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**AMERICAN LAMB BOARD**

*FINANCIAL STATEMENTS*

*SEPTEMBER 30, 2016*

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## Independent Auditors' Report

Board of Directors  
American Lamb Board  
Denver, Colorado

### Report On The Financial Statements

We have audited the accompanying financial statements of the American Lamb Board (the Board), a not-for-profit organization, which comprise the statement of financial position as of September 30, 2016 and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

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

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 risk 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 opinion.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Board as of September 30, 2016 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

***Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of revenues, expenses and changes in net assets - budget and actual is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

**Report On Summarized Comparative Information**

We have previously audited the Board's 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 6, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

**Other Reporting Required By *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 20, 2017 on our consideration of the Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is 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 the Board's internal control over financial reporting and compliance.

*RubinBrown LLP*

January 20, 2017

**AMERICAN LAMB BOARD**

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**STATEMENT OF FINANCIAL POSITION**  
**September 30, 2016**  
**(With Comparative Totals For September 30, 2015)**

	<b>Assets</b>	
	<b>2016</b>	<b>2015</b>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 1,222,403	\$ 1,185,769
Accounts receivable	201,389	207,475
Prepaid expenses	8,883	4,175
<b>Total Current Assets</b>	<b>1,432,675</b>	<b>1,397,419</b>
Equipment (net of accumulated depreciation) (Note 4)	1,364	856
<b>Total Assets</b>	<b>\$ 1,434,039</b>	<b>\$ 1,398,275</b>

<b>Liabilities And Net Assets</b>		
<b>Liabilities</b>		
Accounts payable and accrued expenses	\$ 145,811	\$ 296,783
<b>Net Assets</b>		
Unrestricted		
Undesignated	1,063,228	876,492
Director designated (Note 3)	225,000	225,000
<b>Total Net Assets</b>	<b>1,288,228</b>	<b>1,101,492</b>
<b>Total Liabilities And Net Assets</b>	<b>\$ 1,434,039</b>	<b>\$ 1,398,275</b>

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**AMERICAN LAMB BOARD**

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**STATEMENT OF ACTIVITIES****For The Year Ended September 30, 2016****(With Comparative Totals For The Year Ended September 30, 2015)**

	<u>2016</u>	<u>2015</u>
<b>Revenues</b>		
Collections	\$ 2,389,709	\$ 2,471,620
Interest income	1,403	1,197
Other	7,754	9,658
<b>Total Revenues</b>	<b>2,398,866</b>	<b>2,482,475</b>
<b>Expenses</b>		
Program expenses		
Communications	297,908	421,583
Promotion	1,440,029	1,421,093
Research	215,576	496,493
<b>Total Program Expenses</b>	<b>1,953,513</b>	<b>2,339,169</b>
Support services		
Administration	185,320	172,433
USDA	73,297	80,820
<b>Total Support Services</b>	<b>258,617</b>	<b>253,253</b>
<b>Total Expenses</b>	<b>2,212,130</b>	<b>2,592,422</b>
<b>Change In Net Assets</b>	<b>186,736</b>	<b>(109,947)</b>
<b>Net Assets, Beginning Of Year</b>	<b>1,101,492</b>	<b>1,211,439</b>
<b>Net Assets, End Of Year</b>	<b>\$ 1,288,228</b>	<b>\$ 1,101,492</b>

# AMERICAN LAMB BOARD

## STATEMENT OF FUNCTIONAL EXPENSES

For The Year Ended September 30, 2016

(With Comparative Totals For The Year Ended September 30, 2015)

Expenses	Program Expenses			Support Services		Total 2016	Total 2015
	Communications	Promotion	Research	Administration	USDA		
Promotion	\$ —	\$ 1,201,891	\$ —	\$ —	\$ —	\$ 1,201,891	\$ 1,185,546
Communications	187,645	—	—	—	—	187,645	311,299
Research	—	—	215,576	—	—	215,576	496,493
USDA	—	—	—	—	73,297	73,297	80,820
Travel	5,827	23,612	—	70,385	—	99,824	96,462
Accounting and compliance	—	—	—	37,350	—	37,350	37,569
Legal	—	—	—	1,023	—	1,023	2,192
Audit	—	—	—	9,500	—	9,500	9,500
Professional	972	2,526	—	389	—	3,887	3,450
Occupancy	6,701	17,423	—	2,680	—	26,804	30,973
Postage and shipping	22,005	203	—	3,133	—	25,341	26,728
Phone	1,708	4,440	—	683	—	6,831	9,288
Office supplies and equipment	4,321	11,232	—	1,728	—	17,281	14,214
Depreciation (Note 4)	345	898	—	137	—	1,380	1,984
Program management and other administration	68,384	177,804	—	58,312	—	304,500	285,904
<b>Total Expenses</b>	<b>\$ 297,908</b>	<b>\$ 1,440,029</b>	<b>\$ 215,576</b>	<b>\$ 185,320</b>	<b>\$ 73,297</b>	<b>\$ 2,212,130</b>	<b>\$ 2,592,422</b>

See the accompanying notes to financial statements.

**AMERICAN LAMB BOARD**  
**STATEMENT OF CASH FLOWS**  
**For The Year Ended September 30, 2016**  
**(With Comparative Totals For The Year Ended September 30, 2015)**

	<u>2016</u>	<u>2015</u>
<b>Cash Flows From Operating Activities</b>		
Cash received from collections	\$ 2,395,795	\$ 2,481,706
Interest received	1,403	1,197
Cash received from other sources	7,754	9,658
Cash paid to employees and suppliers	(2,366,430)	(2,589,616)
<b>Net Cash Provided By (Used In) Operating Activities</b>	<b>38,522</b>	<b>(97,055)</b>
<b>Cash Flows From Investing Activities</b>		
Cash paid for acquisition of equipment	(1,888)	—
<b>Net Increase (Decrease) In Cash And Cash Equivalents</b>	<b>36,634</b>	<b>(97,055)</b>
<b>Cash And Cash Equivalents, Beginning Of Year</b>	<b>1,185,769</b>	<b>1,282,824</b>
<b>Cash And Cash Equivalents, End Of Year</b>	<b>\$ 1,222,403</b>	<b>\$ 1,185,769</b>
<b>Reconciliation Of Change In Net Assets To Net Cash Provided By (Used In) Operating Activities</b>		
Change in net assets	\$ 186,736	\$ (109,947)
<b>Adjustments To Reconcile Change In Net Assets To Net Cash Provided By (Used In) Operating Activities</b>		
Depreciation expense	1,380	1,984
Changes in assets and liabilities		
Decrease in accounts receivable	6,086	10,086
Increase in prepaid expenses and other	(4,708)	(78)
Increase (decrease) in accounts payable and accrued expenses	(150,972)	900
<b>Net Cash Provided By (Used In) Operating Activities</b>	<b>\$ 38,522</b>	<b>\$ (97,055)</b>



**AMERICAN LAMB BOARD**  

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**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2016**

**1. Summary Of Significant Accounting Policies**

**Nature Of The Organization**

The American Lamb Board (the Board) is a nonprofit organization consisting of a 13-member board comprised of producers, feeders, seed stock producers and first handlers appointed by the Secretary of Agriculture to administer the activities of the American Lamb Check-Off Program initiated in 2002. The enabling legislation for the Board can be found in the Federal Register, 7 CFR Part 1280. The focus of the Board is to increase market share for American lamb while maintaining profitability for all segments of the lamb industry. The Board accomplishes its goals through such initiatives as advertising, marketing partnerships with complementary products, public relations using trained chefs and through education for consumers on preparing, storing and handling lamb.

As of July 1, 2002, all sheep or lambs (ovines) of any age, including ewes and rams, are subject to the National Lamb Check-Off assessment. General operation of the Check-Off program is to have the buyer collect a \$0.007 per pound assessment of the weight of live ovines from the seller. The seller can be a producer, feeder, seed stock producer, direct marketer, individual, dealer, trader or auction market. The assessment is carried forward with each owner contributing his or her share of the assessment, based upon weight added by the owner, if any. The assessment is collected and ultimately remitted to the Board by the owner at the time of slaughter or export. The owner at the time of slaughter is also known as the “first handler” and can be a producer, packer, processor, ethnic slaughter facility, slaughter house, direct marketer, feeder, individual, seed stock producer, etc. The first handler is also responsible for remitting \$0.42 per head for each ovine slaughtered. The owner at the time of export is known as the “exporter” and is responsible for collecting and remitting only the \$0.007 per pound of live ovines collected from the seller, including any weight added by the exporter, to the Board.

**Basis Of Accounting**

The accompanying financial statements are prepared using the accrual basis of accounting, with a fiscal year end of September 30. As such, assessment revenues are recognized when collected by the first handler at the time of slaughter. First handlers are required to submit assessments to the Board by the 15<sup>th</sup> of the month after the month in which ovines were slaughtered.

## **AMERICAN LAMB BOARD**

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### Notes To Financial Statements (*Continued*)

#### **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 the reported amounts of revenue and expenses during the reported period. As a result, actual results could differ from those estimates.

#### **Tax Status**

The Board is organized as a not-for-profit corporation formed under Internal Revenue Code Section 501(c)(5), which engages in activities under the aegis of the United States Department of Agriculture (USDA); accordingly, no provision for income taxes is included in the accompanying financial statements. The Board is not a private foundation.

#### **Basis Of Presentation**

The accompanying financial statements are presented in accordance with the Financial Accounting Standards Board in its Accounting Standards Codification topic, *Financial Statements of Not-For-Profit Organizations*, which defines not-for-profit financial statement presentation, requires the presentation of a statement of cash flows and requires balances and activities to be classified based on the presence or absence of donor-imposed restrictions.

Under this topic, the financial statements report amounts separately by class of net assets:

*Unrestricted net assets* - amounts currently available for use in the Board's operations and those resources invested in property and equipment

*Temporarily restricted net assets* - amounts that are stipulated by donors for specific operating purposes or future periods

*Permanently restricted net assets* - amounts that are stipulated by donors to be maintained in perpetuity

#### **Cash And Cash Equivalents**

For purposes of the statement of cash flows, cash and cash equivalents consist of cash on hand at financial institutions and certificates of deposit with maturities of less than a year.

## **AMERICAN LAMB BOARD**

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### Notes To Financial Statements *(Continued)*

#### **Accounts Receivable**

Accounts receivable consist of remittances due from lamb producers for the National Lamb Check-Off assessment for ovines that are subject to the assessment before September 30, 2016. Accounts receivable are recorded at the amount of the calculated assessment per ovine based on the American Lamb Check-Off Program described previously. Management has determined an allowance for doubtful accounts to be unnecessary as accounts are considered fully collectible based on the legal requirements of the National Lamb Check-Off Assessment Program and the collection history of accounts receivable.

#### **Equipment**

Equipment is stated at cost less accumulated depreciation. Depreciation is computed over the estimated useful life of the asset using the straight-line method. The Board follows the policy of capitalizing all expenditures for equipment in excess of \$1,000. Useful lives for equipment are three to five years.

#### **Comparative Totals**

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Board's financial statements for the year ended September 30, 2015, from which the summarized information was derived.

#### **Concentrations**

The Board is dependent upon the purchase and sale of American lambs and, as such, is limited in its prosperity by the performance of the American sheep industry.

The Board receives approximately 78% of the collected revenues from five vendors. As such, the Board's revenues are dependent on the financial health of these five vendors.

#### **Advertising Costs**

The Board expenses the production costs of advertising the first time the advertising takes place. Advertising expense consists primarily of magazine advertisements, radio, online and media kits. Total advertising expense of \$40,617 for 2016 is included in promotion and communication expense.

## AMERICAN LAMB BOARD

Notes To Financial Statements (Continued)

### 2. Cash And Cash Equivalents

Cash and cash equivalents include all cash balances and highly liquid investments with an initial maturity of less than one year. The Board places its temporary cash investments with high-credit-quality financial institutions. At times, such amounts may be in excess of the Federal Deposit Insurance Corporation insurance limit. These accounts are fully collateralized by the Board's commercial bank agreement with the Federal Reserve, as required by the USDA Agricultural Marketing Service.

### 3. Net Assets

#### Unrestricted - Board-Designated Net Assets

The Board of Directors (the Directors) has designated certain funds to cover any unforeseen cash flow requirements. These funds consist of cash equivalents on the statement of financial position. There was no activity in the Director-designated net assets during the period.

The Board maintains a cash reserve in the amount of \$225,000. This fund consists of the original \$75,000 that was set aside when the American Lamb Check-Off Program was established to cover the costs of phasing out operations at the Board if the American Lamb Check-Off Program was voted down. The Board added an additional \$150,000 to this fund in order to cover any unforeseen cash flow requirements.

### 4. Equipment

Equipment consisted of the following:

	<u>October 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>September 30, 2016</u>
Equipment	\$ 17,448	\$ 1,888	\$ (4,511)	\$ 14,825
Accumulated depreciation	(16,592)	(1,380)	4,511	(13,461)
<b>Total</b>	<b>\$ 856</b>	<b>\$ 508</b>	<b>\$ —</b>	<b>\$ 1,364</b>

Depreciation expense for the year ended September 30, 2016 was \$1,380.

## AMERICAN LAMB BOARD

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### Notes To Financial Statements (Continued)

#### 5. Lease Commitments

In August of 2012, the Board entered into a five-year operating lease for office space which ended August 31, 2016. In June of 2016, the Board entered into a new five-year operating lease, ending November 30, 2021, with Alphapage, LLC. The lease contains two options to extend the lease for a period of three years each, for a total of six additional years at the fair market rate. The future minimum lease payments are as follows:

Fiscal Year Ended September 30,	
2017	\$ 28,667
2018	35,296
2019	36,371
2020	37,446
2021	38,521
Thereafter	6,449
<b>Total</b>	<b>\$ 182,750</b>

The Board paid \$26,804 for office space and storage rental during fiscal 2016.

#### 6. Subsequent Events

In preparing the financial statements, management has evaluated events and transactions for potential recognition or disclosure through January 20, 2017, the date the financial statements were available to be issued.

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**Supplementary Information**

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**AMERICAN LAMB BOARD**

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**SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN  
NET ASSETS - BUDGET AND ACTUAL  
For Year Ended September 30, 2016**

	<b>Final Budget</b>	<b>Actual</b>	<b>Variance Favorable (Unfavorable)</b>
<b>Revenues</b>			
Collections	\$ 2,500,000	\$ 2,389,709	\$ (110,291)
Miscellaneous revenue - promo items	6,000	7,754	1,754
Interest income	1,000	1,403	403
<b>Total Revenues</b>	<b>2,507,000</b>	<b>2,398,866</b>	<b>(108,134)</b>
<b>Expenses</b>			
Promotion	1,617,470	1,440,029	177,441
Communications	428,280	297,908	130,372
Research	238,000	215,576	22,424
USDA Annual Oversight	85,000	73,297	11,703
Administration	207,500	185,320	22,180
<b>Total Expenses</b>	<b>2,576,250</b>	<b>2,212,130</b>	<b>364,120</b>
<b>Excess (Deficiency) Of Revenues Over (Under) Expenses</b>	<b>\$ (69,250)</b>	<b>186,736</b>	<b>\$ 255,986</b>
<b>Net Assets - Beginning Of Year</b>		<b>1,101,492</b>	
<b>Net Assets - End Of Year</b>		<b>\$ 1,288,228</b>	

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## **Compliance Section**

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**Independent Auditors' Report On Internal  
Control Over Financial Reporting And On  
Compliance And Other Matters Based On An  
Audit Of Financial Statements Performed In  
Accordance With *Government Auditing Standards***

Board of Directors  
American Lamb Board  
Denver, Colorado

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the American Lamb Board (the Board), which comprises the statement of financial position as of September 30, 2016, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 20, 2017.

**Internal Control Over Financial Reporting**

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

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

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

### **Compliance And Other Matters**

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

### **Purpose Of This Report**

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

*RubinBrown LLP*

January 20, 2017



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## Report Of Independent Certified Public Accountants

Board of Directors  
American Lamb Board  
Denver, Colorado

We have audited, in accordance with auditing standards generally accepted in the United States of America, the statement of financial position and the related statements of activities, functional expenses and cash flows of the American Lamb Board (the Board) as of and for the year ended September 30, 2016, and have issued our report thereon dated January 20, 2017.

In connection with our audit, nothing came to our attention that caused us to believe the Board was not in compliance with the provisions of the Lamb Promotion and Research Act of 2002 and the Lamb Promotion and Research Order (the Order) relative to the use of funds collected by the Board insofar as they relate to accounting matters. Further, in connection with our audit, nothing came to our attention that caused us to believe the Board was not in compliance with the terms of Section 1280.213 of the Order or with the terms of the Agricultural Marketing Service Investment Policy, which describes the type of instruments in which the Board may invest, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.

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

*RubinBrown LLP*

January 20, 2017