

Secretary of State Audit Report

Kate Brown, Secretary of State

Gary Blackmer, Director, Audits Division



State of Oregon

Oregon Beef Council

For the Year Ended June 30, 2010

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
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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, 2010, 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

A handwritten signature in black ink that reads "Gary Blackmer". The signature is written in a cursive, flowing style.

Gary Blackmer
Director

STATE OF OREGON
OREGON BEEF COUNCIL
FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORTS
FOR THE YEAR ENDED
JUNE 30, 2010

MERINA
& COMPANY, LLP

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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**STATE OF OREGON
OREGON BEEF COUNCIL
BOARD OF DIRECTORS
June 30, 2010**

BOARD OF DIRECTORS

	<u>Term Expires</u>
Jerome Rosa, Chairman Gervais, OR	June 30, 2011
Mark Malott, Vice-Chairman Powell Butte, OR	June 30, 2013
Sharon Livingston, Secretary/Treasurer Long Creek, OR	June 30, 2011
Jason Chamberlain Vale, OR	June 30, 2012
Dave Hobson Boardman, OR	June 30, 2013
Fred Otley Diamond, OR	June 30, 2012
Terry Cowart Lebanon, OR	June 30, 2012
Janet Paist Milwaukie, OR	June 30, 2012

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, 2010, 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, 2010, 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 14, 2010, 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 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 14, 2010

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, 2010.

Financial Highlights

- Annual assessment fees decreased by \$12,637 (1.5%) from FY 2009 to FY 2010. The annual assessment fee decrease is due to the decline in cattle sold. This compares slightly more favorably than the decrease in the previous one-year period of over 3%.
- The Council's total net assets decreased by \$7,383 from FY 2009 to FY 2010. The assets of the Oregon Beef Council exceeded its liabilities at the close of the most recent fiscal year by \$210,363 (net assets). Of this amount, \$209,493 (unrestricted net assets) may be used to meet the Council's ongoing obligations.
- Oregon Beef Council's governmental fund ending balance decreased \$6,215 from 2009 to 2010. As of the close of the current fiscal year, the Oregon Beef Council's governmental fund reported an ending fund balance of \$212,619. Over ninety-five percent of this total amount, \$202,946, 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 \$210,363 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>6/30/10</u>	<u>6/30/09</u>	<u>Increase (Decrease)</u>
Current and other assets	\$ 219,922	\$ 241,983	\$ (22,061)
Capital assets	870	1,160	(290)
Total assets	<u>220,792</u>	<u>243,143</u>	<u>(22,351)</u>
Long-term outstanding liabilities	3,126	2,248	878
Other liabilities	7,303	23,149	(15,846)
Total liabilities	<u>10,429</u>	<u>25,397</u>	<u>(14,968)</u>
Net assets:			
Invested in capital assets, net of related debt	870	1,160	(290)
Unrestricted	<u>209,493</u>	<u>216,586</u>	<u>(7,093)</u>
Total net assets	<u>\$ 210,363</u>	<u>\$217,746</u>	<u>\$ (7,383)</u>

The second largest portion of the Oregon Beef Council's net assets (less than 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 (\$209,493) 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 assets by \$7,383. Key elements of this increase are as follows:

	<u>6/30/10</u>	<u>6/30/09</u>	<u>Increase (Decrease)</u>
Revenues:			
General revenues:			
Assessment fees	\$ 836,687	\$ 849,324	\$ (12,637)
Miscellaneous	-	10,000	(10,000)
Interest & Investment earnings	295	469	(174)
Total revenues	<u>836,982</u>	<u>859,793</u>	<u>22,811</u>
Expenses:			
Promotion and education	<u>844,365</u>	<u>940,758</u>	<u>(96,393)</u>
Total expenses	<u>844,365</u>	<u>940,758</u>	<u>(96,393)</u>
Change in net assets	<u>\$ (7,383)</u>	<u>\$ (80,965)</u>	<u>\$ (73,582)</u>

Financial Analysis of the Council's Fund

Governmental Fund. The focus of the Oregon Beef Council's governmental fund analysis 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 \$212,619. Approximately 96% of this total amount (\$202,946) 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 \$6,215 in FY 2010, which was due to a net decrease in general revenues over expenses.

Budgetary Highlights

For fiscal year 2009-2010, the overall budget between the federal dollar and the Oregon 50 cent assessment was \$826,100. Assessments were greater than was budgeted for a total of \$836,687. The total spent was \$843,197 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, 2010, amounts to \$870 (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

Since the beef industry initiated a multi-year program to improve product quality and invested in research and development of new products that better fit the needs of modern consumers, the beef demand index has shown some important improvement. By 1999, the efforts to turn around beef's demand slide were working. The Retail Choice Beef Demand Index turned higher for the first time in nearly two decades, and by 2006 that index was showing a 25 percent increase in consumer demand.

Having stated these gains, the beef demand turnaround has more recently slowed. 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%, but today is about 11% 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 an estimated 1.5% increase in beef supplies during the year, and supply increases in all other competitive protein supplies. For example, the retail price spread between beef and chicken has doubled in the last 10 years. However, the rate of change in beef demand is moderating and recent upticks in beef prices show that supply and demand equilibrium may be near. If that is the case, this may be an optimal time to invest in promotions to secure optimal rates of return, and to move the needle in terms of increasing consumer beef demand at retail and foodservice.

Locally, the 2009-2010 fiscal year was the fourth 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.

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, or made by calling (503) 274-2333.

STATE OF OREGON
OREGON BEEF COUNCIL
STATEMENT OF NET ASSETS
June 30, 2010

ASSETS:

Cash:		
Petty cash	\$	38
Insured checking, interest bearing		169,120
Due from Department of Agriculture		41,129
Inventory - supplies		8,124
Security deposit		1,511
Capital assets - net of accumulated depreciation:		
Furniture and equipment		870
		<hr/>
Total assets	\$	<u>220,792</u>

LIABILITIES:

Current liabilities:		
Accounts payable and other accrued liabilities	\$	4,246
Compensated absences		3,057
		<hr/>
Total current liabilities		<u>7,303</u>
Long-term liabilities		
Compensated absences less current portion		3,126
		<hr/>
Total liabilities		<u>10,429</u>

NET ASSETS:

Invested in capital assets		870
Unrestricted		209,493
		<hr/>
Total net assets		<u>210,363</u>
		<hr/>
Total liabilities and net assets	\$	<u>220,792</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, 2010

EXPENSES:

Beef promotion and education	\$ 844,365
	<hr/>
Total program expenses	844,365
	<hr/>

GENERAL REVENUES:

Assessment fees	836,687
Interest and investment earnings	295
	<hr/>
Total general revenues	836,982
	<hr/>

Changes in net assets	(7,383)
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NET ASSETS, BEGINNING	<hr/> 217,746
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NET ASSETS, ENDING	<hr/> <hr/> \$ 210,363
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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, 2010**

	<u>Special Revenue</u>
ASSETS:	
Cash:	
Petty cash	\$ 38
Insured checking, interest bearing	169,120
Due from Department of Agriculture	41,129
Inventory - supplies	8,124
Security deposit	1,511
	<hr/>
Total assets	<u>\$ 219,922</u>
LIABILITIES AND FUND BALANCES:	
Liabilities:	
Accounts payable and other accrued liabilities	\$ 4,246
Short-term compensated absences	3,057
	<hr/>
Total liabilities	<u>7,303</u>
Fund balances:	
Reserved for petty cash	38
Reserved for supplies inventory	8,124
Reserved for security deposit	1,511
Unreserved - undesignated	202,946
	<hr/>
Total fund equity	<u>212,619</u>
Total liabilities and fund balances	<u>\$ 219,922</u>

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

Total fund equity	\$ 212,619
Capital assets used in governmental activities are not financial resources and therefore are not reported in funds	870
Long-term liabilities are not due and payable in the current period and therefore are not reported in funds	<u>(3,126)</u>
Net assets of governmental activities	<u>\$ 210,363</u>

The accompanying notes are an integral part of these financial statements

**STATE OF OREGON
OREGON BEEF COUNCIL
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2010**

	<u>Special Revenue</u>
REVENUES:	
Assessment fees	\$ 836,687
Interest and investment earnings	295
	<hr/>
Total revenues	836,982
	<hr/>
EXPENDITURES:	
Current:	
Beef promotion and education:	
Personal services	145,994
Material and supplies	697,203
	<hr/>
Total expenditures	843,197
	<hr/>
Changes in Fund Balances	(6,215)
FUND BALANCE, BEGINNING	218,834
	<hr/>
FUND BALANCE, ENDING	\$ 212,619
	<hr/> <hr/>

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, 2010**

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

Net change in fund balance - total government funds	\$ (6,215)
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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>(878)</u>
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Changes in net assets	<u><u>\$ (7,383)</u></u>
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**STATE OF OREGON
OREGON BEEF COUNCIL
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2010**

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, 2010**

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, 2010 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, 2010**

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 577.295, the Council prepared a budget for the fiscal year ended June 30, 2010. The budget was approved on June 26, 2009 at the Council's regular meeting.

2. Cash and Cash Equivalents

At June 30, 2010 the balance of cash and cash equivalents of the Oregon Beef Council were \$169,158.

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, 2010, shown on the bank statements was \$225,900. Of these deposits, \$225,900 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, 2010**

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	(4,639)	(290)	-	(4,929)
Net capital assets	<u>\$ 1,160</u>	<u>\$ (290)</u>	<u>\$ -</u>	<u>\$ 870</u>

4. Compensated Absences

Accumulated vacation pay based upon current salary rates was \$6,183 at June 30, 2010.

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, 2010 were \$8,124, \$38, and \$1,511, 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, 2010:

2011	<u>\$ 3,022</u>
Total	<u>\$ 3,022</u>

Lease expense for the year ended June 30, 2010 was \$18,361.

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

STATE OF OREGON
OREGON BEEF COUNCIL
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2010

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, 2010 the rate was 3.28 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, 2010 the rate was 2.84 percent of each covered employee's salary.

**STATE OF OREGON
OREGON BEEF COUNCIL
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2010**

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 \$8,655 in pension bond assessment during the fiscal year ending June 30, 2010.

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

	2010	2009	2008
Council contribution rate	3.28% & 2.06%	6.54% & 8.03%	6.54% & 8.03%
Employee contribution paid by Council	6.00%	6.00%	6.00%
Total Council payroll	\$ 141,503	\$ 144,662	\$ 137,007
Payroll covered by PERS	\$ 141,503	\$ 144,662	\$ 137,007
Annual pension cost and bond assessment	\$ 19,241	\$ 25,830	\$ 23,424
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, 2010**

	Original and Final Budget	Actual	Variance Positive (Negative)
REVENUES:			
Assessment fees	\$ 826,100	\$ 836,687	\$ 10,587
Interest and investment earnings	800	295	(505)
Total Revenues	<u>826,900</u>	<u>836,982</u>	<u>10,082</u>
EXPENDITURES:			
Personal services	173,600	145,994	27,606
Services and supplies	83,050	70,098	12,952
Promotional payments	197,495	183,239	14,256
Commission program	6,250	6,250	-
Animal science research	115,837	54,140	61,697
Rangeland research	104,019	85,250	18,769
Positive producer image	85,883	82,335	3,548
Administration	109,580	102,483	7,097
Study legislation	123,402	113,408	9,994
Emergency fund	4,000	-	4,000
Total Expenditures	<u>1,003,116</u>	<u>843,197</u>	<u>159,919</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(176,216)	(6,215)	170,001
FUND BALANCE, BEGINNING	<u>176,216</u>	<u>218,834</u>	<u>42,618</u>
FUND BALANCE, ENDING	<u><u>\$ -</u></u>	<u><u>\$ 212,619</u></u>	<u><u>\$ 212,619</u></u>

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, 2010, which collectively comprise the Oregon Beef Council's basic financial statements and have issued our report thereon dated September 14, 2010. 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 and other deficiencies that we consider to be significant deficiencies.

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.

Finding 2009-4 and 2010-2

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings to be a significant deficiency.

Finding 2010-1

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 no 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 14, 2010.

Oregon Beef Council's response to the findings identified in our audit is described in the accompanying schedule of findings and questions costs. We did not audit Oregon Beef Council's response and, accordingly, we express no opinion on it.

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 14, 2010

**STATE OF OREGON
OREGON BEEF COUNCIL
SCHEDULE OF FINDINGS
June 30, 2010**

Financial Statement Findings

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:

We have implemented the policy of having all journal entries reviewed by the Executive Director and initialed.

Finding 2010-1:

While conducting the audit we noted a former employee did not have their check signing privileges removed in a timely manner. Oregon Beef Council should implement procedures to ensure former employees or former board members have their access stopped immediately.

Oregon Beef Council Response:

This has been completed. The procedure will be to ensure all signature cards are current and up to date.

Finding 2010-2:

The Council does not have the expertise and system of internal controls that would enable management to conclude that the year-end financial statements and the related disclosures are complete and presented in accordance with generally accepted accounting principles. As such management requested us to prepare a draft of the fiscal year end financial statements, including the related footnote disclosures.

Oregon Beef Council Response:

The outsourcing of this service is not unusual in entities of our size and is a result of management's cost benefit decision to use Merina & Company's accounting expertise rather than to incur internal resource costs.