

CHRISTMAS TREE PROMOTION BOARD

FINANCIAL STATEMENTS

For the Year Ended July 31, 2017 and the Period Ended July 31, 2016

CHRISTMAS TREE PROMOTION BOARD

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INDEPENDENT AUDITOR'S REPORT

To the Christmas Tree Promotion Board
Centennial, Colorado

Report on the Financial Statements

We have audited the accompanying financial statements of Christmas Tree Promotion Board (a nonprofit organization), which comprise the statements of assets, liabilities, and net assets – modified cash basis as of July 31, 2017 and 2016, and the related statements of revenue and expenses – modified cash basis and cash flows – modified cash basis for the year ended July 31, 2017 and for the period from inception (February 1, 2015) through July 31, 2016 ("the period ended July 31, 2016"), 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 basis of accounting described in Note 2; this includes determining that the modified cash 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 financial position of Christmas Tree Promotion Board as of July 31, 2017 and 2016, and the changes in its net assets and its cash flows for the for the year ended July 31, 2017 and the period ended July 31, 2016 in accordance with the basis of accounting as described in Note 2.

Other Matters

Basis of Accounting

We draw attention to Note 2 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash 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 Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of revenue and expenditures – actual compared to budget, schedule of expenditures – actual compared to budget, and schedule of cash receipts and disbursements, which are the responsibility of management, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information, except for that portion marked "unaudited," was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. That information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, that information is fairly stated in all material respects in relation to the financial statements as a whole. The information marked "unaudited" has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 27, 2018, on our consideration of the 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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Board's internal control over financial reporting and compliance.

Other Reporting Required by the United States Department of Agriculture

In connection with our audits of the year ended July 31, 2017 and period ended July 31, 2016, nothing came to our attention, insofar as it relates to financial and accounting matters, that causes us to believe that the Christmas Tree Promotion Board:

- Failed to comply with laws and regulations and U.S. Department of Agriculture Agricultural Marketing Service ("USDA AMS") Guidelines for AMS Oversight of Commodity Research and Promotion Programs applicable to the Board;
- Failed to comply with Section 1214.47(b) of the Christmas Tree Promotion, Research and Information Order, relating to the use of assessment funds for the purpose of influencing legislation or governmental action or policy;
- Expended assessment funds for purposes other than those authorized by the Commodity Promotion, Research and Information Act of 1996 and the Christmas Tree Promotion, Research and Information Order;
- Expended or obligated assessment funds on any projects prior to the fiscal year in which those funds were authorized to be expended by the Board's approved Budget and Marketing Plan;

- Did not adhere to the original or amended Budget and Marketing Plan for the year ended July 31, 2017 and period ended July 31, 2016;
- Did not obtain a written contract or agreement with any person or entity providing goods or services to the Board;
- Failed to comply with USDA AMS Directive 2210.2, relating to the limitations on the types of investments which may be purchased by the Board and the insurance or collateral that must be obtained for all of the Board's deposits and investments;
- Failed to comply with disclosure requirements for lease commitments (when applicable);
- Failed to comply with standards established relating to contracts and USDA approval letters (if necessary); or
- Failed to comply with the Board's by-laws or any other policy of the Board, specifically as they relate to all financial matters, including time and attendance, and travel.

However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.

Propp Christenson Caniglia LLP

February 27, 2018
Roseville, California

CHRISTMAS TREE PROMOTION BOARD

STATEMENTS OF ASSETS, LIABILITIES, AND NET ASSETS - MODIFIED CASH BASIS
July 31, 2017 and 2016

	ASSETS	
	<u>2017</u>	<u>2016</u>
Current assets:		
Operating cash	\$ 863,779	\$ 1,033,506
Cash reserves	<u>354,635</u>	<u>172,930</u>
Total assets	<u>\$ 1,218,414</u>	<u>\$ 1,206,436</u>

LIABILITIES AND NET ASSETS		
Current liabilities:		
Accrued expenses	\$ 35,212	\$ -
Unrestricted net assets:		
Designated by the Board for cash reserves	354,635	172,930
Undesignated	<u>828,567</u>	<u>1,033,506</u>
Total unrestricted net assets	<u>1,183,202</u>	<u>1,206,436</u>
Total liabilities and net assets	<u>\$ 1,218,414</u>	<u>\$ 1,206,436</u>

The accompanying notes are an integral part
of these financial statements.

CHRISTMAS TREE PROMOTION BOARD

STATEMENTS OF REVENUE AND EXPENSES - MODIFIED CASH BASIS

For the Year Ended July 31, 2017 and the Period Ended July 31, 2016

	<u>2017</u>	<u>2016</u>
Revenue:		
Assessments	\$ 1,817,050	\$ 1,729,302
Expenses:		
Promotion committee	1,439,394	140,817
Research committee	75,567	37,328
Industry relations committee	57,577	14,777
Professional services	173,496	202,427
Board meetings	19,196	80,352
General and administrative	40,700	31,257
USDA fees	34,354	15,908
Total expenses	<u>1,840,284</u>	<u>522,866</u>
Change in unrestricted net assets	(23,234)	1,206,436
Unrestricted net assets, beginning of year	<u>1,206,436</u>	<u>-</u>
Unrestricted net assets, end of year	<u>\$ 1,183,202</u>	<u>\$ 1,206,436</u>

The accompanying notes are an integral part
of these financial statements.

CHRISTMAS TREE PROMOTION BOARD

STATEMENTS OF CASH FLOWS - MODIFIED CASH BASIS
For the Year Ended July 31, 2017 and the Period Ended July 31, 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Cash received for assessments	\$ 1,817,050	\$ 1,729,302
Cash paid to vendors and employees	(1,805,072)	(520,294)
Cash paid for interest	<u>-</u>	<u>(2,572)</u>
Net cash provided by operating activities	<u>11,978</u>	<u>1,206,436</u>
Cash flows from investing activities:		
Set aside for reserve funding	<u>(181,705)</u>	<u>(172,930)</u>
Cash flows from financing activities:		
Borrowings on line of credit	-	69,681
Payments on line of credit	<u>-</u>	<u>(69,681)</u>
Net cash provided by financing activities	<u>-</u>	<u>-</u>
Net increase (decrease) in cash	(169,727)	1,033,506
Cash, beginning of year	<u>1,033,506</u>	<u>-</u>
Cash, end of year	<u><u>\$ 863,779</u></u>	<u><u>\$ 1,033,506</u></u>
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	\$ (23,234)	\$ 1,206,436
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Change in operating assets and liabilities:		
Accrued expenses	<u>35,212</u>	<u>-</u>
Net cash provided by operating activities	<u><u>\$ 11,978</u></u>	<u><u>\$ 1,206,436</u></u>

The accompanying notes are an integral part
of these financial statements.

CHRISTMAS TREE PROMOTION BOARD

NOTES TO FINANCIAL STATEMENTS

For the Year Ended July 31, 2017 and the Period Ended July 31, 2016

NOTE 1: NATURE OF ORGANIZATION

The Christmas Tree Promotion Board (the "Board") is a national research and promotion program covering domestic and imported Christmas trees that was formed on January 15, 2015. The program is authorized by the Commodity Promotion, Research and Information Act of 1996 (the "Act"). In November 2011, the Christmas Tree Promotion, Research, and Information Order (the "Order") was issued, establishing the Christmas Tree Promotion Board. The effective date of the order, however, was delayed until April 8, 2014. The program is administered by the Agricultural Marketing Service Division ("AMS") of the U.S. Department of Agriculture ("USDA"). The Board is considered an instrumentality of the USDA which conducts administrative oversight of the Board's activities.

The purpose of the Board is to expand the market and uses of fresh-cut Christmas trees. As required by the Act, the Board must conduct an independent evaluation every five years of the effectiveness of the Order and programs conducted by the Board pursuant to the Act.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements have been prepared on the modified cash basis of accounting. This basis of accounting differs from generally accepted accounting principles primarily because the Board recognizes revenues when received rather than when earned, and expenses are generally recognized when cash is paid rather than when the obligation is incurred. Certain expenses may be accrued for significant obligations incurred by the Board that relate to the current fiscal period's operating budget. In addition, certain long-term assets are capitalized and corresponding amortization and depreciation expense is recognized when applicable.

Basis of Presentation

The Board presents its financial statements in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 958, Subtopic 205, *Not-for-Profit Entities – Presentation of Financial Statements* (FASB ASC 958-205). Under FASB ASC 958-205, the Board is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. No temporarily or permanently restricted net assets existed at July 31, 2017 and 2016.

Operating Cash and Cash Reserves

For purposes of the statement of cash flows, the Board considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

The Board maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. Deposits that exceed the federally insured limit are collateralized by the financial institution, which held collateral valued at approximately \$1,198,523 and \$2,310,000 as of July 31, 2017 and 2016, respectively. For the fiscal year ended July 31, 2017, management believes that the combined total FDIC coverage of \$250,000 and collateral valued at \$1,198,523 are sufficient to satisfy the AMS collateral requirement. In order to comply with the AMS's investment policy, the Board is responsible for investing its funds only in interest-bearing accounts that are risk-free and short-term.

The Board has established an interest bearing reserve account with a financial institution that is a member of the Federal Reserve System, and will deposit into such account an amount equal to 10 percent of the assessments collected during the period beginning on the effective date of the Order and ending on the date the Secretary of Agriculture of the United States announces the results of the required referendum.

CHRISTMAS TREE PROMOTION BOARD

NOTES TO FINANCIAL STATEMENTS

For the Year Ended July 31, 2017 and the Period Ended July 31, 2016

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

The Board is required to follow the AMS investment policy. Accordingly, the Board is authorized to invest in securities consisting of obligations issued or fully insured or guaranteed by the U.S. or any U.S. government agency, including obligations of government-sponsored corporations, and must mature within one year or less from the date of purchase. No investments were held by the Board at July 31, 2017 and 2016.

Assessments

Domestic producers and importers of Christmas trees are assessed based upon the number of trees cut and sold or imported into the United States. Assessments are collected directly by the Board and assessment revenues are recognized when received.

Program Expenses

The Board incurs advertising, promotion, and research expenses in its mission to expand the market and uses of fresh-cut Christmas trees. Program costs are generally expensed when paid. Certain expenses may be accrued for significant obligations incurred by the Board that relate to the current fiscal period's operating budget.

Lobbying Expenses

The Board is prohibited from using assessment funds in activities influencing legislation, governmental action or policy, other than recommending to the Secretary amendments to the Order. Accordingly, the Board incurred no lobbying expenses.

Income Taxes

The Board is considered an instrumentality of the U.S. Department of Agriculture. As such, the Office of Chief Counsel of the Internal Revenue Service has ruled that organizations such as the Board are not subject to federal income taxation and are generally exempt from other forms of taxation such as state income taxes, personal and real property taxes, and sales taxes.

Estimates

The presentation of financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions that affect the reported amounts of 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.

Subsequent Events

Events and transactions have been evaluated for potential recognition or disclosure through February 27, 2018, the date that the financial statements were available to be issued.

NOTE 3: LINE OF CREDIT

The Board had a \$300,000 variable interest rate line of credit with The Metropolitan Bank. The Board borrowed a total of approximately \$69,681 on this line of credit in 2016, and the outstanding balance was repaid in full in March 2016. The line of credit matured on April 1, 2016 and was not renewed by the Board.

SUPPLEMENTARY INFORMATION

CHRISTMAS TREE PROMOTION BOARD

SCHEDULE OF REVENUE AND EXPENDITURES
 ACTUAL COMPARED TO BUDGET
 For the Year Ended July 31, 2017

	<u>Actual</u>	<u>Budget (Unaudited)</u>	<u>Actual Over (Under) Budget</u>
Revenue:			
Assessments	\$ 1,817,050	\$ 2,000,000	\$ (182,950)
Expenditures:			
Promotion committee	1,439,394	1,480,000	(40,606)
Research committee	75,567	120,000	(44,433)
Industry relations committee	57,577	64,500	(6,923)
Professional services	173,496	177,000	(3,504)
Board meetings	19,196	45,000	(25,804)
General and administrative	40,700	51,500	(10,800)
USDA fees	34,354	30,000	4,354
Total expenditures	<u>1,840,284</u>	<u>1,968,000</u>	<u>(127,716)</u>
Excess (deficit) of revenue over expenditures	<u>\$ (23,234)</u>	<u>\$ 32,000</u>	<u>\$ (55,234)</u>

See independent auditor's report.

CHRISTMAS TREE PROMOTION BOARD

SCHEDULE OF EXPENDITURES
 ACTUAL COMPARED TO BUDGET
 For the Year Ended July 31, 2017

	<u>Actual</u>	<u>Budget (Unaudited)</u>	<u>Actual Over (Under) Budget</u>
Promotion committee	\$ 1,439,394	\$ 1,480,000	\$ (40,606)
Research committee	75,567	120,000	(44,433)
Industry relations committee	57,577	64,500	(6,923)
Professional services:			
Executive director fees	100,500	100,500	-
Executive director expenses	49,500	49,500	-
Other	<u>23,496</u>	<u>27,000</u>	<u>(3,504)</u>
Total professional services	<u>173,496</u>	<u>177,000</u>	<u>(3,504)</u>
Board meetings	19,196	45,000	(25,804)
General and administrative:			
Audit fees	4,196	15,000	(10,804)
Bank fees	5,978	20,000	(14,022)
Insurance	1,319	3,000	(1,681)
Office expenses	2,599	3,500	(901)
Other miscellaneous service cost	<u>26,608</u>	<u>10,000</u>	<u>16,608</u>
Total general and administrative	<u>40,700</u>	<u>51,500</u>	<u>(10,800)</u>
USDA fees	<u>34,354</u>	<u>30,000</u>	<u>4,354</u>
Total expenditures	<u>\$ 1,840,284</u>	<u>\$ 1,968,000</u>	<u>\$ (127,716)</u>

See independent auditor's report.

CHRISTMAS TREE PROMOTION BOARD

SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS

For the Year Ended July 31, 2017

Receipts:	
Assessments	<u>\$ 1,817,050</u>
Disbursements:	
Promotion committee	1,439,394
Research committee	40,355
Industry relations committee	57,577
Professional services	173,496
Board meetings	19,196
General and administrative	40,700
USDA fees	34,354
Set aside for reserve funding	<u>181,705</u>
Total disbursements	<u>1,986,777</u>
Deficit of receipts over disbursements	(169,727)
Cash, beginning of year	<u>1,033,506</u>
Cash, end of year	<u><u>\$ 863,779</u></u>

See independent auditor's report.

INDEPENDENT AUDITOR'S 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 Christmas Tree Promotion Board
Centennial, Colorado

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 Christmas Tree Promotion Board (a nonprofit organization), which comprise the statement of assets, liabilities, and net assets – modified cash basis as of July 31, 2017, and the related statements of revenue and expenses – modified cash basis and cash flows – modified cash basis for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 27, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 the Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 the 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 the 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 the Board's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Propp Christenson Caniglia LLP

February 27, 2018
Roseville, California