

FINANCIAL STATEMENTS

Dairy Management Inc.
Years Ended December 31, 2018 and 2017
With Reports of Independent Auditors

Ernst & Young LLP



Dairy Management Inc.

Financial Statements

Years Ended December 31, 2018 and 2017

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Ernst & Young LLP
155 North Wacker Drive
Chicago, IL 60606-1787

Tel: +1 312 879 2000
Fax: +1 312 879 4000
ey.com

Report of Independent Auditors

The Board of Directors
Dairy Management Inc.

We have audited the accompanying financial statements of Dairy Management Inc., which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities 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 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 Dairy Management Inc. as of December 31, 2018 and 2017, 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 May 3, 2019, on our consideration of Dairy Management Inc.'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 Dairy Management Inc.'s internal control over financial reporting and compliance.

Ernst + Young LLP

May 3, 2019



Ernst & Young LLP
155 North Wacker Drive
Chicago, IL 60606-1787

Tel: +1 312 879 2000
Fax: +1 312 879 4000
ey.com

Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance With *Government Auditing Standards*

The Management and the Board of Directors
Dairy Management Inc.

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 Dairy Management Inc., which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities 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 May 3, 2019.

Internal Control Over Financial Reporting

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

May 3, 2019

Dairy Management Inc.

Statements of Financial Position

	December 31	
	2018	2017
Assets		
Current assets:		
Cash and cash equivalents	\$ 183,702	\$ 341,177
Accounts receivable, net of allowance for doubtful accounts of \$25,000 in 2018 and 2017	795,635	967,860
Amounts due from related parties:		
National Dairy Promotion and Research Board	7,445,844	16,214,547
U.S. Dairy Export Council	1,425,455	287,611
United Dairy Industry Association	3,232,323	3,156,572
GENYOUth Foundation	131,359	66,720
Dairy Research Institute	12,561	75,247
Notes receivable, current portion	871,957	1,363,997
Prepaid expenses and other assets	965,610	961,400
Total current assets	15,064,446	23,435,131
Notes receivable, less current portion	1,525,924	3,750,990
Fixed assets, net of accumulated depreciation of \$1,911,470 in 2018 and \$2,305,554 in 2017	868,704	1,056,958
Total assets	\$ 17,459,074	\$ 28,243,079
Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 9,882,435	\$ 14,510,937
Accrued liabilities	2,125,761	4,374,352
Deferred rent, current portion	160,913	131,608
Interest payable	8,327	36,323
Amount due to related party – U.S. Dairy Export Council	473,731	666,891
Note payable, current portion	871,957	1,704,996
Deferred revenue	12,691	42,165
Total current liabilities	13,535,815	21,467,272
Noncurrent liabilities:		
Amount due to related party, less current portion – U.S. Dairy Export Council	816,497	1,283,066
Note payable, less current portion	1,525,924	3,750,990
Deferred rent, less current portion	1,580,838	1,741,751
Total noncurrent liabilities	3,923,259	6,775,807
Net assets without donor restrictions	–	–
Total liabilities and net assets	\$ 17,459,074	\$ 28,243,079

See accompanying notes.

Dairy Management Inc.

Statements of Activities and Changes in Net Assets

	Year Ended December 31	
	2018	2017
Revenues		
Program	\$ 115,442,333	\$ 110,004,531
Core	37,478,105	39,451,999
Contract services	6,757,968	5,559,562
Total revenues	159,678,406	155,016,092
Expenses		
Programs:		
Domestic marketing	129,192,469	125,770,071
Export	18,761,427	17,895,000
Contract services	6,757,968	5,559,562
Total program expenses	154,711,864	149,224,633
General and administrative	4,966,542	5,446,880
Additional pension termination contributions and administrative fees	-	344,579
Total expenses	159,678,406	155,016,092
Change in net assets without donor restrictions	-	-
Net assets without donor restrictions, beginning of year	-	-
Net assets without donor restrictions, end of year	\$ -	\$ -

See accompanying notes.

Dairy Management Inc.

Statements of Cash Flows

	Year Ended December 31	
	2018	2017
Operating activities		
Change in net assets	\$ —	\$ —
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Bad debt provision	—	(1,352)
Depreciation	270,311	315,257
Changes in assets and liabilities:		
Accounts receivable	172,225	391,921
Amounts due from/due to related parties	6,893,426	5,866,297
Prepaid expenses and other assets	(4,210)	(218,523)
Accounts payable	(4,628,502)	4,508,167
Accrued liabilities	(2,248,591)	(1,352,597)
Deferred rent	(131,608)	183,519
Interest payable	(27,996)	(36,789)
Deferred revenue	(29,474)	(127,711)
Net cash provided by operating activities	265,581	9,528,189
Investing activities		
Notes receivable	2,717,106	1,965,958
Purchases of fixed assets	(82,057)	(264,725)
Cash proceeds from sale of fixed asset	—	129
Net cash provided by investing activities	2,635,049	1,701,362
Financing activities		
Payments on note payable	(3,058,105)	(15,444,014)
Net cash used in financing activities	(3,058,105)	(15,444,014)
Net decrease in cash and cash equivalents	(157,475)	(4,214,463)
Cash and cash equivalents, beginning of year	341,177	4,555,640
Cash and cash equivalents, end of year	\$ 183,702	\$ 341,177

See accompanying notes.

Dairy Management Inc.

Notes to Financial Statements

December 31, 2018 and 2017

1. Organization

Dairy Management Inc. (DMI) was incorporated on January 1, 1995, as a joint venture between National Dairy Promotion and Research Board (NDB) and United Dairy Industry Association (UDIA). The purpose of DMI is to promote greater coordination, efficiency, and effectiveness and avoid incompatibility and duplication in the marketing programs and projects undertaken by NDB and UDIA. NDB and UDIA jointly plan, develop, and implement their various marketing programs and activities through DMI, subject to the oversight guidelines of the Agricultural Marketing Service of United States Department of Agriculture (USDA). The collective programs and activities are called the Unified Marketing Plan (UMP).

2. Summary of Significant Accounting Policies

Basis of Presentation

The financial statements are prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles (GAAP). These principles require management to make estimates and judgments that affect the reported amounts of assets and liabilities and 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.

Cash and Cash Equivalents

Cash and cash equivalents include checking, overnight sweep, and interest-bearing demand deposit accounts with financial institutions. DMI considers investments with an original maturity of 90 days or less to be cash equivalents.

DMI has cash balances at a financial institution that exceed federal depository insurance limits. Pursuant to guidelines published by USDA's Agricultural Marketing Service, DMI's cash balances are reviewed daily by the financial institution in which the balances are held and are fully collateralized in U.S. Treasuries at the Federal Reserve Bank of St. Louis.

Dairy Management Inc.

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Net Assets

DMI follows the reporting requirements of GAAP which require that resources be classified for reporting purposes based on the existence or absence of donor-imposed restrictions. This is accomplished by classification of fund balances into two classes of net assets: without donor restrictions and with donor restrictions. Descriptions of the two net asset categories and the types of transactions affecting each category follow:

- *Without Donor Restrictions* – Net assets that are not subject to donor-imposed restrictions. DMI has no net assets without donor restrictions at December 31, 2018 or 2017.
- *With Donor Restrictions* – Net assets subject to donor-imposed restrictions that will be met either by actions of DMI or the passage of time. DMI has no net assets with donor restrictions at December 31, 2018 or 2017.

Financial Instruments

The carrying values of cash and cash equivalents, accounts receivable, amounts due from/to related parties, prepaid expenses and other assets, accounts payable, accrued liabilities, current portion of deferred rent, interest payable, and deferred revenue are reasonable estimates of fair value due to the short-term nature of these financial instruments. In addition, the carrying values of the notes receivable, noncurrent portion of deferred rent, and the note payable approximate fair value.

Accounts Receivable

Accounts receivable, which consist of amounts due from UDIA state and regional members for expenses incurred in connection with program activities and from entities to which DMI provides management services, totaled \$795,635 and \$967,860 as of December 31, 2018 and 2017, respectively.

Notes Receivable

Notes receivable are stated at their unpaid principal balances. Management considers a loan impaired when, based on current information (such as payment history, value of collateral, and assessment of the borrower's creditworthiness), it is probable that the principal and interest payments will not be collected according to the loan agreement.

Dairy Management Inc.

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Fixed Assets

Fixed assets consist of computer equipment, software, furniture, equipment, and leasehold improvements and are recorded at historical cost. Depreciation and amortization are provided in amounts sufficient to charge the cost of the depreciable assets to operations over the assets' estimated service lives of 3 to 15 years using the straight-line method.

Revenue Recognition

Program and core revenues are recognized as DMI is reimbursed on a cost basis for expenses incurred in connection with its programs and services. Contract services revenue and the corresponding expense are recognized when the accounting and management services are provided under various contracts.

Deferred Rent

DMI records its office lease rent expense on a straight-line basis which contains fixed annual rental increases. Deferred rent represents the extent to which rent expense, under this methodology, has exceeded payments made under the lease since inception. Deferred rent totaled \$1,741,751 and \$1,873,359 as of December 31, 2018 and 2017, respectively.

Income Taxes

DMI has received a determination letter from the Internal Revenue Service indicating that it is exempt from federal and state income taxes on related income under Section 501(c)(6) of the Internal Revenue Code. However, DMI is subject to taxes on unrelated business income. DMI had no material unrelated business income in 2018 or 2017.

Dairy Management Inc.

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Recent Accounting Pronouncements

Accounting Pronouncement Adopted

During 2018, DMI adopted Accounting Standards Update (ASU) 2016-14 – *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This guidance is intended to improve the net asset classification requirements and the information presented in the financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. The ASU requires presentation of two classes of net assets versus the previously required three. The guidance also enhances disclosures for board-designated amounts, composition of net assets without donor restrictions, liquidity, and expenses by both their natural and functional classification. The adoption and retrospective application of ASU 2016-14 did not impact DMI's classification of net assets.

Accounting Pronouncements Not Yet Adopted

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The core principle of the new accounting guidance is to require an entity to recognize as revenue the amount that reflects the consideration to which it expects to be entitled in exchange for goods or services as it transfers control to its customers. The new standard converged and replaced most current revenue recognition guidance, including industry-specific guidance, and may be applied retrospectively to each period presented (full retrospective method) or retrospectively with the cumulative effect recognized in beginning retained earnings as of the date of adoption (modified retrospective method).

DMI adopted the standard effective January 1, 2019 using the full retrospective method. DMI's process for implementation began with a preliminary evaluation of the standard and considered subsequent interpretations by the FASB Transition Resource Group for Revenue Recognition and the AICPA. DMI then performed an analysis of revenue streams and transactions under the new standard. The impact to the financial statements upon adoption is not material.

Dairy Management Inc.

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU provides a more robust framework to determine when a transaction should be accounted for as a contribution or as an exchange transaction and provides additional guidance about how to determine whether a contribution is conditional. This ASU is effective January 1, 2019 and will be applied on a modified prospective basis. Upon DMI's adoption of this ASU, program and core revenues are accounted for as conditional contributions. The impact to the financial statements upon adoption is not material.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The ASU requires the rights and obligations arising from the lease contracts, including existing and new arrangements, to be recognized as assets and liabilities on the statements of financial position. The ASU will require disclosures to help the financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. The ASU is effective for DMI beginning January 1, 2020 and will be applied using a modified retrospective approach. The primary effect of the new standard will be to record right-of-use assets and obligations for current operating leases. DMI is currently evaluating the impact of adoption.

Reclassifications

Certain amounts in the 2017 statement of financial position, statement of activities and changes in net assets, and statement of cash flows have been reclassified to conform to current year presentation. These reclassifications included conforming presentation of amounts due from/to related parties, accrued liabilities, and deferred rent. Additionally, commensurate with the adoption of ASU 2016-14, DMI reassessed the allocation of functional expenses between program expenses and general and administrative expenses. As a result of this reassessment, a reclassification was made between program expenses and general and administrative expenses. This adjustment resulted in no impact to total expenses or changes in net assets for fiscal year 2017.

3. Related-Party Transactions

DMI is funded by NDB and UDIA on a cost-reimbursement basis. Core costs include staff salaries and benefits, travel, Board of Directors' expenses, and office operating expenses. These costs are funded primarily by NDB, with UDIA funding one-half of the DMI Office of CEO and Board of Directors costs. Marketing program costs include costs attributable to implementing DMI's programs which are based on the annual UMP budget.

Dairy Management Inc.

Notes to Financial Statements (continued)

3. Related-Party Transactions (continued)

NDB funded DMI program and core costs as follows:

	2018	2017
Program costs	\$ 81,691,180	\$ 76,868,916
Core costs	36,164,615	38,003,214
	\$ 117,855,795	\$ 114,872,130

UDIA funded DMI program and core costs as follows:

	2018	2017
Program costs	\$ 33,751,153	\$ 33,135,615
Core costs	1,313,490	1,448,785
	\$ 35,064,643	\$ 34,584,400

At December 31, 2018 and 2017, amounts due from NDB were \$7,445,844 and \$16,214,547, respectively, and amounts due from UDIA were \$3,232,323 and \$3,156,572, respectively.

U.S. Dairy Export Council (USDEC) was incorporated in 1996 to improve the marketing conditions for the U.S. dairy industry with respect to the export of U.S. dairy products by promoting their acceptability, consumption, and purchase in international markets. DMI is the primary source of USDEC's funding which was apportioned for the following purposes:

	2018	2017
Marketing programs	\$ 8,617,342	\$ 8,136,378
Core costs	9,344,085	8,958,622
	\$ 17,961,427	\$ 17,095,000

Dairy Management Inc.

Notes to Financial Statements (continued)

3. Related-Party Transactions (continued)

Youth Improved, Inc. was incorporated in 2009 and obtained a certificate of registration in 2001 to operate under the trade name GENYOUth Foundation (GENYOUth). GENYOUth was formed for the purpose of encouraging, monitoring, and assisting organizations in implementing youth-oriented health programs in schools and promoting healthy diet and exercise programs. DMI is the primary source of GENYOUth's unrestricted contributions, which are used to fund its operating costs. For 2018 and 2017, DMI provided cash and in-kind contributions of \$2,601,733 and \$2,632,298, respectively, to GENYOUth.

Dairy Research Institute (DRI) was incorporated in 2010 for the purpose of dairy scientific research and sustainability advancement and operates under the oversight and control of DMI. For 2018 and 2017, DMI provided funding of \$115,000 in each year to DRI for program and operational expenses.

4. Functional Classification of Expenses

DMI's primary program activities, which serve to promote U.S. dairy products in domestic and international markets, are noted in the following table. Additionally, expenses reported as general and administrative and other operating are incurred in support of these primary program activities. Natural expenses attributable to more than one functional expense category or overall organizational operations are primarily allocated using headcount.

Dairy Management Inc.

Notes to Financial Statements (continued)

4. Functional Classification of Expenses (continued)

Expenses by functional classification for the year ended December 31, 2018 consist of the following:

	Program Services							Support Activities		Total Expenses	
	Youth Wellness	Strategic Intelligence	Integrated Communications	Sustainable Nutrition and Research	Domestic and International Marketing	Supplemental Funding	Export	Contract Services	General and Administrative		Other Operating
Staffing and travel	\$ 2,484,745	\$ 686,354	\$ 7,653,975	\$ 11,004,074	\$ 4,576,323	\$ -	\$ -	\$ 6,148,785	\$ 4,140,307	\$ -	\$ 36,694,563
Operations and IT	527,552	227,622	1,922,248	2,292,247	1,136,423	-	-	609,183	826,235	-	7,541,510
Promotional and professional services	3,359,636	1,227,868	20,986,342	6,480,914	19,163,486	-	17,961,427	-	-	-	69,179,673
Research	35,828	3,757,810	299,607	7,059,411	324,800	-	-	-	-	-	11,477,456
Partnerships	5,916,758	34,114	2,953,438	3,601,285	11,065,225	-	800,000	-	-	-	24,370,820
Other	804,519	119,037	452,837	357,253	48,538	8,632,200	-	-	-	-	10,414,384
	\$13,129,038	\$ 6,052,805	\$ 34,268,447	\$ 30,795,184	\$ 36,314,795	\$ 8,632,200	\$ 18,761,427	\$ 6,757,968	\$ 4,966,542	\$ -	\$ 159,678,406

Dairy Management Inc.

Notes to Financial Statements (continued)

4. Functional Classification of Expenses (continued)

Expenses by functional classification for the year ended December 31, 2017 consist of the following:

	Program Services							Support Activities		Total Expenses	
	Youth Wellness	Strategic Intelligence	Integrated Communications	Sustainable Nutrition and Research	Domestic and International Marketing	Supplemental Funding	Export	Contract Services	General and Administrative		Other Operating
Staffing and travel	\$ 2,623,191	\$ 528,271	\$ 8,440,906	\$ 11,263,698	\$ 4,651,938	\$ -	\$ -	\$ 4,957,252	\$ 4,609,797	\$ -	\$ 37,075,053
Operations and IT	584,658	285,009	1,636,479	2,452,841	1,193,549	-	-	602,310	837,083	-	7,591,929
Promotional and professional services	4,122,562	193,780	18,868,245	4,574,533	20,817,064	-	17,095,000	-	-	-	65,671,184
Research	9,130	3,511,938	26,021	7,042,627	26,930	-	-	-	-	-	10,616,646
Partnerships	5,622,421	26,209	3,195,392	3,517,502	11,225,255	-	800,000	-	-	-	24,386,779
Other	232,549	141,356	413,102	254,758	59,957	8,228,200	-	-	-	344,579	9,674,501
	<u>\$13,194,511</u>	<u>\$ 4,686,563</u>	<u>\$ 32,580,145</u>	<u>\$ 29,105,959</u>	<u>\$ 37,974,693</u>	<u>\$ 8,228,200</u>	<u>\$ 17,895,000</u>	<u>\$ 5,559,562</u>	<u>\$ 5,446,880</u>	<u>\$ 344,579</u>	<u>\$ 155,016,092</u>

Dairy Management Inc.

Notes to Financial Statements (continued)

5. Financial Assets and Liquidity Resources

As of December 31, 2018 and 2017, financial assets and liquidity resources available within one year for general expenditure, such as operating expenses and scheduled principal payments on debt, were as follows:

	<u>2018</u>	<u>2017</u>
Financial assets		
Cash and cash equivalents	\$ 183,702	\$ 341,177
Accounts receivable, net	795,635	967,860
Amounts due from related parties	12,247,542	19,800,697
Notes receivable, current portion	871,957	1,363,997
Total financial assets and liquidity resources available within one year	<u>\$ 14,098,836</u>	<u>\$ 22,473,731</u>

As part of its liquidity management, DMI has a defined practice to structure its financial assets to be available as its general expenditures come due. In addition, DMI invests cash in excess of daily operating needs in overnight investments.

6. Transactions with Other Industry Organizations

DMI provides various contract services such as marketing, financial, IT, and administrative support at cost to National Milk Producers Federation (NMPF), Dairy MAX, California Dairy Research Foundation (CDRF), New England Dairy and Promotion Board (NEDPB), New England Dairy Food Council (NEDFC), Global Dairy Platform Inc. (GDP), and Newtrient L.L.C.

The amounts charged by DMI for such services were as follows:

	<u>2018</u>	<u>2017</u>
Organization		
Dairy MAX	\$ 4,198,033	\$ 3,205,997
Newtrient L.L.C.	1,718,064	1,444,752
GDP	636,359	717,089
NMPF	147,805	135,696
NEDPB and NEDFC	52,942	51,396
CDRF	4,765	4,632
Total contract services	<u>\$ 6,757,968</u>	<u>\$ 5,559,562</u>

Dairy Management Inc.

Notes to Financial Statements (continued)

6. Transactions with Other Industry Organizations (continued)

Additionally, DMI obtains economic research, communications support, and environmental sustainability services from NMPF under annual contracts. Amounts paid by DMI to NMPF were \$2,157,265 and \$1,598,157 for 2018 and 2017, respectively.

7. Fixed Assets

Property and equipment at December 31 consisted of the following:

	<u>2018</u>	<u>2017</u>
Computer equipment and software	\$ 624,792	\$ 1,210,849
Furniture, equipment, and leasehold improvements	<u>2,155,382</u>	<u>2,151,663</u>
	2,780,174	3,362,512
Accumulated depreciation	<u>(1,911,470)</u>	<u>(2,305,554)</u>
	<u>\$ 868,704</u>	<u>\$ 1,056,958</u>

8. Employee Retirement Plans

DMI participates in a UDIA-sponsored defined contribution plan, which covers all eligible DMI employees and employees of other UDIA members and industry organizations sponsored by UDIA. Under the terms of the defined contribution plan, DMI contributes an amount equal to its employees' contributions, up to a maximum of 3% of eligible compensation for all employees. DMI also contributes an additional 7% of eligible compensation, representing an unmatched contribution. DMI's contributions to the savings plan were \$2,007,318 and \$2,046,358 for 2018 and 2017, respectively.

9. Commitments

DMI leases its offices in Rosemont, Illinois, under the terms of a noncancelable lease agreement that requires DMI to make minimum lease payments plus pay a pro rata share of certain operating costs. Rent expense under operating leases aggregated \$1,830,460 and \$1,583,207 for 2018 and 2017, respectively.

Dairy Management Inc.

Notes to Financial Statements (continued)

9. Commitments (continued)

The following is a schedule of future minimum lease payments under the Rosemont office lease as of December 31, 2018:

2019	\$ 1,081,749
2020	1,111,052
2021	1,140,355
2022	1,169,658
2023	1,198,961
2024 and thereafter	<u>2,485,832</u>
	<u>\$ 8,187,607</u>

DMI obtained a five-year \$22 million loan from CoBank in conjunction with the 2016 termination of a UDIA-sponsored defined benefit multiemployer plan in which DMI had participated. The loan, which has a 3.93% annual interest rate and a maturity date of September 20, 2021, was obtained on October 18, 2016 on behalf of DMI and certain other participating employers.

The original loan amount of \$22 million was based on a preliminary estimate of the pension liability from an external actuarial consulting firm. Debt payments of \$3,058,105 and \$15,444,014 were made during 2018 and 2017, respectively. These amounts represent both payments made in compliance with the debt retirement schedule per the loan agreement and payments made for early principal retirements made by DMI and certain other participating employers. The loan balance was \$2,397,881 and \$5,455,986 at December 31, 2018 and 2017, respectively. The following is a schedule of future expected loan principal payments under the CoBank note as of December 31, 2018:

2019	\$ 871,957
2020	871,957
2021	<u>653,967</u>
	<u>\$ 2,397,881</u>

DMI entered into separate loan agreements with a number of these participating employers under the same terms as its loan with CoBank. The notes receivable balance related to the loan agreements totaled \$2,397,881 and \$5,114,987 at December 31, 2018 and 2017, respectively.

Dairy Management Inc.

Notes to Financial Statements (continued)

10. Subsequent Events

DMI evaluated events occurring between January 1, 2019 and May 3, 2019, which is the date the accompanying financial statements were available to be issued. No events subsequent to December 31, 2018 have been identified that require recognition or disclosure in the financial statements.

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