

**Minnesota Dairy Research
and Promotion Council**

*Financial Statements, Supplementary Information,
and Independent Auditor's Report*

December 31, 2015 and 2014

Minnesota Dairy Research and Promotion Council

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December 31, 2015 and 2014

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WILKERSON GUTHMANN
CPAs and Business Consultants

Independent Auditor's Report

To the Council Members of Minnesota
Dairy Research and Promotion Council
Roseville, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of Minnesota Dairy Research and Promotion Council, which comprise the statements of assets, liabilities and fund balance—modified cash basis as of December 31, 2015 and 2014, and the related statements of revenues, expenses and fund balance—modified cash basis and cash flows—modified cash basis 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 accordance with the modified cash basis of accounting described in Note 2; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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An audit involves performing procedures to obtain audit 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 opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities and fund balance of Minnesota Dairy Research and Promotion Council as of December 31, 2015 and 2014, and its revenues and expenses and changes in fund balance and its cash flows for the years then ended, in accordance with the basis of accounting as described in Note 2.

Basis of Accounting

We draw attention to Note 2 of the financial statements, which describes the basis of accounting. The financial statements were prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 10, 2016, on our consideration of the Minnesota Dairy Research and Promotion Council's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts 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 the 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 Minnesota Dairy Research and Promotion Council's internal control over financial reporting and compliance.

Wilkinson, Luthmann + Johnson, Ltd.

St. Paul, Minnesota
February 10, 2016

Minnesota Dairy Research and Promotion Council

Statements of Assets, Liabilities and Fund Balance—Modified Cash Basis

<i>December 31,</i>	2015	2014
ASSETS		
Current		
Cash		
Checking	\$ 149,217	\$ 274,120
Insured Savings Account	166,140	280,981
Total Cash	315,357	555,101
Investments	1,344,000	1,072,000
Accounts Receivable—Midwest Dairy Association	138,000	
Interest Receivable	2,093	2,031
Total Current Assets	1,799,450	1,629,132
Other		
Investment in Midwest Dairy Association	1,137,933	1,137,933
Total Assets	\$ 2,937,383	\$ 2,767,065
LIABILITIES AND FUND BALANCE		
Current Liabilities		
Accounts Payable—Midwest Dairy Association	\$	\$ 200,000
Fund Balance		
Fund Balance	2,937,383	2,567,065
Total Liabilities and Fund Balance	\$ 2,937,383	\$ 2,767,065

The accompanying notes are an integral part of the financial statements.

Minnesota Dairy Research and Promotion Council

Statements of Revenues, Expenses and Fund Balance—Modified Cash Basis

<i>For the Years Ended December 31,</i>	2015	2014
Revenue		
Dairy Checkoff Assessments	\$ 9,358,552	\$ 8,954,172
Interest	5,521	4,271
Miscellaneous	25	25
Total Revenue	9,364,098	8,958,468
Expenses		
Program Expense		
Contract Program Support—Midwest Dairy Association	8,936,100	9,134,800
Administration and Council Members' Expenses		
Administration	52,359	51,339
Council Members' Expenses	5,321	7,373
Total Administration and Council Members' Expenses	57,680	58,712
Total Expenses	8,993,780	9,193,512
Excess of Revenue over Expenses (Expenses over Revenue)	370,318	(235,044)
Fund Balance, Beginning of Year	2,567,065	2,802,109
Fund Balance, End of Year	\$ 2,937,383	\$ 2,567,065

The accompanying notes are an integral part of the financial statements.

Minnesota Dairy Research and Promotion Council

Statements of Cash Flows—Modified Cash Basis

<i>For the Years Ended December 31,</i>	2015	2014
Cash Flows from Operating Activities		
Excess of Revenue Over Expenses (Expenses Over Revenue)	\$ 370,318	\$ (235,044)
Adjustments to Reconcile Excess of Revenue Over Expenses (Expenses Over Revenue) to Net Cash Provided by Operating Activities:		
(Increase) in Accounts Receivable—Midwest Dairy Association	(138,000)	
(Increase) in Interest Receivable	(62)	(455)
Increase (Decrease) in Accounts Payable—Midwest Dairy Association	(200,000)	196,000
Net Cash Provided by (Used In) Operating Activities	32,256	(39,499)
Cash Flows from Investing Activities		
Purchases of Investments	(1,593,000)	(1,321,000)
Sales of Investments	1,321,000	1,595,000
Net Cash Provided By (Used In) Investing Activities	(272,000)	274,000
Net Increase (Decrease) in Cash	(239,744)	234,501
Cash, Beginning of Year	555,101	320,600
Cash, End of Year	\$ 315,357	\$ 555,101

Minnesota Dairy Research and Promotion Council

Notes to Financial Statements

December 31, 2015 and 2014

1. Organization

The Minnesota Dairy Research and Promotion Council (Council) was established in accordance with state law and is governed by Minnesota Statutes {2015}, Sections 17.51-17.69. The Council works together with the Minnesota Department of Agriculture to promote Minnesota agriculture. Under the Commodities Promotion Act the Council has organized research and promotion programs. Funding is generated through dairy checkoffs as described in Note 3.

Authority to operate is given to the Council by the Minnesota Dairy Research and Promotion Order, authorized under the Minnesota Agricultural Commodities Promotion Act, Minnesota Statutes {1969}, adopted April 1, 1975, revised under Minnesota Statutes {1982}, effective November 1, 1982, revised in October 2004. The order may be terminated by the Council after consultation with the Commissioner of Agriculture or upon the Council's petition and a subsequent referendum.

2. Summary of Significant Accounting Policies

Basis of Accounting

The accompanying financial statements were prepared on a modified cash basis of accounting, which is a comprehensive basis of accounting, other than accounting principles generally accepted in the United State of America. The Council has elected to record certain revenues when received rather than when earned. Expenses are recognized when incurred.

Cash and Cash Equivalents

The checking account is a non-interest bearing account. All other cash and investment accounts are interest-bearing accounts at short-term interest rates. These accounts are insured up to \$250,000 by the FDIC or collateralized by U.S. Treasury securities. The Council invests its cash in excess of its current operating needs in marketable certificates of deposit and insured savings accounts.

Investments

Investments owned by the Council at December 31, 2015 and 2014, consisted of marketable certificates of deposit. The Council intends to hold all certificates of deposit to maturity. All certificates are scheduled to mature within a 12-month period and are reported at cost, which approximates fair value. Interest income on investments is recorded as earned.

Minnesota Dairy Research and Promotion Council

Notes to Financial Statements

December 31, 2015 and 2014

2. Summary of Significant Accounting Policies (Continued)

Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of revenues, expenses and fund balance—modified cash basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Use of Estimates

The preparation of financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes

As a quasi-governmental entity, the Internal Revenue Service has determined that the Council is exempt from the filing requirements of tax-exempt organizations.

Subsequent Events

Management has evaluated subsequent events through February 10, 2016, the date which the financial statements were available to be released.

3. Producer Assessments

The National Dairy Promotion Board (Board) was established in 1984 in accordance with federal law. Pursuant to federal laws and regulations governing the Board, dairy producers must remit fifteen cents (15¢) per hundredweight of milk produced for commercial use to the Board to support its promotional and research programs. However, producers may deduct up to ten cents (10¢) per hundredweight for funds forwarded to a qualifying state organization.

Producer assessments (checkoffs) are generated by the collection of an assessment on milk shipped by Minnesota dairy producers. The maximum credit permitted to qualifying state organizations under the federal dairy promotion and research order is ten cents (10¢) per hundredweight.

Minnesota Dairy Research and Promotion Council

Notes to Financial Statements

December 31, 2015 and 2014

3. Producer Assessments (Continued)

The assessments are collected by first purchasers and remitted to the Council monthly. Since the purchases are made on a daily basis, there are always amounts owed to the Council at the end of any given month, however producer assessments are recorded as revenue when received.

Assessments collected are refundable under state law, within six months of the date of purchase, to the farmer (producer) upon the producer's written request to the Minnesota Department of Agriculture. Participation in the National Dairy Promotion Program is mandatory. Accordingly, any refund requested by a producer from a participating state organization must be forwarded to the National Dairy Promotion Board.

4. Investments

The investments at December 31, 2015, were certificates of deposit as follows:

Synovus Bank, Columbus, GA	
0.45%, purchased 1/21/15, matures 1/21/16	\$ 150,000
Pacific Western Bank, Los Angeles, CA	
0.45%, purchased 4/22/15, matures 4/22/16	100,000
Comenity Bank, Wilmington, DE	
0.50%, purchased 6/17/15, matures 6/17/16	200,000
Apple Bank, New York, NY	
0.65%, purchased 8/26/15, matures 8/26/16	248,000
Goldman Sachs Bank, New York, NY	
0.50%, purchased 10/21/15, matures 10/21/16	248,000
Everbank, Jacksonville, FL	
0.65%, purchased 11/16/15, matures 11/16/16	248,000
Discover Bank, Greenwood, DE	
0.60%, purchased 11/18/15, matures 11/18/16	150,000
Total	<u>\$1,344,000</u>

All certificates of deposit held as investments as of December 31, 2014, matured during the year ended December 31, 2015.

Minnesota Dairy Research and Promotion Council

Notes to Financial Statements

December 31, 2015 and 2014

5. Investment in Midwest Dairy Association (formerly American Dairy Association/Dairy Council of the Upper Midwest, Inc.)

Under the terms of a Dairy Research and Promotion Agreement, the Council provided capital of \$1,137,933 in the form of cash and other assets to American Dairy Association/Dairy Council of the Upper Midwest, Inc. (ADA/DC) on July 1, 1993. This investment, along with the investments made by the North Dakota Dairy Promotion Commission and American Dairy Association of South Dakota, totaled \$1,500,000. These investments enabled ADA/DC to commence operations, and provided working capital for the activities of coordinating and implementing dairy promotion, research and education programs on behalf of dairy producers in Minnesota, North Dakota and South Dakota.

Capital provided by the Council consisted of the following:

Cash and Other Current Assets - Contributed to the Council by the Dairy Council of Minnesota	\$ 112,909
Furniture, Equipment and Automobiles - Contributed to the Council by the Dairy Council of Minnesota (At Net Book Value)	108,354
Furniture, Equipment and Automobiles - Purchased from American Dairy Association of Minnesota (At Net Book Value)	181,267
Transfer of Certificates of Deposit and Accrued Interest Cash	692,295 43,108
Total	<u>\$ 1,137,933</u>

On January 1, 2000, ADA/DC combined with Midland Dairy Association. ADA/DC was the surviving entity, and it was renamed Midwest Dairy Association (Midwest).

In the event the Dairy Research and Promotion Agreement between the Council and Midwest is terminated, the Council may receive a refund of its contributed capital. Upon termination, Midwest has the right to determine the appropriate disposition of the Council's capital contribution. However, until the capital is refunded in full, and as long as Midwest exists, the Council's contribution shall be reflected as contributed capital on Midwest's financial records.

At December 31, 2015, Midwest had net assets of \$5,838,211 which included the \$1,500,000 of initial contributed capital by the members of Midwest.

Minnesota Dairy Research and Promotion Council

Notes to Financial Statements

December 31, 2015 and 2014

6. Related Party Transactions

The Council contracted with Midwest, which is related to it through common management, to implement and administer programs intended to contribute to the betterment of Minnesota's dairy farmers and the state's dairy industry. Such programs include, but are not limited to: innovation, strategic initiatives, Fuel Up to Play 60, nutrition affairs, consumer confidence, industry relations, producer communications, and dairy product and economic research. Under the terms of the contracts, Midwest also provides the Council with administrative, financial, and reporting services. Payments under these contracts totaled \$8,962,000 and \$9,160,000 for the years ended December 31, 2015 and 2014, respectively, which amounted to approximately 43% and 45%, respectively, of the total revenues of Midwest. According to the terms of the contracts, the payments in 2015 were reduced by \$138,000 for unspent programming funds. This amount is reflected as an account receivable at December 31, 2015. The Council is dependent on Midwest to provide program and administrative services to the Council.

The Council had accounts payable of \$200,000 to Midwest at December 31, 2014. The Council had no accounts payable to Midwest at December 31, 2015.

7. Concentration of Credit Risk

The Council places its cash with high-quality financial institutions. The balances in the checking account are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. On October 20, 2015, the Council's uninsured cash balances exceeded the FDIC limits by approximately \$5,000. The Council did not experience any loss in the account.

**Independent Auditor's Report on
Supplementary Information**

To the Council Members
of Minnesota Dairy Research and Promotion Council
Roseville, Minnesota

We have audited the financial statements of the Minnesota Dairy Research and Promotion Council as of and for the years ended December 31, 2015 and 2014, and our report thereon dated February 10, 2016, which expressed an unmodified opinion on those financial statements, appears on pages 1 and 2. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The roster of Council Members and Schedule of Administrative and Council Member's Expenses, which is the responsibility of management, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information, except for page 12 on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, that information is fairly stated in all material respects in relation to the financial statements as a whole.

Wilkinson, Luthmann & Johnson, Ltd.

St. Paul, Minnesota
February 10, 2016

Minnesota Dairy Research and Promotion Council

Council Members

December 31, 2015

Council Members

District 1	Dan Grunhovd
District 2	Peter Ripka
District 3	Kristine Spadgenske
District 4	Ken Herbranson
District 5	Debi Clasemann, Secretary
District 6	Ron Rinkel
District 7	Suzanne Vold
District 8	Corrine Lieser
District 9	John Merdan
District 10	Kathleen Skiba, Chair
District 11	Tom Walsh
District 12	Charles Krause, Vice Chair
District 13	Kevin Buss
District 14	Paul Fritsche
District 15	Barb Liebenstein
District 16	Keith Knutson, Executive Committee Member-At-Large
District 17	Jim Dose
District 18	David Schwartz
District 19	Karen Kasper
District 20	Christine Sukalski, Treasurer
District 21	Rita Young
District 22	Carolyn Freese

Chief Executive Officer

Michael Kruger, Midwest Dairy Association

Minnesota Dairy Research and Promotion Council

Schedule of Administration and Council Members' Expenses

<i>For the Years Ended December 31,</i>	2015	2014
Administration		
Midwest Dairy Association Contract	\$ 25,900	\$ 25,200
Minnesota Department of Agriculture	15,160	15,160
Audit Fees—Financial Statements	6,278	6,040
Audit Fees—Compliance	4,660	4,560
Bank Fees and Office Supplies	361	379
Total Administration	<u>52,359</u>	<u>51,339</u>
Council Members' Expenses		
Election and Miscellaneous Expenses	45	43
Board Meetings and Per Diem	5,276	7,330
Total Council Members' Expenses	<u>5,321</u>	<u>7,373</u>
Total Administration and Council Members' Expenses	\$ 57,680	\$ 58,712



**Independent Auditor's Report 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***

To the Council Members
of Minnesota Dairy Research and Promotion Council

and

Dave Frederickson, Commissioner
Minnesota Department of Agriculture

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, the financial statements of Minnesota Dairy Research and Promotion Council, which comprise the statements of assets, liabilities and fund balance—modified cash basis as of December 31, 2015, and the related statements of revenues, expenses and fund balance—modified cash basis and cash flows—modified cash basis, for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 10, 2016. As discussed in Note 2, the financial statements were prepared on a modified cash basis of accounting which is a comprehensive basis of accounting other than generally accepted accounting principles.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Minnesota Dairy Research and Promotion Council'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 the Minnesota Dairy Research and Promotion Council's internal control. Accordingly, we do not express an opinion on the effectiveness of the Council's internal control.

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Internal Control Over Financial Reporting (Continued)

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 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 over financial reporting 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 Minnesota Dairy Research and Promotion Council's financial statements are free of material misstatement, we performed tests of its compliance with Minnesota Department of Agriculture regulations, noncompliance with which could have a 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 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 Minnesota Dairy Research and Promotion Council's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Wilkinson, Guthmann & Johnson, Ltd.

St. Paul, Minnesota
February 10, 2016