
Secretary of State

State of Oregon

OREGON BEEF COUNCIL

For the Year Ended June 30, 2004



Audits Division

Contract Auditor: Merina & Company, LLP

Secretary of State

State of Oregon

OREGON BEEF COUNCIL

For the Year Ended June 30, 2004



Audits Division

OFFICE OF THE
SECRETARY OF STATE
Bill Bradbury
Secretary of State



AUDITS DIVISION
Cathy Pollino
Director

(503) 986-2255
FAX (503) 378-6767

Auditing for a Better Oregon

The Honorable Ted Kulongoski
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 and compliance with applicable laws, rules and regulations. The audit, performed by Merina & Company, LLP for the Secretary of State Audits Division, encompasses the year ended June 30, 2004.

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

Cathy Pollino
State Auditor

State of Oregon

OREGON BEEF COUNCIL

FINANCIAL STATEMENTS
with
Independent Auditors' Reports

For the Year Ended
June 30, 2004

MERINA
& COMPANY, LLP

Certified Public Accountants and Consultants

OREGON BEEF COUNCIL MEMBERS

	<u>Term Expires</u>
Dalton Straus, Chairman 5700 Upton Road Central Point, OR 97502	2004
Jim Wilson, Vice Chairman 525 Peterson Road Ontario, OR 97914	2004
Dan Warnock, Jr., Secretary/Treasurer 18963 West Campbell Loop Baker City, OR 97814	2006
Terry Cowart 37087 KGAL Drive Lebanon, OR 97355	2006
Warren Chamberlain 4741 South Road H Vale, OR 97918	2006
Ralph Duyck 9530 NW Roy Road Forest Grove, OR 97116	2005
Gary Simon 10768 Crosby Road NE Woodburn, OR 97071	2005
Mark Lynn 14506 SE Tenino Portland, OR 97236	2006

STATE OF OREGON
OREGON BEEF COUNCIL
TABLE OF CONTENTS

INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS.....	3
BASIC FINANCIAL STATEMENTS	
Government-Wide Financial Statements	
Statement of Net Assets.....	8
Statement of Activities	9
Fund Financial Statements	
<i><u>Governmental Funds:</u></i>	
Balance Sheet	10
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	11
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	12
Notes to the Basic Financial Statements	13
<i><u>Required Supplemental Information:</u></i>	
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget to Actual – Special Revenue Fund.....	20
OTHER REPORTS	
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>	21

INDEPENDENT AUDITORS' REPORT

Cathy Pollino
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 basic financial statements of the governmental activities, and the Special Revenue Fund of the Oregon Beef Council (OBC), a commission of the State of Oregon, as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the OBC management. Our responsibility is to express an opinion on these financial statements based on our audit.

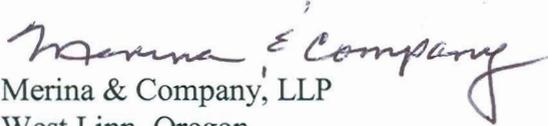
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic 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.

As discussed in Note 1, the financial statements of the OBC are intended to present the financial position and changes in financial position of only that portion of the governmental activities, business-type activities, major funds, and remaining fund information of the State of Oregon that is attributable to the transactions of OBC. They do not purport to, and do not present fairly the financial position and changes in financial position and cash flows of the State of Oregon in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, and the Special Revenue Fund of the Oregon Beef Council, as of June 30, 2004, and the changes in financial position of those activities and the Special Revenue Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis and budgetary comparison information on pages 3 through 7 and page 20 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 10, 2004, on our consideration of OBC's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.


Merina & Company, LLP
West Linn, Oregon
August 10, 2004

Management's Discussion and Analysis

Management's Discussion and Analysis

As management of the Oregon Beef Council, we offer readers of the Oregon Beef Council's financial statements this narrative overview and analysis of the financial activities of the Oregon Beef Council for the fiscal year ended June 30, 2004.

Financial Highlights

- Annual assessment fees increased by \$15,683 (3%) from 2003 to 2004.
- Promotional and educational expenses increased \$4,709 (1%) from 2003 to 2004.
- The Council's total net assets increased by \$28,946 (49%) from 2003 to 2004. The assets of the Oregon Beef Council exceeded its liabilities at the close of the most recent fiscal year by \$87,679 (net assets). Of this amount, \$78,858 (unrestricted net assets) may be used to meet the Council's ongoing obligations.
- Oregon Beef Council's governmental fund ending balance increased \$30,729 (60%) from 2003 to 2004. As of the close of the current fiscal year, the Oregon Beef Council's governmental fund reported an ending fund balance of \$82,349. Over eighty-eight percent of this total amount, \$72,278, is available for use within the Council's designations and policies.

Overview of the Financial Statements

The discussion and analysis are intended to serve as an introduction to the Oregon Beef Council's basic financial statements. The Oregon Beef Council's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of the Oregon Beef Council's finances in a manner similar to a private-sector business.

The statement of net assets presents information on all of the Oregon Beef Council's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Oregon Beef Council is improving or deteriorating.

The statement of activities presents information showing how the Council's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. earned but unused vacation leave).

Management's Discussion and Analysis

The government-wide financial statements can be found on pages 8-9 of this report.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Oregon Beef Council, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Oregon Beef Council has one governmental fund that accounts for all the activities of the Council.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financial requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near term financial decisions. Both the governmental fund balance sheet and governmental fund statement of revenues, expenditures, and change in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Oregon Beef Council adopts an annual budget for its governmental funds. A budgetary comparison statement has been provided to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 10-12 of this report.

Notes to the Financial Statements. The notes provided additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 13-19 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a Government's financial position. In the case of the Oregon Beef Council, assets exceeded liabilities by \$87,679 at the close of the most recent fiscal year.

Management's Discussion and Analysis

	<u>Governmental Activities</u>		Increase
	<u>6/30/04</u>	<u>6/30/03</u>	<u>(Decrease)</u>
Current and other assets	\$ 87,788	\$ 57,311	\$ 30,477
Capital assets	<u>8,821</u>	<u>9,627</u>	<u>(806)</u>
Total assets	<u>\$ 96,609</u>	<u>\$ 66,938</u>	<u>\$ 29,671</u>
Long-term outstanding liabilities	3,491	2,514	977
Other liabilities	<u>5,439</u>	<u>5,688</u>	<u>(249)</u>
Total liabilities	8,930	8,202	728
Net assets:			
Invested in capital assets, net of related debt	8,821	9,627	(806)
Unrestricted	<u>78,858</u>	<u>49,109</u>	<u>29,749</u>
Total net assets	<u>\$ 87,679</u>	<u>\$ 58,736</u>	<u>\$ 28,943</u>

The second largest portion of the Oregon Beef Council's net assets (10% percent) reflects its investment in capital assets (e.g. furniture and equipment) less any related debt used to acquire those assets that is still outstanding. The Oregon Beef Council uses these capital assets for beef promotion; consequently, these assets are not available for future spending. The Oregon Beef Council has no debt related to its capital assets.

The remaining balance of unrestricted net assets (\$78,858) may be used to meet the Council's ongoing obligations. At the end of the current fiscal year, the Oregon Beef Council is able to report positive balances in both categories of net assets.

Governmental Activities. Governmental activities increased the Oregon Beef Council's net assets by \$28,943. Key elements of this increase are as follows:

Management's Discussion and Analysis

	<u>Governmental Activities</u>		<u>Increase (Decrease)</u>
	<u>6/30/04</u>	<u>6/30/03</u>	
Revenues:			
General revenues:			
Assessment Fees	\$ 464,206	\$ 448,523	\$ 15,683
Miscellaneous	1,152	2,590	(1,438)
Interest & Investment Earnings	468	164	304
	<u>465,826</u>	<u>451,277</u>	<u>14,549</u>
Total revenues			
Expenses:			
Promotion and education	436,883	432,172	4,711
	<u>436,883</u>	<u>432,172</u>	<u>4,711</u>
Total expenses			
Increase in net assets	<u>\$ 28,943</u>	<u>\$ 19,105</u>	<u>\$ 9,838</u>

Financial Analysis of the Council's Fund

Governmental Fund. The focus of the Oregon Beef Council's governmental fund is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Oregon Beef Council's financing requirements. In particular, unreserved fund balance may serve as useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the Oregon Beef Council's governmental fund reported combined ending fund balances of \$82,349. Approximately 88% of this total amount (\$72,278) constitutes unreserved fund balance. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed for inventory.

The general operating fund increased by \$30,729 in 2004, which was due to a net increase in revenues over expenses.

Budgetary Highlights

There were no changes for the Council's budget for the fiscal year.

Capital Asset and Debt Administration

Capital Assets. The Oregon Beef Council's investment in capital assets for its governmental activities as of June 30, 2004, amounts to \$8,821 (net of accumulated depreciation). This investment in capital assets includes furniture and equipment.

Management's Discussion and Analysis

There were no major capital asset events during the current fiscal year.

Long-term debt. At the end of the current fiscal year, the Oregon Beef Council had total long-term debt outstanding of \$3,491. This is liability exclusively related to compensated absences.

Economic Factors and Next Year's Budgets

The Oregon Beef Council found itself in a stronger financial picture at year-end. Contributing to this strength were continued conservative budgeting/spending patterns and an increase in checkoff collections. A three-year increase in the unrestricted fund balance was noted as follows: \$20,162 (2002); \$39,668 (2003); \$72,278 (2004).

As a whole, the American beef industry is currently in a positive position with cattle prices at all time highs. Several factors have contributed to this including an emphasis on high protein diets, promotion of value cuts, and the focusing of promotional organizations' efforts.

This current industry strength occurred in spite of the first identified case of Bovine Spongiform Encephalopathy (BSE) found in Washington state on December 23, 2003. After a dip in collections for several weeks, the markets stabilized and continued upward. However, the closing of US borders for exports to Japan and imports from Canada leaves the cattle industry in uncertainty at this time.

In an effort to clarify and strengthen relationships with the Oregon Department of Agriculture, the Oregon Beef Council worked with the other Oregon commodity commissions on SB 854. As a result of its passage, the Beef Council added a public member to its board and provided their market plan for ODA approval.

The court cases challenging the beef checkoff program in the Eighth Circuit Courts of Appeals moved forward to the U.S. Supreme Court. This court will review the cases during their 2004-2005 session with a decision expected by June 2005. The Department of Justice will represent USDA and the Beef Board. The Oregon Beef Council has signed on in two amicus briefs. Until a final decision is reached, a stay has been granted and collection of the checkoff will continue.

When planning the next year's budget, the board took the current industry economic strength and the legal uncertainty into consideration. The increase in anticipated revenue and cash carryover was primarily channeled into contingency funds in each expense category.

Requests for Information

This financial report is designed to provide a general overview of the Oregon Beef Council's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Oregon Beef Council, 1200 NW Naito Parkway, Ste. 290, Portland, OR 97209.

BASIC FINANCIAL STATEMENTS

STATE OF OREGON
OREGON BEEF COUNCIL
STATEMENT OF NET ASSETS
June 30, 2004

ASSETS:

Cash:		
Petty Cash	\$	200
Insured checking, interest bearing		58,271
Due from Department of Agriculture		19,446
Supplies inventory		9,871
Capital Assets - net of accumulated depreciation:		
Furniture and equipment		8,821
		<hr/>
Total assets	\$	<u>96,609</u>

LIABILITIES:

Accounts payable	\$	4,437
Non-current liabilities:		
Due within one year		985
Due in greater than one year		3,491
Other accrued liabilities		17
		<hr/>
Total liabilities		<u>8,930</u>

NET ASSETS:

Invested in capital assets		8,821
Unrestricted		78,858
		<hr/>
Total net assets		<u>87,679</u>
		<hr/>
Total liabilities and net assets	\$	<u>96,609</u>

The accompanying notes are an integral part of these financial statements

**STATE OF OREGON
OREGON BEEF COUNCIL
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2004**

EXPENSES:

Beef promotion and education:

Personal services	\$ 174,231
Material and supplies	261,844
Depreciation	<u>808</u>

Total program expenses 436,883

GENERAL REVENUES:

Assessment fees	464,206
Miscellaneous	1,152
Interest and investment earnings	<u>468</u>

Total general revenues 465,826

Changes in net assets 28,943

NET ASSETS, BEGINNING 58,736

NET ASSETS, ENDING \$ 87,679

The accompanying notes are an integral part of these financial statements

STATE OF OREGON
OREGON BEEF COUNCIL
BALANCE SHEET - GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2004

	<u>Special Revenue</u>
ASSETS:	
Cash:	
Petty cash	\$ 200
Insured checking, interest bearing	58,271
Due from Department of Agriculture	19,446
Supplies inventory	<u>9,871</u>
Total assets	<u>\$ 87,788</u>
LIABILITIES AND FUND BALANCES:	
Liabilities:	
Accounts payable	\$ 4,437
Other accrued liabilities	17
Short-term vacation leave	<u>985</u>
Total liabilities	<u>5,439</u>
Fund balances:	
Reserved for petty cash	200
Reserved for supplies inventory	9,871
Unreserved - undesignated	<u>72,278</u>
Total fund equity	<u>82,349</u>
Total liabilities and fund balances	<u>\$ 87,788</u>

Amounts reported for governmental activities in the statement of net assets are different because:

Total fund equity	\$ 82,349
Capital assets used in governmental activities are not financial resources and therefore are not reported in funds	8,821
Long-term liabilities are not due and payable in the current period and therefore are not reported in funds	<u>(3,491)</u>
Net assets of governmental activities	<u>\$ 87,679</u>

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 BALANCES - GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2004**

	<u>Special Revenue</u>
REVENUES:	
Assessment fees	\$ 464,206
Beef Board reimbursements	1,015
Interest and investment earnings	468
Other revenue	<u>137</u>
Total revenues	<u>465,826</u>
 EXPENDITURES:	
Current:	
Beef promotion and education:	
Personal services	173,254
Material and supplies	<u>261,844</u>
Total expenditures	<u>435,098</u>
Revenues over (under) expenditures	30,728
 FUND BALANCE, BEGINNING	 <u>51,621</u>
 FUND BALANCE, ENDING	 <u><u>\$ 82,349</u></u>

The accompanying notes are an integral part of these financial statements

**STATE OF OREGON
OREGON BEEF COUNCIL
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2004**

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balance - total government funds	\$ 30,728
Governmental funds report capital outlays greater than \$5,000 as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	
Current year depreciation	(808)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	
Compensated absences	<u>(977)</u>
Changes in net assets	<u>\$ 28,943</u>

The accompanying notes are an integral part of these financial statements

NOTES TO THE BASIC FINANCIAL STATEMENTS

STATE OF OREGON
OREGON BEEF COUNCIL
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements are presented in conformity with generally accepted accounting principles (GAAP) applicable to state governments as prescribed by the Governmental Accounting Standards Board (GASB). In June 1999 the GASB issued *Statement 34 Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. This statement established new financial reporting requirements for state and local governments throughout the United States. They require new information and restructure much of the information that governments have present in the past. With the implementation of GASB State 34, the Council has prepared required supplementary information titled *Management's Discussion and Analysis*, which precedes the basic financial statements.

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.

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.

The primary source of revenue is a \$0.50 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.

B. Measurement focus, basis of accounting, and financial statement presentation

Measurement focus is a term used to describe which transactions are recorded with the various financial statements. Basis of accounting refers to when transactions are recorded regardless of the measurement focus.

Government-wide statements

The statement of net assets and the statement of activities display information about the Council as a whole. These statements include all the financial activities of the Council.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

STATE OF OREGON
OREGON BEEF COUNCIL
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

Governmental fund financial statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, long-term compensated absences are recorded only when payment is due.

The accounts of the Council are organized on the basis of a special revenue fund.

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.

C. Assets, liabilities, and net assets or equity

Cash and investments

Cash includes cash on hand and demand deposits.

Receivables

Receivables are limited to assessments collected by the Oregon Department of Agriculture.

Supplies

Supplies on hand at June 30, 2004 are shown at estimated cost. The consumption method is used to accrue costs.

Capital assets

Capital assets are furniture and equipment. In the governmental fund statement, capital assets are charged to expenditures as purchased. Capital assets are recorded at historical cost. Donated assets are recorded at estimated fair market value as of the date of the donation.

Capital assets are defined by the State as assets with an initial, individual cost of \$5,000 or more, and an estimated useful life of greater than one year. Costs incurred for repairs and maintenance are expensed as incurred.

STATE OF OREGON
OREGON BEEF COUNCIL
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

Depreciation on exhaustible assets is recorded as an allocated expense in the Statement of Activities with accumulated depreciation reflected in the Statement of Net Assets and is provided on the straight-line basis over the following estimated useful lives:

Furniture and equipment	20 Years
-------------------------	----------

Gains or losses from sales or retirements of capital assets are included in operations of the current period.

Accrued compensated absences

Vacation pay is vested when earned and is recorded as expenditure when incurred. The non-current portion (the amount estimated to be used in subsequent fiscal years) is maintained separately and represents a reconciling item between the fund-level and government-wide presentations. Only the current portion is reported in the governmental funds, and is calculated based on historical records.

Sick pay is recognized when leave is taken. 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.

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.

Use of 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.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary information

Pursuant to ORS 577.420 to 577.440, the Council prepared a budget for the fiscal year ended June 30, 2004. The budget was approved on June 19, 2003 at the Council's regular meeting.

There are no differences between budgetary and GAAP accounting.

**STATE OF OREGON
OREGON BEEF COUNCIL
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2004**

III. DETAILED NOTES ON ALL FUNDS

A. Cash

Deposits with financial institutions are comprised of bank (checking) demand deposits. The total bank balance at June 30, 2004 was \$66,426. 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.

B. 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 Council's investments during the fiscal year ending June 30, 2004 consisted of short-term, federal discount notes reported at fair market value and held by Key Bank. The Council held \$0 in investments at June 30, 2004.

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 at June 30, 2004.

Capital assets

Capital asset activity for governmental activities for the year ended June 30, 2004 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets:				
Furniture and equipment	\$ 16,151	\$ -	\$ -	\$ 16,151
Less accumulated depreciation	<u>(6,522)</u>	<u>(808)</u>	<u>-</u>	<u>(7,330)</u>
Net capital assets	<u>\$ 9,629</u>	<u>\$ (808)</u>	<u>\$ -</u>	<u>\$ 8,821</u>

C. Employee leave

Accumulated vacation pay based upon current salary rates was \$3,491 long term and \$985 short term at June 30, 2004.

**STATE OF OREGON
OREGON BEEF COUNCIL
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2004**

D. 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 at June 30, 2004 were \$9,871 and \$200, respectively.

E. Operating Lease

The Council sub-leases office space from Agri-Business Council of Oregon on cancelable five-year agreement. Lease expense for the year ended June 30, 2004 was \$21,777.

IV. OTHER INFORMATION

A. Risk Management

The State of Oregon administers property and casualty insurance programs covering the State government through its Central Services Fund. The Central Services Fund services claims for direct physical loss or damage to State property; tort liability claims brought against the State, its officers, employees, or agents; worker's compensation; employee dishonesty; and faithful performance coverage for certain key positions required by law to be covered, and other key positions.

As a state agency, the Council participates in the Central Services Fund. The cost of servicing insurance claims and payments by charging as assessment to each State entity is based on its share of services provided in a prior period. The total statewide assessment of each coverage is based on independent biennial actuarial forecasts and administrative expenses, less any available fund balance in the Central Services Fund from the prior biennium.

B. Pension Plans

Plan Description

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. 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 twelve 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.

**STATE OF OREGON
OREGON BEEF COUNCIL
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2004**

PERS also provides death and disability benefits. A copy of the Oregon Public Employees Retirement System annual financial report may be obtained from PERS, P.O. Box 73, Portland, Oregon 97207-0073.

Funding Policy and Annual Pension Cost

The contribution requirements of the Council are established or may be amended by the PERS Retirement Board while the employee member's rate is set by statute, ORS 238. The Council pays the required employee contribution of 6% of covered compensation.

Required contributions and liabilities were determined as part of actuarial valuation using the entry age actuarial cost method. Because all PERS employers are required by law to submit the contributions adopted by the retirement Board, as the employer contributions are calculated in conformance with the standards of Statement No. 27 of the Governmental Accounting Standards Board, there is no net pension obligation. The contributions actually made are the equivalent to the annual pension cost.

Statutes also require the employer to contribute actuarially computed amounts determined by PERS. Rates are subject to change as a result of subsequent actuarial valuations. In the fiscal ending June 30, 2004, the rate was 9.49 percent for January through June, 11.31 percent July through October and 4.14 percent November through June of each covered employee's salary. Beginning in May 2004, the State of Oregon began collecting a Pension Bond Assessment based on 7.39% of subject salary. OBC paid \$788 in Pension Bond Assessment during the fiscal year ending June 30, 2004.

	2004	2003	2002
Council contribution rate	4.14 to 11.31%	9.49%	9.73%
Employee contribution paid by Council	6.00%	6.00%	6.00%
Council payroll	\$ 132,092	\$ 134,291	\$ 139,876
Payroll covered by PERS	52,767	132,395	137,000
Annual pension cost and Bond Assessment	7,107	20,435	22,042
Net pension obligation	-	-	-

C. Contingency

On May 24, 2004, the U.S. Supreme Court announced its decision to hear an appeal of the 8th Circuit Appellate Court (South Dakota) ruling that found the federal Beef Promotion and Research Act in violation of the First Amendment. The case is expected to be scheduled for review during the next full session which begins in October 2004. The case will be decided before the close of the session in June 2005. The decision to hear the case allows the beef checkoff program to continue business as usual throughout the proceedings. Three other Circuit Courts – the 3rd Circuit Court in Philadelphia, 9th Circuit court in Montana, and the 10th Circuit in Denver - found the Federal Beef Promotion and Research Act to be constitutional.

**STATE OF OREGON
OREGON BEEF COUNCIL
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2004**

It is the opinion presented by the Oregon Attorney General that the federal and state checkoff assessments are independent and stand on their own. There is no indication that the inability to collect the federal assessment would prevent the Oregon Department of Agriculture from collecting the state assessment. If the South Dakota ruling is not overturned, the checkoff in Oregon will revert to its pre-existing state authority to collect 50 cents per head sold. Although the Council's budget will essentially remain the same, many nationally produced materials and services would be unavailable for use by the Council.

During the 2003 legislative session, the Oregon Commodity Commissions worked in conjunction with the Oregon Department of Justice to pass SB 854 to shelter Oregon commodity commissions, including the Oregon Beef Council, from the various checkoff lawsuits filed in other states by strengthening oversight by the Oregon Department of Agriculture.

To reinforce the "government speech" argument, the OBC reviewed and revised their governing statute, ORS 577. Principle changes included the addition of a public member to the board and the review of the OBC marketing plan by the Oregon Department of Agriculture. A survey to measure producer support of the beef checkoff will be conducted by December 30, 2004.

REQUIRED SUPPLEMENTARY INFORMATION

STATE OF OREGON
 OREGON BEEF COUNCIL
 SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - BUDGET TO ACTUAL
 SPECIAL REVENUE FUND
 For the Year Ended June 30, 2004

	Original and Final Budget	Actual	Variance Positive (Negative)
REVENUES:			
Assessment fees	\$ 438,500	\$ 464,206	\$ 25,706
Beef Board reimbursements	1,500	1,015	(485)
Interest and investment earnings	150	468	318
Other revenue	10,000	137	(9,863)
Total Revenues	450,150	465,826	15,676
EXPENDITURES:			
Personal services	183,044	173,254	9,790
Services and supplies	125,516	109,932	15,584
Promotion and Education:			
Fixed payments	17,000	17,000	-
Advertising	79,500	78,280	1,220
Retail program	7,000	6,980	20
Food service	6,500	3,818	2,682
Promotion	8,300	6,850	1,450
Education	16,450	15,824	626
Producer Communications	15,615	13,759	1,856
Additional marketing	5,996	1,103	4,893
Commission program	8,000	8,298	(298)
Emergency fund	4,000	-	4,000
Total Expenditures	476,921	435,098	41,823
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(26,771)	30,728	57,499
UNRESERVED FUND BALANCE, BEGINNING	26,771	51,621	24,850
UNRESERVED FUND BALANCE, ENDING	\$ -	\$ 82,349	\$ 82,349

OTHER REPORTS

**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***

Cathy Pollino
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 basic financial statements of the Oregon Beef Council (OBC), a commission of the State of Oregon, as of and for the year ended June 30, 2004, and have issued our report thereon dated August 10, 2004, which was unqualified. We conducted our audit 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.

Compliance

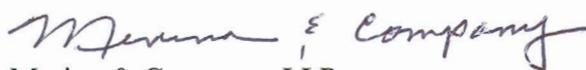
Compliance with laws, regulations, contracts, and grants applicable to OBC is the responsibility of OBC management, including compliance with accounting matters of the Beef Promotion and Research Act of 1985 and the Beef Promotion and Research Order (the "Order") relative to the use of funds collected 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 basic 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*.

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, Audits Division, 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 & Company, LLP

West Linn, Oregon

August 10, 2004

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

<i>State Auditor</i>	Cathy Pollino, CGFM, MBA
<i>Deputy State Auditor</i>	Charles A. Hibner, CPA
<i>Deputy State Auditor</i>	Mary E. Wenger, 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
Public Service Building
255 Capitol Street NE • Suite 500
Salem, Oregon 97310

We invite comments on our reports through our Hotline or Internet address.

Ph. 503-986-2255
Hotline: 800-336-8218
Internet: Audits.Hotline@state.or.us

<http://www.sos.state.or.us/audits/audithp.htm>

Auditing to Protect the Public Interest and Improve Oregon Government