
AMERICAN LAMB BOARD

FINANCIAL STATEMENTS

SEPTEMBER 30, 2020

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1900 16th Street
Suite 300
Denver, CO 80202

T: 303.698.1883
E: info@rubinbrown.com
www.RubinBrown.com

CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS CONSULTANTS

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, 2020 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, 2020 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

In connection with our audit, nothing came to our attention that caused us to believe that the Board failed to comply with the provisions of Section 5D of the United States Department of Agriculture (the USDA) *USDA Guidelines for AMS Oversight of Commodity Research and Promotion Programs* dated September 2015, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Board's noncompliance with the above-referenced provisions, insofar as they relate to accounting 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 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 2, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2019 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Restricted Use Relating To The Other Matters

The purpose of the communication related to compliance with the aforementioned provisions of Section 5D of the USDA described in the other matters paragraph is solely to describe the scope of our testing of compliance and the results of that testing. This communication is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Board's compliance. Accordingly, this communication is not suitable for any other purpose.

Other Reporting Required By *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 8, 2021 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 8, 2021

AMERICAN LAMB BOARD

STATEMENT OF FINANCIAL POSITION September 30, 2020 (With Comparative Totals For September 30, 2019)

	2020	2019
Assets		
Current Assets		
Cash and cash equivalents	\$ 1,161,422	\$ 1,239,771
Accounts receivable	143,221	175,362
Prepaid expenses	8,867	8,154
Total Current Assets	1,313,510	1,423,287
Equipment (net of accumulated depreciation)	1,592	3,980
Total Assets	\$ 1,315,102	\$ 1,427,267
Liabilities And Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 67,736	\$ 233,881
Net Assets Without Donor Restrictions		
Undesignated	1,022,366	968,386
Director designated	225,000	225,000
Total Net Assets Without Donor Restrictions	1,247,366	1,193,386
Total Liabilities And Net Assets	\$ 1,315,102	\$ 1,427,267

AMERICAN LAMB BOARD

STATEMENT OF ACTIVITIES

For The Year Ended September 30, 2020

(With Comparative Totals For The Year Ended September 30, 2019)

	2020	2019
Revenues		
Collections	\$ 1,887,962	\$ 2,229,173
Interest income	3,784	3,675
Other	11,943	17,052
Total Revenues	1,903,689	2,249,900
Expenses		
Program expenses:		
Communications	299,630	420,290
Promotion	1,095,906	1,615,684
Research	151,572	187,120
Total Program Expenses	1,547,108	2,223,094
Support services:		
Administration	165,819	180,113
USDA	136,782	75,574
Total Support Services	302,601	255,687
Total Expenses	1,849,709	2,478,781
Change In Net Assets	53,980	(228,881)
Net Assets, Beginning Of Year	1,193,386	1,422,267
Net Assets, End Of Year	\$ 1,247,366	\$ 1,193,386

AMERICAN LAMB BOARD

STATEMENT OF FUNCTIONAL EXPENSES

For The Year Ended September 30, 2020

(With Comparative Totals For The Year Ended September 30, 2019)

Expenses	Program Expenses			Support Services		Total 2020	Total 2019
	Communications	Promotion	Research	Administration	USDA		
Promotion	\$ —	\$ 829,865	\$ —	\$ —	\$ —	\$ 829,865	\$ 1,339,666
Communications	169,001	—	—	—	—	169,001	285,398
Research	—	—	151,572	—	—	151,572	187,120
USDA	—	—	—	—	136,782	136,782	75,574
Travel	9,741	7,387	—	45,186	—	62,314	101,408
Accounting and compliance	—	—	—	39,551	—	39,551	45,807
Legal	—	—	—	1,034	—	1,034	—
Audit	—	—	—	10,500	—	10,500	10,300
Professional	2,300	5,978	—	920	—	9,198	3,563
Occupancy	9,361	24,340	—	3,745	—	37,446	36,371
Postage and shipping	21,406	—	—	1,548	—	22,954	30,027
Phone	1,825	4,743	—	730	—	7,298	7,115
Office supplies and equipment	1,758	4,572	—	703	—	7,033	7,842
Depreciation	597	1,552	—	239	—	2,388	2,493
Program management and other administration	83,641	217,469	—	61,663	—	362,773	346,097
Total Expenses	\$ 299,630	\$ 1,095,906	\$ 151,572	\$ 165,819	\$ 136,782	\$ 1,849,709	\$ 2,478,781

AMERICAN LAMB BOARD

STATEMENT OF CASH FLOWS

For The Year Ended September 30, 2020

(With Comparative Totals For The Year Ended September 30, 2019)

	2020	2019
Cash Flows From Operating Activities		
Cash received from collections	\$ 1,920,103	\$ 2,251,091
Interest received	3,784	3,675
Cash received from other sources	11,943	17,052
Cash paid to employees and suppliers	(2,014,179)	(2,395,062)
Net Cash Used In Operating Activities	(78,349)	(123,244)
Net Decrease In Cash And Cash Equivalents	(78,349)	(123,244)
Cash And Cash Equivalents, Beginning Of Year	1,239,771	1,363,015
Cash And Cash Equivalents, End Of Year	\$ 1,161,422	\$ 1,239,771
Reconciliation Of Change In Net Assets To Net Cash Used In Operating Activities		
Change in net assets	\$ 53,980	\$ (228,881)
Adjustments To Reconcile Change In Net Assets To Net Cash Used In Operating Activities		
Depreciation expense	2,388	2,494
Changes in assets and liabilities:		
Accounts receivable	32,141	21,918
Prepaid expenses and other	(713)	(385)
Accounts payable and accrued expenses	(166,145)	81,610
Net Cash Used In Operating Activities	\$ (78,349)	\$ (123,244)

AMERICAN LAMB BOARD

NOTES TO FINANCIAL STATEMENTS

September 30, 2020

1. Summary Of Significant Accounting Policies

Nature Of The Organization

The American Lamb Board (the Board) is a not-for-profit 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 15th of the month after the month in which ovines were slaughtered. Expenses are recorded when the liability is incurred, regardless of the timing of related cash flows.

Change In Accounting Principle

In fiscal year 2020, the Board adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (ASU 2018-08), which provides enhanced guidance to assist entities in evaluating whether transactions should be accounted for as contributions or reciprocal transactions. Substantially all of the Board's revenues are contributions as specified by FASB Accounting Standards Codification 958, *Not-for-Profit Entities*, and clarified by ASU 2018-08. The implementation of ASU 2018-08 did not have a material impact on the Board's financial statements.

Additionally, the Board elected to adopt FASB ASU 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842)*, which provisions allow for a one-year extension to adopt the provisions of ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* (ASU 2014-09) and ASU 2016-02, *Leases (Topic 842)* (ASU 2016-02). Accordingly, ASU 2014-09 and ASU 2016-02 were not adopted during the year ended September 30, 2020.

Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles (GAAP), 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 (the USDA); accordingly, no provision for income taxes is included in the accompanying financial statements. The Board is not a private foundation.

AMERICAN LAMB BOARD

Notes To Financial Statements (*Continued*)

Basis Of Presentation

The accompanying financial statements are presented in accordance with GAAP, which requires the Board to report information regarding its financial position and activities according to the following net asset classifications:

Net Assets Without Donor Restrictions - Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the Board's management and executive board.

Net Assets With Donor Restrictions - Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions or by the passage of time. Other donor restrictions are perpetual in nature, where the donor has stipulated the funds be maintained in perpetuity. Donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

As of September 30, 2020, the Board reported only net assets without donor restrictions.

Functional Allocation Of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statement of activities. Certain costs have been allocated among the programs and supporting services benefited. Such allocations are determined by management on an equitable basis. Expenses that are allocated are done so on the basis of personnel time and effort and as agreed upon by the USDA.

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

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, 2020. 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 historical 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 \$2,500. Useful lives for equipment are three to five years.

Comparative Totals

The financial statements include certain prior-year summarized comparative information in total for the statement of functional expenses. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Board's financial statements for the year ended September 30, 2019, 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 79% of the collected revenues from five vendors. As such, the Board's revenues are dependent on the financial health of these five vendors. During the year ended September 30, 2020, one vendor ceased operations. A portion of this vendor's production was absorbed by other vendors and the impact on future revenue to the Board cannot be estimated.

AMERICAN LAMB BOARD

Notes To Financial Statements (Continued)

Advertising Costs

The Board expenses the production costs of advertising the first time the advertising takes place. Advertising expense consists primarily of online and magazine advertisements. Total advertising expense of \$23,072 for 2020 is included in promotion and communications expense.

2. Liquidity And Availability

The following represents the Board's financial assets at September 30, 2020:

	<u>2020</u>
Financial assets at year end:	
Cash and cash equivalents	\$ 1,161,422
Accounts receivable	<u>143,221</u>
Total Financial Assets	<u>1,304,643</u>
Less amounts not available to be used within one year:	
Director designated net assets	<u>225,000</u>
Financial Assets Available To Meet General Expenditures Over The Next 12 Months	<u>\$ 1,079,643</u>

The Board seeks to manage its liquidity by leaving a sufficient portion of its assets in liquid cash and investment accounts in order to meet near-term obligations.

3. 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.

AMERICAN LAMB BOARD

Notes To Financial Statements (Continued)

4. Net Assets

Board-Designated Net Assets

The Board of Directors has internally 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.

5. Equipment

Equipment consisted of the following:

	<u>October 1, 2019</u>	<u>Additions</u>	<u>Deletions</u>	<u>September 30, 2020</u>
Equipment	\$ 12,527	\$ —	\$ (1,888)	\$ 10,639
Accumulated depreciation	(8,547)	(2,388)	1,888	(9,047)
Total	\$ 3,980	\$ (2,388)	\$ —	\$ 1,592

Depreciation expense for the year ended September 30, 2020 was \$2,388.

AMERICAN LAMB BOARD

Notes To Financial Statements (Continued)

6. 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,	Amount
2021	\$ 38,521
2022	6,449
Total	\$ 44,970

The Board paid \$37,446 for office space and storage rental during fiscal 2020.

7. Subsequent Events

On March 11, 2020, the World Health Organization recognized COVID-19 as a global pandemic, prompting many national, regional and local governments to implement preventative or protective measures, such as travel and business restrictions, temporary store closures and wide-sweeping quarantines and stay-at-home orders. As a result, COVID-19 and the related restrictive measures have had a significant adverse impact upon many sectors of the economy.

Management evaluates subsequent events through the date financial statements are available for issue, which is the date of the Independent Auditors' Report.

Supplementary Information

AMERICAN LAMB BOARD

SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - BUDGET AND ACTUAL For The Year Ended September 30, 2020

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Collections	\$ 2,200,000	\$ 2,200,000	\$ 1,887,962	\$ (312,038)
Miscellaneous revenue - promo items	12,000	12,000	11,943	(57)
Interest income	4,000	4,000	3,784	(216)
Total Revenues	2,216,000	2,216,000	1,903,689	(312,311)
Expenses				
Promotion	1,444,090	1,462,590	1,095,906	366,684
Communications	388,910	410,910	299,630	111,280
Research	98,000	174,000	151,572	22,428
USDA annual oversight	90,000	90,000	136,782	(46,782)
Administration	195,000	195,000	165,819	29,181
Total Expenses	2,216,000	2,332,500	1,849,709	482,791
Excess (Deficiency) Of Revenues Over (Under) Expenses	\$ —	\$ (116,500)	53,980	\$ 170,480
Net Assets - Beginning Of Year			1,193,386	
Net Assets - End Of Year			\$ 1,247,366	

Compliance Section

**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, 2020 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 8, 2021.

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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose Of This Report

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

RubinBrown LLP

January 8, 2021

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, 2020, and have issued our report thereon dated January 8, 2021.

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 8, 2021