

To the Board of Directors
Virginia Beef Industry Council
Daleville, Virginia

We have audited the statements of assets, liabilities, and net assets – modified cash basis of Virginia Beef Industry Council (the “Council”) for the years ended September 30, 2018 and 2017, and the related statements of unrestricted revenues, expenses, and changes in unrestricted net assets – modified cash basis and have issued our report thereon dated December 19, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated November 7, 2018. Professional standards also require that we communicate to you the following information related to our audit.

SIGNIFICANT AUDIT FINDINGS

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Council are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2018. We noted no transactions entered into by the Council during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management’s knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor’s report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 19, 2018.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Council's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Council's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

During the audit, we discussed internal control procedures with management and recommend the following to strengthen internal controls:

- Review current internal control processes for receipt and disbursement of cash. The Council has a small number of employees which does not allow for optimal segregation of duties. We recommend the Board review the processes to evaluate whether additional participation by a Board member would strengthen these controls.
- Review expense reporting procedures to ensure each expense report for the Executive Director is approved timely by the Board Chairman or Treasurer to be in compliance with the guidelines for Qualified State Beef Councils.
- Review current cash reconciliation procedures to ensure the Executive Director receives a copy of the bank statement directly from each financial institution and maintains a signed copy of the statement supporting his review. We also recommend a member of the Board receive a copy of the bank statement directly from the financial institution as well.
- Ensure the check disbursement control for dual signatures of expenditures over \$5,000 is followed. We noted in testing certain checks exceeding the \$5,000 threshold that only had the signature of the Executive Director.
- Review the memorandum of agreement between the Council and the Virginia Cattlemen's Association for cost sharing allocation and ensure timesheets are kept for all employees that have duties with both organizations. We noted in testing the Executive Director provided number of hours for his duties to support the cost share allocation but did not keep a timesheet which is recommended.

This information is intended solely for the use of the Board of Directors and management of the Council and is not intended to be, and should not be, used by anyone other than these specified parties.



Lynchburg, Virginia
December 19, 2018

VIRGINIA BEEF INDUSTRY COUNCIL
Daleville, Virginia

FINANCIAL STATEMENTS

*As of and for the Years Ended September 30, 2018
and 2017*

And Report of Independent Auditor

VIRGINIA BEEF INDUSTRY COUNCIL

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Report of Independent Auditor

To the Board of Directors
Virginia Beef Industry Council
Daleville, Virginia

We have audited the accompanying financial statements of Virginia Beef Industry Council (the "Council"), which comprise the statements of assets, liabilities, and net assets – modified cash basis as of September 30, 2018 and 2017, and the related statements of unrestricted revenues, expenses, and changes in unrestricted net assets – 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 audits. We conducted our audits 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 from 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 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 Virginia Beef Industry Council as of September 30, 2018 and 2017, and its unrestricted revenues, expenses, and changes in unrestricted net assets for the years then ended, in accordance with the modified cash basis of accounting as described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. These 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.

Chery. Behart LLP

Lynchburg, Virginia
December 19, 2018

VIRGINIA BEEF INDUSTRY COUNCIL**STATEMENTS OF ASSETS, LIABILITIES, AND NET ASSETS – MODIFIED CASH BASIS***SEPTEMBER 30, 2018 AND 2017*

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash and cash equivalents	\$ 599,718	\$ 487,299
Funds held in state treasury	-	63,607
Total Assets	<u>\$ 599,718</u>	<u>\$ 550,906</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Due to National Beef Board	\$ -	\$ 32,285
Cattle assessments due to other states	-	715
Total Liabilities	-	33,000
Net Assets:		
Unrestricted	599,718	517,906
Total Liabilities and Net Assets	<u>\$ 599,718</u>	<u>\$ 550,906</u>

VIRGINIA BEEF INDUSTRY COUNCIL**STATEMENTS OF UNRESTRICTED REVENUES, EXPENSES, AND
CHANGES IN UNRESTRICTED NET ASSETS – MODIFIED CASH BASIS***YEARS ENDED SEPTEMBER 30, 2018 AND 2017*

	<u>2018</u>	<u>2017</u>
Unrestricted Revenue:		
Gross assessment revenues collected	\$ 804,767	\$ 791,545
Less assessment revenues remitted to other states	(21,374)	(11,117)
Less assessment revenues remitted to National Beef Board	<u>(403,591)</u>	<u>(398,835)</u>
Net Assessment Revenues	379,802	381,593
Interest	<u>561</u>	<u>515</u>
Total Unrestricted Revenues	<u>380,363</u>	<u>382,108</u>
Expenses:		
Project costs	<u>196,874</u>	<u>199,977</u>
Administrative:		
Administrative fees	91,221	58,986
Professional fees	9,185	8,585
Postage	59	185
Office supplies and printing	354	552
Federation investment	-	37,000
Telephone	858	837
Innovative contracts	<u>-</u>	<u>20,000</u>
Total Administrative Expenses	<u>101,677</u>	<u>126,145</u>
Total Expenses	<u>298,551</u>	<u>326,122</u>
Increase in unrestricted net assets	81,812	55,986
Net assets, beginning of year	<u>517,906</u>	<u>461,920</u>
Net assets, end of year	<u>\$ 599,718</u>	<u>\$ 517,906</u>

VIRGINIA BEEF INDUSTRY COUNCIL

NOTES TO MODIFIED CASH BASIS FINANCIAL STATEMENTS

SEPTEMBER 30, 2018 AND 2017

Note 1—Summary of significant accounting policies

Organization and Nature of Activities – Virginia Beef Industry Council (the “Council”) operates within the Department of Agriculture and Consumer Services of the Commonwealth of Virginia as provided for in the Beef Promotion Enabling Act of 1979 to educate consumers, advertise, and promote beef and beef products. The Council, certified as a qualified state beef council by the Cattlemen’s Promotion and Research Board, derives authority for the collection and expenditure of the \$1.00 checkoff from the Beef Promotion and Research Act and Order. The current programs of the Board are as follows:

Beef’s Image – Beef’s Image strives to strengthen the image of the beef community and how beef is brought from pasture to plate. Program emphasis for this area will focus on proactively advocating for the beef industry and various production systems, with an emphasis of how these production systems affect the final beef product.

Beef’s Health, Nutrition & Safety – Beef’s Health, Nutrition & Safety enhances consumer knowledge of the positive health and nutritional benefits of beef. Specifically, how beef can sustain Virginia families as a nutrient dense food. It also seeks to continually improve consumer confidence in food safety of beef, and educate consumers about the practices of food safety in the home after purchase. The Council promoted Beef’s Health & Nutrition and Beef’s Safety as one program during the year ending September 30, 2018.

Beef’s Convenience – Beef’s Convenience fulfills consumer expectations for beef selection, preparation, versatility, and ease-of-use.

Basis of Accounting – The Council uses the modified cash basis of accounting in financial statement preparation. Consequently, all income is recognized when received rather than when earned, and all expenses are recognized when cash is disbursed rather than when the obligation is incurred. Financial statements prepared on this basis of accounting are not intended to present financial position and results of operations in accordance with accounting principles generally accepted in the United States of America.

Source of Revenues – The Council’s primary source of revenues is derived from checkoff fees assessed on cattle sold in the Commonwealth of Virginia.

Income Tax Status – The Council is a commission created within the Virginia Department of Agriculture; therefore, it is not a separate taxable entity.

Concentration of Credit Risk – The Council derives all of its income from cattle related activities and is dependent on the economy of the cattle industry in Virginia.

Subsequent Events – Subsequent events have been evaluated through December 19, 2018, which is the date the financial statements were available to be issued. No transactions requiring disclosure occurred through this date.

VIRGINIA BEEF INDUSTRY COUNCIL
NOTES TO MODIFIED CASH BASIS FINANCIAL STATEMENTS

SEPTEMBER 30, 2018 AND 2017

Note 2—Cash and cash equivalents

Cash and cash equivalents at September 30 consisted of the following:

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents in bank	\$ 599,693	\$ 487,274
Petty cash	25	25
Cash and Cash Equivalents	<u>\$ 599,718</u>	<u>\$ 487,299</u>

At September 30, 2018 and 2017, the carrying value of the Council's deposits with banks in cash and cash equivalents was \$599,693 and \$487,274, respectively. The Council places its cash on deposit with financial institutions in the United States. The Federal Deposit Insurance Company ("FDIC") covers \$250,000 for substantially all depository accounts. During the year, the Council from time to time may have had amounts on deposit in excess of the federally insured limits. The Council has not experienced significant losses in such accounts and does not believe it is exposed to any significant risk.

Note 3—Funds held in state treasury

There were no checkoff funds held by the Commonwealth of Virginia allocable to the Council at September 30, 2018. At September 30, 2017, the Commonwealth of Virginia held checkoff funds allocable to the Council of \$30,607.

Note 4—Project costs

Project costs for the year ended September 30, 2018 consisted of the following:

Beef's Image	\$ 54,986
Beef's Health, Nutrition and Safety	85,637
Beef's Convenience	<u>56,251</u>
Total Project Costs	<u>\$ 196,874</u>

Project costs for the year ended September 30, 2017 consisted of the following:

Beef's Image	\$ 51,538
Beef's Health and Nutrition	57,638
Beef's Convenience	51,378
Beef's Safety	<u>39,423</u>
Total Project Costs	<u>\$ 199,977</u>

Note 5—Administrative fees and reimbursements – 2018

Included in with administrative fees for the year ended September 30, 2018, was \$91,221 paid to the Virginia Cattlemen's Association ("VCA") under contract for their services in administering, developing, and conducting a program of marketing, education, promotion, and production for the Virginia cattle industry.

VIRGINIA BEEF INDUSTRY COUNCIL
NOTES TO MODIFIED CASH BASIS FINANCIAL STATEMENTS

SEPTEMBER 30, 2018 AND 2017

Note 5—Administrative fees and reimbursements – 2018 (continued)

In addition to this contract, VCA was reimbursed for several expenditures made on the Council's behalf, as follows:

	2018 Project Classification		
	Beef's Image	Beef's Health, Nutrition & Safety	Beef's Convenience
Compensation package:			
Director of Consumer Information	\$ 4,381	\$ 4,381	\$ 4,381
Publishing costs for monthly article, semi-annual reports, and advertising in newspaper	10,458	-	-
	<u>\$ 14,839</u>	<u>\$ 4,381</u>	<u>\$ 4,381</u>

Reimbursements for compensation packages listed above include \$437 for retirement plan contributions.

In addition, VCA was also reimbursed \$59 for postage in 2018.

Note 6—Administrative fees and reimbursements – 2017

Included in with administrative fees for the year ended September 30, 2017, was \$58,986 paid to the VCA under contract for their services in administering, developing, and conducting a program of marketing, education, promotion, and production for the Virginia cattle industry.

In addition to this contract, VCA was reimbursed for several expenditures made on the Council's behalf, as follows:

	2017 Project Classification			
	Beef's Image	Beef's Health & Nutrition	Beef's Convenience	Beef's Safety
Compensation package:				
Director of Consumer Information	\$ 9,088	\$ 9,088	\$ 9,088	\$ 9,088
Publishing costs for monthly article, semi-annual reports, and advertising in newspaper	8,805	-	-	-
	<u>\$ 17,893</u>	<u>\$ 9,088</u>	<u>\$ 9,088</u>	<u>\$ 9,088</u>

Reimbursements for compensation packages listed above include \$2,125 for retirement plan contributions.

In addition, VCA was also reimbursed \$185 for postage in 2017.

VIRGINIA BEEF INDUSTRY COUNCIL
NOTES TO MODIFIED CASH BASIS FINANCIAL STATEMENTS

SEPTEMBER 30, 2018 AND 2017

Note 7—Functional allocation of expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of unrestricted revenues, expenses, and changes in unrestricted net assets – modified cash basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.