

Report No. 2006-36

October 4, 2006



Charles A. Hibner, Director, Audits Division

Bill Bradbury, Secretary of State

# Secretary of State Audit Report

State of Oregon

**Oregon Beef Council**

For the Year Ended June 30, 2006

Contract Auditor: Merina & Company, LLP

OFFICE OF THE  
SECRETARY OF STATE  
Bill Bradbury  
Secretary of State



AUDITS DIVISION  
Charles A. Hibner  
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*Auditing for a Better Oregon*

The Honorable Theodore R. Kulongoski  
Governor of Oregon  
254 State Capitol  
Salem, Oregon 97301

Oregon Beef Council  
1827 NE 44<sup>th</sup> Avenue, Suite 315  
Portland, Oregon 97213

This report contains audited financial statements of the Oregon Beef Council as of and for the year ended June 30, 2006, and a report on its internal control over financial reporting and on compliance with applicable laws, regulations, contracts, and grants. The audit was performed by Merina & Company, LLP for the Secretary of State Audits Division.

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

Charles A. Hibner, CPA  
Director

State of Oregon

**OREGON BEEF COUNCIL**

FINANCIAL STATEMENTS

with

Independent Auditors' Reports

For the Year Ended

June 30, 2006

**MERINA**  
& COMPANY, LLP

**CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS**

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STATE OF OREGON  
OREGON BEEF COUNCIL  
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June 30, 2006

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STATE OF OREGON  
OREGON BEEF COUNCIL  
COUNCIL MEMBERS  
June 30, 2006

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COUNCIL MEMBERS

|  | <u>Term Expires</u> |
|--|---------------------|
| Gary Simon, Chairman<br>Woodburn, OR             | June 30, 2008       |
| Warren Chamberlain, Vice-Chairman<br>Lebanon, OR | June 30, 2006       |
| Mark Lynn, Secretary/Treasurer<br>Clackamas, OR  | June 30, 2006       |
| Dalton Straus<br>Central Point, OR               | June 30, 2007       |
| Jerome Rosa<br>Gervais, OR                       | June 30, 2008       |
| Jim Wilson<br>Ontario, OR                        | June 30, 2007       |
| Dan Warnock, Jr.<br>Baker City, OR               | June 30, 2006       |
| Terry Cowart<br>Lebanon, OR                      | June 30, 2006       |

**INDEPENDENT AUDITORS' REPORT**

Charles Hibner  
Director  
Oregon Audits Division  
255 Capitol Street NE, Suite 500  
Salem, Oregon 97310

Council Members  
Oregon Beef Council  
1827 NE 44th Ave. Suite 315  
Portland, OR 97213

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, 2006, as listed in the table of contents. These financial statements are the responsibility of the OBC management. Our responsibility is to express opinions on these financial statements based on our audit.

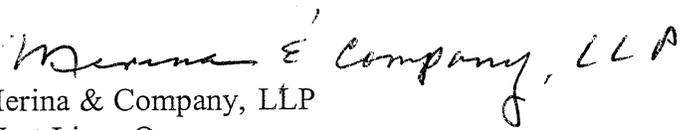
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and 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 financial statements. An audit also includes assessing the accounting principles used and the 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 opinions.

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, and the Special Revenue Fund 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 respective financial position of the governmental activities, and the Special Revenue Fund of the Oregon Beef Council, as of June 30, 2006, and the respective 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 4, 2006, on our consideration of Oregon Beef Council's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The 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 inquiries 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.

  
Merina & Company, LLP  
West Linn, Oregon  
August 4, 2006

## 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, 2006.

### Financial Highlights

- Annual assessment fees decreased by \$22,486 (5%) from 2005 to 2006.
- Promotional and educational expenses decreased \$32,244 (7%) from 2005 to 2006.
- The Council's total net assets decreased by \$12,381 (19%) from 2005 to 2006. The assets of the Oregon Beef Council exceeded its liabilities at the close of the most recent fiscal year by \$54,327 (net assets). Of this amount, \$52,297 (unrestricted net assets) may be used to meet the Council's ongoing obligations.
- Oregon Beef Council's governmental fund ending balance decreased \$7,568 (13%) from 2005 to 2006. As of the close of the current fiscal year, the Oregon Beef Council's governmental fund reported an ending fund balance of \$52,718. Over eighty-three percent of this total amount, \$43,598, 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 13-19 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 \$54,327 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>6/30/06</u> | <u>6/30/05</u> | <u>Increase<br/>(Decrease)</u> |
|---|----------------|----------------|--------------------------------|
| Current and other assets                        | \$ 55,878      | \$ 61,635      | \$ (5,757)                     |
| Capital assets                                  | 2,030          | 8,013          | (5,983)                        |
| Total assets                                    | 57,908         | 69,648         | (11,740)                       |
| Long-term outstanding liabilities               | 421            | 1,591          | (1,170)                        |
| Other liabilities                               | 3,160          | 1,349          | 1,811                          |
| Total liabilities                               | 3,581          | 2,940          | 641                            |
| Net assets:                                     |                |                |                                |
| Invested in capital assets, net of related debt | 2,030          | 8,013          | (5,983)                        |
| Unrestricted                                    | 52,297         | 58,695         | (6,398)                        |
| Total net assets                                | \$ 54,327      | \$ 66,708      | (12,381)                       |

The second largest portion of the Oregon Beef Council's net assets (4% 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 (\$52,297) 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 \$12,381. Key elements of this decrease are as follows:

### Governmental Activities

|                                   | <u>6/30/06</u> | <u>6/30/05</u> | <u>Increase<br/>(Decrease)</u> |
|-----------------------------------|----------------|----------------|--------------------------------|
| Revenues:                         |                |                |                                |
| General revenues:                 |                |                |                                |
| Assessment f                      | \$ 416,361     | \$ 438,847     | \$ (22,486)                    |
| Miscellaneous                     | 6,625          | 2,430          | 4,195                          |
| Interest & Investment earnings    | 1,508          | 1,179          | 329                            |
| Loss on disposal of capital asset | (5,692)        | -              | (5,692)                        |
| Total revenues                    | 418,802        | 442,456        | (23,654)                       |
| Expenses:                         |                |                |                                |
| Promotion and education           | 431,183        | 463,427        | (32,244)                       |
| Total expenses                    | 431,183        | 463,427        | (32,244)                       |
| Decease in net assets             | \$ (12,381)    | \$ (20,971)    |                                |

### **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 \$52,718. Approximately 83% of this total amount (\$43,598) 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 \$7,568 in 2006, 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, 2006, amounts to \$2,030 (net of accumulated depreciation). This investment in capital assets includes furniture and equipment.

Oregon Beef Council donated a panel divider system that was no longer needed.

**Long-term debt.** At the end of the current fiscal year, the Oregon Beef Council had total long-term debt outstanding of \$421. This is liability exclusively related to compensated absences.

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

The current year saw lower collections than anticipated. Overall, reduced collections resulted in a \$22,487 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 slow reopening of foreign markets to US beef. Consumer demand for beef dipped slightly in 2005 but the Beef Demand Index remains up more than 20 percent since reversing its 20-year decline in 1998.

Nationally, cow-calf producers responded to another year of record-high calf prices and continued to expand beef cow and replacement heifer numbers. Major beef export markets remained closed to U.S. beef during 2005; however, both Japan and South Korea are expected to resume at least limited beef imports from the U.S. during 2006. Despite the limited beef exports and one of the largest net beef supplies on record, prices for fed cattle, feeder cattle and calves were record-high during 2005.

During 2005, the U.S. exported about 700 million pounds of beef cuts compared to 415 million pounds a year earlier and 2.5 billion pounds in 2003. Mexico accounted for about two-thirds of beef exports that occurred during 2005. Beef imports during 2005 were near record large and totaled about 3.6 billion pounds. The largest increases in imports came from Canada and Uruguay.

Locally, the 2005 Oregon Legislature approved a 50-cent increase in the Oregon Checkoff at the request of the Oregon Cattlemen's Association and the Oregon Dairy Farmers' Association. The new Checkoff amount will start being collected July 3, 2006.

#### **New programs funded by the 50-cent increase:**

- Rangeland research projects – 10 cents
- Cattle production research projects – 10 cents
- Positive producer image promotion for both beef and dairy industries – 10 cents
- Study state and federal legislation and represent and protect the interests of the industry – 10 cents
- Administration of the above new programs – 10 cents

The Oregon Cattlemen's Association, Oregon Beef Council, and Oregon Department of Agriculture worked together to implement the new legislation.

**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.

## **BASIC FINANCIAL STATEMENTS**

STATE OF OREGON  
 OREGON BEEF COUNCIL  
 STATEMENT OF NET ASSETS  
 June 30, 2006

**ASSETS:**

|   |    |               |
|---|----|---------------|
| Cash:   |    |               |
| Petty cash  | \$ | 200           |
| Insured checking, interest bearing                |    | 24,412        |
| Due from Department of Agriculture                |    | 22,346        |
| Inventory - supplies                              |    | 7,577         |
| Security deposit                                  |    | 1,343         |
| Capital assets - net of accumulated depreciation: |    |               |
| Furniture and equipment                           |    | 2,030         |
|   |    | <hr/>         |
| Total assets                                      | \$ | <u>57,908</u> |

**LIABILITIES:**

|  |    |              |
|--|----|--------------|
| Current liabilities:                       |    |              |
| Other accrued liabilities                  | \$ | 1,502        |
| Current portion of long-term liabilities   |    | 1,658        |
|  |    | <hr/>        |
| Total current liabilities                  |    | 3,160        |
| Long-term liabilities less current portion |    | 421          |
|  |    | <hr/>        |
| Total liabilities                          |    | <u>3,581</u> |

**NET ASSETS:**

|                                  |    |               |
|----------------------------------|----|---------------|
| Invested in capital assets       |    | 2,030         |
| Unrestricted                     |    | 52,297        |
|                                  |    | <hr/>         |
| Total net assets                 |    | <u>54,327</u> |
| Total liabilities and net assets | \$ | <u>57,908</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, 2006

**EXPENSES:**

|                              |            |
|------------------------------|------------|
| Beef promotion and education | \$ 431,183 |
|                              | <hr/>      |
| Total program expenses       | 431,183    |
|                              | <hr/>      |

**GENERAL REVENUES:**

|                                   |          |
|-----------------------------------|----------|
| Assessment fees                   | 416,361  |
| Miscellaneous                     | 6,625    |
| Interest and investment earnings  | 1,508    |
| Loss on disposal of capital asset | (5,692)  |
|                                   | <hr/>    |
| Total general revenues            | 418,802  |
|                                   | <hr/>    |
| Changes in net assets             | (12,381) |

|                              |              |
|------------------------------|--------------|
| <b>NET ASSETS, BEGINNING</b> | <hr/> 66,708 |
|------------------------------|--------------|

|                           |                       |
|---------------------------|-----------------------|
| <b>NET ASSETS, ENDING</b> | <hr/> <hr/> \$ 54,327 |
|---------------------------|-----------------------|

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

STATE OF OREGON  
 OREGON BEEF COUNCIL  
 BALANCE SHEET - GOVERNMENTAL FUNDS  
 June 30, 2006

|   | <u>Special Revenue</u> |
|---|------------------------|
| <b>ASSETS:</b>  |                        |
| Cash:   |                        |
| Petty cash  | \$ 200                 |
| Insured checking, interest bearing  | 24,412                 |
| Due from Department of Agriculture  | 22,346                 |
| Inventory - supplies  | 7,577                  |
| Security deposit  | 1,343                  |
|   | <hr/>                  |
| Total assets  | \$ 55,878              |
|   | <hr/> <hr/>            |
| <b>LIABILITIES AND FUND BALANCES:</b>   |                        |
| Liabilities:  |                        |
| Other accrued liabilities   | \$ 1,502               |
| Short-term compensated absences   | 1,658                  |
|   | <hr/>                  |
| Total liabilities   | 3,160                  |
|   | <hr/>                  |
| Fund balances:  |                        |
| Reserved for petty cash   | 200                    |
| Reserved for supplies inventory   | 7,577                  |
| Reserved for security deposit   | 1,343                  |
| Unreserved - undesignated   | 43,598                 |
|   | <hr/>                  |
| Total fund equity   | 52,718                 |
|   | <hr/>                  |
| Total liabilities and fund balances   | \$ 55,878              |
|   | <hr/> <hr/>            |
| Amounts reported for governmental activities in the statement<br>of net assets are different because:                 |                        |
| Total fund equity   | \$ 52,718              |
| Capital assets used in governmental activities are not financial<br>resources and therefore are not reported in funds | 2,030                  |
| Long-term liabilities are not due and payable in the current period<br>and therefore are not reported in funds        | <hr/> (421)            |
| Net assets of governmental activities   | \$ 54,327              |
|   | <hr/> <hr/>            |

*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, 2006**

|                                    | <u>Special Revenue</u>      |
|------------------------------------|-----------------------------|
| <b>REVENUES:</b>                   |                             |
| Assessment fees                    | \$ 416,361                  |
| Travel reimbursements              | 298                         |
| Beef Board reimbursements          | 827                         |
| Interest and investment earnings   | 1,508                       |
| Other revenue                      | <u>5,500</u>                |
| <br>Total revenues                 | <br><u>424,494</u>          |
| <br><b>EXPENDITURES:</b>           |                             |
| Current:                           |                             |
| Beef promotion and education:      |                             |
| Personal services                  | 188,503                     |
| Material and supplies              | <u>243,559</u>              |
| <br>Total expenditures             | <br><u>432,062</u>          |
| <br>Changes in Fund Balances       | <br>(7,568)                 |
| <br><b>FUND BALANCE, BEGINNING</b> | <br><u>60,286</u>           |
| <br><b>FUND BALANCE, ENDING</b>    | <br><u><u>\$ 52,718</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, 2006**

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

|  |                    |
|--|--------------------|
| Net change in fund balance - total government funds  | \$ (7,568)         |
| <p>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.</p> |                    |
| Loss on disposal of capital asset  | (5,692)            |
| Current year depreciation  | (291)              |
| <p>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.</p>   |                    |
| Compensated absences   | <u>1,170</u>       |
| Changes in net assets  | <u>\$ (12,381)</u> |

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

STATE OF OREGON  
OREGON BEEF COUNCIL  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2006

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**1. 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).

**A. Description of 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 eight 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.

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

**STATE OF OREGON  
OREGON BEEF COUNCIL  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2006**

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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. Cash and Investments**

Cash includes cash on hand and demand deposits.

**D. Receivables**

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

**E. Supplies**

Supplies on hand at June 30, 2006 are shown at estimated cost. The consumption method is used to accrue costs.

**F. 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.

**STATE OF OREGON**  
**OREGON BEEF COUNCIL**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**June 30, 2006**

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**G. 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.

**H. 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.

**I. 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.

**J. Budgetary Information**

Pursuant to ORS 577.420 to 577.440, the Council prepared a budget for the fiscal year ended June 30, 2006. The budget was approved on June 17, 2005 at the Council's regular meeting.

There are no differences between budgetary and GAAP accounting.

**2. Cash and Cash Equivalents**

At June 30, 2006 the balance of cash and cash equivalents of the Oregon Beef Council were \$24,612.

**A. 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.

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**B. Concentration of credit risk**

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

**C. Custodial credit risk – deposits**

In the case of deposits, this is the risk that in the event of a bank failure, the Council’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.

**3. Capital Assets**

Capital asset activity for governmental activities for the year ended June 30, 2006 was as follows:

|                               | <u>Beginning<br/>Balance</u> | <u>Increases</u> | <u>Decreases</u>  | <u>Ending<br/>Balance</u> |
|-------------------------------|------------------------------|------------------|-------------------|---------------------------|
| <b>Capital Assets:</b>        |                              |                  |                   |                           |
| Furniture and equipment       | \$ 16,151                    | \$ -             | \$ (10,352)       | \$ 5,799                  |
| Less accumulated depreciation | <u>(8,138)</u>               | <u>(291)</u>     | <u>4,660</u>      | <u>(3,769)</u>            |
| Net capital assets            | <u>\$ 8,013</u>              | <u>\$ (291)</u>  | <u>\$ (5,692)</u> | <u>\$ 2,030</u>           |

**4. Compensated Absences**

Accumulated vacation pay based upon current salary rates was \$421 long term and \$1,658 short term at June 30, 2006.

**5. Fund Balance**

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, petty cash, and the security deposit were created to represent the portion of the fund balance that is not available for expenditures because the Council expects

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June 30, 2006**

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to use these resources within the next budgetary period. Reserve for supplies inventory, petty cash, and the security deposit at June 30, 2006 were \$7,577, \$200, and \$1,343, respectively.

**6. Commitments**

On July 22, 2005, the Council entered into a 60 month lease for office space located at 1827 NE 44<sup>th</sup>, Portland, Oregon. The five year operating lease is non-cancelable, commencing on October 15, 2005, for a total obligation of \$85,188. The initial base rent is \$1,323 per month.

The following is schedule, by years, of the future minimum lease payments required under the operating lease as of June 30, 2006:

|       |                  |
|-------|------------------|
| 2007  | \$ 16,516        |
| 2008  | 17,016           |
| 2009  | 17,220           |
| 2010  | 17,984           |
| 2011  | <u>3,022</u>     |
| Total | <u>\$ 71,758</u> |

Lease expense for the year ended June 30, 2006 was \$16,633.

**7. 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.

**8. Pension Plan**

**A. Oregon Public Retirement System (PERS)**

The Oregon Beef Council employees participate in the Oregon Public Employees Retirement System (PERS), a cost-sharing multiple-employer defined benefit pension plan. The Oregon Beef Council's full time employees are eligible to participate in the system after completing six

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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 thirteen retirement benefit options. Options include survivorship benefits and lump sum refunds. The basic benefit formula is 1.67 percent of a member's final average salary multiplied by the member's 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 Oregon Public Employees Retirement System annual financial report may be obtained from PERS, P.O. Box 73, Portland, Oregon 97207-0073.

Statutes also require the Council 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, 2006 the rate was 4.71 percent of each covered employee's salary.

**B. Oregon Public Service Retirement Plan (OPSRP)**

The pension program, a cost-sharing multiple-employer defined benefit pension plan, is the defined benefit portion of the Oregon Public Service Retirement Plan (OPSRP). The pension program is administered by the Public Employees Retirement Board under the guidelines of Oregon Revised Statutes, Chapter 238A. The pension program monthly pension benefit is payable for life and, after the death of the member, payable to the designated beneficiary at either the same amount or one-half of the amount, depending on the option the member chose at retirement. If the monthly pension benefit is less than \$200 or the monthly death benefit payable to the beneficiary of a deceased member is less than \$200, a lump sum payment that represents the actuarial equivalent of the present value of the pension or death benefit will be paid to the member or the deceased member's beneficiary.

Statutes also require the Council 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, 2006 the rate was 8.04 percent of each covered employee's salary.

**C. Oregon Individual Account Program (IAP)**

IAP is the defined contribution portion of OPSRP. The IAP is administered by the Public Employees Retirement Board under the guidelines of Oregon Revised Statutes, Chapter 238A. It is applicable to all new hires on or after August 29, 2003 and for active PERS members as of January 1, 2004. Covered employees are required by State statute to contribute 6% of their salary to the plan. Current law requires employers that had been paying the member contributions into PERS to pay employee contributions to the IAP until at least December 31, 2005.

Oregon General Obligation Pension Bonds were issued to fund the States' share of the Unfunded Actuarial Liability and \$2 billion was delivered directly to PERS. Over the next 24 years the state will be obligated to make the principal and interest payments on the pension obligation bonds. All benefiting agencies are charged the same rate to pay this debt service. The State of

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Oregon began collecting the pension bond assessment based on 6.71% of subject salary. The Council paid \$8,026 in pension bond assessment during the fiscal year ending June 30, 2006

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 for both PERS and OSPR.

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.

|   | 2006       | 2005       | 2004       |
|---|------------|------------|------------|
|   | 4.71% &    |            | 4.14 to    |
| Council contribution rate               | 8.04%      | 4.71%      | 11.31%     |
| Employee contribution paid by Council   | 6.00%      | 6.00%      | 6.00%      |
| Total Council payroll                   | \$ 124,380 | \$ 125,503 | \$ 132,092 |
| Payroll covered by PERS                 | \$ 122,173 | \$ 100,526 | \$ 52,767  |
| Annual pension cost and bond assessment | \$ 25,446  | \$ 17,328  | \$ 7,107   |
| 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, 2006

|   | Original<br>and Final<br>Budget | Actual        | Variance<br>Positive<br>(Negative) |
|---|---------------------------------|---------------|------------------------------------|
| <b>REVENUES:</b>  |                                 |               |                                    |
| Assessment fees   | \$ 421,000                      | \$ 416,361    | \$ (4,639)                         |
| Travel reimbursements                                       | -                               | 298           | 298                                |
| Beef Board reimbursements                                   | 1,500                           | 827           | (673)                              |
| Interest and investment earnings                            | 600                             | 1,508         | 908                                |
| Other revenue   | 10,000                          | 5,500         | (4,500)                            |
| <br>Total Revenues  | <br>433,100                     | <br>424,494   | <br>(8,606)                        |
| <b>EXPENDITURES:</b>  |                                 |               |                                    |
| Personal services   | 199,400                         | 188,503       | 10,897                             |
| Services and supplies                                       | 109,550                         | 94,195        | 15,355                             |
| Promotion and Education:                                    |                                 |               |                                    |
| Fixed payments  | 17,000                          | 17,000        | -                                  |
| Advertising   | 63,500                          | 62,898        | 602                                |
| Retail program  | 6,500                           | 11,715        | (5,215)                            |
| Food service  | 11,000                          | 10,001        | 999                                |
| Promotion   | 12,550                          | 8,163         | 4,387                              |
| Education   | 18,050                          | 14,947        | 3,103                              |
| Producer Communications                                     | 16,431                          | 11,811        | 4,620                              |
| Additional marketing  | 5,445                           | 5,445         | -                                  |
| Commission program  | 8,500                           | 7,384         | 1,116                              |
| Emergency fund  | 5,000                           | -             | 5,000                              |
| <br>Total Expenditures                                      | <br>472,926                     | <br>432,062   | <br>40,864                         |
| <br><b>EXCESS OF REVENUES OVER<br/>(UNDER) EXPENDITURES</b> | <br>(39,826)                    | <br>(7,568)   | <br>32,258                         |
| <br><b>FUND BALANCE, BEGINNING</b>                          | <br>39,826                      | <br>60,286    | <br>20,460                         |
| <br><b>FUND BALANCE, ENDING</b>                             | <br>\$ -                        | <br>\$ 52,718 | <br>\$ 52,718                      |

## **OTHER REPORTS**

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

Charles Hibner  
Director  
Oregon Audits Division  
255 Capitol Street NE, Suite 500  
Salem, Oregon 97310

Council Members  
Oregon Beef Council  
1827 NE 44th Ave, Suite 315  
Portland, OR 97213

We have audited the 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, 2006, and have issued our report thereon dated August 4, 2006. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Oregon Beef Council's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion 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 that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud 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.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Oregon Beef Council's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

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 4, 2006

# **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**

|                 |                              |
|-----------------|------------------------------|
| Director        | Charles A. Hibner, CPA       |
| Deputy Director | William K. Garber, MPA, CGFM |
| Deputy Director | Mary E. Wenger, CPA          |

This report, a public record, is intended to promote the best possible management of public resources. Copies may be obtained from:

internet: <http://www.sos.state.or.us/audits/index.html>

phone: 503-986-2255

mail: Oregon Audits Division  
255 Capitol Street NE, Suite 500  
Salem, OR 97310

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