



KANSAS WHEAT COMMISSION

Kansas grown. Kansas good.

**Kansas Wheat Commission Annual Report
Presented to House Committee on Agriculture and Natural Resources
Wednesday, March 16, 2011
By Jay Armstrong, Muscotah
Kansas Wheat Commissioner, Districts 7, 8, 9**

Chairman Powell and committee members, thank you for the opportunity to provide an annual report from the Kansas Wheat Commission. My name is Jay Armstrong, a wheat producer from Muscotah, Kan. Our Chairman, Doug Keesling, has family obligations that prevent him from being here today.

Since our presentation to this Committee last year, many positive things have happened in the wheat industry, and I look forward to sharing those with you. However, let me tell you a bit about the Kansas Wheat Commission. It was established by the Kansas legislature in 1957 to represent the states' wheat producers in the areas of research, domestic marketing, international marketing, education and communication.

The Kansas Wheat Commission 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. They have told us in the past that wheat research, in particular finding new ways to boost yield or

solve agronomic challenges, are the most important investments we can make with their investment.

We are working hard to deliver. In the last year, the Kansas Wheat Commission invested more than \$1.2 million in a number of projects to help make the development of new wheat varieties and new wheat solutions more efficient. For instance, we committed \$100,000 to the new greenhouse project at the Kansas State University Agriculture Research Center in Hays. This important infrastructure investment ensures that the Hays wheat breeding unit will remain viable for years to come. In all, the Kansas Wheat Commission funded hundreds of thousands of dollars in additional research projects at K-State in 2010.

Our Commissioners and our staff are considered leaders in the nation's wheat industry. Kansas has been at the forefront of mapping the wheat genome; an ongoing, multinational project nearly 10 years in the making. Our state's farmers were there from the start and we are beginning to see the fruits of these investment.

This, coupled with a number of recent wheat industry collaborations between universities and private companies; and continued cooperation between land-grant universities makes for an exciting future for wheat. By 2050, the earth will be inhabited by more than 9 billion people. A great influx of technology and research will be required for the world's farmers to feed these people. Through its investments, and its leadership in the industry, the Kansas Wheat Commission stands ready to meet this challenge.

Farmer-stakeholders of the Kansas Wheat Commission have told us they want a strong wheat breeding program to continue at Kansas State University. Through the wheat assessment, farmers have invested millions of dollars in new variety development at Kansas State University over the past 50 years. That strong partnership with K-State has resulted in a vibrant public

breeding program in our region and has advanced countless varieties adapted throughout the state.

That these varieties are largely in the public domain places a lot of importance on how we proceed. Past investments by Kansas wheat farmers must not be lost, nor should we relinquish the important role that successful public programs will play in the future. We are nearing an era where public-private collaborations in the wheat variety development industry must exist, in order to maximize the opportunity of this new investment from private companies. This will allow Kansas farmers and our customers around the world to benefit. Ultimately, our farmers will continue to lead the way in feeding a growing world population with nutritious, high-quality and affordable wheat food products.

Let me continue with a summary of the past year's events. I've distributed a copy of our Annual Report, a copy of my printed remarks, and our annual audit prepared by Varney and Associates, of Manhattan.

A significant accomplishment of the Kansas Wheat Commission is that of the Heartland Plant Innovations, Inc. This unique collaboration between the Kansas Wheat Commission, Kansas Association of Wheat Growers and the Kansas Bioscience Authority is bringing new technologies to wheat breeders. HPI has developed a "Doubled Haploid" laboratory in rented space at Kansas State University. Using Doubled Haploid technology dramatically increases the efficiency of making new and improved wheat varieties, by cutting the development time from 10 years to five years. The Doubled Haploid technology has heretofore been difficult for land-grant universities to access because these laboratories are expensive to develop and require a great deal of intellectual capital. However, HPI has hired a small staff of exceptional scientists and our Doubled Haploid laboratory is running at full capacity.

To accommodate HPI's rapid growth and continued evolution as an advanced plant breeding laboratory, the Kansas Wheat Commission has committed \$8 million to construct a plant science center near the K-State campus in Manhattan. This facility will house the offices of the Kansas Wheat Commission, the Kansas Assn. of Wheat Growers and HPI, but more importantly, it will serve as state-of-the-art research laboratories and greenhouses for HPI scientists. That the Kansas Wheat Commission is committing resources of this magnitude to the long-term future of the wheat industry is indicative of our stakeholders' commitment to the wheat industry.

Along with research and development of wheat, the Kansas Wheat Commission works to market Kansas wheat products both in the US and to overseas buyers. Each year, dozens of wheat buyers come to Kansas from other countries to learn more about how our farmers' produce the world's most-consumed grain. We consistently showcase the technology, stewardship and efficiency that goes into a typical Kansas wheat crop.

In fall, 2010, several members and staff of the Kansas Wheat Commission attended the Urban Wheat Field II, held in Washington, D.C. The Urban Wheat Field was an ambitious, interactive exhibit through which thousands of urban consumers learned how wheat is grown, processed and packaged into nutritious food. Consumers paraded through a quarter-acre interactive display of green, growing wheat, growing in pallets, illustrating the crop's progress from early emergence to just before harvest. They proceeded to a milling and baking session – complete with fresh-baked bread and cookies – before exiting the Urban Wheat Field with a handful of samples, recipes and nutrition information.

The Urban Wheat Field was such a success, we brought the story home and replicated it at the Kansas State Fair. This effort combined all wheat-related activities in one location, giving the more than 300,000 visitors to the State Fair an interactive experience.

In 2010, the Kansas Wheat Commission co-sponsored the state's first "Wheat Yield Contest," awarding cash prizes to farmers in Eastern, Central and Western Kansas who achieved the highest yields. Our central and western Kansas farmers produced more than 90 bushels per acre - well above the state average of 44 bushels per acre. This tells us that farmers who manage their wheat fields to achieve top yields can obtain more profit. The second yield contest occurs this year.

We are working diligently on hosting the second "National Festival of Breads" amateur bread baking contest. Eight finalists from four bread-baking categories will gather in Wichita in June. These bakers will be treated to a "Farm-to-Fork" harvest tour featuring a wheat field during harvest; grain elevator and flour mill. The goal is two-fold: to increase consumption of wheat flour, but to educate consumers about the role farmers play in providing a safe, affordable food supply. That dozens of VIPs from across the country get to enjoy the beauty of Kansas during wheat harvest is a bonus. In 2009, more than 200 consumers participated in the first National Festival of Breads, and we expect many more attendees in 2011, as well as dignitaries from our co-sponsors, King Arthur Flour Co. and Fleischmann's Yeast. More consumers will be exposed to the contest through a host of media outlets, including the nationally syndicated Mr. Food program. The Home Baking Association and visited other exhibits and vendors. We look forward to the next National Festival of Breads, in June, 2011.

Internationally, Kansas Wheat Commission works closely with our export marketing arm, U.S. Wheat Associates. Half of the hard red winter crop needs to be exported so this effort

continues by establishing relationships, communicating messages of wheat quality and market information, and trade visits. Producer dollars contributed to U.S. Wheat Associates are matched 3-to-1 by the USDA's Foreign Agriculture Service. The Kansas Wheat Commission also works regionally with other states in supporting the K-State Department of Grain Science International Grains Program and Plains Grains, Inc.

Last fall, Kansas farmers planted 8.8 million acres of wheat - a 200,000 acre increase over 2009. Weather challenges last fall and over the winter could have a negative impact on the 2011 crop, but wheat is resilient and we hope for another 3.6 million bushel crop.

Wheat is still an important crop to Kansas, providing thousands of jobs within the industry and pumping billions of dollars in the Kansas economy. Agriculture remains one of the few bright spots in a Kansas economy marked by recession. Wheat farmer's prosperity props up Kansas' main streets; farmers' success translates to capital purchases like tractors, combines, trucks and cars, new housing and building projects. A healthy Kansas wheat industry makes for a healthy Kansas economy.

The Kansas Wheat Commission is currently evaluating proposals for research sent in from Kansas State University and other public and private entities. The amount requested for these research dollars was a record level, highlighting the stressed situation in the public sector to maintain important research efforts on behalf of Kansas farmers. On average, between 20-25% of our current budget directly funds wheat research projects. And as mentioned previously in these remarks, that effort is a priority of Kansas wheat producers.

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 AUDITORS' REPORT

June 30, 2010 and 2009



November 10, 2010

To the Commissioners
Kansas Wheat Commission
Manhattan, Kansas

Independent Auditors' Report

We have audited the accompanying statements of net assets and balance sheets of Kansas Wheat Commission (the Commission) as of June 30, 2010 and 2009, and the related statements of activities and statements of revenues, expenditures and changes in fund balance for the year 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 audit.

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, 2010 and 2009, and the changes in its net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Varney & Associates

Certified Public Accountants

KANSAS WHEAT COMMISSION
 Manhattan, Kansas
MANAGEMENT'S DISCUSSION AND ANALYSIS
 For the Years Ended June 30, 2010 and 2009

Financial Statements

Overview

Within this section of the Kansas Wheat Commission's (KWC) annual financial report, the management provides narrative discussion and analysis of the financial activities of the KWC for the year ending June 30, 2010. The KWC performance is discussed and analyzed within the context of the accompanying financial statements and disclosure following this section.

The KWC is funded by Kansas wheat producers through an assessment when grain is sold by the producer to the first purchasing agent. The KWC 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 KWC collects approximately 93.6% of the wheat produced in the state. In 2010, Kansas produced 369 million bushels of wheat, equal to the 369 million bushels produced in FY 2009.

Fiscal Year 2010 and 2009 Financial Condition

	<u>2010</u>	<u>2009</u>
Beginning Net Assets	\$ 3,452,553	\$ 2,771,231
Wheat assessment collected	5,360,666	3,567,641
Other income (sales of promotional items, operating activities, reimbursed expenses, etc.)	169,668	274,766
Interest income	86,285	108,653
Total Income	<u>\$ 5,616,619</u>	<u>\$ 3,951,060</u>
Refunds to producers	(321,784)	(180,839)
Expenditures	(3,783,121)	(3,088,899)
Total Expenses	<u>\$ (4,104,905)</u>	<u>\$ (3,269,738)</u>
Change in Net Assets	<u>1,511,714</u>	<u>681,322</u>
Ending Net Assets	<u>\$ 4,964,267</u>	<u>\$ 3,452,553</u>

New income consisted of \$5.36 million of wheat assessment collection, \$169,668 from promotional items, sponsorships, operating activities, reimbursed expenses, etc, and \$86,285 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 Kansas Wheat Commission is voluntary and each individual producer has the opportunity to request a refund on the investment. In FY 2010, KWC refunded \$321,784 or 6.01% of assessment collections to producers. This refund rate has declined for the past several years, but increased from 5.07% in FY 2009.

KANSAS WHEAT COMMISSION
Manhattan, Kansas
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
For the Years Ended June 30, 2010 and 2009

Financial Statements

Fiscal Year 2010 and 2009 Financial Condition (Continued)

This year's expenditure budget was \$4.13 million. This is a slight increase from the previous year, which was approved at \$3.06 million. The FY 2010 budget goal was to begin to replace some of the reserve funds that have been used in prior years due to crop shortfalls. 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, 2010.

The crop estimates were lower than the actual income received of \$5.36 million, so the KWC was able to replace \$1.6 million of the reserve fund. The asset value increased slightly from \$3.45 million in FY 2009 to \$4.96 million in FY 2010. This year's asset portfolio consists of \$2.04 million liquid cash and \$3.01 million in certificates of deposit. There was very little change in fixed asset depreciation.

Kansas Wheat Commission has continued to explore building a Wheat Research Building that would be the new home of the KWC offices. Funds were originally committed for this purpose on March 29, 2007 by a unanimous vote of the KWC board of \$2.5 million dollars. These funds have continued to be noted in the financial statements as the designated building fund. KWC has worked with KSU and Heartland Plant Innovations for researchers to occupy the lab space and utilize greenhouse space for a negotiated fair market rental value as tenants in the future. Potential ground breaking and final financing of the construction of the new facility is scheduled to begin in Fiscal Year 2011.

Effective July 1, 2005, Kansas Wheat Commission and the Kansas Association of Wheat Grower 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. KAWG contracts with the KWC for staff and office services and could effect the financial situation for the next few fiscal years. This year completed the fourth full year of this cooperative agreement.

KANSAS WHEAT COMMISSION
 Manhattan, Kansas
STATEMENTS OF NET ASSETS
 June 30, 2010 and 2009

Financial Statements

	2010	2009
ASSETS		
Current Assets		
Cash	\$ 2,042,208	\$ 1,086,199
Certificates of deposit	3,012,668	2,364,451
Interest receivable	8,226	6,473
Tuition reimbursement receivable	2,259	4,140
Total Current Assets	\$ 5,065,361	\$ 3,461,263
Non-Current Assets		
Capital assets - Net	\$ 57,762	\$ 47,818
TOTAL ASSETS	\$ 5,123,123	\$ 3,509,081
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 99,537	\$ -
Research contracts payable	-	8,460
Payroll taxes payable	11,255	-
Sales tax payable	-	4
Compensated absences	48,064	48,064
Total Current Liabilities	\$ 158,856	\$ 56,528
Net Assets		
Invested in capital assets	\$ 57,762	\$ 47,818
Unrestricted	4,906,505	3,404,735
Total Net Assets	\$ 4,964,267	\$ 3,452,553
TOTAL LIABILITIES AND NET ASSETS	\$ 5,123,123	\$ 3,509,081

The accompanying notes are an integral part of these financial statements.
 See Independent Auditors' Report.

KANSAS WHEAT COMMISSION
 Manhattan, Kansas
STATEMENT OF ACTIVITIES
 For the Year Ended June 30, 2010

	EXPENSES	PROGRAM REVENUE	TOTAL
FUNCTIONS/PROGRAMS			
Research	\$ 1,099,675	\$ -	\$ 1,099,675
Domestic marketing			
Wheat producers	388,752	(28,000)	360,752
Consumers	250,068	(4,500)	245,568
First purchasers/Domestic buyers	13,450	-	13,450
Miscellaneous	8,473	-	8,473
International marketing	1,139,316	(32,700)	1,106,616
Public issues	600	-	600
Special projects	24,728	(406)	24,322
Administration	8,228	-	8,228
Facility support	849,831	-	849,831
Total Functions/Programs	\$ 3,783,121	\$ (65,606)	\$ 3,717,515
 GENERAL REVENUES			
Wheat assessment			\$ 5,360,666
Refunds			(321,784)
Returned research dollars			5,002
KAWG Cooperative agreement			40,000
HPI Management agreement			50,000
Miscellaneous income			9,117
Gain (loss) on disposal of assets			(57)
Interest income			86,285
Total General Revenues			\$ 5,229,229
 CHANGE IN NET ASSETS			\$ 1,511,714
 NET ASSETS - BEGINNING			3,452,553
 NET ASSETS - ENDING			\$ 4,964,267

Financial Statements

KANSAS WHEAT COMMISSION
 Manhattan, Kansas
STATEMENT OF ACTIVITIES
 For the Year Ended June 30, 2009

	EXPENSES	PROGRAM REVENUE	TOTAL
FUNCTIONS/PROGRAMS			
Research	\$ 793,417	\$ -	\$ 793,417
Domestic marketing			
Wheat producers	317,188	(43,715)	273,473
Consumers	232,962	(34,600)	198,362
First purchasers/Domestic buyers	11,175	-	11,175
Miscellaneous	9,852	-	9,852
International marketing	769,226	-	769,226
Public issues	570	-	570
Special projects	83,443	(135,950)	(52,507)
Administration	6,939	-	6,939
Facility support	864,127	-	864,127
Total Functions/Programs	\$ 3,088,899	\$ (214,265)	\$ 2,874,634
GENERAL REVENUES			
Wheat assessment			\$ 3,567,641
Refunds			(180,839)
Returned research dollars			21,824
KAWG Coop agreement			30,000
Miscellaneous income			9,121
Gain (loss) on sale of assets			(444)
Interest income			108,653
Total General Revenues			\$ 3,555,956
CHANGE IN NET ASSETS			\$ 681,322
NET ASSETS - BEGINNING			2,771,231
NET ASSETS - ENDING			\$ 3,452,553

Financial Statements

KANSAS WHEAT COMMISSION
 Manhattan, Kansas
BALANCE SHEETS
 June 30, 2010 and 2009

Financial Statements

	<u>2010</u>	<u>2009</u>
ASSETS		
Current Assets		
Cash in checking	\$ 2,042,208	\$ 1,086,199
Certificates of deposit	3,012,668	2,364,451
Accrued interest receivable	8,226	6,473
Tuition reimbursement receivable	2,259	4,140
	<u>5,065,361</u>	<u>3,461,263</u>
TOTAL ASSETS	\$ 5,065,361	\$ 3,461,263

LIABILITIES AND FUND BALANCE		
Current Liabilities		
Accounts payable	\$ 99,537	\$ -
Research contracts payable	-	8,460
Payroll taxes payable	11,255	-
Sales tax payable	-	4
Total Liabilities	<u>\$ 110,792</u>	<u>\$ 8,464</u>
Fund Balance		
Unreserved - Designated for compensated absences	\$ 48,064	\$ 48,064
Unreserved - Designated for building fund	2,282,481	2,300,000
Unreserved - Undesignated	2,624,024	1,104,735
Total Fund Balance	<u>\$ 4,954,569</u>	<u>\$ 3,452,799</u>
TOTAL LIABILITIES AND FUND BALANCE	\$ 5,065,361	\$ 3,461,263

RECONCILIATION OF FUND BALANCE TO NET ASSETS
 June 30, 2010 and 2009

Total Fund Balance	\$ 4,954,569	\$ 3,452,799
Amount reported in statement of net assets is different because:		
Capital assets used in government activities are not financial resources and therefore not reported in the fund	57,762	47,818
There were no retirements or terminations at June 30, 2010 so no payments of compensated absences are due to be paid with current funds	<u>(48,064)</u>	<u>(48,064)</u>
Total Net Assets	\$ 4,964,267	\$ 3,452,553

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

	2010	2009
REVENUES		
Wheat assessment	\$ 5,360,666	\$ 3,567,641
Refunds	(321,784)	(180,839)
Interest income	86,285	108,653
Returned research dollars	5,002	21,824
Kansas Gold Book sales	406	2,616
Sponsorship income	32,500	59,800
KBA grant income	-	133,334
Proceeds from sale of assets	-	500
Miscellaneous income	131,816	57,637
Total Revenues	\$ 5,294,891	\$ 3,771,166
EXPENDITURES		
Special projects		
KBA grant expense	\$ -	\$ 70,943
Wheat Genome Project	7,500	7,500
Biotech	5,000	-
Unspecified	5,000	5,000
Public issues - Trade policy issues	600	570
Research contracts	1,099,675	793,417
Administrative expense	8,228	6,939
Domestic marketing		
First purchasers/Domestic buyer		
Annual report	-	925
Grain grading schools	900	-
Sponsorships	6,550	4,250
Wheat Quality Council	6,000	6,000
Consumers		
Urban wheat field	21,672	14,437
Anniversary tour	4,783	-
Sponsorships	3,500	2,810
Agriculture in the Classroom	20,000	20,000
Education and promotion	20,830	6,148
Spokesperson program	5,483	10,172
Festival of Breads	10,763	93,287
Membership contracts	163,037	86,108
Wheat producers		
Increase in wheat yields	8,147	4,646
Wheat conferences	8,934	5,261
Kansas Wheat Alliance	2,500	5,500
HWW market facilitator	-	102
Sponsorships	6,831	3,453
Newsletters	25,518	44,998
Annual report	24,139	18,905
Harvest campaign	34,657	35,625

(continued)

Financial Statements

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

	2010	2009
EXPENDITURES (CONTINUED)		
Domestic marketing (continued)		
Wheat producers (continued)		
Direct mailings	26,000	-
Website	5,659	-
Other promotions	21,925	8,862
Trade shows and booth rentals	4,160	10,763
Membership contracts	220,282	176,515
Miscellaneous	-	2,558
Promotional items	1,942	3,365
Other domestic travel	6,308	6,303
Hospitality	223	184
International marketing		
Flour mill purchases	32,032	44,745
Crop quality survey	32,607	69,726
Hospitality	912	1,062
Trade teams	11,141	4,708
Travel	9,264	1,000
Membership contracts	1,053,360	647,985
Promotional items	-	890
Facility support		
Errors and omissions insurance	-	698
Tuition reimbursement	11,843	7,480
Capital outlay	29,017	8,908
Advanced plant design	55,706	64,626
Hospitality	132	522
Bank service charges	2,414	1,834
Professional fees	5,800	4,875
Building expenses	3,250	3,900
Meeting expenses	3,009	281
Telephone	12,044	11,974
Equipment rental	9,221	8,730
Postage and delivery	6,638	7,744
Office supplies	10,545	10,277
Advertising	1,398	1,635
Rent	42,350	42,000
Computer expense	7,653	21,761
Fees	5,257	3,098
Board expenses	31,075	28,007
Automobile expense	6,273	6,563
Utilities	7,672	6,502
Building insurance	2,314	1,616
Advance Plant Design	7,228	-
Miscellaneous	10,939	(53)

(continued)

Financial Statements

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

	<u>2010</u>	<u>2009</u>
EXPENDITURES (CONTINUED)		
Payroll expenses		
Wages	496,686	522,985
Payroll tax expense	37,564	39,596
Disability insurance	1,529	2,139
Health insurance	26,127	27,700
Retirement benefits matching	25,978	25,371
Worker's compensation insurance	1,638	1,634
Other payroll expense	5,759	2,902
	<u> </u>	<u> </u>
Total Expenditures	\$ 3,793,121	\$ 3,090,967
EXPENDITURES IN EXCESS OF RECEIPTS	\$ 1,501,770	\$ 680,199
FUND BALANCE - BEGINNING OF YEAR	<u>3,452,799</u>	<u>2,772,600</u>
FUND BALANCE - END OF YEAR	<u><u>\$ 4,954,569</u></u>	<u><u>\$ 3,452,799</u></u>

Financial Statements

KANSAS WHEAT COMMISSION
Manhattan, Kansas
NOTES TO FINANCIAL STATEMENTS
For the Years Ended June 30, 2010 and 2009

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 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)
For the Years Ended June 30, 2010 and 2009

Notes to Financial Statements

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 and Prepaid Expenses

The Commission has elected to account for inventories and prepaid expenses using the purchases method. Under this method, inventories and prepayments for services 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. The Commission has no debt outstanding at June 30, 2010 and 2009. Therefore, the net assets invested in capital assets are the historical cost of the capital assets, net of accumulated depreciation. 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.

Reclassification

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

Pending Governmental Accounting Standards Board Statements

At June 30, 2010, the GASB had issued several statements not yet implemented by the Commission. The statement that might impact the Commission is as follows:

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, was issued in March 2009. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The provisions of this statement are effective for periods ending June 15, 2011, and after.

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 Commission also has certificates of deposit issued through CDARS by multiple FDIC-insured institutions that are held at Kansas State Bank.

The bank balance at June 30, 2010 in checking accounts totaled \$2,038,522 and certificates of deposit totaled \$3,221,506. The bank balance at June 30, 2009 in checking accounts totaled \$1,361,014 and certificates of deposit totaled \$2,364,451. Deposit security held by the Commission in its name and FDIC coverage was adequate to secure all deposits.

KANSAS WHEAT COMMISSION
 Manhattan, Kansas
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 For the Years Ended June 30, 2010 and 2009

Notes to Financial Statements

Note 2: Cash and Certificates of Deposit (Continued)

For June 30, 2010, the balances were secured as follows:

	Kansas State Bank	UMB Bank	Total
FDIC insurance	\$ 250,000	\$ 83,197	\$ 333,197
CDARS accounts insured through multiple institutions	951,830	-	951,830
Collateralized by Federal Home Loan Bank letter of credit	3,975,001	-	3,975,001
Total	\$ 5,176,831	\$ 83,197	\$ 5,260,028

For June 30, 2009, the balances were secured as follows:

	Kansas State Bank	UMB Bank	Total
FDIC insurance	\$ 250,000	\$ 137,786	\$ 387,786
Collateralized by Federal Home Loan Bank letter of credit	3,337,679	-	3,337,679
Total	\$ 3,587,679	\$ 137,786	\$ 3,725,465

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: 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, 2010 and 2009 was \$25,978 and \$24,371, 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, 2010 were as follows:

	June 30, 2009	Additions	Disposals	June 30, 2010
Furniture and equipment	\$ 193,123	\$ 29,017	\$ (33,169)	\$ 188,971
Accumulated depreciation	(145,305)	(19,016)	33,112	(131,209)
Net Capital Assets	\$ 47,818	\$ 10,001	\$ (57)	\$ 57,762

7-20

KANSAS WHEAT COMMISSION
 Manhattan, Kansas
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 For the Years Ended June 30, 2010 and 2009

Note 4: Capital Assets (Continued)

Changes in capital assets for the year ended June 30, 2009 were as follows:

	<u>June 30, 2008</u>	<u>Additions</u>	<u>Disposals</u>	<u>June 30, 2009</u>
Furniture and equipment	\$ 185,914	\$ 8,908	\$ (1,699)	\$ 193,123
Accumulated depreciation	(124,703)	(21,357)	755	(145,305)
Net Capital Assets	<u>\$ 61,211</u>	<u>\$ (12,449)</u>	<u>\$ (944)</u>	<u>\$ 47,818</u>

Depreciation expense was \$19,016 and \$21,357 for the years ended June 30, 2010 and 2009, 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

Compensated absences have been accrued for the balance due upon termination, \$31,215 in vacation pay and \$16,849 in sick leave for a total of \$48,064 for the year ended June 30, 2010 and \$25,789 in vacation pay and \$22,275 in sick leave for a total of \$48,064 for the year ended June 30, 2009. This liability is recorded in the statements of net assets. On the balance sheets, they are recorded as a designation of the unreserved 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.

Notes to Financial Statements

KANSAS WHEAT COMMISSION
 Manhattan, Kansas
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 For the Years Ended June 30, 2010 and 2009

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 \$42,000 for the years ended June 30, 2010 and 2009. The lease is for three years with two additional one year renewable options. The future minimum rental payments are as follows:

Year	Amount
June 30, 2011	\$ 42,000

Note 8: Advertising

Advertising expenses are expensed when incurred. Advertising expenses at June 30, 2010 and 2009 was \$1,398 and \$1,635, 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 amounts received under this agreement in the years ended June 30, 2010 and 2009 were \$40,000 and \$30,000, respectively.

The Commission contracts with the Association for program services. The amounts paid under these contracts in the years ended June 30, 2010 and 2009 were \$195,283 and \$133,000, 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, 2010 and 2009, the amount paid by the Commission to the Association was \$2,800 and \$300, respectively.

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.

KANSAS WHEAT COMMISSION
Manhattan, Kansas
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
For the Years Ended June 30, 2010 and 2009

Notes to Financial Statements

Note 12: Grant Income

During the year ended June 30, 2008, the Commission was awarded a grant from the Kansas Bioscience Centers for Innovation for the creation of a business plan for the Kansas Innovation Center for Advanced Plan Design: "Plants for the Heartland." This grant was for a total of \$200,000. The Commission received \$0 and \$133,333 of the grant proceeds in the years ended June 30, 2010 and 2009, respectively.

Note 13: Heartland Plant Innovations

Heartland Plant Innovations (HPI) has been incorporated as a for-profit subsidiary of the Association. Expenses were incurred for the planning and incorporation of HPI by the Commission using the proceeds of the Kansas Bioscience grant. The Commission also elected to fund the start-up expenses in excess of the proceeds of the grant. Total unreimbursed expenditures related to the planning and incorporation of HPI were \$7,227 and \$135,569 for the years ending June 30, 2010 and 2009, respectively.

The Commission provides certain administration and management services for HPI under the terms of a management agreement. The amounts received under this agreement in the years ended June 30, 2010 and 2009 were \$50,000 and \$0, respectively.

Note 14: 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 would come through grant funds provided to HPI from the Kansas Bioscience Authority.

In addition to the \$200,000 received from the Kansas Bioscience grant, the Commission provided \$200,000 in matching funds through direct expenses and allocation of salary expenses. These contributions toward the project were subtracted from the original designation, leaving \$2.3 million in designated funds at June 30, 2009.

During the year ended June 30, 2010, the Commission paid \$17,519 for architect design costs for the new building, which reduced the amount designated for the project at June 30, 2010.

The Commission has paid additional design fees of approximately \$65,000 to date during the fiscal year beginning July 1, 2010.

The Commission has entered into a 50 year land-lease agreement with Kansas State University for the building site and plans to break ground on construction in the fall of 2010.

KANSAS WHEAT COMMISSION
 Manhattan, Kansas
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
ACTUAL AND BUDGET
 For the Year Ended June 30, 2010

	Actual	Budget	Variance Positive (Negative)
REVENUES			
Wheat assessment	\$ 5,360,666	\$ 4,682,700	\$ 677,966
Refunds	(321,784)	(327,789)	6,005
Interest income	86,285	100,000	(13,715)
Returned research dollars	5,002	-	5,002
Kansas Gold Book sales	406	-	406
Sponsorship income	32,500	5,000	27,500
Miscellaneous income	131,816	41,000	90,816
Total Revenues	\$ 5,294,891	\$ 4,500,911	\$ 793,980
EXPENDITURES			
Special projects			
Wheat Genome Project	\$ 7,500	\$ 7,500	\$ -
Biotech	5,000	5,000	-
Unspecified	5,000	-	(5,000)
Public issues - Trade policy issues	600	2,000	1,400
Research contracts	1,099,675	1,009,351	(90,324)
Administrative expense	8,228	10,000	1,772
Domestic marketing			
First purchasers/Domestic buyer			
Annual report	-	2,500	2,500
Grain grading schools	900	900	-
Sponsorships	6,550	9,775	3,225
Wheat Quality Council	6,000	6,000	-
Consumers			
Regional and national meetings	-	6,000	6,000
Urban wheat field	21,672	30,000	8,328
Anniversary tour	4,783	-	(4,783)
Sponsorships	3,500	3,000	(500)
Agriculture in the Classroom	20,000	20,000	-
Education and promotion	20,830	77,400	56,570
Spokesperson program	5,483	12,000	6,517
Festival of Breads	10,763	10,000	(763)
Membership contracts	163,037	120,321	(42,716)
Wheat producers			
Increase in wheat yields	8,147	5,000	(3,147)
Wheat conferences	8,934	5,000	(3,934)
Kansas Wheat Alliance	2,500	2,000	(500)
Sponsorships	6,831	11,000	4,169
Newsletters	25,518	32,500	6,982
Annual report	24,139	27,000	2,861
Harvest campaign	34,657	25,000	(9,657)

(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, 2010

	<u>Actual</u>	<u>Budget</u>	Variance Positive (Negative)
EXPENDITURES (CONTINUED)			
Domestic marketing (continued)			
Wheat producers (continued)			
Direct mailings	26,000	30,000	4,000
Website	5,659	7,000	1,341
Other promotions	21,925	7,500	(14,425)
Trade shows and booth rentals	4,160	8,500	4,340
Membership contracts	220,282	220,283	1
Promotional items	1,942	2,500	558
Other domestic travel	6,308	10,000	3,692
Hospitality	223	500	277
International marketing			
Flour mill purchases	32,032	32,000	(32)
Crop quality survey	32,607	50,000	17,393
Hospitality	912	2,000	1,088
Trade teams	11,141	10,000	(1,141)
Travel	9,264	31,500	22,236
Membership contracts	1,053,360	1,024,903	(28,457)
Facility support			
Trademarking	-	500	500
Tuition reimbursement	11,843	7,500	(4,343)
Capital outlay	29,017	25,000	(4,017)
Advanced plant design	55,706	400,000	344,294
Hospitality	132	500	368
Bank service charges	2,414	1,500	(914)
Professional fees	5,800	5,500	(300)
Building expenses	3,250	4,500	1,250
Meeting expenses	3,009	500	(2,509)
Telephone	12,044	15,000	2,956
Equipment rental	9,221	12,000	2,779
Postage and delivery	6,638	8,000	1,362
Office supplies	10,545	10,000	(545)
Advertising	1,398	250	(1,148)
Rent	42,350	42,000	(350)
Computer expense	7,653	27,500	19,847
Fees	5,257	8,500	3,243
Board expenses	31,075	38,000	6,925
Automobile expense	6,273	8,300	2,027
Utilities	7,672	6,500	(1,172)
Building insurance	2,314	2,500	186
Advance Plant Design	7,228	-	(7,228)
Miscellaneous	10,939	2,500	(8,439)

(continued)

Financial Statements

7-25

KANSAS WHEAT COMMISSION
 Manhattan, Kansas
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
ACTUAL AND BUDGET (CONTINUED)
 For the Year Ended June 30, 2010

	Actual	Budget	Variance Positive (Negative)
EXPENDITURES (CONTINUED)			
Payroll expenses			
Wages	496,686	520,038	23,352
Payroll tax expense	37,564	45,000	7,436
Disability insurance	1,529	2,500	971
Health insurance	26,127	35,000	8,873
Retirement benefits matching	25,978	25,402	(576)
Worker's compensation insurance	1,638	1,634	(4)
Other payroll expense	5,759	150	(5,609)
	<u> </u>	<u> </u>	<u> </u>
Total Expenditures	\$ 3,793,121	\$ 4,132,207	\$ 339,086
REVENUE IN EXCESS OF EXPENDITURES/ (EXPENDITURES IN EXCESS OF RECEIPTS)	\$ 1,501,770	\$ 368,704	\$ 1,133,066
FUND BALANCE - BEGINNING OF YEAR	<u>3,452,799</u>	<u>3,452,799</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u><u>\$ 4,954,569</u></u>	<u><u>\$ 3,821,503</u></u>	<u><u>\$ 1,133,066</u></u>

Financial Statements

7-26