
AMERICAN LAMB BOARD

FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

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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, 2017 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, 2017 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 (USDA) Guidelines for Agricultural Marketing Service Oversight of Commodity Research and Promotion Programs (Guidelines), dated June 2012, 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 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 20, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2016 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 USDA described in the Other Matter 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 4, 2018 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 17, 2018

AMERICAN LAMB BOARD

STATEMENT OF FINANCIAL POSITION September 30, 2017 (With Comparative Totals For September 30, 2016)

	2017	2016
Assets		
Current Assets		
Cash and cash equivalents	\$ 1,529,374	\$ 1,222,403
Accounts receivable	214,118	201,389
Prepaid expenses	7,310	8,883
Total Current Assets	1,750,802	1,432,675
Equipment (net of accumulated depreciation) (Note 4)	734	1,364
Total Assets	\$ 1,751,536	\$ 1,434,039
Liabilities And Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 182,365	\$ 145,811
Net Assets		
Unrestricted		
Undesignated	1,344,171	1,063,228
Director designated (Note 3)	225,000	225,000
Total Net Assets	1,569,171	1,288,228
Total Liabilities And Net Assets	\$ 1,751,536	\$ 1,434,039

AMERICAN LAMB BOARD

STATEMENT OF ACTIVITIES

For The Year Ended September 30, 2017

(With Comparative Totals For The Year Ended September 30, 2016)

	2017	2016
Revenues		
Collections	\$ 2,253,177	\$ 2,389,709
Interest income	1,619	1,403
Other	10,368	7,754
Total Revenues	2,265,164	2,398,866
Expenses		
Program expenses:		
Communications	260,000	297,908
Promotion	1,378,181	1,440,029
Research	114,015	215,576
Total Program Expenses	1,752,196	1,953,513
Support services:		
Administration	170,032	185,320
USDA	61,993	73,297
Total Support Services	232,025	258,617
Total Expenses	1,984,221	2,212,130
Change In Net Assets	280,943	186,736
Net Assets, Beginning Of Year	1,288,228	1,101,492
Net Assets, End Of Year	\$ 1,569,171	\$ 1,288,228

AMERICAN LAMB BOARD

STATEMENT OF FUNCTIONAL EXPENSES

For The Year Ended September 30, 2017

(With Comparative Totals For The Year Ended September 30, 2016)

Expenses	Program Expenses			Support Services		Total 2017	Total 2016
	Communications	Promotion	Research	Administration	USDA		
Promotion	\$ —	\$ 1,136,609	\$ —	\$ —	\$ —	\$ 1,136,609	\$ 1,201,891
Communications	138,689	—	—	—	—	138,689	187,645
Research	—	—	114,015	—	—	114,015	215,576
USDA	—	—	—	—	61,993	61,993	73,297
Travel	8,642	14,405	—	59,820	—	82,867	99,824
Accounting and compliance	—	—	—	36,477	—	36,477	37,350
Legal	—	—	—	4,859	—	4,859	1,023
Audit	—	—	—	10,300	—	10,300	9,500
Professional	1,129	2,934	—	451	—	4,514	3,887
Occupancy	7,167	18,634	—	2,866	—	28,667	26,804
Postage and shipping	25,337	103	—	2,477	—	27,917	25,341
Phone	1,473	3,829	—	589	—	5,891	6,831
Office supplies and equipment	4,429	11,515	—	1,772	—	17,716	17,281
Depreciation (Note 4)	157	410	—	63	—	630	1,380
Program management and other administration	72,977	189,742	—	50,358	—	313,077	304,500
Total Expenses	\$ 260,000	\$ 1,378,181	\$ 114,015	\$ 170,032	\$ 61,993	\$ 1,984,221	\$ 2,212,130

AMERICAN LAMB BOARD

STATEMENT OF CASH FLOWS

For The Year Ended September 30, 2017

(With Comparative Totals For The Year Ended September 30, 2016)

	2017	2016
Cash Flows From Operating Activities		
Cash received from collections	\$ 2,240,448	\$ 2,395,795
Interest received	1,619	1,403
Cash received from other sources	10,368	7,754
Cash paid to employees and suppliers	(1,945,464)	(2,366,430)
Net Cash Provided By Operating Activities	306,971	38,522
Cash Flows From Investing Activities		
Cash paid for acquisition of equipment	—	(1,888)
Net Increase In Cash And Cash Equivalents	306,971	36,634
Cash And Cash Equivalents, Beginning Of Year	1,222,403	1,185,769
Cash And Cash Equivalents, End Of Year	\$ 1,529,374	\$ 1,222,403
Reconciliation Of Change In Net Assets To Net Cash Provided By Operating Activities		
Change in net assets	\$ 280,943	\$ 186,736
Adjustments To Reconcile Change In Net Assets To Net Cash Provided By Operating Activities		
Depreciation expense	630	1,380
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(12,729)	6,086
(Increase) decrease in prepaid expenses and other	1,573	(4,708)
Increase (decrease) in accounts payable and accrued expenses	36,554	(150,972)
Net Cash Provided By Operating Activities	\$ 306,971	\$ 38,522

AMERICAN LAMB BOARD

NOTES TO FINANCIAL STATEMENTS

September 30, 2017

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.

AMERICAN LAMB BOARD

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

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, 2017. 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 \$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 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, 2016, 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 89% 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 \$35,909 for 2017 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, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>September 30, 2017</u>
Equipment	\$ 14,825	\$ —	\$ (1,394)	\$ 13,431
Accumulated depreciation	(13,461)	(630)	1,394	(12,697)
Total	\$ 1,364	\$ (630)	\$ —	\$ 734

Depreciation expense for the year ended September 30, 2017 was \$630.

AMERICAN LAMB BOARD

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,	
<hr/>	
2018	\$ 35,296
2019	36,371
2020	37,446
2021	38,521
2022	6,450
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Total	\$ 154,084
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The Board paid \$28,667 for office space and storage rental during fiscal 2017.

6. 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 Year Ended September 30, 2017

	<u>Final</u>		<u>Variance</u>
	<u>Budget</u>	<u>Actual</u>	<u>Favorable</u>
			<u>(Unfavorable)</u>
Revenues			
Collections	\$ 2,350,000	\$ 2,253,177	\$ (96,823)
Miscellaneous revenue - promo items	7,500	10,368	2,868
Interest income	1,000	1,619	619
Total Revenues	2,358,500	2,265,164	(93,336)
Expenses			
Promotion	1,655,860	1,378,181	277,679
Communications	421,390	260,000	161,390
Research	110,000	114,015	(4,015)
USDA Annual Oversight	115,000	61,993	53,007
Administration	202,250	170,032	32,218
Total Expenses	2,504,500	1,984,221	520,279
Excess (Deficiency) Of Revenues			
Over (Under) Expenses	\$ (146,000)	280,943	\$ 426,943
Net Assets - Beginning Of Year		<u>1,288,228</u>	
Net Assets - End Of Year		<u>\$ 1,569,171</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, 2017, 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 4, 2018.

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 17, 2018

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, 2017, and have issued our report thereon dated January 17, 2018

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 17, 2018