

FINANCIAL STATEMENTS

National Dairy Promotion and Research Board
Years Ended December 31, 2020 and 2019
With Reports of Independent Auditors

Ernst & Young LLP



National Dairy Promotion and Research Board

Financial Statements

Years Ended December 31, 2020 and 2019

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Report of Independent Auditors

The Board of Directors
National Dairy Promotion and Research Board

We have audited the accompanying financial statements of National Dairy Promotion and Research Board, which comprise the statements of financial position as of December 31, 2020 and 2019, 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.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 of America. 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 involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of National Dairy Promotion and Research Board as of December 31, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we also have issued our report dated May 4, 2021, 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering National Dairy Promotion and Research Board's internal control over financial reporting and compliance.

Ernst + Young LLP

May 4, 2021



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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*

The Management and 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 of America, the financial statements of National Dairy Promotion and Research Board, which comprise the statements of financial position as of December 31, 2020 and 2019, 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 4, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered National Dairy Promotion and Research Board's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our 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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 result of that testing, and not to provide an opinion on 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 4, 2021

National Dairy Promotion and Research Board

Statements of Financial Position

	December 31	
	2020	2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 29,678,195	\$ 30,774,468
Domestic assessments receivable, net of allowance for doubtful accounts of \$40,000 in 2020 and 2019	11,463,811	10,995,805
Import assessments receivable	306,824	329,238
Other current assets	11,637	73,660
Total current assets	41,460,467	42,173,171
Fixed assets, net of accumulated depreciation of \$11,249 in 2020 and \$0 in 2019	213,725	196,324
Total assets	\$ 41,674,192	\$ 42,369,495
Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 43,949	\$ 87,831
Accrued expenses and other liabilities	396,536	431,497
Amount due to related party – Dairy Management Inc.	7,754,269	9,466,092
Total current liabilities	8,194,754	9,985,420
Net assets without donor restrictions:		
Designated	22,590,682	27,111,650
Undesignated	10,888,756	5,272,425
Total net assets without donor restrictions	33,479,438	32,384,075
Total liabilities and net assets	\$ 41,674,192	\$ 42,369,495

See accompanying notes.

National Dairy Promotion and Research Board

Statements of Activities and Changes in Net Assets

	Year Ended December 31	
	2020	2019
Revenues		
Domestic assessments	\$ 110,063,536	\$ 107,712,019
Select incremental assessments	7,499,318	7,094,802
Import assessments	3,025,323	3,163,194
Interest income	67,597	419,831
Total revenues	120,655,774	118,389,846
Expenses		
Programs:		
Domestic and export marketing	114,711,095	110,873,660
QP program support	100,000	100,000
Total programs	114,811,095	110,973,660
General and administrative:		
Dairy Management Inc. general and administrative	3,067,095	3,847,977
General and administrative	884,494	803,597
Total general and administrative	3,951,589	4,651,574
United States Department of Agriculture oversight	797,727	1,009,114
Total expenses	119,560,411	116,634,348
Change in net assets without donor restrictions	1,095,363	1,755,498
Net assets without donor restrictions, beginning of year	32,384,075	30,628,577
Net assets without donor restrictions, end of year	\$ 33,479,438	\$ 32,384,075

See accompanying notes.

National Dairy Promotion and Research Board

Statements of Cash Flows

	Year Ended December 31	
	2020	2019
Operating activities		
Change in net assets	\$ 1,095,363	\$ 1,755,498
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	11,249	–
Changes in assets and liabilities:		
Assessments receivable, net	(445,592)	(116,610)
Other current assets	62,023	(23,574)
Accounts payable	(43,882)	(211,077)
Accrued expenses and other liabilities	(34,961)	163,174
Amount due to related party – Dairy Management Inc.	(1,711,823)	2,020,248
Net cash (used in) provided by operating activities	(1,067,623)	3,587,659
Investing activities		
Purchases of fixed assets	(28,650)	(196,324)
Net cash used in investing activities	(28,650)	(196,324)
Net (decrease) increase in cash and cash equivalents	(1,096,273)	3,391,335
Cash and cash equivalents, beginning of year	30,774,468	27,383,133
Cash and cash equivalents, end of year	\$ 29,678,195	\$ 30,774,468

See accompanying notes.

National Dairy Promotion and Research Board

Notes to Financial Statements

December 31, 2020 and 2019

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, overnight sweep, certificates of deposit, 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 2020 and 2019. The carryover funding was approved by the board during the first quarters of 2021 and 2020. Total designations of net assets without donor restrictions are as follows:

	2020	2019
Designated net assets:		
Cash reserves	\$ 1,800,000	\$ 1,800,000
Subsequent year program activity	20,790,682	25,311,650
Total designated net assets	22,590,682	27,111,650
Undesignated net assets	10,888,756	5,272,425
Total net assets without donor restrictions	\$ 33,479,438	\$ 32,384,075

- *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, 2020 or 2019.

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, 2020 and 2019, the net NDB assessment was \$0.0538 and \$0.0537, 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.

Effective January 1, 2019, with the adoption of 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 if 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>2020</u>	<u>2019</u>
Program costs	\$ 79,927,401	\$ 76,519,020
Core costs	37,850,789	38,202,617
Total funding to DMI	<u>\$ 117,778,190</u>	<u>\$ 114,721,637</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 \$11,883,576 and \$13,517,898 for 2020 and 2019, 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 \$1,764,607 and \$1,815,862 for 2020 and 2019, 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 \$10,200 and \$10,502 for 2020 and 2019, 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. Of the program funding, NDB reimbursed DMI \$14,137 and \$0 in 2020 and 2019, 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, 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

Expenses by functional classification for the year ended December 31, 2019, consist of the following:

	Program Services		Support Activities		Total Expenses
	Domestic and Export Marketing	QP Program Support	General and Administrative	Other Operating	
Program support	\$ 110,873,660	\$ 100,000	\$ -	\$ -	\$ 110,973,660
DMI – general and administrative	-	-	3,847,977	-	3,847,977
USDA oversight	-	-	-	1,009,114	1,009,114
Collection and compliance	-	-	438,496	-	438,496
Other	-	-	365,101	-	365,101
	\$ 110,873,660	\$ 100,000	\$ 4,651,574	\$ 1,009,114	\$ 116,634,348

National Dairy Promotion and Research Board

Notes to Financial Statements (continued)

5. Financial Assets and Liquidity Resources

As of December 31, 2020 and 2019, financial assets and liquidity resources available within one year for general expenditures were as follows:

	<u>2020</u>	<u>2019</u>
Financial assets:		
Cash and cash equivalents	\$ 29,678,195	\$ 30,774,468
Domestic assessments receivable, net	11,463,811	10,995,805
Import assessments receivable	306,824	329,238
Other current assets	–	62,926
Total financial assets and liquidity resources available within one year	<u>\$ 41,448,830</u>	<u>\$ 42,162,437</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, 2020 and 2019, cumulative unpaid assessments of \$1,066,965 and \$912,985, respectively, were at USDA pending further action. Such amounts are not included in assessments receivable as of December 31, 2020 or 2019, 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 has 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 multi-employer pension plan. The note payable balance was \$124,174 and \$709,428 at December 31, 2020 and 2019, respectively. The terms of the note agreement require quarterly principal payments and monthly interest payments, based on the outstanding loan balance, at an annual interest rate of 3.93%.

The note balance at December 31, 2020, will be fully retired by quarterly payments made during 2021 as specified within the terms of the note agreement.

DMI has 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 and \$709,428 at December 31, 2020 and 2019, respectively.

8. Subsequent Events

NDB evaluated events occurring between January 1, 2021 and May 4, 2021, which is the date when the accompanying financial statements were available to be issued. No events subsequent to December 31, 2020, have been identified that require recognition or disclosure in the financial statements.

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