

**National Fluid Milk Processor
Promotion Board**

Financial Statements
and
Independent Auditor's Report

Years Ended December 31, 2023 and 2022

Part I

Financial Statements and Independent Auditor's
Report for the Years Ended December 31, 2023 and
2022

Part II

Independent Auditor's Report on Internal Control Over
Financial Reporting and on Compliance and Other
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PART I

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Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of National Fluid Milk Processor Promotion Board, which comprise the statements of financial position as of December 31, 2023 and 2022, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of National Fluid Milk Processor Promotion Board as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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



**To the Board of Directors
National Fluid Milk Processor
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Auditor's Responsibility

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

In performing an audit in accordance with generally accepted auditing standards and Government Auditing Standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of National Fluid Milk Processor Promotion Board's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about National Fluid Milk Processor Promotion Board's ability to continue as a going concern for a reasonable period of time.

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

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information shown on pages 19 to 22 is presented for the purposes of additional analysis and is not a required part of the financial statements.

**To the Board of Directors
National Fluid Milk Processor
Promotion Board**
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Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information, other than the budgeted amounts, has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information on pages 19 to 22 is fairly stated, in all material respects, in relation to the financial statements as a whole. Budget amounts have not been subjected to the auditing procedures applied in the audits of the financial statements, and accordingly, we do not express an opinion or provide any assurance on these amounts.

Report Issued in Accordance with Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued a report dated April 24, 2024 on our consideration of National Fluid Milk Processor Promotion Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, agreements, and other matters. The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of National Fluid Milk Processor Promotion Board's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering National Fluid Milk Processor Promotion Board's internal control over financial reporting and compliance.



SNYDER COHN, PC
North Bethesda, Maryland
April 24, 2024

National Fluid Milk Processor Promotion Board

Statements of Financial Position

December 31	2023	2022
Assets		
Current assets:		
Cash and cash equivalents	\$ 5,632,942	\$ 11,449,193
Investments	26,519,660	21,051,874
Assessments receivable, net	8,845,915	9,706,529
Prepaid expenses	83,323	98,170
Total current assets	41,081,840	42,305,766
Property and equipment, net	63,671	80,846
Other assets:		
Right of use assets - operating lease	739,441	925,554
Right of use assets - financing lease	31,671	9,911
Deposits	17,885	17,885
Total other assets	788,997	953,350
Total assets	\$ 41,934,508	\$ 43,339,962
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 17,274,345	\$ 11,252,211
Operating lease liabilities, current portion	187,920	176,567
Finance lease liabilities, current portion	6,611	6,199
Total current liabilities	17,468,876	11,434,977
Other liabilities:		
Operating lease liabilities, net of current portion	575,645	763,565
Finance lease liabilities, net of current portion	25,370	5,829
Total other liabilities	601,015	769,394
Total liabilities	18,069,891	12,204,371
Commitments		
Net assets:		
Board designated - general reserve	6,000,000	6,000,000
Undesignated	17,864,617	25,135,591
Total net assets	23,864,617	31,135,591
Total liabilities and net assets	\$ 41,934,508	\$ 43,339,962

See Accompanying Notes

National Fluid Milk Processor Promotion Board

Statements of Revenues, Expenses and Changes in Net Assets

For the years ended December 31	2023	2022
Revenues:		
Assessments	\$ 78,431,590	\$ 79,759,427
Late payment charges	28,251	31,676
Interest income	1,362,496	176,791
Other	623	3,894
	79,822,960	79,971,788
Expenses:		
Program expenses:		
Current year programs		
Consumer	67,994,916	53,696,826
Industry	9,104,756	5,530,961
Total program expenses	77,099,672	59,227,787
Other (income) expenses:		
California grant	6,630,464	6,660,720
Administrative	2,840,951	2,684,560
USDA oversight	544,606	551,173
USDA compliance audit	133,261	125,871
Unrealized (gain) on investments	(155,691)	(167,916)
Interest expense	671	1,997
Total other expenses	9,994,262	9,856,405
Total expenses	87,093,934	69,084,192
Revenues over (under) expenses	(7,270,974)	10,887,596
Net assets - beginning	31,135,591	20,247,995
Net assets - ending	\$ 23,864,617	\$ 31,135,591

See Accompanying Notes

National Fluid Milk Processor Promotion Board

Statements of Cash Flows

For the years ended December 31	2023	2022
Cash flows from operating activities:		
Revenues over (under) expenses	\$ (7,270,974)	\$ 10,887,596
Adjustments to reconcile to net cash provided by (used in) operating activities:		
Depreciation and amortization	20,363	19,656
Adjustments to right of use assets - operating lease	186,113	180,226
Adjustments to right of use assets - financing lease	5,488	5,406
Unrealized gain on investments	(155,690)	(167,916)
Changes in assets and liabilities:		
(Increase) decrease in:		
Assessments receivable	860,614	1,154,029
Future year costs	-	500,000
Prepaid expenses	14,847	(23,702)
Increase (decrease) in:		
Accounts payable and accrued expenses	6,022,134	1,452,434
Operating lease liability	(176,567)	(165,648)
Net cash provided by (used in) operating activities	(493,672)	13,842,081
Cash flows from investing activities:		
Payments made for property and equipment	(3,188)	-
Payments made for purchase of investments, net	(5,312,096)	(20,883,958)
Net cash used in investing activities	(5,315,284)	(20,883,958)
Cash flows from financing activities:		
Payments made on financing lease	(7,295)	(5,431)
Net decrease in cash and cash equivalents	(5,816,251)	(7,047,308)
Cash and cash equivalents - beginning	11,449,193	18,496,501
Cash and cash equivalents - ending	\$ 5,632,942	\$ 11,449,193
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest	\$ 671	\$ 1,997

See Accompanying Notes

National Fluid Milk Processor Promotion Board

Statements of Cash Flows

For the years ended December 31	2023	2022
Supplemental disclosure of noncash investing and financing transactions:		
Right of use assets obtained in exchange for operating lease liabilities	\$ -	\$ 1,105,780
Right of use assets obtained in exchange for financing lease liabilities	\$ 36,278	\$ 17,459

See Accompanying Notes

National Fluid Milk Processor Promotion Board

Notes to Financial Statements

December 31, 2023 and 2022

Note 1: Summary of significant accounting policies:

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

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

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

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

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

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

National Fluid Milk Processor Promotion Board

Notes to Financial Statements

December 31, 2023 and 2022

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

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

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.

The late payment charge is equal to 1.50% per month of unpaid assessments. For both 2023 and 2022, 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.

Assessments receivable - An allowance for uncollectible accounts is established for those assessments which management has determined as uncollectible. The total allowance for uncollectible accounts at December 31, 2023 and 2022 was \$3,089,691.

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.

National Fluid Milk Processor Promotion Board

Notes to Financial Statements

December 31, 2023 and 2022

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

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.

In accordance with this investment policy, during the year the Board invested a total of \$26,896,000 in six six-month U.S. Treasury Bills. The bills are held for sale and will mature at varying times through June 2024. The fair value of the bills at December 31, 2023 was \$26,519,660. During the year ended December 31, 2022 the Board invested a total of \$25,000,000 in six six-month U.S. Treasury bills. The bills were held for sale and matured at varying times through May 2023. One bill matured prior to December 31, 2022 and was included as part of cash and cash equivalents on the Statements of Financial Position until it was reinvested during 2023. The funds from these bills will be reinvested in future treasury bills until the Board determines the cash is needed to fund operations. All investments are considered Level 1 investments.

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.

National Fluid Milk Processor Promotion Board

Notes to Financial Statements

December 31, 2023 and 2022

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

Fair value measurements (continued) - 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.

Contingencies - In the normal course of business, the Board is involved in matters of litigation. As of December 31, 2023 and 2022, management believes there are no legal matters that are likely to result in a material loss; therefore, no amounts have been included in these financial statements.

Change in accounting principle - In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which is a leasing standard for both lessees and lessors. The standard changes the accounting treatment for operating leases by recognizing a lease asset and lease liability at the present value of the lease payments in the Statements of Financial Position and disclosing key information about leasing arrangements with terms longer than 12 months. The Board adopted the standard as of January 1, 2022 and applied the requirements of Topic 842 prospectively as of the date of adoption. This affects the accounting treatment for related lease expenses, and the new accounts under Topic 842, which include right of use assets and lease liabilities.

For its right of use assets, the Board has elected to not separate lease from non-lease components.

Note 2: Cash and cash equivalents:

At December 31, 2023 and 2022, 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 \$6,000,000 of Board designated cash reserves at December 31, 2023 and 2022, respectively.

National Fluid Milk Processor Promotion Board

Notes to Financial Statements

December 31, 2023 and 2022

Note 3: Property and equipment:

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

	<u>2023</u>	<u>2022</u>
Furniture and fixtures	\$ 45,703	\$ 45,703
Leasehold improvements	38,039	38,039
Office equipment	39,656	36,469
	<u>123,398</u>	<u>120,211</u>
Less: accumulated depreciation	<u>(59,727)</u>	<u>(39,365)</u>
	<u>\$ 63,671</u>	<u>\$ 80,846</u>

Depreciation expense for each of the years ended December 31, 2023 and 2022 was \$20,363 and \$19,656, respectively.

Note 4: Commitment and leases:

Beginning on January 1, 2022, the Board began to account for its office space and copier lease under the guidance within Accounting Standards Update (ASU) 2016-02, Leases (Topic 842). Under Topic 842, a contract is (or contains) a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is defined under the standard as having both the right to obtain substantially all of the economic benefits from use of the asset and the right to direct the use of the asset. Management only reassesses its determination if the terms and conditions of the contract are changed. The Board has elected the prospective at the beginning of the period of adoption method through a cumulative effect adjustment by which the liability is calculated as the present value of the remaining lease payments at the date of adoption using its incremental borrowing rate as of the date of adoption.

As of and for the years ended December 31, 2023 and 2022, leases are included as operating and finance lease right-of-use ("ROU") assets and operating and finance lease liabilities in the Statements of Financial Position.

National Fluid Milk Processor Promotion Board

Notes to Financial Statements

December 31, 2023 and 2022

Note 4: Commitment and leases: (continued)

ROU assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments. Operating and finance lease ROU assets and liabilities were recognized at the date of adoption of the standard (January 1, 2022) based on the present value of lease payments over the remaining lease term. The Board uses the implicit rate when it is readily determinable. Since the Board's office lease did not provide an implicit rate, to determine the present value of lease payments, management uses the Board's incremental borrowing rate based on the information available at adoption of the policy. The Board considers its incremental borrowing rate, which was used to calculate the ROU assets and liabilities, to be 3.50%. The initial copier lease provided for an implicit borrowing rate of 13.28%. This lease was terminated in 2023 and the Board obtained a new copier lease. The Board determined their incremental borrowing rate to be 3.00% for this finance lease. After calculating the present value of the lease payments, operating lease ROU assets were reduced by the unamortized portion of any lease incentives previously received. Lease expense for lease payments is recognized on a straight-line basis over the lease term. The Board's lease terms may include options to extend or terminate the lease when it is reasonably certain to exercise, or not exercise, the option.

In October 2019, the Board entered into a finance lease for a Ricoh copier with an effective interest rate of 13.28%. The terms of the lease require 60 monthly payments of \$619. The lease was effective through October 31, 2024. In March 2023, the Board replaced the aforementioned lease with a new finance lease for another copier. The terms of the new lease require 63 monthly payments of \$621, with an effective interest rate of 3.00%. The lease is effective through July 31, 2028.

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

National Fluid Milk Processor Promotion Board

Notes to Financial Statements

December 31, 2023 and 2022

Note 4: Commitment and leases: (continued)

Maturities of lease liabilities for the years ending December 31, 2023 are as follows:

	Operating	Finance	Total
2024	\$ 210,934	\$ 7,452	\$ 218,386
2025	216,197	7,452	223,649
2026	221,604	7,452	229,056
2027	164,930	7,452	172,382
2028	-	4,347	4,347
	<u>813,665</u>	<u>34,155</u>	<u>847,820</u>
Less: interest	<u>(50,100)</u>	<u>(2,174)</u>	<u>(52,274)</u>
Present value of lease liabilities	<u>\$ 763,565</u>	<u>\$ 31,981</u>	<u>\$ 795,546</u>

Additional information about the Board's leases as of December 31 are as follows:

	2023	2022
Lease costs:		
Operating lease costs	\$ 215,329	\$ 215,329
Finance lease costs:		
Amortization of right of use assets	6,411	5,406
Interest on lease liabilities	1,171	1,997
Variable lease costs	8,112	3,800
Total lease costs	<u>\$ 231,023</u>	<u>\$ 226,532</u>

Cash paid for amounts included in the measurement of lease liabilities:

Operating cash flows from operating leases	\$ 213,895	\$ 204,551
Operating cash flows from finance leases	1,171	1,997
Financing cash flows from finance leases	6,273	5,431

Right of use assets obtained in exchange for:

New operating lease liabilities	\$ -	\$ 1,105,780
New finance lease liabilities	36,278	15,318

Weighted-average remaining lease term:

Operating leases	3.67 years	4.67 years
Finance leases	4.58 years	1.83 years

Weighted-average discount rate

Operating leases	3.50%	3.50%
Finance leases	3.00%	13.28%

National Fluid Milk Processor Promotion Board

Notes to Financial Statements

December 31, 2023 and 2022

Note 5: Line of credit:

During December 2011, the Board obtained a revolving line of credit with Sandy Spring Bank for up to \$2,500,000. The line provided for advances from time to time, which must be paid down to \$-0- and remain at \$-0- for 90 consecutive days at least once every 12 months. Interest is accrued on outstanding balances at prime minus 0.25% with an interest floor of 3.99%. The line is secured by a first position lien on all receivables of the Board and all general intangibles.

During January 2022, the Board entered into a new line of credit with Capital Bank which replaced the Sandy Spring Bank line of credit. Interest is accrued on outstanding balances at prime with an interest floor of 3.50%. The line is secured by the Board's assessments receivable.

The Board is also subject to reporting requirements and financial covenants as outlined in the new line of credit agreement. The line of credit agreement expired in January 2024 and the Board elected to not renew it. The amount outstanding on the line of credit at both December 31, 2023 and 2022 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, 2023 and 2022, the Board did not exceed this limitation.

Note 7: Program administration:

During 2023 and 2022, the Board entered into agreements with various organizations to develop programs for advertising, promotion, consumer education and certain minority initiatives in connection with the national fluid milk campaign. The funding levels vary for the various organizations and are subject to approval. The organizations and the expiration dates of the agreements are as follows:

<u>Agency</u>	<u>Expiration</u>
Gale Partners, LLC	May 31, 2024

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, 2023 and 2022. In addition, the Board has multiple master service agreements with various contractors which allow for scopes of work to be attached on an as needed basis by the Board.

National Fluid Milk Processor Promotion Board

Notes to Financial Statements

December 31, 2023 and 2022

Note 8: 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 \$677,867 and \$677,044 during 2023 and 2022, respectively.

Note 9: Related party activity:

Accounting services for the Board are performed by The Colony Group, LLC (The Colony Group). The agreement is effective through December 31, 2023. The costs of accounting services were \$393,750 during each of 2023 and 2022, respectively. A principal of The Colony Group serves as the Chief Financial Officer of the Board, for which The Colony Group is compensated. At December 31, 2023 and 2022, the total amount due to The Colony Group was \$1,316 and \$12,553, respectively.

Note 10: 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 \$154,609 and \$149,906 for the years ended December 31, 2023 and 2022, respectively.

Note 11: Concentrations:

Accounts payable to one vendor represented approximately 80% of total accounts payable at December 31, 2023. Payments to the one vendor represented approximately 83% of total program expenses for the year ended December 31, 2023.

Accounts payable to one vendor represented approximately 83% of total accounts payable at December 31, 2022. Payments to one vendor represented approximately 86% of total program expenses for the year ended December 31, 2022.

National Fluid Milk Processor Promotion Board

Notes to Financial Statements

December 31, 2023 and 2022

Note 11: Concentrations: (continued)

While each individual processor's assessment is not considered a concentration, as a result of common ownership, assessments from two processor groups comprised approximately 41% of the Board's assessments for the year ended December 31, 2023. As of December 31, 2023, approximately 37% of the Board's assessments receivable were from these processor groups. For the year ended December 31, 2022, approximately 41% of the Board's assessments were from two processor groups. As of December 31, 2022, approximately 36% of the Board's assessments receivable were from these processor groups.

Note 12: Subsequent events:

Subsequent events have been evaluated through April 24, 2024, 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, 2023

	Unexpended/ Amended Budget (Unaudited)	Current Year Actual	Actual Over (Under) Budget
Revenues:			
Assessments	\$ 76,770,000	\$ 78,431,590	\$ 1,661,590
Late payment charges	-	28,251	28,251
Interest income	-	1,362,496	1,362,496
Other	-	623	623
Carryover - prior years	10,400,000	-	(10,400,000)
Total revenues	87,170,000	79,822,960	(7,347,040)
Expenses:			
Program expenses:			
Program - current year	77,279,000	76,659,972	(619,028)
Program - prior years	14,825,684	439,700	(14,385,984)
Total program expenses, net	92,104,684	77,099,672	(15,005,012)
Other expenses:			
California grant	6,410,000	6,630,464	220,464
Administrative	2,879,700	2,840,951	(38,749)
USDA expenses	600,000	677,867	77,867
Unrealized gain on investments	-	(155,691)	(155,691)
Interest expense	1,300	671	(629)
Total other expenses	9,891,000	9,994,262	103,262
Total expenses, net	101,995,684	87,093,934	(14,901,750)
Unallocated budget	-	-	-
Excess of expenses over revenues	\$ (14,825,684)	\$ (7,270,974)	\$ 7,554,710

See Independent Auditor's Report

National Fluid Milk Processor Promotion Board

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

For the year ended December 31, 2023

	Current Year Amended Budget (Unaudited)	Expended Current Year Actual	Actual Over (Under) Budget	Prior Year Unexpended Budget (Unaudited)	Expended (Refunds) Prior Year Actual	Actual Over (Under) Budget	Total Program Activity
Consumer Industry	\$ 67,879,000 9,400,000	\$ 67,544,181 9,115,791	\$ (334,819) (284,209)	\$ 11,984,301 2,841,383	\$ 450,735 (11,035)	\$ (11,533,566) (2,852,418)	\$ 67,994,916 9,104,756
Total program expenses	<u>\$ 77,279,000</u>	<u>\$ 76,659,972</u>	<u>\$ (619,028)</u>	<u>\$ 14,825,684</u>	<u>\$ 439,700</u>	<u>\$ (14,385,984)</u>	<u>\$ 77,099,672</u>

See Independent Auditor's Report

National Fluid Milk Processor Promotion Board

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

For the year ended December 31, 2023

	Current Year Amended Budget (Unaudited)	Current Year Actual	Actual Over (Under) Budget
Board meeting expenses	\$ 250,000	\$ 251,371	\$ 1,371
Staff salaries and benefits:			
Staff salaries and benefits	2,961,700	2,908,120	(53,580)
Program management salary allocation	(2,438,800)	(2,525,312)	(86,512)
Total staff salaries and benefits	<u>522,900</u>	<u>382,808</u>	<u>(140,092)</u>
Finance and administration:			
Contract staff	168,000	168,000	-
Consultants - HR, IT, strategic	37,000	42,000	5,000
Financial services	393,800	393,750	(50)
Total finance and administration	<u>598,800</u>	<u>603,750</u>	<u>4,950</u>
Other operating expenses:			
Audits	50,000	40,466	(9,534)
Depreciation and amortization	26,700	24,969	(1,731)
Dues and memberships	56,400	173,909	117,509
Employee development	130,000	126,796	(3,204)
Insurance	41,700	41,440	(260)
Legal	600,000	578,248	(21,752)
Miscellaneous	7,000	6,475	(525)
Office facilities	206,000	223,441	17,441
Office supplies and expense	30,000	88,219	58,219
Payroll service and pension administration	16,000	16,629	629
Postage and delivery	8,000	17,658	9,658
Recruiting expense	20,000	2,860	(17,140)
Staff travel	250,000	232,570	(17,430)
Telephone	23,000	29,342	6,342
Unallocated administrative	43,200	-	(43,200)
Total other operating expenses	<u>1,508,000</u>	<u>1,603,022</u>	<u>95,022</u>
Total administrative expenses	<u>\$ 2,879,700</u>	<u>\$ 2,840,951</u>	<u>\$ (38,749)</u>

See Independent Auditor's Report

National Fluid Milk Processor Promotion Board
Schedule of Cash Receipts and Disbursements

For the year ended December 31, 2023

Cash receipts from operations:	
Assessments	\$ 79,292,204
Adjustments to reconcile change in net assets to net	
Late payment charges	28,251
Interest income	1,362,496
Other	622
Cash receipts from operations	<u>80,683,573</u>
Cash disbursements for operations	(81,177,245)
Cash disbursements for financing activities:	
Payments made on financing lease	(7,295)
Cash disbursements for investing activities:	
Purchase of property and equipment	(3,188)
Purchase of investments	<u>(5,312,096)</u>
Deficit of receipts over disbursements	(5,816,251)
Cash and cash equivalents - beginning	<u>11,449,193</u>
Cash and cash equivalents - ending	<u>\$ 5,632,942</u>

See Independent Auditor's Report

PART II

Independent Auditor's Report on Internal Control
Over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance
with Government Auditing Standards

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of National Fluid Milk Processor Promotion Board (the Board) which comprise the statements of financial position as of December 31, 2023 and 2022, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements and have issued our report thereon dated April 24, 2024.

Report on Internal Control Over Financial Reporting

In planning and performing our audits of the financial statements, we considered the Board's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control.

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

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



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

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Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Board's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Board's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Board's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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



SNYDER COHN, PC
North Bethesda, Maryland
April 24, 2024

PART III

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial statement audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of National Fluid Milk Processor Promotion Board which comprise the statements of financial position as of December 31, 2023 and 2022, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements and have issued our report thereon dated April 24, 2024. The financial statements were prepared in conformity with accounting principles generally accepted in the United States of America.

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

- Failed to comply with laws and regulations applicable to National Fluid Milk Processor Promotion Board;
- Failed to comply with Section 1160.212 of the Fluid Milk Promotion Order, relating to the use of assessment funds for the purpose of influencing governmental policy or action;
- Expended assessment funds for purposes other than those authorized by the Fluid Milk Promotion Act and the Fluid Milk Promotion Order;
- Expended or obligated assessment funds on any projects prior to the fiscal year in which those funds were authorized to be expended by National Fluid Milk Processor Promotion Board's approved Budget and Marketing Plan;
- Did not adhere to the original or amended Budget and Marketing Plan for the years ended December 31, 2023 and 2022;
- Did not obtain a written contract or agreement with any person or entity providing goods or services to the National Fluid Milk Processor Promotion Board;
- Failed to comply with Section 1999H, paragraph (g) of the Fluid Milk Promotion Order, relating to the limitations on the types of investments which may be purchased by National Fluid Milk Processor Promotion Board and the insurance or collateral that must be obtained for all National Fluid Milk Processor Promotion Board deposits and investments;
- Failed to comply with internal controls;
- Failed to comply with disclosure requirements for lease commitments;
- 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;



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

Page two

- Failed to comply with the by-laws of National Fluid Milk Processor Promotion Board or any other policy of the National Fluid Milk Processor Promotion Board, specifically as they relate to all financial matters, including time and attendance, and travel; or
- Failed to comply with USDA guidelines for AMS Oversight of Commodity Research and Promotion Programs other than described below.

During the course of our audits, no 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.

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

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

SNYDER COHN, PC
North Bethesda, Maryland
April 24, 2024

Snyder Cohn, PC
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