



APPENDIX D-1

303 East Wacker Drive
Chicago, IL 60601-5212

Independent Accountants' Report On Applying Agreed-upon Procedures

The Board of Directors
National Dairy Promotion and Research Board:

We have performed the procedures enumerated below, which were agreed to by the U.S. Department of Agriculture (USDA) and National Dairy Promotion and Research Board (NDB), solely to assist the specified parties in evaluating the entities' compliance with The Dairy and Tobacco Adjustment Act of 1983 (Act), the Dairy Promotion and Research Order (Order), and the Agricultural Marketing Services Directive (Directive) entitled *Investments of Public Funds* as of and for the year ended December 31, 2001. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representations regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our procedures and findings were as follows:

(a) We obtained NDB's budget for the year ended December 31, 2001 and sighted the signature of the Secretary of the USDA.

(b) We selected four investment purchase transactions from calendar year 2001, compared them against their respective brokers' advices, and noted the following:

- The investments were in either U.S. Government Securities or Federal Agency Securities,
- The investments had maturity periods of one year or less;
- The U.S. Government Securities and Federal Agency Securities were held in the name of NDB at the institution.

(c) We obtained the 1995 investment files and sighted various broker's advices noting that the investment records have been maintained for six years.

We were not engaged to, and did not conduct an examination, the objective of which would be the expression of an opinion on compliance. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the USDA and NDB and is not intended to be and should not be used anyone other than these specified parties.

KPMG LLP

April 1, 2002



303 East Wacker Drive
Chicago, IL 60601-5212

The Board of Directors
National Dairy Promotion and Research Board

April 1, 2002

Ladies and Gentlemen:

We have audited the consolidated financial statements of the National Dairy Promotion and Research Board, for the year ended December 31, 2001, and have issued our report thereon dated April 1, 2002. In planning and performing our audit of the financial statements of the National Dairy Promotion and Research Board, we considered internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. An audit does not include examining the effectiveness of internal control and does not provide assurance on internal control.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving internal control and its operation that we consider to be material weaknesses as defined above.

This report is intended solely for the information and use of the United States Department of Agriculture, the Board of Directors, management and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

KPMG LLP





303 East Wacker Drive
Chicago, IL 60601-5212

Independent Auditors' Report

The Board of Directors
National Dairy Promotion and Research Board:

We have audited the accompanying balance sheets of National Dairy Promotion and Research Board (NDB) as of December 31, 2001 and 2000, and the related statements of operations and changes in fund balance, and cash flows for the years then ended. These financial statements are the responsibility of the NDB's management. 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. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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 at December 31, 2001 and 2000, and the results of its operations, and changes in its fund balance and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our 2001 audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in the supplemental schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KPMG LLP

April 1, 2002



NATIONAL DAIRY PROMOTION AND RESEARCH BOARD

Balance Sheets

December 31, 2001 and 2000

Assets	<u>2001</u>	<u>2000</u>
Cash and cash equivalents	\$ 7,829,872	13,554,973
Assessments receivable	8,657,497	10,271,926
Accrued interest receivable	5,009	75,391
Fixed assets (net of accumulated depreciation of \$100,279 and \$94,720 in 2001 and 2000, respectively)	<u>34,517</u>	<u>12,690</u>
	<u><u>\$ 16,526,895</u></u>	<u><u>23,914,980</u></u>
 Liabilities and Fund Balance		
Accounts payable:		
Related party - DMI	\$ 8,362,285	7,277,510
Other	59,817	—
Accrued expenses and other liabilities	<u>336,714</u>	<u>464,642</u>
Total liabilities	8,758,816	7,742,152
Commitments (note 5)		
Fund balance	<u>7,768,079</u>	<u>16,172,828</u>
Total liabilities and fund balance	<u><u>\$ 16,526,895</u></u>	<u><u>23,914,980</u></u>

See accompanying notes to financial statements.

NATIONAL DAIRY PROMOTION AND RESEARCH BOARD

Statements of Cash Flows

Years ended December 31, 2001 and 2000

	<u>2001</u>	<u>2000</u>
Cash flows from operating activities:		
Excess (deficiency) of revenue over expenses	\$ (8,404,749)	2,631,422
Adjustments to reconcile excess (deficiency) of revenue over expenses to net cash provided by (used in) operating activities:		
Depreciation and amortization	5,560	10,741
Changes in assets and liabilities:		
Assessments receivable	1,614,429	(510,973)
Accrued interest receivable	70,382	(56,297)
Accounts payable	1,144,592	362,641
Accrued expenses and other liabilities	<u>(127,928)</u>	<u>276,267</u>
Net cash provided by (used in) operating activities	(5,697,714)	2,713,801
Net cash used in investing activities:		
Acquisition of property and equipment	<u>(27,387)</u>	<u>(14,100)</u>
Net increase (decrease) in cash and cash equivalents	(5,725,101)	2,699,701
Cash and cash equivalents at beginning of year	<u>13,554,973</u>	<u>10,855,272</u>
Cash and cash equivalents at end of year	<u>\$ 7,829,872</u>	<u>13,554,973</u>

See accompanying notes to financial statements.

NATIONAL DAIRY PROMOTION AND RESEARCH BOARD

Notes to Financial Statements

December 31, 2001 and 2000

(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 and increase human consumption of milk and 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 foreign markets and uses for fluid milk and dairy products produced in the United States.

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 programs and projects under taken by NDB and UDIA. NDB and UDIA will jointly plan, develop, and implement their various 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, travel, Board of Directors, and office overhead expenses are funded by NDB and UDIA. Core costs are primarily funded by NDB, with UDIA funding one-half of Board of Directors and executive office costs. Program costs, which include expenses associated with implementing the programs of NDB and UDIA, are funded by NDB and UDIA based on the planned funding source of the individual program. NDB has funded DMI core costs of \$12,828,399 and \$11,439,846 and program costs of \$76,815,232 and \$69,295,323, for activity related to the years ended December 31, 2001 and 2000, respectively.

The U.S. Dairy Export Council (USDEC) is a related organization that was founded by the boards of both NDB and UDIA and began operations effective January 1, 1996. The purpose of USDEC is to improve the marketing conditions of the U.S. dairy industry with respect to the export of U.S. dairy products and to promote the industry as a whole by improving the acceptability, consumption, and purchase of U.S. dairy products in foreign countries. For the years ended December 31, 2001 and 2000, NDB reimbursed DMI \$5,362,806 and \$6,094,000, respectively, for USDEC's program operations.

(2) Summary of Significant Accounting Policies

The financial statements of NDB have been prepared on the accrual basis of accounting in accordance 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.

(a) Cash Equivalents

NDB considers debt instruments with an original maturity of three months or less to be cash equivalents.

NATIONAL DAIRY PROMOTION AND RESEARCH BOARD

Notes to Financial Statements

December 31, 2001 and 2000

(b) Assessments

Assessment revenue is generated by a mandatory assessment of 15 cents per hundredweight on all milk produced and marketed in the United States. Milk marketers (or responsible persons) can receive a credit of up to 10 cents per hundredweight for payments to qualified state and regional promotion programs. For the years ended December 31, 2001 and 2000, the net NDB assessment was approximately 5.12 and 5.10 cents per hundredweight of milk marketed, respectively.

Assessment revenue is recognized in the month in which milk is marketed through the process of estimating the amount of milk marketed and the average payment per hundredweight. Such receivables may be more or less than the amounts ultimately collected based upon actual milk marketed and actual assessments collected per hundredweight (see note 4).

(c) Fixed Assets

Fixed assets consist of computer equipment and software and are recorded at cost. Depreciation and amortization are provided in amounts sufficient to charge the cost of depreciable assets to operations over estimated service lives of approximately 3-7 years using the straight-line method.

(d) Contract and Grant Expense

Expenses related to contracts are recognized as incurred. Grants for research projects typically require periodic reporting of project status and payments. Such payments are expensed as progress is achieved. In addition, a portion of fund balance is designated for future payments under existing contracts and grants (see note 5).

(e) Income Taxes

NDB 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 501(c)(3) of the Internal Revenue Code. There was no unrelated business taxable income for the years ended December 31, 2001 and 2000; therefore, no provision for income taxes has been reflected in the accompanying financial statements related to activities of NDB.

(f) Use of Estimates

Management of NDB 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.

(g) Employee Costs

NDB's operations are staffed by DMI employees, who receive vacation, sick pay, health, and other benefits.

NATIONAL DAIRY PROMOTION AND RESEARCH BOARD

Notes to Financial Statements

December 31, 2001 and 2000

(3) Cash and Cash Equivalents

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

	<u>2001</u>	<u>2000</u>
Operating cash in banks and on hand	\$ 485,156	271,371
Repurchase agreements with commercial banks	—	5,885,000
Federal agency discounted securities	<u>7,344,716</u>	<u>7,398,602</u>
	\$ <u>7,829,872</u>	<u>13,554,973</u>

All cash and cash equivalents are insured (FDIC) and collateralized by U.S. government securities held in the name of NDB.

(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 further action and/or legal proceedings. As of December 31, 2001 and 2000, approximately \$384,000 of cumulative unpaid assessments were at USDA pending further action. Such amounts are not included in assessments receivable as of December 31, 2001 and 2000, 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 reports with NDB.

(5) Fund Balance

During 2001 and 2000, NDB's Board designated a portion of fund balance for use in continued funding of programs and for cash reserves. Total designations of fund balance are as follows:

	<u>2001</u>	<u>2000</u>
Domestic marketing	\$ 724,238	680,502
Planning and Research	19,622	—
Export	<u>—</u>	<u>1,935,125</u>
Total program designations	743,860	2,615,627
Future year budget	2,307,000	6,658,000
Cash reserves	<u>1,800,000</u>	<u>1,800,000</u>
Total designated fund balance	4,850,860	11,073,627
Undesignated fund balance	<u>2,917,219</u>	<u>5,099,201</u>
Total fund balance	\$ <u>7,768,079</u>	<u>16,172,828</u>

NATIONAL DAIRY PROMOTION AND RESEARCH BOARD

Notes to Financial Statements

December 31, 2001 and 2000

The program designations as of December 31, 2001 and 2000 relate to contract commitments made during the following years:

	<u>2001</u>	<u>2000</u>
2001	\$ 743,860	—
2000	—	1,966,797
1999	—	<u>648,830</u>
Total contract commitments	<u>\$ 743,860</u>	<u>2,615,627</u>

(6) Transactions with the United States Department of Agriculture

NDB reimburses the USDA for the cost of oversight activities and economic research services. These reimbursements amounted to \$471,212 and \$566,972 for the years ended December 31, 2001 and 2000, respectively.

NATIONAL DAIRY PROMOTION AND RESEARCH BOARD

Supplemental Schedule of Reconciliation of Operations Budget

Year ended December 31, 2001

	<u>2001 total expenses</u>	<u>Commitments expensed in 2001</u>	<u>2001 commitments</u>	<u>2001 operations budget statement</u>
Organizational group expenses:				
Domestic marketing group	\$ 73,228,579	680,502	724,238	73,272,315
Planning and research group	2,537,295	—	19,622	2,556,917
Communications/member relations group	7,929,008	—	—	7,929,008
Export group	5,564,741	1,286,295	—	4,278,446
DMI core general and administrative	2,255,774	—	—	2,255,774
General and administrative	420,383	—	—	420,383
United States Department of Agriculture	471,212	—	—	471,212
Total organizational group expenses	<u>\$ 92,406,992</u>	<u>1,966,797</u>	<u>743,860</u>	<u>91,184,055</u>

This schedule reconciles the total expenses from the Statement of Operations and Changes in Fund Balance presented in accordance with accounting principles generally accepted in the United States of America to those reflected in the Operations Budget Statement which is used for management's internal purposes.

The commitments expensed in 2001 represent management's contract commitments established prior to January 1, 2001 which were expensed in the current year.

The 2001 commitments represent management's contract commitments established in 2001 against the 2001 approved program budget operations.

See accompanying independent auditors' report.

NATIONAL DAIRY PROMOTION AND RESEARCH BOARD

Statements of Operations and Changes in Fund Balance

Years ended December 31, 2001 and 2000

	<u>2001</u>	<u>2000</u>
Revenue:		
Assessments	\$ 83,632,543	84,746,001
Interest income	369,700	598,537
	<u>84,002,243</u>	<u>85,344,538</u>
Total revenue		
Expenses:		
Domestic marketing group	73,228,579	65,237,009
Planning and research group	2,537,295	3,742,254
Communications/member relations group	7,929,008	4,426,207
Export group	5,564,741	6,170,499
DMI core general and administrative	2,255,774	2,206,581
General and administrative	420,383	363,594
United States Department of Agriculture	471,212	566,972
	<u>92,406,992</u>	<u>82,713,116</u>
Total expenses		
Excess (deficiency) of revenue over expenses	(8,404,749)	2,631,422
Fund balance at beginning of year	<u>16,172,828</u>	<u>13,541,406</u>
Fund balance at end of year	<u>\$ 7,768,079</u>	<u>16,172,828</u>

See accompanying notes to financial statements.

APPENDIX D-2



SNYDER-COHN-COLLYER-HAMILTON & ASSOCIATES P.C.

Independent Auditor's Report

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

We have audited the accompanying Balance Sheet of the National Fluid Milk Processor Promotion Board as of December 31, 2001, and the related Statements of Revenues, Expenses and Changes in Net Assets and Cash Flows for the year then ended. These financial statements are the responsibility of the National Fluid Milk Processor Promotion Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2001, and the results of its operations, changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 8, 2002 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, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be read in conjunction with this report in considering the results of our audit.

Snyder, Cohn, Collyer, Hamilton & Associates, P.C.

March 8, 2002

National Fluid Milk Processor Promotion Board

Balance Sheet

December 31, 2001

Assets

Current Assets:

Cash and Cash Equivalents	\$ 20,578,099
Assessments Receivable, net of allowance for uncollectible accounts of \$55,604	11,528,539
Interest Receivable	9,180
Other Receivables	984,514
Prepaid Charges	<u>7,878</u>

Total Assets **\$ 33,108,210**

Liabilities and Net Assets

Current Liabilities:

Accounts Payable	<u>\$ 16,419,959</u>
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Net Assets:

Designated for Contingencies	4,500,000
Undesignated	<u>12,188,251</u>

Total Net Assets 16,688,251

Total Liabilities and Net Assets **\$ 33,108,210**

National Fluid Milk Processor Promotion Board

Statement of Revenues, Expenses and Changes in Net Assets

For the year ended December 31, 2001

Revenues:

Assessments	\$ 107,693,467
California Cut-In Fees	672,201
Late Payment Charges	240,816
Interest Income	403,923
Other	<u>3,283</u>

Total Revenues 109,013,690

Expenses:

Program Expenses:

Media	73,942,851
Promotions	10,150,084
Public Relations	9,581,697
Strategic Thinking	503,155
Research	437,543
Medical Advisory Panel	200,127
American Heart Association	120,000
Medical Research	107,374
Program Measurement	<u>69,049</u>

Total Program Expenses 95,111,880

Other Expenses:

California Grant	10,035,825
Administrative	2,117,037
USDA Oversight	321,253
USDA Compliance Audit	<u>42,603</u>

Total Other Expenses 12,516,718

Total Expenses 107,628,598

Excess of Revenues over Expenses 1,385,092

Net Assets - Beginning 15,303,159

Net Assets - Ending \$ 16,688,251

National Fluid Milk Processor Promotion Board

Statement of Cash Flows

For the year ended December 31, 2001

Cash Flows from Operating Activities:

Excess of Revenues over Expenses	\$ 1,385,092
Changes in Assets and Liabilities:	
Decrease in Assessments Receivable	3,444,989
Decrease in Interest Receivable	91,321
Increase in Other Receivables	(725,554)
Increase in Prepaid Charges	(7,878)
Increase in Accounts Payable	3,633,726
Total Adjustments	<u>6,436,604</u>

Net Cash Provided by Operating Activities 7,821,696

Cash Flows from Investing Activities:

Proceeds from Investments Maturing in Current Year	<u>1,499,898</u>
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Net Increase in Cash and Cash Equivalents 9,321,594

Cash and Cash Equivalents - Beginning 11,256,505

Cash and Cash Equivalents - Ending \$ 20,578,099

National Fluid Milk Processor Promotion Board

Notes to Financial Statements

December 31, 2001

Note 1: Organization:

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 and coordinated program of advertising, promotion, and education for fluid milk products. The Order has an expiration date of December 31, 2002.

The Act requires 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 percent 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.

Note 2: Summary of Significant Accounting Policies:

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.

National Fluid Milk Processor Promotion Board

Notes to Financial Statements

December 31, 2001

Note 2: Summary of Significant Accounting Policies: (Continued)

Assessments - Assessments are generated from those processors marketing more than 500,000 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.

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 statement of cash flows, the Board considers investments with an original maturity of three months or less to be cash equivalents.

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.

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.

National Fluid Milk Processor Promotion Board

Notes to Financial Statements

December 31, 2001

Note 3: Cash and Cash Equivalents:

At December 31, 2001, 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.

	Carrying Value
Cash Deposits	\$ 3,075,385
Repurchase Agreements	5,978,430
Investments	11,524,284
	\$20,578,099

At December 31, 2001, the repurchase agreements were secured as to principal plus accrued interest by U.S. government securities held in the respective banks' safekeeping account, in the Board's name, with the Federal Reserve Bank.

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, and must mature within one year or less from the date of purchase. At December 31, 2001, investments consist entirely of U.S. government agency obligations. Investments are carried at cost, which approximates fair value. The Board's investments are held by the counterparty's trust department or agent in the Board's name.

At December 31, 2001, investments consisted of the following:

	Issue Date	Maturity Date	Interest Rate	Carrying Amount
U.S. Securities:				
FNMA Discount Note	12/04/01	01/10/02	1.84%	\$ 2,006,199
FHLMC Discount Note	11/21/01	01/24/02	1.97	1,511,714
FHLMC Discount Note	12/27/01	02/22/02	1.77	1,999,413
FHLMC Discount Note	12/19/01	02/28/02	1.74	1,019,509
FNMA Discount Note	12/19/01	03/14/02	1.74	2,987,746
FHLMC Discount Note	12/27/01	03/22/02	1.76	1,999,703
				\$11,524,284

National Fluid Milk Processor Promotion Board

Notes to Financial Statements

December 31, 2001

Note 3: Cash and Cash Equivalents: (Continued)

At December 31, 2001, the Board was owed accrued interest of \$9,180.

Cash and cash equivalents includes \$4,500,000 of Board designated cash reserve.

Note 4: 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 year ended December 31, 2001, the Board did not exceed this limitation.

Note 5: Commitments:

The Board entered into an agreement with the International Dairy Foods Association (IDFA) to administer the fluid milk program. IDFA contracted with Bozell Worldwide, Inc., Weber Schandwick Worldwide (formerly Bozell Sawyer Miller Group), and Marketing Drive to develop the Board's advertising, consumer education, and promotion programs, respectively.

Additionally, the Board entered into an agreement during fiscal year 2000 with Walt Disney World Hospitality & Recreation Corporation (WDWHRC), whereby the Board will pay WDWHRC \$1,800,000 each year for the next five years in exchange for the sponsorship and certain promotional rights at the Sports Complex in order to cooperatively develop programs to promote fluid milk products at Walt Disney World Resort.

Note 6: 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.

National Fluid Milk Processor Promotion Board

Notes to Financial Statements

December 31, 2001

Note 7: Operating Lease:

The Company incurred \$114,000 of rental expense during the year 2001, under a sublease agreement that has an automatic renewal agreement that was extended through December 31, 2002.

Note 8: Related Party:

Accounting services for the Board are performed by Rubin, Kasnett & Associates, P.C. (RK&A); the cost of these services was \$225,000 during 2001. A principal of RK&A serves as the Chief Financial Officer of the Board and received compensation of \$140,000 for services performed.

Note 9: Litigation:

The Board has been named as a defendant in two legal actions filed with agencies of the Federal Government. If these actions were to be found in the favor of the complainants, the Board could be exposed to civil penalties and financial losses.

The Board expects to vigorously defend its actions and believes it will prevail in each matter. No provision for losses has been made in these statements.

On June 25, 2001, the United States Supreme Court issued an opinion in the case United States v. United Foods, Inc., No. 00-276 (U.S. June 25, 2001) holding that the generic advertising component of the Mushroom Promotion Act (as established by the USDA) violated the First Amendment rights of the plaintiff. As a result, members of the mushroom industry are no longer required to pay assessments that fund advertising and promotion unless they so elect.

While the Board operates under a similar Act created by the USDA, it believes operating conditions in the milk industry differ from those in the mushroom industry, that the program is constitutional and the Board is not likely to be adversely impacted. Further, the Board believes the USDA will vigorously defend the program.



SNYDER-COHN-COLLYER-HAMILTON & ASSOCIATES P.C.

Independent Auditor's Report on Supplementary Information

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

Our report on our audit of the basic financial statements of the National Fluid Milk Processor Promotion Board for 2001 appears on page 1. We conducted our audit for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information presented on pages 12 to 15 for the year ended December 31, 2001 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Snyder, Cohn, Collyer, Hamilton & Associates, P.C.

March 8, 2002

National Fluid Milk Processor Promotion Board

Schedule of Revenues and Expenses Actual Compared to Budget (Budget Basis)

For the year ended December 31, 2001

	Unexpended/ Amended Budget	Current Year Actual	Actual Over (Under) Budget
Revenues:			
Assessments	\$ 110,000,000	\$ 107,693,467	\$ (2,306,533)
California Cut-In Fees	800,000	672,201	(127,799)
Late Payment Charges	-	240,816	240,816
Interest Income	-	403,923	403,923
Other	-	3,283	3,283
Carryover - Prior Years	<u>6,532,138</u>	<u>-</u>	<u>(6,532,138)</u>
Total Revenues	<u>117,332,138</u>	<u>109,013,690</u>	<u>(8,318,448)</u>
Expenses:			
Program Expenses:			
Program - Current Year	101,310,394	94,288,820	(7,021,574)
Program - Prior Years	<u>823,060</u>	<u>823,060</u>	<u>-</u>
Total Program Expenses	<u>102,133,454</u>	<u>95,111,880</u>	<u>(7,021,574)</u>
Other Expenses:			
California Grant	10,300,000	10,035,825	(264,175)
Administrative	2,117,037	2,117,037	-
USDA Oversight	350,000	321,253	(28,747)
USDA Compliance Audit - Prior Years	42,603	42,603	-
Unallocated	254,707	-	(254,707)
Unallocated Reserve	<u>3,000,000</u>	<u>-</u>	<u>(3,000,000)</u>
Total Other Expenses	<u>16,064,347</u>	<u>12,516,718</u>	<u>(3,547,629)</u>
Less Encumbrances - Prior Years	<u>(865,663)</u>	<u>-</u>	<u>865,663</u>
Total Expenses	<u>117,332,138</u>	<u>107,628,598</u>	<u>(9,703,540)</u>
Excess (Deficit) of Revenues Over Expenses	<u>\$ -</u>	<u>\$ 1,385,092</u>	<u>\$ (1,385,092)</u>

National Fluid Milk Processor Promotion Board

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

For the year ended December 31, 2001

	<u>Current Year Amended Budget</u>	<u>Expended Current Year Actual</u>	<u>Actual Over (Under) Budget</u>	<u>Prior Year Unexpended Budget</u>	<u>Expended Prior Year Actual</u>	<u>Actual Over (Under) Budget</u>	<u>Total Program Activity</u>
Expenses - 2001 Budget							
Media	\$ 74,833,700	\$ 73,945,305	\$ (888,395)	\$ 1,423,820	\$ (2,454)	\$ (1,426,274)	\$ 73,942,851
Promotions	13,869,300	10,170,587	(3,698,713)	1,962,725	(20,503)	(1,983,228)	10,150,084
Public Relations	9,548,650	9,226,430	(322,220)	871,896	355,267	(516,629)	9,581,697
Strategic Thinking	776,000	207,977	(568,023)	467,979	295,178	(172,801)	503,155
Research	1,546,500	417,374	(1,129,126)	167,098	20,169	(146,929)	437,543
Medical Advisory Panel	316,244	194,499	(121,745)	221,940	5,628	(216,312)	200,127
American Heart Association	-	-	-	812,475	120,000	(692,475)	120,000
Medical Research	210,000	107,374	(102,626)	(4,862)	-	4,862	107,374
Program Measurement	210,000	19,274	(190,726)	60,586	49,775	(10,811)	69,049
Total Program Expenses	\$ 101,310,394	\$ 94,288,820	\$ (7,021,574)	\$ 5,983,657	\$ 823,060	\$ (5,160,597)	\$ 95,111,880

National Fluid Milk Processor Promotion Board

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

For the year ended December 31, 2001

	Current Year Amended Budget	Current Year Actual	Actual Over (Under) Budget
Management Contract	\$ 573,856	\$ 573,856	\$ -
Board Meeting Expenses	264,274	275,317	11,043
Staff Salaries and Benefits:			
Staff Salaries and Compensation	355,000	359,003	4,003
Staff Retirement Benefit	35,500	31,688	(3,812)
Payroll Taxes	12,000	10,608	(1,392)
Health Insurance	4,000	3,474	(526)
Life Insurance	1,050	823	(227)
Disability Insurance	1,260	1,399	139
Workers Compensation	675	303	(372)
Total Salaries and Benefits	<u>409,485</u>	<u>407,298</u>	<u>(2,187)</u>
Finance and Administration:			
Contract Staff	140,000	139,989	(11)
Financial Services	225,000	224,742	(258)
Total Finance and Administration	<u>365,000</u>	<u>364,731</u>	<u>(269)</u>
Other Operating Expenses:			
Legal	183,471	183,471	-
Audits	50,000	67,057	17,057
Office Facilities	96,500	96,000	(500)
Support and Maintenance	18,000	18,000	-
Staff Travel	75,000	68,470	(6,530)
Telephone	5,000	3,127	(1,873)
Insurance	30,451	30,451	-
Postage and Delivery	13,000	28,814	15,814
USDA Processor Compliance	30,000	-	(30,000)
Miscellaneous	3,000	445	(2,555)
Total Other Operating Expenses	<u>504,422</u>	<u>495,835</u>	<u>(8,587)</u>
Total Administrative Expenses	<u>\$ 2,117,037</u>	<u>\$ 2,117,037</u>	<u>\$ -</u>

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

For the year ended December 31, 2001

Cash Receipts from Operations:

Assessments	\$ 110,412,902
California Cut-In Fees	672,201
Late Payment Charges	240,816
Interest Income	495,244
Other	<u>3,283</u>
Total Revenues	111,824,446

Cash Disbursements for Operations 104,002,750

Excess of Operating Receipts over Disbursements 7,821,696

Other Sources and Uses of Cash:

Proceeds from Investments Maturing in Current Year 1,499,898

**Excess of Receipts and Other Sources Over
Disbursements and Other Uses of Cash** 9,321,594

Cash and Cash Equivalents - Beginning 11,256,505

Cash and Cash Equivalents - Ending \$ 20,578,099



SNYDER-COHN-COLLYER-HAMILTON & ASSOCIATES P.C.

Independent Auditor's Report on Compliance
and on Internal Control Over Financial Reporting
Based on an Audit of Financial Statements
Performed in Accordance with Standards of the
*Agricultural Marketing Service Division
of the United States Department of Agriculture*

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

We have audited the financial statements of the National Fluid Milk Processor Promotion Board as of and for the year ended December 31, 2001, and have issued our report thereon dated March 8, 2002. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in the *Agricultural Marketing Service Division* guidelines for financial audits, issued by the *Agricultural Marketing Service Division of the United States Department of Agriculture*.

Compliance

As part of obtaining reasonable assurance about whether the National Fluid Milk Processor Promotion Board's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the National Fluid Milk Processor Promotion Board's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.



To the Board of Directors
National Fluid Milk Processor
Promotion Board

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This report is intended solely for the information and use of the National Fluid Milk Processor Promotion Board, management of the National Fluid Milk Processor Promotion Board, and the Dairy Programs, Services and Resources Division of the Agricultural Marketing Service Division 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, Collyer, Hamilton + Associates, P.C.

March 8, 2002



SNYDER-COHN-COLLYER-HAMILTON & ASSOCIATES P.C.

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

We have audited, in accordance with generally accepted auditing standards, the Balance Sheet of the National Fluid Milk Processor Promotion Board as of December 31, 2001, and the related Statements of Revenues, Expenses, and Changes in Net Assets and Cash Flows for the year then ended, and have issued our report thereon dated March 8, 2002. The financial statements were prepared in conformity with accounting principles generally accepted in the United States of America.

In connection with our audit, 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 year ended December 31, 2001;
- 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
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- Failed to comply with internal controls;
- Failed to comply with disclosure requirements for lease commitments; or
- 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.

However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.

This report is intended solely for the information and use of the National Fluid Milk Processor Promotion Board, management of the National Fluid Milk Processor Promotion Board, and the Dairy Programs, Services and Resources Division of the Agricultural Marketing Service Division 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, Collyer, Hamilton & Associates, P.C.

March 8, 2002