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Secretary of State

State of Oregon

**OREGON BEEF COUNCIL**

For the Year Ended June 30, 2005



**Audits Division**

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Contract Auditor: Merina & Company, LLP

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Secretary of State

State of Oregon

**OREGON BEEF COUNCIL**

For the Year Ended June 30, 2005



**Audits Division**

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OFFICE OF THE  
SECRETARY OF STATE  
Bill Bradbury  
Secretary of State



AUDITS DIVISION  
Cathy Pollino  
State Auditor

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*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, 2005.

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, 2005

**MERINA**  
& COMPANY, LLP

**CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS**

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STATE OF OREGON  
OREGON BEEF COUNCIL  
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## OREGON BEEF COUNCIL MEMBERS

	<u>Term Expires</u>
Dalton Straus, Chairman Central Point, OR	2007
Gary Simon, Vice Chairman Woodburn, OR	2008
Warren Chamberlain, Secretary/Treasurer Vale, OR	2006
Mark Lynn Clackamas, OR	2006
Terry Cowart Lebanon, OR	2006
Jerome Rosa Gervais, OR	2008
Dan Warnock, Jr. Baker City, OR	2006
Jim Wilson Ontario, OR	2007

**INDEPENDENT AUDITORS' REPORT**

Cathy Pollino  
State Auditor  
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, 2005, 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, 2005, 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 9, 2005, 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 9, 2005

## **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, 2005.

### **Financial Highlights**

- Annual assessment fees decreased by \$25,359 (5%) from 2004 to 2005.
- Promotional and educational expenses increased \$26,544 (6%) from 2004 to 2005.
- The Council's total net assets decreased by \$20,971 (24%) from 2004 to 2005. The assets of the Oregon Beef Council exceeded its liabilities at the close of the most recent fiscal year by \$66,708 (net assets). Of this amount, \$58,695 (unrestricted net assets) may be used to meet the Council's ongoing obligations.
- Oregon Beef Council's governmental fund ending balance decreased \$22,063 (27%) from 2004 to 2005. As of the close of the current fiscal year, the Oregon Beef Council's governmental fund reported an ending fund balance of \$60,286. Over eighty-seven percent of this total amount, \$52,524, 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 are comprised of 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).

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 provide 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 13-18 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 \$66,708 at the close of the most recent fiscal year.

With the fourth year implementation of Governmental Accounting Standards Board Statement 34, the Council is presenting comparable columns in the various comparisons and analyses for the previous year.

Governmental Activities

	<u>6/30/05</u>	<u>6/30/04</u>	<u>Increase (Decrease)</u>
Current and other assets	\$ 61,635	\$ 87,788	\$ (26,153)
Capital assets	8,013	8,821	(808)
Total assets	69,648	96,609	(26,961)
Long-term outstanding liabilities	1,591	3,491	(1,900)
Other liabilities	1,349	5,439	(4,090)
Total liabilities	2,940	8,930	(5,990)
Net assets:			
Invested in capital assets, net of related debt	8,013	8,821	(808)
Unrestricted	58,695	78,858	(20,163)
Total net assets	\$ 66,708	\$ 87,679	(20,971)

The second largest portion of the Oregon Beef Council's net assets (12% 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 (\$58,695) 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 decreased the Oregon Beef Council's net assets by \$20,971. Key elements of this decrease are as follows:

	<u>6/30/05</u>	<u>6/30/04</u>	<u>Increase (Decrease)</u>
Revenues:			
General revenues:			
Assessment Fees	\$ 438,847	\$ 464,206	\$ (25,359)
Miscellaneous	2,430	1,152	1,278
Interest & Investment Earnings	1,179	468	711
Total revenues	442,456	465,826	(23,370)
Expenses:			
Promotion and education	463,427	436,883	26,544
Total expenses	463,427	436,883	26,544
Decrease in net assets	\$ (20,971)	28,943	

**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 \$60,286. Approximately 87% of this total amount (\$52,524) 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 fund decreased by \$22,063 in 2005, which was due to a net decrease in general 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, 2005, amounts to \$8,013 (net of accumulated depreciation). This investment in capital assets includes furniture and equipment.

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 \$1,591. This is liability exclusively related to compensated absences.

### **Economic Factors and Next Year's Budgets**

The current year saw lower collections than anticipated, and a decrease in collections is predicted to continue during the next fiscal year. Overall, reduced collections resulted in a \$25,359 budget reduction from one year to the next. This decrease in collections is attributed primarily to several factors including: herd retention, supply and demand, and the closure of foreign markets to US beef.

The 2004-2005 fiscal year was not short on events affecting the beef industry. On November 18, 2004, the United States Department of Agriculture (USDA) announced an inconclusive Bovine Spongiform Encephalopathy (BSE) test result on a bovine animal. On November 23, 2004, the USDA announced the inconclusive test to be negative.

At the end of the 2004-2005 fiscal year, the USDA announced it had confirmed a case of BSE in a cow born before the FDA feed ban. The animal was approximately 12-years-old and was born and raised on a Texas ranch. The animal never entered the feed or food supply.

On June 30, 2005, a consumer tracking survey conducted the week of June 27<sup>th</sup>, found that USDA's announcement of the second US case of BSE, the first indigenous US case, had not

affected consumer confidence that US beef is safe from BSE. The level of confidence in US beef safety has remained strong (average 91%) since the first US case (in an imported Canadian dairy cow) was announced in December 2003.

On May 23, 2005, the US Supreme Court ruled that the Beef Checkoff Program was constitutional, thus allowing the program's demand-building efforts to continue. The decision overturned a ruling by the US Court of Appeals for the Eight Circuit that found the federal Beef Promotion and Research Act in violation of the First Amendment.

In Oregon, Senate Bill 854 required each commodity commission to survey its producers. The Oregon Beef Council mailed out over 10,000 annual reports and surveys and received 88 responses. Eighty-four percent of respondents felt the OBC programs were very effective to somewhat effective. Only 14 percent reported our programs were not effective. Eighty-five percent of respondents agreed that they want 50 cents of the checkoff dollar to continue to support local programs (in lieu of sending the entire dollar to support national programs).

**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, 1827 NE 44<sup>th</sup> Ave., Ste. 315, Portland, OR 97213.

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## **BASIC FINANCIAL STATEMENTS**

**STATE OF OREGON  
OREGON BEEF COUNCIL  
STATEMENT OF NET ASSETS  
June 30, 2005**

**ASSETS:**

Cash:		
Petty Cash	\$	200
Insured checking, interest bearing		34,576
Due from Department of Agriculture		19,197
Accounts receivable		100
Supplies inventory		7,562
Capital Assets - net of accumulated depreciation:		
Furniture and equipment		<u>8,013</u>
 Total assets	 \$	 <u><u>69,648</u></u>

**LIABILITIES:**

Non-current liabilities:		
Due within one year	\$	1,349
Due in greater than one year		<u>1,591</u>
 Total liabilities		 <u>2,940</u>

**NET ASSETS:**

Invested in capital assets		8,013
Unrestricted		<u>58,695</u>
 Total net assets		 <u>66,708</u>
 Total liabilities and net assets	 \$	 <u><u>69,648</u></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, 2005**

**EXPENSES:**

Beef promotion and education:

Personal services	\$ 182,882
Material and supplies	279,737
Depreciation	<u>808</u>

Total program expenses	<u>463,427</u>
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**GENERAL REVENUES:**

Assessment fees	438,847
Miscellaneous	2,430
Interest and investment earnings	<u>1,179</u>

Total general revenues	<u>442,456</u>
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Changes in net assets	(20,971)
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<b>NET ASSETS, BEGINNING</b>	<u>87,679</u>
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<b>NET ASSETS, ENDING</b>	<u><u>\$ 66,708</u></u>
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*The accompanying notes are an integral part of these financial statements*

## **FUND FINANCIAL STATEMENTS**

**STATE OF OREGON  
OREGON BEEF COUNCIL  
BALANCE SHEET - GOVERNMENTAL FUNDS  
For the Fiscal Year Ended June 30, 2005**

	<u>Special Revenue</u>
<b>ASSETS:</b>	
Cash:	
Petty cash	\$ 200
Insured checking, interest bearing	34,576
Due from Department of Agriculture	19,197
Accounts receivable	100
Supplies inventory	<u>7,562</u>
 Total assets	 <u>\$ 61,635</u>
 <b>LIABILITIES AND FUND BALANCES:</b>	
Liabilities:	
Short-term vacation leave	<u>\$ 1,349</u>
 Total liabilities	 <u>1,349</u>
 Fund balances:	
Reserved for petty cash	200
Reserved for supplies inventory	7,562
Unreserved - undesignated	<u>52,524</u>
 Total fund equity	 <u>60,286</u>
 Total liabilities and fund balances	 <u>\$ 61,635</u>
  Amounts reported for governmental activities in the statement of net assets are different because:	
Total fund equity	\$ 60,286
Capital assets used in governmental activities are not financial resources and therefore are not reported in funds	8,013
Long-term liabilities are not due and payable in the current period and therefore are not reported in funds	<u>(1,591)</u>
Net assets of governmental activities	<u>\$ 66,708</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, 2005**

	<u>Special Revenue</u>
<b>REVENUES:</b>	
Assessment fees	\$ 438,847
Beef Board reimbursements	1,029
Interest and investment earnings	1,179
Other revenue	<u>1,118</u>
Total revenues	<u>442,456</u>
<b>EXPENDITURES:</b>	
Current:	
Beef promotion and education:	
Personal services	184,782
Material and supplies	<u>279,737</u>
Total expenditures	<u>464,519</u>
Changes in Fund Balances	(22,063)
<b>FUND BALANCE, BEGINNING</b>	<u>82,349</u>
<b>FUND BALANCE, ENDING</b>	<u><u>\$ 60,286</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, 2005**

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

Net change in fund balance - total government funds \$ (22,063)

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 1,900

Changes in net assets \$ (20,971)

*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, 2005**

**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).

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.

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.

*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.

**STATE OF OREGON  
OREGON BEEF COUNCIL  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, 2005**

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.

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, 2005 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.

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

**STATE OF OREGON  
 OREGON BEEF COUNCIL  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 For the Year Ended June 30, 2005**

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, 2005. The budget was approved on June 18, 2004 at the Council's regular meeting.

There are no differences between budgetary and GAAP accounting.

**III. DETAILED NOTES ON ALL FUNDS**

**A. Cash and Investments**

At June 30, 2005 the cash and cash equivalents of the Oregon Beef Council consist of the following:

	Weighted Average Maturity (Years)	Fair Value
Bank balances	<u>0.0</u>	<u>\$ 48,670</u>
Total cash and cash equivalents	<u>0.0</u>	<u>\$ 48,670</u>

**STATE OF OREGON  
OREGON BEEF COUNCIL  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, 2005**

**1. Credit risk**

State statutes authorize the Oregon Beef Council to invest in general obligations of the U.S. Government and its agencies, certain bonded obligations of Oregon municipalities, bank repurchase agreements, bankers' acceptances, and the State Treasurer's Oregon Local Government Investment Pool, among others.

**2. Concentration of credit risk**

The Oregon Beef Council does not currently have an investment policy for concentration of credit risk.

**3. Custodial credit risk – deposits**

In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned. Oregon Revised Statutes require the depository institution to maintain on deposit with a collateral pool manager security having a value of not less than 25% of the outstanding certificates of participation issued by the pool manager. However, in accordance with State statutes, the State Treasurer allows certain depository banks to be the custodian with respect to their own pledged collateral securities. For these institutions, the State Treasurer is the collateral pool manager. Cash in the bank is insured by Federal depository insurance up to \$100,000. The balance did not exceed the insured amount during the fiscal year.

**B. Capital Assets**

Capital asset activity for governmental activities for the year ended June 30, 2005 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Capital Assets:</b>				
Furniture and equipment	\$ 16,151	\$ -	\$ -	\$ 16,151
Less accumulated depreciation	<u>(7,330)</u>	<u>(808)</u>	<u>-</u>	<u>(8,138)</u>
Net capital assets	<u>\$ 8,821</u>	<u>\$ (808)</u>	<u>\$ -</u>	<u>\$ 8,013</u>

**C. Employee Leave**

Accumulated vacation pay based upon current salary rates was \$1,591 long term and \$1,349 short term at June 30, 2005.

**STATE OF OREGON  
OREGON BEEF COUNCIL  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, 2005**

**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, 2005 were \$7,562 and \$200, respectively.

**E. Leases**

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, 2005 was \$19,990.

**F. Subsequent Event**

On July 22, 2005, the Council entered into a 60 month lease agreement for office space located at 1827 NE 44<sup>th</sup>, Portland, Oregon. The Council plans to move its office to this location in September 2005. The five year operating lease is non-cancelable. The initial base rent is \$1,323 per month. The total obligation is \$85,188.

**2. 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 Plan**

*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

**STATE OF OREGON  
OREGON BEEF COUNCIL  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, 2005**

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 several retirement benefit options. Options include survivorship benefits and lump sum refunds. 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 stature, 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, 2005 the rate was 4.71 percent of each covered employee's salary.

The State of Oregon began collecting a Pension Bond Assessment based on 6.71% of subject salary. OBC paid \$6,769 in Pension Bond Assessment during the fiscal year ending June 30, 2005.

	2004	2003	2002
Council contribution rate	4.71%	4.14 to 11.31%	9.49%
Employee contribution paid by Council	6.00%	6.00%	6.00%
Council payroll	\$ 125,503	\$ 132,092	\$ 134,291
Payroll covered by PERS	100,526	52,767	132,395
Annual pension cost and Bond Assessment	17,328	7,107	20,435
Net pension obligation	-	-	-

**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, 2005

	Original and Final Budget	Actual	Variance Positive (Negative)
<b>REVENUES:</b>			
Assessment fees	\$ 441,000	\$ 438,847	\$ (2,153)
Beef Board reimbursements	1,500	1,029	(471)
Interest and investment earnings	500	1,179	679
Other revenue	10,000	1,118	(8,882)
	<u>453,000</u>	<u>442,456</u>	<u>(10,544)</u>
<b>EXPENDITURES:</b>			
Personal services	188,400	184,782	3,618
Services and supplies	125,000	100,185	24,815
Promotion and Education:			
Fixed payments	17,000	17,000	-
Advertising	94,000	90,910	3,090
Retail program	7,000	6,898	102
Food service	12,500	10,303	2,197
Promotion	14,700	12,658	2,042
Education	18,150	16,096	2,054
Producer Communications	26,115	14,339	11,776
Additional marketing	11,436	3,256	8,180
Commission program	8,500	8,092	408
Emergency fund	10,000	-	10,000
	<u>532,801</u>	<u>464,519</u>	<u>68,282</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(79,801)</b>	<b>(22,063)</b>	<b>57,738</b>
<b>UNRESERVED FUND BALANCE, BEGINNING</b>	<u>79,801</u>	<u>82,349</u>	<u>2,548</u>
<b>UNRESERVED FUND BALANCE, ENDING</b>	<u>\$ -</u>	<u>\$ 60,286</u>	<u>\$ 60,286</u>

## **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, 2005, and have issued our report thereon dated August 9, 2005, 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

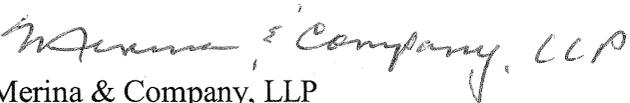
Compliance with laws, regulations, contracts, and grants applicable to OBC is the responsibility of OBC management, including compliance with accounting matters of the Beef Promotion and Research Act of 1985 and the Beef Promotion and Research Order (the "Order") relative to the use of funds collected 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 9, 2005

## **FACTS ABOUT THE SECRETARY OF STATE AUDITS DIVISION**

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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.**

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

***Auditing to Protect the Public Interest and Improve Oregon Government***