

**NATIONAL PORK BOARD**  
**AUDITED FINANCIAL STATEMENTS**  
**AND COMPLIANCE REPORT**

Years Ended December 31, 2017 and 2016

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## INDEPENDENT AUDITOR'S 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, 2017 and 2016, 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.

#### ***Auditor's 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 auditor's 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, 2017 and 2016, 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, 2017 and 2016 dated May 18, 2018 and May 9, 2017, 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  
May 18, 2018

**NATIONAL PORK BOARD**

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

December 31, 2017 and 2016

	<b>2017</b>	<b>2016</b>
<b><u>ASSETS</u></b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 9,716,947	\$ 3,141,747
Short-term investments	30,735,087	31,234,956
Accounts receivable, net	409,867	109,783
Prepaid expenses	620,127	1,171,635
<b>TOTAL CURRENT ASSETS</b>	<b>41,482,028</b>	<b>35,658,121</b>
<b>PROPERTY AND EQUIPMENT</b>		
Leasehold improvements	1,347,101	1,260,602
Furniture, equipment and automobiles	732,266	715,423
Data processing equipment	2,729,043	2,617,401
<b>TOTAL PROPERTY AND EQUIPMENT</b>	<b>4,808,410</b>	<b>4,593,426</b>
Less accumulated depreciation	(4,148,335)	(3,928,743)
<b>NET PROPERTY AND EQUIPMENT</b>	<b>660,075</b>	<b>664,683</b>
<b>INVESTMENTS</b>		
Long-term investments	1,982,754	498,904
Designated for deferred compensation	-	151,858
	<b>1,982,754</b>	<b>650,762</b>
<b>INTANGIBLES, trademarks</b>	<b>34,673,441</b>	<b>34,673,441</b>
<b>TOTAL ASSETS</b>	<b>\$ 78,798,298</b>	<b>\$ 71,647,007</b>

See Notes to Financial Statements

**NATIONAL PORK BOARD**

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

December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b><u>LIABILITIES</u></b>		
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 1,778,964	\$ 1,666,477
Deferred compensation, current portion	100,000	100,000
Accounts and grants payable	12,636,325	12,723,723
Accrued expenses	2,477,019	2,384,259
Deferred revenue	177,702	25,213
TOTAL CURRENT LIABILITIES	<u>17,170,010</u>	<u>16,899,672</u>
DEFERRED COMPENSATION, less current portion	31,129	125,183
LONG-TERM DEBT, less current maturities	<u>16,310,454</u>	<u>18,089,418</u>
TOTAL LIABILITIES	<u>33,511,593</u>	<u>35,114,273</u>
<b><u>NET ASSETS</u></b>		
UNRESTRICTED NET ASSETS		
Undesignated	43,786,705	31,636,827
Designated	<u>1,500,000</u>	<u>4,895,907</u>
TOTAL NET ASSETS	<u>45,286,705</u>	<u>36,532,734</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 78,798,298</u>	<u>\$ 71,647,007</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, 2017 and 2016

	<b>2017</b>	<b>2016</b>
<b>REVENUES</b>		
Producer checkoff	\$ 74,053,349	\$ 67,998,644
State pork producer associations	1,250,239	1,249,745
Investment income	251,009	74,939
Other, net	893,873	961,646
<b>TOTAL REVENUES</b>	<b>76,448,470</b>	<b>70,284,974</b>
 <b>EXPENSES</b>		
Program:		
Mandatory checkoff distribution to state pork producer associations	14,763,880	13,648,359
Domestic and international marketing	26,303,836	23,813,929
Science and technology	10,135,002	10,319,504
Shareholder outreach	4,197,551	4,719,517
Channel outreach	-	9,488,416
Communication	4,058,258	4,661,640
Policy and management	6,958,693	6,339,397
Interest expense	1,277,279	1,386,209
<b>TOTAL EXPENSES</b>	<b>67,694,499</b>	<b>74,376,971</b>
 <b>INCREASE (DECREASE) IN         UNRESTRICTED NET ASSETS</b>	 8,753,971	 (4,091,997)
 <b>UNRESTRICTED NET ASSETS,         BEGINNING OF YEAR</b>	 36,532,734	 40,624,731
 <b>UNRESTRICTED NET ASSETS,         END OF YEAR</b>	 <b>\$ 45,286,705</b>	 <b>\$ 36,532,734</b>

See Notes to Financial Statements

**NATIONAL PORK BOARD**

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

Years Ended December 31, 2017 and 2016

	<b>2017</b>	<b>2016</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Increase (decrease) in unrestricted net assets	\$ 8,753,971	\$ (4,091,997)
Adjustments to reconcile increase (decrease) in unrestricted net assets to net cash flows from operating activities:		
Depreciation expense	219,592	285,517
Deferred compensation	5,946	9,697
Change in operating assets and liabilities:		
Accounts receivable	(300,084)	134,920
Prepaid expenses	551,508	(746,507)
Accounts and grants payable and accrued expenses	5,362	271,766
Deferred compensation	(100,000)	(100,000)
Deferred revenue	152,489	(36,297)
NET CASH FLOWS FROM OPERATING ACTIVITIES	9,288,784	(4,272,901)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments	(42,674,888)	(50,697,549)
Proceeds from maturities of investments	41,842,765	57,767,217
Purchase of property and equipment	(214,984)	(86,192)
NET CASH FLOWS FROM INVESTING ACTIVITIES	(1,047,107)	6,983,476
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Principal payments of long-term debt	(1,666,477)	(1,561,103)
NET INCREASE	6,575,200	1,149,472
<b>CASH AND CASH EQUIVALENTS</b>		
BEGINNING OF YEAR	3,141,747	1,992,275
END OF YEAR	\$ 9,716,947	\$ 3,141,747
<b>SUPPLEMENTAL DISCLOSURES</b>		
Interest paid	\$ 1,333,500	\$ 1,438,900

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.

**Unrestricted net assets** - Unrestricted net assets 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. The Board evaluates the risk of exceeding insurance levels on a daily basis and requires the financial institution to provide collateral of 105% for amounts exceeding federal insurance coverage.

## NATIONAL PORK BOARD

### NOTES TO FINANCIAL STATEMENTS

#### ( 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 9 for discussion of fair value measurements.

Short-term investments consist of United States treasury bills, United States agency notes and certificates of deposit maturing less than one year from issuance and are carried at fair value. Long-term investments consist of certificates of deposit carried at fair value, a portion which is designated for future payment on deferred compensation obligations.

**Accounts receivable** - Accounts receivable are carried at original invoice amount 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, 2017 and 2016, 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, that has a useful life of greater than one year, and a cost in excess of \$2,500. The Board capitalizes data processing equipment 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, and 3 to 10 years for leasehold improvements. 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, 2017 and 2016 depreciation expense amounted to \$220,000 and \$286,000, respectively.

**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. The Board has determined no impairment was identified as of December 31, 2017 and 2016.

## NATIONAL PORK BOARD

### NOTES TO FINANCIAL STATEMENTS

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

**Advertising costs** - The Board charges the production costs of advertising to expense as incurred. Advertising expense for the years ended December 31, 2017 and 2016 totaled approximately \$2,533,000 and \$11,169,000, 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 assumptions 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.

## NATIONAL PORK BOARD

### NOTES TO FINANCIAL STATEMENTS

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

**New accounting pronouncements** - In February 2016, FASB issued ASU 2016-2, "Lease (Topic 842)". ASU 2016-2 requires lessees to recognize a right-of-use asset and lease liability on the statement of financial condition 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 2016-2 is effective for annual periods beginning after December 15, 2019. The Board is assessing the impact this standard will have on its financial statements.

In May 2014, FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. The new standard provides a single model for entities to use in accounting for revenue from contracts with customers and establishes principles to report information about the nature, amount, timing, and uncertainty of revenue from contracts with customers. ASU 2014-09 is effective for fiscal years beginning after December 15, 2018. Early adoption is permitted for fiscal years beginning after December 15, 2016. The Board is assessing the impact this standard will have on its financial statements.

Other pronouncements issued by the FASB or other authoritative accounting standards groups with future effective dates are either not applicable or are not expected to be significant to the Board.

**Subsequent events** - Subsequent events have been evaluated through May 18, 2018, the date the financial statements were available to be issued.

#### ( 2 ) Intangible assets

During the year ended December 31, 2006, the Board acquired trademarks from the National Pork Producers Council (the Council) totaling approximately \$34,673,000. Under the asset purchase agreement, the Board may voluntarily terminate the agreement and promissory note (see Note 4) by giving written notice of 365 days. The Board will be obligated to make the next annual installment of \$3,000,000 following written notice of termination. The asset purchase agreement also specifies that if there is an "adverse pork checkoff event," as defined in the agreement, no further installments shall be due under the promissory note.

#### ( 3 ) Accounts payable

Included in accounts payable at December 31, 2017 and 2016 were amounts totaling approximately \$1,141,000 and \$905,000, respectively, due to state pork producer associations representing their share of assessments collected but not yet distributed.

**NATIONAL PORK BOARD**

**NOTES TO FINANCIAL STATEMENTS**

**( 4 ) Long-term debt**

The Board has a note payable to the Council with a balance of \$18,089,418 and \$19,755,895 as of December 31, 2017 and 2016, respectively, due in annual installments of \$3,000,000, including interest at 6.75% through July 2025 when the remaining balance is due. The note is secured by intangible assets. See also Note 2.

Aggregate maturities of the long-term debt are as follows:

**Years Ending December 31,**

2018	\$	1,778,964
2019		1,899,044
2020		2,027,230
2021		2,164,068
2022		2,310,143
Thereafter		<u>7,909,969</u>
	<u>\$</u>	<u>18,089,418</u>

**( 5 ) Designated net assets**

Certain unrestricted net assets have been designated by the Board of Directors for particular purposes. The Board has designated net assets at December 31, 2017 and 2016 as follows:

	<u>2017</u>	<u>2016</u>
Swine Health Information Center	\$ 1,500,000	\$ 3,000,000
Employee obligations	-	1,895,907
	<u>\$ 1,500,000</u>	<u>\$ 4,895,907</u>

**NATIONAL PORK BOARD**

**NOTES TO FINANCIAL STATEMENTS**

**( 6 ) 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 \$22,567 until December 2019. The rent will be appraised 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, 2017 and 2016 under the operating leases totaled approximately \$267,000 and \$268,000, respectively.

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

**Years Ending December 31,**

2018	\$ 270,800
2019	270,800
2020	270,800
2021	270,800
2022	270,800
Thereafter	<u>4,062,000</u>
	<u>\$ 5,416,000</u>

**( 7 ) Administrative expenses**

Administrative expenses are those costs associated with the management, administration, support, resource management (excluding USDA fees of approximately \$283,000 and \$210,000 for the years ended December 31, 2017 and 2016, respectively) and policy development of the national legislative checkoff program. Administrative expenses included in policy and management for the years ended December 31, 2017 and 2016 totaled \$6,805,000 (9.19% of total checkoff revenue) and \$6,401,000 (9.41% of total checkoff revenue), respectively.

**NATIONAL PORK BOARD**

**NOTES TO FINANCIAL STATEMENTS**

**( 8 ) 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% in 2017 and 2016. The contributions to the plan for the years ended December 31, 2017 and 2016 totaled approximately \$617,000 and \$587,000, 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.

The Board has one deferred compensation plan with a former executive. Distribution of vested funds will be made in accordance with the Plan's schedule, starting in 2015 and continuing until the balance reaches zero. The value of the estimated liability under the agreement is being accrued using an interest rate of prime plus 1% (5.50% at December 31, 2017). Compensation expense related to the plan totaled approximately \$5,900 and \$9,700 for the years ended December 31, 2017 and 2016, respectively.

**( 9 ) Fair value measurement**

Fair value of assets measured on a recurring basis at December 31, 2017 and 2016 are as follows:

<b>Description</b>	<b>Fair Value Measurements at December 31, 2017</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
U.S. Treasury bills and agency notes	\$ -	\$ 19,791,630	\$ -	\$ 19,791,630
Certificates of deposit	-	12,926,211	-	12,926,211
Total assets measured at fair value	\$ -	\$ 32,717,841	\$ -	\$ 32,717,841

<b>Description</b>	<b>Fair Value Measurements at December 31, 2016</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
U.S. Treasury bills and agency notes	\$ -	\$ 24,017,874	\$ -	\$ 24,017,874
Mutual funds	151,858	-	-	151,858
Certificates of deposit	-	7,715,986	-	7,715,986
Total assets measured at fair value	\$ 151,858	\$ 31,733,860	\$ -	\$ 31,885,718

**NATIONAL PORK BOARD**

**NOTES TO FINANCIAL STATEMENTS**

**( 9 ) Fair value measurement (continued)**

The breakdown of assets measured at fair value on a recurring basis by statement of assets, liabilities and net assets modified cash collection basis components at December 31, is as follows:

	<u>2017</u>	<u>2016</u>
Short-term investments	\$ 30,735,087	\$ 31,234,956
Long-term investment	1,982,754	498,904
Designated for deferred compensation	-	151,858
	<u>\$ 32,717,841</u>	<u>\$ 31,885,718</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, 2017 and 2016.

**Mutual funds** - Mutual funds are reported at fair value based on the quoted market price of the fund.

**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.

**Certificates of deposit** - Certificates of deposit are reported at fair value based upon inputs that are observable such as interest rates and comparable market data.

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.



## NATIONAL PORK BOARD

### NOTES TO FINANCIAL STATEMENTS

( 10 ) **Subsequent Event**

Subsequent to year end, a judgement was issued by a United States District Court (the Court) in February 2018 with regard to a lawsuit filed by the Humane Society of the United States against the United States Department of Agriculture (USDA) over the USDA's approval of the Board's purchase of certain trademarks (see note 2) from the National Pork Producers Council (the Council). The Court, in its ruling, enjoined the USDA from approving any future payments on the note payable (see note 4) between the Board and the Council related to the purchase of the trademarks. The note payable to the Council is secured by the trademarks. If based on the Court's decision, the USDA is unable to approve future Board payments on the note payable to the Council, the Board will be in default on the note payable with the Council. The USDA has filed a motion with the Court seeking clarification as to whether the payment on the note payable scheduled for July 2018 could still be made since the USDA had approved that payment prior to the Court's decision. The Court recently denied this motion by USDA. As of May 18, 2018, The Department of Justice and USDA are still contemplating their options.



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**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, 2017, and the related statements of revenue and expenses and change 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 May 18, 2018.

***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) to determine the 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**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 September 2015 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 determination of financial statement amounts. 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we have reported to management of National Pork Board in a separate letter dated May 18, 2018.

**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.



Minneapolis, Minnesota  
May 18, 2018