

CATTLEMEN'S BEEF PROMOTION AND RESEARCH BOARD

Financial Statements

September 30, 2017 and 2016

(With Independent Auditors' Report Thereon)

INDEPENDENT AUDITORS' REPORT

Board of Directors
Cattlemen's Beef Promotion and Research Board
Centennial, Colorado

Report on the Financial Statements

We have audited the accompanying financial statements of Cattlemen's Beef Promotion and Research Board (the Board), which comprise the statements of assets, liabilities, and net assets – modified cash basis as of September 30, 2017 and 2016, and the related statements of revenues, expenses, and changes in unrestricted net assets – modified cash basis for the years 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 the modified cash basis of accounting described in Note 2; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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 audits. We conducted our audits 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 assets, liabilities, and net assets – modified cash basis of the Board as of September 30, 2017 and 2016, and its revenues, expenses, and changes in unrestricted net assets – modified cash basis for the years then ended, in accordance with the basis of accounting as described in Note 2.

Basis of Accounting

We draw attention to Note 2 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplementary statements of assessment revenues by state – modified cash basis 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 9, 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 result of that testing, and not to provide an opinion on the effectiveness of 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.

Other Matters

In connection with our audits, nothing came to our attention that caused us to believe the Board failed to comply with the provisions of the Beef Promotion and Research Act of 1985 (the Act) and the Beef Promotion and Research Order (the Order) related to the use of funds collected by the Board insofar as they relate to accounting matters. Further, in connection with our audits, nothing came to our attention that caused us to believe the Board was not in compliance with the terms of Section 1260.149(f) of the Order, or with the terms of the Agricultural Marketing Service (AMS) Investment Policy as revised by the AMS on April 6, 2015, which describe the type of instruments in which the Board may invest, insofar as they relate to accounting matters. However, our audits were not directed primarily towards 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 Act, Order, and AMS Investment Policy, insofar as they relate to accounting matters.

Board of Directors
Cattlemen's Beef Promotion and Research Board

The report is intended solely for the information and use of the members of the Board and its management, the Audit Committee, and the United States Department of Agriculture and is not intended to be, and should not be, used by anyone other than these specific parties.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Greenwood Village, Colorado
January 9, 2018

CATTLEMEN'S BEEF PROMOTION AND RESEARCH BOARD

Statements of Assets, Liabilities, and Net Assets

(Modified Cash Basis, Note 2)

September 30, 2017 and 2016

<u>ASSETS</u>	<u>2017</u>	<u>2016</u>
Cash and Cash Equivalents (Note 3)	\$10,413,663	\$ 13,757,930
Short-Term Investments (Note 3)	3,000,000	1,500,000
Long-Term Investments (Note 3)	7,000,000	5,500,000
Capital Assets, net of accumulated depreciation of \$70,652 and \$70,607, respectively	2,793	4,740
Other	<u>480</u>	<u>144</u>
Total Assets	<u>\$20,416,936</u>	<u>\$20,762,814</u>
 <u>LIABILITIES AND NET ASSETS</u>		
Due to State Beef Councils and Other	\$ 3,489	\$ 3,130
Due to Montana Beef Council (Note 5)	<u>62,778</u>	<u>-</u>
Total Liabilities	66,267	3,130
Net Assets - Unrestricted (Note 6):		
Designated for future expenses	15,025,245	16,066,876
Designated - Board reserve	4,350,000	4,350,000
Undesignated	<u>975,424</u>	<u>342,808</u>
Total Net Assets	<u>20,350,669</u>	<u>20,759,684</u>
Total Liabilities and Net Assets	<u>\$20,416,936</u>	<u>\$20,762,814</u>

The accompanying notes to financial statements are an integral part of these statements.

CATTLEMEN'S BEEF PROMOTION AND RESEARCH BOARD
Statements of Revenues, Expenses, and Changes in Unrestricted Net Assets
(Modified Cash Basis, Note 2)
For The Years Ended September 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
REVENUES:		
Assessments (Note 1)	\$40,926,265	\$39,114,755
Interest	110,656	109,324
Other	<u>18,981</u>	<u>35,982</u>
Total revenues	<u>41,055,902</u>	<u>39,260,061</u>
EXPENSES:		
Program Expenses -		
Promotion	7,871,078	7,483,378
Research	9,102,863	9,755,701
Consumer Information	7,913,258	7,279,544
Industry Information	4,180,808	3,054,637
Foreign Marketing	8,140,797	8,123,678
Producer Communications	1,498,613	1,460,199
Program Evaluation	202,832	203,164
Program Development	<u>292,090</u>	<u>265,182</u>
Total program expenses	39,202,339	37,625,483
Supporting Services -		
USDA Oversight	465,853	349,024
Administration (Note 4)	<u>1,796,725</u>	<u>1,746,258</u>
Total expenses	<u>41,464,917</u>	<u>39,720,765</u>
Change in net assets	(409,015)	(460,704)
Beginning unrestricted net assets	<u>20,759,684</u>	<u>21,220,388</u>
Ending unrestricted net assets	<u>\$20,350,669</u>	<u>\$20,759,684</u>

The accompanying notes to financial statements are an integral part of these statements.

CATTLEMEN'S BEEF PROMOTION AND RESEARCH BOARD

Notes to Financial Statements (Modified Cash Basis)

September 30, 2017 and 2016

(1) ORGANIZATION AND OPERATIONS

The Beef Promotion and Research Act of 1985 (the Act), approved on December 23, 1985, by the United States Congress, established a coordinated program of promotion and research designed to strengthen the beef industry's position in the marketplace, as well as to maintain and expand domestic and foreign markets and uses for beef and beef products. As provided in the Act, the Secretary of the United States Department of Agriculture (the Secretary) issued the Beef Promotion and Research Order (the Order), effective July 18, 1986, which provides the terms and conditions for the Act's administration. The Cattlemen's Beef Promotion and Research Board (the Board), which was created and approved by the Secretary to administer the Act, consists of 100 members who are representatives of the cattle industry in the United States, including importers. Board members are appointed by the Secretary.

The program is financed by a \$1 per head assessment on domestic sales of cattle and on imported cattle, beef, and beef products. The Board, as part of its responsibilities under the Act and Order, may certify no more than one Qualified State Beef Council (Council) in each state and authorize that Council to collect such assessments. The assessments are remitted to the Councils or the Board. The Board receives one-half of assessment monies from states with Councils and the Councils retain the remainder. The Board receives all assessment revenues from states without Councils and from imported cattle, beef, and beef products.

Pursuant to the Act, the Board's expenses for administration are limited to 5% or less of projected revenues. All remaining revenues are expended on programs related to promotion, research, and information for the beef industry. The Board contracts with established national cattle- or beef-industry-governed nonprofit organizations for the implementation and conduct of these programs. Under the terms of these contracts, the entities, which receive Board contracts, are subject to annual audits and reviews.

During fiscal years 2017 and 2016, the Board reimbursed the following industry organizations for program expenses incurred on approved projects:

<u>Name of Contractor</u>	<u>2017</u>	<u>2016</u>
Meat Importers Council of America	\$ 373,211	\$ 386,133
National American Meat Institute	682,672	881,014
National Cattlemen's Beef Association (NCBA)	35,788,714	33,987,056
American Farm Bureau Foundation	297,704	386,003
National Livestock Producers Association	66,500	47,500
American National CattleWomen	-	9,232

The program expenses incurred by NCBA during fiscal years 2017 and 2016 included reimbursements for costs incurred under subcontracts with the U.S. Meat Export Federation of \$8,140,797 and \$8,123,678, respectively.

CATTLEMEN'S BEEF PROMOTION AND RESEARCH BOARD

Notes to Financial Statements (Modified Cash Basis)

September 30, 2017 and 2016

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements have been prepared on the modified cash basis of accounting. Under this method, certain revenues are recognized when received rather than when earned and certain expenses are recognized when paid rather than when incurred. At September 30, 2017 and 2016, there were assessment receivables of approximately \$6,600,000 and \$6,400,000, accrued compensated absences of approximately \$51,000 and \$54,000 and accounts payable of approximately \$7,000,000 and \$7,600,000, respectively, which are not reflected in the accompanying financial statements. Accounts payable relate to appropriated expenditures are included in the net assets designated for future expenses in the accompanying statements of assets, liabilities and net assets (Note 6).

As discussed in Note 1, the Board receives one-half of the assessment monies collected by the Councils and the remainder is retained by the Councils. The accompanying financial statements include only the Board's share of assessment monies and do not include amounts related to either revenues or expenses of the individual Councils.

Cash, Cash Equivalents and Investments

For purposes of classifying investments, the Board considers all highly-liquid investments with an original maturity of three months or less to be cash equivalents. Cash equivalents and investments are recorded at cost.

Depreciation

Capital assets, which include equipment and leasehold improvements, are recorded at cost. The Board capitalizes all capital asset purchases greater than \$1,000. Depreciation is computed using the straight-line method over the estimated useful lives of three to ten years.

Use of Estimates

The preparation of financial statements require management to make estimates and assumptions that affect certain reported amounts and disclosures, primarily those estimates included in the Basis of Accounting disclosure above. Accordingly, actual results could differ from those estimates.

CATTLEMEN'S BEEF PROMOTION AND RESEARCH BOARD

Notes to Financial Statements (Modified Cash Basis)

September 30, 2017 and 2016

(3) CASH, CASH EQUIVALENTS, AND INVESTMENTS

The Secretary has provided that excess cash may be invested, on a short-term basis, in certificates of deposit insured by the Federal Deposit Insurance Corporation or obligations of the United States, U.S. Government agencies, or U.S. Government-sponsored corporations. In April 2015, the Secretary granted an exemption to the Board allowing the Board to extend investment maturities to five years for investments not to exceed \$7 million in the aggregate. Cash, cash equivalents and investments at September 30, 2017 and 2016, by investment type, are as follows:

	Cash and Cash Equivalents	Short-Term Investments	Long-Term Investments	Total Carrying Value	Total Fair Value
September 30, 2017:					
Demand Deposit Account	\$ 4,273,465	\$ -	\$ -	\$ 4,273,465	\$ 4,273,465
Money Market Accounts	6,414,643	-	-	6,414,643	6,414,643
Certificates of Deposit	-	3,000,000	7,000,000	10,000,000	10,000,000
Less – Outstanding Checks	<u>(274,445)</u>	<u>-</u>	<u>-</u>	<u>(274,445)</u>	<u>(274,445)</u>
Totals for 2017	<u>\$ 10,413,663</u>	<u>\$ 3,000,000</u>	<u>\$ 7,000,000</u>	<u>\$20,413,663</u>	<u>\$20,413,663</u>
	Cash and Cash Equivalents	Short-Term Investments	Long-Term Investments	Total Carrying Value	Total Fair Value
September 30, 2016:					
Demand Deposit Account	\$ 4,250,025	\$ -	\$ -	\$ 4,250,025	\$ 4,250,025
Money Market Accounts	11,323,843	-	-	11,323,843	11,323,843
Certificates of Deposit	-	1,500,000	5,500,000	7,000,000	7,000,000
Less – Outstanding Checks	<u>(1,815,938)</u>	<u>-</u>	<u>-</u>	<u>(1,815,938)</u>	<u>(1,815,938)</u>
Totals for 2016	<u>\$ 13,757,930</u>	<u>\$ 1,500,000</u>	<u>\$ 5,500,000</u>	<u>\$20,757,930</u>	<u>\$20,757,930</u>

In accordance with the Board's policy, the demand deposit accounts, the money market accounts, and the certificates of deposit are insured by the Federal Deposit Insurance Corporation and/or fully collateralized by U.S. Government securities held at the Federal Reserve Bank in the Board's name.

CATTLEMEN'S BEEF PROMOTION AND RESEARCH BOARD

Notes to Financial Statements (Modified Cash Basis)

September 30, 2017 and 2016

(4) ADMINISTRATION EXPENSE

The Act limits expenses for the administration of the program to 5% or less of projected revenues. Projected revenues were \$40,738,000 for 2017 and \$40,430,000 for 2016. Accordingly, the administrative expenses incurred by the Board were limited to \$2,036,900 in 2017 and \$2,021,500 in 2016. Administrative expenses incurred by the Board on the accrual basis (versus modified cash basis amounts reflected in the accompanying statements of revenues, expenses and changes in unrestricted net assets) were approximately \$1,796,000 (4.41% of projected revenues) in 2017 and \$1,738,000 (4.30% of projected revenues) in 2016. Expressed as a percentage of actual revenues, the Board's administrative expenses were 4.38% in 2017 and 4.45% in 2016.

The Board has entered into an Administrative Services Agreement with NCBA whereby NCBA agreed to provide certain administrative services to the Board in return for reimbursement of all direct and indirect costs related to the provided services. During 2017 and 2016, respectively, the Board paid NCBA approximately \$31,000 and \$42,000 related to this agreement.

The Board leases office facilities and equipment from outside third-parties under operating leases. Payments required under the leases were approximately \$97,000 during 2017 and \$98,000 during 2016. Future annual payments related to the leases are approximately \$100,000 in 2018, \$101,000 in 2019, \$53,000 in 2020 and \$1,000 in 2021.

(5) ACCOUNTS PAYABLE – MONTANA BEEF COUNCIL

On May 2, 2016, a case was filed in the U.S. District Court in Montana by the Ranchers-Cattlemen Action Legal Fund (R-Calf) vs USDA. This case challenges the interpretation of the concept of government speech and how it applies to the Montana Beef Council. On June 21, 2017, the U.S. District Court in Montana issued a preliminary injunction in the case, ordering USDA to refrain from continuing to allow the Montana Beef Council to use beef checkoff funds that it collects to fund its advertising campaigns, unless the payer of the funds has provided prior consent for the Montana Beef Council to do so. As a result of this injunction, the Montana Beef Council began forwarding all assessments that it collects to the Board. The Board is segregating these funds as a payable pending a final decision in the case. Any funds for which the Montana Beef Council has received prior consent from the payer of the funds will be refunded to the Montana Beef Council. The case is currently on appeal to the U.S. Court of Appeals for the Ninth Circuit with the government appealing the decision of the District Court. The parties are currently briefing the issues before the Ninth Circuit.

CATTLEMEN'S BEEF PROMOTION AND RESEARCH BOARD

Notes to Financial Statements (Modified Cash Basis)

September 30, 2017 and 2016

(6) UNRESTRICTED NET ASSETS

Unrestricted net assets represent amounts currently available for the use in the Board's operation in accordance with the Act and those resources invested in fixed assets. Designated net asset balances represent tentative plans of the Board for future use of financial resources, as follows:

Designated for Future Expenses

This balance relates to unexpended program appropriations.

Designated - Board Reserve

On October 6, 2010, the Board has approved the establishment of a reserve in the amount of \$4,350,000 to be used, as the Board may deem necessary, with the approval of the Secretary.

Undesignated

As of September 30, 2017 and 2016, \$975,424 and \$342,808, respectively, of the net assets had not been designated by the Board and is available for budgeting to the various program areas. Of these amounts, \$2,793 and \$4,740 represent net assets invested in fixed assets as of September 30, 2017 and 2016, respectively.

(7) INCOME TAX STATUS

The Board has received a ruling from the Internal Revenue Service stating that it is classified as a tax-exempt entity that engages in activities under the aegis of the United States Department of Agriculture.

(8) PENSION PLAN

The Board provides a defined contribution plan for all of its employees under which annual contributions are provided based on a percentage of each employee's salary. Contributions required and funded by the Board were approximately \$101,000 and \$112,000 in 2017 and 2016, respectively.

(9) SUBSEQUENT EVENTS

Subsequent events have been evaluated through January 9, 2018, which is the date the financial statements were available to be issued.

CATTLEMEN'S BEEF PROMOTION AND RESEARCH BOARD

Supplementary Statement of Assessment Revenues by State

(Modified Cash Basis)

For the Years Ended September 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSESSMENT REVENUES:		
Qualified State Beef Councils-		
Alabama	\$ 296,378	\$ 278,135
Arizona	313,068	313,917
Arkansas	368,387	334,158
California	1,760,469	1,778,918
Colorado	1,534,234	1,405,392
Delaware	5,146	4,732
Florida	331,076	315,044
Georgia	285,889	258,797
Hawaii	20,270	10,371
Idaho	766,920	773,936
Illinois	315,125	291,333
Indiana	243,826	273,665
Iowa	1,647,056	1,607,475
Kansas	3,778,918	3,448,338
Kentucky	665,255	593,631
Louisiana	157,927	101,622
Maryland	41,751	42,511
Michigan	308,407	323,496
Minnesota	769,446	696,678
Mississippi	267,223	254,269
Missouri	1,289,833	1,160,553
Montana	972,989	889,324
Nebraska	3,620,549	3,467,619
Nevada	105,610	105,391
New Jersey	3,775	3,779
New Mexico	560,255	531,871
New York	316,449	324,584
North Carolina	149,345	140,554
North Dakota	613,320	561,312

CATTLEMEN'S BEEF PROMOTION AND RESEARCH BOARD

Supplementary Statement of Assessment Revenues by State

(Modified Cash Basis)

For the Years Ended September 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSESSMENT REVENUES: (Continued)		
Qualified State Beef Councils-		
Ohio	\$ 316,216	\$ 297,653
Oklahoma	1,854,803	1,616,760
Oregon	420,962	405,759
Pennsylvania	374,464	371,597
South Carolina	79,244	69,295
South Dakota	1,617,258	1,489,227
Tennessee	407,267	385,167
Texas	4,928,910	4,511,479
Utah	267,474	261,808
Vermont	44,378	44,176
Virginia	373,345	354,349
Washington	572,245	525,314
West Virginia	-	32,127
Wisconsin	710,916	722,414
Wyoming	<u>509,094</u>	<u>466,554</u>
Total Qualified State Beef Councils	<u>33,985,472</u>	<u>31,845,084</u>
States Without Qualified State Beef Councils-		
Alaska	190	167
Connecticut	13,254	13,413
Massachusetts	16,623	16,947
Maine	33,349	35,982
New Hampshire	10,536	11,139
Rhode Island	1,076	1,083
West Virginia	<u>167,755</u>	<u>105,772</u>
Total States Without Qualified State Beef Councils	<u>242,783</u>	<u>184,503</u>
Importers	<u>6,698,010</u>	<u>7,085,168</u>
Total Assessment Revenues	<u>\$40,926,265</u>	<u>\$39,114,755</u>

See the accompanying independent auditors' report.