

American Dairy Association
of South Dakota

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

June 30, 2021 and 2020

American Dairy Association of South Dakota

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June 30, 2021 and 2020

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Independent Auditor's Report

To the Board of Directors
of American Dairy Association of South Dakota

We have audited the accompanying financial statements of the American Dairy Association of South Dakota (the Association), a special revenue fund of the State of South Dakota, which comprise the balance sheets as of June 30, 2021 and 2020, and the related statements of revenues, expenditures and changes in fund balance for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Auditor's Responsibility (Continued)

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the American Dairy Association of South Dakota as of June 30, 2021 and 2020, and the changes in financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements referred to above present only the Association and do not purport to, and do not, present fairly the financial position of the State of South Dakota as of June 30, 2021 and 2020, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplemental Information

Management has omitted the management's discussion and analysis and budget information that the accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by the missing information.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Board of Directors' roster on page 11, which is the responsibility of management, is of a nonaccounting nature and is not a required part of the financial statements. The roster has not been subjected to the auditing procedures applied in the audit of the financial statements. Accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 24, 2021, on our consideration of the Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Association's internal control over financial reporting and compliance.

Boyer & Bareschee PLLP

St. Paul, Minnesota
November 24, 2021

American Dairy Association of South Dakota

Balance Sheets

<i>As of June 30,</i>	2021	2020
ASSETS		
Current		
Cash on Deposit—State Treasurer	\$ 424,730	\$ 247,549
Dairy Checkoff Assessments Receivable	419,488	377,103
Interest Receivable	5,114	5,299
Total Current Assets	849,332	629,951
Other		
Investment in Midwest Dairy Association	206,897	206,897
Total Assets	\$ 1,056,229	\$ 836,848
FUND BALANCE		
Fund Balance		
Operating Fund	\$ 1,056,229	\$ 836,848
Total Liabilities and Fund Balance	\$ 1,056,229	\$ 836,848

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

American Dairy Association of South Dakota

Statements of Revenues, Expenditures and Changes in Fund Balance

<i>For the Years Ended June 30,</i>	2021	2020
Revenues		
Dairy Checkoff Assessments	\$ 3,308,425	\$ 2,923,115
Interest	5,114	5,299
Miscellaneous Revenue	25	25
Total Revenues	3,313,564	2,928,439
Expenditures		
Programs		
Contract —Midwest Dairy Association	3,069,140	2,781,469
South Dakota State University Foundation	12,000	7,500
Total Program Service	3,081,140	2,788,969
Administration		
Contract Expenditures—Midwest Dairy Association	11,362	11,031
State Department Charges	1,681	2,699
Professional Services	-	7,850
Total Administration	13,043	21,580
Total Expenditures	3,094,183	2,810,549
Excess of Revenues Over Expenditures	219,381	117,890
Fund Balance, Beginning of Year	836,848	718,958
Fund Balance, End of Year	\$ 1,056,229	\$ 836,848

American Dairy Association of South Dakota

Notes to Financial Statements

June 30, 2021 and 2020

1. Organization

The American Dairy Association of South Dakota (the Association) is an association created in accordance with South Dakota Codified Laws (SDCL), Chapter 40-31. The Association has the responsibility of conducting dairy promotion research and educational programs on behalf of South Dakota dairy producers.

The financial statements present only the Association and do not purport to, and do not, present fairly the financial position of the State of South Dakota, as of June 30, 2021 and 2020, or the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP).

The Association's Board of Directors is composed of three dairy producers and two dairy processors who are residents of the state of South Dakota, along with the Secretary of Agriculture (or his/her representative), the head of the dairy department of the South Dakota State University, and the state executive member of the American Dairy Association of South Dakota acting as nonvoting members.

2. Summary of Significant Accounting Policies

Governmental Fund Type

The dairy checkoff fund is a special revenue fund of the State maintained for the collection and disbursement of dairy checkoff assessments. Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The State has granted the Association the authority to administer assets held in the dairy checkoff fund.

Basis of Accounting

The Association's financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded as soon as they are both measurable and available. Available means collectible within the current period, or soon enough thereafter to pay liabilities of the current period. Expenditures are recognized when the related liability is incurred.

Cash on Deposit

Cash on deposit includes cash on hand and demand deposits held by the State Treasurer. Cash deposits with the State Treasurer are made in qualified public depositories as defined by SDCL 4-6A-1. Qualified depositories are required by SDCL 4-6A-3 to maintain eligible collateral having a value of at least 100 percent of the public deposit accounts which exceed Federal Deposit Insurance Corporation coverage.

American Dairy Association of South Dakota

Notes to Financial Statements

June 30, 2021 and 2020

2. Summary of Significant Accounting Policies (Continued)

Dairy Checkoff Assessments Receivable

Checkoff Assessments Receivable are based on milk received and processed by handlers at the end of the accounting period, for which payments of producer assessments have not been received by the Association at year-end. All receivables were collected subsequent to year-end.

Revenue Recognition

Dairy checkoff assessment revenues are recognized at a point in time in the period that they are earned.

Income Taxes

As a quasi-governmental entity, the Internal Revenue Service has determined that the Association, as a quasi-governmental entity, is exempt from the filing requirements of tax-exempt organizations.

New Accounting Pronouncements

Revenue Recognition—Effective July 1, 2019, the Association adopted Accounting Standards Update (ASU) 2014-09 Revenue from Contracts with Customers (Topic 606) and all subsequently issued clarifying ASU's which replaced most existing revenue recognition guidance in U.S. GAAP. The new guidance requires the Association to recognize revenue to depict the transfer of good or services to customers in an amount that reflects the consideration to which the Association expects to be entitled in exchange for those good or services. The new guidance also requires expanded disclosures related to the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The adoption of this new guidance was done using the modified retrospective method. There was no adjustment due to the cumulative impact of adopting this method.

Subsequent Events

Management has evaluated subsequent events through November 24, 2021, the date the financial statements were available to be released.

American Dairy Association of South Dakota

Notes to Financial Statements

June 30, 2021 and 2020

3. Dairy Checkoff Assessments

The National Dairy Promotion and Research Board was established in 1984 in accordance with federal law. Pursuant to federal laws and regulations governing the Board, dairy producers must remit fifteen cents (15¢) per hundredweight of milk produced for commercial use to the Board to support its promotional and research programs. However, producers may deduct up to ten cents (10¢) per hundredweight for funds forwarded to a qualifying state organization.

Producer assessments (checkoffs) are generated by the collection of an assessment on milk shipped by South Dakota dairy producers. The maximum credit permitted to qualifying state organizations under the federal dairy promotion and research order is ten cents (10¢) per hundredweight.

Assessments collected are refundable under state law, within twelve months of the date of purchase, to the farmer (producer) upon the producer's written request to the Association. Such application may only be made on an annual basis and may only be made within thirty days after July 1st of each year. Participation in the National Dairy Promotion and Research Program is mandatory. Accordingly, any refund requested by a producer from a participating state organization must be forwarded to the National Dairy Promotion and Research Board.

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

Under the terms of a Dairy Research and Promotion Agreement, the Association provided capital of \$206,897 in the form of cash to American Dairy Association/Dairy Council of the Upper Midwest, Inc. (ADA/DC) on July 1, 1993. This investment, along with the investments made by the Minnesota Dairy Research and Promotion Council and the North Dakota Dairy Promotion Commission, totaled \$1,500,000. These investments enabled ADA/DC to commence operations, and provided working capital for the activities of coordinating and implementing dairy promotion, research and education programs on behalf of dairy producers in South Dakota, Minnesota and North Dakota.

On January 1, 2000, ADA/DC combined with Midland Dairy Association. ADA/DC was the surviving entity, and it was renamed Midwest Dairy Association (Midwest Dairy). In the event the Dairy Research and Promotion Agreement between the Association and Midwest Dairy is terminated, the Association may receive a refund of its contributed capital. Upon termination, Midwest Dairy has the right to determine the appropriate disposition of the Association's capital contribution. However, until the capital is refunded in full, and as long as Midwest Dairy exists, the Association's contribution shall be reflected as contributed capital on Midwest Dairy's financial records.

American Dairy Association of South Dakota

Notes to Financial Statements

June 30, 2021 and 2020

5. Related Party Transactions

The Association contracted with Midwest Dairy, a related organization through similar control and management, to implement and administer programs intended to contribute to the betterment of South Dakota's dairy farmers and the state's dairy industry. Such programs include, but are not limited to: strategic initiatives, wellness, farmer relations, consumer demand, economic and dairy product research and innovation, farmer communications, and consumer confidence. Under the terms of the contracts, Midwest Dairy also provides administrative, financial and reporting services. Payments under these contracts amounted to \$3,080,502 and \$2,792,500 for the years ended June 30, 2021 and 2020, respectively.

6. Uncertainty

Prior to and continuing after June 30, 2020, local, U.S., and world governments have encouraged self-isolation to curtail the spread of the global pandemic, coronavirus disease (COVID-19). Most industries are experiencing disruption to business operations and the impact of reduced consumer spending. There is uncertainty surrounding the duration of the pandemic, its potential economic ramifications, and any government actions to mitigate them. Accordingly, while management cannot quantify the financial and other impacts to the Association, management has not seen a material impact on the Association's financial position and doesn't anticipate a significant impact to future operations.

**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
of American Dairy Association of South Dakota

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 the American Dairy Association of South Dakota (the Association), a special revenue fund of the State of South Dakota, which comprise the balance sheets as of June 30, 2021 and 2020, and the related statements of revenues, expenditures and changes in fund balance, for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated November 24, 2021.

Internal Control over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Boycum & Bareschee PLLP

St. Paul, Minnesota
November 24, 2021

American Dairy Association of South Dakota

Board of Directors

June 30, 2021 and 2020

2021

Directors

Tim den Dulk, Vice Chair
Evan Grong
Kim Maher
Vikram Mistry
Doug Ode, Secretary/Treasurer
Hunter Roberts
Annelies Seffrood, Chair

Chief Executive Officer of Midwest Dairy Association

Molly Pelzer
2015 Rice Street
Roseville, Minnesota 55113

2020

Directors

Evan Grong
Kim Maher
Vikram Mistry
Doug Ode, Secretary/Treasurer
Marv Post, Chair
Hunter Roberts
Annelies Seffrood, Vice Chair

Chief Executive Officer of Midwest Dairy Association

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