

AUDIT REPORT
AND
FINANCIAL STATEMENTS

MINNESOTA DAIRY RESEARCH AND PROMOTION COUNCIL
ROSEVILLE, MINNESOTA

DECEMBER 31, 1982 and 1981

NOT FILMED

MINNESOTA DEPARTMENT OF AGRICULTURE
Accounting Division
Saint Paul, Minnesota



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Minnesota State Department of Agriculture

90 West Plato Boulevard, St. Paul, Minnesota 55107

Phone: 296-1686

February 5, 1983

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

Board of Directors:

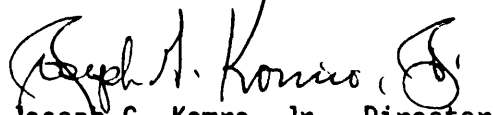
We have examined the cash basis statements of financial position of the Minnesota Dairy Research and Promotion Council as of December 31, 1982 and 1981 and the related cash basis statements of operations, changes in financial position, and fund balance for the years then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly, included such tests of the accounting records, and other 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 basis of cash receipts and disbursements; 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 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 cash basis financial position of the Minnesota Dairy Research and Promotion Council as of December 31, 1982 and 1981, and the revenues collected and expenses paid during 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 the preceeding years.

Sincerely,

MINNESOTA DEPARTMENT OF AGRICULTURE


Joseph G. Komro, Jr., Director
Accounting Division

JGK:cc

MINNESOTA DAIRY RESEARCH AND PROMOTION COUNCIL
COMPARATIVE STATEMENTS OF FINANCIAL POSITION - CASH BASIS
DECEMBER 31, 1982 and 1981

ASSETS

	<u>1982</u>	<u>1981</u>
CURRENT:		
Cash in Banks:		
General Checking (Overdraft)	\$ 72,469.36	(\$ 23,190.79)
General Investments	1,400,000.00	1,700,000.00
Refund Checking	233,803.99	88,050.39
Refund Investments	250,000.00	100,000.00
Contingency Fund Investments (Note 2)	222,962.08	222,962.08
Accounts Receivable	772.46	
Mortgage Note Receivable - Current Portion	18,886.39	17,438.97
Interest Receivable	12,772.36	
Prepaid Insurance	332.48	
Total Current Assets	<u>\$2,211,999.12</u>	<u>2,105,260.65</u>
INVESTMENTS:		
Mortgage Note Receivable (Note 3)	417,751.95	435,190.92
Less: Current Portion	<u>18,886.39</u>	<u>17,438.97</u>
Total Investments	<u>398,865.56</u>	<u>417,751.95</u>
TOTAL ASSETS	<u><u>\$2,610,864.68</u></u>	<u><u>\$ 2,523,012.60</u></u>

FUND BALANCE

UNAPPROPRIATED	<u>\$2,610,864.68</u>	<u>\$2,523,012.60</u>
TOTAL FUND BALANCE	<u><u>\$2,610,864.68</u></u>	<u><u>\$2,523,012.60</u></u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

MINNESOTA DAIRY RESEARCH AND PROMOTION COUNCIL
COMPARATIVE STATEMENTS OF OPERATIONS - CASH BASIS
FOR FISCAL YEARS ENDED DECEMBER 31, 1982 and 1981

	<u>1982</u>	<u>1981</u>
REVENUE:		
Dairy Check-off Assessments	\$6,737,178.46	\$ 6,744,071.05
Less: Assessments Refunded	<u>1,472,847.88</u>	<u>1,591,378.56</u>
Net Check-off Assessments	5,264,330.58	5,152,692.49
Interest on Investments	342,195.36	316,313.44
Mortgage Note Interest	34,185.03	32,512.92
Miscellaneous	<u>12.00</u>	<u>7,500.60</u>
Total Revenue	<u>5,640,722.97</u>	<u>5,509,019.45</u>
EXPENSES:		
Promotion - In State	1,424,336.20	1,300,680.85
Promotion - National	2,074,695.00	1,480,617.54
United Dairy Industry Association	932,640.00	861,540.00
American Dairy Association of Minnesota	554,032.68	438,166.56
Dairy Food and Nutrition of Minnesota	220,629.96	308,270.04
County and Region Paybacks	91,036.00	77,488.00
Research		2,000.00
State Fair Booth	4,126.88	5,939.93
Board of Directors Expense	39,953.98	38,880.46
Administrative Expense	<u>211,420.19</u>	<u>186,152.88</u>
Total Expenses	<u>5,552,870.89</u>	<u>4,699,736.26</u>
REVENUE IN EXCESS OF EXPENSES	<u>\$ 87,852.08</u>	<u>\$ 809,283.19</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

MINNESOTA DAIRY RESEARCH AND PROMOTION COUNCIL
COMPARATIVE STATEMENTS OF CHANGES IN FINANCIAL POSITION - CASH BASIS
FOR FISCAL YEARS ENDED DECEMBER 31, 1982 and 1981

	<u>1982</u>	<u>1981</u>
SOURCES OF WORKING CAPITAL:		
Operations:		
Revenue in Excess of Expenses	\$ 87,852.08	\$ 809,283.19
Current Portion - Mortgage Note Receivable	<u>18,886.39</u>	<u>17,438.97</u>
Total Sources of Working Capital	106,738.47	826,722.16
USES OF WORKING CAPITAL		
None	<u>-0-</u>	<u>-0-</u>
INCREASE IN WORKING CAPITAL	<u>\$ 106,738.47</u>	<u>\$ 826,722.16</u>

INCREASE (DECREASE) IN INDIVIDUAL COMPONENTS OF WORKING CAPITAL:

	<u>1982</u>	<u>1981</u>
Cash in Banks:		
General Checking	\$ 95,660.15	(\$ 97,132.40)
General Investments	(300,000.00)	675,000.00
Refund Checking	145,753.60	49,174.81
Refund Investments	150,000.00	100,000.00
Contingency Fund	-0-	-0-
Accounts Receivable	772.46	(2,950.14)
Mortgage Note Receivable - Current Portion	1,447.42	2,629.89
Interest Receivable	12,772.36	-0-
Prepaid Insurance	<u>332.48</u>	<u>-0-</u>
Increase in Current Assets	<u>106,738.47</u>	<u>726,722.16</u>
Add: Decrease in Notes Payable	<u>-0-</u>	<u>100,000.00</u>
INCREASE IN WORKING CAPITAL	<u>\$ 106,738.47</u>	<u>\$ 826,722.16</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

MINNESOTA DAIRY RESEARCH AND PROMOTION COUNCIL
COMPARATIVE STATEMENTS OF FUND BALANCE - CASH BASIS
FOR FISCAL YEARS ENDED DECEMBER 31, 1982 and 1981

	<u>1982</u>	<u>1981</u>
Fund Balance:		
Unappropriated Balance, January 1	\$2,523,012.60	\$1,713,729.41
Revenue in Excess of Expenses	<u>87,852.08</u>	<u>809,283.19</u>
Unappropriated Balance, December 31	<u><u>\$2,610,864.68</u></u>	<u><u>\$2,523,012.60</u></u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

MINNESOTA DAIRY RESEARCH AND PROMOTION COUNCIL
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1982 and 1981

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization. The Minnesota Dairy Research and Promotion Council was established by the Minnesota Legislature 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 August, 1982. If the Order is to be continued beyond its current expiration date, December 31, 1984, a referendum must be held prior to January 1, 1985, to authorize its continuance, and every five years thereafter. The Order may also be terminated by the Council after consultation with the Commissioner of Agriculture or upon Council's petition and holding 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 cash basis, modified by deferring insurance expense to the period of coverage and recognizing certain interest income prior to its receipt. With the exception of these immaterial modifications, revenues are recorded when received and expenses are recorded when paid.

Producer Remittances. Producer remittances are generated by the collection of one half of one percent (.5%) of the market value of milk shipped by Minnesota dairy producers. The monies are collected by the 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 remittances are recorded as revenue when received in cash.

Any remittances collected are refundable, within six months of the date of purchase, to the farmer (producer) upon their written request. Remittances refunded, during the years ended December 31, 1982, and 1981, amounted to \$1,472,847.88 and \$1,591,378.56, respectively.

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

Note 2 - CONTINGENCY FUND

The Minnesota Dairy Research and Promotion Council Board of Directors, 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 fund was established as 75 percent of the difference between the actual revenue in excess of expenditures and the budgeted revenue in excess of expenditures during the first nine months of the Council's operation. The remaining 25% 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 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 (\$450,000.00) at 8 percent interest per annum, over a period of fifteen years, beginning February 1, 1981, in monthly installments of \$4,302.00.

Interest received from the American Dairy Association of Minnesota on this mortgage note amounted to \$34,185.03 and \$32,512.92 in fiscal years ended December 31, 1982 and 1981, 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 non-profit organization under Section 501(c)6 of the Internal Revenue Code, as does the Dairy, Food and Nutrition Council of Minnesota, a non-profit 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 handling and management 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, were \$154,271.40 and \$143,547.60 for fiscal years ended December 31, 1982 and 1981, respectively.

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 \$554,032.60 and \$438,166.56 for fiscal years ended December 31, 1982 and 1981, respectively.

The Council contracts with the Dairy Food and Nutrition Council of Minnesota to provide nutrition education information to consumer, educational and professional groups. Payments under these contracts amounted to \$220,629.96 and \$308,270.04 for fiscal years ended December 31, 1982 and 1981, respectively.

In addition, the Council paid reimbursements of expenses totaling \$932,640.00 and \$851,540.00, to the United Dairy Industry Association, a related non-profit organization for the years ended December 31, 1982 and 1981, respectively.

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 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
BOARD OF DIRECTORS
DECEMBER 31, 1982

Chairman

Lowell Richards
Route 2
Buffalo Lake, MN 55314

Vice-Chairman

Leslie Winters
Route 1, Box 118
Bingham Lake, MN 56118

Secretary

George Rydeen
10708 Arcola Trail North
Stillwater, MN 55082

Treasurer

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

DIRECTORS

Term Expires June 30, 1983

Term Expires June 30, 1984

District 1	Lloyd Seter, Jr.	Charles Boyer
District 2	Russell Martinson, Jr.	Kenneth Peterson
District 3	Allen H. Schroeder	Jake Van Eps
District 4	Ervin Silvers	Elmer Rosenow
District 5	Marvin Mackenthun	Lowell Richards
District 6	Rudolph Sand	George Rydeen
District 7	Donald Hoese	Robert Griebel
District 8	Ronald Huseth	Burton Peterson
District 9	Earl Rose	Leslie Winters
District 10	Lyle Tjosaas	Donald Glamm
District 11	Glenn Schroeder	Russell Church

General Manager

Cliff Markuson
2015 Rice Street
Roseville, MN 55113

MINNESOTA DAIRY RESEARCH AND PROMOTION COUNCIL
SUMMARY OF INTEREST EARNED
FOR FISCAL YEARS ENDED DECEMBER 31, 1982 and 1981

	<u>1982</u>	<u>1981</u>
General Checking (1)	\$ 32,504.62	\$ 30,438.27
General Investments	247,352.19	245,534.76
Refund Checking (1)	7,969.68	6,640.31
Refund Investments	24,718.07	
Contingency Fund Investments	<u>29,650.80</u>	<u>33,700.10</u>
Interest on Investments	342,195.36	316,313.44
Mortgage Note Interest (Note 3)	<u>34,185.03</u>	<u>32,512.92</u>
TOTAL INTEREST INCOME	<u><u>\$376,380.39</u></u>	<u><u>\$348,826.36</u></u>

- (1) The Council follows the practice of investing its cash required for operations into interest-bearing accounts. These accounts are generally paying money market rates on the average daily balance.

MINNESOTA DAIRY RESEARCH AND PROMOTION COUNCIL
BOARD OF DIRECTORS EXPENSE
FOR FISCAL YEARS ENDED DECEMBER 31, 1982 and 1981

	<u>1982</u>	<u>1981</u>
Per Diem	\$ 8,125.00	\$ 7,050.00
Meetings	7,094.28	6,167.99
Expenses	22,729.75	21,963.17
Other	<u>2,004.95</u>	<u>3,699.30</u>
Total Board of Director Expense	<u>\$ 39,953.98</u>	<u>\$ 38,880.46</u>

MINNESOTA DAIRY RESEARCH AND PROMOTION COUNCIL
ADMINISTRATIVE EXPENSE
FOR FISCAL YEARS ENDED DECEMBER 31, 1982 and 1981

	<u>1982</u>	<u>1981</u>
Minnesota Department of Agriculture	\$ 53,500.00	\$ 48,000.00
American Dairy Association of Minnesota	154,271.40	134,547.60
Bank Charges	40.09	94.44
Insurance and Bonds	262.79	682.10
Audit Fee	1,310.70	1,500.00
Nominating Committee	350.21	337.53
Miscellaneous	<u>1,685.00</u>	<u>991.21</u>
Total Administrative Expense	<u>\$211,420.19</u>	<u>\$186,152.88</u>

MINNESOTA DAIRY RESEARCH AND PROMOTION COUNCIL
AMERICAN DAIRY ASSOCIATION OF MINNESOTA
FOR FISCAL YEARS ENDED DECEMBER 31, 1982 and 1981

	<u>1982</u>	<u>1981</u>
Merchandise and Member Relations	\$328,438.44	\$263,364.36
Consumer and Public Relations	154,889.04	112,459.92
Dairy Food Publicity	<u>70,705.20</u>	<u>62,342.28</u>
TOTAL	<u>\$554,032.68</u>	<u>\$438,166.56</u>

MINNESOTA DAIRY RESEARCH AND PROMOTION COUNCIL
SCHEDULE OF INVESTMENTS
DECEMBER 31, 1982

GENERAL INVESTMENTS:

Certificates of Deposit

Minnesota Federal, #19-9-501-152, 8.40%	
60 day, matures 2/24/83	\$ 200,000.00
Midwest Federal, #12-121-138-1, 12.90%	
182 day, matures 1/27/83	100,000.00
St. Anthony Park State Bank	
#16124, 10.38%, 182 day, matures 4/7/83	500,000.00
#16205, 8.75%, 90 day, matures 2/1/83	100,000.00
#16285, 8.63%, 90 day, matures 3/1/83	500,000.00
Total General Investments	<u>\$1,400,000.00</u>

REFUND INVESTMENTS:

Certificates of Deposit

St. Anthony Park State Bank	
#16121, 10.50%, 182 day, matures 4/6/83	\$ 150,000.00
#16206, 8.75%, 90 day, matures 2/1/83	100,000.00
Total Refund Investments	<u>\$ 250,000.00</u>

CONTINGENCY FUND INVESTMENTS:

Certificates of Deposit

Minnesota Federal, #19-9-502-144, 10.00%	
182 day, matures 2/23/83	\$ 222,962.08