

**UTAH DAIRY COMMISSION
(AN ENTERPRISE FUND OF THE
STATE OF UTAH)**

**Financial Statements and
Independent Auditors' Report
For the Year Ended December 31, 2012**

UTAH DAIRY COMMISSION (AN ENTERPRISE FUND OF THE STATE OF UTAH)

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INDEPENDENT AUDITORS' REPORT

To the Board
Utah Dairy Commission
Salt Lake City, Utah

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities, each major fund of the Utah Dairy Commission as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risks assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

CERTIFIED PUBLIC ACCOUNTANTS

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, each major fund of the Utah Dairy Commission as of December 31, 2012, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, on pages 2-6 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 the financial reporting for 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 response 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 31, 2013, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provision of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance, and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering District internal control over financial reporting and compliance.



Salt Lake City Utah
May 31, 2013

UTAH DAIRY COMMISSION (AN ENTERPRISE FUND OF THE STATE OF UTAH)

Management's Discussion and Analysis For the Year Ended December 31, 2012

Our discussion and analysis of Utah Dairy Commission's financial performance provides an overview of the Commission's financial activities for the year ended December 31, 2012. Please read it in conjunction with the Commission's financial statements.

Financial Highlights

- Milk production for the State entity – Utah Dairy Commission, remained basically the same as for the previous year.
- Our financial commitment for participating in the Unified Marketing Plan with Dairy Management Inc., (DMI) will increase as production increases.

Overview of the Financial Statements

The Commission is an independent state agency of the State of Utah and receives no money from the Utah general fund appropriations. Except for minor amounts from interest and miscellaneous receipts, the Commission is funded by 10 cents per hundredweight of milk produced by Utah dairy farmers. The assessment is collected monthly from companies who purchase the milk. The Commission uses these proceeds to increase demand for U.S. produced milk and milk products by the dissemination of information through advertising, research, nutrition education, food publicity, merchandising sales promotion, and new product and process developments. Five cents per hundredweight is automatically sent to the National Dairy Board. The Dairymen's Association is a voluntary assessment and the funds are used to develop farm management methods, skills, and government relations.

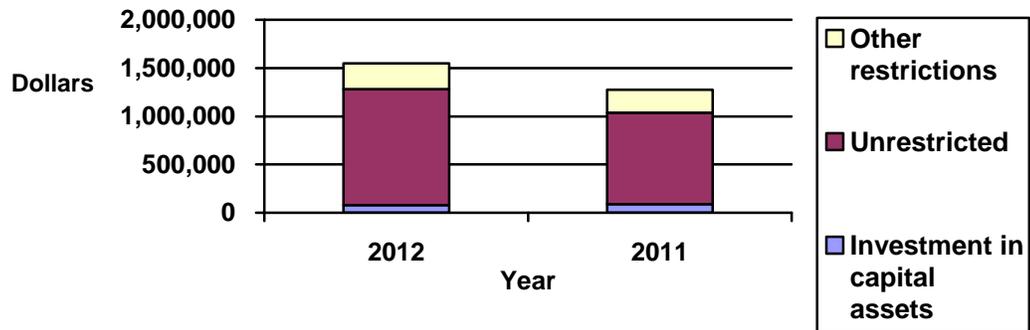
The financial statements are presented as "business type activity" statements that are similar to for-profit enterprise operations. They consist of a statement of net position, statement of revenues, expenses, and net position, and the statement of cash flows. These statements include all of the assets and liabilities of the Commission, using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The financial statements include the Dairy Commission, Dairy Council and the Dairy Producers of Utah. The Dairy Council and Dairy Producers are legally separate entities but for all practical purposes function as a part of the Commission and are an integral part of the financial activity of the Commission.

These statements report the Commission's net position, the changes in net position, and the changes in cash balances. You can think of the Commission's net position, as the difference between assets and liabilities, and as one way to measure the Commission's financial health, or financial position. Over time, increases or decreases in the Commission's fund equity are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, however, such as the demand for dairy products, the health of the dairy industry, and the overall economy, to assess the overall health of the Commission.

The notes to the financial statements contain additional information important to a complete understanding of the information contained in the government-wide and fund financial statements. Notes to the financial statements are located after the statements as listed in the table of contents.

Net Assets



Notes to the financial statements contain additional information important to a complete understanding of the information contained in the financial statements. Notes to the financial statement are located after these statements.

Operations

The Commission's fund equity increased by \$274,115 during 2012, in contrast to an increase of \$262,059 during 2011. Our analysis below focuses on the summarized statements of net position (Table 1) and the summarized statements of revenues, expenses, and changes in net position (Table 2).

Table 1
Summarized Statements of Net Position

	<u>2012</u>	<u>2011</u>
<u>ASSETS</u>		
Current assets	\$ 1,508,360	\$ 1,275,658
Property and equipment, net	80,082	90,405
Total assets	<u>\$ 1,588,442</u>	<u>\$ 1,366,063</u>
<u>LIABILITIES AND NET POSITION</u>		
Current liabilities	\$ 38,874	\$ 90,610
Net position		
Invested in capital assets	80,082	90,405
Restricted	267,276	236,741
Unrestricted	1,202,210	948,307
Total net position	<u>1,549,568</u>	<u>1,275,453</u>
Total liabilities and net position	<u>\$ 1,588,442</u>	<u>\$ 1,366,063</u>

Dairy Commission Revenue

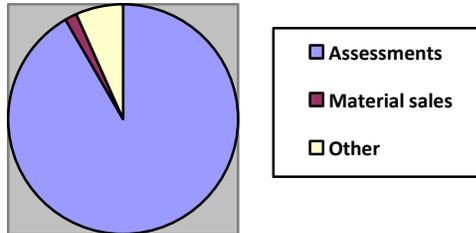
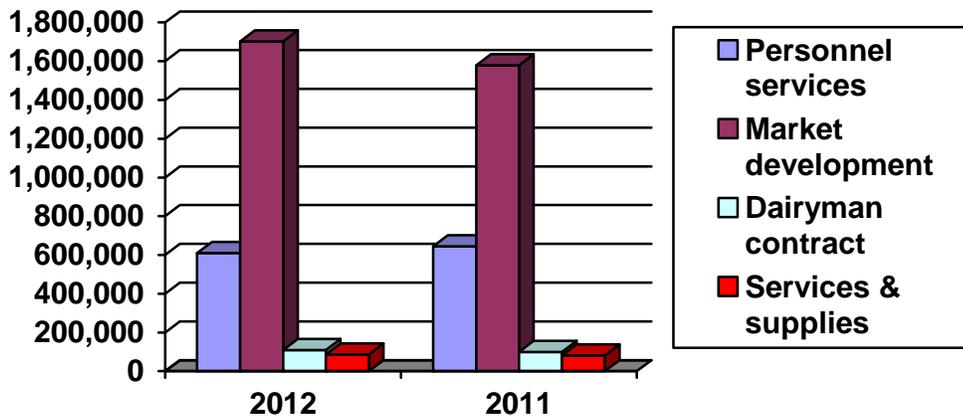


Table 2
Summarized Statements of Revenues, Expenses, and Changes in Net Position

	<u>2012</u>	<u>2011</u>
OPERATING REVENUES		
Promotional assessment revenue	\$ 2,678,709	\$ 2,577,110
Other income, net	92,786	77,675
Total revenue	<u>2,771,495</u>	<u>2,654,785</u>
OPERATING EXPENSES		
Personnel services	610,456	644,185
Services and supplies	85,543	81,382
Market development	1,702,305	1,579,111
Dairymen's Association contract	109,848	99,352
Total operating expenses	<u>2,508,152</u>	<u>2,404,030</u>
Income from operations	263,343	250,755
Interest and investment income and other	<u>10,772</u>	<u>11,304</u>
Net income	274,115	262,059
NET POSITION, BEGINNING OF YEAR	<u>1,275,453</u>	<u>1,013,394</u>
NET POSITION, END OF YEAR	<u>\$ 1,549,568</u>	<u>\$ 1,275,453</u>

Dairy Commission Expenses



Capital Asset Administration

The Commission's capital asset purchases during the year were primarily for repair of computers and office furniture. Major capital assets include:

	<u>2012</u>	<u>2011</u>
Land	\$ 32,292	\$ 32,292
Buildings and improvements	143,291	143,291
Furniture and fixtures	26,840	26,840
Office equipment	33,274	33,274
Vehicles	-	-
Total property and equipment	<u>235,697</u>	<u>235,697</u>
Less accumulated depreciation	<u>(155,615)</u>	<u>(145,292)</u>
Net property and equipment	<u><u>\$ 80,082</u></u>	<u><u>\$ 90,405</u></u>

Economic Factors and Next Year's Budget

The Commission's activities are funded through milk production. Budget items are directly dependent on the annual milk production assessment. The projection on production for fluid milk is to remain fairly flat.

Dairy farmers in the State of Utah continue to decrease in numbers. Every year there is a decrease of approximately 5% in farms. However, cow numbers remain fairly constant.

Income from assessments may be slightly higher from funds received for the Las Vegas market.

Contacting the Commission's Management

This financial report is designed to provide our citizens and taxpayers with a general overview of the Commission's finances and to show the Commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Commission office at 1213 East 2100 South, Salt Lake City, Utah, 84106.

**UTAH DAIRY COMMISSION
(AN ENTERPRISE FUND OF THE STATE OF UTAH)**

**Statement of Net Position
December 31, 2012**

	<u>Major Funds</u>		
	<u>Utah Dairy Commission</u>	<u>Dairy Council of Utah</u>	<u>Combined Balance</u>
<u>ASSETS</u>			
CURRENT ASSETS			
Cash and cash equivalents	\$ 975,808	\$ 4,843	\$ 980,651
Restricted cash	97,038	-	97,038
Investments	156,196	-	156,196
Accounts receivable	249,352	-	249,352
Prepaid expenses	2,470	-	2,470
Inventory	22,653	-	22,653
Total current assets	<u>1,503,517</u>	<u>4,843</u>	<u>1,508,360</u>
Property and equipment, net	<u>80,082</u>	<u>-</u>	<u>80,082</u>
Total assets	<u><u>\$ 1,583,599</u></u>	<u><u>\$ 4,843</u></u>	<u><u>\$ 1,588,442</u></u>
<u>LIABILITIES AND NET POSITION</u>			
CURRENT LIABILITIES			
Accounts payable	\$ 25,879	\$ -	\$ 25,879
Accrued vacation	12,995	-	12,995
Total current liabilities	<u>38,874</u>	<u>-</u>	<u>38,874</u>
NET POSITION			
Invested in capital assets	80,082	-	80,082
Restricted Net Position	267,276	-	267,276
Unrestricted Net Position	1,197,367	4,843	1,202,210
Total net position	<u>1,544,725</u>	<u>4,843</u>	<u>1,549,568</u>
Total liabilities and net position	<u><u>\$ 1,583,599</u></u>	<u><u>\$ 4,843</u></u>	<u><u>\$ 1,588,442</u></u>

The notes to the financial statements are an integral part of this statement.

**UTAH DAIRY COMMISSION
(AN ENTERPRISE FUND OF THE STATE OF UTAH)**

**Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended December 31, 2012**

	<u>Major Funds</u>		
	<u>Utah Dairy Commission</u>	<u>Dairy Council of Utah</u>	<u>Combined Balance</u>
OPERATING REVENUES			
Assessments	\$ 2,543,639	\$ -	\$ 2,543,639
Special assessments	-	-	-
Dues	135,070	-	135,070
Material sales	40,456	-	40,456
Other income	52,330	-	52,330
Total operating revenues	<u>2,771,495</u>	<u>-</u>	<u>2,771,495</u>
OPERATING EXPENSES			
Personnel services	610,456	-	610,456
Services and supplies	85,543	-	85,543
Market development	1,702,305	-	1,702,305
Other expenses	109,848	-	109,848
Total operating expenses	<u>2,508,152</u>	<u>-</u>	<u>2,508,152</u>
Net loss from operations	<u>263,343</u>	<u>-</u>	<u>263,343</u>
GENERAL REVENUE			
Investment gain/loss	1,050	-	1,050
Interest and investment income	9,722	-	9,722
Total general revenue	<u>10,772</u>	<u>-</u>	<u>10,772</u>
Net income	274,115	-	274,115
NET POSITION, BEGINNING OF YEAR	<u>1,270,610</u>	<u>4,843</u>	<u>1,275,453</u>
NET POSITION, END OF YEAR	<u>\$ 1,544,725</u>	<u>\$ 4,843</u>	<u>\$ 1,549,568</u>

The notes to the financial statements are an integral part of this statement.

**UTAH DAIRY COMMISSION
(AN ENTERPRISE FUND OF THE STATE OF UTAH)**

**Statement of Cash Flows
For the Year Ended December 31, 2012**

	<u>Major Funds</u>		
	<u>Utah Dairy Commission</u>	<u>Dairy Council of Utah</u>	<u>Combined Balance</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from assessments, dues, and sales	\$ 2,768,701	\$ -	\$ 2,768,701
Cash paid to suppliers	(1,951,060)	-	(1,951,060)
Cash paid to employees	(600,876)	-	(600,876)
Net cash from operating activities	<u>216,765</u>	<u>-</u>	<u>216,765</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Purchase of property and equipment	-	-	-
Net cash used for capital and related financing activities	<u>-</u>	<u>-</u>	<u>-</u>
CASH FLOWS FROM INVESTMENT ACTIVITIES:			
Purchase investments	(8,202)	-	(8,202)
Investment earnings	10,772	-	10,772
Net cash provided by investment activities	<u>2,570</u>	<u>-</u>	<u>2,570</u>
Net increase in cash and cash equivalents	219,335	-	219,335
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>853,511</u>	<u>4,843</u>	<u>858,354</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1,072,846</u>	<u>\$ 4,843</u>	<u>\$ 1,077,689</u>
CASH SUMMARY			
Cash and cash equivalents	\$ 975,808	\$ 4,843	\$ 980,651
Restricted cash	97,038	-	97,038
	<u>\$ 1,072,846</u>	<u>\$ 4,843</u>	<u>\$ 1,077,689</u>

The notes to the financial statements are an integral part of this statement.

UTAH DAIRY COMMISSION
(AN ENTERPRISE FUND OF THE STATE OF UTAH)

Statement of Cash Flows, Continued
For the Year Ended December 31, 2012

	<u>Major Fund</u>		
	<u>Utah Dairy Commission</u>	<u>Dairy Council of Utah</u>	<u>Combined Balance</u>
RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Income from operations	\$ 263,343	\$ -	\$ 263,343
ADJUSTMENTS TO RECONCILE NET INCOME			
Depreciation	10,323	-	10,323
Loss in sale of assets	-	-	-
Change in accounts receivable	(2,794)	-	(2,794)
Change in inventory	(2,291)	-	(2,291)
Change in accrued liabilities	9,580	-	9,580
Change in prepaid expenses	(80)	-	(80)
Change in accounts payable	(61,316)	-	(61,316)
Net cash used by operating activities	<u>\$ 216,765</u>	<u>\$ -</u>	<u>\$ 216,765</u>

The notes to the financial statements are an integral part of this statement.

UTAH DAIRY COMMISSION (AN ENTERPRISE FUND OF THE STATE OF UTAH)

Notes to the Financial Statements For the Year Ended December 31, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Utah Dairy Commission (an enterprise fund of the State of Utah) was established by the Utah Legislature in 1971. The Utah Dairy Commission is governed by the laws of the State of Utah under the direction of an eleven member administrative board of directors along with five consulting board members. The purpose of the Commission is to “promote, protect, and stabilize the state’s dairy industry.” The financial statements and notes are representations of the management of the Commission, which is responsible for their integrity and objectivity. These financial statements present only the financial statements of the Utah Dairy Commission and are not intended to present fairly the financial position of the State of Utah and the results of its operations and cash flows of its proprietary fund types in conformity with generally accepted accounting principles.

The accounting principles of the Commission conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the more significant policies:

Financial Reporting Entity

The Commission is an enterprise fund of the State of Utah (the Primary Government) created by the State Legislature for the purpose of promoting the use of dairy products. As required by generally accepted accounting principles, these financial statements represent the Commission and its component unit, the Dairy Council of Utah. The component unit, as discussed in the following note, is included in the Commission’s reporting entity because of the significance of their operation and financial relationship with the Commission.

Component Unit

The Dairy Council of Utah (the Council) and the Dairy Producers of Utah are governed by the Utah Dairy Commission Board. Although they are legally separate from the Commission, the entities are reported as if they were part of the Commission since the Council and The Dairy Producers receive the majority of their support from the Commission. The Dairy Council and the Dairy Producers of Utah are reported using the blended presentation as prescribed by Statement 14 of *Government Accounting Standards*. Financial statements of the Dairy Council of Utah and the Dairy Producers of Utah may be obtained from their administrative office at the following address:

Dairy Council of Utah
1213 East 2100 South
Salt Lake City, UT 84106

Dairy Producers of Utah
1213 East 2100 South
Salt Lake City, UT 84106

Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting is related to the timing of measurement made regardless of the measurement focus applied. In accordance with Governmental Accounting Standard Board (GASB) the agency applies all financial accounting standards board statements and interpretations, except for those that conflict with or contradict GASB pronouncements.

The enterprise fund is accounted for on “a cost of services” measurement focus. This means that all assets and all liabilities (whether current or non-current) associated with their activity are included on the statement of net position. Operating statements present increases and decreases in total net position.

The operations of the Commission are comprised of promotion, advertising, research, and nutritional education regarding dairy products. The Commission is funded primarily by collections from milk producers. The Commission does not use a brand or trade name in its advertising or promotion. The influencing of governmental policy or action is not a function of the Commission and accordingly, no funds are expended for such activities. An optional additional assessment is collected and can be used for government liaison and industry relation programs.

The Dairy Commission separates operating and non-operating revenues and expenses. Operating revenues and expenses normally arise from the collections from milk producers, fees, dues, and material sales. Non-operating income includes interest and investment earnings.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds each of which are considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts which constitute its assets, liabilities, fund equity, revenues, and expenses. An emphasis is placed on major funds within the proprietary categories. A fund is considered major if it is the primary operating fund of the Commission or meets the following criteria:

1. Total assets, liabilities, revenues, or expenses of that fund are at least 10 percent of the corresponding total for all funds of that category.
2. Total assets, liabilities, revenues, or expenses of the individual enterprise fund are at least five percent of the corresponding total for all enterprise funds combined.

Major and Non-Major Funds

The funds are further classified as major or non-major as follows:

<u>Funds</u>	<u>Brief Description</u>
Dairy Commission - Major	Dairy Commission accounts for revenues and expenses for promoting the dairy products and staffing.
Dairy Council - Major	Dairy Council

Measurement Focus

The proprietary fund utilizes an economic resources measurement focus. The accounting objectives of this measurement focus are the determination of net income, financial position, and cash flows. All assets and liabilities associated with their activities are reported. Proprietary fund equity is classified as net position.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents are petty cash, demand and savings deposits at banks, and investments deposited with the Utah Public Treasurer's office.

Inventories

Inventories are stated at the lower of cost or market determined using the first-in, first-out method.

Restricted Funds

When an expense is incurred which meets the requirement to release the restrictions, such restricted funds are first used to satisfy the expense followed by other unrestricted funds needed to satisfy the expense.

Property and Equipment

Property and equipment consists of property, equipment, and furniture, which has an estimated useful life of more than one year, is stated at historical cost. Donated fixed assets are valued at their estimated fair market value on the date donated. The Commission has a capitalization threshold of \$500 for all assets. Depreciation is provided using the straight-line method over the following estimated useful lives:

Building and improvements	40 years
Furniture and fixtures	5-7 years
Office equipment	5-7 years

Vacation and Sick Leave

Employees earn sick leave of one day per month of full-time employment up to a maximum of 30 days. An employee who leaves service is not paid any accumulated sick leave benefits. Employees are also entitled to annual paid vacation if employed on a full-time basis. Vacation time must be taken during the year earned. The employees earn vacation on their anniversary dates for the following calendar year. The cost of vacation is recorded as a liability when earned. One half of vacation can be carried over into next year if not used in current year.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements, and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Investments

The investments are listed at fair market value. The fair market value is determined by quoted market prices.

Inter-fund Transactions

In the normal course of its operations, the Commission has various transactions between funds. Transfers are recognized as operating transfers in and out, respectively, by the funds receiving and providing the transfer.

Accounts Receivable

Accounts receivable are generally comprised of receivables on milk assessments which are paid by producers. Accounts receivable are stated at the amount management expects to collect for outstanding balances. Management expects to collect all amounts and has not set up an allowance for uncollectables.

Net Position

The Commission's net position is classified as follows:

Invested in fixed assets - This component on net position consists of the Commission's total investment in capital assets reduced by outstanding debt.

Restricted net position – This component of net position consists of net position with constraints placed on their use either by external sources or through enabling legislation.

Unrestricted net position - This component of net position consists of net position that does not meet the definition of restricted net position or investment in capital assets.

2. DEPOSITS AND INVESTMENTS

The Commission maintains a cash and investment pool that is available for use by all funds. In addition, investments are separately held by several of the Commission's funds. Cash and investments as of December 31, 2012, are classified in the accompanying financial statements as follows:

Statement of net position:	
Cash and cash equivalents	\$ 1,077,689
Short term investments	156,196

Cash investments and cash equivalents as of December 31, 2012, consist of the following:

Cash on hand	\$ 500
Deposits with financial institutions	987,322
Investments, State Treasurer	<u>89,867</u>
Total cash and cash equivalents	<u><u>\$ 1,077,689</u></u>

Investments Authorized

The Commission is exempt from the Utah Money Management Act in handling its depository and temporary investment transactions.

The Public Treasurer Investment Fund (PTIF) is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Money Management Act. The act established the Money Management Council which oversees the activities of the State Treasurer and the PTIF, and details the type of authorized investments it makes. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gains or losses on investments.

As of December 31, 2012, the Commission had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>		
		<u>Less Than 1 Year</u>	<u>1 - 10 Years</u>	<u>More Than 10 Years</u>
Mutual funds	156,196	156,196	-	-
State of Utah Public Treasurer Investment Fund	<u>\$ 89,867</u>	<u>\$ 89,867</u>	<u>\$ -</u>	<u>\$ -</u>
Total investments	<u><u>\$ 246,063</u></u>	<u><u>\$ 246,063</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

Interest Rate Risk

Interest rate risk is the risk that occurs when changes in interest rates will adversely affect the fair value of an investment. The Commission's policy for managing its exposure to fair value loss is to invest funds with the State Treasurer.

Credit Risk

Credit risk is the risk that an issuer, or other counterparty to an investment, will not fulfill its obligations. The Commission's policy for reducing its exposure to credit risk is to invest in the Utah Public Treasurer's Investment Fund, which was unrated. The Commission has \$152,837 in mutual funds that are exposed to custodial risk. The Commission's rated debt investments in mutual funds are shown in the table below using Standard and Poor's rating scale.

	<u>Value</u>	<u>AAAm</u>	<u>Am</u>	<u>Alm</u>	<u>Unrated</u>
Securities					
Mutual funds	\$ 156,196	\$ 156,196	\$ -	\$ -	\$ -

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Commission's policy for reducing the risk of loss is to invest in the Utah Public Treasurer's Investment Fund which has no concentration of credit risk. The mutual funds were with one brokerage account.

Custodial Credit Risk Deposits

For deposits, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Commission will not be able to recover the value of its deposits that are in the possession of an outside party. The Commission does not have a formal policy of custodial credit risk. As of December 31, 2012, \$755,159 of the \$987,320 balance of deposits was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk Investments

For an investment, this is the risk that, in the event of the failure of the counterparty, the Commission will not be able to recover the value of its investments that are in the possession of an outside party. The Commission's investment in the Utah Public Treasurer Investment Fund has no custodial credit risk.

Date of Management Review

Subsequent events were evaluated through May 31, 2013, which is the date the financial statements were available to be issued.

3. PROPERTY AND EQUIPMENT

A summary of changes in property and equipment is as follows:

	<u>Beginning</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending</u>
Non-depreciated assets				
Land	<u>\$ 32,292</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 32,292</u>
Depreciated assets				
Building and improvements	143,291	-	-	143,291
Furniture and fixtures	26,840	-	-	26,840
Office equipment	33,274	-	-	33,274
Vehicles	-	-	-	-
Promotion equipment	-	-	-	-
Total depreciated assets	<u>203,405</u>	<u>-</u>	<u>-</u>	<u>203,405</u>
Less accumulated depreciation	<u>(145,292)</u>	<u>(10,323)</u>	<u>-</u>	<u>(155,615)</u>
Net depreciated assets	<u>58,113</u>	<u>(10,323)</u>	<u>-</u>	<u>47,790</u>
Property and equipment, net	<u>\$ 90,405</u>	<u>\$ (10,323)</u>	<u>\$ -</u>	<u>\$ 80,082</u>

Depreciation expense for the year ended December 31, 2012, was \$10,323.

4. EMPLOYEE BENEFIT PLANS

Thrift/Savings Plan

The Commission sponsors, through the UDIA, a deferred contribution 401(k) plan for all employees over the age of 21 with one year of service. Employees may elect to defer up to 17% of their yearly compensation with the Commission matching up to an additional 3%. Employees contributed \$38,574 to this plan for the year ended December 31, 2012. Commission matching contributions for the year ended December 31, 2012, were \$20,064. Participants are 100% vested in their own contributions. Participants become 100% vested in employer contributions and investment earnings thereon after 6 years of service.

State Retirement System

The Council and Commission's full time employees participate in a non-contributory retirement plan through participation in the Utah State Retirement System, a multiple-employer, public employee, cost-sharing retirement system providing defined benefits based on years of service and highest average salaries. Utah Retirement Systems provides refunds, retirement benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries in accordance with retirement statutes.

The Systems are established and governed by the respective section of Chapter 49 of the Utah Code Annotated 1953 as amended. The Utah State Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and plans under the direction of the Utah State Retirement Board (the Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the State and School Noncontributory Retirement System. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, Utah 84102, or by calling 1(800) 365-8772.

In the State and School Non-contributory Retirement System the Utah Dairy Commission contribution rate was 18.760% in December 2012, and 16.860% in December 2011, and 2010, of their annual covered salary. The contribution rates are the actuarially determined rates. The contribution requirements of the Systems are authorized by statute and specified by the Board.

The Commission's contributions to the State and School Non-contributory Retirement System for the years ended December 31, 2012, 2011, and 2010, were \$81,506, \$78,851 and \$67,991, respectively. The contributions were equal to the required contributions for each year.

5. OFFICE SPACE LEASE AGREEMENT

During 2012 the Commission renewed its lease agreement with Utah State University to lease office space. The lease expired on June 30, 2012. The Commission did not renew the lease. During the year ended December 31, 2012, the Commission received \$3,000 in lease payments.

6. ALLOWANCE FOR UNCOLLECTABLE RECEIVABLES

The Commission did not have an allowance for uncollectable receivables at December 31, 2012.

7. RELATED ORGANIZATION

The Commission has a contracted relationship with the Dairy Producers of Utah, a not-for-profit organization. The Commission collects a voluntary assessment from products and deposits the funds to the Dairymen's Association. The Commission has similar members as the members in the Association. The amount of funds collected and passed to the entity was \$135,530 as listed on the financial statements. The Commission has amounts due to the entity of \$20,419, restricted cash of \$97,037, and investments of \$156,196.

8. CONCENTRATIONS

The Commission received a substantial amount of assessments from a few large co-ops. The amount received from these entities was about 90% of assessments.

9. RESTRICTED CASH

Restricted cash of \$97,037 and investments of \$156,196 is for a contract to the Dairy Producers stabilization and protection of the dairy industry.