

AMERICAN DAIRY ASSOCIATION OF SOUTH DAKOTA

***FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022***

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
American Dairy Association of South Dakota

Opinion

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, 2023 and 2022, and the related statement of revenues, expenditures, and changes in fund balance – budget and actual for the years then ended, and the related notes to the financial statements.

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, a special revenue fund of the State of South Dakota, as of June 30, 2023 and 2022, and the changes in financial position 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 and the standards applicable to financial audits contained in Governmental 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 the American Dairy Association of South Dakota 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 opinions.

Emphasis-of-Matters

As discussed in Note 1, the financial statements referred to above present only the Association, a special revenue fund of the State of South Dakota, and do not purport to, and do not, present fairly the financial position of the State of South Dakota as of June 30, 2023 and 2022, 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.

Responsibilities of Management/or 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.

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 the Association's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

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 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 GAAS and *Government 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 the Association'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 the Association'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 audits, significant audit findings, and certain internal control related matters that we identified during the audits.

Required supplementary information

Management has omitted the management's discussion and analysis 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

Management is responsible for the other information included in the report. The other information comprises the list of board of directors, but does not include the basic financial statements and our auditor's report thereon. Our opinion on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon. In connection with our audits of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 3, 2023, 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 effectiveness of the Association's 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.

Boycum & Baronscheer PLLP

St. Paul, Minnesota
November 3, 2023

AMERICAN DAIRY ASSOCIATION OF SOUTH DAKOTA

BALANCE SHEETS

JUNE 30,	2023	2022
ASSETS		
CURRENT ASSETS		
Cash on deposit - state treasurer	\$ 388,738	\$ 482,658
Dairy checkoff assessments receivable	510,018	472,464
Interest receivable	11,128	4,400
<i>Total current assets</i>	909,884	959,522
OTHER		
Investment in Midwest Dairy Association	206,897	206,897
<i>Total assets</i>	\$ 1,116,781	\$ 1,166,419
LIABILITIES		
Accounts payable	\$ -	\$ 2,045
FUND BALANCE		
Operating fund	1,116,781	1,164,374
<i>Total liabilities and fund balance</i>	\$ 1,116,781	\$ 1,166,419

The notes to financial statements are an integral part of these statements.

AMERICAN DAIRY ASSOCIATION OF SOUTH DAKOTA

**STATEMENTS OF REVENUE AND EXPENDITURES, AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL**

FOR THE YEAR ENDED JUNE 30, 2023	Budget	Actual	Favorable (Unfavorable) Variance
REVENUES			
Dairy checkoff assessments	\$ 4,348,131	\$ 4,306,176	\$ (41,955)
Interest	13,000	11,128	(1,872)
Miscellaneous revenue	25	25	-
Total revenues	4,361,156	4,317,329	(43,827)
EXPENDITURES			
Programs			
Contract —Midwest Dairy Association	4,181,500	4,254,946	(73,446)
South Dakota State University Foundation	50,000	95,000	(45,000)
Total program service	4,231,500	4,349,946	(118,446)
Administration			
Contract expenditures—Midwest Dairy Association	15,500	12,054	3,446
State department charges	2,400	2,922	(522)
Board meetings	100	-	100
Total administration	18,000	14,976	3,024
Total expenditures	4,249,500	4,364,922	(115,422)
Excess (Deficit) of revenues over expenditures	111,656	(47,593)	(159,249)
Fund balance, beginning of year	1,164,374	1,164,374	-
Fund balance, end of year	\$ 1,276,030	\$ 1,116,781	\$ (159,249)

The notes to financial statements are an integral part of these statements.

AMERICAN DAIRY ASSOCIATION OF SOUTH DAKOTA

**STATEMENTS OF REVENUE AND EXPENDITURES, AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL**

FOR THE YEAR ENDED JUNE 30, 2022	Budget	Actual	Favorable (Unfavorable) Variance
REVENUES			
Dairy checkoff assessments	\$ 3,628,016	\$ 3,904,825	\$ 276,809
Interest	5,400	4,400	(1,000)
Miscellaneous revenue	25	25	-
Total revenues	3,633,441	3,909,250	275,809
EXPENDITURES			
Programs			
Contract —Midwest Dairy Association	3,596,700	3,688,297	(91,597)
South Dakota State University Foundation	50,000	90,000	(40,000)
Total program service	3,646,700	3,778,297	(131,597)
Administration			
Contract expenditures—Midwest Dairy Association	13,300	11,703	1,597
State department charges	2,400	2,605	(205)
Professional services	8,000	8,500	(500)
Board meetings	100	-	100
Total administration	23,800	22,808	992
Total expenditures	3,670,500	3,801,105	(130,605)
Excess (Deficit) of revenues over expenditures	(37,059)	108,145	145,204
Fund balance, beginning of year	1,056,229	1,056,229	-
Fund balance, end of year	\$ 1,019,170	\$ 1,164,374	\$ 145,204

The notes to financial statements are an integral part of these statements.

AMERICAN DAIRY ASSOCIATION OF SOUTH DAKOTA

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the American Dairy Association of South Dakota (the Association) have been prepared in conformity with accounting principles generally accepted in the United States of America, as applied to government units (hereinafter referred to as generally accepted accounting principles (GAAP)). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Association's significant accounting policies are described below.

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, 2023 and 2022, or the changes in its financial position for the years then ended in conformity with 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.

Fund accounting

The accounts of the Association are organized on the basis of a fund which is considered a separate accounting entity. The operations of the fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, fund balances, revenues, and expenditures, or expenses, as appropriate. Government resources are allocated to and accounted for in the fund based upon the purpose for which they are to be spent and the means by which spending activities are controlled.

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 accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources or economic resources*. The basis of accounting indicates the timing of recognition in the financial statements of various kinds of transactions or events. The current financial resources measurement focus and modified accrual basis of accounting are used to report the Association's funds in the financial statements. Revenues are recognized when they have been earned and they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Association considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are generally recognized when the related fund liability is incurred, as under accrual accounting, except for compensated absences and claims and judgments, which are generally recorded when payment is due based on specific accounting rules applicable to each.

AMERICAN DAIRY ASSOCIATION OF SOUTH DAKOTA

NOTES TO FINANCIAL STATEMENTS

NOTE 1. (CONTINUED)

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.

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.

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.

Subsequent Events

Management has evaluated subsequent events through November 3, 2023, the date the financial statements were available to be released.

NOTE 2. 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.

NOTE 3. INVESTMENT IN MIDWEST DAIRY ASSOCIATION

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.

AMERICAN DAIRY ASSOCIATION OF SOUTH DAKOTA

NOTES TO FINANCIAL STATEMENTS

NOTE 3. (CONTINUED)

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.

NOTE 4. 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 \$4,267,000 and \$3,700,000 for the years ended June 30, 2023 and 2022, respectively.

South Dakota State University is a university governed by the Board of Regents (Higher Education), which is discreetly presented component unit to the State of South Dakota. The Association has entered into a grant with South Dakota State University and provided funding to South Dakota State University in the amount of \$95,000 and \$90,000 for the years ended June 30, 2023 and 2022, respectively, used for research

NOTE 5. LIQUIDITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, consisted of the following:

June 30,	2023	2022
Cash on Deposit—State Treasurer	\$ 388,738	\$ 482,658
Dairy Checkoff Assessments Receivable	510,018	472,464
Interest Receivable	11,128	4,400
Total	\$ 909,884	\$ 959,522

NOTE 6. COMMITMENTS

The Association has an agreement with Midwest Dairy, through December 31, 2023, to provide certain services to implement and administer the dairy promotion, research, and education programs in South Dakota. Future commitments as of June 30, 2023 ending December 31, 2023 were \$2,202,000.

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
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, 2023 and 2022, and the related statements of revenues, expenditures and changes in fund balance – budget and actual, for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated November 3, 2023.

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 3, 2023

AMERICAN DAIRY ASSOCIATION OF SOUTH DAKOTA

BOARD OF DIRECTORS

2023

Directors

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

**Chief Executive Officer of
Midwest Dairy Association**

Molly Pelzer
*2015 Rice Street
Roseville, Minnesota 55113*

2022

Directors

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

**Chief Executive Officer of
Midwest Dairy Association**

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