



KANSAS WHEAT

Rediscover Wheat

**Kansas Wheat Commission Annual Report
Presented to the Senate Committee on Agriculture
Monday, March 9, 2015
By Brian Linin, Goodland
Kansas Wheat Commission Secretary/Treasurer**

Chairman Love and members of the committee, thank you for the opportunity to provide an annual report from the Kansas Wheat Commission. My name is Brian Linin, and I am the Secretary/Treasurer of the Kansas Wheat Commission. I am the Chief Financial Officer at Frontier Ag, Inc., in Goodland, and I farm in Sherman County.

The Kansas Wheat Commission was established by the Kansas legislature in 1957 to represent the state's wheat producers in the areas of research, domestic marketing, international marketing, education and communication. It is funded by the wheat assessment, which collects two cents per bushel of wheat at the first point of sale. The Kansas farmers who grow wheat are our stakeholders, and our nine-member commission represents these farmers.

In addition to copies of this testimony, we have presented you with a copy of our 2014 Annual Report and our FY 2014 annual audit.

The growing conditions faced during the fiscal year 2014 were some of the toughest on record. Kansas wheat farmers dealt with drought, record temperatures and freeze. But, in this year to forget, there were some monumental things that happened for the Kansas wheat industry.

The stresses faced in the field emphasized the importance of improving wheat genetics, with the end goal of getting improved varieties into the hands of farmers faster.

Our first major success story is the beginning of research in the Kansas Wheat Innovation Center, located north of Bill Snyder Family Stadium on ground owned by Kansas State University, just off of Kimball Avenue in Manhattan. This center, paid for by farmers through the wheat assessment, is designed from the ground up to conduct cutting-edge research in wheat variety development. It has 25,000 square-feet of laboratory and greenhouse space, and right now a dozen full- and part-time plant scientists are working to create wheat "doubled haploids," which can speed up the time it takes to create new wheat varieties from 12 years to 6 years. Heartland Plant Innovations, the company in charge of this doubled haploid work, was started by the Kansas Wheat Commission and Kansas Association of Wheat Growers to perform wheat research. This year, HPI became one of the largest double haploid companies in the world by taking on the promise to deliver more than 30,000 doubled haploid lines to breeders across the U.S., with expansion in the upcoming years. HPI serves both public and private companies, solidifying its place as one of this nation's key wheat research companies. Since its inception five years ago, HPI has added as investors several multi-national food and agricultural research companies. HPI is now diversifying into wheat genetic discoveries and grain sorghum research.

The National Science Foundation has named Kansas State University as its lead institution for the world's first Industry/University Cooperative Research Center on wheat. The premier center, named the NSF I/UCRC Wheat Genetics Resource Center, is the first National Science Foundation-established research center for any crop plant. This year, the National Science Foundation began work on leveraging diversity for heat and drought tolerance in wheat. It will continue to focus on improving the food production and disease resistance of wheat and other crop plants, as well as serving as a training hub for graduate students and young researchers. It is a collaboration of 12 public entities and private companies, all coming together to fund efforts of K-State and Colorado State scientists, who are working to screen through the Wheat Genetics Resource Center's massive collection of wild wheat relatives, in search of new forms to increase yields through heat tolerance, water-use efficiency and disease resistance. This center is helping to bring innovative research techniques and efforts to the wheat industry, which, though the most widely planted crop in Kansas, worth around \$2.5 billion dollars a year in farm-gate value, has historically struggled to attract private investment in research.

KSU expanded operations by moving the world-renowned Wheat Genetics Resource Center into the KWIC lab space. Through a National Science Foundation grant, the WGRC became the first plant science National Science Foundation Industry/University Cooperative Research Center. The WGRC houses the world's premier collection of wheat germplasm and genetic tools. With the new partnerships, the WGRC will be a center for improving the global wheat crop and solving problems that limit current wheat production. Founded in 1982, the WGRC collects, conserves and utilizes wild wheat germplasm for crop improvement and

sustainable production. With a gene bank that houses more than 2,500 wheat species accessions, it is a lifetime of work for scientists hoping to improve wheat varieties and the wheat industry. The research being conducted on the wild wheat genetics directly benefits Kansas farmers through new wheat varieties.

Public/private partnerships with projects focused on wheat became a reality. Rooms used only for storage during the first year of the Kansas Wheat Innovation Center have now been renovated into two brand new lab spaces filled with wheat researchers. The new molecular biology lab and Wheat Genetics Resource lab provide the space for increased collaborative wheat research at the center. The molecular biology lab houses scientists from Heartland Plant Innovations, Kansas State University and General Mills.

If you haven't had a chance to visit the Kansas Wheat Innovation Center, we invite you to visit Manhattan anytime for a tour of the facility.

The Kansas Wheat Innovation Center represents the single largest investment by wheat producers in this nation, but it is not the only way in which wheat farmers invest in wheat research. Each year, the Kansas Wheat Commission hears from more than two dozen researchers from Kansas State University, USDA and other key entities about a variety of research proposals that help wheat farmers increase yields and improve profitability, plus ensure the quality and integrity of Kansas-grown wheat to end-users and consumers. Again, as in past years, the Kansas Wheat Commission has invested more than \$1.1 million – more than 20% of our budget – in these research proposals.

Included in these research proposals is funding toward K-State's wheat breeding programs in Manhattan and Hays. Our continued involvement in these two programs led to the release of the hard red winter wheat variety, "Everest," four years ago. Everest continues to be the most widely-planted variety in Kansas. K-State wheat breeder Allan Fritz released a new variety this year. "KanMark," which has very good drought tolerance and yields well in western Kansas, is a strong, consistent performer. K-State varieties account for more than 20% of planted acres in the state.

Cereal Biochemist Chris Miller began work on investigating the possibility of celiac edible wheat. In an effort to meet consumer demands and provide whole grain products to those suffering from Celiac Disease and unable to eat wheat, his research hopes to find a solution. Miller is working on screening Kansas wheat varieties for celiac sensitivity in the hope to isolate the proteins that cause the negative reaction in order to breed celiac friendly wheat.

Each year Kansas farmers export roughly half of the Kansas wheat crop, making export promotion through U.S. Wheat Associates essential. U.S. Wheat is an organization of 19 state wheat commissions that leverages farmer and federal foreign market development dollars to promote wheat exports.

The U.S. wheat industry's biggest hard red winter customer came as a pleasant surprise for Kansas wheat farmers. Brazil purchased 4.1 million metric tons or 162 million bushels of hard red winter wheat for the marketing year 13/14. That's equivalent to about half of the 2013 Kansas wheat crop. These largest buyers of bread wheat in the world visited a grain elevator and wheat farm in Kansas. These executives were able to go back to their mills with a greater knowledge of how to specify for the best quality and value from the U.S. HRW supply.

Nigeria, one of the top importers of U.S. wheat, continues to be a success story for U.S. trade relations. The market has grown from purchasing 12.9 million bushels of U.S. wheat in 1992 to about 98.8 million bushels in the 13/14 marketing year. Tremendous growth in the Nigerian market is partially due to trade team visits to learn about the U.S. grain industry. To encourage this trade partnership, the Kansas Wheat Commission hosted eight senior managers from Nigerian milling and pasta manufacturing companies in June 2014.

Each year, teams of millers and buyers travel to Kansas to see harvest and where their wheat comes from. The intent of these trade teams is to provide a quick but thorough overview of our wheat industry. Year in and year out, it seems that visiting a Kansas wheat farm – and riding a combine – is the highlight for these visitors and creates long lasting relationships.

We work very closely with the International Grains Program of K-State's Grain Science and Industry Department to provide educational opportunities for domestic and international milling groups, grain buyers and farmers. The proximity of our building to the IGP headquarters – we are just across the driveway – lends itself to even greater cooperation in the future.

Nutrition education continues to be an important focus for the Kansas Wheat Commission. Our new Kansas Wheat Innovation Center is equipped with a test kitchen, and we have a full-time nutrition educator on staff. We are one of the few state wheat commissions to continue to make nutrition education a priority; this is vital as we continue to battle fad diets such as the gluten-free trend. The Kansas Wheat Commission belongs to two national organizations: the Wheat Foods Council and the Home Baking Association, both of which have remained vigilant on these diet topics and have been instrumental in disseminating accurate nutrition information regarding wheat and wheat foods. We have taken advantage of our test kitchen to video tape baking demonstration videos to share with consumers and give tips on home baking.

Also in an effort to educate consumers about wheat, Kansas Wheat participated in an event in Washington, D.C. on June 14, 2014. Kansans attended as part of the U.S. Botanic Garden's "Amber Waves of Grain" family festival. Kansas Wheat and Home Baking Association led demonstrations on how to mix, knead, shape and bake flour tortillas. Visitors had the opportunity to sample the tortillas, fresh from the griddle. Participating groups included Kansas Foundation for Agriculture in the Classroom, U.S. Wheat Associates, National Association of Wheat Growers, Kansas Association of Straw Artists, American Bakers Association and North American Millers Association. During their time in D.C. they communicated the importance of wheat and agriculture to our country and shared the art of home baking. The Amber Waves of Grain exhibit ran May 24 through October 13, 2014.

We continue to host a Wheat Yield Contest, in which top yields are rewarded with a cash prize at the Kansas State Fair. The contest is designed to encourage farmers to push yield potential and use best management practices. In 2014, the top yield was 89 bushels per acre. We also reward the highest-quality wheat entry, as we want to continue to lead the world not only with ample quantities of wheat, but ample quality wheat, too.

These are just a few examples of how your Kansas Wheat organizations are working on your behalf to spur innovation and make a positive difference in our industry.

Though we have had some recent snow events, we're still concerned about the lingering effects of the drought on this year's crop. Ag Statistics estimates Kansans planted 9.4 million acres this fall and only 44% of the crop is currently rated in good to excellent condition. We are hopeful that Mother Nature will help us grow another bountiful crop this year so that we can do our part to feed a hungry and growing world.

This concludes my report. Thank you once again for your support, this opportunity to share with you our efforts and your leadership in the future as we continue to work together. I'd be glad to answer any questions the committee may have.



2014 Annual Report

Kansas Wheat Commission | Kansas Association of Wheat Growers



2-ANNUAL REPORT



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A look back from the CEO

The growing conditions faced during the fiscal year 2014 of Kansas Wheat were some of the toughest on record. Kansas wheat farmers dealt with drought, record temperatures and freeze. But in this year to forget, there were some monumental things that happened for the Kansas wheat industry.

The stresses throughout the state faced in the field emphasized the importance in improving genetics. With the end goal to get them in the hand of farmers faster with improved wheat varieties. At the Kansas Wheat Innovation Center:

- The National Science Foundation began work on leveraging diversity for heat and drought tolerance in wheat.
- KSU expanded operations by moving the world-renowned Wheat Genetics Resource Center into the KWIC lab space.
- Public/private partnerships with projects focused on wheat became reality.
- Heartland Plant Innovations became one of the largest double haploid companies in the world by taking on the promise to deliver over 30,000 DH lines to breeders across the U.S.
- The world's largest buyers of bread wheat were hosted by Kansas Wheat representatives.

These are just a few examples of how your Kansas Wheat organizations are working on your behalf to spur innovation and to make a positive difference in our industry. This is just the beginning, and we look forward to putting a year to remember together in the future, as we plow through the challenges Mother Nature throws our way.

Justin Gilpin, Kansas Wheat CEO

New Staff Members Join Kansas Wheat

Kansas Wheat welcomed two accomplished communications professionals to the team in 2014. Marsha Boswell, Wamego, Kan., was named Director of Communications and Jordan Hildebrand, Stafford Kan., became the first-ever Program Assistant.

Boswell was Public Relations Specialist for Kansas Wheat from 1999 to 2008. During her first tenure at the KWC, Boswell developed successful promotional campaigns, implemented communications strategies, and was responsible for printed materials, online, and radio communications. In 2008, Boswell began working at Washburn University School of Law, where she was Director of Marketing Communications. At Washburn Law, she managed production and design of printed materials, developed and implemented communication strategies and oversaw the complete overhaul of the website. Boswell is a 2008 graduate of Kansas State University's Master of Agribusiness program. She returned to Kansas Wheat in January 2014.

Jordan Hildebrand is a 2014 Kansas State University graduate, earning her bachelor's in Agricultural Communications and

Journalism. She comes to Kansas Wheat with an excellent resume of experience, previously serving as editor of the *Agriculturist* magazine and working on communications during her internships with the International Grains Program and Senator Moran. Growing up on a wheat farm, Jordan is excited to use her degree to serve wheat farmers.

"I think there is going to be a tremendous amount of growth in the wheat industry, and I am excited to be a part of it," she said.

Hildebrand joined the Kansas Wheat team in June 2014.

The program assistant position was created to support the Director of Communications and Director of Governmental Affairs. Adding a staff member will allow expansion of communications and policy efforts.

"Marsha and Jordan are both great additions to our Kansas Wheat team as they bring skills that can expand our capabilities in both communications and offerings for membership of the association," said Justin Gilpin, Kansas Wheat CEO.

Bob Dole Pays a Visit to KWIC



Former U.S. Senator Bob Dole spoke to a crowd of more than 150 at the Kansas Wheat Innovation Center to share his appreciation for the people of Kansas. The stop was part of his return to Kansas for a gratitude tour with the intention of visiting all 105 counties to thank people who have supported him along his career.

"I appreciate what they (the people of Kansas) did for me so I could do something for Kansas," Dole said.

Senator Dole is recognized on the Kansas Wheat Innovation Center Founders' Wall for his contribution to the Kansas Wheat Research Foundation.

"We are grateful for Senator Bob Dole's long-time support of farm legislation and export promotion programs," said Kansas Wheat CEO Justin Gilpin. "Being from the heartland, he has always known the importance of agricultural production and its value to the U.S. economy."

Dole, 91, has been an advocate for universal childhood education and nutrition. He and Former U.S. Senator George McGovern dedicated themselves to the elimination of hunger at home and abroad.

Wheat Foods Council Battles 'Gluten-Free' Fad



The Wheat Foods Council has identified the gluten-free trend as the top threat to wheat consumption in the U.S. and set out to combat the false information about gluten. This year, they distributed gluten information at the Academy of Nutrition and Dietetics and the Society of Nutrition Education and Behavior conventions to ensure nutrition professionals are equipped with accurate information. Also, the Council has met with some of the world's leading celiac disease researchers, Dr. Alessio Fasano and Dr. Joseph Murray, to assure them that the increase in CD is not from the wheat. In addition, numerous letters have been written to influencers in the gluten conversation who have given inaccurate information to the public. The Council worked with Family Features to provide newspaper and online outlets "The Truth about Gluten" which quoted renowned CD researchers and dietitians. Supermarket registered dietitians are one of the Council's prime audiences, and they have received numerous materials about gluten and a PowerPoint presentation. This presentation, among many other resources, is on the Council's website (wheatfoods.org) for anyone to use.

Wheat Farmer Turned Scientist

The Kansas Wheat Innovation Center is a farmer funded center, focused on wheat research, built by farmers, for farmers. The \$11 million facility is home to more than the Kansas Association of Wheat Growers and Kansas Wheat Commission. In conjunction with Kansas State University and several private companies, hundreds of thousands of dollars of wheat research takes place inside its doors. But who would have thought an actual wheat farmer would be doing the science? Meet Tyler Suelter, a third generation farm kid, who grew up on a diversified crop and livestock operation in Lincoln County, Kansas.

He is a research associate for Heartland Plant Innovations, the for-profit entity of which the Kansas Association of Wheat Growers is the major shareholder. After earning degrees from Kansas State University in Biology and Chemistry in 2007, Suelter went home to work on the family farm. But, it turns out greenhouses serve him better than wheat fields. In 2012, after a few years of farming, he applied for a job with HPI and left the farm in the hands of his father and brother and traded his coveralls for a lab coat.

"Farming is really hard work, and I respect the people that do it, but I like sitting in an air conditioned laboratory and not worrying whether it is going to rain tonight or not," says Suelter. "It's hard to live like that, always worrying about things that you can't control."

Now he is working to help farmers on the one thing they can control, genetics. His work with HPI includes creating doubled haploid plants, working with wheat breeders and companies to help design the best product for wheat research.

"I love working with the plants and the people in the business,"

says Suelter. "I really enjoy working with customers designing what we are going to do for them to help improve their wheat program."

For Suelter, his work and the research going on at the Innovation Center truly goes full circle. He has been able to see all the steps it takes to get a wheat plant to the field and then from the field to the plate. He has now been a part of it all as a researcher, farmer and consumer. The wheat seed his father plants each fall has a bit deeper meaning now.

"It really does go full circle for me," Suelter says. "I get to see the

work that goes into a wheat plant that my dad is going to plant and harvest. I understand things now that I never understood growing up, like all the work and all the effort that goes into making these specific crops and where all these traits in wheat are coming from."

June 30, 2014, marked the end of the first fiscal year of wheat research in the Kansas Wheat Innovation Center. Completed in 2012, the building stands as a testament to wheat farmers' commitment to the future of their crop, something Suelter sees as vitally important.

Suelter says he believes wheat is a crucially important crop, providing 20% of the world's daily calories. With a global population expected to hit 9 billion by 2050, wheat has some progress to make in order to help provide for this growth.

"I can't overstate how important it is to get wheat caught back up to corn and soy because it has lost a lot of ground, and you can see that in the number of acres that have been planted into things other than wheat in the last 20 years," says Suelter.

He is committed to being a part of helping wheat get there, but he sees the Innovation Center as proof that Kansas wheat farmers are too.

"This building and continued investment in research really demonstrates the value that Kansas farmers see in the research that is being done at K-State and across the world to improve wheat," he says. "They are investing in their own future because they see the production of new lines and new genetic diversity as a benefit to themselves."

Actually having seen how that breeding process works and taking part in improving those plants and getting them ready for commercialization through producing double haploids, has given Suelter a new perspective on how important our food supply is.

This perspective is not just as a farmer who raises it, he says, but as someone behind the scenes helping produce these new varieties and improve genetics.

The future of the wheat industry is something that is close to Suelter's heart. Though he isn't the one with the keys to the combine anymore, he is helping Kansas wheat farmers like his family by investing in the future through wheat genetics research.



WGRC Relocates to NSF Center

The Wheat Genetics Resource Center relocated to the Kansas Wheat Innovation Center in October, 2013, marking the beginning of a cornucopia of partnerships to progress research in wheat.

"I remember when we were storing seed on a bench," Jon Raupp, senior scientist for the WGRC said. "Now to have this facility is amazing."

Originally located in Throckmorton Hall at Kansas State University, the WGRC outgrew their lab space and gene bank storage and the Kansas Wheat Commission was able to help.

Through a National Science Foundation grant, the WGRC became the first plant science National Science Foundation Industry/University Cooperative Research Center. This required extended space than what was offered in Throckmorton Hall, and Kansas Wheat began building again.

Bikram Gill, the center's director said the Kansas Wheat Commission has always been an organization that the WGRC could depend on.

"The Kansas Wheat Commission has been the anchor through all the ups and downs, and I think their role, and the role of the Kansas farmer is huge," Gill said. "The biggest secret to our success has been having good rapport with Kansas wheat farmers. I don't think we could have succeeded without them."

The WGRC houses the world's premier collection of wheat germplasm and genetic tools. With the new partnerships, the WGRC will be a center for improving the global wheat crop and solving problems that limit current wheat production. Founded in 1982, the WGRC collects, conserves and utilizes wild wheat germplasm for crop improvement and sustainable production. With a gene bank that houses more than 2,500 wheat species accessions, it is a lifetime of work for scientists hoping to improve wheat varieties and the wheat industry.

The research being conducted on the wild wheat genetics directly benefits Kansas farmers through new wheat varieties. The wild wheat germplasm

contains traits that are targeted through research for use of traits such as drought resistance, insect and disease resistance, protein content and more.

The partnership between the WGRC and Kansas Wheat has led to the creation of the Kansas Wheat Innovation Center, Heartland Plant Innovations and Earth's Harvest. Together, the groups are working to protect and expand the impact of genetic

Gluten-free Wheat?

Cereal Biochemist Chris Miller began work on investigating the possibility of celiac edible wheat. In an effort to meet consumer demands and provide whole grain products to those suffering from celiac disease and are unable to eat wheat, his research hopes to find a solution. Funded by the Kansas Wheat Commission his research will take place at the Kansas Wheat Innovation Center. Miller is working on screening Kansas wheat varieties for celiac sensitivity in the hope to isolate the proteins that cause the negative reaction in order to breed celiac friendly wheat.

resources to address issues such as food security, genetic diversity and crop improvement.

"Farmers should be proud because there is a lot of value to have a facility where there is a growing focus on wheat research," said Will Zorilla, program manager at Earth's Harvest. "It definitely makes for a true collaborative center. I do not think it could have happened at this scale if we did not have this facility."

Kansas Wheat Innovation Center Expands

What served as storage rooms for the first year the Kansas Wheat Innovation Center was inhabited have now been renovated into two brand new lab spaces filled with wheat researchers. The new molecular biology lab and Wheat Genetics Resource lab provide the space for increased collaborative wheat research at the center.

The molecular biology lab houses scientists from Heartland Plant Innovations, Kansas State University and General Mills. The WGRC lab and seed storage room are now home to one of the largest ancient wheat variety gene banks and the home of the first-ever plant science National Science Foundation Industry University Cooperative Research Center.

The new lab space will allow collaborative research from K-State, Oklahoma State University, Colorado State University, private industry and others in a state of the art facility. Research for wheat producers from all sectors of the industry can now come together in a space built by wheat farmers. Just over a year after the Kansas Wheat Innovation Center was completed, the \$400,000 addition has the center fully occupied making maximum use of the space for new discoveries in wheat.



6-INTERNATIONAL MARKETING

World's Top Wheat Buyer is Hungry for U.S. Wheat

The U.S. wheat industry's biggest hard red winter customer for marketing year 2013/2014 came as a pleasant surprise for Kansas wheat farmers. Brazil purchased 4.1 million metric tons or 162 million bushels of hard red winter wheat for the marketing year 13/14. That's equivalent to about half of the 2013 Kansas wheat crop.

Due to a temporary tariff change, Brazil, one of the world's leading wheat importers, leaned on the U.S. to feed their need for wheat.

"Brazil got a taste of U.S. wheat this year and they really, really like it," said Aaron Harries, Director of Marketing for Kansas Wheat. "We hope the quality will bring them back again for more purchases."

Brazil is South America's largest wheat importing market, but typically only purchases about 15 million bushels per year from the U.S., instead relying on fellow Mercosur member Argentina for the bulk of its wheat imports. This year, however, both Brazil and Argentina's wheat crops fell short. That supply situation, combined with concerns of inflation in Argentina, caused exports to South America to skyrocket. Exports to Brazil rose 709% compared to marketing year 12/13.

On April 1, 2013, Brazil lifted a 10 percent common external tariff on wheat, including for the U.S., for a quota of 36.7 million bushels (1.0 MMT). Brazil continued to repeatedly suspend the tariff allowing for the spike in importing of U.S. wheat. The trend will also impact marketing year 14/15 as Brazil lifted the tariff again for about 40 million more bushels of duty free wheat in June 2014. Argentina's crop will be harvested in the fall, but shortages are still projected for wheat-hungry Brazil.

"Even if Argentina has a better crop this year they still face the challenge of government policies to overcome," said Dalton Henry, Kansas Wheat Director of Governmental Affairs. "We had a really good year in being able to show the Brazilian market the quality and consistency that Kansas wheat provides, and I think they really liked that."

Brazil's revised tariff rate quota is temporary, but it has provided U.S. wheat producers with an opportunity to gain new market access. U.S. Wheat Associates, the industry's export trade association, is hopeful that Brazil may institute a permanent increase in the tariff rate quota, as a duty free period has been implemented several times in the last five years.

Another market opportunity exists with Brazil's prior trade agreements. The U.S. had about 50% market share in Brazil before the implementation of the Mercosur agreement in 1991, which gave duty free access to wheat from Argentina, Paraguay, Uruguay



and Venezuela. During the 1994 Uruguay round, Brazil agreed to market access for wheat from non-Mercosur, WTO members for 27.6 million bushels per year, but never implemented the measure. This year's action could lead to permanent market access and, as a result, increased market demand for Midwest wheat producers. It would also provide a consistent, competitive alternative for Brazil's milling industry that would ultimately benefit Brazil's consumers.

"We are working very hard to get new market access for U.S. wheat producers and get Brazil to live by their trade agreements," said U.S. Wheat Associates Vice President of Policy, Shannon Schlecht. "For the Midwest, the tariff rate quota, or getting new market access into Brazil would create new demand for HRW wheat, would be good for HRW producers and would raise overall farm gate prices, if you can keep everything else equal."

Additionally, Kansas wheat producers and USW have worked together to maintain a good relationship with the Brazilian wheat industry.

The quality of U.S. wheat caught the eye of Brazilian millers and buyers, bringing a trade team to Kansas to see the 2014 wheat crop. A group of five executives representing the largest flour mills in Brazil visited Kansas to learn more about the condition of the U.S. hard red winter wheat crop as well as the wheat supply system.

The group visited Gaviola Grain in Haysville, Kansas, and toured Kansas Wheat Commissioner Scott Van Allen's farm near Clearwater. By visiting farms in Kansas, meeting with commercial elevator managers and seeing the USDA grain inspection system, these executives were able to go back to their mills with a greater knowledge of how to specify for the best quality and value from the U.S. HRW supply. This experience is intended to give them the confidence to consider buying more U.S. wheat even when Argentine wheat is available, in part because the demand for

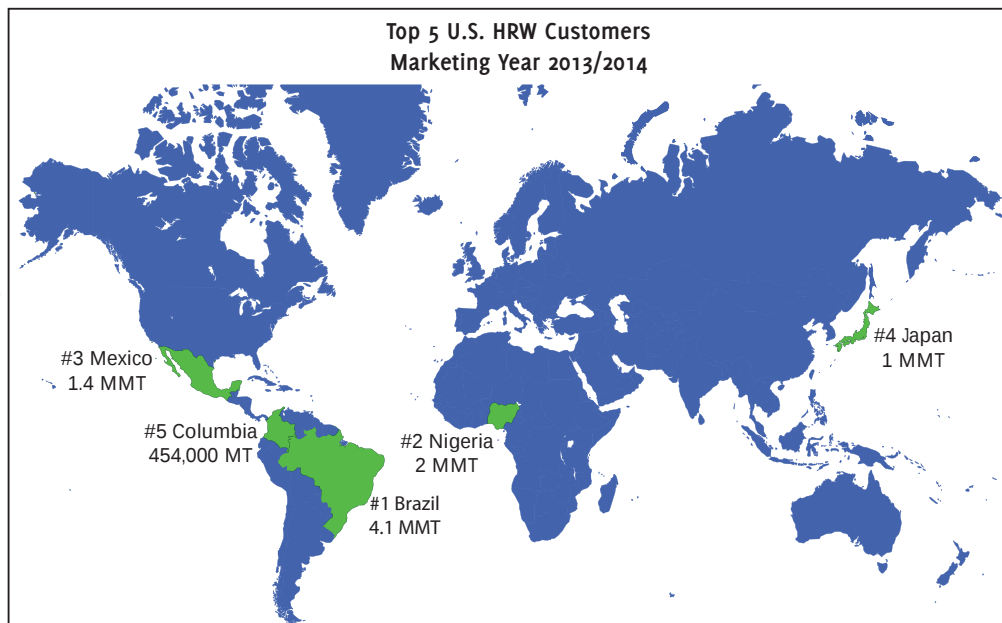
INTERNATIONAL MARKETING-7

higher quality wheat foods, including whole wheat products, is growing in Brazil.

“Any time we can have more market access and reduce tariffs, it is a positive for U.S. farmers,” said Van Allen. “We always strive to deal on a level playing field. U.S. farmers can compete with just about anyone on a farmer-to-farmer basis, but we can't compete with foreign governments.”

The location of U.S. southern ports also makes the U.S. a natural trading partner with Brazil. Several important flour mills operate in northeast Brazil and its northeastern port areas are about the same distance away from southern U.S. ports as they are from Argentina's southern ports. This leaves U.S. wheat at no disadvantage when it comes to shipping costs.

As the nation's leading producers of HRW wheat, Kansas wheat farmers benefited significantly from Brazil's tariff changes for marketing year 13/14. Consistent market demand from one of the world's largest wheat importing countries would see even more U.S. wheat sales to Brazil if that temporary opportunity becomes permanent law.



Nigeria Demands U.S. Wheat

Nigeria, one of the top importers of U.S. wheat, has become a success story for U.S. trade relations. The market has grown from purchasing 12.9 million bushels of U.S. wheat in 1992 to about 98.8 million bushels in the 13/14 marketing year. Tremendous growth in the Nigerian market is partially due to trade team visits to learn about the U.S. grain industry. To encourage this trade partnership, the Kansas Wheat Commission hosted eight senior managers from Nigerian milling and pasta manufacturing companies in June 2014.

“The growth of U.S. wheat exports to Nigeria has been exceptional,” said USW Regional Assistant Director Gerald Theus, based in Cape Town, South Africa, who accompanied the team. “Thanks to the relationships built in Nigeria and between the farmers, USW and Nigerian millers on teams like these, U.S. wheat has found a home in Nigeria. And it is there to stay.”

While in Kansas, the executives toured the AgMark grain handling terminal in Concordia in order to see first-hand the technology and innovation present in the wheat industry. Participants also met with Kansas State University instructors at the International Grains Program, visited the USDA Center for Grain and Animal Health Research and toured the Kansas Wheat Innovation Center.

Aaron Harries, director of marketing for Kansas Wheat, traveled with the team during their time in Kansas.

“Nigerian flour millers continue to be extremely good customers for Kansas wheat farmers. Fifty percent of the Kansas wheat crop



is exported every year, and Nigeria has been the top buyer in most recent years. They love the consistent quality they get in wheat from the U.S.”

United States wheat continues to dominate Nigeria's import market, even with increased competition from suppliers like Canada and Australia. A large factor in this trading success story are the relationships that are developed between the supplier and the buyer because of these trade team experiences. After the conclusion of their U.S. wheat industry tour, these eight executives went back to their facilities with a better understanding of the quality and reliability of the U.S. wheat industry.

8-DOMESTIC MARKETING

Wheat Celebrated in Washington D.C.

A baker's dozen wheat representatives from Kansas traveled to Washington, D.C., in June to share their expertise with the more than 10,000 visitors to the U.S. Botanic Garden.

"Amber Waves of Grain is our summer terrace show this year," said Ray Mims, interim press officer at the U.S. Botanic Garden. "We are really celebrating the beauty and the diversity as well as the history and importance of wheat here in the U.S. and across the world." The Amber Waves of Grain exhibit ran May 24 through October 13, 2014.

"We felt like it was a great opportunity to tie the U.S. Botanic Garden's historic roots, which really came from agriculture at the founding of this nation and bringing that to the forefront, in conjunction with the 100th anniversary of the birth of Dr. Norman Borlaug, who was honored with a statue that went into Statuary Hall this March on his birthday," said Dr. Ari Novy, Acting Executive Director.

The Kansas delegation attended as part of the U.S. Botanic Garden's family festival, held on June 14. Kansas Wheat's Nutrition Educator, Cindy Falk, and Home Baking Association's Sharon Davis led demonstrations on how to mix, knead, shape and bake flour tortillas. Visitors had the opportunity to sample the tortillas, fresh from the griddle.

Other sessions included "Be a Baker," by Kansas Wheat and Home Baking Association; "Beyond the Wheat Fields of Kansas," Kansas Association of Straw Artists display and demonstration of weaving and spinning wheat straw into works of art; and "Wheat's in That?," a value added products display including products from pet foods to postage stamp adhesive to concrete to shampoo; that all include wheat.

At the "Kernel Kids," station, Kansas Foundation for Agriculture in the Classroom representatives and Kansas Wheat's Julie Winsor, director of finance and human resources, helped participants plant their own seeds in a bag to wear next to their skin. They were able to watch them germinate and start to grow — all thanks to their own body warmth.

At "A Test of Strength: The 6 Classes of Wheat," U.S. Wheat Associates showed attendees how each class of wheat is used for different products around the world; and at "Milling in Motion,"

North American Millers' Association gave participants the chance to thresh wheat and mill it into flour using a hand-crank flour mill.

The event continued through October including programs involving wheat scientists, farmers and nutrition experts to answer questions and engage in conversations with consumers.

Falk, Winsor and Marsha Boswell, Kansas Wheat director of communications, said attendees were engaged in learning about the milling and baking industries. During their time in D.C. they communicated the importance of wheat and agriculture to our country and shared the art of home baking.



From Facebook to Farm?



Whoever thought there would be social media contests where the winner earns a trip to your farm? Justin Knopf, Kansas Association of Wheat Growers board member, and his wife Lindsey, hosted the winners of Kansas Farm and Food Connection's social media contest, "Bringing Mom to the Farm: Get the Dirt" event.

Fraser, Dana and Rebecca Wilson of Roeland Park in Johnson County, Kan., earned the opportunity to explore two Kansas farms, Knopf family farms near Gypsum and Tiffany Cattle Feeders in Herington.

Eight-year-old Rebecca Wilson rode in in a combine for the first time, sitting shotgun next to Knopf, observing life on and around



the farm. What the Wilsons saw was a very different scene from their life in Johnson County.

"I'm from Kansas; I live in Kansas. And now I love Kansas even more, knowing what these farmers do for us each and every day," said Dana. "They're ambassadors for the state and Kansas has one of the best products you can find

anywhere. Not very

many people realize what goes into these farms, how hard these families work and the science behind it all."

While on the farm, the Wilsons were able to take a closer look at Kansas' famous amber waves of grain and learn about the importance of wheat, the history of Knopf Family Farms and partake in some pedal tractor races. They even had some photo opportunities taken inside the giant combine tire.

Marsha Boswell, director of communications at Kansas Wheat, met the Wilsons at the Knopf farm.

"The Wilson family came to the farm ready to learn more about where their food comes from," said Boswell. "They asked some wonderful questions and seemed to really enjoy themselves. Dana assured us that she would share what she learned with others."

The "Bringing Mom to the Farm" contest was one of the first events hosted by Kansas Farm and Food Connection, a Manhattan, Kansas-based coalition of eight farm organizations formed to connect

consumers and the people who grow their food. Kansas Wheat is a mid-level supporter of the coalition annually donating \$5,000 to the cause, in addition to staff support during events.

Knopf said he believes the event had a strong impact on the Wilsons and his family enjoyed hosting them.

To Knopf, helping families make that connection from farm to fork is just a part of the job and a way to pass on knowledge to the next generation.

"As a farmer, I think that's part of my responsibility, a part of stewardship," he said.

"I'm from Kansas; I live in Kansas. And now I love Kansas even more, knowing what these farmers do for us each and every day," said Dana.

For more information on the Kansas Farm Food Connection and the "Bringing Mom to the Farm: Get the Dirt" contest, please visit raisingkansas.com.



Finally, a Farm Bill

On August 25, 2011, the Senate Ag Committee held the first field hearing for what was originally intended to be the 2012 Farm Bill, in Wichita, Kansas. Fast forward to February 7, 2014, and the 2014 Agricultural Act was finally signed into law. After two separate bills were written due to a change in leadership, a bill failed on the floor of the house, and two split bills ran, a five year farm bill was passed.

"We are excited and thankful to have a strengthened safety net under farm income," said Justin Gilpin, CEO of Kansas Wheat.

Expected to cut spending by \$23 billion over the next decade, the 2014 Agricultural Act brings an end to direct payments and provides increased options for shallow loss programs.

"It was good to see that the Farm Bill included shallow loss coverage," said Dalton Henry, director of governmental affairs for Kansas Wheat. "Essentially, it included improvements to crop insurance and recognized that crop insurance is the central part of our farm safety net."

The bill provides a multi-year authorization for key programs such as the Market Access Program and Foreign Market Development Program. It also shifts commodity support from direct payments to a mix of programs that will only pay when a farmer experiences a loss. The programs include Ag Risk Coverage, Supplemental Coverage Option and Price Loss Coverage.

Crop insurance gained a new provision that will allow producers to remove a catastrophic loss year from the actual production history calculation which could help farmers affected by severe drought or other natural disaster. The USDA plans to have this implemented for the 2016 crop year. Kansas Wheat is teaming up with other Southern Plains States and other Kansas commodity groups to evaluate the impacts of the 2011-13 drought and how it will affect farmers who experienced a catastrophic loss due to the severe drought. Crop insurance also gained permanent enterprise units and allows the splitting of units between irrigated and nonirrigated cropland.

The USDA has recently awarded education monies to land grant universities to create decision-making guides for producers. Kansas State University researchers and economists are working with both Texas A&M and Oklahoma State University to help farmers make informed choices on adjusted farm policy this fall.

With the Farm Bill passage, KAWG's policy efforts will shift toward Farm Bill implementation and annual appropriations for research, Food Aid and market development.

"Now that we have a bill passed, we can't lose sight of our efforts," said Henry. "It's time to focus on the details of implementation because these details determine whether or not these programs will work for wheat farmers."

Two Kansas Farmers Elected to NAWG Board

Paul Penner, Hillsboro, was elected President and David Schemm, Sharon Springs, was elected Secretary/Treasurer to the National Association of Wheat Growers Board at the NAWG board meeting on February 27, 2014.

Penner owns and manages a cash grain farm in central Kansas near Hillsboro. His principal crops are wheat, soybeans, grain sorghum, corn and grass hay. In addition, he operates a custom farming enterprise in Marion County. A long-time member of KAWG, Penner held each of the organization's officer chairs and served an additional year-long term each as vice president and president. During his time in KAWG's leadership, he was actively involved in the formation of Heartland Plant Innovations, Inc., a for-profit biotechnology company of which KAWG is a majority shareholder.

"I'm very excited to serve as NAWG president and am looking forward to a productive year. I am grateful for the opportunity to serve as president and will work hard to live up to the expectations set forth," said Penner.

Schemm and his wife Lisa grow wheat, corn, grain sorghum, and sunflowers on their Wallace County farm along with their two sons, Clay and Luke. Schemm has been active on the Kansas Association of Wheat Growers Board since 2002. Within the KAWG, his fellow producers have elected him as a membership district director, secretary/treasurer, vice president and president. Schemm has also served on the board of the National Association of Wheat Growers, having been actively involved on several



Both earning offices on the NAWG board, Penner, left, was elected President while Schemm, right, was elected Secretary/Treasurer in February 2014.

committees including serving as chair of the Domestic and Trade Policy Committee and as a member of the Operations and Planning Committee.

"Serving as an officer on the NAWG board is something I have given a lot of thought to, and I have the belief that I have to be a part of the industry to help make sure that we pass on a strong thriving industry to the next generation," said Schemm. "We've got challenging times with us now and in the future, and we also have a great and positive future."

Kansas Wheat Commission Financial Statement (unaudited) July 1, 2013 – June 30, 2014

Beginning Balance		\$2,238,169
Wheat Assessment Collected	\$5,299,958	
Other Income		
(sales of promotional items, Grants, operating activities, etc.)	\$359,459	
Sponsorship Income	\$100,000	
Interest Income	\$13,565	
Building Related Income	\$634,717	
Total FY 2014 Income		\$6,407,699
Refunds to Producers	-\$207,315	
FY 2014 Expenditures		
Special Projects	-\$40,000	
Public Issues – Food Aid	-\$165,998	
Research	-\$1,129,199	
Domestic Marketing	-\$1,037,430	
International Marketing	-\$1,365,094	
Administration	-\$289,411	
Kansas Wheat Innovation Center	-\$1,166,920	
Total FY 2014 Expenditures		-\$5,194,052
Ending Balance		\$3,244,501

**This financial statement is an unaudited document.*

The Kansas Wheat Commission budget is based upon the size of the state's annual wheat crop. The 2013 wheat crop totaled 319 million bushels. The Commission collected about \$5.3 million from the two cents per bushel voluntary Wheat Assessment, and refunded \$207,314.59. Each year, the budget is subject to approval by the Commission. The KWC strives to keep about six months of reserves to offset unforeseen disasters.

Money collected through the Kansas wheat checkoff is invested in a variety of projects that meet the Kansas Wheat Commission objectives, including: Public Issues, Research, Domestic Marketing, International Marketing, Administration and Special Projects. In FY 2012, the Kansas Wheat Commission began construction of the Kansas Wheat Innovation Center, a major investment that is helping to shape a bright future for wheat production in Kansas. The construction of the facility was completed in November 2012, and further developments were made in FY 2014.



Kansas Wheat Staff

CHIEF EXECUTIVE OFFICER Justin Gilpin
DIRECTOR OF COMMUNICATIONS Marsha Boswell
NUTRITION EDUCATOR Cindy Falk
DIRECTOR OF MARKETING Aaron Harries
DIRECTOR OF GOVERNMENT AFFAIRS Dalton Henry
PROGRAM ASSISTANT Jordan Hildebrand
OFFICE MANAGER Julie Owens
DIRECTOR OF FINANCE AND HUMAN RESOURCES Julie Winsor
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KANSAS WHEAT COMMISSION

Manhattan, Kansas

FINANCIAL STATEMENTS

WITH

INDEPENDENT AUDITOR'S REPORT

June 30, 2014 and 2013



October 14, 2014

To the Commissioners
Kansas Wheat Commission
Manhattan, Kansas

Independent Auditor's Report

Report on the Financial Statements

We have audited the accompanying financial statements of the Kansas Wheat Commission (the Commission), a commission of the State of Kansas, which comprise the statements of financial position as of June 30, 2014 and 2013, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

The Commission's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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 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. 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 that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the Commission, as of June 30, 2014 and 2013, and the changes in net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters - Supplementary Information

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

Varney & Associates, CPAs, LLC

Certified Public Accountants

KANSAS WHEAT COMMISSION
 Manhattan, Kansas
STATEMENTS OF FINANCIAL POSITION
 As of June 30,

	<u>2014</u>	<u>2013</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 3,224,554	\$ 2,258,252
Sponsorships receivable	-	28,000
Grants receivable	-	93,253
Other receivable	-	2,566
Total Current Assets	<u>\$ 3,224,554</u>	<u>\$ 2,382,071</u>
Property, Plant, and Equipment		
Office equipment	\$ 292,727	\$ 292,727
Lab equipment	940,734	430,467
Vehicles	75,871	75,871
Furniture and fixtures	379,740	357,895
Building	8,538,639	8,112,545
Accumulated depreciation	(675,614)	(156,203)
Total Property, Plant, and Equipment	<u>\$ 9,552,097</u>	<u>\$ 9,113,302</u>
TOTAL ASSETS	<u><u>\$ 12,776,651</u></u>	<u><u>\$ 11,495,373</u></u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ -	15,658
Payroll payable	26,723	24,457
Sales taxes payable	40	37
Building line of credit	2,770,138	2,770,138
Deferred revenue - Equipment lease	192,814	51,414
Total Current Liabilities	<u>\$ 2,989,715</u>	<u>\$ 2,861,704</u>
Non-Current Liabilities		
Compensated absences payable	<u>\$ 88,194</u>	<u>\$ 90,069</u>
Net Assets		
Unrestricted	<u>\$ 9,698,742</u>	<u>\$ 8,543,600</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 12,776,651</u></u>	<u><u>\$ 11,495,373</u></u>

Financial Statements

KANSAS WHEAT COMMISSION
 Manhattan, Kansas
STATEMENTS OF ACTIVITIES
 For Each of the Years Ended June 30,

	<u>2014</u>	<u>2013</u>
CHANGES IN UNRESTRICTED NET ASSETS		
REVENUE		
Wheat assessments	\$ 5,299,958	\$ 5,212,853
Refunds of wheat assessments	(207,315)	(247,027)
Net wheat assessments	<u>\$ 5,092,643</u>	<u>\$ 4,965,826</u>
Economic development grant	231,909	198,189
HPI equipment lease	92,566	53,522
HPI licensing agreement	301,568	140,000
HPI management contract	-	12,500
KAWG cooperative agreement	70,000	70,000
Sponsorships	72,380	81,500
Interest	14,716	14,389
Miscellaneous	61,501	23,859
Total Revenues	<u>\$ 5,937,283</u>	<u>\$ 5,559,785</u>
EXPENSES		
Building maintenance costs	\$ 216,829	\$ 107,357
Special projects	5,000	15,000
Public issues	6,000	-
Research	1,005,742	967,252
Administrative	1,992	6,961
Domestic marketing	734,179	719,112
International marketing	1,188,373	1,145,063
Facility support	375,585	269,499
Payroll	729,030	741,938
Depreciation	519,411	81,384
Total Expenses	<u>\$ 4,782,141</u>	<u>\$ 4,053,566</u>
CHANGE IN UNRESTRICTED NET ASSETS	\$ 1,155,142	\$ 1,506,219
UNRESTRICTED NET ASSETS - BEGINNING	<u>8,543,600</u>	<u>7,037,381</u>
UNRESTRICTED NET ASSETS - ENDING	<u><u>\$ 9,698,742</u></u>	<u><u>\$ 8,543,600</u></u>

Financial Statements

KANSAS WHEAT COMMISSION
 Manhattan, Kansas
STATEMENTS OF CASH FLOWS
 For Each of the Years Ended June 30,

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from wheat assessments	\$ 5,299,958	\$ 5,212,853
Cash paid for refunds of wheat assessments	(207,315)	(247,027)
Cash received from sponsorships	100,380	53,500
Cash received from grants	466,562	104,936
Cash received from HPI equipment lease	92,566	104,936
Cash received from HPI facilities lease	301,568	140,000
Cash received from HPI management contract	-	12,500
Cash received from KAWG cooperative agreement	70,000	70,000
Cash received from miscellaneous sources	64,067	21,293
Cash received from interest on cash deposits	14,716	14,389
Cash paid for interest on borrowings	(164,916)	(56,826)
Cash paid to vendors, suppliers, and contractors	(3,384,439)	(3,178,642)
Cash paid for employee wages and benefits	(728,639)	(687,674)
Cash Provided by Operating Activities	<u>\$ 1,924,508</u>	<u>\$ 1,564,238</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash paid for purchases of property, plant, and equipment	\$ (958,206)	\$ (5,445,112)
Cash received from HPI for greenhouse reimbursement	-	1,302,767
Cash Provided by (Used in) Investing Activities	<u>\$ (958,206)</u>	<u>\$ (4,142,345)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash received from building line of credit	\$ -	\$ 1,907,866
Cash paid on Ford motor credit loan	-	(28,573)
Cash Provided by Financing Activities	<u>\$ -</u>	<u>\$ 1,879,293</u>
NET INCREASE (DECREASE) IN CASH	\$ 966,302	\$ (698,814)
CASH AND CASH EQUIVALENTS - BEGINNING	<u>2,258,252</u>	<u>2,957,066</u>
CASH AND CASH EQUIVALENTS - ENDING	<u>\$ 3,224,554</u>	<u>\$ 2,258,252</u>
COMPOSITION OF CASH AND CASH EQUIVALENTS		
Kansas State Bank - Main Checking Account	\$ 3,029,430	\$ 2,157,519
UMB Bank - Wheat Assessment Depository Account	195,124	100,733
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 3,224,554</u>	<u>\$ 2,258,252</u>

Financial Statements

KANSAS WHEAT COMMISSION
 Manhattan, Kansas
STATEMENT OF CASH FLOWS (CONTINUED)
 For Each of the Years Ended June 30,

	<u>2014</u>	<u>2013</u>
Reconciliation of change in unrestricted net assets to net cash provided by operating activities:		
Change in unrestricted net assets	\$ 1,155,142	\$ 1,506,219
Adjustments to reconcile change in unrestricted net assets to net cash provided by operating activities:		
Depreciation expense	\$ 519,411	\$ 81,384
Changes in operating assets and liabilities		
Sponsorship receivable	28,000	(28,000)
Grants receivable	93,253	(93,253)
Other receivables	2,566	(2,566)
Accounts payable	(15,658)	(5,261)
Payroll payable	2,266	24,457
Sales tax payable	3	37
Deferred revenue	141,400	51,414
Compensated absences payable	(1,875)	29,807
Total Adjustments	<u>\$ 769,366</u>	<u>\$ 58,019</u>
Net Cash Provided by Operating Activities	<u>\$ 1,924,508</u>	<u>\$ 1,564,238</u>

Financial Statements

KANSAS WHEAT COMMISSION
Manhattan, Kansas
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

Note 1: Summary of Significant Accounting Policies

Organization

The Kansas Wheat Commission (the Commission) is organized as a commission of the State of Kansas to conduct a campaign of wheat promotion and market development through research, education, and information. The Commission receives an assessment that is levied on wheat marketed through commercial channels in the state of Kansas. Each wheat producer may obtain a refund of assessments paid upon proper submission of documentation within one year of sale as long as the refund requested is \$5 or more.

Method of Accounting

The financial statements are prepared using the accrual basis of accounting and the financial reporting provisions of accounting principles generally accepted in the United States of America as prescribed by the Financial Accounting Standards Board.

Cash and Cash Equivalents

Cash includes all deposits in the bank and highly liquid investments with original maturities of three months or less. The carrying value of cash approximates fair value because of the short maturities of those financial instruments.

Sponsorships Receivable and Revenue Recognition

Sponsorships receivable consist of amounts due from third party supporters and promoters of events operated by the Commission. Revenues are recognized when the sponsor has committed to a contribution amount and the Commission has completed the event. Management has evaluated the collectability of the receivable amount at June 30, 2013 and estimates that the entire amount is fully collectible with a \$0 reserve for the allowance of doubtful accounts.

Grants Receivable and Revenue Recognition

Grants receivable consist of amounts due from third party grantors for reimbursement of qualifying grant award costs. Revenues are recognized when qualifying reimbursable costs are incurred.

Wheat Assessment Revenue Recognition

The Commission records wheat assessment revenues when monies have been collected by the State of Kansas and have been distributed to the Commission's banking accounts. Refunds of assessments are tracked separately and are reported as a reduction of the gross amounts of wheat assessment revenues.

Property, Plant, and Equipment

The cost of property and equipment purchases are capitalized at historical cost. The cost of major renewals and betterments that extend the lives of property and equipment are also capitalized. When assets are retired or otherwise disposed of, the assets and related accumulated depreciation are reduced and any resulting gain or loss is recognized as a change in the net assets in the period of disposal. The cost of maintenance and repairs is expensed as incurred.

Notes to Financial Statements

KANSAS WHEAT COMMISSION
Manhattan, Kansas
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2014 and 2013

Note 1: Summary of Significant Accounting Policies (Continued)

Property, Plant, and Equipment

Depreciation is computed using the straight-line method over the following estimated useful lives:

<u>Property Classification</u>	<u>(Years)</u>
Office equipment	3 - 10
Lab equipment	5 - 10
Vehicles	5
Furniture and fixtures	7 - 10
Building	25

Net Assets

The Commission reports the changes in its financial position according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets represents the amount of resources which are available for current uses. Temporarily restricted net assets are cash or other assets received with a donor-imposed restriction that limits their use to a specific purpose or period of time. Permanently restricted net assets are cash or other assets received with a donor-imposed restriction that requires the Commission to hold the asset in perpetuity.

For each of the years ended June 30, 2014 and 2013, there were no temporarily or permanently restricted net assets, or changes thereof.

Advertising

The Commission's advertising costs are expensed as incurred and are separately reported on the statements of activities as domestic and international marketing.

Income Taxes

The Commission is an entity created by the State of Kansas, action of which is codified in K.S.A. 2-3002. The Commission is not subject to income tax and, accordingly, no provision has been made for income taxes.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

KANSAS WHEAT COMMISSION
 Manhattan, Kansas
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2014 and 2013

Note 2: Cash and Certificates of Deposit

Cash and certificates of deposit are maintained at Kansas State Bank located in Manhattan, Kansas and UMB Bank located in Kansas City, Missouri.

The bank balance at June 30, 2014 in checking accounts totaled \$3,477,800. The bank balance at June 30, 2013 in checking accounts totaled \$2,288,243. FDIC insurance and letters of credit were sufficient to adequately secure all deposits for each of the years ended June 30, 2014 and 2013.

For June 30, 2014, the balances were secured as follows:

	<u>Kansas State Bank</u>	<u>UMB Bank</u>	<u>Total</u>
FDIC insurance	\$ 250,000	\$ 124	\$ 250,124
Collateralized by Federal Home Loan Bank letter of credit	3,227,676	-	3,227,676
Total	<u>\$ 3,477,676</u>	<u>\$ 124</u>	<u>\$ 3,477,800</u>

For June 30, 2013, the balances were secured as follows:

	<u>Kansas State Bank</u>	<u>UMB Bank</u>	<u>Total</u>
FDIC insurance	\$ 250,000	\$ 4,209	\$ 254,209
Collateralized by Federal Home Loan Bank letter of credit	2,038,243	-	2,038,243
Total	<u>\$ 2,288,243</u>	<u>\$ 4,209</u>	<u>\$ 2,292,452</u>

Funds on deposit at UMB Bank are swept nightly when target balances are reached, invested in repurchase agreements, and swept back when required for payment of checks to transfer funds to Kansas State Bank.

Note 3: Grants Receivable

During the year ended June 30, 2013, the Commission received a grant award from the Economic Development Administration (EDA), which is an agency of the U.S. Department of Commerce. The grant award provides federal funding in the maximum amount of \$458,750 for the purchase of qualifying laboratory research equipment. The grant is paid by the EDA to the Commission on a cost reimbursement basis with a dollar for dollar local matching requirement.

For the year ended June 30, 2014, the Commission purchased \$463,819 of qualifying equipment of which \$231,910 was reimbursable by the EDA. As of June 30, 2014, the EDA grant had been finalized with total grant receipts, inception through completion, of \$430,099.

For the year ended June 30, 2013, the Commission purchased \$396,378 of qualifying equipment of which \$198,189 is reimbursable by the EDA. As of June 30, 2013, the Commission received \$104,936 from the EDA and is awaiting expense reimbursement of \$93,253.

KANSAS WHEAT COMMISSION
 Manhattan, Kansas
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2014 and 2013

Note 4: Property, Plant, and Equipment

Changes in property, plant, and equipment for the year ended June 30, 2014 were as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Office equipment	\$ 292,727	\$ -	\$ -	\$ 292,727
Lab equipment	430,467	510,267	-	940,734
Vehicles	75,871	-	-	75,871
Furniture and fixtures	357,895	21,845	-	379,740
Building	8,112,545	426,094	-	8,538,639
Accumulated depreciation	(156,203)	(519,411)	-	(675,614)
Net book value	\$ 9,113,302	\$ 438,795	\$ -	\$ 9,552,097

Changes in property, plant, and equipment for the year ended June 30, 2013 were as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Construction in progress	\$ 4,827,964	\$ -	\$ 4,827,964	\$ -
Office equipment	127,511	224,104	58,888	292,727
Lab equipment	-	430,467	-	430,467
Vehicles	75,871	-	-	75,871
Furniture and fixtures	5,625	352,430	160	357,895
Building	-	8,112,545	-	8,112,545
Accumulated depreciation	(133,868)	(81,384)	59,049	(156,203)
Net book value	\$ 4,903,103	\$ 9,038,162	\$ 4,946,061	\$ 9,113,302

The net book value and average remaining useful lives for each class of property, plant, and equipment is as follows:

	2014		2013	
	Net Book Value	Average Remaining Life In Years	Net Book Value	Average Remaining Life In Years
Office equipment	\$ 181,972	7.19	\$ 213,036	8.00
Lab equipment	821,002	6.77	424,916	8.27
Vehicles	34,589	2.68	49,763	3.56
Furniture and fixtures	331,699	8.85	340,084	9.59
Building	8,182,835	23.96	8,085,503	24.92
Net book value	\$ 9,552,097		\$ 9,113,302	

KANSAS WHEAT COMMISSION
Manhattan, Kansas
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2014 and 2013

Notes to Financial Statements

Note 5: Facility Construction -- Kansas Wheat Innovation Center

In December of 2012, the Commission completed the construction of the Kansas Wheat Innovation Center (the Center), a 35,000 square-foot structure, which includes 15,000 square feet of advanced wheat breeding laboratories, a 10,000 square foot greenhouse complex and 10,000 square feet of office space. In addition to housing the Commission's employees, the Center houses the employees of Heartland Plant Innovations and the Kansas Association of Wheat Growers, each of which is considered a related party of the Commission.

The Center was constructed on three acres of land adjacent to the Grain Science and Industry Complex in Manhattan, Kansas. This land is owned by Kansas State University and leased to the Commission under a 50 year lease agreement.

Design and construction costs for the building were \$426,094 and \$3,284,581 for each of the years ended June 30, 2014 and 2013, respectively.

To finance construction of the Center, the Commission opened a line of credit in July of 2011 with Kansas State Bank. The terms of the line of credit call for a maximum available loan of \$3,500,000 with interest to accrue at 4.7%. The outstanding principal balance on this line of credit was \$2,770,138 as of both the June 30, 2014 and 2013 reporting dates. Interest expense on this loan for each of the years ended June 30, 2014 and 2013 was \$164,916 and \$56,139, respectively.

Note 6: Compensated Absences Payable

The Commission's policy allows employees to accumulate annual and sick leave as follows:

Annual Time:

- 0 - 5 years of service accrue 2 weeks per year
- 6 - 15 years of service accrue 3 weeks per year
- 15 or more years of service accrue 4 weeks per year
- Employees can accumulate 60 days maximum
- Employees can only carryover 1/2 of what is accrued each year
- Maximum payout is 30 days when an employee terminates employment or at retirement

Sick Leave:

- Employees initially accumulate 7 days per year
- Once an employee has accumulated 12 days of sick leave or has 3 years of continuous employment, whichever comes first, the employee accrues 14 days per year
- Maximum accumulation is 180 days
- Sick leave is paid at the employee's base rate of pay
- Maximum payout is 2 weeks upon termination of employment or 4 weeks upon retirement

Compensated absences have been accrued for the balances due upon termination, \$44,996 in annual time and \$43,198 in sick leave for a total of \$88,194 for the year ended June 30, 2014 and \$45,532 in annual time and \$44,537 in sick leave for a total of \$90,069 for the year ended June 30, 2013.

KANSAS WHEAT COMMISSION
Manhattan, Kansas
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2014 and 2013

Note 8: Pension Plan Expense

On January 1, 2008, the Commission established a Section 457 plan and a section 401(a) plan. The plan allows employees to contribute an amount from their wages to the plan. The maximum amount is established by the Internal Revenue Service. The Commission contributes a matching amount for each employee participating in the plan up to 7% of the employee's gross wages.

The Commission's expense for the years ended June 30, 2014 and 2013 was \$43,940 and \$37,797, respectively.

Note 9: Building Rental Expense

On July 1, 2006, the Commission began leasing the building at 217 Southwind Place, Manhattan, Kansas from Tillman Partners, LP. The total lease payments were \$34,620 for the year ended June 30, 2013.

As of December 31, 2012, the Commission terminated the lease agreement with Tillman Partners, LP and began to occupy the newly constructed facilities at the Kansas Wheat Innovation Center.

Note 10: Concentration of Support

For each of the years ended June 30, 2014 and 2013, the Commission received 86% and 89%, respectively, of its revenues from wheat assessments.

The amount of wheat assessments received by the Commission is dependent upon the number of bushels of wheat produced and sold in Kansas. The Commission may be adversely affected if the production and sale of wheat drops significantly. The Commission's management feels that the likelihood of this occurring is remote.

Note 11: Stewardship, Compliance, and Accountability

Budget

In accordance with K.S.A. 2-3005, the Commission approved and maintained an operating budget for each of the years ended June 30, 2014 and 2013.

Reserve

In accordance with K.S.A. 2-3005, the Commission maintains a reserve of cash which does not exceed 125% of the previous five-year average for annual disbursements.

As of June 30, 2014, the five-year average of annual disbursements was \$6,116,476 and the cash balance was \$3,224,554. As of June 30, 2013, the five-year average annual disbursements was \$5,778,241 and the cash balance was \$2,258,252.

Refund Recordkeeping

In accordance with K.S.A. 2-3007(b), the Commission maintains complete records of all refunds of wheat assessments paid to wheat producers for a period of time not less than two years.

Depository Security Coverage

In accordance with K.S.A. 2-3008(b), the Commission maintains depository security coverage for its banking deposits as explained in detail in note 2 of these financial statements.

KANSAS WHEAT COMMISSION
Manhattan, Kansas
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2014 and 2013

Note 12: Related Party Transactions

Kansas Association of Wheat Growers

The Kansas Association of Wheat Growers (the Association) is a separate legal entity that has the same internal management as the Commission. The Commission provides certain administration and management services for the Association under the terms of a cooperative agreement. The Commission received \$70,000 under this agreement for each of the years ended June 30, 2014 and 2013.

The Commission contracts with the Association for program services. The amounts paid under these contracts in the years ended June 30, 2014 and 2013 were \$339,500 and \$190,500, respectively.

The Commission acts as a point of collection for the Association's membership dues. For the years ended June 30, 2014 and 2013, the amounts collected by the Commission and remitted to the Association were \$3,005 and \$2,605, respectively.

Kansas Wheat Commission Research Foundation

The Kansas Wheat Commission Research Foundation (the Foundation) was established during the year ended June 30, 2011. The Foundation is legally separate from the Commission, but was organized primarily for its benefit.

The Commission acts as a point of collection for private donations made to the Foundation. The Commission collected and remitted \$1,250 and \$14,500 of donations to the Foundation for each of the years ended June 30, 2014 and 2013, respectively.

The Foundation provided research funding to the Commission in the amount of \$65,000 and \$0 for each of the years ended June 30, 2014 and 2013, respectively.

Heartland Plant Innovations

Heartland Plant Innovations (HPI) is an incorporated for-profit subsidiary of the Association. The President of the Commission is on the board of directors of HPI.

The Commission received \$1,302,767 during the year ended June 30, 2013 as final reimbursement for construction costs related to the greenhouse complex at the Kansas Wheat Innovation Center.

The Commission provided certain administration and management services for HPI under the terms of a management agreement which effectively terminated November 30, 2012. The Commission received \$12,500 under this agreement for the year ended June 30, 2013.

Effective November 27, 2012, the Commission entered into an equipment lease agreement with HPI whereby the Commission provides the unrestricted use of all of its laboratory equipment for a period of five years. HPI agrees to pay a total of \$458,750 in one or more payments during the five year term, but in no year will HPI pay less than \$91,750 prior to full payment. For the year ended June 30, 2014, the Commission received \$233,152 and had deferred recognition of \$192,814 thereof until fiscal year 2015. For the year ended June 30, 2013, the Commission received \$104,936 and had deferred revenue recognition of \$51,414 thereof until fiscal year 2014.

Effective January 1, 2013, the Commission entered into a facilities lease agreement whereby the Commission provisions office, laboratory, and greenhouse space to HPI at a rental cost of \$240,000 per year. Additionally, HPI is responsible for its share of utility costs, limited to \$5,000 per month. For the year ended June 30, 2014, the Commission received \$60,000 in utility cost reimbursements and \$240,000 in rent. For the year ended June 30, 2013, the Commission received \$20,000 in utility cost reimbursements and \$120,000 in rent.

KANSAS WHEAT COMMISSION
Manhattan, Kansas
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2014 and 2013

Note 14: Subsequent Events

Subsequent events were evaluated through October 14, 2014, which is the date the financial statements were available to be issued.

Notes to Financial Statements

SUPPLEMENTAL INFORMATION

KANSAS WHEAT COMMISSION
 Manhattan, Kansas
SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCE
ACTUAL AND BUDGET
 For the Year Ended June 30, 2014

	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>
RECEIPTS			
Wheat assessment	\$ 5,299,958	\$ 4,500,000	\$ 799,958
Wheat assessment refund	(207,315)	(270,000)	62,685
HPI - Facilities lease	301,568	300,000	1,568
KAWG - Cooperative agreement	70,000	70,000	-
Sponsorships	100,380	85,000	15,380
Interest	14,716	20,000	(5,284)
Miscellaneous	64,067	9,000	55,067
Building loan	-	375,000	(375,000)
Total Receipts	<u>\$ 5,643,374</u>	<u>\$ 5,089,000</u>	<u>\$ 554,374</u>
DISBURSEMENTS			
Building costs - Net of reimbursements	\$ 615,907	\$ 840,000	\$ 224,093
Special projects	5,000	15,000	10,000
Public issues	6,000	8,500	2,500
Research	1,005,742	1,066,008	60,266
Administrative	1,992	10,000	8,008
Domestic marketing	734,179	767,925	33,746
International marketing	1,188,373	1,247,282	58,909
Facility support	391,240	405,050	13,810
Payroll	728,639	727,750	(889)
Total Disbursements	<u>\$ 4,677,072</u>	<u>\$ 5,087,515</u>	<u>\$ 410,443</u>
NET INCREASE (DECREASE) IN CASH	<u>\$ 966,302</u>	<u>\$ 1,485</u>	<u>\$ 143,931</u>
CASH AND CASH EQUIVALENTS - BEGINNING	<u>2,258,252</u>		
CASH AND CASH EQUIVALENTS - ENDING	<u>\$ 3,224,554</u>		

Supplemental Information