

AUDIT REPORT

AND

FINANCIAL STATEMENTS

**MINNESOTA DAIRY RESEARCH AND PROMOTION COUNCIL
ROSEVILLE, MINNESOTA**

DECEMBER 31, 1985 AND 1984

**MINNESOTA DEPARTMENT OF AGRICULTURE
Accounting Division
Saint Paul, Minnesota**



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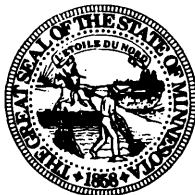
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MINNESOTA DAIRY RESEARCH AND PROMOTION COUNCIL
ROSEVILLE, MINNESOTA
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STATE OF MINNESOTA
DEPARTMENT OF AGRICULTURE

February 26, 1986

Minnesota Dairy Research and
Promotion Council
2015 Rice Street
Roseville, MN 55113

Council Members:

We have examined the modified cash basis statements of financial position of the Minnesota Dairy Research and Promotion Council as of December 31, 1985 and 1984, and the related modified cash basis statements of operations, fund balance, and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly, included such tests of the accounting records, and other such tests as we considered necessary in the circumstances.

As described in Note 1, the Council's policy is to prepare its financial statements on the modified basis of cash receipts and disbursements; consequently, certain revenues and the related disbursements are recognized when received rather than when earned, and certain expenses are recognized when paid rather than when the obligation is incurred. Accordingly, the accompanying financial statements are not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly the modified cash basis financial position of the Minnesota Dairy Research and Promotion Council as of December 31, 1985 and 1984, and the modified cash basis results of operations, changes in fund balance and financial position for the years then ended on the basis of accounting as described in Note 1, which basis has been applied in a manner consistent with that of preceding years.

MINNESOTA DEPARTMENT OF AGRICULTURE

Alan Dupay, Chief, External Auditor
Accounting Division



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MINNESOTA DAIRY RESEARCH AND PROMOTION COUNCIL
ROSEVILLE, MINNESOTA
COMPARATIVE STATEMENTS OF FINANCIAL POSITION - MODIFIED CASH BASIS
DECEMBER 31, 1985 AND 1984

ASSETS

	<u>1985</u>	<u>1984</u>
CURRENT ASSETS:		
Cash in banks:		
General checking	\$ 9,670	(\$ 241,782)
General investments	3,350,000	1,200,000
Refund checking	1,083	400,698
Refund investments	0	1,450,000
Contingency fund investments (Note 2)	222,962	222,962
Accounts receivable	0	4,658
Mortgage note receivable - current portion	23,990	22,152
Interest receivable	80,080	53,637
Prepaid insurance	<u>1,130</u>	<u>1,965</u>
Total current assets	<u>3,688,915</u>	<u>3,114,290</u>
INVESTMENTS:		
Mortgage note receivable (Note 3)	356,260	378,412
Less: current portion	<u>23,990</u>	<u>22,152</u>
Total investments	<u>332,270</u>	<u>356,260</u>
Total assets	<u><u>\$4,021,185</u></u>	<u><u>\$3,470,550</u></u>

FUND BALANCE

FUND BALANCE:		
Unappropriated	<u>\$4,021,185</u>	<u>\$3,470,550</u>
Total fund balance	<u><u>\$4,021,185</u></u>	<u><u>\$3,470,550</u></u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

MINNESOTA DAIRY RESEARCH AND PROMOTION COUNCIL
ROSEVILLE, MINNESOTA
COMPARATIVE STATEMENTS OF OPERATIONS - MODIFIED CASH BASIS
FOR THE YEARS ENDED DECEMBER 31, 1985 AND 1984

	<u>1985</u>	<u>1984</u>
REVENUE:		
Dairy checkoff assessments	\$8,897,789	\$7,454,253
Less: assessments refunded	<u>1,129</u>	<u>794,980</u>
Net dairy checkoff assessments	8,896,660	6,659,273
Interest on investments	344,311	347,970
Mortgage note interest	<u>29,472</u>	<u>31,170</u>
Total revenue	<u>9,270,443</u>	<u>7,038,413</u>
EXPENSES:		
Promotion - instate	2,108,811	1,960,526
Promotion - national	4,641,966	2,644,991
United Dairy Industry Association - basic program	502,152	509,578
American Dairy Association of Minnesota	637,266	627,871
Dairy, Food and Nutrition Council of Minnesota	468,395	423,690
County and region paybacks	104,400	91,800
State fair booths	1,206	11,178
Research	0	31,664
Council member expense	49,097	47,534
Administrative expense	<u>206,515</u>	<u>233,376</u>
Total expense	<u>8,719,808</u>	<u>6,582,208</u>
REVENUES IN EXCESS OF EXPENSES	550,635	456,205
FUND BALANCE - beginning of year	3,470,550	2,239,618
ADJUSTMENTS TO FUND BALANCE	<u>0</u>	<u>774,727</u>
FUND BALANCE - end of year	<u>\$4,021,185</u>	<u>\$3,470,550</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

MINNESOTA DAIRY RESEARCH AND PROMOTION COUNCIL
ROSEVILLE, MINNESOTA
COMPARATIVE STATEMENTS OF CHANGES IN FINANCIAL POSITION - MODIFIED CASH BASIS
FOR THE YEARS ENDED DECEMBER 31, 1985 AND 1984

	<u>1985</u>	<u>1984</u>
SOURCES OF WORKING CAPITAL:		
Operations:		
Revenues in excess of expenses	\$ 550,635	\$ 456,205
Adjustment to fund balance	0	774,727
Current portion - mortgage note receivable	<u>23,990</u>	<u>22,152</u>
Total sources of working capital	<u>574,625</u>	<u>1,253,084</u>
USES OF WORKING CAPITAL:		
None	<u>0</u>	<u>0</u>
Total uses of working capital	<u>0</u>	<u>0</u>
INCREASE (DECREASE) IN WORKING CAPITAL	<u><u>\$ 574,625</u></u>	<u><u>\$1,253,084</u></u>

ANALYSIS OF CHANGES IN COMPONENTS OF WORKING CAPITAL:

Increase (decrease) in current assets:		
Cash in banks:		
General checking	\$ 251,452	(\$ 351,668)
General investments	2,150,000	(200,000)
Refund checking	(399,615)	(168,435)
Refund investments	(1,450,000)	1,200,000
Contingency fund investments	0	0
Accounts receivable	(4,658)	(20,342)
Mortgage note receivable - current portion	1,838	1,698
Interest receivable	26,443	16,730
Prepaid insurance	(835)	19
Decrease (increase) in current liabilities:		
Refunds payable	<u>0</u>	<u>775,082</u>
INCREASE (DECREASE) IN WORKING CAPITAL	<u><u>\$ 574,625</u></u>	<u><u>\$1,253,084</u></u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

MINNESOTA DAIRY RESEARCH AND PROMOTION COUNCIL
ROSEVILLE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1985 AND 1984

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization. The Minnesota Dairy Research and Promotion Council was established in accordance with state law and is governed by Minnesota Statutes [1982], Sections 17.51 - 17.69.

Authority to operate is given the Council by the Minnesota Dairy Research and Promotion Order adopted April 1, 1975, revised July, 1984. The Order may be terminated by the Council after consultation with the Commissioner of Agriculture or upon petition and a subsequent referendum.

The purpose of the Council is to generate funds equitably from dairy producers for the establishment of market development, promotion, and research projects to benefit the Minnesota dairy industry in the production and sale of its product.

Basis of Accounting. The accompanying financial statements were prepared on a modified cash basis of accounting, consequently, certain revenues and the related assets are recognized when received rather than when earned, and certain expenses are recognized when paid rather than when the obligation is incurred. This basis of accounting has been modified to recognize certain income and the related assets when earned rather than when received and to recognize certain expenses when the obligation is incurred rather than when paid.

Producer Assessments. Producer assessments are generated by the collection of one half of one percent of the market value of milk shipped by Minnesota dairy producers. The monies are collected by first purchasers and remitted to the Council monthly. Since purchases are made on a daily basis, there is always monies owing to the Council at the end of any given month. However, the task of determining the amount receivable at the end of any given month would be very costly because of the number of purchases made in the collection process. Therefore, producer assessments are recorded as revenue when received in cash.

Assessments collected are refundable under state law, within six months of the date of purchase, to the farmer (producer) upon their written request to the Minnesota Department of Agriculture. Refunds of checkoff assessments amounted to \$1,129 and \$794,980 in the years ended December 31, 1985 and 1984, respectively.

National Dairy Promotion Board. The National Dairy Promotion Board was established in accordance with federal law in 1984. Pursuant to federal laws and regulations governing the National Dairy Promotion Board, dairy producers must remit fifteen cents per hundredweight to the National Dairy Promotion Board to support its promotional programs, however, the producers may deduct up to ten cents per hundredweight for funds forwarded to a qualified state promotion organization. As a qualifying state organization, the Council is currently receiving as producer assessments, funds in excess of one half of one percent of the market value of the producers milk. This has lead to a substantial increase in the amount of checkoff assessments received from dairy producers.

Participation in the National Dairy Promotion Program is mandatory. Accordingly, any refund requested from a participating state organization must

MINNESOTA DAIRY RESEARCH AND PROMOTION COUNCIL
ROSEVILLE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 1985 AND 1984

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

be forwarded to the National Dairy Promotion Board. This has lead to a significant decrease in the amount of refunds requested from the Council.

Taxes. As a governmental agency the Internal Revenue Service has determined that the Council is exempt from the filing requirements of nonprofit organizations.

NOTE 2 - CONTINGENCY FUND

The Minnesota Dairy Research and Promotion Council, at its February, 1976 meeting took action to establish a contingency fund to cover extraordinary expenses as outlined in the minutes of the meeting. The amount of the contingency fund was established at 76% of the difference between the actual revenues in excess of expenditures and the budgeted excess of revenues in excess of expenditures during the first nine months of the Council's operation. The remaining 24% of the difference was left in the operating fund to cover potential refund requests on those funds.

NOTE 3 - MORTGAGE NOTE RECEIVABLE

In 1980, the Council advanced funds to the American Dairy Association of Minnesota (a related party) for the purpose of constructing office space. The transaction was evidenced by a note payable issued by the American Dairy Association of Minnesota and is secured by a first mortgage on the land and building located in Roseville, Minnesota.

The terms of the mortgage agreement provide for the repayment of the face of the note (\$450,000) at eight (8%) percent interest per annum, over a period of fifteen years in monthly installments of \$4,302, beginning February 1, 1981.

Interest received from the American Dairy Association of Minnesota on this mortgage note receivable amounted to \$29,472 and \$31,170 in the years ended December 31, 1985 and 1984, respectively.

NOTE 4 - RELATED PARTY TRANSACTIONS

The Minnesota Dairy Research and Promotion Council is provided with office space and management by the American Dairy Association of Minnesota, a nonprofit organization under Section 501(c)6 of the Internal Revenue Code, as is the Dairy, Food and Nutrition Council of Minnesota, a nonprofit organization under Section 501(c)6 of the Internal Revenue Code.

A contract has been entered into with the American Dairy Association of Minnesota to provide administrative services on behalf of the Council. Included with these services are the management and handling of Council funds, in accordance with Council policy, accounting services, communications, and general management. Total expense reimbursement to the American Dairy Association of Minnesota, under this administrative services agreement, was \$152,989 and \$168,576 for the years ended December 31, 1985 and 1984, respectively.

MINNESOTA DAIRY RESEARCH AND PROMOTION COUNCIL
ROSEVILLE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS-CONTINUED
DECEMBER 31, 1985 AND 1984

NOTE 4 - RELATED PARTY TRANSACTIONS - continued

Per agreement, the Council also made payment to the American Dairy Association of Minnesota for dairy food publicity, member, consumer, and public relations. These payments amounted to \$637,266 and \$627,871 for the years ended December 31, 1985 and 1984, respectively.

The Council contracts with the Dairy, Food and Nutrition Council of Minnesota to provide nutrition education to consumer, educational, and professional groups. Payments under these contracts amounted to \$468,395 and \$432,690, respectively.

The Council contracts with the United Dairy Industry Association (UDIA) for certain basic program and promotional activities, including nationwide advertising programs, dairy product research, and nutrition education programs. The Council pays the cost of these programs in proportion to the Minnesota production of milk and its use of these programs. Additionally, the Council purchases from the United Dairy Industry Association various promotional materials for distribution and contributes support for specific campaigns. Amounts paid to the United Dairy Industry Association were as follows for the years ended December 31,:

	<u>1985</u>	<u>1984</u>
Basic program, per contract	\$ 502,152	\$ 509,578
Fall cheese national promotion	0	1,213,880
December butter promotion	1,791,587	585,402
DPFA National advertising pool	1,587,055	0
Spring cheese promotion	461,351	0
Other national programs	798,354	744,464
Purchase of materials	40,181	31,419
Miscellaneous reimbursements	<u>1,788</u>	<u>1,533</u>
Total	<u>\$5,182,468</u>	<u>\$3,086,276</u>

SUPPLEMENTAL INFORMATION

Our examination was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The following supplemental information is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the basic financial statements, and accordingly, we express no opinion on it.

MINNESOTA DAIRY RESEARCH AND PROMOTION COUNCIL
ROSEVILLE, MINNESOTA
COUNCIL MEMBERS
DECEMBER 31, 1985

Chairman:

Lyle Tjosaas
Route 1, Box 178
Kasson, MN 55944

Vice Chairman:

Russell Martinson, Jr.
Route 1, Box 236
Pine City, MN 55063

Secretary:

George Rydeen
10708 Arcola Trail
Stillwater, MN 55082

Treasurer:

Lloyd Seter, Jr.
Route 2, Box 205
Glyndon, MN 56547

Council members:

Term expires June 30, 1986

Term expires June 30, 1987

District 1
District 2
District 3
District 4
District 5
District 6
District 7
District 8
District 9
District 10
District 11

Charles Boyer
Kenneth Peterson
Charles Berg
Elmer Rosenow
Mary Anne Shepherd
George Rydeen
Robert Griebel
Burton Peterson
Leslie Winters
Bruce Larson
Russell Church

Lloyd Seter, Jr.
Russell Martinson, Jr.
Allen Schroeder
Ervin Silvers
Curtis Piepenberg
Dale Lewandowski
Donald Hoese
Larry Perkins
David Schwartz
Lyle Tjosaas
Glenn Schroeder

General Manager:

Mike Kruger
2015 Rice Street
Roseville, MN 55113

Assistant Manager:

Randy Gutzmann
2015 Rice Street
Roseville, MN 55113

MINNESOTA DAIRY RESEARCH AND PROMOTION COUNCIL
ROSEVILLE, MINNESOTA
SUMMARY OF INTEREST EARNED
FOR THE FISCAL YEARS ENDED DECEMBER 31, 1985 AND 1984

	<u>1985</u>	<u>1984</u>
General checking	\$ 81,399	\$ 77,933
General investments	237,414	136,438
Refund checking	5,582	29,724
Refund investments	0	80,638
Contingency investments	<u>19,916</u>	<u>23,237</u>
Interest on investments	344,311	347,970
Mortgage note interest	<u>29,472</u>	<u>31,170</u>
Total interest	<u><u>\$ 373,783</u></u>	<u><u>\$ 379,140</u></u>

MINNESOTA DAIRY RESEARCH AND PROMOTION COUNCIL
ROSEVILLE, MINNESOTA
COUNCIL MEMBERS EXPENSE
FOR THE FISCAL YEARS ENDED DECEMBER 31, 1985 AND 1984

	<u>1985</u>	<u>1984</u>
Per diem	\$ 12,393	\$ 11,305
Expenses	<u>36,704</u>	<u>36,229</u>
Total council members expense	<u>\$ 49,097</u>	<u>\$ 47,354</u>

MINNESOTA DAIRY RESEARCH AND PROMOTION COUNCIL
ROSEVILLE, MINNESOTA
ADMINISTRATIVE EXPENSE
FOR THE FISCAL YEARS ENDED DECEMBER 31, 1985 AND 1984

	<u>1985</u>	<u>1984</u>
Minnesota Department of Agriculture	\$ 46,000	\$ 57,050
American Dairy Association of Minnesota	152,989	168,576
Insurance and bonds	3,250	4,720
Audit and legal fees	4,000	2,625
Nominating committee	<u>276</u>	<u>405</u>
Total administrative expense	<u>\$ 206,515</u>	<u>\$ 233,376</u>

MINNESOTA DAIRY RESEARCH AND PROMOTION COUNCIL
ROSEVILLE, MINNESOTA
AMERICAN DAIRY ASSOCIATION OF MINNESOTA
FOR THE FISCAL YEARS ENDED DECEMBER 31, 1985 AND 1984

	<u>1985</u>	<u>1984</u>
Merchandise and member relations	\$ 381,880	\$ 385,422
Consumer and public relations	179,950	170,228
Dairy food publicity	<u>75,436</u>	<u>72,221</u>
Total	<u>\$ 637,266</u>	<u>\$ 627,871</u>

MINNESOTA DAIRY RESEARCH AND PROMOTION COUNCIL
ROSEVILLE, MINNESOTA
SHORT TERM INVESTMENTS
DECEMBER 31, 1985

Minnesota Federal:

#192090130720, six month, 8.10% interest,
matures February 15, 1986 \$ 200,000

#192090130738, six month, 8.10% interest,
matures February 15, 1986 222,962

Midwest Federal:

#12-128398-3, six month, 7.65% interest,
matures January 17, 1986 100,000

Saint Anthony Park State Bank:

#18531, six month, 8.00% interest,
matures March 27, 1986 1,050,000

#18525, one year, 8.00% interest,
matures September 25, 1986 650,000

#18505, 163 day, 7.60% interest,
matures March 5, 1986 500,000

#18567, six month, 7.70% interest,
matures May 5, 1986 500,000

#18441, six month, 7.40% interest,
matures January 14, 1986 250,000

#18526, six month, 7.75% interest,
matures April 21, 1986 100,000

Total \$3,572,962