

CONSOLIDATED FINANCIAL STATEMENTS

United Dairy Industry Association and National Dairy Council
Years Ended December 31, 2020 and 2019
With Report of Independent Auditors

Ernst & Young LLP



United Dairy Industry Association and National Dairy Council

Consolidated Financial Statements

Years Ended December 31, 2020 and 2019

Contents

Report of Independent Auditors.....1

Consolidated Financial Statements

Consolidated Statements of Financial Position.....3

Consolidated Statements of Activities and Changes in Net Assets4

Consolidated Statements of Cash Flows.....6

Notes to Consolidated Financial Statements.....7



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Report of Independent Auditors

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

We have audited the accompanying consolidated financial statements of United Dairy Industry Association and National Dairy Council, which comprise the consolidated statements of financial position as of December 31, 2020 and 2019, and the related consolidated statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated 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. 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 consolidated financial position of United Dairy Industry Association and National Dairy Council as of December 31, 2020 and 2019, and the consolidated changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst + Young LLP

May 4, 2021

United Dairy Industry Association and National Dairy Council

Consolidated Statements of Financial Position

	December 31	
	2020	2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,753,098	\$ 2,289,584
Contributions receivable, net of allowance for doubtful accounts of \$25,000 in 2020 and 2019	4,714,899	4,112,227
Prepaid expenses and other assets	23,425	24,392
Total assets	<u>\$ 7,491,422</u>	<u>\$ 6,426,203</u>
Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 14,234	\$ 584,689
Accrued liabilities	277,345	688,094
Amount due to related party – Dairy Management Inc.	2,599,835	1,206,030
Total current liabilities	<u>2,891,414</u>	<u>2,478,813</u>
Net assets:		
Without donor restrictions	1,066,809	1,066,809
With donor restrictions	3,533,199	2,880,581
Total net assets	<u>4,600,008</u>	<u>3,947,390</u>
Total liabilities and net assets	<u>\$ 7,491,422</u>	<u>\$ 6,426,203</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

	Without Donor Restrictions	With Donor Restrictions	Total
Support and other revenues			
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>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>
Expenses			
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>1,197,130</u>
Other operating expenses	6,645	–	6,645
Total expenses	<u>37,327,142</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 Statement of Activities and Changes in Net Assets

Year Ended December 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Support and other revenues			
Support revenues:			
Member fees and dues	\$ 2,250,000	\$ –	\$ 2,250,000
Interest income and other	28,039	–	28,039
Total support revenues	<u>2,278,039</u>	–	<u>2,278,039</u>
Member-funded programs:			
Unified Marketing Plan funding	32,443,049	2,880,581	35,323,630
Total member-funded programs	<u>32,443,049</u>	<u>2,880,581</u>	<u>35,323,630</u>
Net assets released from restrictions	–	–	–
Total support and other revenues	<u>34,721,088</u>	<u>2,880,581</u>	<u>37,601,669</u>
Expenses			
Domestic and export marketing	32,768,427	–	32,768,427
General and administrative:			
Dairy Management Inc. general and administrative	1,531,187	–	1,531,187
General and administrative	416,767	–	416,767
Total general and administrative	<u>1,947,954</u>	–	<u>1,947,954</u>
Other operating expenses	4,707	–	4,707
Total expenses	<u>34,721,088</u>	–	<u>34,721,088</u>
Change in net assets	–	2,880,581	2,880,581
Net assets, beginning of year	1,066,809	–	1,066,809
Net assets, end of year	<u>\$ 1,066,809</u>	<u>\$ 2,880,581</u>	<u>\$ 3,947,390</u>

See accompanying notes.

United Dairy Industry Association and National Dairy Council

Consolidated Statements of Cash Flows

	Year Ended December 31	
	2020	2019
Operating activities		
Change in net assets	\$ 652,618	\$ 2,880,581
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Changes in assets and liabilities:		
Contributions receivable, net	(602,672)	(2,389,893)
Prepaid expenses and other assets	967	85,508
Accounts payable and accrued liabilities	(981,204)	950,140
Amount due to related party – Dairy Management Inc.	1,393,805	(1,801,293)
Net cash provided by (used in) operating activities	<u>463,514</u>	<u>(274,957)</u>
Net increase (decrease) in cash and cash equivalents	463,514	(274,957)
Cash and cash equivalents, beginning of year	<u>2,289,584</u>	<u>2,564,541</u>
Cash and cash equivalents, end of year	<u>\$ 2,753,098</u>	<u>\$ 2,289,584</u>

See accompanying notes.

United Dairy Industry Association and National Dairy Council

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

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, overnight sweep, 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	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total Net Assets	Without Donor Restrictions	With Donor Restrictions	Total Net Assets
Operating	\$ 1,066,809	\$ –	\$ 1,066,809	\$ 1,066,809	\$ –	\$ 1,066,809
Partnerships	–	3,386,102	3,386,102	–	2,600,000	2,600,000
Sustainable Nutrition and Research	–	147,097	147,097	–	280,581	280,581
Net assets	\$ 1,066,809	\$ 3,533,199	\$ 4,600,008	\$ 1,066,809	\$ 2,880,581	\$ 3,947,390

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 \$4,714,899 and \$4,112,227 as of December 31, 2020 and 2019, 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.

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. 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 \$3,872,400 and \$2,880,581 during 2020 and 2019, respectively. These commitments represent unconditional restricted contributions to be collected and expended in future periods.

United Dairy Industry Association and National Dairy Council

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

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 2020 or 2019.

Reclassifications

Certain amounts in the 2019 consolidated statement of financial position and consolidated statement of cash flows have been reclassified to conform to current year presentation. These reclassifications include conforming the presentation of contributions receivable and prepaid expenses and other assets. These adjustments resulted in no impact to total expenses or changes in net assets for fiscal year 2019.

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>2020</u>	<u>2019</u>
Program costs	\$ 36,123,367	\$ 32,768,427
Core costs	885,702	1,531,187
	<u>\$ 37,009,069</u>	<u>\$ 34,299,614</u>

United Dairy Industry Association and National Dairy Council

Notes to Consolidated Financial Statements (continued)

3. Related Party Transactions (continued)

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 \$5,370,809 and \$5,788,891 in 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. UDIA reimbursed DMI \$797,518 and \$777,623 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. Of the program funding, UDIA reimbursed DMI \$4,610 and \$4,498 in 2020 and 2019, respectively, for DRI's program and operational expenses.

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, UDIA reimbursed DMI \$6,390 and \$0 in 2020 and 2019, 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.

United Dairy Industry Association and National Dairy Council

Notes to Consolidated Financial Statements (continued)

4. Functional Classification of Expenses (continued)

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

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

	Program Services	Support Services		Total Expenses
	Domestic and Export Marketing	General and Administrative	Other Operating	
Program support	\$ 32,768,427	\$ -	\$ -	\$ 32,768,427
DMI – general and administrative	-	1,531,187	-	1,531,187
Other	-	416,767	4,707	421,474
	\$ 32,768,427	\$ 1,947,954	\$ 4,707	\$ 34,721,088

United Dairy Industry Association and National Dairy Council

Notes to Consolidated 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	\$ 1,669,899	\$ 2,009,003
Contributions receivable, net	2,264,899	1,512,227
Other assets	12,621	9,491
	<u>3,947,419</u>	<u>3,530,721</u>
Liquidity resources:		
Bank line of credit	–	2,000,000
Total financial assets and liquidity resources available within one year	<u>\$ 3,947,419</u>	<u>\$ 5,530,721</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. Bank Line of Credit

At December 31, 2019, UDIA had available a \$2,000,000 revolving bank line-of-credit agreement, which expired on July 31, 2020, and was not renewed. During 2020, no borrowings were drawn under this agreement.

7. 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.

United Dairy Industry Association and National Dairy Council

Notes to Consolidated Financial Statements (continued)

8. Subsequent Events

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

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