

CALIFORNIA WHEAT COMMISSION

Financial Statements

For the Fiscal Years Ended April 30, 2005 & 2004
&
Independent Auditor's Report

California Wheat Commission

TABLE OF CONTENTS

April 30, 2005 & 2004

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	3 - 4
STATEMENTS OF NET ASSETS	5
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS	6
STATEMENTS OF CASH FLOWS	7
NOTES TO FINANCIAL STATEMENTS	8-15
SUPPLEMENTARY INFORMATION	
INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION	17
STATEMENTS OF GENERAL AND ADMINISTRATIVE EXPENSES	18

INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
of California Wheat Commission

We have audited the accompanying statements of net assets of the California Wheat Commission as of April 30, 2005 and 2004, and the related statements of revenues, expenses and changes in net assets, and statements of cash flows for the fiscal 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 audits 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 that 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 California Wheat Commission as of April 30, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, California Wheat Commission adopted the provisions of the Governmental Accounting Standards Board Statement (GASB) No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* as amended by GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, as of April 30, 2005. Additionally, California Wheat Commission adopted the provisions of GASB Statement No. 38, *Certain Financial Statement Disclosures* for the same period. The financial statements for the year ended April 30, 2004 have been restated to conform to the new reporting model.

The Management's Discussion and Analysis (MD&A) is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. California Wheat Commission has elected to omit the MD&A.

DAMORE, HAMRIC & SCHNEIDER, INC.
Certified Public Accountants

July 27, 2005

California Wheat Commission

STATEMENTS OF NET ASSETS

April 30, 2005 & 2004

ASSETS

<u>Current Assets:</u>	<u>2005</u>	<u>2004</u>
Cash and Cash Equivalents	\$ 316,533	\$ 383,812
Receivables:		
Assessments	\$ 25,961	\$ 11,213
Grain Foundation	9,523	9,523
Other	1,299	854
	<u>\$ 36,783</u>	<u>\$ 21,590</u>
Prepaid Contracts	\$ 8,889	\$ 17,438
Prepaid Expenses	\$ 9,640	\$ 7,150
Total Current Assets	\$ 371,845	\$ 429,990
Property and Equipment, Net of Accumulated Depreciation of \$531,785 in 2005 and \$499,842 in 2004	<u>285,017</u>	<u>314,467</u>
	<u>\$ 656,862</u>	<u>\$ 744,457</u>

LIABILITIES AND NET ASSETS

<u>Current Liabilities:</u>		
Accounts Payable	\$ 4,938	\$ 3,079
Pension Payable	24,421	22,997
Accrued Vacation	17,801	14,825
Assessments Payable		49,160
Mortgage Payable, Current Portion	<u>4,761</u>	<u>4,346</u>
Total Current Liabilities	\$ 51,921	\$ 94,407
Mortgage Payable, Net of Current Portion	<u>126,853</u>	<u>131,209</u>
Total Liabilities	<u>\$ 178,774</u>	<u>\$ 225,616</u>
<u>Net Assets:</u>		
Invested in Capital Assets Net of Related Debt	\$ 153,403	\$ 178,912
Unrestricted	<u>324,685</u>	<u>339,929</u>
Total Net Assets	<u>\$ 478,088</u>	<u>\$ 518,841</u>
Total Liabilities and Net Assets	<u>\$ 656,862</u>	<u>\$ 744,457</u>

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

California Wheat Commission

STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS

April 30, 2005 & 2004

	<u>2005</u>	<u>2004</u>
Assessments Revenue, Net of Refunds of \$31,042 in 2005 and \$33,339 in 2004	\$ 636,349	\$ 759,909
Laboratory Revenue:		
Crop Quality	\$ 10,409	\$ 12,887
Laboratory Analysis	36,863	45,087
Training Programs	<u>583</u>	<u>2,803</u>
	\$ 47,855	\$ 60,777
Other Income:		
Miscellaneous	<u>\$ 6,750</u>	<u>\$ 16,357</u>
Total Operating Revenue	<u>\$ 690,954</u>	<u>\$ 837,043</u>
Expenses:		
General and Administrative	\$ 357,321	\$ 340,265
Research Projects	122,830	112,484
Market Development	57,339	38,937
Laboratory	<u>186,001</u>	<u>186,544</u>
Total Operating Expenses	<u>\$ 723,491</u>	<u>\$ 678,230</u>
Operating Income (Loss)	(\$ 32,537)	\$ 158,813
Other Income (Expense):		
Interest Income	\$ 4,381	\$ 3,228
Interest Expense	<u>(12,597)</u>	<u>(12,951)</u>
Total Other Expense	(\$ 8,216)	(\$ 9,723)
Change In Net Assets	(\$ 40,753)	\$ 149,090
Net Assets, Beginning of Year	<u>518,841</u>	<u>369,751</u>
Net Assets, End of Year	<u>\$ 478,088</u>	<u>\$ 518,841</u>

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

California Wheat Commission

STATEMENTS OF CASH FLOWS

April 30, 2005 & 2004

<u>Cash Flows from Operating Activities:</u>	<u>2005</u>	<u>2004</u>
Receipts from Customers	\$ 675,761	\$ 876,352
Payments to Employees	(352,408)	(332,875)
Payments to Suppliers	(323,237)	(333,190)
Other Cash Payments	(49,160)	
Net Cash Provided (Used) by Operating Activities	<u>(\$ 49,044)</u>	<u>\$ 210,287</u>
 <u>Cash Flows from Capital and Related Financing Activities:</u>		
Purchase of Property and Equipment	(\$ 6,078)	(\$ 3,387)
Payments on Mortgage Payable	(3,941)	(3,389)
Interest on Mortgage Payable	(12,597)	(12,951)
Net Cash Used by Capital and Related Financing Activities	<u>(\$ 22,616)</u>	<u>(\$ 19,727)</u>
 <u>Cash Flows from Investing Activities:</u>		
Interest Income	\$ 4,381	\$ 3,228
Net Increase (Decrease) in Cash and Cash Equivalents	(\$ 67,279)	\$ 193,788
Cash and Cash Equivalents, Beginning of Year	<u>383,812</u>	<u>190,024</u>
Cash and Cash Equivalents, End of Year	<u>\$ 316,533</u>	<u>\$ 383,812</u>
 <u>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:</u>		
Operating Income (Loss)	(\$ 32,537)	\$ 158,813
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Depreciation	35,528	36,813
(Increase) Decrease in:		
Receivables	(15,193)	(9,850)
Prepaid Expenses	6,059	(10,954)
Increase (Decrease) in:		
Accounts Payable	1,859	(9,778)
Assessments Payable	(49,160)	49,160
Profit Sharing Contribution Payable	1,424	126
Compensated Absences	2,976	(4,043)
Net Cash Provided (Used) by Operating Activities	<u>(\$ 49,044)</u>	<u>\$ 210,287</u>
 <u>Non Cash Transactions:</u>		
Retirement of Property, Plant & Equipment	<u>\$ 3,585</u>	<u>\$ 4,466</u>

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

California Wheat Commission

NOTES TO FINANCIAL STATEMENTS

April 30, 2005 & 2004

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of California Wheat Commission conform to U.S. generally accepted accounting principles as applied to government units. The following is a summary of significant accounting policies.

- A. Organization and Description of the Commission - The California Wheat Commission (Commission) is a nonprofit, nontaxable instrumentality of the State of California operating within the authority of Chapter 10, Division 22 of the Food and Agriculture Code. It was formed in 1982 for the purpose of managing a research and market development program for the California wheat industry. The Commission also conducts research into the development of wheat varieties more suitable to the domestic and export trade, as well as varieties more productive under California growing conditions.
- B. Basis of Accounting - The Commission utilizes the accrual method of accounting whereby revenue is recognized when earned and expenses are recognized when incurred. The Commission applies all Governmental Accounting Standards Board (GASB) pronouncements as well as the Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.
- C. Financial Statements Presentation - As of April 30, 2005, the Commission adopted the provisions of Governmental Accounting Standards Board Statement No. 34 "*Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments.*" Statement 34 established standards for external financial reporting for all state and local governmental entities which includes a statement of net assets, a statement of activities and changes in net assets and a statement of cash flows. It requires the classification of net assets into three components - invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

California Wheat Commission

NOTES TO FINANCIAL STATEMENTS

April 30, 2005 & 2004

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

- *Invested in capital assets, net of related debt* - This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds. The Commission had debt of \$131,164 and \$135,555 as of April 30, 2005 and 2004.
- *Restricted* - This component of net assets consists of restrictions placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. The Commission had no restricted assets as of April 30, 2005 or 2004.
- *Unrestricted net assets* - This component of net asset consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

As of April 30, 2005, the Commission also adopted the provisions of Governmental Accounting Standards Board Statement No. 38 "*Certain Financial Statement Note Disclosures.*" This statement established and modified disclosure requirements related to the summary of significant accounting policies, actions taken to address violations of significant finance-related legal and contractual provisions, debt and lease obligations, short-term debt, disaggregation of receivable and payable balances, and interfund balances and transfers.

California Wheat Commission

NOTES TO FINANCIAL STATEMENTS

April 30, 2005 & 2004

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

- D. Cash and Cash Equivalents - For purposes of the statement of cash flows, the Commission considers all highly liquid debt instruments purchased with a maturity of six months or less to be cash equivalents. The Commission maintains cash balances in financial institutions which are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000 for interest-bearing and \$100,000 for noninterest-bearing accounts. At April 30, 2005 and 2004, all bank balances were insured. In addition to bank accounts, the Commission has funds in a money market account with an investment broker. The balance as of April 30, 2005 and 2004 was \$8,321 and \$179,393, respectively. These funds are covered by the Securities Investor Protection Corporation (SIPC) up to \$500,000. These funds are not insured under FDIC.
- E. Short-term Investments - The Commission can invest in certificates of deposit and treasury bills. These instruments are classified as short-term investments if they have maturity dates at the time of purchase of over six months and up to one year. The Commission held no short-term investments as of April 30, 2005 and 2004.
- F. Assessments Receivable - The Commission's receivables consist of assessments to wheat growers located throughout California. The Commission considers assessments receivable to be fully collectible; accordingly, no allowance for doubtful accounts is required. If amounts become uncollectible, they will be charged to operations when that determination is made.
- G. Assessments Revenue - Commission operations are financed principally by assessments to wheat growers based on pounds of wheat handled. The assessment rate was four cents per hundred weight of wheat handled in 2005 and 2004.

California Wheat Commission

NOTES TO FINANCIAL STATEMENTS

April 30, 2005 & 2004

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

H. Property and Equipment - Property and equipment are stated at cost. Depreciation and amortization are provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives, principally on a straight-line basis. Leasehold improvements are amortized over the lives of the respective leases, including renewal options, or the service lives of the improvements, whichever is shorter. The estimated lives used in determining depreciation and amortization are:

Leasehold improvements	23 years
Machinery and other equipment	3-10 years
Condominium Suite	40 years

I. Use of Estimates - In preparing financial statements in conformity with U.S. generally accepted accounting principles, management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

J. Post Retirement Benefits - The Commission provides no post retirement benefits other than pensions (see Note 4) for its employees.

K. Compensated Absences - The Commission accrues a liability for unpaid vacation in accordance with GASB 16. Vacation pay is accumulated at various rates depending on length of service.

L. Reclassifications - The financial statements for the year ended April 30, 2004 have been restated to conform to GASB 34 presentation for comparative purposes.

M. Use of Restricted/Unrestricted Net Assets - When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the Board's policy is to apply restricted net assets first.

California Wheat Commission

NOTES TO FINANCIAL STATEMENTS

April 30, 2005 & 2004

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

N. Operating/Non-Operating Revenue and Expenses - Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Commission's principal ongoing operations. The principal operating revenues of the Commission are assessments to wheat growers. Operating expenses for Commission include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

NOTE 2 PROPERTY AND EQUIPMENT:

Property and equipment at April 30 consists of:

	2005			Ending Balance
	Beginning Balance	Additions	Deletions	
<u>Capital Assets being Depreciated:</u>				
Leasehold Improvements	\$ 160,090	\$ 4,318	\$	\$ 164,408
Laboratory Equipment	399,248			399,248
Office Equipment	54,971	1,760	3,585	53,146
Condominium Suite	<u>200,000</u>			<u>200,000</u>
Total Capital Assets Being Depreciated	\$ 814,309	\$ 6,078	\$ 3,585	\$ 816,802
Less Accumulated Depreciation	(499,842)	(35,528)	(3,585)	(531,785)
Net Capital Assets	<u>\$ 314,467</u>	<u>(\$ 29,450)</u>	<u>\$ 0</u>	<u>\$ 285,017</u>

California Wheat Commission

NOTES TO FINANCIAL STATEMENTS

April 30, 2005 & 2004

NOTE 2 PROPERTY AND EQUIPMENT (Continued):

	2004			
	Beginning Balance	Additions	Deletions	Ending Balance
<u>Capital Assets Being Depreciated:</u>				
Leasehold Improvements	\$ 160,090	\$	\$	\$ 160,090
Laboratory Equipment	395,860	3,388		399,248
Office Equipment	59,437		4,466	54,971
Condominium Suite	200,000			200,000
	<u>\$ 815,387</u>	<u>\$ 3,388</u>	<u>\$ 4,466</u>	<u>\$ 814,309</u>
Less Accumulated Depreciation	(467,495)	(36,813)	(4,466)	(499,842)
Net Capital Assets	<u>\$ 347,892</u>	<u>(\$ 33,425)</u>	<u>\$ 0</u>	<u>\$ 314,467</u>

Depreciation expense for the year ended April 30, 2005 and 2004 was \$35,528 and \$36,813, respectively.

NOTE 3 MORTGAGE PAYABLE:

Mortgage note payable to the bank at 9.02% per annum; payable in monthly installments of \$1,370 through October 5, 2009. A final installment of \$105,808 is due November 5, 2009. The Condominium suite is pledged as collateral for the note.

	\$	131,614
Less: Portion due within one year	(4,761)
Long-Term Portion	\$	<u>126,853</u>
<u>Year Ending April 30,</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 4,761	\$ 11,678
2007	5,209	11,230
2008	5,698	10,741
2009	6,234	10,205
2010	109,712	5,686
Total minimum payments required	<u>\$ 131,614</u>	<u>\$ 49,540</u>

California Wheat Commission

NOTES TO FINANCIAL STATEMENTS

April 30, 2005 & 2004

NOTE 6 BUDGETARY CONTROL:

The Commission adopts an operating budget at the beginning of each year. The following is a summary of the budgets and results:

	2005			
	Original Budget	Final Budget	Actual	Favorable (Unfavorable)
Revenues	\$ 791,357	\$ 716,562	\$ 695,335	(\$ 21,227)
Expenses	\$ 797,727	\$ 777,727	\$ 736,088	\$ 41,639

	2004			
	Original Budget	Final Budget	Actual	Favorable (Unfavorable)
Revenues	\$ 663,374	\$ 728,374	\$ 840,271	\$ 111,897
Expenses	\$ 694,865	\$ 686,993	\$ 691,181	(\$ 4,188)

Shaded area includes depreciation expense (unbudgeted item) of \$35,528 in 2005 and \$36,813 in 2004.

NOTE 7 COMMITMENTS:

The Commission has entered into contract commitments whose terms exceed the Commission's year end. As of April 30, 2005 and 2004, remaining commitments totaled \$54,652 and \$53,899, respectively.

NOTE 8 CONTINGENCY:

The California Wheat Commission is subject to a re-approval hearing in the fifth year following the effective date of the marketing order and every five years thereafter. At that time, it is determined if the program is meeting the declared objectives and if it will be renewed for the following five years. The Commission was reconfirmed at a voting referendum in January 2003. The next referendum will be in 2008.

SUPPLEMENTARY INFORMATION

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

Board of Commissioners
of California Wheat Commission

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole of the California Wheat Commission as of and for the years ended April 30, 2005 and 2004, which is presented in the preceding section of this report. The statements of general and administrative expenses on the following page are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

DAMORE, HAMRIC & SCHNEIDER, INC.
Certified Public Accountants

July 27, 2005

California Wheat Commission

STATEMENTS OF GENERAL AND ADMINISTRATIVE EXPENSES

For the Fiscal Years Ended April 30, 2005 & 2004

	<u>2005</u>	<u>2004</u>
Salaries	\$ 147,774	\$ 131,486
Payroll Taxes and Employee Benefits	27,797	24,509
Publications	12,259	17,628
California Association of Wheat Growers	40,000	40,000
Staff Expenses	13,012	9,652
Commissioners' Expenses	11,676	12,607
Office Expenses	11,424	8,208
Insurance	23,383	19,664
Utilities	4,711	6,172
Occupancy	7,974	12,438
Legal and Accounting	11,840	7,620
California Department of Food and Agriculture	9,943	8,723
Foundation Development Expenses		4,745
Depreciation	<u>35,528</u>	<u>36,813</u>
	<u>\$ 357,321</u>	<u>\$ 340,265</u>