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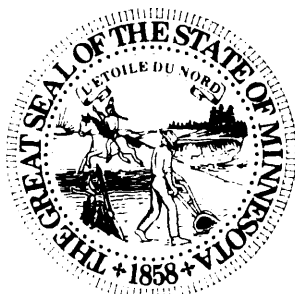
**MINNESOTA DAIRY RESEARCH AND PROMOTION COUNCIL
ROSEVILLE, MINNESOTA**

**ACCOUNTANTS' REPORT
AND
FINANCIAL STATEMENTS**

DECEMBER 31, 1987 AND 1986

MINNESOTA DEPARTMENT OF AGRICULTURE

**Accounting Division
Saint Paul, Minnesota**



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MINNESOTA DAIRY RESEARCH AND PROMOTION COUNCIL
ROSEVILLE, MINNESOTA

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STATE OF MINNESOTA
DEPARTMENT OF AGRICULTURE

March 8, 1988

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, 1987 and 1986, and the related modified cash basis statements of revenue and support, 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, 1987 and 1986, 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, CPA
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, 1987 and 1986

ASSETS

	<u>1987</u>	<u>1986</u>
CURRENT ASSETS:		
Cash in banks:		
General checking	\$ 1,429,125	\$ 5,000
General investments	2,750,000	2,147,639
Refund checking	0	554
Contingency fund investments (Note 2)	0	222,962
Mortgage note receivable - current portion	0	25,981
Prepaid talents & shipping	6,486	0
Interest receivable	9,598	45,201
Prepaid insurance	<u>3,584</u>	<u>3,281</u>
Total current assets	<u>4,198,793</u>	<u>2,450,618</u>
INVESTMENTS:		
Mortgage note receivable (Note 3)	0	332,270
Less: current portion	<u>0</u>	<u>25,981</u>
Total investments	<u>0</u>	<u>306,289</u>
Total assets	<u>\$ 4,198,793</u>	<u>\$ 2,756,907</u>

LIABILITIES AND FUND BALANCE

CURRENT LIABILITIES:		
Accounts payable	\$ 0	\$ 50,705
FUND BALANCE:		
Unappropriated	<u>4,198,793</u>	<u>2,706,202</u>
Total liabilities and fund balance	<u>\$ 4,198,793</u>	<u>\$ 2,756,907</u>

See the accompanying notes and accountants' report

MINNESOTA DAIRY RESEARCH AND PROMOTION COUNCIL
ROSEVILLE, MINNESOTA

COMPARATIVE STATEMENTS OF REVENUE AND SUPPORT AND FUND BALANCE - MODIFIED CASH BASIS
For the years ended December 31, 1987 and 1986

	<u>1987</u>	<u>1986</u>
REVENUE AND SUPPORT:		
Dairy checkoff assessments	\$ 9,157,990	\$ 8,754,479
Interest on investments	250,968	293,038
Mortgage note interest	15,210	27,634
Miscellaneous income	<u>1,745</u>	<u>0</u>
Total revenue	<u>9,425,913</u>	<u>9,075,151</u>
EXPENSES:		
Promotion expense	7,649,701	10,118,024
Council member expense	61,197	66,764
Administrative expense	<u>222,424</u>	<u>205,346</u>
Total expense	<u>7,933,322</u>	<u>10,390,134</u>
EXCESS (DEFICIT) OF REVENUE AND SUPPORT OVER EXPENSES	1,492,591	(1,314,983)
FUND BALANCE - beginning of year	<u>2,706,202</u>	<u>4,021,185</u>
FUND BALANCE - end of year	<u>\$ 4,198,793</u>	<u>\$ 2,706,202</u>

See the accompanying notes and accountants' report

MINNESOTA DAIRY RESEARCH AND PROMOTION COUNCIL
ROSEVILLE, MINNESOTA
COMPARATIVE STATEMENTS OF CHANGES IN FINANCIAL POSITION - MODIFIED CASH BASIS
For the years ended December 31, 1987 and 1986

	<u>1987</u>	<u>1986</u>
SOURCES OF WORKING CAPITAL:		
Operations:		
Excess (deficit) of revenue and support over expenses	\$ 1,492,591	\$ (1,314,983)
Payoff received on mortgage note receivable	306,289	0
Current portion - mortgage note receivable		<u>25,981</u>
Total sources of working capital	<u>1,798,880</u>	<u>(1,289,002)</u>
USES OF WORKING CAPITAL:		
None	<u>0</u>	<u>0</u>
INCREASE (DECREASE) IN WORKING CAPITAL	<u><u>\$ 1,798,880</u></u>	<u><u>\$ (1,289,002)</u></u>
 ANALYSIS OF CHANGES IN COMPONENTS OF WORKING CAPITAL:		
Increase (decrease) in current assets:		
Cash in banks:		
General checking	\$ 1,424,125	\$ (4,670)
General investments	602,361	(1,202,361)
Refund checking	(554)	(529)
Contingency fund investments	(222,962)	0
Mortgage note receivable - current portion	(25,981)	1,991
Interest receivable	(35,603)	(34,879)
Prepaid talents & shipping	6,486	0
Prepaid insurance	303	2,151
Decrease (increase) in current liabilities:		
Accounts payable	<u>50,705</u>	<u>(50,705)</u>
INCREASE (DECREASE) IN WORKING CAPITAL	<u><u>\$ 1,798,880</u></u>	<u><u>\$ (1,289,002)</u></u>

See the accompanying notes and accountants' report

MINNESOTA DAIRY RESEARCH AND PROMOTION COUNCIL
ROSEVILLE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 1987 and 1986

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 [1986], 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, 1985. 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. Participation in the National Dairy Promotion Program is mandatory. Accordingly, any refund requested from a participating state organization must be forwarded to the National Dairy Promotion Board.

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 Board, dairy producers must remit fifteen cents per hundredweight to the 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.

See the accountants' report

MINNESOTA DAIRY RESEARCH AND PROMOTION COUNCIL
ROSEVILLE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS - continued
December 31, 1987 and 1986

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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 - SHORT TERM INVESTMENTS

The Council follows the practice of investing its cash in excess of its current operating needs into short term certificates of deposit. These investments were as follows as of December 31, 1987:

Western State Bank:

Certificate of deposit #28364, 90 days, 6.00% interest, matures January 21, 1988	\$ 500,000
Certificate of deposit #28380, 90 days, 6.90% interest, matures March 15, 1988	250,000
Certificate of deposit #28381, 60 days, 7.05% interest, matures February 16, 1988	500,000
Certificate of deposit #28382, 30 days, 6.90% interest, matures January 20, 1988	500,000
Certificate of deposit #28383, 90 days, 6.85% interest, matures March 25, 1988	500,000

Saint Anthony Park State Bank:

Certificate of deposit #18623, 60 days, 6.50% interest, matures February 26, 1988	<u>500,000</u>
Total	<u>\$ 2,750,000</u>

NOTE 3 - 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 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. This fund was closed pursuant to Council action during the current year.

See the accountants' report

MINNESOTA DAIRY RESEARCH AND PROMOTION COUNCIL
ROSEVILLE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS - continued
December 31, 1987 and 1986

NOTE 4 - MORTGAGE NOTE RECEIVABLE

In 1980, the Council loaned 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. On June 30, 1987 the Association repaid the balance of the mortgage note payable.

Interest received from the American Dairy Association of Minnesota on this mortgage note receivable amounted to \$15,210 and \$27,634 in the years ended December 31, 1987 and 1986, respectively.

NOTE 5 - 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 \$176,024 and \$162,306 for the years ended December 31, 1987 and 1986, respectively.

Per agreement, the Council also made payment to the American Dairy Association of Minnesota for dairy food publicity, member relations, consumer relations, and public relations. These payments amounted to \$946,319 and \$687,047 for the years ended December 31, 1987 and 1986, 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 \$476,520 and \$560,715, respectively.

See the accountants' report

MINNESOTA DAIRY RESEARCH AND PROMOTION COUNCIL
ROSEVILLE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS-CONTINUED
December 31, 1987 and 1986

NOTE 5 - RELATED PARTY TRANSACTIONS - continued

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 contributes support for specific campaigns. Amounts paid to the United Dairy Industry Association were as follows for the years ended December 31,:

	<u>1987</u>	<u>1986</u>
Basic program, per contract	\$ 642,947	\$ 612,525
National advertising	2,961,404	5,421,244
Other national programs	342,907	644,656
Miscellaneous reimbursements	<u>1,340</u>	<u>1,631</u>
Total	<u>\$ 3,947,258</u>	<u>\$ 6,680,056</u>

See the accountants' report

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.

See the accompanying notes and accountants' report

MINNESOTA DAIRY RESEARCH AND PROMOTION COUNCIL
ROSEVILLE, MINNESOTA
COUNCIL MEMBERS
December 31, 1987

Chairman:

Lyle Tjosaas
Route 1, Box 78
Kasson, MN 55944

Vice Chairman:

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

Secretary:

Ervin Silvers
Route 1
Albany, MN 56307

Treasurer:

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

Member at large:

Allen Schroeder
Route 3
Fergus Falls, MN 56537

Council members:

Term expires June 30, 1989

Term expires June 30, 1988

District 1	George Koch
District 2	Debbie Johnson
District 3	William Stone
District 4	Elmer Rosenow
District 5	Donald Thymian
District 6	Victor Goebel
District 7	Donald Hoese
District 8	Larry Perkins
District 9	Robert Griebel
District 10	Bruce Larson
District 11	Russell Church

Lloyd Seter, Jr.
Russell Martinson, Jr.
Allen Schroeder
Dale Lewandowski
Charles Berg
Ervin Silvers
Stanley Diers
Willard Tripp
Leslie Winters
Lyle Tjosaas
Glen Schroeder

General Manager:

Mike Kruger
2015 Rice Street
Roseville, MN 55113

See the accompanying notes and accountants' report

MINNESOTA DAIRY RESEARCH AND PROMOTION COUNCIL
ROSEVILLE, MINNESOTA
PROMOTION EXPENSE
For the year ended December 31, 1987 and 1986

	<u>1987</u>	<u>1986</u>
Program support:		
United Dairy Industry Association	\$ 642,947	\$ 612,525
American Dairy Association of Minnesota	946,319	687,047
Dairy, Food & Nutrition Council of Minnesota	476,520	560,715
County and region paybacks	<u>0</u>	<u>108,600</u>
Total program support	<u>2,065,786</u>	<u>1,968,887</u>
Advertising & promotion:		
Minnesota advertising	2,360,358	2,027,260
National advertising	2,892,435	5,421,244
Federal order #65 & Midland region advertising	235,000	260,999
Food service advertising	0	204,072
Butter trade advertising	0	88,000
Talent & shipping costs	30,409	33,254
Summer promotion - June is Dairy Month	4,245	32,342
Minnesota miscellaneous & vending machines	17,498	31,331
Distributor advertising	11,061	17,953
Cheese radio production	5,469	16,279
Butter radio production	5,611	8,095
Food service library	0	7,339
Miscellaneous national trade shows	15,153	582
Holiday promotions	<u>6,676</u>	<u>387</u>
Total advertising and promotion	<u>5,583,915</u>	<u>8,149,137</u>
Total promotion expense	<u>\$ 7,649,701</u>	<u>\$ 10,118,024</u>

See the accompanying notes and accountants' report

MINNESOTA DAIRY RESEARCH AND PROMOTION COUNCIL
ROSEVILLE, MINNESOTA
COUNCIL MEMBERS EXPENSE
For the years ended December 31, 1987 and 1986

	<u>1987</u>	<u>1986</u>
Per diem	\$ 11,500	\$ 11,672
Expenses	34,723	39,766
Insurance and bonds	10,378	11,122
Miscellaneous board expense	<u>4,596</u>	<u>4,204</u>
Total council members expense	<u>\$ 61,197</u>	<u>\$ 66,764</u>

See the accompanying notes and accountants' report

MINNESOTA DAIRY RESEARCH AND PROMOTION COUNCIL
ROSEVILLE, MINNESOTA
ADMINISTRATIVE EXPENSE
For the years ended December 31, 1987 and 1986

	<u>1987</u>	<u>1986</u>
Minnesota Department of Agriculture	\$ 38,000	\$ 37,000
American Dairy Association of Minnesota	176,024	162,306
Audit and legal fees	8,083	4,790
Miscellaneous administrative expense	<u>317</u>	<u>1,250</u>
Total administrative expense	<u>\$ 222,424</u>	<u>\$ 205,346</u>

See the accompanying notes and accountants' report