

STATE OF NEW MEXICO
NEW MEXICO BEEF COUNCIL
ANNUAL FINANCIAL REPORT
JUNE 30, 2011

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INTRODUCTORY SECTION

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STATE OF NEW MEXICO
 NEW MEXICO BEEF COUNCIL
 ANNUAL FINANCIAL REPORT
 For the Fiscal Year Ended June 30, 2011

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STATE OF NEW MEXICO
NEW MEXICO BEEF COUNCIL
OFFICIAL ROSTER
June 30, 2011

COUNCIL

Cliff Copeland	Chairman
Joe Clavel	Vice-Chairman
Jim Bob Burnett	Secretary
Tom Spindle	Member
Darrel Brown	Member
Andres Aragon	Member
Art Schaap	Member
Bernarr Treat	Member
David McSherry	Member
Janie Frost	Ex-Officio Member
Tammy Ogilvie	Ex-Officio Member
Wesley Grau	Ex-Officio Member

ADMINISTRATIVE OFFICIAL

Dina C. Reitzel	Executive Director
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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

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Hector H. Balderas
New Mexico State Auditor
The Office of Management and Budget
and
To the Council Members of the
New Mexico Beef Council

We have audited the accompanying financial statements of the governmental activities, the major fund, and the budgetary comparison statement of The State of New Mexico, New Mexico Beef Council (Council), as of and for the year ended June 30, 2011, which collectively comprise the Council's basic financial statements as listed in the table of contents. These financial statements are the responsibility of 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements of the Council are intended to present the financial position, and the changes in financial position of only that portion of the governmental activities and major fund of the State of New Mexico that is attributed to the transactions of the New Mexico Beef Council. They do not purport to, and they do not, present fairly the financial position of the State of New Mexico as of June 30, 2011, and the changes in its financial position of the year then ended in conformity with accounting principles generally accepted in the United States of America.

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In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund of the Council, as of June 30, 2011, and the respective change in financial position, thereof and the budgetary comparison statement for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 12, 2011, on our consideration of the 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 is not a required part of the basic financial statements but is 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 management's discussion and analysis. However, we did not audit the information and do not express an opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Council's basic financial statements. The schedule of cash accounts and pledge collateral is presented for the purpose of additional analysis and is not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all materials respects in relation to the basic financial statements taken as a whole.

Precision Accounting, LLC
August 12, 2011

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STATE OF NEW MEXICO
NEW MEXICO BEEF COUNCIL
MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2011

This discussion and analysis of the New Mexico Beef Council (NMBC) provides an overview of financial activities for the fiscal year ended June 30, 2011. It should be read in conjunction with financial statements on page 19 to 38.

This document will:

- Highlight significant financial issues;
- Provide an overview of the Beef Council's financial activity;
 - Identify changes in the Council's financial position;
- Identify any material deviation from the approved budget; and Identify issues or concerns.

BASIC FINANCIAL STATEMENTS

Government-Wide Statements

The government-wide statements report information about the New Mexico Beef Council as a whole using accounting methods and disclosures similar to those used by private-sector companies. The statement of net assets includes all of the NMBC assets and liabilities. All of the current year revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid. This statement also reports the NMBC net assets and how they have changed. Net assets, the difference between NMBC assets and liabilities, is one way to measure NMBC's financial health and position.

Prior period unrestricted net assets may be used to continue beef marketing efforts in response to increased beef supply due to the closure of export markets resulting from Bovine Spongiform Encephalopathy or Mad Cow Disease. Declining cattle numbers in New Mexico as a result of the prolonged drought may lead to the use of the unrestricted assets. None, however, were used in fiscal year ended June 30, 2011.

STATE OF NEW MEXICO
NEW MEXICO BEEF COUNCIL
MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2011

Fund Statements

A fund is an accountability unit used to maintain control over resources segregated for specific activities. The Council uses one fund to ensure and demonstrate compliance with finance related laws and regulations. The focus of fund statements is on short term fiscal accountability reflecting use of spendable resources during the year and the balance of spendable resources available at end of year. The government wide statements include long term assets while the fund statements do not. Both the fund statement balance sheet and the fund statement of revenues, expenditures and changes in fund balance provide a reconciliation to the government wide statements to assist in understanding the differences between the two perspectives. A budgetary statement is included to demonstrate compliance with the Council adopted and final revised budgets.

FINANCIAL HIGHLIGHTS

The NMBC is a designated Qualified State Beef Council. NMBC collects and administers the federally mandated Beef Check-off in New Mexico. The Beef Check-off is a self-help beef marketing program instituted by United States beef producers and is funded entirely by the producers. One dollar per head is assessed the producer on each bovine animal sold in the U.S. As per the federal law, fifty cents of each dollar collected in New Mexico remains in the state. The NMBC oversees the collection and investment of the producer's check-off dollars in marketing programs meant to increase the demand for beef products and enhance the image of the beef industry. The sole purpose of the Beef Check-off program is to increase profit opportunities for beef producers.

The federal law that established the beef check-off also mandates the beef marketing programs to include Promotion, Consumer Information, Research, Producer Communications and Industry Information Programs.

The Beef Check-off is the sole source of funding for this marketing program. The amount of check-off dollars collected is entirely dependent on the number of cattle sold annually in the state. There are many factors that affect the number of cattle marketed and total cattle inventory in New Mexico.

STATE OF NEW MEXICO
 NEW MEXICO BEEF COUNCIL
 MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)
 FOR THE YEAR ENDED JUNE 30, 2011

The following charts reflect the Councils continued summary of the Statement of Net Assets as of June 30, 2011 and 2010

<u>Assets</u>	2011	2010
Current and Other Capital Assets, Net of Depreciation	\$776,304	\$687,823
Total Assets	<u>48,041</u> \$824,345	<u>14,242</u> \$702,065

<u>Liabilities</u>	2011	2010
Current Liabilities	\$320,847	\$335,445
Long Term Liabilities	<u>19,094</u> 339,941	<u>10,884</u> 346,329

<u>Net Assets</u>	2011	2010
Invested in Capital Projects	\$ 48,404	\$ 14,424
Unrestricted	<u>436,000</u>	<u>341,494</u>
Total Liabilities and Net Assets	<u>\$824,345</u>	<u>\$702,065</u>

The following table presents a condensed summary of data from the Council's Statement of Activities.

	2011	2010
Gross assessments received	\$1,256,741	\$1,208,636
Less amounts remitted to other entities	<u>(665,638)</u>	<u>(610,612)</u>
	591,103	598,024
Program Expenses	(490,303)	(573,238)
Investment Revenues	<u>2,279</u>	<u>2,653</u>
Change in Net Assets	<u>\$ 103,079</u>	<u>\$ 27,439</u>

STATE OF NEW MEXICO
NEW MEXICO BEEF COUNCIL
MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2011

Operating Assets

Operating assets of the NMBC include cash and receivables which may vary significantly during the year because of timing, operations and weather conditions. Cash and receivables amounted to \$771,323. at year end compared to \$682,842 for the prior year. \$ 8,229 of the \$771,323 has no relationship to check off revenue but is being held in trust for the New Mexico Beef Initiative Task Force and is not available for continued operations of the New Mexico Beef Council.

Capital Assets

Current year acquisitions less depreciation, decreased capital assets by \$33,799. With the implementation of GASB 34, NMBC adopted a policy of not capitalizing assets which cost less than \$5,000. Current year depreciation was \$8,851.

Liabilities

The majority of accounts payables were paid with the July FY 2010-2011 check run. Balances at year end amounted to \$310,445 compared to \$292,561 in the prior year. The primary liability relates to a full year liability due to the NMLB for collection fees not billed or paid. Accrued expense representing the liability for employee sick and vacation leave decreased by \$5,956 to \$19,094 on the Statement of Net Assets.

Fund Balances/ Net Assets

Fund balances are presented in categories. The category labeled restricted for capital assets represents the net amount invested in the capital asset which amounted to \$48,041 at June 30, 2011. There are no liabilities connected to capital assets. A portion of fund balance amounting to \$4,981 is reserved for prepaid expenses. The remaining fund balance is available for investment in Promotion, Consumer Information, Producer Communications and Industry Information Programs. Total net assets per the statement of net assets are \$484,363, up 1.82% from total net assets of \$355,736 in the prior year. Net assets are up due to the Council reducing expenses due to the uncertainty of the estimated revenues remitted by the NMLB in the past two years.

STATE OF NEW MEXICO
NEW MEXICO BEEF COUNCIL
MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2011

Revenue

The NMBC's sole source of revenue is beef check-off dollars. NMBC is fortunate, in that these producer funds are required by state statute to be collected by the New Mexico Livestock Board (NMLB). NMLB underwent two changes in their fiscal operations during the 2007 fiscal year. They were incorporated into the states new SHARE program, and at the same time instituted a computerized in house collection process. The initial result in this massive undertaking was uncertainty in reconciling collections, and check-off funds not being remitted to the NMBC in a timely manner. NMLB elected to remit check-off collections based on collections for FYE June 30, 2006. Under the leadership of a new director NMLB began in January 2008, remitting check-off collections based on actual funds received. All revenue reported in this fiscal year is a reflection of actual funds received by NMLB. The reason for the 4% increase in actual revenue from the prior year is because more cattle are being sold due to producers reducing their herds because of the extended drought in the state. However, there are many factors that effect the number of cattle marketed and total cattle inventory in New Mexico.

The amount collected that stays in the state of \$622,269 is up 4.05% from the prior year actual of \$586,402. Interest earned is down 66%, from original budget, but is down 29.2% from actual interest earned in the prior year due to less funds earning interest and interest rates being lower.

Expenditures

No significant or material deviation from the amounts budgeted occurred in FYE June 30, 2011, other than noted below. There were no unusual or infrequent items that had a material effect on the results of operations. Budgeted expenditures exceeded actual amounts by 7.5%. Variances although not deemed significant are discussed below.

STATE OF NEW MEXICO
NEW MEXICO BEEF COUNCIL
MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2011

PROGRAM EXPENSES BY FUNCTION

National Program

The NMBC participates in the National Cattlemen's Beef Association (NCBA) and the United States Meat Export Federation (USMEF) by purchasing board seats. Each board seat purchased entitles the NMBC to representation on the respective boards. This participation is important to the New Mexico producers as both organizations are major beef check-off program contractors. Representation in the organizations allows producers to give input on marketing programs paid for with beef check-off dollars. The New Mexico representatives on the two boards are responsible for providing feedback to the state's producers on the business conducted at the NCBA and USMEF meetings. Expenditures amounted to \$32,399 in the current year versus \$31,166 in the prior year.

Promotion Programs

Promotion Programs include advertising, retail, foodservice and school foodservice promotions. Current year's expenditures were up from the prior year expenditure for Promotion Programs by 13.37%, primarily due to planning and the timing of funds available. Expenditures amounted to \$109,692 in the current year versus \$127,829 in the prior year. Expenditures in the amount of \$120,380 had originally been budgeted.

Consumer Information Programs

Consumer Information Programs include Public Relations, Health Education, Education and Cowbelle Education Partnerships. Expenses for Consumer Information Programs were down 22.6% from the prior year and down 15.5% from original budget. Expenditures amounted to \$148,847 in the current year versus \$191,587 in the prior year.

Research

Beef check-off dollars are often used to fund research in the areas of Market, Product, Beef Safety, Nutrition, and Product Technology. The NMBC did not fund research in the current fiscal year. Extensive research in this area is being conducted at the national level.

STATE OF NEW MEXICO
NEW MEXICO BEEF COUNCIL
MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2011

Producer Communications

Producer Communications projects are aimed at keeping beef producers informed about the beef check-off program and the results of the program. Expenses for Producer Communications programs were up 5.25% from prior year and up 7.1% from budgeted amounts. Expenditures amounted to \$88,274 in the current year versus \$85,530 in the prior year. Expenditures in the amount of \$91,187 had originally been budgeted.

Industry Information Programs

Industry Information Programs are education programs for beef producers. The education programs focus on teaching producers about management practices that affect the quality of the end product and informing producers about their product's acceptance. NMBC budgeted and spent \$2,000 in this program area.

Collections

New Mexico State Statute designates the New Mexico Livestock Board (NMLB) as the collecting point for beef check-off dollars in the state. The NMLB is compensated 4% for each dollar it collects. Collections expense includes this fee as well as an education program for the livestock inspectors on check-off compliance and programs. Collection expenses go up or down with amount of revenue collected. Expenditures amounted to \$88,390 in the current year versus \$82,451 in the prior year. NMBC had budgeted \$85,128 in the current fiscal year.

Administrative Expenses

This year's actual budget basis administrative expenses before allocation (which include capital outlay) were down 23.07% from the prior year costs. The actual amount expended was 3.83% less than originally budgeted. Administrative expenditures after allocation amounted to \$72,182 in the current year versus \$60,170 in the prior year. NMBC had budgeted \$73,550 for the current fiscal year.

Total Expenditures

Actual total expenditures on the budgetary basis of \$540,549 were down 7.4% from budget, and is also down 6.8% from the prior year actual of \$579,966. Total expenditures were up due to the reasons enumerated above.

STATE OF NEW MEXICO
NEW MEXICO BEEF COUNCIL
MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2011

Conclusion

Due to continuing concerns about the livestock industry in New Mexico, the Council has carried over \$103,079 of current year excess revenues to next year and has been conservative in compiling the budget for the 2011/2012 year. For the year ending June 30, 2011, the Council has approved a budget with projected revenues of \$593,748 and expenditures of \$593,748.

Requests for Information

The financial report is designed to provide a general overview of the New Mexico Beef Council's finances for all of 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 New Mexico Beef Council, 1209 Mountain Road Place N.E. Ste C, Albuquerque, New Mexico 87110; 505-841-9707.

STATE OF NEW MEXICO
NEW MEXICO BEEF COUNCIL

EXHIBIT A-1

Statement of Net Assets

June 30, 2011

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 668,547
Cash on hand	425
Receivable from New Mexico Livestock	
Board and others	102,351
Prepaid expenses	4,981
Capital assets, net of accumulated depreciation	<u>48,041</u>
 Total Assets	 <u><u>\$ 824,345</u></u>
 LIABILITIES	
Accounts payable	\$ 310,455
Payroll taxes and withholdings payable	10,392
Accrued compensated absences	<u>19,094</u>
 Total Liabilities	 339,941
 NET ASSETS	
Invested in capital assets	48,041
Unrestricted	<u>436,363</u>
 Total net assets	 <u>484,404</u>
 Liabilities and Net Assets	 <u><u>\$ 824,345</u></u>

The accompanying notes are an integral part of these financial statements

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STATE OF NEW MEXICO
NEW MEXICO BEEF COUNCIL
STATEMENT of ACTIVITIES
For the Year Ended June 30, 2011

Exhibit A-2

	Governmental Activities
EXPENSES	
National program	\$ 31,166
Promotion	109,692
Consumer information	148,847
Producer communications	90,274
Collections	88,390
Administrative	18,660
Depreciation, unallocated	<u>8,851</u>
<i>Total expenses</i>	<u>495,880</u>
Program Revenues:	
Gross assessment revenues collected	1,256,741
Less assessment revenues remitted to other states	(12,203)
Less assessment revenue remitted to Cattlemen's Beef Board	<u>(622,269)</u>
Total program revenues	622,269
NET PROGRAM REVENUE	126,389
GENERAL REVENUE	
Miscellaneous income	500
Investment earnings	<u>1,779</u>
Change in Net Assets	128,668
Net assets, beginning	<u>355,736</u>
Net assets, ending	<u><u>\$ 484,404</u></u>

The accompanying notes are an integral part of these financial statements

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STATE OF NEW MEXICO
 New Mexico Beef Council
 Balance Sheet
 Governmental Funds-General Fund
 June 30, 2011

<i>Assets</i>	
Cash and cash equivalents	\$ 668,972
Receivable from Livestock Board and others	102,351
Prepaid expenses	<u>4,981</u>
<i>Total assets</i>	<u><u>\$ 776,304</u></u>
<i>Liabilities and fund balances</i>	
<i>Liabilities</i>	
Accounts payable	\$ 310,455
Accrued salaries and benefits	2,163
Accrued compensated absences	4,774
Trust funds payable	<u>8,229</u>
<i>Total liabilities</i>	<u>325,621</u>
<i>Fund balances</i>	
Committed for:	
Prepaid expenses	4,981
Pre-\$1 checkoff	48,404
Unassigned	<u>397,298</u>
<i>Total fund balances</i>	<u>450,683</u>
<i>Total liabilities and fund balances</i>	<u><u>\$ 776,304</u></u>

The accompanying notes are an integral part of these financial statements

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STATE OF NEW MEXICO

New Mexico Beef Council

Governmental Funds

Reconciliation of the Balance Sheet to the Statement of Net Assets

June 30, 2011

Exhibit B-1

Page 2 of 2

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

Fund balances - total governmental funds	\$	450,683
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds		48,041
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds		
Long-term accrued compensated absences		(14,320)
		<hr/>
Net assets of governmental activities	\$	<u>484,404</u>

The accompanying notes are an integral part of these financial statements

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STATE OF NEW MEXICO
 New Mexico Beef Council
 Statement of Revenues, Expenditures and Changes in Fund Balance
 Governmental Funds
 For the Year Ended June 30, 2011

Revenues:	
Gross assessment revenues collected	\$ 1,256,741
Less assessment revenues remitted to other states	-
	(12,203)
Less assessment revenue remitted to Cattlemen's Beef Board	(622,269)
Miscellaneous income	500
Investment Income	1,779
	<hr/>
Total revenues	624,548
	<hr/>
EXPENDITURES	
Current expenditures:	
National program	31,166
Promotion	113,272
Consumer information	145,267
Producer communications	90,274
Collections	88,390
Administrative	15,224
Capital outlay:	
Capital outlay	42,650
	<hr/>
Total expenses	526,243
	<hr/>
<i>Net change in fund balance</i>	98,305
<i>Fund balance - beginning of year</i>	352,378
	<hr/>
<i>Fund balance - end of year</i>	\$ 450,683
	<hr/> <hr/>

The accompanying notes are an integral part of these financial statements

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STATE OF NEW MEXICO
 New Mexico Beef Council
 Reconciliation of the Statement of Revenues, Expenditures and Changes
 in Fund Balance of Governmental Funds to the Statement of Activities
 For the Year Ended June 30, 2011

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

Net change in fund balances - total governmental funds	\$	98,305
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Governmental funds report capital outlays 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:

Expenditure for capital assets		42,650
Depreciation expense		(8,851)

The issuance of long-term debt (e.g. bonds, notes, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.

Decrease in long-term accrued compensated absences		<u>(3,436)</u>
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Change in Net Assets of Governmental Activities	\$	<u><u>128,668</u></u>
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The accompanying notes are an integral part of these financial statements

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STATE OF NEW MEXICO
New Mexico Beef Council
General Fund
Statement of Revenues and Expenditures
Budget and Actual (GAAP Basis)
For the Year Ended June 30, 2011

	Budgeted Amounts		Actual	Variances
	Original	Final	(GAAP Basis)	Favorable (Unfavorable) Final to Actual
<i>Revenues:</i>				
Gross assessment revenues collected	1,130,000	1,256,741	1,256,741	\$ -
Less assessment revenues remitted to another state	(12,000)	(12,203)	(12,203)	-
Less assessment revenues remitted to Cattlemen's Beef Board	(559,000)	(622,269)	(622,269)	-
Miscellaneous	2,279	2,279	2,279	-
<i>Total revenues</i>	561,279	624,548	624,548	-
<i>Expenditures:</i>				
Current:				
National program	32,600	31,170	31,166	4
Promotion	123,378	113,375	113,272	103
Consumer information	173,159	145,640	145,267	373
Producer communications	93,187	90,295	90,274	21
Collections	88,132	88,350	88,390	(40)
Administrative				
Director salary	73,240	73,240	61,919	11,321
Rent and utilities	34,260	34,260	34,260	-
Administrative assistant salary	5,400	4,900	4,892	8
Payroll burden	27,484	17,520	17,519	1
Insurance	23,000	11,000	11,009	(9)
Contract services	12,000	57,250	57,264	(14)
Office and postage	11,000	12,000	11,922	78
Staff travel	10,000	10,200	10,192	8
Auto and travel, council	10,000	11,700	12,547	(847)
Telephone	6,000	6,900	6,877	23
Capital and noncapital expenditures	-	50,000	42,650	7,350
Audit and legal	7,500	8,025	8,025	-
Staff salary	33,084	2,755	2,754	1
Auto, director and staff	5,000	3,800	3,778	22
Council meetings	6,500	9,650	9,645	5
Stationary and supplies	1,200	2,400	2,401	(1)
Depreciation expense	10,000	8,850	-	8,850
Amount allocated to function	(244,908)	(244,910)	(239,780)	(5,130)
<i>Total expenditures</i>	541,216	548,370	526,243	22,127
<i>Excess (deficiency) of revenues over expenditures</i>	20,063	76,178	98,305	22,127
Other financing sources:				
(Increase) Decrease in cash	(20,063)	(76,178)	-	76,178
<i>Excess (deficiency) of revenues over expenditures and other financing sources</i>	\$ -	\$ -	\$ 98,305	\$ 98,305

The accompanying notes are an integral part of these financial statements

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STATE OF NEW MEXICO
NEW MEXICO BEEF COUNCIL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The New Mexico Beef Council (Council) was created in 1979, pursuant to the New Mexico Beef Council Act, Article 2A, Section 77, NMSA, 1978 Compilation, as amended. The Council comes under the auspices of the Director of the New Mexico Department of Agriculture. The Director appoints nine council members with the approval of the Governor for terms of three years or less so that the terms of three members expire each June 30. All members of the Council shall be engaged in the business of raising, breeding, feeding, or growing cattle or calves for beef production or for dairy production. Appointments of Council members are to be made from lists of individuals recommended by farm organizations, producer associations and individual producers. The Director appoints one member to represent fluid milk producers, five to represent beef producers, one to represent breeders of registered purebreds and two to represent commercial cattle feeders. The Director serves as a non-voting ex-officio member of the Council. The Council was created to promote the beef industry in New Mexico through public relations, research, education, and market development programs.

The Council is a quasi agency of the State of New Mexico. The New Mexico Beef Council Act creates the Council as a separate entity with a special source of funds separate and apart from the State of New Mexico general fund. The Council fund balance is non-reverting. The financial statements present the financial position and results of operations of only those funds over which the New Mexico Beef Council has oversight responsibility.

The Council's financial statements are prepared in accordance with generally accepted accounting principles. The Council presents their financial statements following Governmental Accounting Standard Statement No. 34, Basis Financial Statements and Management's Discussion and Analysis - for State and Local Governments. Certain of the significant elements of that Standard include:

- A management discussion and analysis (MD&A) section providing an analysis of the Council's overall financial position and results of operations.

- Financial statements prepared using full accrual accounting for all Council activities including presentation of capital assets and related depreciation.

Other significant accounting policies established and used by the Council are discussed below.

STATE OF NEW MEXICO
NEW MEXICO BEEF COUNCIL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Reporting Entity

The Council's basic financial statements include the accounts of all Council operations which are financially accountable to the Council members. There are no component units included in the reporting entity.

B. Basic Financial Statements- Government- Wide and Individual Fund Financial Statements

The Council's basic financial statements include both government-wide (reporting the Council as a whole) and fund financial statements (reporting the Council's only and major fund). Both the government-wide and individual fund financial statements are all governmental type activities which include the classification of activities as national program, promotion, consumer information, producer information, market research, collection and or administrative expenditures/expense.

The government-wide financial statements are reported using the economic resource measurement focus and the accrual basis of accounting. Therefore, in the statement of net assets, all long term assets and receivables are recognized as well as all long term debt and obligations. The Council's net assets are reported in three parts - invested in capital assets, net of related debt; restricted net assets (none held at June 30, 2011); and unrestricted net assets. The government-wide statement of activities reports the gross/net cost of the Council's beef promotion program. The Council is also supported by general investment earnings. The Council allocates a certain portion of administrative costs to the classifications described above using a percentage cost allocation approach. The government-wide focus is more on the sustainability of the Council as an entity and the changes in the Council's net assets resulting from current year's activities.

The financial transactions of the Council are reported in individual funds in the fund financial statements. The Council maintains one governmental fund that being the general fund. The general fund accounts for all financial resources of the Council. This fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses. The focus of the government general fund measurement is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income.

STATE OF NEW MEXICO
NEW MEXICO BEEF COUNCIL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Accounting

Basis of accounting refers to the timing at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made, regardless of the measurement focus applied.

1. Accrual - All governmental activities in the government-wide financial statements are presented on the accrual basis of accounting using the economic resources measurement focus. Revenues are recognized when earned and expenses are recognized as incurred.
2. Modified Accrual - The governmental general fund financial statements are presented on the modified accrual basis of accounting using the current financial resources measurement focus. Under this method, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or within 60 days after year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

The one-dollar assessment is considered measurable and available when held by the collecting entity, the New Mexico Livestock Board.

D. Budgets and Budgetary Accounting

The Council follows these procedures in establishing the budgetary data reflected in the individual fund financial statements:

1. The Executive Director presents the budget to the Council for approval no later than April 25 for the fiscal year beginning July 1.
2. The proposed budget is submitted to the Director of the New Mexico Department of Agriculture by May 1 for the fiscal year beginning July 1. The Director also submits the budget to the New Mexico Department of Finance and Administration.
3. Budgets for the General Fund are adopted on a modified accrual basis of accounting.
4. Budget control is exercised at the fund level.
5. Budget information has been revised and the revision was made pursuant to Council approval.

E. Prepaid Expenses

These amounts represent expenses which have benefit to the Council beyond the year June 30, 2011. Prepaid expenses are expensed when consumed and allocated to the fiscal year in which they are used.

STATE OF NEW MEXICO
 NEW MEXICO BEEF COUNCIL
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2011

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Capital Assets

Capital assets purchased or acquired with an original cost of \$5,000 or more (per Section 12-6-10 NMSA 1978) are reported at historical cost or estimated historical cost. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. The Council has no capitalized computer software costs. Other costs incurred for repairs and maintenance are expensed as incurred. All capital assets of the Council are in the furniture and equipment class, for which depreciation is provided on the straight line basis over useful lives ranging from five to sixteen years. Depreciation expense is not allocated to program functions of the Council.

G. Compensated Absences

The Council accrues accumulated vacation and sick leave and associated employee related costs when earned by full time employees. Vacation leave accrues per month of service ranging from seven days to twenty seven days per year based on years of service. Unused vacation time at year end is lost, with the exception of the Executive Director who may carry over 15 days of unused vacation. Sick leave accrues per month of service aggregating not more than seventeen days per year based on years of service. Employees may carryover unused sick leave at the end of a fiscal year subject to a 720 hour limitation. Upon termination with notice, the Council will compensate an employee for fifty percent of accrued and unused sick leave at current employee pay rates.

Compensated absences have been liquidated in the general fund. Changes were as follows:

<u>Compensated absences</u>	<u>6/30/10</u>	<u>Increases</u>	<u>Decreases</u>	<u>6/30/11</u>
Balances	\$25,050	\$8,133	\$14,089	\$19,094

H. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

I. Risk Management

The Council is exposed to various risks of loss for which the Council carries insurance (Auto, Employee Fidelity Bond, General Liability and Workers Compensation) with the State of New Mexico Risk Management Division. There have been no settled claims which have exceeded insurance coverage in any of the past three fiscal years.

J. Fund Equity

Restricted fund balance represents amounts that are constrained: either by 1) externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments; or 2) imposed by law through constitutional provisions or enabling legislation.

Committed fund balance represents amounts that are useable only for specific purposes by formal

STATE OF NEW MEXICO
 NEW MEXICO BEEF COUNCIL
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2011

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Fund Equity (continued)
 action of the government's highest level of decision-making authority.

Assigned fund balance represents amounts that are intended to be used for specific purposes, but are neither restricted nor committed. Intent is expressed by the governing body or a subordinate high-level body or official whom the governing body has delegated.

Unassigned fund balance is the residual classification for the general fund and represents the amounts that have not been assigned to other funds, and that have not been restricted, committed, or assigned to specific purposes.

The Council's policy is to apply restricted resources first when an expense is incurred for which both restricted and unrestricted net assets are available.

NOTE 2 CASH AND INVESTMENTS

The Council is authorized to deposit its money in banks, savings and loan associations and/or credit unions whose accounts are insured by an agency of the United States Government. All invested funds of the Council properly followed the guideline federal and state investment requirements as of June 30, 2011.

Excess funds may be temporarily invested in securities which are issued by the United States government, or by their departments or agencies, and which are either direct obligations of the United States or are backed by the full faith and credit of the United States.

The collateral [ledged is listed on Schedule II of this report. The types of collateral allowed are limited to certain direct obligations of the United States government.

At June 30, 2011, the carrying amount of the Council's cash amounted to \$668,972 including \$425 of petty cash. The total bank balance of \$716,930 was comprised of a checking account with a balance of \$435,758 and a bank money market account with a balance of \$281,172.

According to the Federal Deposit Insurance Corporation, public unit deposits are funds owned by the public unit. Time deposits, savings deposits and interest bearing NOW accounts of a public unit in an institution in the same state will be insured up to \$250,000 in aggregate and separate from the \$250,000 coverage for public unit demand deposits at the same institution. The Frank Dodd Act of 2010 required all funds in a non-interest bearing bank account be fully insured by the FDIC through December 31, 2012. New Mexico Beef Council funds are in both an interest bearing money market account and a non-interest bearing checking account that is therefore are subject to the Frank Dodd Act.

New Mexico State statutes require collateral pledged for deposits in excess of the federal deposit insurance to be delivered, or a joint safekeeping receipt be issued, to the council for at least one-half of the amount on deposit with the institution. The national qualified beef councils investment policy requires 100% collateral for any deposits in excess of the FDIC insurance amount. The schedule listed below will meet the State of New Mexico, Office of State Auditor's requirements in reporting the insured portion of the deposits.

Custodial credit risk is defined as the risk that the government's deposits may not be returned to it in the event of a bank failure. As of June 30, 2011, \$31,172 of the Council's bank balance was exposed to custodial risk is summarized as follows:

Insured	\$	685,758
Collateral held by pledging financial institution's agent but not in Council's name		<u>31,172</u>
Total deposits	\$	<u>716,930</u>

STATE OF NEW MEXICO
NEW MEXICO BEEF COUNCIL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 2 CASH AND INVESTMENTS (continued)

In accordance with Section 6-10-16 NMSA 1978, deposits of public monies are required to be collateralized in amounts equal to one half of the amount on deposit in excess of insured public money in each financial institution. The Council's position with regard to the State of New Mexico collateral requirement is summarized as follows:

50% Pledged collateral requirement per statute	\$	15,586
Total pledged Collateral		<u>1,084,901</u>
Pledged collateral over the requirement	\$	<u>(1,069,315)</u>

Pursuant to federal statute and defined by the U.S. Department of Agriculture, investments must be short term, high quality, interest bearing instruments that are U.S. Government securities, related money market funds or repurchase agreements collateralized by securities fully insured or guaranteed by U.S. Government agencies/corporations. The Council had only money market funds as investments during 2011.

NOTE 3 CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2011 was as follows:

	<u>June 30, 2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2011</u>
Furniture and equipment	\$ 157,585	\$ 43,214	\$ 39,428	\$ 161,371
Less accumulated depreciation	<u>(143,343)</u>	<u>(8,851)</u>	<u>38,864</u>	<u>(113,330)</u>
Net	<u>\$ 14,242</u>	<u>\$ (34,363)</u>	<u>\$ (564)</u>	<u>\$ 48,041</u>

NOTE 4 ASSESSMENT REVENUES/RECEIVABLE FROM NEW MEXICO LIVESTOCK BOARD

The Council is mandated by Federal statute to levy and impose an assessment (check-off dollars) to be fixed at a rate of one dollar per head on all cattle involved in a transfer of ownership within the state. Fifty percent of collections for cattle originating in New Mexico is forwarded to the Cattlemen's Beef Promotion and Research Board. 100% of collections for cattle not originating in New Mexico are forwarded to the state in which they originated. The assessments retained by the Council are used to accomplish the purpose of the Council, which is the promotion of the beef industry.

The New Mexico Livestock Board (NMLB), a New Mexico State Agency, collects on behalf of the Council the assessment described above with respect to cattle transactions that are subject to the oversight and jurisdictional powers of the NMLB. Monthly, the NMLB is required to remit to the Council the assessment collections from the previous month.

During the fiscal year ended June 2007 and the first six months of the fiscal year ended June 30, 2008, the New Mexico Livestock Board estimated the check-off dollars due to the New Mexico Beef Council. The actual amount due for the year 2007 has been agreed upon by all parties involved and a settlement of any balances has been made. Additionally, the parties are negotiating to arrive at final balances due between the parties for the six month period ended December 31, 2008.

Additionally, the NMLB is authorized to charge a collection fee for their role in collecting assessments from producers pursuant to New Mexico State Statute. The Statute mandates that the NMLB charge a collection fee of not more than four cents (\$.04) per head on those cattle involved in a transfer of ownership. During the year ended June 30, 2007 and the first six months of the year ended June 30, 2008, the NMLB has not billed the Council for the collection fee. Management believes that the amount due to the Council for unremitted check-off dollars to be \$100,474 and the amount due to the New Mexico Livestock Board for collection fees to be \$ 186,701 at June 30, 2011.

STATE OF NEW MEXICO
NEW MEXICO BEEF COUNCIL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 5 RETIREMENT PLAN

All of the Council's employees participate in a Simplified Employee Pension (SEP) Plan. The Council contributions are made for each employee who has reached age 21, and has been employed by the Council for at least one year. The contributions made by the Council to the SEP on behalf of employees for the year ended June 30, 2011 was 15% of each employee's compensation and amounted to \$10,780.

NOTE 6 COMMITMENTS

The Council rents office space at the rate of \$2,855 per month. The lease expires on February 28, 2014. The commitments by fiscal year are as follows:

Fiscal Year Ending June 30,	Amount
2012	\$ 34,260
2013	34,260
2014	<u>5,710</u>
Total	<u>\$ 74,230</u>

NOTE 7 ECONOMIC DEPENDENCY

The Council receives substantially all of its revenue from the sale of cattle. It is dependent upon the sale of cattle in New Mexico.

NOTE 8 SUBSEQUENT EVENTS REVIEW

A review of subsequent events up to August 12, 2011, the date of issuance of the financial statements, revealed no significant subsequent events.

NOTE 9 SUBSEQUENT ACCOUNTING STANDARD PRONOUNCEMENTS

In December 2010, the GASB issued Statement 62, *Codification of Accounting and Financial Reporting Guidelines Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. That statement supersedes Statement No 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. Statement 62 is effective for financial statements for periods beginning after December 15, 2011, with early application encouraged. The objective of this statement is to provide non-conflicting pronouncements between FASB and GASB. The Council is reviewing the effects of the implementation of this statement.

In June, 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* which is effective for financial statements for periods beginning after December 15, 2011. Earlier application is encouraged. The objective of this statement is to provide financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government this applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. Concepts Statement No. 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic financial Statements-and Management's discussion and Analysis-for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure of net position, rather than net assets. The Council is reviewing the possible effects of the implementation of this statement.

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STATE OF NEW MEXICO
 NEW MEXICO BEEF COUNCIL
 SCHEDULE OF CASH ACCOUNTS AND PLEDGED COLLATERAL
 JUNE 30, 2011

New Mexico Bank & Trust	Checking	Money Market	Total
Balance per bank	\$ 435,758	\$ 281,172	\$ 716,930
Less: FDIC coverage	(435,758)	<u>250,000</u>	<u>(685,758)</u>
Total uninsured public funds	- -	<u>31,172</u>	<u>31,172</u>
New Mexico State Statute collateral requirement (at 50%)	\$ <u> </u>	\$ <u>15,586</u>	\$ <u>15,586</u>
Pledged collateral:			<u>\$ 1,084,901</u>
Collateral held by agent of New Mexico Bank & Trust, Dubuque, Iowa			

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STATE OF NEW MEXICO

Schedule II

New Mexico Beef Council

SCHEDULE OF COLLATERAL PLEDGED BY DEPOSITORY

FOR PUBLIC FUNDS

JUNE 30, 2011

Name of Depository	Description of Pledged Collateral	Fair Market Value June 30, 2011	Name and Location of Safekeeper
NM Bank & Trust	Federal Home Loan Bank 3133XFJF4 5.375% Matures 5/18/2016	\$ 589,589	NM Bank & Trust Dubuque, IA
	U.S. Treasury Note 912828NT3 2.625% Matures 8/15/20	<u>495,312</u>	NM Bank & Trust Dubuque, IA
	Total	<u><u>\$ 1,084,901</u></u>	

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

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
THE BEEF PROMOTION AND RESEARCH BOARD
INVESTMENT POLICY FOR QUALIFIED STATE BEEF COUNCILS

To the Council Members of the New Mexico Beef Council

We have audited the financial statements of the governmental activities and the major fund of the State of New Mexico, New Mexico Beef Council (Council), as of and for the year ended June 30, 2011, which collectively comprise the Council's basic financial statements and have issued our report thereon dated August 12, 2011. 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.

In connection with our audit, 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 Section 1260.149(f) of the Beef Promotion and Research Order or with the terms of the Agricultural Marketing Service Investment Policy which describes the type of instruments in which the Council may invest. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.

This report is intended solely for the information and use of the Members of the Council, the 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 specific parties.

Precision Accounting, LLC.

August 12, 2011

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

To the Council Members of the New Mexico Beef Council

We have audited the financial statements of the governmental activities and the major fund of the State of New Mexico, New Mexico Beef Council (Council), as of and for the year ended June 30, 2011, which collectively comprise the Council's basic financial statements and have issued our report thereon dated August 12, 2011. 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.

In connection with our audit, 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 Section 1260.149 (f) of the Beef Promotion and Research Order relative to the use of funds collected by the Council. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.

This report is intended solely for the information and use of the Members of the Council, the 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 specific parties.

Precision Accounting, LLC

August 12, 2011

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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*

Hector H. Balderas
New Mexico State Auditor
and
To the Council Members of the
New Mexico Beef Council

We have audited the financial statements of the governmental activities, the major fund and the budgetary comparison statement of the State of New Mexico, New Mexico Beef Council (Council), as of and for the year ended June 30, 2011, which collectively comprise the Council's basic financial statements and have issued our report thereon dated August 12, 2011. 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

Management of the New Mexico Beef Council is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the 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 Council's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Council's internal control over financial reporting.

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 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.

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Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Council Board Members, management, the U.S. Department of Agriculture, and the New Mexico State Auditor, the Department of Finance and Administration and the New Mexico State Legislature and is not intended to be and should not be used by anyone other than these specified parties.

Precision Accounting LLC

August 12, 2011

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STATE OF NEW MEXICO
NEW MEXICO BEEF COUNCIL
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2011

Prior Year Findings

None

Current Year Finding

None

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STATE OF NEW MEXICO
NEW MEXICO BEEF COUNCIL

Other Disclosures
JUNE 30, 2011

An exit conference was held on August 12, 2011, and the contents of this report were discussed. Present at the conference were:

Jim Bob Burnett	Chairman
Dina Reitzel	Executive Director
Don Umbrage, CPA	Contract Accountant
C Jack Emmons CPA	Certified Public Accountant

Financial Statement Preparation

The New Mexico Beef Council has the capability of preparing, understanding and accepting the responsibility for its own GAAP-basis financial statements. The Beef Council contracts with a contract public accountant who is an integral part of their internal control system to prepare the financial statements.