

**California Walnut Board /
California Walnut Commission**

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**CALIFORNIA WALNUT BOARD / CALIFORNIA WALNUT COMMISSION
AUDIT COMMITTEE MEETING MINUTES**

**Monday, February 1, 2010
Folsom, CA**

A joint meeting of the California Walnut Board and California Walnut Commission Audit Committees was held on Monday, February 1, 2010, at the CWB/CWC offices in Folsom, CA. The meeting was called to order at 10:06 a.m. by CWB/CWC Treasurer Martin Mariani. Ms. Steindorf called the roll and all Committee members were present:

CWB Audit Committee

Martin Mariani, Treasurer

Robert Lea

Donald Norene

Fred Spanfelner

CWC Audit Committee

Martin Mariani, Treasurer

William Crain

David Skinner

Pete Turner

Ms. Steindorf informed the Treasurer that a quorum was present for both Committees. Also in attendance were Board member Jim Frazier; Jennifer Glass, Gilbert Associates; Debbie Wray, USDA; and CWB/CWC staff members Dennis Balint, Heather Donoho and Dana Steindorf.

The first order of business was the approval of the minutes from the last Joint Audit Committee meeting held on August 18, 2009. CWB Audit Committee member Mr. Norene made a motion to approve the minutes as mailed, Mr. Spanfelner seconded the motion and it carried unanimously. CWC Audit Committee member Mr. Turner made a motion to approve the minutes as mailed and Mr. Skinner seconded the motion. The motion carried unanimously.

Mr. Mariani asked Ms. Donoho to introduce the next agenda item, Review of the 2008/2009 Financial Audit Report. Ms. Donoho stated that three staff members from Gilbert Associates were at the CWB/CWC offices for two weeks in November 2009 to conduct the financial audits. She introduced Ms. Jennifer Glass of Gilbert Associates who headed the staff that conducted the audits. Ms. Glass reviewed the comparative financial statements for the Board and Commission for the year ended August 31, 2009 and thirteen months ended August 31, 2008. She indicated that Gilbert Associates issued an unqualified opinion for the financial statements, meaning that it is a clean audit opinion. The audit was performed within the scope outlined in the engagement letter from last year. There were no new significant accounting policies in relation to the Government Auditing Standards board and Gilbert Associates reviewed existing policies from the prior year and noted that there were no changes.

Ms. Glass was pleased to report that there were no disagreements between Gilbert Associates and CWB/CWC management and they encountered no difficulties while performing the audit. The CWB/CWC staff was very prepared. Gilbert Associates considered methodologies and judgments within the financial statements, particularly receivables and fixed assets, and noted that they seemed appropriate and in line with the Government Auditing Standards.

Ms. Glass commented that on the Board there were no adjustments or additional disclosures noted for the year. There was one adjustment noted for the Commission which was an increase in MAP expenses and an increase in MAP revenue by \$338,474. This was as a result of performing a reconciliation between the MAP year (calendar year) and the CWC fiscal year. Ms. Donoho stated that due to an incorrect code input, a charge was made on the MAP side to a particular account, rather than the MAP revenue account. The result was that a positive \$338,474 was recorded in a MAP expense account, netting out a corresponding \$338,474 in expenses; the net income figure of MAP was unaffected. The oversight has been corrected and procedures put in place for the accounting assistant to input codes and the accounting director to verify the input.

Ms. Glass then reviewed the financial statements for both the Board and Commission simultaneously. The independent auditor's reports for both organizations indicate an unqualified opinion for the year-end August 31, 2009. Ms. Glass mentioned some key points in the financial statements – the cash positions for both organizations significantly increased due to higher assessment revenue, and some CD conversions to cash on the Commission. Accounts payable on the Board decreased significantly and increased correspondingly on the Commission due to transfer of some marketing activities from the Board to the Commission. Both the Board and Commission showed an increase in net assets as of August 31, 2009.

Ms. Donoho mentioned that the two company vehicles listed on the schedule of property and equipment for the CWB were both sold in September 2009 so they still appear on the schedule as assets as of the year end August 31, 2009.

Mr. Skinner asked about the increase in rent expenses. Mr. Balint explained that the CWB/CWC expanded its office space by two offices in anticipation of hiring an assistant marketing director and a technical staff member.

Ms. Glass explained that the last few pages of the financial statement for the CWB are a report on internal control that is required by USDA. She indicated that there are no management comments for the Board. The final pages of the financial statement for the Commission are required supplemental reports designated by the OMB, which oversees the federal Market Access Program (MAP).

Chairperson Mariani asked Mr. Balint to comment on the dramatic difference between the net assets from the prior year and give his opinion on where we would like to be going forward. Mr. Balint stated that the CWB has \$2.8 million in reserves, an adequate amount in his opinion. In September, depending on the crop size and inspections over the balance of this year, the Board will be able to make a decision as to whether or not the funds should be held in reserve or refunded. The increase in CWB net assets is largely due to additional inspections and the fact that we rarely spend the budget in its entirety. Since the Commission is capped at one-cent per inshell pound assessment, if at any time it was decided to increase marketing activities, the only place to get additional funds is from the reserve. Therefore, it is important to maintain a substantial reserve on the Commission. Also, if MAP funding were to decrease or go

away, this industry would probably want to supplement the marketing activities from the reserve funds.

Mr. Balint also mentioned that for the upcoming budget discussions, he is asking for suggestions on how to determine the crop figure to use for budgetary purposes. Last year we used a three-year rolling average and if we used that same formula for the upcoming year it would be about 395,000 tons. Mr. Balint and Mr. Mariani had discussed using a trend line – taking a trend line and adding a factor for the increases in production per acre. A discussion ensued about crop sizes, projecting a trend, reporting varieties sold from nurseries and reporting varieties on the inventory and shipment reports from the CWB (which would require rulemaking). Mr. Balint will follow up with the Production Research and Grades & Standards Committees to come up with an expedited production model for budgeting purposes and will also reach out to some members of the Board and Commission involved in the nursery business to determine if reporting from nurseries is a viable option to help in the calculation of crop size.

Mr. Norene made a motion on behalf of the CWB Audit Committee to accept the financial audit reports as presented by Ms. Glass of Gilbert Associates. Mr. Spanfelner seconded the motion and it carried unanimously. Mr. Skinner made a motion on behalf of the CWC Audit Committee to accept the financial audit reports as presented by Ms. Glass of Gilbert Associates. Mr. Crain seconded the motion and it carried unanimously.

Mr. Mariani continued to the next agenda item, the Review and Consideration of Engagement Letter for 2009/2010 Audits. Ms. Donoho stated that the increased costs for each entity are between 2 and 2.5%.

Mr. Crain made a motion on behalf of the CWC Audit Committee to recommend to the full Commission to accept the engagement of Gilbert Associates as the financial audit firm for the 2009/2010 audits. Mr. Turner seconded the motion and it carried unanimously. Mr. Norene made a motion on behalf of the CWB Audit Committee to recommend to the full Board to accept the engagement of Gilbert Associates as the financial audit firm for the 2009/2010 audits. Mr. Lea seconded the motion and it carried unanimously.

Under other business, Mr. Skinner asked if the internal control report on the CWB/CWC computer server information/back-up was reported to the full Board and Commission. Ms. Donoho will check on the timing of that report and whether or not it was disseminated to the Board and Commission.

The next joint meeting of the CWB / CWC Audit Committees will be in the summer, prior to the September Board meeting.

Mr. Mariani then called for an Executive/Closed Session with Ms. Glass of Gilbert Associates, excusing CWB staff from the meeting. During the closed session, the Committee discussed the relationship between the audit firm and staff, and the overall competency and working conditions. The Committee concluded that the activities are being conducted in a satisfactory manner. The meeting returned to open session.

Hearing no further business to come before the Committees, Mr. Mariani adjourned the meeting at 11:24 a.m.