

CONSOLIDATED FINANCIAL STATEMENTS

United Dairy Industry Association and National Dairy Council  
Years Ended December 31, 2021 and 2020  
With Report of Independent Auditors

Ernst & Young LLP



United Dairy Industry Association and National Dairy Council

Consolidated Financial Statements

Years Ended December 31, 2021 and 2020

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## Report of Independent Auditors

The Board of Directors  
United Dairy Industry Association and National Dairy Council

### **Opinion**

We have audited the consolidated financial statements of United Dairy Industry Association and National Dairy Council, which comprise the statements of financial position as of December 31, 2021 and 2020, and the related consolidated 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 United Dairy Industry Association and National Dairy Council on 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). 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 United Dairy Industry Association and National Dairy Council 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 financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about United Dairy Industry Association and National Dairy Council’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 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, 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 United Dairy Industry Association and National Dairy Council’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 United Dairy Industry Association and National Dairy Council’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.

*Ernst + Young LLP*

May 10, 2022

United Dairy Industry Association and National Dairy Council

Consolidated Statements of Financial Position

	<b>December 31</b>	
	<b>2021</b>	<b>2020</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 2,836,199	\$ 2,753,098
Contributions receivable, net of allowance for doubtful accounts of \$25,000 in 2021 and 2020	2,209,431	4,714,899
Prepaid expenses and other assets	27,591	23,425
Total assets	<u>\$ 5,073,221</u>	<u>\$ 7,491,422</u>
<b>Liabilities and net assets</b>		
Current liabilities:		
Accounts payable	\$ 8,379	\$ 14,234
Accrued liabilities	895,724	277,345
Amount due to related party – Dairy Management Inc.	2,603,403	2,599,835
Total current liabilities	<u>3,507,506</u>	2,891,414
Net assets:		
Without donor restrictions	1,065,715	1,066,809
With donor restrictions	500,000	3,533,199
Total net assets	<u>1,565,715</u>	4,600,008
Total liabilities and net assets	<u>\$ 5,073,221</u>	<u>\$ 7,491,422</u>

*See accompanying notes.*

United Dairy Industry Association and National Dairy Council

Consolidated Statement of Activities and Changes in Net Assets

Year Ended December 31, 2021

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<b>Support and other revenues</b>			
Support revenues:			
Member fees and dues	\$ 2,000,000	\$ –	\$ 2,000,000
Interest income and other	–	–	–
Total support revenues	<u>2,000,000</u>	<u>–</u>	<u>2,000,000</u>
Member-funded programs:			
Unified Marketing Plan funding	31,805,138	550,000	32,355,138
Total member-funded programs	<u>31,805,138</u>	<u>550,000</u>	<u>32,355,138</u>
Net assets released from restrictions	3,583,199	(3,583,199)	–
Total support and other revenues	<u>37,388,337</u>	<u>(3,033,199)</u>	<u>34,355,138</u>
<b>Expenses</b>			
Domestic and export marketing	36,125,308	–	36,125,308
General and administrative:			
Dairy Management Inc. general and administrative	842,022	–	842,022
General and administrative	421,007	–	421,007
Total general and administrative	<u>1,263,029</u>	<u>–</u>	<u>1,263,029</u>
Other operating expenses	1,094	–	1,094
Total expenses	<u>37,389,431</u>	<u>–</u>	<u>37,389,431</u>
Change in net assets	(1,094)	(3,033,199)	(3,034,293)
Net assets, beginning of year	1,066,809	3,533,199	4,600,008
Net assets, end of year	<u>\$ 1,065,715</u>	<u>\$ 500,000</u>	<u>\$ 1,565,715</u>

See accompanying notes.

United Dairy Industry Association and National Dairy Council

Consolidated Statement of Activities and Changes in Net Assets

Year Ended December 31, 2020

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<b>Support and other revenues</b>			
Support revenues:			
Member fees and dues	\$ 2,250,000	\$ –	\$ 2,250,000
Interest income and other	25,395	–	25,395
Total support revenues	<u>2,275,395</u>	<u>–</u>	<u>2,275,395</u>
Member-funded programs:			
Unified Marketing Plan funding	31,831,965	3,872,400	35,704,365
Total member-funded programs	<u>31,831,965</u>	<u>3,872,400</u>	<u>35,704,365</u>
Net assets released from restrictions	3,219,782	(3,219,782)	–
Total support and other revenues	<u>37,327,142</u>	<u>652,618</u>	<u>37,979,760</u>
<b>Expenses</b>			
Domestic and export marketing	36,123,367	–	36,123,367
General and administrative:			
Dairy Management Inc. general and administrative	885,702	–	885,702
General and administrative	311,428	–	311,428
Total general and administrative	<u>1,197,130</u>	<u>–</u>	<u>1,197,130</u>
Other operating expenses	6,645	–	6,645
Total expenses	<u>37,327,142</u>	<u>–</u>	<u>37,327,142</u>
Change in net assets	–	652,618	652,618
Net assets, beginning of year	1,066,809	2,880,581	3,947,390
Net assets, end of year	<u>\$ 1,066,809</u>	<u>\$ 3,533,199</u>	<u>\$ 4,600,008</u>

See accompanying notes.

United Dairy Industry Association and National Dairy Council

Consolidated Statements of Cash Flows

	<b>Year Ended December 31</b>	
	<b>2021</b>	<b>2020</b>
<b>Operating activities</b>		
Change in net assets	\$ (3,034,293)	\$ 652,618
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Changes in assets and liabilities:		
Contributions receivable, net	2,505,468	(602,672)
Prepaid expenses and other assets	(4,166)	967
Accounts payable and accrued liabilities	612,524	(981,204)
Amount due to related party – Dairy Management Inc.	3,568	1,393,805
Net cash provided by operating activities	<u>83,101</u>	<u>463,514</u>
Net increase in cash and cash equivalents	83,101	463,514
Cash and cash equivalents, beginning of year	2,753,098	2,289,584
Cash and cash equivalents, end of year	<u>\$ 2,836,199</u>	<u>\$ 2,753,098</u>

*See accompanying notes.*



# United Dairy Industry Association and National Dairy Council

## Notes to Consolidated Financial Statements

December 31, 2021 and 2020

### **1. Organization**

United Dairy Industry Association (UDIA) and National Dairy Council (NDC) (collectively, the Association) are not-for-profit organizations that are under the control of UDIA's board of directors. Accordingly, the accompanying consolidated financial statements include the accounts of UDIA and NDC. All intercompany transactions between UDIA and NDC have been eliminated in consolidation.

UDIA is a member-driven federation that conducts generic promotional programs for U.S.-produced fluid milk and other dairy products. UDIA members comprise state and regional generic dairy promotion organizations qualified by United States Department of Agriculture (USDA).

The Association's programs, budget, and staffing are carried out by Dairy Management Inc. (DMI) along with those of National Dairy Promotion and Research Board (NDB). 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 the Association and NDB. The Association and NDB 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 consolidated 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. The Association considers investments with an original maturity of 90 days or less to be cash equivalents.

UDIA and NDC have cash balances in a financial institution that exceed federal depository insurance limits. All deposits maintained at financial institutions for both UDIA and NDC are fully collateralized daily in U.S. Treasury securities at the Federal Reserve Bank of St. Louis.

# United Dairy Industry Association and National Dairy Council

## Notes to Consolidated Financial Statements (continued)

### 2. Summary of Significant Accounting Policies (continued)

#### Net Assets

The Association 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. The board of directors has designated \$500,000 of net assets without donor restrictions to offset future rent payments under the current DMI office lease.
- *With donor restrictions* – Net assets subject to donor-imposed restrictions that will be met either by actions of the Association or the passage of time. Items that affect this net asset category are contributions that are restricted to specific programs of the organization.

Net assets consisted of the following as of December 31:

Detail of Net Assets	2021			2020		
	Without Donor Restrictions	With Donor Restrictions	Total Net Assets	Without Donor Restrictions	With Donor Restrictions	Total Net Assets
Operating	\$ 1,065,715	\$ –	\$ 1,065,715	\$ 1,066,809	\$ –	\$ 1,066,809
Partnerships	–	500,000	500,000	–	3,386,102	3,386,102
Sustainable Nutrition and Research	–	–	–	–	147,097	147,097
Net assets	<u>\$ 1,065,715</u>	<u>\$ 500,000</u>	<u>\$ 1,565,715</u>	<u>\$ 1,066,809</u>	<u>\$ 3,533,199</u>	<u>\$ 4,600,008</u>

#### Financial Instruments

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

# United Dairy Industry Association and National Dairy Council

## Notes to Consolidated Financial Statements (continued)

### 2. Summary of Significant Accounting Policies (continued)

#### Contributions Receivable

Contributions receivable consist primarily of amounts due from members relating to UMP funding commitments, totaling \$2,209,431 and \$4,714,899 as of December 31, 2021 and 2020, respectively.

#### Revenue Recognition

Support revenue is derived primarily from member dues, which are assessed annually and recognized as revenue on a straight-line basis over the membership period, which is January 1 through December 31.

In addition to providing general services to members, the Association, through DMI, creates, develops, and implements dairy marketing programs included in the UMP. Funds for these marketing programs are provided by UDIA members who commit funding to the annual UMP.

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. UMP funding commitments related to milk production are conditional and are recognized monthly as milk is marketed.

Additionally, the Association recognized other UMP funding commitments of \$550,000 and \$3,872,400 during 2021 and 2020, respectively. These commitments represent unconditional restricted contributions to be collected and expended in future periods.

#### Income Taxes

UDIA and NDC have received a determination letter from the Internal Revenue Service indicating that they are exempt from federal and state income taxes on related income under Sections 501(c)(6) and 501(c)(3), respectively, of the Internal Revenue Code. However, UDIA and NDC are subject to taxes on unrelated business income. UDIA and NDC had no unrelated business income in 2021 or 2020.

# United Dairy Industry Association and National Dairy Council

## Notes to Consolidated Financial Statements (continued)

### 3. Related Party Transactions

The Association funds DMI on a cost-reimbursement basis. DMI marketing program costs include costs attributable to implementing DMI's programs consistent with the UMP. 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.

The Association funded DMI's program and core costs as follows:

	<u>2021</u>	<u>2020</u>
Program costs	\$ 36,125,308	\$ 36,123,367
Core costs	842,022	885,702
	<u>\$ 36,967,330</u>	<u>\$ 37,009,069</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, UDIA reimbursed DMI \$5,273,495 and \$5,370,809 in 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. UDIA reimbursed DMI \$883,893 and \$797,518 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. UDIA reimbursed DMI \$409,983 and \$4,610 in 2021 and 2020, respectively, for DRI's program and operational expenses.

# United Dairy Industry Association and National Dairy Council

## Notes to Consolidated 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. UDIA reimbursed DMI \$32,030 and \$6,390 in 2021 and 2020, respectively, for the Innovation Center's program expenses.

### 4. Functional Classification of Expenses

The Association's primary program activity involves 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 this primary program activity.

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

	Program Services	Support Services		Total Expenses
	Domestic and Export Marketing	General and Administrative	Other Operating	
Program support	\$ 36,125,308	\$ -	\$ -	\$ 36,125,308
DMI – general and administrative	-	842,022	-	842,022
Other	-	421,007	1,094	422,101
	\$ 36,125,308	\$ 1,263,029	\$ 1,094	\$ 37,389,431

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

	Program Services	Support Services		Total Expenses
	Domestic and Export Marketing	General and Administrative	Other Operating	
Program support	\$ 36,123,367	\$ -	\$ -	\$ 36,123,367
DMI – general and administrative	-	885,702	-	885,702
Other	-	311,428	6,645	318,073
	\$ 36,123,367	\$ 1,197,130	\$ 6,645	\$ 37,327,142

# United Dairy Industry Association and National Dairy Council

## Notes to Consolidated 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	\$ 2,836,199	\$ 1,669,899
Contributions receivable, net	1,659,431	2,264,899
Other assets	15,960	12,621
Total financial assets and liquidity resources available within one year	<u>\$ 4,511,590</u>	<u>\$ 3,947,419</u>

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

### 6. Related Parties and Concentration of Credit Risk

Substantially all of the Association's activities and related revenues involve its state and regional member organizations. The member organizations' operations include regional generic dairy promotion and nutrition education activities and are economically dependent on the dairy industry. The principal balance of contributions receivable is due from member organizations. In addition, member organizations are allocated representation on the Association's board of directors. Member organizations elect directors from their local boards to serve on the Association's board.

### 7. Subsequent Events

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

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