor's Office
- 12. Indian Affairs Commission
- 13. Insurance Commissioner's Office
- 14. Labor Commissioner's Office
- 15. ND Mill and Elevator Association

- 16. Office of Administrative Hearings
- 17. Protection & Advocacy Project
- 18. Public Service Commission
- 19. School for the Blind
- 20. School for the Deaf
- 21. Secretary of State's Office
- 22. Securities Commissioner's Office
- 23. State Auditor's Office
- 24. State Board for Vocational Education
- 25. State Fair
- 26. State Historical Society
- 27. State Land Department
- 28. State Library
- 29. State Seed Department
- 30. State Treasurer's Office
- 31. Veterans Home

Executive Summary

Legislative Requirements

Objective - Section 10: FTE Reductions

Section 10 of HB1505 required 24 full-time equivalent (FTE) positions relating to information technology services be reduced and transferred from 15 agencies to ITD, unless exempt by the Chief Information Officer, Curtis Wolfe and the Project Executive Committee.

Recommendation:

The Executive Committee recommended that eight and one half FTEs (seven full time positions and half of three additional positions) be transferred to ITD on November 1.

In analyzing the FTE transfer, our project team requested information on positions from the agencies and benchmarked that against META Group research, indicating that an average of 15 to 18 servers is typically supported by one administrator. A total percentage of FTEs relating to consolidated services was calculated for the agency and the result was rounded to the nearest half FTE to determine the number to be transferred.

Result:

Of the eight and one half FTEs transferred to ITD, six positions were filled and two were eliminated. The following table lists agencies that transferred FTEs.

Agency	FTEs Transferred	Agency	FTEs Transferred
DPI	0.5	WSI	1.0
Health	0.5	DOT	1.5
DHS	4.0	JSND	1.0

Objective - Section 11: Cost Savings

Section 11 of HB1505 requires OMB to achieve efficiencies during the 2003-05 biennium, relating to the consolidation of IT functions. OMB and ITD are to achieve accumulated net savings totaling \$1,400,000, but may exercise full discretion incorporating necessary modifications. Savings accumulated as a result of those efficiencies will transfer to the general fund by June 30, 2005.

Recommendation:

Achieving cost savings of \$1,400,000 by FTE reductions would have required 14 positions with average salaries of \$50,000 per year to be eliminated beginning July 1, 2003. As noted above, the Executive Committee did not recommend FTE reductions of this magnitude. However, the reduction in hardware and software costs due to the consolidation of servers is substantial. Because of the diversity of agency infrastructure, there were costs associated with transitioning to a standard environment. Over the long term, the Executive Committee expects that additional savings from efficiencies will be realized.

Result:

OMB and ITD developed cost-effective rates for the consolidated services based on the increased volume. The rates are included as Appendix I.

One hundred and two servers were eliminated; reducing ongoing costs associated with hardware replacement and software upgrades. Projected savings for the 2003-05 biennium total \$438,775, and ongoing savings for the 2005-07 biennium is estimated at \$961,146.

Objective - Section 16: Consolidated Services

HB1505, Section 16 required each state agency and institution, excluding the legislative and judicial branches, the institutions under the control of the state board of higher education, the Public Employees Retirement System (PERS), the Retirement and Investment Office (RIO), the Attorney General's Office, and any entity exempt by OMB and ITD, to obtain the recommended services through a delivery system established by ITD and OMB.

Recommendation:

For the 15 agencies specified in Section 10 of HB1505, the Executive Committee recommended either partial or total exemptions for the Bank of North Dakota, Housing Finance Agency, and the State Water Commission because of unique circumstances in those agencies. Twenty-one servers remain in those agencies. These exemptions will be reviewed on a biennial basis.

For the remaining 31 agencies where FTEs were not considered, the Executive Committee recommended exempting the State Fair and State Mill and Elevator. The technical and financial project leads also recommended the School for the Blind, School for the Deaf, the Seed Department, and Adjutant General be excluded from consolidation. For further explanation of these exemptions, see the Exemptions section in Appendix IV.

Result:

Among the remaining agencies, 21 servers were eliminated. Assuming the agency staff time dedicated to maintaining these servers could be eliminated, approximately 1.6 FTEs or \$80,000 per year could be reallocated to other functions on a statewide basis.

The following table lists the number of agencies consolidated for each service as a result of HB1505. Several agencies were utilizing ITD services prior to this project.

Service	# of Agencies Fully Consolidated	# of Agencies Partially Consolidated
Electronic Mail	5	0
File and Print	25	0
Database	5	1
Storage	3	0
Application Server	10	3
Web Hosting Services	11	0

Agency Consolidation Decision Matrix

Two tables comprise this section. Table 1 summarizes the services consolidated and the FTEs that were transferred. Table 2 summarizes the services consolidated for the remaining agencies impacted by Section 16 of HB1505.

Table 1: 15 Agencies of Section 10

Agency	Em ail	F&P		Αpp	Stora	Web	FTE	FTE	ETE	# of a	# of a serve migra	# of s rem a agen	03-05 current budget	03-05 transfer amount	03-05 projected	03-05 projected	05-07+ Projected	05-07 Projected
	=			Serv	a g e		Leg	_ =	Tra	ge	te rs	serv inin cy			cost	savings	Agency	Savings
	1			7		Hosting	اہدا	urrently	n s	n c	n cy d to	ers ng in				(cost)	Cost	
						ng !	arget	tly	ransferred	y rrent	y o ITD	in					Ongoing	
110 OMB	P	P	Р	C*	N	P	1	0.00		5	2	3	\$6,240	\$2,600	\$4,820	(\$2,220)	\$11,568	(\$5,328)
127 TAX	Р	С	N	С	N	Р	1	0.10		2	2	0	\$17,396	\$15,148	17,913.00	(\$2,765)	\$21,700	(\$4,304)
201 DPI	c	С	c	C*	N	С	1	0.60	0.50	10	9	1	\$75,114	\$62,965	18,813.00	\$44,152	\$24,720	\$50,394
301 Health	P	С	N	C*	N	c	1	0.50	0.50	13	7	6	\$80,914	\$33,714	\$33,190	\$524	\$79,656	\$1,258
325 DHS	P	С	С	С	С	c	5	3.85	4.00	56	56	Ö	\$1,065,825	\$788,416	\$788,241	\$175	\$705,160	\$360,665
380 JSND	P	C	C*	C*	С	c	3	0.85	1.00	14	13	1	\$366,258	\$303,994	\$212,351	\$91,643	\$211,896	\$154,362
405 Ind Comm	c	С	c	c	N	c	1	0.15		6	3	3	\$13,048	\$7,068	\$2,719	\$4,349	\$12,624	\$424
471 BND	P	Х	Х	X	N	x	1	0.85		13	0	13	\$357,116	\$0	\$0	\$0	\$357,116	\$0
473 HFA	Х	Х	Х	Х	N	X	1	0.25		3	0	3	\$32,664	\$0	\$0	\$0	\$32,664	\$0
485 WSI	c	С	С	c	С	c	2	0.50	1.00	19	2	17	\$95,577	\$39,824	\$16,940	\$22,884	\$40,656	\$54,921
504 HP	P	С	Р	C*	N	c	1	0.20	_	3	2	1	\$22,795	\$19,356	\$3,926	\$15,430	\$6,960	\$15,835
530 DOCR	P	c	С	C	N	c	2	0.50		13	13	0	\$46,821	\$19,509	\$19,509	\$0	\$83,952	(\$37,131)
720 G&F	P	С	Р	Р	N	c	1	0.23		7	7	C	\$62,176	\$33,679	\$4,198	\$29,481	\$9,168	\$53,008
770 SWC	c	Х	Х	X	Х	Х	1	0.50			- 0		\$55,045	\$0	\$0	\$0	\$55,045	\$0
801 DOT	P	С	С	c	N	c	2	1.65	1.50	33	33	-	\$388,956	\$210,685	\$83,908	\$126,777	\$217,404	\$171,552
	_	Ь	<u> </u>		Tol	ial	24	10.73	8.50	202	149	53	\$2,685,94	\$1,536,957	\$1,206,527	\$330,429	\$1,870,289	\$815,656

C=Consolidate
C*=Partially Consolidate
P=Previously Consolidated
N=Not Applicable
X=Not Consolidated

Notes applicable to Table 1 and 2:

- 03-05 current budget is an estimate of agency planned spending. Agency budgets are not typically
 tracked at this level of detail. Because some agencies budgeted for server replacements in 03-05 and
 others did not, the number does not necessarily reflect average expenditures over time.
- 03-05 transfer amount is a pro-rated amount of the agency budget based on when each agency was consolidated. It is used in conjunction with 03-05 projected costs to calculate 03-05 projected savings.
- 03-05 projected costs do not reflect 24 months but are based on the date each agency was
 consolidated. 05-07 projected agency costs are based on a full biennium and are used in
 conjunction with the 03-05 current budget to calculate 05-07 projected savings. These projections are
 for purposes of the analysis only. Individual agency costs will vary.
- Projected savings include general, federal and special funds.

Table 2: Remaining Agencies Impacted

Agency	Emall	F&P	DBA	App Serv	Storage	Web Hosting	# of agency servers current	# of agency servers migrated to ITD	# of servers remaining in agency	03-05 current budget	03-05 transfer amount	03-05 projected cost	03-05 projected savings (cost)	05-07+ Projected Agency Cost Ongoing	05-07 Projected Savings
101 Gov	Ð	Ъ	Z	Z	N	Р	0	0	0	\$2,040	\$850	\$550	\$300	\$2,040	\$0
108 Sec State	Р	Р	Z	Z	N	Р	0	0	0	\$6,240	\$4,940	\$2,242	\$2,698	\$2,664	\$3,576
117 Auditors	Р	С	N	Z	И	Р	2	2	0	\$8,644	\$6,123	\$3,157	\$2,966	\$4,656	\$3,988
120 Treas	Р	N	N	N	N	Р	0	0	0	\$0	\$0	\$0	\$0	\$0	\$0
140 OAH	Р	С	N	С	N	Р	1	1	0	\$3,052	\$1,908	\$1,272	\$636	\$2,088	\$964
226 Land	Р	С	N	С	N	С	2	2	0	\$45,839	\$28,649	\$7,767	\$20,882	\$13,152	\$32,687
250 Library	P	С	N	С	N	С	2	2	0	\$13,312	\$8,875	\$3,066	\$5,809	\$4,680	\$8,632
252 Deaf	X	Х	N	Ñ	N	Х	1	0	1	\$23,875	\$0	\$0	\$0	\$23,875	\$0
253 Vision	Р	Х	N	N	N	X	2	0	2	\$11,088	\$0	\$0	\$0	\$11,088	\$0
270 Voc Ed	Р	Р	N	N	N	Р	0	0	0	\$6,240	\$4,940	\$2,549	\$2,391	\$3,120	\$3,120
313 Vets Home	С	С	N	С	N	С	1	1	0	\$16,350	\$16,350	\$16,350	\$0	\$16,296	\$54
316 Indian Affairs	Р	N	И	N	N	Р	0	0	0	\$0	\$0	\$0	\$0	\$0	\$0
321 Vets Affairs	Р	N	N	N	N	Р	0	0	0	\$0	\$0	\$0	\$0	\$0	\$0
324 CSCC	Р	N	N	N	N	N	0	0	0	\$24	\$0	\$0	\$0	\$24	\$0
360 P&A	Р	С	N	N	N	С	1	1	0	\$8,211	\$5,816	\$1,385	\$4,431	\$2,664	\$5,547
nsurance	P	С	N	N	N	Р	2	2	0	\$15,505	\$9,045	\$2,550	\$6,495	\$4,320	\$11,185
406 Labor	Р	С	N	Х	N	Р	2	1	1	\$1,680	\$1,190	\$981	\$209	\$1,296	\$384
408 PSC	С	С	N	С	C	С	5	2	3	\$57,357	\$30,167	\$9,063	\$21,105	\$20,000	\$5,084
412 Aeronautics	Р	С	N	N	N	Р	. 1	1	0	\$950	\$594	\$516	\$78	\$984	(\$34)
413 DFI	Р	Р	N	N	N	Р	0	. 0	0	\$6,240	\$4,940	\$1,966	\$2,974	\$2,520	\$3,720
414 Securities	Р	Р	N	N	N	Р	O	0	0	\$6,240	\$4,940	\$667	\$4,273	\$8,16	\$5,424
512 DEM	P	С	N	С	N	Р	1	1	0	\$2,600	\$1,083	\$1,900	(\$817)	\$4,560	(\$1,960)
540 Adj Gen	X	Х	N	х	N	Х				\$16,100	\$0	\$0	\$0	\$16,100	\$0
601 Commerce	P	С	N	C*	N	С	3	2	1	\$12,709	\$9,002	\$7,303	\$1,699	\$10,920	\$1,789
602 Ag Dept	P	C	N	С	N	С	1	1	0	\$25,745	\$25,745	\$0	\$25,745	\$5,544	\$20,201
616 Seed	Х	Х	N	Х	N	Р	3	0	3	\$9,250	\$0	\$0	\$0	\$9,250	\$0
701 Historical	Р	C	N	N	N	Р	1	1	C	\$10,990	\$6,41	\$3,199	\$3,212	\$5,376	\$5,614
709 Arts	Р	N	N	N	N	P	0	0	С	\$1,000	\$0	\$0	\$(\$1,000	\$0
750 Parks	P	С	N	N	N	Р	1	1	C	\$9,242	\$6,16	\$2,900	\$3,26	\$6,000	\$3,242
Total		_	_		_		32	21	11	\$320,523	\$177,729	\$69,383	\$108,346	\$175,033	\$145,490

C=Consolidate
C*=Partially Consolidate
P=Previously Consolidated
N=Not Applicable
X=Not Consolidated

Overall Cost - Benefit Analysis

Benefits of Consolidation

Two separate and independent components were involved in the consolidation process: 1) placing the management of the specified IT services under a single organizational entity (ITD) and 2) leveraging this centralized management to create a common shared infrastructure wherever possible.

In the original analysis, it was determined that state government could potentially eliminate 100 or more application, database or file and print servers. In actuality, 102 were eliminated, with the potential of further reduction.

The path toward cost reduction requires the creation of a common shared infrastructure to deliver services. For example, State government had over 100 servers providing file and print services, typically one or more per agency. Utilizing the state network and consolidating onto a single, clustered, environment for state government eliminated several application, database or file and print servers. This reduction in server count will decrease the state's cost in hardware, software and technical support. Every effort was made to reuse equipment and software licenses where possible while at the same time reducing the ongoing costs through consolidation.

While the creation of a shared infrastructure can decrease cost, there are services that simply do not fit within a shared infrastructure model at this time. Some services require a complex environment consisting of multiple servers, while others require truly unique technology to satisfy a single agency's business needs. For services such as these, lowering the server count is not possible and a different approach must be found to create efficiencies.

Due to consolidation we can more efficiently manage a large number of servers. We now have a smaller team of experts dedicated to administering this infrastructure.

Additional Considerations

During the analysis phase, a number of issues surfaced relating to the consolidation either directly or indirectly. The project team, along with ITD management and enterprise architecture teams reviewed the following considerations to clarify and address any outstanding issues.

1. Service Definition Clarification

The consolidated services were not defined in statute and while a general understanding of the services is understood, there is still confusion about how far the services go when interfacing with customers and end-users. Brief descriptions of the consolidated services have been developed and are provided in Appendix II. The agency personnel in positions being considered for FTE transfers typically have responsibilities that go beyond the narrow definitions of the consolidated services. They have direct contact with users in the agencies and work with them to develop technical solutions or provide end-to-end support. If the position is eliminated, ITD or someone else must provide these services. Services in question include the project management and consulting associated with selecting technologies and deploying new applications, user administration, and desktop support. Managing customer expectations will be important to the success of the project.

2. Network Operating System Standard

In order for file and print consolidation to provide cost savings, a standard environment must be supported. ITD supports Microsoft Windows as the local area network server environment of choice. The use of Active Directory as a standard was also developed through the enterprise architecture process.

3. Further Consolidation of E-mail

ITD has consolidated the majority of agencies onto two e-mail systems — Exchange and Lotus Notes. While two systems are considerably more efficient than the previous variety of products, further savings may be realized by moving to a single e-mail system. A recommendation for a single e-mail solution was developed through the enterprise architecture process. A migration plan, implementation budget and proposed benefits have been developed. Agencies should consider this in the 2005-07 budget.

4. Further Database Consolidation

For true consolidation of the database environment, a standard and approved database list was defined through the enterprise architecture process. Further migration plans must be developed to move off legacy or non-mainstream databases. Agencies should consider this in the 2005-07 budget.

5. High Speed Network Requirements and Remote Support

To deliver file and print services and high bandwidth applications from a centralized environment, high-speed connections to the state network are essential.

For agencies outside of the Bismarck area, ITD will continue to explore options in an attempt to remove those outlying servers.

In some cases, servers in locations outside of Bismarck remained in place. Some efficiency will be gained by coordinating support services for multiple agencies outside the Bismarck area. For agencies who are not located in the capitol building, access to support staff and access to network connectivity are important issues that must be addressed in the support plan.

6. Security and Confidentiality Concerns

A number of agencies have expressed concern that moving a server physically out of their agency will compromise the security and confidentiality of their electronic information. ITD is confident that they have met or exceeded the security and confidentiality requirements that agencies have.

7. Transition Planning

There were a number of issues related to a change of this magnitude. One of the biggest concerns was that service levels would drop as key personnel within the agencies transitioned to new positions. Agencies worried that skilled staff would leave state government employment because of the uncertainty surrounding their positions.

ITD and technical staff in the agencies worked together to ensure a successful transition to the consolidated environment. Staff worked tirelessly to complete the tasks associated with the migration in addition to their normal duties. Agency desktop support staff had to reconfigure end-user computers to point to the new servers. A great deal of coordination and cooperation was needed for the migration to be successful.

8. Impact on Desktop Support Services

Consolidation recognized the impact on desktop support. This concern is currently being addressed by the enterprise architecture process. Personnel in the agencies who supported the server infrastructure typically provide desktop support as well. Several agencies have internal help desks. While consolidation of these services was not mandated, these services have been impacted by the consolidation and questions remain about the future direction of these services.

Overview of Project Goals

The Implementation Project Plan defined the project scope and how the project goals would be met. A summary of the project goals in that plan is listed below.

Project Goals

 By July 18, 2003, deliver a preliminary recommendations report and implementation project plan to the 15 agencies listed in Section 10, based on findings from an impact assessment.

STATUS - this goal was met

2. By August 1, 2003, deliver a final recommendations report for the 15 agencies to the Project Executive Committee and the Governor.

STATUS - the final report was approved on August 7, 2003

 By August 15, assess the impact of consolidating services on all remaining agencies (except those specifically exempt), and deliver to them the updated recommendations report.

STATUS - the updated report was delivered on August 21, 2003

4. By September 2, 2003, deliver the updated recommendations report and implementation project plan for the remaining agencies to the Project Executive Committee for approval.

STATUS - the report was delivered on September 12, 2003

5. In September 2003, complete a thorough cost/benefit analysis, which is included in the updated recommendations report and implementation project plan.

STATUS - this goal was met

In September 2003, develop a detailed Systems and Services Migration Plan for the consolidation, which will be integrated into the implementation project plan.

STATUS - this goal was met

7. Identify and transfer necessary FTEs no later than Nov. 1, 2003. This is subject to individual agency review and assessment.

STATUS - 6 FTEs were transferred to ITD on November 1, 2003

8. By June 30, 2004, migrate all required agencies (according to the Systems and Services Migration Plan) to obtain consolidated services from ITD.

STATUS – due to unique circumstances, four agencies are currently working to complete the migration process of some services

9. Deliver cost savings no later than June 30, 2005.

Appendix I - Rates for Consolidated Services

Note - The following rates were established by ITD in conjunction with OMB and may be modified in the future. All charges are monthly unless otherwise indicated.

Service	Rate
File and Print - Shared	• \$3.00 / user • \$1.00 / GB (Tier 2)
File and Print - Dedicated Remote Basic	 \$350.00 / server \$2.00 / user A separate fee for disk may apply when large amounts of remote disk storage are required (Tier 1)
File and Print – Dedicated Remote High Capacity	 \$600.00 / server \$2.00 / user A separate fee for disk may apply when large amounts of remote disk storage are required (Tier 1)
Web Hosting – Basic Web Sites (does not include e-government applications)	\$20.00 / base web site\$1.00 / GB (Tier 2)
Application Hosting – Server Component	 \$150.00 / application – for applications on shared server \$300.00 / application – for applications requiring a dedicated server \$1.00 / GB (Tier 2)
Application Hosting – Database Component (includes normal DBA maintenance)	 Tiered pricing based on complexity of the application Most applications will fall between \$50.00 to \$1,000.00 per month \$10.00 / GB (Tier 3)
Database Administration / Application Support	• \$56.25 / hour
Email	Included in ITD's current device rate

Appendix II - Definitions of Consolidated Services

Application hosting – The purchase, maintenance and technical support of servers and software necessary to run agency specific applications. This does not include the direct support of the application itself, which is a separate service.

Database administration – The design and performance tuning of shared databases such as Oracle or SQL Server. This does not include the direct support of an application that may utilize the database.

Database server administration – The purchase, maintenance and technical support of servers and software necessary to run a shared database such as Oracle or SQL Server.

Directory Services – The purchase, maintenance and technical support of servers and software for providing directory services, including the management of user accounts.

E-mail server administration – The purchase, maintenance and technical support of servers and software for providing groupware services such as e-mail, calendaring, and messaging.

File and print server administration - The purchase, maintenance and technical support of servers and software for providing local area networks and related file and printer sharing services.

File and print services include the ability to launch an application whose disk image is resident on the server, but whose code executes on the workstation. Typical examples of these would be Access or FoxPro applications.

Storage - The management of shared storage and related data backup and recovery processes.

Web site hosting – The purchase, maintenance and technical support of servers and software necessary to host a web site.

Related services that may be impacted:

While the environments described above are required for the delivery of IT services they are not a complete description of all the elements that are required.

Users will require a desktop environment to access these IT services as well as application support to assist them in using the services. These service components are excluded in the definitions above because they are not part of consolidation mandated by HB1505. The provision of desktop services will remain the province of the agencies, as will functions such as ad hoc reporting.

Desktop Infrastructure Support – The purchase, installation and support of end-user workstation hardware, operating systems and installation of standard software.

End User Support – The training and support related to the use of end-user applications, either groupware or agency specific.

User administration – Establishing and maintaining user IDs, permissions and file system security.

Appendix III - Project Organization Chart

John Hoeven Governor

Bill Goetz, Governor's Office Pem Sharp, OMB Project Executive Curtis Wolfe, ITD Committee

Legislative IT Committee

Technology Information Committee Advisory

Lori Laschkewitsch, OMB Cathie Forsch, ARB/Tax Roger Hertz, ARB/DHS Sheila Peterson, OMB Project Steering Curtis Wolfe, ITD Ardy Pfaff, ITD Mike Ressler, ITD Nancy Walz, ITD Pam Sharp, OMB Dean Glatt, ITD Committee

NOTE - All team members are not listed below Project Manager Jennifer Kunz, ITD Lynette Goroski, ITD

Subproject
Loi Laschkewitsch, OMB
Dan Sipes, ITD
Dean Glatt, ITD
Nike Ressler, ITD
Nancy Walz, ITD
Pam Sharp, OMB
Sheila Peterson, OMB
Brenda Weisz, DHS
Tammy Dolan, WSI

Financial

Jerry Slag, ITD John Alvarez, ITD Lynette Goroski, ITD Marlys Jangula, ITD Scan Wiese, ITD Systems & Services Jeanette Hoffman, ITD Cindy Kemmet, ITD Duane Schell, ITD Glen Rutherford, ITD Dean Glatt, ITD Jerry Fossum, ITD Gary Vetter, ITD Subproject Rob Gall, IID Jeff Carr, ITD

Project Management Administrative

Jennifer Kunz, ITD Project Steering Committee Lori Laschkewitsch, OMB Jennifer Witham, ITD

Doug Faiman, DOT Steve Kahl, PSC Tammy Carlson, BND Committee (as needed) Jennifer Kunz, ITD Cathie Forsch, Tax Project Steering Subproject

Laurie Sterioti-Hammeren, CPD

Subproject Ardy Pfaff, ITD Dean Glett, ITD

Hunan Resources

Communications

Lori Laschkewitsch, OMB

Mike Ressler, ITD

Virginia Rivinius, CPD Sheila Vetter, JSND Sheila Peterson, OMB Tag Anderson, AG

Appendix IV - Exemptions

The following information further explains the exemptions recommended by the Executive Committee for the 15 agencies of Section 10, and the remaining 31 agencies impacted. Agencies that are not closely connected with government services, do not share other services, do not receive general funds, or are not located in Bismarck were considered for exemption from the initial consolidation effort. Although exempt now, OMB and ITD will evaluate those agencies on a biennial basis, and migrate to the shared environment where appropriate. Agencies will be notified 2-3 months prior to the budget due date as to whether exemptions will extend into the following biennium.

Exemptions for the 15 Agencies of Section 10

For 12 of the 15 agencies specified in Section 10 of HB1505, the Executive Committee recommended that all services (approximately 170 servers) be consolidated with the exception of 12 servers in four agencies. The servers not consolidated include the legacy mainframe environment at Job Service, the servers supporting the desktop environment at DPI, and specialized servers at Highway Patrol, the State Radio Division of OMB and the Health Department lab.

State Water Commission

The State Water Commission has evolved into an environment that is unique to state government. Because conversion costs would be significant, the Executive Committee recommended exempting the 4D and Apple environment from consolidation and the associated 0.5 FTE transfer until a migration plan can be developed. The Water Commission has current projects involving the use of shared email and GIS services that will continue.

Department of Corrections and Rehabilitation

The Department of Corrections and Rehabilitation (DOCR) will not be exempt from consolidation. However, the Executive Committee determined that the transfer of 0.5 of an FTE related to consolidated services would present an undue hardship for the agency and should be exempt. End-user support services provided by the FTE are currently understaffed and additional restrictions on the FTE count would be detrimental. The Executive Committee felt that the consolidated services could provide benefit and potentially increase service levels for DOCR.

Bank of North Dakota

The Bank of North Dakota currently receives many services from ITD. Because the servers remaining at the Bank are integral to the banking business, the Executive Committee recommended exempting those servers and the associated 1.0 FTE from consolidation at this time. The Committee also suggested the Bank begin migrating to local area networking standards and directory standards being adopted by ITD.

Housing Finance Agency

The Housing Finance Agency has a small IT environment, and based on analysis, should be exempt from the FTE transfer. The Executive Committee recommended an exemption from mandated consolidation of servers due to unique business requirements not closely connected to state government.

Workforce Safety and Insurance

Workforce Safety and Insurance has an environment unique to their agency built around the IBM RS6000 platform. Because conversion costs would be significant and migration would be impractical at this time, the Executive Committee recommended that current specialized servers and an associated 0.5 FTE be exempt. File and print, email and web servers were migrated and 1 FTE transferred as part of the consolidation.

Other Agencies

A number of agencies, particularly the large agencies like DOT, DHS and JSND, have applications that are closely linked to business requirements. Those agencies typically provided end-to-end support for the application. The service model has changed with consolidation, with ITD providing the technical support while agencies continue to provide the application support. Therefore, it was important to plan the migration carefully so ITD could build the knowledge and processes required to provide adequate support and minimize the risk of disruption.

Exemptions for the Remaining 31 Agencies Impacted

Of the 31 remaining agencies impacted, six were initially exempt. For the other agencies affected, migration planning began in January 2004.

Adjutant General

The financial and technical project leads recommended that the Office of the Adjutant General not be consolidated based on its integration with the US Military Services infrastructure.

School for the Deaf

The financial and technical project leads recommended that the School for the Deaf be excluded based on its remote location and their dependency on the K-12 education network.

Vision Services / School for the Blind

The financial and technical project leads recommended that Vision Services / School for the Blind be excluded based on its remote location and their dependency on the K-12 education network.

State Fair

The Executive Committee recommended that the State Fair be exempt based on defined criteria for agencies that are not closely connected with government services, do not share other services, or do not receive general funds.

State Mill and Elevator

The Project Executive Committee recommended an exemption for the State Mill and Elevator based on defined criteria for agencies that are not closely connected with government services, do not share other services, or do not receive general funds.

State Seed Department

The financial and technical project leads recommended an exemption for the State Seed Department based on its remote location and their integration with the higher education network.

Acknowledgement

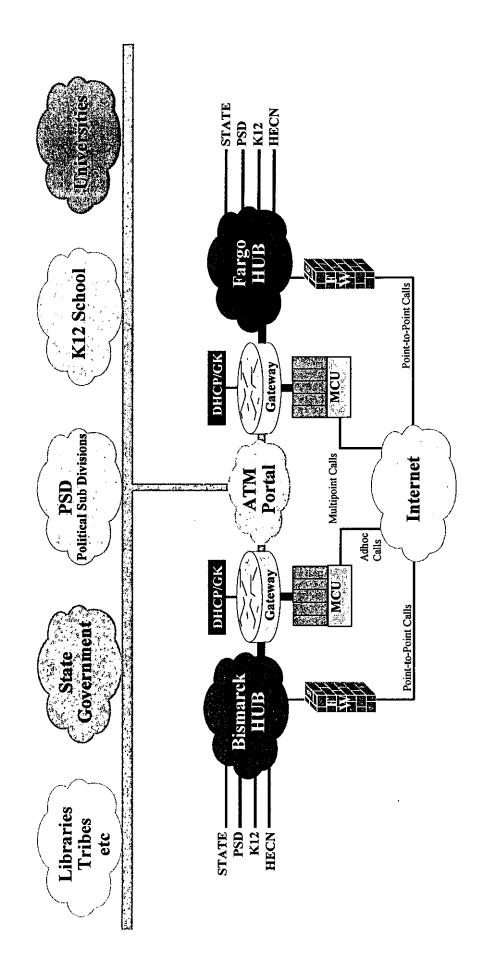
Many people took part in making this project a success. ITD and OMB would like to take the time to acknowledge and thank those involved in the IT Functional Consolidation Project. To the technical teams in ITD and the agencies who worked together for countless hours to accomplish the goals of this project, the project team members who helped build the foundation to move forward, and to the Project Executive and Steering Committees for their support and guidance throughout the process.

Consolidation Cost Savings:

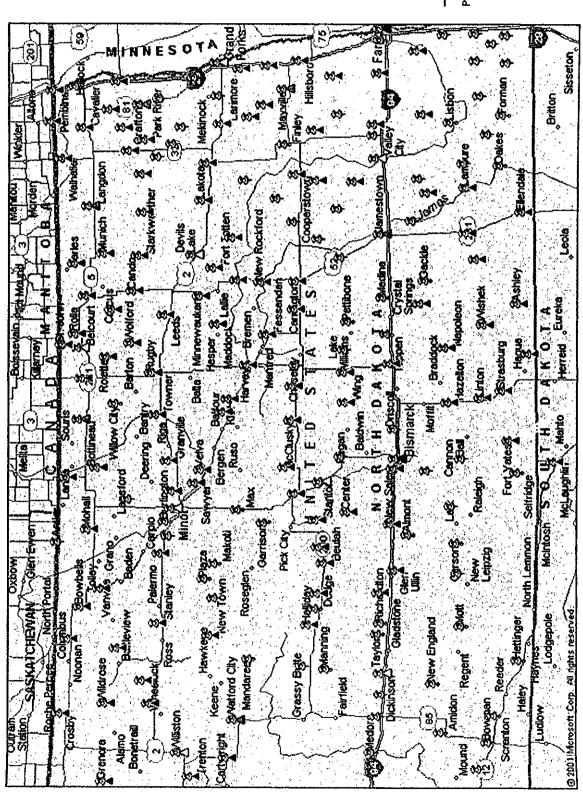
	2003-2005	2005-2007
15 Agencies		
Orig Savings	\$ 989,700	\$ 514,080
Sept-04 Savings	<u>\$ 330,429</u>	<u>\$ 815,656</u>
Increase/(Reduction) in Savings	(\$ 659,271)	\$ 301,576
29 Agencies		
Orig Savings	\$ 157,882	\$ 102,958
Sept-04 Savings	<u>\$ 108,346</u>	<u>\$ 145,490</u>
Reduction in Savings	(\$ 49,536)	\$ 42,532
TOTAL		
Orig Savings	\$1,147,582	\$ 617,038
Sept-04 Savings	<u>\$ 438,775</u>	<u>\$ 961,146</u>
Reduction in Savings	(\$ 708,807)	\$ 344,108

- 102 servers eliminated 2 FTEs eliminated

STAGENet Logical View



Cities with a Government or Education Connection and Video Sites



♣ 9 to 26 Video Units
△ 7 to 8 Video Units
△ 5 to 6 Video Units
♣ 3 to 4 Video Units
▲ 1 to 2 Video Units

Pushpins

Connected Cities



HTTP://WWW.NDIVN.NODAK.EDU

Interactive Video Network

University of North Dakota

PO Box 8384, Grand Forks, ND 58202-8384

314 Cambridge Hall Phone 701-777-6486 Fax 701-777-6353

May 2004

IVN Summary: Fall 2003 - Spring 2004

Overview

The North Dakota Interactive Video Network has put the wraps on the Fall 2003 – Spring 2004 school year. This was an extremely important year because it provided IVN with the first opportunity to gather relevant usage information and begin the tracking of data trends. Prior to this school year, construction of sites had been the focus across the system; actual programming had yet to mature to the point of qualitative tracking. By summer of 2003, the construction period had tapered off and more consistent program tracking was ready to evaluate. So this reporting period establishes the early baseline of IVN programming and sets the stage for future analysis of H.323 videoconferencing in North Dakota.

However, the data presented in this document only reflects the information that is provided to IVN by the sites on STAGEnet. It does not paint the complete picture of videoconferencing activity in North Dakota because some conferences can be generated at the endpoint without IVN assistance. While some of those endpoint-generated conferences are reported to IVN, not all are and thus the gap in the complete picture of videoconferencing in North Dakota.

Site Growth

While the number of new videoconference sites being added to IVN has tapered off since the significant growth spurt from 2002-2003, an additional 40 endpoints were added during the Fall 2003 – Spring 2004 time period (Figure 1). At present, IVN has 310 endpoint units on the network, with nearly 50% located at K-12 schools (Figure 2).

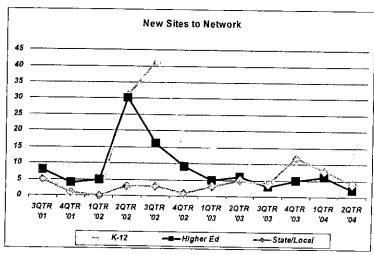


Figure 1

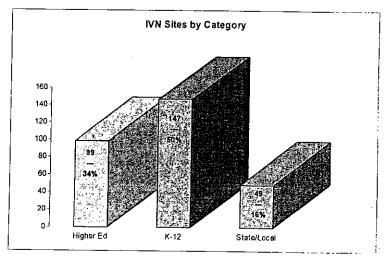


Figure 2

K-12 Schools on IVN

North Dakota has 11 K-12 video consortia. Of that, IVN provides scheduling and bridging services for six. Of the remaining five consortia, the Northern Red River and Greater Southeast do their own scheduling and bridging; the Great Western and Central Dakota do their own scheduling and bridging but use IVN some of the time; and Standing Rock has yet to get started (Table 1).

IVN Scheduling/Bridging	Some IVN/Some Local	Local Scheduling/Bridging
Spice	Great Western	Northern Red River
North Central	Central Dakota	Greater Southeast
Great Northwest		Standing Rock
Heart of the Valley		Startaining Proces
New Horizons		
e-Educational		

Table 1

August 03 - Spring 04 School Year

The recently completed school calendar year resulted in some impressive statistics for the North Dakota Interactive Video Network. A total of 17,794 conferences were scheduled involving 59,228 room connections during the time period (Figure 3). Approximately two-thirds of all scheduled events required bridging services while the remaining events were point-2-point connections (Figure 4).

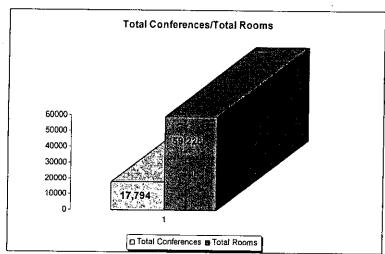


Figure 3

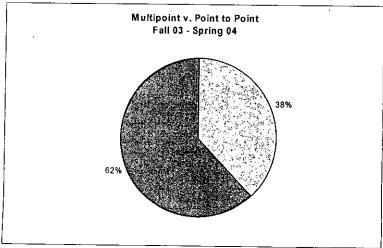


Figure 4

On any given weekday during the school year, IVN supported about 100 conferences involving more than 300 endpoint connections (Figure 5). Wednesday was the busiest day, averaging 103 conferences, while Friday was the slowest weekday, averaging 74 conferences. The average event had 3.4 room connections.

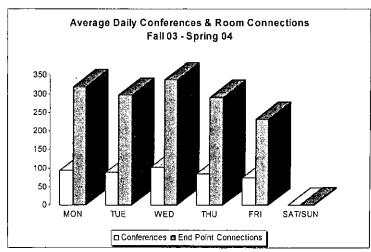


Figure 5

IVN separated conference types into five categories, including: 1) higher education classes; 2) tribal college classes; 3) K-12 classes 4) a mix of higher ed/tribal college and K-12 classes and 5) meetings. Of the five, K-12 classes accounted for nearly 60 percent of the activity on the network while higher ed classes accounted for nearly 30 percent (Figure 6). However, this statistic does factor the length of each class period. Typical K-12 classes are about an hour in length while most higher ed IVN classes are about three hours.

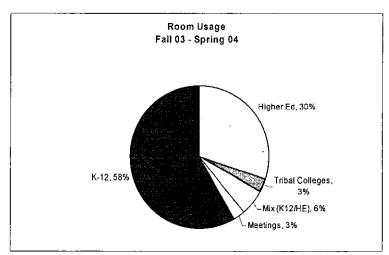


Figure 6

Early Trends

As for the development of any trends between Fall 03 and Spring 04, the number of conferences on Monday, Wednesday and Friday remained fairly consistent between the two reporting periods. However, the number of Tuesday conferences increased by 417 and the number of Thursday jumped by 401 events (Figure 7). The total number of events increased by 710 from the first half to the second half of the reporting period. Both point-2-point and multipoint events experienced similar percentage increases ((Figure 8).

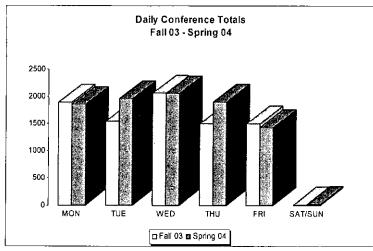


Figure 7

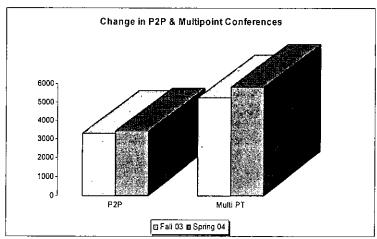


Figure 8

The data from Fall 03 – Spring 04 indicates both K-12 and higher education classes grew proportionally while the mix of higher education/K-12 classes dropped off. Tribal College activity remained stable (Figure 9).

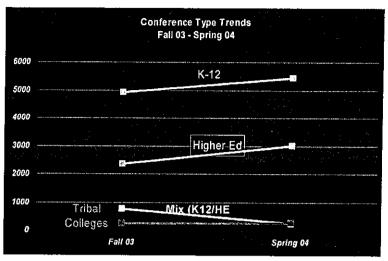


Figure 9

Summary

The data at this point serves as a strong indicator of the early success of videoconferencing over IVN. The growth to more than 300 sites in three short years, coupled with nearly 18,000 conferences involving more than 59,000 room connections in this reporting period, indicates an auspicious start. However, it is too soon to determine what, if any trends are taking place. Future data will be required to track progress and development.

Future StageNet Network Requirements

More Bandwidth – More information and more of that information stored in geographical format will require large increases in network bandwidth.

Other applications that will require large amounts of bandwidth are document imaging, geographical information systems, university research, increasing use of video and the convergence of voice and data.

Highly Reliable and Survivable – Most mission critical government business functions have become dependent on the state network. Outages must be minimized and localized. This will require higher levels of redundancy and the ability to isolate portions of the network.

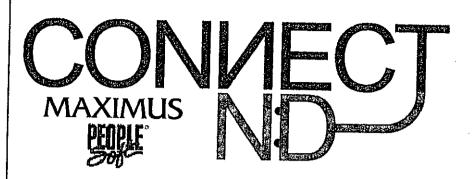
Security/Privacy – The network must be able to securely transport confidential information. Multiple levels of security will be required.

Manageable and Maintainable – The network must be able to be maintained and upgraded without causing major outages.

Wireless – Public safety functions such as law enforcement and highway maintenance have a requirement for broadband wireless data.

The next generation workforce will demand mobility as much as the current generation requires computers. The state's demographics make a business case difficult.

Low-end Access – We will still need to provide slower, less reliable access at a lower cost for small offices and home access to the network.



State of North Dakota

The Value of ConnectND

Return on Investment and Benefits Analysis Update

October 1, 2004



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1. Executive Summary

Between November 2002 and January 2003, the State of North Dakota and the North Dakota Higher Education system conducted a detailed analysis of the estimated costs and benefits of the ConnectND project. That analysis gathered information and developed 10-year projections on total implementation and operating costs for the project. Information was also collected on the costs to operate existing systems (legacy systems) and that too was projected out 10 years. The project team interviewed members of the ConnectND team, departmental and higher education staff to determine the types of benefits that were expected from the project and how those benefits would return value to the state and the higher education system. At the conclusion of that analysis, a report was published titled "The Value of ConnectND. A key element of that report was a Return on Investment or ROI.

The 2003 ROI report and this updated version support the original reasons that the State of North Dakota chose to fund and implement ConnectND. The ConnectND Project Charter, which has guided the team's work, more clearly defined those objectives by identifying several project objectives that are intended to assure the state that the goals are reached. We considered these goals and objectives in developing the measurement recommendations included in this report. The Project Charter objectives include:

- 1. Developing self-service applications
- 2. Taking advantage of system integration
- 3. Utilize best business practices
- 4. Minimize customizations to the application
- 5. Interface to legacy systems that are not being replaced
- 6. Preparation of the State's Comprehensive Annual Financial Report (CAFR)
- 7. Standardize data classification throughout the state
- 8. Provide a statewide procurement system
- 9. Provide a statewide human resource system
- 10. To remain competitive as an organization and attract students.
- 11. Eliminate the risk of legacy system failure.

Beginning in November 2003, the State and Higher Education conducted a follow-up review of the earlier report with three primary objectives in mind. First, the team wanted to update any cost information for either the legacy systems or ConnectND based upon changes that have occurred on the project over the past year. Second, the team wanted to re-evaluate the expected benefits described in last years report to see if there were any changes in how staff felt about those benefits a year later. Finally, the team wanted to identify various ways that the State and Higher Education could measure the benefits over the life of the project. This report contains the updated information in a format that supplements the January 2003 report.



In order to compile this information, the team conducted an extensive number of individual and small group interviews of staff from the State and Higher Education and students and faculty from the pilot school campuses in Mayville and Valley City. Using the information collected during the interviews, a series of seven (7) focus groups were held in Bismarck, Valley City and Mayville, to validate conclusions and findings.

Summary of Findings

Considering all updated costs of ConnectND, cost reallocations due to replacement of existing legacy systems as well as the updated direct project benefits the state of North Dakota will realize an overall return on the investment in ConnectND of 37.34% and a project payback of 8 years. However, it is highly likely that the useful life of this system will exceed the ten (10) year period used in this analysis, possibly to as many as 25 or even 30 years. Every year that the system delivers value to the state beyond the 10 years used in this analysis multiplies the ROI significantly. The detailed ROI calculation is detailed in Section 5.

In addition to this overall return, the state will potentially avoid between \$58 and \$64 million of costs for software replacement and/or upgrades that have been deferred by state agencies and higher education in anticipation of the new functionality from ConnectND. These deferred requests generally involve systems where the technology has long since exceeded its useful life, resulting in progressively higher maintenance costs, serious concerns about system reliability and high costs to add new functionality that meets changing internal and external requirements. The technology used for many existing systems including the Higher Education Computer Network Administrative Information Systems (HECN-AIS) and the state accounting system (SAMIS) is over 25 years old. Deferred development details are included a table in Section 2.

Continuation of the ConnectND project is critical for several important reasons:

- Capitalize on the money already invested in the ConnectND effort.
- > Bring all State Government agencies and Higher Education institutions together under one unified financial, human resource and student administration system.
- > Permit system expansion to cover K-12 schools and cities and counties as required.
- > Automate the human resource functions for all agencies and institutions.
- > Automate the procurement function through the Internet for staff and suppliers.
- > Replace obsolete technology that is increasingly expensive to maintain and growing more unreliable.
- Provide a foundation for accelerating progress in economic development, customer service and organizational efficiency.
- > To help the state respond to changing federal mandates needed to sustain student financial aid funding.
- Provide better information for management decision-making.
- > Better serve students through more effective and efficient on-line services.



Summary of Direct and Indirect Benefits of ConnectND to the State

The state of North Dakota and its constituents will realize a number of direct and indirect benefits from the ConnectND project. Direct benefits are those benefits where a reasonable value of the benefit can be calculated based upon some basic assumptions on how the benefit will affect constituents and state staff. The values to the state of indirect benefits are more difficult to calculate with a reasonable level of certainty.

Of all the direct and indirect benefits listed in this analysis, the most important benefit to the state will be its ability to offer substantially improved customer service to constituents of both General Government agencies and Higher Education institutions. These improvements will be the direct result of implementing a state-of-the-art integrated software system that supports the general accounting, human resource, purchasing, payroll and student administration. In addition, ConnectND will play a major role in helping the state realize the strategic goals and strategies set out for the General State Government, Higher Education and in the Statewide Information Technology Strategic Plan 2002 and other strategic planning documents.

The following table summarizes the projected direct benefits of the ConnectND project. The direct benefits listed here are fully described in Section 4 of this report, along with descriptions of projected indirect benefits.

Direct Benefit Description	10 Year Benefit Value
Reduce or Eliminate "Shadow Systems"	\$7,832,936
Statewide Integration on Common System	\$3,150,471
Establish a Self-Service Environment for Vendors	\$3,018,466
Establish a Self-Service Environment for Employees	\$5,343,784
Improved Self-Service Environment for Students & Faculty	\$21,809,221
Integrated Workflow, Industry Best Practices and Reduced Dependence on Paper	\$48,747,522
Platform for Re-engineering Business Practices and Continued Process Improvement	\$23,552,949
Cross Trained Workforce	\$3,500,000
Total 10 Year Direct Benefits	\$116,955,350

In addition to these direct benefits, there are two constituent groups that will realize significant benefits from the ConnectND project. They are the state's vendors and the students in Higher Education. We did not use these benefit numbers in the ROI calculation, but because they are impressive, we have included them in this report. The following table summarizes the return to these groups.



Benefit Group	10 Year Benefit Value
Vendors	\$3,671,385
Students	\$87,333,372
Total 10 Year Benefit	\$91,004,756

Key Changes in this Update

There are a number of changes in the ROI between the 2003 and 2004 versions. For obvious reasons, we will not attempt to list every single change, but we will list the major changes to assist the reader in understanding how we got from where the ROI analysis was in 2003 and where things stand in the 2004 update.

General Changes

- The 2003 version included annual values for most costs. We improved consistency of the analysis by using 10-year totals for the values in 2004.
- A 2% per year increase in costs (including salaries) has been applied consistently throughout the 2004 update. In 2003, some costs projections included annual increases and others did not. Where the state provided numbers that showed annual increases above 2%, those values were used.
- In 2003, one annual salary value was used for employees in both state agencies and higher education. In 2004, different values were used based upon new information provided.
- An ROI calculation using Net Present Value (NPV) has been added.
- Graphs have been added to show the cumulative impact of cost and benefit to the state.

Legacy System Cost Changes (Section 2)

- Costs for normal hardware upgrades have been added for higher education. The state data center includes these costs in their rates, so no additions were needed in that area.
- · Deferred development estimates were updated based upon revised estimates.

ConnectND Cost Estimates (Section 3)

- The project cost estimate has been updated to reflect actual expenses for the past year.
- The cost to implement the states payroll business process (no delay) has been added.
- Costs for all known staff additions in the State Information Technology Department and in the Information Technology organization in Higher Education have been added.
- Costs have increased as a result of rescheduling implementations in Higher Education.

Direct Benefits (Section 4)

In 2003, benefit values were calculated and projected on a "straight-line" basis.
 Experience has shown that this is not an accurate way to depict the value of those



benefits. In the 2004 update, each direct benefit has been analyzed and project on a year-by-year basis. This allows the value of the benefit to vary over time.

- Benefits shown in the tables have been clearly split between the state and higher education.
- Updated assumptions (like population, student and staff counts, etc.) have been used based upon new information available from the state.
- Assumptions were also updated based upon actual experience in both the pilot state agencies and the campuses at Mayville and Valley City.

Conclusion

Based upon the updated analysis outlined in the balance of this report, the ConnectND project with an implementation cost of \$42,508,903 will generate a payback or positive return on investment to the state in 8 years. Not only will the project generate a wide range of direct and indirect benefits conservatively estimated at \$95,894,440 (NPV) over ten (10) years, but it will enable the state to tackle the future with a highly integrated, shared statewide information system that supports the needs and goals of the legislature, governor, the State Board of Higher Education and North Dakota's citizens and businesses.



2. Updated Legacy Systems Financial Analysis

The legacy system financial analysis outlined in this section of the report summarizes projected operational and maintenance costs for the legacy systems being fully or partially replaced by components of the ConnectND system. These system costs are also aggregated by business function.

System category	de d		APINO	Financi	a 7	Analysis P	er ic	id .	ŧ.		14	
System category		2005-07		2007-09		2009-11				2013-15	10	Year Tot
State government Acctg	\$	914,400	\$	932,688	\$	951,342	\$	970,369	\$	989,776	\$	4,758,574
State government Procurement	\$	28,800	\$	29,376	\$	29,964	\$	30,563	\$	31,174	\$	149,876
State government Payroll	\$	298,000	\$	303,960	\$	310,039	\$	316,240	\$	322,565	\$	1,550,804
HECN AIS - Acctg, Payroli, SS	 \$	7,271,848	\$	7,417,285	 \$	7,565,631	\$	7,716,943	\$	7,871,282	\$	37,842,989
Data Center Hardware Upgrades	\$	750,000	\$	-	\$	750,000	\$	-	\$	750,000	\$	2,250,000
Dept. Acctg and Proc.	\$	484,322	\$	494,008	\$	503,889	\$	513,966	\$	524,246	\$	2,520,431
Dept. Human Resources	\$	36,566	\$	37,297	\$	38,043	\$	38,804	\$	39,580	\$	190,291
Totals	\$	9,783,936	\$	9,214,615	\$	10,148,907	45	9,586,885	\$	10,528,623	\$	49,262,966

Deferred legacy system development is a key component of the legacy system costs over the 10-year evaluation period. Both North Dakota General Government and the University System have stopped maintenance and improvement to a number of legacy systems in the anticipation that the ConnectND project would replace these applications. Costs that have been included in this table reflect either legacy system improvement, or replacement. The state and higher education believe that were it not for ConnectND, funding for all seven (7) of these projects would be requested during the next few years.

Deferred Development	Minimum \$s 🖟 N	Maximum \$s
Statewide Payroll Replacement and		
new HRMS	\$7,000,000	\$9,000,000
Statewide Financials Replacement	\$6,000,000	\$8,000,000
Statewide Procurement	\$750,000	\$1,500,000
Departmental Accounting	\$6,000,000	\$6,000,000
Higher Education Student Admin		
Replacement	\$15,000,000	\$15,000,000
Higher Education Finance		
Replacement	\$12,000,000	\$12,000,000
Higher Education Payroll		
Replacement	\$12,000,000	\$12,000,000
Total	\$58,750,000	\$63,500,000



3. Updated Financial Analysis for the ConnectND Project

The updated costs included in the ConnectND project shown in the following table are from the 2005-2007 biennium through the 2013-2015 biennium. This ten-year period begins after the 2004 implementation of Connect ND in statewide General Government agencies and the eleven campuses of Higher Education, four of which have been delayed a few months. It also corresponds with the anticipated repayment schedule for the bond issued to finance the balance of the project. The information in this table reflects cost data updates received from the project team through September 2004. This cost data does not include costs for replacing several additional systems in Higher Education (Housing, Parking, Facilities and Scheduling). Until those systems are replaced, the HECN mainframe cannot be removed and the savings associated with that elimination of a major hardware system will not accrue to the state.

S	tate & Higher E	ducation Imple	ementation and	Ongoing Costs		
Description	2005-2007	2007-2009	2009-2011	2011-2013	2013-2015:	10-Year Total
Staff	\$6,662,868	\$7,271,644	\$7,297,895	\$7,642,731	\$8,007,255	\$36,882,393
Hardware Replacement	\$2,014,667	\$1,667,535	\$2,339,687	\$1,997,556	\$2,702,712	\$10,722,157
Data Center Staffs	\$2,599,294	\$2,345,280	\$2,392,186	\$2,440,029	\$2,488,830	\$12,265,619
Software Maintenance (PS)	\$1,787,682	\$1,967,331	\$2,324,779	\$2,808,747	\$3,393,926	\$12,282,465
Software Maintenance (Other)	\$330,798	\$348,345	\$367,532	\$388,522	\$411,494	\$1,846,691
Training	\$0	\$0	\$0	\$0	\$0	\$0
Application Technical Support	\$1,360,959	\$1,501,609	\$1,671,795	\$1,877,721	\$2,126,890	\$8,538,974
Totals	\$14,756,268	\$15,101,744	\$16,393,873	\$17,155,306	\$19,131,107	\$82,538,299
Amortized Implementation Cost	\$4,501,781	\$4,501,781	\$4,501,781	\$4,501,781	\$4,501,781	\$22,508,903
Debt Service	\$5,392,163	\$5,397,075	\$5,395,938	\$5,396,666	\$2,683,644	\$24,265,486
BienniumTotal Cost	\$24,650,212	\$25,000,600	\$26,291,592	\$27,053,753	\$26,316,532	\$129,312,688

This table includes all known implementation costs and ongoing operating costs through the 2013-15 biennium. System implementation has occurred over a two-year period (2003-2004). The following table summarizes the total estimated ConnectND implementation costs for the project.

Project Implementation Costs					
Cost Category	12	Year Total			
North Dakota Staff	\$	9,724,260			
Software		6,607,417			
Other Software	\$	328,270			
Data Center	\$	2,697,035			
Training/Travel	\$	1,291,137			
Professional Services		19,415,494			
Other Funded Costs		2,445,290			
Upgrades		-			
Payroll Change		•			
Totals	\$	42,508,903			



4. Updated Direct and Indirect Benefits of ConnectND

The previous ROI report identified a number of direct and indirect benefits that ConnectND will generate for the state of North Dakota. In this section of the report we have listed those benefits and updated them with new information derived from the additional staff interviews and focus groups. Each of the anticipated benefits includes a description of the benefit, the expected payback for that benefit and recommendations on how the state and higher education can track and measure that benefit in the future.

In contrast to last year's report where we used 10-year straight-line averages for the benefits, this year we have included a more detailed annual assessment of the benefit value. The tables showing annual benefits represent a more accurate picture of how value will flow over time and allow the analysis to reflect annual changes in costs (employee salaries) and system usage patterns. This more detailed analysis better reflects the actual experiences of other government implementers of large ERP systems.

There are two major differences to note in this revised analysis. First, many of the benefits may actually show a negative return for a short period after implementation. Second, the benefits value tends to grow larger over time. Both of these factors can be attributed to the extensive learning curve for staff as a result of the immense changes that are occurring in the organization, changes in costs and changes in system utilization patterns over time.

There are many variables that will affect the state's ability to fully realize these benefits. When appropriate, the Critical Success Factors (CSF) that will impact each benefit are linked to the benefit. The major CSF's are listed below. (See section 6 for a complete description of each CSF).

- Effective Project Governance
- Change Management Strategy
- Post Implementation Support Plan
- Maintenance Upgrade Plan
- Staff Training Strategy and Plan
- Commitment to dismantle "Shadow Systems"
- Law Changes
- IT Infrastructure and System Reliability
- Early Identification of Agency System Interfaces



Developing the projected savings and/or benefits in each of the areas listed, requires us to use common baseline demographics for the state of North Dakota. The demographics developed and used in the calculations are:

State Population	640,000	
Citizens with Internet Connectivity:	448,000	(70%)
Number of FTE State Employees (excluding NDUS)	8,430	(03-05 Exec Bud)
Number of NDUS Full-time Faculty & Employees	6,010	(NDUS)
Number of NDUS Part-time Employees	515	
Average annual cost of a State Employee	<i>\$54,734</i>	(per OMB)
Average annual cost of a Higher Ed Employee	<i>\$51,217</i>	
Number of annual work hours for an FTE employee	1,920	
Number of State Agencies/Branches	<i>58</i>	(03-05 Exec Bud)
Number of Higher Ed Campuses	11	
ConnectND State Gov Employee Users	2,500	(Financials)
ConnectND State Gov Employee Purchasing Users	5,000	
Number of Active Vendors doing business w/state	7,500	
Number of Students (Higher Education)	52,480	(NDUS)
ConnectND Higher Ed Employee Users	1,000	(Financials)
ConnectND Higher Ed Employee Purchasing Users	3,000	

In the following section of this report, we are going to discuss each of the direct benefits associated with the ConnectND project. At the end of each benefit discussion, we will identify the various ways for the state to measure how well the benefit is being delivered. As we developed the list of measurement ideas, it became clear that there were a number of baseline measurements that the state should be tracking that can be used in various ways and



combinations to assess value delivered in each of the benefit areas. These baseline measurements include the following:

- 1) Number of employee hits on the ConnectND portal per month
- 2) Percentage of the employee population using the ConnectND portal per month
- 3) Number of vendor hits on the ConnectND portal per month
- 4) Percentage of the vendor population using the ConnectND portal per month
- 5) Number of vendors registered with the state per year
- 6) Help Desk general statistics over time (each event date and time stamped for analysis)
 - a. Number of calls for assistance
 - b. Number of lost calls
 - c. Call hold times
 - d. Help Desk technician performance tracking
 - e. Caller's department/campus
 - f. Caller's location
 - g. Module or area where help is needed
 - h. Time to complete resolution
 - i. Description of the resolution
- 7) Number of on-line payments received from students and other constituents per month
- 8) On the student, employee and vendor portals, we recommend that the state set up a short satisfaction survey that users can click on and answer general satisfaction questions plus provide some general demographic information. Response statistics should be tracked over time in each of the survey areas.
- 9) General utilization statistics over time by location and department/institution
 - a. Number of paychecks processed per month
 - b. Number of vendor payments issues per month
 - c. Number of electronic bids received per month
 - d. Number of active Contracts per month
 - e. Number or Purchase orders processed per month
 - f. Number of class registrations per month
 - g. Number of students registered per month
 - h. Number of financial aid transactions processed per month
 - i. Number of prospective students looking up information per month
 - Prospective student capture rate per campus/per academic period

We recommend that the state establish a common point for collecting and recording these statistics and that there be a common set of analytic tools in both the state and higher education, such as those provided in PeopleSoft EPM to facilitate management reporting and analysis.

In order to supplement the value of the baseline statistics listed above, we recommend that the state and higher education identify a common set of sample business procedures for performance sampling. This sample of common business procedures might include one or more of the following:



State Agencies Sample Business Procedures	Higher Education Sample Business Procedures		
Create a Purchase Order	Create a Purchase Order		
Set-up New Employee for Payroll	Set-up New Employee for Payroll		
Receive goods and request payment	Receive goods and request payment		
Add a Vendor to the Vendor file	Add a Vendor to the Vendor file		
Make a progress payment on a Project	Make a progress payment on a Project		
Set-up a contract	Faculty enter grades for a student		
Update employee's voluntary deductions	Student register for classes		
Pay an employee's expense report	Process a Student financial aid payment		
Add a new insurance carrier	Set up a new grant		
issue a replacement W-2	Add a prospective student for recruitment		

Once the list of sample business procedures is agreed to, the state and Higher Education should document the steps in the ConnectND procedure and measure the time necessary to complete the procedure at a representative agency. It is our understanding that the creation of two positions (state & Higher Education) called ConnectND Program Managers is being considered. These positions should be responsible for collecting, updating and maintaining this performance information. During the course of measuring each procedure, the Program Managers should also note significant changes between the ConnectND procedure and the procedure in the Legacy environment. They should also be looking for other related savings such as elimination of manual paper flow, reduction in filing requirements, changes in employee duties, etc. This measurement should be repeated every two years at the same agency as the original measurement. In the follow-up measurement process, the Program Managers should also be looking for changes in the procedure from survey to survey that would indicate a reengineering of the workflow.

Using these measurements and the baseline statistics, the state and Higher Education will be able to estimate progress in realizing each of the direct benefits listed in this section.



1. Reduce or Eliminate "Shadow Systems"

Departments and agencies create "shadow systems" for any number of reasons. The most common reasons are a lack of The internal integration, flexibility and ease of use of PeopleSoft will give the state an excellent platform for significant flexibility in the legacy system, difficulty in getting information for agency specific reports and lack of trust in the legacy system. reductions in this wasteful practice.

common example is where departments are using internal accounting systems that duplicate many of the functions of SAMIS (the statewide accounting system) because SAMIS does not offer the functionality these agencies need. Other agencies are supporting a wide range of smaller spreadsheets and databases that replicate functions like leave accounting, SAMIS reporting, purchase order tracking, project management, etc. In Higher Education, many institutions use shadow systems to the HECN-AIS to track financial, personnel, and/or student information at a finer level of detail, at different points in time, or to In North Dakota state General Government and Higher Education, shadow systems exist on a number of levels. The most accumulate costs in groupings that suit their needs. Payback - Comparable research by both Meta Group and Gartner¹ shows that each shadow system can duplicate hardware and software costs, duplicate data entry functions, and employee time spent reconciling increases overall operating costs by up to 20%. Increased operating costs include higher training costs, discrepancies between the primary and shadow systems. In discussing this issue with staff members, most acknowledged that the effort to maintain the state's numerous shadow systems takes considerable staff time; however the information maintained in these systems is critical to agency management. They also acknowledge that the staff time used to maintain these shadow systems could be put to better use directly serving constituent needs if ConnectND can fill identified gaps in information and reporting from SAMIS, HECN-AIS and other statewide systems.

ConnectND Updated ROI Analysis

¹ Meta Group and Gartner are nationally recognized independent research organizations that regularly review and survey developments in the Information Technology sector and report the results of their research.



month from this redundant activity, then the 58 state agencies and 11 NDSU campuses would derive the The amount of time spent on this activity will vary widely between small and large agencies or campuses. If on average, each agency or campus could reallocate 60 FTE staff days per year or about 5 FTE staff days per following benefit:

		Reduce o	ce or Eliminate	ate Shadow Systems		State & Hig	her Educati	ion Benefit			
Year	2005	2006	2002	2008	2009	2010	2011	20.2	2013	2014	Total
# of State Departments	58	58	58	28	58	58	58	89	58	89	
Emp Days Benefit/Year	QL	20	30	40	50	99	9	09	09	09	
Total Days Benefit/Year	580	1,160	1,740	2,320	2,900	3,480	3,480	3,480	3,480	3,480	
State Employee Benefit	\$132,274	\$269,839	\$412,853	\$561,480	\$715,887	\$876,246	\$893,771	\$911,646	\$929,879	\$948,477	\$6,652,352
# of Campuses	Ŧ.	11	Ŧ	11	H.	#	11	11	ш	F	
Emp Days Benefit/Year	Q	20	30	40	50	90	09	09	09	09	
Total Days Benefit/Year	O;t	220	330	440	550	999	099	099	099	099	
Higher Ed Employee Benefit	\$23,474	\$47,888	\$73,268	\$99,645	\$127,048	\$155,506	\$158,616	\$161,789	\$165,024	\$168,325	\$1,180,584
Total Value of Time	\$ 155,748 \$	317,727	s	486,122 \$ 661,125 \$	\$ 842,935	842,935 \$ 1,031,752	\$ 1,052,387	\$ 1,073,435	\$ 1,094,904	\$ 1,116,802	\$ 7,832,936

Effective Project Governance Critical Success Factors:

Change Management Strategy

Commitment to dismantle "Shadow Systems"

IT Infrastructure and System Reliability

Measuring this Benefit:

Of all the tangible benefits this is easy to understand how savings would be generated, but is the most difficult area to of systems in use in the various agencies and higher education. That list also identified those systems that were resurvey the agencies and institutions every two years. The questions could be formatted in a simple and quick to use identify a simple and easy way to measure accomplishments. Early in the ConnectND project, the state compiled a list candidates for elimination as "shadow systems". We recommend that the Information Technology Department (ITD) survey that could be conducted over the state's Intranet. The survey should ask several important questions.

- Which of the systems on the list has your agency eliminated as a result of ConnectND?
 Has your agency developed or implemented any new systems as a result of ConnectND?



- If so, what systems have you implemented and what does the system do? <u>හ 4 හ ග</u>
- What did the system cost you to implement, and how much does it cost to maintain?
- What functionality is lacking in ConnectND that caused you to decide to implement this system?
- If ConnectND could be upgraded or modified to meet your functional requirements, would you be able to eliminate this new system?

2. Statewide Integration on Common System

A single system configured to meet the business needs of both general government and higher education in the state of North Dakota will facilitate the sharing of information and make work flow across agency lines effectively on a "real-time" basis without the delays and limitations previously experienced with "stove-pipe" legacy systems. This will also help the state leverage resources by sharing training costs, gaining economies of scale on hardware and software expenses, sharing and integrating common business practices (such as purchasing), and establishing the capacity for comprehensive financial reporting Payback: Today, the state of North Dakota operates a large collection of automated systems that support various ongoing business functions like General Ledger, Purchasing, Payroll, Fixed Asset Tracking, Student Administration, etc. A major payback in this area will be the opportunity to eliminate most, if not all, redundant systems and have a single shared data repository. Having data and business processes spread out in this many locations results in staff members doing multiple security controls. Based upon feedback from multiple agencies during the analysis phase of this project, it is learning curve has been overcome. The value of both the initial reduction in employee effectiveness and the data entry and increases the risk of introducing errors in the data that require reconciliation between sources. With the data in a single common system, users will have direct access to real-time operational data limited by reasonable to expect that staff actively using the system will increase their productivity once the system improved efficiency over time is shown in the following table:



		Statewide in	tegration on	n a Comm	on System	- State & H	ligher Educ	cation Benefi	in the second		
Year	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Total
# State System Users	7,500	7,500	7,500	7,500	7,500	005'4	7,500	7,500	7,500	7,500	
% Productivity Improvement	-0.05%	-0.10%	%0.0	0.05%	0.05%	%50'0	0.1%	0.7%	0.1%	0.1%	
State Employee Benefit	(\$205,253)	(\$418,715)	0\$	\$217,816	\$222,172	\$226,615	\$462,295	\$471,541	\$480,972	\$490,591	\$1,948,035
# Higher Ed Sys Users	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	
% Productivity Improvement	-0.1%	-0.1%	%0:0	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	
Higher Ed Employee Benefit	(\$204,868)	(\$208,965)	\$0	\$217,408	\$221,756	\$226, 191	\$230,715	\$235,329	\$240,036	\$244,836	\$1,202,436
Total Value of Time	\$ (410,121)	(410,121) \$ (627,680) \$		\$ 435,223 \$	\$ 443,928	\$ 452,806 \$	\$ 693,010 \$	\$ 706,870 \$	\$ 721,008 \$	\$ 735,428	\$ 3,150,471

Critical Success Factors: Effective Project Governance

Change Management Strategy
Maintenance Upgrade Plan
Commitment to dismantle "Shadow Systems"

IT Infrastructure and System Reliability

Measuring this Benefit:

students using the portal, help desk statistics and the satisfaction survey. Tracking these data points over time will The value derived from this benefit can be tracked by evaluating the baseline metrics listed at the beginning of this section such as number of employee hits, percentage of employees using the portal, student hits, percentage of provide picture of how the system is being used, where faculty/employees are having problems, are problems increasing or decreasing, and other valuable evaluative information.

3. Establish a Self-Service Environment for Vendors

vendors selling goods and services to the state. These portals will allow the vendors to conduct business with the state in a secure and reliable fashion 24 hours/day, 7 days/week. The state conducts business with over 7,500 vendors per year and The PeopleSoft ERP system provides an integrated tool set that will allow the state to set up self-service portals for use by ssues over 385,000 payments for goods and services through the current SAMIS system. The state is offering some of these services successfully via Internet based web sites today. The advantages of offering these expanded services to the vendor community as part of the ConnectND project are numerous. Among the major benefits are:



web-based interface that reduces time to learn how the system works, and technical integration that leverages staff training built-in integration with the accounting functions, state-of-the-art security to assure the integrity of vendor requests, common and skills for the development of new service offerings. Payback: About 70% of North Dakota's businesses stated that they had a high interest in conducting business handle this transaction. We have estimated that 10 minutes of staff time would be saved for each of these savings in this area assuming reasonable increases in vendor utilization of the Interface and a growing number with the state on-line via the Internet. Each time the vendor uses the Internet to conduct basic purchasing transactions, like registering a business or submitting a bid, a state employee does not need to be available to transactions that the vendors conduct via the Internet. The following table shows the progression of the of transactions as the years go by.

		Establish a	lish a Self-Servi	vice Enviro	nment for	Vendore				Color Marie Assessed	The state of the s
Year	2002	2006	2007	2008	9006	,		me benesii			
# of Vendore	25.50			200	FOOS	20.00	2011	2012	2013	2014	Total
200	DOC',	7,500	7.500	7,500	7,500	7.500	7 500	4 500			
1% Vendors w/Internet	50%	, EEO	7000				3	2002	005'/	7,500	
	3	3	20%	%c9	%0%	75%	80%	45%	· 600	7000	
# of Transactions/Year		-	6	c	•	,		200	90.79	80%	
			•	4	າ	8	4	4	7	•	
lotal I ransactions	3,750	4, 125	9.000	0 750	4 750	1000					
Empl House Conness				3	2,130	C/0'Q	24,000	25,500	27,000	27.000	
Circle Delleri	625	889	3,000	3,250	7.875	8 438	9	1000			
Total State Benefit	6000	700 074				,	OWO,	000,7	18,000	18,000	
110000000000000000000000000000000000000	/10'/10	LEG'SI	\$48,977	\$98,320	\$243,001	\$265.585	\$5 12 GE1	100 000			
						2012	000	100°0000	\$501,215	\$613,239	\$3.018.466
											200

Although we did not use the following information in the ROI calculation, it is important to recognize that there is For the purposes of this example, a vendor savings of \$20/transaction was assumed. The vendors also save time and effort with the new system because the state has converted to a single vendor file shared by all state agencies and higher education. The vendors can now go to one place to register with the state, where before they had to go to each agency and each campus to be included in the procurement process. The following table illustrates these also a significant savings potential for the vendors that use the on-line interface. Vendors would save travel expenses, employee costs and other expenses, which would be a direct benefit to the businesses' profitability. savings using the same number of transactions and usage assumptions used in calculating the State's savings

² <u>North Dakota Business Use of Information Technology;</u> Social Science Research Institute, UND June 27, 2002



		Establish	a Self-Ser	vice Envir	onment for	Vendors.	Vendor Tim	e Savings	排落於		
Vendor Savings/Transaction	\$ 20.00	\$ 20.40	\$ 20.81	\$ 21.22	\$ 21.65	\$ 22.08	\$ 22.52	\$ 22.97	\$ 23.43	\$ 23.90	Total
Total Vendor Savings	\$75,000	\$84,150	\$187,272	\$206,936	\$340,966	\$372,627	\$540,558	\$585,830	\$632,696	\$645,350	\$3,671,385

Critical Success Factors: Effective Project Governance

Change Management Strategy
Post Implementation Support Plan
Staff Training Strategy and Plan
IT Infrastructure and System Reliability

Measuring this Benefit:

Performance in this area can be readily tracked using a combination of the baseline measurements such as number of become available, the state can verify that the usage levels anticipated in the table above are actually being achieved. vendors registered, number of hits on the vendor portal, and vendor satisfaction with the process. As these numbers When there is a variance the state should analyze the cause and take corrective action. Even when no variance is seen, we recommend that the state conduct interviews of vendor usage and satisfaction using a random sample of vendors on a bi-annual basis.

sampling a number of commonly purchased items and track prices over time. This tracking capability is available in the In addition, we recommend tracking the number of qualified electronic bids received on purchase requests and PeopleSoft Supply Chain modules when properly configured

4. Establish a Self-Service Environment for Employees

A major new component of the ConnectND ERP system is a statewide Human Resource (HR) System. The new HR system includes an Intranet portal that will allow employees to handle basic transactions and requests in a secure and reliable fashion 24 hours/day, 7 days/week. Depending upon how system security is set up, these self-service portals can be used to update personal information like an address, make changes to tax withholding data, request leave, report time and much more.



Among the major benefits are: saving employees time in completing routine changes, state-of-the-art security to assure the The advantages of offering these expanded services to the state's workforce as part of the ConnectND project are numerous. integrity of employee requests, a common web-based interface that reduces time to learn how the system works, and technical integration that leverages staff training and skills for the use of these new service offerings.

through shared computers. Using the Internet to conduct basic HR transactions would save time in reduced ravel, phone calls, and related follow-up. Based upon the average salary per state employee the table below shows the cumulative impact of this new service. In the table, we have assumed that employees would save one-half hour of time per transaction and that initial system usage would be limited. However, as employees learn its value and network connectivity becomes more and more available, the state will see considerable Payback: Most state employees have access to on-line services via the Internet either at their desks or growth in the value of this service.

	大大地 的复数人	Establi	isn a self-s							The second second	連になるできる はない こくこ
Year	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Total
# State Employees	8,430	8,430	8,430	8,430	8,430	8,430	8,430	8,430	8,430	8,430	
% Using Self-Service	40%	40%	45%	45%	20%	20%	55%	55%	%09	%09	
# of Transactions/Year	ဗ	4	ហ	9	7	α	6	Q.	Ħ	12	
Total State Benefit	\$144,190	\$196,098	\$281,278	\$344,285	\$455,221	\$530,658	\$569,823	\$759,132	\$929,178	\$1,033,922	\$5,343,784

Critical Success Factors: Effective Project Governance

Change Management Strategy

Post Implementation Support Plan Staff Training Strategy and Plan

IT Infrastructure and System Reliability

Measuring this Benefit:

Performance in this area can be readily tracked using a combination of the baseline measurements such as number of nits on the employee portal, percentage of employees using the portal and employee satisfaction with the process. As these numbers become available, the state can verify that the usage levels anticipated in the table above are actually being achieved. When there is a variance the state should analyze the cause and take corrective action. Even when

October 1, 2004



no variance is seen, we recommend that the state conduct field verification of employee usage and satisfaction using a random employee sample on a bi-annual basis.

5. Improved Self-Service Environment for Students and Faculty

scheduling requests, check/pay tuition and fees, conduct student/faculty advising sessions, and check/report credits and The existing student administration system in Higher Education allows students and faculty to register, complete a number of grades using the Internet or by telephone. ConnectND is expected to also allow access to learning material and to improve the flow and functionality of existing student transactions and add new capabilities to the system. Some of the new functionality includes giving a student access to financial aid information, allowing students to update contact information such as their address, telephone number and e-mail address, and make payments using a credit card. Having this type of on-line processing available through an Internet portal is absolutely critical if the state's higher education institutions are to remain competitive with higher education institutions in other states particularly when it comes to recruiting and retaining out-of-state, or out-of-country students. Prospective students and high school counselors have come to expect these types of on-line services from the institutions they work with as the norm. Not having an easy-to-use Internet based system comparable to what is available from other institutions hurts the State of North Dakota's recruiting efforts and may eventually result in a decline in enrollment. Payback: Nearly 100% of the 52,480 students attending Higher Education institutions and the 6,010 faculty 3 minutes of employee or faculty time. Because the students can access the system 24 hours a day, 7 days a week from anywhere there is an internet connection, the state can provide better service to the students at a the initial usage by students would start lower, but grow considerably over the ten years of this analysis. Each time a student uses this system to find information or process a transaction, the state will save approximately and staff members in North Dakota have Internet access for accessing ConnectND. NDUS staff estimates that lower cost. In the following table, the benefit of these timesavings to employees and faculty is projected.



		Improved Self	Serv	ice Environ	ment for S	t for Student and	Faculty - Ti	me Benefit			
Year	2005	2006	2007	2008	2009	2010	2011	20.42	2013	2014	Total
# Higher Ed Employees	0,010	6,010	6,010	0.010	6,010	6,010	0,019	6,010	6,010	0:0:9	
% Using Self-Service	20%	30%	35%	40%	45%	20%	92%	%09	65%	20%	
# of Transactions/Yr	2	4	9	4	7	8	o	\$	F	24	
HE Employee Benefit	\$10,688	\$34,951	\$62,388	\$84,847	\$97,362	\$126,107	\$159,179	\$ 196,803	\$239,214	\$286.655	\$1.298.195
# of Students	52,480	52,480	52,480	52,480	52,480	52,480	52,480	52,480	52.480	52.480	
% Using Self-Service	80%	%08	80%	82%	85%	85%	%06	%06	95%	85%	
# of Transactions/Year	20	20	25	25	30	30	35	35	6	4	
HE Employee Benefit	\$1,119,945	\$1,142,344	\$1,456,489	\$1,578,469	\$1,932,047	\$1,970,688	\$2,483,066	\$2,532,728	\$3,116,461	\$3,178,790	\$20.511.027
Value of Time Benefit	\$ 1,130,633 \$	1,177,295	\$ 1,518,876	\$ 1,663,317	\$ 2,029,409	\$ 2,029,409 \$ 2,096,795	\$ 2,642,245	\$ 2,729,531	3,355,675		\$ 21,809,221

Although we did not use the following information in the ROI calculation, it is important to recognize that there is average of ½ hour each time they used the portal, and that the value of that time was \$10/hr. The following table significant savings potential for the students that use the ConnectND. Students, especially those located in remote areas or commuting from out-of-state/country would save considerable travel expenses, telephone costs with the new system because the state has converted to a consolidated system shared by all higher education university and to get the information they need. For this calculation, it was assumed that students would save an and other expenses, which would lower the overall costs of their education. The students also save time and effort institutions. Now, students all go to one place to register, check grades, etc. where before they had to go to each illustrates these savings to students using the same transaction volume assumptions that we used in calculating higher education employee and faculty savings shown above.

	<u></u>	\$87,333,372
	Total	1
	5.98	7 \$12,543,692
	89	69
特別的教育的	5.86	\$10,549,529 \$12,297,737
III	5.74 \$	6,
tudent Time Benefit	5.7	\$10,549,52
Tim	5.63	76
Student	\$ 5.	\$10,342,676
nts •	5.52	324
Stude	(A)	\$8,691,324
t for S	5.41	906'
оптеп	\$	\$8,520,906
nvire	5.31	\$6,961,524
/ice	vs	\$6,9
-Ser	5.20	5,024
a Seli	€	\$6,82
lish	5.10	2,960
Esta	\$	\$5,352
	5.00 \$	8,000
	,,	\$5,24
	37	
	Trans	enefit
	refit/Tr	<u>@</u>]
	Student Ber	Studen
	Stude	Total Stu

Critical Success Factors: Effective Project Governance

Change Management Strategy Post Implementation Support Plan Staff Training Strategy and Plan

IT Infrastructure and System Reliability

Measuring this Benefit:

The employee/faculty benefit from student and faculty self service can also be tracked using a combination of the in the table above are actually being achieved. When there is a variance the state should analyze the cause and take baseline measurements. As utilization figures become available, the state can verify that the utilization levels projected corrective action. Even when no variance is seen, we recommend that the state conduct field verification of student and faculty usage and satisfaction using a random sample on a bi-annual basis. An indication of key areas for field verification could come from either the usage variance or the portal survey statistics. In addition, we recommend that staffing information and student contact statistics be gathered on a random basis of selected student services counters and phone centers such as Financial Aid, Registration, etc. These statistics should be monitored to verify that staffing levels are stable and phone/walk-up contacts from students are decreasing over lime. If these contacts are not decreasing the state should analyze the cause and take corrective action.

6. Integrated Workflow, Industry Best Practices and Reduced Dependence on Paper

the workflow process resulting in improved organizational efficiency and accuracy that will have a direct positive impact on A major feature of the PeopleSoft ERP system is integrated workflow. Integrated workflow will allow the state to define an build the rules for those processes into the system. The system will then enforce the rules and facilitate the transaction through infinite number of business processes (hiring an employee, registering a student, issuing a bid, setting up a project, etc.) and constituent service. The built in workflow features combined with extensive internal integration will also allow the state to significantly reduce its increase internal efficiency, eliminate "lost" transactions, improve information retrieval capability, enhance accountability and dependence on paper documents in all business areas that are used to process these transactions. Reduced paperwork will reduce the need for expanded paper filing systems and the space they occupy.

The PeopleSoft ERP system is installed in thousands of commercial and government agencies worldwide. PeopleSoft and their certified integrators like MAXIMUS have an ongoing commitment to identifying the best business practices of clients using



the system and building those practices into the ERP system. The state of North Dakota can easily take advantage of these eatures and experience without having to reinvent the wheel.

core business systems in General Government and Higher Education that are 25+ years old. Because of the lechnical limitations of the state's outdated technology, little has been done to automate major portions of the Payback: The state of North Dakota is heavily reliant on manual business processes that are supported by workflow and eliminate the flow of paper throughout the organization.

and other paper based processes are replaced with fully automated electronic transactions and integrated workflow. In addition, productivity gains of 0.25% are possible for staff members using the integrated electronic purchasing features. In all cases, these savings do not develop until the system has been installed and operational for several years. In fact, most organizations see a decline in effectiveness in the early years as the employees learn the new system, learn the new processes and gain an understanding of how to best use the system. Based upon the number of ConnectND users in North Dakota, the state could see the following As a result, the state of North Dakota will see significant productivity improvements from the ConnectND Other states like lowa, supported by independent research from Gartner and META Group, experienced modest productivlty gains of 1% per employee using all the features of the system, when manual changes in employee performance and effectiveness during the ten years of this analysis:

	Integra	ited Workflo	rkflow, Industry	Best Pra	ustry Best Practices and Reduced	Reduced D	Dependence	dence on Paper	·- Benefit		
Vear	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Total
# State System Users	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500	
% Productivity Improvements	-0.5%	-0.750%	~0.5%	0.0%	0.5%	1.0%	1.5%	2.0%	2.0%	2.0%	
Annual Employee Cost	54,734	55,829	56,945	58,084	59,246	60,431	61,639	62,872	64,130	65,412	
State Employee Benefit	(\$2,052,525)	(\$3,40,363)	(\$2,135,447)	\$0	\$2,221,719	\$4,532,307	\$6,934,430	\$9,430,824	\$9,619,441	\$9,811,829	\$35,222,215
# Higher Ed System Users	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	
% Productivity Improvement	-0.50%	-1.00%	-0.5%	0.0%	0.5%	1.0%	1.0%	1.5%	1.5%	2.0%	
Annual Employee Cost	51,217	52,241	53,286	54,352	55,439	56,548	57,679	58,832	600'09	61,209	
Higher Ed Employee Benefit	(\$1,024,340)	(\$2,089,654)	(\$1,065,723)	\$0	\$1,108,779	\$2,261,908	\$2,307,146	\$3,529,934	\$3,600,533	\$4,896,724	\$13,525,308
Total Value of Time	\$ (3,076,865)	\$ (3,076,865) \$ (5,230,017) \$ (3,201,170)	\$ (3,201,170)	, 69	\$ 3,330,498	\$ 3,330,498 \$ 6,794,215	\$ 9,241,576	\$ 12,960,758	\$ 13,219,973	\$ 14,708,554	\$ 48,747,522

Critical Success Factors: Effective Project Governance Change Management Strategy

Post Implementation Support Plan Staff Training Strategy and Plan Law Changes IT Infrastructure and System Reliability

Measuring this Benefit:

Greater and greater improvements in productivity will occur as the state takes advantage of the features of ConnectND. How effective the state will be in achieving these benefits will largely be a factor of how the state develops and deploys workflow. We recommend that the state track the number of workflow related changes that are developed in ConnectND. Periodically, the state should select various workflow processes and analyze their effectiveness. This assessment should include talking to the affected employees and getting their impressions of how the workflow and/or the change in business practice has impacted their work. The state should also monitor the number of customizations and/or modifications developed and applied after go-live. Increases in this number are an indication that the state is not taking advantage of delivered system functionality. In addition, the baseline measurements when tracked over time will help provide a picture of how well the state is doing in this area. As in the other benefit areas, when variances in utilization are seen, the state needs to analyze the cause and take corrective action. In some cases, analyzing the problem will require field assessments, employee surveys and/or other tools to determine the cause.

7. Platform for Re-engineering Business Practices and Continued Process Improvements

The overall effort to implement the PeopleSoft ERP system that employs industry best business practices, gives the state of North Dakota an outstanding opportunity to thoroughly evaluate current business practices and make changes where appropriate. Re-engineering business practices in line with the flexible functionality available in the PeopleSoft ERP system, improves application maintainability when making future system upgrades.

project will position the state of North Dakota to take advantage of future enhancements in the product. The PeopleSoft ERP releases allow PeopleSoft to introduce new functionality and technology on a regular basis. Addition of new functionality into In addition to the re-engineering of current business practices accomplished during initial implementation, the PeopleSoft ERP system is constantly being updated and major new releases are available about every 18 months. These updates and new



North Dakota that the major investment being made in this system will not become functionally or technically obsolete any time the product base is generally the result of experiences at other public and private organizations. This assures the state of in the future and that the state can continually improve business process by incorporating the lessons learned by other Payback: The major payback for ERP implementation projects can occur with initial implementation if the organization seriously considers their business processes and re-engineers them to take advantage of existing system functionality. As this functionality is enhanced, greater and greater savings will result over time. However, once implemented, organizations continue to see paybacks in three important areas.

business processes. A good example are the changes in federal loan programs for students that the NDUS estimates will require \$1,000,000 in software maintenance costs to implement. An organization the size of The first area is reduced development and maintenance costs normally necessary when external factors affect North Dakota would normally expect at least one change of this magnitude per year.

engineering opportunities become more apparent. It is reasonable to expect that the state of North Dakota The second area is the opportunity to re-engineer business processes on a go-forward basis after initial implementation. As organizations gain experience with these highly integrated systems additional recould increase performance improvements from those identified in the preceding benefit. The final area that will produce payback to the state is the delivery of completely new functionality from the software vendor. This new functionality normally arises from a specific need or best business practice found at another user of the system. Most recently, PeopleSoft has introduced major new functionality in the areas of customer relationship management, employee self-service, government and student administration Internet web portals, and enterprise performance management. There does also exist functionality in the PeopleSoft system that will allow the state to automate processes that implementation are human resources and electronic procurement (e-Procurement). Any one of these efforts to implement new or existing could easily result in multiple two-year development projects in the \$1,000,000 range each for a large organization engaged in Internal development. The following table projects possible are currently manual. Two specific areas where automation of manual process are currently planned for cost savings in these areas for the next ten years.



	- Platform	ō	engineerin	g Busines	s Practices	s and Conti	Re-engineering Business Practices and Continued Process Improvements	ss Improve	ments		
Year	2005	2006	2007	2008	2009	2010	2011	20.12	2013	2014	Total
Legacy System Upgrades	218,936	223,315	227,781	232,337	236,983	241,723	246,557	251,489	256,518	261,649	2,397,288
# State System Users	7,500	7,500	7,500	7,500	7,500	005'2	7,500	7,500	7,500	7,500	
Re-engineer % Increase	0.000%	0.000%	0.050%	0.050%	0.100%	%001:0	0.100%	0.150%	0.200%	0.300%	
Re-engineer Benefit	₩.	69	\$ 213,545	\$ 217,816	\$ 444,344	\$ 453,231	\$ 462,295	\$ 707,312	\$ 961,944	\$ 1,471,774	\$ 4.932.260
# State System Users	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7.500	7,500	
New Functionality % Inc	0.000%	0.000%	0.050%	0.050%	0.100%	%001:0	0.100%	0.150%	0.200%	0.300%	
New Functionality Benefit			\$ 213,545	\$ 217,816	\$ 444,344	\$ 453,231	\$ 462,295	\$ 707.312	\$ 961.944	\$ 1471774	4 932 260
Total State Benefit	218,936	223,315	654,870	896'299	1,25,671	1,148,184	1,171,148	1,666,112	121	ľ	\$ 12,261,809
Legacy Sys Upgrades	204,868	208,965	213,145	217,408	221,756	226,191	230,715	235,329	240.036	244.836	726 543 947
# Higher Ed Users	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4.000	4.000	
Re-engineer % Increase	0.000%	0.000%	0.150%	0.150%	0.200%	0.200%	0.250%	0.300%	0.300%	0.400%	
Re-engineer Benefit	•Э		\$ 319,717	\$ 326,111	\$ 443,511	\$ 452,382	\$ 576,787	\$ 705,987	\$ 720,107	\$ 979.345	\$ 4 523 946
# Higher Ed Users	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	l	
New Functionality % Inc	0.000%	0.000%	0.150%	0.150%	0.200%	0.200%	0.250%	0.300%	0.300%	0.400%	
New Functionality Benefit	\$0	80	\$319,717	\$326,111	\$443,511	\$452,382	\$576,787	\$705,987	\$720,107	\$979,345	4,523.946
Total Higher Ed Benefit	204,868	208,965	852,579	869,630	1,108,779	1,130,954	1,384,288	1,647,303	1,680,249	2,203,526	\$4,523.946
Total Benefit	\$ 423,804	\$ 432,280	\$ 1,507,449	\$ 1,537,598	\$ 2,234,450	\$ 2,279,139	\$ 2,555,436	\$ 3,313,415	\$ 3,860,655	\$ 5.408.724	\$ 23.552.949
								I	ı		>

Legacy Sys Upgrade assumes 1per year and staffing of 4 FTE's in both State and Higher Ed

Critical Success Factors: Effective Project Governance Change Management Strategy

Post Implementation Support Plan Staff Training Strategy and Plan

Measuring this Benefit:

greater and greater advantage of the features of ConnectND. How effective the state will be in achieving these benefits will be a factor of how well the state manages change. We recommend that the state track the number of re-Improvements in productivity and re-engineering business processes will become an on-going effort as the state takes



consider developing a program to review re-engineering efforts and reward the teams involved. This would require the state to review re-engineering efforts and analyze their effectiveness. This assessment should include talking to the affected employees and getting their impressions of how the changes in business practices have positively or engineering related changes are developed in ConnectND. In order to make re-engineering a priority, the state should negatively impacted their work.

in this area. When variances in system utilization patterns by students, vendors and employees are seen, the state needs to analyze the cause and take corrective action. In some cases, analyzing the problem will require field In addition, the baseline measurements when tracked over time will help provide a picture of how well the state is doing assessments, employee surveys and/or other tools to determine the cause.

8. Cross Trained Workforce

transaction workflow to process their work. This increases staffing flexibility, minimizes training program development costs Accounts payable or Human Resource personnel in one institution or agency will be using nearly identical if not identical A common statewide PeopleSoft ERP system will give the state the added flexibility of being able to cross train the workforce. and improves the efficiency of the state's PeopleSoft training program

effort like ConnectND. Training employees is critical to the success of this project. Typical training investments per employee are in the range and continue as an expense as new employees join the workforce and existing employees are reassigned, promoted or relocated. As a result of the implementation of a common user interface in the integrated system and the elimination of numerous "shadow systems", the state of North Dakota will avoid a significant amount of re-training costs as employees already familiar with the ConnectND system move from one agency to another. Based upon an estimated movement of existing employees between Payback: Employee training is a major investment that must occur as part of any large systems Integration agencies, the savings in retraining costs to the state would be:



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5,000 \$ 5,000 \$	5,000 \$ 5,000	\$ 5,000	\$ 5.000	5.000	- S	A 000	
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350,000 \$ 350,000	350,000 \$ 350,000	49	\$ 350,000	\$ 350,000	\$ 350,000	350,000	1,000,000
\$ 000'00\$	0,000 \$ 350,000	350		100,000	\$ 350,000 \$ 350,000	\$ 350	2.0% 100,000 100 \$ 350,000 \$ 350

Critical Success Factors: Change Management Strategy

Post Implementation Support Plan Staff Training Strategy and Plan

Measuring this Benefit:

a good indication of the state's ability to realize this benefit. The state should also be able to use the HRMS component reassignments in key positions that work directly with the system. Comparing actual to projected turnover rates will be Using some of the tools in the HRMS component of ConnectND, the state should monitor employee turnover and to track employee training costs and analyze trends in this area.

Along with these specific metrics, the state should also use the baseline measurements to monitor trends in system utilization.



4.5. Other Indirect Benefits

There are several indirect benefits that have intrinsic value to the state of North Dakota, but lend themselves less to qualifying a specific payback.

Migration to "Thin Client" Architecture

The PeopleSoft ERP system planned for implementation in the state of North Dakota uses the latest "thin client" or Internet browser based technology. The industry shift to "thin client" has eliminated many of the problems inherent with "client server" systems such as software application distribution and support, desktop computer reliability, core system maintainability and performance. The "thin client" architecture employed by the PeopleSoft ERP system results in a system that is highly reliable, easier to manage and maintain, flexible, and easier to use since most staff members are familiar with the Internet browser type of interface.

Critical Success Factors:

Post Implementation Support Plan

Maintenance Upgrade Plan Staff Training Strategy and Plan

IT Infrastructure and System Reliability

Common Coding Structures

The Higher Education Institutions' and General Government agencies' legacy systems have, for the most part been developed in isolation. This results in differences in account structures, data names and data relationships. Because of these inherent differences, it is difficult to share or exchange information and get a complete statewide picture of financial status. A good example would be to look at how many different places and formats information about students and employees are stored in state databases. Storing the information in this distributed fashion also increases the likelihood that there will be discrepancies in the data. The PeopleSoft ERP implementation process now underway at the state will result in definition of common coding structures, shared data repositories and better overall data integration.

Critical Success Factors:

Effective Project Governance Change Management Strategy

Commitment to dismantle "Shadow Systems"
Early Identification of Agency System Interfaces

Enhanced Internal and External Security

Internal and external security is a major focus in the PeopleSoft ERP solution. The sophisticated security methodology employed by PeopleSoft has the flexibility and reliability to support a multi-agency, multi-institutional implementation with the highest standards for data security and reliability that far exceeds the capabilities of most legacy systems.





Critical Success Factors:

Post Implementation Support Plan

Maintenance Upgrade Plan Staff Training Strategy and Plan

Meet Government Reporting Requirements

Government reporting requirements are constantly changing. A recent example is the rollout of GASB 34. Since the PeopleSoft system is used in hundreds of government agencies across the country, meeting and exceeding these ever changing reporting requirements is a high priority. As a result, the state of North Dakota will receive timely updates to the system that meet changing requirements as part of the normal application maintenance and upgrade process.

Critical Success Factors:

Change Management Strategy

Post Implementation Support Plan

Maintenance Upgrade Plan Staff Training Strategy and Plan

Commitment to dismantle "Shadow Systems"

Law Changes

IT Infrastructure and System Reliability

Early Identification of Agency System Interfaces

Software Available to Local Government and K-12

The contract signed by the state of North Dakota with PeopleSoft says that any government agency or political subdivision of the state (including local school districts) are entitled to use the PeopleSoft system without additional license fees. Depending upon the size of the local government entity, this would result in significant savings to the taxpayers of North Dakota. Local agencies would be able to implement the system and capitalize on the experiences of ConnectND, leverage training resources and minimize hardware expenses throughout the state.

Flexibility to Meet a Wide Range of Business Process Requirements

PeopleSoft recognized long ago that maintainability and upgradeability of the system was a major issue for them and a major concern for their customer base. As a result, they have designed the system with the tools and features that allow it to be adapted to the diverse needs of their client base. The flexibility delivered in the system also allows the system to support a wide range of organizational structures, organizational interrelationships and reporting requirements. This ever-improving flexibility minimizes the need for extensive application customizations improving the maintainability of the application.

Critical Success Factors:

Effective Project Governance Change Management Strategy Post Implementation Support Plan



Maintenance Upgrade Plan
Staff Training Strategy and Plan
IT Infrastructure and System Reliability
Early Identification of Agency System Interfaces

Extensive Support for Integration to Complementary Software

As an industry leader in ERP systems, PeopleSoft is on the radar of all the leading vendors of complementary desktop software products like e-mail, spreadsheets, word processing, document management (imaging) and Geographic Information Systems (GIS). Therefore, it is easy to extract or access data in the PeopleSoft system for seamless use at the desktop. PeopleSoft also supports all major desktop formats for ease of storing this supporting information in the system.

Critical Success Factors:

Staff Training Strategy and Plan

Commitment to dismantle "Shadow Systems" IT Infrastructure and System Reliability



5. Return on Investment Analysis of ConnectND

The data presented in the previous sections is used in this financial analysis to quantify the value of the ConnectND project. This Return on Investment (ROI) model is a derivative of the formula used by the state of lowa. Other methodologies used in the public sector were evaluated in the course of developing this document, and advantages of each have been incorporated into the North Dakota approach.

The analysis compares the costs of the ConnectND project to the costs of running the current legacy systems "as is". Deferred development cost to upgrade or replace the legacy systems on a piecemeal basis has not been included. It is likely that some or all of these deferred development projects would need to be funded in the future if the ConnectND project was not implemented.

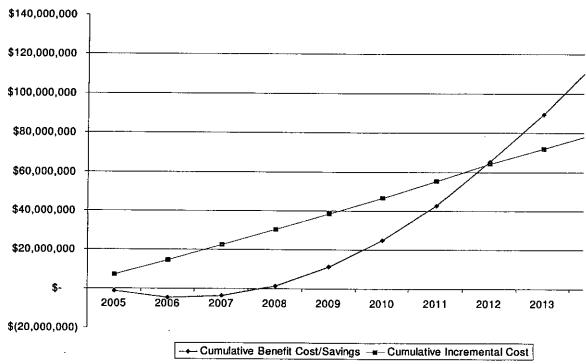
ROI Financial Analysis	Today's \$'s	Net Present Value @ 2.5% Return
A. Total 10 Year Legacy System Costs		
System Costs from the 2004FY to 2013FY	\$49,262,966	\$43,115,263
B. Total 10 Year ERP Costs		
System Costs from the 2004FY to 2013FY	\$129,312,688	\$112,939,921
C. Incremental Government Investment: B - A	\$80,049,722	\$69,824,658
D. Direct Project Benefits/ 10 Year Totals		
Reduce or Eliminate "Shadow Systems"	\$7,832,936	\$6,654,953
2. Statewide Integration of Common System	\$3,150,471	\$2,494,571
3. Establish Self-Service Environment for Vendors	\$3,018,466	\$2,501,370
4. Establish Self-Service Environment for Employees	\$5,343,784	\$4,498,626
5. Improved Self-Service Environment for	404 000 004	#40 E00 0E3
Students/Faculty	\$21,809,221	\$18,599,962
Integrated Workflow, Industry Best Practices and Reduced Dependence on Paper	\$48,747,522	\$38,337,896
7. Platform for Re-engineering Business Practices and Continued Process Improvement	\$23,552,949	\$19,743,839
8. Cross Trained Workforce	\$3,500,000	\$3,063,222
E. Total 10 Year Project Benefit: 1+2+3+4+5+6+7+8	\$116,955,350	\$95,894,440
10 Year Return On Investment (ROI) = (E - C / C)	46.10%	37.34%
Project Payback (in years) = Intersection Point on the Graph	8	N/A

Another way to look at ROI is graphically. The following graph plots two ROI variables for the life of this analysis. The first line (pink line with squares) shows the cumulative incremental project cost. Cumulative incremental costs is the total cost of the project minus the projected cost to continue using the legacy systems added up for 10 years running. We use cumulative incremental costs here, because the direct benefits identified are the result of the State's



investment in ConnectND and generally would not be seen if the state continued to operate "status quo" with the legacy systems. The blue line with diamonds plots the cumulative value of the direct benefits. Because some of these benefits are projected as negative values in the initial years after implementation, this line dips below zero, and then takes a couple of years to recover. The point where the blue and pink lines cross is the point where the state begins to realize a positive return on the ConnectND investment. This is also shown in the table listed above as the "Project Payback (in years)".

Cumulative Cost vs Benefit

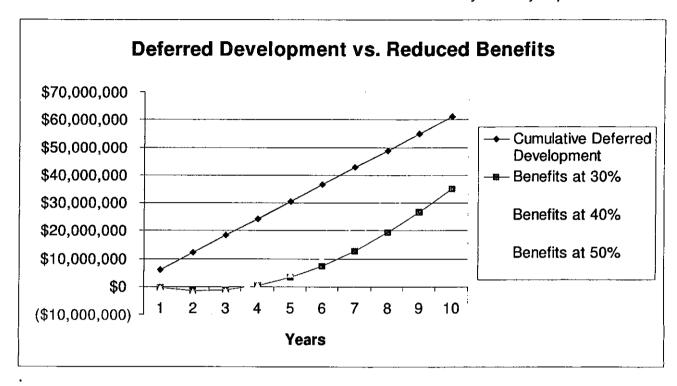


In the 2003 ROI report, the Project Payback (in years) was calculated mathematically. In 2004 we calculated this value both mathematically (for consistency with 2003) and represented the payback graphically. Both approaches yield similar results.

We also would like to contrast the graph above with a graph showing where the state would be regarding costs and benefits had it chosen not to implement ConnectND. Here, the state would have continued to acquire and develop system on a case-by-case basis. To compile this graph, we used the annual costs of the systems projects identified in the Updated Legacy Systems Financial Analysis as Deferred Development. In other words the costs of the non-integrated systems projects that state agencies have not requested funding to buy or develop due to ConnectND. Under this alternative scenario, the state should expect to realize some benefit from these new systems, but not nearly as great a benefit as under the integrated approach



represented by ConnectND. Benefits would be reduced because of lack of integration, potential for diverse hardware and software, redundant data, redundant software, etc. The graph shows the cumulative direct benefits at 30-50% of the levels under ConnectND. As one can see, the cumulative benefits do not reach the level of cumulative costs in the 10-year analysis period.





6. Critical Success Factors for ConnectND

An analysis of Return on Investment (ROI) would be incomplete without a discussion of the many factors that past experience has taught us are critical to overall project success or the Critical Success Factors. The impact of not adequately understanding how each of these factors affects the effort ranges from reducing overall ROI by minimizing the return from the direct and indirect benefits to outright project failure and abandonment of the effort.

Effective Project Governance

A very important issue in helping organizations effectively deal with the Critical Success Factors described in this section of the analysis is to be sure that there is a well-defined and effective governance process in place during the entire system life cycle. In order to be effective, the governance process is frequently administered through a system steering committee. The steering committee operates under a charter that must address the following issues:

Membership – who, how they are selected, term of service.

Leadership – how leadership is selected and the responsibilities of leadership, such as setting the agenda and documenting decisions,

Decision Making Process – what is the process for effective decision-making, what factors cause an issue to be elevated to the group, what happens when the group cannot reach a decision?

Role of Sub-groups or Task Forces – what is the process, scope and roles of sub-groups or task forces in helping the steering committee perform their duties.

Performance Measurement – how will the steering committee assess overall performance of the system, user satisfaction, and costs/savings?

Project Governance Benefit – The largest benefits from effective project governance are effective and efficient decision making and consistent statewide policy setting. Both these benefits will contribute to lowering overall project cost and improving acceptance of the system.

Change Management Strategy

The processes that any large organization must go through to implement and integrate a major software system such as ConnectND impose immense challenges on everyone involved. In order to assure success, public officials, management and staff must understand that these challenges must be carefully addressed in all phases of the project. Managing these changes and the associated expectations for the effort through an effective and comprehensive Change Management Strategy is critical to success. The strategy must focus on the following key elements:

Unfreeze



Here we recognize that it is human nature to resist change. Employees that resist change are said to be "frozen" in their current thinking. In order to effect change, the perceptions, attitudes and other mindsets must be unfrozen. Once unfrozen from past practices, the employees will be able to accept the change and implement it.

> Communications

Everyone involved in the project must be in a constant communication mode. This means listening or reading as well as speaking or writing about the project, the project objectives, gaps, strengths, weaknesses and anything else that is valuable to the overall success of the project.

Involvement & Commitment

Large complex projects like ConnectND succeed when everyone from the top to the bottom stays involved and committed to the success of the effort.

Open to Options

Everyone involved in the project must remain committed to keeping an open mind and avoid the "we have always done it that way" trap. In doing so, adequate time must be allotted to conducting the analysis needed to understand how the changes proposed will affect employees' jobs.

> Stay Focused on the Objective

Another danger in large projects is to get side tracked or diverted into less productive activities. These diversions become sinkholes for time and resources that make little contribution to the overall project. As a result, it becomes a collective responsibility of the project team members to stay focused on the objective and to help keep others focused as well.

> Continuous Incremental Improvement

Sweeping positive change, while delivering outstanding results often is impossible to control and organizationally disruptive. As a result, when it comes to large complex projects, continuous incremental improvement is more reliable and sustainable. It is important for elected officials, managers and staff to realize that reaching all the goals expected of ConnectND will not occur overnight and the continuous improvement is a long term commitment.

> Thorough Understanding of the Internal & External Environment

ERP systems are monuments to system integration. In order to be successful in affecting the positive changes possible with these projects, everyone on the team must have a thorough understanding of the impacts that each and every decision they make will have on the other parts of the system and on external systems as well.

Create an Atmosphere that is Tolerant of Setbacks & Failures

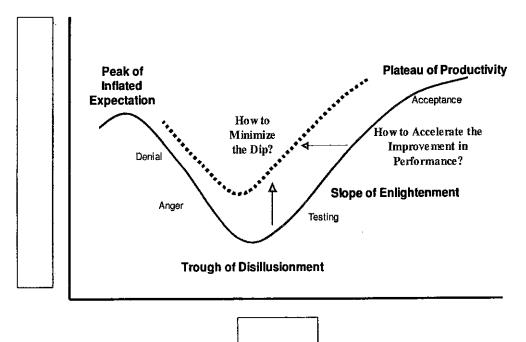
It is extremely important that elected officials, managers and staff all understand that setbacks and failures will occur during the course of the project. A realization that we learn from our mistakes helps create an atmosphere more tolerant of these problems and one that encourages team members to take more risks when searching for the best solutions.

The Change Management Benefit - Every single effort to affect change results in changes in the overall business performance levels normally seen in the organization.



ERP projects are no exception. Typically, business performance through the change cycle deflects over time in response to the changes being imposed. That deflection is illustrated by the red curve on the following graph. The process begins with the "Peak of Inflated Expectation" progresses rather quickly to the "Trough of Disillusionment", up the "Slope of Enlightenment" and eventually to the "Plateau of Productivity". Along the way, many emotions are expressed from excitement and curiosity, to denial, apprehension and finally resolution and satisfaction.

The benefit that can be expected from understanding this change in performance cycle can be immense. While most experts agree that the cycle cannot be avoided, most agree that minimizing the depth of the Trough of Disillusionment and accelerating the organization up the Slope of Enlightenment has tremendous value to any organization.





Post Implementation Support Plan

A sizable number of ERP projects fail or languish in the "Trough of Disillusionment" much longer than necessary when they fail to consider the importance of a responsive and effective Post Implementation (PI) support infrastructure. The PI support infrastructure must be given the resources, staff and tools necessary to support problem resolution, track problem status and provide timely management reports.

The plan for PI support for the ConnectND implementation as large and complex as here in the state of North Dakota would include the resources of a "call center" or "help desk", a problem tracking tool such as PeopleSoft's CRM Help Desk, functional and technical back-up support to assist when the problems are too complex for the help desk, and field support staff that can troubleshoot problems on-site.

Post Implementation Support Plan Benefit — Without an effective plan for adequately supporting the system after implementation, staff and management will become quickly disillusioned with the system when their problems and questions go unresolved. Frustration will grow and blame will be focused on "the system". A significant benefit from a coordinated approach to support is having problem tracking data that can help managers understand where staff are having difficulty so that corrective action such as training can be focused where it will do the most good.

Maintenance and Upgrade Plan

The PeopleSoft ERP system incorporates complex technology that is constantly undergoing updates and changes. The state of North Dakota must insure that adequate resources are available to support the maintenance and upgrade process. This includes adequate hardware and network capacity to support independent development, test and production systems, a comprehensive software change management policy to assure adequate testing of software modifications, ongoing commitment to staff training and updates prior to migration into production, and a governance or decision making structure that supports timely decision on application modifications and upgrade priorities.

Maintenance and Upgrade Plan Benefit – Understanding the system life cycle that includes frequent system updates (patches and fixes) plus periodic upgrades (approximately every 18-24 months) means that the state can plan for these events, schedule staffing and forecast budgets effectively.

Staff Training Strategy and Plan

A statewide strategy and plan for staff training should be developed to address the intensive training requirements necessary in the time period before "go-live" and the training necessary in a post implementation environment. Continual employee turnover, technology upgrades and business process changes will drive the need for training on a go-forward basis. The state will



find that training needs are quite extensive immediately prior to each "go-live" event and moderate after that period. New system releases and major technological changes will generate additional training demands.

Staff Training Strategy and Plan Benefit – Without an adequate investment in staff training, employees will be ineffective in using the new system.

Commitment to Dismantle "Shadow Systems"

Because the state's key business systems are considered hard to use and lack flexibility and "ad hoc" reporting capability, many state departments and institutions have addressed their needs for information by creating extensive "shadow systems". As ConnectND moves forward and these issues are addressed, management must constantly be on the lookout for the existence of both old and new shadow systems and actively discourage their continued use.

Commitment to Dismantle "Shadow Systems" Benefit – Organizations like the state of North Dakota spend considerable staff resources maintaining extensive amounts of data in shadow systems. If managers recognize this trend and actively seek to minimize it, then these staff resources can be used to support other more productive efforts. Without management commitment in this area, shadow systems tend to take on a life of their own.

Law Changes

In some cases, the state may find that existing laws prohibit or restrict the state's ability to take full advantage of the functionality available in the ConnectND system. When necessary, the state should evaluate the impediments created by law and make changes where appropriate.

Law Changes Benefit — Quite often, the laws that govern state organizations were developed at a time when systems and Information Technology in general were far less sophisticated or even non-existent. Changing laws to facilitate the use of technology and modern systems can minimize system customizations and streamline workflow.

IT Infrastructure and System Reliability

All components of the system must be scaled and maintained to assure reliable and effective performance. A system that fails frequently or is slow to respond will have a negative impact on employee effectiveness.

IT Infrastructure and System Reliability Benefit – System reliability is becoming more and more critical as a larger portion of employees and constituents activities include interacting with large integrated systems to complete tasks. If that environment is unreliable or unresponsive, making employees wait through long delays, then overall productivity suffers.



Early Identification of Departmental System Interfaces

Many departments operate systems that provide functionality outside that which will be provided by ConnectND. Often, these system need to send or receive information from ConnectND through system interfaces. In order to assure continued operation of these systems and appropriate accounting for detailed financial information, agencies will have to understand the changes they will be required to make to internal systems as soon as possible.

Early Identification of Agency System Interfaces Benefit - North Dakota state agencies operate a number of major systems that support internal business functions (like Child Support, fleet management, hunting license sales, data processing billing, etc.). Many of these systems supply summarized accounting information to state systems. If agencies are made aware of needs to modify these interfaces early, they can plan for the workload and keep operations in business. If agencies are informed late in the process, it may be necessary to hire outside resources to meet project schedules.



7. Analysis Scope

There are two elements that defined the methodology used and the scope of this project. The first is the timeframe for the analysis. The state of North Dakota plans to capitalize its investment in the ERP system through a ten (10) year revenue bond financing. As long as PeopleSoft and the state continue a mutually beneficial relationship, this project will continue to provide value to the state of North Dakota far longer than the ten (10) years used in this analysis. A ten (10) year cost analysis was used beginning in the 2005-07 biennium through the 2013-15 biennium. In the public sector, it is common for an analysis of this type to cover projected costs and benefits over a period of five (5) to ten (10) years.

The second element was defined by the legacy systems being replaced as a result of the ERP project. In North Dakota, there are as many as 100 legacy systems used by General Government that are identified for full replacement, partial replacement or replacement with an interface to existing outside data. In the Higher Education environment there may be as many as 200 legacy systems and/or system components that could be replaced by ConnectND functionality. The legacy costs documented in this analysis cover the General Government and Higher Education systems proposed to be replaced.

The ERP software field is rapidly changing. PeopleSoft, as a major player in this market, has a recognized reputation as a leader in technological innovation. As a result, it is highly probable that future software releases from PeopleSoft will include added features and functionality expanding the scope of the product. PeopleSoft will provide these upgrades and added features to the state at no additional charge as part of the annual maintenance fees provided for in the contract. It is also highly probable that the state will find that additional legacy systems beyond the ones covered in this analysis can and will be replaced by PeopleSoft components in future releases.

Assumptions

There were several general assumptions that guided the ROI project team through this project. They included:

- > The timeframe for this analysis is ten (10) years beginning with 2005-07 biennium.
- Inflation factor of 2% per year was applied to employee salary cost projections.
- Population and other demographic information used in this analysis are listed in the chapter titled "Direct and Indirect Benefits of ConnectND".

Updated Implementation Costs

Project Implementa	tio	n Costs
・ こうさん ひがた だいこうしょう 光明 アンカッチ スース・スケー フェスティン・・・・ かずいじ	7	2 Year Total
North Dakota Staff	\$	9,724,260
Software	\$	6,607,417
Other Software	\$	328,270
Data Center	\$	2,697,035
Training/Travel	\$	1,291,137
Professional Services	\$	19,415,494
Other Funded Costs	\$	2,445,290
Add'l Higher Ed Support	\$	619,320
Other	\$	-
Totals	\$	43,128,223

Updated ROI Analysis

ROI Financial Analysis	Today's \$'s	Net Present Value @ 2.5% Return
A. Total 10 Year Legacy System Costs		2.070 (CCC)
System Costs from the 2004FY to 2013FY	\$49,262,966	\$43,115,263
B. Total 10 Year ERP Costs	· · · · · · · · · · · · · · · · · · ·	<u> </u>
System Costs from the 2004FY to 2013FY	\$129,932,008	\$113,481,954
C. Incremental Government Investment: B - A	\$80,669,042	\$70,366,691
D. Direct Project Benefits/ 10 Year Totals	<u> </u>	
Reduce or Eliminate "Shadow Systems"	\$7,832,936	\$6,654,953
2. Statewide Integration of Common System	\$3,150,471	\$2,494,571
3. Establish Self-Service Environment for Vendors	\$3,018,466	\$2,501,370
4. Establish Self-Service Environment for Employees	\$5,343,784	\$4,498,626
5. Improved Self-Service Environment for Students/Faculty	\$21,809,221	\$18,599,962
Integrated Workflow, Industry Best Practices and Reduced Dependence on Paper	\$48,747,522	\$38,337,896
7. Platform for Re-engineering Business Practices and Continued Process Improvement	\$23,552,949	\$19,743,839
8. Cross Trained Workforce	\$3,500,000	\$3,063,222
E. Total 10 Year Project Benefit: 1 + 2 + 3 + 4 + 5 + 6 + 7 + 8	\$116,955,350	\$95,894,440
10 Year Return On Investment (ROI) = (E - C / C)	44.98%	36.28%
Project Payback (in years) = Intersection Point on the Graph	44.9676	36.28% N/A

Investment Analysis - Additional Modules / Reduced Maintenance

Description	2	005=2007	200722009%	2009-2011>	2011-2013		2013:2015	1	0-Year Total
Software Maintenance (PS) ROI projection	\$	1,787,682	\$ 1,967,331	\$ 2,324,779	\$ 2,808,747	\$	3,393,926	\$	12,282,465
Software Maintenance (PS) after add'l modules acquired	\$	1,763,574	\$ 1,904,625	\$ 2,060,687	\$ 2,229,547	\$	2,481,836	\$	10,440,268
Add'l maintentance for new modules	\$	83,600	\$ 83,600	\$ 88,683	\$ 95,919	\$	106,798	\$	458,600
Annual Change	\$	(59,492)	\$ (20,894)	\$ 175,409	\$ 483,281	\$	805,292	\$	1,383,597
Initial Investment	\$	209,000						Ė	
Payback period		7 years		·					-,
Total 10 Year Savings - Investment	\$	1,174,597				-	<u></u>		15 741

ConnectND Costs for 2005-07 Financial, Human Resource and Student Administration Systems

ITD Special Funds

\$8,820,811

Bond Payments

\$ 5,392,163

Higher Ed

\$ 3,828,436

State

\$ 1,563,727

PeopleSoft Maintenance \$ 1,760,000

Higher Ed

\$ 1,173,333

State

\$ 586,667

ITD Hosting

\$ 1,668,648

Higher Ed

\$ 834,324

State

834,324

(State Portion will be paid by State Agencies paying ITD \$12.58 per FTE / month and \$6.68 for every \$1 million appropriated / month)

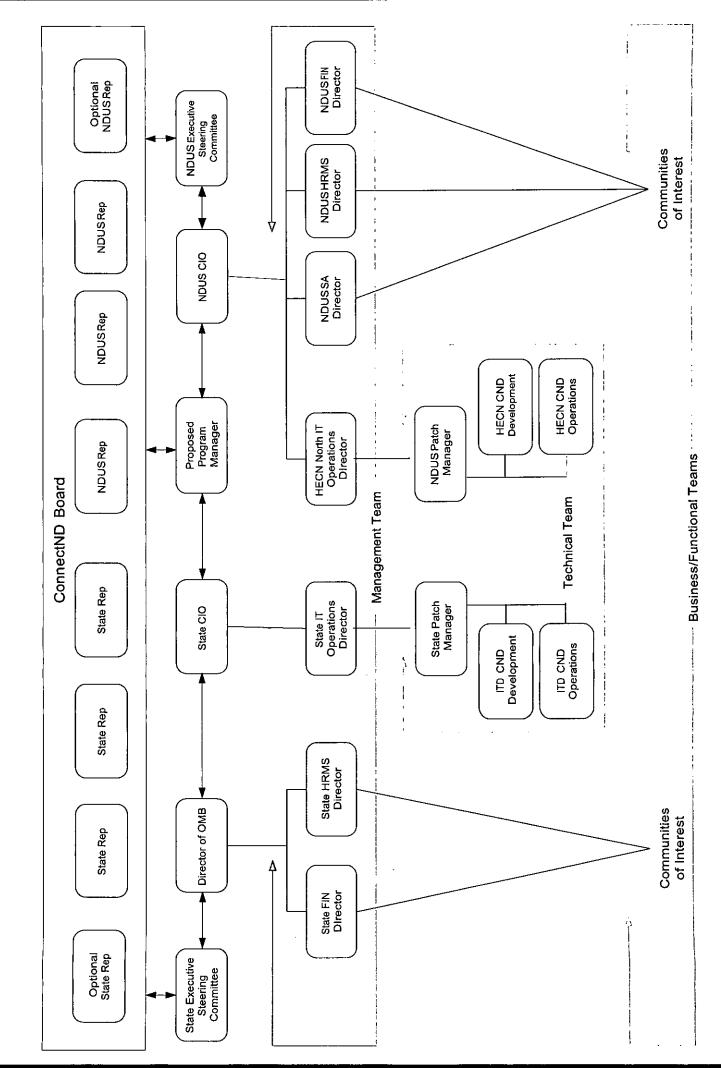
OMB General Funds \$2,100,000

Software Development Support Staff (ITD)

\$1,500,000

Implementation of additional PeopleSoft Modules \$ 600,000

ConnectND Governance - DRAFT



North Dakota GIS Initiative Update January 5, 2004

Background

- State agencies have been using Geographic Information Systems (GIS) since the early 1990s. Duplicated data, different data formats, time spent on finding data, and agencies needing to build duplicated storage and data delivery systems drove the need for a centralized data hub.
- > Beginning with the 2001-2003 Biennium, the Legislature provided funding to build and maintain the GIS Hub.
- ➤ Today, the GIS Hub is a successful and widely-used database and web infrastructure hosted by the Information Technology Department for storing and sharing state agency GIS data and applications, thereby reducing overall costs.
- The GIS Hub is an asset to the state, providing an environment for easily distributing data and information to agencies and their constituents. The GIS Hub provides a basic component for future agency GIS applications, some of which will likely address public safety and health issues.
- The agencies on the North Dakota GIS Technical Committee (GISTC) continue to work together to develop and promote the GIS Hub. The GISTC members are the: Game and Fish Department, State Water Commission, Health Department, Parks and Recreation Department, Geological Survey, Department of Transportation, and the Information Technology Department.

2003-2005 Accomplishments

- ➤ Eight GIS Hub web applications supporting state agencies' missions have been put into production during the current biennium.
- ➤ GIS Hub usage continues to grow: Nearly 11,000 data downloads since March 2004; web applications averaged over 37,000 hits/month in 2004.
- More than \$47,000 in GIS training costs alone have been saved and 103 state agency GIS users have been trained since 2002 when the GISTC-led coordinated training program began.
- ➤ Led by the Career and Technical Education Department and supported by the GISTC, free GIS software for all North Dakota K-12 schools is now available.
- ➤ The GISTC hosted the 3rd and 4th annual North Dakota GIS Day conferences which can bring in over 100 GIS users from across the state.
- Data loaded onto the GIS Hub during the current biennium includes color and black & white aerial photography and elevation data. There are over 170 layers of data on the Hub at this time.



Criminal Justice Information Sharing (CJIS) Facts

Why do we need criminal justice information sharing: Since prior to 9/11 criminal justice agencies throughout the country have been involved in updating their technology to improve public safety. We are using 1970s technology to support our current criminal justice systems. The number one thing all criminal justice officers are asking for is access to information. The purpose of the North Dakota Criminal Justice Information Sharing Project is to update criminal justice systems to allow realtime access to complete and accurate information. This will support better decision making when dealing with our criminals and thus make us all safer. CJIS is extremely important for our public safety in dealing with criminals and terrorists and will allow future access to national information sharing systems.

Accomplishments to date:

- 1. <u>Replaced State Uniform Crime Reporting and Incident Based Reporting Repository</u> a central repository that collects criminal statistics which is shared on a national level with the FBI.
- 2. <u>Law Enforcement Records Management System</u> A statewide system freely offered to local law enforcement to automate their business process. It enables the electronic storing and sharing of information such as case reports and greatly streamlines incident based reporting to the central repository.
- 3. <u>CJIS Hub Portal</u> this is the heart of the CJIS program and enables secure access to information. An authorized criminal justice officer can now search the following: Drivers License Photos; Vehicle Information; Department of Corrections information; Offender Registration; Criminal History; RAP Sheets; and Concealed Weapons in one location. In addition users have notification capabilities to track persons and events.

Future Accomplishments:

- 1. <u>CJIS Hub Portal Enhancements</u>.- improve capability by enabling access to Courts information such as calendars, dispositions, and protection orders.
- 3. <u>Law Enforcement Records Management System Enhancements</u> enhance current product with user requested customizations and acquire mobile capability for law enforcement vehicles.
- 4. <u>Criminal Justice Agency Interfaces</u> connect criminal justice agencies to the CJIS Hub Portal to enable information sharing.
- 5. <u>State's Attorney Case Management System</u> a statewide system freely offered to state's attorneys to automate their business process and enable work flows and information sharing with other agencies.

How do we pay for CJIS:

- 1. Federal Grants NCHIP, Homeland Security, STOP Grant, and NGA funds are helping to build the CJIS infrastructure.
- 2. General Funds Required to continue to build CJIS in a timely manner and pay the ongoing operational costs.
- 3. $\underline{\text{User Fees}}$ Ongoing costs of applications such as the Law Enforcement Records System and State's Attorney Case Management System will be shared by the users.

Benefits of CJIS:

- 1. Increased public and criminal justice officer safety
- 2. Better more informed decision making
- 3. Reduced reliance on paper processes
- 4. More efficient criminal justice system
- 5. Ability to connect to national systems in the future
- 6. Reduction in redundant processes
- 7. Up-to-date cost effective criminal justice systems

Information Technology Legislative Overview

December 2004

This document provides a summary of the legislative issues related to information technology and identifies policy matters to consider going forward.

The sections of the report are intended to answer the following questions:

What is the status of the mandates from the 2003 session? What worked? What didn't Status of Mandates from the 2003 Legislative Session	t?
What came out of the PTI study?	
PTI Recommendations4	
Where are we now? Where are we going? Statewide Technology Plan Highlights5	
What policy issues should legislators follow? Fechnology Policy Issues7	

Curt Wolfe Chief Information Officer Information Technology Department



Status of Mandates from the 2003 Legislative Session

Legislation	Mandate	Result	Lessons learned / considerations
HB1505, Section 10 (Consolidation)	Required 24 full-time equivalent (FTE) positions relating to information technology services be reduced and transferred from 15 agencies to ITD, unless exempted by the Chief Information Officer, Curtis Wolfe and the Project Executive Committee.	The Executive Committee recommended that eight and one half FTEs (seven full time positions and half of three additional positions) be transferred to ITD on November 1, 2003. Of the eight and one half FTEs transferred to ITD, six positions were filled and two positions were eliminated.	An analysis had not been done prior to the legislation to determine the appropriate FTE and savings reduction. After analysis, it was determined transferring 24 FTE was not realistic. Many FTE performed other duties in addition to those consolidated.
HB1505, Section 11 (Consolidation)	Requires OMB to achieve efficiencies during the 2003-05 biennium, relating to the consolidation of IT functions. OMB and ITD are to achieve accumulated net savings totaling \$1,400,000, but may exercise full discretion incorporating necessary modifications. Savings accumulated as a result of those efficiencies will transfer to the general fund by June 30, 2005.	OMB and ITD developed cost- effective rates for the consolidated services based on the increased volume. One hundred and two servers were eliminated; reducing ongoing costs associated with hardware replacement and software upgrades. Projected savings for the 2003-05 biennium total \$438,775, and ongoing savings for the 2005-07 biennium is estimated at \$961,146.	After analysis it was determined the savings mandated were not realistic, in part because it took time to complete the consolidation so savings were not immediately available on July 1, 2003. In addition, equipment leases at JSND and DHS were paid off, requiring an up-front investment.
HB1505, Section 16 (Consolidation)	Required each state agency and institution, excluding the legislative and judicial branches, the institutions under the control of the state board of higher education, the Public Employees Retirement System (PERS), the Retirement and Investment Office (RIO), the Attorney General's Office, and any entity exempt by OMB and ITD, to obtain the recommended services through a delivery system established by ITD and OMB.	170 servers were transferred to ITD or eliminated. Of the 234 servers in 46 agencies reviewed, 64 servers remain in 19 agencies because of unique requirements. These agencies have been given temporary exemptions to be reviewed on a biennial basis.	Further technical consolidation is possible but it will take time, as existing applications need to be migrated to the target technology. Investment may be needed to achieve further savings, i.e. conversion to one e-mail system.
HB1505, Section 1 & 8 (General fund reduction)	ITD's general fund appropriation was reduced by \$1,000,000 without specifically identifying programs to be cut. (Unreturned cost savings were expected to make up the shortfall.)	ITD reduced operational costs for state agencies for 3 services to achieve savings. An Attorney General's opinion indicated the savings could not be used to offset the general fund shortfall (primarily in K-12 programs) and so the savings were passed on to state agencies in the form of rate reductions.	Capturing operational savings in this manner does not appear to be a good mechanism to fund state programs. Federal regulations prohibit these kinds of accounting practices. ITD will be seeking a deficiency appropriation to cover the shortfall.

Legislation	Mandate	Result	Lessons learned / considerations
HB1505, Section 2 & 3 (Agency fund transfers)	OMB will transfer \$862,059 from special funds in 20 agencies to ITD. (This was intended to fund an equivalent reduction in general funds in ITD's budget.)	\$791,917 was transferred from 13 agencies. Regulations governing 7 agencies did not allow the transfer.	The direct transfer of funds to ITD from agencies to fund unrelated initiatives was problematic. ITD will be seeking a deficiency appropriation to cover the shortfall.
HB1505, Section 7 (Equipment and software purchases)	ITD shall develop product specifications and OMB shall develop policies and guidelines for purchasing and pursue aggregated contracts to reduce costs. ITD shall report purchases and estimated savings by funding source to the IT Committee.	A cross-agency committee developed specification for PCs and laptops and issued an RFP. The resulting contract represents savings of over \$350 per computer compared to the current contract. A state contract has also been issued for testing software.	The PC contract was a very successful crossagency initiative. The state will continue to pursue aggregated contracts when appropriate.
HB1505, Sections 15&16 (Compliance reviews)	Responsibility for compliance reviews moved from ITD to the Auditor's Office.	ITD has established processes to report non-compliance to the Auditor's Office for ADA and large projects.	Because ITD did not go through the administrative rules process, the enforceability of the standards is in question, so the auditors are not currently pursuing any compliance reporting. A bill has been drafted to exempt standards from the administrative rules process.
HB1505, Sections 16 & 20, and HB1043, Section 5 & 7 (Governance)	NDCC 54.59.02.1, 54.59.09, and 54.59.22 were created or modified to establish responsibilities for IT standards with ITD, OMB and an advisory committee. The State IT Advisory Committee (SITAC) membership was changed.	Over 100 people are involved in creating standards through the Enterprise Architecture process. The SITAC provides the highest level of review. Twenty-three standards were approved in 2004 and six studies/recommendations were undertaken.	The Enterprise Architecture process is maturing and beginning to work very well. A bill has been drafted to eliminate confusing and conflicting code in NDCC 54.59 dealing with standards development and also reduce the role of OMB in the process.
HB1505, Section 16 (Project ranking)	NDCC 54.59.02.1 was created requiring prioritization of major software projects by the CIO and the advisory committee.	The SITAC prioritized IT projects over \$250,000 that were planning to request general funds.	The process seemed to work well. A bill has been drafted to change the code to reflect that prioritization should include "information technology" projects not just "software" projects.

PTI Recommendations

House Bill 1505, section 13 (2003) required Legislative Council to conduct an information technology organization and management study. Legislative Council contracted with Pacific Technologies, Inc to complete the study. Following are their key findings and major recommendations along with the current status. The complete study can be found at www.state.nd.us/lr/assembly/58-2003/docs/pdf/ndoandmstudy.pdf.

DTI Koy Findings	DTI Maios Dans	T-0
PTI Key Findings	PTI Major Recommendations	Current Status
The State has a highly fragmented approach to help desk services and workstation support.	Consolidate all labor associated with installing, maintaining, and supporting personal computers within the Information Technology Department (ITD).	 Agencies are gathering data to see where centralized services can provide measurable benefits. ITD will provide support services to agencies as requested. The need for further consolidation will be reviewed after standardized workstations have been deployed (2007-09).
2. Inconsistent standards and policies surround workstation platforms, configurations, and replacement.	Move to a highly standardized workstation environment on a statewide basis – with ITD managing the replacement cycles.	 Standard configurations were developed through EA and a contract has been issued. ITD is in the process of developing a service offering for PC management. Implementation of a desktop management solution will be a critical next step.
3. The State can achieve additional savings and improve alignment with long-term goals (post-HB 1505) through continued server consolidation efforts.	Consolidate all servers into ITD – reducing over 150 servers from the State's inventory and making corresponding reductions to agency and ITD server administration labor.	 102 servers were eliminated during consolidation. Further reductions will occur over time as outdated applications and servers are replaced. Investments may be required to achieve additional server consolidation, i.e. email.
4. The State lacks consistent methods, tools, and performance measures to assess and prioritize requests for major IT investments.	Build on existing IT governance processes – including mechanisms for cost containment and meaningful statewide IT management reporting.	 A project prioritization process has been implemented. The Enterprise Architecture process is maturing and provides a good vehicle for inter-agency collaboration. Procurement and asset management have been a focus. Eventually PeopleSoft will provide better asset reporting.

Statewide Technology Plan Highlights

The Statewide Technology Plan 2005-2007 outlines five goals for state government. Following is an explanation of each goal in terms of where we are now and where we are going. Also highlighted are a few of the initiatives related to each goal.

Goal 1: Build and support automated services to meet increasing customer expectations

Where are we now?

The State has a number of key services available online and is on par with most states. Game and fish licensing, vital records and tax filing have been popular sites. We have placed a major emphasis on accessibility compliance and are ranked first above all other states in that area.

Where are we going?

Agencies continue to offer more information and additional services on their web sites. Customer expectations for ease-of-use and convenience are based on positive experiences with online banking and shopping. Behind the scenes support to keep systems operating 24 X 7 is critical.

Highlighted initiatives:

 As part of its emphasis on customer service, ITD is planning a major transformation of its support services. ITD's goal is "Best in Class" in six years.

Goal 2: Maintain core business processes to reduce the risk of potential disruption to critical services

Where are we now?

The State has replaced a number of old, legacy systems that are hard to maintain including financials and payroll but many remain. In addition, the current disaster recovery plans for most systems require long recovery times in the event of a disaster.

Where are we going?

Eventually legacy systems will be rewritten using newer technologies and the mainframe will not be needed. The state will limit the number of servers and operating systems supported to reduce costs and improve service. A second disaster recovery site in the Bismarck area will improve the response time in case of a disaster.

Highlighted initiatives:

- ITD plans to migrate the applications from the IBM mainframe to a current technology platform, generating savings in administration and licensing fees.
- State agencies plan to replace a number of legacy systems including MMIS, Tax systems and Unemployment Insurance.
- ITD is planning to begin development of a second data center to improve disaster recovery services.

Goal 3: Manage state government resources to enhance efficiency and improve service delivery

Where are we now?

The State implemented an Electronic Data Management System (EDMS) called FileNet several years ago. Several agencies have integrated the technology into their business processes to improve service. The enterprise architecture process is maturing and shared solutions are more common.

Where are we going?

Several agencies have business process improvement initiatives planned that deploy EDMS and other technologies. Additional efficiencies will be gained as agency employees become familiar with the full functionality of the PeopleSoft products. The enterprise architecture process will continue to be used to reduce redundancy and duplication in the technical infrastructure.

Highlighted initiatives:

- Deploy an enterprise time and attendance system to manage labor costs.
- Continue process improvement through the deployment of ConnectND/PeopleSoft.
- Common groupware systems will be implemented to enhance productivity within state government.

Goal 4: Collect and disseminate information to ensure an informed public and informed decision-making by government employees, while maintaining the privacy and confidentiality of personal information where appropriate

Where are we now?

Hub and spoke technologies have been implemented for sharing data via the Criminal Justice Information System (CJIS) hub, the Geographic Information Systems (GIS) hub, and others. Security standards have been a focus of Enterprise Architecture.

Where are we going?

Implementation of security policies and procedures statewide is a priority in order to protect state data and infrastructure. Technologies such as "web services" will be used to implement data sharing applications in a number of agencies.

Highlighted initiatives:

- Add additional data sources to the CJIS hub.
- Acquire and share additional mapping data via the GIS hub.

Goal 5: Build an affordable shared infrastructure to deliver core services to North Dakota citizens

Where are we now?

North Dakota has a robust state data network with extensive video conferencing capability. The state radio network has provided consistent service delivery but changing technologies are creating issues. ITD hosts the PowerSchool application for K-12 schools and Law Enforcement Records Management System (LRMS) for political sub-divisions, providing low cost solutions by aggregating demand.

Where are we going?

Network bandwidth requirements continue to grow. Wireless technologies are becoming more pervasive. An upgrade to the state radio network is needed to maintain compatibility across the state. IP telephony technologies are maturing to the point that they offer and alternative to traditional PBX services.

Highlighted initiatives:

- Upgrade the state radio network to digital.
- Upgrade the state data network to increase capacity through 2013.
- Begin migrating phone service to use IP telephony.
- Through CJIS, expand the number of applications hosted for law enforcement, State's Attorneys and other criminal
 justice entities.

Technology Policy Issues

Administrative Rules

ITD was under the mistaken impression that technical standards and policies did not require the administrative rules process. An attorney general's opinion has clarified that administrative rules are required under current statute. The legislative IT committee has drafted a bill to exempt standards and policies from the administrative rules process if they have been reviewed by the state IT advisory committee because the standards primarily effect state agencies and network services, not the public.

Responsibility for Standards

Over time several sections of NDCC 54.59 were created giving the responsibility for standards development and approval to several entities. The legislative IT committee has drafted a bill to eliminate confusing language and center responsibility with ITD and the state IT advisory committee.

ITD Borrowing Limit

In order for invest in technologies that have long-term cost savings without using general funds, ITD may need to increase its borrowing limits or lengthen the payback period to finance the investment. The investment would be recovered by maintaining rate levels to customers and using savings to offset repayment. The mainframe migration project is an example.

Contracting Issues / Indemnity / Limits of Liability

Recent interpretation of state law by the Attorney General's Office advises that agencies should not enter contracts that limit the vendor's liability. This has made it difficult to negotiate technology contracts and reduces the vendor pool for competitive bids. A legislative change may be proposed to establish a process for determining acceptable risk and allowing limited liability contracts.

Aggregated Contracts for Political Subdivisions

Including political subdivisions in aggregated contracts can provide additional benefits. State Procurement is trying to clarify their ability to enter contracts on behalf of political subdivisions.

Agency Exemptions from Current Consolidated Services

In addition to the PERS, RIO, the Attorney General's Office, Higher Education, and the legislative and judicial branches, OMB and ITD provided full or partially exemptions to a number of other agencies. These exemptions were provided on a temporary basis to be reviewed every two years with the understanding that if the business or technology reason for the exemption is no longer valid, the agency will be consolidated at that point. Some agencies may pursue permanent exemptions and these should be reviewed on a case-by-case basis.

Consolidation of Additional Services

Today, legislation mandates ITD as the service provider for network services, e-mail, hosting, file and print, database and application servers. Consolidation of additional services via mandates is not recommended. Desktop support and other services will be offered on a voluntary basis and evaluated. Other services may be evaluated through the enterprise architecture process and consolidated if a cost-benefit analysis shows efficiencies.

K-12 Network Funding

Continued funding of the K-12 network connections is critical to schools in North Dakota. Delayed e-rate payments to vendors due to the inability of USAC to obligate funds based on projected revenue are causing concern.

Recruitment and Retention of IT Staff

As the economic picture improves and as baby-boomers leave the job market, recruiting and retaining IT staff for key positions may become more difficult. The state needs to emphasize competitive salaries and progressive employment practices to attract skilled staff.

Performance Management

The implementation of performance management and/or the requirement for agency strategic plans could effect the implementation of technology planning and project management. ITD supports business planning as a driver for the IT plan and technology performance reporting as a subset of business performance management. However, mandating best practices isn't always effective in creating a culture change and should be considered carefully. Performance management should be considered as part of a comprehensive plan for improving government. Incentives and implementation assistance should be provided to ensure acceptance. Implementation of PeopleSoft's Enterprise Performance Management should be considered as a tool to manage the performance data reporting.

		-)			
	Intormation	lechnology		Department		Performance Measures	
	Description	Score Card Area	Baseline	Target	Actual	Narrative	Reporting
_	Acceptable over Total Net Accepta	0:00:00			in and	OA TELLEN	rieducircy
	Acceptable Level - 10tal Net Assets		Previous Years	Kange	2004	Based on the monthly "Cost Center Statement", the Cost Center to Date	Monthly
			2002 - 1.4	.0 - 2.0	1.4	amount should be a positive number but	
\perp			2003 - 1.6			not exceed 2x the avg monthly expenses.	
	Description	Score Card Area	Baseline	Target	Actual	Narrative	Reporting
7	Percentage of Competitive	Financial	100%	100%	100%	Based on the rates reported in the Annual	Annual
L		Score Card					Reporting
	Description	Area	Baseline	Target	Actual	Narrative	Frequency
ო	Total Number of Customer Projects and Service Requests Completed	Financial	2003	Monitor	2004	Indicator of the amount of work volume or output produced by ITD.	Annual
	Projects		N/A		20,826		
	Service Requests				21,742		
	Description	on Score Card	Raseline	Tarcot	Actual	Avistant	Reporting
4	Annual Customer Survey Results:	Customer	2003		2004	Overall control rations for ITD	riequency
	Volum		2002	700	1007	Overall service raungs for 11 D	Amica
	anna A	<u></u>	86.0%	92.0%	88.1%	(July - June).	
	Imeliness		90.2%	92.0%	91.6%		-,
	Quality	7	94.2%	97.0%	92.3%		
	Knowledge		96.1%	%0'86	97.3%		
	Professionalism & Courtesy		%6'96	100.0%	98.2%	-	
	Description	Score Card	Bacolina	Tamoot	- Lotter	Normalia	Reporting
	lioud locad	208	Dascille	l at get	Actual	Narrative	Frequency
2	Employee Satisfaction Index	Learning & Growth	2002 - 2.01 2003 - 1.98	2.0	1.96	Annual employee survey.	Annual
	Description	Score Card	Raceline	Target	Actual	Normative	Reporting
ď	Controllable Employee Timeson	S painted	2002 2 49/	108 m 1		DANDING.	rreduency
٥	Controllable chiployee Turnover	Growth	2003 - 1.9%	8.0%	3.2%	Fiscal year calculation (July - June).	Annual
	4	Score Card	:				Reporting
	nescription	Area	Baseline	larget	Actual	Narrative	Frequency
_	Percentage of Service Levels Met	Internal Processes	N/A	100%	100%	Service level objectives for the primary services offered by ITD.	Annual
	1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1	Score Card			1 4		Reporting
	Description	Area	Baseline	larget	Actual	Narrative	Frequency
∞	Percentage of Strategic Business Plan Objectives Completed or On Schedule	Internal	2002 - 50% 2003 - 65%	20%	72%	Annual strategic business plan initiatives are prioritized and defined as projects.	Annual

New Focus on Customer Service

In December, ITD created a new division called Customer Service. The Division Director is Gary Vetter.

All work requests and trouble calls will be sent to this division. The focus of this division will be to coordinate the needs of the agencies and determine what internal processes need to be changed or established to better serve the customer.

We are in the process of establishing other Customer Service performance metrics:

- O Defining ITD services in business terms, not technology terms.
- O Costing these services in a manner that makes sense to the user, not the technician.
- O Today we conduct an annual customer survey.
- O Divisions randomly request feedback when a specific service is delivered.
- O Continue to track and report resolution time for trouble tickets.

We will continue to develop service level objectives/agreements and communicate these in writing with our customers.

We are always looking to implement better processes that will create efficiencies and reduce the cost of operations.

- o Incident management
- o Problem management
- o Change management
- o Release management
- o Configuration management

We will document our performance on rates, service dependability, agency complaints and customer responsiveness in the ITD annual report.

ARB: (Architecture Review Board) A governance component of Enterprise Architecture (EA), the ARB is responsible for providing input for and reviewing and approving the conceptual and domain architectures, including products, domain technologies and standards and granting exceptions to the published standards.

ATM: Asynchronous Transfer Mode. A network technology used to route information that is based on transferring data in cells or packets of a fixed size.

Architecture Team: A governance component of Enterprise Architecture (EA), the Architecture Team is responsible for facilitating the enterprise architecture process, creating and maintaining deliverables, communicating architecture standards to all interested parties, and reviewing technology infrastructure projects for compliance to the architecture.

Bandwidth: A measurement of the volume of information that can be transmitted over a network at a given time. Think of a network as a water pipe - the higher the bandwidth (the larger the diameter of the pipe), the more data (water) can pass over the network (through the pipe).

BARS: (Budget Analysis and Reporting System) Used by all agencies with appropriations and a replacement to the SIBR system, OMB's BARS system is used to prepare budget requests, generate custom reports for management review, and create "what if" financial scenarios.

Broadband: A transmission medium capable of supporting a wide range of frequencies, typically from audio up to video frequencies. It can carry multiple signals by dividing the total capacity of the medium into multiple, independent bandwidth channels, where each channel operates only on a specific range of frequencies.

ConnectND: is a joint project between the North Dakota University System (NDUS) and North Dakota state government. ConnectND is configuring PeopleSoft's Enterprise Resource Planning software system to replace the current NDUS academic and administrative computer functions and state government computer functions. Those include student administration on campuses, and financial and human resource applications throughout the university system and state government.

COG: (Continuum of Government) An initiative resulting from the governor's directive to develop business continuity plans to maintain the availability of critical government services during disasters and other crisis's.

CJIS: (Criminal Justice Information Sharing) An ongoing initiative created to improve public safety by providing a common on-line environment where authorized state, county, and local officials can access offender records and other criminal justice information from participating entities.

Data Warehouse: A very large database system for storing, retrieving and managing large amounts of any of data. Data warehouse software often includes sophisticated search techniques for fast searches, as well as advanced filtering.

DHCP: (Dynamic Host configuration Protocol) A protocol that provides a means to dynamically allocate IP addresses to computers on a local area network.

Digital Signatures: A coded message added to an electronic document or data by the sender which guarantees the identity of the sender and that the contents are those of the sender and have not been changed or corrupted.

Domain Name: Allows you to reference Internet sites without knowing the true numerical address.

Domain Architecture Team: A governance component of Enterprise Architecture (EA), the Domain Architecture Teams are responsible for selecting product standards, defining standard configurations, and collaborating on component architecture design principles with the Architecture Team.

DOS: Acronym for *disk operating system*. The term *DOS* can refer to any operating system, but it is most often used as a shorthand for Microsoft disk operating system. Originally developed by Microsoft for IBM, MS-DOS was the standard operating system for IBM-compatible personal computers. DOS and DOS-based applications have widely disappeared.

DSL: Refers collectively to all types of Digital Subscriber Lines. DSL uses sophisticated modulation technologies to pack data onto standard copper phone wire and produce high-speed Internet connectivity.

E-Commerce: Conducting business communications and transactions by the use of computers and electronic communications. The buying and selling of products and services, and the transfer of funds through the use of electronic data interchange (EDI), electronic money exchange, web sites, online databases, computer networks, and point-of-sale (POS) computer systems.

EDMS: (Electronic Document Management System) A collection of enabling technologies which provide for the electronic capability to distribute, display, organize, and manage the flow of information among users and across organizations. An EDMS system is commonly comprised of 4 component technologies: document management, electronic imaging, automated workflow, and electronic forms. Most systems, however, begin with document management and imaging components.

E-Gov: (Electronic Government) The ability for government to provide access to services and information twenty-four hours a day, seven days a week, i.e. ecommerce for government.

EA / Enterprise Architecture: An ongoing process that brings together state IT representatives from across state government to develop common IT standards and policies that improve the functionality of technology between agencies.

EP: (Enterprise Planning) An ongoing process that fulfills state government IT planning requirements by developing guidelines, aligning technology efforts with statewide direction, and capturing and reporting information on agency technology initiatives.

EPM: (Enterprise Project Management) A process that coordinates projects across the enterprise and provides project management guidance to all state agencies. EPM develops best practices and provides expertise and training to support project managers.

ERP: (Enterprise Resource Planning) A multi-module software system that supports enterprise resource planning and management. An ERP system typically includes a relational database and applications for managing purchasing, inventory, personnel, customer service, financial planning, and other important aspects of the enterprise.

Ethernet: Developed by Xerox, Digital and Intel (IEEE 802.3), this is the most widely used LAN access method. Normally, all stations on a segment share the total bandwidth, which is 10Mbit/s (Ethernet), 100Mbit/s (Fast Ethernet) or 1000Mbit/s (Gigabit Ethernet). With switched Ethernet, each sender and receiver pair have the full bandwidth.

Firewall: An electronic boundary that prevents unauthorized users from gaining access to a computer network.

GIS: (Geographic Information Systems) A digital mapping system used for exploration, demographics, dispatching and tracking. The system allows for the capturing, storing, checking, integrating, manipulating, analyzing and displaying data related to positions on the Earth's surface. Typically, GIS is used for handling maps of one kind or another. These might be represented as several different layers where each layer holds data about a particular kind of feature (e.g. roads, utility lines). Each feature is linked to a position on the graphical image of a map.

GPS: Short for *Global Positioning System*, a worldwide satellite navigational system formed by 24 satellites orbiting the earth and their corresponding receivers on the earth.

Home Page: The first page of a web site. Also, the web site that automatically loads each time you launch your browser.

Host: The name of a specific machine within a larger domain.

HTML: (HyperText Markup Language) A collection of tags typically used in the development of web pages.

HTTP: (HyperText Transfer Protocol) A set of instructions for communication between a server and a web browser.

Hyperlink: A reference link in a web document that leads to another web site or another place within the same document. The hyperlink is usually displayed in some distinguishing way, e.g. a different color, font, style, or underlined. The hyperlink may also be a picture.

Instant Messaging (IM): A type of communications service that enables you to create a kind of private chat room with another individual in order to communicate in <u>real time</u> over the Internet, analagous to a telephone conversation but using text-based, not voice-based, communication. Typically, the instant messaging system alerts you whenever somebody on your private list is online. You can then initiate a chat session with that particular individual.

Internet: The global computer network, composed of thousands of WANs and LANs that uses TCP/IP to provide world-wide communications to homes, schools, businesses and governments. The web runs on the Internet.

Internet 2 (I2): Internet2 is a testing-ground network for universities to work together and develop advanced Internet technologies such as telemedicine, digital libraries and virtual laboratories. I2 requires state-of-the-art network infrastructure.

IP (Internet Protocol): The network protocol used to route information from its source to its destination over the internet.

IP Telephone (VoIP): Internet Protocol telephone is also known as Voice over Internet Protocol (IP): A category of hardware and software that enables people to use the Internet as the transmission medium for telephone calls by sending voice data in packets using Internet Protocol rather than by traditional circuit transmissions.

IVR: (Interactive Voice Response) A telecommunications system that uses a prerecorded database of voice messages to present options to a user. User input is retrieved via key presses. These systems typically allow users to store, retrieve, and route messages, as well as interact with an underlying database server which may allow for automated transactions and data processing.

LAN: (Local Area Network) A network of computers confined within a small area, such as an office building.

LATA: (Local Access and Transport Area) The geographic areas defined by the Court of Appeal limiting the long distance services provided by the Regional Bell Operating Companies (RBOC). The RBOC's may not transport calls across a LATA line.

Link: Another name for a hyperlink.

Middleware: Software that connects two otherwise separate applications. Also known as the "glue" between two or more applications, middleware makes it possible to share data between web servers, databases, etc.

Multimedia: A combination of media types on a single document, including: text, graphics, animation, audio and video.

Nameserver: A computer running a program that converts domain names into appropriate IP addresses and vice versa.

Network: A group of two or more computer systems linked together. There are many types of computer networks, including LANs and WANs.

ODIN: (Online Dakota Information Network) A web based library system which is maintained by the University of North Dakota that serves as an Internet gateway to North Dakota Higher Education, private, public, K-12, hospital, special, and state agency libraries and resources. (http://www.odin.nodak.edu/)

PowerSchool: An information system that provides a cost-effective, reliable, state-of-the-art student information system to help schools manage student information, collect data and report information. PowerSchool is hosted by the Information Technology Department and supported by EduTech.

Relational Database: A database in the form of tables which have rows and columns to show the relationships between items, and in which information can be cross-referenced between two or more tables to generate a third table. A query language is used to search for data. If data is changed in one table, it will be changed in all related tables.

SITAC: (State Information Technology Advisory Committee) An advisory committee consisting of state government, university system, legislative, and private industry representatives. SITAC provides input to the Information Technology Department on the deployment of new and existing IT products and services, and approves technology standards and policy. The committee also develops strategic technology initiatives and prioritizes major technology initiatives.

SPAM: Electronic junk mail or junk newsgroup postings. There is some debate about the source of the term SPAM, however most agree with its definition to being any unsolicited email.

Spyware: Any software that covertly gathers user information through the user's Internet connection without his or her knowledge, usually for advertising purposes

StageNet: North Dakota's statewide broadband network that provides connectivity, internet access, video conferencing, and other networking services to state and local government, primary and secondary education, colleges and universities, and libraries.

Streaming / Video Streaming: A technique for transferring data such that it can be processed as a steady and continuous stream. Streaming technologies are becoming increasingly important with the growth of the Internet because most users do not have fast enough access to download large multimedia (video & voice) files quickly. With streaming, the browser can start displaying the data before the entire file has been transmitted.

T1: A category of leased telephone line service, allowing transfer rates of 1.5 Mbps (megabytes per second) over the Internet. Too expensive for home users (around \$1000 per month), but commonly found in business environments.

TCP/IP: (Transmission Control Protocol/Internet Protocol) This protocol is the foundation of the Internet, an agreed upon set of rules directing computers on how to exchange information with each other. Other Internet protocols, such as FTP and HTTP sit on top of TCP/IP.

Token Ring: Developed by IBM (IEEE 802.5), this is the second most widely used LAN access method (behind Ethernet). It uses a token ring access method and connects up to 255 nodes in a star topology at 4 or 16Mbit/s.

Virus: A program that is loaded onto your computer without your knowledge and runs against your wishes. Viruses can also replicate themselves. All computer viruses are manmade. A simple virus that can make a copy of itself over and over again is relatively easy to produce. Even such a simple virus is dangerous because it will quickly use all available memory and bring the system to a halt. An even more dangerous type of virus is one capable of transmitting itself across networks and bypassing security systems.

VPN: (Virtual Private Network) The use of encryption, authentication and access control technologies and services to provide a secure connection through an insecure network, typically the internet. It has the appearance and functionality of a dedicated private line over which encrypted data is transported.

Web Portal: A web site that serves as a "doorway" to available information, services, or products which aggregates and indexes the information to present it in a consistent and easy to use fashion.

Web Site: A single web page or a collection of related web pages accessed using a web browser.

WAN: (Wide Area Network) A geographically dispersed network formed by linking several computers or local area networks (LANs) together over long distances, usually using leased long distance lines. WANs can connect systems across town, in different cities, or in different regions of the world.

Worm: A program or algorithm that replicates itself over a computer network and usually performs malicious actions, such as using up the computer's resources and possibly shutting the system down. Also see Virus.

WWW: (World Wide Web, or simply web) The global collection of web sites located on the Internet that operate using the HTTP protocol.

XML: (Extensible Markup Language) A meta-language which describes web data and its structure (unlike HTML, which describes how data should be presented). XML allows web builders to create their own markup languages.