

***CALIFORNIA WHEAT COMMISSION***

Financial Statements  
Supplementary Information  
&  
Independent Auditor's Report

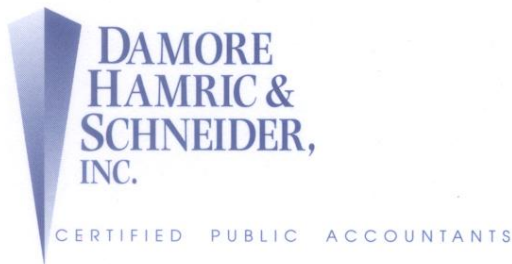
For the Fiscal Years Ended April 30, 2006 & 2005

California Wheat Commission

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## 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, 2006 and 2005, 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, 2006 and 2005, 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.

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 13, 2006

California Wheat Commission

STATEMENTS OF NET ASSETS

April 30, 2006 & 2005

ASSETS

<u>Current Assets:</u>	<u>2006</u>	<u>2005</u>
Cash and Cash Equivalents	\$ 351,880	\$ 316,533
Receivables:		
Assessments	\$ 8,515	\$ 25,961
Grain Foundation	9,523	9,523
Other	5,065	1,299
	<u>\$ 23,103</u>	<u>\$ 36,783</u>
Prepaid Contracts	\$ 4,446	\$ 8,889
Prepaid Expenses	9,682	9,640
	<u>\$ 389,111</u>	<u>\$ 371,845</u>
Property and Equipment, Net of Accumulated Depreciation of \$555,858 in 2006 and \$531,785 in 2005	<u>260,944</u>	<u>285,017</u>
	<u>\$ 650,055</u>	<u>\$ 656,862</u>

LIABILITIES AND NET ASSETS

<u>Current Liabilities:</u>		
Accounts Payable	\$ 8,255	\$ 4,938
Pension Payable	24,720	24,421
Accrued Vacation	20,617	17,801
Mortgage Payable, Current Portion	5,209	4,761
	<u>\$ 58,801</u>	<u>\$ 51,921</u>
Mortgage Payable, Net of Current Portion	<u>121,644</u>	<u>126,853</u>
	<u>\$ 180,445</u>	<u>\$ 178,774</u>
<u>Net Assets:</u>		
Invested in Capital Assets Net of Related Debt Unrestricted	\$ 134,091	\$ 153,403
	<u>335,519</u>	<u>324,685</u>
	<u>\$ 469,610</u>	<u>\$ 478,088</u>
Total Liabilities and Net Assets	<u>\$ 650,055</u>	<u>\$ 656,862</u>

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

California Wheat Commission

STATEMENTS OF REVENUES, EXPENSES  
AND CHANGES IN NET ASSETS

For the Fiscal Years Ended April 30, 2006 & 2005

	<u>2006</u>	<u>2005</u>
Assessments Revenue, Net of Refunds of \$36,757 in 2006 and \$31,042 in 2005	\$ 592,625	\$ 636,349
Laboratory Revenue:		
Crop Quality	\$ 11,765	\$ 10,409
Laboratory Analysis	38,788	36,863
Training Programs	<u>300</u>	<u>583</u>
	<u>\$ 50,853</u>	<u>\$ 47,855</u>
Other Income:		
Miscellaneous	<u>\$ 1,508</u>	<u>\$ 6,750</u>
 Total Operating Revenue	 <u>\$ 644,986</u>	 <u>\$ 690,954</u>
Expenses:		
General and Administrative	\$ 321,354	\$ 357,321
Research Projects	108,166	122,830
Market Development	41,424	57,339
Laboratory	<u>181,499</u>	<u>186,001</u>
 Total Operating Expenses	 <u>\$ 652,443</u>	 <u>\$ 723,491</u>
 Operating (Loss)	 <u>(\$ 7,457)</u>	 <u>(\$ 32,537)</u>
Other Income (Expense):		
Interest Income	\$ 10,657	\$ 4,381
Interest Expense	<u>( 11,678)</u>	<u>( 12,597)</u>
 Total Other Expense	 <u>(\$ 1,021)</u>	 <u>(\$ 8,216)</u>
 Change In Net Assets	 <u>(\$ 8,478)</u>	 <u>(\$ 40,753)</u>
Net Assets, Beginning of Year	<u>478,088</u>	<u>518,841</u>
Net Assets, End of Year	<u><u>\$ 469,610</u></u>	<u><u>\$ 478,088</u></u>

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

California Wheat Commission

STATEMENTS OF CASH FLOWS

For the Fiscal Years Ended April 30, 2006 & 2005

<u>Cash Flows from Operating Activities:</u>	<u>2006</u>	<u>2005</u>
Receipts from Customers	\$ 658,666	\$ 675,761
Payments to Employees	( 345,014)	( 352,408)
Payments to Suppliers	( 272,523)	( 323,237)
Other Cash Payments	( 49,160)	( 49,160)
Net Cash Provided (Used) by Operating Activities	<u>\$ 41,129</u>	<u>(\$ 49,044)</u>
 <u>Cash Flows from Capital and Related Financing Activities:</u>		
Purchase of Property and Equipment	\$ ( 6,078)	(\$ 6,078)
Payments on Mortgage Payable	( 4,761)	( 3,941)
Interest on Mortgage Payable	( 11,678)	( 12,597)
Net Cash Used by Capital and Related Financing Activities	<u>(\$ 16,439)</u>	<u>(\$ 22,616)</u>
 <u>Cash Flows from Investing Activities:</u>		
Interest Income	\$ 10,657	\$ 4,381
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 35,347	(\$ 67,279)
Cash and Cash Equivalents, Beginning of Year	<u>316,533</u>	<u>383,812</u>
Cash and Cash Equivalents, End of Year	<u>\$ 351,880</u>	<u>\$ 316,533</u>
 <u>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:</u>		
Operating Income (Loss)	(\$ 7,457)	(\$ 32,537)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Depreciation	24,073	35,528
(Increase) Decrease in:		
Receivables	13,680	( 15,193)
Prepaid Expenses	4,401	6,059
Increase (Decrease) in:		
Accounts Payable	3,317	1,859
Assessments Payable	( 49,160)	( 49,160)
Profit Sharing Contribution Payable	299	1,424
Compensated Absences	2,816	2,976
Net Cash Provided (Used) by Operating Activities	<u>\$ 41,129</u>	<u>(\$ 49,044)</u>
 <u>Non Cash Transactions:</u>		
Retirement of Property, Plant & Equipment	<u>\$ 0</u>	<u>\$ 3,585</u>

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

California Wheat Commission

NOTES TO FINANCIAL STATEMENTS

April 30, 2006 & 2005

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.
- C. Financial Statements Presentation - The Commission applies all applicable GASB pronouncements (including all National Council on Governmental Accounting Statements and Interpretations currently in effect) as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict FASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) of the Committee on Accounting Procedure. In addition, the District applies all applicable FASB Statements and Interpretations issued after November 30, 1989, except those that conflict with or contradict GASB pronouncements, to its business-type activities.

California Wheat Commission

NOTES TO FINANCIAL STATEMENTS

April 30, 2006 & 2005

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

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 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:

- *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 \$126,853 and \$131,164 as of April 30, 2006 and 2005.
  - *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, 2006 or 2005.
  - *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."
- 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, 2006 and 2005, all bank balances were insured. In addition to bank accounts, the Commission has funds in a money market



California Wheat Commission

NOTES TO FINANCIAL STATEMENTS

April 30, 2006 & 2005

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

account with an investment broker. The balance as of April 30, 2006 and 2005 was \$7,374 and \$8,321, 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, 2006 and 2005.
- 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 2006 and 2005.
- 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

California Wheat Commission

NOTES TO FINANCIAL STATEMENTS

April 30, 2006 & 2005

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

- 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 5) 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. 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.
- M. 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.

California Wheat Commission

NOTES TO FINANCIAL STATEMENTS

April 30, 2006 & 2005

NOTE 2 PROPERTY AND EQUIPMENT:

Property and equipment at April 30 consists of:

	2006			
<u>Capital Assets being Depreciated:</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Leasehold Improvements	\$ 164,408	\$	\$	\$ 164,408
Laboratory Equipment	399,248			399,248
Office Equipment	53,146			53,146
Condominium Suite	<u>200,000</u>			<u>200,000</u>
Total Capital Assets Being Depreciated	\$ 816,802	\$	\$	\$ 816,802
Less Accumulated Depreciation	( 531,785)	( 24,073)		( 555,858)
Net Capital Assets	<u>\$ 285,017</u>	<u>(\$ 24,073)</u>	<u>\$ 0</u>	<u>\$ 260,944</u>
	2005			
<u>Capital Assets being Depreciated:</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</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>

Depreciation expense for the year ended April 30, 2006 and 2005 was \$24,073 and \$35,528, respectively.

California Wheat Commission

NOTES TO FINANCIAL STATEMENTS

April 30, 2006 & 2005

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.

Balance April 30, 2006	\$ 126,853
Less: Portion due within one year	( <u>5,209</u> )
Long-Term Portion	<u>\$ 121,644</u>

<u>Year Ending April 30,</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 5,209	\$ 11,230
2008	5,698	10,741
2009	6,234	10,205
2010	<u>109,712</u>	<u>5,686</u>
Total minimum payments required	<u>\$ 126,853</u>	<u>\$ 37,862</u>

The schedule of changes in the note payable balance for the year ended April 30, 2006 is as follows:

<u>Balance</u>			<u>Balance</u>
<u>May 1, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>April 30, 2006</u>
\$ 131,614	\$	\$ 4,761	\$ 126,853

California Wheat Commission

NOTES TO FINANCIAL STATEMENTS

April 30, 2006 & 2005

NOTE 4 LEASES:

The Commission is committed under a noncancelable operating lease for office equipment. Future minimum operating lease commitments are as follows:

<u>Year Ending April 30,</u>	
2007	\$ 1,027
2008	1,027
2009	1,027
2010	1,027
2011	<u>902</u>
	<u>\$ 5,010</u>

NOTE 5 PENSION PLAN:

The Commission sponsors a defined contribution profit sharing 401(k) plan, administered by Associated Pension Consultants. Employees who are at least 20 years of age and have completed 1,000 hours of service are eligible to participate in the Plan. Participants vest in the Plan as follows:

<u>Years of Service</u>	<u>Percent Vested</u>
1	33.33%
2	66.67%
3	100.00%

The Plan provides that the Commission make annual contributions at 10% of total annual compensation paid to all participants. Total pension expense for the years ended April 30, 2006 and 2005 was \$24,720 and \$26,156, respectively. Employees may also elect to make additional individual contributions.

NOTE 6 RELATED PARTY TRANSACTION:

California Grain Foundation, a related party due to common control, owes the Commission \$9,523 for start-up and organization costs advanced to the Foundation between April 2002 and October 2003. No payments have been received to reduce the amount receivable; however the Foundation intends to repay this amount as funds become available. The Commission believes this amount to be fully collectable.

California Wheat Commission

NOTES TO FINANCIAL STATEMENTS

April 30, 2006 & 2005

NOTE 7 BUDGETARY CONTROL:

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

	2006			
	Original Budget	Final Budget	Actual	Favorable (Unfavorable)
Revenues	\$ 620,602	\$ 620,602	\$ 655,643	\$ 35,041
Expenses	661,866	661,866	664,121 *	(2,255)

	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

\* Includes depreciation expense (unbudgeted item) of \$24,073 in 2006 and \$35,528 in 2005.

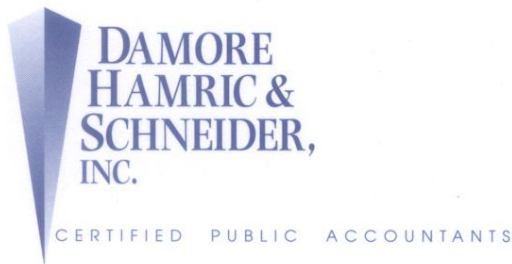
NOTE 8 COMMITMENTS:

The Commission has entered into contract commitments whose terms exceed the Commission's year end. As of April 30, 2006 and 2005, remaining commitments totaled \$35,989 and \$54,652, respectively.

NOTE 9 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, 2006 and 2005, 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*

DAMORE, HAMRIC & SCHNEIDER, INC.  
Certified Public Accountants

July 13, 2006



California Wheat Commission

STATEMENTS OF GENERAL AND ADMINISTRATIVE EXPENSES

For the Fiscal Years Ended April 30, 2006 & 2005

	<u>2006</u>	<u>2005</u>
Salaries	\$ 149,149	\$ 147,774
Payroll Taxes and Employee Benefits	26,620	27,797
Publications	13,041	12,259
California Association of Wheat Growers	20,000	40,000
Staff Expenses	11,293	13,012
Commissioners' Expenses	13,692	11,676
Office Expenses	9,197	11,424
Insurance	21,038	23,383
Utilities	5,147	4,711
Occupancy	11,197	7,974
Legal and Accounting	9,542	11,840
California Department of Food and Agriculture	7,365	9,943
Depreciation	<u>24,073</u>	<u>35,528</u>
	<u>\$ 321,354</u>	<u>\$ 357,321</u>