
AMERICAN LAMB BOARD

FINANCIAL STATEMENTS

SEPTEMBER 30, 2019

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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, 2019 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, 2019 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.

Emphasis Of A Matter

As discussed in Note 1, the Board adopted the provisions of the Financial Accounting Standards Board Accounting Standards Update 2016-14, *Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion was not modified with respect to this matter.

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 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 3, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2018 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 2, 2020 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 2, 2020

AMERICAN LAMB BOARD

STATEMENT OF FINANCIAL POSITION September 30, 2019 (With Comparative Totals For September 30, 2018)

	2019	2018
Assets		
Current Assets		
Cash and cash equivalents	\$ 1,239,771	\$ 1,363,015
Accounts receivable	175,362	197,280
Prepaid expenses	8,154	7,769
Total Current Assets	1,423,287	1,568,064
Equipment (net of accumulated depreciation)	3,980	6,474
Total Assets	\$ 1,427,267	\$ 1,574,538
Liabilities And Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 233,881	\$ 152,271
Net Assets Without Donor Restrictions		
Undesignated	968,386	1,197,267
Director designated	225,000	225,000
Total Net Assets Without Donor Restrictions	1,193,386	1,422,267
Total Liabilities And Net Assets	\$ 1,427,267	\$ 1,574,538

AMERICAN LAMB BOARD

STATEMENT OF ACTIVITIES

For The Year Ended September 30, 2019

(With Comparative Totals For The Year Ended September 30, 2018)

	2019	2018
Revenues		
Collections	\$ 2,229,173	\$ 2,254,161
Interest income	3,675	1,993
Other	17,052	9,723
Total Revenues	2,249,900	2,265,877
Expenses		
Program expenses:		
Communications	420,290	441,204
Promotion	1,615,684	1,599,672
Research	187,120	121,162
Total Program Expenses	2,223,094	2,162,038
Support services:		
Administration	180,113	174,905
USDA	75,574	75,838
Total Support Services	255,687	250,743
Total Expenses	2,478,781	2,412,781
Change In Net Assets	(228,881)	(146,904)
Net Assets, Beginning Of Year	1,422,267	1,569,171
Net Assets, End Of Year	\$ 1,193,386	\$ 1,422,267

AMERICAN LAMB BOARD

STATEMENT OF FUNCTIONAL EXPENSES

For The Year Ended September 30, 2019

(With Comparative Totals For The Year Ended September 30, 2018)

Expenses	Program Expenses			Support Services		Total 2019	Total 2018
	Communications	Promotion	Research	Administration	USDA		
Promotion	\$ —	\$ 1,339,666	\$ —	\$ —	\$ —	\$ 1,339,666	\$ 1,330,858
Communications	285,398	—	—	—	—	285,398	318,640
Research	—	—	187,120	—	—	187,120	121,162
USDA	—	—	—	—	75,574	75,574	75,838
Travel	11,737	26,765	—	62,907	—	101,409	107,337
Accounting and compliance	—	—	—	45,807	—	45,807	42,219
Legal	—	—	—	—	—	—	630
Audit	—	—	—	10,300	—	10,300	10,300
Professional	891	2,316	—	356	—	3,563	3,150
Occupancy	9,093	23,641	—	3,637	—	36,371	35,296
Postage and shipping	27,289	—	—	2,738	—	30,027	24,504
Phone	1,779	4,625	—	711	—	7,115	6,493
Office supplies and equipment	1,960	5,097	—	784	—	7,841	12,067
Depreciation	624	1,621	—	249	—	2,494	1,425
Program management and other administration	81,519	211,953	—	52,624	—	346,096	322,862
Total Expenses	\$ 420,290	\$ 1,615,684	\$ 187,120	\$ 180,113	\$ 75,574	\$ 2,478,781	\$ 2,412,781

AMERICAN LAMB BOARD

STATEMENT OF CASH FLOWS

For The Year Ended September 30, 2019

(With Comparative Totals For The Year Ended September 30, 2018)

	2019	2018
Cash Flows From Operating Activities		
Cash received from collections	\$ 2,251,091	\$ 2,270,999
Interest received	3,675	1,993
Cash received from other sources	17,052	9,723
Cash paid to employees and suppliers	(2,395,062)	(2,441,909)
Net Cash Used In Operating Activities	(123,244)	(159,194)
Cash Flows From Investing Activities		
Cash paid for acquisition of equipment	—	(7,165)
Net Decrease In Cash And Cash Equivalents	(123,244)	(166,359)
Cash And Cash Equivalents, Beginning Of Year	1,363,015	1,529,374
Cash And Cash Equivalents, End Of Year	\$ 1,239,771	\$ 1,363,015
Reconciliation Of Change In Net Assets To Net Cash Used In Operating Activities		
Change in net assets	\$ (228,881)	\$ (146,904)
Adjustments To Reconcile Change In Net Assets To Net Cash Used In Operating Activities		
Depreciation expense	2,494	1,425
Changes in assets and liabilities:		
Accounts receivable	21,918	16,838
Prepaid expenses and other	(385)	(459)
Accounts payable and accrued expenses	81,610	(30,094)
Net Cash Used In Operating Activities	\$ (123,244)	\$ (159,194)

AMERICAN LAMB BOARD

NOTES TO FINANCIAL STATEMENTS

September 30, 2019

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.

AMERICAN LAMB BOARD

Notes To Financial Statements (*Continued*)

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.

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, 2019, the Board reported only net assets without donor restrictions.

AMERICAN LAMB BOARD

Notes To Financial Statements (*Continued*)

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.

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, 2019. 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, 2018, from which the summarized information was derived.

AMERICAN LAMB BOARD

Notes To Financial Statements (*Continued*)

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 76% of the collected revenues from six vendors. As such, the Board's revenues are dependent on the financial health of these six 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 \$23,596 for 2019 is included in promotion and communication expense.

Change In Accounting Principle

On August 18, 2016, the Financial Accounting Standards Board issued Accounting Standards Update 2016-14, *Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities* (the ASU). The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources and the lack of consistency in the type of information provided about expenses and investment return. The Board has adjusted the presentation of these statements accordingly.

AMERICAN LAMB BOARD

Notes To Financial Statements (*Continued*)

2. Liquidity And Availability

The following represents the Board's financial assets at September 30, 2019:

	<u>2019</u>
Financial assets at year end:	
Cash and cash equivalents	\$ 1,239,771
Accounts receivable	175,362
Total Financial Assets	<u>1,415,133</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>\$ 1,190,133</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.

4. Net Assets

Board-Designated Net Assets

The Board of Directors (the 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.

AMERICAN LAMB BOARD

Notes To Financial Statements (Continued)

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, 2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>September 30, 2019</u>
Equipment	\$ 16,381	\$ —	\$ (3,854)	\$ 12,527
Accumulated depreciation	(9,907)	(2,494)	3,854	(8,547)
Total	\$ 6,474	\$ (2,494)	\$ —	\$ 3,980

Depreciation expense for the year ended September 30, 2019 was \$2,494.

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:

<u>Fiscal Year Ended</u> <u>September 30, 2019</u>	<u>Amount</u>
2020	\$ 37,446
2021	38,521
2022	6,450
Total	\$ 82,417

The Board paid \$36,371 for office space and storage rental during fiscal 2019.

7. Subsequent Events

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, 2019

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues			
Collections	\$ 2,200,000	\$ 2,229,173	\$ 29,173
Miscellaneous revenue - promo items	10,000	17,052	7,052
Interest income	2,000	3,675	1,675
Total Revenues	<u>2,212,000</u>	<u>2,249,900</u>	<u>37,900</u>
Expenses			
Promotion	1,822,175	1,615,684	206,491
Communications	425,825	420,290	5,535
Research	203,000	187,120	15,880
USDA annual oversight	95,000	75,574	19,426
Administration	200,000	180,113	19,887
Total Expenses	<u>2,746,000</u>	<u>2,478,781</u>	<u>267,219</u>
Deficiency Of Revenues Under Expenses	<u>\$ (534,000)</u>	<u>(228,881)</u>	<u>\$ 305,119</u>
Net Assets - Beginning Of Year		<u>1,422,267</u>	
Net Assets - End Of Year		<u>\$ 1,193,386</u>	

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, 2019 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 2, 2020.

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 2, 2020



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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, 2019, and have issued our report thereon dated January 2, 2020

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 2, 2020