AMERICAN EGG BOARD

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

YEAR ENDED DECEMBER 31, 2021

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AMERICAN EGG BOARD
TABLE OF CONTENTS
YEAR ENDED DECEMBER 31, 2021

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INDEPENDENT AUDITORS' REPORT

Board of Directors
American Egg Board
Chicago, Illinois

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of American Egg Board (AEB), which comprise the statement of financial position as of December 31, 2021, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of AEB as of December 31, 2021, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 AEB 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 opinion.

Emphasis of Matter Regarding Correction of an Error

As discussed in Note 8 to the financial statements, AEB recorded a previously unrecorded nutrition research project expense in accordance with accounting principles generally accepted in the United States of America. Accordingly, nutrition research projects expense and net assets without donor restrictions have been restated as of the beginning of the year ended December 31, 2021 to correct the error. Our opinion is not modified with respect to this matter.

Responsibilities of Management 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.

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 AEB's ability to continue as a going concern within one year after the date that 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 opinion. 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 AEB'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 AEB's ability to continue as a going concern for a reasonable period of time.

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 Matter

The 2020 financial statements of AEB were audited by other auditors whose report dated March 5, 2021, expressed an unmodified opinion on those statements.

In connection with our audit, other than Findings 2021-001, 2021-002, 2021-003, 2021-004, 2021-005, 2021-006, 2021-007, and 2021-008 described below, nothing came to our attention that caused us to believe that AEB failed to comply with provisions of Section 5D of the United States Department of Agriculture (USDA) Guidelines for Agricultural Marketing Service Oversight of Commodity Research and Promotion Programs (Guidelines) dated January 2020, insofar as they relate to accounting matters and the following:

- Monetary funds used for the purpose of influencing governmental policy or action
- Adherence to the Agricultural Marketing Service Investment Policy
- Internal controls over funds met auditing standards
- Monetary funds used only for projects and other expenses authorized in a budget approved by the USDA
- Monetary funds used in accordance with the Guidelines referenced above

However, our audit was not directed primarily towards obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding AEB's noncompliance with the above referenced Section 5D of the USDA Guidelines insofar as they relate to accounting matters.

Restricted Use Relating to Compliance

The communication related to compliance with the aforementioned guidelines described in the *Other Matter* paragraph is intended solely for the information and use of the USDA, board of directors, and management of AEB and is not intended to be and should not be used by anyone other than those specified parties.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2022, on our consideration of AEB'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 AEB'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 AEB's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

Oak Brook, Illinois
June 28, 2022

AMERICAN EGG BOARD
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2021

ASSETS

Cash:	
Undesignated	$ 6,196,791
Designated for Programs	500,000
Certificates of Deposit:	
Undesignated	250,075
Designated for Programs	1,000,000
Designated for Operations	1,000,000
Assessments Receivable, Net	2,944,895
Other Receivables and Assets	195,606
Right-of-Use Asset:	
Operating	1,439,767
Prepaid Expenses	95,711
Office Furniture and Equipment, Net	217,479
Total Assets	$ 13,840,324

LIABILITIES AND BOARD EQUITY

LIABILITIES	
Accounts Payable	$ 2,913,947
Grants Payable	1,356,328
Accrued Expenses	151,902
Lease Liability:	
Operating	1,629,051
Total Liabilities	6,051,228
BOARD EQUITY	
Excess of Revenue Over Expenses:	
Undesignated	5,222,852
Board-Designated:	
Designated for Programs	1,500,000
Designated for Operations	1,000,000
Total Board-Designated - End of Year	2,500,000
Total Accumulated Excess of Revenue Over Expenses	7,722,852
Contributed Capital	66,244
Total Board Equity	7,789,096
Total Liabilities and Board Equity	$ 13,840,324

See accompanying Notes to Financial Statements.

AMERICAN EGG BOARD
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2021

REVENUE, GAINS, AND OTHER SUPPORT	
Assessments	$ 23,603,366
Egg Farmers of Canada	79,177
Sponsorships	8,500
Interest Income	3,507
Miscellaneous Income	141,676
Total Revenue, Gains, and Other Support	23,836,226
EXPENSES	
Operating Expenses:	
Consumer Insights	1,408,505
Egg's Story	10,019,854
Farmer's Story	2,875,868
Spark Innovation	2,381,717
Checkoff Awareness	1,251,482
Operational Excellence	1,003,557
Total Operating Expenses	18,940,983
Management and General Expenses:	
Board Meetings and Administration	264,577
USDA Administrative Expenses	264,972
Total Management and General Expenses	529,549
Total Expenses	19,470,532
EXCESS OF REVENUE OVER EXPENSES	$ 4,365,694

See accompanying Notes to Financial Statements.

AMERICAN EGG BOARD
STATEMENT OF ACCUMULATED EXCESS OF REVENUE OVER EXPENSES
YEAR ENDED DECEMBER 31, 2021

BALANCE - DECEMBER 31, 2020, as Originally Reported	$ 4,655,064
Prior Period Adjustments	(1,297,906)
BALANCE - DECEMBER 31, 2020, as Restated	3,357,158
Excess of Expenses Over Revenue	4,365,694
BALANCE - DECEMBER 31, 2021	$ 7,722,852

See accompanying Notes to Financial Statements.

AMERICAN EGG BOARD
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2021

CASH FLOWS FROM OPERATING ACTIVITIES	
Excess of Revenue Over Expenses	$ 4,365,694
Adjustments to Reconcile Excess of Revenue Over Expenses to Net Cash Provided by Operating Activities:	
Depreciation	52,631
Amortization of Right-of-Use Asset	217,953
Reserve for Uncollectible Assessments	149,935
(Increase) Decrease in Assets:	
Assessments Receivable	(62,561)
Other Receivable and Assets	(22,558)
Prepaid Expenses	137,728
Increase (Decrease) in Liabilities:	
Accounts Payable	(2,460,710)
Grants Payable	1,080,566
Accrued Expenses	150,106
Lease Liability	(232,636)
Net Cash Provided by Operating Activities	3,376,148
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of Furniture and Equipment	(29,131)
Proceeds from Redemption of Investments	4,264,083
Purchases of Investments	(2,995,594)
Net Cash Provided by Investing Activities	1,239,358
NET INCREASE IN CASH	4,615,506
Cash - Beginning of Year	2,081,285
CASH - END OF YEAR	$ 6,696,791

See accompanying Notes to Financial Statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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, and egg products.

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.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 is based on each handler's average monthly assessments received for the prior five months that an assessment payment was received. This estimate is then multiplied by the number of months unpaid by the handler if applicable.

Receivable balances are written off upon the approval of the executive committee and the U.S. Department of Agriculture (USDA). The allowance for uncollectible assessments was $253,935 at December 31, 2021. Handler reports are due 15 days after the end of the assessment period with payment. A late charge of 1.5% is accrued on delinquent assessments of 30 days or more from the due date.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2021. AEB maintains its cash in bank deposit accounts that 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.

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.

Right-of-use Asset and Lease Liability

AEB's right-of-use asset and related lease liability are recorded based on the present value of the minimum lease payments for the office facilities disclosed in Note 5. The right-of-use asset is being amortized over the life of the lease.

Grants Payable

Grants Payable represent all unconditional grants and contributions that have been authorized prior to year-end, but remain unpaid as of the statement of financial position date. Conditional awards are expense and considered payable in the period the conditions are substantially satisfied.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Concentration

AEB uses major vendors for advertising, public relations, and media. For the year ended December 31, 2021, approximately 23%, 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 7 and the statement of activities on a functional basis. Although the methods of allocation used are considered appropriate, other methods could be used that would produce different amounts.

Subsequent Events

The financial statements have been evaluated through June 28, 2022, which is the date the financial statements were available to be issued.

NOTE 2 OFFICE FURNITURE AND EQUIPMENT

The estimated useful lives of office furniture and equipment are as follows:

Furniture and Fixtures	5 to 20 Years
Computer Equipment	5 Years

NOTE 2 OFFICE FURNITURE AND EQUIPMENT (CONTINUED)

Office furniture and equipment are summarized as follows:

Computer Equipment	$	191,975
Furniture and Fixtures		332,983
Software		40,892
Leasehold Improvements		61,532
Total at Cost		627,382
Less: Accumulated Depreciation		409,903
Office Furniture and Equipment, Net	$	217,479

Depreciation and amortization expense for 2021 was $52,631.

NOTE 3 DEFINED CONTRIBUTION RETIREMENT PLAN

The employer profit-sharing plan contributes, every pay period, 9% of the employee's compensation, and the employee is automatically enrolled after meeting eligibility requirements. The employer match on elective deferrals is 40% of the employee elective deferral, not to exceed 5% 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 $514,058 for the year ended December 31, 2021.

NOTE 4 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, 2021 and the valuation techniques used by AEB to determine those fair values.

Level 1 – Quoted prices in active markets for identical assets that AEB has the ability to access.

Level 2 – 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 – 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.

NOTE 4 FAIR VALUE MEASUREMENTS (CONTINUED)

In instances where 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 as of December 31, 2021 are as follows:

	Level 1	Level 2	Level 3	Total
Certificates of Deposit	$ -	$ 2,250,075	$ -	$ 2,250,075

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, 2021.

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 year ended December 31, 2021, there were no transfers between Levels 1, 2, and 3.

NOTE 5 OPERATING LEASES

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

Year Ending December 31,	Amount
2022	$ 280,642
2023	285,453
2024	290,264
2025	295,070
2026	299,882
Thereafter	304,694
Total	1,756,005
Less: Amount Representing Interest at 2.46%	(126,954)
Present Value of Net Minimum Lease Payments	$ 1,629,051

AEB paid $260,277 on the operating lease agreement during the year ended December 31, 2021.

NOTE 6 LIQUIDITY

The following reflects AEB's financial assets as of December 31, 2021, 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:

Cash on Hand	$ 6,196,791
Assessments Receivable, Net	2,944,895
Certificates of Deposit - Undesignated	250,075
Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	$ 9,391,761

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.

NOTE 7 FUNCTIONAL EXPENSES

AEB provides various services to its members. Expenses related to providing these services are as follows for the year ended December 31, 2021:

	Program	Management and General	Total
Board Meetings	$ 258,305	$ 335	$ 258,640
Consumer Insights	948,278	-	948,278
Depreciation	51,315	1,316	52,631
Outreach	8,526,337	-	8,526,337
Information Technology	228,829	5,867	234,696
Miscellaneous Expense	23,122	452	23,574
Nutrition Research	1,334,765	-	1,334,765
Office Supplies and Expenses	81,894	1,347	83,241
Payroll Tax and Fringe Benefits	660,803	16,944	677,747
State Promotional Grants	532,950	-	532,950
Operational Excellence	652,911	-	652,911
Postage	5,587	143	5,730
Professional Fees	335,330	8,598	343,928
Rent	253,770	6,507	260,277
Innovation Initiatives	1,921,489	-	1,921,489
Taxes, Licenses, and Insurance	41,637	1,068	42,705
Travel	91,431	2,344	93,775
USDA Expense	-	264,972	264,972
Wages	2,709,351	69,471	2,778,822
Website	273,252	-	273,252
Investment Fees	9,627	247	9,874
Uncollectible Reserves	-	149,938	149,938
Total	$ 18,940,983	$ 529,549	$ 19,470,532

The costs of providing the program and support services are reported on a functional basis. Most expenses are directly expensed to program and support services. Certain costs, such as depreciation, information technology, rent, and licenses and insurance are allocated between the program and support services based upon headcount. Although methods of allocation used are considered appropriate, other methods could be used that would produce different amount.

NOTE 8 PRIOR PERIOD ADJUSTMENT

The accompanying financial statements reflect a restatement of beginning of year net assets that has the effect of increasing grants payable and nutritional research expense by $1,297,906 as of and for the year ended December 31, 2020.

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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*

Management and Board of Directors
American Egg Board
Chicago, Illinois

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 American Egg Board (AEB), which comprise the statement of financial position as of June 30, 2021, and the related statements of activities, excess of expenses over revenues, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 28, 2022.

Internal Control over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiency described in the accompanying schedule of findings as item 2021-001 to be a material weakness.

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. We consider the deficiencies described in the accompanying schedule of findings as items 2021-002, 2021-003, 2021-004, 2021-005, 2021-006, 2021-007 and 2021-008 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether AEB's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants 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 instances of noncompliance or other matters that are required to be reported under United States *Government Auditing Standards* and which are described in the accompanying schedule of findings as items 2021-005, 2021-006, 2021-007, and 2021-008.

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.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Oakbrook, Illinois
June 28, 2022

Section I – Summary of Auditors' Results

Financial Statements

1. Type of auditors' report issued: Unmodified

2. Internal control over financial reporting:

• Material weakness(es) identified?	x yes	____ no
• Significant deficiency(ies) identified?	x yes	____ none

3. Noncompliance material to financial statements noted? ____ yes x no

Section II – Financial Statement Findings

2021–001 – Prior Period Adjustment, Corrected Misstatements, and Uncorrected Misstatements

Type of Finding:
Material Weakness in Internal Control over Financial Reporting

Condition:
Misstatements in the accounting records were detected as a result of audit procedures performed. Adjustments were posted by management to correct a prior period adjustment, and corrected misstatements. Uncorrected misstatements were determined to be immaterial and passed on correcting by management.

Criteria:
An organization's system of internal control should include policies and procedures to provide management with reasonable assurance that year-end financial reporting is accurate and in accordance with accounting principles generally accepted in the United States of America.

Context:
A prior period adjustment was made to restate beginning of year net assets for previously unrecorded nutrition research project expenses. The effect of recording the nutrition research project expenses was a restatement to increase expense and net assets without donor restrictions by $1,297,906 as of December 31, 2020.

Adjustments were made to correct misstatements related to cash, accounts receivable, assessment receivable, prepaid expenses, accounts payable, accrued expenses, net assets, revenue, assessment income, and expenses. The effect of these seven adjustments were an increase to the change in net assets by $481,227.

Section II – Financial Statement Findings (Continued)

2021–001 – Prior Period Adjustment, Corrected Misstatements, and Uncorrected Misstatements (Continued)

Context: (Continued)
Uncorrected misstatements were identified but management has determined their effects on the financial statements to be immaterial. These two misstatements related to accounts payable, and accrued expenses. The effect of these misstatements would have been an increase to the change in net assets by $49,265.

Effect:
Inaccurate financial reporting could adversely affect the decision making process for the management of AEB.

Cause:
Unknown.

Recommendation:
We recommend that management follow their established procedures of reconciling account balances in a timely manner and that all accounts are analyzed and adjusted prior to the start of audit fieldwork.

Management's Response and Corrective Action Plan:

AEB accepts the finding but disagrees on the total dollar amount that is listed in the finding:

- AEB had advised CLA at the start of the audit of several year-end adjustments that needed to be made.
- Several of the adjustments relate to the prior year and therefore they have no bearing on the audit year.

Responsible party: Mike Koenigs

Planned completion date for corrective action plan: We believe it is critical to ensure consistency year-over-year in reporting. This consistency exists with Sikich management and AEB oversight with direction of the AEB Finance Committee.

Section II – Financial Statement Findings (Continued)

2021–002 – Segregation of Duties

Type of Finding:
Significant Deficiency in Internal Control over Financial Reporting

Condition:
Through audit procedures performed, we noted that AEB does not have proper segregation of duties in place to document the preparation and review and approval of certain processes and procedures.

Criteria:
A well designed system of internal control should include policies and procedures to ensure the accuracy of accounting information through the review and approval of these areas.

Context:
Through audit procedures performed, we noted proper segregation of duties and oversight was not being performed in the following areas:

- Cash and investment reconciliations were prepared and reviewed by the same individual.
- Payroll was prepared and processed by the same individual.
- Two of five general journal entries tested had no documentation of review and approval.

Effect:
Inaccurate financial reporting could adversely affect the decision making process of AEB.

Cause:
Policies and procedures had not been put into place to document the review and approval of these accounting records.

Recommendation:
We recommend that current policies and procedures over the preparation and review and approval of accounting records be updated to include the following:

- Cash and investment reconciliations should document sign-off and date by both the preparer and reviewer, and should be two different individuals.
- Payroll should be processed by two different individuals. Those individuals should document sign-off and date by both the preparer and the reviewer.
- All general journal entries should document sign-off and date by both the preparer and the reviewer.

Section II – Financial Statement Findings (Continued)

2021–002 – Segregation of Duties (Continued)

Management's Response and Corrective Action Plan:

Regarding the reconciliations context, AEB accepts this finding for part of the audit period and would like to note that the organization has since corrected this process and now has two people involved in each of these tasks. The sample size selected by the auditor during this process might not be representative of the total population managed by AEB.

Regarding the Payroll context, AEB accepts this finding for part of the audit period and would like to note that the organization has since corrected this process and now has three people involved in the payroll process to ensure separation of approval and payment. The sample size selected by the auditor during this process might not be representative of the total population managed by AEB.

Regarding the journal entries context, AEB accepts this finding for part of the audit period and would like to note that the organization has since corrected this process and now has two people involved in this process currently. Kristin (Sikich Finance) prepares with support; Rally (Sikich Finance) reviews and approves. The sample size selected by the auditor during this process might not be representative of the total population managed by AEB.

Responsible party: Mike Koenigs

Planned completion date for corrective action plan: Segregation of duties is already in place. We will monitor on-going to ensure that segregation continues to occur.

2021–003 – Lack of Supporting Documentation

Type of Finding:
Significant Deficiency in Internal Control over Financial Reporting

Condition:
Through audit procedures performed, we noted that AEB does not have complete records to support certain accounting transactions that occurred during the year under audit.

Criteria:
A well designed system of internal control should include policies and procedures to ensure the accuracy and completeness of accounting information through the records of AEB.

Context:
Through audit procedures performed, we noted lack of supporting documentation which limited our ability to test and perform audit procedures over these areas:

- One of five general journal entries tested had no back-up to support the entry posted.
- One item tested in miscellaneous income in of approximately $64,000 had no back-up to support the revenue recorded. This item accounted for approximately 46% of the account balance at year-end.
- Seven of eight reimbursements made to individuals that were tested did not have supporting documentation of the required individual expenditure report to support the reimbursement.

Section II – Financial Statement Findings (Continued)

2021–003 – Lack of Supporting Documentation (Continued)

Effect:
Incomplete financial records could adversely affect the financial reporting and accuracy of AEB's records. This could adversely affect the decision making process of AEB.

Cause:
Unknown.

Recommendation:
We recommend that current policies and procedures over the record retention process be reviewed and ensure compliance with maintaining records to support all accounting transactions recorded.

Management's Response and Corrective Action Plan:

AEB accepts this finding and notes that the organization is working on a new process, ownership and automation solution for tracking and archiving supporting documentation. The sample size selected by the auditor during this process might not be representative of the total population managed by AEB.

Record-keeping was noted as a finding in AEB's 2020 audit and AEB immediately begun working on new processes and policies to address that. Some tools to address that issue were put in place in 2021 and some were still being implemented at the time of this audit.

Responsible party: Mike Koenigs

Planned completion date for corrective action plan: August 2022

2021–004 – Credit Cards

Type of Finding:
Significant Deficiency in Internal Control over Financial Reporting

Condition:
Through audit procedures performed, we noted that AEB does not have proper review and approval of credit card transactions and had unsupported credit card charges.

Criteria:
A well designed system of internal control should include policies and procedures to ensure credit card transactions are documented as being reviewed and approved by the appropriate parties, and receipts maintained for all transactions incurred.

Context:
Through audit procedures performed, we noted the following matters surrounding credit cards:

- 64% of the credit card transactions tested over three months were not supported by receipts.
- Three of three months of credit card activity tested did not have documentation of the review and approval of the credit card statement and activity for those months.

Section II – Financial Statement Findings (Continued)

2021–004 – Credit Cards (Continued)

Effect:
Fraudulent credit card charges could occur via credit card activity without having proper review and approvals in place, along with maintaining receipts as supporting documentation for the proper business purpose of the charge.

Cause:
Policies and procedures were not in place for the entire year under audit and appropriately followed.

Recommendation:
We recommend that current policies and procedures over credit card activity be reviewed and ensure supporting receipts are maintained, and review and approval by the appropriate member of management or governance is performed and documented. The review and approval sign-off should be documented and dated to note the individual reviewed both the credit card statement and back-up receipts to support the credit card charges.

Management's Response and Corrective Action Plan:

AEB accepts the finding. Organization is working on new process, ownership and automation solution. Additionally, AEB would like to note that the current Employee Handbook was not in effect until October 2021 and thus employees were not held accountable to the receipts/records policies contained therein prior to that time. Additionally, AEB would like to note that per the Employee Handbook, AEB does not require receipts for expenses less than $30.00 and thus several of the receipts noted as "missing" would not be required to be provided per AEB's policy. The sample size selected by the auditor during this process might not be representative of the total population managed by AEB.

Responsible party: Mike Koenigs

Planned completion date for corrective action plan: August 2022

Section III – Compliance Findings

2021–005 – AMS Investment Policy

Type of Finding:
Significant Deficiency in Internal Control over Compliance and Other Matters

Criteria:
AEB is required to follow the AMS investment policy to ensure proper investment of board funds. AMS will review the investment statement for each accounting period monthly to verify that board funds were invested in accordance with this policy.

Condition:
In testing the requirements of the AMS investment policy we noted that AEB did not provide the investment statements for review on a monthly basis to AMS.

Context:
Through audit procedures performed, we noted there was no support for the year under audit that the monthly investment statements were sent to AMS for review, as noted per the policy requirement.

Effect:
Noncompliance with the AMS investment policy.

Cause:
Lack of formal policy and procedures internally at AEB to ensure compliance with this AMS investment policy requirement.

Recommendation:
We recommend that current policies and procedures over investments be updated to ensure the monthly statements are provided for review and approval per the AMS investment policy, and this documentation is retained.

Management's Response and Corrective Action Plan:

AEB accepts this finding and would like to note that it has changed its internal process to ensure those reports are sent moving forward.

Responsible party: Mike Koenigs

Planned completion date for corrective action plan: We are sending these investment reports on a monthly basis to USDA. We will monitor on an on-going basis to ensure that this continues to happen.

Section III – Compliance Findings (Continued)

2021–006 – Outside Legal Counsel

Type of Finding:
Significant Deficiency in Internal Control over Compliance and Other Matters

Criteria:
AEB is required to follow the USDA Guidelines which notes boards may enter into contracts with outside legal counsel for specific legal issues and timeframes. AMS must review and approve outside legal counsel contracts.

Condition:
In testing the requirements of the USDA Guidelines, we noted that AEB does not have support that the outside legal counsel used during the year was reviewed and approved by AMS.

Context:
Through audit procedures performed, we noted there was no support for the year under audit that the outside legal counsel used was sent to AMS for review and approval as noted per the guidelines.

Effect:
Noncompliance with the USDA Guidelines.

Cause:
Lack of formal policy and procedures internally at AEB to ensure compliance with this part of the USDA Guidelines.

Recommendation:
We recommend that current policies and procedures over engaging with legal counsel be updated to ensure contracts with outside legal counsel are provided for review and approval to AMS per the USDA Guidelines, and this documentation is retained.

Management's Response and Corrective Action Plan:

AEB accepts this finding and would like to note that it has changed its internal process to ensure these approvals are solicited moving forward.

Responsible party: Mike Koenigs

Planned completion date for corrective action plan: We have already changed our process to ensure that these approvals are solicited going forward.

Section III – Compliance Findings (Continued)

2021–007 – Travel Expense Claims

Type of Finding:
Significant Deficiency in Internal Control over Compliance and Other Matters

Criteria:
AEB is required to follow the USDA Guidelines which notes specific requirement surrounding travel expense claims. A process for travel pre-approval where all travel is approved by a supervisor or the board's designee is required.

Condition:
In testing the requirements of the USDA Guidelines, we noted that AEB does not have support of travel pre-approval for all travel expense claims tested.

Context:
Through audit procedures performed, we noted there was no support for the travel pre-approval as required per the guidelines for three of the five travel expense claims tested.

Effect:
Noncompliance with the USDA Guidelines.

Cause:
Lack of formal policy and procedures internally at AEB to ensure compliance with this part of the USDA Guidelines.

Recommendation:
We recommend that current policies and procedures over travel expense claims be updated to ensure travel pre-approval by a supervisor or board's designee is obtained and documentation retained, to ensure compliance with the USDA Guidelines.

Management's Response and Corrective Action Plan:

AEB accepts this finding and would like to note that the organization is changing internal processes to ensure that proper records of expenditures are kept by employees in accordance with AEB's Employee Handbook, which went into effect in October 2021. The sample size selected by the auditor during this process might not be representative of the total population managed by AEB.

Responsible party: Mike Koenigs

Planned completion date for corrective action plan: AEB has already changed its internal processes in accordance with its new Employee Handbook.

Section III – Compliance Findings (Continued)

2021–008 – Contracts

Type of Finding:
Significant Deficiency in Internal Control over Compliance and Other Matters

Criteria:
AEB is required to follow the USDA Guidelines which notes specific requirement surrounding contracts. AEB may enter into a variety of contracts, including for projects, consultation, services, and administration, and boards can select contractors based on a variety of factors and criteria including but not limited to cost, skills, timeliness, and experience. The provisions of all contracts must be compliant with the board's Act, Order, and USDA policies and guidance.

Condition:
In testing the requirements of the USDA Guidelines, we noted AEB shall abide by various contract requirements.

- Contract justification: AEB shall develop and maintain documentation in their files evidencing why a contract was awarded to a particular contractor; including justification when the lowest bid is not awarded or if the contract was awarded on a noncompetitive basis.
- Contract compliance: following AMS approval, boards shall monitor all contracts to ensure that all contractors are in compliance with the terms of the contract. Boards shall maintain documentation evidencing the monitoring of such contracts.

Context:
Through audit procedures performed, we noted there were the following noncompliance instances identified with the contract section of the USDA Guidelines:

- Contract justification: Five of five contracts tested were missing part or all of the contract justification requirements, as noted per the Guidelines.
- Contract compliance: Five of five contracts tested were missing support that documented the monitoring of the contracts for compliance.

Effect:
Noncompliance with the USDA Guidelines.

Cause:
Lack of formal policy and procedures internally at AEB to ensure compliance with this part of the USDA Guidelines.

Recommendation:
We recommend that current policies and procedures over contracts be updated to ensure contract justification and contract compliance are performed and documentation retained, to ensure compliance with the USDA Guidelines.

Section III – Compliance Findings (Continued)

2021–008 – Contracts (Continued)

Management's Response and Corrective Action Plan:

Each AEB program lead oversees and monitors their vendor programs for compliance and completion of the contract terms and reports on the status of the projects to the AEB Committees and AEB Board. We consider this to be tracking of contract terms. AEB has not previously documented that compliance in a central location, nor does it believe that this needs to be documented per the guidelines. AEB will work with USDA to determine what, if any, documentation is required in accordance with standards of other Checkoff boards. AEB accepts the finding on missing contract justification requirements, and is working to track that detail in the future. The sample size selected by the auditor during this process is not be representative of the total population of contracts managed by AEB.

Responsible party: Mike Koenigs

Planned completion date for corrective action plan: AEB has made significant strides in its record keeping processes and will continue to monitor all staff compliance on an on-going basis. AEB has already conducted several trainings over the last few months to ensure staff understand the expectations for record keeping.