

**Minnesota Dairy Research
and Promotion Council**

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

December 31, 2019 and 2018

Minnesota Dairy Research and Promotion Council

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December 31, 2019 and 2018

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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, 2019 and 2018, and the related statements of revenues, expenses and changes in 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 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, 2019 and 2018, 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 21, 2020, 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.



St. Paul, Minnesota
February 21, 2020

Minnesota Dairy Research and Promotion Council

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

<i>December 31,</i>	2019	2018
ASSETS		
Current		
Cash:		
Checking	\$ 25,155	\$ 178,264
Insured Savings Account	166,301	328,478
Total Cash	191,456	506,742
Investments	874,000	790,000
Interest Receivable	10,534	9,525
Total Current Assets	1,075,990	1,306,267
Other		
Investment in Midwest Dairy Association	1,137,933	1,137,933
Total Assets	\$ 2,213,923	\$ 2,444,200
LIABILITIES AND FUND BALANCE		
Current Liabilities		
Accounts Payable—Midwest Dairy Association	\$ -	\$ 170,004
Fund Balance		
Fund Balance	2,213,923	2,274,196
Total Liabilities and Fund Balance	\$ 2,213,923	\$ 2,444,200

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

Minnesota Dairy Research and Promotion Council

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

<i>For the Years Ended December 31,</i>	2019	2018
Revenue		
Dairy Checkoff Assessments	\$ 9,817,657	\$ 9,748,865
Interest	22,132	18,574
Miscellaneous	25	25
Total Revenue	9,839,814	9,767,464
Expenses		
Program Expense		
Contract Program Support—Midwest Dairy Association	9,840,800	9,821,700
Administration Expenses		
Midwest Dairy Association Contract	29,200	28,300
Minnesota Department of Agriculture	17,000	17,000
Audit Fees—Financial Statements	6,750	6,550
Audit Fees—Compliance	5,100	4,950
Bank Fees and Office Supplies	312	300
Total Administration Expenses	58,362	57,100
Council Members' Expenses		
Election and Miscellaneous Expenses	925	114
Total Administration and Council Members' Expenses	59,287	57,214
Total Expenses	9,900,087	9,878,914
Excess of (Expenses over Revenue)	(60,273)	(111,450)
Fund Balance, Beginning of Year	2,274,196	2,385,646
Fund Balance, End of Year	\$ 2,213,923	\$ 2,274,196

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>	2019	2018
Cash Flows from Operating Activities		
Excess of (Expenses Over Revenue)	\$ (60,273)	\$ (111,450)
Adjustments to Reconcile Excess of (Expenses Over Revenue) to Net Cash Provided by (Used In) Operating Activities:		
Decrease in Accounts Receivable—Midwest Dairy Association	-	139,000
(Increase) in Interest Receivable	(1,009)	(3,921)
Increase (Decrease) in Accounts Payable—Midwest Dairy Association	(170,004)	170,004
Net Cash Provided By (Used In) Operating Activities	(231,286)	193,633
Cash Flows from Investing Activities		
Purchases of Investments	(874,000)	(890,000)
Sales of Investments	790,000	996,000
Net Cash Provided By (Used In) Investing Activities	(84,000)	106,000
Net Increase (Decrease) in Cash	(315,286)	299,633
Cash, Beginning of Year	506,742	207,109
Cash, End of Year	\$ 191,456	\$ 506,742

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

Minnesota Dairy Research and Promotion Council

Notes to Financial Statements

December 31, 2019 and 2018

1. Organization

The Minnesota Dairy Research and Promotion Council (Council) was established in accordance with state law and is governed by Minnesota Statutes {2019}, 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 checkoff 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, 2019 and 2018

2. Summary of Significant Accounting Policies (Continued)

Investments

Investments owned by the Council at December 31, 2019 and 2018, 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 when 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. Accounts receivable was \$-0- at December 31, 2019 and 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 changes in fund balance—modified cash basis. Accordingly, certain costs have been allocated between 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, the 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 21, 2020, the date which the financial statements were available to be released.

Minnesota Dairy Research and Promotion Council

Notes to Financial Statements

December 31, 2019 and 2018

2. Summary of Significant Accounting Policies (Continued)

New Accounting Pronouncement

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers, (Topic 606)*. ASU 2014-09 affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets. Under ASU 2014-09, an entity will recognize revenue when it transfers promised goods or services to customers in an amount that reflects what it expects in exchange for the goods or services. ASU 2014-09 was effective for annual periods beginning after December 15, 2018. The new standard requires a modified retrospective adoption. There was no adjustment due to the cumulative impact of adopting ASC 606.

Subsequent Events

Management has evaluated subsequent events through February 21, 2020, the date which the financial statements were available to be released.

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 are as follows:

Financial Assets at December 31:	2019	2018
Cash	\$ 191,456	\$ 506,742
Investments	874,000	790,000
Interest Receivable	10,534	9,525
	<u>1,075,990</u>	<u>1,306,267</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>\$ 1,075,990</u>	<u>\$ 1,306,267</u>

The Council's goal is generally to maintain financial assets at 10% of operating expenses (approximately \$990,000). 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, liabilities and changes in 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, 2019 and 2018

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 (checkoff) 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

Investments at December 31, 2019, were marketable certificates of deposit as follows:

First Foundation Bank, Irvine, CA	
2.65%, purchased 1/11/2019, matures 1/10/2020	\$ 130,000
NY Community Bank, Westbury, NY	
2.45%, purchased 2/15/2019, matures 2/14/2020	150,000
Goldman Sachs Bank, New York, NY	
2.10%, purchased 6/26/2019, matures 6/26/2020	244,000
Comenity Bank, Wilmington, DE	
1.95%, purchased 7/11/2019, matures 7/10/2020	100,000
Customers Bank, Phoenixville, PA	
1.95%, purchased 7/19/2019, matures 7/17/2020	50,000
Bank of America, Charlotte, NC	
1.80%, purchased 9/25/2019, matures 9/24/2020	150,000
BMO Harris Bank, Chicago, IL	
1.65%, purchased 11/27/2019, matures 12/1/2020	50,000
Total	<u>\$ 874,000</u>

Minnesota Dairy Research and Promotion Council

Notes to Financial Statements

December 31, 2019 and 2018

5. Investments (Continued)

All marketable certificates of deposit held as investments as of December 31, 2018 matured during the year ended December 31, 2019.

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.

Investment Capital provided by the Council consisted of the following:

Cash	\$	43,108
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 Certificates of Deposits and Accrued Interest		692,295
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 Dairy).

Minnesota Dairy Research and Promotion Council

Notes to Financial Statements

December 31, 2019 and 2018

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

In the event the Dairy Research and Promotion Agreement between the Council and Midwest Dairy is terminated, the Council may receive a refund of its contributed capital. Upon termination, Midwest Dairy 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 Dairy exists, the Council's contribution shall be reflected as contributed capital on Midwest Dairy's financial records.

At December 31, 2019, Midwest Dairy had net assets of \$6,191,591 which included the \$1,500,000 of initial contributed capital by the members of Midwest Dairy.

7. Related Party Transactions

The Council contracted with Midwest Dairy, 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, dairy product research and innovation, farmer communications, and consumer confidence. Under the terms of the contracts, Midwest Dairy also provides the Council with administrative, financial, and reporting services. Payments under these contracts totaled \$9,870,000 and \$9,850,000 for the years ended December 31, 2019 and 2018, respectively, which amounted to approximately 44% of the total revenues of Midwest Dairy. The Council is dependent on Midwest Dairy 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. In 2019, there were no dates that the Council's uninsured daily ending cash balances exceeded the FDIC limits.

**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, 2019 and 2018, and our report thereon dated February 21, 2020, 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.

William Steinhilber - Johnson P.C.

St. Paul, Minnesota
February 21, 2020

Minnesota Dairy Research and Promotion Council

Council Members

December 31, 2019

Council Members

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

Chief Executive Officer

Molly Pelzer, 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

Thom Peterson, 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, 2019, and the related statements of revenues, expenses and changes in 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 21, 2020. 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 Minnesota Dairy Research and Promotion Council’s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Internal Control Over Financial Reporting (Continued)

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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings as item 2019-01 that we consider to be a significant deficiency.

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 an instance of noncompliance which is required to be reported under *Government Auditing Standards* and is described in the accompanying summary schedule of audit findings as item 2019-01.

Minnesota Dairy Research and Promotion Council's Response to Finding

Minnesota Dairy Research and Promotion Council's response to the finding identified in our audit is described in the accompanying summary schedule of audit findings. Minnesota Dairy Research and Promotion Council's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.



St. Paul, Minnesota
February 21, 2020

Minnesota Dairy Research and Promotion Council
Summary Schedule of Audit Findings
Year Ended December 31, 2019

Minnesota Department of Agriculture

Finding 2019-01: *Minn. Rules, Chapter 1570.050 Powers and Duties of Council, subpart 4(B)* states “*No more than four authorized signatures of council members, the chief administrative officer, or council employees may be provided to the bank, two of which must appear on all checks except refund checks.*”

Condition: Three checks were written during the year ended December 31, 2019 which did not include at least two authorized signatures of council members, the chief administrative officer, or council employees. We recommend that when an authorized signer leaves the Council, the signature plate should be removed from the check printer and checks should be manually signed by another authorized signer until the signature plate can be replaced.

Minnesota Dairy Research and Promotion Council’s Response to Finding:

The recommended procedure, as described above, will be put in place during any staff transition periods in the future.