

**Minnesota Dairy Research
and Promotion Council**

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

December 31, 2018 and 2017

Minnesota Dairy Research and Promotion Council

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December 31, 2018 and 2017

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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, 2018 and 2017, 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.

Auditor's Responsibility (Continued)

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 opinion.

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, 2018 and 2017, and its revenues and expenses and changes in fund balance and its cash flows for the years then ended, in accordance with the modified cash 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 27, 2019, 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.

Wickham Guthrie Johnson, CPA

St. Paul, Minnesota
February 27, 2019

Minnesota Dairy Research and Promotion Council

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

December 31,	2018	2017
ASSETS		
Current		
Cash:		
Checking	\$ 178,264	\$ 22,983
Insured Savings Account	328,478	184,126
Total Cash	506,742	207,109
Investments	790,000	896,000
Accounts Receivable—Midwest Dairy Association	-	139,000
Interest Receivable	9,525	5,604
Total Current Assets	1,306,267	1,247,713
Other		
Investment in Midwest Dairy Association	1,137,933	1,137,933
Total Assets	\$ 2,444,200	\$ 2,385,646
LIABILITIES AND FUND BALANCE		
Current Liabilities		
Accounts Payable—Midwest Dairy Association	\$ 170,004	\$ -
Fund Balance		
Fund Balance	2,274,196	2,385,646
Total Liabilities and Fund Balance	\$ 2,444,200	\$ 2,385,646

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>	2018	2017
Revenue		
Dairy Checkoff Assessments	\$ 9,748,865	\$ 9,740,377
Interest	18,574	12,424
Miscellaneous	25	25
Total Revenue	9,767,464	9,752,826
Expenses		
Program Expense		
Contract Program Support—Midwest Dairy Association	9,821,700	10,033,500
Administration Expenses		
Midwest Dairy Association Contract	28,300	27,500
Minnesota Department of Agriculture	17,000	17,000
Audit Fees—Financial Statements	6,550	6,425
Audit Fees—Compliance	4,950	4,845
Bank Fees and Office Supplies	300	385
Total Administration Expenses	57,100	56,155
Council Members' Expenses		
Election and Miscellaneous Expenses	114	43
Total Administration and Council Members' Expenses	57,214	56,198
Total Expenses	9,878,914	10,089,698
Excess of (Expenses over Revenue)	(111,450)	(336,872)
Fund Balance, Beginning of Year	2,385,646	2,722,518
Fund Balance, End of Year	\$ 2,274,196	\$ 2,385,646

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>	2018	2017
Cash Flows from Operating Activities		
Excess of (Expenses Over Revenue)	\$ (111,450)	\$ (336,872)
Adjustments to Reconcile Excess of (Expenses Over Revenue) to Net Cash Provided by (Used In) Operating Activities:		
(Increase) Decrease in Accounts Receivable—Midwest Dairy Association	139,000	(139,000)
(Increase) in Interest Receivable	(3,921)	(2,192)
Increase in Accounts Payable—Midwest Dairy Association	170,004	-
Net Cash Provided By (Used In) Operating Activities	193,633	(478,064)
Cash Flows from Investing Activities		
Purchases of Investments	(890,000)	(896,000)
Sales of Investments	996,000	1,296,000
Net Cash Provided By Investing Activities	106,000	400,000
Net Increase (Decrease) in Cash	299,633	(78,064)
Cash, Beginning of Year	207,109	285,173
Cash, End of Year	\$ 506,742	\$ 207,109

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

Minnesota Dairy Research and Promotion Council

Notes to Financial Statements

December 31, 2018 and 2017

1. **Organization**

The Minnesota Dairy Research and Promotion Council (Council) was established in accordance with state law and is governed by Minnesota Statutes {2018}, 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 4.

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 the 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 checkoff revenues from dairy checkoff assessments are collected by first purchasers and remitted to the Council monthly. Since purchases are made on a daily basis, there are amounts owed to the Council at the end of any given month. Under the modified cash basis of accounting, checkoff revenue is recognized when cash is collected. All other revenue is recognized when earned and expenses are recognized when incurred. The Council does not have any activity or balances that have donor-imposed restrictions.

Cash and Cash Equivalents

The checking account is a non-interest bearing account. All other insured savings 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.

Minnesota Dairy Research and Promotion Council

Notes to Financial Statements

December 31, 2018 and 2017

2. Summary of Significant Accounting Policies (Continued)

Investments

Investments owned by the Council at December 31, 2018 and 2017, consisted of marketable certificates of deposit. The Council intends to hold all marketable 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.

Accounts Receivable—Midwest Dairy Association

Accounts receivable are reported at the amount management expects to collect on balances outstanding at year-end. Management closely monitors outstanding balances and writes off, as of year-end, balances that are not expected to be collected. All account balances were deemed collectible at December 31, 2018.

Functional 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. Contract costs have been allocated to administration based on the cost of the services required to administer the Dairy Research and Promotion agreement.

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 27, 2019, the date which the financial statements were available to be released.

Minnesota Dairy Research and Promotion Council

Notes to Financial Statements

December 31, 2018 and 2017

2. Summary of Significant Accounting Policies (Continued)

New Accounting Pronouncement

On August 18, 2016, Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958)—Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment returns. The Council has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented. The new standards had no impact on the fund balance at December 31, 2018 and 2017.

3. Availability and Liquidity of Financial Assets

The following represents the Council's financial assets available to meet general expenditures within one year from December 31, 2018 and 2017:

Financial Assets at December 31:	2018	2017
Cash	\$ 506,742	\$ 207,109
Investments	790,000	896,000
Interest Receivable	9,525	5,604
Accounts Receivable—Midwest Dairy Association	-	139,000
	<u>1,306,267</u>	<u>1,247,713</u>
Less amounts not available to be used within one year:	<u>-</u>	<u>-</u>
Financial assets available to meet general expenditures within one year	<u>\$ 1,306,267</u>	<u>\$ 1,247,713</u>

The Council's goal is generally to maintain financial assets at 10% of operating expenses (approximately \$988,000). None of the financial assets available are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the date of the Statement of Assets, Liability and Fund Balance—Modified Cash Basis. As part of its liquidity plan, excess cash is invested in short-term investments consisting of marketable certificates of deposit.

Minnesota Dairy Research and Promotion Council

Notes to Financial Statements

December 31, 2018 and 2017

4. 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.

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.

5. Investments

The investments at December 31, 2018, were marketable certificates of deposit as follows:

BMO Harris Bank NA, Chicago, IL 1.85%, purchased 2/14/18, matures 2/14/19	\$ 150,000
Bank of India, New York, NY 2.15%, purchased 4/26/18, matures 4/24/19	100,000
MUFG Union Bank NA, San Francisco, CA 2.25%, purchased 6/12/18, matures 6/12/19	244,000
Safra National Bank, New York, NY 2.30%, purchased 7/16/18, matures 7/15/19	150,000
Morgan Stanley Bank NA, Salt Lake City, UT 2.45%, purchased 9/20/18, matures 9/20/19	<u>146,000</u>
Total	<u>\$ 790,000</u>

All marketable certificates of deposit held as investments as of December 31, 2017, matured during the year ended December 31, 2018.

Minnesota Dairy Research and Promotion Council

Notes to Financial Statements

December 31, 2018 and 2017

6. 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 the American Dairy Association of Minnesota (At Net Book Value)	181,267
Transfer of Marketable CD's and Accrued Interest	692,295
Cash	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, 2018, Midwest had net assets of \$6,584,937 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, 2018 and 2017

7. Related Party Transactions

The Council contracted with Midwest, which is related 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: strategic initiatives, wellness, farmer relations, consumer demand, economic and dairy product research and innovation, farmer communications, and consumer confidence. Under the terms of the contracts, Midwest also provides the Council with administrative, financial, and reporting services. Payments under these contracts totaled \$9,850,000 and \$10,061,000 for the years ended December 31, 2018 and 2017, respectively, which amounted to approximately 44% of the total revenues of Midwest. The original contract terms were for payments of \$9,600,000 for the year ended December 31, 2017. According to the terms of the contract, the payments in 2017 were reduced by \$139,000 for unspent programming funds. This amount was reflected as accounts receivable at December 31, 2017. The Council also paid \$600,000 out of reserves in 2017 to Midwest for USDEC Initiative funding. The Council is dependent on Midwest to provide program and administrative services to the Council.

8. 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 December 18, 2018, the Council's uninsured cash balances exceeded the FDIC limits by approximately \$120,000. The Council did not experience any losses in the accounts.

**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, 2018 and 2017, and our report thereon dated February 27, 2019, 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, which is the responsibility of management, is of a nonaccounting nature and has not been subjected to the auditing procedures applied in the audit of the financial statements. Accordingly, we do not express an opinion or provide any assurance on it.

Willerson Guthman & Johnson P.C.

St. Paul, Minnesota
February 27, 2019

Minnesota Dairy Research and Promotion Council

Council Members

December 31, 2018

Council Members

District 1	Dan Grunhovd
District 2	Peter Ripka, Executive Committee Member-At-Large
District 3	Kristine Spadgenske, Secretary
District 4	Ken Herbranson
District 5	Debi Clasemann
District 6	Doug Popp
District 7	Suzanne Vold
District 8	Corrine Lieser
District 9	Sarah Kuechle
District 10	Kathleen Skiba, Chair
District 11	Jane Remiger
District 12	Charles Krause
District 13	Kevin Buss
District 14	Paul Fritsche
District 15	Barb Liebenstein
District 16	Keith Knutson, Vice Chair
District 17	Mindi Arendt
District 18	David Schwartz
District 19	Karen Kasper
District 20	Christine Sukalski, Treasurer
District 21	Rita Young
District 22	Margaret Johnson

Chief Executive Officer

Lucas Lentsch, Midwest Dairy Association



**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 and fund balance—modified cash basis as of December 31, 2018, 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 27, 2019. As discussed in Note 2, the financial statements were prepared on the 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.

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 Dickmann & Johnson PLLC

St. Paul, Minnesota
February 27, 2019