

CALIFORNIA BEEF COUNCIL
CALIFORNIA
Financial Statements
BEEF COUNCIL
Supplementary Information
and
Independent Auditor's Report

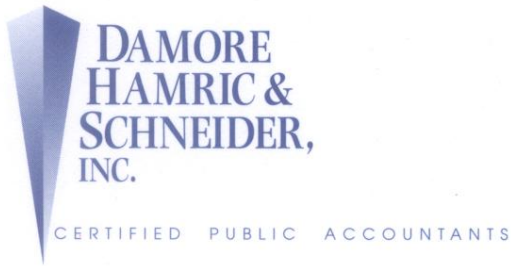
For the Years Ended December 31, 2012 and 2011

California Beef Council

TABLE OF CONTENTS

December 31, 2012 and 2011

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	3 - 4
STATEMENTS OF ASSETS, LIABILITIES AND NET ASSETS - MODIFIED CASH BASIS	5
STATEMENTS OF REVENUE AND EXPENSES - MODIFIED CASH BASIS	6
NOTES TO FINANCIAL STATEMENTS	7 - 14
SUPPLEMENTARY INFORMATION	
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH THE BEEF PROMOTION AND RESEARCH ACT OF 1985 AND THE BEEF PROMOTION AND RESEARCH ORDER	16
SCHEDULE 1 - SCHEDULE OF PROGRAM EXPENSES 2012	17
SCHEDULE 2 - SCHEDULE OF PROGRAM EXPENSES 2011	18



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
California Beef Council

We have audited the accompanying financial statements of the California Beef Council, which comprise the statements of assets, liabilities and net assets – modified cash basis as of December 31, 2012 and 2011, and the related statements of revenues and expenses – modified cash basis, for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting as described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities and net assets of California Beef Council as of December 31, 2012 and 2011, and its revenue and expenses for the years then ended in accordance with the modified cash basis of accounting described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of program expenses on pages 17 and 18 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Emphasis of Matter

As discussed in Note 9 to the financial statements, the 2011 financial statements have been restated to reflect the adjustment of inventories that were recorded at cost in prior years. Our opinion is not modified with respect to this matter.



DAMORE, HAMRIC & SCHNEIDER, INC.
Certified Public Accountants

March 8, 2013

California Beef Council

STATEMENTS OF ASSETS, LIABILITIES AND NET ASSETS – MODIFIED CASH BASIS

December 31, 2012 and 2011

ASSETS

<u>Current Assets:</u>	<u>2012</u>	<u>2011</u>
Cash and Cash Equivalents	\$ 351,256	\$ 336,243
Certificate of Deposit	<u>250,000</u>	<u>250,000</u>
Total Current Assets	<u>\$ 601,256</u>	<u>\$ 586,243</u>
 <u>Long-Term Assets:</u>		
Property and Equipment (Net of Accumulated Depreciation of \$27,279 and \$18,586)	\$ 22,463	\$ 31,156
Deposits	<u>2,474</u>	<u>2,474</u>
Total Long-Term Assets	<u>\$ 24,937</u>	<u>\$ 33,630</u>
Total Assets	<u>\$ 626,193</u>	<u>\$ 619,873</u>

LIABILITIES AND NET ASSETS

<u>Current Liabilities:</u>		
Accrued Vacation	<u>\$ 14,822</u>	<u>\$ 11,341</u>
Total Current Liabilities and Total Liabilities	<u>\$ 14,822</u>	<u>\$ 11,341</u>
 <u>Net Assets:</u>		
Unrestricted Net Assets:		
Designated Reserve	\$ 300,000	\$ 300,000
Other Unrestricted Assets	<u>311,371</u>	<u>308,532</u>
Total Unrestricted and Total Net Assets	<u>\$ 611,371</u>	<u>\$ 608,532</u>
Total Liabilities and Net Assets	<u>\$ 626,193</u>	<u>\$ 619,873</u>

The accompanying notes are an integral part of the financial statements.

California Beef Council

STATEMENTS OF REVENUE AND EXPENSES – MODIFIED CASH BASIS

For the Years Ended December 31, 2012 and 2011

<u>Revenue:</u>	<u>2012</u>	<u>2011</u>
Assessments	\$ 3,760,897	\$ 3,614,418
Remittance to States of Origin	(36,787)	(49,629)
Remittances to Beef Board	(1,862,055)	(1,782,394)
Management Fees	23,000	23,000
Other	<u>75,500</u>	<u>57,888</u>
Total Revenues	<u>\$ 1,960,555</u>	<u>\$ 1,863,283</u>
 <u>Expenses:</u>		
Program Services	\$ 1,709,304	\$ 1,487,373
Administration	<u>248,412</u>	<u>327,550</u>
Total Expenses	<u>\$ 1,957,716</u>	<u>\$ 1,814,923</u>
 Change in Net Assets	 <u>\$ 2,839</u>	 <u>\$ 48,360</u>
 Net Assets, Beginning of Year		
As Previously Stated	\$ 608,532	\$ 623,493
Prior Period Adjustment (Note 9)	<u> </u>	<u>(63,321)</u>
Net Assets, Beginning of Year as Restated	<u>\$ 608,532</u>	<u>\$ 560,172</u>
 Net Assets, End of Year	 <u>\$ 611,371</u>	 <u>\$ 608,532</u>

The accompanying notes are an integral part of the financial statements.

California Beef Council

NOTES TO FINANCIAL STATEMENTS

December 31, 2012 and 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of California Beef Council conform to the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. The following is a summary of significant accounting policies.

- A. Organization - The Beef Promotion and Research Act of 1985 (the "Act") approved on December 23, 1985 by the United States Congress, established a coordinated program of promotion and research designed to strengthen the beef industry's position in the marketplace, as well as to maintain and expand domestic and foreign markets and uses for beef and beef products. As provided in the Act, the Secretary of the United States Department of Agriculture (the "Secretary") issued the Beef Promotion and Research Order (the "Order") effective July 18, 1986, which provides the terms and conditions for the Act's administration. The Cattlemen's Beef Promotion and Research Board (the "Board"), which was created and approved by the Secretary to administer the Act, consists of 101 members who are representatives of the cattle industry in the United States, including importers.

The Board, as part of its responsibilities under the Act and Order, may certify no more than one Qualified State Beef Council in each state and use that Council to collect assessments. The California Beef Council was certified by the Board as the Qualified State Beef Council for California. The program is financed exclusively by a \$1 per head assessment on domestic sales of cattle and on imported cattle, beef, and beef products. Assessments in states with Qualified State Beef Councils are remitted to the Councils. The qualified State Beef Council retains one-half of the assessment revenues and remits the other half to the Board.

- B. Basis of Accounting - The accompanying financial statements have been prepared on the modified cash basis of accounting. Under this method, certain revenues are recognized when received rather than when earned and certain expenses are recognized when paid rather than when incurred. At December 31, 2012 and 2011, there were assessment receivables for December sales collected after January 1 of approximately **\$214,200** and **\$250,600**, respectively, and associated remittances of approximately **\$107,100** and **\$125,300**, respectively, which are not reflected in the accompanying financial statements.

California Beef Council

NOTES TO FINANCIAL STATEMENTS

December 31, 2012 and 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

- C. Fund Accounting - The accounting policies of California Beef Council conform to the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accounting principles. The accounts of the Council are organized on the basis of funds.

A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. In the financial statements in this report, all activity is grouped into one fund.

- D. Income Tax Status - The records of the Internal Revenue Service do not currently specify the federal tax status of the California Beef Council.

- E. Property and Equipment - Property and equipment having a useful life greater than one year and a cost greater than or equal to \$1,000 is capitalized at cost if purchased or fair value if contributed and depreciated over the assets estimated useful life. Estimated useful life varies by asset class as follows: Computer and Office Equipment - three years; Furniture and Fixtures - seven years; Vehicles - five years. Depreciation expense is calculated on the straight-line basis and totaled **\$8,693** and \$11,433 for 2012 and 2011, respectively.

- F. Functional Allocation of Expenses - The direct costs of providing services are segregated into the following programs:

- National Program Investment, Promotion
- Consumer Information
- Industry Information
- Producer Communications
- General Program Development

- G. Use of Estimates - In preparing financial statements in conformity with the modified cash basis of accounting, management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

California Beef Council

NOTES TO FINANCIAL STATEMENTS

December 31, 2012 and 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

- H. Advertising Costs - Under the modified cash basis of accounting, the Council expenses all advertising costs when paid.
- I. Reclassification - Certain 2011 amounts have been reclassified to conform to the 2012 financial statement presentation.
- J. Subsequent Events Review - Management has evaluated subsequent events through the date of the audit report, which is the date the financial statements were available to be issued.

NOTE 2 CASH DEPOSITS AND INVESTMENTS:

Authorized Deposits and Investments - The Food and Agricultural Code requires marketing orders and councils to deposit program funds in a bank or other depository that is approved by the Department of Finance.

The Food and Agricultural Code provides that marketing orders and councils shall place funds available for investment with the State Treasurer or invest such funds in eligible securities as described in Section 16430 et. seq. of the Government Code. The Government Code specifies the following as eligible securities:

- Bonds
- Commercial of “prime” quality as defined by a nationally recognized rating organization.
- Bills of exchange (also known as bankers’ acceptances).
- Negotiable certificates of deposit.
- Bank loans guaranteed by the U.S. Small Business Administration, U.S. Farmers Home Administration Export-Import bank.
- Student loan notes insured under the Guaranteed Student Loan Program.

The Beef Board Investment Policy for Qualified State Beef Councils (QSBCs) provides the following additional deposit and investment guidelines:

- All bank deposits (e.g., checking, savings and certificate of deposit) must be established at financial institutions having FDIC insurance. Bank account balances at individual institutions should total, in the aggregate, less than \$250,000 to ensure both principal and interest are

California Beef Council

NOTES TO FINANCIAL STATEMENTS

December 31, 2012 and 2011

NOTE 2 CASH DEPOSITS AND INVESTMENTS (Continued):

Authorized Deposits and Investments (Continued):

insured by the FDIC. Balances that do exceed FDIC limits must be fully collateralized with collateral held in the Council's name. Bank certificates of deposit (CDs) must have a maturity period of one year or less.

- Checkoff investments must be in high-quality, interest-bearing instruments, with a maturity period of one year when issued, fully insured or guaranteed by the following agencies/corporations:
 - U.S. Treasury
 - Federal Farm Credit Bank
 - Federal Home Loan Bank
 - Federal National Mortgage Association
 - Federal Home Loan Mortgage Corporation
 - Student Loan Marketing Association
- The securities listed above and Government National Mortgage Association mortgage-backed securities are acceptable collateral for repurchase agreements purchased, regardless of the length of maturity of the instrument, provided the market value of the collateral is at all times at least 102% of the amount invested in the repurchase agreement.
- U.S. Government-only Money Market Funds with a current rating from Moody's of Aaa or a Standard & Poor's rating of AAAm.
- Bank repurchase agreements executed with a financially sound bank.

The additional guideline above regarding an FDIC limit of \$250,000 does not take into account that the Council has Public Unit Accounts under FDIC insurance regulations. As a result, all time and savings deposits owned by the Council are added together and insured up to \$250,000. Separately, all demand deposits owned by the Council are added together and insured up to \$250,000. This increases the maximum FDIC insurance limit for the Council up to \$500,000, depending on the distribution of deposits between these two categories.

Deposits and Custodial Credit Risk - The Council maintains cash balances at two financial institutions. At December 31, 2012 and 2011, the carrying value of cash was **\$601,206** and \$586,193, respectively, and the bank balance was **\$815,139** and \$925,124, respectively. The bank balance excess over the FDIC insurance limit of **\$315,139** and \$425,124 for 2012 and 2011, respectively, was exposed to custodial credit risk. Custodial credit risk for deposits is the risk that, in the event

California Beef Council

NOTES TO FINANCIAL STATEMENTS

December 31, 2012 and 2011

NOTE 2 CASH DEPOSITS AND INVESTMENTS (Continued):

Deposits and Custodial Credit Risk (Continued):

of the failure of a depository financial institution, a depositor will not be able to recover collateral securities that are in the possession of an outside party.

At one of the financial institutions, this amount was collateralized by securities held by the pledging bank's trust department but not in the Council's name. This method of collateralization does not meet the requirements of the Beef Board Investment Policy for Qualified State Beef Councils.

The California Government Code requires California banks and savings and loans to secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of pledged securities in the collateral pool must equal at least 110% of the total amount deposited by public agencies. All deposits in excess of insurance from the Federal Deposit Insurance Corporation are collateralized with eligible securities in amounts equal to at least 110% of the Council's carrying value of the deposits in compliance with the California Government Code. The Cattlemen's Beef Board has indicated that an exception to the investment policy regarding collateralization in the name of the Council will be made to allow for compliance with California state law.

NOTE 3 PROPERTY AND EQUIPMENT:

Property and equipment at December 31, 2012 consists of:

Furniture, Fixtures, and Equipment	\$ 18,242
Vehicles	<u>31,500</u>
Total Cost	\$ 49,742
Less Accumulated Depreciation	(<u>27,279</u>)
Total Property and Equipment, Net	<u>\$ 22,463</u>

California Beef Council
NOTES TO FINANCIAL STATEMENTS

December 31, 2012 and 2011

NOTE 3 PROPERTY AND EQUIPMENT (Continued):

Property and equipment at December 31, 2011 consisted of:

Furniture, Fixtures, and Equipment	\$ 18,242
Vehicles	<u>31,500</u>
Total Cost	\$ 49,742
Less Accumulated Depreciation	<u>(18,586)</u>
Total Property and Equipment, Net	<u><u>\$ 31,156</u></u>

NOTE 4 ACCUMULATED VACATION AND SICK LEAVE:

Accumulated unpaid employee vacation benefits are recognized as liabilities of California Beef Council. The amount of accumulated vacation benefits at December 31, 2012 and 2011 was **\$14,822** and \$11,341, respectively.

Sick Leave may be accumulated without limit; however employees cannot carry a “negative” sick leave balance. Once an employee’s available sick leave hours are exhausted, additional sick leave time must come from vacation and/or leave without pay. Upon termination, employees will not be compensated for unused sick leave.

NOTE 5 PENSION:

The Council provides pension benefits for all of its qualified employees through a simplified employee pension plan under which annual contributions are based on seven percent of each qualified employee’s salary. Contributions for eligible employees were **\$13,469** and \$25,639 for 2012 and 2011, respectively.

California Beef Council

NOTES TO FINANCIAL STATEMENTS

December 31, 2012 and 2011

NOTE 6 LEASE COMMITMENTS:

The Council leases office space and office equipment under multiple non-cancelable operating lease agreements expiring at various dates through October 2014. Future minimum lease payments required under these lease agreements are as follows:

<u>Year Ending December 31,</u>	
2013	39,528
2014	<u>6,250</u>
	<u>\$ 45,778</u>

Total lease expenses for 2012 and 2011 were **\$53,205** and \$50,754, respectively.

NOTE 7 RISK MANAGEMENT:

The Council is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; error and omissions; injuries to employees and natural disaster.

The following is a summary of the current insurance policies carried by the Council at December 31, 2012:

<u>Insurer</u>	<u>Type</u>	<u>Period</u>	<u>Coverage</u>
Fireman's Fund	Commercial General Liability	2/1/12-2/1/13	\$ 2,000,000
Fireman's Fund	Excess Liability	2/1/12-2/1/13	\$ 5,000,000
Fireman's Fund	Non-Owned and Hired Auto Liability	2/1/12-2/1/13	\$ 1,000,000
AXIS Insurance	Advertising	2/1/12-2/1/13	\$ 5,000,000

NOTE 8 COUNCIL DESIGNATED FUNDS AND RESERVES:

The Council has designated a reserve in the amount of \$300,000 from the balance of unrestricted net assets. This reserve has been established by the Council to pay in full, any office or property lease obligations outstanding should the beef checkoff program or the California Beef Council be terminated.

California Beef Council

NOTES TO FINANCIAL STATEMENTS

December 31, 2012 and 2011

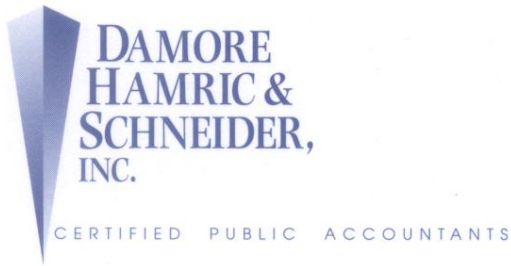
NOTE 9 PRIOR PERIOD ADJUSTMENT:

Unrestricted net asset balances as of January 1, 2011 have been decreased \$63,321 to reflect the expensing of inventory held solely for marketing. Inventory consists of printed materials on hand that are available to organizations within the State of California at no charge. In previous years inventories were recorded at the lower of cost method, rather than at lower of cost or market.

The following restatement was made to the net assets as of January 1, 2011.

	<u>Designated Reserve</u>	<u>Other Unrestricted Assets</u>	<u>Total</u>
Net Assets, Beginning of Year as Previously Stated	\$ 300,000	\$ 323,493	\$ 623,493
Prior Period Adjustment	_____	(63,321)	(63,321)
Net Assets, Beginning of Year as Restated	<u>\$ 300,000</u>	<u>\$ 260,172</u>	<u>\$ 560,172</u>

SUPPLEMENTARY INFORMATION



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH THE BEEF PROMOTION AND RESEARCH ACT OF 1985 AND THE BEEF PROMOTION AND RESEARCH ORDER

California Beef Council
Sacramento, California

We have audited the accompanying statements of assets, liabilities and net assets – modified cash basis of the California Beef Council as of December 31, 2012 and 2011, and the related statements of revenue and expenses – modified cash basis, for the years then ended, and have issued our report thereon dated March 8, 2013.

In connection with our audits, nothing came to our attention that caused us to believe the Council was not in compliance with the provisions of the Beef Promotion and Research Act of 1985 and the Beef Promotion and Research Order (the "Order") relative to the use of funds collected by the Council insofar as they relate to accounting matters. Also, nothing came to our attention that caused us to believe the Council was not in compliance with the provisions of the Agricultural Marketing Service Investment (AMSI) Policy dated November 30, 1992, and the California Department of Food and Agriculture (CDFA) Investment Policy revised February 14, 1992, which describes the type of instruments in which the Council may invest. Further, except as noted in Note 2, nothing came to our attention that caused us to believe the Council was not in compliance with the provisions of the Beef Board Investment Policy for QSBCs dated December 15, 2008, which provides additional restrictions on investments beyond that which is established by AMSI and CDFA. However, our audits were not directed primarily toward obtaining knowledge of such noncompliance.

This report is intended solely for the information and use of the members of the California Beef Council, its management, the Cattlemen's Beef Promotion and Research Board, and the United States Department of Agriculture and is not intended to be and should not be used by anyone other than these specified parties.


DAMORE, HAMRIC & SCHNEIDER, INC.
Certified Public Accountants

March 8, 2013

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SCHEDULE OF PROGRAM EXPENSES

For the Year Ended December 31, 2012

Description	National Program Investment	Promotion	Consumer Information	Industry Information	Producer Communications	General Program Development	Total Program Expenses	USDA Oversight	Collections	Administrative	Total General and Administrative	2012
Meetings and Planning	\$	\$	\$ 1,124	\$	\$	\$	\$ 1,124	\$	\$	\$ 37,550	\$ 37,550	\$ 38,674
Projects	31,600	913,992			30,031	30,377	1,006,000					1,006,000
Travel						10,769	10,769					10,769
Research												
Fees and Collections								54,036	45,474		99,510	99,510
Legal and Accounting										2,090	2,090	2,090
Staff Services		75,732	173,715	4,209	107,574	12,203	373,433			89,762	89,762	463,195
Office Services		21,357	254,084	10,484	28,854	3,199	317,978			19,500	19,500	337,478
Total	\$ 31,600	\$ 1,011,081	\$ 428,923	\$ 14,693	\$ 166,459	\$ 56,548	\$ 1,709,304	\$ 54,036	\$ 45,474	\$ 148,902	\$ 248,412	\$ 1,957,716

SCHEDULE OF PROGRAM EXPENSES

For the Year Ended December 31, 2011

Description	National Program Investment	Promotion	Consumer Information	Industry Information	Producer Communications	General Program Development	Total Program Expenses	USDA Oversight	Collections	Administrative	Total General and Administrative	2011
Meetings and Planning	\$	\$	\$ 3,407	\$	\$	\$	\$ 3,407	\$	\$	\$ 42,707	\$ 42,707	\$ 46,114
Projects	31,600	887,175			66,118	20,179	1,005,072					1,005,072
Travel						10,900	10,900					10,900
Research										4,529	4,529	4,529
Fees and Collections								22,912	45,421		68,333	68,333
Legal and Accounting										3,342	3,342	3,342
Staff Services		53,764	80,275	21,231	31,326	109,580	296,176			146,315	146,315	442,491
Office Services		5,203	113,041	24,599	8,216	20,759	171,818			62,324	62,324	234,142
Total	\$ 31,600	\$ 946,142	\$ 196,723	\$ 45,830	\$ 105,660	\$ 161,418	\$ 1,487,373	\$ 22,912	\$ 45,421	\$ 259,217	\$ 327,550	\$ 1,814,923