
Secretary of State

State of Oregon

OREGON BEEF COUNCIL

For the Year Ended June 30, 2001



Audits Division

Contract Auditor: Merina, McCoy & Co., PC

Secretary of State

State of Oregon

OREGON BEEF COUNCIL

For the Year Ended June 30, 2001



Audits Division

OFFICE OF THE
SECRETARY OF STATE

Bill Bradbury
Secretary of State



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Auditing for a Better Oregon

The Honorable John Kitzhaber, M.D.
Governor of Oregon
254 State Capitol
Salem, Oregon 97310-4047

Oregon Beef Council
1200 NW Naito Parkway, Suite 290
Portland, Oregon 97209

This report of the Oregon Beef Council, Portland, Oregon, contains its audited financial statements and reports on its internal control structure and compliance with applicable laws, rules and regulations. The audit, performed by Merina, McCoy & Co., PC for the Secretary of State Audits Division, encompasses the year ended June 30, 2001.

The annual audits of the Oregon Beef Council also are provided to the Beef Promotion and Research Board as assurance of the reported Beef Checkoff revenues, which are shared with that agency. In addition, the Oregon Department of Agriculture receives the audit report as part of its oversight role for the council and other commodity commissions.

OREGON AUDITS DIVISION

Bill Bradbury
Secretary of State

Fieldwork Completion Date:
August 2, 2001

State of Oregon

OREGON BEEF COUNCIL

FINANCIAL STATEMENTS
with
Independent Auditors' Reports

For the Year Ended
June 30, 2001

Merina, McCoy & Co., PC
Certified Public Accountants

OREGON BEEF COUNCIL MEMBERS

	<u>Term Expires</u>
Dalton Straus, Chairman 5700 Upton Road Central Point, OR 97502	2001
Louise Grothe, Vice Chairman HC 60 Box 1760 Lakeview, OR 97630	2002
Peggy Biaggi, Secretary/Treasurer 17000 West Langell Valley Road Bonanza, OR 97623	2001
Don Moisan PO Box 20237 Keizer, OR 97307	2002
Coy Cowart 37087 KGAL Drive Lebanon, OR 97355	2003
Dan Warnock, Jr. 18963 West Campbell Loop Baker City, OR 97814	2003
Warren Chamberlain 4741 South Road H Vale, OR 97918	2003

TABLE OF CONTENTS

INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
Combined Balance Sheet – All Fund Types and Account Groups	3
Statement of Revenues, Expenditures, and Changes in Fund Equity – Special Revenue Fund	4
Statement of Revenues, Expenditures, and Changes in Unreserved Fund Equity – Special Revenue Fund – Budget and Actual – Budgetary Basis	5
Notes to the Financial Statements	7
OTHER REPORT	
Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	15

INDEPENDENT AUDITORS' REPORT

John Lattimer, Director
Oregon Audits Division
255 Capitol Street NE, Suite 500
Salem, Oregon 97310

Council Members
Oregon Beef Council
1200 NW Naito Parkway, Suite 290
Portland, Oregon 97209

We have audited the accompanying general purpose financial statements of the Oregon Beef Council (OBC), a component unit of the State of Oregon, as listed in the accompanying table of contents, as of and for the year ended June 30, 2001. These financial statements are the responsibility of the OBC's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the United States of America and *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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the OBC as of June 30, 2001, and the results of its operations and changes in fund equity for the year then ended, in conformity with generally accepted accounting principles in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 2, 2001, on our consideration of the OBC's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and bylaws. That report is an integral part of an audit performed in

accordance with *Governmental Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Merina, McCoy & Co., P.C.
West Linn, Oregon
August 2, 2001

State of Oregon
OREGON BEEF COUNCIL
 Combined Balance Sheet – All Fund Types and Account Groups
 For the Year Ended June 30, 2001

	Totals (Memorandum Only)	Governmental Fund Special Revenue	Account Groups	
			General Fixed Assets	General Long-Term Debt
ASSETS				
Cash:				
Petty cash	\$ 200	\$ 200	\$ -	\$ -
Insured checking, interest bearing	34,124	34,124	-	-
Investments	19,866	19,866	-	-
Due from Department of Agriculture	22,544	22,544	-	-
Accounts receivable	40	40	-	-
Supplies inventory	15,197	15,197	-	-
Furniture and equipment	35,552	-	35,552	-
Amount to be provided:				
Vacation leave	6,732	-	-	6,732
TOTAL ASSETS	\$ 134,255	\$ 91,971	\$ 35,552	\$ 6,732
LIABILITIES AND FUND EQUITY				
Liabilities:				
Accounts payable	\$ 291	\$ 291	\$ -	\$ -
Accrued liabilities:				
Short-term vacation leave	3,023	3,023	-	-
Long-term vacation leave	6,732	-	-	6,732
Other	85	85	-	-
Total Liabilities	10,131	3,399	-	6,732
Fund Equity:				
Investment in furniture and equipment	35,552	-	35,552	-
Fund balances:				
Reserve for petty cash	200	200	-	-
Reserve for supplies inventory	15,197	15,197	-	-
Unreserved - undesignated	73,175	73,175	-	-
Total Fund Equity	124,124	88,572	35,552	-
TOTAL LIABILITIES AND FUND EQUITY	\$ 134,255	\$ 91,971	\$ 35,552	\$ 6,732

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

State of Oregon
OREGON BEEF COUNCIL
Statement of Revenues, Expenditures, and Changes in Fund Equity – Special Revenue Fund
For the Year Ended June 30, 2001

REVENUES		
Assessment fees		\$ 482,396
Assessment fees - other states		463
Interest on cash deposits		5,237
Travel reimbursements		1,375
Beef Board reimbursements		1,130
Other revenue		836
	Total Revenues	491,437
EXPENDITURES		
Personnel services		182,620
Services and supplies		111,765
Capital outlay		4,488
Special payments:		
Fixed payments		23,000
Advertising		97,611
Retail program		12,189
Food service		9,974
Promotion		17,963
Education		18,224
Producer Communications		19,819
Additional marketing		6,896
Commission program		7,274
	Total Expenditures	511,823
EXCESS OF REVENUES OVER EXPENDITURES		(20,386)
FUND EQUITY, BEGINNING		107,931
Increase in reserve for supplies inventory		1,027
FUND EQUITY, ENDING		\$ 88,572

State of Oregon
OREGON BEEF COUNCIL
Statement of Revenues, Expenditures, and Changes in Unreserved Fund Balance –
Special Revenue Fund – Budget and Actual – Budgetary Basis
For the Year Ended June 30, 2001

			Variance
			Favorable
	Budget	Actual	(Unfavorable)
REVENUES			
Assessment fees	\$ 477,000	\$ 482,859	\$ 5,859
Interest on cash deposits	3,000	5,237	2,237
Travel reimbursements	1,000	1,375	375
Beef Board reimbursements	1,500	1,130	(370)
Other revenue	20,000	836	(19,164)
Total Revenues	502,500	491,437	(11,063)
EXPENDITURES			
Personnel services	186,000	182,620	3,380
Services and supplies	122,613	111,765	10,848
Capital outlay	6,000	4,488	1,512
Special payments:			
Fixed payments	25,000	23,000	2,000
Advertising	109,000	97,611	11,389
Retail program	12,000	12,189	(189)
Food service	11,000	9,974	1,026
Promotion	21,600	17,963	3,637
Education	22,700	18,224	4,476
Producer Communications	30,400	19,819	10,581
Additional marketing	22,000	6,896	15,104
Commission program	7,500	7,274	226
Emergency fund	4,749	-	4,749
Total Expenditures	580,562	511,823	68,739
EXCESS OF REVENUES OVER			
(UNDER) EXPENDITURES	(78,062)	(20,386)	57,676
UNRESERVED FUND BALANCE, BEGINNING	78,062	93,561	15,499
UNRESERVED FUND BALANCE, ENDING	\$ -	\$ 73,175	\$ 73,175

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

State of Oregon
OREGON BEEF COUNCIL
Notes to the Financial Statements
For the Year Ended June 30, 2001

(1) Summary of Significant Accounting Policies

A. Reporting Entity

The Oregon Beef Council is a part of the State of Oregon Reporting Entity. The Council was created in 1959 and operates under the authority of *Oregon Revised Statutes 577.110 to 577.605*. The Council is composed of seven members appointed by the Director of the State Department of Agriculture.

B. Basis of Presentation

The accompanying financial statements are presented in conformity with *Generally Accepted Accounting Principles (GAAP)* applicable to state governments. The Council uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect available financial resources.

The accounts of the Council are organized on the basis of a special revenue fund and two account groups, each of which is considered a separate accounting entity. The fund and account groups are described as follows:

Governmental Fund Type: Special Revenue Fund

The Special Revenue Fund is the general operating fund of the Council. It is used to account for assessment fees collected and remitted to the Council by the State Department of Agriculture. Operating expenditures are recorded in this fund.

Account Group: General Fixed Assets

The General Fixed Assets Account Group is used to account for the fixed assets acquired and leased through Governmental Fund Types.

State of Oregon
OREGON BEEF COUNCIL
Notes to the Financial Statements
For the Year Ended June 30, 2001

(1) Summary of Significant Accounting Policies (continued)

Account Group: General Long-Term Debt

Liabilities of a long-term nature are recorded in the General Long-Term Debt Account Group. These long-term liabilities consist of accrued vacation leave.

Total Column - Memorandum Only

Total Column – Memorandum Only is so captioned to indicate that it is presented only to facilitate financial analysis. Data in this column does not present financial position, results of operations, or changes in fund balances in conformity with GAAP.

C. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. All Governmental funds are accounted for on the flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are included on the balance sheet. Operating statements of these funds present increases (i.e. revenues) and decreases (i.e. expenditures) in net current assets.

The Oregon Beef Council uses the modified accrual basis of accounting. Revenues are recognized when they become measurable and available as net current assets. Expenditures are recorded when the related liability is incurred, except for long-term accumulated vacation pay, which is recognized when the obligation is expected to be liquidated with expendable available financial resources.

D. Budget

Pursuant to ORS 577.420 to 577.440, the Council prepared a budget for the fiscal year ended June 30, 2001. The budget was approved on June 13, 2000 at the Council's regular meeting.

There are no differences between budgetary and GAAP accounting.

E. Cash

Cash in checking is maintained in an account that is subject to FDIC insurance of \$100,000. The balance did not exceed the insured amount during the fiscal year.

State of Oregon
OREGON BEEF COUNCIL
Notes to the Financial Statements
For the Year Ended June 30, 2001

(1) Summary of Significant Accounting Policies (continued)

F. Investments

The Council's investments are restricted by the Agricultural Marketing Service Directives, to short-term, risk-free, interest-bearing instruments. All investments must be fully secured. The term "short-term" refers to investments, which have a remaining term of one year or less at the time of purchase. The Councils' investments consist of short-term, federal discount notes that are reported at fair market value and held by Key Bank.

G. Supplies

Supplies are charged as expenditures when purchased. Supplies on hand as of June 30, 2001 are shown at estimated cost.

H. Fixed Assets

Furniture and equipment are charged as expenditures under Capital Outlay when purchased. Furniture and equipment are accounted for at cost in the General Fixed Asset Account Group. No depreciation has been provided.

Upon disposal of fixed assets, the cost is removed from the General Fixed Assets Account Group.

I. Accounting Estimates

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

(2) Nature of Organization

The Council was established to develop and expand markets for beef products produced, processed, or manufactured in Oregon. The Council conducts advertising campaigns to encourage consumption of beef, promotes consumer education regarding the uses of beef, and participates in national beef marketing organizations.

State of Oregon
OREGON BEEF COUNCIL
 Notes to the Financial Statements
 For the Year Ended June 30, 2001

(2) Nature of Organization (continued)

The primary source of revenue is a \$.50-per-head assessment that is collected when cattle are sold. The assessment is paid to the Oregon Department of Agriculture, which then remits the money to the Oregon Beef Council.

(3) Investments

Governmental accounting standards require that the Council's investments be categorized as either (1) insured or registered for which the securities are held by the Council or its agent in the Council's name; (2) uninsured and unregistered for which the securities are held by the broker's or dealer's trust department or agent in the Council's name; or (3) uninsured and unregistered for which the securities are held by the broker or dealer, or by its trust department or agent, but not in the Council's name. The Council held no securities subject to categorization as of June 30, 2001.

(4) Changes in Fixed Assets

	Balance 7/1/00	Additions	Deletions	Balance 6/30/01
General Fixed Assets				
Furniture and equipment	\$ 35,117	\$ 4,488	\$ (4,053)	\$ 35,552

(5) Retirement Plan

The Oregon Beef Council employees participate in the Oregon Public Employees Retirement System (PERS), a cost-sharing multiple-employer defined benefit pension plan. All the Oregon Beef Council employees are eligible to participate in the system after completing six months of service. Total payroll was \$133,768 and covered payroll was \$131,629 for the year ended June 30, 2001. PERS is administered by the Public Employees Retirement Board under the guidelines of Oregon Revised Statutes, Chapter 238. The PERS retirement allowance, payable monthly for life, may be selected from 12 retirement benefit options. Options include survivorship benefits and lump-sum refunds. The basic formula is 1.67 percent of a member's final average salary multiplied by the member's number of years of service. Benefits may also be calculated under either a money match or an annuity-plus-pension computation if a greater benefit results. PERS also provides death and disability benefits. A copy of the

State of Oregon
OREGON BEEF COUNCIL
Notes to the Financial Statements
For the Year Ended June 30, 2001

(5) Retirement Plan (continued)

Oregon Public Employees Retirement System annual financial report may be obtained from PERS, P.O. Box 73, Portland, Oregon 97207-0073.

Covered employees are required by State statutes to contribute 6.0 percent of their salary to the plan. The Oregon Beef Council is required by statute to contribute actuarially computed amounts as determined by PERS. Rates are subject to change as a result of subsequent actuarial valuations. Currently, the rate is 9.49 percent of each covered employee's salary. The amount contributed by the Oregon Beef Council for the year ended June 30, 2001 was \$21,474, which consisted of \$13,572 for the employer and \$7,902 for the employees, equal to the required contributions for each year. No pension liability existed as of June 30, 2001, determined in accordance with Statement No. 27 of the Governmental Accounting Standards Board.

(6) Employee Leave

Vacation pay is vested when earned and is recorded as an expenditure when incurred. Employees earn annual leave from 8 to 16 hours per month, depending upon length of service, with a maximum accumulation of 250 hours per employee.

Accumulated vacation pay based upon current salary rates was \$6,732 long term and \$3,023 short term as of June 30, 2001.

Sick leave is earned at the rate of 8 hours per month with no maximum limit. Sick leave may be taken only in the event of illness and is not convertible to pay upon termination. When the employee retires, one-half the dollar value of accumulated sick leave may be used in computing retirement benefits. No liability is reported for the accumulated sick leave.

(7) Changes in General Long-term Debt

The following table records activity in the General Long-term Debt Account Group for fiscal year ended June 30, 2001:

	Balance 7/1/00	Additions	Deletions	Balance 6/30/01
Vacation Leave	\$ 5,411	\$ 2,973	\$ (1,652)	\$ 6,732

State of Oregon
OREGON BEEF COUNCIL
Notes to the Financial Statements
For the Year Ended June 30, 2001

(8) Insurance

Insurance programs are administered for the Council by the Risk Management Division of the Oregon Department of Administrative Services, which provides insurance coverage to all state agencies with a blanket honesty and faithful performance bond, general liability and vehicle liability self-insurance, and self-insurance property damage program.

(9) Operating Lease

The Council sub-leases office space from Agri-Business Council of Oregon on a year-to-year basis. Lease expenses for the year ended June 30, 2001 was \$21,509.

(10) Fund Equity

Reservations of fund balances of governmental funds are established to either (1) satisfy legal covenants that require that a portion of the fund balance be segregated, or (2) identify the portion of the fund balance that is not appropriable for future expenditures.

The reserves for supplies inventory and petty cash were created to represent the portion of the fund balance that is not available for expenditures because the Council expects to use these resources within the next budgetary period. Reserve for supplies and petty cash as of June 30, 2001 were \$15,197 and \$200, respectively.

(11) Pending Accounting Change

In June 1999, the Governmental Accounting Standards Board (GASB) approved Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis- for state and Local Governments (Statement). The Council will implement the Statement for the fiscal year ended June 30, 2002.

The changes called for in this pronouncement are significant. Although the Council is actively preparing for implementation of these pronouncements, it does not have sufficient information available at this time to disclose the effect that these changes will have on financial position and results of operations.

State of Oregon
OREGON BEEF COUNCIL
Notes to the Financial Statements
For the Year Ended June 30, 2001

(12) Contingency

A suit has been filed against the State of Oregon by and through the Oregon Beef Council claiming unauthorized assessment of beef inspection fees. Management cannot predict the outcome of the lawsuit or estimate the amount of loss, if any, that may result. Accordingly, no provision for any contingent liabilities that may result has been made in the financial statements.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

John Lattimer, Director
Oregon Audits Division
255 Capitol Street NE, Suite 500
Salem, Oregon 97310

Council Members
Oregon Beef Council
1200 NW Naito Parkway, Suite 290
Portland, Oregon 97209

We have audited the financial statements of the Oregon Beef Council (OBC), as of and for the year ended June 30, 2001, and have issued our report thereon dated August 2, 2001, which was unqualified. We conducted our audit in accordance with generally accepted auditing standards of 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.

Compliance

Compliance with laws, regulations, contracts, and grants applicable to OBC is the responsibility of OBC management, including compliance with accounting matters of the Beef Promotion and Research Act of 1985 and the Beef Promotion and Research Order (the "Order") relative to the use of funds collected by OBC and with the terms described in Section 1260.181(b)(7) of the Order relative to prohibited uses of funds collected by the OBC and investment policies of the United States Department of Agriculture's Agricultural Marketing Service. As part of obtaining reasonable assurance about whether the OBC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and bylaws, 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 that are required to be reported under *Government Auditing Standards*. Also, in connection with our audit, nothing came to our attention that caused us to believe that the OBC failed to comply with the regulatory requirements and provisions mentioned in the previous paragraph insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the OBC's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over financial reporting and its operation that we consider material weaknesses.

This report is intended solely for the information and use of the Board of Directors of the Oregon Beef Council, the management of the Oregon Beef Council, the Beef Promotion and Research Board, the Oregon Secretary of State, Division of Audits, the Governor of the State of Oregon, and the Oregon Legislative Assembly and is not intended to be and should not be used by anyone other than these specified parties.

Merina, McCoy & Co., P.C.
West Linn, Oregon
August 2, 2001

FACTS ABOUT THE SECRETARY OF STATE AUDITS DIVISION

The Oregon Constitution provides that the Secretary of State shall be, by virtue of his office, Auditor of Public Accounts. The Audits Division exists to carry out this duty. The division reports to the elected Secretary of State and is independent of the Executive, Legislative, and Judicial branches of Oregon government. The division audits all state officers, agencies, boards, and commissions and oversees audits and financial reporting for local governments.

Directory of Key Officials

Acting Director Cathy Pollino, CGFM, MBA

Acting Deputy Director Charles A. Hibner, CPA

This report, which is a public record, is intended to promote the best possible management of public resources.

If you received a copy of an audit report and no longer need it, you may return it to the Audits Division. We maintain an inventory of past audit reports. Your cooperation helps us save on printing costs.

Oregon Audits Division
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Auditing to Protect the Public Interest and Improve Oregon Government

