

**National Fluid Milk Processor
Promotion Board**

Financial Statements
and
Independent Auditor's Report

Years Ended December 31, 2021 and 2020

Part I

Financial Statements and Independent Auditor's
Report for the Years Ended December 31, 2021 and
2020

Part II

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
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Independent Auditor's Comments on Compliance with
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PART I

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Independent Auditor's Report

**To the Board of Directors
National Fluid Milk Processor
Promotion Board**
Washington, D.C.

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of National Fluid Milk Processor Promotion Board, which comprise the statements of financial position as of December 31, 2021 and 2020, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of National Fluid Milk Processor Promotion Board as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of National Fluid Milk Processor Promotion Board and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; and 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about National Fluid Milk Processor Promotion Board's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.



Auditor's Responsibility

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 National Fluid Milk Processor Promotion Board's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about National Fluid Milk Processor Promotion Board's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information shown on pages 17 to 20 is presented for the purposes of additional analysis and is not a required part of the financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information, other than the budgeted amounts, has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information on pages 17 to 20 is fairly stated, in all material respects, in relation to the financial statements as a whole. Budget amounts have not been subjected to the auditing procedures applied in the audits of the financial statements, and accordingly, we do not express an opinion or provide any assurance on these amounts.

Report Issued in Accordance with Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued a report dated April 1, 2022 on our consideration of National Fluid Milk Processor Promotion Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, agreements, and other matters. The purpose of this report is solely 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 effectiveness of National Fluid Milk Processor Promotion Board's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering National Fluid Milk Processor Promotion Board's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Snyder Cohn, PC". The signature is written in a cursive, flowing style.

SNYDER COHN, PC
North Bethesda, Maryland
April 1, 2022

National Fluid Milk Processor Promotion Board

Statements of Financial Position

December 31	2021	2020
Assets		
Current assets:		
Cash and cash equivalents	\$ 18,496,501	\$ 10,149,928
Assessments receivable, net	10,860,558	11,746,235
Future year costs	500,000	396,505
Prepaid expenses	74,468	69,800
Other receivables	-	40,665
Total current assets	<u>29,931,527</u>	<u>22,403,133</u>
Property and equipment, net	115,819	29,440
Other assets:		
Deposits	<u>17,885</u>	<u>17,885</u>
Total assets	<u><u>\$ 30,065,231</u></u>	<u><u>\$ 22,450,458</u></u>
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 9,799,777	\$ 8,031,057
Coupon liability	-	15,695
Capital lease, current portion	<u>5,431</u>	<u>4,759</u>
Total current liabilities	9,805,208	8,051,511
Other liabilities:		
Capital lease, net of current portion	<u>12,028</u>	<u>17,460</u>
Total liabilities	<u>9,817,236</u>	<u>8,068,971</u>
Commitments		
Net assets:		
Board designated for contingencies	2,500,000	2,500,000
Undesignated	<u>17,747,995</u>	<u>11,881,487</u>
Total net assets	<u>20,247,995</u>	<u>14,381,487</u>
Total liabilities and net assets	<u><u>\$ 30,065,231</u></u>	<u><u>\$ 22,450,458</u></u>

See Accompanying Notes

National Fluid Milk Processor Promotion Board

Statements of Revenues, Expenses and Changes in Net Assets

For the years ended December 31	2021	2020
Revenues:		
Assessments	\$ 82,406,391	\$ 85,671,122
Late payment charges	26,684	25,188
Interest income	19,542	57,139
Other	919	154
	<hr/>	<hr/>
Total revenues	82,453,536	85,753,603
	<hr/>	<hr/>
Expenses:		
Program expenses:		
Current year programs		
Consumer	61,553,774	-
Industry	5,365,741	-
Prior year programs		
Meals at home	-	55,176,221
Built with chocolate milk	-	10,148,976
Strategy and market research	-	1,386,331
Total program expenses	66,919,515	66,711,528
	<hr/>	<hr/>
Other expenses:		
California grant	6,855,651	7,240,591
Administrative	2,259,444	2,908,646
USDA oversight	415,568	388,724
USDA compliance audit	127,198	100,927
Loss on disposal of property and equipment	6,983	-
Interest expense	2,669	3,258
Total other expenses	9,667,513	10,642,146
	<hr/>	<hr/>
Total expenses	76,587,028	77,353,674
	<hr/>	<hr/>
Revenues over expenses	5,866,508	8,399,929
Net assets - beginning	14,381,487	5,981,558
	<hr/>	<hr/>
Net assets - ending	\$ 20,247,995	\$ 14,381,487
	<hr/>	<hr/>

See Accompanying Notes

National Fluid Milk Processor Promotion Board

Statements of Cash Flows

For the years ended December 31	2021	2020
Cash flows from operating activities:		
Revenues over expenses	\$ 5,866,508	\$ 8,399,929
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation and amortization	18,984	11,869
Loss on disposal of property and equipment	6,983	-
(Increase) decrease in:		
Assessments receivable	885,677	(4,216,520)
Future year costs	(103,495)	1,736,526
Prepaid expenses	(4,668)	(18,833)
Other receivables	40,665	(38,602)
Deposits	-	(17,885)
Increase (decrease) in:		
Accounts payable and accrued expenses	1,768,720	(2,161,140)
Coupon liability	(15,695)	(1,105)
Net cash provided by operating activities	<u>8,463,679</u>	<u>3,694,239</u>
Cash flows from investing activities:		
Payments made for property and equipment	(112,346)	-
Cash flows from financing activities:		
Payments made on capital lease	<u>(4,760)</u>	<u>(4,170)</u>
Net increase in cash and cash equivalents	8,346,573	3,690,069
Cash and cash equivalents - beginning	<u>10,149,928</u>	<u>6,459,859</u>
Cash and cash equivalents - ending	<u><u>\$ 18,496,501</u></u>	<u><u>\$ 10,149,928</u></u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest	\$ 2,669	\$ 3,258

See Accompanying Notes

National Fluid Milk Processor Promotion Board

Notes to Financial Statements

December 31, 2021 and 2020

Note 1: Summary of significant accounting policies:

The National Fluid Milk Processor Promotion Board (the Board) was established pursuant to the authority of the Fluid Milk Promotion Act (the Act) of 1990, Subtitle H of the Title XIX of the Food, Agriculture, Conservation and Trade Act of 1990. The purpose of the Board is to administer the provisions of the Fluid Milk Promotion Order (the Order) established pursuant to the Act which establishes an orderly procedure for the development, and the financing through an assessment, of a coordinated program of advertising, promotion, and education for fluid milk products.

The Act required that a referendum be conducted among processors to determine if a majority favored implementing the fluid milk program. In the October 1993 initial referendum, the majority of processors voted to approve the implementation of the fluid milk program. A continuation referendum was held in February-March 1996. Of the processors voting in that referendum, the majority favored continuation of the fluid milk program. In November 1998, another continuation referendum was held at the request of the Board and processors voted to continue the fluid milk program as established by the Order. The Act and the Order state that the United States Department of Agriculture (USDA) will hold future referenda upon the request of the Board, processors representing 10% or more of the volume of fluid milk products marketed by those processors voting in the last referendum, or when called by the U.S. Secretary of Agriculture.

For financial reporting purposes, the Board is considered a quasi-governmental agency of the U.S. government. As such, it is exempt from income taxes under the Internal Revenue Code. The USDA and its affiliated agencies operate in an oversight capacity of the Board.

The financial statements of the Board are prepared in conformity with accounting principles generally accepted in the United States of America. To facilitate the understanding of data included in the financial statements, summarized below are the more significant accounting policies.

Assessments - Assessments are generated from any person who processes and markets commercially more than 3,000,000 pounds of fluid milk per month by a 20-cent per hundred weight assessment on fluid milk products processed and marketed commercially in consumer-type packages in the 48 contiguous United States and the District of Columbia. Assessment revenue is recognized in the month in which the fluid milk product is processed. Late payment charges are assessed, as provided under the Act, to processors who do not remit monthly assessments within 30 days following the month of assessment.

National Fluid Milk Processor Promotion Board

Notes to Financial Statements

December 31, 2021 and 2020

Note 1: Summary of significant accounting policies: (continued)

Assessments (continued) - The late payment charge is equal to 1.50% per month of unpaid assessments. For both 2021 and 2020, an allowance for doubtful accounts of \$-0- has been established for those amounts where the late charges are being appealed.

California grant - In accordance with the Act, the Board is required to provide a grant to a third party equal to 80% of the assessments collected from Regions 14 and 15 to implement a fluid milk promotion campaign. Disbursements under these provisions are recorded as "California grant" in the accompanying financial statements.

Cash equivalents - For purposes of the statements of cash flows, the Board considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Future year costs - Future year costs represent costs incurred for the next budget year's projects.

Assessments receivable - An allowance for uncollectible accounts is established for those assessments which management has determined as uncollectible. The total allowance for uncollectible accounts at December 31, 2021 and 2020 is \$3,089,691 and \$3,527,682, respectively.

Property and equipment - Property and equipment are stated at cost. Depreciation is provided over the estimated useful lives of the related assets on a straight-line basis. Expenditures for repairs and maintenance are charged to expense as incurred.

Use of estimates - The Board has made certain estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Investments - The Board is required to follow the Agricultural Marketing Service (AMS) investment policy. Accordingly, the Board is authorized to invest in securities consisting of obligations issued or fully insured or guaranteed by the U.S. or any U.S. government agency, including obligations of government-sponsored corporations that mature within one year or less from the date of purchase.

Risks and uncertainties - In March 2020, the World Health Organization declared the outbreak of a novel coronavirus ("COVID-19") as a pandemic. As a result, economic uncertainties have arisen which are likely to negatively impact MilkPEP's operating results, but the related financial impact is unknown at this time.

National Fluid Milk Processor Promotion Board

Notes to Financial Statements

December 31, 2021 and 2020

Note 1: Summary of significant accounting policies: (continued)

Fair value measurements - The FASB Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*, provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1 - inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Board has the ability to access.

Level 2 - inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Board believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Advertising - In accordance with its mission, the Board has approved the development of direct and nondirect response advertising and promotional activities. All costs related to these activities are charged to expense as incurred.

National Fluid Milk Processor Promotion Board

Notes to Financial Statements

December 31, 2021 and 2020

Note 1: Summary of significant accounting policies: (continued)

Contingencies - In the normal course of business, the Board is involved in matters of litigation. As of December 31, 2021 and 2020, management believes there are no legal matters that are likely to result in a material loss; therefore, no amounts have been included in these financial statements.

Change in accounting principle - In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606). The update establishes a comprehensive revenue recognition standard for virtually all industries under GAAP including those that previously followed industry-specific guidance. The principle of the update is that an entity should recognize revenue to depict the transfer of promised goods and services to customers under a contract in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The guidance in Topic 606 requires comprehensive disclosures to help users of financial statement better understand the nature, amount, timing and uncertainty of revenue that is recognized. The Board adopted the ASU 2014-09 using the modified retrospective method to all periods presented, which had no impact on current or previously reported net income.

In accordance with ASU 2014-09, the Board disaggregates revenue from contracts with customers into major revenue streams and the timing of recognizing revenue. All revenue is recognized at a point in time, when the relevant performance obligations have been met.

Note 2: Cash and cash equivalents:

At December 31, 2021 and 2020, the bank balance of the Board's cash deposits was entirely covered by federal depository insurance or was covered by collateral held by the Board's agent in the Board's name. Included in cash and cash equivalents is \$2,500,000 of Board designated cash reserves at December 31, 2021 and 2020.

National Fluid Milk Processor Promotion Board

Notes to Financial Statements

December 31, 2021 and 2020

Note 3: Property and equipment:

Property and equipment consist of the following as of December 31:

	2021	2020
Furniture and fixtures	\$ 45,703	\$ 30,261
Leasehold improvements	38,039	159,941
Office equipment	65,345	96,767
	<u>149,087</u>	<u>286,969</u>
Less: accumulated depreciation	<u>(33,268)</u>	<u>(257,529)</u>
	<u>\$ 115,819</u>	<u>\$ 29,440</u>

Depreciation expense for each of the years ended December 31, 2021 and 2020 was \$13,578 and \$6,461, respectively.

Note 4: Capital lease:

In October 2019, the Company exchanged its 2014 copier for a new copier by entering into a new capital lease with an effective interest rate of 13.29%. The terms of the lease require 60 monthly payments of \$619. The lease is effective through October 31, 2024.

Future minimum lease payments under the capital lease are as follows:

2022	\$ 7,428
2023	7,428
2024	<u>6,190</u>
Total minimum lease payments	21,046
Less amount representing interest	<u>(3,587)</u>
Present value of minimum lease payment	<u>\$ 17,459</u>

Amortization expense for the years ended December 31, 2021 and 2020 was \$5,406 and \$5,408, respectively.

National Fluid Milk Processor Promotion Board

Notes to Financial Statements

December 31, 2021 and 2020

Note 5: Line of credit:

During December 2011, the Board obtained a revolving line of credit for up to \$2,500,000. The line provides for advances from time to time but must be paid down to \$-0- and remain at \$-0- for 90 consecutive days at least once every 12 months. Interest is accrued on outstanding balances at prime minus 0.25% with an interest floor of 3.99%. The line is secured by a first position lien on all receivables of the Board and all general intangibles. The Board is also subject to reporting requirements and financial covenants as outlined in the line of credit agreement. The line of credit agreement expires in January 2023. The amount outstanding on the line of credit at December 31, 2021 and 2020 was \$-0-.

Note 6: Compliance matters:

In accordance with the Act and the Order, effective one year after the date of the establishment of the Board, the Board shall not spend in excess of 5% of the assessments collected for the administration of the Board. For the years ended December 31, 2021 and 2020, the Board did not exceed this limitation.

Note 7: Program administration:

During 2021 and 2020, the Board entered into agreements with various organizations to develop programs for advertising, promotion, consumer education and certain minority initiatives in connection with the national fluid milk campaign. The funding levels vary for the various organizations and are subject to approval. The organizations and the expiration dates of the agreements are as follows:

<u>Agency</u>	<u>Expiration</u>
Gale Partners, LLC	December 31, 2023
CMGRP, Inc. d/b/a Weber Shandwick	Terminated 2021
Arc USA Chicago	Terminated 2021
Campbell-Ewald	Terminated 2020

To assist the above organizations in the development of advertising, promotion, consumer education and certain minority initiatives in connection with the national fluid milk campaign, the Board has also entered into numerous other smaller contracts throughout the years ended December 31, 2021 and 2020. In addition, the Board has multiple master service agreements with various contractors which allow for scopes of work to be attached on an as needed basis by the Board.

In October 2007, the Board entered into two agreements, an office services and a professional services agreement, with the International Dairy Foods Association (IDFA).

National Fluid Milk Processor Promotion Board

Notes to Financial Statements

December 31, 2021 and 2020

Note 7: Program administration: (continued)

The duration of the office services agreement was from October 1, 2007 through September 30, 2008 and was subsequently extended multiple times through May 31, 2022. Under this agreement, IDFA provides certain administrative services and resources to the Board. Fees for these services are based on predetermined amounts totaling \$2,850 per month plus out-of-pocket costs and hourly charges for additional services for the years ended December 31, 2021 and 2020. During the years ended December 31, 2021 and 2020, the Board incurred fees in the amount of \$-0- and \$35,796, respectively, under this agreement.

The duration of the professional services agreement was from October 1, 2007 through September 30, 2009 and was subsequently extended multiple times. The most recent agreement was effective until December 31, 2020. The agreement allowed for IDFA to assist the Board in performing general services pursuant to its responsibility under the Fluid Milk Promotion Act of 1990. General services are set forth in greater detail in the agreement, but include areas such as:

- Medical and nutritional
- Communications and public relations
- Sales and econometric analysis
- Other services as requested

Fees for these services are based on hourly rates of \$360 plus out-of-pocket costs. Total costs incurred under this agreement were \$-0- and \$1,260 for the years ended December 31, 2021 and 2020, respectively. Both the office service and professional service agreements were terminated in 2021.

Note 8: Operating lease:

In November 2020, the Board entered into a lease agreement for office space in Washington, DC. The lease is a 78-month lease agreement and requires the Board to pay a monthly base rent plus a portion of operating expenses as defined in the lease agreement. If the Fluid Milk Promotion Order, 7 C.F.R. Part 1160 (the "Fluid Milk Order"), is terminated for any reason, then the lease can be terminated no less than twelve months from the date that the U.S. Secretary of Agriculture announces that the Fluid Milk Order will be terminated. In the event of termination, monthly rent payments will increase up to the termination date as outlined in the agreement.

National Fluid Milk Processor Promotion Board

Notes to Financial Statements

December 31, 2021 and 2020

Note 8: Operating lease: (continued)

The future minimum payments under the office lease agreement for the years ending December 31 are as follows:

2022	\$ 200,749
2023	205,782
2024	210,934
2025	216,197
2026	221,604
Thereafter	<u>164,930</u>
Total	<u>\$ 1,220,196</u>

The Board incurred \$198,656 and \$175,941 of rental expense during the years ended December 31, 2021 and 2020, respectively.

Note 9: Transactions with the United States Department of Agriculture:

Under the provisions of the Act and the Order, the Board is required to pay the United States Department of Agriculture certain fees for oversight and evaluation costs. These costs were \$542,766 and \$489,651 during 2021 and 2020, respectively.

Note 10: Related party activity:

Accounting services for the Board are performed by The Colony Group, LLC (The Colony Group). The agreement is effective through December 31, 2022. The costs of accounting services were \$375,026 and \$375,000 during each of 2021 and 2020, respectively. A principal of The Colony Group serves as the Chief Financial Officer of the Board, for which The Colony Group is compensated. At December 31, 2021 and 2020, the total amount due to The Colony Group was \$-0-.

National Fluid Milk Processor Promotion Board

Notes to Financial Statements

December 31, 2021 and 2020

Note 11: Retirement plan:

In October 2007, the Board adopted a safe harbor 401(k) plan. An employee is eligible to participate in the plan once the service requirement is completed as defined in the plan document. If an employee was employed by the Board on October 1, 2007, the service requirement was waived, and those employees were immediately eligible to participate. Participants may elect to defer a portion of their salary and contribute it to the retirement plan. Additionally, the Board will make a safe harbor matching contribution equal to 100% of deferrals that do not exceed 3% of the employees' compensation plus a 50% match for deferrals between 3% - 5% of employees' compensation. However, for any plan year when the plan is not a "safe harbor" plan, the contribution is at the Board's discretion. The Board's contribution totaled \$151,422 and \$133,553 for the years ended December 31, 2021 and 2020, respectively.

Note 12: Concentration:

Accounts payable to one vendor represented approximately 22% of total accounts payable at December 31, 2021. Payments to the one vendor represented approximately 79% of total program expenses for the year ended December 31, 2021.

Accounts payable to three vendors represented approximately 87% of total accounts payable at December 31, 2020. Payments to two of these vendors represented approximately 74% of total program expenses for the year ended December 31, 2020.

While each individual processor's assessment is not considered a concentration, as a result of common ownership, assessments from two processor groups comprised approximately 41% of the Board's assessments for the year ended December 31, 2021. As of December 31, 2021, approximately 44% of the Board's assessments receivable were from these processor groups. For the year ended December 31, 2020, approximately 42% of the Board's assessments were from three processor groups. As of December 31, 2020, approximately 40% of the Board's assessments receivable were from these processor groups.

Note 13: Subsequent events:

Subsequent events have been evaluated through April 1, 2022 which is the date the financial statements were available to be issued.

**SUPPLEMENTARY
INFORMATION**

National Fluid Milk Processor Promotion Board

Schedule of Revenues and Expenses Actual Compared to Budget (Budget Basis)

For the year ended December 31, 2021

	Unexpended/ Amended Budget (Unaudited)	Current Year Actual	Actual Over (Under) Budget
Revenues:			
Assessments	\$ 81,173,000	\$ 82,406,391	\$ 1,233,391
Late payment charges	-	26,684	26,684
Interest income	-	19,542	19,542
Other	-	919	919
Carryover - prior years	4,000,000	-	(4,000,000)
Total revenues	<u>85,173,000</u>	<u>82,453,536</u>	<u>(2,719,464)</u>
Expenses:			
Program expenses:			
Program - current year	74,676,000	66,919,515	(7,756,485)
Program - prior years	-	-	-
Total program expenses, net	<u>74,676,000</u>	<u>66,919,515</u>	<u>(7,756,485)</u>
Other expenses:			
California grant	6,940,000	6,855,651	(84,349)
Administrative	2,954,300	2,259,444	(694,856)
USDA expenses	600,000	542,766	(57,234)
Loss on disposal of property	-	6,983	6,983
Interest expense	2,700	2,669	(31)
Total other expenses	<u>10,497,000</u>	<u>9,667,513</u>	<u>(829,487)</u>
Total expenses, net	<u>85,173,000</u>	<u>76,587,028</u>	<u>(8,585,972)</u>
Unallocated budget	<u>-</u>	<u>-</u>	<u>-</u>
Excess of revenues over expenses	<u><u>\$ -</u></u>	<u><u>\$ 5,866,508</u></u>	<u><u>\$ 5,866,508</u></u>

See Independent Auditor's Report

National Fluid Milk Processor Promotion Board

Schedule of Program Expenses Actual Compared to Budget (Budget Basis)

For the year ended December 31, 2021

	Current Year Amended Budget (Unaudited)	Expended Current Year Actual	Actual Over (Under) Budget	Prior Year Unexpended Budget (Unaudited)	Expended (Refunds) Prior Year Actual	Actual Over (Under) Budget	Total Program Activity
Consumer Industry	\$ 64,419,300 10,256,700	\$ 61,553,774 5,365,741	\$ (2,865,526) (4,890,959)	\$ - -	\$ - -	\$ - -	\$ 61,553,774 5,365,741
Total program expenses	<u><u>\$ 74,676,000</u></u>	<u><u>\$ 66,919,515</u></u>	<u><u>\$ (7,756,485)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 66,919,515</u></u>

See Independent Auditor's Report

National Fluid Milk Processor Promotion Board

Schedule of Administrative Expenses Actual Compared to Budget (Budget Basis)

For the year ended December 31, 2021

	Current Year Amended Budget (Unaudited)	Current Year Actual	Actual Over (Under) Budget
Board meeting expenses	\$ 125,000	\$ 111,755	\$ (13,245)
Staff salaries and benefits:			
Staff salaries and benefits	2,631,500	2,321,738	(309,762)
Program management salary allocation	(1,964,400)	(1,765,922)	198,478
Total staff salaries and benefits	667,100	555,816	(111,284)
Finance and administration:			
Contract staff	160,000	160,000	-
Consultants - HR, IT, strategic	147,000	59,109	(87,891)
Financial services	375,000	375,026	26
Total finance and administration	682,000	594,135	(87,865)
Other operating expenses:			
Audits	60,000	53,500	(6,500)
Depreciation and amortization	20,000	18,984	(1,016)
Dues and memberships	101,000	57,329	(43,671)
Employee development	105,000	5,970	(99,030)
IDFA professional & office support	34,200	-	(34,200)
Insurance	40,000	39,656	(344)
Legal	450,000	449,690	(310)
Miscellaneous	49,200	5,119	(44,081)
Office facilities	214,800	198,656	(16,144)
Office supplies and expense	15,000	28,425	13,425
Payroll service and pension administration	10,500	13,686	3,186
Postage and delivery	5,900	7,939	2,039
Recruiting expense	81,000	1,845	(79,155)
Staff travel	150,000	96,567	(53,433)
Telephone	23,600	20,372	(3,228)
Unallocated administrative	120,000	-	(120,000)
Total other operating expenses	1,480,200	997,738	(482,462)
Total administrative expenses	\$ 2,954,300	\$ 2,259,444	\$ (694,856)

See Independent Auditor's Report

National Fluid Milk Processor Promotion Board

Schedule of Cash Receipts and Disbursements

For the year ended December 31, 2021

Cash receipts from operations:

Assessments	\$ 83,332,733
Late payment charges	26,684
Interest income	19,542
Other	918
Cash receipts from operations	<u>83,379,877</u>

Cash disbursements for operations (74,916,198)

Cash disbursements for investing activities:

Purchase of property and equipment (112,346)

Cash disbursements for financing activities:

Payments made on capital lease (4,760)

Excess of receipts over disbursements 8,346,573

Cash and cash equivalents - beginning 10,149,928

Cash and cash equivalents - ending \$ 18,496,501

PART II

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 Board of Directors
National Fluid Milk Processor
Promotion Board
Washington, D.C.

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 National Fluid Milk Processor Promotion Board (the Board) which comprise the statements of financial position as of December 31, 2021 and 2020, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements and have issued our report thereon dated April 1, 2022.

Report on Internal Control Over Financial Reporting

In planning and performing our audits of the financial statements, we considered the Board'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 Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the Board'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 Board'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 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 audits 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.



**To the Board of Directors
National Fluid Milk Processor
Promotion Board**
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Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Board's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, 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 Board's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Board's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

This report is intended solely for the information of the Board of Directors of National Fluid Milk Processor Promotion Board, management, and the Dairy Programs, Promotion and Research Branch of the Agricultural Marketing Service Agency of the United States Department of Agriculture, and is not intended to be and should not be used by anyone other than these specified parties.



SNYDER COHN, PC
North Bethesda, Maryland
April 1, 2022

PART III

**To the Board of Directors
National Fluid Milk Processor
Promotion Board**
Washington, D.C.

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial statement audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of National Fluid Milk Processor Promotion Board which comprise the statements of financial position as of December 31, 2021 and 2020, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements and have issued our report thereon dated April 1, 2022. The financial statements were prepared in conformity with accounting principles generally accepted in the United States of America.

In connection with our audits, nothing came to our attention, insofar as it relates to accounting matters, that causes us to believe that National Fluid Milk Processor Promotion Board:

- Failed to comply with laws and regulations applicable to National Fluid Milk Processor Promotion Board;
- Failed to comply with Section 1160.212 of the Fluid Milk Promotion Order, relating to the use of assessment funds for the purpose of influencing governmental policy or action;
- Expended assessment funds for purposes other than those authorized by the Fluid Milk Promotion Act and the Fluid Milk Promotion Order;
- Expended or obligated assessment funds on any projects prior to the fiscal year in which those funds were authorized to be expended by National Fluid Milk Processor Promotion Board's approved Budget and Marketing Plan;
- Did not adhere to the original or amended Budget and Marketing Plan for the years ended December 31, 2021 and 2020;
- Did not obtain a written contract or agreement with any person or entity providing goods or services to the National Fluid Milk Processor Promotion Board;
- Failed to comply with Section 1999H, paragraph (g) of the Fluid Milk Promotion Order, relating to the limitations on the types of investments which may be purchased by National Fluid Milk Processor Promotion Board and the insurance or collateral that must be obtained for all National Fluid Milk Processor Promotion Board deposits and investments;
- Failed to comply with internal controls;
- Failed to comply with disclosure requirements for lease commitments;



**To the Board of Directors
National Fluid Milk Processor
Promotion Board**

Page two

- Failed to comply with standards established requiring signed contracts, USDA approval letters (if necessary), contract term documentation within the file, and CFO's signature on the Board approval letter;
- Failed to comply with the by-laws of National Fluid Milk Processor Promotion Board or any other policy of the National Fluid Milk Processor Promotion Board, specifically as they relate to all financial matters, including time and attendance, and travel; or
- Failed to comply with USDA guidelines for AMS Oversight of Commodity Research and Promotion Programs other than described below.

During the course of our audits, the following compliance matters came to our attention, insofar as it relates to the USDA guidelines for AMS Oversight of Commodity Research and Promotion Programs. However, our audits were not directed primarily toward obtaining knowledge of such noncompliance.

The AMS guidelines require that no funds be expended on promotional activities prior to USDA approval; however, it was brought to our attention that there were \$18,296,200 of FY 21 authorizations approved by the USDA subsequent to year end. Expenditures did occur prior to the USDA approval. As such, the Board has expanded their internal controls over the budget and authorization submission process to ensure this matter does not repeat in future years.

This report is intended solely for the information and use of National Fluid Milk Processor Promotion Board, management, and the Dairy Programs, Promotion and Research Branch of the Agricultural Marketing Service Agency of the United States Department of Agriculture and is not intended to be and should not be used by anyone other than these specified parties.



SNYDER COHN, PC
North Bethesda, Maryland
April 1, 2022

Snyder Cohn, PC
CPAs and Trusted Advisors
11200 Rockville Pike, Suite 415
North Bethesda, MD 20852
www.snydercohn.com
301-652-6700