U.S. Department of Agriculture
Report to Congress
on the
Dairy Promotion
and Research Program
and the
Fluid Milk
Processor Promotion Program
2015 Program Activities
Contents

Contact Information .................................................................................................................................................. 3

Executive Summary ............................................................................................................................................... 5

Chapter 1: The Dairy and Fluid Milk Processor Promotion Programs .................................................................................. 7

Chapter 2: USDA Activities .................................................................................................................................... 18

Chapter 3: Quantitative Evaluation of the Effectiveness of Promotion Activities by the National Dairy Promotion and Research Program and the National Fluid Milk Processor Promotion Program .......................................................................................................................... 22

Chapter 4: Qualified State, Regional, or Importer Dairy Product Promotion, Research, or Nutrition Education Programs ..................................................................................................................................................... 45

Additional Information: 2015 Approved Contracts, National Dairy Foods Research Centers, Research Activities, and Audits ................................................................................................................................................. 51
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September 2017
Executive Summary

The enabling legislation of the dairy producer, dairy importer, and fluid milk processor promotion programs requires the U.S. Department of Agriculture (USDA) to submit an annual report to the House Committee on Agriculture and the Senate Committee on Agriculture, Nutrition, and Forestry. The dairy and fluid milk promotion programs are conducted under the Dairy Production Stabilization Act of 1983 (7 U.S.C. 4501 et seq.) (Dairy Act); the Dairy Promotion and Research Order (7 CFR § 1150) (Dairy Order); the Fluid Milk Promotion Act of 1990 (7 U.S.C. 6401 et seq.) (Fluid Milk Act); and the Fluid Milk Promotion Order (7 CFR § 1160) (Fluid Milk Order), respectively. This report includes summaries of the activities for the dairy and fluid milk programs, including an accounting of funds collected and spent; USDA oversight; and independent analyses of the effectiveness of the campaigns. Unless otherwise noted, this report addresses program activities for January 1 through December 31, 2015, of the Dairy Promotion and Research Program and the Fluid Milk Processor Promotion Program.

Dairy Promotion and Research Program

Mandatory assessments collected under the Dairy Act totaled $112.7 million in 2015 including interest income. Expenditures by the Dairy Board and many of the Qualified Dairy Product Promotion, Research, or Nutrition Education Programs (QPs) are integrated through a joint process of planning and program implementation to work together on the national, regional, State, and local level. The Dairy Board continued to develop and implement programs to expand the human consumption of dairy products by focusing on partnerships and innovation, product positioning with consumers, and new places for dairy product consumption.

The Dairy Board continued its support of dairy nutrition research, education, and communication and celebrated the National Dairy Council’s (NDC) 100th anniversary. NDC provides timely, scientifically sound nutrition information to the media, physicians, dietitians, nurses, educators, consumers, and other health professionals.

The Dairy Board continued its support for childhood health and wellness through the design and launch of Fuel Up to Play 60 in espanol to encourage Spanish-speaking communities nationwide to live healthier lifestyles through good nutrition and physical activity.

Details of the activities of the Dairy Board are presented in Chapter 1. Details of the QPs’ activities can be found in Chapter 4.

Fluid Milk Processor Promotion Program

The Fluid Milk Processor Promotion Board (Fluid Milk Board) continued to administer a generic fluid milk promotion and consumer education program funded by America’s fluid milk processors. The program is designed to educate Americans about the benefits of milk, increase milk consumption, and maintain and expand markets and uses for fluid milk products in the contiguous 48 States and the District of Columbia. The Fluid Milk Board continued to focus on
occasion-based strategies, long-range planning, and a strategic roadmap that identified breakfast at home as having the best potential to stem the decline in fluid milk consumption.

During 2015, the Fluid Milk Board launched a variety of messages and ads highlighting milk’s 8 grams of protein per 8-ounce serving. Through these messages, the Fluid Milk Board sought to educate the general market and Hispanic consumers on the versatility of fluid milk and the importance of protein in the morning. The Fluid Milk Board also continued its efforts to position chocolate milk as the recovery beverage of choice for athletes after strenuous exercise.

The Fluid Milk Order requires the Fluid Milk Board to return 80 percent of the funds received from California processors to the California Milk Processor Board. Assessments collected in 2015 totaled $92 million. Per the Fluid Milk Order requirement, $8.4 million was returned to the California Milk Processor Board. The California Milk Processor Board uses the funds to conduct its promotion activities, which include the got milk® advertising campaign. The activities of the Fluid Milk Processor Promotion Program are presented in the Fluid Milk Board section in Chapter 1.

**USDA Activities**

USDA has oversight responsibility for the dairy and fluid milk promotion programs. The oversight objectives ensure the boards and QPs properly account for all program funds and administer the programs in accordance with the respective Acts and Orders and USDA guidelines and policies. USDA reviews and approved all board budgets, contracts, and advertising materials. USDA employees attend all board and committee meetings, monitor all board activities, and are responsible for obtaining an independent evaluation of the programs. Additional USDA responsibilities relate to nominating and appointing board members, amending the Orders, conducting referenda, assisting with noncompliance cases, and conducting periodic program management reviews. The boards reimburse the U.S. Secretary of Agriculture, as required by the Acts, for all of USDA’s costs of program oversight and for the independent analyses discussed in Chapter 3. Chapter 2 details USDA’s oversight activities.

**Independent Analysis**

Chapter 3 describes the results of the independent econometric analysis, conducted by Texas A&M University, on the effectiveness of the programs implemented by the Dairy Board and the Fluid Milk Board. The analysis indicates that the generic fluid milk marketing activities sponsored by the programs have helped mitigate the decline of fluid milk consumption.

Chapter 3 presents the combined effects of 2015 promotion activities on the consumption of fluid milk, cheese, butter, all dairy products, and dairy exports and includes benefit-cost ratios (BCRs) for dairy producers and fluid milk processors. For every dollar invested in demand-enhancing activities, the BCRs for producers were as follows: (1) fluid milk - $2.99, (2) cheese - $7.72, and (3) butter - $32.06. The BCR for fluid milk processors attributed to fluid milk promotion activities is $3.79.
Chapter 1

The Dairy and Fluid Milk Processor Promotion Programs

The Dairy Board and the Fluid Milk Board continued to develop and implement programs to expand the human consumption of fluid milk and dairy products. This chapter details the activities of each board.

I. National Dairy Promotion and Research Board

The mission of the Dairy Board is to coordinate a promotion and research program that maintains and expands domestic and foreign markets for fluid milk and dairy products. The Dairy Board is responsible for administering the Dairy Order, developing plans and programs, approving budgets, and monitoring the program results.

The U.S. Secretary of Agriculture (Secretary) appoints 38 members to the Dairy Board, 36 of whom are dairy producers who each represent 1 of 12 geographic regions within the United States, and 2 who represent dairy importers. The appointments are made from nominations submitted by producer organizations, importer organizations, general farm organizations, and QPs. Members serve staggered 3-year terms, with no member serving more than two consecutive terms.

Total Dairy Board income and expenses are displayed in Figure 1-1. The Dairy Board’s administrative budget continued to be within the 5-percent-of-revenue limitation required by the Dairy Order. An independent auditor’s report for 2015 is provided in Appendix C.

The Dairy Board has two standing committees: the Finance and Administration (F&A) Committee and the Executive Committee. The F&A Committee consists of the Dairy Board officers and appointees named by the Dairy Board Chair. The Dairy Board Treasurer chairs the F&A Committee. The full Dairy Board serves as the Executive Committee. The other Dairy Board committees are joint program committees with the United Dairy Industry Association (UDIA).

| Figure 1-1 | NATIONAL DAIRY PROMOTION AND RESEARCH BOARD
<table>
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<td>Total Budgeted Expenditures</td>
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Dairy Management Inc. (DMI), the management and staffing corporation, is a joint undertaking between the Dairy Board and UDIA. UDIA is a federation of 19 of the 63 QPs under the direction of a board of directors. The mission of DMI is to drive increased sales of and demand for dairy products and ingredients on behalf of dairy producers and dairy importers. DMI works proactively, in partnership with leaders and innovators, to increase and leverage opportunities to expand dairy markets. The DMI Board of Directors comprises all Dairy Board (38) and all UDIA (45) members. Voting is equalized between the Dairy Board and UDIA.

DMI serves the Dairy Board and the UDIA Board and facilitates the integration of promotion funds through a joint process of planning and program implementation so that the programs on the national, regional, State, and local level work together. The Dairy Board and UDIA Board must separately approve the DMI budget and annual plan before these plans can be implemented. During 2015, DMI continued to implement a national staffing structure to plan and execute the national programs.

DMI funds 1- to 3-year research projects supporting marketing efforts. Six Dairy Foods Research Centers and one Nutrition Institute provided much of the research in 2015. Their locations and the research objectives are provided in Appendix D. Universities and other industry researchers throughout the United States compete for these research contracts.

The joint Dairy Board and UDIA Board committee structure provides the framework for DMI program activities. The Dairy Board and UDIA Board Chairs assign their respective board members to the following joint program committees: Research and Insights, Health and Wellness, Export and Ingredients, and Producer Relations and Consumer Confidence. Each committee elects a chair and vice-chair. The DMI Board and joint committees set program priorities, plan activities and projects, and evaluate results. During 2015, the Dairy Board and UDIA Board met jointly six times.

DMI hosted dairy director regional planning forums across the country to review and create marketing strategies for the unified dairy promotion plan. These forums are designed to create one unified dairy promotion plan and allow opportunities for grassroots dairy producers to ask questions, raise concerns, and offer thoughts on the plan’s direction and development.

The following information describes Dairy Board and UDIA Board activities and initiatives implemented in 2015.

National Dairy Council®

The National Dairy Council® [http://www.nationaldairycouncil.org](http://www.nationaldairycouncil.org) (NDC) celebrated its 100th anniversary in 2015. NDC is the nutrition marketing arm of DMI and has been the leader in dairy nutrition research, education, and communication. NDC provides timely, scientifically sound nutrition information to the media, physicians, dietitians, nurses, educators, consumers, and other health professionals. Additionally, NDC funds independent research to aid in the ongoing discovery of information about dairy foods’ important role in a healthy lifestyle. This research provides insights to industry for new dairy product innovation.
Health professional outreach remained a critical component of NDC and the 3-Every-Day™ program. The American Academy of Family Physicians, the American Academy of Pediatrics, the Academy of Nutrition and Dietetics, the National Medical Association, the School Nutrition Association, and the National Hispanic Medical Association all continued their support and partnership with NDC and 3-Every-Day™. By working with key health professional partners like these, NDC continued to provide a clear, practical message to the public on the importance of consuming three daily servings of low-fat or fat-free dairy. Combined, these organizations represent more than 250,000 health professionals nationwide.

As an extension of its online engagement with health professionals, NDC continued its blog, “The Dairy Report” (www.thedairyreport.com). Blog contributors include NDC registered dietitians, Ph.D. nutritionists, and communication experts, as well as guest nutrition and health and wellness experts. Through the blog, NDC provides the latest news, analysis, and opinions on dairy-related nutrition and health research.

**Fuel Up to Play 60**

*Fuel Up to Play 60* (FUTP60) is an in-school program combining the nutrition expertise of NDC and the fitness expertise and star power of the National Football League (NFL) to combat childhood obesity and provide youth with resources necessary to improve their personal health and school nutrition and wellness environment. FUTP60 is based on the USDA’s Dietary Guidelines for Americans that recommend the consumption of low-fat and fat-free dairy foods; more fruits, vegetables, and whole grains; and getting 60 minutes of daily physical activity.

During the 2015 school year, FUTP60 reached more than 38 million students in more than 73,000 schools. Students and schools joined the program by signing up at www.fueluptoplay60.com. Through the enrollment, students and schools gained access to a School Wellness Kit containing in-school promotional materials and a “Playbook” containing healthy eating and physical activity strategies or “plays.” Each of the plays could be tailored to individual school health and wellness needs. Students were encouraged to form teams, with supervision from an adult program advisor, to carry out the plays and generate excitement for making healthy changes throughout the student body.

*GenYOUth Foundation*

The GenYOUth Foundation (Foundation), launched in 2011 by NDC, is a non-profit organization whose mission is to create a movement that will inspire youth to develop healthier eating and physical activity behaviors. The Foundation works with schools, communities, and business partners to develop and support programs that create lasting changes in the child health and wellness arena, including FUTP60.

In 2015, GenYOUth, FUTP60, and the Pepsico Foundation announced the launch of *Fuel Up to Play 60 en espanol* to encourage Spanish-speaking communities nationwide to live healthier lifestyles through good nutrition and physical activity. FUTP60 launched a redesigned website to provide Spanish-language content and materials. Many organizations supported the
translation effort, including the PepsiCo Foundation, which provided a grant to develop the Spanish-language materials and resources.

**U.S. Dairy Export Council**

DMI’s export enhancement program is implemented by the U.S. Dairy Export Council (USDEC). USDEC receives funding from three sources: DMI; USDA’s Foreign Agricultural Service (FAS); and membership dues from dairy cooperatives, processors, exporters, and suppliers.

In 2015, USDEC received $16.4 million from DMI; $5.6 million from FAS’s Market Access Program and Foreign Market Development Program; and $1.5 million from membership dues.

In 2015, USDEC continued to focus on maximizing its resources to USDEC members and aligning them with a shifting global business environment. USDEC has offices in Washington, D.C.; Mexico City, Mexico; Tokyo, Japan; Seoul, South Korea; Hong Kong and Shanghai, China; Ho Chi Minh City, Vietnam; Bangkok, Thailand; Beirut, Lebanon; and São Paulo, Brazil (Figure 1-2).

**Figure 1–2.** USDEC Offices.

USDEC redesigned its website, [www.thinkusadairy.org](http://www.thinkusadairy.org), to help increase demand for U.S. dairy ingredients by promoting the ways dairy affects taste, functionality, and convenience. The ingredient program supports dairy product and nutrition research, ingredient applications, development, and technical assistance for the dairy, food, and beverage industries. Dairy, food, and beverage manufacturers use this program to locate knowledge, laboratory, and professional resources to help develop or improve foods using dairy ingredients.
Innovation Center for U.S. Dairy

Dairy producers, processors, and manufacturers announced an unprecedented agreement in 2008 to collaborate on pre-competitive initiatives through a new Innovation Center for U.S. Dairy (Innovation Center). The goal of the agreement is to accelerate industry innovation throughout the supply chain to increase sales in a competitive consumer marketplace.

The Innovation Center was established by dairy producers through DMI. It is the first organization of its kind to bring together milk producers, processors, and manufacturers under one organization to collaborate on industry issues.

The Innovation Center provides a forum for the entire dairy industry to work together to offer consumers the products they want, when and where they want them, and increase dairy sales through pre-competitive collaboration. It combines the collective resources of the industry to provide consumers with nutritious dairy products and foster industry innovation for healthy people, products, and planet. DMI staffs and supports the Innovation Center.

The Innovation Center moves its priorities forward through enlisting cross-industry operational committees charged with developing action plans. These committees and purposes include: Health and Wellness Committee – to increase category sales and demand for dairy products by identifying and meeting the health and wellness needs and desires of consumers; Research and Insights Committee – to act as the steward of the pre-competitive innovation assets and resources of the industry; Globalization Committee – to provide a strategic analysis of the global dairy landscape and a common understanding of the challenges, opportunities, and threats posed by increasing globalization to the U.S. dairy industry; Sustainability Committee – to provide consumers with the nutritious dairy products they want in a way that is economically viable, environmentally sound, and socially responsible; and Food Safety Committee – to improve food safety practices and to protect trust in dairy.

Sustainability

Dairy leaders continued their industry-wide commitment and action plan to reduce the dairy industry’s carbon footprint while increasing business value from farm to consumer. The action plan was an outcome of the industry’s June 2008 Sustainability Summit for U.S. Dairy, a gathering of 250 leaders representing producers, processors, non-governmental organizations, university researchers, and government agencies, held in Rogers, AR.

The plan focuses on operational efficiencies and innovations to reduce greenhouse gas emissions while ensuring financial viability and industry growth. The dairy industry has committed to a goal to reduce the carbon footprint of fluid milk by 25 percent by the year 2020 – equivalent to taking more than 1.25 million cars off the road every year. The industry will reduce greenhouse gas emissions throughout the entire dairy value chain from production of feed for dairy cows through retail. Based on goals from the Sustainability Summit, the following projects and resources have been created to help reduce greenhouse gas emissions:

1. Farm Smart: Includes support tools that adapt to the size, region, soils, and watersheds unique to each dairy. The tools give producers the ability to assess and mitigate their
environmental profile; track and measure their footprint; plan for future improvements; and communicate progress to customers, community members, regulators, and other stakeholders.

2. Farm Energy Efficiency: Promotes energy conservation, efficiency, cost savings, and greenhouse gas reductions through outreach efforts linking dairy producers to programs and funds to assist with energy audits and technology upgrades.

3. Dairy Power/Biogas Capture and Transport: Focuses on harnessing the value and potential of anaerobic methane digester systems for U.S. dairy producers. The project seeks to put 1,300 methane digesters on dairy farms by 2020. The project also focuses on partnerships between dairy farms, food processors, and retailers to turn waste into a source of value with methane digester systems by combining food waste with cow manure to maximize environmental, economic, and community benefits.


5. Dairy Plant Smart: Helps dairy processors and manufacturers track and reduce energy use, operating costs, and greenhouse gas emissions associated with energy, fuel, refrigerant, and packaging. The project provides an average of greenhouse gas emissions data for plants in the same region as well as a national average to serve as a benchmark. Dairy Plant Smart promotes dairy industry participation in the U.S. Environmental Protection Agency’s (EPA) Energy Star Challenge for Industry. The program recognizes individual dairy plants that have reduced their energy intensity by 10 percent within 5 years.

6. Dairy Fleet Smart: Combines science-based decision-making tools with recommended management practices that reduce fuel consumption, costs, and greenhouse gas emissions associated with milk transportation and distribution. The tool complements the EPA’s SmartWay Program, which helps long-haul fleets and professional drivers reduce fuel consumption, emissions, and air pollution. When used in tandem with the SmartWay program, Dairy Fleet Smart provides performance improvement tools tailored to dairy industry shippers and carriers.

Industry and Image Relations

Today’s consumers are less connected to food production and receive mixed messages through the media about the agriculture industry. As part of an effort to help protect the image of dairy producers and the dairy industry among the public, DMI continued its website, www.dairyfarmingtoday.org. The site educates the public about how today’s dairy producers care for their animals, protect the land, and produce safe, wholesome milk.
DMI continued www.dairygood.org, as a platform for the dairy industry to collectively come together and tell its story using unified messaging. The website’s goal is to put a “face” on the dairy industry and amplify conversations that take place in other dairy social media channels, such as NDC and FUTP60, to demonstrate dairy’s commitment to food and nutrition security, and to drive conversations to promote consumer confidence in the dairy industry and its products.

To help dairy producers directly communicate with consumers about dairy farming practices, DMI continued its “Telling Your Story” (TYS) program in 2015. TYS provides dairy producers with public relations, presentations, and media training to build and maintain consumers’ confidence in the dairy industry’s production practices and products. DMI’s TYS social media component uses Facebook, YouTube, Twitter, and blogs to develop a network of social media-savvy dairy advocates to tell the industry’s story, build a positive image, and counter inaccurate or uninformed commentary online about dairy farming practices and products.

DMI continued its Issues Management and Crisis Readiness programs. DMI staff and related dairy industry representatives work to monitor and identify current and potential issues where the safety, benefit, or reputation of dairy producers or dairy products may be publicly called into question. As needed, the network of representatives responds to media requests, trains dairy spokespeople, builds third-party relationships within the agricultural industry, and distributes media alerts with key messages to maintain consistent industry-wide responses. Primary areas of focus include animal welfare, environment, sustainability, food safety, child nutrition, and modern farming practices.

The Crisis Readiness program continued to develop a strong network of dairy industry and agricultural representatives. Through this coordinated effort, the program developed a plan to communicate quickly, accurately, and effectively in the event of a crisis such as a disease outbreak, product contamination, or food-borne illness. The program led several regional crisis drills that engaged many sectors of the industry by focusing on hypothetical scenarios ranging from animal disease outbreaks to the international tampering of dairy products. These drills helped to maintain the industry’s state of readiness and reinforced the critical nature of steps taken within the first 24 hours of a crisis.

DMI continued its support for butter through cooperation and public relations activities with the American Butter Institute, including the website www.butterisbest.com, a consumer resource center with current cooking trends and ideas, butter recipes, and links to other butter-related websites. DMI also continued to work with the Wisconsin Milk Marketing Board to execute co-funded retail butter promotion activities. The national effort helped to drive incremental retail butter sales in select markets across the United States.

II. National Fluid Milk Processor Promotion Board

The National Fluid Milk Processor Promotion Board (Fluid Milk Board), as authorized in the Fluid Milk Act, administers a fluid milk promotion and consumer education program funded by fluid milk processors. The program is designed to educate Americans about the benefits of fluid
milk, increase milk consumption, and maintain and expand markets and uses for fluid milk products in the contiguous 48 States and the District of Columbia. The fluid milk marketing programs are research based and message focused for the purpose of positively changing the attitudes and purchase behavior of Americans regarding fluid milk.

The Secretary appoints 20 members to the Fluid Milk Board. Fifteen members are fluid milk processors who each represent a separate geographical region, and five are at-large members. Of the five at-large members, at least three members must be fluid milk processors and at least one member must be from the general public. The members of the Fluid Milk Board serve 3-year terms and are eligible to be appointed to two consecutive terms. The Fluid Milk Order provides that no company shall be represented on the Fluid Milk Board by more than three members. The Milk Processor Education Program (MilkPEP) carries out the activities of the Fluid Milk Board.

The Fluid Milk Board elects four officers: chair, vice-chair, secretary, and treasurer. The chair assigns Fluid Milk Board members to the Fluid Milk Board’s occasion-based program committees. The program committees are responsible for setting program priorities, planning activities and projects, and evaluating results. The Fluid Milk Board’s Finance Committee reviews all program authorization requests for funding sufficiency, the Fluid Milk Board’s independent financial audit, and the work of the board’s accounting firm. The Fluid Milk Board met three times during 2015.

Fluid Milk Board income and expenses are displayed in Figure 1-3. The Fluid Milk Board’s administrative budget continued to be within the 5-percent-of-revenue limitation required by the Fluid Milk Order. An independent auditor’s report for 2015 is provided in Appendix A.

![Figure 1-3](image)

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**Medical Advisory Board**

The Fluid Milk Board’s Medical Advisory Board (MAB), comprised of academic, medical, and health care professionals with expertise relevant to the health benefits of fluid milk, continued to meet in 2015. The MAB provides guidance to the Fluid Milk Board’s development of key nutritional and health messages for consumers and health professionals. As in previous years,
MAB members assisted the Fluid Milk Board in continuing relationships with health professional organizations such as the American Academy of Pediatrics, the Academy of Nutrition and Dietetics, and the American Heart Association. The MAB members were also featured as medical professionals in the media, providing science-based statements supporting the health benefits of fluid milk.

The MAB activities of the Fluid Milk Board also included being quoted in press materials and acting as spokespersons on breaking research relevant to fluid milk. The MAB continued to inform others in the scientific community about the strong and growing body of research showing the benefits of consuming milk, particularly flavored milk, after exercise for muscle recovery and rehydration.

**Fluid Milk Programs**

**Milk Life Committee – General Market and Hispanic**

MilkPEP’s popular *Milk Life®* consumer campaign focuses on fluid milk and its nutritional benefits, including high-quality protein and its ability to help power the potential of every day. In 2015, MilkPEP’s white milk marketing efforts continued to focus on reinvigorating fluid milk’s relevancy and the importance of getting enough protein every morning, including the 8 grams of protein in every 8-ounce serving of milk. The *Milk Life®* campaign included print, television, digital advertising, retail promotions, public relations, and social media all supporting the benefits of fluid milk’s protein. In 2015, MilkPEP launched the *Milk Life®* Challenge, consisting of 31 days of attainable, everyday tasks inspiring consumers to “Milk Life®.” The Challenge reached nearly 13.5 million consumers. The *Milk Life®* campaign continues its efforts to improve consumers’ perceptions of milk and encouraging them to choose milk for themselves and their families.

In 2015, MilkPEP, in partnership with Feeding America®, continued the *Great American Milk Drive*, the first-ever national program designed to deliver nutrient-rich gallons of milk to families in need who struggle with food insecurity. Milk is one of the most requested, yet least donated, items at America’s food banks because it is perishable. As a result, Feeding America® is only able to provide, on average, less than 1 gallon of milk per person per year. MilkPEP’s *Great American Milk Drive* encourages consumers across the United States to donate milk to families in need through online or in-store donations. In 2015, with 68 retailers activating in the program, over 320,000 gallons of milk were collected at retail and more than 5.1 million servings of milk were donated to Feeding America® families across the United States. The program generated more than 200 million media impressions nationwide, increasing the awareness and need for more milk in food banks.

In 2015, MilkPEP launched *Get Real*, an industry-wide social advocacy initiative focused on communicating the health benefits of milk and driving consumer awareness of five science-based “Milk Truths” via social and traditional media. This campaign, designed to improve consumers’ confidence in milk and to correct common milk myths, engaged in productive dialogue with consumers and garnered more than 225 million total positive impressions from traditional media,
paid tactics, and social media. The campaign continued to promote positive stories about milk to audiences and reminded consumers of the nutritional and lifestyle benefits of consuming milk.

MilkPEP continued its Hispanic campaign as part of the industry’s outreach to the growing Hispanic population. MilkPEP maintained synergy with its general market consumer campaign, Milk Life®, by leveraging the importance of protein in the diet and utilizing ambassadors of strength to inspire Hispanic viewers with the Somos Fuertes (We Are Strong) initiative. The Somos Fuertes campaign promotes the importance of milk’s nutrition, and especially protein, for strength and success. The campaign included 2 commercial television spots, 8 live custom-cooking segments, 4 brand spotlights and 1 Milk Life® vignette maximizing milk messaging and generating 2.3 million impressions. The campaign also engaged popular musician Horge Narvaez and prima ballerinas Lorena and Lorna Feijoo, promoting the importance of drinking milk, and engaged top Hispanic bloggers to share milk-based recipes and personal experiences of incorporating milk and its nutrition into everyday life.

**Built with Chocolate Milk Committee**

MilkPEP’s Built with Chocolate Milk program continued to promote its lowfat chocolate milk message for exercise recovery to athletes in 2015, focusing promotional efforts around soccer and basketball. To engage new audiences, MilkPEP promoted the benefits of recovering and rebuilding muscles with chocolate milk after strenuous exercise to athletes and exercisers nationwide seeking recovery after a tough workout. MilkPEP continued its successful partnerships with the Rock ‘n’ Roll Marathon and the IRONMAN series to engage tough exercisers with product samples and the chocolate milk recovery message. Sixteen milk companies participated in marquee events in 2015, contributing nearly 200,000 samples of lowfat chocolate milk to athletes as they crossed the finish lines.

Contiguously with the 2015 Fédération Internationale de Football Association (FIFA) Women’s World Cup, MilkPEP partnered with United States Women’s National Soccer Team forward, Kelley O’Hara, in a campaign for Built with Chocolate Milk, showcasing how elite athletes recover with chocolate milk. This campaign, featuring Kelley O’Hara, included print ads, social media conversations, and online videos, generating a total of 14.3 million social impressions.

In 2015, Kevin Love of the Cleveland Cavaliers also joined the Built with Chocolate Milk team as part of a campaign promoting chocolate milk as his recovery beverage of choice. The campaign included online video content, media relations, and social media conversations during Cleveland Cavaliers basketball games, generating a total of 43 million social impressions.

Team Chocolate Milk consists of over 120 athletes who engage their audiences on social media about their training techniques, race information, and recovery with lowfat chocolate milk. The Built with Chocolate Milk campaign continued its partnership with the Challenged Athletes Foundation as the “Official Recovery Beverage” and joined forces to help people with physical challenges pursue active lifestyles through race entries, gear, and grants. The athletes served as spokespeople wearing branded gear during races and participating in media interviews. The Built with Chocolate Milk campaign also continued to promote strong relationships with Team
Chocolate Milk elite athletes, including Mirinda “Rinny” Carfrae, Craig “Crowie” Alexander, and Luke McKenzie, by supporting them on social media channels throughout 2015.

**Industry Collaboration and Business Development**

The Milk Revitalization Alliance (Alliance), a partnership between MilkPEP and DMI, is designed to accomplish the common goal of revitalizing fluid milk sales through strategic partnerships and optimizing joint programs of both organizations. The Alliance has resulted in successful collaborations in social media and issues management geared towards reinforcing consumers’ trust and confidence in fluid milk. In 2015, DMI and MilkPEP jointly launched the *Get Real* program focusing on uniting the industry with one voice around common issues and continuing to make milk relevant for consumers. MilkPEP and DMI’s collaboration on *The Great American Milk Drive* continues to be successful with strong industry representation. In 2015, 18 processors and 16 Dairy Councils leveraged MilkPEP assets to host and participate in 24 *Great American Milk Drive* events nationwide.

MilkPEP continued its commitment to conducting research and building the strategy for the consumer campaign. MilkPEP conducted research that shaped the direction of the consumer-facing *MilkLife®* and Power of Protein programs. Additionally, MilkPEP continued to conduct research on the *Built with Chocolate Milk* recovery message strategy, aiding the effort in campaign development. Ongoing efforts such as the Consumption Tracker, Attitude and Awareness Tracker, and All Channel Tracking helped MilkPEP identify what is happening in milk consumption and develop new plans to drive better business practices. MilkPEP also continued the Nutrition News Bureau program, ensuring the positive research showing milk’s benefits was reported in the media, as well as its Supermarket Registered Dietician program, which reinforces Supermarket Dieticians’ understanding of the importance of milk and conveying milk’s nutritional benefits in in-store programs.
Chapter 2

USDA Activities

The USDA’s Agricultural Marketing Service’s (AMS) Dairy Program has oversight responsibilities for the Dairy Board and the Fluid Milk Board. AMS Dairy Program’s oversight activities include reviewing and approving the Dairy and Fluid Milk Boards’ budgets, budget amendments, contracts, advertising campaigns, and investment plans. Materials are monitored for conformance with provisions of the respective Acts and Orders, the U.S. Dietary Guidelines for Americans, and other legislation. AMS Dairy Program also uses the “Guidelines for AMS Oversight of Commodity Research and Promotion Programs” to govern oversight and facilitate the application of legislative and regulatory provisions of the Acts and the Orders.

The AMS Dairy Program ensures the collection, accounting, auditing, and expenditure of promotion funds is consistent with the enabling legislation and Orders; certifies Qualified Programs; and provides for the evaluation of the effectiveness of both promotion programs’ advertising campaigns. The AMS Dairy Program assists the boards in their assessment collection, compliance, and enforcement actions.

Other AMS Dairy Program responsibilities relate to nominating and appointing board members, amending the Orders, conducting referenda, public and industry communications, and conducting periodic management reviews. AMS Dairy Program representatives attend full board and committee meetings and other meetings related to the programs.

Dairy Promotion and Research Program Oversight

Nominations and Appointments

The Dairy Board is composed of 38 members, including 36 domestic dairy producers and 2 dairy importers, who administer the program. Dairy Board members serve 3-year terms, with no member serving more than two consecutive terms. Dairy Board members must be active dairy producers or dairy importers. The Secretary selects dairy producer members from nominations submitted by producer organizations, general farm organizations representing dairy producers, Qualified Programs, or other interested parties. The Secretary selects dairy importer members from nominations submitted by individual importers of dairy products or by organizations representing dairy importers.
Collections

The Dairy Act specifies that each person making payments to a producer for milk produced in the United States and purchased from the producer should, in the manner prescribed by the Order, collect an assessment based upon the number of hundredweights of milk for commercial use handled for the account of the producer and remit the assessment to the Dairy Board. The current rate of assessment for dairy producers is 15 cents per hundredweight of milk for commercial use or the equivalent thereof, as determined by the Secretary. In addition, the rate of assessment for imported dairy products prescribed by the order is 7.5 cents per hundredweight of milk for commercial use or the equivalent thereof, as determined by the Secretary.

The Dairy Act provides that dairy producers can direct up to 10 cents of their 15-cent-per-hundredweight assessment to Qualified Programs. For 2015, the net Dairy Board assessment was approximately 5.32 cents per hundredweight of milk marketed. The Dairy Act also provides that dairy importers can designate 2.5 cents of their 7.5-cent per hundredweight assessment to Qualified Programs. If dairy producers or dairy importers do not specify designation to a Qualified Program, the entire assessment is retained by the Dairy Board for use by the national program.

Contracts

The Dairy Act and Dairy Order require contracts expending assessment funds be approved by the Secretary. During 2015, the AMS Dairy Program reviewed and approved 351 Dairy Board and DMI agreements, amendments, and annual plans.

Contractor Audits

In 2015, DMI retained the certified public accounting firm of Ernst & Young to audit the records of the following contractors: Agribusiness-Connect Asia; fairlife, LLC; MMS Education; National Milk Producers Federation; and the University of Minnesota. No material exceptions were found.

USDA Foreign Agricultural Service

The Secretary of Agriculture has delegated oversight responsibility for all foreign market development activities outside the United States to the USDA Foreign Agricultural Service (FAS) (7 CFR 2.43(a)(24)). FAS reviews the USDEC foreign market development plan and related contracts. The AMS Dairy Program also reviews USDEC contracts to ensure conformance with the Dairy Act, Dairy Order, and with established USDA policies. In 2015, the AMS Dairy Program reviewed and approved 99 USDEC contracts.

Organic Exemption

Effective February 14, 2005, any persons producing and marketing solely 100 percent organic products were exempted from paying assessments to any research and promotion program
administered by the AMS (70 FR 2743, published January 14, 2005). The final rule amended Section 1150.157 of the Dairy Order. In States having mandatory assessment laws, organic dairy producers are exempt only from the Federal assessment. Organic producers are still responsible for remittance of State assessments. In 2015, the amount of exempted assessments was $1,051,000. The Dairy Order requires organic producers to re-apply annually to continue to receive the exemption.

USDA Dairy Promotion and Research Program Expenses

Per the Dairy Board’s enabling legislation, the Dairy Board reimburses the AMS Dairy Program for the cost of administrative oversight and compliance audit activities. In 2015, the AMS Dairy Program’s oversight expenses totaled $561,599, and the Federal Milk Market Administrators incurred $212,515 in expenses for verification audits conducted on behalf of the Dairy Board.

Qualified Programs

Qualified Programs are State, regional, or importer organizations conducting dairy product promotion, research, or nutrition education program, authorized by Federal or State law, or were active programs prior to the Dairy Act. In 2015, the AMS Dairy Program reviewed applications for continued qualification from 65 Qualified Programs. A list of the Qualified Programs is provided in Chapter 4. Consistent with its responsibility for monitoring the Qualified Programs, the AMS Dairy Program obtained and reviewed income and expenditure data from each Qualified Program, and data reported are included in aggregate for 2015 in Chapter 4.

National Fluid Milk Processor Promotion Board Oversight

Nominations and Appointments

The 20 members of the Fluid Milk Board serve 3-year terms, with no member serving more than two consecutive terms. The Fluid Milk Promotion Order (Fluid Milk Order) provides that no company shall be represented on the Fluid Milk Board by more than three representatives. Fluid Milk Board members who fill vacancies with a term of 18 months or less may serve two additional 3-year terms. The Secretary selects Fluid Milk Board members from nominations submitted by fluid milk processors, interested parties, and eligible organizations.

Program Development

The Fluid Milk Board contracted with Commonground/MGS, and the Interpublic Group Agencies of: CMGRP, Inc. d/b/a Weber Shandwick; FCB Worldwide, Inc.; and Lowe Campbell Ewald, to develop its Hispanic advertising/public relations, mom and teen advertising, promotions, and consumer education/public relations respectively. In November 2015, the Board terminated its agreement with Commonground/MGS.
Collections

The Fluid Milk Act specifies that each fluid milk processor shall pay an assessment on each unit of fluid milk product processed and marketed commercially in consumer-type packages. The current rate of assessment is 20 cents per hundredweight of fluid milk products marketed.

Contracts

The Fluid Milk Act and Fluid Milk Order require budgets and contracts expending assessments be approved by the Secretary. During 2015, the AMS Dairy Program approved 196 Fluid Milk Board agreements, amendments, contracts, and annual plans.

Contractor Audits

The Fluid Milk Board retained the certified public accounting firm of Snyder, Cohn, Collyer, Hamilton, & Associates, P.C. (Snyder Cohn), in 2015 to audit the records of: CMGRP, Inc. d/b/a Weber Shandwick; Commonground/MGS; FCB Worldwide, Inc.; and Lowe Campbell Ewald. Snyder Cohn’s engagement and agreed-upon procedures were to determine if the agencies had conformed to the financial and regulatory compliance requirements specified in their individual agreements with the Fluid Milk Board. No material exceptions were found.

USDA Fluid Milk Processor Promotion Program Expenses

Per the Fluid Milk Act, the Fluid Milk Board reimburses the AMS Dairy Program for the cost of administrative oversight and compliance audit activities. In 2015, the AMS Dairy Program’s oversight expenses totaled $364,495 and the Federal Milk Market Administrators incurred $121,128 in expenses for verification audits conducted on behalf of the Fluid Milk Board.
Chapter 3

Quantitative Evaluation of the Effectiveness of Promotion Activities by the National Dairy Promotion and Research Program and the National Fluid Milk Processor Promotion Program – 2015 Activities

Introduction

The Dairy Act and Fluid Act require an annual independent analysis of the advertising and promotion programs that operate to increase consumer awareness and sales of fluid milk and dairy products. Texas A&M University researchers were awarded a competitive contract to complete the study. Chapter 3 summarizes the quantitative evaluation of the effectiveness of the dairy and fluid milk promotion programs. Due to data revisions, the results from the 2015 report are not comparable to previous reports.

Background on the Promotion Program

The National Dairy Promotion and Research Program is a coordinated research and promotion program that maintains and expands domestic and foreign markets for fluid milk and dairy products. To fund the program, U.S. dairy producers pay a 15-cent-per-hundredweight assessment on milk marketings and importers pay 7.5-cent-per-hundredweight assessment, or equivalent thereof, on dairy products imported into the United States. Dairy Management Inc. (DMI), a management and staffing corporation, is a joint undertaking between the National Dairy Promotion and Research Board (Dairy Board) and the United Dairy Industry Association (UDIA). UDIA is a federation of 19 of the 64 Qualified Programs1 (QPs) under the direction of a board of directors. DMI’s mission is to drive increased sales of and demand for dairy products and ingredients on behalf of dairy producers and dairy importers. DMI works proactively in partnership with leaders and innovators to increase and apply knowledge that leverages opportunities to expand dairy markets.

The National Fluid Milk Processor Promotion Program, or Fluid Milk Promotion Program, develops and finances generic advertising programs designed to maintain and expand markets and uses for fluid milk products produced in the United States. Fluid milk processors marketing more than 3 million pounds of fluid milk per month pay a 20-cent-per-hundredweight assessment on fluid milk processed and marketed in consumer-type packages in the contiguous 48 States and the District of Columbia. The Fluid Milk Processor Education Program (MilkPEP) is the staffing organization that carries out the promotion programs on behalf of the Fluid Milk Promotion Program.

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1 Qualified Dairy Product Promotion, Research, and Nutrition Educational Programs (QPs) are State, regional, local, or importer promotion programs certified annually by the Secretary of Agriculture to receive a portion of the funds generated under the National Dairy Promotion and Research Program.
The National Dairy Promotion and Research Program, funded by dairy producers and dairy importers, and the National Fluid Milk Processor Promotion program, funded by fluid milk processors, are hereinafter referred to as the National Programs.

**Objectives of the Evaluation Study**

The National Programs are evaluated with the key question in mind: Have the demand-enhancing activities conducted by dairy producers, importers, and fluid milk processors actually increased the demand for fluid milk and manufactured dairy products?

Historically, this question has been answered through econometric studies on the relationships between consumption of dairy products and promotion program demand-enhancing expenditures. These demand relationships are estimated in a structure that controls for the impacts of market forces. Economic returns to dairy producers, importers, and fluid milk processors that result from marketing and promotion activities and the associated changes in consumption are calculated using the parameters obtained from the demand models. The summary indicator of economic return on investment is a benefit-cost-ratio (BCR).

The level of the BCR is often taken as an indication of the level of the impact of a program. For example, a BCR from a 1-dollar investment that returns 5 dollars is the same (5 to 1) as the BCR for a 1-billion dollar investment that returns 5 billion dollars. Thus, the ratio between additional revenue and additional funding (the BCR) declines as funding increases. Further, it is often the case that other metrics such as impacts on consumption and exports are much more revealing and useful.

The objectives of this report are threefold:

1. Determine the combined effects of the program activities of MilkPEP, DMI, and QPs on the consumption of fluid milk, cheese, butter, all dairy products, and dairy exports;

2. Develop and implement a simulation model to calculate BCRs for dairy producers and fluid milk processors; and

3. Provide a qualitative and quantitative analysis of dairy product imports and import assessments.

This project covers the time period from 1995 to 2015 and captures the joint efforts of DMI, MilkPEP, and QPs. The QP data for this report were revised to more accurately reflect the division of demand-enhancing expenditures and actual QP assessment collections. As the QP data contribute to a large percentage of the promotion funding, these revisions do not allow for a direct prior year comparison.

**Summary of the Findings**
The overall finding of this evaluation is that the National Programs have effectively increased the demand (domestic and exports) for dairy products. The gains in profit at the farm level were far larger than the costs associated with the National Programs combined. The impacts on producers’, as well as on fluid milk processors’, spending are summarized with BCRs. The BCRs are based on the demand-enhancing expenditures only; therefore, they do not account for certain operating expenses such as overhead, technical support, and industry relations.

The BCRs expressed in terms of producer profit at the farm level were calculated to be $2.99 for every dollar invested in demand-enhancing activities for fluid milk; $7.72 for every dollar invested in demand-enhancing activities for cheese; and $32.06 for every dollar invested in demand-enhancing activities for butter. The BCR of export promotion is $5.59 per dollar invested. Under both the aggregated fat and skim solids basis, a significant positive relationship exists between the demand for dairy and the National Programs expenditure, in both the short run and the long run. The aggregate all-dairy BCR is 4.97, meaning that the producer profit increases by $4.97 for each 1-dollar investment in demand-enhancing activities.

The United States imported between $2.8 billion and $4.7 billion in dairy products in each of the last 5 years. Cheese products accounted for slightly more than one-third, by value, of the dairy imports. Effective April 1, 2011, importers of dairy products paid assessments to the National Dairy Promotion and Research Program. Import assessment funds totaled between $3.41 million and $4.17 million dollars per year between 2012 and 2015. The import assessment has amounted to less than 1 percent of the total demand-enhancing expenditures made by DMI, MilkPEP, and the QPs.

Due to promotion funds collected from importers, imported cheese levels were higher by roughly 1.5 million pounds. Unit values of cheese imports amounted to roughly $3.42 per pound on average over the period 2011 to 2015. Hence, incremental revenue to importers solely from cheese attributed to the import assessment totaled roughly $5.0 million.

Since cost-of-production data are unavailable for fluid milk processors, the fluid milk processor BCR is calculated using the milk cost as a proxy for cost of production. The BCR in terms of a fluid milk processor is a $3.79 return to fluid milk processors for every dollar invested in demand-enhancing activities for fluid milk.

With regard to methodology, the structural econometric models that are the basis for these findings are statistically valid and consistent with prior studies in the literature on evaluation of generic commodity promotion.

**DMI, MilkPEP, and QP Promotion Program Expenditures**

The data for this analysis were acquired from DMI, QPs, and MilkPEP. The demand-enhancing expenditures from all three entities were aggregated.

The National Programs use advertising as well as other means to influence consumers. Advertising dollars are directed to media outlets including television, outdoor, print, radio, and
the internet. Marketing activities other than advertising are directed at the retail level of the marketing channel or at intermediaries. The non-advertising marketing expenditures include health and nutrition education programs, public relations, food service and manufacturing programs, sales promotion programs, school milk programs, school marketing activities, retail programs, child nutrition and fitness initiatives, and single-serve milk promotion.

Certain promotion expenditures are not directed at the retail level of the marketing channel; these types of expenditures include crisis management, trade service communications, and strategic research activities. These expenditures are classified as demand-enhancing expenditures. Expenditures for overhead, technical support, and industry relations are excluded from this analysis because they are not primarily demand enhancing.

Over the past several years, the DMI Board of Directors changed their marketing strategies to focus more on partnerships within the dairy industry to increase demand for fluid milk, manufactured dairy products, and dairy ingredients. Currently, DMI’s strategies include: working with and through specific partners to achieve sustainable, category-level sales impacts; attracting partner co-investment to fund demand-enhancing efforts; and maximizing resources and impacts in increasingly competitive markets. These efforts include co-developing marketing information, research, business models, and best practices that can be used by the industry to increase sales of fluid milk and dairy products.

Annual promotion program expenditures made by DMI, MilkPEP, and QPs over the period 1995 to 2015 are depicted in Table 3-1 and in Figure 3-1. On average, slightly more than $362 million in total was spent annually by the respective entities over this period and between $398 million to $410 million since 2013. Historically, the nominal shares of promotional expenditures on average were 26 percent for DMI, 24 percent for MilkPEP, and 50 percent for QPs.

The data associated with the demand-enhancing activities initiated by DMI and MilkPEP are also available on a quarterly basis. QP data are only available on an annual basis. To estimate quarterly data for the QPs, the seasonal nature of DMI and MilkPEP expenditure data is assumed to be similar to the QP expenditure data. Consequently, the seasonal factors associated with DMI and MilkPEP data are obtained and applied to the annual QP data to arrive at quarterly expenditures. The estimation of these data on a quarterly basis is important in allowing for sufficient observations to conduct the econometric analysis of demand for dairy products.

Nominal seasonally adjusted demand-enhancing expenditures by DMI, MilkPEP, and QPs for all dairy products (fluid and manufacturing) combined on a quarterly basis from 1995 to 2015 are exhibited in Figure 3-2. These demand-enhancing expenditures varied from $42.7 million to $115.0 million per quarter, averaging $81.6 million.
### Table 3-1. Annual Dairy Management, Inc., Milk Processor Education Program, and Qualified Program Promotion Program Expenditures, 1995 to 2015

<table>
<thead>
<tr>
<th>Year</th>
<th>DMI</th>
<th>MilkPEP</th>
<th>QPs</th>
<th>Total</th>
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<td>$83,098</td>
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<td>$409,891</td>
</tr>
</tbody>
</table>

1 Thousands of dollars

*QP data were revised

Source: Dairy Management, Inc., Milk Processor Education Program, and U.S. Department of Agriculture

Nominal seasonally adjusted demand-enhancing expenditures for fluid milk from DMI, MilkPEP, and QPs on a quarterly basis from 1995 to 2015 are exhibited in Figure 3-3. From 1995 to 2015, nominal seasonally adjusted quarterly promotion program expenditures for fluid milk ranged from roughly $23.9 million to $63.3 million per quarter. On average over the period from 1995 to 2015, nominal seasonally adjusted demand-enhancing expenditures for fluid milk were $35.3 million per quarter.

As exhibited in Figure 3-4, nominal seasonally adjusted demand-enhancing expenditures for cheese ranged from $12.8 million to $27.6 million from 1995 to 2004, averaging $21.5 million per quarter. From 2005 to the third quarter of 2008, promotion expenditures associated with cheese were much smaller compared to the period from 1995 to 2004. On average, expenditures on cheese marketing and promotion were $12.0 million during the period. Expenditures on cheese increased from the fourth quarter of 2008 to the end of 2015. During this latter timeframe, nominal quarterly expenditures on cheese marketing and promotion activities ranged from $7.7 million to $19.2 million, averaging $12.4 million per quarter. Over the period 1995 to 2015, nominal seasonally adjusted demand-enhancing expenditures for cheese averaged $16.8 million per quarter.
Figure 3-1. Annual Dairy Management, Inc., Milk Processor Education Program, and Qualified Program Promotion Expenditures, 1995 to 2015


Figure 3-2. Nominal Seasonally Adjusted Demand-Enhancing Dairy Management, Inc., Milk Processor Education Program, and Qualified Program Expenditures for All Dairy Products, 1995.1 to 2015.4*

*Includes expenditures not only for advertising and promotion but also for dairy foods and nutrition research, nutrition education, and market and economic research.
Source: Dairy Management, Inc., Milk Processor Education Program, Qualified Programs, and calculations by the authors.
Figure 3-3. Nominal Seasonally Adjusted Demand-Enhancing Dairy Management, Inc., Milk Processor Education Program, and Qualified Program Expenditures for Fluid Milk, 1995.1 to 2015.4

Figure 3-4. Nominal Seasonally Adjusted Demand-Enhancing Dairy Management, Inc., and Qualified Program Expenditures for Cheese, 1995.1 to 2015.4
As shown in Figure 3-5, nominal seasonally adjusted demand-enhancing quarterly expenditures on marketing and promotion of butter ranged from close to $60,000 to $6.8 million, averaging slightly more than $1 million per quarter over the period 1995 to 2015. Marketing and promotion expenditures for butter are a fraction of comparable expenditures for fluid milk and cheese.

Beginning in 2006, DMI transitioned from featuring milk, cheese, and butter in product specific promotions to broader campaigns that relate to a number of dairy products. As a result of an increasing number of campaigns affecting multiple products, it is important to assess demand enhancements for the aggregate of dairy products as well as within specific product markets.

Promotion program funds are also invested in global dairy markets. The export promotion programs as analyzed by this analysis are shown in Figure 3-6a. Nominal seasonally adjusted DMI expenditures directed to dairy exports on a quarterly basis ranged from just under $800 to approximately $4.5 million. The trend in these DMI expenditures has been upward from 1995 to 2015, averaging about $2.3 million per quarter over this period. As exhibited in Figure 3-6b, nominal seasonally adjusted funds awarded through USDA’s Foreign Agricultural Service (FAS) directed to exports of dairy products on a quarterly basis varied from just under $310,000 to about $1.8 million over the period of 1997 to 2015. On average, FAS funds were nearly $1 million per quarter. As presented in Figure 3-6c, nominal seasonally adjusted DMI as well as USDA FAS expenditures ranged from $881 to $5.9 million per quarter, averaging $3.2 million on a quarterly basis from 1995 to 2015.

**Figure 3-5.** Nominal Seasonally Adjusted Demand-Enhancing Dairy Management, Inc., and Qualified Program Expenditures for Butter, 1995.1 to 2015.4

Source: Dairy Management, Inc., Qualified Programs, and calculations by the authors.
Figure 3-6a. Nominal Seasonally Adjusted Dairy Management, Inc., Expenditures Directed to Exports of Dairy Products, 1995.1 to 2015.4

Source: Dairy Management, Inc., and calculations by the authors.

Figure 3-6b. Nominal Seasonally Adjusted U.S. Department of Agriculture Foreign Agricultural Service Funds Awarded To Be Directed to Exports of Dairy Products, 1997.1 to 2015.4*

*Data were not available prior to 1997. Also, only annual data were available for 1997 and 1998. Quarterly interpolations were made for these years.
Source: U.S. Department of Agriculture, Foreign Agricultural Service, and calculations by the authors.
Effective April 1, 2011, importers of dairy products paid assessments to the National Dairy Promotion and Research Program. Two-thirds of the import assessment is allocated to the National Dairy Board, and the remaining amount can be designated to be used by one of three QPs: (1) Cheese Importers Association of America; (2) Global Dairy Platform; and (3) the Wisconsin Milk Marketing Board, Inc.

Import assessment funds totaled between $3.41 million and $4.18 million per year during the 4 full years since 2012 in which the import assessment has been in effect. The total funds collected declined modestly between 2012 and 2014, and then rose subsequently by 25 percent during 2015. The cumulative import assessment funds totaled $15.58 million from September 2011 to December 2015. On a monthly basis, funds from the dairy import assessment ranged from $210,086 to $465,976, averaging $299,664 over the period September 2011 to December 2015 (Figure 3-7). The import assessment has amounted to less than 1.0 percent of the total demand-enhancing expenditures by DMI and the QPs in each year between 2012 and 2014. In 2015, the import assessment was just over 1.0 percent of these expenditures.

### Trends in Consumption

On average, over the 1995 to 2015 period, quarterly per capita consumption (measured by combining domestic commercial disappearance and imports) of butter, cheese, and fluid milk was 1.23 pounds, 802 pounds, and 46.12 pounds, respectively. The range of quarterly consumption for butter was from 0.9 pounds to 1.8 pounds, for cheese from 6.5 pounds to 9.8 pounds, and for fluid milk from 36.6 pounds to 53.3 pounds. Fluid milk consumption (Figure 3-8) has been trending down over the period, on a per capita basis. Recent research found that...
declining consumption reflects changes in the frequency of fluid milk intake, rather than changes in portions (Stewart, Dong, and Carlson, 2013). The majority of Americans born in the 1990s tend to consume fluid milk less often than those born in the 1970s, who in turn consume fluid milk less often than those born in the 1950s. U.S. milk consumption has declined 25 percent since 1975 due to changing consumption habits as well as increased competition from other beverages.

Cheese consumption per capita (Figure 3-9) has grown over time and exhibits seasonal patterns. Over the time period 1995 to 2015, the range of commercial disappearance of cheese on a per capita basis was from 6.5 pounds per quarter to 9.8 pounds per quarter, averaging about 8.0 pounds.

Butter consumption per capita (Figure 3-10) has grown modestly over time and exhibits seasonal patterns. Over the time period 1995 to 2015, the range of commercial disappearance of butter on a per capita basis was from 0.9 pounds per quarter to 1.8 pounds per quarter, averaging roughly 1.2 pounds. U.S. butter consumption on a per capita basis hit a 40-year high in the fourth quarter of 2013.

On average, on a fat basis (Figure 3-11), the commercial disappearance of all dairy products amounted to 149 pounds per quarter, ranging from 136 pounds to 163 pounds per quarter. On a skim-solids basis (Figure 3-12), on average, the commercial disappearance of all dairy products amounted to 137 pounds per quarter, ranging from 130 pounds to 142 pounds per quarter.

Total U.S. dairy exports grew strongly over the 1995 to 2015 period despite a drop beginning in the third quarter of 2015. Exports have grown faster on a skim-solids basis than on a fat basis (Figure 3-13). The United States imported between $2.8 billion and $4.7 billion in dairy products in each of the last 5 years. Cheese products accounted for slightly more than one-third, by value, of the dairy imports (Figure 3-14). Cheese imports as a percent of total dairy imports were highest in 2015 at 37 percent and lowest in 2012 at 36 percent. Cheese imports grew faster in value terms than in tonnage between 2011 and 2015, indicating that imports have increasingly been comprised of higher value product types.
Figure 3-7. Funds from Dairy Import Assessments, by Month, September 2011 to December 2015

Source: U.S. Department of Agriculture

Figure 3-8. Per Capita U.S. Consumption of Fluid Milk, 1995.1 to 2015.4

Source: U.S. Department of Agriculture.
**Figure 3-9.** Per Capita U.S. Consumption of Cheese, 1995.1 to 2015.4

![Graph showing per capita U.S. cheese consumption from 1995.1 to 2015.4.](image)

Source: U.S. Department of Agriculture.

**Figure 3-10.** Per Capita U.S. Consumption of Butter, 1995.1 to 2015.4

![Graph showing per capita U.S. butter consumption from 1995.1 to 2015.4.](image)

Source: U.S. Department of Agriculture.
Figure 3-11. Per Capita U.S. Consumption of All Dairy Products on a Milk-Equivalent Fat Basis, 1995.1 to 2015.4

Source: U.S. Department of Agriculture and calculations by the authors.

Figure 3-12. Per Capita U.S. Consumption of All Dairy Products on a Skim-Solids Basis, 1995.1 to 2015.4

Source: U.S. Department of Agriculture and calculations by the authors.
Figure 3-13. U.S. Dairy Commercial Exports on a Milk-Equivalent Fat Basis and Skim-Solids Basis, 1995.1 to 2015.4

Source: U.S. Department of Agriculture and calculations by the authors.

Figure 3-14. U.S. Dairy Imports and Share of Cheese in Dairy Import Value, 2010-2015

Source: U.S. Department of Agriculture, Foreign Agricultural Service.
Overall, the long-run trend of declining consumption of fluid milk is continuing, while per capita consumption of other dairy products has been growing. Given this setting, the analysis must address whether consumers responded to the demand-enhancing expenditures associated with dairy promotion programs. Structural economic models were developed to isolate the sensitivity of consumers to the demand-enhancing expenditures from the effects of fundamental economic forces such as price and income. The results are reported in the next section.

**Findings on Impacts of Demand-Enhancing Expenditures for Dairy Products**

This evaluation study indicates a significant positive association between promotion program expenditures and consumer demand. This association holds for all dairy products in the aggregate and for fluid milk, cheese, butter, and the activities of the National Programs individually. The impact is modest during the quarter in which expenditures are made, while the cumulative impact is measurably larger over time.

The key indicator of the impact of marketing and promotion expenditures is a measure of the relative sensitivity of consumer demand to demand-enhancing expenditures. This measure, also known as elasticity, is defined as the percentage change in consumption given a 1-percent change in demand-enhancing expenditures, while holding all other variables constant.

This analysis centers attention on the retail level of the marketing chain, and the economic model provides structural parameter estimates that are statistically valid and consistent with prior studies in the literature on evaluation of generic commodity promotion. This analysis allows the promotion elasticities to vary over time, with variation in expenditures. Some of the key findings of the economic analysis are as follows:

- Demand-enhancing expenditures have a significant positive impact on domestic consumption of dairy products. (Domestic consumption is defined as domestic commercial disappearance plus imports.)
- The dairy markets were more responsive to demand-enhancing expenditures in comparison to last year.

The demand responsiveness to promotion was allowed to vary over time. Further, the cumulative impact of promotion was also identified. It was found that demand-enhancing expenditures affect the market for cheese for up to 6 quarters. The lagged effect on fluid milk was over 8 quarters, and for butter, the lagged effect was over 11 quarters. For the aggregate of all dairy products, the lagged effect persisted for 9 quarters on a fat basis and for 12 quarters on a skim-solids basis.

To measure the effects of DMI export promotion enhancement expenditures on U.S. dairy commercial exports, two U.S. dairy export demand models were specified and estimated using two different measures of dairy exports: (1) the measure of dairy exports on milk-equivalent skim-solids basis (SSB) supplied by USDA; and (2) the measure of dairy exports on a milk-
equivalent fat basis (FB) supplied by USDA. Simply put, when U.S. prices are low (high) relative to Oceania export prices, more (less) is exported.\(^2\)

The lag length for export promotion expenditures on a SSB was estimated to be 9 quarters. The export promotion expenditure elasticity was calculated to be 0.061 in the sample period, indicative of a statistically significant effect of promotion.

The lag length for the export promotion expenditures on a milk-fat basis was estimated to be 6 quarters. The export promotion expenditure elasticity was calculated to be 0.083, indicative once again of a statistically significant effect of promotion.

**Estimation of Consumption Changes Attributed to Promotion Program Expenditures**

The primary objective of the analysis provided in this section is to answer the key question regarding the National Programs over time: what have been the effects of dairy promotion programs on the domestic consumption of fluid milk, dairy products, and exports? In answering the key question, the focus is on the effects of the dairy promotion program on the U.S. demand and exports of fluid milk and dairy products. Once these market effects have been determined, a benefit-cost analysis of the dairy program at the producer level and at the fluid milk processor level can be done. In the analysis, the producer BCR of the dairy promotion program is calculated as the additional net producer revenues (profit) generated by the promotion program divided by the cost of the promotion programs. By using profit over costs, a more complete and realistic BCR is calculated for producers. The fluid milk processor BCR is calculated similarly divided by the cost of the promotion programs.

**Table 3-2. Estimates of the Sensitivity of Demand to Promotion, Prices, and Income, 1995 to 2015**

<table>
<thead>
<tr>
<th></th>
<th>Promotion Elasticity 1995 to 2015</th>
<th>Promotion Elasticity 2015 only</th>
<th>Own-Price Elasticity</th>
<th>Income Elasticity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Butter(^1)</td>
<td>0.062</td>
<td>0.076</td>
<td>-0.243</td>
<td>0.526</td>
</tr>
<tr>
<td>Cheese(^1)</td>
<td>0.041</td>
<td>0.030</td>
<td>-0.133</td>
<td>0.215</td>
</tr>
<tr>
<td>Fluid milk(^1)</td>
<td>0.073</td>
<td>0.061</td>
<td>-0.044</td>
<td>-0.205</td>
</tr>
<tr>
<td>All dairy(^1)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Skim-solids basis</td>
<td>0.056</td>
<td>0.060</td>
<td>-0.088</td>
<td>0.168</td>
</tr>
<tr>
<td>Fat basis</td>
<td>0.026</td>
<td>0.027</td>
<td>-0.024</td>
<td>0.269</td>
</tr>
<tr>
<td>Exports(^1)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Skim-solids basis</td>
<td>0.061</td>
<td>0.061</td>
<td>-0.281</td>
<td>0.666</td>
</tr>
<tr>
<td>Fat basis</td>
<td>0.083</td>
<td>0.083</td>
<td>-0.276</td>
<td>0.790</td>
</tr>
</tbody>
</table>

\(^1\)Over the time period 1995.1 to 2015.4.

Drivers of demand included lags of the ratio of the Oceania export butter price to the U.S. butter price on a fat basis; lags of the ratio of the Oceania export price for skim milk powder (SMP) to the U.S. nonfat dry milk (NDM) price on a skim-solids basis; lags of the measure of world income calculated as the trade weighted, real gross domestic products of major importing countries; and inertia or stickiness of dairy exports in world markets.
to the producers; the cost of milk is used as a proxy for the cost of production since data for fluid milk processors’ cost of production are not available.

The level of the BCR is often taken as an indication of the level of the impact of a program. For example, a BCR from a 1-dollar investment that returns 5 dollars is the same (5 to 1) as the BCR for a 1 billion dollar investment that returns 5 billion dollars. Obviously the more that is spent, the larger the impact on the commodity program. As spending increases, however, each additional dollar spent has a declining effect, so that the total additional revenue achieved increases at a declining rate. Thus, the ratio between additional revenue and additional funding (the BCR) declines as funding increases. Further, a lower BCR during one time period than another or for one commodity than another, does not mean the program is less effective in one time period than another or for one commodity than another. It is often the case that other metrics, such as impacts on consumption and exports, are much more revealing and useful.

The analysis covers the period of 1995 to 2015 and also decomposes the results for comparison purposes into four similar time periods: (1) 1995-1999, (2) 2000-2004, (3) 2005-2009, and (4) 2010-2015.

This analysis is partially accomplished by aligning the annual model of the U.S. dairy industry, the Agricultural Markets and Policy Group Dairy Model (AMAP Dairy Model), maintained at the University of Missouri, with the observed data over the 1995 to 2015 period. The impact of promotion is obtained by removing demand-enhancing expenditures from the system. There is a simulated “demand-enhancement” scenario representing the actual history, contrasted with a simulated “no demand-enhancement” scenario (the counterfactual) to reflect the levels of prices and quantities expected in the absence of the National Programs.

This analysis uses the AMAP Dairy Model, as modified to account for dairy promotion, to answer the question posed above regarding the effects of dairy promotion on U.S. dairy markets and exports. For this analysis, the AMAP structural dairy model was simulated over the 1995 to 2015 period to identify how dairy markets would have functioned in the absence of promotion. The results for selected key variables in the model for the “promotion” and “no promotion” scenarios are presented in Table 3.

Table 3-3 provides a comparison of the “promotion” levels of each variable (actual historical data) to the “no promotion” levels (simulated levels without promotion) to show the effects across time from dairy promotion spending. There are many factors at play in the year-by-year results, including the level of promotion expenditures each year and the supply dynamics built into the AMAP structural dairy model. In order to provide some insight into these model dynamics, Table 3 shows four sub periods of results as well as the entire period for selected endogenous variables. This analysis starts in 1995 and ignores any promotion effects that would have occurred prior to 1995.

Because no other exogenous variable in the model (e.g., levels of inflation, exchange rates, income levels, government policies, etc.), other than dairy promotion expenditures, is allowed to change in either scenario, this process effectively isolates the effects of the National Programs on
U.S. dairy markets and exports. That is, the simulated differences between the values of the endogenous variables from the “promotion” scenario and those from the “no promotion” scenario, in which those expenditures are set to zero, provide direct measures of the historical effects of the dairy promotion expenditures (and only those expenditures) on U.S. dairy markets and exports.

Over the period 1995 to 2015, per capita consumption of fluid milk, cheese, and butter rose by 8.1 percent, 5.7 percent, and 5.7 percent respectively due to promotion efforts, all other factors held constant. The overall downward trend of per capita fluid milk consumption is mitigated as a result of the National Programs. If promotion did not exist, then fluid milk consumption would have been 189.43 pounds per capita annually instead of 204.79 pounds per capita annually over the 1995-2015 period. Hence, the National Programs’ spending on fluid milk reduced the rate of decline. Per capita consumption of nonfat dry milk would have been 3.20 pounds per capita annually without promotion versus 3.22 pounds per capita with promotion over the 1995 to 2015 period. Annually, per capita consumption of cheese would have been 29.28 pounds per capita without promotion versus 30.95 pounds per capita with promotion over the 1995 to 2015 period, while butter was 4.78 with promotion versus 4.53 pounds per capita without promotion.

In the 2000 to 2004 period, there were several factors at play in the dairy product markets that provide different results depending on the dairy product in question. First, during this period cheese and fluid milk received the largest portion of dairy promotion dollars. For these two products, consumption remained higher as a result of promotion. Butter promotion was modest over this particular period and increased consumption by 4.7 percent.

In the period 2005 to 2009, a return to stronger butter promotional spending in 2004, following relatively low levels from 1998 to 2003, resulted in increased per capita consumption by 0.27 pounds when comparing the no-promotion to promotion levels. In the previous period (2000-2004), the per capita consumption only increased by 0.20 pounds when comparing the no-promotion to promotion levels.

Promotional spending in nominal terms on all dairy products increased in 2010 through 2015 to a level not seen previously, leading to increases of cheese and butter consumption. Actual cheese consumption in this period was up 1.10 pounds per capita from the 2005-2009 period. Actual butter consumption was up 0.6 pounds per capita from the 2005-2009 period.

Looking at import assessment impacts, cheese is the focus of the analysis since cheese occupies about one-third of total imported dairy products and also has adequate data to conduct a thorough analysis. Due to promotion funds collected from importers, imported cheese levels were higher by roughly 1.5 million pounds. Further, unit values of cheese imports amounted to roughly $3.34 per pound on average over the period 2011 to 2015. Hence, incremental revenue to importers solely from cheese attributed to the import assessment totaled $5.0 million.
Table 3-3. Effects of Dairy Promotion on U.S. Dairy Markets Based on Simulation of Supply Response

<table>
<thead>
<tr>
<th>Period</th>
<th>Fluid Milk Per Capita Consumption</th>
<th>Cheese Per Capita Consumption</th>
<th>Butter Per Capita Consumption</th>
<th>Nonfat Dry Milk Per Capita Consumption</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(pounds)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1995 - 1999</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>With Promotion</td>
<td>215.46</td>
<td>27.69</td>
<td>4.38</td>
<td>3.30</td>
</tr>
<tr>
<td>No Promotion</td>
<td>194.71</td>
<td>26.41</td>
<td>4.19</td>
<td>3.40</td>
</tr>
<tr>
<td>Change</td>
<td>20.75</td>
<td>1.27</td>
<td>0.19</td>
<td>-0.10</td>
</tr>
<tr>
<td>Percent Change</td>
<td>10.7%</td>
<td>4.8%</td>
<td>4.4%</td>
<td>-2.9%</td>
</tr>
<tr>
<td>2000 - 2004</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>With Promotion</td>
<td>206.51</td>
<td>30.49</td>
<td>4.48</td>
<td>3.33</td>
</tr>
<tr>
<td>No Promotion</td>
<td>188.43</td>
<td>29.05</td>
<td>4.28</td>
<td>3.40</td>
</tr>
<tr>
<td>Change</td>
<td>18.07</td>
<td>1.45</td>
<td>0.20</td>
<td>-0.07</td>
</tr>
<tr>
<td>Percent Change</td>
<td>9.6%</td>
<td>5.0%</td>
<td>4.7%</td>
<td>-2.2%</td>
</tr>
<tr>
<td>2005 - 2009</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>With Promotion</td>
<td>202.95</td>
<td>32.4</td>
<td>4.81</td>
<td>3.30</td>
</tr>
<tr>
<td>No Promotion</td>
<td>187.09</td>
<td>31.07</td>
<td>4.54</td>
<td>3.34</td>
</tr>
<tr>
<td>Change</td>
<td>15.87</td>
<td>1.33</td>
<td>0.27</td>
<td>-0.05</td>
</tr>
<tr>
<td>Percent Change</td>
<td>8.5%</td>
<td>4.3%</td>
<td>6.0%</td>
<td>-1.5%</td>
</tr>
<tr>
<td>2010 - 2015</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>With Promotion</td>
<td>192.26</td>
<td>33.5</td>
<td>5.41</td>
<td>2.94</td>
</tr>
<tr>
<td>No Promotion</td>
<td>179.28</td>
<td>31.75</td>
<td>5.07</td>
<td>2.93</td>
</tr>
<tr>
<td>Change</td>
<td>12.98</td>
<td>1.75</td>
<td>0.34</td>
<td>0.01</td>
</tr>
<tr>
<td>Percent Change</td>
<td>7.2%</td>
<td>5.5%</td>
<td>6.8%</td>
<td>0.4%</td>
</tr>
<tr>
<td>1995 - 2015</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>With Promotion</td>
<td>204.79</td>
<td>30.95</td>
<td>4.78</td>
<td>3.20</td>
</tr>
<tr>
<td>No Promotion</td>
<td>189.43</td>
<td>29.28</td>
<td>4.53</td>
<td>3.22</td>
</tr>
<tr>
<td>Change</td>
<td>15.37</td>
<td>1.67</td>
<td>0.26</td>
<td>-0.02</td>
</tr>
<tr>
<td>Percent Change</td>
<td>8.1%</td>
<td>5.7%</td>
<td>5.7%</td>
<td>-0.7%</td>
</tr>
</tbody>
</table>

Source: Calculation by the authors.
Benefit-Cost Ratios

Based on a comparative analysis of the “promotion” and “no-promotion” scenarios as summarized in the previous section and illustrated in Table 3-4, the answer to the key question posed earlier regarding the National Programs, as it relates to the analyzed products, is that it has effectively increased the demand of promoted dairy products.

This section provides a benefit-cost analysis of the National Programs based on the results of the scenario analyses discussed in the previous section. As calculated, the producer profit BCR is the additional industry profits (additional cash receipts net of additional production costs and promotion assessments) earned by producers as a consequence of the promotion expenditures (as measured through the scenario analyses) divided by the historical level of promotion expenditures made to generate those additional profits.

Over the period 1995 to 2015, the gains in profit at the producer level were far larger than the expenditures on demand-enhancement programs. The BCRs for producers for fluid milk were calculated to be $2.99 for every dollar invested in demand-enhancing activities; for cheese $7.72 for every dollar invested; and for butter $32.06 for every dollar invested. Dairy export promotion expenditures have increased the foreign demand for U.S. dairy products by $5.59 for every dollar invested. For an aggregate of all dairy products, the net profit BCR is approximately $4.97 for every dollar spent.

The fluid milk processor BCR cannot be calculated as completely as the producer BCR since the cost-of-production data are not available. To calculate the fluid milk BCR, the milk cost is used as a proxy for cost-of-production since milk would be the largest input cost. Over the period 1995 to 2015, the gains in profit at the fluid milk processor level were far larger than the expenditures on demand-enhancement programs. The BCRs for fluid milk were calculated to be $3.79 for every dollar invested in demand-enhancing activities for fluid milk processors (Table 3-5).

Table 3-4. Calculated Benefit-Cost Ratio (BCRs), in Net Profit at the Producer Level Attributed to the National Programs, 1995 to 2015

<table>
<thead>
<tr>
<th>Product</th>
<th>BCR</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Dairy</td>
<td>4.97</td>
</tr>
<tr>
<td>Fluid milk</td>
<td>2.99</td>
</tr>
<tr>
<td>Cheese</td>
<td>7.72</td>
</tr>
<tr>
<td>Butter</td>
<td>32.06</td>
</tr>
<tr>
<td>Exports</td>
<td>5.59</td>
</tr>
</tbody>
</table>

Source: Calculations by the authors.
**Table 3-5:** Calculated Benefit-Cost Ratio (BCRs), in Net Profit at the Fluid Milk Processor Level Attributed to Fluid Milk Promotion Program, 1995 to 2015

<table>
<thead>
<tr>
<th>Product</th>
<th>BCR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fluid Milk</td>
<td>3.79</td>
</tr>
</tbody>
</table>

Source: Calculations by the authors.

**Concluding Remarks**

This report provides the independent evaluation of the effectiveness of the National Programs covering the period 1995-2015. The key findings regarding markets for milk and manufactured dairy products include:

- The National Programs have effectively increased the demand of promoted dairy products, especially for cheese and butter, while lessening the decline in per capita fluid milk consumption. The gains in profit at the producer and fluid milk processer level were far larger than the costs of the National Programs.

- The overall BCR (using profit over costs) of the dairy producer promotion program was calculated to be 4.97; that is for every $1 spent on demand-enhancing activities dairy producers received an additional $4.97.

- The BCRs for producers for fluid milk were calculated to be $2.99 for every dollar invested in demand-enhancing activities; for cheese, $7.72 for every dollar invested; and for butter, $32.06 for every dollar invested. The BCR of export promotion was $5.59 per dollar invested.

- The United States imported between $2.5 billion and $4.7 billion in dairy products in each of the last 5 years. Cheese products accounted for slightly more than one-third, by value, of the dairy imports. Import assessment funds totaled between $3.41 million and $4.17 million dollars per year during 2012 to 2015. The import assessment has amounted to about 1.0 percent of the total demand-enhancing expenditures by DMI and the QPs.

- Due to promotion funds collected from importers, imported cheese levels were higher by roughly 1.0 million pounds to 1.5 million pounds. Unit values of cheese imports amounted to roughly $3.42 per pound on average over the period 2011 to 2014. Hence, incremental revenue to importers solely from cheese attributed to the import assessment totaled roughly $3.4 million to $5.3 million.
• The BCR for fluid milk processors attributed to the Fluid Milk Promotion Program was calculated to be $3.79.

• With regard to methodology, the structural econometric models that are presented in this report are statistically valid and largely consistent with prior studies evaluating generic commodity promotion. The simulation analysis was accomplished by aligning the annual AMAP Dairy Model with the observed data over the 1995 to 2015 period. The baseline period is 1995 to 2015, and the impact of promotion was obtained by removing demand-enhancing expenditures from the system (the counterfactual).³

³ A reference list is available upon request.
Chapter 4

Qualified State, Regional, or Importer Dairy Product Promotion, Research, or Nutrition Education Programs

The Secretary annually certifies Qualified Programs. To receive certification, the Qualified Program must: (1) conduct activities that are intended to increase human consumption of milk and dairy products generally; (2) have been active and ongoing before passage of the Dairy Act, except for programs operated under the laws of the United States or any State; (3) be primarily financed by producers, either individually or through cooperative associations or dairy importers; (4) not use a private brand or trade name in its advertising and promotion of dairy products (unless approved by the Dairy Board and USDA); and (5) not use program funds for the purpose of influencing governmental policy or action (7 CFR §1150.153).

The aggregate revenue from the assessment directed to the Qualified Programs in 2015 was $213 million (approximately 10 cents of the 15-cent producer assessment and 2.5 cents of the importer 7.5-cent assessment). This chapter provides the aggregate income and expenditure data of the Qualified Programs as well as a list of certified programs in 2015.

Some Qualified Programs participate in cooperative efforts conducted and coordinated by other Qualified Programs and/or other organizations such as DMI, the Dairy Board, and UDIA. Their goal in combining funding and coordinating projects is for more effective and efficient management of promotion dollars through larger, broad-based projects. For example, to support the unified marketing plan, UDIA coordinates the programs and resources of 19 federation members and their affiliated units nationally through DMI.
2015 Qualified State, Regional, or Importer Dairy Product Promotion, Research, or Nutrition Education Programs
Aggregate Income and Expenditure Data Reported to USDA
(Thousands)

<table>
<thead>
<tr>
<th>Aggregate Income</th>
<th>FY 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carryover From Previous Year 1</td>
<td>$79,971</td>
</tr>
<tr>
<td>Producer Remittances</td>
<td>208,665</td>
</tr>
<tr>
<td>Transfers From Other Qualified Programs 2</td>
<td>66,025</td>
</tr>
<tr>
<td>Transfers to Other Qualified Programs</td>
<td>(62,519)</td>
</tr>
<tr>
<td>Other Income</td>
<td>11,902</td>
</tr>
<tr>
<td><strong>Total Adjusted Annual Income</strong></td>
<td><strong>$304,043</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Aggregate Expenditures</th>
<th>FY 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>General and Administrative</td>
<td>$10,867</td>
</tr>
<tr>
<td>Milk Advertising and Promotion</td>
<td>12,794</td>
</tr>
<tr>
<td>Cheese Advertising and Promotion</td>
<td>32,089</td>
</tr>
<tr>
<td>Butter Advertising and Promotion</td>
<td>7,670</td>
</tr>
<tr>
<td>Frozen Dairy Products Advertising and Promotion</td>
<td>4,199</td>
</tr>
<tr>
<td>Other Advertising and Promotion 3</td>
<td>8,682</td>
</tr>
<tr>
<td>Unified Marketing Plan 4</td>
<td>96,373</td>
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<td>Dairy Foods and Nutrition Research</td>
<td>9,203</td>
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<td>Public and Industry Communications</td>
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<td>Nutrition Education</td>
<td>16,706</td>
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<td>Market and Economic Research</td>
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<td>Other</td>
<td>4,148</td>
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<td><strong>Total Annual Expenditures</strong></td>
<td><strong>$219,660</strong></td>
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</table>

**Total Available for Future Year Programs** $81,252

1 Differences can occur because of audit adjustments and varying accounting periods.
2 Payments transferred between Qualified Programs differ due to different accounting methods and accounting periods.
3 Other includes “Real Seal,” holiday, multi-product, calcium, foodservice, product donation at State fairs, and other promotional activities.
4 Unified Marketing Plan: Reported local spending by United Dairy Industry Association units participating in the Dairy Management Inc. Unified Marketing Plan to fund national implementation programs.

Source: Data reported by qualified dairy product promotion, research, and nutrition education programs
2015 Qualified State, Regional, or Importer Dairy Product Promotion, Research, or Nutrition Education Programs

ALABAMA:
American Dairy Association of Alabama, Inc.
C/o SUDIA
5340 West Fayetteville Road
Atlanta, GA 30349-5416

ARIZONA:
Dairy Council of Arizona
510 South 52nd Street, Suite 101
Tempe, AZ 85282-1211

CALIFORNIA:
California Milk Advisory Board
2316 Orchard Parkway, Suite 200
Tracy, CA 95377
California Manufacturers Milk Producers Advisory Board
3800 Cornucopia Way, Suite D
Modesto, CA 95358-9492
Dairy Council of California
1418 North Market Boulevard, Suite 500
Sacramento, CA 95834-1945

COLORADO:
Western Dairy Association
12000 N. Washington Street, Suite 175
Thornton, CO 80241

CONNECTICUT:
Connecticut Milk Promotion Board
C/o Connecticut Department of Agriculture
165 Capitol Avenue
Hartford, CT 06106

FLORIDA:
Florida Dairy Farmers
1003 Orienta Avenue
Altamonte Springs, FL 32701

GEORGIA:
Georgia Agricultural Commodity Commission for Milk
C/o Georgia Department of Agriculture
19 Martin Luther King Jr. Drive, SW, Room 328
Atlanta, GA 30334

GEORGIA Continued:
Southeast United Dairy Industry Association, Inc.
(SUDIA)
5340 West Fayetteville Road
Atlanta, GA 30349-5416
American Dairy Association of Georgia, Inc.
C/o SUDIA
5340 West Fayetteville Road
Atlanta, GA 30349-5416
Dairy Food Nutrition Council
C/o SUDIA
5340 West Fayetteville Road
Atlanta, GA 30349-5416

IDAHO:
Idaho Dairy Products Commission
743 North Touchmark Avenue
Meridian, ID 83642

ILLINOIS:
Illinois Milk Promotion Board
1701 Towanda Avenue
Bloomington, IL 61701

INDIANA:
American Dairy Association of Indiana, Inc.
(Milk Promotion Services of Indiana)
9360 Castlegate Drive
Indianapolis, IN 46256
Indiana Dairy Industry Development Board
9360 Castlegate Drive
Indianapolis, IN 46256

KANSAS:
Kansas Dairy Commission
(Inactive)
P.O. Box 1530
Hays, KS 67601
**KENTUCKY:**
American Dairy Association of Kentucky, Inc.
C/o SUDIA
5340 West Fayetteville Road
Atlanta, GA 30349-5416

**LOUISIANA:**
Louisiana Dairy Industry Board
C/o Louisiana Department of Agriculture and Forestry
47076 North Morrison Boulevard
Hammond, LA 70401

**MAINE:**
Maine Dairy and Nutrition Council
333 Cony Road
Augusta, ME 04330

Maine Dairy Promotion Board
333 Cony Road
Augusta, ME 04330

**MASSACHUSETTS:**
Massachusetts Dairy Promotion Board
251 Causeway Street, Suite 500
Boston, MA 02114

New England Dairy and Food Council, Inc.
1034 Commonwealth Avenue
Boston, MA 02215

New England Dairy Promotion Board
1034 Commonwealth Avenue
Boston, MA 02215

**MICHIGAN:**
American Dairy Association of Michigan
2163 Jolly Road
Okemos, MI 48864

Dairy Council of Michigan, Inc.
2163 Jolly Road
Okemos, MI 48864

Michigan Dairy Market Program
41310 Bridge Street
Novi, MI 48376-8002

**MINNESOTA:**
Midwest Dairy Association
2015 Rice Street
St. Paul, MN 55113

**MINNESOTA Continued:**
Midwest Dairy Council
2015 Rice Street
St. Paul, MN 55113

Minnesota Dairy Research and Promotion Council
C/o Midwest Dairy Association
2015 Rice Street
St. Paul, MN 55113

**MISSISSIPPI:**
American Dairy Association of Mississippi, Inc.
C/o SUDIA
5340 West Fayetteville Road
Atlanta, GA 30349-5416

**MISSOURI:**
Dairy Promotion, Inc.
10220 NW Ambassador Drive
Kansas City, MO 64190-9700

Promotion Services, Inc.
10220 NW Ambassador Drive
Kansas City, MO 64190-9700

St. Louis District Dairy Council
325 North Kirkwood Road, Suite 222
St. Louis, MO 63122

**NEBRASKA:**
Nebraska Dairy Industry Development Board
C/o Midwest Dairy Association
2015 Rice Street
St. Paul, MN 55113

**NEVADA:**
Nevada Farm Bureau Dairy Producers Committee
2165 Green Vista Drive, Suite 205
Sparks, NV 89431

**NEW HAMPSHIRE:**
Granite State Dairy Promotion
C/o New Hampshire Department of Agriculture
25 Capitol Street, Box 2042
Concord, NH 03302-2042

**NEW JERSEY:**
New Jersey Dairy Industry Advisory Council
C/o New Jersey Department of Agriculture
P.O. Box 330
Trenton, NJ 08625-0330
NEW YORK:
American Dairy Association and Dairy Council, Inc.
100 Elwood Davis Road
North Syracuse, NY 13212

Milk for Health on the Niagara Frontier, Inc.
4185 Seneca Street
West Seneca, NY 14224

New York State Department of Agriculture
Division of Milk Control and Dairy Services
10 B Airline Drive
Albany, NY 12235-0001

NEW YORK continued:
Rochester Health Foundation, Inc.
C/o American Dairy Association and Dairy Council, Inc.
100 Elwood Davis Road
North Syracuse, NY 13212

NORTH CAROLINA:
American Dairy Association of North Carolina, Inc.
C/o SUDIA
5340 West Fayetteville Road
Atlanta, GA 30349-5416

NORTH DAKOTA:
North Dakota Dairy Promotion Commission
C/o Midwest Dairy Association
2015 Rice Street
St. Paul, MN 55113

OHIO:
American Dairy Association Mideast
5950 Sharon Woods Boulevard
Columbus, OH 43229

OREGON:
Oregon Dairy Products Commission
10505 SW Barbur Boulevard
Portland, OR 97219

 PENNSYLVANIA:
Allied Milk Producers' Cooperative, Inc.
1360 Eisenhower Boulevard
Johnstown, PA 15904-3307

Mid-Atlantic Dairy Association
325 Chestnut Street, Suite 600
Philadelphia, PA 19106

 PENNSYLVANIA Continued:
Pennsylvania Dairy Promotion Program
C/o Mid Atlantic Dairy Association
325 Chestnut Street, Suite 600
Philadelphia, PA 19106

PUERTO RICO, COMMONWEALTH OF:
Milk Industry Development Fund of Puerto Rico
PO Box 360454
San Juan, Puerto Rico 00936-0454

SOUTH CAROLINA:
American Dairy Association of South Carolina
C/o SUDIA
5340 West Fayetteville Road
Atlanta, GA 30349-5416

SOUTH DAKOTA:
American Dairy Association of South Dakota
C/o Midwest Dairy Association
2015 Rice Street
St. Paul, MN 55113

TENNESSEE:
American Dairy Association of Tennessee, Inc.
C/o SUDIA
5340 West Fayetteville Road
Atlanta, GA 30349-5416

TENNESSEE continued:
Tennessee Dairy Promotion Committee
C/o SUDIA
5340 West Fayetteville Road
Atlanta, GA 30349-5416

TEXAS:
Dairy MAX, Inc.
2214 Paddock Way Drive, Suite 600
Grand Prairie, TX 75050

Southwest Dairy Museum, Inc.
P.O. Box 936
Sulphur Springs, TX 75483

UTAH:
Dairy Council of Utah and Nevada
543 Midlake Drive
Draper, UT 84020

VERMONT:
Vermont Dairy Promotion Council
C/o Agency of Agriculture, Foods and Markets
116 State Street, Drawer 20
Montpelier, VT 05620-2901
VIRGINIA:
American Dairy Association of Virginia, Inc.
C/o SUDIA
5340 West Fayetteville Road
Atlanta, GA 30349-5416

WASHINGTON:
Washington State Dairy Council
4201 198th Street SW

WISCONSIN:
Wisconsin Milk Marketing Board, Inc.
8418 Excelsior Drive
Madison, WI 53717

QUALIFIED ImportER PROGRAMS:
Cheese Importers Association of America (Importer)
204 E Street, NE
Washington, DC 20002

Global Dairy Platform (Importer)
10255 West Higgins, Suite 800
Rosemont, IL 60018

Wisconsin Milk Marketing Board, Inc. (Importer)
8418 Excelsior Drive
Madison, WI 53717

Washington Dairy Products Commission
4201 198th Street SW
Lynnwood, WA 98036-6751
National Dairy Promotion and Research Board,
Dairy Management Inc. and U.S. Dairy Export Council
2015 Contracts Approved by USDA

ADVERTISING AND MARKETING SERVICES

American Butter Institute
American Dairy Association Indiana, Inc.
Brand Crushin'
Dairy Council of Utah/Nevada
Domino’s Pizza LLC
Edelman Public Relations Worldwide
Florida Dairy Farmers
greatyank
Information Resources, Inc.
Maryland and Virginia Milk Producers
McDonald’s
NDP Group, Inc.
New England Dairy and Food Council
Pizza Hut
Queue Marketing Communications Group
Raymond, Carl
Robles, Sylvia
Ruby-Do, Inc.
Sheryl Stern Sachman & Associates LLC
Southeast Milk, Inc.
SRW Marketing
SUDIA
Taco Bell Corporation
The Economist Intelligence Unit, NA, Inc.
Go Bold with Butter Campaign
Unified Marketing Plan
Maryland and Virginia Cooperative agreements
Mountain West Dairy Promotion
Business Development and Co-Promotion
Fuel Up to Play 60; strategic consulting
Unified Marketing Plan
Fuel Up to Play 60
Milk Analysis
Strategic collaboration
Business Development and Co-Promotion
Consumer surveys
Unified Marketing Plan
Cheese Promotion Partnership
DFA Live Real Farms Test
Cookbook
Southeast Milk relationship management
Integrated Communications
Exhibit Planning and Execution
Unified Marketing Plan
Breakfast Lab activation services
Unified Marketing Plan
Business development and marketing agreement
Event Sponsorship

COMMUNICATIONS, NUTRITION EDUCATION AND PUBLIC RELATIONS

84.51° LLC
American Academy of Pediatrics
American Dairy Ventures
Amidor, Toby
ASK-Comm Strategies, LLC
Bader Rutter & Associates, Inc.
Baxter Communications, Inc.
Bonci, Leslie
C.P. Fileti Associates, Inc.
College & Professional Sports Dieticians
Duyff, Roberta
Farmer’s Daughter Consulting
Fleishman-Hillard Inc.
Fair Oaks Adventure
FoodMinds LLC
Product Testing
Partnership Agreement
Strategic Partnership agreement
National Dairy Council Ambassador Program
Farm Smart Communications Support
Sustainability awards program
Audio and visual production services
National Dairy Council Ambassador Program
National Dairy Council Ambassador Program
Sponsorship agreement
National Dairy Council Ambassador Program
National Dairy Council Ambassador Program
FMD Cross Species Communications
Mobile classroom funding
Nutrition Guidance services
<table>
<thead>
<tr>
<th>Name</th>
<th>Organization/Program</th>
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<tr>
<td>Foodsense, LLC</td>
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<td>Harris, Keecha</td>
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<td>Health &amp; Nutrition Network</td>
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<td>Kelton Research, LLC</td>
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<td>Larson, Steve</td>
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<td>Letiwin, Nicole</td>
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<td>Fuel Up to Play 60</td>
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<td>National Football League Properties</td>
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<td>Project Development</td>
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<td>Youth Improved Inc. dba GenYouth</td>
<td>Fuel Up to Play 60 support</td>
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**EXPORT AND INGREDIENTS**

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<td>Agralytica</td>
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<td>American-Mexican Marketing</td>
<td>Mexico Office Trade Servicing</td>
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<td>Middle East Office Trade Servicing</td>
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<td>Bader Rutter &amp; Associates, Inc.</td>
<td>Global communication guidelines development</td>
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<td>Bovina Mountain Consulting</td>
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<td>Canadean – Kable Business Intelligence Ltd.</td>
<td>Update of USDEC dairy ingredients forecast</td>
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<td>Center for Food Safety &amp; Regulatory Solutions</td>
<td>International trade research</td>
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Consumer Dynamics
Digital content marketing and technology strategy
Czerwonka, Kelly
Consulting services
Datazio, LLC
Tableau design services
Earthwide Business Intelligence Limited
Oceania Dairy Industry Research
Esser, John
Recipe consulting services
Euromonitor International Ltd.
Custom dashboard report
Fabrizo & Friends
Develop publications
Feng, Meiqian
Consulting services
FoodMinds LLC
Whey Protein communications and research
Global Dairy Platform
2015 Funding
Global Food & Nutrition
Global nutrition food aid strategy
Hotrum, Natalie
Technical editing services
IDFA
US Dairy Products Export guide
Interpublic Marketing Services (Shanghai) Ltd.
Crisis and issues management services
IntNet
Korea Trade Servicing
JDG Consulting
Consulting services
Kenney, Audrey
Graphic design and service
Koski, Shannon
Consulting services
Lee Blakely Consulting
Consulting services
Locraft, Lauren
Milk Powder manuals
Market Makers, Inc.
Japan Trade Servicing
Marketing Connections S.A.
South America Trade Servicing
National Milk Producers Federation
Global Dairy Industry research
NIZO Research and Development Consortium
Methodology Development
Novak Birch
Creative and marketing support services
Nygaaard Consulting LLC
MARA Export Guide services
P R Consultants Limited
China, Hong Kong and Vietnam Trade Servicing
Parody, Kristen
Consulting services
Project Peanut Butter
Consulting services
Promar International Ltd.
Southeast Asia Market study
Proteus Insight
South America Market study
Quadrant Nutrition LLC
Scientific guidance
Quaife, Tom
Editorial and technical support
Radloff, Katherine
Consulting services
RAM Production Services
Audio and visual services
RB International
Consulting services
Ready Ink Communications
Consulting and editorial services
Research Resources
Recipe consulting services
Results Direct
Intranet, website, and mobile application services
Richard Fritz & Associates
International Trade Rule monitoring
Rogers, Paul
Membership and relations consulting services
Sandstorm Design, Inc.
Publications evaluation
SC Motion and Stills
Website, video, and photography services
Schonrock Consulting
Research data and export guidance
SIAM Professionals, LLC
Southeast Asia Market research
Sorenson, Carla
Delivery of test methods and other technical materials
Stachura, Lynn
Global innovation partnership support services
Steifer, David L.
Consulting services
The McCully Group
Risk management strategy development
The Value Engineers, Ltd.
Revamping the U.S. Dairy Seal services
TradeMoves LLC
Venga Global, Inc.
Weber Shandwick China
Zenith International
Zuber, Tristan

Export guide development
Arabic, Vietnamese, Chinese, and Korean Language
Web, social media, and issues management
Market research on cheese varieties
Professional services

**MARKET AND ECONOMIC RESEARCH, CONSULTING SERVICES**

Almanac Systems LLC
Australian Research Council
C+R Research Services
Cal Poly Corporation
CFE Solutions, Inc.
Children’s Hospital Oakland Research
CliftonLarson Allen
Concept Green, LLC
Culinary Sales Support, Inc.
Dairy Insights
Dolcera
Dutch Dairy Funding Agreement
Irish Design
Joslin Diabetes Center, Inc.
K. COE Isom, LLP
Keenan, Judy
KEO consulting
LPK Brands, Inc.
MBL Marketing Consulting, LLC
Morgan Marzec
National Milk Producers Federation
NTT Data, Inc.
Palacios, Orsolya
Patel, Hasmukh
Peryam & Kroll Research Corporation
Pollock Communications
Salo, LLC
Strategic Conservation Solutions
Technomic, Inc.
The Kroger Company
The Prasino Group, LLC
Vennli, Inc.
Wescott Strategic Communications LLC

Farm Smart support tool
Research project
Consulting services
Research project
Consulting Services
Research project
Outsourced accounting services
Sustainability reporting services
Product innovation
Consulting services
Scientific article development services
Support agreement
Sustainability reporting services
Nutrition research
Sustainability Framework development
Health and Wellness consulting services
Animal health and wellbeing services
DFA packaging consumer research
Strategic counsel services
Strategic consulting services
Animal health and wellbeing services
IT services
Materials development and consulting services
Whole milk powder technical monolith
Qualitative research and concept testing
Consulting services
Document and routing systems
Strategic consulting services
Foodservice industry intelligence resources
Dairy Sustainability scientist
Dairy resource recovery research
Communication services
Consulting services
National Dairy Foods Research Centers

**California Dairy Research Center**
The California Dairy Foods Research Center, located at the Dairy Products Technology Center at California Polytechnic State University at San Luis Obispo, supports the dairy industry from farm to table. Working with the California Dairy Research Foundation and the University of California-Davis, the California Dairy Foods Research Center conducts applied and strategic dairy research and development in the areas of product technology and utilization, ingredient technology and utilization, products for health enhancement, food quality, and food safety.

California Polytechnic State University -San Luis Obispo  
A. Charles Crabb, Ph.D.  
Dairy Products Technology Center  
San Luis Obispo, CA 93407

California Dairy Research Foundation  
Gonca Pasin, Ph.D.  
501 G Street, Suite 203  
Davis, CA 95616

**Midwest Dairy Foods Research Center**
The Midwest Dairy Foods Research Center conducts research to support the dairy industry utilizing resources within the University of Minnesota (St. Paul), South Dakota State University (Brookings), and Iowa State University (Ames). Research focuses on improving and controlling flavor development and functionality in cheese; improving the performance of cheese starter cultures through genetics; adding value to milk-based products with probiotics and nutraceuticals; improving shelf life of flavored milks; reducing undesirable taste attributes of milk; improving functionality and controlling flavor attributes of milk fractionation components; and developing methods for effective and profitable uses of whey.

South Dakota State University  
Lloyd Metzger, Ph.D.  
Midwest Dairy Foods Research Center,  
Box: 2104  
Brookings, SD 57007

University of Minnesota-St. Paul  
Peggy Lehtola  
Midwest Dairy Foods Research Center,  
1334 Eckles Avenue  
St. Paul, MN 55108

Iowa State University - Ames  
Stephanie Clark  
Midwest Dairy Foods Research Center,  
2312 Food Sciences Building  
Ames, IA 50011

**Northeast Dairy Foods Research Center**
The Northeast Dairy Foods Research Center located at Cornell University, Ithaca, NY, was formed to conduct fluid milk and dairy ingredient research; dairy microbiology and safety; provide applications and technical support for the improvements in milk powder quality, casein, and whey protein research; and help establish the next generation of dairy ingredients.
**Southeast Dairy Foods Research Center**
The Southeast Dairy Foods Research Center, with facilities and support at North Carolina State University (Raleigh) and Mississippi State University (Starkville), has been operating since 1988 and actively participates in national research planning and execution on behalf of the dairy industry. The center also hosts a Food Rheology Laboratory, Nutrition Technical Services Laboratory, and a Sensory Applications Laboratory, conducting analytical, qualitative, and affective sensory tests and flavor chemistry analyses tailored to meet specific needs of the food industry.

**Mississippi State University**
Sam Chang, Ph.D.
Food Science, Nutrition and Health Promotion
240 Wise Center Drive
Starkville, MS, 39762

**North Carolina State University**
Todd Klaenhammer, Ph.D., Director
Southeast Dairy Foods Research Center
100 Schaub Hall, Box 7624
Raleigh, NC 27695-7624

**Western Dairy Center**
The Western Dairy Center’s primary location is Utah State University in Logan, with additional resources available at Oregon State University and University of Idaho. Research focus includes: cheese flavor and functionality; cheese technology; fermented products, including cheese and yogurt; ultra-high-temperature and extended-shelf-life fluid milk beverages; milk protein chemistry, including coagulation, denaturation, and separation; milk fractionation and use of membrane separation in dairy foods; anaerobic digestion of dairy processing waste; whey protein extrusion; application of genetics, genomics and metabolomics to lactic acid bacteria; whey and milk utilization; and microstructure of dairy. Additional information link: http://www.usu.edu/westcent/.

**Utah State University**
Center for Dairy Research
Donald J. McMahon, Ph.D.,
Director of Western Dairy Center
8700 Old Main Hill, 750 N 1200 E
Logan, UT 84322-8700
WISCONSIN
The Wisconsin Center for Dairy Research is located within a licensed, operating dairy plant on the University of Wisconsin-Madison campus. Building on Wisconsin’s tradition as the “Dairy State,” the center explores functional, flavor, and physical properties of cheese/cheese products and other milk components used as ingredients and as finished products. The center researches cheese making and dairy protein processing/separation procedures, use of dairy ingredients in foods, and technologies for product safety and quality.

University of Wisconsin-Madison
Wisconsin Center for Dairy Research
John Lucey, Ph.D., Director
Wisconsin Center for Dairy Research
1605 Linden Drive
Madison, WI 53706-1565
Dairy Foods Competitive Product Research Projects Active in 2015

**Principal Investigator, Institution, Project Title and Status**

Jayendra K. Amamcharla, Ph.D. (Kansas State University): *Use of Nano-scale Aqueous Ozone to Remove Biofilms from Selected Dairy Product Contact Surfaces* [ongoing 2015]; *Use of Micro and Nano Bubbles in Dairy Processing Applications* [initiated 2015].

Jayendra K. Amamcharla, Ph.D. (Kansas State University) and Lloyd Metzger, Ph.D. (South Dakota State University): *Understanding the Effects of Electromagnetic Fluid Conditioning on Physical, Chemical and Functional Properties of Milk and Dairy Products* [ongoing 2015].

Jayendra K. Amamcharla, Ph.D. (Kansas State University), Sanjeev Anand, Ph.D. (South Dakota State University), Lloyd Metzger, Ph.D. (South Dakota State University), and Julie M. Goddard, Ph.D. (University of Massachusetts Amherst): *Use of Novel Surface Modification Techniques to Reduce Biofilms on Plate Heat Exchanger Plates* [ongoing 2015].

Sanjeev Anand, Ph.D. (South Dakota State University): *Improve the Microbial Quality of Milk Powders by Controlling Thermally Resistant Spore Formers and Spores* [ongoing 2015]; *Understanding the Process of Spore Germination or Sporulation, and Biofilm Formation Under Simulated Skim Milk Powder Manufacturing Conditions* [initiated 2015]; *Evaluation of Adherence Ability and Biofilm Formation of HHRS to Modified Stainless Steel Surfaces* [initiated 2015].

David M. Barbano, Ph.D. (Cornell University) and MaryAnne Drake, Ph.D. (North Carolina State University): *The Role of Protein, Protein Ratio and Fat Content on Consumer Acceptance* [ongoing 2015]; *The Role of Milk Heat Treatment and Fat Content on Consumer Acceptability* [ongoing 2015]; *The Role of Vitamin Premix on Flavor and Flavor Stability of Fluid Milk* [initiated 2015].

Andreia Bianchini, Ph.D. (University of Nebraska): *Application of Interventions at Farm Level to Reduce Sporeformer Bacteria* [initiated 2015].

Stephanie Clark, Ph.D. (Iowa State University): *Feasibility of Integrating Ultrasound into High Temperature Short Time Processing for Extended Shelf Life Milk* [concluded 2015].


MaryAnne Drake, Ph.D. (North Carolina State University): *Southeast Dairy Center Application Laboratory Program* [ongoing 2015]; *Consumer Evaluation of Milks with Different Packaging and Light Exposure* [Initiated 2015]; *Hydrolysis of Milk Powder Permeate and/or Milk for no Sugar Added Flavored Milk* [completed 2015]; *The Influence of Processing Parameters on SMP Quality* [ongoing 2015].
MaryAnne Drake, Ph.D. (North Carolina State University) and Lloyd Metzger, Ph.D. (South Dakota State University): *Exploring Consumer Perception of Permeate-Based Sodium Reduction with Different Permeate Sources* [ongoing 2015].

Susan E. Duncan, Ph.D., (Virginia Polytechnic Institute and State University): *Milk Packaging Options for Light Protection of Milk Flavor From Processing Through Retail Purchase* [ongoing 2015].


Kathleen Glass, Ph.D. (University of Wisconsin-Madison/Center for Dairy Research): *Inhibition of Clostridium Botulinum in Reduced-Sodium Pasteurized Cheese Products* [ongoing 2015]; *Control of Listeria Monocytogenes in High-Moisture Cheese* [initiated 2015].

Lisbeth Goddik, Ph.D. (Oregon State University): *Impact of Milk Hauling and Receiving on Microbial Content in Raw Milk* [ongoing 2015].

Selvarani Govindasamy-Lucey, Ph.D. (University of Wisconsin-Madison/Center for Dairy Research): *Increasing the Shelf-Life of Export Cheeses by Prolonged Low Temperature Storage* [ongoing 2015]; *Shelf-life Extension of Cream Cheeses for Export* [ongoing 2015]; *Controlling Cheese Acidity by Adjustment of the Lactose to Protein Content of Cheesemilk* [initiated 2015].

Frederico M. Harte, Ph.D. (Pennsylvania State University): *Effect of Salts on Casein Micelle* [initiated 2015].

John A. Lucey, Ph.D. (University of Wisconsin-Madison/Center for Dairy Research): *Wisconsin Center for Dairy Research Applications Laboratory* [ongoing 2015]; *Next Generation Value-added Milk Protein Ingredients to Meet Growing International Demand for Clinical Foods* [initiated 2015]; *Complimentary Calcium Fractionation Techniques to Increase Co-Product Solids Utilization and Value* [initiated 2015]; *Designing Novel Cheese with High Levels of Intact Casein* [initiated 2015].

Donald McMahon, Ph.D. (Utah State University): *Western Dairy Center Technology Innovation Laboratory Program* [ongoing 2015].

Lloyd Metzger, Ph.D. (South Dakota State University): *Development of Modified Milk Protein Concentrates as an Alternative to Rennet Casein* [ongoing 2015]; *Midwest Dairy Foods Applications Laboratories Program* [ongoing 2015]; *Improve Technology to Manufacture Lactose and Dry Acid Whey* [initiated 2015].

NIZO Food Research B.V. (Netherlands): *Reduction of Spore Count in Milk Powder Production* [ongoing 2015].
Hasmukh Patel, Ph.D., Lloyd Metzger, Ph.D. (South Dakota State University) and Cordelia Selomulya, Ph.D. (Monash University (Australia)): To Improve the Quality of Milk Powder by Developing Strategies to Minimize the Increase in Viscosity of Milk Concentrate with High Total Solids Milk [concluded 2015]; Single Droplet Drying Technology for Optimization of Dairy Ingredients for Best Quality and Functionality [ongoing 2015].


Phillip S. Tong, Ph.D. (California Polytechnic State University – San Luis Obispo): California Dairy Center Application Laboratory Program [ongoing 2015].


Martin Wiedmann, Ph.D., D.V.M. (Cornell University): Control of post-pasteurization contamination of Pasteurized Fluid Milk Through Improved Sanitation [initiated 2015]; Impact of Bedding Type in Raw Milk Contamination with Spore Formers Affecting Dairy Powder Quality [initiated 2015].

Bongkosh Vardhanabhuti, Ph.D. (University of Missouri) and Lloyd Metzger, Ph.D. (South Dakota State University): Whey Protein Ingredient with Improved Emulsification Properties [initiated 2015].

Nutrition Competitive Research Activities in 2015

PRINCIPAL INVESTIGATOR, INSTITUTION, PROJECT TITLE AND STATUS


Dominik Alexander, Ph.D., MSPH (EpidStat Institute): *Meta-analysis of Dairy Consumption and Body Composition* [Ongoing 2015].

Connie W. Bales, Ph.D., RD (Duke University Medical Center): *An Enhanced Protein (dairy) Weight Loss Intervention for Dynapenic Obesity: Impact on Muscle Quality and Composition* [initiated 2015].


Sarah L. Booth, Ph.D. (Tufts University): *Menaquinone (Vitamin K2) Content of Dairy Products* [initiated 2015].

Richard Bruno, Ph.D. (Ohio State University): *Dairy Fat as a Mediator of Vitamin E Adequacy in Individuals With Metabolic Syndrome* [ongoing 2015]; *Regulation of Postprandial Nitric Oxide Bioavailability and Vascular Function by Dairy Milk* [initiated 2015].

Wayne Campbell, Ph.D. (Purdue University): *Impact of Fluid Milk of Post-Meal Glycemia and Insulinemia in Overweight/Obese Adults with Normal or Impaired Glucose Tolerance or Type 2 Diabetes* [concluded 2015]; *Dietary Protein Intake and Source and Body Composition in U.S. Adults Aged 50 years and Older* [concluded 2015]; *Effects of Milk Protein Concentrate on Blood Pressure, Inflammation, Muscle Composition, and Metabolic Health During Weight Loss in Overweight/obese Adults* [concluded 2015]; *Effects of Dietary Protein Patterning on Weight Loss and Resistance Training-induced Changes in Body Composition, Skeletal Muscle, and Indices of Metabolic Syndrome* [ongoing 2015].

Sharon Donovan, Ph.D., RD and Barbara Fiese, Ph.D. (University of Illinois at Urbana - Champaign): *STRONG Kids 2: A Cells-to-Society Approach to Nutrition in Early Childhood* [ongoing 2015].

Michael Fenech, Ph.D. (Commonwealth Scientific and Industrial Research Organisation (Australia): *Whey Protein Isolate as a Source of Vitamin B12 and to Lower Homocysteine and Methylmalonic Acid in the Alderly* [ongoing 2015].

Foundation for the National Institutes of Health: *The Performance of Novel Cardiac Biomarkers in the General U.S. Population* [ongoing 2015].
Mathew Hayes, Ph.D. (University of Pennsylvania): *Milk Protein Concentrate Improves the Metabolic Effects of GLP-1-based Pharmacotherapy in Diabetic Rat Models* [ongoing 2015]

Kevin Heffernan, Ph.D. (Syracuse University): *Efficacy of Whey Protein to Improve Cerebrovascular and Cognitive Function in Older Adults* [ongoing 2015].

Rachel Johnson, Ph.D., MPH, RD (University of Vermont): *Evaluating the Acceptance of Reformulated Flavored Milk in Schools* [ongoing 2015].

Samual Klein, M.D. (Washington University School of Medicine): *Diet and exercise intervention in Type 2 Diabetes* [ongoing 2015].

Jana Kraft, Ph.D. (University of Vermont): *Researching the Effects of Consuming a Diet Comprising of Milk Fat on Metabolic Health Markers* [ongoing 2015].

Mario Kratz, Ph.D. (Fred Hutchinson Cancer Research Center - University of Washington): *The Impact of Low-fat and Full-fat Dairy Consumption on Glucose Homeostasis* [initiated 2015].

Ronald M. Krauss, Ph.D. (Children’s Hospital Oakland Research Institute): *Effect of a Modified Lower Carbohydrate, High Fat DASH Diet Plan on Plasma Lipids, Lipoprotein Particle Size and Blood Pressure in Healthy Adults* [ongoing 2015]; *Effects of Replacing Sugar Sweetened Beverages with Milk on Metabolic Risk Factors in Overweight and Obese Adolescents* [ongoing 2015].

Benoit Lamarche, Ph.D. (Laval University) *Investigation of the Impact of Cheese Consumption on HDL Function* [ongoing 2015].

Luc JC van Loon, Ph.D. (Maastricht University) *Casein in Milk as a Functional Ingredient for the Prevention of Sarcopenia* [ongoing 2015].

Kevin C. Maki, Ph.D. (Midwest Center for Metabolic and Cardiovascular Research): *A Randomized, Controlled Crossover Trial of Acute Cognitive, Appetite, Glucose, and Insulin Responses to Five Milk or Juice Beverages or Water in Men and Women* [ongoing 2015].

Benjamin F. Miller, Ph.D. (Colorado State University): *Activation of Nrf2 by Conjugated Linoleic Acid to Decrease Oxidative Stress and Inflammation and Thereby Increase Muscle Building Effects of Milk Proteins* [ongoing 2015].

Lynn L. Moore, D.Sc., MPH (Boston University School of Medicine): *Protein Effects on Metabolic Outcomes in Older Men* [ongoing 2015]; *Yogurt, Blood Pressure and Cardiovascular Risk in Three Prospective Cohorts* [ongoing 2015]; *Effects of Animal and Plant Proteins on Functional Decline in Older Adults* [initiated 2015]; *Effects of Sodium and Other Dairy-related Minerals on Blood Pressure and Cardiovascular Outcomes* [initiated 2015].
Douglas Paddon-Jones, Ph.D. (University of Texas Medical Branch at Galveston): *Whey Protein, Aging and Physical Inactivity* [ongoing 2015].

Peggy Paphathakis, Ph.D. (California Polytechnic State University – San Luis Obispo): *Randomized Controlled Trial of the Impact of Treating Moderately Malnourished Women in Pregnancy with Sub Studies* [ongoing 2015].

Stuart Phillips, Ph.D. (McMaster University): *Whey Protein Intake in the Amelioration of Skeletal Muscle Quantity and Function During Inactivity in Older Adults* [initiated 2015].


Tonya Schoenfuss, Ph.D. (University of Minnesota): *Evaluation of Cheese with Desirable Fat and Sodium Attributes for School Lunch Snack Choices* [ongoing 2015].

Ego Seemen, M.D. (University of Melbourne): *Study into Improved Health for Elderly Through Increased Dairy Consumption* [ongoing 2015].


Hans H. Stein, Ph.D. (University of Illinois, Urbana-Champaign): *Amino Acid Digestibility and DIAAS Values in Dairy Proteins and Other Sources of Protein Used in Human Consumption* [concluded 2015].

Hirofumi Tanaka, Ph.D. (University of Texas): *Effects of Fluid Milk in Attenuating Hyperglycemia and Hypertriglyceridemia for Meal* [concluded 2015]; *Destiffening and Hypotensive Effects of Whole Milk and Full-fat Dairy Products* [initiated 2015].

Jeff Volek, Ph.D. (Ohio State University): *Controlled Clinical Study to Determine Novel Health Benefits of Cheese Consumption* [initiated 2015].

Elena Volpi, M.D., Ph.D. (University of Texas Medical Branch at Galveston): *Whey Protein and Exercise to Accelerate Recovery of Muscle Mass and Function After Acute Hospitalization in Previously Independent Older Adults* [ongoing 2015].


Christine D. Wu, Ph.D. (University of Illinois-Chicago): *Consumption of Milk after Sugar Snacks Reduces Dental Plaque Acid Production and Benefits Oral Health in Children* [initiated 2015].
**Sustainability Competitive Research Activities in 2015**

**Principal Investigator, Institution, Project Title and Status**

Eric Boerwinkle, Ph.D. (University of Texas Health Science Center at Houston): *National Nutrient Optimization & Dairy (NaNO-Dairy)* [ongoing 2015].


Greg Thoma, Ph.D. (University of Arkansas): *Life Cycle Environmental Assessment of Yogurt Production and Consumption in the USA* [concluded 2015].
National Fluid Milk Processor Promotion Board  
2015 Contracts Approved by USDA

ADVERTISING, PROMOTION, AND PUBLIC RELATIONS

Common Ground MSG  Spokesperson representation
Challenged Athletes Foundation Official Recovery Beverage
CMGRP  Advertising and Promotion services
DoExtra CRM Solutions, LLC Salesforce consulting
Foote, Cone & Belding, NYC IPG Meals at Home promotion
In Tech Attachment Promotional Products Inventory and Materials
Ipsos-Insight LLC Validate effectiveness of Milk Life Campaign
Lowe Profero, LLC Advertising and Promotion services
Lowe Venture Associates Milk Life Blogger contest
MGSCOMM Hispanic Advertising and Promotion services
National Soccer Coaches Association Promotion outreach
Spectrum Group Productions, Inc. Audio Visual services
ThinkVine Virtual marketplaces simulation
Upshot, Inc. Creative concept development

MARKET RESEARCH AND EVALUATION, AND CONSULTING SERVICES

Alexander, Craig Consulting Services
Applied Thinking LLC Research services
Food for Thought, Inc. Scientific and Regulatory Material review
Gail Golden Consulting, LLC Executive coaching
Heather J. Leidy, Ph.D. Medical Advisory Board
IDFA Office support services
MCLeod, Watkinson & Miller Outside counsel
Red Spark Consulting LLC Great American Food Drive
Zaborsky Consulting services
Prime Consulting Group Insights into current trends and sales growth opportunities
Protagonist Research services
Radius Global Market Research Consulting services
Snyder Cohen, PC Audit services
Abrams, Steve M.D. Medical advisory services
Financial Statements

National Dairy Promotion and Research Board
Years Ended December 31, 2015 and 2014
With Reports of Independent Auditors

Ernst & Young LLP
National Dairy Promotion and Research Board

Financial Statements

Years Ended December 31, 2015 and 2014

Contents

Report of Independent Auditors.................................................................1

Report of Independent Auditors 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..........................3

Financial Statements

Balance Sheets ...............................................................................................5
Statements of Activities ..................................................................................6
Statements of Cash Flows................................................................................7
Notes to Financial Statements.........................................................................8
Report of Independent Auditors

The Board of Directors  
National Dairy Promotion and Research Board

We have audited the accompanying financial statements of National Dairy Promotion and Research Board, which comprise the balance sheets as of December 31, 2015 and 2014, and the related statements of activities and cash flows 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 conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of 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 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain 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.

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 National Dairy Promotion and Research Board as of December 31, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we also have issued our report dated April 28, 2016, on our consideration of National Dairy Promotion and Research Board’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements 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 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 National Dairy Promotion and Research Board’s internal control over financial reporting and compliance.

Ernst & Young LLP

April 28, 2016
Report of Independent Auditors 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

The Management and Board of Directors
National Dairy Promotion and Research Board

We have audited, in accordance with auditing standards generally accepted in the United States 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 Dairy Promotion and Research Board, which comprise the balance sheets as of December 31, 2015 and 2014, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated April 28, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered National Dairy Promotion and Research 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 National Dairy Promotion and Research Board’s internal control. Accordingly, we do not express an opinion on the effectiveness of National Dairy Promotion and Research 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 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 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 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 National Dairy Promotion and Research Board’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant 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 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 result of that testing, and not to provide an opinion on 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 entity’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ernst & Young LLP

April 28, 2016
National Dairy Promotion and Research Board

Balance Sheets

<table>
<thead>
<tr>
<th>Assets</th>
<th>December 31</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2015</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$36,777,894</td>
</tr>
<tr>
<td>Domestic assessments receivable, net of allowance for doubtful accounts of $40,222 in 2015 and 2014</td>
<td>10,816,240</td>
</tr>
<tr>
<td>Import assessments receivable</td>
<td>409,921</td>
</tr>
<tr>
<td>Fixed assets, net of accumulated depreciation of $263,704 and $256,838 in 2015 and 2014, respectively</td>
<td>4,551</td>
</tr>
<tr>
<td>Total assets</td>
<td>$48,008,606</td>
</tr>
</tbody>
</table>

| Liabilities and net assets                  |             |
| Liabilities:                                |             |
| Due to related party – Dairy Management Inc. | $14,267,161 | $3,710,205 |
| Accounts payable                           | 87,697      | 246,957     |
| Accrued expenses and other liabilities      | 417,102     | 451,297     |
| Total liabilities                          | 14,771,960  | 4,408,459   |

Unrestricted net assets:

| Designated                                  | 25,719,200  | 21,939,300  |
| Undesignated                               | 7,517,446   | 8,067,001   |
| Total unrestricted net assets              | 33,236,646  | 30,006,301  |
| Total liabilities and net assets           | $48,008,606 | $34,414,760 |

See accompanying notes.
National Dairy Promotion and Research Board

Statements of Activities

<table>
<thead>
<tr>
<th></th>
<th>Year Ended December 31</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2015</td>
</tr>
<tr>
<td>Revenues</td>
<td></td>
</tr>
<tr>
<td>Domestic assessments</td>
<td>$103,732,399</td>
</tr>
<tr>
<td>Import assessments</td>
<td>$3,242,449</td>
</tr>
<tr>
<td>Select funding</td>
<td>$5,810,619</td>
</tr>
<tr>
<td>Interest income</td>
<td>1,268</td>
</tr>
<tr>
<td>Total revenues</td>
<td>$112,786,735</td>
</tr>
</tbody>
</table>

| Expenses             |                         |                         |
| Programs:            |                         |                         |
| Domestic and export marketing | 104,242,120 | 102,736,600 |
| United States Department of Agriculture | 501,181 | 585,487 |
| Total programs      | $104,743,301             | 103,322,087             |

| General and administrative: |                         |                         |
| DMI general and administrative | 3,933,600               | 3,667,088               |
| General and administrative | 879,489                 | 774,017                 |
| Total general and administrative | 4,813,089               | 4,441,105               |

| Total expenses       | $109,556,390             | 107,763,192             |

| Increase in net assets |                         |                         |
|                        | $3,230,345               | 1,982,896               |
| Net assets at beginning of year | $30,006,301 | 28,023,405 |
| Net assets at end of year | $33,236,646             | $30,006,301             |

See accompanying notes.
Operating activities
Change in net assets
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:
   Depreciation
   Changes in assets and liabilities:
      Assessments receivable
      Due to related party – Dairy Management Inc.
      Accounts payable
      Accrued expenses and other liabilities
Net cash provided by (used in) operating activities

<table>
<thead>
<tr>
<th>Year Ended December 31</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
</tr>
<tr>
<td>------</td>
</tr>
<tr>
<td>$</td>
</tr>
<tr>
<td>3,230,345</td>
</tr>
<tr>
<td>6,867</td>
</tr>
<tr>
<td>(283,221)</td>
</tr>
<tr>
<td>10,556,956</td>
</tr>
<tr>
<td>(159,261)</td>
</tr>
<tr>
<td>(34,195)</td>
</tr>
<tr>
<td>13,317,491</td>
</tr>
</tbody>
</table>

Net increase (decrease) in cash and cash equivalents
Cash and cash equivalents at beginning of year
Cash and cash equivalents at end of year

$ 36,777,894 $ 23,460,403

See accompanying notes.
National Dairy Promotion and Research Board

Notes to Financial Statements

December 31, 2015 and 2014

1. Organization

The National Dairy Promotion and Research Board (NDB) was established on May 1, 1984, pursuant to The Dairy and Tobacco Adjustment Act of 1983 (Public Law 98-180), as part of a comprehensive strategy to reduce milk surplus supplies in the United States (U.S.) and increase human consumption of fluid milk and other dairy products. The purpose of NDB is to establish a coordinated program of promotion and research designed to strengthen the dairy industry’s position in the marketplace and to maintain and expand domestic and international markets’ usage of U.S.-produced fluid milk and other dairy products.

The United States Department of Agriculture (USDA) approved a joint venture between NDB and the United Dairy Industry Association (UDIA) to form Dairy Management Inc. (DMI) effective January 1, 1995. The purpose of DMI, a related organization, is to promote greater coordination, efficiency, and effectiveness and avoid incompatibility and duplication in the marketing programs and projects undertaken by NDB and UDIA, which jointly plan, develop, and implement their various marketing programs and activities through DMI, subject to the approval of the USDA.

NDB funds DMI on a cost-reimbursement basis. Core costs, which include staff salaries and benefits of DMI employees, travel, Board of Directors, and office operating expenses, are primarily funded by NDB, with UDIA funding one-half of the office costs of the Board of Directors and CEO. Marketing program costs, which include expenses associated with implementing the marketing programs of NDB and UDIA, are funded by NDB and UDIA.

2. Summary of Significant Accounting Policies

Basis of Presentation

The financial statements are prepared on the accrual basis of accounting in conformity with generally accepted accounting principles (GAAP) in the United States. These principles require management to make estimates and judgments that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses in the reporting period. Actual results could differ from those estimates.
2. Summary of Significant Accounting Policies (continued)

Financial Instruments

The carrying values of cash and cash equivalents, assessments receivable, accrued interest receivable, investments, amounts due to related party, accounts payable, and accrued expenses and other liabilities are reasonable estimates of fair value due to the short-term nature of these financial instruments.

Cash and Cash Equivalents

Cash equivalents include all liquid investments with a maturity of three months or less at the date of acquisition.

Fair Value Measurements

Accounting Standards Codification (ASC) 820, *Fair Value Measurement*, establishes a three-level valuation hierarchy for disclosure of fair value measurements for financial instruments measured at fair value. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

- **Level 1** – Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- **Level 2** – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instruments.
- **Level 3** – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument’s categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

NDB has classified $4,499,089 and $1,499,819 (see Note 3) of investments in U.S. federal agency securities, which are included in cash and cash equivalents as of December 31, 2015 and 2014, respectively, as Level 1.
2. Summary of Significant Accounting Policies (continued)

Assessments

Domestic assessment revenue is generated by a mandatory assessment of $0.15 per hundredweight on all milk produced and marketed in the United States. Milk producers can direct up to $0.10 per hundredweight to USDA-qualified state and regional generic dairy promotion organizations. For the years ended December 31, 2015 and 2014, the net NDB assessment was approximately $0.0532 and $0.0525, respectively, per hundredweight of milk marketed. Assessment revenue is recognized in the month in which milk is marketed. In addition, effective August 2011, the mandatory assessment was extended to dairy importers at $0.075 per hundredweight. Importers can direct $0.025 per hundredweight to USDA-qualified generic dairy promotion organizations.

The Dairy Promotion and Research Order allows organic dairy producers, as defined, to be exempt from paying assessments. The amount of exempted assessments in 2015 and 2014 was approximately $1,051,000 and $1,030,000, respectively.

Fixed Assets

Fixed assets consist of computer software and are recorded at cost. Depreciation and amortization are provided in amounts sufficient to charge the costs of depreciable assets to operations over estimated service lives of five years using the straight-line method.

Income Taxes

The Internal Revenue Service has ruled that NDB is an entity engaging in an activity under the oversight of the USDA and, accordingly, is not subject to federal taxation.

3. Cash and Cash Equivalents

Cash and cash equivalents consist of the following as of December 31:

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$32,278,805</td>
<td>$21,960,584</td>
</tr>
<tr>
<td>U.S. federal agency securities</td>
<td>$4,499,089</td>
<td>$1,499,819</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$36,777,894</strong></td>
<td><strong>$23,460,403</strong></td>
</tr>
</tbody>
</table>
4. Assessments Receivable

Assessments receivable are recorded at the estimated net amounts to be received based on the amount of milk marketed and the average payment per hundredweight. In accordance with Public Law 98-180, NDB forwards unpaid assessments to the USDA for collection and other legal proceedings. As of December 31, 2015 and 2014, $987,545 and $979,805, respectively, of cumulative unpaid assessments were at the USDA pending further action. Such amounts are not included in assessments receivable as of December 31, 2015 and 2014, and will not be recorded as revenue until such amounts are ultimately received. Civil penalties exist for any persons who do not pay the assessment and/or file required milk marketed assessment reports with NDB.

5. Related-Party Transactions

NDB has funded DMI program and core costs as follows:

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Program costs</td>
<td>$73,256,929</td>
<td>$69,461,581</td>
</tr>
<tr>
<td>Core costs</td>
<td>34,918,791</td>
<td>36,942,108</td>
</tr>
<tr>
<td>Total funding to DMI</td>
<td>$108,175,720</td>
<td>$106,403,689</td>
</tr>
</tbody>
</table>

Dairy Research Institute (DRI) was incorporated in 2010 for the purpose of engaging in dairy scientific research and sustainability advancement. Of the program funding that NDB reimbursed DMI, $78,636 and $1,586,534 for 2015 and 2014, respectively, was reimbursed to DMI for DRI’s operations.

The U.S. Dairy Export Council (USDEC) was incorporated effective January 1, 1996. The purpose of USDEC is to improve the marketing conditions for the U.S. dairy industry with respect to the export of U.S. dairy products by promoting the acceptability, consumption, and purchase of U.S. dairy products in international markets. Of the program funding that NDB reimbursed DMI, $11,210,150 and $11,291,159 for 2015 and 2014, respectively, was reimbursed to DMI for USDEC’s operations.
6. Transactions With Other Industry Organizations

NDB reimburses the USDA for the cost of administrative oversight and compliance audit activities. Expenses incurred under this arrangement amounted to $501,181 and $585,487 for 2015 and 2014, respectively.

7. Net Assets

During 2015 and 2014, NDB’s Board of Directors designated a portion of net assets for cash reserves. Total designations of net assets are as follows:

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Designated net assets:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash reserves</td>
<td>$1,800,000</td>
<td>$1,800,000</td>
</tr>
<tr>
<td>Subsequent years program activity</td>
<td>23,919,200</td>
<td>20,139,300</td>
</tr>
<tr>
<td>Total designated net assets</td>
<td>25,719,200</td>
<td>21,939,300</td>
</tr>
<tr>
<td>Undesignated net assets</td>
<td>7,517,446</td>
<td>8,067,001</td>
</tr>
<tr>
<td>Total net assets</td>
<td>$33,236,646</td>
<td>$30,006,301</td>
</tr>
</tbody>
</table>

8. Line-of-Credit Guarantee

NDB guarantees DMI’s $10,000,000 revolving bank line of credit, which will expire on June 30, 2017. Borrowings made, if any, under the line of credit accrue interest, payable monthly, at the prevailing prime interest rate. There were no borrowings on the line of credit as of December 31, 2015.

9. Subsequent Events

NDB evaluated events occurring between January 1, 2016 and April 28, 2016, which is the date when the financial statements were available to be issued. NDB did not have any subsequent events to recognize or disclose.
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National Fluid Milk Processor Promotion Board

Financial Statements and Independent Auditor's Report

Years Ended December 31, 2015 and 2014

1250 H Street, N.W., Suite 950
Washington, D.C. 20005
Part I

Financial Statements and Independent Auditor's Report for the Years Ended December 31, 2015 and 2014

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

Part III

Independent Auditor's Comments on Compliance with Government Auditing Standards
Table of Contents

Independent Auditor’s Report ................................................................. 1-2

Financial Statements:

  Statements of Financial Position .................................................. 3
  Statements of Revenues, Expenses and Changes in Net Assets .......... 4
  Statements of Cash Flows ............................................................... 5
  Notes to Financial Statements ....................................................... 6-14

Supplementary Information:

  Schedules of Actual Compared to Budget:

    Revenues and Expenses (Budget Basis) ..................................... 16
    Program Expenses (Budget Basis) ............................................. 17
    Administrative Expenses (Budget Basis) .................................... 18
    Schedule of Cash Receipts and Disbursements ........................... 19
PART I
Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the National Fluid Milk Processor Promotion Board, which comprise the statements of financial position as of December 31, 2015 and 2014, 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.

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.

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 National Fluid Milk Processor Promotion Board as of December 31, 2015 and 2014, 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.
To the Board of Directors
National Fluid Milk Processor
Promotion Board
Page two

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplementary information shown on pages 16 through 19 is presented for 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 budget 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 information 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 March 28, 2016 on our consideration of the 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 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. This report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audits.

Snyder Cohn, PC
SNYDER COHN, PC
North Bethesda, Maryland
March 28, 2016
# National Fluid Milk Processor Promotion Board

## Statements of Financial Position

<table>
<thead>
<tr>
<th>December 31</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current assets:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$15,699,111</td>
<td>$14,620,286</td>
</tr>
<tr>
<td>Assessments receivable, net</td>
<td>9,861,661</td>
<td>9,058,779</td>
</tr>
<tr>
<td>Future year costs</td>
<td>429,558</td>
<td>19,825</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>51,773</td>
<td>49,192</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>$26,042,103</td>
<td>$23,748,082</td>
</tr>
<tr>
<td><strong>Property and equipment, net</strong></td>
<td>$39,325</td>
<td>$59,266</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>$26,081,428</td>
<td>$23,807,348</td>
</tr>
<tr>
<td><strong>Liabilities and net assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current liabilities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable and accrued expenses</td>
<td>$8,970,285</td>
<td>$8,923,378</td>
</tr>
<tr>
<td>Coupon liability</td>
<td>454,755</td>
<td>278,700</td>
</tr>
<tr>
<td>Capital lease, current portion</td>
<td>5,857</td>
<td>5,264</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td>$9,430,897</td>
<td>$9,207,342</td>
</tr>
<tr>
<td><strong>Other liabilities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital lease, net of current portion</td>
<td>20,433</td>
<td>26,290</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>$9,451,330</td>
<td>$9,233,632</td>
</tr>
<tr>
<td><strong>Net assets:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Board designated for contingencies</td>
<td>2,500,000</td>
<td>2,500,000</td>
</tr>
<tr>
<td>Undesignated</td>
<td>14,130,098</td>
<td>12,073,716</td>
</tr>
<tr>
<td><strong>Total net assets</strong></td>
<td>$16,630,098</td>
<td>$14,573,716</td>
</tr>
<tr>
<td><strong>Total liabilities and net assets</strong></td>
<td>$26,081,428</td>
<td>$23,807,348</td>
</tr>
</tbody>
</table>

See Accompanying Notes
National Fluid Milk Processor Promotion Board

Statements of Revenues, Expenses and Changes in Net Assets

For the years ended December 31

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenues:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Assessments</td>
<td>$96,748,571</td>
<td>$97,271,778</td>
</tr>
<tr>
<td>Late payment charges</td>
<td>35,059</td>
<td>28,225</td>
</tr>
<tr>
<td>Interest income</td>
<td>29,218</td>
<td>16,540</td>
</tr>
<tr>
<td>Other</td>
<td>8,983</td>
<td>9,228</td>
</tr>
<tr>
<td><strong>Total revenues</strong></td>
<td>96,821,831</td>
<td>97,325,771</td>
</tr>
<tr>
<td><strong>Expenses:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Program expenses:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Meals at home</td>
<td>66,799,393</td>
<td>62,860,280</td>
</tr>
<tr>
<td>Built with chocolate milk</td>
<td>13,724,202</td>
<td>17,760,303</td>
</tr>
<tr>
<td>Strategy and market research</td>
<td>2,574,874</td>
<td>2,805,609</td>
</tr>
<tr>
<td><strong>Total program expenses</strong></td>
<td>83,098,469</td>
<td>83,426,192</td>
</tr>
<tr>
<td>Other expenses:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>California grant</td>
<td>9,017,207</td>
<td>9,221,339</td>
</tr>
<tr>
<td>Administrative</td>
<td>2,158,986</td>
<td>2,881,420</td>
</tr>
<tr>
<td>USDA oversight</td>
<td>374,945</td>
<td>243,641</td>
</tr>
<tr>
<td>USDA compliance audit</td>
<td>112,500</td>
<td>93,896</td>
</tr>
<tr>
<td>Loss on disposal of property and equipment</td>
<td>210</td>
<td>1,004</td>
</tr>
<tr>
<td>Interest expense</td>
<td>3,132</td>
<td>1,766</td>
</tr>
<tr>
<td><strong>Total other expenses</strong></td>
<td>11,666,980</td>
<td>12,443,066</td>
</tr>
<tr>
<td><strong>Total expenses</strong></td>
<td>94,765,449</td>
<td>95,869,258</td>
</tr>
<tr>
<td><strong>Excess of revenues over expenses</strong></td>
<td>2,056,382</td>
<td>1,456,513</td>
</tr>
<tr>
<td><strong>Net assets - beginning</strong></td>
<td>14,573,716</td>
<td>13,117,203</td>
</tr>
<tr>
<td><strong>Net assets - ending</strong></td>
<td>$16,630,098</td>
<td>$14,573,716</td>
</tr>
</tbody>
</table>
National Fluid Milk Processor Promotion Board

Statements of Cash Flows

For the years ended December 31

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash flows from operating activities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Excess of revenues over expenses</td>
<td>$ 2,056,382</td>
<td>$ 1,456,513</td>
</tr>
<tr>
<td>Adjustments to reconcile excess of revenues over expenses to net cash provided by (used in) operating activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>23,944</td>
<td>31,075</td>
</tr>
<tr>
<td>Loss on disposal of property and equipment</td>
<td>210</td>
<td>1,004</td>
</tr>
<tr>
<td>(Increase) decrease in:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Assessments receivable</td>
<td>(802,882)</td>
<td>508,799</td>
</tr>
<tr>
<td>Future year costs</td>
<td>(409,733)</td>
<td>1,221,023</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>(2,581)</td>
<td>(11,978)</td>
</tr>
<tr>
<td>Other receivables</td>
<td>-</td>
<td>74,413</td>
</tr>
<tr>
<td>Increase (decrease) in:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable and accrued expenses</td>
<td>46,907</td>
<td>(5,304,525)</td>
</tr>
<tr>
<td>Coupon liability</td>
<td>176,055</td>
<td>278,700</td>
</tr>
<tr>
<td>Deferred compensation</td>
<td>-</td>
<td>(21,750)</td>
</tr>
<tr>
<td><strong>Net cash provided by (used in) operating activities</strong></td>
<td>$1,088,302</td>
<td>(1,766,726)</td>
</tr>
</tbody>
</table>

| **Cash flows from investing activities:** |            |            |
| Payments made for property and equipment | (4,213)    | (11,484)   |

| **Cash flows from financing activities:** |            |            |
| Payments made on capital lease | (5,264)    | (6,169)    |

| **Net increase (decrease) in cash and cash equivalents** | 1,078,825 | (1,784,379) |

| Cash and cash equivalents - beginning | $14,620,286 | $16,404,665 |

| Cash and cash equivalents - ending | $15,699,111 | $14,620,286 |

**Supplemental disclosure of cash flow information:**
Cash paid during the year for:
- Interest | $ 3,132 | $ 1,766 |

**Supplemental schedule of noncash investing and financing activities:**
- Capital lease obligation incurred in exchange for copier | - | 32,378 |
- Forgiveness of debt for copier (Note 4) | - | 9,074 |

See Accompanying Notes
National Fluid Milk Processor Promotion Board

Notes to Financial Statements

December 31, 2015 and 2014

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

Assessments (continued) - The late payment charge is equal to 1.50% of unpaid assessments and accrues monthly. For both 2015 and 2014, 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 has been established for those assessments which management has determined as uncollectible. The total allowance for uncollectible accounts at December 31, 2015 and 2014 was $-0- and $764,664, 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.
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.
Note 2: Cash and cash equivalents:

At December 31, 2015 and 2014, 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 (unrestricted net assets) at December 31, 2015 and 2014.

Note 3: Property and equipment:

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

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Furniture and fixtures</td>
<td>$30,261</td>
<td>$30,261</td>
</tr>
<tr>
<td>Leasehold improvements</td>
<td>134,790</td>
<td>134,790</td>
</tr>
<tr>
<td>Office equipment</td>
<td>119,758</td>
<td>117,437</td>
</tr>
<tr>
<td></td>
<td>284,809</td>
<td>282,488</td>
</tr>
<tr>
<td>Less: accumulated depreciation</td>
<td>(245,484)</td>
<td>(223,222)</td>
</tr>
<tr>
<td></td>
<td>$39,325</td>
<td>$59,266</td>
</tr>
</tbody>
</table>

Depreciation expense for the years ended December 31, 2015 and 2014 was $23,944 and $31,075, respectively.

Note 4: Capital lease:

In January 2012, the Company entered into a capital lease for a copier at an effective interest rate of 11.85%. Beginning March 17, 2012, the terms of the lease required 47 monthly payments of $653, plus additional usage charges as outlined in the agreement. The lease was effective through January 17, 2016.

In October 2014, the Company exchanged its 2012 copier for a new copier by entering into a new capital lease with an effective interest rate of 10.73%. The terms of the lease require 60 monthly payments of $700, plus additional usage charges as outlined in the agreement. The lease is effective through October 1, 2019.
National Fluid Milk Processor Promotion Board

Notes to Financial Statements

December 31, 2015 and 2014

Note 4: Capital lease: (continued)

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

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>$ 8,395</td>
</tr>
<tr>
<td>2017</td>
<td>8,395</td>
</tr>
<tr>
<td>2018</td>
<td>8,395</td>
</tr>
<tr>
<td>2019</td>
<td>6,997</td>
</tr>
</tbody>
</table>

Total minimum lease payments 32,182
Less amount representing interest (5,892)

Present value of minimum lease payments $ 26,290

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 3.75%. The line is secured by all the assets of the Board including cash, assessments, furniture, fixtures, equipment and personal property. 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 December 2016. The amount outstanding on the line of credit at December 31, 2015 and 2014 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, 2015 and 2014, the Board did not exceed this limitation.
Note 7: Program administration:

During 2015 and 2014, 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:

<table>
<thead>
<tr>
<th>Agency</th>
<th>Expiration</th>
</tr>
</thead>
<tbody>
<tr>
<td>FCB Worldwide, Inc.</td>
<td>Until Terminated</td>
</tr>
<tr>
<td>Lowe Campbell Ewald</td>
<td>Until Terminated</td>
</tr>
<tr>
<td>Commonground/MGS</td>
<td>Until Terminated</td>
</tr>
<tr>
<td>CMGRP, Inc. d/b/a Weber Shandwick</td>
<td>Until Terminated</td>
</tr>
</tbody>
</table>

In November 2015, the Board terminated their agreement with Commonground/MGS. As such, Commonground/MGS programs were then transferred to Lowe Campbell Ewald.

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, 2015 and 2014. In addition, the Board has two master service agreements with two 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).

The duration of the office services agreement was from October 1, 2007 through September 30, 2008 and was subsequently extended multiple times through December 31, 2016. Under this agreement, IDFA provides certain administrative services and resources to the Board. Fees for these services are based on predetermined amounts totaling $4,370 per month plus out-of-pocket costs and hourly charges for additional services. During the years ended December 31, 2015 and 2014, the Board incurred $66,699 and $55,118, respectively, under this agreement.
National Fluid Milk Processor Promotion Board

Notes to Financial Statements

December 31, 2015 and 2014

Note 7:  Program administration: (continued)

The duration of the professional services agreement was from October 1, 2007 through September 30, 2009 and was subsequently extended multiple times. The current agreement is effective until terminated. The agreement allows 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
- In house legal services
- Specialized IT services
- Other services as requested

Fees for these services are based on hourly rates ranging from $240 to $360 plus out-of-pocket costs. Total costs incurred under this agreement were $41,649 and $63,102 for the years ended December 31, 2015 and 2014, respectively.

Note 8:  Commitments:

In 2009, the Board entered into an employment agreement with the Chief Executive Officer (CEO). The agreement ran from March 1, 2009 to February 28, 2011, extended through February 28, 2014, and provided for annual compensation, benefits, and increases based upon the CEO’s annual performance evaluation. The CEO resigned in November 2013 and is entitled to receive severance compensation and other benefits as outlined in the agreement. The agreement was fulfilled in 2014.

During February 2012, the Board entered into a one-year contract with Phalanx Technology Group. The contract has been extended on a month to month basis since expiration. The contract requires monthly payments of $750 for standard information technology support as outlined in the contract. All other work is billed at predetermined hourly rates.
National Fluid Milk Processor Promotion Board

Notes to Financial Statements

December 31, 2015 and 2014

Note 9: Operating lease:

In October 2007, the Board entered into a sublease agreement with IDFA, which has been extended through May 31, 2022. Under the terms of the sublease, the Board is required to pay escalating monthly base rent plus additional monthly charges equal to a pro rata portion of the building's operating expenses and other charges as defined in the sublease agreement. From January 1, 2019 through March 1, 2019 the Board shall have a sixty day window within which it can terminate the sublease by providing nine months notice. If the Fluid Milk Promotion Order, 7 C.F.R. Part 1160 (the "Fluid Milk Order"), is terminated for any reason, then the sublease shall automatically terminate six 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.

The future minimum payments under this sublease for the years ending December 31 are as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>$156,321</td>
</tr>
<tr>
<td>2017</td>
<td>161,011</td>
</tr>
<tr>
<td>2018</td>
<td>165,841</td>
</tr>
<tr>
<td>2019</td>
<td>170,816</td>
</tr>
<tr>
<td>2020</td>
<td>175,941</td>
</tr>
<tr>
<td>Thereafter</td>
<td>249,094</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$1,079,024</strong></td>
</tr>
</tbody>
</table>

The Board incurred $149,359 and $145,004 of rental expense during the years ended December 31, 2015 and 2014, respectively.

Note 10: 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 $487,445 and $337,537 during 2015 and 2014, respectively.

Note 11: Related party activity:

Accounting services for the Board are performed by Bridgewater Wealth & Financial Management, LLC (Bridgewater). The agreement is effective through December 31, 2017. The costs of accounting services were $386,283 and $395,965 during 2015 and 2014, respectively. A principal of Bridgewater serves as the Chief Financial Officer of the Board, for which Bridgewater is compensated. At December 31, 2015 and 2014, the total amount due to Bridgewater was $8,828 and $-0-, respectively.
National Fluid Milk Processor Promotion Board

Notes to Financial Statements

December 31, 2015 and 2014

Note 12: 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 $130,785 and $113,504 for the years ended December 31, 2015 and 2014, respectively.

Note 13: Concentration:

Payments to two agencies represented approximately 81% of total program expenses for the year ended December 31, 2015. Accounts payable to these two agencies represented approximately 51% of total accounts payable at December 31, 2015.

Payments to three agencies represented approximately 90% of total program expenses for the year ended December 31, 2014. Accounts payable to these three agencies represented approximately 58% of total accounts payable at December 31, 2014.

Note 14: Subsequent events:

Subsequent events have been evaluated through March 28, 2016, 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, 2015

<table>
<thead>
<tr>
<th>Unexpended/ Amended Budget</th>
<th>Current Year Actual</th>
<th>Actual Over (Under) Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Unaudited)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Revenues:

- Assessments $95,100,000 $96,748,571 $1,648,571
- Late payment charges - 35,059 35,059
- Interest income - 29,218 29,218
- Other 1,120,940 8,983 (1,111,957)

Total revenues 96,220,940 96,821,831 600,891

Expenses:

Program expenses:
- Program - current year 84,605,000 82,250,088 (2,354,912)
- Program - prior years 2,099,695 848,381 (1,251,314)

Total program expenses 86,704,695 83,098,469 (3,606,226)

Other expenses:
- California grant 8,734,500 9,017,207 282,707
- Administrative 2,354,440 2,158,986 (195,454)
- USDA expenses 525,000 487,445 (37,555)
- Loss on disposal of property - 210 210
- Interest expense 2,000 3,132 1,132

Total other expenses 11,615,940 11,666,980 51,040

Total expenses 98,320,635 94,765,449 (3,555,186)

Excess of revenues over expenses (expenses over revenue) $ (2,099,695) $ 2,056,382 $ 4,156,077

See Independent Auditor’s Report

16
National Fluid Milk Processor Promotion Board

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

For the year ended December 31, 2015

<table>
<thead>
<tr>
<th></th>
<th>Current Year Amended Budget</th>
<th>Expended Current Year Actual</th>
<th>Actual Over (Under)</th>
<th>Prior Year Unexpended Budget</th>
<th>Expended Prior Year Budget</th>
<th>Actual Over (Under)</th>
<th>Total Program Activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Meals at home</td>
<td>$ 68,035,000</td>
<td>$ 66,889,263</td>
<td>$ (1,145,737)</td>
<td>$ 678,089</td>
<td>$ (89,870)</td>
<td>$ (767,959)</td>
<td>$ 66,799,393</td>
</tr>
<tr>
<td>Built with chocolate milk</td>
<td>13,600,000</td>
<td>13,011,573</td>
<td>(588,427)</td>
<td>1,018,358</td>
<td>712,629</td>
<td>(305,729)</td>
<td>13,724,202</td>
</tr>
<tr>
<td>Strategy and market research</td>
<td>2,970,000</td>
<td>2,349,252</td>
<td>(620,748)</td>
<td>403,248</td>
<td>225,622</td>
<td>(177,626)</td>
<td>2,574,874</td>
</tr>
<tr>
<td>Total program expenses</td>
<td>$ 84,605,000</td>
<td>$ 82,250,088</td>
<td>$ (2,354,912)</td>
<td>$ 2,099,695</td>
<td>$ 848,381</td>
<td>$ (1,251,314)</td>
<td>$ 83,098,469</td>
</tr>
</tbody>
</table>

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, 2015

<table>
<thead>
<tr>
<th></th>
<th>Current Year Amended Budget</th>
<th>Current Year Actual</th>
<th>Actual Over (Under) Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(Unaudited)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Board meeting expenses</td>
<td>$ 250,000</td>
<td>$ 234,861</td>
<td>$ (15,139)</td>
</tr>
<tr>
<td>Staff salaries and benefits:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Staff salaries and benefits</td>
<td>1,661,800</td>
<td>1,655,709</td>
<td>(6,091)</td>
</tr>
<tr>
<td>Program management salary</td>
<td>allocation</td>
<td>(1,410,000)</td>
<td>(1,371,287)</td>
</tr>
<tr>
<td>Total staff salaries and benefits</td>
<td>251,800</td>
<td>284,422</td>
<td>32,622</td>
</tr>
<tr>
<td>Finance and administration:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contract staff</td>
<td>160,000</td>
<td>159,999</td>
<td>(1)</td>
</tr>
<tr>
<td>Consultants - HR, IT, strategic</td>
<td>48,000</td>
<td>25,569</td>
<td>(22,431)</td>
</tr>
<tr>
<td>Financial services</td>
<td>400,000</td>
<td>386,283</td>
<td>(13,717)</td>
</tr>
<tr>
<td>Total finance and administration</td>
<td>608,000</td>
<td>571,851</td>
<td>(36,149)</td>
</tr>
<tr>
<td>Other operating expenses:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Audits</td>
<td>69,000</td>
<td>66,926</td>
<td>(2,074)</td>
</tr>
<tr>
<td>Depreciation</td>
<td>24,800</td>
<td>23,944</td>
<td>(856)</td>
</tr>
<tr>
<td>Dues and memberships</td>
<td>26,440</td>
<td>26,440</td>
<td>-</td>
</tr>
<tr>
<td>Employee development</td>
<td>21,000</td>
<td>22,964</td>
<td>1,964</td>
</tr>
<tr>
<td>IDFA professional &amp; office support</td>
<td>52,600</td>
<td>50,866</td>
<td>(1,734)</td>
</tr>
<tr>
<td>Insurance</td>
<td>37,500</td>
<td>38,740</td>
<td>1,240</td>
</tr>
<tr>
<td>Legal</td>
<td>410,000</td>
<td>378,167</td>
<td>(31,833)</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>3,500</td>
<td>3,056</td>
<td>(444)</td>
</tr>
<tr>
<td>Office facilities</td>
<td>149,400</td>
<td>149,359</td>
<td>(41)</td>
</tr>
<tr>
<td>Office supplies and expense</td>
<td>22,600</td>
<td>20,946</td>
<td>(1,654)</td>
</tr>
<tr>
<td>Payroll service and pension</td>
<td>administration</td>
<td>7,300</td>
<td>8,322</td>
</tr>
<tr>
<td>Postage and delivery</td>
<td>8,000</td>
<td>9,534</td>
<td>1,534</td>
</tr>
<tr>
<td>Recruiting expense</td>
<td>-</td>
<td>332</td>
<td>332</td>
</tr>
<tr>
<td>Staff travel</td>
<td>340,000</td>
<td>241,194</td>
<td>(98,806)</td>
</tr>
<tr>
<td>Telephone</td>
<td>22,500</td>
<td>27,062</td>
<td>4,562</td>
</tr>
<tr>
<td>Unallocated administrative</td>
<td>50,000</td>
<td>-</td>
<td>(50,000)</td>
</tr>
<tr>
<td>Total other operating expenses</td>
<td>1,244,640</td>
<td>1,067,852</td>
<td>(176,788)</td>
</tr>
<tr>
<td>Total administrative expenses</td>
<td>$ 2,354,440</td>
<td>$ 2,158,986</td>
<td>$ (195,454)</td>
</tr>
</tbody>
</table>

See Independent Auditor’s Report

18
<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash receipts from operations:</strong></td>
<td></td>
</tr>
<tr>
<td>Assessments</td>
<td>$ 95,945,689</td>
</tr>
<tr>
<td>Late payment charges</td>
<td>35,059</td>
</tr>
<tr>
<td>Interest income</td>
<td>29,218</td>
</tr>
<tr>
<td>Other</td>
<td>8,983</td>
</tr>
<tr>
<td><strong>Cash receipts from operations</strong></td>
<td>96,018,949</td>
</tr>
<tr>
<td><strong>Cash disbursements for operations</strong></td>
<td>(94,930,647)</td>
</tr>
<tr>
<td><strong>Cash disbursements for investing activities:</strong></td>
<td></td>
</tr>
<tr>
<td>Purchase of property and equipment</td>
<td>(4,213)</td>
</tr>
<tr>
<td><strong>Cash disbursements for investing activities:</strong></td>
<td></td>
</tr>
<tr>
<td>Payments made on capital lease</td>
<td>(5,264)</td>
</tr>
<tr>
<td><strong>Excess of disbursements over receipts</strong></td>
<td>1,078,825</td>
</tr>
<tr>
<td><strong>Cash and cash equivalents - beginning</strong></td>
<td>14,620,286</td>
</tr>
<tr>
<td><strong>Cash and cash equivalents - ending</strong></td>
<td>$ 15,699,111</td>
</tr>
</tbody>
</table>
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 the National Fluid Milk Processor Promotion Board (the Board) which comprise the statements of financial position as of December 31, 2015 and 2014, 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 March 28, 2016.

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
Page two

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 the 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.

SNIYDER COHN, PC
North Bethesda, Maryland
March 28, 2016
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 the National Fluid Milk Processor Promotion Board which comprise the statements of financial position as of December 31, 2015 and 2014, 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 March 28, 2016. 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 the National Fluid Milk Processor Promotion Board:

- Failed to comply with laws and regulations applicable to the 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 the 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, 2015 and 2014;
- 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 the 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;
To the Board of Directors
National Fluid Milk Processor Promotion Board
Page two

- Failed to comply with internal controls other than described below;
- Failed to comply with disclosure requirements for lease commitments;
- 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 the 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 Board does not currently have a written policy regarding corporate credit card use. Once the policy is written, the AMS Guidelines specify that it must be reviewed and approved by AMS and include specific guidelines as outlined in the AMS Guidelines.

Also, the Board’s policy regarding donations utilizing funds derived from assessments is not a written policy.

This report is intended solely for the information and use of the 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
SNYDER COHN, PC
North Bethesda, Maryland
March 28, 2016