

Report No. 2009-24

October 14, 2009



Gary Blackmer, Director, Audits Division

Kate Brown, Secretary of State

Secretary of State Audit Report

State of Oregon

Oregon Beef Council

For the Year Ended June 30, 2009

Contract Auditor: Merina & Company, LLP

Office of the Secretary of State

Kate Brown
Secretary of State

Barry Pack
Deputy Secretary of State



Audits Division

Gary Blackmer
Director

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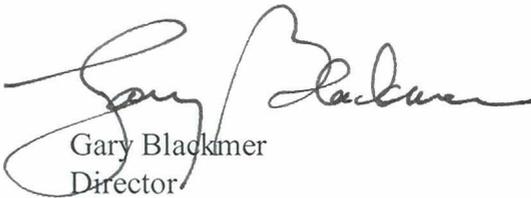
The Honorable Theodore R. Kulongoski
Governor of Oregon
254 State Capitol
Salem, Oregon 97301

Oregon Beef Council
1827 NE 44th 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, 2009, 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



Gary Blackmer
Director

STATE OF OREGON
OREGON BEEF COUNCIL
FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORTS
FOR THE YEAR ENDED
JUNE 30, 2009

MERINA
& COMPANY, LLP

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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**STATE OF OREGON
OREGON BEEF COUNCIL
BOARD OF DIRECTORS
June 30, 2009**

BOARD OF DIRECTORS

	<u>Term Expires</u>
Jerome Rosa, Chairman Gervais, OR	June 30, 2011
Mark Malott, Vice-Chairman Powell Butte, OR	June 30, 2010
Sharon Livingston, Secretary/Treasurer Long Creek, OR	June 30, 2011
Jason Chamberlain Vale, OR	June 30, 2012
Jim Wilson Ontario, OR	June 30, 2010
Fred Otley Diamond, OR	June 30, 2012
Terry Cowart Lebanon, OR	June 30, 2012

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INDEPENDENT AUDITOR'S REPORT

Gary Blackmer
Director
Oregon Audits Division
255 Capitol Street NE, Suite 500
Salem, Oregon 97310

Board of Directors
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 Oregon Beef Council, a commission of the State of Oregon, as of and for the year ended June 30, 2009, which collectively comprise the Council's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Oregon Beef Council's 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 Oregon Beef Council 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 Oregon Beef Council. 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 Oregon Beef Council, as of June 30, 2009, and the respective changes in financial position 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 September 2, 2009, 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 important for assessing the results of our audit.

The management's discussion and analysis and required supplementary information as listed in the table of contents 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Oregon Beef Council's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.



Merina & Company, LLP
West Linn, Oregon
September 2, 2009

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, 2009.

Financial Highlights

- Annual assessment fees decreased by \$24,316 (3%) from 2008 to 2009. The annual assessment fee decrease is due to the decline in cattle sold.
- Promotional and educational expenses increased \$51,605 (6%) from 2008 to 2009. The increase in promotional and education expenses is due to the programs funded with the .50 collected from the Oregon checkoff. In fiscal year 2008-2009 the Council participated in more programs expending the new assessment.
- The Council's total net assets decreased by \$80,965 from 2008 to 2009. The assets of the Oregon Beef Council exceeded its liabilities at the close of the most recent fiscal year by \$217,746 (net assets). Of this amount, \$216,586 (unrestricted net assets) may be used to meet the Council's ongoing obligations.
- Oregon Beef Council's governmental fund ending balance decreased \$78,427 from 2008 to 2009. As of the close of the current fiscal year, the Oregon Beef Council's governmental fund reported an ending fund balance of \$218,834. Over ninety-three percent of this total amount, \$204,419, 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 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 \$217,746 at the close of the most recent fiscal year. This is due to the new 50 cent assessment implemented in fiscal year 2006-2007. The largest percent of the funding stems from the production and rangeland research area.

Governmental Activities

	<u>6/30/09</u>	<u>6/30/08</u>	<u>Increase (Decrease)</u>
Current and other assets	\$ 241,983	\$ 311,276	\$ (69,293)
Capital assets	1,160	1,450	(290)
Total assets	<u>243,143</u>	<u>312,726</u>	<u>(69,583)</u>
Long-term outstanding liabilities	2,248	-	2,248
Other liabilities	23,149	14,015	9,134
Total liabilities	<u>25,397</u>	<u>14,015</u>	<u>11,382</u>
Net assets:			
Invested in capital assets, net of related debt	1,160	1,450	(290)
Unrestricted	216,586	297,261	(80,675)
Total net assets	<u>\$ 217,746</u>	<u>\$ 298,711</u>	<u>\$ (80,965)</u>

The second largest portion of the Oregon Beef Council's net assets (1% 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 (\$216,586) may be used to meet the Council's ongoing obligations. At the end of the current fiscal year, the Oregon Beef Council is able to report positive balances in both categories of net assets.

Governmental Activities. Governmental activities increased the Oregon Beef Council's assets by \$80,965. Key elements of this increase are as follows:

	<u>6/30/09</u>	<u>6/30/08</u>	<u>Increase (Decrease)</u>
Revenues:			
General revenues:			
Assessment fees	\$ 849,324	\$ 873,640	\$ (24,316)
Miscellaneous	10,000	20,000	(10,000)
Interest & Investment earnings	469	2,092	(1,623)
Loss on disposal of capital asset	-	-	-
Total revenues	<u>859,793</u>	<u>895,732</u>	<u>35,939</u>
Expenses:			
Promotion and education	940,758	889,153	51,605
Total expenses	<u>940,758</u>	<u>889,153</u>	<u>51,605</u>
Change in net assets	<u>\$ (80,965)</u>	<u>\$ 6,579</u>	<u>\$ (87,544)</u>

Financial Analysis of the Council's Fund

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

At the end of the current fiscal year, the Oregon Beef Council's governmental fund reported combined ending fund balances of \$218,834. Approximately 93% of this total amount (\$204,419) 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, rent security deposit and petty cash.

The Special Revenue Fund decreased by \$78,427 in 2009, which was due to a net decrease in general revenues over expenses.

Budgetary Highlights

For fiscal year 2008-2009, the overall budget between the federal dollar and the Oregon 50 cent assessment \$850,000. The total spent was \$940,000 with the extra expense funding Production and Rangeland Research Programs from their reserve fund.

Capital Asset and Debt Administration

Capital Assets. The Oregon Beef Council's investment in capital assets for its governmental activities as of June 30, 2009, amounts to \$1,160 (net of accumulated depreciation). This investment in capital assets includes furniture and equipment.

Long-term debt. At the end of the current fiscal year, the Oregon Beef Council had no long-term debt.

Economic Factors and Next Year's Budgets

During fiscal year 2007, the United States exported 737,644 metric tons, or more than 1.6 billion pounds of beef worth nearly \$2.5 billion. Since most trade was halted in December 2003 after BSE was discovered in the US, the chckoff has invested in marketing efforts aimed at increasing exports worldwide. Cattle-Fax estimates that, as a result of these efforts, beef exports contributed more than \$100 per head to the value of fed cattle marketed in the United States in fiscal year 2007.

One of the primary goals of the Beef Industry Long Range Plan is to increase demand for beef by 10% between 2006 and 2010. The Beef Demand Index (based on retail beef data) shows that since 1998, when beef demand hit the bottom of a 20-year slide, demand rose 25%, and today is about 12% above the 1998 level. Why is beef demand decreasing? There are many factors that come into play trying to answer that question. For starters, there has been a 5.5% increase in beef supplies during the year, and supply increases in all other competitive protein supplies. The retail price spread between beef and chicken has doubled in the last 10 years. This dramatic change may have led to some price resistance on the part of consumers in their decision about purchasing one protein over another. Looking back to the beginning of the year when fuel prices were in the \$3.00 range, we identify another factor that may have had a negative effect on beef purchases when compared to competing proteins.

Locally, the 2008-2009 Fiscal Year was the third year of the 50-cent increase in the Oregon Checkoff. The additional Checkoff amount started collection on July 3, 2006. The Oregon Cattlemen's Association, Oregon Beef Council, and Oregon Department of Agriculture worked together to implement the new legislation.

New program areas 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

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 44th Ave., Ste. 315, Portland, OR 97213.

STATE OF OREGON
OREGON BEEF COUNCIL
STATEMENT OF NET ASSETS
June 30, 2009

ASSETS:

Cash:		
Petty cash	\$	38
Insured checking, interest bearing		185,522
Due from Department of Agriculture		40,671
Accounts receivable		1,375
Inventory - supplies		12,910
Security deposit		1,467
Capital assets - net of accumulated depreciation:		
Furniture and equipment		1,160
		<hr/>
Total assets	\$	<u>243,143</u>

LIABILITIES:

Current liabilities:		
Accounts payable and other accrued liabilities	\$	20,092
Compensated absences		3,057
		<hr/>
Total current liabilities		<u>23,149</u>
Long-term liabilities		
Compensated absences less current portion		2,248
		<hr/>
Total liabilities		<u>25,397</u>

NET ASSETS:

Invested in capital assets		1,160
Unrestricted		216,586
		<hr/>
Total net assets		<u>217,746</u>
		<hr/>
Total liabilities and net assets	\$	<u>243,143</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, 2009

EXPENSES:

Beef promotion and education	\$ 940,758
	<hr/>
Total program expenses	940,758
	<hr/>

GENERAL REVENUES:

Assessment fees	849,324
Miscellaneous	10,000
Interest and investment earnings	469
	<hr/>
Total general revenues	859,793
	<hr/>

Changes in net assets	(80,965)
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NET ASSETS, BEGINNING	<hr/> 298,711
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NET ASSETS, ENDING	<hr/> \$ 217,746 <hr/>
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The accompanying notes are an integral part of these financial statements

STATE OF OREGON
OREGON BEEF COUNCIL
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2009

	<u>Special Revenue</u>
ASSETS:	
Cash:	
Petty cash	\$ 38
Insured checking, interest bearing	185,522
Due from Department of Agriculture	40,671
Accounts receivable	1,375
Inventory - supplies	12,910
Security deposit	1,467
	<hr/>
Total assets	\$ 241,983
	<hr/> <hr/>
LIABILITIES AND FUND BALANCES:	
Liabilities:	
Accounts payable and other accrued liabilities	\$ 20,092
Short-term compensated absences	3,057
	<hr/>
Total liabilities	23,149
	<hr/>
Fund balances:	
Reserved for petty cash	38
Reserved for supplies inventory	12,910
Reserved for security deposit	1,467
Unreserved - undesignated	204,419
	<hr/>
Total fund equity	218,834
	<hr/>
Total liabilities and fund balances	\$ 241,983
	<hr/> <hr/>

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

Total fund equity	\$ 218,834
Capital assets used in governmental activities are not financial resources and therefore are not reported in funds	1,160
Long-term liabilities are not due and payable in the current period and therefore are not reported in funds	<hr/> (2,248)
Net assets of governmental activities	\$ 217,746
	<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, 2009**

	<u>Special Revenue</u>
REVENUES:	
Assessment fees	\$ 849,324
Interest and investment earnings	469
Other revenue	<u>10,000</u>
Total revenues	<u>859,793</u>
 EXPENDITURES:	
Current:	
Beef promotion and education:	
Personal services	157,338
Material and supplies	<u>780,882</u>
Total expenditures	<u>938,220</u>
Changes in Fund Balances	(78,427)
FUND BALANCE, BEGINNING	<u>297,261</u>
FUND BALANCE, ENDING	<u><u>\$ 218,834</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, 2009**

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

Net change in fund balance - total government funds	\$ (78,427)
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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	(290)
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Compensated absences	<u>(2,248)</u>
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Changes in net assets	<u><u>\$ (80,965)</u></u>
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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, 2009**

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 \$1.00 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 accrual accounting.

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

**STATE OF OREGON
OREGON BEEF COUNCIL
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2009**

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, 2009 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
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Gains or losses from sales or retirements of capital assets are included in operations of the current period.

G. Accrued Compensated Absences

Vacation pay is vested when earned and is recorded as expenditure when incurred. 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.

**STATE OF OREGON
OREGON BEEF COUNCIL
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2009**

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 appropriate 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, 2009. The budget was approved on June 20, 2008 at the Council's regular meeting.

2. Cash and Cash Equivalents

At June 30, 2009 the balance of cash and cash equivalents of the Oregon Beef Council were \$185,522.

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.

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 government's deposits may not be returned. ORS Chapter 295 governs the collateralization of Oregon public funds and provides the statutory requirements for the Public Funds Collateralization Program. The Public Funds Collateralization Program was created by the Office of the State Treasurer to facilitate bank depository, custodian and public official compliance with ORS 295. Bank depositories, which are part of a shared liability pool, are required to pledge collateral against any public funds deposits in excess of deposit insurance amounts. ORS 295 sets the specific value of the collateral, as well as the type of collateral that are acceptable. Oregon Revised Statutes require the depository institution to pledge collateral against any public funds deposits in excess of deposit insurance amounts. Depositories are required to pledge collateral valued from 10% to 110% of their quarter-end public fund deposits. The Council's total bank balance, at June 30, 2009, shown on the bank statements was \$222,001. Of these deposits, \$222,001 was covered by federal depository insurance. The Council's deposits are in compliance with state statutes.

**STATE OF OREGON
OREGON BEEF COUNCIL
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2009**

3. Capital Assets

Capital asset activity for governmental activities for the year ended June 30, 2009 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets:				
Furniture and equipment	\$ 5,799	\$ -	\$ -	\$ 5,799
Less accumulated depreciation	(4,349)	(290)	-	(4,639)
Net capital assets	<u>\$ 1,450</u>	<u>\$ (290)</u>	<u>\$ -</u>	<u>\$ 1,160</u>

4. Compensated Absences

Accumulated vacation pay based upon current salary rates was \$5,305 at June 30, 2009.

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 appropriate 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 to use these resources within the next budgetary period. Reserve for supplies inventory, petty cash, and the security deposit at June 30, 2009 were \$12,910, \$38, and \$1,467, respectively.

6. Commitments

On July 22, 2005, the Council entered into a 60 month lease for office space located at 1827 NE 44th, 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 was \$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, 2009:

2010	\$ 17,984
2011	<u>3,022</u>
Total	<u>\$ 21,006</u>

Lease expense for the year ended June 30, 2009 was \$17,760.

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

STATE OF OREGON
OREGON BEEF COUNCIL
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2009

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 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, 2009 the rate was 6.54 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, 2009 the rate was 8.03 percent of each covered employee's salary.

**STATE OF OREGON
OREGON BEEF COUNCIL
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2009**

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 Oregon began collecting the pension bond assessment based on 6.71% of subject salary. The Council paid \$8,387 in pension bond assessment during the fiscal year ending June 30, 2009.

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.

	2009	2008	2007
Council contribution rate	6.54% & 8.03%	6.54% % 8.03%	4.84% & 8.69%
Employee contribution paid by Council	6.00%	6.00%	6.00%
Total Council payroll	\$ 144,662	\$ 137,007	\$ 132,900
Payroll covered by PERS	\$ 144,662	\$ 137,007	\$ 109,809
Annual pension cost and bond assessment	\$ 25,830	\$ 23,424	\$ 25,446
Net pension obligation	\$ -	\$ -	\$ -

9. Reclassifications

Certain amounts in prior-year financial statements have been reclassified for comparative purposes to conform with presentation in the current-year financial statements.

**STATE OF OREGON
OREGON BEEF COUNCIL
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
SPECIAL REVENUE FUND
For the Fiscal Year Ended June 30, 2009**

	Original and Final Budget	Actual	Variance Positive (Negative)
REVENUES:			
Assessment fees	\$ 881,600	\$ 849,324	\$ (32,276)
Interest and investment earnings	1,950	469	(1,481)
Other revenue	20,000	10,000	(10,000)
 Total Revenues	 903,550	 859,793	 (43,757)
EXPENDITURES:			
Personal services	180,700	157,338	23,362
Services and supplies	79,400	64,667	14,733
Promotional payments	266,672	239,479	27,193
Commission program	5,850	5,798	52
Animal science research	129,743	79,755	49,988
Rangeland research	126,248	76,400	49,848
Positive producer image	114,475	93,547	20,928
Administration	115,489	114,898	591
Study legislation	155,774	106,338	49,436
Emergency fund	5,000	-	5,000
 Total Expenditures	 1,179,351	 938,220	 241,131
 EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	 (275,801)	 (78,427)	 197,374
 FUND BALANCE, BEGINNING	 275,801	 297,261	 21,460
 FUND BALANCE, ENDING	 \$ -	 \$ 218,834	 \$ 218,834

The accompanying notes are an integral part of these financial statements

**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***

Board of Directors
Oregon Beef Council
Portland, Oregon

We have audited the financial statements of the governmental activities and the Special Revenue Fund of Oregon Beef Council, as of and for the year ended June 30, 2009, which collectively comprise the Oregon Beef Council's basic financial statements and have issued our report thereon dated September 2, 2009. 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 Oregon Beef Council's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Oregon Beef Council's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Oregon Beef Council's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings to be material weaknesses.

Findings 2008-1 and 2008-2, and 2009-1 through 2009-4

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Oregon Beef Council's 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Oregon Beef Council, in a separate letter dated September 2, 2009.

This report is intended solely for the information and use of management, Board of Directors, others within the entity, and the Oregon State Audits Division and is not intended to be and should not be used by anyone other than these specified parties.



Merina & Company, LLP
West Linn, Oregon
September 2, 2009

**STATE OF OREGON
OREGON BEEF COUNCIL
SCHEDULE OF FINDINGS
June 30, 2009**

Financial Statement Findings

Finding 2008-1:

At present, the organization uses QuickBooks software to manage the general ledger. QuickBooks is user-friendly and meets the organization's need to keep the accounting system simple. However, the system does not require a "close" of each month. Transactions can be backdated to the prior period, thus changing the previously reported financial statements. Therefore, we recommend that the organization implement QuickBooks' close feature monthly, including restricting access to prior-period data, or consider changing to a system that does require a monthly close. The organization needs consistent accounting information. Adjustments to prior periods negate the validity of historical information. A monthly or annual close will eliminate the ability to backdate.

Oregon Beef Council Response:

The OBC is in the process of updating its QuickBooks software to the latest version which has the "close" feature. Julie Hoffman intends to have the software installed and the feature in use in time to close the August financials. Deadline for this finding: September 30, 2008.

Status of Finding:

During our audit, we noted that Oregon Beef Council had not implemented the corrective action plan identified in their response to the finding. We recommend that Oregon Beef Council immediately implement the actions identified in their response to Finding 2008-1.

Finding 2008-2:

Bank Reconciliations- We noted during our audit that bank reconciliations are being performed timely; however there was no indication that reconciliations are being reviewed. We recommend that the reconciliations be signed as an indication of approval. Doing so would take little additional time and might even prevent time from being wasted by inadvertent review of reconciliations that had already been reviewed. We also recommend that the reconciliations be signed and dated by the bookkeeper preparing them. As a prompt to the preparer and reviewer/approver to sign the reconciliation, preprinted reconciliation forms could include a signature block with space for the signatures, or a stamp with a signature block could be applied to the reconciliations.

Oregon Beef Council Response:

The OBC is taking immediate action on this finding. A bank reconciliation stamp is in the process of being created and implemented. The stamp will include a line for both the bookkeeper and the Executive Director to sign and date. Deadline for this finding: immediate.

**STATE OF OREGON
OREGON BEEF COUNCIL
SCHEDULE OF FINDINGS
June 30, 2009**

Status of Finding:

During our audit, we noted that Oregon Beef Council had not implemented the corrective action plan identified in their response to the finding. We recommend that Oregon Beef Council immediately implement the actions identified in their response to Finding 2008-2.

Finding 2009-1:

Risk assessment: During our audit, we noted that Oregon Beef Council did not have a risk assessment structure in place. We recommend that Oregon Beef Council identify leadership responsibility, policies and procedures to assess, communicate, and address risks of material misstatement due to fraud or error in the organization.

Oregon Beef Council Response:

The Oregon Beef Council has not completed their response to this finding as of the issuance date of this report.

Finding 2009-2:

Lack of segregation of duties: During our audit, we noted that lack of segregation of duties exists for some transactions, apparently as a result of interim staffing status and inadequate transition of prior management functions to current interim staff. One example of lack of segregation observed during our audit was the executive director approving cash disbursement to reimburse him for his expenses, as well as being a signatory on the check. Lack of segregation of duties significantly increases an entity's risk of fraud. Oregon Beef Council should develop structures, policies and procedures to ensure proper segregation of duties.

Oregon Beef Council Response:

The Oregon Beef Council has not completed their response to this finding as of the issuance date of this report.

Finding 2009-3:

Access to check stock: Check stock is accessible by all three Oregon Beef Council employees, including two check signers. Access to checks should be limited to those who do not have check signing authority.

Oregon Beef Council Response:

The Oregon Beef Council has not completed their response to this finding as of the issuance date of this report.

**STATE OF OREGON
OREGON BEEF COUNCIL
SCHEDULE OF FINDINGS
June 30, 2009**

Finding 2009-4:

General journal entry approval: General journal entries are not initialed by the preparer nor are they approved by management. Oregon Beef Council should implement procedures to ensure that general journal entries are initialed and dated by the preparer and are initialed and dated by management upon review and approval.

Oregon Beef Council Response:

The Oregon Beef Council has not completed their response to this finding as of the issuance date of this report.