

NATIONAL PORK BOARD
FINANCIAL STATEMENTS
AND COMPLIANCE REPORT
YEARS ENDED DECEMBER 31, 2020 AND 2021



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INDEPENDENT AUDITORS' REPORT

Members
National Pork Board
Des Moines, Iowa

Report on the Financial Statements

Opinion

We have audited the accompanying financial statements of National Pork Board, which comprise the statements of assets, liabilities and net assets—modified cash collection basis as of December 31, 2021, and the related statements of revenue, expenses and changes in net assets—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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of National Pork Board as of December 31, 2021, and the results of its operations and cash flows for the year then ended in accordance with the modified cash collection basis of accounting.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of National Pork Board and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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 that matter.

Prior Period Financial Statements

The financial statements of National Pork Board as of December 31, 2020 were audited by other auditors whose report dated April 5, 2021 expressed an unmodified opinion on those statements.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the modified cash collection basis of accounting, and 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about National Pork Board's ability to continue as a going concern for one year after the date the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 National Pork Board's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about National Pork Board's ability to continue as a going concern for a reasonable period of time.

Members
National Pork Board

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 7, 2022, on our consideration of the 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 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 National Pork 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 National Pork Board's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Cedar Rapids, Iowa
April 7, 2022

NATIONAL PORK BOARD
STATEMENTS OF ASSETS, LIABILITIES, AND NET ASSETS
MODIFIED CASH COLLECTION BASIS
DECEMBER 31, 2020 AND 2021

ASSETS	2020	2021
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 9,770,641	\$ 23,739,058
Short-Term Cash and Cash Equivalents	24,256,298	43,133,618
Short-Term Investments	130,050	188,470
Accounts Receivable, Net	626,975	142,722
Prepaid Expenses	512,525	403,838
Total Current Assets	35,296,489	67,607,706
PROPERTY AND EQUIPMENT		
Leasehold Improvements	4,041,226	4,041,226
Furniture and Equipment	770,315	715,013
Data Processing Equipment	1,109,537	1,130,963
Software	8,230,826	10,287,074
Total	14,151,904	16,174,276
Less: Accumulated Depreciation	(4,151,879)	(5,766,586)
Property and Equipment, Net	10,000,025	10,407,690
INTANGIBLES		
	17,200,000	17,200,000
Total Assets	\$ 62,496,514	\$ 95,215,396
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$ 4,422,975	\$ 5,748,843
Grants Payable	5,447,443	5,157,762
Accrued Expenses	1,801,151	8,458,142
Deferred Revenue	103,000	98,600
Total Current Liabilities	11,774,569	19,463,347
LONG-TERM LIABILITIES		
Grants Payable	-	829,537
Total Liabilities	11,774,569	20,292,884
NET ASSETS		
Without Donor Restrictions:		
Undesignated	50,721,945	43,622,512
Board Designated	-	31,300,000
Total Net Assets	50,721,945	74,922,512
Total Liabilities and Net Assets	\$ 62,496,514	\$ 95,215,396

See accompanying Notes to Financial Statements.

NATIONAL PORK BOARD
STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS
MODIFIED CASH COLLECTION BASIS
YEARS ENDED DECEMBER 31, 2020 AND 2021

	<u>2020</u>	<u>2021</u>
OPERATING REVENUE		
Producer Checkoff	\$ 72,331,877	\$ 104,316,719
Put Option Activity	3,985,983	(544,933)
Interest Income on Cash Equivalents	311,387	30,672
Other, Net	<u>3,426,234</u>	<u>904,614</u>
Total Operating Revenue	80,055,481	104,707,072
OPERATING EXPENSES		
Program Services:		
Checkoff Distribution to State Pork Producer Associations	13,278,082	19,366,817
Domestic and International Marketing	28,880,638	19,717,247
Science and Technology	5,096,829	8,337,121
Producer and State Engagement	6,288,729	8,325,141
Sustainability	3,727,966	7,406,400
Communication	<u>4,085,393</u>	<u>8,762,400</u>
Total Program Services	61,357,637	71,915,126
Policy and Management	8,308,630	8,591,379
Intangible Lease Expense	<u>262,980</u>	<u>-</u>
Total Operating Expenses	<u>69,929,247</u>	<u>80,506,505</u>
CHANGE IN NET ASSETS	10,126,234	24,200,567
Net Assets - Beginning of Year	<u>40,595,711</u>	<u>50,721,945</u>
NET ASSETS - END OF YEAR	<u>\$ 50,721,945</u>	<u>\$ 74,922,512</u>

See accompanying Notes to Financial Statements.

**NATIONAL PORK BOARD
STATEMENT OF CASH FLOWS
MODIFIED CASH COLLECTION BASIS
YEARS ENDED DECEMBER 31, 2020 AND 2021**

	<u>2020</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 10,126,234	\$ 24,200,567
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	1,011,293	1,814,893
Put Option Activity	(3,985,983)	544,933
Loss (Gain) on Disposal of Property and Equipment	(84,259)	(13,032)
(Increase) Decrease in Assets:		
Accounts Receivable	823,879	484,253
Prepaid Expenses	316,114	108,687
Increase (Decrease) in Liabilities:		
Accounts Payable	(2,157,625)	1,325,868
Grants Payable	(1,406,696)	539,856
Accrued Expenses	(1,008,037)	6,656,991
Deferred Revenue	74,060	(4,400)
Net Cash Provided by Operating Activities	<u>3,708,980</u>	<u>35,658,616</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Investments	(421,167)	(697,973)
Proceeds from Maturities of Investments	4,612,430	94,620
Proceeds from Sale of Property and Equipment	4,099	-
Purchase of Property and Equipment	(6,707,657)	(2,209,526)
Purchase of Intangibles	(17,200,000)	-
Net Cash Used by Investing Activities	<u>(19,712,295)</u>	<u>(2,812,879)</u>
NET INCREASE (DECREASE) IN CASH	(16,003,315)	32,845,737
Cash and Cash Equivalents - Beginning of Year	<u>50,030,254</u>	<u>34,026,939</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 34,026,939</u>	<u>\$ 66,872,676</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENTS OF ASSETS, LIABILITIES, AND NET ASSETS		
Cash and Cash Equivalents	\$ 9,770,641	\$ 23,739,058
Short-Term Cash and Cash Equivalents	<u>24,256,298</u>	<u>43,133,618</u>
Total Cash and Cash Equivalents	<u>\$ 34,026,939</u>	<u>\$ 66,872,676</u>

See accompanying Notes to Financial Statements.

**NATIONAL PORK BOARD
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2021**

NOTE 1 NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

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

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 short-term cash and cash equivalents and are not considered to be short-term investments.

**NATIONAL PORK BOARD
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2021**

NOTE 1 NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 3 for discussion of fair value measurements.

Short-term investments consist of put options.

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, 2020 and 2021, 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, two to five years for data processing equipment and seven 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, 2020 and 2021 depreciation expense amounted to \$1,011,293 and \$1,814,893, 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.

**NATIONAL PORK BOARD
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2021**

NOTE 1 NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2020 and 2021, intangibles were \$17,200,000. The Board has determined no impairment was identified as of December 31, 2020 and 2021.

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, 2020 and 2021.

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 statements of revenue, expenses and changes in net assets only when the conditions are met. Amounts subject to future conditions are included in board designated assets.

Advertising Costs

The Board charges the production costs of advertising to expense as incurred. Advertising expense for the years ended December 31, 2020 and 2021 totaled approximately \$1,181,000 and \$0, respectively.

**NATIONAL PORK BOARD
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2021**

NOTE 1 NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurement

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.

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.

Reclassifications

Certain reclassifications have been made to the financial statements for the year ended December 31, 2020, to conform with classifications of the current year. The reclassifications did not affect financial position or changes in net assets without restrictions.

**NATIONAL PORK BOARD
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2021**

NOTE 2 LIQUIDITY AND AVAILABILITY

Financial assets available to meet annual operating needs for the years ended December 31 are as follows:

	<u>2020</u>	<u>2021</u>
Cash and Cash Equivalents	\$ 9,770,641	\$ 23,739,058
Short-Term Cash and Cash Equivalents	24,256,298	43,133,618
Short-Term Investments	130,050	188,470
Accounts Receivable, Net	<u>626,975</u>	<u>142,722</u>
Total Financial Assets	34,783,964	67,203,868
Board Designated	-	(31,300,000)
Net Financial Assets	<u>\$ 34,783,964</u>	<u>\$ 35,903,868</u>

NOTE 3 FAIR VALUE MEASUREMENT

The composition of investments for the years ended December 31, 2020 and 2021 are put options. Put options are classified as level 1 assets with the balance of \$130,050 and \$188,470 for the years ended December 31, 2020 and 2021. Put options are valued at the closing price reported on the active market on which the options are traded. This method may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Board realizes 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.

The composition of put option activity is as follows for years ended December 31:

	<u>2020</u>	<u>2021</u>
Put Options Exercised (Expired)	\$ 4,191,263	\$ (603,353)
Change in Put Option Value	<u>(205,280)</u>	<u>58,420</u>
Put Option Activity	<u>\$ 3,985,983</u>	<u>\$ (544,933)</u>

NOTE 4 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 year ended December 31, 2020, was \$263,000. There were no expenses related to the license agreement for the year ended December 31, 2021. On December 30, 2020, the Board acquired the trademarks from the Council for \$17,200,000.

**NATIONAL PORK BOARD
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2021**

NOTE 5 ACCOUNTS PAYABLE

Included in accounts payable at December 31, 2020 and 2021 were amounts totaling approximately \$1,329,000 and \$1,695,634, respectively, due to state pork producer associations representing their share of assessments collected but not yet distributed.

NOTE 6 ACCRUED EXPENSES

Accrued expenses include both project and return to state hold amounts, as well as, amounts for accrued payroll, bonuses, vacation, and benefits. For the year ended December 31, 2020 project and return to state hold amounts totaled \$224,320 and accrued payroll, bonuses, vacation, and benefits totaled \$1,576,831. For the year ended December 31, 2021 project and return to state hold amounts totaled \$2,732,878 and accrued payroll, bonuses, vacation, and benefits totaled \$1,725,264.

NOTE 7 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. Monthly payments related to the lease are \$42,082 until December 2023.

The related expense for the years ended December 31, 2020 and 2021 under the operating lease totaled approximately \$291,000 each year.

Approximate future minimum rental payments under the operating lease as of December 31, 2021 are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2022	\$ 504,980
2023	504,980
2024	504,980
2025	504,980
2026	504,980
Thereafter	5,554,780
Total	<u>\$ 8,079,680</u>

**NATIONAL PORK BOARD
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2021**

NOTE 8 BOARD DESIGNATED NET ASSETS

Board designated net assets include grant amounts in which future conditions have yet to be met and are comprised of the following as of December 31, 2021:

Soil Health Research	\$ 1,500,000
Swine Health Information Center	12,500,000
We Care Center	12,500,000
National Retail Meat Case Study	500,000
Real Pork Human Nutrition	950,000
Real Pork Mythbusting	1,250,000
Real Pork Multi-Cultural	2,100,000
Total Board Designated	<u><u>\$ 31,300,000</u></u>

NOTE 9 ADMINISTRATIVE EXPENSES

Administrative expenses are those costs associated with the management, administration, support, resource management (excluding USDA fees of approximately \$320,000 and \$332,000 for the years ended December 31, 2020 and 2021, respectively) and policy development of the national legislative checkoff program. Administrative expenses included in policy and management for the years ended December 31, 2020 and 2021 totaled \$6,978,000 (9.65% of total checkoff revenue) and \$8,111,375 (7.78% of total checkoff revenue), respectively.

NOTE 10 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, 2020 and 2021. The contributions to the plan for the years ended December 31, 2020 and 2021 totaled approximately \$774,000 and \$749,818, 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.

**NATIONAL PORK BOARD
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2021**

NOTE 11 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.

The Board's producer checkoff revenue is dependent on the overall swine industry and certain factors that affect market hog prices. Management has implemented risk management actions to help mitigate large variations in revenue, however a large portion of producer checkoff revenue is still dependent on market hog prices.

NOTE 12 SUBSEQUENT EVENTS

During Pork Forum, the Board's Annual Delegate meeting, it was determined the checkoff rate would be decreased from \$0.40 per \$100 of value to \$0.35 per \$100 of value effective no later than January 1, 2023. The assessment decrease will decrease annual funding of the promotion, research, and consumer information program by an estimated \$12 million to \$13 million with an estimated \$570,000 decrease in importer assessments. The assessment decrease reflects the Delegate Body's desire to lessen the assessment burden on producers and make such funds available to pork producers and the industry. The adjustment in importer assessments also brings the equivalent market value of live animals from which imported pork and pork products are derived in line with the market value of domestic porcine animals. A Harmonized Tariff Schedule number for prepared or preserved pork has also been added to the regulations.

Management, evaluated subsequent events through April 7, 2022, the date the financial statements were available to be issued. Events or transactions occurring after December 31, 2021 but prior to April 7, 2022 that provided additional evidence about conditions that existed at December 31, 2021 have been recognized in the financial statements for the year ended December 31, 2021. Events or transactions that provided evidence about conditions that did not exist at December 31, 2021 but arose before the financial statements were available to be issued have not been recognized in the financial statements for the year ended December 31, 2021.



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

Members
National Pork Board
Des Moines, Iowa

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, 2021, and the related statements of revenue, expenses and changes in net assets on a modified cash collection basis, and cash flows on 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 7, 2022.

Report on 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 opinions 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, we noticed significant deficiencies 2021-001 and 2021-002 which are described in the accompanying schedule of findings and questioned costs.

Report on 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 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 are required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2021-003.

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 subject 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 result 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.



CliftonLarsonAllen LLP

Cedar Rapids, Iowa
April 7, 2022

**NATIONAL PORK BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2021**

Financial Statement Findings

2021-001: Significant Deficiency in Internal Control over Financial Reporting, Credit Card Transactions

Criteria: 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 Manual 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 three 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 three 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: Management agrees with the finding.

2021-002: Significant Deficiency in Internal Control over Financial Reporting, Investment of Public Funds Directive

As discussed at Finding 2021-003, The Board's operating cash account balances with Wells Fargo were in excess of the \$250,000 FDIC insurance amount prior to April 2021. Subsequent to April 2021, the Board did 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 AMS "Investment of Public Funds" Directive.

**NATIONAL PORK BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2021**

Compliance Finding

2021-003 Significant Deficiency in Internal Control over Compliance, Investment of Public Funds Directive

Criteria: 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 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 were in excess of the \$250,000 FDIC insurance amount prior to April 2021. Prior to April 2021, 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*.

Questioned Costs: None

Cause: The Board's management did not have a policy in place prior to April 2021 to fully collateralize the Board's cash balance in excess of FDIC insurance.

Effect: The Board's cash accounts weren'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: Management agrees with the finding.