

FINANCIAL STATEMENTS

National Dairy Promotion and Research Board
Years Ended December 31, 2021 and 2020
With Reports of Independent Auditors

Ernst & Young LLP



National Dairy Promotion and Research Board

Financial Statements

Years Ended December 31, 2021 and 2020

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Report of Independent Auditors

The Board of Directors
National Dairy Promotion and Research Board

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of National Dairy Promotion and Research Board, which comprise the statements of financial position as of December 31, 2021 and 2020, and the related statements of activities and changes in net assets, and cash flows for the years then ended and the related notes (collectively referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of National Dairy Promotion and Research Board at December 31, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of National Dairy Promotion and Research Board, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about National Dairy Promotion and Research Board’s ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a

material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of National Dairy Promotion and Research Board's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about National Dairy Promotion and Research Board's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we also have issued our report dated May 10, 2022, on our consideration of National Dairy Promotion and Research Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of National Dairy Promotion and Research Board's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering National Dairy Promotion and Research Board's internal control over financial reporting and compliance.



May 10, 2022



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Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Management and the Board of Directors
National Dairy Promotion and Research Board

We have audited, 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 (*Government Auditing Standards*), the financial statements of National Dairy Promotion and Research Board, which comprise the statements of financial position as of December 31, 2021 and 2020, and the related statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated May 10, 2022.

Report on Internal Control Over Financial Reporting

In planning and performing our audits of the financial statements, we considered National Dairy Promotion and Research Board's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of National Dairy Promotion and Research Board's internal control. Accordingly, we do not express an opinion on the effectiveness of National Dairy Promotion and Research Board's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements, on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether National Dairy Promotion and Research 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Ernst + Young LLP

May 10, 2022

National Dairy Promotion and Research Board

Statements of Financial Position

	December 31	
	2021	2020
Assets		
Current assets:		
Cash and cash equivalents	\$ 42,542,628	\$ 29,678,195
Domestic assessments receivable, net of allowance for doubtful accounts of \$40,000 in 2021 and 2020	10,597,548	11,463,811
Import assessments receivable	444,080	306,824
Other current assets	12,465	11,637
Total current assets	53,596,721	41,460,467
Fixed assets, net of accumulated depreciation of \$35,212 in 2021 and \$12,715 in 2020	191,228	213,725
Total assets	\$ 53,787,949	\$ 41,674,192
Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 48,778	\$ 43,949
Accrued expenses and other liabilities	461,051	396,536
Amount due to related party – Dairy Management Inc.	7,600,207	7,754,269
Total current liabilities	8,110,036	8,194,754
Net assets without donor restrictions:		
Designated	26,228,445	22,590,682
Undesignated	19,449,468	10,888,756
Total net assets without donor restrictions	45,677,913	33,479,438
Total liabilities and net assets	\$ 53,787,949	\$ 41,674,192

See accompanying notes.

National Dairy Promotion and Research Board

Statements of Activities and Changes in Net Assets

	Year Ended December 31	
	2021	2020
Revenues		
Domestic assessments	\$ 113,350,451	\$ 110,063,536
Select incremental assessments	7,969,053	7,499,318
Import assessments	3,438,672	3,025,323
Interest income	–	67,597
Total revenues	124,758,176	120,655,774
Expenses		
Programs:		
Domestic and export marketing	107,741,197	114,711,095
Qualified Program support	100,000	100,000
Total programs	107,841,197	114,811,095
General and administrative:		
Dairy Management Inc. general and administrative	3,132,689	3,067,095
General and administrative	760,713	884,494
Total general and administrative	3,893,402	3,951,589
United States Department of Agriculture oversight	825,102	797,727
Total expenses	112,559,701	119,560,411
Change in net assets without donor restrictions	12,198,475	1,095,363
Net assets without donor restrictions, beginning of year	33,479,438	32,384,075
Net assets without donor restrictions, end of year	\$ 45,677,913	\$ 33,479,438

See accompanying notes.

National Dairy Promotion and Research Board

Statements of Cash Flows

	Year Ended December 31	
	2021	2020
Operating activities		
Change in net assets	\$ 12,198,475	\$ 1,095,363
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	22,497	11,249
Changes in assets and liabilities:		
Assessments receivable, net	729,007	(445,592)
Other current assets	(828)	62,023
Accounts payable	4,829	(43,882)
Accrued expenses and other liabilities	64,515	(34,961)
Amount due to related party – Dairy Management Inc.	(154,062)	(1,711,823)
Net cash provided by (used in) operating activities	12,864,433	(1,067,623)
Investing activities		
Purchases of fixed assets	–	(28,650)
Net increase (decrease) in cash and cash equivalents	12,864,433	(1,096,273)
Cash and cash equivalents, beginning of year	29,678,195	30,774,468
Cash and cash equivalents, end of year	\$ 42,542,628	\$ 29,678,195

See accompanying notes.

National Dairy Promotion and Research Board

Notes to Financial Statements

December 31, 2021 and 2020

1. Organization

National Dairy Promotion and Research Board (NDB) was established on May 1, 1984, pursuant to the Dairy and Tobacco Adjustment Act of 1983 (Public Law 98-180), as part of a comprehensive strategy to reduce milk surplus supplies in the U.S. and increase human consumption of fluid milk and other dairy products. The purpose of NDB is to establish a coordinated program of promotion and research designed to strengthen the dairy industry's position in the marketplace and to maintain and expand domestic and international markets' usage of U.S.-produced fluid milk and other dairy products.

United States Department of Agriculture (USDA) approved a joint venture between NDB and United Dairy Industry Association (UDIA) to form Dairy Management Inc. (DMI) effective January 1, 1995. The purpose of DMI, a related party, is to promote greater coordination, efficiency, and effectiveness and to avoid incompatibility and duplication in the marketing programs and projects undertaken by NDB and UDIA, which jointly plan, develop, and implement their various marketing programs and activities through DMI, subject to the approval of USDA. These collective programs and activities are called the Unified Marketing Plan (UMP).

2. Summary of Significant Accounting Policies

Basis of Presentation

The financial statements are prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles (GAAP). These principles require management to make estimates and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses in the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include checking, and interest-bearing demand deposit accounts with financial institutions. NDB considers investments with an original maturity of 90 days or less to be cash equivalents.

NDB has cash balances in a financial institution that exceed federal depository insurance limits. Pursuant to guidelines published by USDA's Agricultural Marketing Service, NDB's cash balances are reviewed daily by the financial institution in which the balances are held and are fully collateralized by U.S. Treasury securities at the Federal Reserve Bank of St. Louis.

National Dairy Promotion and Research Board

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Net Assets

NDB follows the reporting requirements of GAAP, which require that resources be classified for reporting purposes based on the existence or absence of donor-imposed restrictions. This is accomplished by classification of fund balances into two classes of net assets: without donor restrictions and with donor restrictions. Descriptions of the two net asset categories and the types of transactions affecting each category follow:

- *Without donor restrictions* – Net assets that are not subject to donor-imposed restrictions. This net asset category principally consists of unspent assessment revenues.

NDB's board of directors designated a portion of net assets without donor restrictions for cash reserves. In addition, designated net assets without donor restrictions also include funding required to cover subsequent year budget funding as well as carryover funding for projects not completed prior to year-end. The amounts designated to cover subsequent year budgets were approved by the board during the fourth quarters of 2021 and 2020. The carryover funding was approved by the board during the first quarters of 2022 and 2021. Total designations of net assets without donor restrictions are as follows:

	<u>2021</u>	<u>2020</u>
Designated net assets:		
Cash reserves	\$ 1,800,000	\$ 1,800,000
Subsequent year program activity	24,428,445	20,790,682
Total designated net assets	<u>26,228,445</u>	22,590,682
Undesignated net assets	19,449,468	10,888,756
Total net assets without donor restrictions	<u>\$ 45,677,913</u>	<u>\$ 33,479,438</u>

- *With donor restrictions* – Net assets subject to donor-imposed restrictions that will be met either by actions of NDB or the passage of time. NDB has no net assets with donor restrictions at December 31, 2021 or 2020.

National Dairy Promotion and Research Board

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Financial Instruments

The carrying values of cash and cash equivalents, domestic assessments receivable, import assessments receivable, other current assets, accounts payable, accrued expenses and other liabilities, and amount due to related party are reasonable estimates of fair value due to the short-term nature of these financial instruments.

Revenue Recognition

Domestic assessment revenue is generated by a mandatory assessment of \$0.15 per hundredweight on all milk produced and marketed in the United States. Milk producers can direct up to \$0.10 per hundredweight to USDA-qualified state and regional generic dairy promotion organizations. For the years ended December 31, 2021 and 2020, the net NDB assessment was \$0.0539 and \$0.0538, respectively, per hundredweight of milk marketed. In addition, effective August 2011, the mandatory assessment was extended to dairy importers at \$0.075 per hundredweight. Importers can direct up to \$0.025 per hundredweight to USDA-qualified generic dairy promotion organizations.

In accordance with Accounting Standards Update 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, contributions are evaluated to determine whether the contribution is conditional or unconditional. If the contribution is conditional, recognition is deferred until the conditions are met. If the contribution is unconditional, recognition occurs in the period the pledge is made. Monthly domestic and international assessment revenue is conditional and is recognized monthly as milk is marketed or dairy products are imported, respectively.

Fixed Assets

Fixed assets consist of an internally developed computer software application, which was recorded at historical cost. Depreciation is provided in amounts sufficient to charge the cost of the depreciable asset to operations over the asset's estimated service life of 10 years using the straight-line method.

Income Taxes

The Internal Revenue Service has ruled that NDB is an entity engaging in an activity under the oversight of USDA and, accordingly, is not subject to federal taxation.

National Dairy Promotion and Research Board

Notes to Financial Statements (continued)

3. Related Party Transactions

NDB funds DMI on a cost-reimbursement basis. DMI marketing program costs include costs attributable to implementing DMI's programs, which are based on the annual UMP budget. DMI core costs include staff salaries and benefits of DMI employees, travel, board of directors' expenses, and office operating expenses. These costs are funded primarily by NDB, with UDIA funding one-half of the costs of the DMI chief executive office and the board of directors' expenses.

NDB funded DMI program and core costs as follows:

	<u>2021</u>	<u>2020</u>
Program costs	\$ 69,960,874	\$ 79,927,401
Core costs	40,913,012	37,850,789
Total funding to DMI	<u>\$ 110,873,886</u>	<u>\$ 117,778,190</u>

U.S. Dairy Export Council (USDEC) was incorporated in 1996 to improve the marketing conditions for the U.S. dairy industry with respect to the export of U.S. dairy products by promoting their acceptability, consumption, and purchase in international markets. DMI is the primary source of USDEC's funding. Of the program funding, NDB reimbursed DMI \$10,212,737 and \$11,883,576 for 2021 and 2020, respectively, for USDEC's program and operational expenses.

GENYOUth, Inc. (GENYOUth) was incorporated in 2009 and was formed for the purpose of encouraging, monitoring, and assisting organizations in implementing youth-oriented health programs in schools and promoting healthy diet and exercise programs. DMI is a primary source of GENYOUth's unrestricted contributions, which are used to fund its operating costs. NDB reimbursed DMI \$1,711,763 and \$1,764,607 for 2021 and 2020, respectively, in support of GENYOUth.

Dairy Research Institute (DRI) was incorporated in 2010 for the purpose of dairy scientific research and sustainability advancement and operates under the oversight and control of DMI. NDB reimbursed DMI \$793,980 and \$10,200 for 2021 and 2020, respectively, for DRI's program and operational expenses.

National Dairy Promotion and Research Board

Notes to Financial Statements (continued)

3. Related Party Transactions (continued)

Innovation Center for U.S. Dairy (the Innovation Center) was incorporated in 2008 for the purpose of providing consumers access to nutritious dairy products and fostering industry innovation through a pre-competitive collaborative forum of the dairy industry. The Innovation Center operates under the oversight and control of DMI. NDB reimbursed DMI \$62,030 and \$14,137 in 2021 and 2020, respectively, for the Innovation Center’s program expenses.

4. Functional Classification of Expenses

NDB’s primary program activities involve providing funding in support of domestic and international dairy promotion as part of the UMP. Additionally, expenses reported as general and administrative and other operating are incurred in support of these primary program activities.

Expenses by functional classification for the year ended December 31, 2021, consist of the following:

	Program Services		Support Activities		Total Expenses
	Domestic and Export Marketing	QP Program Support	General and Administrative	Other Operating	
Program support	\$ 107,741,197	\$ 100,000	\$ –	\$ –	\$ 107,841,197
DMI – general and administrative	–	–	3,132,689	–	3,132,689
USDA oversight	–	–	–	825,102	825,102
Collection and compliance	–	–	450,025	–	450,025
Other	–	–	310,688	–	310,688
	\$ 107,741,197	\$ 100,000	\$ 3,893,402	\$ 825,102	\$ 112,559,701

Expenses by functional classification for the year ended December 31, 2020, consist of the following:

	Program Services		Support Activities		Total Expenses
	Domestic and Export Marketing	QP Program Support	General and Administrative	Other Operating	
Program support	\$ 114,711,095	\$ 100,000	\$ –	\$ –	\$ 114,811,095
DMI – general and administrative	–	–	3,067,095	–	3,067,095
USDA oversight	–	–	–	797,727	797,727
Collection and compliance	–	–	435,536	–	435,536
Other	–	–	448,958	–	448,958
	\$ 114,711,095	\$ 100,000	\$ 3,951,589	\$ 797,727	\$ 119,560,411

National Dairy Promotion and Research Board

Notes to Financial Statements (continued)

5. Financial Assets and Liquidity Resources

As of December 31, 2021 and 2020, financial assets and liquidity resources available within one year for general expenditures were as follows:

	<u>2021</u>	<u>2020</u>
Financial assets:		
Cash and cash equivalents	\$ 42,542,628	\$ 29,678,195
Domestic assessments receivable, net	10,597,548	11,463,811
Import assessments receivable	444,080	306,824
Total financial assets and liquidity resources available within one year	<u>\$ 53,584,256</u>	<u>\$ 41,448,830</u>

As part of its liquidity management, NDB has a defined practice to structure its financial assets to be available as its general expenditures come due. In addition, NDB invests cash in excess of daily operating needs in overnight investments and certificates of deposit when warranted based on market conditions.

6. Assessments Receivable

Domestic and import assessments receivable are recorded at the estimated net amounts to be received based on the amount of milk marketed and the average payment per hundredweight when collectability is reasonably assured. Domestic and import assessments receivable for which collectability is not reasonably assured are not recorded as revenue until such payments are ultimately received. Additionally, in accordance with Public Law 98-180, NDB forwards unpaid assessments to USDA for collection and other legal proceedings. As of December 31, 2021 and 2020, cumulative unpaid assessments of \$1,066,714 and \$1,066,965, respectively, were at USDA pending further action. Such amounts are not included in assessments receivable as of December 31, 2021 or 2020, and will not be recorded as revenue until such amounts are ultimately received. Civil penalties exist for any persons who do not pay the assessment and/or file required documentation as outlined within the Dairy Promotion and Research Order.

National Dairy Promotion and Research Board

Notes to Financial Statements (continued)

7. Guarantees

NDB guaranteed DMI's five-year note payable with CoBank, which was initiated in October 2016 to fund the deficiency in plan assets upon termination of the UDIA-sponsored multiemployer pension plan. The note payable balance was \$124,174 at December 31, 2020, and was fully retired via quarterly payments made during 2021 as specified within the terms of the note agreement. The terms of the note agreement required quarterly principal payments and monthly interest payments, based on the outstanding loan balance, at an annual interest rate of 3.93%.

DMI entered into separate loan agreements with a number of the other participating employers, under terms identical to those of its loan with CoBank. The notes receivable balance related to these loan agreements totaled \$124,174 at December 31, 2020, and was fully collected during 2021.

8. Subsequent Events

NDB evaluated events occurring between January 1, 2022 and May 10, 2022, which is the date when the accompanying financial statements were available to be issued. No events subsequent to December 31, 2021, have been identified that require recognition or disclosure in the financial statements.

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