
American Egg Board

**Financial Report
with Supplemental Information
December 31, 2019**

Independent Auditor's Report	1-2
Financial Statements	
Statement of Financial Position	3
Statement of Activities	4
Statement of Accumulated Excess of Revenue Over Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7-13
Supplemental Information	14
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	15-16
Schedule of Findings and Responses	17

Independent Auditor's Report

To the Board of Directors
American Egg Board

Report on the Financial Statements

We have audited the accompanying financial statements of American Egg Board (AEB), which comprise the statement of financial position as of December 31, 2019 and 2018 and the related statements of activities, accumulated excess of revenue over expenses, and cash flows 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 accounting principles generally accepted in the United States of America; this includes 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 audits 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 financial position of American Egg Board as of December 31, 2019 and 2018 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of Directors
American Egg Board

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 23, 2020 on our consideration of American Egg Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the 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 American Egg Board's internal control over financial reporting and compliance.

Plante & Moran, PLLC

March 23, 2020

Statement of Financial Position

December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Assets		
Cash	\$ 1,247,878	\$ 1,288,556
Certificates of deposit:		
Undesignated	3,230,043	7,757,500
Designated for programs	1,500,000	1,500,000
Designated for operations	1,000,000	1,000,000
Assessments receivable	2,947,040	3,213,592
Other receivable and assets	156,003	174,631
Right-of-use asset	1,878,846	2,077,097
Prepaid expenses	279,043	245,340
Other furniture and equipment - Net	281,384	316,082
	<u>\$ 12,520,237</u>	<u>\$ 17,572,798</u>
Liabilities and Board Equity		
Liabilities		
Accounts payable	\$ 2,737,329	\$ 3,716,726
Accrued expenses	502,246	185,325
Lease liability	2,083,929	2,296,028
	<u>5,323,504</u>	<u>6,198,079</u>
Board Equity		
Excess of revenue over expenses:		
Undesignated	4,630,489	8,808,475
Board designated - End of year:		
Designated for programs	1,500,000	1,500,000
Designated for operations	1,000,000	1,000,000
	<u>2,500,000</u>	<u>2,500,000</u>
Total board designated - End of year	2,500,000	2,500,000
Total excess of revenue over expenses	7,130,489	11,308,475
Contributed capital	66,244	66,244
	<u>7,196,733</u>	<u>11,374,719</u>
Total board equity	7,196,733	11,374,719
	<u>\$ 12,520,237</u>	<u>\$ 17,572,798</u>
Total liabilities and board equity	\$ 12,520,237	\$ 17,572,798

Statement of Activities

Years Ended December 31, 2019 and 2018

	2019	2018
Changes in Board Equity		
Revenue, gains, and other support:		
Sponsorships (without donor restrictions)	\$ 45,000	\$ -
Conference and meetings (without donor restrictions)	65,500	-
Assessments	24,681,473	24,637,766
Interest income	250,058	210,513
Egg Farmers of Canada	74,350	77,946
Total revenue, gains, and other support	<u>25,116,381</u>	<u>24,926,225</u>
Expenses:		
Operating expenses:		
Consumer marketing	15,024,968	14,528,307
Food service	3,948,252	2,370,906
Nutrition	4,238,929	3,982,380
Special projects	116,664	188,227
State support	618,394	1,107,998
Material distribution	-	245,926
Industry programs	540,418	942,009
Egg product marketing	1,413,225	1,883,038
Eggs in school	783,486	827,099
Exports	1,010,482	1,041,028
Total operating expenses	<u>27,694,818</u>	<u>27,116,918</u>
Management and general expenses:		
Administration	955,521	1,219,645
Board meetings	367,009	289,721
USDA administrative expenses	277,019	251,841
Total management and general expenses	<u>1,599,549</u>	<u>1,761,207</u>
Total expenses	<u>29,294,367</u>	<u>28,878,125</u>
Excess of Expenses Over Revenue	<u>\$ (4,177,986)</u>	<u>\$ (3,951,900)</u>

American Egg Board

Statement of Accumulated Excess of Revenue Over Expenses

Years Ended December 31, 2019 and 2018

Balance - January 1, 2018	\$ 15,260,375
Excess of expenses over revenue	<u>(3,951,900)</u>
Balance - December 31, 2018	11,308,475
Excess of expenses over revenue	<u>(4,177,986)</u>
Balance - December 31, 2019	<u><u>\$ 7,130,489</u></u>

Statement of Cash Flows

Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash Flows from Operating Activities		
Excess of expenses over revenue	\$ (4,177,986)	\$ (3,951,900)
Adjustments to reconcile excess of expenses over revenue to net cash from operating activities:		
Depreciation	51,619	51,964
Amortization of right-of-use asset	198,251	203,146
Changes in operating assets and liabilities that provided (used) cash:		
Assessments receivable	266,552	(859,305)
Other receivable and assets	18,628	(9,366)
Prepaid expenses	(33,703)	171,927
Accounts payable	(979,397)	1,611,972
Accrued expenses	316,921	(449,118)
Lease liability	(212,099)	(94,575)
Net cash used in operating activities	<u>(4,551,214)</u>	<u>(3,325,255)</u>
Cash Flows from Investing Activities		
Purchase of furniture and equipment	(16,921)	-
Proceeds from redemption of investments	5,372,457	15,190,000
Purchases of investments	(845,000)	(13,142,000)
Net cash provided by investing activities	<u>4,510,536</u>	<u>2,048,000</u>
Net Decrease in Cash	<u>(40,678)</u>	<u>(1,277,255)</u>
Cash - Beginning of year	<u>1,288,556</u>	<u>2,565,811</u>
Cash - End of year	<u><u>\$ 1,247,878</u></u>	<u><u>\$ 1,288,556</u></u>
Statement of Financial Position Classification of Cash	<u><u>\$ 1,247,878</u></u>	<u><u>\$ 1,288,556</u></u>

December 31, 2019 and 2018

Note 1 - Nature of Business

American Egg Board (AEB), a commodity checkoff organization, was established pursuant to the 1974 Egg Research and Consumer Information Act. The purpose of AEB is to establish an orderly procedure for the development and financing (through adequate fee assessments) of an effective and continuous coordinated program of advertising, promotion, market development, nutrition research, and consumer and producer education for eggs, egg products, spent fowl, and products of spent fowl.

AEB collects an assessment per case of commercial eggs that are sold from egg producers to egg handlers in the United States. Egg producers with fewer than 75,000 hens are eligible to be exempt, and egg producers that produce eggs for hatching are exempt from the assessment. The handler withholds the assessment from the producer and remits this amount to AEB. The assessment rate is 10 cents per case.

All revenue and expenses of AEB are without donor restrictions.

Note 2 - Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Federal Income Taxes

AEB is exempt from federal and state taxation under Section 115(a) of the Internal Revenue Code.

Assessment Receivable

Handlers report to AEB the number of assessable cases and assessment due for each period. All handlers are subject to audit. Because egg production is fairly stable on a month-to-month basis, assessments receivable are composed of estimated assessments due based upon each handler's moving average monthly assessment multiplied by the number of months unpaid by that handler.

The assessments receivable are reduced for an estimate of the amounts that may be uncollectible. Management determines the allowance for uncollectible assessments based on the length of time the receivable is outstanding and by using historical experience with the handler. Receivable balances are written off upon the approval of the executive committee and the U.S. Department of Agriculture (USDA). Handler reports are due 15 days after the end of the assessment period with payment. A late charge of 1.5 percent is accrued on delinquent assessments of 30 days or more from the due date.

Cash

AEB considers all highly liquid investments with an initial maturity of three months or less when purchased to be cash equivalents. AEB did not have any cash equivalents as of December 31, 2019 and 2018. AEB maintains its cash in bank deposit accounts, which at times may exceed federally insured limits. AEB has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk.

Certificates of Deposit

Investments are recorded at fair value and included brokered certificates of deposit.

AEB is subject to the United States Department of Agriculture's investment policy, which requires all investments to be of a risk-free and short-term (one year or less) nature and be interest-bearing instruments.

December 31, 2019 and 2018

Note 2 - Significant Accounting Policies (Continued)

Revenue Recognition

Reported revenue is based on actual cash collections from handlers plus an estimated net accrual for reporting periods not yet paid. AEB does not have contracts with handlers, and revenue is based on a standard for all handlers with over 75,000 hens. As such, the handlers remit 10 cents per case of eggs produced, and this amount is unknown until the revenue is collected. There is no transfer of a good or service by the AEB at the time of the transaction; therefore, the timing of satisfaction, allocation of revenue, payment terms, promises to transfer services, or warranties are all irrelevant to the transaction and revenue recognition.

Office Furniture and Equipment

Office furniture and equipment are recorded at cost and depreciated over their estimated useful lives using the straight-line basis.

Classification of Board Equity

Board equity of AEB is classified based on the presence or absence of donor-imposed restrictions limiting AEB's ability to use or dispose of contributed assets or the economic benefits embodied in those assets.

Board equity without donor restrictions: Board equity that is not subject to donor-imposed restrictions or for which the donor-imposed restrictions have expired or been fulfilled. Equity in this category may be expended for any purpose in performing the primary objectives of AEB.

Board equity with donor restrictions: Equity subject to stipulations imposed by donors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of AEB or by the passage of time. Other donor restrictions can be perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. AEB does not currently have any equity restricted by a donor.

Earnings, gains, and losses on board equity with donor restrictions are classified as board equity without donor restrictions unless specifically restricted by the donor or by applicable state law.

Concentration

AEB uses three major vendors for advertising, public relations, and media. For the years ended December 31, 2019 and 2018, approximately 32 and 31 percent, respectively, of all purchases was from one major vendor.

Advertising and Promotion Expenses

AEB conducts advertising on national television and radio and online in order to increase awareness of the benefits of egg consumption. AEB also engages in public relations efforts in order to strengthen the reputation of eggs and position eggs as nutritious, convenient, and affordable. AEB's policy is to expense these costs as incurred.

Functional Allocation of Expenses

Costs of providing the program and support services have been reported in Note 8 on a functional basis in the statement of activities. Although the methods of allocation used are considered appropriate, other methods could be used that would produce different amounts.

Reclassifications

For comparability, the 2018 financial statements reflect reclassifications where appropriate to conform to the financial statement presentation used in 2019. The AEB broke out the eggs in school and exports departments on the 2019 statement of activities.

December 31, 2019 and 2018

Note 2 - Significant Accounting Policies (Continued)

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including March 23, 2020, which is the date the financial statements were available to be issued.

Note 3 - Office Furniture and Equipment

Office furniture and equipment are summarized as follows:

	2019	2018	Depreciable Life - Years
Furniture and fixtures	\$ 385,975	\$ 385,975	5-20
Computer equipment	202,935	186,015	5
Total cost	588,910	571,990	
Accumulated depreciation - Furniture and fixtures	307,526	255,908	
Net property and equipment	\$ 281,384	\$ 316,082	

Depreciation and amortization expense for 2019 and 2018 was \$51,619 and \$51,964, respectively.

Note 4 - Defined Contribution Retirement Plans

The employer profit-sharing plan contributes, every pay period, 9 percent of the employee's compensation, and the employee is automatically enrolled after meeting eligibility requirements. The employer match on elective deferrals is 40 percent of the employee elective deferral, not to exceed 5 percent of compensation of the employee for each payroll. Employees are eligible to participate in the plan after six months of service. Contributions to the plan totaled \$231,126 and \$196,397 for the years ended December 31, 2019 and 2018, respectively.

Note 5 - Fair Value Measurements

Accounting standards require certain assets and liabilities be reported at fair value in the financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

The following tables present information about AEB's assets measured at fair value on a recurring basis at December 31, 2019 and 2018 and the valuation techniques used by AEB to determine those fair values.

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets that AEB has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets in active markets and other inputs, such as interest rates and yield curves, that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset. These Level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset.

Notes to Financial Statements

December 31, 2019 and 2018

Note 5 - Fair Value Measurements (Continued)

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. AEB's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

Assets Measured at Fair Value on a Recurring Basis at December 31, 2019				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2019
Certificate of deposit	\$ -	\$ 5,730,043	\$ -	\$ 5,730,043

Assets Measured at Fair Value on a Recurring Basis at December 31, 2018				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2018
Certificate of deposit	\$ -	\$ 10,257,500	\$ -	\$ 10,257,500

Certificates of deposit are brokered through various financial institutions and are purchased and sold without a penalty, unless redeemed early. They are valued at original cost. The total approximates fair value based on rates available for similar instruments as of December 31, 2019 and 2018.

AEB's policy is to recognize transfers in and transfers out of Level 1, 2, and 3 fair value classifications as of the actual date of the event of change in circumstances that caused the transfer. During the years ended December 31, 2019 and 2018, there were no transfers between Levels 1, 2, and 3.

Note 6 - Operating Leases

AEB leases its office facilities under an operating lease that expires in December 2027. The minimum lease payments for the years ended December 31 are as follows:

Years Ending December 31	Amount
2020	\$ 271,020
2021	275,831
2022	280,642
2023	285,453
2024	290,264
Thereafter	899,657
Total	2,302,867
Less amount representing interest at 2.46 percent	(218,938)
Present value of net minimum lease payments	\$ 2,083,929

December 31, 2019 and 2018

Note 6 - Operating Leases (Continued)

AEB paid \$266,209 and \$154,549 on the operating lease agreement during the years ended December 31, 2019 and 2018, respectively.

Note 7 - Liquidity

The following reflects AEB's financial assets as of December 31, 2019 and 2018, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the statement of financial position date:

	<u>2019</u>	<u>2018</u>
Cash on hand	\$ 1,247,878	\$ 1,288,556
Assessments receivable - Net	2,947,040	3,213,592
Certificates of deposit - Undesignated	<u>3,230,043</u>	<u>7,757,500</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 7,424,961</u>	<u>\$ 12,259,648</u>

None of these financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the statement of financial position date.

AEB has a goal to maintain financial assets, which consist of cash and short-term investments, on hand to meet the needs of normal operating expenses. AEB has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, AEB invests cash in excess of daily requirements in short-term investments, including certificates of deposit.

AEB also realizes there could be unanticipated liquidity needs.

December 31, 2019 and 2018

Note 8 - Functional Expenses

AEB provides various services to its members. Expenses related to providing these services are as follows for the year ended December 31, 2019:

	Program	Management and General	Total
Advertising and marketing	\$ 14,036,357	\$ -	\$ 14,036,357
Board meetings	128,258	238,756	367,014
Commercial market development	1,849,669	-	1,849,669
Consumer market development	1,863,021	-	1,863,021
Depreciation	36,438	15,181	51,619
Industry communications	576,001	-	576,001
Information technology	110,284	45,948	156,232
International market development	1,010,482	-	1,010,482
Miscellaneous expense	14,717	6,132	20,849
Nutrition	1,183,253	-	1,183,253
Office supplies and expenses	113,168	36,970	150,138
Payroll tax and fringe benefits	459,847	272,953	732,800
Postage	25,726	1,425	27,151
Professional fees	103,896	360,783	464,679
Rent	184,333	76,799	261,132
Research grants	2,086,486	-	2,086,486
State marketing program	616,792	-	616,792
Taxes, licenses, and insurance	18,268	7,610	25,878
Travel	213,234	-	213,234
USDA expense	-	277,019	277,019
Wages	2,266,159	247,118	2,513,277
Website	798,429	12,855	811,284
Total	\$ 27,694,818	\$ 1,599,549	\$ 29,294,367

December 31, 2019 and 2018

Note 8 - Functional Expenses (Continued)

Expenses related to providing the services are as follows for the year ended December 31, 2018:

	Program	Management and General	Total
Advertising and marketing	\$ 13,865,565	\$ -	\$ 13,865,565
Board meetings	183,480	107,758	291,238
Commercial market development	2,026,919	-	2,026,919
Consumer market development	2,257,554	-	2,257,554
Depreciation	32,820	19,144	51,964
Industry communications	631,507	-	631,507
Information technology	103,674	60,888	164,562
International market development	1,041,028	-	1,041,028
Miscellaneous expense	13,198	7,749	20,947
Nutrition	1,404,965	-	1,404,965
Office supplies and expenses	68,209	40,059	108,268
Payroll tax and fringe benefits	408,642	239,996	648,638
Postage	6,303	-	6,303
Professional fees	379,006	91,775	470,781
Rent	165,096	96,306	261,402
Research grants	1,897,336	-	1,897,336
State marketing program	537,657	-	537,657
Taxes, licenses, and insurance	-	28,620	28,620
Travel	174,841	-	174,841
USDA expense	-	251,841	251,841
Wages	1,480,962	817,071	2,298,033
Website	438,156	-	438,156
Total	\$ 27,116,918	\$ 1,761,207	\$ 28,878,125

The costs of providing the program and support services are reported on a functional basis. Costs are allocated between the various programs and support services based upon direct identification and utilization. Although methods of allocation used are considered appropriate, other methods could be used that would produce different amounts.

Supplemental Information

**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 Board of Directors
American Egg Board

We have audited, 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, the financial statements of American Egg Board (AEB), which comprise the statement of financial position as of December 31, 2019 and the related statements of activities, accumulated excess of revenue over expenses, and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated March 23, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered American Egg 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 American Egg Board's internal control. Accordingly, we do not express an opinion on the effectiveness of American Egg 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 American Egg Board'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.

To the Board of Directors
American Egg Board

Compliance and Other Matters

As part of obtaining reasonable assurance about whether American Egg 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, 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*.

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 American Egg Board's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering AEB's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Plante & Moran, PLLC

March 23, 2020

American Egg Board

Schedule of Findings and Responses Year Ended December 31, 2019

None