Office of the Washington State Auditor
Pat McCarthy

October 23, 2017

Board of Commissioners
Washington State Dairy Products Commission
Lynnwood, Washington

Contracted CPA Firm's Audit Report on Financial Statements

We have reviewed the audit report issued by a certified public accounting (CPA) firm on the Washington State Dairy Products Commission's financial statements for the fiscal year ended December 31, 2015 and December 31, 2016. The Commission contracted with the CPA firm for this audit under an agreement with the State Auditor's Office.

Based on this review, we have accepted this report in lieu of the audit required by RCW 43.09.260. The State Auditor's Office did not audit the accompanying financial statements and, accordingly, we do not express an opinion on those financial statements.

This report is being published on the State Auditor's Office website as a matter of public record.

Sincerely,

Pat McCarthy

State Auditor

Olympia, WA

WASHINGTON DAIRY PRODUCTS COMMISSION
(A Component Unit of the State of Washington)

Financial Statements

For the Years Ended December 31, 2016 and 2015

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Independent Auditor's Report

To the Board of Commissioners
Washington Dairy Products Commission
Lynnwood, Washington

We have audited the accompanying financial statements of Washington Dairy Products Commission (the Commission), a Component Unit of the State of Washington, which comprise the balance sheets as of December 31, 2016 and 2015, the statements of revenue, expenses, and changes in net position, and cash flows for the years then ended and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Commission's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence obtained is sufficient and appropriate to provide a basis for our audit opinion.

Clark Nuber PS

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Commission as of December 31, 2016 and 2015, and the results of its operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 10, and the schedules of proportionate share of the net pension liability and schedules of employer contributions on pages 27 through 30, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Clark Nuber P.S.

Certified Public Accountants
April 20, 2017

Management's Discussion and Analysis (MD&A) presents a narrative overview and analysis of the financial activities of the Washington Dairy Products Commission for the years ended December 31, 2016 and 2015. The MD&A is designed to assist readers of financial statements in focusing on significant financial activities and issues in the financial statements as a whole.

The Organization and Program

The Washington Dairy Products Commission (the Commission) is a self-governing state agency with that authority granted to it by, and subject to the limitations of, RCW 15.44 and the constitution and policies adopted by the Commission.

The dairy industry is a very significant part of Washington State's history, culture, economy and future. In order to develop and promote Washington's dairy industry, as part of an already existing comprehensive regulatory scheme, the legislature established the Washington State Dairy Products Commission and declared:

1. It is vital to the continued economic well-being of the citizens of this state and their general welfare that its dairy products be properly promoted by (a) enabling the dairy industry to help themselves in establishing orderly, fair, sound, efficient, and unhampered marketing, grading, and standardizing of the dairy products they produce and (b) working to stabilize the dairy industry by increasing consumption of dairy products within the state, the nation and internationally.

2. Dairy producers operate within a regulatory environment that imposes burdens on them for the benefit of society and the citizens of the state and includes restrictions on marketing autonomy. Those restrictions may impair the dairy producer's ability to compete in local, domestic and foreign markets.

3. It is in the overriding public interest that support for the dairy industry is clearly expressed, that adequate protection is given to agricultural commodities, uses, activities, and operations, and that dairy products are promoted individually, and as part of a comprehensive industry to:

    a. Enhance the reputation and image of Washington State's agricultural industry;
    b. Increase the sale and use of Washington State's dairy products in local, domestic, and foreign markets;
    c. Protect the public by educating the public in reference to the quality, care, and methods used in the production of Washington State's dairy products;
    d. Increase the knowledge of the health-giving qualities and dietetic value of dairy products; and
    e. Support and engage in programs or activities that benefit the production, handling, processing, marketing, and uses of dairy products produced in Washington State.

4. The Commission is established for the purpose of protecting the health, peace, safety and general welfare of the people of this state.

The majority of the Commission's funding is through the collection of assessments on milk produced within Washington State. The Commission may decrease or increase the current level of assessment provided for in RCW 15.44.080 following a hearing conducted in accordance with the Administrative Procedure Act, chapter 34.05 RCW, provided that the current level of assessment established in this manner shall not exceed the maximum authorized assessment rate established by producers in the most recent referendum.

The Organization and Program (Continued)

Upon receipt of a petition bearing the names of 20% of the producers requesting a reduction in the current level of assessment, the Commission shall hold a hearing in accordance with chapter 34.05 RCW to receive producer testimony. After considering the testimony of the producer, the Commission may adjust the current level of assessment.

Additional funding is received through the sale of educational materials, processor assessments, interest income, and other miscellaneous income.

Overview of the Financial Statements

The Commission's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP). These financial statements cover the years ended December 31, 2016 and 2015.

The financial statements include the Balance Sheets, Statements of Revenues, Expenses and Changes in Net Position, Statements of Cash Flows and Notes to Financial Statements.

The Balance Sheets provide a record, or snapshot, of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the Commission at the close of the year. It provides information about the nature and amounts of investments in resources (assets) and obligations to creditors (liabilities). It provides a basis for assessing its liquidity and financial flexibility.

The Statements of Revenues, Expenses and Changes in Net Position present the results of the business activities over the course of the year. This information can be used to determine whether the Commission has successfully recovered all its costs through its user fees and other charges, and to evaluate its financial viability and credit worthiness.

The Statements of Cash Flows report cash receipts, cash payments and net changes in cash resulting from operating, capital and related financing and investing activities over the course of the year. The statements present information on where cash came from and what it was used for.

The Notes to Financial Statements provide useful information regarding the Commission's significant account balances and activities, certain material risks, estimates, obligations, commitments, contingencies, and subsequent events, if any.

Financial Highlights 2016

In the year ended December 31, 2016, operating expenses for the Commission were $7,214,258 and operating revenues were $6,891,050. Operating revenues were over budget while expenses were under budget. The decreased operating expenses compared to budget can be attributed primarily to reduced spending in all budget areas. Staff members were requested to cut spending the last quarter of the year to provide for a greater reserve balance for the 2017 budget year. Additionally, changes in staff structure attributed to decreased costs in the overall operations budget.

Producer income decreased approximately 5.5% as a result of the state assessment no longer being collected in 2016. The state assessment amounted to $.01 per hundredweight of milk produced. The decrease in educational revenues can be attributed to a transition to a new on-line ordering format. Sales of nutrition education materials are expected to recover as customers adjust to the new ordering requirements. Also, additional marketing will be conducted to customers through this new on-line ordering system. The Commission will have a greater ability to target customers through the collection of data with the new system.

WASHINGTON DAIRY PRODUCTS COMMISSION
(A Component Unit of the State of Washington)

Management's Discussion and Analysis (Continued)
For the Years Ended December 31, 2016 and 2015

Financial Highlights 2016 (Continued)

Nonoperating revenues decreased in 2016 due to additional sponsorship costs as part of the Montana Dairy Program.

Financial Analysis

Condensed Financial Statement
Balance Sheets
December 31, 2016 and 2015

	2016	2015	Change	Percentage Change
Current assets	$ 6,018,884	$ 6,166,174	$ (147,290)	-2%
Current assets, Montana Dairy Program	237,312	222,023	15,289	7%
Capital assets, net	378,969	355,891	23,078	6%
Total Assets	**6,635,165**	**6,744,088**	**(108,923)**	**-2%**
Deferred outflows of resources	202,971	140,786	62,185	44%
Total Assets and Deferred Outflows of Resources	**$ 6,838,136**	**$ 6,884,874**	**$ (46,738)**	**-1%**
Current liabilities	$ 681,628	$ 501,549	$ 180,079	36%
Total Current Liabilities	**681,628**	**501,549**	**180,079**	**36%**
Pension liability	1,114,162	940,344	173,818	18%
Total Liabilities	**1,795,790**	**1,441,893**	**353,897**	**25%**
Deferred inflows of resources	16,757	127,426	(110,669)	-87%
Total Liabilities and Deferred Inflows of Resources	**1,812,547**	**1,569,319**	**243,228**	**15%**
Net Position:				
Unrestricted	4,646,620	4,959,664	(313,044)	-6%
Invested in capital assets, net of related debt	378,969	355,891	23,078	6%
Total Net Position	**5,025,589**	**5,315,555**	**(289,966)**	**-5%**
Total Liabilities, Deferred Inflows and Net Position	**$ 6,838,136**	**$ 6,884,874**	**$ (46,738)**	**-1%**

Financial Analysis (Continued)

Condensed Financial Statement
Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended December 31, 2016 and 2015

	2016	2015	Change	Percentage Change
Total operating revenues	$ 6,891,050	$ 7,411,075	$ (520,025)	-7%
Total operating expenses	7,214,258	7,151,340	62,918	1%
Operating Income	**(323,208)**	**259,735**	**(582,943)**	**-224%**
Nonoperating revenues	33,242	57,664	(24,422)	**-42%**
Change in Net Position	**(289,966)**	**317,399**	**(607,365)**	**-191%**
Net position, beginning of year	5,315,555	4,998,156	317,399	**6%**
Net Position, End of Year	**$ 5,025,589**	**$ 5,315,555**	**$ (289,966)**	**-5%**

Financial Highlights 2015

In the year ended December 31, 2015, operating expenses for the Commission were $7,151,340 and operating revenues were $7,411,075. Operating revenues were over budget while expenses were under budget. The decreased operating expenses compared to budget can be attributed primarily to reduced spending in the Media and Sponsorships and Public Relations budgets. In the Media and Sponsorship budget the last quarter of media placements were cancelled and planned communications work did not take place due contractual issues with Radarworks, the Commission's media placement company. Additionally, components of the Strategic Marketing Plan were not implemented or came under budget for the 2015 calendar year as a result of changes in the work contracted for in the area of legislative and regulatory management.

Producer income decreased approximately 3% as a result of the state assessment no longer being collected effective August 1, 2015. The state assessment amounted to $.01 per hundredweight of milk produced. The increase in educational revenues can be attributed to unanticipated institutional sales of nutrition education materials.

Financial Analysis

Condensed Financial Statement
Balance Sheets
December 31, 2015 and 2014

	2015	2014	Change	Percentage Change
Current assets	$ 6,166,174	$ 5,881,751	$ 284,423	5%
Current assets, Montana Dairy Program	222,023	192,742	29,281	15%
Capital assets, net	355,891	356,662	(771)	0%
Total Assets	**6,744,088**	**6,431,155**	**312,933**	**5%**
Deferred outflows of resources	140,786	48,947	91,839	100%
Total Assets and Deferred Outflows of Resources	**$ 6,884,874**	**$ 6,480,102**	**$ 404,772**	**6%**
Current liabilities	$ 501,549	$ 445,459	$ 56,090	13%
Total Current Liabilities	**501,549**	**445,459**	**56,090**	**13%**
Pension liability	940,344	$773,258	167,086	100%
Total Liabilities	**1,441,893**	**1,218,717**	**223,176**	**18%**
Deferred inflows of resources	127,426	263,229	(135,803)	100%
Total Liabilities and Deferred Inflows of Resources	**1,569,319**	**$1,481,946**	**87,373**	**6%**
Net Position:				
Unrestricted	4,959,664	4,641,494	318,170	7%
Invested in capital assets, net of related debt	355,891	356,662	(771)	0%
Total Net Position	**5,315,555**	**4,998,156**	**317,399**	**6%**
Total Liabilities, Deferred Inflows and Net Position	**$ 6,884,874**	**$ 6,480,102**	**$ 404,772**	**6%**

Financial Analysis (Continued)

Condensed Financial Statement
Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended December 31, 2015 and 2014

	2015	2014	Change	Percentage Change
Total operating revenues	$ 7,411,075	$ 7,481,304	$ (70,229)	-1%
Total operating expenses	7,151,340	8,083,453	(932,113)	-12%
Operating Income	**259,735**	**(602,149)**	**861,884**	**-143%**
Nonoperating revenues	57,664	82,646	(24,982)	**-30%**
Change in Net Position	**317,399**	**(519,503)**	**836,902**	**-161%**
Net position, beginning of year	4,998,156	5,517,659	(519,503)	**-9%**
Net Position, End of Year	**$ 5,315,555**	**$ 4,998,156**	**$ 317,399**	**6%**

Capital Assets

Assets in excess of $1,000 in original cost, such as buildings, equipment, furniture and fixtures, and automobiles, are capitalized and depreciated over their estimated economic lives. See Note 2 of the financial statements for further discussion on capital assets.

Economic Outlook

The Dairy Commission's Board began the process in late 2016 of rebranding the Commission's programs and developing a new logo. The process of introducing the new logo to farmers began in November and December of 2016.

The Dairy Commission continued to implement two priority programs - the Consumer Confidence "Dairy Trust Initiative" program (DTI) and the "Fuel Up to Play 60" (FUTP60) school program through most of the 2016 year. In addition, the Commission continued to work in the area of hunger initiatives as part of its local partnerships and retail promotions. As part of the rebranding of the Commission's image and new logo the Commission's programming will be moving in the direction of promoting dairy as part of a healthy and active lifestyle with a focus on celebrating the products produced by farmers.

Economic Outlook (Continued)

The DTI program focuses on improving the image of the dairy industry to increase consumer confidence in dairy products and dairy farmers. This program is part of the Unified Marketing Plan (UMP) Consumer Confidence program. There has been increased pressure on dairy producers and greater consumer concerns about production practices as it relates to food production. The initiative is essentially a story-telling communication program that helps to put a face on the industry, the 437 dairy farm families in our state. It includes communications efforts designed to educate the public on the issues farmers face, and how they take care of their animals, employees, and the environment-land, water and air. Farm families need healthy animals to produce quality milk and clean and healthy environment for their families and communities.

The FUT60 program is part of the part of the Unified Marketing Plan. Through an agreement with the National Football League (NFL), dairy farmers are bringing a nutrition component to the NFL's "Play 60" program, which encourages 60 minutes of physical activity each day. The Washington Dairy Commission & Dairy Council have partnered with the Seattle Seahawks to implement this program throughout the State of Washington. The Commission currently has approximately 1,946 schools signed up with the program. The focus is on health and wellness with an emphasis on the encouraged food groups, which includes dairy.

In the area of hunger initiatives, the Commission has developed programs with local food banks and retailers and has participated in national programs to promote milk consumption and build upon the image work carried out under the DTI program.

The Commission continues to promote its initiatives by working in partnership with major dairy processors, retailers, schools and foodservice companies. This allows the Commission to achieve cost savings by bringing partners to the table to share in the implementation costs of its programs. The Commission is currently working with schools to support breakfast programs and healthy beverage choices to boost the sale of dairy products within the school environment and to encourage good nutrition. The Commission also works on summer hunger programs to feed school kids who do not receive school meals during the summer.

The fluid milk sales performance in 2015-2016 improved over previous years. All channel volume continues to be down slightly in 2016. Yet there are pockets of momentum in in retail and quick-serve restaurants. While total milk sales are down (2% YTD), lactose-free milk continues to be a bright spot. However, whole fat milk benefitted from the consumer trend toward whole, natural foods (up 5.2%). The foodservice market is also a source of milk growth primarily in the form of coffee beverages. Many niche segments are seeing growth, including organic, flavored milk and refuel products.

The domestic cheese market is strong with USDA reporting a volume increase of 5% over 2015. Retail cheese contributed to this growth – however pizza cheese continues to be a long-term growth opportunity. Consumers purchased less processed cheese products and gravitated toward natural varieties. On a national level, cheese sales increased from consumer interest in breakfast sandwiches fueled by more restaurants offering all-day breakfast menu options. While the domestic cheese market is solid, cheese exports remain depressed. Cheese inventories overall are rising.

The yogurt category continues solid growth at restaurants and opportunities are available in quick-serve as consumers continue searching for breakfast options out-of-home more frequently. Greek yogurt continues to gain both volume share and milk utilization even though growth has slowed as the Greek segment matures.

Butter consumption is seeing a resurgence because of science, innovation and taste profile. New studies indicating no link between saturated fat and risk of heart disease, diabetes, and stroke, played into the consumers' desire to move to healthier, natural products. Butter consumption is at its highest point per capita since 1969 (5.6 pounds).

Economic Outlook (Continued)

Overall, milk prices remained low in 2016. Extreme weather conditions and increasing pressure from environmental activists continue weighing heavy on Washington's dairy community. While there are some bright spots in product sales, fuel and feed costs remain steady to high. Dairy farmers tend to produce more milk during these challenging economic times. However, the Commission's income could be affected if farmers aren't able to reduce margins as a result of reduced milk pricing and lower revenues.

The Commission's 2017 budget is conservative and the Board of Commissioners continues to maintain a reserve to meet operational and opportunistic needs as well as unanticipated income shortfalls.

Additional Information

Questions and inquiries may be directed to the Washington Dairy Products Commission, 4201 198th Street SW, Suite 101, Lynnwood, Washington 98036, (425) 672-0687.

WASHINGTON DAIRY PRODUCTS COMMISSION

Balance Sheets
December 31, 2016 and 2015

	2016	2015
Current Assets:		
Cash and cash equivalents	$ 5,300,558	$ 5,427,565
Cash - Montana Dairy Program	224,197	208,678
Accounts receivable	570,922	568,974
Accounts receivable - Montana Dairy Program	13,115	13,345
Inventory	147,404	169,635
Total Current Assets	**6,256,196**	**6,388,197**
Capital assets, net	378,969	355,891
Total Assets	**6,635,165**	**6,744,088**
Deferred Outflows of Resources:		
Changes in proportion and differences between contributions and proportionate share of contributions	32,144	40,208
Net difference between projected and actual investment earnings on pension plan investments	77,390	
Changes in assumptions	5,247	577
Changes in expected and actual experience	27,030	38,054
Commission contributions subsequent to measurement date	61,160	61,947
Total Deferred Outflows of Resources	**202,971**	**140,786**
Total Assets and Deferred Outflows of Resources	**$ 6,838,136**	**$ 6,884,874**
Current Liabilities:		
Accounts payable and accrued expenses	$ 681,628	$ 499,549
Accounts payable - Montana Dairy Program		2,000
Total Current Liabilities	**681,628**	**501,549**
Pension liability	1,114,162	940,344
Total Liabilities	**1,795,790**	**1,441,893**
Total Deferred Inflows of Resources:		
Difference between actual and expected earnings	16,757	127,426
Net Position:		
Unrestricted	4,646,620	4,959,664
Invested in capital assets, net of related debt	378,969	355,891
Total Net Position	**5,025,589**	**5,315,555**
Total Liabilities, Deferred Inflows and Net Position	**$ 6,838,136**	**$ 6,884,874**

See accompanying notes.

WASHINGTON DAIRY PRODUCTS COMMISSION

Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended December 31, 2016 and 2015

	2016	2015
Operating Revenues:		
Producer assessments - check off	$ 6,660,446	$ 6,624,691
Producer assessments - State	14	389,595
Educational assessments and sales	230,590	396,789
Total Operating Revenues	**6,891,050**	**7,411,075**
Operating Expenses:		
Program-		
Media and sponsorships	3,496,023	3,271,481
Public relations	1,421,489	1,583,244
Nutrition marketing and education	1,098,003	1,144,350
Research, retail promotions and business development	651,631	635,920
Total program expenses	6,667,146	6,634,995
Administrative expenses	547,112	516,345
Total Operating Expenses	**7,214,258**	**7,151,340**
Operating (Loss) Income	**(323,208)**	**259,735**
Nonoperating Revenues:		
Montana Dairy Program operations, net	17,289	27,281
Interest	10,023	2,658
Consulting services	5,930	6,000
Annual meeting		21,725
Total Nonoperating Revenues	**33,242**	**57,664**
Change in Net Position	**(289,966)**	**317,399**
Net position, beginning of year	5,315,555	4,998,156
Net Position, End of Year	**$ 5,025,589**	**$ 5,315,555**

See accompanying notes.

WASHINGTON DAIRY PRODUCTS COMMISSION

Statements of Cash Flows
For the Years Ended December 31, 2016 and 2015

	2016	2015
Operating Activities:		
Cash received from customers	$ 6,890,170	$ 7,450,858
Cash paid to employees	(1,539,511)	(1,444,898)
Cash paid to suppliers of goods and services	(5,453,628)	(5,710,133)
Receipts from consulting services	5,930	6,000
Net receipts from the Montana Dairy Program	17,289	27,281
Receipts from annual meeting		21,725
Net Cash (Used) Provided by Operating Activities	**(79,750)**	**350,833**
Capital and Related Financing Activities:		
Purchases of capital assets	(41,761)	(14,179)
Net Cash Used in Capital and Related Financing Activities	**(41,761)**	**(14,179)**
Cash Flows From Investing Activities:		
Receipt of interest	10,023	2,658
Net Cash Received From Investing Activities	10,023	2,658
Change in Cash and Cash Equivalents	**(111,488)**	**339,312**
Cash and Cash Equivalents Balance:		
Beginning of year	5,636,243	5,296,931
End of Year	**$ 5,524,755**	**$ 5,636,243**
Cash and Cash Equivalents Balance is Composed of the Following at December 31:		
Cash and cash equivalents	$ 5,300,558	$ 5,427,565
Cash - Montana Dairy Program	224,197	208,678
	$ 5,524,755	**$ 5,636,243**

See accompanying notes.

WASHINGTON DAIRY PRODUCTS COMMISSION

Statements of Cash Flows (Continued)
For the Years Ended December 31, 2016 and 2015

	2016	2015
Reconciliation of Change in Net Position to Net Cash (Used) Provided by Operating Activities:		
Change in net position	$ (289,966)	$ 317,399
Adjustments to reconcile change in net position to cash flows from operating activities-		
Loss on disposal of assets	838	1,271
Depreciation	17,845	13,679
Interest income	(10,023)	(2,658)
Changes in assets and liabilities:		
Accounts receivable	(1,718)	38,512
Inventory	22,231	(12,904)
Deferred outflows of resources	(62,185)	(91,839)
Accounts payable and accrued expenses	180,079	56,090
Pension liability	173,818	167,086
Deferred inflows of resources	(110,669)	(135,803)
Net Cash (Used) Provided by Operating Activities	**$ (79,750)**	**$ 350,833**

See accompanying notes.

Note 1 - Organization and Summary of Significant Accounting Policies

Operations - The Washington Dairy Products Commission (the Commission) is an agency fund and component unit of the State of Washington. The Commission's primary purpose is to build demand for milk and dairy products and to protect and build the image of the dairy industry. The Commission develops and implements a variety of marketing and communication programs including research, nutrition education, and general education about dairy products and the industry. The Commission's revenues are primarily generated through collection of assessments on milk produced within Washington State.

The Commission was created by the Washington State Legislature in 1939 under RCW 15.44. The Commission is governed by a nine-member Board appointed by the Director of the State Department of Agriculture. The State appoints the governing body and provides financial benefit to the Commission and therefore, the financial accountability criteria as defined by the Government Accounting Standards Board (GASB) have been met and the Commission is a component unit of the State of Washington.

The Commission performs programs and activities, such as general nutritional education, with an emphasis on dairy products. Sectors served by the Commission include: (1) health professionals, (2) educational institutions, (3) consumers, and (4) the dairy industry.

The Commission administers the funds for the Montana Dairy Program (the Program). The Program promotes demand for milk and dairy products and to protect and build the image of the dairy industry. The Commission develops and implements a variety of marketing and communication programs including research, nutrition education, and general education about dairy products and the industry. The Commission also has an agreement to provide accounting and program services to the Program. A nominal fee is paid to the Commission for these services each month. The net activity of the Program has been included in the Commission's statements of revenues, expenses and changes in net position as part of nonoperating activities.

Basis of Accounting and Presentation - The financial statements of the Commission have been prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) as applied to special-purpose governments. GASB is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The Commission is a government enterprise. Enterprise funds are accounted for on the economic resources measurement focus using the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Operating and Nonoperating Activity - Operating activities include revenues from assessments on milk producers and processors, educational material sales, and expenses associated with the development and implementation of a variety of marketing, education and communication programs. Nonoperating activities include the Montana Dairy Program operations, investment income, consulting services and annual meeting income.

Cash and Cash Equivalents - For purposes of reporting cash flows, cash includes cash on hand and on deposit with financial institutions. The Commission considers all liquid investments with original maturities of less than three months at the date of acquisition and all nonnegotiable certificates of deposit to be cash equivalents.

Cash deposits are either covered by the Federal Depository Insurance Corporation or the Public Deposit Protection Commission of the State of Washington (PDPC). Cash is deposited with a financial institution as public funds in compliance with the rules of the PDPC. Balances are collateralized by securities held by the financial institution's trust department in the Commission's name.

Note 1 - Continued

Accounts Receivable - Accounts receivable are comprised primarily of amounts due from assessments. No allowance for uncollectible balances has been deemed necessary by management based upon the Commission's historical experience of collections.

Inventory - Inventory is comprised of educational materials and is stated at the lower of cost or market. Cost is determined under the average cost basis.

Capital Assets - Capital assets are stated at cost less accumulated depreciation. All capital assets purchased for more than $1,000 with a useful life of greater than one year are capitalized. Maintenance and repairs are charged to operations as incurred. Expenditures that represent additions and betterments are capitalized. Depreciation is provided using the straight-line method over the following estimated useful lives:

Buildings and improvements	20 years
Furniture, fixtures and computer equipment	4 - 10 years
Vehicles	4 - 5 years

Income Taxes - The Commission, as a state agency, is exempt from federal and state income taxes. Accordingly, no provision for income taxes is necessary.

Compensated Absences - The Commission has a policy for compensated absences which allows employees to accumulate up to 240 hours; however, compensated absences may be accumulated above the maximum allowed between the time 240 hours is accrued and the employee's anniversary date of employment. Management tracks the accumulated compensated absences for employees, which totaled $69,226 and $65,367 for the years ended December 31, 2016 and 2015, respectively. Management has determined that the balances for compensated absences at December 31, 2016 and 2015, are immaterial to the financial statements as a whole and therefore, an accrual for compensated absences is not reflected in the financial statements.

Pensions - For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of all state sponsored pension plans and additions to/deductions from those plans' fiduciary net position have been determined on the same basis as they are reported by the Washington State Department of Retirement Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Advertising - The Commission expenses all advertising and marketing costs when incurred. Advertising costs were $1,578,854 and $1,407,211 for the years ended December 31, 2016 and 2015, respectively.

Use of Estimates - The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Subsequent Events - The Commission has evaluated subsequent events through April 20, 2017, the date on which the financial statements were available to be issued.

Note 2 - Capital Assets

The following is a summary of changes in capital assets:

	December 31, 2015	Additions	Disposals	December 31, 2016
Building and improvements	$ 663,039	$ -	$ -	$ 663,039
Furniture, fixtures and computer equipment	200,401	41,761	(88,556)	153,606
Vehicles	23,477		(23,477)	
	886,917	41,761	(112,033)	816,645
Less accumulated depreciation	(835,026)	(17,845)	111,195	(741,676)
	51,891	23,916	(838)	74,969
Land	304,000			304,000
	$ 355,891	**$ 23,916**	**$ (838)**	**$ 378,969**

	December 31, 2014	Additions	Disposals	December 31, 2015
Building and improvements	$ 663,039	$ -	$ -	$ 663,039
Furniture, fixtures and computer equipment	204,399	14,179	(18,177)	200,401
Vehicles	23,477			23,477
	890,915	14,179	(18,177)	886,917
Less accumulated depreciation	(838,253)	(13,679)	16,906	(835,026)
	52,662	500	(1,271)	51,891
Land	304,000			304,000
	$ 356,662	**$ 500**	**$ (1,271)**	**$ 355,891**

Note 2 - Continued

Depreciation expense was $17,845 and $13,679 with approximately $3,569 and $2,736 charged to each of the four programs, and administrative expenses, in the statements of revenues, expenses and changes in net position for the years ended December 31, 2016 and 2015, respectively.

Note 3 - Commitments and Contingencies

Operating Leases - The Commission has operating leases for postal and copier equipment rental. Minimum future rental payments under noncancelable operating leases having remaining terms in excess of one year in aggregate approximate:

For the Year Ending December 31,		
2017	$	11,337
2018		11,337
2019		8,081
2020		4,825
2021		804
	$	**36,384**

The Commission also rents public storage space on a month to month basis. Rent expense for the years ended December 31, 2016 and 2015, totaled $3,640 and $6,465, respectively. The public storage was cancelled in the current year.

Sponsorship - In July 2012, the Commission entered into a three year contract, totaling $443,000, to be paid in semi-annual installments, with Washington Interscholastic Activities Association as a co-title sponsor of various activities. The amount paid in both the years ended December 31, 2016 and 2015, was $149,000. Future amounts payable on the contract include:

For the Year Ending December 31,		
2017	$	149,000
2018		74,500
	$	**223,500**

Contingent Liability - During the year ended December 31, 2015, the Commission's media vendor filed for bankruptcy, and the Commission terminated its media contract with the vendor. At December 31, 2016 and 2015, a contingent liability for approximately $300,000 is included in accounts payable and accrued expenses in the balance sheets for the full balance of unpaid invoices to the vendor. Actual payments may differ from the amount accrued as of December 31, 2016 and 2015.

Note 3 - Continued

Property Contingency - The Dairy Products Commission owns and occupies property and the building located at 4201 198th Street SW in Lynnwood, Washington 98036. This property is designated as part of the City of Lynnwood's City Center Zone Districts and is further designated as entirely within the route of a proposed new street. The City has not yet implemented a program to acquire properties, including the Commission's property, to build this street improvement. If/when the City elects to proceed with this project, the City may not have the authority to condemn the Commission's property given court decisions interpreting RCW 8.12.030 (the City's general condemnation authority statute).

The courts' decisions can be interpreted to preclude city condemnation when state property is presently dedicated to a public use. The Commission's use and occupancy of its property appears to qualify as such a public use. Even if a condemnation action by the City is not legally possible, the Commission could face pressure to voluntarily sell its property to allow for the City's project to proceed. Upon condemnation or voluntary sale, the Commission would proceed through processes involving the use of qualified appraisals to identify the fair market value of the property. Upon any such sale, the Commission would be entitled to use any net proceeds for purposes including the purchase of property for its operations. For purposes of this statement, it is assumed that the Commission's property has appreciated in value and that a sale would generate net proceeds rather than loss. This assumption would need to be validated if/when the City takes tangible steps to begin the above-referenced property acquisitions for the street improvement project affecting the Commission's property.

Note 4 - Pension Plan

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, *Accounting and Financial Reporting for Pensions* for the year ending December 31, 2016:

Pension liabilities	$ 1,114,162
Deferred outflows of resources	(202,971)
Deferred inflows of resources	16,757
Pension expense/expenditures	383,363

State Sponsored Pension Plans - Substantially all Washington Dairy Products Commission full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans. The state Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to:

Department of Retirement Systems
Communications Unit
P.O. Box 48380
Olympia, WA 98540-8380

Or the DRS CAFR may be downloaded from the DRS website at www.drs.wa.gov.

Note 4 - Continued

Public Employee's Retirement System (PERS) - PERS members include elected officials; state employees; employees of the Supreme, Appeals and Superior Courts; employees of the legislature; employees of district and municipal courts; employees of local governments; and higher education employees not participating in higher education retirement programs. PERS is comprised of three separate pension plans for membership purposes. PERS plans 1 and 2 are defined benefit plans, and PERS plan 3 is a defined benefit plan with a defined contribution component.

PERS Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2016 were as follows:

PERS Plan 1:

Actual Contribution Rates	Employer	Employee*
PERS Plan 1	6.23%	6.00%
PERS Plan 1 UAAL	4.77%	6.00%
Administrative fee	0.18%	
	11.18%	**12.00%**

* For employees participating in JBM, the contribution rate was 12.26%

PERS Plan 2/3 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1 percent of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

- With a benefit that is reduced by three percent for each year before age 65; or
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

Note 4 - Continued

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

PERS Plan 3 defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. PERS Plan 3 members choose their contribution rate upon joining membership and have a chance to change rates upon changing employers. As established by statute, Plan 3 required defined contribution rates are set at a minimum of 5 percent and escalate to 15 percent with a choice of six options. Employers do not contribute to the defined contribution benefits. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2016 were as follows:

PERS Plan 2/3:

Actual Contribution Rates	Employer	Employee*
PERS Plan 2/3	6.23%	6.12%
PERS Plan 1 UAAL	4.77%	
Administrative fee	0.18%	
Employee PERS Plan 3		Varies
	11.18%	**6.12%**

* For employees participating in JBM, the contribution rate was 15.30%

The Washington Dairy Products Commission's actual PERS plan contributions were $63,695 to PERS Plan 1 and $56,766 to PERS Plan 2/3 for the year ended December 31, 2016.

Actuarial Assumptions - The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2016 with a valuation date of June 30, 2015. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study*.

Note 4 - Continued

Additional assumptions for subsequent events and law changes are current as of the 2015 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2016. Plan liabilities were rolled forward from June 30, 2015, to June 30, 2016, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

Inflation - 3% total economic inflation; 3.75% salary inflation.

Salary Increases - In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.

Investment Rate of Return - 7.5%

Mortality rates were based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. The OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

There were minor changes in methods and assumptions since the last valuation.

- For all systems the assumed valuation interest rate was lowered from 7.8% to 7.7%. Assumed administrative factors were updated.

Discount Rate - The discount rate used to measure the total pension liability for all DRS plans was 7.5 percent.

To determine that rate, an asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements (all plans use 7.7 percent). Consistent with the long-term expected rate of return, a 7.5 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, PSERS 2, SERS 2/3, and TRS 2/3 employers, whose rates include a component for the PERS 1, and TRS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5 percent was used to determine the total liability.

Long-Term Expected Rate of Return - The long-term expected rate of return on the DRS pension plan investments of 7.5 percent was determined using a building-block-method. The Washington State Investment Board (WSIB) used a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, including inflation) to develop each major asset class. Those expected returns make up one component of WSIB's capital market assumptions. The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various future times. The long-term expected rate of return of 7.5 percent approximately equals the median of the simulated investment returns over a 50-year time horizon.

Estimated Rates of Return by Asset Class - Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2016, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

Note 4 - Continued

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return
Fixed income	20.00%	1.70%
Tangible assets	5.00%	4.40%
Real estate	15.00%	5.80%
Global equity	37.00%	6.60%
Private equity	23.00%	9.60%
	100.00%	

Sensitivity of Net Pension Liability - The table below presents the Washington Dairy Products Commission proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the Washington Dairy Product Commission's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.5 percent) or 1-percentage point higher (8.5 percent) than the current rate.

Plan	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	$ 731,427	$ 606,541	$ 499,069
PERS 2/3	934,621	507,621	(264,246)

Pension Plan Fiduciary Net Position - Detailed information about the State's pension plans' fiduciary net position is available in the separately issued DRS financial report.

Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At December 31, 2016, the Washington Dairy Products Commission reported a total pension liability of $1,114,162 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	$ 621,813
PERS 2/3	524,196
PERS 1	(15,272)
PERS 2/3	(16,575)
Pension Liability	**$ 1,114,162**

Note 4 - Continued

At June 30, the Washington Dairy Product Commission's proportionate share of the collective net pension liabilities was as follows:

Plan	Proportionate Share 6/30/2015	Proportionate Share 6/30/2016	Change in Proportion
PERS 1	0.011133%	0.011294%	0.000161%
PERS 2/3	0.010019%	0.010082%	0.000063%

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in the *Schedules of Employer and Nonemployer Allocations* for all plans.

The collective net pension liability (asset) was measured as of June 30, 2016, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2015, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense - For the year ended December 31, 2016, the Washington Dairy Products Commission recognized pension expense as follows:

	Pension Expense
PERS 1	$ 314,113
PERS 2/3	69,250
Total Pension Expense	**$ 383,363**

Note 4 - Continued

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2016, the Washington Dairy Products Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ -
Net difference between projected and actual investment earnings	15,272	
Changes in assumptions		
Changes in proportion and differences between contributions and proportionate share of contributions		
Contributions subsequent to measurement date	31,558	
	$ 46,830	**$ -**

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 27,030	$ (16,757)
Net difference between projected and actual investment earnings	62,118	
Changes in assumptions	5,247	
Changes in proportion and differences between contributions and proportionate share of contributions	32,144	
Contributions subsequent to measurement date	29,602	
	$ 156,141	**$ (16,757)**

Note 4 - Continued

Deferred outflows of resources related to pensions resulting from the Washington Dairy Commission contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2017. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

For the Year Ending December 31,	PERS 1
2017	$ (3,760)
2018	(3,760)
2019	14,025
2020	8,767
	$ 15,272

For the Year Ending December 31,	PERS 2/3
2017	$ 11,024
2018	11,024
2019	58,170
2020	29,564
	$ 109,782

Note 5 - Risk Management

The Commission is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Commission carries commercial insurance for risk of loss. The Commission did not have settled claims in excess of its commercial insurance coverage in the past year.

The Commission provides medical insurance for employees and dependents under an elective health care plan. Benefits are subject to scheduled limitations and exclusions.

Note 6 - Related Party Transaction

In each of the years ended December 31, 2016 and 2015, the Commission paid $20,000 to the Washington State Dairy Council (the Council) for the right to utilize the Council's name. Two members of the Commission's management serve on the Board of Directors of the Council.

Note 7 - Concentrations

During the years ended December 31, 2016 and 2015, 86% and 87%, respectively, of total operating revenue was derived from a dairy cooperative that collects assessments for numerous producers. At December 31, 2016 and 2015, 91% and 84%, respectively of total accounts receivable balance was derived from this dairy cooperative.

SUPPLEMENTARY INFORMATION

WASHINGTON DAIRY PRODUCTS COMMISSION
Schedules of Proportionate Share of the Net Pension Liability
PERS 1
As of June 30, 2016
Last 10 Fiscal Years*

	2015	2016
Employer's proportion of the net pension liability	0.011133%	0.011294%
Employer's proportionate share of the net pension liability	$ 582,359	$ 606,541
Employer's covered employee payroll	$ 171,818	$ 177,156
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	29.50%	29.21%
Plan fiduciary net position as a percentage of the total pension liability	59.10%	57.03%

Notes to Schedule:
Changes in benefit terms, and change in the size or composition of the population covered by the benefit terms will affect the trends in the amounts reported in the schedule.

* Until a full 10-year trend is compiled, governments should present information only for those years for which information is available (June 30, 2015 and after).

* Covered payroll is the payroll on which contributions to a pension plan are based (GASB 82, par. 5).

See independent auditor's report.

WASHINGTON DAIRY PRODUCTS COMMISSION
Schedules of Proportionate Share of the Net Pension Liability
PERS 2/3
As of June 30, 2016
Last 10 Fiscal Years*

	2015	2016
Employer's proportion of the net pension liability	0.010019%	0.011008%
Employer's proportionate share of the net pension liability	$ 357,985	$ 507,621
Employer's covered employee payroll	$ 889,044	$ 934,207
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	40.27%	54.34%
Plan fiduciary net position as a percentage of the total pension liability	89.20%	85.82%

Notes to Schedule:

Changes in benefit terms, and change in the size or composition of the population covered by the benefit terms will affect the trends in the amounts reported in the schedule.

* Until a full 10-year trend is compiled, governments should present information only for those years for which information is available (June 30, 2015 and after).

* Covered payroll is the payroll on which contributions to a pension plan are based (GASB 82, par. 5).

See independent auditor’s report.

WASHINGTON DAIRY PRODUCTS COMMISSION
Schedules of Employer Contributions
PERS 1
As of December 31, 2016
Last 10 Fiscal Years*

	2015	2016
Statutorily or contractually required contributions	$ 17,794	$ 63,695
Contributions in relation to the statutorily or contractually required contributions	(17,794)	(63,695)
Contribution Deficiency (Excess)	**$ -**	**$ -**
Covered employer payroll	$ 174,383	$ 170,004
Contributions as a percentage of covered employer payroll	10.20%	37.47%

Notes to Schedule:
Changes in benefit terms, and change in the size or composition of the population covered by the benefit terms will affect the trends in the amounts reported in the schedule.

* Until a full 10-year trend is compiled, governments should present information only for those years for which information is available (June 30, 2015 and after).
* Covered payroll is the payroll on which contributions to a pension plan are based (GASB 82, par. 5).
* Contributions are actual employer contributions to the plan. For PERS 1 this includes the portion of PERS 2/3 and PSERS 2 contributions that fund the PERS 1 UAAL. Contributions do not include employer-paid member contributions (GASB 82, Par. 8).

See independent auditor's report.

WASHINGTON DAIRY PRODUCTS COMMISSION
Schedules of Employer Contributions
PERS 2/3
As December 31, 2016
Last 10 Fiscal Years*

	2015	2016
Statutorily or contractually required contributions	$ 92,919	$ 58,766
Contributions in relation to the statutorily or contractually required contributions	(92,919)	(58,766)
Contribution Deficiency (Excess)	**$ -**	**$ -**
Covered employer payroll	$ 909,116	$ 943,269
Contributions as a percentage of covered employer payroll	10.22%	6.23%

Notes to Schedule:
Changes in benefit terms, and change in the size or composition of the population covered by the benefit terms will affect the trends in the amounts reported in the schedule.

* Until a full 10-year trend is compiled, governments should present information only for those years for which information is available (June 30, 2015 and after).

* Covered payroll is the payroll on which contributions to a pension plan are based (GASB 82, par. 5).

* Contributions are actual employer contributions to the plan. For PERS 1 this includes the portion of PERS 2/3 and PSERS 2 contributions that fund the PERS 1 UAAL. Contributions do not include employer-paid member contributions (GASB 82, Par. 8).

See independent auditor’s report.

WASHINGTON DAIRY PRODUCTS COMMISSION
(A Component Unit of the State of Washington)

Financial Statements

For the Years Ended December 31, 2015 and 2014

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Clark Nuber PS

Independent Auditor's Report

Board of Commissioners
Washington Dairy Products Commission
Lynnwood, Washington

We have audited the accompanying financial statements of Washington Dairy Products Commission (the Commission), a Component Unit of the State of Washington, as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Commission's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Clark Nuber PS

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Commission as of December 31, 2015 and 2014, and the results of its operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Restatement

As discussed in Note 4 to the financial statements, the Commission adopted the provisions of Governmental Accounting Standards Board Statement No. 68 (GASB 68), *Accounting and Financial Reporting for Pension*, effective January 1, 2014. The financial statements as of and for the years ended December 31, 2015 and 2014 reflect the adoption of GASB 68. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 10, and the schedules of proportionate share of the net pension liability and schedules of employer contributions on pages 29 through 30, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Clark Nuber PS

Certified Public Accountants
April 5, 2016

Management's Discussion and Analysis (MD&A) presents a narrative overview and analysis of the financial activities of the Washington Dairy Products Commission for the years ended December 31, 2015 and 2014. The MD&A is designed to assist readers of financial statements in focusing on significant financial activities and issues in the financial statements as a whole.

The Organization and Program

The Washington Dairy Products Commission (the Commission) is a self-governing state agency with that authority granted to it by, and subject to the limitations of, RCW 15.44 and the constitution and policies adopted by the Commission.

The dairy industry is a very significant part of Washington State's history, culture, economy and future. In order to develop and promote Washington's dairy industry, as part of an already existing comprehensive regulatory scheme, the legislature established the Washington State Dairy Products Commission and declared:

1. It is vital to the continued economic well-being of the citizens of this state and their general welfare that its dairy products be properly promoted by (a) enabling the dairy industry to help themselves in establishing orderly, fair, sound, efficient, and unhampered marketing, grading, and standardizing of the dairy products they produce and (b) working to stabilize the dairy industry by increasing consumption of dairy products within the state, the nation, and internationally.

2. Dairy producers operate within a regulatory environment that imposes burdens on them for the benefit of society and the citizens of the state and includes restrictions on marketing autonomy. Those restrictions may impair the dairy producer's ability to compete in local, domestic, and foreign markets.

3. It is in the overriding public interest that support for the dairy industry is clearly expressed, that adequate protection is given to agricultural commodities, uses, activities, and operations, and that dairy products are promoted individually, and as part of a comprehensive industry to:

   a. Enhance the reputation and image of Washington State's agricultural industry;
   b. Increase the sale and use of Washington State's dairy products in local, domestic, and foreign markets;
   c. Protect the public by educating the public in reference to the quality, care, and methods used in the production of Washington State's dairy products;
   d. Increase the knowledge of the health-giving qualities and dietetic value of dairy products; and
   e. Support and engage in programs or activities that benefit the production, handling, processing, marketing, and uses of dairy products produced in Washington State.

4. The Commission is established for the purpose of protecting the health, peace, safety, and general welfare of the people of this state.

The majority of the Commission's funding is through the collection of assessments on milk produced within Washington State. The Commission may decrease or increase the current level of assessment provided for in RCW 15.44.080 following a hearing conducted in accordance with the Administrative Procedure Act, chapter 34.05 RCW, provided that the current level of assessment established in this manner shall not exceed the maximum authorized assessment rate established by producers in the most recent referendum.

The Organization and Program (Continued)

Upon receipt of a petition bearing the names of 20% of the producers requesting a reduction in the current level of assessment, the Commission shall hold a hearing in accordance with chapter 34.05 RCW to receive producer testimony. After considering the testimony of the producer, the Commission may adjust the current level of assessment.

Additional funding is received through the sale of educational materials, processor assessments, annual meeting registrations, interest income, and other miscellaneous income.

Overview of the Financial Statements

The Commission's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP). These financial statements cover the years ended December 31, 2015 and 2014.

The financial statements include the Balance Sheets, Statements of Revenues, Expenses and Changes in Net Position, Statements of Cash Flows and Notes to Financial Statements.

The Balance Sheets provide a record, or snapshot, of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the Commission at the close of the year. It provides information about the nature and amounts of investments in resources (assets) and obligations to creditors (liabilities). It provides a basis for assessing its liquidity and financial flexibility.

The Statements of Revenues, Expenses and Changes in Net Position present the results of the business activities over the course of the year. This information can be used to determine whether the Commission has successfully recovered all its costs through its user fees and other charges, and to evaluate its financial viability and credit worthiness.

The Statements of Cash Flows report cash receipts, cash payments and net changes in cash resulting from operating, capital and related financing and investing activities over the course of the year. The statements present information on where cash came from and what it was used for.

The Notes to Financial Statements provide useful information regarding the Commission's significant account balances and activities, certain material risks, estimates, obligations, commitments, contingencies, and subsequent events, if any.

Financial Highlights 2015

In the year ended December 31, 2015, operating expenses for the Commission were $7,211,896 and operating revenues were $7,411,075. Operating revenues were over budget while expenses were under budget. The decreased operating expenses compared to budget can be attributed primarily to reduce spending in the Media and Sponsorships and Public Relations budgets. In the Media and Sponsorship budget the last quarter of media placements were cancelled and planned communications work did not take place due contractual issues with Radarworks, the Commission's media placement company. Additionally, components of the Strategic Marketing Plan were not implemented or came under budget for the 2015 calendar year as a result of changes in the work contracted for in the area of legislative and regulatory management

Producer income decreased approximately 3% as a result of the state assessment no-longer being collected effective August 1, 2015. The state assessment amounted to $.01 per hundredweight of milk produced. The increase in educational revenues can be attributed to unanticipated institutional sales of nutrition education materials.

Financial Highlights 2015 (Continued)

Nonoperating revenues decreased in 2015 due to additional sponsorship costs as part of the Montana Dairy Program.

Financial Analysis

Condensed Financial Statement
Balance Sheets
December 31, 2015 and 2014

	2015	Restated (Note 4) 2014	Change	Percentage Change
Current assets	$ 6,166,174	$ 5,881,751	$ 284,423	5%
Current assets, Montana Dairy Program	222,023	192,742	29,281	15%
Capital assets, net	355,891	356,662	(771)	0%
Total Assets	**6,744,088**	**6,431,155**	**312,933**	**5%**
Deferred outflows of resources	140,786	48,947	91,839	188%
Total Assets and Deferred Outflows of Resources	**$ 6,884,874**	**$ 6,480,102**	**$ 404,772**	**6%**
Current liabilities	$ 501,549	$ 445,459	$ 56,090	13%
Total Current Liabilities	**501,549**	**445,459**	**56,090**	**13%**
Pension liability	940,344	773,258	167,086	22%
Total Liabilities	**1,441,893**	**1,218,717**	**223,176**	**18%**
Deferred inflows of resources	127,426	263,229	(135,803)	-52%
Total Liabilities and Deferred Inflows of Resources	**1,569,319**	**1,481,946**	**87,373**	**6%**
Net Position:				
Unrestricted	4,959,664	4,641,494	318,170	7%
Invested in capital assets, net of related debt	355,891	356,662	(771)	0%
Total Net Position	**5,315,555**	**4,998,156**	**317,399**	**6%**
Total Liabilities, Deferred Inflows and Net Position	**$ 6,884,874**	**$ 6,480,102**	**$ 373,489**	**6%**

WASHINGTON DAIRY PRODUCTS COMMISSION
(A Component Unit of the State of Washington)

Management's Discussion and Analysis (Continued)
For the Years Ended December 31, 2015 and 2014

Financial Analysis (Continued)

Condensed Financial Statement
Statements of Revenues, Expenses and Changes in Net Position
For the Year Ended December 31, 2015 and 2014

	2015	Restated (Note 4) 2014	Change	Percentage Change
Operating Revenues:				
Producer assessments	$ 7,014,286	$ 7,231,971	$ (217,685)	-3%
Education assessments and sales	396,789	249,333	147,456	59%
Total Operating Revenues	**7,411,075**	**7,481,304**	**(70,229)**	**-1%**
Operating Expenses:				
Program-				
Media and sponsorships	3,271,481	3,439,881	(168,400)	-5%
Public relations	1,583,244	1,907,040	(323,796)	-17%
Nutrition marketing and education	1,144,350	1,228,973	(84,623)	-7%
Research, retail promotions, and business development	635,920	657,168	(21,248)	-3%
	6,634,995	7,233,062	(598,067)	-8%
Administrative expenses	516,345	850,391	(334,046)	-39%
Total Operating Expenses	**7,151,340**	**8,083,453**	**(932,113)**	**-12%**
Operating Income	**259,735**	**(602,149)**	**861,884**	**-143%**
Nonoperating revenues	57,664	82,646	(24,982)	**-30%**
Change in Net Position	**317,399**	**(519,503)**	**836,902**	**-161%**
Net position, beginning of year	4,998,156	5,517,659	(519,503)	**-9%**
Net Position, End of Year	**$ 5,315,555**	**$ 4,998,156**	**$ 317,399**	**6%**

Financial Highlights 2014

In the year ended December 31, 2014, operating expenses for the Commission were $7,095,913 and operating revenues were $7,481,304. Operating revenues were over budget while expenses were under budget. The decreased operating expenses compared to budget can be attributed primarily to reduced spending across all program areas as well as components of the Unified Marketing Plan not being implemented locally for the 2014 calendar year.

Producer income increased approximately 3.5% as a result of increased milk production for the year. The decline in educational revenues can be attributed to the continued focus of the program work on the FUTP60 program verses sales of nutrition educational materials.

Nonoperating revenues increased in 2014 due to additional radio advertising placed as part of the Montana Dairy Program.

Financial Analysis

Condensed Financial Statement
Statement of Net Position
December 31, 2014 and 2013

	Restated (Note 4) 2014	2013	Change	Percentage Change
Current assets	$ 5,881,751	$ 5,179,572	$ 702,179	14%
Current assets, Montana Dairy Program	192,742	138,803	53,939	39%
Capital assets, net	356,662	360,147	(3,485)	-1%
Total Assets	**6,431,155**	**5,678,522**	**752,633**	**13%**
Deferred outflows of resources	48,947		48,947	100%
Total Assets and Deferred Outflows of Resources	**$ 6,480,102**	**$ 5,678,522**	**$ 801,580**	**14%**
Current liabilities	$ 445,459	$ 160,863	$ 284,596	177%
Total Current Liabilities	**445,459**	**160,863**	**284,596**	**177%**
Pension liability	773,258		773,258	100%
Total Liabilities	**1,218,717**	**160,863**	**1,057,854**	**658%**
Deferred inflows of resources	263,229		263,229	100%
Total Liabilities and Deferred Inflows of Resources	**1,481,946**	**$160,863**	**1,321,083**	**821%**
Net Position:				
Unrestricted	4,641,494	5,157,512	(516,018)	-10%
Invested in capital assets, net of related debt	356,662	360,147	(3,485)	-1%
Total Net Position	**4,998,156**	**5,517,659**	**(519,503)**	**-9%**
Total Liabilities, Deferred Inflows and Net Position	**$ 6,480,102**	**$ 5,678,522**	**$ (234,907)**	**-4%**

Financial Analysis (Continued)

Condensed Financial Statement
Statement of Revenues, Expenses and Changes in Net Position
December 31, 2014 and 2013

	Restated (Note 4) 2014	2013	Change	Percentage Change
Operating Revenues:				
Producer assessments	$ 7,231,971	$ 6,969,044	$ 262,927	4%
Education assessments and sales	249,333	258,894	(9,561)	-4%
Total Operating Revenues	**7,481,304**	**7,227,938**	**253,366**	**4%**
Operating Expenses:				
Program-				
Media and sponsorships	3,439,881	3,231,513	208,368	6%
Public relations	1,907,040	1,509,497	397,543	26%
Nutrition marketing and education	1,228,973	1,083,824	145,149	13%
Research, retail promotions, and business development	657,168	561,236	95,932	17%
	7,233,062	6,386,070	846,992	13%
Administrative expenses	850,391	539,021	311,370	58%
Total Operating Expenses	**8,083,453**	**6,925,091**	**1,158,362**	**17%**
Operating Income	**(602,149)**	**302,847**	**(904,996)**	**-299%**
Nonoperating revenues	82,646	51,991	30,655	**59%**
Change in Net Position	**(519,503)**	**354,838**	**(874,341)**	**-246%**
Net position, beginning of year	5,517,659	5,162,821	354,838	**7%**
Net Position, End of Year	**$ 4,998,156**	**$ 5,517,659**	**$ (519,503)**	**-9%**

Capital Assets

Assets in excess of $1,000 in original cost, such as buildings, equipment, furniture and fixtures, and automobiles, are capitalized and depreciated over their estimated economic lives. See Note 2 of the financial statements for further discussion on capital assets.

Economic Outlook

The Dairy Commission's Board has identified 4 key areas to target in its strategic plan: Confidence in Dairy Product; Respect for Dairy Farmers; Sustainable Dairy Farms; and Synergy among dairy organizations. Goals and objectives are tied to the strategic plan and all staff develop programs to achieve these goals.

The Dairy Commission continues to implement two priority programs - the Consumer Confidence "Dairy Trust Initiative" program (DTI) and the "Fuel Up to Play 60" (FUTP60) school program. In addition, the Commission continues to work in the area of hunger initiatives as part of its local partnerships and retail promotions.

The DTI program focuses on improving the image of the dairy industry to increase consumer confidence in dairy products and dairy farmers. This program is part of the Unified Marketing Plan (UMP) Consumer Confidence program. There has been increased pressure on dairy producers and greater consumer concerns about production practices as it relates to food production. The initiative is essentially a story-telling communication program that helps to put a face on the industry, the 437 dairy farm families in our state. It includes communications efforts designed to educate the public on the issues farmers face, and how they take care of their animals, employees, and the environment-land, water and air. Farm families need healthy animals to produce quality milk and clean a healthy environment for their families and communities.

The FUT60 program is part of the part of the Unified Marketing Plan. Through an agreement with the National Football League (NFL), dairy farmers are bringing a nutrition component to the NFL's "Play 60" program, which encourages 60 minutes of physical activity each day. The Washington Dairy Commission & Dairy Council have partnered with the Seattle Seahawks to implement this program throughout the State of Washington. The Commission currently has approximately 1,500 schools signed up with the program. The focus is on health and wellness with an emphasis on the encouraged food groups, which includes dairy.

In the area of hunger initiatives, the Commission has developed programs with local food banks and retailers and has participated in national programs to promote milk consumption and build upon the image work carried out under the DTI program.

The Commission continues to promote its initiatives by working in partnership with major dairy processors, retailers, schools and foodservice companies. This allows the Commission to achieve cost savings by bringing partners to the table to share in the implementation costs of its programs. The Commission is currently working with schools to introduce breakfast and snack programs to boost the sale of dairy products within the school environment and to encourage good nutrition. The Commission also works on summer hunger programs to feed school kids who do not receive school meals during the summer.

The Export market in 2014 was particularly hard on dairy farmer prices in 2015. Washington exports around 50% of its dairy products. A large part of its exports are dried milk powders. There were several factors in work markets impacting exports. The level of dairy product stocks was high worldwide along with increased milk production. At the same time, Russia closed its borders to U.S. and E.U. dairy products and China stopped importing milk powders. The U.S. dollar remained high causing our prices to be higher relative to our competitors. Since Washington is based on component pricing, the milk price tended to be lower for our region versus the rest of the U.S.

Economic Outlook (Continued)

Although the milk price was low in 2015 and the export markets challenging, fuel costs and feed costs were lower. Dairy farmers tend to produce more milk in challenging economic times and more consolidation of farms occurs. It is difficult to predict what 2016 will bring in terms of production and consolidation. The economists predict that the milk prices will remain low for the first part of 2016. In the future the Commission's income could be affected if farmers aren't able to adjust to the reduced margins as a result of the reduced milk pricing and lower revenues.

The Commission's 2016 budget is conservative and the Board of Commissioners continues to maintain a reserve to meet operational and opportunistic needs as well as unanticipated income shortfalls.

Additional Information

Questions and inquires may be directed to the Washington Dairy Products Commission, 4201 198th Street SW, Suite 101, Lynnwood, Washington 98036, (425) 672-0687.

WASHINGTON DAIRY PRODUCTS COMMISSION

Balance Sheets
December 31, 2015 and 2014

	2015	Restated (Note 4) 2014
Current Assets:		
Cash and cash equivalents	$ 5,427,565	$ 5,117,674
Cash - Montana Dairy Program	208,678	179,257
Accounts receivable	568,974	607,346
Accounts receivable - Montana Dairy Program	13,345	13,485
Inventory	169,635	156,731
Total Current Assets	**6,388,197**	**6,074,493**
Capital assets, net	355,891	356,662
Total Assets	**6,744,088**	**6,431,155**
Deferred Outflows of Resources (Note 5):		
Changes in proportion and differences between contributions and proportionate share of contributions	40,208	
Changes in assumptions	577	
Changes in expected and actual experience	38,054	
Commission contributions subsequent to measurement date	61,947	48,947
Total Deferred Outflows of Resources	**140,786**	**48,947**
Total Assets and Deferred Outflows of Resources	**$ 6,884,874**	**$ 6,480,102**
Current Liabilities:		
Accounts payable and accrued expenses	$ 499,549	$ 445,459
Accounts payable - Montana Dairy Program	2,000	
Total Current Liabilities	**501,549**	**445,459**
Pension liability	940,344	773,258
Total Liabilities	**1,441,893**	**1,218,717**
Total Deferred Inflows of Resources:		
Difference between actual and expected earnings	127,426	263,229
Net Position:		
Unrestricted as restated (Note 4)	4,959,664	4,641,494
Invested in capital assets, net of related debt	355,891	356,662
Total Net Position	**5,315,555**	**4,998,156**
Total Liabilities, Deferred Inflows and Net Position	**$ 6,884,874**	**$ 6,480,102**

See accompanying notes.

WASHINGTON DAIRY PRODUCTS COMMISSION

Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended December 31, 2015 and 2014

	2015	Restated (Note 4) 2014
Operating Revenues:		
Producer assessments - check off	$ 6,624,691	$ 6,574,519
Producer assessments - State	389,595	657,452
Educational assessments and sales	396,789	249,333
Total Operating Revenues	**7,411,075**	**7,481,304**
Operating Expenses:		
Program-		
Media and sponsorships	3,271,481	3,439,881
Public relations	1,583,244	1,907,040
Nutrition marketing and education	1,144,350	1,228,973
Research, retail promotions and business development	635,920	657,168
Total program expenses	6,634,995	7,233,062
Administrative expenses	516,345	850,391
Total Operating Expenses	**7,151,340**	**8,083,453**
Operating Income	**259,735**	**(602,149)**
Nonoperating Revenues:		
Montana Dairy Program operations, net	27,281	55,939
Interest	2,658	8,862
Consulting services	6,000	6,070
Annual meeting	21,725	11,775
Total Nonoperating Revenues	**57,664**	**82,646**
Change in Net Position	**317,399**	**(519,503)**
Net position, beginning of year as restated (Note 4)	4,998,156	5,517,659
Net Position, End of Year	**$ 5,315,555**	**$ 4,998,156**

See accompanying notes.

WASHINGTON DAIRY PRODUCTS COMMISSION

Statements of Cash Flows
For the Years Ended December 31, 2015 and 2014

	2015	Restated (Note 4) 2014
Operating Activities:		
Cash received from customers	$ 7,450,858	$ 7,525,713
Cash paid to employees	(1,444,898)	(1,314,282)
Cash paid to suppliers of goods and services	(5,710,133)	(5,424,110)
Receipts from consulting services	6,000	6,070
Net receipt of nonoperating expenses for the Montana Dairy Program	27,281	55,939
Receipts from annual meeting	21,725	11,775
Net Cash Provided by Operating Activities	**350,833**	**861,105**
Capital and Related Financing Activities:		
Purchases of capital assets	(14,179)	(16,491)
Cash paid for interest		(1,285)
Net Cash Used in Capital and Related Financing Activities	**(14,179)**	**(17,776)**
Cash Flows From Investing Activities:		
Receipt of interest	2,658	8,862
Net Cash Received From Investing Activities	2,658	8,862
Change in Cash and Cash Equivalents	**339,312**	**852,191**
Cash and Cash Equivalents Balance:		
Beginning of year	5,296,931	4,444,740
End of Year	**$ 5,636,243**	**$ 5,296,931**
Cash and Cash Equivalents Balance is Composed of the Following at December 31:		
Cash and cash equivalents	$ 5,427,565	$ 5,117,674
Cash - Montana Dairy Program	208,678	179,257
	$ 5,636,243	**$ 5,296,931**

See accompanying notes.

WASHINGTON DAIRY PRODUCTS COMMISSION

Statements of Cash Flows (Continued)
For the Years Ended December 31, 2015 and 2014

	2015	Restated (Note 4) 2014
Reconciliation of Change in Net Position to Net Cash Provided by Operating Activities:		
Change in net position	$ 317,399	$ (519,503)
Adjustments to reconcile change in net position to cash flows from operating activities-		
Loss on disposal of assets	1,271	
Depreciation	13,679	19,976
Interest income	(2,658)	(8,862)
Pension expense restatement (Note 4)		987,540
Cash paid for interest		1,285
Changes in assets and liabilities:		
Accounts receivable	38,512	44,409
Inventory	(12,904)	51,664
Accounts payable and accrued expenses	(4,466)	284,596
Net Cash Provided by Operating Activities	**$ 350,833**	**$ 861,105**

Note 1 - Organization and Summary of Significant Accounting Policies

Operations - The Washington Dairy Products Commission (the Commission) is an agency fund and component unit of the State of Washington. The Commission's primary purpose is to build demand for milk and dairy products and to protect and build the image of the dairy industry. The Commission develops and implements a variety of marketing and communication programs including research, nutrition education, and general education about dairy products and the industry. The Commission's revenues are primarily generated through collection of assessments on milk produced within Washington State.

The Commission was created by the Washington State Legislature in 1939 under RCW 15.44. The Commission is governed by a nine-member Board appointed by the Director of the State Department of Agriculture. The State appoints the governing body and provides financial benefit to the Commission and therefore, the financial accountability criteria as defined by the Government Accounting Standards Board (GASB) have been met and the Commission is a component unit of the State of Washington.

The Commission performs programs and activities, such as general nutritional education, with an emphasis on dairy products. Sectors served by the Commission include: (1) health professionals, (2) educational institutions, (3) consumers, and (4) the dairy industry.

The Commission administers the funds for the Montana Dairy Program (the Program). The Program promotes demand for milk and dairy products and to protect and build the image of the dairy industry. The Commission develops and implements a variety of marketing and communication programs including research, nutrition education, and general education about dairy products and the industry. The Commission also has an agreement to provide accounting and program services to the Program. A nominal fee is paid to the Commission for these services each month. The net activity of the Program has been included in the Commission's statements of revenues, expenses and changes in net position as part of nonoperating activities.

Basis of Accounting and Presentation - The financial statements of the Commission have been prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) as applied to special-purpose governments. GASB is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The Commission is a government enterprise. Enterprise funds are accounted for on the economic resources measurement focus using the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Operating and Nonoperating Activity - Operating activities include revenues from assessments on milk producers and processors, education material sales, and expenses associated with the development and implementation of a variety of marketing, education and communication programs. Nonoperating activities include the Montana Dairy Program operations, investment income, consulting services, annual meeting income, and other miscellaneous activity.

Cash and Cash Equivalents - For purposes of reporting cash flows, cash includes cash on hand and on deposit with financial institutions. The Commission considers all liquid investments with original maturities of less than three months at the date of acquisition and all nonnegotiable certificates of deposit to be cash equivalents.

Cash deposits are either covered by the Federal Depository Insurance Corporation or the Public Deposit Protection Commission of the State of Washington (PDPC). Cash is deposited with a financial institution as public funds in compliance with the rules of the PDPC. Balances are collateralized by securities held by the financial institution's trust department in the Commission's name.

Note 1 - Continued

Accounts Receivable - Accounts receivable are comprised primarily of amounts due from assessments. No allowance for uncollectible balances has been deemed necessary by management based upon the Commission's historical experience of collections.

Inventory - Inventory is comprised of educational materials and is stated at the lower of cost or market. Cost is determined under the average cost basis.

Capital Assets - Capital assets are stated at cost less accumulated depreciation. All capital assets purchased for more than $1,000 with a useful life of greater than one year are capitalized. Maintenance and repairs are charged to operations as incurred. Expenditures that represent additions and betterments are capitalized. Depreciation is provided using the straight-line method over the following estimated useful lives:

Buildings and improvements	20 years
Furniture, fixtures, and computer equipment	4 - 10 years
Vehicles	4 - 5 years

Income Taxes - The Commission, as a state agency, is exempt from federal and state income taxes. Accordingly, no provision for income taxes is necessary.

Compensated Absences - The Commission has a policy for compensated absences which allows employees to accumulate up to 240 hours; however, compensated absences may be accumulated above the maximum allowed between the time 240 hours is accrued and the employee's anniversary date of employment. Management tracks the accumulated compensated absences for employees, which totaled $65,367 and $74,174 for the years ended December 31, 2015 and 2014, respectively. Management has determined that the balances for compensated absences at December 31, 2015 and 2014 are immaterial to the financial statements as a whole and therefore, an accrual for compensated absences is not reflected in the financial statements.

Pensions - For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of all state sponsored pension plans and additions to/deductions from those plans' fiduciary net position have been determined on the same basis as they are reported by the Washington State Department of Retirement Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Advertising - The Commission expenses all advertising and marketing costs when incurred. Advertising costs were $1,407,211 and $1,477,986 for the years ended December 31, 2015 and 2014, respectively.

Use of Estimates - The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Subsequent Events - The Commission has evaluated subsequent events through April 5, 2016, the date on which the financial statements were available to be issued.

Note 2 - Capital Assets

The following is a summary of changes in capital assets:

	December 31, 2014	Additions	Disposals	December 31, 2015
Building and improvements	$ 663,039	$ -	$ -	$ 663,039
Furniture and fixtures and computer equipment	204,399	14,179	(18,177)	200,401
Vehicles	23,477			23,477
	890,915	14,179	(18,177)	886,917
Less accumulated depreciation	(838,253)	(13,679)	16,906	(835,026)
	52,662	500	(1,271)	51,891
Land	304,000			304,000
	$ 356,662	**$ 500**	**$ (1,271)**	**$ 355,891**

	December 31, 2013	Additions	Disposals	December 31, 2014
Building and improvements	$ 663,039	$ -	$ -	$ 663,039
Furniture and fixtures and computer equipment	187,908	16,491		204,399
Vehicles	23,477			23,477
	874,424	16,491		890,915
Less accumulated depreciation	(818,277)	(19,976)		(838,253)
	56,147	(3,485)		52,662
Land	304,000			304,000
	$ 360,147	**$ (3,485)**	**$ -**	**$ 356,662**

Note 2 - Continued

Depreciation expense was $13,679 and $19,976 with approximately $2,736 and $3,995 charged to each of the four programs, and administrative expenses, in the statements of revenues, expenses and changes in net position for the years ended December 31. 2015 and 2014, respectively.

Note 3 - Commitments and Contingencies

Operating Leases - The Commission has operating leases for postal and copier equipment rental. Minimum future rental payments under noncancelable operating leases having remaining terms in excess of one year in aggregate approximate:

For the Year Ending December 31,		
2016	$	6,512
2017		6,512
2018		6,512
2019		3,256
	$	**22,792**

The Commission also rents public storage space on a month to month basis. Rent expense for the years ended December 31, 2015 and 2014, totaled $6,465 and $9,435, respectively.

Sponsorship - In July 2012, the Commission entered into a three year contract, totaling $443,000, to be paid in semi-annual installments, with Washington Interscholastic Activities Association as a co-title sponsor of various activities. The amount paid in both the years ended December 31, 2015 and 2014, was $149,000. Future amounts payable on the contract include:

For the Year Ending December 31,		
2016	$	149,000
2017		149,000
2018		74,500
	$	**372,500**

Contingent Liability - During the year ended December 31, 2015, the Commission's media vendor filed for bankruptcy, and the Commission terminated its media contract with the vendor. At December 31, 2015, a contingent liability for approximately $375,000 is included in accounts payable and accrued expenses in the statement of net position for the full balance of unpaid invoices to the vendor. Actual payments may differ from the amount accrued as of December 31, 2015.

Property Contingency - The Dairy Products Commission owns and occupies property and the building located at 4201 198th Street SW in Lynnwood, Washington 98036. This property is designated as part of the City of Lynnwood's City Center Zone Districts and is further designated as entirely within the route of a proposed new street. The City has not yet implemented a program to acquire properties, including the Commission's property, to build this street improvement. If/when the City elects to proceed with this project, the City may not have the authority to condemn the Commission's property given court decisions interpreting RCW 8.12.030 (the City's general condemnation authority statute).

Note 3 - Continued

The courts' decisions can be interpreted to preclude city condemnation when state property is presently dedicated to a public use. The Commission's use and occupancy of its property appears to qualify as such a public use. Even if a condemnation action by the City is not legally possible, the Commission could face pressure to voluntarily sell its property to allow for the City's project to proceed. Upon condemnation or voluntary sale, the Commission would proceed through processes involving the use of qualified appraisals to identify the fair market value of the property. Upon any such sale, the Commission would be entitled to use any net proceeds for purposes including the purchase of property for its operations. For purposes of this statement, it is assumed that the Commission's property has appreciated in value and that a sale would generate net proceeds rather than loss. This assumption would need to be validated if/when the City takes tangible steps to begin the above-referenced property acquisitions for the street improvement project affecting the Commission's property.

Note 4 - Prior Period Restatement

As described in Note 1, the Commission adopted GASB Statement No. 68 during the year ended December 31, 2015. Accordingly, the Commission has recorded an unfunded pension obligation and recorded additional pension expenses of $987,540 for the year ending December 31, 2014, and restated net position balances at December 31, 2014 as follows:

	Unrestricted	Invested in Capital Assets, Net of Related Debt	Total
Net position, December 31, 2014 as previously stated	$ 5,629,034	$ 356,662	$ 5,985,696
Restatement	(987,540)		(987,540)
Net Position, December 31, 2014, as Restated	**$ 4,641,494**	**$ 356,662**	**$ 4,998,156**

Note 5 - Pension Plan

The Commission participates in the Washington State Public Employees Retirement System (PERS) plan, a defined benefit retirement plan. The Commission is not separately evaluated within PERS.

Plan Description - The Commission contributes to PERS, a cost-sharing multiple-employer defined benefit pension plan administered by the State of Washington Department of Retirement Systems. PERS Plan 1 provides retirement and disability benefits, and minimum benefit increases beginning at age 66, to eligible plan members hired prior to October 1, 1977. PERS Plan 2 provides retirement and disability benefits, and a cost-of-living allowance, to eligible plan members hired on or after October 1, 1977. The authority to establish and amend benefit provisions resides with the legislature. The Washington State Department of Retirement Services does not make separate measurements of pension benefit obligations of individual employers. Historical trend and other information regarding the plan are presented in the Washington State Department of Retirement Systems 2014 annual financial report, which may be obtained by writing to the Department of Retirement Systems, PO Box 48380, Olympia, Washington 98504-8380.

Note 5 - Continued

In March 2002, PERS Plan 3 was initiated. Employees hired after March 1, 2002 had an option between PERS Plan 2 and PERS Plan 3 (expiring 90 days after hire date). If employees do not make a plan choice within the 90 days, they are automatically enrolled in PERS Plan 3 at a 5% contribution rate.

Plan 3 members have a two component benefit structure: a defined benefit component and a defined contribution component. Members are eligible for the defined benefit component at age 65 if they have ten service credit years or five service credit years, including 12 service credit months after attaining age 54, or five service credit years by September 1, 2000 under Plan 2 and transferred to Plan 3. Members are also eligible for the defined benefit component at or after age 55 if they have at least ten service credit years.

Retirement benefits for members who retire before age 65 are actuarially reduced. Plan 3 provides disability and survivor benefits. Members who separate from employment at or before the defined benefit eligibility date have immediate access to the defined contribution component. The defined contribution allows participants to choose from six different rate options.

Funding Policy - The Office of the State Actuary, using funding methods prescribed by statute, determines actuarially required contribution rates for PERS. Plan 1 members are required to contribute 6% of their annual covered salary. Contributions for Plan 2 members are determined by the aggregate method and may vary over time. The contribution rate for Plan 2 employees was 4.64% until June 30, 2014. Effective July 1, 2013, the rate changed to 4.92% for those employees, which was the contribution rate for the Commission at December 31, 2014 and 2013. The employee contribution rates for Plan 3 vary based on defined benefit plan and defined contribution plan and the funding options chosen by the participant. The contribution rate for the Commission for PERS Plans 1, 2, and 3 was 7.21% until June 30, 2013, at which time the rate increased to 9.19%. Effective September 1, 2013, the rate was increased to 9.21%, which was the contribution rate for the Commission at December 31, 2014 and 2013. The Commission has made 100% of required contributions.

The Commission's contributions to PERS for the years ended December 31, 2015 and 2014, totaled $110,706 and $94,705, respectively.

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, *Accounting and Financial Reporting for Pensions* for the year ending December 31, 2015:

Pension liabilities	$	940,344
Deferred outflows of resources		(140,786)
Deferred inflows of resources		127,426
Pension expense/expenditures		60,556
Net Pension Adjustment (Note 4)	**$**	**987,540**

Note 5 - Continued

State Sponsored Pension Plans - Substantially all Washington Dairy Products Commission full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans. The state Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to:

Department of Retirement Systems
Communications Unit
P.O. Box 48380
Olympia, WA 98540-8380

Or the DRS CAFR may be downloaded from the DRS website at www.drs.wa.gov.

Public Employee's Retirement System (PERS) - PERS members include elected officials; state employees; employees of the Supreme, Appeals and Superior Courts; employees of the legislature; employees of district and municipal courts; employees of local governments; and higher education employees not participating in higher education retirement programs. PERS is comprised of three separate pension plans for membership purposes. PERS plans 1 and 2 are defined benefit plans, and PERS plan 3 is a defined benefit plan with a defined contribution component.

PERS Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Note 5 - Continued

Contributions

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2015 were as follows:

PERS Plan 1:

Actual Contribution Rates	Employer	Employee*
January through June 2015	9.21%	6.00%
July through December 2015	11.18%	6.00%

* For employees participating in JBM, the contribution rate was 12.26%

The Washington Dairy Products Commission actual contributions to the plan were $17,794 for the year ended December 31, 2015.

PERS Plan 2/3 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1 percent of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

- With a benefit that is reduced by three percent for each year before age 65; or
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

PERS Plan 3 defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. PERS Plan 3 members choose their contribution rate upon joining membership and have a chance to change rates upon changing employers. As established by statute, Plan 3 required defined contribution rates are set at a minimum of 5 percent and escalate to 15 percent with a choice of six options. Employers do not contribute to the defined contribution benefits. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

Note 5 - Continued

Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2015 were as follows:

PERS Plan 2/3:

Actual Contribution Rates	Employer	Employee*
January through June 2015	9.21%	4.92%
July through December 2015	11.18%	6.12%
Employee PERS Plan 3		Varies

* For employees participating in JBM, the contribution rate was 15.30%

The WA Dairy Commission actual contributions to the plan were $92,911 for the year ended December 31, 2015.

Actuarial Assumptions - The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2015 with a valuation date of June 30, 2014. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2014 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2015. Plan liabilities were rolled forward from June 30, 2014, to June 30, 2015, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

Inflation - 3% total economic inflation; 3.75% salary inflation.

Salary increases - In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.

Investment rate of return - 7.5%

Mortality rates were based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. The OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

Note 5 - Continued

There were minor changes in methods and assumptions since the last valuation.

- The OSA updated demographic assumptions, consistent with the changes from the 2007-2012 Experience Study Report, used when valuing the PERS 1 and TERS 1 Basic Minimum COLA.

- The OSA corrected how valuation software calculates a member's entry age under the entry age normal actuarial cost method. Previously, the funding age was rounded, resulting in an entry age one year higher in some cases.

- For purposes of calculating the Plan 2/3 Entry Age Normal Cost contribution rates, the OSA now uses the current blend of Plan 2 and Plan 3 salaries rather than using a long-term membership assumption of two-thirds Plan 2 members and one-third Plan 3 members.

- The OSA changed the way it applies salary limits, as described in the 2007-2012 *Experience Study Report*.

Discount Rate - The discount rate used to measure the total pension liability for all DRS plans was 7.5 percent.

To determine that rate, an asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements (all plans use 7.7 percent). Consistent with the long-term expected rate of return, a 7.5 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, PSERS 2, SERS 2/3, and TRS 2/3 employers, whose rates include a component for the PERS 1, and TRS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5 percent was used to determine the total liability.

Long-Term Expected Rate of Return - The long-term expected rate of return on the DRS pension plan investments of 7.5 percent was determined using a building-block-method. The Washington State Investment Board (WSIB) used a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, including inflation) to develop each major asset class. Those expected returns make up one component of WSIB's capital market assumptions. The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various future times. The long-term expected rate of return of 7.5 percent approximately equals the median of the simulated investment returns over a 50-year time horizon.

Estimated Rates of Return by Asset Class - Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

Note 5 - Continued

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return
Fixed income	20.00%	1.70%
Tangible assets	5.00%	4.40%
Real estate	15.00%	5.80%
Global equity	37.00%	6.60%
Private Equity	23.00%	9.60%
Total	**100.00%**	

Sensitivity of NPL - The table below presents the Washington Dairy Products Commission proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the Washington Dairy Product Commission's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.5 percent) or 1-percentage point higher (8.5 percent) than the current rate.

Plan	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	$ 709,024	$ 582,359	$ 473,439
PERS 2/3	$ 1,046,765	$ 357,985	$ (169,389)

Pension Plan Fiduciary Net Position - Detailed information about the State's pension plans' fiduciary net position is available in the separately issued DRS financial report.

Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At December 31, 2015, the Washington Dairy Products Commission reported a total pension liability of $926,984 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	$ 614,220
PERS 2/3	453,550
PERS 1	(9,838)
PERS 2/3	(130,948)
Pension Liability	**$ 926,984**

Note 5 - Continued

At June 30, the Washington Dairy Product Commission's proportionate share of the collective net pension liabilities was as follows:

Plan	Proportionate Share 6/30/2014	Proportionate Share 6/30/2015	Change in Proportion
PERS 1	0.011814%	0.000330%	0.000681%
PERS 2/3	0.008812%	0.010019%	0.001207%

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in the *Schedules of Employer and Nonemployer Allocations* for all plans.

The collective net pension liability (asset) was measured as of June 30, 2015, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2014, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense - For the year ended December 31, 2015, the Washington Dairy Products Commission recognized pension expense as follows:

	Pension Expense
PERS 1	$ 57,303
PERS 2/3	3,253
Total Pension Expense	**$ 60,556**

Note 5 - Continued

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2015, the Washington Dairy Products Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ -
Net difference between projected and actual investment earnings		31,861
Changes in assumptions		
Changes in proportion and differences between contributions and proportionate share of contributions		
Contributions subsequent to measurement date	9,838	
Total	**$ 9,838**	**$ 31,861**

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 38,054	$ -
Net difference between projected and actual investment earnings	20,836	95,565
Changes in assumptions	577	
Changes in proportion and differences between contributions and proportionate share of contributions	19,372	
Contributions subsequent to measurement date	52,109	
Total	**$ 130,948**	**$ 95,565**

Note 5 - Continued

Deferred outflows of resources related to pensions resulting from the Washington Dairy Commission contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

For the Year Ending December 31,		PERS 2/3
2016	$	10,052
2017		10,052
2018		10,052
2019		10,052
Total	**$**	**40,208**

Note 6 - Risk Management

The Commission is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Commission carries commercial insurance for risk of loss. The Commission did not have settled claims in excess of its commercial insurance coverage in the past year.

The Commission provides medical insurance for employees and dependents under an elective health care plan. Benefits are subject to scheduled limitations and exclusions.

Note 7 - Related Party Transaction

In each of the years ended December 31, 2015 and 2014, the Commission paid $20,000 to the Washington State Dairy Council (the Council) for the right to utilize the Council's name. Two members of the Commission's management serve on the Board of Directors of the Council.

Note 8 - Concentrations

During the years ended December 31, 2015 and 2014, 87% and 84%, respectively, of total operating revenue was derived from a dairy cooperative that collects assessments for numerous producers. At December 31, 2015 and 2014, 84% of total accounts receivable balance was derived from this dairy cooperative.

SUPPLEMENTARY INFORMATION

WASHINGTON DAIRY PRODUCTS COMMISSION
Schedules of Proportionate Share of the Net Pension Liability
PERS 1 and PERS 2/3
As of June 30, 2015
Last 10 Fiscal Years*

	PERS 1 2015	PERS 2/3 2015
Employer's proportion of the net pension liability	0.011133%	0.010019%
Employer's proportionate share of the net pension liability	$ 582,359	$ 357,985
Employer's covered employee payroll	$ 171,818	$ 889,044
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	29.50%	40.27%
Plan fiduciary net position as a percentage of the total pension liability	59.10%	89.20%

Notes to Schedule:
Changes in benefit terms, and change in the size or composition of the population covered by the benefit terms will affect the trends in the amounts reported in the schedule.

* Until a full 10-year trend is compiled, governments should present information only for those years for which information is available (June 30, 2015 and after).

See independent auditor's report.

WASHINGTON DAIRY PRODUCTS COMMISSION
Schedules of Employer Contributions
PERS 1 and 2/3
As of June 30, 2015
Last 10 Fiscal Years*

	PERS 1 2015	PERS 2/3 2015
Statutorily or contractually required contributions	$ 17,794	$ 92,912
Contributions in relation to the statutorily or contractually required contributions	(17,794)	(92,912)
Contribution Deficiency (Excess)	**$ -**	**$ -**
Covered employer payroll	$ 174,383	$ 909,116
Contributions as a percentage of covered employee payroll	10.20%	10.22%

Notes to Schedule:
Changes in benefit terms, and change in the size or composition of the population covered by the benefit terms will affect the trends in the amounts reported in the schedule.

* Until a full 10-year trend is compiled, governments should present information only for those years for which information is available (June 30, 2015 and after).

See independent auditor’s report.