



November 8, 2022

Board of Directors
Dairy Council of California

Dear Board Member:

Enclosed please find the following:

- 1) Financial statements of Dairy Council of California for the years ending June 30, 2022 and 2021 with Independent Auditor's Report.
- 2) Independent Accountant's Report of Applying Agreed-Upon-Procedures.

If you have any questions do not hesitate to call me.

Sincerely,

A handwritten signature in black ink that reads "Tammy Anderson-Wise".

Tammy Anderson-Wise
Chief Executive Officer

A handwritten signature in black ink that reads "Michael Blote".

Michael Blote
Director, Accounting & Finance



October 31, 2022

To the Board of Directors
Dairy Council of California
Sacramento, California

We have audited the financial statements of Dairy Council of California (the "Council") for the year ended June 30, 2022. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and the Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated March 28, 2022. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Council are described in Note 1 to the financial statements. During the year ended June 30, 2022, the following accounting standards were adopted:

Government Accounting Standards Board (GASB) Statement No. 87, *Leases*.

We noted no transactions entered into by the Council during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the Council's financial statements were:

Depreciation of Capital Assets and Assigned Useful Lives

Management's estimate of the expected useful lives of capital assets impacts the computation of the depreciation expense for the year. We evaluated estimated useful lives of the capital assets for reasonableness and consistency. The resulting expense computations were reviewed for accuracy and completeness in relation to the financial statements taken as a whole.

Net Pension Liability

Management's estimate of the Council's net pension liability is based on actuarially determined information. We evaluated key factors and assumptions used to develop the estimate in determining that they are appropriate and without improper bias in relation to the financial statements taken as a whole.

Lease assets and liabilities

Management's estimate of the lease right of use assets and related lease liabilities are based on the estimated term of each lease, estimated monthly lease payments, and the discount rate. We evaluated the key factors and assumptions used by management to develop these estimates and determined they are appropriate in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Attachment A summarizes the adjustments detected as a result of audit procedures and were corrected by management. Attachment B summarizes restatement entries posted to the June 30, 2021 financial statements related to the adoption of GASB 87. There were no uncorrected misstatement identified.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 31, 2022.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Council's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Council's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to management's discussion and analysis, Schedule of the Council's Proportionate Share of the Net Pension Liability, and the Schedule of Contributions to the Cost-Sharing Defined Benefit Pension Plan, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Restriction on Use

This information is intended solely for the information and use of the Board of Directors and management of the Dairy Council of California and is not intended to be, and should not be, used by anyone other than these specified parties.

Respectfully,

Mann, Urrutia, Nelson CPAs

Mann, Urrutia, Nelson, CPAs & Associates, LLP

**DAIRY COUNCIL OF CALIFORNIA
SUMMARY OF AUDIT ADJUSTMENTS
JUNE 30, 2022**

Description	Effect - Increase (Decrease)				
	Assets	Liabilities	Equity	Revenue	Expenses
<u>Current Year Differences</u>					
To adjust beginning balance as of July 1, 2021 for GASB 87 - Leases adoption	\$ 431,385	\$ 443,577	\$ (15,065)		
	\$ (90,238)	\$ (87,365)			
To record GASB 87 activity for the June 30, 2022 year end	\$ (94,388)	\$ (94,768)			\$ (111,688)
					\$ 94,388
					\$ 16,920
To record GASB 68 pension liability adjustments	\$ 1,371,064	\$ (2,485,097)			\$ (3,819,137)
		\$ 37,024			
Total Income Statement Effect			\$ 3,819,517	\$ -	\$ (3,819,517)
Balance Sheet Effect	\$ 1,617,823	\$ (2,186,629)	\$ 3,804,452		

**DAIRY COUNCIL OF CALIFORNIA
SUMMARY OF RESTATEMENT ENTRIES
JUNE 30, 2021**

Description	Effect - Increase (Decrease)				
	Assets	Liabilities	Equity	Revenue	Expenses
To adjust beginning balance as of July 1, 2020 for GASB 87 - Leases adoption	\$ 431,385	\$ 443,577	\$ (12,192)		
To record GASB 87 activity for the June 30, 2021 year end	\$ (90,238)	\$ (87,365)			\$ (108,435) \$ 90,238 \$ 21,070
Total Income Statement Effect			\$ (2,873)	\$ -	\$ 2,873
Balance Sheet Effect	\$ 341,147	\$ 356,212	\$ (15,065)		

Dairy Council of California
INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING
AGREED-UPON PROCEDURES
June 30, 2022

Mann, Urrutia, Nelson CPAs & Associates, LLP
1760 Creekside Oaks Drive, Suite 160
Sacramento, California 95833



INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

To the Board of Directors
Dairy Council of California

We have performed the procedures enumerated below on compliance with the California Department of Food & Agriculture (CFDA) *Accounting Guidelines and General Rules*, effective October 1, 2009 and amendments effective January 1, 2017, and California Beef Council's ("the Council") internal policies and procedures of the Council and the Board of Directors for the year ended June 30, 2022. The Council is responsible for complying with the CFDA's *Accounting Guidelines and General Rules*, effective October 1, 2009 and amendments effective January 1, 2017, and the Council's internal policies and procedures.

Dairy Council of California has agreed to and acknowledged that the procedures performed are appropriate to meet the intended purpose of meeting the requirements of the CFDA's *Accounting Guidelines and General Rules*, effective October 1, 2009 and amendments effective January 1, 2017. Additionally, the California Department of Food & Agriculture has agreed that the procedures performed (as specified in the Manual for Performing Agreed Upon Procedures for California Agricultural Marketing Programs) are appropriate for their purposes. This report may not be suitable for any other purpose. The procedures performed may not address all the items of interest to a user of this report and may not meet the needs of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes.

The procedures and associated findings are as follows:

1. Review the Council's compliance with the California Department of Food and Agriculture's (CDFA) *Accounting Guidelines and General Rules*, effective October 1, 2009 and amendments effective January 1, 2017 and the Council's internal policies and procedures, for the following accounts and transactions during the year ended June 30, 2022:
 - a. Accounts 5405, 5410, 5415, 5420, 6400, 6405, 6605 and 9400
 - b. Cash receipts
 - c. Employee use of Council - owned vehicles
 - d. Financial transactions between related entities
 - e. Contracts
2. Assess the Council's current internal control structure in relation to the CDFA *Accounting Guidelines and General Rules*, focusing on the following internal control transaction cycles as defined by CDFA:
 - a. General ledger and bank reconciliation oversight
 - b. Safety of property
 - c. Cash receipts
 - d. Cash disbursements
 - e. Documentation for travel, lodging, and meals expenses
 - f. Contracts

We were engaged by Dairy Council of California to perform this agreed-upon procedures engagement and conducted the engagement in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review engagement, the objective of which could be the expression of an opinion or conclusion, respectively, on the CFDA's *Accounting Guidelines and General Rules*, effective October 1, 2009 and amendments effective January 1, 2017, and the Council's internal policies and procedures. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

We are required to be independent of Dairy Council of California and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our agreed-upon procedures engagement.

Detailed results of our procedures and findings are described in Appendix "A" to this report.

This report is intended solely for the information and use of the California Department of Food and Agriculture, the Council's Board of Directors and management of the Council and is not intended to be and should not be used by anyone other than those specified parties.

Mann, Urrutia, Nelson CPAs

Sacramento, California
October 13, 2022

Appendix "A"
DAIRY COUNCIL OF CALIFORNIA

Details of Procedures Performed:

1. In order to review compliance with California Department of Food & Agriculture (CDFA) Accounting Guidelines and General Rules and the Council's internal policies and procedures for the period of July 1, 2021 - June 30, 2022:
 - a. We selected 40 transactions from general ledger accounts 5405, 5410, 5415, 5420, 6400, 6405, 6605 and 9400 for testing.
 - b. We selected 4 months of assessment revenue and corroborated the process for 1 check deposit during the fiscal year.
 - c. We determined whether the Council was properly reporting employee vehicle use and tax by:
 - i. Ensuring that employees using Council-owned vehicles followed the automobile policy as described in the Council's Operations Manual.
 - ii. Reviewing payroll documents to note reasonableness of any tax payments made.
 - d. We determined whether any inappropriate financial transactions were occurring between the Council and the related entities by:
 - i. Reviewing all financial transactions between the Council and related entities to determine whether they met the requirements under the CDFA *Accounting Guidelines and General Rules*. We then selected transactions for testing, if any.
 - e. No such contracts or transactions were noted.
2. In order to assess the Council's current internal control structure, we identified key controls of each cycle listed below and as described in the CDFA *Accounting Guidelines and General Rules* and compared the key controls to the Council's current internal control procedures as documented in the Council's Accounting Policies and Procedures Manual. We also performed a verification of each key control by selecting a sample item to confirm the process.
 - a. General ledger and bank reconciliation oversight
 - b. Safety of property
 - c. Cash receipts
 - d. Cash disbursements
 - e. Travel, lodging, and meals
 - f. Contracts

Results of Procedures Performed:

1. Transaction Testing:
 - a. accounts 5405, 5410, 5415, 5420, 6400, 6405, 6605 and 9400 :

Findings:
No findings noted.
 - b. **Other Cash Disbursements:**

Findings:
No findings noted.

Appendix "A" (continued)
DAIRY COUNCIL OF CALIFORNIA

c. Cash Receipts:

Findings:

No findings noted.

d. Vehicle use and tax:

Findings:

We noted no findings in relation to vehicle use and payroll tax reporting. We noted they were made in line with the *CDFR Accounting Guidelines and General Rules*.

e. Financial transactions between related entities:

Findings:

No findings noted.

f. Contracts:

Findings:

No findings noted.

2. Internal Control Findings and Recommendations:

a. General ledger and bank reconciliation oversight:

Findings:

No findings noted.

b. Safety of property:

Findings:

No findings noted.

c. Cash receipts:

Findings:

No findings noted.

d. Cash disbursements:

Findings:

Appendix "A" (continued)
DAIRY COUNCIL OF CALIFORNIA

No findings noted.

e. Documentation for staff travel and meeting expenses:

Findings:

No findings noted.

f. Contracts:

Finding:

No findings noted.



**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT
FOR THE YEARS ENDED
JUNE 30, 2022 AND 2021**

**MANN, URRUTIA, NELSON, CPAS & ASSOCIATES, LLP
1760 CREEKSIDE OAKS DRIVE, SUITE 160
SACRAMENTO, CALIFORNIA 95833**

**DAIRY COUNCIL OF CALIFORNIA
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JUNE 30, 2022 AND 2021**

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INDEPENDENT AUDITOR'S REPORT

To The Board of Directors of
Dairy Council of California

Opinions

We have audited the accompanying financial statements of Dairy Council of California (the Council), which comprise the statement of net position as of June 30, 2022, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Dairy Council of California as of June 30, 2022, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 Dairy Council of California and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Prior Period Financial Statements

The financial statements of Dairy Council of California as of June 30, 2021 were audited by other auditors whose report dated November 3, 2021 expressed an unmodified opinion on those statements.

Change in Accounting Principle

As described in Note 10 to the financial statements, in 2022, Dairy Council of California adopted new accounting guidance, GASB Statement No. 87, *Leases*. Our opinion is not modified with respect to this matter.

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 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 Dairy Council of California's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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 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 generally accepted 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 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, 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 Dairy Council of California'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 Dairy Council of California'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 audit.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 - 6, schedule of the Council's proportionate share of the net pension (asset) liability on page 26, schedule of contributions to the cost-sharing defined benefit pension plan on page 27, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Mann, Urvic, Nelson CPAs

Sacramento, California
October 31, 2022

**DAIRY COUNCIL OF CALIFORNIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2022 AND 2021**

INTRODUCTION

Management's Discussion and Analysis (MD&A) provides an overview and analysis of the financial activities of the Dairy Council of California (the Council) for the years ended June 30, 2022 and 2021. It has been prepared by management and is required supplementary information to the financial statements. Please read it in conjunction with the financial statements identified in the accompanying table of contents.

FINANCIAL HIGHLIGHTS

- The Council's 2022 assets exceeded its liabilities as of June 30, 2022 by \$8,856,906 (total net position). This amount increased \$3,535,611 or 72.9% from the prior year amount of \$5,121,295
- The large increase in assets was due to the favorable adjustment of \$3,819,137 to the net pension liability during the year ended June 30, 2022, due to a combination of the April 2022 \$1,000,000 paydown of the unfunded liability, as well as the CalPERS favorable investment portfolio impact.
- Of the total net position at the end of fiscal year 2022, net investment in capital assets decreased \$78,040 to \$978,837 or 7.4% from the prior year amount of \$1,056,877.
- Unrestricted net position at the end of fiscal year 2022 increased \$3,813,651 to \$7,878,069 or 93.8% from the prior year amount of \$4,064,418. This amount made up 88.9% of total net position.
- The Council's 2021 assets exceeded its liabilities as of June 30, 2021 by \$5,121,295 (total net position). This amount increased \$99,097 or 2.0% from the prior year amount of \$5,022,198.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

This MD&A is intended to serve as an introduction to the Council's financial report. The Council's financial report includes three basic financial statements: Statements of Net Position; Statements of Revenues, Expenses and Changes in Net Position; and Statements of Cash Flows. The Council's basic financial statements also include notes to the financial statements. Financial statements are designed to present a broad overview of the financial data for the Council, in a manner similar to a private-sector business.

The *Statements of Net Position* present information on all assets and liabilities of the Council, using the accrual basis of accounting, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of the current financial condition of the Council.

The *Statements of Revenues, Expenses and Changes in Net Position* present information showing how the Council's net position varied during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

The *Statements of Cash Flows* present changes in cash and cash equivalents resulting from operating, non-capital financing, capital financing and investing activities.

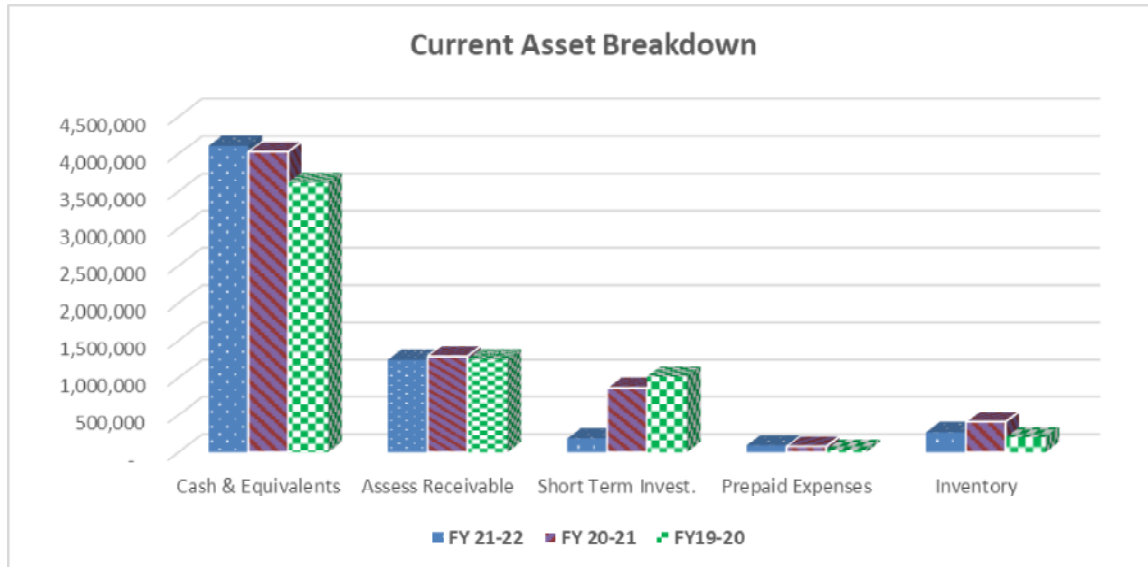
The notes to the basic financial statements provide additional information that is essential to a full understanding of the information provided in the financial statements.

FINANCIAL ANALYSIS

Comparative data for the prior years ended June 30, 2021, has been presented in the accompanying financial statements (including MD&A) to facilitate financial analysis for the current year ended June 30, 2022. A comparative analysis of fiscal year 2021 with fiscal year 2020 is also presented in the MD&A.

**DAIRY COUNCIL OF CALIFORNIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2022 AND 2021**

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Current assets	\$ 5,896,345	\$ 6,672,421	\$ 6,175,514
Noncurrent assets	<u>1,516,726</u>	<u>1,245,471</u>	<u>1,841,320</u>
Total assets	<u>7,413,071</u>	<u>7,917,892</u>	<u>8,016,834</u>
Deferred outflows of resources	<u>2,574,719</u>	<u>1,203,655</u>	<u>1,410,971</u>
Current liabilities	617,622	474,185	447,379
Non-current liabilities	<u>158,824</u>	<u>3,208,653</u>	<u>3,455,532</u>
Total liabilities	<u>776,446</u>	<u>3,682,838</u>	<u>3,902,911</u>
Deferred inflows of resources	<u>354,438</u>	<u>317,414</u>	<u>502,696</u>
Net assets:			
Net investment in capital assets	978,837	1,056,877	761,005
Unrestricted	<u>7,878,069</u>	<u>4,064,417</u>	<u>4,261,193</u>
Total net position	<u>\$ 8,856,906</u>	<u>\$ 5,121,294</u>	<u>\$ 5,022,198</u>



As noted earlier, net position may serve over time as a useful indicator of the Council's financial position. The largest portion (66%) of the Council's assets are current assets consisting primarily of cash and cash equivalents, investments, receivables, prepaid expenses and inventory.

Current assets at the end of fiscal year 2022 totaled \$5,896,345 decreasing \$776,077 from the prior year amount of \$6,672,422. This decrease is primarily due to the \$ 1 million cash paydown of the unfunded pension liability. Total current assets cover current liabilities 11.5 times, indicating excellent liquidity.

**DAIRY COUNCIL OF CALIFORNIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2022 AND 2021**

At the end of fiscal year 2021, the largest portion (76%) of the Council's assets were current assets consisting primarily of cash and cash equivalents, investments, receivables, prepaid expenses and inventory. Current assets at the end of fiscal year 2021 totaled \$6,672,422 increasing \$496,908 from the prior year amount of \$6,175,514. This increase was primarily due to a increase in cash and cash equivalents.

Liabilities at the end of fiscal year 2022 totaled - \$43,388, decreasing from a balance of \$3,326,627 in 2021 and decreasing from a balance of \$3,902,911 in 2020. The decrease in 2022 was primarily due to a decrease in the CalPERS unfunded liability. The Council's liabilities primarily consist of current liabilities including accounts payable, accrued liabilities and pension obligations.

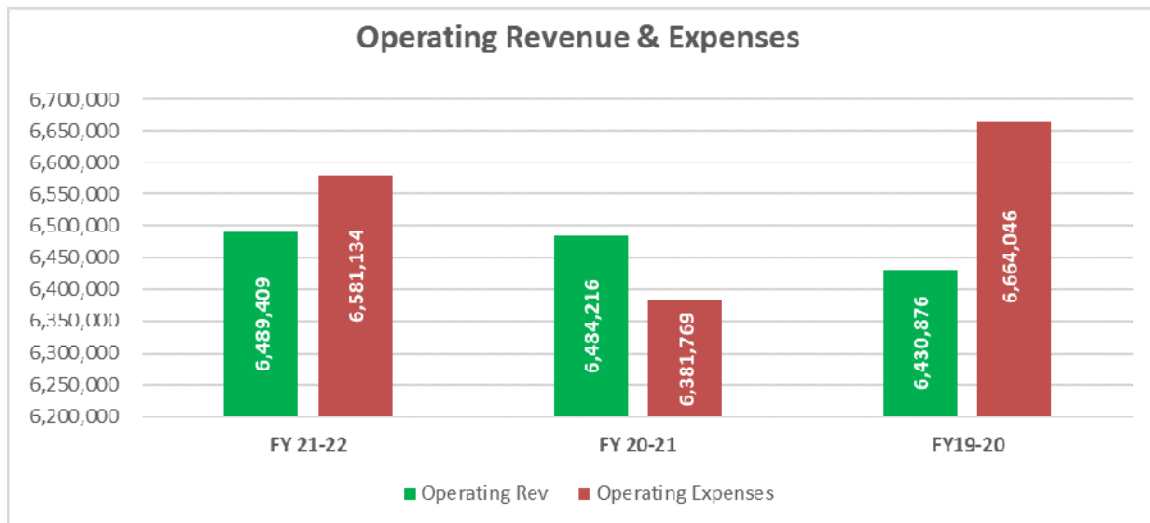
At the end of fiscal year 2022, net position invested in capital assets totaled \$978,837 as of June 30, 2022, decreasing \$78,040 from the prior year amount of \$1,056,877. This decrease is primarily due the capitalization of new assets, offset by depreciation. Net position invested in capital assets represent 11.1% of total net position.

Unrestricted net position available for future activities at the end of fiscal year 2022 totaled \$8,140,939, increasing \$3,720,309 from the prior year amount of \$4,420,630.

Unrestricted net position available for future activities totaled \$4,420,630 at the end of fiscal year 2021, increasing \$159,437 from the prior year amount of \$4,261,193.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Operating Revenues	\$ 6,489,409	\$ 6,484,215	\$ 6,430,876
Operating Expenses	<u>2,761,619</u>	<u>6,384,641</u>	<u>6,664,046</u>
Operating income (loss)	<u>3,727,790</u>	<u>99,574</u>	<u>(233,170)</u>
Non-operating revenues (expenses)	<u>7,821</u>	<u>11,715</u>	<u>115,003</u>
Change in net position	3,735,611	111,289	(118,167)
Net position - Beginning of Year	<u>5,121,295</u>	<u>5,010,006</u>	<u>5,128,173</u>
Net position - ending	<u>\$ 8,856,906</u>	<u>\$ 5,121,295</u>	<u>\$ 5,010,006</u>



**DAIRY COUNCIL OF CALIFORNIA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2022 AND 2021**

Operating revenues totaled \$6,489,409 in 2022, increasing only \$5,193 or .08% from \$6,484,216 earned in 2021. The majority of operating revenue consisted of assessment revenue totaling \$6,478,939 (99.8%). The remaining portion of \$10,470 (.2%) came from out of state sales of educational materials.

Operating expenses totaled \$2,761,619 in 2022, decreasing \$3,623,022 or 56.7% from \$6,384,641 in 2021. The primary reason for the decrease was a favorable \$3.8 million adjustment to the net pension liability during 2022, which resulted in a pension benefit recorded as part of the change in net position for 2022. This decrease was partially offset by increases in program costs and travel due to the easing of restrictions associated with the pandemic.

Operating revenues totaled \$6,484,216 in 2021, increasing \$53,340 from the \$6,430,876 earned in 2020. The majority of 2021 operating revenue consisted of assessment revenue totaling \$6,478,500 (99.9%). The remaining portion of \$5,715 (.1%) came from out of state sales of educational materials.

Operating expenses totaled \$6,381,769 in 2021, decreasing \$282,297 or 4.2% from \$6,664,046 in 2020. There were numerous factors contributing to this decrease, however, a reduction in freight and materials costs accounted for just over half of the decrease.

CAPITAL ASSETS

The Council's net investment in capital assets totaled \$978,837 as of June 30, 2022, decreasing \$78,040 from the prior year amount of \$1,056,877 (net of accumulated depreciation). As of June 30, 2021, the Council's investment totaled \$1,056,877, decreasing \$135,513 from the prior year amount of \$1,192,390. These fluctuations represent depreciation of capital assets used for program activities plus additions and deletions of capital assets during the fiscal year.

ACCRUED VACATION BENEFITS

At the end of fiscal year 2022, the Council accumulated an accrued vacation benefits balance of \$191,731, a decrease of \$18,534 from the prior year balance of \$210,265. The June 2021 balance showed a \$32,993 increase from the June 2020 balance of \$177,272.

FUTURE ECONOMIC CONDITIONS

Dairy Council of California continues to show financial consistency. Assessment revenues have remained virtually flat over the last three fiscal years, and expenses have remained relatively flat as well. Travel and in-person meeting related expenses are increasing due to the easing of the pandemic. A key strategy of the organization is the ability to meet with our target audiences. These meetings are now becoming in-person as well as virtual.

CONTACTING THE COUNCIL'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the Council's finances and to show the Council's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Dairy Council of California, 1418 N. Market Blvd., Suite 500, Sacramento, California 95834; attn: Michael Blote – Operations Officer.

**DAIRY COUNCIL OF CALIFORNIA
STATEMENTS OF NET POSITION
JUNE 30, 2022 AND 2021**

<u>ASSETS</u>	<u>2022</u>	<u>(Restated) 2021</u>
<u>CURRENT ASSETS</u>		
Cash and cash equivalents (Note 3)	\$ 4,109,345	\$ 4,025,960
Investments, current (Note 4)	185,064	866,647
Receivables:		
Assessments	1,240,936	1,288,887
Interest	3,758	8,807
Sales	-	185
Prepaid expenses	89,451	74,869
Inventories	<u>267,791</u>	<u>407,066</u>
Total Current Assets	<u>5,896,345</u>	<u>6,672,421</u>
<u>NON-CURRENT ASSETS</u>		
Investments, noncurrent (Note 4)	-	188,594
Net pension asset (Note 7)	537,889	-
Capital assets, net (Note 5)	<u>978,837</u>	<u>1,056,877</u>
Total Non- Current Assets	<u>1,516,726</u>	<u>1,245,471</u>
Total Assets	<u>7,413,071</u>	<u>7,917,892</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>		
Changes in the net pension (asset) liability (Note 7)	<u>2,574,719</u>	<u>1,203,655</u>
Total Deferred Outflows of Resources	<u>2,574,719</u>	<u>1,203,655</u>

The accompanying notes are an integral part of these financial statements.

**DAIRY COUNCIL OF CALIFORNIA
STATEMENTS OF NET POSITION
JUNE 30, 2022 AND 2021**

LIABILITIES AND NET POSITION

	<u>2022</u>	<u>(Restated) 2021</u>
<u>CURRENT LIABILITIES</u>		
Accounts payable and accrued liabilities	172,680	38,246
Accrued salaries, taxes and benefits	342,322	341,172
Lease payable, current portion (Note 6)	<u>102,620</u>	<u>94,767</u>
Total Current Liabilities	<u>617,622</u>	<u>474,185</u>
<u>NON-CURRENT LIABILITIES</u>		
Net pension liability (Note 7)	-	2,947,208
Lease payable, net of current portion (Note 6)	<u>158,824</u>	<u>261,445</u>
Total Non-Current Liabilities	<u>158,824</u>	<u>3,208,653</u>
Total Liabilities	<u>776,446</u>	<u>3,682,838</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>		
Changes in the net pension (asset) liability (Note 7)	<u>354,438</u>	<u>317,414</u>
Total Deferred Inflows of Resources	<u>354,438</u>	<u>317,414</u>
<u>NET POSITION</u>		
Net investment in capital assets	978,837	1,056,877
Unrestricted	<u>7,878,069</u>	<u>4,064,418</u>
Total Net Position	<u>\$ 8,856,906</u>	<u>\$ 5,121,295</u>

The accompanying notes are an integral part of these financial statements.

**DAIRY COUNCIL OF CALIFORNIA
STATEMENTS OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021**

	2022	(Restated) 2021
<u>OPERATING REVENUES</u>		
Assessments	\$ 6,478,939	\$ 6,478,500
Sales of educational material	10,470	5,715
Total Operating Revenues	6,489,409	6,484,215
<u>OPERATING EXPENSES</u>		
Program services	1,770,278	5,478,854
Industry relations	37,604	33,459
Administration	953,737	872,328
Total Operating Expenses	2,761,619	6,384,641
Net Operating Income	3,727,790	99,574
<u>NON-OPERATING REVENUES (EXPENSES)</u>		
Investment income, net	7,821	21,585
Loss on disposal of capital assets	-	(9,870)
Total Non-Operating Revenues (Expenses)	7,821	11,715
Increase in Net Position	3,735,611	111,289
Net Position - Beginning of Year	5,121,295	5,010,006
Net Position - End of Year	\$ 8,856,906	\$ 5,121,295

The accompanying notes are an integral part of these financial statements.

**DAIRY COUNCIL OF CALIFORNIA
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021**

	<u>2022</u>	<u>(Restated) 2021</u>
<u>Cash flows from operating activities:</u>		
Cash received from producers and processors	\$ 6,537,545	\$ 6,440,988
Cash payments to suppliers for goods and services	(1,466,872)	(1,737,636)
Cash payments to employees for services	<u>(5,680,722)</u>	<u>(4,591,167)</u>
Net cash (used for) provided by operating activities	<u>(610,049)</u>	<u>112,185</u>
<u>Cash flows from capital and related financing activities:</u>		
Purchases of capital assets	(189,613)	(123,023)
Repayment of Paycheck Protection Program loan	<u>-</u>	<u>(698,092)</u>
Net cash used for capital and related financing activities	<u>(189,613)</u>	<u>(821,115)</u>
<u>Cash flows from investing activities:</u>		
Proceeds from sales of investments	870,177	1,011,000
Investment income	<u>12,870</u>	<u>49,670</u>
Net cash provided by investing activities	<u>883,047</u>	<u>1,060,670</u>
Net increase in cash and cash equivalents	83,385	351,740
Cash and cash equivalents at beginning of the year	<u>4,025,960</u>	<u>3,674,220</u>
Cash and cash equivalents at end of year	<u>\$ 4,109,345</u>	<u>\$ 4,025,960</u>

The accompanying notes are an integral part of these financial statements.

**DAIRY COUNCIL OF CALIFORNIA
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021**

	2022	(Restated) 2021
Reconciliation of net operating income to net cash (used for) provided by operating activities:		
Operating Income	\$ 3,727,790	\$ 99,574
Adjustments to reconcile net operating income to net cash (used for) provided by operating activities:		
Depreciation	267,653	248,666
Changes in:		
Accounts receivable	47,951	(43,043)
Sales receivable	185	(185)
Prepaid expenses	(14,582)	(44,500)
Inventories	139,275	(207,632)
Deposits	-	2,828
Accounts payable	39,666	(166,377)
Accrued salaries, taxes, and benefits	1,150	11,052
Net pension liability and related deferrals	(4,819,137)	211,802
Net cash (used for) provided by operating activities	\$ (610,049)	\$ 112,185

The accompanying notes are an integral part of these financial statements.

**DAIRY COUNCIL OF CALIFORNIA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021**

NOTE 1: ORGANIZATION

The Dairy Council of California (Council) is an instrumentality of the State of California operating within the authority of the Dairy Council of California Law (1962). The Council's activities are regulated by the Bureau of Marketing and State Department of Food and Agriculture. The purpose of the Council is to enable the dairy industry, with the aid of the State of California, to develop, maintain, and expand the markets for dairy products, which are produced, processed, or manufactured in the state, and the use and consumption of such dairy products within. The Council's statewide education and nutrition communications programs are financed by funds collected from the California dairy industry by the California Department of Food and Agriculture (CDFA).

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements of the Council have been prepared in conformity with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The Council operates as an enterprise activity. An enterprise fund accounts for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the Board of Directors is that the costs (expenses, including depreciation) of providing services to the industry on a continuing basis be financed or recovered primarily through assessment revenues.

Enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating revenue of the Council are assessment revenues. Operating expenses for enterprise funds include the cost of marketing programs, production research, industry affairs and administrative expenses, including depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Enterprise funds are accounted for using the economic resources measurement focus and the accrual basis of accounting, whereby revenues are recognized when earned, and expenses are recognized when incurred, regardless of the timing of related cash flows.

When both restricted and unrestricted resources are available for use, it is the Council's policy to use restricted resources first, then unrestricted resources as they are needed.

Net Position

Net position is classified as net investment in capital assets, restricted net position, and unrestricted net position.

Net investment in capital assets - Net investment in capital assets of \$978,837 and \$1,056,877 at June 30, 2022 and 2021, respectively, represents investments in all capital assets (furniture, fixtures, equipment, trucks and trailers, and software in process), net of accumulated depreciation.

Restricted net position - Restricted net position represents net position, subject to externally imposed restrictions that can be fulfilled by the actions of the Council pursuant to those restrictions. The Council did not have restricted net position at June 30, 2022 and 2021.

Unrestricted net position - Unrestricted net position represents the net position of the Council not externally restricted for any project of other purpose.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include investments purchased with an initial maturity of three months or less.

**DAIRY COUNCIL OF CALIFORNIA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021**

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (continued)

Assessment Revenues

The Council is funded through mandatory assessments on dairy producers and processors of milk. Assessments fees are calculated based on the pounds of milk reported by dairy producers to the California Department of Food and Agriculture (CDFA). Annually, the Council's Board of Directors recommends an assessment rate on milk used in Class 1 and all other usages at its June board meeting. The assessment rate is approved by the CDFA in accordance with the Dairy Council of California Law. The rate is set to meet the budget requirement for the next fiscal year. The assessment rates were \$0.0140 per hundredweight for Class 1, and \$0.0070 per hundredweight for All Other usages for both of the years ended June 30, 2022 and 2021, respectively.

Assessment Receivable

Assessments receivable are stated at the amount management expects to collect from outstanding balances after allowances for discounts, returns, and bad debts, taking into account creditworthiness of customers and history of collection. Management provides for probable uncollectible amounts through a charge to earnings and an increase to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a reduction to accounts receivable. There was no allowance for doubtful accounts for assessments receivable at both June 30, 2022 and 2021, respectively.

Inventories

Inventories, which consist primarily of printed material used in educational programs, are valued at the lower of cost or market. Cost is determined by using the average cost method.

Capital Assets

Capital assets are recorded at cost, when the cost is \$2,000 or greater with a useful life greater than one year, net of accumulated depreciation. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives ranging from three to ten years, on a straight-line basis.

Compensated Absences

Council employees are granted vacation in varying amounts with maximum accumulations of 320 hours depending on the length of service. Vacation accrues each pay period based on length of service with the Council. Accumulated unpaid employee vacation benefits are recognized as liabilities of the Council. The amount of accumulated vacation benefits at June 30, 2022 and 2021 was \$191,731 and \$210,265, respectively and are included in accrued salaries, taxes, and benefits on the accompanying statements of net position.

The employees do not have a vested right to accumulated sick leave. For this reason, the Council does not accrue a liability for accumulated sick leave benefits. Sick leave benefits are recorded as expenses in the period sick leave is taken.

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position, or balance sheet, will sometimes report a section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until then.

In addition to liabilities, the Statement of Net Position, or balance sheet, will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

**DAIRY COUNCIL OF CALIFORNIA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021**

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (continued)

Net Pension (Asset) Liability

For purposes of measuring the net pension (asset) liability, deferred outflows and inflows of resources related to pensions, and pension expense, information about the fiduciary net position and additions to/deductions from the fiduciary net position have been determined on the same basis as they are reported by the California Public Employees' Retirement System (CalPERS) Financial Office. For this purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value by CalPERS and not reported by the Council. CalPERS audited financial statements are publicly available reports that can be obtained at CalPERS' website under Forms and Publications).

Reclassifications

Certain reclassifications have been made to the prior year amounts in order to be consistent with the current year's presentation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Recently Adopted Accounting Pronouncements

Government Accounting Standards Board Statement No. 87

In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right to use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The Council adopted the accounting guidance for its June 30, 2022 year-end.

**DAIRY COUNCIL OF CALIFORNIA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021**

NOTE 3: CASH AND CASH EQUIVALENTS

Cash and cash equivalents consisted of the following at June 30:

Cash and cash equivalents	<u>2022</u>	<u>2021</u>
Local Agency Investment Fund	\$ 2,792,382	\$ 2,784,607
U.S. Bank checking	444,892	624,899
U.S. Ban depository	484,768	254,381
Charles Schwab deposit	<u>387,303</u>	<u>362,073</u>
Total cash and cash equivalents	<u>\$ 4,109,345</u>	<u>\$ 4,025,960</u>

Custodial risk for deposits is the risk that in the event of a bank failure, the Council's deposits may not be returned. At times during the years ended June 30, 2022 and 2021, funds on deposit at financial institutions may exceed insurance limits. Cash balances held in banks are insured up to \$250,000 per institution by the Federal Deposit Insurance Corporation (FDIC). Additionally, the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. The Council has not experienced any losses and the risk of loss is not significant. The Council does not have a custodial credit risk policy.

NOTE 4: INVESTMENTS

The Council maintained the following investments at June 30:

	<u>June 30, 2022</u>	<u>June 30, 2021</u>
Certificates of deposit, interest rates from 1.80% to 3.25%	<u>\$ 185,064</u>	<u>\$ 1,055,241</u>

Certificates of deposit are classified by maturity dates as follows:

	<u>June 30, 2022</u>	<u>June 30, 2021</u>
Current	\$ 185,064	\$ 866,647
Long-term	<u>-</u>	<u>188,594</u>
	<u>\$ 185,064</u>	<u>\$ 1,055,241</u>

Investment Income

Net investment income was \$7,821 and \$21,585 for the years ended June 30, 2022 and 2021, respectively, and is comprised of interest, dividends, realized and unrealized gains and losses due to changes in the fair value of investments held at year-end, net of investment fees.

**DAIRY COUNCIL OF CALIFORNIA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021**

NOTE 4: INVESTMENTS (continued)

Investment Policy

The Council's Investment policy, which has been approved by the Board of Directors, allows for funds that are not required for immediate operating needs be invested in instruments outlined in California Government Code 16430. The Council's Investment policy as well as California Government Code specifies the following as eligible securities:

Authorized Investment Types

- California Local Agency Investment Fund (LAIF)
- Bonds of the United States Government
- Bonds guaranteed by the United States Government
- Bond of the State of California
- Commercial Paper
- Banker' Acceptance
- Negotiable certificates of deposit insured by the FDIC
- Bank loans guaranteed by the U.S. Small Business Administration, U.S. Farmers Hope Administration, Export-Import Bank
- Student loan notes insured under the Guarantee Student Loan Program

Credit Risk

Credit risk is the risk that an issuer or other counterparty to a debt instrument will not fulfill its obligations to the holder of the investment. This is measured by the assignment of ratings by nationally recognized statistical rating organizations. The certificates of deposit included in investments in the accompanying financial statements were not rated as of June 30, 2022 and 2021.

Local Agency Investment Fund (LAIF)

The Council is a voluntary participant in LAIF which is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. LAIF balances have been classified as cash and cash equivalents on the statements of net position. Separate complete financial statements are available at P.O. Box 942809, Sacramento, CA 94209-0001.

**DAIRY COUNCIL OF CALIFORNIA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021**

NOTE 4: INVESTMENTS (continued)

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Council limits its exposure interest rate risk by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the Council's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the Council's investments by maturity as of June 30, 2022 and 2021:

<u>June 30, 2022 - Investment Type</u>	<u>Remaining Maturity</u>			<u>Fair Value</u>
	<u>3 months or less</u>	<u>3 - 12 months</u>	<u>1 year or more</u>	
Certificates of deposit	\$ 185,064	\$ -	\$ -	\$ 185,064
Total Investments	<u>\$ 185,064</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 185,064</u>

<u>June 30, 2021 - Investment Type</u>	<u>Remaining Maturity</u>			<u>Fair Value</u>
	<u>3 months or less</u>	<u>3 - 12 months</u>	<u>1 year or more</u>	
Certificates of deposit	\$ 280,837	\$ 585,810	\$ 188,594	\$ 1,055,241
Total Investments	<u>\$ 280,837</u>	<u>\$ 585,810</u>	<u>\$ 188,594</u>	<u>\$ 1,055,241</u>

Concentration of Credit Risk

The Council has invested in the following issuers that represent 5% or more of total investments as of June 30:

<u>Issuers</u>	<u>June 30, 2022</u>	<u>June 30, 2021</u>
Ally Bank	54%	10%
Capital One Bank	46%	8%
Citibank, N.A.	NA	10%
Goldman Sachs	NA	17%
Morgan Stanley Bank	NA	24%
Sallie Mae	NA	9%
Synchrony Bank	NA	23%

**DAIRY COUNCIL OF CALIFORNIA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021**

NOTE 5: CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2022 was as follows:

	<u>July 1, 2021</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>June 30, 2022</u>
Capital assets not being depreciated:					
Software-In-Progress	\$ 120,209	\$ 71,383	\$ -	\$ (120,209)	\$ 71,383
Capital assets being depreciated:					
Furniture, fixtures and equipment	292,886	29,240	-	-	322,126
Trucks and trailers	601,657	10,823	-	-	612,480
Software	653,905	78,167	-	120,209	852,281
Lease right of use asset	431,385	-	-	-	431,385
Total capital assets being depreciated	<u>1,979,833</u>	<u>118,230</u>	<u>-</u>	<u>120,209</u>	<u>2,218,272</u>
Total capital assets	<u>2,100,042</u>	<u>189,613</u>	<u>-</u>	<u>-</u>	<u>2,289,655</u>
Less accumulated depreciation:					
Furniture, fixtures, and equipment	(282,575)	(7,479)	-	-	(290,054)
Truck and trailers	(537,550)	(25,631)	-	-	(563,181)
Software	(132,802)	(140,155)	-	-	(272,957)
Lease right of use asset	(90,238)	(94,388)	-	-	(184,626)
Total accumulated depreciation	<u>(1,043,165)</u>	<u>(267,653)</u>	<u>-</u>	<u>-</u>	<u>(1,310,818)</u>
Total capital assets, net	<u>\$ 1,056,877</u>	<u>\$ (78,040)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 978,837</u>

Depreciation expense for the year ended June 30, 2022 totaled \$267,653.

Capital assets activity for the year ended June 30, 2021 was as follows:

	<u>July 1, 2020</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>June 30, 2021</u>
Capital assets not being depreciated:					
Software-In-Progress	\$ 11,305	\$ 111,331	\$ -	\$ (2,427)	\$ 120,209
Capital assets being depreciated:					
Furniture, fixtures and equipment	310,534	3,954	(21,602)	-	292,886
Trucks and trailers	593,919	7,738	-	-	601,657
Software	651,478	-	-	2,427	653,905
Lease right of use asset	431,385	-	-	-	431,385
Total capital assets being depreciated	<u>1,987,316</u>	<u>11,692</u>	<u>(21,602)</u>	<u>2,427</u>	<u>1,979,833</u>
Total capital assets	<u>1,998,621</u>	<u>123,023</u>	<u>(21,602)</u>	<u>-</u>	<u>2,100,042</u>
Less accumulated depreciation:					
Furniture, fixtures, and equipment	(280,707)	(13,600)	11,732	-	(282,575)
Truck and trailers	(501,706)	(35,844)	-	-	(537,550)
Software	(23,818)	(108,984)	-	-	(132,802)
Lease right of use asset	-	(90,238)	-	-	(90,238)
Total accumulated depreciation	<u>(806,231)</u>	<u>(248,666)</u>	<u>11,732</u>	<u>-</u>	<u>(1,043,165)</u>
Total capital assets, net	<u>\$ 1,192,390</u>	<u>\$ (125,643)</u>	<u>\$ (9,870)</u>	<u>\$ -</u>	<u>\$ 1,056,877</u>

Depreciation expense for the year ended June 30, 2021 totaled \$248,666.

**DAIRY COUNCIL OF CALIFORNIA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021**

NOTE 6: LEASES

Lease agreements are summarized as follows:

<u>Description</u>	<u>Date</u>	<u>Payment Terms</u>	<u>Payment Amount</u>	<u>Interest Rate</u>	<u>Total Lease Liability</u>	<u>Balance at June 30, 2022</u>
Office space	November 2019	61 months	\$8,859 - \$10,270 per month	4.75%	\$482,664	\$ 261,444

Facilities for one office space and a distribution center are being leased under a non-cancellable lease. The lease rental is adjusted annually based on either the increase in the landlord's operating expenses or the consumer price index. The lease also requires additional monthly maintenance charges. The lease is subject to a contingency that the Council continues its operations. In the event of a termination, suspension or discontinuance of the operations of the Council by operation of law or by order the Secretary of Agriculture, the Council has the option to terminate the lease with a minimum of two months prior written notice of the termination date.

Annual requirements to amortize the lease liability and related interest are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2023	\$ 102,620	\$ 12,419
2024	110,945	7,544
2025	<u>47,879</u>	<u>2,274</u>
	<u>\$ 261,444</u>	<u>\$ 22,237</u>

NOTE 7: DEFINED BENEFIT PENSION PLAN

Plan Description

The Council participates in a a Public Agency Cost-Sharing Multiple-Employer Defined Benefit Pension Plan (Plan), administered by the California Public Employees' Retirement System (CalPERS). All qualified half-time or full-time employees of the Council are eligible to participate. The Plan consists of individual rate plans (benefit tiers) within a safety risk pool (police and fire) and a miscellaneous risk pool (all others). Plan assets may be used to pay benefits for any employer rate plan of the safety and miscellaneous pools. Accordingly, rate plans within the safety and miscellaneous pools are not separate plans under GASB Statement No. 68. Individual employers may sponsor more than one rate plan in the safety or miscellaneous pools. The Council sponsors two rate plans (both miscellaneous). Benefit provisions under the Plan are established by State statute and Council resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits.

**DAIRY COUNCIL OF CALIFORNIA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021**

NOTE 7: DEFINED BENEFIT PENSION PLAN (continued)

The Council has one local Miscellaneous Retirement Benefit Plan, with two tiers. Tier I benefits for members hired before January 1, 2013 are under the 2.5% @ age 55 retirement formula, and Tier II (PEPRA) benefits for members hired on or after January 1, 2013 are under the 2.0% @ age 62 retirement formula. Tier I plan members are required to contribute 7.00% of their annual covered salary, and the Council is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. Tier II plan members are required to contribute 6.75% of their annual covered salary, and the employer contributes 8.17% on behalf of members.

The Plan's provisions and benefits in effect at June 30, 2022, are summarized as follows:

Hire Date	Miscellaneous Plan			
	Tier I Prior to January 1, 2013		Tier II (PEPRA) January 1, 2013 or later	
Benefit Formula	2.5% @ 55		2.0% @ 62	
Benefit Vesting Schedule	5 years service		5 years service	
Benefit Payments	monthly for life		monthly for life	
Retirement Age	50 - 63		52 - 67	
Monthly Benefits, as a % of Eligible Compensation	2.5%		2.0%	
Required Employee Contribution Rates	7.00%		6.750%	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Required Employer Contribution Rates *	21.800%	20.894%	8.170%	8.700%

*The employer contribution rate includes the employer's normal cost rate and unfunded accrued liability.

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Council is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The Council's contributions to the Plan for the years ended June 30, 2022 and 2021 were \$1,803,678 and \$804,684, respectively.

Pension (Asset) Liabilities, Pension Expense, and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2022 and 2021, the Council reported a net pension (asset) liability of \$(537,889) and 2,947,208, respectively, for its proportionate share of the net pension liability of the Plan.

The Council's net pension (asset) liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2021 and 2020, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2020 and 2019 rolled forward to June 30, 2021 and 2020 using standard update procedures. The Council's proportion of the net pension liability was based on a projection of the Council's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The Council's proportionate share of the net pension liability for the Plan as of June 30, 2021 and 2020 was as follows:

Proportion - June 30, 2020	0.02709 %
Proportion - June 30, 2021	<u>(0.00995)%</u>
Change - Increase (Decrease)	<u><u>(0.03704)%</u></u>

**DAIRY COUNCIL OF CALIFORNIA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021**

NOTE 7: DEFINED BENEFIT PENSION PLAN (continued)

Proportion - June 30, 2019	0.02691 %
Proportion - June 30, 2020	<u>0.02709 %</u>
Change - Increase (Decrease)	<u>0.00018 %</u>

For the years ended June 30, 2022 and 2021, the Council recognized pension expense (benefit) in the amount of \$(3,016,255) and \$1,016,486, respectively.

At June 30, 2022 and 2021, the Council reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

June 30, 2022	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to the measurement date	\$ 1,803,678	\$ -
Differences between expected and actual experiences	-	60,318
Difference between actual contributions made by the employer and the employer's proportionate share of the risk pool's total contribution	-	281,394
Changes in assumptions	-	-
Adjustment due to differences in proportions	301,493	12,726
Net differences between projected and actual earnings on plan investments	<u>469,548</u>	<u>-</u>
Total	<u>\$ 2,574,719</u>	<u>\$ 354,438</u>

June 30, 2021	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to the measurement date	\$ 804,684	\$ -
Differences between expected and actual experiences	151,878	-
Difference between actual contributions made by the employer and the employer's proportionate share of the risk pool's total contribution	-	267,760
Changes in assumptions	-	21,021
Adjustment due to differences in proportions	159,542	28,633
Net differences between projected and actual earnings on plan investments	<u>87,551</u>	<u>-</u>
Total	<u>\$ 1,203,655</u>	<u>\$ 317,414</u>

**DAIRY COUNCIL OF CALIFORNIA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021**

NOTE 7: DEFINED BENEFIT PENSION PLAN (continued)

\$1,803,678 and \$804,684 reported as deferred outflows of resources related to contributions subsequent to the measurement date for the years ended June 30, 2022 and 2021, respectively, will be recognized as a reduction of the net pension (asset) liability in the years ending June 30, 2023 and 2022, respectively. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows as of:

June 30, 2022:

Measurement period ended June 30:			
2022	\$	50,876	
2023	\$	102,862	
2024	\$	133,106	
2025	\$	129,759	

June 30, 2021:

Measurement period ended June 30:			
2021	\$	2,715	
2022	\$	3,944	
2023	\$	32,907	
2024	\$	41,991	

Actuarial Assumptions

The total pension liabilities in the June 30, 2021, and 2020 actuarial valuations were determined using the following actuarial assumptions:

	Fiscal Year 2021	Fiscal Year 2020
Valuation Date	June 30, 2020	June 30, 2019
Measurement Date	June 30, 2021	June 30, 2020
Actuarial Cost Method	Entry-Age Normal Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:		
Discount Rate	7.15%	7.15%
Inflation	2.50%	2.50%
Salary Increases	Varies by Entry Age and Service	Varies by Entry Age and Service
Mortality (1)	Derived using CalPERS membership data for all funds	Derived using CalPERS membership data for all funds
Post Retirement Benefit Increase	Contract COLA up to 2.50% until purchasing power protection allowance floor on purchasing power applies, 2.50% thereafter	Contract COLA up to 2.50% until purchasing power protection allowance floor on purchasing power applies, 2.50% thereafter

(1) The mortality table used was developed based on CalPERS' specific data. The probabilities of mortality are based on the 2017 CalPERS Experience Study for the period from 1997 to 2015. Pre-retirement and Post-retirement mortality tables include 15 years of projected mortality improvement using 90% of Scale MP-2016 published by the Society of Actuaries. For more details on this table, please refer to the CalPERS Experience Study and Review of Actuarial Assumptions report from December 2017 that can be found on the CalPERS website.

Changes in Assumptions

For the measurement period ending June 30, 2021 and 2020, there were no changes of assumptions.

**DAIRY COUNCIL OF CALIFORNIA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021**

NOTE 7: DEFINED BENEFIT PENSION PLAN (continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.15 percent. To determine whether the municipal bond rate should be used in the calculation of the discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. The tests revealed the assets would not run out. Therefore, the current 7.15 percent discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.15 percent is applied to all plans in the Public Employees' Retirement Fund (PERF). The cash flows used in the testing were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS website under the GASB 68 section.

Long-term Expected Rate of Return

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund (Public Employee's Retirement Fund) cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The expected real rates of return by asset class are as follows:

2021:

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1-10 (a)</u>	<u>Real Return Years 11+ (b)</u>
Global Equity	50.0%	4.80%	5.98%
Fixed Income	28.0%	1.00%	2.62%
Inflation Assets	0.0%	0.77%	1.81%
Private Equity	8.0%	6.30%	7.23%
Real Assets	13.0%	3.75%	4.93%
Liquidity	1.0%	0.00%	(0.92%)

(a) An expected inflation of 2.00% used for this period

(b) An expected inflation of 2.92% used for this period

**DAIRY COUNCIL OF CALIFORNIA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021**

NOTE 7: DEFINED BENEFIT PENSION PLAN (continued)

2020:

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1-10 (a)</u>	<u>Real Return Years 11+ (b)</u>
Global Equity	50.0%	4.80%	5.98%
Fixed Income	28.0%	1.00%	2.62%
Inflation Assets	0.0%	0.77%	1.81%
Private Equity	8.0%	6.30%	7.23%
Real Assets	13.0%	3.75%	4.93%
Liquidity	1.0%	0.00%	(0.92%)

(a) An expected inflation of 2.00% used for this period

(b) An expected inflation of 2.92% used for this period

Sensitivity of the Proportionate Share of the Net Pension (Asset) Liability to Changes in the Discount Rate

The following presents the Council's proportionate share of the net pension (asset) liability for the Plan, calculated using the discount rate for the Plan, as well as what the Council's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

<u>Net Pension Liability (Asset)</u>	<u>June 30, 2022</u>		
	<u>Discount Rate -1% (6.15%)</u>	<u>Current Discount Rate (7.15%)</u>	<u>Discount Rate +1% (8.15%)</u>
Miscellaneous Plan	\$ 2,883,566	\$ (537,889)	\$ (3,366,356)

<u>Net Pension Liability (Asset)</u>	<u>June 30, 2021</u>		
	<u>Discount Rate -1% (6.15%)</u>	<u>Current Discount Rate (7.15%)</u>	<u>Discount Rate +1% (8.15%)</u>
Miscellaneous Plan	\$ 6,201,024	\$ 2,947,208	\$ 258,683

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

NOTE 8: RISK MANAGEMENT

The Council is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Council purchased insurance coverage for commercial property, commercial general liability, commercial auto, fiduciary liability, directors and officers liability, employment practices liability, umbrella coverage, workers compensation, and employee dishonesty.

**DAIRY COUNCIL OF CALIFORNIA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021**

NOTE 9: MANAGEMENT'S REVIEW OF SUBSEQUENT EVENTS

The Council has evaluated subsequent events through the date of this report, which is October 31, 2022, the date on which the financial statements were available for issuance. Management has determined no subsequent events requiring disclosure have occurred.

NOTE 10: CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FINANCIAL STATEMENTS

During the fiscal year ending June 30, 2022, the Council adopted Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*. These changes were incorporated in the Council's financial statements and required a restatement for all prior-periods presented.

The effects of the adoption resulted in a restatement of the June 30, 2021 Statement of Net Position as follows:

	<u>As Previously Reported</u>	<u>Restatement Adjustments</u>	<u>Restated</u>
Capital assets, net	\$ 715,730	\$ 341,147	\$ 1,056,877
All other assets	<u>6,861,015</u>	<u>-</u>	<u>6,861,015</u>
Total Assets	<u>7,576,745</u>	<u>341,147</u>	<u>7,917,892</u>
Deferred Outflows	<u>1,203,655</u>	<u>-</u>	<u>1,203,655</u>
Total Liabilities	<u>3,326,626</u>	<u>356,212</u>	<u>3,682,838</u>
Deferred Inflows	<u>317,414</u>	<u>-</u>	<u>317,414</u>
Ending Net Position	<u>\$ 5,136,360</u>	<u>\$ (15,065)</u>	<u>\$ 5,121,295</u>

The effects of the adoption resulted in a restatement of the June 30, 2021 Statement of Revenues, Expenses and Changes in Net Position as follows:

	<u>As Previously Reported</u>	<u>Restatement Adjustments</u>	<u>Restated</u>
Operating Revenues	\$ 6,484,215	\$ -	\$ 6,484,215
Operating Expenses	<u>6,381,768</u>	<u>2,873</u>	<u>6,384,641</u>
Net Operating Income (Loss)	<u>102,447</u>	<u>(2,873)</u>	<u>99,574</u>
Non-Operating Revenues (Expenses)	<u>11,715</u>	<u>-</u>	<u>11,715</u>
Increase (Decrease) in Net Position	114,162	(2,873)	111,289
Net Position - Beginning of Year	<u>5,022,198</u>	<u>(12,192)</u>	<u>5,010,006</u>
Net Position - End of Year	<u>\$ 5,136,360</u>	<u>\$ (15,065)</u>	<u>\$ 5,121,295</u>

REQUIRED SUPPLEMENTARY INFORMATION

**DAIRY COUNCIL OF CALIFORNIA
REQUIRED SUPPLEMENTARY INFORMATION**

**SCHEDULE OF THE COUNCIL'S PROPORTIONATE SHARE OF THE NET PENSION (ASSET) LIABILITY
AS OF JUNE 30, 2022 (MEASUREMENT DATE)
LAST 10 YEARS***

	Measurement Period							
	2021	2020	2019	2018	2017	2016	2015	2014
Proportion of the net pension (asset) liability	(0.00995)%	0.02709 %	0.02691 %	0.02771 %	0.02875 %	0.02619 %	0.01571 %	0.01654 %
Proportionate share of the net pension (asset) liability	\$ (537,889)	\$ 2,947,208	\$ 2,757,440	\$ 2,670,279	\$ 2,851,515	\$ 2,266,588	\$ 1,078,105	\$ 1,029,440
Covered payroll	\$ 3,180,998	\$ 3,222,011	\$ 2,895,546	\$ 2,901,029	\$ 2,637,806	\$ 2,855,755	\$ 2,808,831	\$ 2,882,833
Proportionate share of the net pension liability as a percentage of covered payroll	(16.91)%	91.47 %	95.23 %	92.05 %	108.10 %	79.37 %	38.38 %	35.71 %
Plan fiduciary net position as a percentage of the total pension liability	88.30 %	75.10 %	75.26 %	75.26 %	73.31 %	74.06 %	78.40 %	94.08 %

Notes to Schedule

Changes in Assumptions - In 2020 and 2019, there were no changes in assumptions. In 2018, the demographic assumptions and inflation rate were changed in accordance to the CalPERS Experience Study and Review of Actuarial Assumptions December 2017. In 2017, the accounting discount rate was lowered from 7.65 percent to 7.15 percent. In 2016, there were no changes. In 2015, amounts reported reflect an adjustment of the discount rate from 7.5 percent (net of administrative expense) to 7.65 percent (without a reduction for pension plan administrative expense).

* Fiscal year 2015 was the 1st year of implementation, therefore only eight years are shown.

**DAIRY COUNCIL OF CALIFORNIA
REQUIRED SUPPLEMENTARY INFORMATION**

**SCHEDULE OF CONTRIBUTIONS TO THE COST-SHARING DEFINED BENEFIT PENSION PLAN
AS OF JUNE 30, 2022
LAST 10 YEARS***

	Fiscal Year-End							
	2022	2021	2020	2019	2018	2017	2016	2015
Contractually required contribution (actuarially determined)	\$ 519,369	\$ 535,669	\$ 475,664	\$ 380,467	\$ 340,415	\$ 312,849	\$ 321,597	\$ 218,228
Contributions in relation to the actuarially determined contributions	<u>1,803,678</u>	<u>804,684</u>	<u>782,908</u>	<u>739,073</u>	<u>340,415</u>	<u>312,849</u>	<u>321,597</u>	<u>218,228</u>
Contribution deficiency (excess)	<u>\$ (1,284,309)</u>	<u>\$ (269,015)</u>	<u>\$ (307,244)</u>	<u>\$ (358,606)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 3,251,680	\$ 3,180,998	\$ 3,222,001	\$ 2,895,546	\$ 2,901,029	\$ 2,637,806	\$ 2,855,755	\$ 2,808,831
Contributions as a percentage of covered payroll	55.47 %	25.30 %	24.30 %	25.52 %	11.73 %	11.86 %	11.26 %	7.77 %

* Fiscal year 2015 was the 1st year of implementation, therefore only eight years are shown.