



Office of the Washington State Auditor
Pat McCarthy

**Financial Statements and Federal Single Audit
Report**

Washington State Fruit Commission

For the period April 1, 2017 through March 31, 2018

Published December 27, 2018

Report No. 1022916





**Office of the Washington State Auditor
Pat McCarthy**

December 27, 2018

Board of Commissioners
Washington State Fruit Commission
Yakima, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on the Washington State Fruit Commission's financial statements and compliance with federal laws and regulations.

We are issuing this report in order to provide information on the Commission's financial condition.

Sincerely,

A handwritten signature in black ink that reads "Pat McCarthy". The signature is fluid and cursive.

Pat McCarthy
State Auditor
Olympia, WA

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Washington State Fruit Commission April 1, 2017 through March 31, 2018

SECTION I – SUMMARY OF AUDITOR’S RESULTS

The results of our audit of the Washington State Fruit Commission are summarized below in accordance with Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Financial Statements

We issued an unmodified opinion on the fair presentation of the basic financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP).

Internal Control over Financial Reporting:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the Commission.

Federal Awards

Internal Control over Major Programs:

- *Significant Deficiencies:* We identified deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

We issued an unmodified opinion on the Commission's compliance with requirements applicable to its major federal program.

We reported findings that are required to be disclosed in accordance with 2 CFR 200.516(a).

Identification of Major Federal Programs:

The following program was selected as a major program in our audit of compliance in accordance with the Uniform Guidance.

<u>CFDA No.</u>	<u>Program or Cluster Title</u>
10.601	Market Access Program

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by the Uniform Guidance, was \$750,000.

The Commission qualified as a low-risk auditee under the Uniform Guidance.

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

See finding 2018-001.

SCHEDULE OF FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Washington State Fruit Commission April 1, 2017 through March 31, 2018

2018-001 The Washington State Fruit Commission did not have adequate internal controls in place to ensure compliance with federal procurement requirements.

CFDA Number and Title:	10.601, Market Access Program
Federal Grantor Name:	U.S. Department of Agriculture, Office of Foreign Agricultural Services
Federal Award/Contract Number:	10000T
Pass-through Entity Name:	NA
Pass-through Award/Contract Number:	NA
Questioned Cost Amount:	\$0

Description of Condition

In fiscal year 2018, the Commission spent \$1,759,292 in U.S. Department of Agriculture funding to promote Washington fruits in foreign markets.

Federal regulations for the Market Access Program require grantees to procure transactions in a manner providing full and open competition and to retain documentation of the procurement efforts. For purchases over \$100,000, the Commission must procure by sealed bids or competitive proposals. When competitive proposals are used, the Commission must publicize and identify all evaluation factors and their relative importance.

The Commission contracted with 19 vendors totaling \$1,589,762. During fiscal year 2018, the Commission did not have documentation showing a \$150,000 contract for advertising was procured through competitive proposals and did not have a request for proposal that indicated the scope of the work or the criteria for which the vendor would have been evaluated.

We consider this internal controls deficiency to be a significant deficiency. This issue was not reported as a finding in the prior audit.

Cause of Condition

The Commission was approached by the advertising vendor to enter into a contract and did not understand that the contract still needed to follow procurement requirements. Employees responsible for the program did not ensure it met federal procurement requirements, nor was the program monitored by Commission management.

Effect of Condition and Questioned Costs

Without proper controls, the Commission cannot ensure it obtained the best services at the most competitive price. We were able to verify that the purchase was allowable under the federal program, and as a result, we are not questioning these costs.

Recommendation

We recommend the Commission establish internal controls to ensure vendor contracts are procured in accordance with federal requirements.

Commission's Response

In 2012, the Commission identified that one of the many challenges for Northwest Cherries success is the long transit time to China and the industry needs to shorten the airfreight service from Seattle to Shanghai. Therefore, in 2013, the Commission approached the China Eastern Air Group and was able to convince CEAG to start a Seattle to Shanghai direct cargo service during the 2014 NWC season. The CEAG is the only cargo airline who dedicates its entire airplane to northwest cherry shipments.

In the fall of 2016, NWC saw the cooperation opportunity with CEAG and persuaded CEAG on the idea of creating a NWC Express plane to widen both companies' brand awareness. Further, CEAG provided (on CEAG passengers planes) northwest cherries to be included in business class meals on daily flights between Shanghai and Beijing and an editorial coverage of NWC was presented in CEAG's July 2017 in-flight magazine to expose NWC product awareness.

Since the NWC industry has spent many years working with CEAG on direct shipments to Shanghai, opportunities like this do not come easily. The Commission has specific contracting policies and procedures in place, which include competitive proposals and formal advertising of purchases in excess of \$100,000. However, due to the nature and uniqueness of this collaboration, and the fact that there were not any other Chinese cargo airlines providing a direct cargo service

from Seattle to Shanghai, it was not feasible to competitively perform or advertise this procurement.

For future purchases of this unique sole source nature, as suggested by the auditors, the Request for Proposal process will be implemented and written in a specific unique nature and formally advertised when \$100,000 or more.

Auditor's Remarks

We appreciate the Commission's effort to resolve the issue. We look forward to working with the Commission in the future and reviewing follow up procedures during our next audit period.

Applicable Laws and Regulations

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 935, paragraph 11.

Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), section 516 Audit findings, establishes reporting requirements for audit findings.

Title 2 CFR Part 200, Uniform Guidance, section 303 Internal controls, establishes internal control requirements for management of Federal awards to non-Federal entities.

Title 2 CFR Part 200, Uniform Guidance, section 320 Methods of Procurement to be followed, requires non-Federal entities to publicize and identify all evaluation factors and their relative importance as part of the competitive proposal process.

Title 7 CFR Part 1485, Grant Agreements for the Development of Foreign Markets for U.S. Agricultural Commodities, section 29 Contracting procedures, establishes required procedures for developing and publicizing requests for proposals and solicitation of professional services when contracting with a foreign third party as a participant in the Market Access Program.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

**Washington State Fruit Commission
April 1, 2017 through March 31, 2018**

Board of Commissioners
Washington State Fruit Commission
Yakima, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Washington State Fruit Commission, as of and for the year ended March 31, 2018, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated December 19, 2018.

The financial statements of the Washington State Fruit Commission, an agency of the state of Washington, are intended to present the financial position, and the changes in financial position, and where applicable, cash flows of only the respective portion of the activities of the state of Washington that is attributable to the transactions of the Commission. They do not purport to, and do not, present fairly the financial position of the state of Washington as of March 31, 2018, the changes in its financial position, or where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the Commission's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Commission's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Commission's financial statements are free from material misstatement, we performed tests of the Commission's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Commission's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control and compliance. Accordingly, this communication is not suitable for any other

purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy

State Auditor

Olympia, WA

December 19, 2018

**INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND REPORT ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH THE UNIFORM GUIDANCE**

**Washington State Fruit Commission
April 1, 2017 through March 31, 2018**

Board of Commissioners
Washington State Fruit Commission
Yakima, Washington

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM**

We have audited the compliance of the Washington State Fruit Commission, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the Commission’s major federal programs for the year ended March 31, 2018. The Commission’s major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs.

Management’s Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor’s Responsibility

Our responsibility is to express an opinion on compliance for each of the Commission’s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements

referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Commission's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the Commission's compliance.

Opinion on Each Major Federal Program

In our opinion, the Commission complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended March 31, 2018.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the Commission is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Commission's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.


Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Federal Award Findings and Questioned Costs as Finding 2018-001 that we consider to be significant deficiencies.

Commission's Response to Findings

The Commission's response to the internal control over compliance findings identified in our audit is described in the accompanying Schedule of Federal Award Findings and Questioned Costs. The Commission's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



Pat McCarthy

State Auditor

Olympia, WA

December 19, 2018

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Washington State Fruit Commission April 1, 2017 through March 31, 2018

Board of Commissioners
Washington State Fruit Commission
Yakima, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Washington State Fruit Commission, as of and for the year ended March 31, 2018, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed on page 19.

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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Washington State Fruit Commission, as of March 31, 2018, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 1, the financial statement of the Washington State Fruit Commission, an agency of the state of Washington, are intended to present the financial position, and the changes in financial position, where applicable, cash flows of only the respective portion of the activities of the state of Washington that is attributable to the transactions of the Commission. They do not purport to, and do not, present fairly the financial position of the state of Washington as of March 31, 2018, the changes in its financial position, or where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 19 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.

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Commission's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). This schedule is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2018 on our consideration of the Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That

report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Pat McCarthy".

Pat McCarthy

State Auditor

Olympia, WA

December 19, 2018

FINANCIAL SECTION

Washington State Fruit Commission April 1, 2017 through March 31, 2018

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2018

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2018

Statement of Revenues, Expenses and Changes in Net Position – 2018

Statement of Cash Flows – 2018

Notes to Financial Statements – 2018

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of the Net Pension Liability – PERS 1 and PERS 2/3 –
2018

Schedule of Employer Contributions – PERS 1 and PERS 2/3– 2018

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2018

Notes to the Schedule of Expenditures of Federal Awards – 2018

Management's Discussion and Analysis

As management of the Washington State Fruit Commission (Commission), we offer readers of the Commission's basic financial statements this narrative overview and analysis of the financial activities of the Commission for the fiscal years ending March 31, 2017 and March 31, 2018. The intent of this discussion and analysis is to look at the Commission's performance as a whole. Readers should also review the notes to the financial statements and the basic financial statements to enhance their understanding of the Commission's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* issued in June 1999. Certain comparative information between the current year and the prior year is required and has been presented in the MD&A.

Financial Highlights

- *Revenues -*
Total FY18 Revenues for the Commission are \$9,373,468 of which assessment revenues generated \$4,345,751, the *Good Fruit Grower* Publication Revenue generated \$1,768,807, and Partner Income generated \$690,190 with governmental grants, administrative services income, investments, and other income, completing the balance. The FY18 revenue reflects an increase of \$668,482 over FY17 \$8,704,986, mainly due to the increased size of the 2017 cherry crop.
- *Expenditures –*
Total FY18 spending for the Commission of \$8,737,497 consists mainly of Promotion expenses at \$5,267,396 and Salary and Benefit expenses at \$2,044,922; compared to FY17, spending for the Commission of approximately \$7,618,360 consisting mainly of \$4,168,894 toward Promotion programs and \$1,868,057 toward Salary and Benefits.

FY18 expenses reflect an increase over FY17 of \$1,122,676, consisting mainly of increased promotional campaigns, market research programs, inception of other post employment benefits (OPEB), adjustment of GASB 68 pension liability, and roof and building maintenance and repairs.
- *Capital Purchases –*
Total spending for capital purchases in FY18 was \$92,017; down \$42,920 from FY17 \$134,937. Of the \$92,017 FY18 capital purchases, \$54,473 went to Construction in Progress for the expansion plans of the Commission's W.L. Hanson Building and \$37,544 for the purchase of a new vehicle.

- *Bond Note* –
The Commission's long-term debt for the building bond principal balance at March 31, 2018 is \$195,000. Balance at March 31, 2017 was \$285,000. The anticipated payoff of this bond note will be in July 2020.
- *Net Position* –
The assets and outflows of the Commission exceeded its liabilities and inflows at the close of FY18 by \$5,452,547 (net position) and by \$5,477,654 at the close of FY17. The Commission's total FY18 net position of \$5,452,547 was a decrease over prior FY17 net position by \$25,107. Although the revenues in FY18 exceeded expenses by \$632,432, the net position reflected a prior period adjustment of \$657,539 for the implementation of OPEB GASB 45.
- The Commission continues to operate without the need for operating debt borrowings.

Overview of the Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to the Commission's basic financial statements. The Commission's basic financial statements are comprised of two components: 1) comparative financial statements, and 2) notes to the financial statements.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Commission, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Commission are reported as proprietary funds.

Proprietary funds – All of the Commission's services are reported in enterprise funds. They account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. They also are reported using the full accrual method of accounting in which all assets and all liabilities associated with the operation of these funds are included on the statement of net position. The focus of proprietary funds is on income measurement, which, together with the maintenance of equity, is an important financial indication.

The statement of net position presents information on the Commission's assets, liabilities, deferred outflow of resources, deferred inflow of resources, and net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Commission is improving or deteriorating. The statement of net position can be found on page 10 of this report.

The statement of revenues and expenses combined with the statement of changes in net position presents information showing how the Commission's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods. The statement of revenues, expenses and changes in net position can be found on page 11 of this report.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the fund financial statements. The notes to the financial statements can be found on pages 13 through 33 of this report.

Much of the Commission's revenues are derived from assessments collected on stone fruit crops, federal and state grant funding, and revenue from advertising sales. Future funding resources may be significantly affected due to weather and economic conditions.

Financial Analysis

The 2017 cherry season reported record crop volume, record shipping volume, and record dry weather that came with extreme heat from mid-June through July. The Northwest shipped just over 26.4 million 20 lb. equivalent boxes through 86 days of shipping. Growers experienced the wettest March on record, followed by a cooler than average May and early June. However, in mid-June, there was a daytime temperature jump from the high 50's to the 90's over the course of a weekend. The extreme changes and conditions can attribute to the overall size of the crop.

At March 31, 2018, the Commission's net position of \$5,452,547 is a decrease of \$25,107 over FY17. Of this amount, \$4,168,669 was unrestricted. The Commission's net position (\$5,452,547) is reflected its cash and investments.

Table 1

Washington State Fruit Commission, Net Position

	<u>2018</u>	<u>2017</u>
Current & Other Assets	6,882,185	6,512,241
Capital Assets (Net)	1,568,879	1,576,880
Deferred Revenues	<u>234,807</u>	<u>332,524</u>
TOTAL ASSETS & DEFERRED OUTFLOWS of RESOURCES	8,685,871	8,421,645
Current and other Liabilities	733,817	909,137
Noncurrent Liabilities	2,251,209	1,957,507
Deferred Bond Refunding	22,421	31,389
Deferred inflows of resources	<u>225,877</u>	<u>45,959</u>
TOTAL LIABILITIES & DEFERRED INFLOWS of RESOURCES	3,233,323	2,943,991
Net Position		
Net Investments in Capital Assets, Net of Related Debt	1,283,879	1,206,880
Unrestricted	<u>4,168,669</u>	<u>4,270,774</u>
TOTAL NET POSITION	5,452,547	5,477,654

Table 2
Washington State Fruit Commission, Changes in Net Position

	<u>2018</u>	<u>2017</u>
Operating Income:		
Assessment Revenue	4,345,751	3,370,216
Goodfruit Grower Publication Revenue	1,768,807	1,768,994
Partner Income	690,190	760,406
TOTAL OPERATING INCOME	6,804,748	5,899,616
Operating Expenses:		
Promotion Expenses	5,267,396	4,168,894
Production Expenses	512,125	541,065
Employee Salaries	1,507,023	1,430,879
Employee Benefits	537,899	437,178
Professional Services	12,549	3,259
Industry Dues & Memberships	66,139	74,147
Office & Board Expenses	26,301	34,843
Water	4,416	4,686
Electricity	14,982	14,810
Gas	3,634	4,103
Other Utilities	9,207	8,590
Materials & Other Maintenance Costs	91,410	36,660
Insurance Premiums	17,959	16,012
Taxes	20,963	20,621
Depreciation Expense	99,172	100,517
TOTAL OPERATING EXPENSES	8,191,175	6,896,263
NET OPERATING INCOME OR (LOSS)	(1,386,427)	(996,648)
Nonoperating Revenues (Expenses):		
Gain/Loss of Sale of Fixed Assets	4,655	10,020
Governmental Operating Grants	1,789,736	1,958,154
Administrative Services Income	629,369	707,870
Administrative Services Expense	(542,454)	(621,318)
Industry Contributions	-	(89,247)
Rent Income	120,884	120,884
Other Income	-	-
Interest Income	24,076	8,443
Interest Expense	(7,407)	(11,532)
TOTAL NONOPERATING REVENUES (EXPENSES)	2,018,860	2,083,274
NET INCOME (LOSS)	632,432	1,086,626
Net Position (Beginning April 1)	5,477,654	4,391,027
Prior Period Adjustment	(657,539)	-
NET POSITION, MARCH 31	5,452,547	5,477,654

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

Capital Assets and Long-Term Debt

CAPITAL ASSETS

The Commission's investment in capital assets as of March 31, 2018 total \$1,568,879 (net of accumulated depreciation.) This investment in capital assets includes land, buildings, building improvements and equipment. Compared to the FY17 investment in capital assets (net of accumulated depreciation) of \$1,576,880, the total decrease in the Commission's investment in capital assets for the current fiscal year was \$8,001.

Major capital asset events during the current fiscal year included Construction in Progress and Automobiles

Capital Assets at Year-end

	<u>March 31, 2017</u>
Land	\$ 174,240
Buildings	1,848,386
Construction in Progress	67,473
Leasehold Improvements	340,785
Furniture and Equipment	<u>395,649</u>
	<u>\$ 2,826,533</u>

Refer to financial notes for further information.

LONG TERM DEBT

The Commission's long-term debt for the building bond principal balance at March 31, 2018 is \$195,000. Balance at March 31, 2017 was \$285,000. During FY 2014, the Washington Office of the State Treasurer refunded \$665,000 of the series R-2004A bonds and issued a new debt under series R-2014A totaling \$600,000. The deferred bond refunding balance at FY18 totaled \$22,421. Refer to financial notes for further information.

Economic Factors and Next Year's Budgets and Rates

The Commission is primarily dependent upon stone fruit assessment of tonnage for the funding of promotional programs, educational programs, and business operations. Therefore, the Commission is affected by the crop production. Early crop estimates indicate a 2018 crop close to or above industry average. Therefore, the budget for FY18 has been prepared and approved by the Commission. The Commission's 2018 fresh assessment rates and crop predictions are budgeted as followed:

<u>Fruit*</u>	<u>Assessment Rate</u>	<u>Budgeted Tonnage</u>	<u>Revenue</u>
Cherries	\$18.00/ton	240,000**	\$4,320,000
Apricots	\$12.00/ton	5,000	\$60,000
Peaches	\$12.00/ton	8,000	\$96,000
Nectarines	\$12.00/ton	7,000	\$84,000
Prunes/Plums	\$12.00/ton	1,500	\$18,000

*Includes fresh fruit only.

**Includes 5 state partner tonnage

Additional revenue sources include the *Good Fruit Grower* publication. The recent economic conditions both nationally and world-wide have put a stronger spotlight on a publication's ability to generate advertising revenue. Content remains king in terms of attracting and retaining advertising revenue. Given the high, existing levels in usage of digital sources of information (websites, internet search, email); the *Good Fruit Grower* continues to expand its digital presence and enhance the Spanish content thus providing further avenues of advertising exposure. Due to the industry specific readership that the *Good Fruit Grower* publication reaches, current advertisers have indicated continued support through advertising channels.

Washington State Fruit Commission
STATEMENT OF NET POSITON
March 31, 2018

	<u>2018</u>
Current Assets:	
Cash-Unrestricted	2,365,819
Receivable, net	432,583
Investments-Unrestricted	4,014,972
Prepaid Expense & Other Assets	68,812
Inventories-Supplies	-
TOTAL CURRENT ASSETS	6,882,185
Noncurrent Assets:	
Land	174,240
Buildings	1,848,386
Construction in Progress (CIP)	67,473
Furniture & Equipment	395,649
Leasehold Improvements	340,785
Accumulated Depreciation	<u>(1,257,655)</u>
TOTAL NONCURRENT ASSETS	1,568,879
TOTAL ASSETS	8,451,064
Deferred Outflows of Resources:	
Contributions to pension plan in current year	<u>234,807</u>
TOTAL DEFERRED OUTFLOWS of RESOURCES	234,807
TOTAL ASSETS and DEFERRED OUTFLOW OF RESOURCES	<u>8,685,871</u>
Current Liabilities:	
Accounts Payable	119,989
Assessments Payable	313,354
Accrued Payroll Taxes & Benefits Payable	95,985
Accrued Vacation Liability	110,084
Accrued Expenses	2,663
Accrued Income	-
Accrued Business Tax Payable	1,742
Current Portion of Long Term Debt	<u>90,000</u>
TOTAL CURRENT LIABILITIES	733,817
Noncurrent Liabilities:	
Bonds Payable	195,000
OPEB Liability	774,979
Pension Liability	<u>1,281,230</u>
TOTAL NONCURRENT LIABILITIES	2,251,209
TOTAL LIABILITIES	2,985,026
Deferred Inflows of Resources:	
Deferred Bond Refunding	22,421
Pension Deferrals	<u>225,877</u>
TOTAL DEFERRED INFLOWS of RESOURCES	248,297
TOTAL LIABILITIES and DEFERRED INFLOWS OF RESOURCES	<u>3,233,323</u>
Net Position:	
Invested in Capital Assets, Net of Related Debt	1,283,879
Unrestricted Net Assets	<u>4,168,669</u>
TOTAL NET POSITION	<u>5,452,547</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES & NET POSITION	<u>8,685,871</u>

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

Washington State Fruit Commission
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION
For The Years Ending March 31, 2018

	<u>2018</u>
Operating Income:	
Assessment Revenue	4,345,751
Goodfruit Grower Publication Revenue	1,768,807
Partner Income	690,190
TOTAL OPERATING INCOME	6,804,748
Operating Expenses:	
Promotion Expenses	5,267,396
Production Expenses	512,125
Employee Salaries	1,507,023
Employee Benefits	537,899
Professional Services	12,549
Industry Dues & Memberships	66,139
Office & Board Expenses	26,301
Water	4,416
Electricity	14,982
Gas	3,634
Other Utilities	9,207
Materials & Other Maintenance Costs	91,410
Insurance Premiums	17,959
Taxes	20,963
Depreciation Expense	99,172
TOTAL OPERATING EXPENSES	8,191,175
NET OPERATING INCOME OR (LOSS)	(1,386,427)
Nonoperating Revenues (Expenses):	
Gain/Loss of Sale of Fixed Assets	4,655
Governmental Operating Grants	1,789,736
Administrative Services Income	629,369
Administrative Services Expense	(542,454)
Industry Contributions	-
Rent Income	120,884
Other Income	-
Interest Income	24,076
Interest Expense	(7,407)
TOTAL NONOPERATING REVENUES (EXPENSES)	2,018,860
NET INCOME (LOSS)	632,432
Net Position (Beginning April 1)	5,477,654
Prior Period Adjustment	(657,539)
NET POSITION, MARCH 31	5,452,547

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

WASHINGTON STATE FRUIT COMMISSION
Statements of Cash Flows
Year Ending March 31, 2018

	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers	6,887,956
Cash payments to suppliers	(6,235,043)
Cash payments to employees for services	<u>(2,041,383)</u>
Net cash provided by operating activities	(1,388,470)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:	
Administrative services income	629,369
Administrative services expense	(542,454)
Operating Grant	1,789,736
Rental income	<u>120,884</u>
Net cash provided by non-capital financing activities	1,997,536
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Fixed Assets (Net)	(91,172)
Proceeds from sale of fixed assets	4,655
Industry contributions	-0-
Deferred refunding of debt	(8,968)
Principal paid on debt issues	(85,000)
Interest paid on various contracts and debt issues	<u>(7,407)</u>
Net cash (used) for capital and related financing activities	(187,892)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest on Investments	24,076
Purchases of investments	<u>(1,003,808)</u>
Net cash used for investing activities	(979,732)
Net increase/decrease in cash and cash equivalents	<u>(558,558)</u>
Cash and cash equivalents at beginning of year	<u>2,924,377</u>
Cash and cash equivalents at end of year	<u><u>2,365,819</u></u>
Reconciliation of Operating Income(Loss) to Net Cash Provided by Operating Activities:	
Operating income (loss)	(1,386,427)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation Expense	99,172
Increase (decrease) in OPEB	120,979
Increase (decrease) in net pension	<u>(117,181)</u>
Net cash provided (used) by operating activities	102,971
Change in assets and liabilities:	
Receivables, net	83,208
Prepaid Expenses	(8,111)
Inventories	208
Accounts and other payables	(178,038)
Accrued expenses	<u>(2,281)</u>
Net Cash provided by operating activities	<u><u>(1,388,470)</u></u>

The notes to the financial statements are an integral part of this statement.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Commission have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described below.

A. Reporting Entity

The Washington State Fruit Commission, (the Commission), a corporation and Washington State Agency defined under RCW15.28, was created in order to develop and promote Washington's soft tree fruits as part of an existing comprehensive regulatory scheme, vital to the continued economic well-being of the citizens of this state and their general welfare that its soft tree fruits be properly promoted by (a) enabling the soft tree fruit industry to help themselves in establishing orderly, fair, sound, efficient, and unhampered cooperative marketing, grading, and standardizing of soft tree fruits they produce; and (b) working to stabilize the soft tree fruit industry by increasing consumption of soft tree fruits within the state, the nation, and internationally.

The commission is governed by a board composed of seventeen voting members, as follows: Ten producers, four dealers, and two processors, and the director of WSDA, or an authorized representative. A majority of the voting members constitute a quorum for the transaction of any business.

An annual assessment is levied upon all commercial soft tree fruits grown in the state or packed as Washington soft tree fruit. The commission's comparative financial statements include the financial position and results of operations.

B. Basis of Accounting

The commission uses the full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred. Capital asset purchases are capitalized and long-term liabilities are accounted for in the appropriate funds. Grant revenues are recognized when earned.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Commission are assessments levied on all commercial tree fruit produced in Washington State or held out as being produced in Washington State for fresh or processing use.

Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenues and expenses.

C. Budgets

The commission is not required to prepare a budget.

D. Assets, Liabilities and Fund Balance

1. Cash and Cash Equivalents

The commission considers cash and equivalents to include all checking, savings, and municipal investments accounts with no maturity dates. It is the commission's policy to invest all temporary cash surpluses. The amount is classified on the balance sheet as cash and equivalents in various funds. The interest on these investments is pro-rated to the various funds.

2. Temporary Investments - See Note 2

3. Receivables

Receivables consist of amounts due from assessments, advertising in the *Good Fruit Grower* magazine, and administrative and accounting services provided to other industry members relating to the tree fruit industry.

4. Inventories

The inventory consists of *Good Fruit Grower* book inventory and is valued by the cost when the books are purchased and/or printed.

5. Capital Assets and Depreciation - See Note 3

6. Deferred outflow/inflows of resources

In addition to assets, the statement of financial position will report a separate section for deferred outflows of resources. This separate financial statement element *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Commission has one item that meets this criterion, contributions made to the pension plan in the 2018 fiscal year. In addition to liabilities, the statement of financial position will report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred*

Inflows of Resources, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Commission has two items that meets the criterion for this category – deferrals of pension expense that result from the implementation of GASB Statement 68 and the bond refunding.

Pensions – See Note 4

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.

7. Other Post Employment Benefits (OPEB) – See Note 5

In accordance with the reporting requirements of Statement No. 45 of Governmental Accounting Standards Board (GASB), in FY18, the Commission implemented GASB No. 45 and reported its liability in its statements.

This original implementation of GASB 45, resulted in a prior year adjustment of \$657,539.

This OPEB agreement can be modified at any time by our legislators.

8. Accumulated Unpaid Employee Leave Benefits

Compensated absences are absences for which employees will be paid, such as vacation (and sick) leave. All vacation and sick pay is accrued when incurred. Vacation pay, which may be accumulated up to 240 hours (30 days), is payable upon resignation, retirement, or death. Sick leave may accumulate up to 240 hours (30 days) and is not payable upon resignation, retirement or death.

9. Accrued Liabilities

These accounts consist of accrued wages and accrued employee benefits as follows:

Accrued Liabilities		
	2018	2017
Accrued Expenses	\$4,405	\$1,646
Employee Benefits	\$206,069	\$225,693
OPEB Liability	\$774,979	\$0
Pension Liability	\$1,281,230	\$1,672,507
Totals	\$2,266,684	\$1,899,846

10. Long-Term Debt - See Note 7

NOTE 2 - DEPOSITS AND INVESTMENTS

As required by state law, all deposits and investments of the commission are obligations of the U.S. Government or deposits with Washington State banks and savings and loan institutions.

The commission's deposits and certificates of deposit are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protections Commission (PDPC). The bank balances for year end 2018 was 6,434,182; the book balance for year end 2018 was \$6,380,791 with a difference of \$53,391 due to outstanding deposits and checks.

The commission's investments are categorized to give an indication of the risk assumed at year-end. The following summary shows the commission's investments at year-end. Investments are insured, registered or held by the commission or its agent in the commission's name.

Investment Type	3/31/18 Carrying	3/31/18 Market	3/31/17 Carrying	3/31/17 Market
CD's	\$4,014,972	\$4,014,972	\$3,011,164	\$3,011,164

NOTE 3 - CAPITAL ASSETS AND DEPRECIATION

A. General Policies

All capital assets in excess of \$3,000 are capitalized and depreciated. Maintenance, repairs, and minor renewals are accounted for as expenditures or expenses when incurred.

B. Proprietary Fund Capital Assets

The Commission's investment in capital assets as of March 31, 2018 amounts to \$1,568,879 (net of accumulated depreciation). This is a decrease of \$8,001, or less than (1%), from capital assets consisting of \$1,576,880 (net of accumulated depreciation) at March 31, 2017.

Capital assets of proprietary funds are capitalized in their respective balance sheets and are recognized at historical cost or estimated historical cost when purchased or constructed.

Capital assets of proprietary funds are depreciated using the straight-line method over the useful life of the asset as follows:

Description	Years	Description	Years
Computers	4	Improvements	15
Vehicles & Equipment	5	Building	50

A summary of changes in capital assets are represented in the following table:

CAPITAL ASSETS AND DEPRECIATION

Business Type Activities	Balance 3/31/16	Increases	Decreases	Balance 3/31/17	Increases	Decreases	Balance 3/31/18
Capital Assets, not being depreciated:							
Land	174,240	-	-	174,240	-	-	174,240
Construction in Progress	-	13,000	-	13,000	54,473	-	67,473
Total Capital Assets, not being depreciated:	174,240	13,000	-	187,240	54,473	-	241,713
Capital Assets, being depreciated:							
Building	1,848,386	-	-	1,848,386	-	-	1,848,386
Leasehold Improvements	272,294	68,491	-	340,785	-	-	340,785
Furniture and Equipment	406,778	53,447	51,905	408,319	37,544	50,214	395,649
Total Capital Assets, being depreciated:	2,527,458	121,937	51,905	2,597,490	37,544	50,214	2,584,821
Less accumulated depreciation for:							
Building	758,800	36,968	-	795,768	36,968	-	832,736
Leasehold Improvements	115,906	20,793	-	136,699	21,642	-	158,341
Furniture and Equipment	284,533	41,911	51,061	275,383	40,563	49,369	266,578
Total accumulated depreciation	1,159,239	99,672	51,061	1,207,850	99,173	49,369	1,257,654
Total capital assets, being depreciated, net	1,368,220	22,265	844	1,389,640	(61,628)	845	1,327,166
Business Type Activities capital assets, net	1,542,460	35,265	844	1,576,880	(7,156)	845	1,568,879

NOTE 4 - PENSION PLANS

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.

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 2017:

Aggregate Pension Amounts – All Plans	
Pension liabilities	(\$1,281,230)
Deferred outflows of resources	\$234,808
Deferred inflows of resources	(\$225,877)
Pension expense	\$98,654

State Sponsored Pension Plans

Substantially all (city/county/district's) full-time and qualifying part-time employees participate in the following statewide retirement systems administered by the Washington State Department of Retirement Systems (DRS), 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, 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

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

Public Employees' 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 2017 were as follows:

PERS Plan 1		
Actual Contribution Rates	Employer	Employee*
January - June 2017:		
PERS Plan 1	6.23%	6.00%
PERS Plan 1 UAAL	4.77%	
Administrative Fee	0.18%	
Total	11.18%	6.00%
July - December 2017:		
PERS Plan 1	7.49%	6.00%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0.18%	
Total	12.70%	6.00%

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.

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 2017 were as follows:

PERS Plan 2/3		
Actual Contribution Rates	Employer 2/3	Employee 2*
January – June 2017:		
PERS Plan 2/3	6.23%	6.12%
PERS Plan 1 UAAL	4.77%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
Total	11.18%	6.12%
July – December 2017:		
PERS Plan 2/3	7.49%	7.38%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0,18%	
Employee PERS Plan 3		Varies
Total	12.70%	7.38%

The Commission's actual PERS plan contributions were \$93,918 to PERS Plan 1 and \$118,376 to PERS Plan 2/3 for the year ending March 31, 2018.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2017 with a valuation date of June 30, 2016. 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* and the *2015 Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2016 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2017. Plan liabilities were rolled forward from June 30, 2016, to June 30, 2017, 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 plans except LEOFF Plan 1, how terminated and vested member benefits are valued was corrected.
- How the basic minimum COLA in PERS Plan 1 is valued for legal order payees was improved.
- For all plans, the average expected remaining service lives calculation was revised.

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 except LEOFF 2, which has assumed 7.5 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. In selecting this assumption, the Office of the State Actuary (OSA) reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered capital market assumptions and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns over various time horizons.

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, 2017, 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.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	1.70%
Tangible Assets	5%	4.90%
Real Estate	15%	5.80%
Global Equity	37%	6.30%
Private Equity	23%	9.30%
	100%	

Sensitivity of Net Pension Liability/(Asset)

The table below presents the *Commission's* proportionate share* of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the *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.

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	\$851,859	\$699,282	\$567,118
PERS 2/3	\$1,567,828	\$581,948	(\$225,835)

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 March 31, 2018, the *Commission* reported a total pension liability of \$1,281,230 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	\$699,282
PERS 2/3	\$581,948
	\$1,281,230

At March 31, the *Commission's* proportionate share of the collective net pension liabilities was as follows:

	Proportionate Share 3/31/16	Proportionate Share 6/30/17	Change in Proportion
PERS 1	.015097%	.014737%	(.00036%)
PERS 2/3	.017115%	.016749%	(.00037%)

Employer contribution transmittals received and processed by DRS for the fiscal year ended March 31 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by DRS in the *Schedules of Employer and Nonemployer Allocations* for all plans except LEOFF 1.

Pension Expense

For the year ended March 31, 2018, the *Commission* recognized pension expense as follows:

	Pension Expense
PERS 1	\$23,672
PERS 2/3	\$74,982
TOTAL	\$98,654

Deferred Outflows of Resources and Deferred Inflows of Resources

At March 31, 2018, the *Commission* reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Washington State Fruit Commission
Notes to Financials
For the fiscal year ending March 31, 2018

	PERS 1		PERS 2 & 3	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$0	\$0	\$58,965	(\$19,139)
Net difference between projected and actual investment earnings on pension plan investments	\$0	(\$26,095)	\$0	(\$155,133)
Changes of assumptions	\$0	\$0	\$6,181	\$0
Changes in proportion and differences between contributions and proportionate share of contributions	\$0	\$0	\$4,955	(\$25,509)
Contributions subsequent to the measurement date	\$71,838	\$0	\$92,868	\$0
TOTAL	\$71,838	(\$26,095)	\$162,969	(\$199,782)

Deferred outflows of resources related to pensions resulting from the *Commission's* contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended March 31, 2018. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended March 31:	PERS 1	PERS 2 & 3
2019	(\$17,639)	(\$65,884)
2020	\$5,569	\$10,315
2021	(\$1,293)	(\$16,719)
2022	(\$12,732)	(\$64,533)
2023	\$0	\$3,105
Thereafter	\$0	\$4,036
TOTAL	(\$26,095)	(\$129,680)

NOTE 5 – OTHER POST EMPLOYMENT BENEFIT (OPEB) PLANS

Access to Medical Benefits through the Washington State Health Care Authority (HCA)

The state, through the HCA, administers an agent multiple-employer defined benefit other post-employment (OPEB) plan. The Public Employees Benefits Board (PEBB) created under the HCA is authorized to design benefits and determine the terms and conditions of employee and retired employee participation and coverage, including establishment of eligibility criteria for both active and retired employees. Benefits purchased by PEBB include medical, dental, life and long-term disability.

The relationship between the PEBB OPEB plan and its member employers and their employees and retirees is not formalized in a contract or plan document. Rather, the benefits are provided in accordance with a substantive plan. A substantive plan is one in which the plan terms are understood by the employers and plan members. This understanding is based on communications between the HCA, employers and plan members, and the historical pattern of practice with regard to sharing of benefit costs.

Employers participating in the PEBB plan include the state (which includes general government agencies and higher education institutions), and 227 political subdivisions. Additionally, the PEBB plan is available to the retirees of the Commission. RCW 41.05.085 provides that contribution requirements of participating employers and of plan members are established by and may be amended by the HCA Board of Directors. Participating employers and active plan members are required to contribute the established benefit rates.

Commission retirees are eligible to participate in the plan under this arrangement. Currently, the Commission has 15 retirees and their spouses participating in the OPEB plan.

Plan Description

Eligibility

Commission members are eligible for retiree medical benefits after becoming eligible for service retirement pension benefits (either reduced or full pension benefits) under Plan 1, 2 or 3 (see Note 4):

- Age 60 with 5 years of service
- Age 55 with 25 years of service for Plan 2,3

Former members who are entitled to a deferred vested pension benefit are not eligible to receive medical and life insurance benefits after pension benefit commencement. Survivors of covered members who die are eligible for medical benefits.

Medical and Life Benefits

Upon retirement, members are permitted to receive medical benefits. Retirees pay the following monthly rates for pre-65 medical coverage for 2018:

Description	Type of Coverage			
	Employee	Employee & Spouse	Employee & Children	Full Family
Kaiser Permanente WA Classic	\$162	\$334	\$284	\$456
Kaiser Permanente WA CDHP	\$25	\$60	\$44	\$79
Kaiser Permanente WA SoundChoice	\$51	\$112	\$89	\$150
Kaiser Permanente WA Value	\$78	\$166	\$137	\$225
Uniform Medical Plan Classic	\$102	\$214	\$179	\$291
Uniform Medical Plan CDHP	\$25	\$60	\$44	\$79

The implicit rate subsidy is the difference between the total cost of pre-65 medical benefits for retirees and pre-65 contributions paid by retirees. Per member health costs vary depending on age, number of dependents and expected morbidity.

Retirees who are enrolled in Medicare Parts A and B receive an explicit rate subsidy in the form of reduced premiums on Medicare supplemental plans. For calendar year 2016, after age 65 retired members receive a subsidy of 50% of their monthly medical premiums up to \$150 (\$168.00 as of January 1, 2019) per Medicare covered person.

Funding Policy The funding policy is based upon the pay-as-you-go financing requirements.

Annual OPEB Cost and NET OPEB Obligation

This is the first year of GASB 45 implementation. See Note 9 Prior Period Adjustment for additional information regarding implementation.

The District's annual OPEB cost is calculated based upon the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an on-going basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (UAAL) over a period not to exceed thirty years. The following table shows the

components of the Commission's annual OPEB cost for the year, the amount actually contributed to the plan and changes in the Commission's net OPEB.

Determination of Annual Required Contribution (ARC)	Year Ending
	March 31, 2018*
Normal Cost at Year End	\$61,860
Amortization of UAAL	\$89,634
Annual Required Contribution (ARC)	\$151,494

Determination of Net OPEB Obligation	Year Ending
	March 31, 2018*
Annual Required Contribution	\$151,494
Interest on Prior Year Net OPEB Obligation	\$0
Adjustment to ARC	\$0
Annual OPEB Cost	\$151,494
Less: Contributions Made	\$34,054
Increase in Net OPEB Obligation	\$117,440
Prior Year Ending OPEB Balance	\$0
Net OPEB Obligation – End of Year	\$117,440

* Estimated based on retiree benefit amounts

The Commission's annual OPEB cost, the percentage of OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year ended March 31, 2018 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
March 31, 2018	\$151,494	\$34,054	\$117,440

Funded Status and Funding Progress

As of March 31, 2018, the most recent actuarial valuation date, the plan was zero percent funded. The accrued liability for benefits was \$1,549,957, and the actuarial value of assets was \$0, resulting in a UAAL of \$89,634. The covered payroll amounted to \$1,507,023 and the UAAL as a percentage of covered payroll is 0.6%.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, included as required supplemental information presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods & Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations.

Signaificant methods and assumptions were as follows:

Actuarial valuation date	January 1, 2017
Actuarial cost method	Projected Unit Credit (PUC)
Amortization method	Closed, level percentage of projected payroll amortization method
Remaining amortization period	30 years for each new layer of NOO
Asset valuation method	N/A – no assets
Actuarial assumptions:	
Investment rate of return	3.75%
Projected salary Increase	3.75%
Health care inflation rate	7.0% initial rate, 4.9% ultimate rate in 2094
Inflation rate	3.0%

Effective January 1, 2017, the subsidized life insurance benefit will be removed and replaced with a benefit coverage that is fully paid by the retiree and is no longer valued.

The UAAL is being amortized as a level percentage of pay on a closed basis at the assumed discount rate. Payroll is assumed to increase at 3.75%. The remaining amortization period at August 31, 2015 was thirty (30) years.

For further information on the results of the HCA Actuarial Valuation of the employer-provided subsidies associated with the state's PEBB plan, refer to:

<http://leg.wa.gov/osa/additionalservices/Pages/OPEB.aspx>. The plan does not issue a

separate report, however, additional information is included in the State of Washington's CAFR, which is available at: <http://www.ofm.wa.gov/cafr/default.asp>.

NOTE 6 – DEFERRED COMPENSATION PLAN

457 Plan – Deferred Compensation Plan

Commission employees have the option of participating in an IRC, Section 457, deferred compensation plan administered by the state retirement system. The plan assets and all related income are held in trust for the exclusive benefit of the participants and their beneficiaries.

NOTE 7 – LONG TERM DEBT

In 1995, a \$1,510,000 State of Washington General Obligation Bond, Series 1995C, was issued on behalf of the commission for the purpose of providing funds to finance a facility for the State's Fruit Commission, located at 105 S. 18th Street, Yakima, WA 98901. In 2003, Series 1995C was rescheduled into two separate bond schedules (Series 1995C & Series R2004A). In 2013, Series R2004A was rescheduled into a new bond schedule (Series 2014A). Series 2014A is secured by an unconditional pledge of the full faith and credit of the State. Under provision of Article VIII of the State Constitution, as amended, the Legislature is obligated to provide by appropriation for the payment of the principal of and interest on the Bonds from general State revenues.

These Bonds are excluded from the Statutory Debt Limitation.

The long-term debt for this bond is due in biannual payments with maturity in the year 2020. During FY 2014, the Washington Office of the State Treasurer refunded \$665,000 of the series R-2004A bonds and issued new debt under series R-2014A totaling \$600,000. The rescheduling of the bond Series 2014A resulted with a savings of \$67,261 which will be amortized over the remaining life of the bond.

The Commission's bond principal balance at March 31, 2018 is \$285,000. The bond principal balance at March 31, 2017 is \$370,000. The Commission's deferred bond gain on refunding balance at March 31, 2018 is \$22,421; the balance at March 31, 2017 is \$31,389. The total payment for 2018 is \$102,000 consisting of \$90,000 for principal and \$12,000 for interest. The annual requirements to amortize outstanding debt, including interest, are as follows:

	Bond Principal	Bond Interest	Bond Principal Balance
Balance at 2018	\$ -	\$ -	\$285,000
2018	\$ 90,000	\$ 12,000	\$195,000
2019	\$ 95,000	\$ 7,375	\$100,000
2020	\$ 100,000	\$ 2,500	\$ -
Total	\$ 285,000	\$ 21,875	

Changes in the Washington State Fruit Commission's long-term and vacation liabilities during the years ending March 31, 2018 and 2017 are summarized below.

	Balance at March 31, 2016	Increase	Decrease	Balance at March 31, 2017	Increase	Decrease	Balance at March 31, 2018	Amounts Due within One Year
2014A	\$450,000	\$0	\$80,000	\$370,000	\$0	\$85,000	\$285,000	\$90,000
Net Pension Liability	\$1,456,066	\$216,441	\$-0-	\$1,672,507	\$0	\$391,277	\$1,281,230	\$-0-
Compensated Absences	\$113,016	\$3,755	\$0	\$116,771	\$0	\$6,687	\$110,084	\$110,084
TOTALS	\$2,019,082	\$220,196	\$80,000	\$2,159,278	\$0	\$482,964	\$1,676,314	\$200,084

NOTE 8 - CONTINGENCIES AND LITIGATION

The commission has recorded in its financial statements all material liabilities.

NOTE 9 – RISKS

Although risk can never be eliminated, the Washington State Fruit Commission makes every effort to minimize risks by implementing internal controls and procedures, segregating duties, and procuring adequate insurance coverage.

The Washington State Fruit Commission maintains applicable insurance coverage through a self-procured insured policy obtained through Conover Insurance and a policy obtained through the Washington State Liability Self Insurance Program.

The Washington State Self-Insurance policy provides coverage up to \$10 million with no deductible for general and auto liability while the self-procured policy through Conover provides coverage up to \$2 million aggregate for general liability with a \$1 million per occurrence general liability. The Conover policy also includes \$1 million in coverage for auto liability with a \$3 million umbrella that extends over the general liability and the auto liability.

Further, the Washington State Fruit Commission, per RCW 15.28.190, obtains up to \$50,000 in coverage for the State Public Officials Bond and also up to \$10 million in coverage for crime coverage.

As stated in RCW 15.28.250, for the purpose of securing collection of soft fruit assessments, the Washington State Department of Agriculture shall cease to provide inspection services under Chapter 15.17 RCW to any delinquent party until that party pays all delinquent assessments, interest, and penalties.

NOTE 10 – PRIOR PERIOD ADJUSTMENTS

Implementation of GASB No. 45 for Post Retirement Benefits

All employees with retirees receiving post-retirement insurance benefits through the Washington State Health Care Authority (HCA) are subject to GASB Statement No. 45 reporting requirements (*Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pension-OPEB*).

GASB No. 45 is a prospectively implemented statement. Retrospective implementation may be done if actuarial reports had been obtained, per guidelines of GASB No. 45. Since the Commission did not have actuarial studies in prior years, the Commission has made a prior period adjustment of \$657,539 to record the net OPEB obligation.

NOTE 11 – OTHER DISCLOSURES

- A. The Pacific Northwest Canned Pear Service (PNCPS), a non-profit organization established in Washington State in February 1998, was organized exclusively for the promotion and marketing of canned pears grown and/or processed in Oregon or Washington. The Commission is not financially accountable for PNCPS.

Schedule of Proportionate Share of the Net Pension Liability			
Plan PERS 1			
As of June 30			
		2016	2017
Employer's proportion of the net pension liability (asset)	%	.015097	.014737
Employer's proportionate share of the net pension liability	\$	810,780	699,282
Employer's covered employee payroll	\$	1,684,595	1,735,921
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	%	48.13	40.28
Plan fiduciary net position as a percentage of the total pension liability	%	57.03	61.24

Schedule of Proportionate Share of the Net Pension Liability			
Plan PERS 2,3			
As of June 30			
		2016	2017
Employer's proportion of the net pension liability (asset)	%	.017115	.016749
Employer's proportionate share of the net pension liability	\$	861,727	581,948
Employer's covered employee payroll	\$	1,594,303	1,642,065
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	%	54.05	35.44
Plan fiduciary net position as a percentage of the total pension liability	%	85.82	90.97

Schedule of Employer Contributions			
Plan PERS 1			
As of March 31			
		2017	2018
Contractually required contributions	\$	87,917	93,908
Contributions in relation to the contractually required contributions	\$	87,917	93,908
Contribution deficiency (excess)	\$	0	0
Covered employer payroll	\$	1,720,259	1,754,220
Contributions as a percentage of covered employee payroll	%	5.11	5.35

Schedule of Employer Contributions			
Plan PERS 2,3			
As of March 31			
		2017	2018
Contractually required contributions	\$	101,312	118,376
Contributions in relation to the contractually required contributions	\$	101,312	118,376
Contribution deficiency (excess)	\$	0	0
Covered employer payroll	\$	1,626,197	1,657,545
Contributions as a percentage of covered employee payroll	%	6.23	7.14

WASHINGTON STATE FRUIT COMMISSION SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED MARCH 31, 2018

SCHEDULE 16

Federal Agency Name/Pass-Through Agency Name	Federal Program Name	CFDA Number	Other I.D. Number	Expenditures			Pass Through to Subrecipient	Footnote Reference
				From Pass-Through Awards	From Direct Awards	Total		
U.S. Department of Agriculture Foreign Agriculture Service	Market Access Program (MAP)	10.601	MAP	\$ 0	\$1,759,292	\$1,759,292	\$ -0-	1, 2
	Specialty Crop Block Grant Program (SCBGP)	10.170	WSDA-K2303	\$ 18,733	\$ -0-	\$ 18,733	\$ -0-	1, 2
	Specialty Crop Block Grant Program (SCBGP)	10.170	WSDA-K2303 (program income)	\$ 6,750	\$ -0-	\$ 6,750	\$ -0-	1, 2
	Emerging Markets Program (EMG)	10.603	Emerg-Mkt Philippines	\$ 0	\$ 11,711	\$ 11,711	\$ -0-	1, 2
Total Federal Awards Expended				\$ 25,483	\$1,771,003	\$1,796,486	\$ -0-	

WASHINGTON STATE FRUIT COMMISSION
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(AND STATE/LOCAL FINANCIAL ASSISTANCE)

NOTE 1 – BASIS OF ACCOUNTING

This schedule is prepared on the same basis of accounting as the commission's financial statements. The Commission uses the accrual basis of accounting.

NOTE 2 – PROGRAM COSTS

The amounts shown as current year expenditures represent only the federal grant portion of the program costs. Entire program costs, including the Commission's portion, may be more than shown.

NOTE 3 – INDIRECT COST RATE

The Commission has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.



**Washington State
Fruit Commission**

CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED UNDER UNIFORM GUIDANCE

**Washington State Fruit Commission
April 1, 2017 through March 31, 2018**

This schedule presents the corrective action planned by the Commission for findings reported in this report in accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Finding ref number: 2018-001	Finding caption: The Washington State Fruit Commission does not have adequate internal controls in place to ensure compliance with federal procurement requirements.
Name, address, and telephone of Commission contact person: Joanne Daniels, Controller 105 S. 18th Street, Suite 205 Yakima, WA 98901 (509) 453-4837	
<i>Corrective action the auditee plans to take in response to the finding:</i> <i>In 2012, the Commission identified that one of the many challenges for Northwest Cherries success is the long transit time to China and the industry needs to shorten the airfreight service from Seattle to Shanghai. Therefore, in 2013, the Commission approached the China Eastern Air Group and was able to convince CEAG to start a Seattle to Shanghai direct cargo service during the 2014 NWC season. The CEAG is the only cargo airline who dedicates its entire airplane to northwest cherry shipments.</i> <i>In the fall of 2016, NWC saw the cooperation opportunity with CEAG and persuaded CEAG on the idea of creating a NWC Express plane to widen both companies' brand awareness. Further, CEAG provided (on CEAG passengers planes) northwest cherries to be included in business class meals on daily flights between Shanghai and Beijing and an editorial coverage of NWC was presented in CEAG's July 2017 in-flight magazine to expose NWC product awareness.</i>	

Since the NWC industry has spent many years working with CEAG on direct shipments to Shanghai, opportunities like this do not come easily. The Commission has specific contracting policies and procedures in place, which include competitive proposals and formal advertising of purchases in excess of \$100,000. However, due to the nature and uniqueness of this collaboration, and the fact that there were not any other Chinese cargo airlines providing a direct cargo service from Seattle to Shanghai, it was not feasible to competitively perform or advertise this procurement.

For future purchases of this unique sole source nature, as suggested by the auditors, the Request for Proposal process will be implemented and written in a specific unique nature and formally advertised when \$100,000 or more.

Anticipated date to complete the corrective action: Effective December 17, 2018.

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

Contact information for the State Auditor's Office	
Public Records requests	PublicRecords@sao.wa.gov
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov