

CONSOLIDATED FINANCIAL STATEMENTS

U.S. Dairy Export Council and Affiliates
Years Ended December 31, 2022 and 2021
With Reports of Independent Auditors

Ernst & Young LLP



U.S. Dairy Export Council and Affiliates

Consolidated Financial Statements

Years Ended December 31, 2022 and 2021

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Report of Independent Auditors

The Board of Directors
U.S. Dairy Council and Affiliates

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of U.S. Dairy Export Council and Affiliates, which comprise the consolidated statements of financial position as of December 31, 2022 and 2021, and the related consolidated statements of activities and changes in net assets, and cash flows for the years then ended and the related notes (collectively referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of U.S. Dairy Export Council and Affiliates at December 31, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance 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 (*Government Auditing Standards*). 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 U.S. Dairy Export Council and Affiliates, 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 the 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 of material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about U.S. Dairy Export Council and Affiliates’ ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free of 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



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material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of U.S. Dairy Export Council and Affiliates' 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 U.S. Dairy Export Council and Affiliates' 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 audit.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we also have issued our report dated March 21, 2023 on our consideration of U.S. Dairy Export Council and Affiliates' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 U.S. Dairy Export Council and Affiliates' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering U.S. Dairy Export Council and Affiliates' internal control over financial reporting and compliance.

March 21, 2023

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

The Board of Directors
U.S. Dairy Council and Affiliates

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 (*Government Auditing Standards*), the financial statements of U.S. Dairy Export Council and Affiliates which comprise the consolidated statements of financial position as of December 31, 2022 and 2021, and the related consolidated statements of activities and changes in net assets, and cash flows for the years then ended and the related notes to the financial statements, and have issued our report thereon dated March 21, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered U.S. Dairy Export Council and Affiliates' internal control over financial reporting (internal control) as a basis for designing 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 U.S. Dairy Export Council and Affiliates' internal control. Accordingly, we do not express an opinion on the effectiveness of U.S. Dairy Export Council and Affiliates' 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Report on Compliance and Other Matters

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

Purpose of this Report

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



Ernst & Young LLP

March 21, 2023

U.S. Dairy Export Council and Affiliates
 Consolidated Statements of Financial Position

	December 31	
	2022	2021
Assets		
Current assets:		
Cash, cash equivalents, and restricted cash	\$ 5,165,590	\$ 5,722,980
Accounts receivable	4,324,192	1,673,450
Contributions receivable	1,500,000	4,000,000
Prepaid expenses and other assets	612,931	625,721
Deposits	31,250	56,933
Amount due from DMI	30,771	961,614
Total current assets	<u>11,664,734</u>	13,040,698
Noncurrent contributions receivable, net	1,426,749	2,981,915
Deposits, less current portion	76,933	87,999
Fixed assets, net of accumulated depreciation	174,874	501,596
Operating right-of-use assets	<u>3,241,068</u>	–
Total assets	<u>\$ 16,584,358</u>	<u>\$ 16,612,208</u>
Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 5,287,755	\$ 4,525,580
Accrued liabilities	343,895	129,493
Operating lease obligations	742,668	–
Amount due to DMI	1,912,965	263,660
Deferred rent	–	47,825
Deferred revenue	208,100	113,200
Total current liabilities	<u>8,495,383</u>	5,079,758
Noncurrent liabilities:		
Operating lease obligations, less current portion	3,138,016	–
Deferred rent, less current portion	–	602,165
Tenant incentive obligation	–	43,697
Total noncurrent liabilities	<u>3,138,016</u>	645,862
Net assets:		
Without donor restrictions	1,456,192	2,504,478
With donor restrictions	<u>3,494,767</u>	8,382,110
Total net assets	<u>4,950,959</u>	10,886,588
Total liabilities and net assets	<u>\$ 16,584,358</u>	<u>\$ 16,612,208</u>

See accompanying notes.

U.S. Dairy Export Council and Affiliates

Consolidated Statement of Activities and Changes in Net Assets

	Year Ended December 31		
	2022	Without Donor Restrictions	With Donor Restrictions
	Total		
Revenues			
DMI funding (excluding Export Assistance Program funding)	\$ 20,296,374	\$ 20,296,374	\$ —
FAS grant funding	8,221,558	8,221,558	—
Export Assistance Program funding	—	—	—
Membership dues	1,855,500	1,855,500	—
Other	475,950	105,450	370,500
Net assets released from restrictions	—	5,257,843	(5,257,843)
Total revenues	<u>30,849,382</u>	<u>35,736,725</u>	<u>(4,887,343)</u>
Expenses			
Program expense	35,485,156	35,485,156	—
General and administrative	1,299,855	1,299,855	—
Total expenses	<u>36,785,011</u>	<u>36,785,011</u>	—
Change in net assets	<u>(5,935,629)</u>	<u>(1,048,286)</u>	<u>(4,887,343)</u>
Net assets, beginning of year	10,886,588	2,504,478	8,382,110
Net assets, end of year	<u>\$ 4,950,959</u>	<u>\$ 1,456,192</u>	<u>\$ 3,494,767</u>

See accompanying notes.

U.S. Dairy Export Council and Affiliates

Consolidated Statement of Activities and Changes in Net Assets

	Year Ended December 31		
	2021	Without Donor Restrictions	With Donor Restrictions
Revenues			
DMI funding (excluding Export Assistance Program funding)	\$ 15,426,232	\$ 15,426,232	\$ —
FAS grant funding	7,310,395	7,310,395	—
Export Assistance Program funding	5,984,940	—	5,984,940
Membership dues	1,840,900	1,840,900	—
Other	408,100	37,600	370,500
Net assets released from restrictions	—	3,671,460	(3,671,460)
Total revenues	30,970,567	28,286,587	2,683,980
Expenses			
Program expense	27,732,186	27,732,186	—
General and administrative	1,305,635	1,305,635	—
Total expenses	29,037,821	29,037,821	—
Change in net assets	1,932,746	(751,234)	2,683,980
Net assets, beginning of year	8,953,842	3,255,712	5,698,130
Net assets, end of year	\$ 10,886,588	\$ 2,504,478	\$ 8,382,110

See accompanying notes.

U.S. Dairy Export Council and Affiliates

Consolidated Statements of Cash Flows

	Year Ended December 31	
	2022	2021
Operating activities		
Change in net assets	\$ (5,935,629)	\$ 1,932,746
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	435,042	599,930
Noncash lease expense	(54,071)	(52,851)
Changes in assets and liabilities:		
Accounts receivable	(2,650,742)	1,964,225
Contributions receivable	4,055,166	(1,984,940)
Prepaid expenses and other assets	12,790	(217,378)
Deposits	36,749	–
Accounts payable and accrued liabilities	976,577	(540,038)
Amount due to/due from DMI	2,580,148	(1,110,504)
Deferred revenue	94,900	85,033
Net cash (used in) provided by operating activities	<u>(449,070)</u>	676,223
Investing activities		
Purchases of fixed assets	<u>(108,320)</u>	(62,477)
Net cash used in investing activities	<u>(108,320)</u>	(62,477)
Net (decrease) increase in cash, cash equivalents, and restricted cash	(557,390)	613,746
Cash, cash equivalents, and restricted cash, beginning of year	<u>5,722,980</u>	5,109,234
Cash, cash equivalents, and restricted cash, end of year	<u>\$ 5,165,590</u>	\$ 5,722,980
Supplemental disclosure		
Noncash recognition of leases under new lease standard	<u>\$ 639,616</u>	\$ –

See accompanying notes.

U.S. Dairy Export Council and Affiliates

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

1. Organization

U.S. Dairy Export Council (USDEC) was founded by the boards of both National Dairy Promotion and Research Board and United Dairy Industry Association (UDIA) and began operations effective January 1, 1996. The purpose of USDEC is to improve the marketing conditions for the U.S. dairy industry with respect to the export of U.S. dairy products by promoting the acceptability, consumption, and purchase of U.S. dairy products in international markets. USDEC is an independent membership organization staffed by Dairy Management Inc. (DMI) and headquartered in Arlington, Virginia. Eligible member organizations are allocated representation on USDEC's Board of Directors based upon the amount of membership dues contributed. Member organizations select representatives from their respective organizations to serve on USDEC's Board of Directors.

Effective July 4, 2019, USDEC founded U.S. Dairy Export Council, Singapore Ltd. (USDEC Singapore) and registered it as a Public Company Limited by Guarantee within Singapore. This entity was established to further strengthen demand for U.S. dairy products in Southeast Asia and other Asian markets by securing access, enhancing trading competencies, and facilitating sales.

During 2019, USDEC registered Consortium for Common Food Names (CCFN) as an unincorporated association under Washington, D.C.'s Unincorporated Association Act. This entity is designed to protect food industry members' rights to use common food names worldwide in their business.

On February 18, 2021, USDEC registered U.S. Dairy Export Council Shanghai Representative Office (USDEC Shanghai) as a foreign non-governmental organization in support of business activities in China. This entity was established to comply with Chinese law regarding Non-Governmental Organizations doing business in China.

USDEC, together with its affiliates USDEC Singapore, CCFN, and USDEC Shanghai (collectively, the Company) are under the control of USDEC's Board of Directors, and accordingly, their results are included in the accompanying consolidated financial statements of USDEC. All intercompany transactions between these entities have been eliminated.

A significant portion of the Company's funding comes from DMI, a related party. In 2022 and 2021, DMI funded the Company with \$20,296,374 and \$15,426,232, respectively, for marketing programs and other export-related activities, and for the administration of these programs, including staffing and other operations-related expenses.

U.S. Dairy Export Council and Affiliates

Notes to Consolidated Financial Statements (continued)

1. Organization (continued)

Additional funding is received from other state and regional dairy organizations (States/Regions) in support of the Export Assistance Program (EAP). In addition, DMI has agreed to fund a portion of the EAP funding commitment. Contributions received from DMI related to the EAP funding commitment during 2022 and 2021 were \$260,000 and \$60,000, respectively. Other funding is received from members in the form of membership dues and from the United States Department of Agriculture's Foreign Agricultural Service (FAS) in the form of grant revenue.

2. Summary of Significant Accounting Policies

Basis of Presentation

The consolidated financial statements are prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles (GAAP). These principles require management to make estimates and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses in the reporting period. Actual results could differ from those estimates.

Cash, Cash Equivalents, and Restricted Cash

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

The Company has cash balances at a financial institution that exceed federal depository insurance limits. All deposits maintained at financial institutions are fully collateralized daily in U.S. Treasury securities at the Federal Reserve Bank of St. Louis.

The Company has restricted cash of \$876,241 and \$2,408,511 at December 31, 2022 and 2021, respectively, related to EAP and CCFN, which is included in cash, cash equivalents, and restricted cash on the balance sheet.

U.S. Dairy Export Council and Affiliates

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Net Assets

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

- *Without donor restrictions* – Net assets that are not subject to donor-imposed restrictions. This net asset category consists of unspent member dues recognized as revenue over the membership period, which is January 1 through December 31, and DMI funding recognized as revenue related to USDEC Singapore.
- *With donor restrictions* – Net assets subject to donor-imposed restrictions that will be met either by actions of the Company or by the passage of time. Items that affect this net asset category are contributions that are restricted to specific programs of the organization.

Detail of Net Assets	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total Net Assets	Without Donor Restrictions	With Donor Restrictions	Total Net Assets
Operating	\$ 1,456,192	\$ —	\$ 1,456,192	\$ 2,504,478	\$ —	\$ 2,504,478
Export Assistance Program	—	2,926,749	2,926,749	—	7,934,024	7,934,024
Trade Policy Program	—	568,018	568,018	—	448,086	448,086
Net assets	<u>\$ 1,456,192</u>	<u>\$ 3,494,767</u>	<u>\$ 4,950,959</u>	<u>\$ 2,504,478</u>	<u>\$ 8,382,110</u>	<u>\$ 10,886,588</u>

Financial Instruments

The carrying values of cash, cash equivalents, and restricted cash, accounts receivable, prepaid expenses and other assets, deposits, amounts due from/to DMI, accounts payable, accrued liabilities, deferred rent, and deferred revenue are reasonable estimates of fair value.

U.S. Dairy Export Council and Affiliates

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Contributions Receivable

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at fair value, which is measured as the present value of their future cash flows using a discount rate of 4.73% for the year ended 2022 and an average discount rate of 0.56% for the year ended 2021. Conditional promises to give are not included as support until the conditions are substantially met.

All contributions receivable relate to commitments made to the EAP and are deemed collectible at December 31, 2022 and 2021. At December 31, contributions receivable are expected to be received as follows:

	2022	2021
Within one year	\$ 1,500,000	\$ 4,000,000
One to five years	<u>1,500,000</u>	<u>3,000,000</u>
	<u>3,000,000</u>	<u>7,000,000</u>
Less present value component	<u>(73,251)</u>	<u>(18,085)</u>
	<u>\$ 2,926,749</u>	<u>\$ 6,981,915</u>

Fixed Assets

Depreciation is provided in amounts sufficient to charge the cost of the depreciable assets to operations over their estimated service lives of three to eight years using the straight-line method.

Leases

Effective January 1, 2022, the Company's lease accounting policy changed in conjunction with the adoption of Accounting Standards Codification (ASC) 842, *Leases*, using the modified retrospective approach. For further discussion, refer to Note 7.

There was no adjustment to the Company's opening net asset balance resulting from the adoption of this guidance. The Company has lease agreements with lease and non-lease components. The Company has elected the practical expedient to not separate non-lease components for office space or equipment leases.

U.S. Dairy Export Council and Affiliates

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

The Company primarily has leases for office space and office equipment. The lease term may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise the option.

For any leases with an initial term in excess of 12 months, the Company determines whether an arrangement is a lease at contract inception by evaluating whether the contract conveys the right to use and control the specific property or equipment. Certain lease agreements contain purchase of renewal options. These options are included in the lease term when it is reasonably certain that the Company will exercise that option. Generally, the Company's lease agreements do not contain material residual value guarantees or material restrictive covenants.

Right-of-use assets represent the right to use an underlying asset for the lease term, and lease obligations represent an obligation to make lease payments arising from the lease. Right-of-use assets and lease obligations are recognized based on the present value of future lease payments over the lease term at the lease commencement date. When determining the present value of future payment, the Company uses the risk-free borrowing rate when the implicit rate is not readily determinable.

Leases with an initial term of 12 months or less are not recorded as right-of-use assets and lease obligations in the consolidated statement of financial position. Lease expense for these leases is recognized on a straight-line basis over the lease term.

Revenue Recognition

In accordance with the adoption of Accounting Standards Update 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, contributions are evaluated to determine whether the contribution is conditional or unconditional. If the contribution is conditional, recognition is deferred until the conditions are met. If the contribution is unconditional, recognition occurs in the period the pledge is made.

Membership dues are recognized as revenue over the membership period, which is January 1 through December 31.

U.S. Dairy Export Council and Affiliates

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Deferred Revenue

The Company's deferred revenue consists of membership dues received from current members related to future membership periods and sponsorship funding for 2023 program activities. Deferred revenue from membership dues totaled \$200,000 and \$61,500 as of December 31, 2022 and 2021, respectively. Deferred revenue from sponsorship funding totaled \$8,100 and \$51,700 as of December 31, 2022 and 2021, respectively.

Deferred Rent

Prior to 2022, the Company recorded its office lease rent expense on a straight-line basis. The lease contains fixed annual rental increases. Deferred rent represented the extent to which rent expense, under this methodology, had exceeded payments made under the lease since inception. Deferred rent totaled \$649,990 as of December 31, 2021. With the adoption of ASC 842, *Leases*, effective January 1, 2022, deferred rent is a reduction of right-of-use assets.

Income Taxes

USDEC has received a determination letter from the Internal Revenue Service indicating that it is exempt from federal and state income taxes on related income under Section 501(c)(6) of the Internal Revenue Code. CCFN's income statement and balance sheet are included in USDEC's tax filings. USDEC, which includes CCFN, is subject to taxes on unrelated business income and on the portion of membership dues related to certain lobbying activities. USDEC had no material unrelated business income in 2022 or 2021. USDEC has elected to transfer the tax obligation related to its lobbying activities back to its members.

Established in 2019, USDEC Singapore is a Public Company Limited by Guarantee. USDEC Singapore incurs expenses on behalf of USDEC and, in accordance with the guidelines and practice of the Inland Revenue Authority of Singapore, earns arm's-length consideration from USDEC that is subject to Singapore income tax. The income is taxable at 17% and is not material to USDEC for the years ended 2022 or 2021.

U.S. Dairy Export Council and Affiliates

Notes to Consolidated Financial Statements (continued)

3. Functional Classification of Expenses

The Company's primary program activities, which serve to promote U.S. dairy products in international markets, are noted in the following table. Additionally, expenses reported as general and administrative are incurred in support of these primary program activities. Natural expenses attributable to more than one functional expense category are allocated using a variety of cost allocation methodologies, including program expense budget percentages, headcount, and time and effort.

U.S. Dairy Export Council and Affiliates

Notes to Consolidated Financial Statements (continued)

3. Functional Classification of Expenses (continued)

Expenses by functional classification for the year ended December 31, 2022, consist of the following:

	Program Services								Support Activities	
	Center for Dairy Excellence	Market Access	Trade Policy	Strategy and Insights	Communications and Memberships	Market Development	International Representation	Evaluation and Cross-Dept. Operations	General and Administrative	Total Expenses
Staffing and travel	\$ 442,849	\$ 1,443,901	\$ 14,674	\$ 629,470	\$ 1,413,765	\$ 4,490,774	\$ —	\$ 241,299	\$ 1,299,855	\$ 9,976,587
Operations and IT	827,812	338,896	—	230,986	255,268	917,236	—	351,011	—	2,921,209
Professional services	1,734,858	2,089,329	3,095,841	1,227,422	785,977	10,302,646	4,507,821	143,321	—	23,887,215
	\$ 3,005,519	\$ 3,872,126	\$ 3,110,515	\$ 2,087,878	\$ 2,455,010	\$ 15,710,656	\$ 4,507,821	\$ 735,631	\$ 1,299,855	\$ 36,785,011

Expenses by functional classification for the year ended December 31, 2021, consist of the following:

	Program Services								Support Activities	
	Center for Dairy Excellence	Market Access	Trade Policy	Strategy and Insights	Communications and Memberships	Market Development	International Representation	Evaluation and Cross-Dept. Operations	General and Administrative	Total Expenses
Staffing and travel	\$ 316,765	\$ 1,043,490	\$ 3,607	\$ 847,794	\$ 1,129,205	\$ 3,156,988	\$ —	\$ 13,805	\$ 1,305,635	\$ 7,817,289
Operations and IT	868,384	313,755	—	338,529	265,582	885,650	—	304,814	—	2,976,714
Professional services	1,417,384	917,978	2,622,961	1,282,653	462,356	7,498,176	3,878,114	164,196	—	18,243,818
	\$ 2,602,533	\$ 2,275,223	\$ 2,626,568	\$ 2,468,976	\$ 1,857,143	\$ 11,540,814	\$ 3,878,114	\$ 482,815	\$ 1,305,635	\$ 29,037,821

U.S. Dairy Export Council and Affiliates

Notes to Consolidated Financial Statements (continued)

4. Financial Assets and Liquidity Resources

As of December 31, 2022 and 2021, financial assets and liquidity resources available within one year for general expenditures, such as operating expenses and scheduled principal payments on debt, were as follows:

	2022	2021
Financial assets:		
Cash and cash equivalents	\$ 4,289,349	\$ 3,314,469
Accounts receivable	4,324,192	1,673,450
Amount due from DMI, current portion	<u>30,771</u>	961,614
Total financial assets and liquidity resources available within one year	<u><u>\$ 8,644,312</u></u>	<u><u>\$ 5,949,533</u></u>

As part of its liquidity management, the Company has a policy to structure its financial assets to be available as its general expenditures come due. In addition, the Company invests cash in excess of daily operating needs in overnight investments when supported by market conditions.

5. Accounts Receivable

Accounts receivable include amounts due from FAS for expenses incurred for qualified program activities, which totaled \$4,102,829 and \$1,430,094 as of December 31, 2022 and 2021, respectively.

6. Fixed Assets

The following is a summary of fixed assets, valued at historical cost:

	2022	2021
Computer equipment	\$ 873,995	\$ 844,136
Website	990,845	990,845
Furniture and equipment	584,791	516,496
Leasehold improvements	1,570,606	1,560,440
Exhibits and displays	<u>127,300</u>	127,300
Total acquisition cost	<u>4,147,537</u>	4,039,217
Less accumulated depreciation	<u>(3,972,663)</u>	(3,537,621)
	<u><u>\$ 174,874</u></u>	<u><u>\$ 501,596</u></u>

U.S. Dairy Export Council and Affiliates

Notes to Consolidated Financial Statements (continued)

7. Leases

The following table is a summary of the weighted average remaining lease terms and weighted average discount rates of the Company's leases as of December 31, 2022:

	Weighted Average Remaining Lease Term (in Years)	Weighted Average Discount Rate
Operating leases	5.45	1.98%

The following table sets forth other supplemental information related to the Company's lease portfolio as of December 31, 2022:

Cash paid for amounts included in the measurements of lease obligations:

Operating cash flows for operating leases \$ 584,696

The future minimum annual lease payments under operating leases based on the expected term as of December 31, 2022 are as follows:

2023	\$ 765,691
2024	781,030
2025	730,383
2026	568,337
2027	582,546
Thereafter	<u>597,109</u>
Future minimum lease payments	<u>4,025,096</u>
Less remaining imputed interest	<u>(144,412)</u>
Present value of lease obligations	<u><u>\$ 3,880,684</u></u>

The Company incurred \$5,739 in lease expense for the period from January 1, 2022 to December 31, 2022 for the leases to which the Company applied the practical expedient for short-term leases.

U.S. Dairy Export Council and Affiliates

Notes to Consolidated Financial Statements (continued)

7. Leases (continued)

The Company recorded lease expense of \$716,756 for the period from January 1, 2022 to December 31, 2022 for operating leases. The expenses are recorded in program expense and general and administrative on the consolidated statement of activities and changes in net assets.

8. Employee Retirement Plans

USDEC participates in a UDIA-sponsored defined contribution plan, which covers all eligible USDEC employees and employees of other UDIA members and industry organizations sponsored by UDIA. Under the terms of the defined contribution plan, USDEC contributes an amount equal to its employees' contributions, up to a maximum of 3% of eligible compensation for all employees. USDEC also contributes an additional 7% of eligible compensation, representing an unmatched contribution. USDEC's contributions to the savings plan were \$537,022 and \$466,443 for 2022 and 2021, respectively.

USDEC is a participant in a supplemental executive retirement plan (SERP) sponsored by DMI, which is an unfunded plan. For the year ended December 31, 2022, USDEC recorded a SERP expense and corresponding liability of \$52,411. For the year ended December 31, 2021, USDEC recorded a SERP expense and corresponding liability of \$17,545.

9. Subsequent Events

The Company has evaluated events occurring between January 1, 2023 and March 21, 2023, which is the date when the accompanying consolidated financial statements were available to be issued. No events subsequent to December 31, 2022, have been identified that require recognition or disclosure in the consolidated financial statements.

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