

NATIONAL PORK BOARD
AUDITED FINANCIAL STATEMENTS
AND COMPLIANCE REPORT

Years Ended December 31, 2019 and 2020



Mayer Hoffman McCann P.C.

1000 Campbell Mithun Tower, 222 S. Ninth St. ■ Minneapolis, MN 55402
Main: 612.339.7811 ■ Fax: 612.339.9845 ■ www.mhmcpa.com

INDEPENDENT AUDITORS' REPORT

To the Members

NATIONAL PORK BOARD

We have audited the accompanying financial statements of National Pork Board, which comprise the statements of assets, liabilities and net assets on a modified cash collection basis as of December 31, 2020 and 2019, and the related statements of revenue and expenses and changes in net assets on a modified cash collection basis, and cash flows on a modified cash collection 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 collection basis of accounting described in Note 1; this includes determining that the modified cash collection 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 of National Pork Board as of December 31, 2020 and 2019, and its revenue and expenses and change in net assets and its cash flows for the years then ended, in accordance with the modified cash collection basis of accounting described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash collection 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 this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report for the years ended December 31, 2020 and 2019 dated April 5, 2021 and May 18, 2020, respectively, on our consideration of National Pork 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. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering National Pork Board's internal control over financial reporting and compliance.

Mayer Hoffman McCann P.C.

Minneapolis, Minnesota
April 5, 2021

NATIONAL PORK BOARD

**STATEMENTS OF ASSETS, LIABILITIES AND NET ASSETS
MODIFIED CASH COLLECTION BASIS**

December 31, 2019 and 2020

	<u>2019</u>	<u>2020</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 3,418,452	\$ 9,770,641
Short-term investments	46,947,132	24,386,348
Accounts receivable, net	1,450,854	626,975
Prepaid expenses	828,639	512,525
TOTAL CURRENT ASSETS	<u>52,645,077</u>	<u>35,296,489</u>
PROPERTY AND EQUIPMENT		
Leasehold improvements	2,501,352	4,041,226
Furniture, equipment and automobiles	669,850	770,315
Data processing equipment	1,664,197	1,109,537
Software	1,353,318	8,230,826
Capital projects in progress	1,819,122	-
TOTAL PROPERTY AND EQUIPMENT	<u>8,007,839</u>	<u>14,151,904</u>
Less accumulated depreciation	<u>(3,784,338)</u>	<u>(4,151,879)</u>
NET PROPERTY AND EQUIPMENT	<u>4,223,501</u>	<u>10,000,025</u>
INTANGIBLES		
	<u>-</u>	<u>17,200,000</u>
TOTAL ASSETS	<u>\$ 56,868,578</u>	<u>\$ 62,496,514</u>
<u>LIABILITIES</u>		
CURRENT LIABILITIES		
Accounts payable	6,580,600	4,422,975
Grants payable	6,854,139	5,447,443
Accrued expenses	2,809,188	1,801,151
Deferred revenue	28,940	103,000
TOTAL CURRENT LIABILITIES	<u>16,272,867</u>	<u>11,774,569</u>
<u>NET ASSETS</u>		
NET ASSETS WITHOUT RESTRICTIONS		
Undesignated	<u>40,595,711</u>	<u>50,721,945</u>
TOTAL NET ASSETS	<u>40,595,711</u>	<u>50,721,945</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 56,868,578</u>	<u>\$ 62,496,514</u>

See Notes to Financial Statements

NATIONAL PORK BOARD

**STATEMENTS OF REVENUE AND EXPENSES AND CHANGES IN NET ASSETS
MODIFIED CASH COLLECTION BASIS**

Years Ended December 31, 2019 and 2020

	2019	2020
REVENUES		
Producer checkoff	\$ 77,663,162	\$ 72,331,877
Investment income	887,186	4,297,370
Other, net	4,804,215	3,426,234
TOTAL REVENUES	83,354,563	80,055,481
EXPENSES		
Program:		
Checkoff distribution to state pork producer associations	14,541,356	13,278,082
Domestic and international marketing	27,172,686	28,880,638
Science and technology	9,583,004	5,096,829
Producer and state engagement	6,017,822	6,288,729
Sustainability	3,863,013	3,727,966
Communication	4,832,938	4,085,393
Policy and management	7,876,540	8,308,630
Intangible lease expense	91,096	262,980
TOTAL EXPENSES	73,978,455	69,929,247
 CHANGE IN OPERATIONS	 9,376,108	 10,126,234
NON-OPERATING ACTIVITIES		
Other income - settlement	1,180,000	-
TOTAL NON-OPERATING ACTIVITIES	1,180,000	-
 CHANGE IN NET ASSETS WITHOUT RESTRICTIONS	 10,556,108	 10,126,234
 NET ASSETS WITHOUT RESTRICTIONS BEGINNING OF YEAR	 30,039,603	 40,595,711
 NET ASSETS WITHOUT RESTRICTIONS END OF YEAR	 \$ 40,595,711	 \$ 50,721,945

See Notes to Financial Statements

NATIONAL PORK BOARD

**STATEMENTS OF CASH FLOWS
MODIFIED CASH COLLECTION BASIS**

Years Ended December 31, 2019 and 2020

	2019	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets without restrictions	\$ 10,556,108	\$ 10,126,234
Adjustments to reconcile change in net assets without restrictions to net cash flows from operating activities:		
Depreciation expense	475,522	1,011,293
Realized and unrealized gains on investments	(592,341)	(3,946,143)
Gain (loss) on disposal of property and equipment	(20,488)	(84,259)
Change in operating assets and liabilities:		
Accounts receivable	(1,276,524)	823,879
Prepaid expenses	62,601	316,114
Accounts payable	(511,022)	(2,157,625)
Grants payable	27,340	(1,406,696)
Accrued expenses	841,516	(1,008,037)
Deferred compensation	(32,841)	-
Deferred revenue	(42,780)	74,060
NET CASH FLOWS FROM OPERATING ACTIVITIES	9,487,091	3,748,820
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(89,406,084)	(50,019,670)
Proceeds from maturities of investments	80,940,362	76,526,597
Proceeds from sale of property and equipment	20,659	4,099
Purchase of property and equipment	(3,385,100)	(6,707,657)
Purchase of intangibles	-	(17,200,000)
NET CASH FLOWS FROM INVESTING ACTIVITIES	(11,830,163)	2,603,369
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of termination fee	(3,000,000)	-
NET CASH USED IN FINANCING ACTIVITIES	(3,000,000)	-
NET INCREASE (DECREASE)	(5,343,072)	6,352,189
CASH AND CASH EQUIVALENTS		
BEGINNING OF YEAR	8,761,524	3,418,452
END OF YEAR	\$ 3,418,452	\$ 9,770,641
SUPPLEMENTAL DISCLOSURES		
Interest paid	\$ 91,100	\$ -

See Notes to Financial Statements

NATIONAL PORK BOARD

NOTES TO FINANCIAL STATEMENTS

(1) Nature of activities and significant accounting policies

Operations - The National Pork Board (the Board) is a body established by the Pork Promotion, Research and Consumer Information Act of 1985 (the Act). The Board is responsible for the collection of assessments authorized by the Act and for administering various programs for the promotion, research and consumer information on pork and pork products. The Board also distributes a portion, as determined by the Act, of the checkoff assessments to various state pork producer associations. Upon dissolution of the Board, any remaining recognized net assets are to be transferred to the Secretary of Agriculture of the United States of America.

Modified cash collection basis reporting - The records of the Board are maintained, and the statements are presented, on a modified cash collection basis of accounting using a nongovernmental hierarchy. The accounting method recognizes revenue from producer checkoff and the related checkoff distribution to state pork producer associations at the point of cash collection. Therefore, checkoff revenue and expenses which would be recognized under accounting principles generally accepted in the United States of America, which may be material in amount, are not recognized in the accompanying financial statements. All other assets, liabilities, net assets, revenue and expenses are recorded on the accrual basis of accounting.

Income taxes - The Board is exempt from income tax pursuant to a Private Letter Ruling received from the Internal Revenue Service, dated August 28, 1987. Therefore there is no income tax filing requirements for the Board.

Net assets without donor restrictions - Net assets without donor restrictions are not subject to donor restrictions. This category will also include funds that have been designated by the Board of Directors for a particular purpose.

Estimates - The preparation of financial statements in accordance with the modified cash collection basis of accounting requires management to make estimates and assumptions that affect certain reported amounts and disclosures and certain reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Cash and cash equivalents - The Board considers cash in demand deposit accounts and temporary investments purchased with an original maturity of three months or less to be cash equivalents. The Board maintains its cash and cash equivalents with a high credit quality financial institution. From time to time, the Board's balances in its bank accounts exceed Federal Deposit Insurance Corporation limits. Cash held as a portion of the Board's investment portfolio are classified as investments and are not considered to be cash equivalents.

Investments - Investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note 8 for discussion of fair value measurements.

Short-term investments consist of a government-only money market mutual fund invested in US Treasury and government agency securities, United States treasury bills, United States agency notes, put options, and cash maturing less than one year from issuance and are carried at fair value.

NATIONAL PORK BOARD

NOTES TO FINANCIAL STATEMENTS

(1) **Nature of activities and significant accounting policies (continued)**

Accounts receivable - Accounts receivable generated from non-checkoff revenue sources are carried at original invoice amounts less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by identifying troubled accounts and regularly evaluating individual customer receivables, giving consideration to customers' financial condition and credit history. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded when received. At both December 31, 2019 and 2020, management determined an allowance of approximately \$1,000 was required.

Property and equipment - The Board capitalizes all expenditures of property and equipment, with the exception of data processing equipment and software, that has a useful life of greater than one year, and a cost in excess of \$2,500. The Board capitalizes data processing equipment and software that has a useful life of greater than one year, and a cost in excess of \$1,000. Property and equipment are recorded at cost. Depreciation is computed using the straight-line method over estimated useful lives of 3 to 10 years for furniture, equipment and automobiles, 3 to 10 years for leasehold improvements, 2 to 5 years for data processing equipment and 7 years for software. When assets are retired, or otherwise disposed of, the cost and related accumulated depreciation is removed from the accounts and any resulting gain or loss is reflected in income for the period. The cost of maintenance and repairs is expensed as incurred, whereas significant improvements are capitalized. For the years ended December 31, 2019 and 2020 depreciation expense amounted to \$476,000 and \$1,011,000, respectively.

Occasionally, property and equipment is purchased and used relating to a government grant contract. Although the grantor typically retains title to the property and equipment, if it is probable that the Board will be permitted to keep the assets when the contract terminates, the property and equipment is capitalized and corresponding revenue is recognized for the amount of the grant.

Deferred revenue and prepaid expenses - Receipts and disbursements relating to selected multi-year programs are accounted for as deferred revenue and prepaid expenses. The related revenues and expenses are recognized when earned and incurred, respectively.

Intangible assets – Intangibles, consisting of trademarks, are carried at cost of acquisition. The Board has determined that the trademarks have indefinite lives and has accounted for them under the Goodwill and Other Intangible Assets accounting guidance. Since the intangible assets have an indefinite life, there is no related amortization expense. This guidance prescribes a process for impairment testing of indefinite life intangibles, which is performed annually, as well as when an event triggering impairment may have occurred. As of December 31, 2019 and 2020, intangibles were \$0 and \$17,200,000, respectively. The Board has determined no impairment was identified as of December 31, 2020.

NATIONAL PORK BOARD

NOTES TO FINANCIAL STATEMENTS

(1) Nature of activities and significant accounting policies (continued)

Impairment of long-lived assets – The Board reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to undiscounted future net cash flows expected to be generated by the assets. If these assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Management does not believe impairment indicators are present at December 31, 2019 and 2020.

Grants - Grant expenditures are charged to net assets without donor restrictions at the time the grants are approved by the Board of Directors of the Board. Grants approved but not yet disbursed are reported as grants payable. The approval of the grants by the Board of Directors occurs after each grant application has been reviewed according to the established grant evaluation processes of the Board. Conditional grants are recognized as grant expenditures in the statement of statement of revenue and expenses and changes in net assets only when the conditions are met.

Advertising costs - The Board charges the production costs of advertising to expense as incurred. Advertising expense for the years ended December 31, 2019 and 2020 totaled approximately \$1,837,000 and \$1,181,000, respectively.

Fair value measurement - definition and hierarchy – The Board utilizes a three-level valuation hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Board. Unobservable inputs are inputs that reflect the Board's estimates about the assumptions market participants would use in pricing the asset or liability based on the best information available in the circumstances. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date.

The hierarchy is broken down into three levels based on the observability of inputs as follows:

- Level 1 - Valuations based on quoted prices in active markets for identical assets or liabilities that the Board has the ability to access. Valuation adjustments and block discounts are not applied to Level 1 instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.
- Level 2 - Valuations based on one or more quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.
- Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

NATIONAL PORK BOARD

NOTES TO FINANCIAL STATEMENTS

(1) Nature of activities and significant accounting policies (continued)

Fair value measurement - definition and hierarchy (continued) – The availability of observable inputs can vary by types of assets and liabilities and is affected by a wide variety of factors, including, for example, whether the asset or liability is established in the marketplace, the liquidity of markets and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less than observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by the Board in determining fair value is greatest for assets and liabilities categorized in Level 3.

Adoption of accounting standards update – The Board adopted the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The change in accounting principle was applied to funding agreements for contributions made that were not completed as of January 1, 2020 or new agreements entered into after that date on a modified prospective basis. As a result, there was no cumulative-effect adjustment to opening net assets without donor restrictions or opening net assets with donor restrictions as of January 1, 2020. Amounts reported related to 2019 are unadjusted for the effects of ASU 2018-08. The adoption of ASU 2018-08 for contributions made did not have a material impact on the Board's assets, liabilities and net assets, changes in net assets, or cash flows. ASU 2018-08 for contributions received was previously adopted as of January 1, 2019 and did not have a material impact on the Boards assets, liabilities and net assets, changes in net assets, or cash flows in 2019.

New accounting pronouncements – In February 2016, FASB issued ASU 2016-02, *Lease* (Topic 842). ASU 2016-02 requires lessees to recognize a right-of-use asset and lease liability on the statement of assets, liabilities, and net asset – modified cash collection basis and disclose key information about leasing arrangements. The recognition, measurement and presentation of expenses and cash flows arising from a lease by a lessee have not significantly changed from current U.S. GAAP. ASU 2016-02 is effective for annual periods beginning after December 15, 2021. The Board is assessing the impact this standard will have on its financial statements.

Subsequent events - Subsequent events have been evaluated through April 5, 2021, the date the financial statements were available to be issued.

(2) Risks and uncertainties

On March 11, 2020 the World Health Organization declared the outbreak of coronavirus (COVID-19) a pandemic. The operations of the Board have been impacted by the pandemic and could result in changes in the Board's ability to provide services in its program areas. The continued extent of the impact of COVID-19 on our programs and operations will depend on certain developments, including duration and spread of the outbreak, government mandates (e.g. stay at home orders), impact on pork producers and the pork industry, employees, and vendors, all of which are uncertain and cannot be predicted. Other financial impacts could occur. Such potential impacts are unknown at this time.

NATIONAL PORK BOARD

NOTES TO FINANCIAL STATEMENTS

(3) Intangible assets and trademark license agreement

The Board entered into a trademark license agreement with the National Pork Producers Council (the Council) in August 2018 to exclusively use certain trademarks in connection with the Board's programs. The original term of the agreement ended July 31, 2019. In 2019 and 2020, the trademark license agreement was amended at various dates with the most recent amendment extending the term through December 31, 2020. Total expenses related to the license agreement for the years ended December 31, 2019 and 2020 were \$91,000 and \$263,000, respectively. On December 30, 2020, the Board acquired the trademarks from the Council for \$17,200,000.

(4) Accounts payable

Included in accounts payable at December 31, 2019 and 2020 were amounts totaling approximately \$913,000 and \$1,329,000, respectively, due to state pork producer associations representing their share of assessments collected but not yet distributed.

(5) Lease and commitments

The Board leases its main facility from the Council under an operating lease which expires December 2037. In addition to the rental payments, the Board is responsible for the real estate taxes associated with the facility. The agreement may be terminated by either party by providing at least 24 months written notice, and provides the Board the right of first refusal to purchase the leased premises should the Council receive a bona fide offer for purchase. The lease requires monthly payments of \$24,228 until December 2021. The rent will be appraised at that time and every two years thereafter by an independent certified appraiser to establish a new fair market value payment.

The related expense for the years ended December 31, 2019 and 2020 under the operating lease totaled approximately \$271,000 and \$291,000, respectively.

Approximate future minimum rental payments under the operating lease as of December 31, are as follows:

Years Ending December 31,

2021	\$ 290,700
2022	290,700
2023	290,700
2024	290,700
2025	290,700
Thereafter	<u>3,488,800</u>
	<u>\$ 4,942,300</u>

NATIONAL PORK BOARD

NOTES TO FINANCIAL STATEMENTS

(6) Administrative expenses

Administrative expenses are those costs associated with the management, administration, support, resource management (excluding USDA fees of approximately \$313,000 and \$320,000 for the years ended December 31, 2019 and 2020, respectively) and policy development of the national legislative checkoff program. Administrative expenses included in policy and management for the years ended December 31, 2019 and 2020 totaled \$7,041,000 (9.07% of total checkoff revenue) and \$6,978,000 (9.65% of total checkoff revenue), respectively.

(7) Employee benefits and retention plan

The Board has a 401(k) plan which covers substantially all employees. Under the terms of the plan, employer-matching contributions are equal to 50% of employee contributions, up to 6% of eligible wages. The Board also made discretionary contributions of 5% for the years ended December 31, 2019 and 2020. The contributions to the plan for the years ended December 31, 2019 and 2020 totaled approximately \$687,000 and \$774,000, respectively.

The Board has adopted the National Pork Board Stay Incentive Plan (Plan) as of November 11, 2003 to incent employees of the Board to remain employees of the Board due to the uncertainty associated with the pork checkoff. Retention payments are dependent upon fulfilling the specific requirements of the agreement, and are only payable if the employees incur a qualified separation, as defined by the Plan.

(8) Fair value measurement

Fair value of assets measured on a recurring basis at December 31, 2019 and 2020 are as follows:

Description	Fair Value Measurements at December 31, 2019			
	Level 1	Level 2	Level 3	Total
U.S. Treasury bills and agency notes	\$ -	\$ 46,136,469	\$ -	\$ 46,136,469
Put options	335,330	-	-	335,330
Cash	475,333	-	-	475,333
Total assets measured at fair value	<u>\$ 810,663</u>	<u>\$ 46,136,469</u>	<u>\$ -</u>	<u>\$ 46,947,132</u>

Description	Fair Value Measurements at December 31, 2020			
	Level 1	Level 2	Level 3	Total
Money market mutual fund	\$ 24,001,806	\$ -	\$ -	\$ 24,001,806
Put options	130,050	-	-	130,050
Cash	254,492	-	-	254,492
Total assets measured at fair value	<u>\$ 24,386,348</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 24,386,348</u>

Following is a description of the valuation methodologies used for assets measured at fair value. All assets have been valued using a market approach. There have been no changes in methodologies used at December 31, 2019 and 2020.

NATIONAL PORK BOARD

NOTES TO FINANCIAL STATEMENTS

(8) **Fair value measurement** (continued)

Money market mutual fund – The money market mutual fund consists of a government-only fund invested in US Treasury and government agency securities. Money market mutual funds are valued at the net asset value (NAV) of shares held by the Board at year end.

U.S. Treasury bills and agency notes - U.S. Treasury bills and agency notes are reported at fair value based on inputs that are observable such as interest rates, yield curves and comparable market data.

Put options - Put options are valued at the closing price reported on the active market on which the options are traded.

The preceding methods prescribed may produce a fair value calculation that may not be indicative of the net realizable value or reflective of future fair values. Furthermore, although the Board believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

(9) **Reclassifications**

Certain reclassifications have been made to the financial statements for the year ended December 31, 2019 to conform with classifications of the current year. The reclassifications did not affect financial position or changes in net assets without restrictions.



**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***

To the Members

NATIONAL PORK BOARD

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 National Pork Board, which comprise the statement of assets, liabilities and net assets on a modified cash collection basis as of December 31, 2020, and the related statements of revenue and expenses and changes in net assets on a modified cash collection basis, and cash flows on a modified cash collection basis for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 5, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered National Pork Board's internal control over financial reporting (internal control) as a basis for designing 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 National Pork Board's internal control. Accordingly, we do not express an opinion on the effectiveness of National Pork 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2020-001 and 2020-002 that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether National Pork 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, including the *Pork Promotion, Research, and Consumer Act of 1985*, *Pork Promotion, Research and Consumer Information Order*, and *USDA Guidelines for AMS Oversight of Commodity Research and Promotion Programs* dated January 2020 including: 1) whether funds were discovered to be used for influencing government policy or action, 2) whether the board adhered to the AMS investment policy (other than AMS approved exceptions to the policy), 3) consideration of internal controls related to AMS Guidelines, 4) whether funds were used only for projects and other expenses authorized in a budget approved by the USDA, and 5) whether funds were used in accordance with the AMS Guidance, noncompliance with which could have a direct and material effect on the financial statements. 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2020-003.

The Entity's Response to Findings

The National Pork Board's response to the findings identified in our audit are described in the accompanying schedule of finding and questioned costs. The National Pork Board's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

Mayer Hoffman McCann P.C.

Minneapolis, Minnesota

April 5, 2021

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended December 31, 2020

2020-001

Criteria or Specific Requirement

Individual expense reports should be completed to justify the appropriate use of Checkoff funds with original receipts attached to the report. Credit card expenditures shall be reviewed each month by a supervisor or the Board's designee. In addition, the Board's Credit Card Policy & Procedures requires credit cardholders to submit an expense report with supporting receipts for all credit card charges within 30 days of the valid charge.

Condition and Context

A sample of 40 credit card transactions was tested. We noted six transactions where the expense report and receipts detail were not submitted in accordance with the Board's credit card policy requiring receipts be submitted within 30 days of valid charges. A review of the receipts for these six transactions determined that these were valid charges. All of the charges were properly approved in accordance with the Board's approval policy. The 30 day credit card receipts submission policy is an internal control policy. The transactions noted were in compliance with AMS Guidelines.

Questioned Costs

None

Cause

The Board's control processes for credit card charges were not followed.

Effect

Unauthorized or unallowable credit card charges could occur resulting in expenses being incurred that are not approved or allowed and not in compliance with the Checkoff funds regulations.

Recommendation

Management should periodically monitor its control processes over credit cards to ensure that expense reports are completed and submitted timely along with supporting receipts. Management should ensure that all employees are aware of the policies.

Views of Responsible Officials and Planned Corrective Actions

See Corrective Action Plan.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended December 31, 2020

2020-002

As discussed at Finding 2020-003, The Board's operating cash account balances with Wells Fargo are in excess of the \$250,000 FDIC insurance amount by approximately \$9.5 million as of December 31, 2020. MHM noted that subsequent to August 2020, the Board did not have alternative collateral fully collateralizing the balance in excess of the FDIC insurance amount as required by the AMS Directive 2210.2 *Investment of Public Funds*. The AMS Directive requires complete safety of invested funds held in public trust. Prior to making changes in bank or investment accounts, the Board should have procedures in place so that a review process is followed to ensure these changes in accounts or underlying collateral are in accordance with the AMS "Investment of Public Funds" Directive.

2020-003

Criteria or Specific Requirement

AMS Directive 2210.2 *Investment of Public Funds* specifies the following: Section 6.a.2 - All investments must be fully secured. Section 6.a.3 - All investments exceeding FDIC insured thresholds, within said institutions, must be fully collateralized. Securities pledged as collateral must be ones specified in U.S. Department of the Treasury Regulations, Title 31, CFR, Part 202, must be pledged at face value, must be separately segregated in the name of the investor, and must be held by a financial institution authorized by the Treasury as a Federal Depository if not held by the Federal Reserve Board.

Condition and Context

The Board's operating cash account balances with Wells Fargo are in excess of the \$250,000 FDIC insurance amount by approximately \$9.5 million as of December 31, 2020. MHM noted that subsequent to August 2020, the Board did not have alternative collateral coverage fully collateralizing the balance in excess of the FDIC insurance amount as required by the AMS Directive 2210.2 *Investment of Public Funds*.

Cause

The Board's management did not have a policy in place subsequent to August 2020 to fully collateralize the Board's cash balance in excess of FDIC insurance.

Effect

The Board's cash accounts aren't fully secured and protected from adverse risk as required by AMS policy.

Recommendation

The AMS Directive requires complete safety of invested funds held in public trust. Prior to making changes in bank or investment accounts, the Board should have procedures in place so that a review process is followed to ensure these changes in accounts or underlying collateral are in accordance with the AMS "Investment of Public Funds" Directive.

Views of Responsible Officials and Planned Corrective Actions

See Corrective Action Plan.



Summary Schedule of Prior Audit Findings

Year Ended December 31, 2020

Financial Statement Findings

2019-001

Finding: Credit Card Transactions

Condition:

A sample of 40 credit card transactions was tested. Four transactions were not approved timely due to expense reports and receipts not being submitted. This was not in accordance with the Board's credit card policy requiring receipts be submitted within 30 days of valid charges. Subsequent review of the receipts for these four transactions determined that these were valid charges but review and approval wasn't completed timely. Two of the four transactions were for travel expenses.

Status:

As noted in finding 2020-001, a recurrence of the issue occurred in the first half of 2020 related to expense reports and supporting receipts not being submitted within 30 days of valid charges in accordance with credit card policies and procedures. Starting in July 2020 the Finance team began to follow up directly with any cardholder who had transactions outstanding longer than 30 days. This helped to educate the cardholders on the deadlines as well as help expediate getting these turned in and reconciled. We did not see any issues in the second half of 2020 as a result. We plan to automate this process in the future through our ERP system. We are looking at NPB policy and procedures as well to determine if 30 days is the appropriate amount of time.

2019-002

Finding: Credit Card and Travel Expenses

Condition:

A sample of 40 credit card transactions was tested. Four transactions were not approved timely due to expense reports and receipts not being submitted. This was not in accordance with the Board's credit card policy requiring receipts be submitted within 30 days of valid charges. Subsequent review of the receipts for these four transactions determined that these were valid

charges but review and approval wasn't completed timely. Two of the four transactions were for travel expenses.

Status:

The National Pork Board addressed the issue related to compliance with Guidelines for AMS Oversight of Commodity Research and Promotion Programs.

Corrective Action Plan

Year Ended December 31, 2020

Financial Statement Findings

2020-001

Finding: Credit Card Transactions

Condition:

As discussed at Finding 2020-001, a sample of 40 credit card transactions was tested. There were six transactions where the expense report and receipts detail were not submitted in accordance with the Board's credit card policy requiring receipts be submitted within 30 days of valid charges. A review of the receipts for these six transactions determined that these were valid charges. All of the charges were properly approved within the required time period. The 30 day credit card receipts submission policy is an internal control policy. The transactions noted were in compliance with AMS Guidelines. The six exceptions described here were in the first half of the year prior to management's changes in credit card policies and procedures.

Views of Responsible Officials and Planned Corrective Actions:

Management is in agreement with this finding.

Starting in July 2020 the Finance team began to follow up directly with any cardholder who had transactions outstanding longer than 30 days. This helped to educate the cardholders on the deadlines as well as help expediate getting these turned in and reconciled. We did not see any issues in the second half of 2020 as a result. We plan to automate this process in the future through our ERP system. We are looking at NPB policy and procedures as well to determine if 30 days is the appropriate amount of time.

Responsible Official:

Nick Lenhardt

Completion Date:

12/31/2021

2020-002

Finding: Investment of Public Funds Directive

As discussed at Finding 2020 -003, the Board's cash account balances with Wells Fargo are in excess of the \$250,000 FDIC insurance amount by approximately \$9.5 million as of year-end. MHM noted that subsequent to August 2020, the Board did not have alternative collateral fully collateralizing the balance in excess of the FDIC insurance amount as required by the AMS Directive 2210.2 "Investment of Public Funds".

Views of Responsible Officials and Planned Corrective Actions:

Management is in agreement with this finding.

The details of the corrective action plan are summarized in our response to Finding 2020-003

Responsible Official:

Nick Lenhardt

Completion Date:

04/30/2021

2020-003

Finding: Investment of Public Funds Directive

As discussed at Finding 2020 -003, the Board's cash account balances with Wells Fargo are in excess of the \$250,000 FDIC insurance amount by approximately \$9.5 million as of year-end. MHM noted that subsequent to August 2020, the Board did not have alternative collateral fully collateralizing the balance in excess of the FDIC insurance amount as required by the AMS Directive 2210.2 "Investment of Public Funds".

Views of Responsible Officials and Planned Corrective Actions:

Management is in agreement with this finding.

During the analysis of the sweep account it was determined the cost to keep it open exceeded the value. We are actively working to ensure we are directly collateralized through the Federal Reserve. Doing so will reduce the risk of relying on a third-party financial institution to ensure the funds are fully collateralized at any point in time. This will also help ensure our banking fees

remain low and enable NPB to ensure we are investing our funds with banks that are fully secured and offer the highest rate of return allowed per the Act and Order.

Responsible Official:

Nick Lenhardt

Completion Date:

04/30/2021

