

CATTLEMEN'S BEEF PROMOTION AND RESEARCH BOARD

Financial Statements

September 30, 2019 and 2018

(With Independent Auditors' Report Thereon)

**CATTLEMEN'S BEEF PROMOTION AND RESEARCH BOARD
TABLE OF CONTENTS
SEPTEMBER 30, 2019 AND 2018**

INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
STATEMENTS OF ASSETS, LIABILITIES, AND NET ASSETS	4
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTION	5
STATEMENTS OF FUNCTIONAL EXPENSES	6
NOTES TO FINANCIAL STATEMENTS	10
SUPPLEMENTARY INFORMATION	
SUPPLEMENTARY STATEMENT OF ASSESSMENT REVENUES BY STATE	16



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, 2019 and 2018, the related statements of revenues, expenses, and changes in net assets without donor restriction – modified cash basis, the statements of functional expenses – 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, 2019 and 2018, and its revenues, expenses, and changes in net assets without donor restriction – modified cash basis, and the statements of functional expenses – modified cash basis for the years then ended, in accordance with the basis of accounting as described in Note 2.

Change in Accounting Principle

As described in Note 2 to the financial statements, the Board has adopted the accounting guidance in Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958): *Presentation of Financial Statements of Not-For-Profit Entities*, which changes presentation and disclosure requirements for non-profit entities to provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors and other users. Accordingly the accounting change has been retrospectively applied. No cumulative-effect adjustment to net assets was recorded because the adoption did not significantly impact the Board's reported historical net assets. Our opinion is not modified with respect to this matter.

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 are presented for purposes of additional analysis and are 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 7, 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 solely 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 the effectiveness of the Board's 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.

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

Denver, Colorado
January 7, 2020

CATTLEMEN'S BEEF PROMOTION AND RESEARCH BOARD

Statement of Assets, Liabilities, and Net Assets

(Modified Cash Basis, Note 2)

September 30, 2019 and 2018

<u>ASSETS</u>	<u>2019</u>	<u>2018</u>
Cash and Cash Equivalents (Note 3)	\$6,413,616	\$ 9,250,308
Short-Term Investments (Note 3)	11,000,000	9,000,000
Long-Term Investments (Note 3)	5,500,000	5,500,000
Capital Assets, net of accumulated depreciation of \$72,744 and \$74,768, respectively	<u>2,150</u>	<u>5,129</u>
Total Assets	<u>\$22,915,766</u>	<u>\$23,755,437</u>
 <u>LIABILITIES AND NET ASSETS</u> 		
Due to State Beef Councils and Other	\$ 2,499	\$ 2,622
Montana Payables for Assessments and Other (Note 6)	<u>954,992</u>	<u>577,547</u>
Total Liabilities	957,491	580,169
Net Assets - Without Donor Restriction (Note 7):		
Designated for future expenses	15,912,520	16,020,917
Designated - Board reserve	4,350,000	4,350,000
Undesignated	<u>1,695,755</u>	<u>2,804,351</u>
Total Net Assets	<u>21,958,275</u>	<u>23,175,268</u>
Total Liabilities and Net Assets	<u>\$22,915,766</u>	<u>\$23,755,437</u>

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

CATTLEMEN'S BEEF PROMOTION AND RESEARCH BOARD

Statement of Revenues, Expenses, and Changes in Net Assets Without Donor Restriction

(Modified Cash Basis, Note 2)

For The Years Ended September 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
REVENUES:		
Assessments	\$42,706,709	\$42,560,297
Interest	346,900	155,700
Other	<u>35,555</u>	<u>42,763</u>
Total revenues	<u>43,089,164</u>	<u>42,758,760</u>
EXPENSES:		
Program Expenses -		
Promotion	10,580,409	9,225,691
Research	9,891,043	8,042,093
Consumer Information	7,571,245	7,345,798
Industry Information	3,357,876	3,560,607
Foreign Marketing	8,347,484	7,640,567
Producer Communications	1,637,234	1,179,898
Program Evaluation	158,875	230,795
Program Development	<u>435,772</u>	<u>295,075</u>
Total program expenses	41,979,938	37,520,524
Supporting Services -		
USDA Oversight	596,367	601,681
Administration (Note 5)	<u>1,729,852</u>	<u>1,811,956</u>
Total expenses	<u>44,306,157</u>	<u>39,934,161</u>
Change in net assets	(1,216,993)	2,824,599
Beginning Net Assets Without Donor Restriction	<u>23,175,268</u>	<u>20,350,669</u>
Ending Net Assets Without Donor Restriction	<u>\$21,958,275</u>	<u>\$23,175,268</u>

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

CATTLEMEN'S BEEF PROMOTION AND RESEARCH BOARD

Statement of Functional Expenses

(Modified Cash Basis, Note 2)

For The Year Ended September 30, 2019

	Program Expenses								Total Program Expenses
	Promotion	Research	Consumer Information	Industry Information	Foreign Marketing	Producer Communications	Program Evaluation	Program Development	
Professional and Other Contract Service Fees - Direct	\$ 8,792,066	\$ 5,729,277	\$ 3,714,941	\$ 1,543,396	\$ 5,978,252	\$ -	\$ -	\$ -	\$ 25,757,932
Professional and Other Contract Service Fees - Implementation	1,788,343	4,161,766	3,856,304	1,814,480	2,369,232	-	-	-	13,990,125
Salaries and Wages	-	-	-	-	-	77,832	23,135	183,876	284,843
Payroll Taxes and Employee Benefits	-	-	-	-	-	24,936	7,410	58,912	91,258
USDA Oversight Fees	-	-	-	-	-	-	-	-	-
Professional and Other Contract Service Fees	-	-	-	-	-	1,463,470	114,110	25,483	1,603,063
Travel and Transportation	-	-	-	-	-	15,982	5,628	125,829	147,439
Office Rent	-	-	-	-	-	13,762	2,085	17,336	33,183
Insurance	-	-	-	-	-	2,550	386	3,213	6,149
Equipment Rental	-	-	-	-	-	2,221	2,448	14,266	18,935
Other	-	-	-	-	-	36,481	3,673	6,857	47,011
Total Expenses	\$ 10,580,409	\$ 9,891,043	\$ 7,571,245	\$ 3,357,876	\$ 8,347,484	\$ 1,637,234	\$ 158,875	\$ 435,772	\$ 41,979,938

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

CATTLEMEN'S BEEF PROMOTION AND RESEARCH BOARD

Statement of Functional Expenses (continued)

(Modified Cash Basis, Note 2)

For The Year Ended September 30, 2019

	<u>Supporting Services</u>		<u>Total Expenses</u>
	<u>USDA Oversight</u>	<u>Administration</u>	
Professional and Other Contract			
Service Fees - Direct	\$ -	\$ -	\$ 25,757,932
Professional and Other Contract			
Service Fees - Implementation	-	-	13,990,125
Salaries and Wages	89,618	719,762	1,094,223
Payroll Taxes and Employee Benefits	28,714	226,939	346,911
USDA Oversight Fees	403,739	-	403,739
Professional and Other Contract			
Service Fees	56,271	299,993	1,959,327
Travel and Transportation	3,357	363,244	514,040
Office Rent	9,436	69,515	112,134
Insurance	1,749	12,882	20,780
Equipment Rental	357	9,521	28,813
Other	3,126	27,996	78,133
Total Expenses	<u>\$ 596,367</u>	<u>\$ 1,729,852</u>	<u>\$ 44,306,157</u>

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

CATTLEMEN'S BEEF PROMOTION AND RESEARCH BOARD

Statement of Functional Expenses

(Modified Cash Basis, Note 2)

For The Year Ended September 30, 2018

	Program Expenses								Total Program Expenses
	Promotion	Research	Consumer Information	Industry Information	Foreign Marketing	Producer Communications	Program Evaluation	Program Development	
Professional and Other Contract Service Fees - Direct	\$ 7,877,235	\$ 4,346,694	\$ 4,295,559	\$ 2,131,443	\$ 5,764,744	\$ -	\$ -	\$ -	\$ 24,415,675
Professional and Other Contract Service Fees - Implementation	1,348,456	3,695,399	3,050,239	1,429,164	1,875,823	-	-	-	11,399,081
Salaries and Wages	-	-	-	-	-	48,494	55,562	73,970	178,026
Payroll Taxes and Employee Benefits	-	-	-	-	-	16,455	18,850	25,097	60,402
USDA Oversight Fees	-	-	-	-	-	-	-	-	-
Professional and Other Contract Service Fees	-	-	-	-	-	1,068,917	122,214	24,327	1,215,458
Travel and Transportation	-	-	-	-	-	15,629	14,541	135,462	165,632
Office Rent	-	-	-	-	-	10,466	8,967	11,881	31,314
Insurance	-	-	-	-	-	1,631	1,397	1,851	4,879
Equipment Rental	-	-	-	-	-	629	2,375	15,989	18,993
Other	-	-	-	-	-	17,677	6,889	6,498	31,064
Total Expenses	\$ 9,225,691	\$ 8,042,093	\$ 7,345,798	\$ 3,560,607	\$ 7,640,567	\$ 1,179,898	\$ 230,795	\$ 295,075	\$ 37,520,524

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

CATTLEMEN'S BEEF PROMOTION AND RESEARCH BOARD

Statement of Functional Expenses (continued)

(Modified Cash Basis, Note 2)

For The Year Ended September 30, 2018

	Supporting Services		Total
	USDA Oversight	Administration	
Professional and Other Contract			
Service Fees - Direct	\$ -	\$ -	\$ 24,415,675
Professional and Other Contract			
Service Fees - Implementation	-	-	11,399,081
Salaries and Wages	61,328	706,656	946,010
Payroll Taxes and Employee Benefits	20,818	229,537	310,757
USDA Oversight Fees	368,243	-	368,243
Professional and Other Contract			
Service Fees	138,989	340,226	1,694,673
Travel and Transportation	775	379,881	546,288
Office Rent	7,954	80,376	119,644
Insurance	1,239	12,456	18,574
Equipment Rental	279	11,084	30,356
Other	2,056	51,740	84,860
Total Expenses	\$ 601,681	\$ 1,811,956	\$ 39,934,161

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, 2019 and 2018

(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 99 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 2019 and 2018, the Board reimbursed the following industry organizations for program expenses incurred on approved projects:

<u>Name of Contractor</u>	<u>2019</u>	<u>2018</u>
Meat Importers Council of America	\$ 375,690	\$ 352,263
National American Meat Institute	1,498,994	1,217,467
National Cattlemen's Beef Association (NCBA)	37,708,351	33,781,877
American Farm Bureau Foundation	105,020	410,000
National Livestock Producers Association	60,000	53,150

The program expenses incurred by NCBA during fiscal years 2019 and 2018 included reimbursements for costs incurred under subcontracts with the U.S. Meat Export Federation of \$8,347,484 and \$7,640,567, respectively.

CATTLEMEN'S BEEF PROMOTION AND RESEARCH BOARD

Notes to Financial Statements (Modified Cash Basis)

September 30, 2019 and 2018

(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, 2019 and 2018, there were assessment receivables of approximately \$6,500,000 and \$6,700,000, accrued compensated absences of approximately \$33,000 and \$57,000 and accounts payable of approximately \$8,400,000 and \$8,100,000, respectively, which are not reflected in the accompanying financial statements. Accounts payable relate to appropriated expenditures and are included in the net assets designated for future expenses in the accompanying statements of assets, liabilities and net assets (Note 7).

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.

Recently Adopted Accounting Standards

The Board has adopted the accounting guidance in Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958): *Presentation of Financial Statements of Not-For-Profit Entities*, which changes presentation and disclosure requirements for non-profit entities to provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors and other users. These include qualitative and quantitative requirements in the following areas: Net Asset classes, Investment Return, Expenses, and Liquidity. The Board's financial statements reflect full retrospective application of the new standard beginning in fiscal year 2018. No cumulative-effect adjustment to net assets was recorded because the adoption did not significantly impact the Board's reported historical net assets.

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, 2019 and 2018

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional Allocation of Expenses

The cost of providing the various programs and supporting services has been summarized on a functional basis on the statement of revenues, expenses, and changes in net assets without donor restriction. Costs applied to programs include expenses associated with research and the promotion of beef in domestic and international markets. The costs are applied to the programs based upon the project codes for the approved programs. Overhead costs are allocated proportionately based on the number of hours recorded for approved checkoff programs.

(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, 2019 and 2018, by investment type, are as follows:

	Cash and Cash Equivalents	Short-Term Investments	Long-Term Investments	Total Carrying Value	Total Fair Value
September 30, 2019:					
Demand Deposit Account	\$ 4,250,058	\$ -	\$ -	\$ 4,250,058	\$ 4,250,058
Money Market Accounts	2,531,856	-	-	2,531,856	2,531,856
Certificates of Deposit	-	11,000,000	5,500,000	16,500,000	16,500,000
Less – Outstanding Checks	<u>(368,298)</u>	<u>-</u>	<u>-</u>	<u>(368,298)</u>	<u>(368,298)</u>
Totals for 2019	<u>\$ 6,413,616</u>	<u>\$ 11,000,000</u>	<u>\$ 5,500,000</u>	<u>\$22,913,616</u>	<u>\$22,913,616</u>

	Cash and Cash Equivalents	Short-Term Investments	Long-Term Investments	Total Carrying Value	Total Fair Value
September 30, 2018:					
Demand Deposit Account	\$ 4,250,025	\$ -	\$ -	\$ 4,250,025	\$ 4,250,025
Money Market Accounts	5,344,925	-	-	5,344,925	5,344,925
Certificates of Deposit	-	9,000,000	5,500,000	14,500,000	14,500,000
Less – Outstanding Checks	<u>(344,642)</u>	<u>-</u>	<u>-</u>	<u>(344,642)</u>	<u>(344,642)</u>
Totals for 2018	<u>\$ 9,250,308</u>	<u>\$ 9,000,000</u>	<u>\$ 5,500,000</u>	<u>\$23,750,308</u>	<u>\$23,750,308</u>

CATTLEMEN'S BEEF PROMOTION AND RESEARCH BOARD

Notes to Financial Statements (Modified Cash Basis)

September 30, 2019 and 2018

(3) CASH, CASH EQUIVALENTS, AND INVESTMENTS (CONTINUED)

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.

(4) LIQUIDITY

At September 30, 2019, the Board has \$17,413,615 of financial assets available to meet cash needs for general expenditures within one year of the balance sheet date consisting of demand deposit of \$3,881,760, money market of \$2,531,856, and short-term investments of \$11,000,000. At September 30, 2018, the Board had \$18,250,308 of financial assets available to meet cash needs for general expenditures within one year of the balance sheet date consisting of demand deposit of \$3,905,383, money market of \$5,344,925, and short-term investments of 9,000,000. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure, within one year of the balance sheet date. As part of its liquidity management, the Board invests cash in excess of daily requirements in short-term investments consisting of certificates of deposits to meet future unexpended program appropriations. The Board has also established a reserve in the amount of \$4,350,000 to be used, as the Board may deem necessary, with the approval of the Secretary (Note 7).

(5) ADMINISTRATION EXPENSE

The Act limits expenses for the administration of the program to 5% or less of projected revenues. Projected revenues were \$41,062,000 for 2019 and \$40,550,000 for 2018. Accordingly, the administrative expenses incurred by the Board were limited to \$2,053,100 in 2019 and \$2,027,500 in 2018. 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 net assets without donor restriction) were approximately \$1,701,000 (4.14% of projected revenues) in 2019 and \$1,818,000 (4.48% of projected revenues) in 2018. Expressed as a percentage of actual revenues, the Board's administrative expenses were 4.01% in 2019 and 4.24% in 2018.

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 2019 and 2018, respectively, the Board paid NCBA approximately \$44,000 and \$49,000 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 \$118,000 during 2019 and \$123,000 during 2018. Future annual payments related to the leases are approximately \$53,000 in 2020 and \$1,000 in 2021.

CATTLEMEN'S BEEF PROMOTION AND RESEARCH BOARD

Notes to Financial Statements (Modified Cash Basis)

September 30, 2019 and 2018

(6) MONTANA PAYABLES FOR ASSESSMENTS AND OTHER

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) against USDA. This case challenges whether speech by certain Qualified State Beef Councils, including the Montana Beef Council, constitutes government speech such that it is not subject to challenge under the First Amendment. 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 retain beef checkoff funds that it collects, unless the payer of the funds has provided consent for Montana Beef Council to retain. 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 while litigation is ongoing. Any funds for which the Montana Beef Council has received prior consent from the payer of the funds are refunded to the Montana Beef Council. During fiscal years 2019 and 2018, the Board refunded \$178,431 and \$214,283, respectively to the Montana Beef Council based on such consents. The injunction also permits the Montana Beef Council to be reimbursed for costs arising from its collections efforts. During fiscal years 2019 and 2018 the Board reimbursed \$328,673 and \$215,825, respectively to the Montana Beef Council for collections costs. For the years ended September 30, 2019 and 2018 the balance payable in the Montana Payables for Assessments and Other ledger account was \$954,992 and \$577,547. The parties have filed cross-motions for summary judgement and are awaiting a decision by the District Court.

(7) NET ASSETS WITHOUT DONOR RESTRICTIONS

Net Assets Without Donor Restrictions 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, 2019, and 2018, \$1,695,755 and \$2,804,351, 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, \$2,150 and \$5,129 represent net assets invested in fixed assets as of September 30, 2019 and 2018, respectively.

(8) 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.

CATTLEMEN'S BEEF PROMOTION AND RESEARCH BOARD

Notes to Financial Statements (Modified Cash Basis)

September 30, 2019 and 2018

(9) 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 \$91,000 and \$102,000 in 2019 and 2018, respectively.

(10) SUBSEQUENT EVENTS

The Board has evaluated subsequent events from the statement of financial position date through January 7, 2020, the date at which the financial statements were available to be issued.

On December 10, 2019, the Board entered into an agreement to lease 4,113 square feet of office space in Denver, Colorado. The lease commences on April 1, 2020 and ending on October 31, 2027. The annual base rent under the lease is \$88,600 for the first lease year and is subject to annual increases of approximately 2%. The Board provided a security deposit of \$9,083, pursuant to the terms of the lease.

CATTLEMEN'S BEEF PROMOTION AND RESEARCH BOARD

Supplementary Statement of Assessment Revenues by State

(Modified Cash Basis)

For the Years Ended September 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSESSMENT REVENUES:		
Qualified State Beef Councils-		
Alabama	\$ 321,116	\$ 359,353
Arizona	313,330	323,279
Arkansas	410,492	424,437
California	1,936,999	1,859,405
Colorado	1,620,435	1,614,571
Delaware	4,361	4,188
Florida	302,485	324,022
Georgia	268,856	283,119
Hawaii	18,040	18,898
Idaho	855,514	844,394
Illinois	329,040	330,963
Indiana	248,521	246,665
Iowa	1,744,134	1,709,457
Kansas	3,830,810	3,955,243
Kentucky	674,572	639,422
Louisiana	161,276	172,686
Maryland	44,673	43,080
Michigan	294,015	309,828
Minnesota	795,427	784,514
Mississippi	271,188	269,695
Missouri	1,325,895	1,366,610
Montana	870,714	944,859
Nebraska	3,672,393	3,702,063
Nevada	140,295	138,608
New Jersey	4,075	5,139
New Mexico	601,866	616,836
New York	337,383	327,602
North Carolina	167,444	152,428
North Dakota	568,315	586,168

See the accompanying independent auditors' report.

CATTLEMEN'S BEEF PROMOTION AND RESEARCH BOARD

Supplementary Statement of Assessment Revenues by State

(Modified Cash Basis)

For the Years Ended September 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSESSMENT REVENUES: (Continued)		
Qualified State Beef Councils-		
Ohio	\$ 342,006	\$ 332,862
Oklahoma	1,932,338	1,974,654
Oregon	441,775	451,554
Pennsylvania	367,761	365,674
South Carolina	74,678	67,096
South Dakota	1,575,438	1,592,127
Tennessee	397,651	409,645
Texas	5,179,486	5,233,776
Utah	310,796	292,707
Vermont	41,738	44,644
Virginia	488,057	412,617
Washington	635,776	504,405
West Virginia	83,594	14,604
Wisconsin	764,345	747,385
Wyoming	<u>505,166</u>	<u>502,515</u>
Total Qualified State Beef Councils	<u>35,274,269</u>	<u>35,303,797</u>
States Without Qualified State Beef Councils-		
Alaska	46	204
Connecticut	13,487	14,796
Massachusetts	16,974	18,100
Maine	21,816	31,268
New Hampshire	10,042	10,544
Rhode Island	832	1,028
West Virginia	<u>-</u>	<u>129,015</u>
Total States Without Qualified State Beef Councils	<u>63,197</u>	<u>204,955</u>
Importers	<u>7,369,243</u>	<u>7,051,545</u>
Total Assessment Revenues	<u>\$42,706,709</u>	<u>\$42,560,297</u>

See the accompanying independent auditors' report.