

COLORADO BEEF COUNCIL AUTHORITY

FINANCIAL AND COMPLIANCE REPORT

JUNE 30, 2018

CONTENTS

INDEPENDENT AUDITOR'S REPORT	1 and 2
<hr/>	
FINANCIAL STATEMENT	
Statement of Cash Receipts and Disbursements	3
Notes to Statement of Cash Receipts and Disbursements	4 - 8
SUPPLEMENTARY INFORMATION	
Schedule of Receipts – Program Basis	9
<hr/>	
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	10 and 11
<hr/>	
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE	12
<hr/>	



INDEPENDENT AUDITOR'S REPORT

Board of Directors
Colorado Beef Council Authority
Englewood, Colorado

Report on the Financial Statement

We have audited the accompanying Statement of Cash Receipts and Disbursements of the Colorado Beef Council Authority (the "Authority") as of and for the year ended June 30, 2018, and the related notes to the Statement of Cash Receipts and Disbursements, which collectively comprise the Authority's basic financial statement.

Management's Responsibility for the Financial Statement

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

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement 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 statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the financial statement 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 Authority'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 statement.

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 statement referred to above presents fairly, in all material respects, the cash receipts and disbursements of the Authority for the year ended June 30, 2018, and its cash and cash equivalent balances as of the year then ended in accordance with the cash basis of accounting described in Note 1.

Emphasis of Matter

We draw attention to Note 1 of the financial statement, which describes the basis of accounting. The financial statement is prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. In addition, as discussed in Note 1 of the financial statement, effective July 1, 2017, the Authority adopted a policy of preparing its financial statement on the cash basis of accounting, whereas the Authority's financial statements were previously prepared in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matter

Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2018 on our consideration of the Authority'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 solely 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 effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Report on Other Legal and Regulatory Requirements

In accordance with the provisions of the Beef Promotion and Research Act of 1985 and the Beef Promotion and Research Order relative to the use of funds collected by the Authority insofar as they relate to accounting matters, we have also issued our report dated November 2, 2018 on our consideration of the Authority's compliance with these provisions. The purpose of that report is to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance.

McGee, Hearne & Paiz, LLP

Cheyenne, Wyoming
November 2, 2018

COLORADO BEEF COUNCIL AUTHORITY

STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS

As of and for the Year Ended June 30, 2018

Receipts:	
Check-off assessments, net	\$ 1,593,092
Interest income	17,286
Total receipts	<u>1,610,378</u>
Disbursements:	
Beef promotion and programs (Note 5)	822,415
Salaries	336,731
Collection fees	97,080
Employee benefits (Note 3)	89,086
Rent (Note 5)	44,379
Other employee expenses	36,174
Payroll taxes	25,214
Professional fees	21,094
Board expenses	13,434
Computer and office supply	8,072
Brand board	6,000
Repairs and maintenance	5,986
Miscellaneous	4,339
Telephone	4,005
Postage	3,196
Dues and subscriptions	180
Total disbursements	<u>1,517,385</u>
Excess of receipts over disbursements	92,993
Cash and cash equivalents balance, beginning of year (Note 2)	<u>1,877,860</u>
Cash and cash equivalents balance, end of year (Note 2)	<u><u>\$ 1,970,853</u></u>

See Notes to Statement of Cash Receipts and Disbursements.

COLORADO BEEF COUNCIL AUTHORITY

NOTES TO STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS

Note 1. Nature of Operations, Description of Fund, and Significant Accounting Policies

Nature of operations and reporting entity: The Colorado Beef Council Authority (the “Authority”) was formed in 1965 as the Colorado Beef Board in accordance with the Promotion and Marketing Beef Act, which was approved April 23, 1965 and put into effect July 1, 1965. The Authority’s name was changed to the Colorado Beef Council Authority in July 1985 with the passage of the Beef Board Bill.

In 1985, with the passage of the Beef Promotion and Research Act (BPRA) and the Beef Promotion and Research Order (BPRO), the Authority was authorized to become a qualified state council (QSBC) to collect the check-off for the Cattlemen’s Beef Promotion and Research Board (CBB). QSBCs must have written procedures that ensure the proper collection of and compliance with the check-off as prescribed by the BPRA, the BPRO, and the CBB.

The Authority is an independent special authority. The Authority is controlled by a Board of Directors appointed by the Governor of Colorado, consisting of eight industry representatives from the cattle producer, feeder, dairy, livestock operations, and processing industries in Colorado. The State of Colorado exercises no other control over the Authority. The Authority is not financially accountable to any other organization, nor is it a component unit of another primary governmental entity.

A summary of the Authority’s significant accounting policies follows:

Basis of accounting: The Authority’s accounts are maintained on the cash basis of accounting and the Statement of Cash Receipts and Disbursements reflects only cash received and disbursed. Therefore, receivables and payables, long-lived assets, accrued income and expenditures, which may be material in amount, are not reflected in the accompanying financial statement. The statement as presented is not intended to present financial position or results of operations in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP).

Change in accounting basis: Through June 30, 2017, the Authority’s financial statements were prepared on the accrual basis of accounting, in accordance with U.S. GAAP. Effective July 1, 2017, the Authority adopted a policy of preparing its financial statement on the cash basis of accounting, which is a basis of accounting other than U.S. GAAP.

The following is a reconciliation between prior year ending *Net Position* and the current year beginning *Cash and Cash Equivalents Balance*:

June 30, 2017 Net Position	\$ 1,977,769
Accrual to cash adjustment	(99,909)
Cash and Cash Equivalents, beginning of year	<u>\$ 1,877,860</u>

Cash and cash equivalents: All highly liquid investments, including certificates of deposit, with a maturity of one year or less when purchased are considered to be cash equivalents for purposes of the Statement of Cash Receipts and Disbursements. Certificates of deposit are recorded at amortized cost, which approximates market value.

COLORADO BEEF COUNCIL AUTHORITY

NOTES TO STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS

Investments: The Authority's investment policy stipulates that investments may be in short-term, high-quality instruments that include U.S. government securities, U.S. government-only money market funds with a current rating from Moody's of Aaa or Standard & Poor's rating of AAA, or bank repurchase agreements executed with a sound financial institution. Bank repurchase agreements must be collateralized by securities issued, fully insured or guaranteed by the U.S. Treasury, a U.S. government agency, or U.S. government-sponsored corporation.

Securities issued, fully insured, or guaranteed by the following agencies/corporations, are acceptable investments provided the security has a maturity date of one year or less at the time of purchase. Declining-balance securities, such as mortgage-backed securities, are not acceptable.

- U.S. Treasury
- Federal Farm Credit Bank
- Federal Home Loan Bank
- Federal National Mortgage Association
- Federal Home Loan Mortgage Corporation
- Student Loan Marketing Association

These securities and the Government National Mortgage Association mortgage-backed securities are acceptable collateral for repurchase agreements purchased by the Authority, regardless of the length of maturity of the instrument, provided the market value of the collateral is at times at least 102% of the amount invested in the repurchase agreement.

The Authority did not have any investments at June 30, 2018 or 2017, other than the cash equivalents disclosed in Note 2.

Check-off assessments, net: The Authority's programs are financed by the \$1 per head assessment on sales of Colorado domestic cattle. Receipts are collected as sales of cattle are brand inspected to the Authority by other states. The Authority is required to contribute to the CBB 50% of gross fees resulting from cattle sales. A portion of the remaining funds collected is remitted to the state of origin, while the remainder is retained by the Authority and used for promotion and research efforts in Colorado. The Authority is economically dependent on receipts related to check-off assessments, which account for 99.0% of the Authority's total receipts.

Income taxes: The Authority's income is not subject to income taxes as provided in Section 115 of the Internal Revenue Code.

Tax spending and debt limitations: Colorado voters passed an amendment of the State Constitution, Article X, Section 20, which has several limitations, including revenue raising, spending abilities, and other specific requirements of state and local governments. The amendment is complex and subject to judicial interpretation. The Authority believes it is not subject to the requirements of this amendment.

Budget and budgetary accounting: The Authority is exempt from Colorado budget law.

Risk management: The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. The Authority carries commercial insurance to cover risks of loss that might occur, subject to nominal deductible amounts. Settled claims related to any of these risks have not exceeded commercial insurance coverage in the past three years.

COLORADO BEEF COUNCIL AUTHORITY

NOTES TO STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS

Note 2. Cash and Cash Equivalents

The Authority’s policies with respect to cash, cash equivalents, and investments have been established to comply with the policies outlined by the Agricultural Marketing Service (AMS) and the CBB.

All bank deposits (e.g., checking, savings, or certificates of deposit) must be established at financial institutions having Federal Deposit Insurance Corporation (FDIC) insurance.

The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by State regulators. Amounts on deposit in excess of Federal insurance levels must be collateralized. The eligible collateral is specified by PDPA. PDPA allows the institution to create a single collateral pool for all public funds.

The pool is maintained by another institution or held in trust for all the uninsured public deposits as a group. The State Regulatory Commission for banks is required by Statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools.

At June 30, 2018, the Authority’s cash deposits had a book balance of \$271,947 and a corresponding bank balance of \$602,224. The difference between the book and bank balances is primarily due to outstanding checks not yet processed by the banks. Of the bank balance, \$250,000 was covered by FDIC and \$352,224 was collateralized under PDPA.

At June 30, 2017, the Authority’s cash deposits had a book balance of \$378,955 and a corresponding bank balance of \$661,319. The difference between the book and bank balances is primarily due to outstanding checks not yet processed by the banks. Of the bank balance, \$250,000 was covered by FDIC and \$411,319 was collateralized under PDPA.

Cash equivalents: Cash equivalents are comprised of certificates of deposit and have initial maturities of 12 months or less. As a means of limiting its exposure to losses arising from rising interest rates, the Authority’s investment policy limits its investments to maturities of one year or less.

As of June 30, 2018 and 2017, the Authority had the following cash equivalents:

	June 30, 2018					Credit Rating
	Interest Rate	Less than 1 Year	1-5 Years	5-10 Years	>10 years	
Certificates of Deposit	1.45-2.25%	\$ 1,698,906	\$ -	\$ -	\$ -	Not Rated

	June 30, 2017					Credit Rating
	Interest Rate	Less than 1 Year	1-5 Years	5-10 Years	>10 years	
Certificates of Deposit	0.75-1.15%	\$ 1,498,905	\$ -	\$ -	\$ -	Not Rated

COLORADO BEEF COUNCIL AUTHORITY

NOTES TO STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS

Note 3. Employee Benefits

Effective July 1, 2001, eligible employees are able to participate in the Simplified Employee Pension Plan, a defined contribution plan. Authority contributions are 10% of employee compensation with no employee match. The contributions may be amended at the discretion of the Authority's Board of Directors. Contributions made by the Authority were \$33,644 for the year ended June 30, 2018.

Note 4. Compensated Absences

The Authority provides vacation to its employees up to a maximum of five working days during the first year of employment. This time can be taken any time after the first six months of employment. After one year of employment the number of vacation days is increased to 10. Then, after five years of employment, employees are entitled to 15 days and, after 10 years of employment, the employee can take 20 days. All vacation time must be used within a year from the date it is earned and any unused vacation may not be carried over into future years. Vacation accrual is calculated based on the difference between year-end and the remainder of the one year period that started on the employee's anniversary date. Further, the Authority also accrues sick leave for its employees. Ten sick days are available per year accrued at .83 days for each month worked from the employee's anniversary date. Unused sick leave will be carried over for only one year at which time it will be lost. No payment for unused sick days will be made upon termination. At June 30, 2018, the liability for accrued vacation and sick leave is \$34,289.

Note 5. Contracts, Commitments, and Subsequent Event

As in prior fiscal years, the Authority has an agreement with the Federation of State Beef Councils (the "Federation") to remit a portion of its net revenues to the Federation for advertising and program expenditures. Additionally, the Authority has the same type of agreement with the U.S. Meat Export Federation (USMEF). The Authority formally committed \$486,607 to various groups, including the Federation and USMEF, for advertising, promoting its product, and sponsoring various events over the next fiscal year, through contracts signed as of June 30, 2018 or subsequent to year end.

For fiscal year 2018, the Authority also made a formal commitment of \$8,600 to USMEF for research. This commitment was approved prior to year end and was remitted to the USMEF after year end.

COLORADO BEEF COUNCIL AUTHORITY

NOTES TO STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS

The Authority leases its business premises under an operating lease terminating July 31, 2018. As allowable under lease terms, this lease was terminated early in March 2018. Effective April 3, 2018, the Authority entered into a new operating lease for its new business premises. This operating lease is for 63 months, expiring in June 2023. The following is a summary of the minimum lease payments existing as of June 30, 2018:

Fiscal Year Ending June 30,	
2019	\$ 49,570
2020	55,265
2021	56,454
2022	57,642
2023	58,831
	<u>58,831</u>
	<u>\$ 277,762</u>

The Authority is also responsible for its ratable share of expenses for maintenance of the common areas within the building. Total rent expense under these operating leases was \$41,728 for the year ended June 30, 2018.

COLORADO BEEF COUNCIL AUTHORITY

SCHEDULE OF RECEIPTS - PROGRAM BASIS

Year Ended June 30, 2018

Receipts:

Gross check-off assessments	\$ 4,761,112
Assessment revenues remitted to state of origin	(1,575,050)
Assessment revenues remitted to Cattleman's Beef Promotion and Research Board	(1,592,970)
Collection fees charged by state agency	<u>(103,080)</u>
Net assessment receipts	1,490,012
Interest income	<u>17,286</u>
Total receipts	<u><u>\$ 1,507,298</u></u>



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH
*GOVERNMENT AUDITING STANDARDS***

Board of Directors
Colorado Beef Council Authority
Englewood, Colorado

We have audited, in accordance with the 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, the Statement of Cash Receipts and Disbursements of the Colorado Beef Council Authority (the "Authority"), as of and for the year ended June 30, 2018, and the related notes to the Statement of Cash Receipts and Disbursements, which collectively comprise the Authority's basic financial statement, and have issued our report thereon dated November 2, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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 Authority's financial statement will not be prevented, or detected and corrected, on a timely basis. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statement is free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

McGee, Hearne & Paiz, LLP

Cheyenne, Wyoming
November 2, 2018



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

Board of Directors
Colorado Beef Council Authority
Englewood, Colorado

We have audited, in accordance with auditing standards generally accepted in the United States of America, the Statement of Cash Receipts and Disbursements of the Colorado Beef Council Authority (the "Authority") as of and for the year ended June 30, 2018, and the related notes to the Statement of Cash Receipts and Disbursements, which collectively comprise the Authority's basic financial statement, and have issued our report thereon dated November 2, 2018.

In connection with our audit, nothing came to our attention that caused us to believe that (i) the Authority was not in compliance with the provisions of the Beef Promotion and Research Act of 1985 (the "Act") and the Beef Promotion and Research Order (the "Order") relative to the use of funds collected by the Authority insofar as they relate to accounting matters, or (ii) that the Authority failed to accurately allocate expenses that it shared with any entity or funding source in a manner that complies with the Act and the Order. Further, nothing came to our attention that caused us to believe the Authority was not in compliance with the provisions of the Beef Board Investment Policy for Qualified State Beef Councils dated March 14, 2016, which describes the type of instruments in which the Authority may invest. Our audit was not, however, directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Authority's noncompliance with the above referenced conditions, insofar as they relate to accounting matters.

This report is intended solely for the information and use of the Board of Directors and management of the Authority, the Cattlemen's Beef Promotion and Research Board, the U.S. Department of Agriculture, and the State of Colorado and is not intended to be, and should not be, used by anyone other than those specified parties.

McGee, Hearne & Paiz, LLP

Cheyenne, Wyoming
November 2, 2018