

FINANCIAL STATEMENTS

National Dairy Promotion and Research Board
Years Ended December 31, 2022 and 2021
With Reports of Independent Auditors

Ernst & Young LLP



National Dairy Promotion and Research Board

Financial Statements

Years Ended December 31, 2022 and 2021

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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, 2022 and 2021, 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, 2022 and 2021, 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*, issued by the Comptroller General of the United States (*Government Auditing Standards*). 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 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.

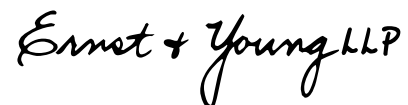
In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- 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 9, 2023, 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 9, 2023

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, 2022 and 2021, 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 9, 2023.

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 9, 2023

National Dairy Promotion and Research Board

Statements of Financial Position

	December 31	
	2022	2021
Assets		
Current assets:		
Cash and cash equivalents	\$ 36,424,049	\$ 42,542,628
Domestic assessments receivable, net of allowance for doubtful accounts of \$40,000 in 2022 and 2021	10,998,529	10,597,548
Import assessments receivable	385,350	444,080
Other current assets	12,880	12,465
Total current assets	47,820,808	53,596,721
Fixed assets, net of accumulated depreciation of \$57,709 in 2022 and \$35,212 in 2021	168,731	191,228
Total assets	\$ 47,989,539	\$ 53,787,949
Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 417,195	\$ 48,778
Accrued expenses and other liabilities	320,241	461,051
Amount due to related party – Dairy Management Inc.	13,990,075	7,600,207
Total current liabilities	14,727,511	8,110,036
Net assets without donor restrictions:		
Designated	28,409,189	26,228,445
Undesignated	4,852,839	19,449,468
Total net assets without donor restrictions	33,262,028	45,677,913
Total liabilities and net assets	\$ 47,989,539	\$ 53,787,949

See accompanying notes.

National Dairy Promotion and Research Board

Statements of Activities and Changes in Net Assets

	Year Ended December 31	
	2022	2021
Revenues		
Domestic assessments	\$ 112,362,236	\$ 113,350,451
Select incremental assessments	8,294,552	7,969,053
Import assessments	3,656,587	3,438,672
Interest income	379,613	—
Total revenues	124,692,988	124,758,176
Expenses		
Programs:		
Domestic and export marketing	131,688,566	107,741,197
Qualified Program support	100,000	100,000
Total programs	131,788,566	107,841,197
General and administrative:		
Dairy Management Inc. general and administrative	3,538,263	3,132,689
General and administrative	908,623	760,713
Total general and administrative	4,446,886	3,893,402
United States Department of Agriculture oversight	873,421	825,102
Total expenses	137,108,873	112,559,701
Change in net assets without donor restrictions	(12,415,885)	12,198,475
Net assets without donor restrictions, beginning of year	45,677,913	33,479,438
Net assets without donor restrictions, end of year	\$ 33,262,028	\$ 45,677,913

See accompanying notes.

National Dairy Promotion and Research Board

Statements of Cash Flows

	Year Ended December 31	
	2022	2021
Operating activities		
Change in net assets	\$ (12,415,885)	\$ 12,198,475
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	22,497	22,497
Changes in assets and liabilities:		
Assessments receivable, net	(342,251)	729,007
Other current assets	(415)	(828)
Accounts payable	368,417	4,829
Accrued expenses and other liabilities	(140,810)	64,515
Amount due to related party – Dairy Management Inc.	6,389,868	(154,062)
Net cash (used in) provided by operating activities	(6,118,579)	12,864,433
 Net (decrease) increase in cash and cash equivalents	 (6,118,579)	 12,864,433
Cash and cash equivalents, beginning of year	42,542,628	29,678,195
Cash and cash equivalents, end of year	\$ 36,424,049	\$ 42,542,628

See accompanying notes.

National Dairy Promotion and Research Board

Notes to Financial Statements

December 31, 2022 and 2021

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, 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 fund subsequent year budgets were approved by the board during the fourth quarters of 2022 and 2021. The carryover funding was approved by the board during the first quarters of 2023 and 2022. Total designations of net assets without donor restrictions are as follows:

	2022	2021
Designated net assets:		
Cash reserves	\$ 1,800,000	\$ 1,800,000
Subsequent year program activity	26,609,189	24,428,445
Total designated net assets	28,409,189	26,228,445
Undesignated net assets	4,852,839	19,449,468
Total net assets without donor restrictions	\$ 33,262,028	\$ 45,677,913

- *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, 2022 or 2021.

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, 2022 and 2021, the net NDB assessment was \$0.0542 and \$0.0539, 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:

	Year Ended December 31	
	2022	2021
Program costs	\$ 94,733,189	\$ 69,960,874
Core costs	40,493,640	40,913,012
Total funding to DMI	<u>\$ 135,226,829</u>	<u>\$ 110,873,886</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 \$15,088,982 and \$10,212,737 for 2022 and 2021, 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 \$1,986,656 and \$1,711,763 for 2022 and 2021, 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 \$1,932,328 and \$965,779 for 2022 and 2021, 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 fostering harmony, cooperation, and 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 \$237,688 and \$74,585 in 2022 and 2021, respectively, for the Innovation Center’s operational 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, 2022, consist of the following:

	Program Services		Support Activities		Total Expenses
	Domestic and Export Marketing	QP Program Support	General and Administrative	Other Operating	
Program support	\$ 131,688,566	\$ 100,000	\$ –	\$ –	\$ 131,788,566
DMI – general and administrative	–	–	3,538,263	–	3,538,263
USDA oversight	–	–	–	873,421	873,421
Collection and compliance	–	–	492,039	–	492,039
Other	–	–	416,584	–	416,584
	\$ 131,688,566	\$ 100,000	\$ 4,446,886	\$ 873,421	\$ 137,108,873

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

National Dairy Promotion and Research Board

Notes to Financial Statements (continued)

5. Financial Assets and Liquidity Resources

As of December 31, 2022 and 2021, financial assets and liquidity resources available within one year for general expenditures were as follows:

	<u>2022</u>	<u>2021</u>
Financial assets:		
Cash and cash equivalents	\$ 36,424,049	\$ 42,542,628
Domestic assessments receivable, net	10,998,529	10,597,548
Import assessments receivable	385,350	444,080
Total financial assets and liquidity resources available within one year	<u>\$ 47,807,928</u>	<u>\$ 53,584,256</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 balances in excess of daily operating needs in 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, 2022 and 2021, cumulative unpaid assessments of \$1,248,302 and \$1,066,714, respectively, were at USDA pending further action. Such amounts are not included in assessments receivable as of December 31, 2022 or 2021, 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. Subsequent Events

NDB evaluated events occurring between January 1, 2023 and May 9, 2023, which is the date when the accompanying financial statements were available to be issued. No events subsequent to December 31, 2022, have been identified that require recognition or disclosure in the financial statements.

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