

CATTLEMEN'S BEEF PROMOTION AND RESEARCH BOARD

Financial Statements

September 30, 2020 and 2019

(With Independent Auditors' Report Thereon)

**CATTLEMEN'S BEEF PROMOTION AND RESEARCH BOARD
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SEPTEMBER 30, 2020 AND 2019**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Cattlemen's Beef Promotion and Research Board
Denver, 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, 2020 and 2019, 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, 2020 and 2019, 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.

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 December 15, 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. Further, in connection with our audits, nothing came to our attention that caused us to believe that the Board failed to comply with Section 5D of the United States Department of Agriculture (USDA) Guidelines for Agricultural Marketing Service Oversight of Commodity Research and Promotion Programs (Guidelines), dated January 2020, insofar as they relate to the following:

- Monetary funds used for the purpose of influencing governmental policy or action
- Adherence to the Agricultural Marketing Service investment policy
- Monetary funds used only for projects and other expenses authorized in a budget approved by the USDA
- Monetary funds used in accordance with the Guidelines referenced above.

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, AMS Investment Policy, and Section 5D of the USDA Guidelines 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
December 15, 2020

CATTLEMEN'S BEEF PROMOTION AND RESEARCH BOARD

Statement of Assets, Liabilities, and Net Assets

(Modified Cash Basis, Note 2)

September 30, 2020 and 2019

<u>ASSETS</u>	<u>2020</u>	<u>2019</u>
Cash and Cash Equivalents (Note 3)	\$15,281,812	\$ 6,413,616
Short-Term Investments (Note 3)	5,500,000	11,000,000
Long-Term Investments (Note 3)	2,500,000	5,500,000
Capital Assets, net of accumulated depreciation of \$39,170 and \$72,744, respectively	21,228	2,150
Other	<u>9,240</u>	-
Total Assets	<u>\$23,312,280</u>	<u>\$22,915,766</u>
 <u>LIABILITIES AND NET ASSETS</u> 		
Due to State Beef Councils and Other	\$ 27,007	\$ 2,499
Montana Payables for Assessments and Other (Note 6)	<u>-</u>	<u>954,992</u>
Total Liabilities	27,007	957,491
Net Assets - Without Donor Restriction (Note 7):		
Designated for future expenses	17,497,459	15,912,520
Designated - Board reserve	4,350,000	4,350,000
Undesignated	<u>1,437,814</u>	<u>1,695,755</u>
Total Net Assets	<u>23,285,273</u>	<u>21,958,275</u>
Total Liabilities and Net Assets	<u>\$23,312,280</u>	<u>\$22,915,766</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, 2020 and 2019

	<u>2020</u>	<u>2019</u>
REVENUES:		
Assessments	\$41,541,515	\$42,706,709
Interest	293,224	346,900
Other	<u>46,255</u>	<u>35,555</u>
Total revenues	<u>41,880,994</u>	<u>43,089,164</u>
EXPENSES:		
Program Expenses -		
Promotion	10,206,858	10,580,409
Research	8,349,734	9,891,043
Consumer Information	7,260,148	7,571,245
Industry Information	3,392,835	3,357,876
Foreign Marketing	6,933,262	8,347,484
Producer Communications	1,553,796	1,637,234
Program Evaluation	202,046	158,875
Program Development	<u>388,847</u>	<u>435,772</u>
Total program expenses	38,287,526	41,979,938
Supporting Services -		
USDA Oversight	761,214	596,367
Administration (Note 5)	<u>1,505,256</u>	<u>1,729,852</u>
Total expenses	<u>40,553,996</u>	<u>44,306,157</u>
Change in net assets	1,326,998	(1,216,993)
Beginning Net Assets Without Donor Restriction	<u>21,958,275</u>	<u>23,175,268</u>
Ending Net Assets Without Donor Restriction	<u>\$23,285,273</u>	<u>\$21,958,275</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, 2020

	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	\$ 8,254,294	\$ 4,201,649	\$ 3,440,677	\$ 1,337,061	\$ 4,657,186	\$ -	\$ -	\$ -	\$ 21,890,867
Professional and Other Contract									
Service Fees - Implementation	1,952,564	4,148,085	3,819,471	2,055,774	2,276,076	-	-	-	14,251,970
Salaries and Wages	-	-	-	-	-	86,578	36,642	124,635	247,855
Payroll Taxes and Employee									
Benefits	-	-	-	-	-	25,899	10,961	37,284	74,144
USDA Oversight Fees	-	-	-	-	-	-	-	-	-
Professional and Other Contract									
Service Fees	-	-	-	-	-	1,366,717	138,893	61,878	1,567,488
Travel and Transportation	-	-	-	-	-	11,051	3,510	104,190	118,751
Office Rent	-	-	-	-	-	12,405	4,260	15,589	32,254
Insurance	-	-	-	-	-	2,165	744	2,721	5,630
Equipment Rental	-	-	-	-	-	770	1,741	25,871	28,382
Other	-	-	-	-	-	48,211	5,295	16,679	70,185
Total Expenses	<u>\$ 10,206,858</u>	<u>\$ 8,349,734</u>	<u>\$ 7,260,148</u>	<u>\$ 3,392,835</u>	<u>\$ 6,933,262</u>	<u>\$ 1,553,796</u>	<u>\$ 202,046</u>	<u>\$ 388,847</u>	<u>\$ 38,287,526</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 (continued)

(Modified Cash Basis, Note 2)

For The Year Ended September 30, 2020

	<u>Supporting Services</u>		
	USDA		Total
	Oversight	Administration	Expenses
Professional and Other Contract			
Service Fees - Direct	\$ -	\$ -	21,890,867
Professional and Other Contract			
Service Fees - Implementation	-	-	14,251,970
Salaries and Wages	48,770	731,695	1,028,320
Payroll Taxes and Employee			
Benefits	11,152	226,655	311,951
USDA Oversight Fees	599,989	-	599,989
Professional and Other Contract			
Service Fees	88,641	155,950	1,812,079
Travel and Transportation	2,317	215,755	336,823
Office Rent	5,363	74,449	112,066
Insurance	937	12,996	19,563
Equipment Rental	232	9,208	37,822
Other	3,813	78,548	152,546
Total Expenses	<u>\$ 761,214</u>	<u>\$ 1,505,256</u>	<u>\$ 40,553,996</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</u> <u>Expenses</u>
	<u>USDA</u> <u>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

Notes to Financial Statements (Modified Cash Basis)

September 30, 2020 and 2019

(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 2020 and 2019, the Board reimbursed the following industry organizations for program expenses incurred on approved projects:

<u>Name of Contractor</u>	<u>2020</u>	<u>2019</u>
Meat Importers Council of America	\$ 477,407	\$ 375,690
National American Meat Institute	1,625,017	1,498,994
National Cattlemen's Beef Association (NCBA)	33,149,336	37,708,351
American Farm Bureau Foundation	647,529	105,020
National Livestock Producers Association	90,041	60,000
United States Cattlemen's Association	153,507	-

The program expenses incurred by NCBA during fiscal years 2020 and 2019 included reimbursements for costs incurred under subcontracts with the U.S. Meat Export Federation of \$6,933,263 and \$8,347,484, respectively.

CATTLEMEN'S BEEF PROMOTION AND RESEARCH BOARD

Notes to Financial Statements (Modified Cash Basis)

September 30, 2020 and 2019

(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, 2020 and 2019, there were assessment receivables of approximately \$7,200,000 and \$6,500,000, accrued compensated absences of approximately \$70,000 and \$33,000 and accounts payable of approximately \$9,800,000 and \$8,400,000, 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 Issued Accounting Standards

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, Leases (Topic 842), which is expected to increase transparency and comparability among organizations. The core principle of Topic 842 is that a lessee should recognize the assets and liabilities that arise from leases. The standard requires lessees to reflect most leases on their statement of financial position as lease liabilities with a corresponding right-of-use asset, while leaving presentation of lease expense in the statement of activities largely unchanged. The standard also eliminates the real-estate specific provisions that exist under current U.S. GAAP and modifies the classification criteria and accounting which lessors must apply to sales-type and direct- financing leases. The standard is effective for fiscal year 2023, and early adoption is permitted. Cattlemen's Beef Promotion and Research Board is evaluating the impact of ASU 2016-02 on its financial statements.

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, 2020 and 2019

(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, 2020 and 2019, by investment type, are as follows:

	Cash and Cash Equivalents	Short-Term Investments	Long-Term Investments	Total Carrying Value	Total Fair Value
September 30, 2020:					
Demand Deposit Account	\$ 4,250,027	\$ -	\$ -	\$ 4,250,027	\$ 4,250,027
Money Market Accounts	11,114,744	-	-	11,114,744	11,114,744
Certificates of Deposit	-	5,500,000	2,500,000	8,000,000	8,000,000
Less – Outstanding Checks	<u>(82,959)</u>	<u>-</u>	<u>-</u>	<u>(82,959)</u>	<u>(82,959)</u>
Totals for 2020	<u>\$ 15,281,812</u>	<u>\$ 5,500,000</u>	<u>\$ 2,500,000</u>	<u>\$23,281,812</u>	<u>\$23,281,812</u>

	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>

CATTLEMEN'S BEEF PROMOTION AND RESEARCH BOARD

Notes to Financial Statements (Modified Cash Basis)

September 30, 2020 and 2019

(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, 2020, the Board has \$20,781,812 of financial assets available to meet cash needs for general expenditures within one year of the balance sheet date consisting of demand deposit of \$4,167,068, money market of \$11,114,744, and short-term investments of \$5,500,000. At September 30, 2019, the Board had \$17,413,616 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. 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 \$41,932,000 for 2020 and \$41,062,000 for 2019. Accordingly, the administrative expenses incurred by the Board were limited to \$2,096,600 in 2020 and \$2,053,100 in 2019. 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 \$1,538,000 (3.67% of projected revenues) in 2020 and \$1,701,000 (4.14% of projected revenues) in 2019. Expressed as a percentage of actual revenues, the Board's administrative expenses were 3.67% in 2020 and 3.95% in 2019.

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 2020 and 2019, respectively, the Board paid NCBA approximately \$41,000 and \$44,000 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 \$116,000 during 2020 and \$118,000 during 2019. Future annual payments related to the leases are approximately \$110,000 in 2021, \$113,000 in 2022, \$115,000 in 2023, \$117,000 in 2024, \$118,000 in 2025, and \$231,000 thereafter.

CATTLEMEN'S BEEF PROMOTION AND RESEARCH BOARD

Notes to Financial Statements (Modified Cash Basis)

September 30, 2020 and 2019

(6) MONTANA PAYABLES FOR ASSESSMENTS AND OTHER

On May 2, 2016, a lawsuit was filed in the U.S. District Court in Montana by the Ranchers-Cattlemen Action Legal Fund (R-Calf) against USDA. The lawsuit challenged whether speech by certain Qualified State Beef Councils, including the Montana Beef Council, constituted government speech, such that it was not subject to Constitutional challenge under the First Amendment. On June 21, 2017, the U.S. District Court in Montana issued a preliminary injunction in the case, prohibiting the USDA from allowing the Montana Beef Council to retain beef checkoff funds that it collects without prior consent from the payer of the funds to do so. As a result of the injunction, the Montana Beef Council began forwarding all assessments that it collected to the Board.

The Board began segregating these funds into a separate account, the Montana Payables for Assessments and Other ledger account, while litigation was ongoing. Any funds for which the Montana Beef Council had received prior consent from the payer of the funds were refunded to the Montana Beef Council. During fiscal years 2020 and 2019, the Board refunded \$227,485 and \$178,431, respectively, to the Montana Beef Council based on such consents. The injunction did not prohibit the Board from reimbursing the Montana Beef Council for costs arising from its collection efforts. During fiscal years 2020 and 2019 the Board reimbursed \$217,151 and \$328,673, respectively, to the Montana Beef Council for collections costs.

On March 27, 2020, U.S. District Court in Montana issued a decision in the *R-CALF v. Purdue* case, granting summary judgment in favor of the USDA and State Beef Councils. That decision, which was appealed and is currently pending before the Ninth Circuit, dissolved the preliminary injunction. On March 28, 2020, Montana Beef Council resumed retaining beef checkoff funds. On August 5, 2020, USDA informed the Board they could distribute, if they choose, the remaining balance held in the Montana Payables for Assessments and Other ledger account to the Montana Beef Council. On August 17, 2020, the Board approved the distribution of \$1,285,593 to the Montana Beef Council.

For the years ending September 30, 2020, and 2019, the balances payable in the Montana Payables for Assessments and Other ledger account was \$0 and \$954,992, respectively.

(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 capital 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, 2020, and 2019, \$1,437,814 and \$1,695,755, 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, \$21,228 and \$2,150 represent net assets invested in capital assets as of September 30, 2020 and 2019, respectively.

CATTLEMEN'S BEEF PROMOTION AND RESEARCH BOARD

Notes to Financial Statements (Modified Cash Basis)

September 30, 2020 and 2019

(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.

(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 \$103,000 and \$91,000 in 2020 and 2019, respectively.

(10) GLOBAL PANDEMIC

The COVID-19 global pandemic is having significant effects on global markets, supply chains, businesses, and communities. Specific to the Cattlemen's Beef Promotion and Research Board, COVID-19 may impact various parts of its fiscal year 2021 operations and financial results, including cattle supply chain disruptions and potential cancellations of future meetings, travel, and programmatic activity that could result in a reduction of related revenues and expenses. Cattlemen's Beef Promotion and Research Board believes it is taking appropriate actions to mitigate the negative impact. However, the full impact of COVID-19 is unknown and cannot be reasonably estimated as these events are still developing.

(11) SUBSEQUENT EVENTS

The Board has evaluated subsequent events from the statement of financial position date through December 15, 2020, the date at which 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, 2020 and 2019

	<u>2020</u>	<u>2019</u>
ASSESSMENT REVENUES:		
Qualified State Beef Councils-		
Alabama	\$ 328,021	\$ 321,116
Arizona	321,224	313,330
Arkansas	406,768	410,492
California	1,868,165	1,936,999
Colorado	1,611,967	1,620,435
Delaware	3,947	4,361
Florida	308,528	302,485
Georgia	263,280	268,856
Hawaii	18,327	18,040
Idaho	890,555	855,514
Illinois	300,507	329,040
Indiana	218,180	248,521
Iowa	1,704,544	1,744,134
Kansas	3,700,788	3,830,810
Kentucky	645,518	674,572
Louisiana	144,908	161,276
Maryland	39,580	44,673
Michigan	272,808	294,015
Minnesota	729,459	795,427
Mississippi	248,227	271,188
Missouri	1,210,455	1,325,895
Montana	901,391	870,714
Nebraska	3,484,131	3,672,393
Nevada	124,148	140,295
New Jersey	3,763	4,075
New Mexico	588,976	601,866
New York	331,447	337,383
North Carolina	150,613	167,444
North Dakota	563,929	568,315

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, 2020 and 2019

	<u>2020</u>	<u>2018</u>
ASSESSMENT REVENUES: (Continued)		
Qualified State Beef Councils-		
Ohio	\$ 331,288	\$ 342,006
Oklahoma	1,781,692	1,932,338
Oregon	416,182	441,775
Pennsylvania	334,173	367,761
South Carolina	68,397	74,678
South Dakota	1,467,621	1,575,438
Tennessee	380,532	397,651
Texas	5,079,846	5,179,486
Utah	303,093	310,796
Vermont	43,510	41,738
Virginia	360,329	488,057
Washington	563,405	635,776
West Virginia	72,217	83,594
Wisconsin	713,676	764,345
Wyoming	<u>499,442</u>	<u>505,166</u>
Total Qualified State Beef Councils	<u>33,799,557</u>	<u>35,274,269</u>
States Without Qualified State Beef Councils-		
Alaska	194	46
Connecticut	10,515	13,487
Massachusetts	16,840	16,974
Maine	18,753	21,816
New Hampshire	8,801	10,042
Rhode Island	<u>373</u>	<u>832</u>
Total States Without Qualified State Beef Councils	<u>55,476</u>	<u>63,197</u>
Importers	<u>7,686,482</u>	<u>7,369,243</u>
Total Assessment Revenues	<u>\$41,541,515</u>	<u>\$42,706,709</u>

See the accompanying independent auditors' report.