



KANSAS WHEAT COMMISSION

Kansas grown. Kansas good.

**Kansas Wheat Commission Annual Report
Presented to Senate Committee on Agriculture
Tuesday, March 19, 2013
By Rich Randall
Scott City, Kansas
Kansas Wheat Commission Chairman, District 2**

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 Richard Randall, and I am the chairman of the Kansas Wheat Commission. I farm near Scott City.

The Kansas Wheat Commission was established by the Kansas Legislature in 1957 to work on behalf of the state's wheat growers in market development and promotion through research, education and information. It is funded by the wheat assessment, which collects a penny-and-a-half 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 my written testimony, we have presented you with our 2013 annual report, and our annual financial audit.

The year 2012 will go down in history as one of the most impactful in the Kansas Wheat Commission's 56-year history. Our major success story is the completion of the \$10.3 million 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 cut the development time for a new wheat variety in half, from as many as 12 years to as few as 6 years. Heartland Plant Innovations, the company responsible for this doubled haploid work, was started by the Kansas Wheat Commission and Kansas Association of Wheat Growers to perform wheat research. In this new space, HPI will be able to complete 50,000 doubled haploids per year, making it one of the world's largest laboratories for wheat doubled haploids, and solidifying its place as one of this nation's key wheat research companies. Since its inception three years ago, HPI has added as investors several multi-national food and agricultural research companies. Future prospects for HPI include diversifying wheat genetic discoveries and perhaps working on other crop species.

The Kansas Wheat Innovation Center features 10,000 square feet of office space, which provides a working environment for the combined staff of the KWC and KAWG, and also the staff of HPI. In addition there are two other entities housed in the facility: the Kansas Wheat Alliance, and the Kansas Foundation for Agriculture in the Classroom. The synergies created by these five organizations have been incredible.

We invite you to the Open House of the Kansas Wheat Innovation Center on April 26. I think that you will be impressed by this research center, and the impact it will have on the state's economy.

We believe 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 solicits proposals from more than two dozen researchers from Kansas State University, USDA and other key entities to enable wheat farmers to 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 million – nearly 25% of our budget – in these research projects.

Included in these research proposals is funding towards 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," three years ago. Everest is a game-changing variety, providing stable yield throughout the state and was the state's most-planted variety this fall for the 2013 wheat harvest.

Another major investment of the Commission is in U.S. Wheat Associates, an organization which leverages farmer- and federal market development dollars to help create and support wheat markets overseas. Wheat commissions from 19 states contribute to U.S. Wheat Associates, which has employees in 16 regional offices around the world to teach customers how to buy, mill and bake wheat grown in the U.S. This partnership has been extremely important to Kansas; annually, half our wheat is exported. One of our largest customers is the African country of Nigeria, which for the last five years has proven to be the largest customer of Hard Red Winter wheat out of the Texas gulf. Each year, a group of key Nigerian millers comes to the U.S. as part of a "trade team." Through this outreach program, the millers get to see wheat harvest in Kansas, visit the International Grains Program at K-State, the Kansas City Board of Trade and Louis Dreyfus Commodities in Kansas City. The intent of these "trade teams" is to provide a quick but thorough overview of the country's wheat industry. Year in and year out, it seems that visiting a Kansas wheat farm – and riding a combine – is the highlight for these trade team visitors. We host four to five trade teams from various countries each year; we expect steady numbers in 2013.

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 – will lend itself to even greater cooperation in the future.

An educational event geared toward U.S. consumers will come to Manhattan in June, when the Kansas Wheat Commission joins King Arthur Flour and Fleischmann's Yeast to host the 2013 National Festival of Breads. This is a national amateur bread baking contest, which was previously held in 2009 and 2011 in

Wichita. The NFOB brings together eight amateur bakers for a live national baking competition at the Manhattan Hilton Garden Inn. The ballroom in the hotel will turn into eight kitchens, a demonstration stage and trade show as we invite the public to celebrate wheat foods; in particular bread. In 2011, more than 500 consumers attended the free event, and were treated to baking seminars by several of the industry's leading experts. The highlight of the NFOB, however, is taking the eight contestants – most of whom have never seen a farm before – to a wheat farm for harvest, a flour mill and a grain elevator so that they can see the entire wheat industry, from "farm to fork."

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 "Wheat Belly Diet." 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 launched a new Web site in 2012 called AmericasBreadbasket.com, on which we host dozens of wheat foods recipes from our archives, a unique "ask a question" feature that allows bakers to ask our nutrition educator baking-related questions and a blog through which we can address topical issues. Created by a web design firm located in Wamego, Americas Breadbasket recently won a second place Addy Award in Web Design in the Topeka Advertising Association annual awards contest.

We continue to host a Wheat Yield Contest, in which top yields are rewarded with a cash prize at the Kansas State Fair. For the last three years, we've had about 20 farmers throughout Kansas enter this event, which is designed to encourage farmers to push yield potential. In 2012, the top yield was 89 bushels per acre, an amazing feat given how dry Kansas was. 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.

Thanks to recent rain and snow events, we are optimistic about the 2013 crop. Kansas Ag Statistics estimates that Kansas farmers planted about 9.3 million acres of wheat last fall; down slightly from about 9.5 million the previous year. Although the effects of drought remain, 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.

KANSAS WHEAT COMMISSION

Manhattan, Kansas

FINANCIAL STATEMENTS

WITH

INDEPENDENT AUDITOR'S REPORT

June 30, 2012 and 2011



November 9, 2012

To the Commissioners
Kansas Wheat Commission
Manhattan, Kansas

Independent Auditor's Report

We have audited the accompanying statements of net assets and balance sheets of Kansas Wheat Commission (the Commission) as of June 30, 2012 and 2011, and the related statements of activities and statements of revenues, expenditures and changes in fund balance for the years then ended. These financial statements are the responsibility of the Commission's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Commission as of June 30, 2012 and 2011, and the changes in financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information be presented to supplement the basic financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Varney & Associates
Certified Public Accountants

Independent Auditor's Report

KANSAS WHEAT COMMISSION
 Manhattan, Kansas
MANAGEMENT'S DISCUSSION AND ANALYSIS
 For the Years Ended June 30, 2012 and 2011

Overview

Within this section of the Kansas Wheat Commission's (the Commission) annual financial report, the management provides narrative discussion and analysis of the financial activities of the Commission for the year ending June 30, 2012. The Commission performance is discussed and analyzed within the context of the accompanying financial statements and disclosure following this section.

The Commission is funded by Kansas wheat producers through an assessment when grain is sold by the producer to the first purchasing agent. The Commission funds programs that enhance the competitiveness of wheat by facilitating the development and adoption of innovation for wheat producers. These programs focus on the legislative mandates of research, education and communication, and domestic and international market development.

The income received each year by the Commission is heavily correlated to the size of the Kansas Wheat crop. Each year the Commission collects approximately 93.6% of the wheat produced in the state. In 2012, Kansas produced 382 million bushels of wheat, an increase from the 273 million bushels produced in FY 2011.

Fiscal Year 2012 and 2011 Financial Condition

	<u>2012</u>	<u>2011</u>
Beginning Net Assets	\$ 6,545,194	\$ 5,019,973
Wheat assessment collected	4,166,594	5,717,350
Other income (sales of promotional items, operating activities, reimbursed expenses, etc.)	201,627	203,410
Interest income	45,195	87,160
Total Income	<u>\$ 4,413,416</u>	<u>\$ 6,007,920</u>
Refunds to producers	(197,630)	(358,216)
Expenditures	(3,723,599)	(4,124,483)
Total Expenses	<u>\$ (3,921,229)</u>	<u>\$ (4,482,699)</u>
Change in Net Assets	<u>492,187</u>	<u>1,525,221</u>
Ending Net Assets	<u>\$ 7,037,381</u>	<u>\$ 6,545,194</u>

New income consisted of \$4.17 million of wheat assessment collection, \$201,627 from promotional items, sponsorships, operating activities, reimbursed expenses, etc, and \$45,195 of interest income by investing in CD's.

In January, 2009 the assessment authority was changed for the first time in twenty-five years from 10 mills to 20 mills, or 1 penny per bushel to 2 pennies per bushel. However, the assessment was only raised from 1 cent per bushel to 1.5 cents per bushel.

The investment by producers into the Commission is voluntary and each individual producer has the opportunity to request a refund on the investment. In FY 2012, the Commission refunded \$197,630 or 4.74% of assessment collections to producers. This refund rate decreased from 6.26% in FY 2011 and 6.01% in FY 2010.

KANSAS WHEAT COMMISSION
Manhattan, Kansas
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
For the Years Ended June 30, 2012 and 2011

Fiscal Year 2012 and 2011 Financial Condition (Continued)

This year's expenditure budget was \$9.75 million, which includes \$5.99 million for the building of the new Kansas Wheat innovation Center. The remaining \$3.76 million is a decrease from the previous year, which was approved at \$4.17 million. The FY 2011 budget goal was to begin preparations for construction of the Kansas Wheat Innovation Center which began in FY 2012. This decision was made based on the priorities within the Kansas Wheat marketing plan as set forth by the Board of Directors. Research and domestic and international market development programs were the core mandates that received funding in the fiscal year ended June 30, 2012.

Funds were originally committed for this purpose on March 29, 2007 by a unanimous vote of the Commission board of \$2.5 million dollars. These funds have continued to be noted in the financial statements as the designated building fund. The Commission has worked with KSU and Heartland Plant Innovations for researchers to occupy the lab space and utilize greenhouse space to advance wheat variety development for Kansas farmers. Ground breaking and final financing of the construction of the new facility began in Fiscal Year 2012, with completion scheduled for November 2012.

The Commission has entered into a construction Management contract with Coonrod and Associates, Wichita, Kansas, for the Kansas Wheat Innovation Center. The Guaranteed Maximum Price on the project is \$8.2 million dollars. The Commission spent \$4.1 million out of cash reserves and a mortgage line of credit for the facility of \$3.5 million from Kansas State Bank. The Commission drew on the line of credit in the last month of FY 2012 in the amount of \$862,272. The terms of this mortgage call for a 10 year fixed term with an interest rate of 4.7%. Heartland Plant Innovations will also be contributing to the project in funding the construction of the greenhouse which will be approximately \$1.0 million dollars.

Effective July 1, 2005, Kansas Wheat Commission and the Kansas Association of Wheat Grower (the Association) entered into cooperative agreement. This agreement outlines a new structure that allows for continuation of two separate entities and two boards of directors, a joint committee system, one staff and one office. The Association contracts with the Commission for staff and office services and could affect the financial situation for the next few fiscal years. This year completed the seventh full year of this cooperative agreement.

Financial Statements

KANSAS WHEAT COMMISSION
 Manhattan, Kansas
STATEMENTS OF NET ASSETS
 June 30, 2012 and 2011

	2012	2011
ASSETS		
Current Assets		
Cash	\$ 2,957,066	\$ 4,282,959
Certificates of deposit	-	1,845,743
Accounts receivable	-	7,109
Interest receivable	-	6,272
Prepaid expenses	149,238	16,200
Total Current Assets	\$ 3,106,304	\$ 6,158,283
Non-Current Assets		
Capital assets - Net	\$ 75,139	\$ 40,909
Construction in progress	4,827,964	428,076
Total Non-Current Assets	\$ 4,903,103	\$ 468,985
TOTAL ASSETS	\$ 8,009,407	\$ 6,627,268
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 20,919	\$ 24,223
Auto loan - Due within one year	4,483	-
Line of credit	862,272	-
Total Current Liabilities	\$ 887,674	\$ 24,223
Non-Current Liabilities		
Compensated absences payable	\$ 60,262	\$ 57,851
Auto loan - Due beyond one year	24,090	-
Total Non-Current Liabilities	\$ 84,352	\$ 57,851
Net Assets		
Invested in capital assets - Net of related debt	\$ 4,012,258	\$ 468,985
Unrestricted	3,025,123	6,076,209
Total Net Assets	\$ 7,037,381	\$ 6,545,194
TOTAL LIABILITIES AND NET ASSETS	\$ 8,009,407	\$ 6,627,268

Financial Statements

KANSAS WHEAT COMMISSION
 Manhattan, Kansas
STATEMENT OF ACTIVITIES
 For the Year Ended June 30, 2012

Financial Statements

	<u>EXPENSES</u>	<u>PROGRAM REVENUE</u>	<u>TOTAL</u>
FUNCTIONS/PROGRAMS			
Research	\$ 1,013,349	\$ -	\$ 1,013,349
Domestic marketing			
Wheat producers	454,014	(25,858)	428,156
Consumers	224,364	(25,000)	199,364
First purchasers/Domestic buyers	12,896	-	12,896
Miscellaneous	10,078	-	10,078
International marketing	1,114,546	-	1,114,546
Public issues	3,157	-	3,157
Special projects	10,000	-	10,000
Administration	8,901	-	8,901
Facility support	872,294	-	872,294
Total Functions/Programs	\$ 3,723,599	\$ (50,858)	\$ 3,672,741
GENERAL REVENUES			
Wheat assessment			\$ 4,166,594
Refunds			(197,630)
Returned research dollars			7,283
KAWG cooperative agreement			70,000
HPI management agreement			50,000
Miscellaneous income			5,188
Interest income			45,195
Gain on disposition of property and equipment			18,298
Total General Revenues			\$ 4,164,928
CHANGE IN NET ASSETS			\$ 492,187
NET ASSETS - BEGINNING			6,545,194
NET ASSETS - ENDING			\$ 7,037,381

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KANSAS WHEAT COMMISSION
 Manhattan, Kansas
STATEMENT OF ACTIVITIES
 For the Year Ended June 30, 2011

	EXPENSES	PROGRAM REVENUE	TOTAL
FUNCTIONS/PROGRAMS			
Research	\$ 1,167,852	\$ -	\$ 1,167,852
Domestic marketing			
Wheat producers	449,255	(24,811)	424,444
Consumers	343,973	(41,750)	302,223
First purchasers/Domestic buyers	15,865	-	15,865
Miscellaneous	15,463	-	15,463
International marketing	1,221,373	-	1,221,373
Public issues	1,727	-	1,727
Special projects	21,000	-	21,000
Administration	9,453	-	9,453
Facility support	878,522	-	878,522
Total Functions/Programs	\$ 4,124,483	\$ (66,561)	\$ 4,057,922
 GENERAL REVENUES			
Wheat assessment			\$ 5,717,350
Refunds			(358,216)
Returned research dollars			12,672
KAWG Cooperative agreement			70,000
HPI Management agreement			50,000
Miscellaneous income			4,177
Interest income			87,160
Total General Revenues			\$ 5,583,143
 CHANGE IN NET ASSETS			 \$ 1,525,221
 NET ASSETS - BEGINNING (as previously stated)		 \$ 4,964,267	
Prior Period Adjustment		55,706	
NET ASSETS - BEGINNING (as restated)			5,019,973
 NET ASSETS - ENDING			 \$ 6,545,194

Financial Statements

KANSAS WHEAT COMMISSION
 Manhattan, Kansas
BALANCE SHEETS
 June 30, 2012 and 2011

Financial Statements

	2012	2011
ASSETS		
Current Assets		
Cash in checking	\$ 2,957,066	\$ 4,282,959
Certificates of deposit	-	1,845,743
Accounts receivable	-	7,109
Accrued interest receivable	-	6,272
Prepaid expenses	149,238	16,200
TOTAL ASSETS	\$ 3,106,304	\$ 6,158,283

LIABILITIES AND FUND BALANCE		
Current Liabilities		
Accounts payable	\$ 20,919	\$ 24,223
Line of credit	862,272	-
Total Liabilities	\$ 883,191	\$ 24,223
Fund Balance		
Committed for compensated absences	\$ 60,262	\$ 57,851
Committed for building fund	-	1,871,924
Assigned for auto loan	28,573	-
Unassigned	2,134,278	4,204,285
Total Fund Balance	\$ 2,223,113	\$ 6,134,060
TOTAL LIABILITIES AND FUND BALANCE	\$ 3,106,304	\$ 6,158,283

RECONCILIATION OF FUND BALANCE TO NET ASSETS
 June 30, 2012 and 2011

Total Fund Balance	\$ 2,223,113	\$ 6,134,060
Amount reported in statement of net assets is different because:		
Capital assets used in government activities are not financial resources and therefore are not reported in the fund	4,903,103	468,985
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
Compensated absences payable	(60,262)	(57,851)
Auto loan	(28,573)	-
Total Net Assets	\$ 7,037,381	\$ 6,545,194

KANSAS WHEAT COMMISSION
 Manhattan, Kansas
STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 For the Years Ended June 30,

Financial Statements

	2012	2011
REVENUES		
Wheat assessment	\$ 4,166,594	\$ 5,717,350
Refunds	(197,630)	(358,216)
Interest income	45,195	87,160
Returned research dollars	7,283	12,672
Sponsorship income	50,528	62,750
HPI building reimbursement	-	-
KAWG Cooperative Agreement	70,000	70,000
HPI Management Contract	50,000	50,000
Miscellaneous income	5,518	7,988
Total Revenues	\$ 4,197,488	\$ 5,649,704
EXPENDITURES		
Special projects		
Wheat Genome Project	\$ 10,000	\$ 10,000
Biotech	-	5,000
Whiteside Project	-	6,000
Public issues - Trade policy issues	3,157	1,727
Research contracts	1,013,349	1,167,852
Administrative expense	8,901	9,453
Domestic marketing		
First purchasers/Domestic buyer		
Annual report	1,206	965
Grain grading schools	900	900
Sponsorships	4,790	8,000
Wheat Quality Council	6,000	6,000
Regional and national meetings	-	518
Agriculture in the Classroom	25,000	25,000
Urban wheat field	18,536	33,247
Anniversary tour	-	5,793
Sponsorships	5,445	8,075
Education and promotion	16,764	36,992
Spokesperson program	5,952	4,681
Festival of Breads	4,866	95,873
Membership contracts	147,801	133,794
Wheat producers		
Increase in wheat yields	9,342	5,621
Sponsorships	80	2,230
Newsletters	35,034	37,104
Annual report	8,835	25,802
Direct mailings	2,968	1,375

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KANSAS WHEAT COMMISSION
 Manhattan, Kansas
STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE (CONTINUED)
 For the Years Ended June 30,

Financial Statements

	2012	2011
EXPENDITURES (CONTINUED)		
Domestic marketing (continued)		
Wheat producers (continued)		
Other promotions	44,226	40,112
Website	3,113	128
Producer promotions	21,665	5,523
Trade shows and booth rentals	3,746	4,860
Membership contracts	324,500	326,500
Miscellaneous	505	-
Promotional items	3,588	3,274
Other domestic travel	5,805	12,035
Hospitality	685	154
International marketing		
Crop quality survey	35,882	34,358
Hospitality	-	1,606
Trade teams	3,822	7,748
Travel	8,057	14,040
Membership contracts	1,066,785	1,163,621
Facility support		
Capital outlay	28,591	3,799
Advanced Planet Design	30	7,035
Hospitality	505	351
Bank service charges	2,763	2,420
Professional fees	4,200	4,000
Building expenses	4,751	4,473
Meeting expenses	2,192	1,308
Telephone	11,820	12,564
Equipment rental	8,003	8,017
Postage and delivery	7,225	8,644
Office supplies	14,731	12,648
Rent	46,008	42,000
Computer expense	8,637	10,618
Fees	9,408	8,044
Board expenses	36,454	57,708
Automobile expense	7,549	6,914
Utilities	6,684	7,443
Building insurance	2,361	1,616
Capital outlay for new building project	4,399,888	372,370
Miscellaneous	6,121	12,074

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KANSAS WHEAT COMMISSION
 Manhattan, Kansas
STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE (CONTINUED)
 For the Years Ended June 30,

Financial Statements

	2012	2011
EXPENDITURES (CONTINUED)		
Payroll expenses		
Wages	566,695	524,846
Payroll tax expense	43,449	39,279
Disability insurance	1,886	1,335
Health insurance	28,680	32,518
Retirement benefits matching	32,968	29,473
Worker's compensation insurance	1,750	1,546
Other payroll expense	424	11,209
	\$ 8,135,078	\$ 4,470,213
 RECEIPTS IN EXCESS OF EXPENDITURES	 \$ (3,937,590)	 \$ 1,179,491
 OTHER FINANCING SOURCE		
Proceeds from the disposition of property and equipment	26,643	-
	\$ (3,910,947)	\$ 1,179,491
NET CHANGE IN FUND BALANCE		
	\$ (3,910,947)	\$ 1,179,491
FUND BALANCE - BEGINNING OF YEAR	6,134,060	4,954,569
	\$ 2,223,113	\$ 6,134,060

RECONCILIATION OF CHANGE IN FUND BALANCE TO CHANGE IN NET ASSETS
 June 30, 2012 and 2011

Net Change in Fund Balance	\$ (3,910,947)	\$ 1,179,491
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Amount reported in statement of net assets is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlays	4,428,479	376,169
Depreciation	(14,589)	(20,652)
Disposition of property and equipment	(8,345)	-

Some revenues and expenses reported in the statement of activities do not require or provide for the use of current financial resources and therefore are not reported as revenues and expenditures in the funds:

Compensated absences payable	(2,411)	(9,787)
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Change in Net Assets	\$ 492,187	\$ 1,525,221
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KANSAS WHEAT COMMISSION
Manhattan, Kansas
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies

Organization

The Kansas Wheat Commission (the Commission) is organized as an instrumentality 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. The grower may obtain a refund of the assessment upon proper submission of documentation within one year of sale as long as refund requested is \$5 or more.

Method of Accounting

The major source of revenue for the Commission, the assessment on wheat sold, is accounted for as a special revenue fund. The accompanying financial statements comply with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as of July 1, 2005.

The financial statements of the Commission are prepared in accordance with generally accepted accounting principles (GAAP). The GASB is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The Commission has the option to apply FASB pronouncements issued after that date and has elected to apply those when applicable. The more significant accounting policies established in GAAP and used by the Commission are discussed below.

The statements of net assets and statements of activities are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The statements of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers who purchase, use or directly benefit from goods, services or privileges provided by a given function or 2) operating grants and contributions that are restricted to meeting the operational requirements of a particular function.

The balance sheets and statements of revenues, expenditures, and changes in fund balance are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when measurable and available which is as soon as they are received and expenditures are generally recorded when incurred and payable from current funds.

Income Taxes

The Commission is a governmental entity that is not subject to income tax and, accordingly, no provision has been made for income taxes.

Estimates

Preparing financial statements on the modified accrual basis of accounting requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported revenues and expenditures during the reporting period. Actual results could differ from the estimates.

KANSAS WHEAT COMMISSION
Manhattan, Kansas
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2012 and 2011

Note 1: Summary of Significant Accounting Policies (Continued)

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. The Commission had no non-cash financing transactions nor made cash payments for income taxes or interest expense.

Inventory

The Commission has elected to account for inventories using the purchases method. Under this method, inventories are reported as expenditures when purchased rather than capitalized as an asset.

Capital Assets

All capital assets are valued at historical cost. Depreciation is based on the estimated useful lives of the assets, using the straight-line method. Expenditures for major renewals and betterments that extend the lives of property and equipment are 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 in income of the period. The cost of maintenance and repairs is expensed as incurred.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition. In March 2007, the Board designated funds for the Commission share of a building to be constructed with funding in part through a grant from the Kansas Bioscience Authority. These designated funds were exhausted during fiscal year 2012.

Reclassification

Certain prior year balances have been reclassified to conform to current year presentation.

Fund Balances

Beginning with fiscal year ending June 30, 2010, the Commission implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

Non-spendable fund balance - amounts that are not in non-spendable form (such as inventory) or are required to be maintained intact.

Restricted fund balance - amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government) through constitutional provisions, or by enabling legislation.

Committed fund balance - amounts constrained to specific purposes by the Commission itself, using its highest level of decision-making authority (i.e., the Board of Directors). To be reported as committed, amounts cannot be used for any other purpose unless the Commission takes the same highest level action to remove or change the constraint.

KANSAS WHEAT COMMISSION
 Manhattan, Kansas
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2012 and 2011

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Fund Balances (Continued)

Assigned fund balance - amounts the Commission intends to use for a specific purpose. Intent can be expressed by the Board of Directors or by an official or body to which the Board of Directors delegates the authority.

Unassigned fund balance - amounts that are available for any purpose.

Beginning fund balances for the Commission have been restated to reflect the above classifications.

The Board of Directors establishes (and modifies or rescinds) fund balance commitments by passage of a motion or resolution. This is typically done through adoption and amendment of the budget. Assigned fund balance is established by the Board of Directors through adoption or amendment of the budget as intended for specific purpose (such as the purchase of fixed assets, construction, debt service, or for other purposes).

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, 2012 in checking accounts totaled \$3,498,868. The bank balance at June 30, 2011 in checking accounts totaled \$4,449,735 and certificates of deposit totaled \$1,852,016. FDIC insurance and letters of credit were sufficient to adequately secure all deposits for each of the years ended June 30, 2012 and 2011.

For June 30, 2012, the balances were secured as follows:

	Kansas	UMB Bank	Total
FDIC insurance	\$ 250,000	\$ 4,987	\$ 254,987
Collateralized by Federal Home Loan Bank letter of credit	3,243,881	-	3,243,881
Total	<u>\$ 3,493,881</u>	<u>\$ 4,987</u>	<u>\$ 3,498,868</u>

For June 30, 2011, the balances were secured as follows:

	Kansas	UMB Bank	Total
FDIC insurance	\$ 250,000	\$ 69,508	\$ 319,508
CDARS accounts insured through multiple institutions	866,745	-	866,745
Collateralized by Federal Home Loan Bank letter of credit	5,115,498	-	5,115,498
Total	<u>\$ 6,232,243</u>	<u>\$ 69,508</u>	<u>\$ 6,301,751</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.

KANSAS WHEAT COMMISSION
 Manhattan, Kansas
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2012 and 2011

Notes to Financial Statements

Note 3: Pension Plan

On January 1, 2008, the Commission established a Section 457 plan and a section 401(a) plan. The plan allows the employee 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, 2012 and 2011 was \$32,968 and \$29,473, respectively.

Note 4: Capital Assets

The Commission maintains an account for capital assets, which consists of furniture, equipment, vehicles, and computer hardware and software. Depreciation of these assets is calculated on the straight-line basis over the estimated useful life of the assets.

Changes in capital assets for the year ended June 30, 2012 were as follows:

	<u>June 30, 2011</u>	<u>Additions</u>	<u>Disposals</u>	<u>June 30, 2012</u>
Furniture and equipment	\$ 192,026	\$ 57,164	\$ (40,183)	\$ 209,007
Construction in progress	428,076	4,399,888	-	4,827,964
Accumulated depreciation	(151,117)	(14,589)	31,838	(133,868)
Net Capital Assets	<u>\$ 468,985</u>	<u>\$ 4,442,463</u>	<u>\$ (8,345)</u>	<u>\$ 4,903,103</u>

Changes in capital assets for the year ended June 30, 2011 were as follows:

	<u>June 30, 2010</u>	<u>Additions</u>	<u>Disposals</u>	<u>June 30, 2011</u>
Furniture and equipment	\$ 188,971	\$ 3,799	\$ (744)	\$ 192,026
Construction in progress	55,706	372,370	-	428,076
Accumulated depreciation	(131,209)	(20,652)	744	(151,117)
Net Capital Assets	<u>\$ 113,468</u>	<u>\$ 355,517</u>	<u>\$ -</u>	<u>\$ 468,985</u>

Depreciation expense was \$14,589 and \$20,652 for the years ended June 30, 2012 and 2011, respectively, and is included in facility support expense on the statements of activities.

Note 5: Compensated Absences

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

KANSAS WHEAT COMMISSION
Manhattan, Kansas
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2012 and 2011

Note 5: Compensated Absences (Continued)

Compensated absences have been accrued for the balance due upon termination, \$38,422 in vacation pay and \$21,840 in sick leave for a total of \$60,262 for the year ended June 30, 2012 and \$37,924 in vacation pay and \$19,927 in sick leave for a total of \$57,851 for the year ended June 30, 2011. This liability is recorded in the statements of net assets. On the balance sheets, they are recorded as a designation of committed fund balance.

Note 6: Budget

A legally adopted budget by the Commission is required by KSA 2-3005, but this budget is not required to be published or have a public hearing. Therefore, the budget is presented in the supplemental information section, but Kansas cash basis budget laws do not apply.

Note 7: Building Lease

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 \$46,008 and \$42,000 for the years ended June 30, 2012 and 2011, respectively.

As of June 30, 2012, the Commission has signed a 6 month lease ending December 31, 2012 which calls for lease payments totaling \$34,620 with the option to extend the lease for 2 additional months at a rate of \$5,770 per month.

Note 8: Advertising

Advertising expenses are expensed when incurred. Advertising expenses at June 30, 2012 and 2011 was \$31,559 and \$40,112, respectively.

Note 9: Risk Management

The Commission is considered an "agency, authority, institution, or other instrumentality" of the State of Kansas and Commissioners and any employees are considered employees of the Commission for the purpose of the Kansas Tort Claims Act. Generally, the Act imposes liability on a governmental entity for damages caused by the wrongful acts of its employees while acting within the scope of their employment.

Note 10: Related Party Transactions

Kansas Association of Wheat Growers (the Association) is a separate legal entity that has the same internal management. 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, 2012 and 2011.

The Commission contracts with the Association for program services. The amounts paid under these contracts in the years ended June 30, 2012 and 2011 were \$319,500 and \$301,500, respectively.

Some members of the Association pay membership dues to the Commission that in actuality belong to the Association. These dues are then paid to the Association by the Commission. For the years ended June 30, 2012 and 2011, the amount paid by the Commission to the Association was \$1,800 and \$2,430, respectively.

KANSAS WHEAT COMMISSION
Manhattan, Kansas
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2012 and 2011

Note 10: Related Party Transactions (Continued)

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. There were no transactions with the Foundation during the years ended June 30, 2012 and 2011 and no amounts due to or from the Foundation at June 30, 2012 and 2011.

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

The Commission received \$13,400 during the year ended June 30, 2012 as reimbursement for construction costs related to the greenhouse at the new building site.

The Commission has also paid certain other expenses on behalf of HPI that were scheduled to be reimbursed by HPI. These expenses resulted in an amount receivable from HPI of \$7,109 as of June 30, 2011. There were no amounts due from HPI as of June 30, 2012.

The Commission provides certain administration and management services for HPI under the terms of a management agreement. The Commission received \$50,000 under this agreement for the years ended June 30, 2012 and 2011.

Note 11: Concentrations

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

Note 12: Net Assets Designated for Building Fund

In March 2007, the Board designated \$2.5 million in funds to be set aside for the Commission's share of the costs of constructing the building to be used to house the operations of the Commission, the Association and HPI. Additional funding for the cost of the building is expected to come through grant funds provided to HPI from the Kansas Bioscience Authority.

During the years ended June 30, 2012 and 2011, the Commission paid \$4,399,888 and \$410,557, respectively, for design and construction of the new building, which reduced the amount designated for the project at June 30, 2012 and 2011 to \$0 and \$1,871,924, respectively.

KANSAS WHEAT COMMISSION
 Manhattan, Kansas
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2012 and 2011

Notes to Financial Statements

Note 13: Construction in Process - Building and Design

The Commission has entered into a 50 year land-lease agreement with Kansas State University for the building site. Design and construction costs for the building were \$4,392,941 and \$428,076 through June 30, 2012 and 2011, respectively.

In September 2011, the Board approved the final designs and approved the construction of the building for expected construction and management costs of \$8.2 million. The costs of the building are expected to be paid from cash on hand, a construction loan, and future operating revenues. Construction began in October 2011 and is expected to be completed in November 2012.

The Commission opened a line of credit in July of 2011 with Kansas State Bank to supplement cash flow during the construction phase of the new building. The terms of the line of credit call for a maximum available loan of \$3,500,000 with interest to accrue at 4.7%. As of June 30, 2012, the outstanding principal balance on this line of credit is \$862,272. For the year ended June 30, 2012, the Commission has capitalized \$20,347 of loan origination fee and interest on the line of credit.

Note 14: Long-Term Debt

In June 2012, the Commission entered into a financing arrangement with Ford Motor Credit for the purchase of a 2012 Ford Edge. The terms of the agreement call for principal in the amount of \$28,573 to be repaid over 60 months at 6.74% interest. Annual debt service requirements to maturity are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 4,483	\$ 1,719	\$ 6,202
2014	5,304	1,462	6,766
2015	5,673	1,093	6,766
2016	6,065	701	6,766
2017	6,489	277	6,766
2018	559	3	562
	<u>\$ 28,573</u>	<u>\$ 5,255</u>	<u>\$ 33,828</u>

SUPPLEMENTAL INFORMATION

KANSAS WHEAT COMMISSION
 Manhattan, Kansas
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
ACTUAL AND BUDGET
 For the Year Ended June 30, 2012

	Actual	Budget	Variance Positive (Negative)
REVENUES			
Wheat assessment	\$ 4,166,594	\$ 3,825,000	\$ 341,594
Refunds	(197,630)	(267,750)	70,120
Interest income	45,195	30,000	15,195
Returned research dollars	7,283	-	7,283
Sponsorship income	50,528	20,000	30,528
HPI building reimbursement	-	-	-
KAWG Cooperative Agreement	70,000	70,000	-
HPI Management Contract	50,000	50,000	-
Miscellaneous income	32,161	2,000	30,161
Total Revenues	\$ 4,224,131	\$ 3,729,250	\$ 494,881
EXPENDITURES			
Special projects			
Wheat Genome Project	\$ 10,000	\$ 10,000	\$ -
Biotech	-	5,000	5,000
Public issues - Trade policy issues	3,157	2,500	(657)
Research contracts	1,013,349	1,012,128	(1,221)
Administrative expense	8,901	10,000	1,099
Domestic marketing			
First purchasers/Domestic buyer			
Annual report	1,206	1,000	(206)
Grain grading schools	900	900	-
Sponsorships	4,790	6,775	1,985
Wheat Quality Council	6,000	6,000	-
Consumers			
Regional and national meetings	-	5,000	5,000
Agriculture in the Classroom	25,000	25,000	-
Urban wheat field	18,536	22,000	3,464
Sponsorships	5,445	12,500	7,055
Education and promotion	16,764	36,000	19,236
Spokesperson program	5,952	5,000	(952)
Festival of Breads	4,866	5,000	134
Membership contracts	147,801	146,680	(1,121)
Wheat producers			
Increase in wheat yields	9,342	-	(9,342)
Wheat conferences	-	10,000	10,000
Sponsorships	80	2,000	1,920
Newsletters	35,034	40,000	4,966
Annual report	8,835	27,000	18,165
Direct mailings	2,968	-	(2,968)

(continued)

Financial Statements

KANSAS WHEAT COMMISSION
 Manhattan, Kansas
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
ACTUAL AND BUDGET (CONTINUED)
 For the Year Ended June 30, 2012

	<u>Actual</u>	<u>Budget</u>	<u>Variance</u> <u>Positive</u> <u>(Negative)</u>
EXPENDITURES (CONTINUED)			
Domestic marketing (continued)			
Wheat producers (continued)			
Other promotions	44,226	17,500	(26,726)
Website	3,113	-	(3,113)
Producer Promotions	21,665	15,000	(6,665)
Trade shows and booth rentals	3,746	5,000	1,254
Membership contracts	324,500	344,500	20,000
Miscellaneous	505	1,500	995
Promotional items	3,588	3,500	(88)
Other domestic travel	5,805	5,000	(805)
Hospitality	685	500	(185)
International marketing			
Crop quality survey	35,882	30,000	(5,882)
Hospitality	-	1,500	1,500
Trade teams	3,822	12,000	8,178
Travel	8,057	12,500	4,443
Membership contracts	1,066,785	1,065,000	(1,785)
Facility support			
Trademarking	-	500	500
Tuition reimbursement	-	7,500	7,500
Capital outlay	28,591	-	(28,591)
Advanced plant design	30	-	(30)
Hospitality	505	200	(305)
Bank service charges	2,763	1,800	(963)
Professional fees	4,200	6,000	1,800
Building expenses	4,751	4,000	(751)
Meeting expenses	2,192	1,000	(1,192)
Telephone	11,820	12,000	180
Equipment rental	8,003	10,000	1,997
Postage and delivery	7,225	10,000	2,775
Office supplies	14,731	11,000	(3,731)
Advertising	-	250	250
Rent	46,008	50,000	3,992
Computer expense	8,637	20,000	11,363
Fees	9,408	9,000	(408)
Board expenses	36,454	40,000	3,546
Automobile expense	7,549	7,500	(49)
Utilities	6,684	6,500	(184)
Building insurance	2,361	1,616	(745)
Advance Plant Design	4,399,888	5,972,000	1,572,112
Miscellaneous	6,121	2,500	(3,621)

(continued)

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

Financial Statements

KANSAS WHEAT COMMISSION
 Manhattan, Kansas
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
ACTUAL AND BUDGET (CONTINUED)
 For the Year Ended June 30, 2012

	<u>Actual</u>	<u>Budget</u>	<u>Variance Positive (Negative)</u>
EXPENDITURES (CONTINUED)			
Payroll expenses			
Wages	566,695	545,176	(21,519)
Payroll tax expense	43,449	45,000	1,551
Disability insurance	1,886	1,546	(340)
Health insurance	28,680	35,000	6,320
Retirement benefits matching	32,968	35,000	2,032
Worker's compensation insurance	1,750	2,500	750
Other payroll expense	424	250	(174)
	<u> </u>	<u> </u>	<u> </u>
Total Expenditures	\$ 8,135,078	\$ 9,741,821	\$ 1,633,469
RECEIPTS IN EXCESS OF EXPENDITURES			
(EXPENDITURES IN EXCESS OF RECEIPTS)	\$ (3,910,947)	\$ (6,012,571)	\$ 2,128,350
FUND BALANCE - BEGINNING OF YEAR	<u>6,134,060</u>	<u>6,134,060</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u><u>\$ 2,223,113</u></u>	<u><u>\$ 121,489</u></u>	<u><u>\$ 2,128,350</u></u>

Financial Statements