



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Washington Tree Fruit Research Commission

For the period July 1, 2017 through June 30, 2019

Published March 19, 2020

Report No. 1025877





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

March 19, 2020

Board of Commissioners
Washington Tree Fruit Research Commission
Wenatchee, Washington

Report on Financial Statements

Please find attached our report on the Washington Tree Fruit Research Commission's financial statements.

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".

Pat McCarthy
State Auditor
Olympia, WA

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SCHEDULE OF AUDIT FINDINGS AND RESPONSES

2019-001 The Washington Tree Fruit Research Commission did not have adequate internal controls in place to ensure accurate and complete financial reporting.

Background

Management, the state Legislature and federal agencies rely on the information included in the financial statements and reports to make decisions. It is the responsibility of Commission management to design and follow internal controls that provide reasonable assurance regarding the reliability of financial reporting. Our audit identified a significant deficiency in controls that adversely affects the Commission's ability to produce reliable financial statements.

Description of Condition

The Washington State Tree Fruit Research Commission provides administrative and accounting services to the Fresh Pear Committee and the Processed Pear Committee and oversees these committees' research projects. The Commission pays for research expenses on behalf of these committees, requests reimbursement for the associated costs and charges an administrative service fee. The Commission did not report project expenses or the associated reimbursement as expenditures or revenue on its financial statements.

In addition, the Commission misclassified operating revenue received for the administrative service fees and the reimbursement for chairman expenses as non-operating revenues.

We consider this to be a significant deficiency in controls over financial reporting.

Cause of Condition

The Commission did not adequately research how to report these associated revenues and expenses and assumed that because activity netted out to zero it did not have to be reported in the financial statements.

Effect of Condition

The Commission did not report revenue and expenses of \$707,805 and \$727,415 in fiscal years 2019 and 2018, respectively.

In addition, the Commission misclassified operating revenue of \$137,831 and \$123,280 as non-operating revenue in fiscal years 2019 and 2018, respectively.

Recommendation

We recommend the Commission dedicate necessary resources and implement an adequate review of the financial statement preparation to ensure financial reports are complete and accurate.

Commission's Response

In 2005, at the inception of the Federal Marketing order #927 for Fresh and Processed Pears, the Commission suspended its Washington portion of pear assessments and agreed to collaborate with the Fresh and Processed Pear Committees (Committees) on all pear research activity.

The Commission contracted with the Committees to oversee the pear research program of which the Committees would reimburse the Commission for costs incurred. The pear research activity includes a relationship with researchers located throughout the United States as well as research performed by staff at the Commission.

All pear research handled by researchers outside of the Commission was reported as a pass-through entry on the Commission's Statement of Net Position. The Commission's financial reporting of income and expenses only reflected the activity the Commission's staff performed.

During the current audit, it was clarified that all pear research activity, handled inside and outside of the Commission should be reported together on the income and expense statement. The Commission has corrected the statements and has processes in place to ensure the future pear research activity is properly reported on both the income and expense statements. Further the Commission will report all pear research revenue as operating revenue instead of non-operating revenue.

We thank the auditors for their guidance on this issue.

Auditor's Remarks

We appreciate the Commission's commitment to resolving the issues noted above and thank the Commission for its cooperation and assistance during the audit. We will follow up on it during the next audit.

Applicable Laws and Regulations

Government Auditing Standards, December 2011 Revision, paragraph 4.23 establishes reporting requirements related to significant deficiencies or material weaknesses in internal control, instances of fraud or abuse, and noncompliance with provisions of law, regulations, contracts, or grant agreements.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its Codification of Statements on Auditing Standards, section 265, Communicating Internal Control Related Matters Identified in an Audit, paragraph 7.

**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 Tree Fruit Research Commission
July 1, 2017 through June 30, 2019**

Board of Commissioners
Washington Tree Fruit Research Commission
Wenatchee, 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 Tree Fruit Research Commission, as of and for the years ended June 30, 2019 and 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 March 12, 2020.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audits 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 opinions 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 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Audit Findings and Responses as Finding 2019-001 that we consider to be significant deficiencies.

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*.

COMMISSION'S RESPONSE TO FINDINGS

The Commission's response to the findings identified in our audit is described in the accompanying Schedule of Audit Findings and Responses. The Commission's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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

March 12, 2020

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Washington Tree Fruit Research Commission July 1, 2017 through June 30, 2019

Board of Commissioners
Washington Tree Fruit Research Commission
Wenatchee, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Washington Tree Fruit Research Commission, as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed on page 13.

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 opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Washington Tree Fruit Research Commission, as of June 30, 2019 and 2018, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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 13 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.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated March 12, 2020 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

March 12, 2020

FINANCIAL SECTION

Washington Tree Fruit Research Commission July 1, 2017 through June 30, 2019

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2019 and 2018

BASIC FINANCIAL STATEMENTS

Comparative Statement of Net Position – 2019 and 2018

Comparative Statement of Revenues, Expenses and Changes in Net Position – 2019 and 2018

Comparative Statement of Cash Flows – 2019 and 2018

Notes to Financial Statements – 2019 and 2018

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Proportionate Share of Net Pension Liability – PERS 1 and PERS 2/3 – 2019 and 2018

Schedule of Employer Contributions – PERS 1 and PERS 2/3 – 2019 and 2018

Schedule of Changes in OPEB Liability and Related Ratios – 2019 and 2018

Management's Discussion and Analysis

As management of the Washington Tree Fruit Research 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 June 30, 2017 through June 30, 2019. The intent of this discussion and analysis is to look at the Commission's performance. 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 –*
FY19 Revenues for the Commission total \$9,556,134 consisting of \$4,245,078 in assessment revenues; \$845,636 in pear research revenue; \$4,280,615 in Special Project revenue; \$107,633 in government and other grants; with lease income, investments, and other income making up the balance.

Likewise, total revenues for FY18 were \$10,278,618 consisting mainly of assessment revenues totaling \$4,484,004; pear research revenue totaling \$850,695; and Special Project revenue totaling \$4,771,284. The total revenues for FY17 were \$9,116,606 consisting of assessment revenues totaling \$4,080,713 and Special Project revenue totaling \$4,383,451. The government and other grant income, lease income, investments, and other income make up the balance of revenues for each year.

- *Expenditures –*
Total expenditures for FY19 of \$10,143,548 consists mainly of Special Project expenses at \$4,280,615; external research operations at \$4,258,738; salary and benefits of \$903,015; and internal research operations of \$243,482.

Likewise, total expenditures for FY18 of \$9,307,010 consist mainly of Special Project expenses at \$4,771,284; external research operations at \$2,896,256; salary and benefits of \$910,078; and internal research operations of \$278,980. Total expenditures for FY17 of \$9,288,020 consist mainly of Special Project expenses at \$4,383,451; external research operations at \$2,664,164; salaries and benefits of \$1,094,385; and internal research operations of \$661,924.

The Commission's general office and facility operations, depreciation, and Wapato property expenses make up the balance of expenditures for each year.

- *Special Project Assessments –*

The Washington tree fruit industry approved by referendum a “special project assessment” to expand research and outreach capacity at the Washington State University (WSU) centers in Prosser and Wenatchee. An Endowment Advisory Committee (EAC), appointed by tree fruit industry organizations will oversee all industry-endowed programs and have direct and regular input to the Dean of the WSU college of Agricultural, Human, and Natural Resource Sciences. The Commission will appoint one of seven members to the EAC committee. Additionally, the manager of the Commission will serve as ex-officio, non-voting member to provide technical support and advice as needed.

- Starting with the **2012 crop year**, an additional **\$1.00 per ton** research assessment was levied on all Washington **apples and pears** for the “special project assessment”.
- Starting with the **2013 crop year**, an additional **\$1.00 per ton** research assessment was levied on all Washington stone fruits (**apricots, peaches, nectarines, prunes, and plums**) and a **\$4.00 per ton** research assessment was levied on all Washington **cherries** for the “special project assessment.”

This special project assessment goal is to raise \$32 million over a time period not to exceed 8 years. The following table reflects the *special project assessments* billed through FY19:

Special Project Assessment Collections					
Period	Apples	Pears	Cherries	Stone Fruit	Total
FY13	\$2,695,191	\$367,162	\$137,323	\$493	\$3,200,169
FY14	\$3,296,416	\$401,288	\$784,359	\$32,462	\$4,514,525
FY15	\$3,497,781	\$360,761	\$1,011,033	\$37,113	\$4,906,688
FY16	\$3,299,434	\$365,739	\$864,126	\$29,744	\$4,559,043
FY17	\$3,405,103	\$302,738	\$644,885	\$30,725	\$4,383,451
FY18	\$3,371,086	\$287,280	\$1,079,816	\$33,102	\$4,771,284
FY19	\$3,235,736	\$335,325	\$683,226	\$26,329	\$4,280,615
Total	\$22,800,747	\$2,420,292	\$5,204,766	\$189,968	\$30,615,774

Note: Special Project Assessment collections on cherries and stone fruit ended with the 2018 crop (collected through March 31, 2019). Collections for apples and pears are projected to end by December 31, 2019.

- *Capital Purchases –*

No capital purchases were made in FY19. Capital purchases for FY18 totaled \$61,940 and consisted of an economizer heat pack and a lab containment hood. Capital purchases for FY17 totaled \$6,347 for a new network server.

- *Net Position* –
The assets of the Commission exceeded its liabilities at the close FY19 by \$5,817,065 (net position) and by \$6,404,479 and \$5,709,731 at the close of FY18 and FY17 respectively. Although the revenues in FY18 exceeded expenses by \$971,609, the net position reflected a change to the beginning balance of \$276,861 for the implementation of *Other Postemployment Benefits* (OPEB) GASB 75.
- The Commission continues to operate without the need for operating debt borrowings during the current fiscal year.

Overview of the Financial Statements

This discussion and analysis are 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 and 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 statements 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 32 of this report.

Future funding resources may be significantly affected due to weather and economic conditions.

Financial Analysis

The Commission's net position of \$5,817,065 at June 30, 2019 reflects a decrease over the previous FY18 by \$587,414. The largest portion of the Commission's net position (\$5,817,065) reflects its cash, investments, receivable, and fixed assets. For FY19, \$4,582,277 is unrestricted. For FY18, and FY17, the net position increased/(decreased) by \$694,748; and (\$171,414) respectively. In FY18, the beginning net position was reduced for the OPEB adjustment for implementation of GASB 75 totaling \$276,861.

The Commission uses its funds to provide research programs on behalf of the tree fruit industry participants. Our analysis in the tables below focuses on the net position and the change in net position of the Commission as a whole.

Table 1

Washington Tree Fruit Research Commission, Comparative Statement of Net Position

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Current and other assets	6,946,538	7,804,566	6,717,527
Capital assets, (net)	1,234,789	1,303,051	1,365,158
Deferred outflows of resources	95,683	106,187	172,543
TOTAL ASSETS & DEFERRED OUTFLOWS of RESOURCES	8,277,010	9,213,804	8,255,228
Current and other liabilities	1,677,718	1,806,467	1,720,916
Noncurrent liabilities	601,738	891,507	801,149
Deferred inflows of resources	180,489	111,351	23,431
TOTAL LIABILITIES & DEFERRED INFLOWS of RESOURCES	2,459,945	2,809,325	2,545,496
Net position			
Net investments in capital assets	1,234,789	1,303,051	1,365,158
Unrestricted	4,582,277	5,101,428	4,344,574
TOTAL NET POSITION	5,817,065	6,404,479	5,709,731

Table 2
WASHINGTON TREE FRUIT RESEARCH COMMISSION
COMPARATIVE STATEMENT OF REVENUE, EXPENSES
AND CHANGES IN NET POSITION
For The Years Ending June 30, 2019, 2018 and 2017

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Operating Revenue:			
Assessment revenue	4,245,078	4,484,004	4,080,713
Pear research revenue	845,636	850,695	-
TOTAL OPERATING REVENUE	5,090,714	5,334,698	4,080,713
Operating Expenses:			
External project expenses	4,258,737	2,896,257	2,664,164
Research operation expenses	243,482	278,980	661,924
Salaries & benefits	903,015	910,078	1,094,385
Administrative services	88,388	90,552	86,799
Professional & legal fees	39,869	86,213	11,047
Bad debts	2,307	-	-
Collection fees	6,774	8,500	5,338
IT services/software/design	24,431	5,640	12,563
Misc equipment purchases	3,639	7,415	9,524
Misc equipment maintenance & repairs	373	2,096	335
Insurance	8,311	20,106	17,161
Misc expenses	791	115	1,557
Rent	14,103	14,536	12,893
Telephone & internet	11,202	10,910	14,205
Travel & meetings	120,001	50,384	84,886
Utilities & building maintenance	12,191	14,201	77,818
Vehicle fuel & maintenance	46,592	41,514	60,547
Depreciation expense	68,262	76,083	80,921
TOTAL OPERATING EXPENSES	5,852,468	4,513,580	4,896,067
NET OPERATING INCOME OR (LOSS)	(761,754)	821,119	(815,354)
Nonoperating Revenues (Expenses):			
Gain/loss of sale of fixed assets	-	13,600	3,959
Governmental operating grant - revenue	34,203	55,309	402,668
Other grant revenue	73,431	57,439	216,918
Special project revenue	4,280,615	4,771,284	4,383,451
Special project expense	(4,280,615)	(4,771,284)	(4,383,451)
Other income	1,830	380	320
Interest income	57,780	26,741	11,403
Orchard lease income	17,561	19,167	17,174
Wapato property expense	(10,465)	(22,146)	(8,502)
TOTAL NONOPERATING REVENUES (EXPENSES)	174,340	150,490	643,940
NET INCOME (LOSS)	(587,414)	971,609	(171,414)
Net Position, July 1	6,404,479	5,709,731	5,881,145
Change in Accounting Principle	-	(276,861)	-
NET POSITION, June 30	5,817,065	6,404,479	5,709,731

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

Long-Term Debt

CAPITAL ASSETS

The Commission's investment in capital assets as of June 30, 2019 amounts to \$1,234,789 (net of accumulated depreciation.) This investment in capital assets includes land, land improvements, buildings, building improvements, and equipment. There was no increase in the Commission's investment in capital assets for FY19. FY18 showed a total increase of \$61,940 compared to 6,345 in FY17.

Capital asset events during FY18 included a new HVAC system, a lab containment hood, an orchard replant at the Wapato property and an agriculture shed located in Wenatchee. FY17 capital asset increase consisted of the purchase of network server.

Capital Assets at Year-end			
	<u>2019</u>	<u>2018</u>	<u>2017</u>
Land	464,960	464,960	464,960
Land Improvements	309,986	309,986	309,986
Buildings	486,489	486,489	486,489
Building Improvements	70,582	70,582	70,582
Furniture and equipment	590,379	590,379	631,700
Totals	1,922,396	1,922,396	1,963,717

Refer to financial notes for further information.

LONG-TERM DEBT

The Commission' currently has no long-term debt.

Current and Non-Current Liabilities

CURRENT LIABILITIES

The current liabilities for FY19 total \$1,677,718 and consists of funds payable to the WSU for Special Project assessment collections, payroll benefits, OPEB liability, accrued liabilities, and general operations of the Commission. Likewise, total current liabilities for FY18 and FY17 were \$1,806,467 and \$1,720,916 respectively.

NON-CURRENT LIABILITIES

Non-current liabilities for FY19 total \$601,738 consisting of OPEB, Pension Liability, and the Special Industry Fund. Likewise, total non-current liabilities for FY18 and FY17 were \$891,507 and \$801,149 respectively.

The Special Industry Fund Account consists of funds collected to fund industry service programs related to sanitation, planting, production, harvesting, handling, processing, and shipping. In FY19, a total of \$74,589 were used for the placement of additional apple maggot signage and the Roza sewage spill.

See notes to the financial statements for additional information.

Economic Factors and Next Year's Budgets and Rates

The Commission is primarily dependent upon apple and soft fruit assessments of tonnage for the funding of research programs and business operations: therefore, the Commission is affected by the crop production. Early projections of the 2019 crop (FY20) indicate comparable tonnage.

The internal budget for FY20 has been approved by the Commission.

WASHINGTON TREE FRUIT RESEARCH COMMISSION COMPARATIVE STATEMENT OF NET POSITION

As of June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Current Assets:		
Cash-unrestricted	2,271,290	2,760,338
Investments-unrestricted	3,351,084	3,331,193
Receivables	1,315,592	1,695,602
Prepaid expenses and other assets	8,573	17,433
TOTAL CURRENT ASSETS	6,946,539	7,804,566
Noncurrent Assets:		
Land	464,961	464,960
Buildings	486,489	486,489
Building improvements	70,582	70,582
Land improvements	309,986	309,986
Furniture and equipment	590,379	590,379
Accumulated depreciation	(687,608)	(619,345)
TOTAL NONCURRENT ASSETS	1,234,789	1,303,051
TOTAL ASSETS	8,181,328	9,107,617
Deferred Outflows of Resources:		
Pension Related	95,682	106,187
TOTAL DEFERRED OUTFLOW OF RESOURCES	95,682	106,187
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	8,277,010	9,213,804
Current Liabilities:		
Accounts payable	95,284	87,228
OPEB Liability	4,308	3,840
Accrued liabilities	1,578,126	1,715,399
TOTAL CURRENT LIABILITIES	1,677,718	1,806,467
Noncurrent Liabilities:		
OPEB liability	279,685	288,723
Pension liability	291,795	497,938
Special industry fund	30,258	104,846
TOTAL NONCURRENT LIABILITIES	601,738	891,507
TOTAL LIABILITIES	2,279,456	2,697,974
Deferred Inflows of Resources:		
Pension deferrals	180,489	111,351
TOTAL DEFERRED INFLOWS OF RESOURCES	180,489	111,351
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	2,459,945	2,809,325
NET POSITION		
Net investment in capital assets	1,234,789	1,303,051
Unrestricted	4,582,276	5,101,428
TOTAL NET POSITION	5,817,065	6,404,479
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, & NET POSITION	8,277,010	9,213,804

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

**WASHINGTON TREE FRUIT RESEARCH COMMISSION
COMPARATIVE STATEMENT OF REVENUE, EXPENSES
AND CHANGES IN NET POSITION
For Periods Ending June 30, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
Operating Revenue:		
Assessment revenue	4,245,078	4,484,004
Pear research revenue	845,636	850,695
TOTAL OPERATING REVENUE	5,090,714	5,334,698
Operating Expenses:		
External project expenses	4,258,737	2,896,257
Research operation expenses	243,482	278,980
Salaries & benefits	903,015	910,078
Administrative services	88,388	90,552
Professional & legal fees	39,869	86,213
Bad debts	2,307	-
Collection fees	6,774	8,500
IT services/software/design	24,431	5,640
Misc equipment purchases	3,639	7,415
Misc equipment maintenance & repairs	373	2,096
Insurance	8,311	20,106
Misc expenses	791	115
Rent	14,103	14,536
Telephone & internet	11,202	10,910
Travel & meetings	120,001	50,384
Utilities & building maintenance	12,191	14,201
Vehicle fuel & maintenance	46,592	41,514
Depreciation expense	68,262	76,083
TOTAL OPERATING EXPENSES	5,852,468	4,513,580
NET OPERATING INCOME OR (LOSS)	(761,754)	821,119
Nonoperating Revenues (Expenses):		
Gain/loss of sale of fixed assets	-	13,600
Governmental operating grant - revenue	34,203	55,309
Other grant revenue	73,431	57,439
Special project revenue	4,280,615	4,771,284
Special project expense	(4,280,615)	(4,771,284)
Other income	1,830	380
Interest income	57,780	26,741
Orchard lease income	17,561	19,167
Wapato property expense	(10,465)	(22,146)
TOTAL NONOPERATING REVENUES (EXPENSES)	174,340	150,490
NET INCOME (LOSS)	(587,414)	971,609
Net Position, July 1	6,404,479	5,709,731
Change in accounting principle	-	(276,861)
NET POSITION, June 30	5,817,065	6,404,479

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

Washington Tree Fruit Research Commission
Statement of Cash Flows
For the fiscal years ending June 30, 2019 and June 30, 2018

WASHINGTON TREE FRUIT RESEARCH COMMISSION

Comparative Statements of Cash Flows

Years Ending June 30, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	5,470,724	5,310,473
Cash paid for goods and services	(5,092,602)	(3,472,484)
Cash payments to employees for services	(1,021,618)	(922,280)
Net cash provided by operating activities	(643,496)	915,708
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Special project revenue	4,280,615	4,771,284
Special project expense	(4,280,615)	(4,771,284)
Other project grant income	107,633	112,748
Lease income	17,561	19,167
Other income	1,830	380
Property expenses	(10,465)	(22,146)
Other expenses	-	-
Net cash provided by non-capital financing activities	116,559	110,149
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Fixed assets (net)	-	(13,976)
Proceeds from sale of fixed assets	-	13,600
Interest paid on various contracts and debt issues	-	-
Net cash (used) for capital and related financing activities	-	(376)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest on investments	57,780	26,741
Proceeds from sale and maturities on investments securities	-	-
Purchases of investments	(19,891)	(760,888)
Net cash provided (used) for investing activities	37,889	(734,147)
Net (decrease) increase in cash and cash equivalents	(489,048)	291,334
Cash and cash equivalents at beginning of year	2,760,338	2,469,004
Cash and cash equivalents at end of year	2,271,290	2,760,338
Reconciliation of Operating Income(Loss) to Net Cash Provided by Operating Activities:		
Operating income (loss)	(761,754)	821,119
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	68,262	76,083
Increase (decrease) in OPEB liability	(8,569)	15,702
Increase (decrease) in net pension liability and deferred outflows/inflows	(126,501)	(44,090)
Change in assets and liabilities:		
Receivables, net	380,010	(24,226)
Prepays	8,861	(10,591)
Accounts and other payables	(220,272)	65,525
Accrued expenses	16,467	16,186
Net Cash provided by operating activities	(643,496)	915,708

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 Tree Fruit Research Commission, (the Commission), a Washington State Agency defined under RCW15.26, was created in order to promote and carry on research and administer specific industry service programs, including but not limited to sanitation programs, which will or may benefit the planting, production, harvesting, handling, processing or shipment of Washington tree fruit.

The Commission is governed by a board composed of nine voting members, as follows: three members to be appointed by the Washington State Fruit Commission; five members to be appointed by the Washington Apple Commission; and one member representing the winter pear industry to be appointed by the director of the Washington State Department of Agriculture. The director or his duly authorized representative shall be ex officio member with a vote, to represent all assessed commodities. A majority of the voting members constitute a quorum for the transaction of all business and carrying out the duties of the Commission.

An annual assessment is levied upon all commercial tree fruit produced in Washington State or held out as being produced in Washington State for use in fresh or processing. 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.

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 mainly consist of amounts due from the Washington Apple Commission and the Washington State Fruit Commission for assessments, research partners, and interest on investments.

4. Inventories

N/A

5. Capital Assets and Depreciation - See Note 3

6. Deferred outflows/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 recorded deferred outflows of resources for items related to various deferred pension costs. 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 recorded deferred inflows or resources for items related to deferred pension adjustments.

7. Pensions – See Note 6

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.

8. Other Postemployment Benefits (OPEB) – See Note 7

The Commission recognizes an OPEB liability for the actuarially determined future benefits related to health insurance that is made available to certain retirees.

In FY18, the Commission implemented GASB 75 *Accounting and Financial Reporting by Employers Postemployment Benefits Other Than Pensions* (OPEB). This change in accounting procedure resulted in an adjustment of \$276,861 to Net Assets

9. Accumulated Unpaid Employee Leave Benefits

The Commission tracks all accumulated unused vacation leave. In proprietary funds, the expenses are realized when paid. 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.

10. Accrued Liabilities – See Note 4 and 5

These accounts consist of the “*special project assessments*”, accrued wages, and employee benefits, and accrued expenses to be paid out at a future date and are detailed in the following table:

Accrued Liabilities		
	2019	2018
Special Project Assessments	\$ 1,485,468	\$ 1,639,208
Employee Wages and Benefits	\$ 100,806	\$ 80,031
Total	\$ 1,586,274	\$ 1,719,239

11. Long Term Debt

The Commission currently has no long-term debt.

12. Pension Liability – See Note 6

13. OPEB Liability – See Note 7

14. Special Industry Fund – See Note 8

E. Revenues and Expenses

Under the full accrual basis of accounting:

Revenues are recognized when earned, if measurable, and expenses are recognized when incurred, if measurable.

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 the Federal Depository Insurance Commission (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 FY19 were \$2,325,761, while the book balance was \$2,271,290; with a difference of \$54,471 due to outstanding checks. Respectively, the bank balance for FY18 was \$2,767,956, the book balance was \$2,760,338 with a difference of \$7,618 due to outstanding 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	2019		2018	
	Carrying Value	Market Value	Carrying Value	Market Value
Cert. of Deposit	\$2,823,509	\$2,823,509	\$2,815,773	\$2,815,773
State Investment Pool	\$527,575	\$527,575	\$515,419	\$515,419
Total	\$3,351,084	\$3,351,084	\$3,331,192	\$3,331,192

All investments are stated at cost plus interest, which approximates market.

NOTE 3 - CAPITAL ASSETS AND DEPRECIATION

a. General Policies

All capital assets in excess of \$5,000 are capitalized and depreciated. Maintenance, repairs, and minor renewals are accounted for as expenditures or expenses when incurred.

b. Proprietary Fund Capital Assets

Capital assets of proprietary funds are capitalized in their respective balance sheets and are recognized at historical cost as follows:

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

	<u>Years</u>		<u>Years</u>
Computers	4	Improvements	35
Vehicles	5	Buildings	50
Equipment	5		

A summary of changes in general fixed assets follows:

CAPITAL ASSETS AND DEPRECIATION

Business Type Activities	Balance 6/30/2017	Increases	Decreases	Balance 6/30/2018	Increases	Decreases	Balance 6/30/2019
Capital Assets, not being depreciated:							
Land	464,960	-	-	464,960	-	-	464,960
Land Improvements	309,986	-	-	309,986	-	-	309,986
Total Capital Assets, not being depreciated:	774,946	-	-	774,946	-	-	774,946
Capital Assets, being depreciated:							
Building	486,489	-	-	486,489	-	-	486,489
Building Improvements	70,582	-	-	70,582	-	-	70,582
Furniture and Equipment	631,700	13,976	55,297	590,379	-	-	590,379
Total Capital Assets, being depreciated:	1,188,771	13,976	55,297	1,147,450	-	-	1,147,450
Less accumulated depreciation for:							
Building	111,170	13,283	-	124,453	13,283	-	137,736
Building Improvements	12,111	2,017	-	14,128	2,017	-	16,144
Furniture and Equipment	475,278	60,784	55,297	480,765	52,963	-	533,727
Total accumulated depreciation	598,560	76,083	55,297	619,345	68,262	-	687,608
Total capital assets, being depreciated, net	590,212	(62,107)	-	528,105	(68,262)	-	459,843
Business Type Activities capital assets, net	1,365,158	(62,107)	-	1,303,051	(68,262)	-	1,234,789

NOTE 4 - DEFERRED COMPENSATION PLAN

The Commission offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. This plan is with the Washington State Retirement System, Deferred Compensation. The plan, available to eligible employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

NOTE 5 - SPECIAL PROJECT ASSESSMENT

The Washington tree fruit industry approved by referendum a “special project assessment” to expand research and outreach capacity at the Washington State University (WSU) centers in Prosser and Wenatchee. An Endowment Advisory Committee (EAC), appointed by tree fruit industry organizations will oversee all industry-endowed programs and have direct and regular

input to the dean of the WSU college of Agricultural, Human, and Natural Resource Sciences. The Commission will appoint one of seven members to the EAC committee. Additionally, the manager of the Commission will serve as ex-officio, non-voting member to provide technical support and advice as needed.

Starting with the **2012 crop year**, an additional **\$1.00 per ton** research assessment was levied on all Washington **apples and pears** for the “special project assessment”.

Starting with the **2013 crop year**, an additional **\$1.00 per ton** research assessment was levied on all Washington stone fruits (**apricots, peaches, nectarines, prunes, and plums**) and a **\$4.00 per ton** research assessment was levied on all Washington **cherries** for the “special project assessment.”

This special project assessment goal is to raise \$32 million over a time period not to exceed 8 years.

NOTE 6 - PENSION PLANS

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 2019 and 2018:

Aggregate Pension Amounts – All Plans		
	2019	2018
Pension liabilities	\$ 291,795	\$ 497,938
Deferred outflows of resources	\$ 95,683	\$ 106,187
Deferred inflows of resources	\$ 180,490	\$ 111,351
Pension (benefit)/expense	\$ (44,508)	\$ 28,630

State Sponsored Pension Plans

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

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

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

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

Public 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 FY19 and FY18 were as follows:

PERS PLAN 1			
Actual Contribution Rates:	Employer		Employee
	FY19	FY 18	FY19 & FY18
PERS Plan 1	7.52%	7.49%	6.00%
PERS Plan 1 UAAL	5.13%	5.03%	
Administrative Fee	0.18%	0.18%	
Total	12.83%	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 FY19 and FY18 were as follows:

PERS2/3					
Actual Contribution Rates:	Employer PERS 2/3		Employee PERS 2		Employee PERS 3
	FY19	FY 18	FY19	FY18	FY19 & FY18
PERS Plan	7.52%	7.49%	7.41%	7.38%	Varies
PERS Plan 1 UAAL	5.13%	5.03%			
Administrative Fee	0.18%	0.18%			
Total	12.83%	12.70%	7.41%	7.38%	

The Commission's actual PERS plan contributions were \$33,183 to PERS Plan 1 and \$48,810 to PERS Plan 2/3 for the year ending June 30, 2019 and \$29,293 to PERS Plan 1 and \$43,426 to PERS Plan 2/3 for the year ending June 30, 2018.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2018 with a valuation date of June 30, 2017. 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 *2017 Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2017 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2018. Plan liabilities were rolled forward from June 30, 2017, to June 30, 2018, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 2.75% total economic inflation; 3.50% salary inflation
- **Salary increases:** In addition to the base 3.50% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.4%

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.

- Lowered the assumed valuation interest rate from 7.70% to 7.50%.
- Lowered the assumed general salary growth from 3.75% to 3.50%.
- Lowered the assumed inflation rate from 3.00% to 2.75%.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.4 percent.

To determine that rate, an asset sufficiency test included an assumed 7.5 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate of return, a 7.4 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 7.4 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 7.4 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, 2019 and June 30, 2018, 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
Fixed Income	20%	1.70%
Tangible Assets	7%	4.90%
Real Estate	18%	5.80%
Global Equity	32%	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 7.4 % (7.5% in FY18), 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, 6.4 % (6.5 % in FY18), or 1-percentage point higher, 8.4 % (8.5% in FY18), than the current rate.

FY19	1% Decrease (6.4%)	Current Discount Rate (7.4%)	1% Increase (8.4%)
PERS 1	\$ 240,505	\$ 195,702	\$ 156,893
PERS 2/3	\$ 439,532	\$ 96,093	\$ (185,489)

FY18	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	\$ 312,373	\$ 256,424	\$ 207,960
PERS 2/3	\$ 650,664	\$ 241,514	\$ (93,724)

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, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.

The *Commission* reported a total pension liability of \$291,795 and 497,938 at June 30, 2019, and June 30, 2018, respectively, for its proportionate share of the net pension liabilities as follows:

	2019	2018
PERS 1 Liability	\$ 195,702	\$ 256,424
PERS 2/3 Liability	\$ 96,093	\$ 241,514
Total Liability	\$ 291,795	\$ 497,938

At June 30, 2019 and June 30, 2018, the *Commission's* proportionate share, and the change in that share from the previous year, of the collective net pension liability was as follows:

	Proportionate Share 6/30/19	Proportionate Share 6/30/18	Change in Proportion
PERS 1	0.004382%	0.005404%	(0.001022)%
PERS 2/3	0.005628%	0.006951%	(0.001323)%

	Proportionate Share 6/30/18	Proportionate Share 6/30/17	Change in Proportion
PERS 1	0.005404%	0.005889%	(0.000485)%
PERS 2/3	0.006951%	0.007548%	(0.000597)%

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

The collective net pension liability was measured as of June 30, 2018, and the actuarial valuation date on which the total pension liability is based was as of June 30, 2017, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ending June 30, the *Commission* recognized pension expense as follows:

Pension Expense/(Benefit)		
	2019	2018
PERS 1	\$ (33,222)	\$ (8,420)
PERS 2/3	\$ (11,286)	\$ 37,049
TOTAL	\$ (44,508)	\$ 28,630

Deferred Outflows of Resources and Deferred Inflows of Resources

At June 30, 2019, the *Commission* reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources		Deferred Inflows of Resources	
	PERS 1	PERS 2/3	PERS 1	PERS 2/3
Differences between expected and actual experience	\$ -	\$ 11,778	\$ -	\$ 16,824
Net difference between projected and actual investment earnings on pension plan investments	\$ -	\$ -	\$ 7,777	\$ 58,967
Changes of assumptions	\$ -	\$ 1,124	\$ -	\$ 27,347
Changes in proportion and differences between contributions and proportionate share of contributions	\$ -	\$ 787	\$ -	\$ 69,574
Contributions subsequent to the measurement date	\$ 33,183	\$ 48,810	\$ -	\$ -
TOTAL	\$ 33,183	\$ 62,500	\$ 7,777	\$ 172,713

Deferred outflows of resources related to pensions resulting from the *Commission's* contributions subsequent to the measurement date and recorded at June 30, 2019, will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported at June 30, 2019 as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	PERS 1	PERS 2/3
2020	\$ 340	\$ (23,114)
2021	\$ (1,700)	\$ (31,259)
2022	\$ (5,102)	\$ (47,013)
2023	\$ (1,316)	\$ (24,285)
2024	\$ -	\$ (15,867)
Thereafter	\$ -	\$ (17,486)
TOTAL	\$ (7,777)	\$ (159,023)

At June 30, 2018, the *Commission* reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Washington Tree Fruit Research Commission
Required Supplementary Information
For the fiscal years ending June 30, 2019– June 30, 2018

	Deferred Outflows of Resources		Deferred Inflows of Resources	
	PERS 1	PERS 2/3	PERS 1	PERS 2/3
Differences between expected and actual experience	\$ -	\$ 24,471	\$ -	\$ 7,943
Net difference between projected and actual investment earnings on pension plan investments	\$ -	\$ -	\$ 9,569	\$ 64,382
Changes of assumptions	\$ -	\$ 2,565	\$ -	\$ -
Changes in proportion and differences between contributions and proportionate share of contributions	\$ -	\$ 6,432	\$ -	\$ 29,457
Contributions subsequent to the measurement date	\$ 29,293	\$ 43,426	\$ -	\$ -
TOTAL	\$ 29,293	\$ 76,894	\$ 9,569	\$ 101,782

Deferred outflows of resources related to pensions resulting from the *Commission's* contributions subsequent to the measurement date and reported at June 30, 2018 will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported at June 30, 2018 as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	PERS 1	PERS 2/3
2019	\$ (6,468)	\$ (26,898)
2020	\$ 2,042	\$ 749
2021	\$ (474)	\$ (9,765)
2022	\$ (4,669)	\$ (29,382)
2023	\$ -	\$ (1,312)
Thereafter	\$ -	\$ (1,706)
TOTAL	\$ (9,569)	\$ (68,314)

NOTE 7– DEFINED BENEFIT OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLANS

The following table represents the aggregate OPEB amounts for all plans subject to the requirements of GASB 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, for the years ended June 30, 2019 and June 30, 2018:

Aggregate OPEB Amounts	2019	2018
OPEB liabilities	\$ 283,994	\$ 292,563
OPEB assets	\$ -	\$ -
OPEB deferred outflows of resources	\$ -	\$ -
OPEB expense	\$ (3,821)	\$ 19,052

The Commission, through the Washington State Health Care Authority (HCA), administers a single-employer defined benefit other postemployment benefit (OPEB) plan.

Plan Description. Per Revised Code of Washington (RCW) 41.05.065, the Public Employees' Benefits Board (PEBB), created within the HCA, is authorized to design benefits and determine the terms and conditions of employee and retired employee participation and coverage. PEBB establishes eligibility criteria for both active employees and retirees. Benefits purchased by PEBB include medical, dental, life, and long-term disability.

The relationship between the PEBB OPEB plan and its member employers, their employees, and retirees is not formalized in a contract or plan document. Rather, the benefits are provided in accordance with a substantive plan in effect at the time of each valuation. 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 regards to the sharing of benefit costs. The understanding by the employer and plan members is that there is no contractual obligation to continue the substantive plan as an employee benefit on an ongoing basis. Nevertheless, the actuarial assumption used in valuations presented in this footnote assume that this substantive plan will be carried forward into the future.

The PEBB OPEB plan is funded on a pay-as-you-go basis and is reported using the economic resources measurement focus and the accrual basis of accounting. The PEBB OPEB plan has no assets and does not issue a publicly available financial report.

The PEBB retiree OPEB plan is available to employees who elect at the time they retire to continue coverage and pay the administratively established premiums under the provisions of the retirement system to which they belong. Retirees' access to the PEBB plan depends on the retirement eligibility of their respective retirement system and the participation of the Commission in the PEBB provided health insurance plan. The OPEB liability arises from health insurance cost subsidies, both explicit and implicit, provided by the Commission to qualified retirees.

At June 30, 2019 and 2018 the following employees were covered by the benefit terms:

Employees Covered by Benefit Terms	2019	2018
Inactive employees or beneficiaries currently receiving benefits	1	1
Inactive employees entitled to but not yet receiving benefits	0	0
Active employees	12	11
Total	13	12

The plan is funded on a pay-as-you-go basis and there are no assets accumulated in a qualifying trust. During the year ended June 30, 2019 and June 30, 2018 actuarially determined OPEB benefits were \$4,748 and \$3,350, respectively.

Assumptions and Other Inputs

The Commission uses the alternative measurement method (AMM) in determining its total OPEM liability. The AAM is accomplished by utilizing the AMM Online Tool provided by the Washington State Office of the State Actuary (OSA).

The total OPEB liability was determined using the following methodologies: for the year ended June 30, 2019 the actuarial valuation date was June 30, 2019 and the measurement date was June 30, 2019, and for the year ended June 30, 2018 the actuarial valuation date was June 30, 2018 and the measurement date was June 30, 2018. The actuarial cost method was Early Age. The amortization method used immediate recognition.

Projections of benefits for financial reporting purposes are based on the terms of 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 and the historical pattern of sharing of benefit costs between the employer and plan members (active employees and retirees) to that point. 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.

The total OPEB liability was determined using the following actuarial assumptions, applied to all period included in the measurement, unless otherwise specified. For the year ended June 30, 2019 inflation rate was 2.75% and the projected salary change was 3.5% plus service-based salary increases. For the year ended June 30, 2018 inflation rate was 3.00% and the projected salary change was 3.75% plus service-based salary increases. For both years presented health care trend rates assumptions vary slightly by medical plan. The initial rate is approximately 7.00%, reaching an ultimate rate of approximately 5.00% in 2020. The post-retirement participation rate is 65.00% and the percentage with spouse coverage is 45.00%

In projecting the growth of the explicit subsidy, a statutory cap on the explicit subsidy is assumed to remain constant until 2019, at which time the explicit subsidy cap is assumed to grow at the health care trend rates. The Washington State Legislature determines the value of the cap and no future increases are guaranteed, however, based on historical growth patterns, future increases to the cap are assumed.

Mortality rates were based on the RP-2000 Combined Healthy Table and Combined Disabled Table published by the Society of Actuaries. The Office of the State Actuary 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 members are assumed to receive additional mortality improvements in each future year throughout their lifetime.

For the year ended June 30, 2019 the discount rate used to measure the total OPEB liability was 3.87 percent at the beginning of the measurement year and 3.50 percent at the end of the measurement year. For the year ended June 30, 2018 the discount rate used to measure the total

OPEB liability was 3.58 percent at the beginning of the measurement year and 3.87 percent at the end of the measurement year.

For the year ended June 30, 2019 specific assumptions made by the Office of the State Actuary to develop the AMM Online Tool that vary from those described above are: 2/3 of members select a UMP plan and 1/3 select a Kaiser Permanente (KP) plan, UMP pre- and post-Medicare costs and premiums are equal to the Uniform Medical Plan, the KP pre-Medicare costs and premiums are a 50/50 blend of KP Classic and KP Value, the KP post-Medicare costs and premiums are equal to KP Medicare. The estimated retirement service for each active cohort is based on the average entry age of 35. Assumption for retirement, disability, termination, and mortality are based on the 2018 PEBB OPEB Actuarial Valuation Report with the assumptions that all employees are retirement eligible at age 55, retirement rate is that for members with < 30 years of service, and 100% retirement rate after the age of 70. Each cohort is assumed to be a 50/50 male/female split and eligible spouses are the same age as the primary member. The age-based cohorts were based on the overall distribution of Washington State employees and retirees that participate in PEBB. For the year ended June 30, 2018 the specific assumptions listed above were applied, however, the KP plans referred to were implemented by Group Health rather than KP.

The following presents the total OPEB liability calculated using the current healthcare cost trend rate (HCTR) of 7.0% (applicable for both years presented), as well as what the OPEB liability would be if it were calculated using a discount rate that is 1.0 percentage point lower (6.0%) or 1.0 percentage point (8.0%) higher than the current rate.

	1% Decrease	Current HCTR	1.0% Increase
2019 OPEB liability	\$ 232,367	\$ 283,994	\$ 353,198
2018 OPEB liability	\$ 240,097	\$ 292,563	\$ 361,441

The following presents the total OPEB liability calculated using the current discount rate (DR), as well as what the OPEB liability would be if it were calculated using a discount rate that is 1.0 percentage point lower or 1.0 percentage point higher than the current rate. The applicable DR is 3.50% and 3.87% for the years ended June 30, 2019 and June 30, 2018, respectively.

	1% Decrease	Current DR	1.0% Increase
2019 OPEB liability	\$ 341,660	\$ 283,994	\$ 238,950
2018 OPEB liability	\$ 352,675	\$ 292,563	\$ 245,328

Changes in the Total OPEB liability

For the years ended June 30, 2019, and June 30, 2018 changes in the total OPEB liability are as follows:

	2019	2018
Total OPEB Liability at July 1	\$ 292,563	\$ 276,861
Service Cost	22,749	25,087
Interest	12,112	10,750
Changes of benefit terms	-	-
Changes in experience data and assumptions	(38,682)	(16,785)
Benefit payments	(4,748)	(3,350)
Other Charges	-	-
Total OPEB Liability at June 30	\$283,994	292,563

There were no significant changes of assumptions or other inputs that affect measurement of the total OPEB liability since the prior measurement date. There were no significant changes to benefit terms that affected measurement of the total OPEB liability since the prior measurement date. There were no benefit payments in the measurement period attributable to the purchase of allocated insurance contracts. The OPEB measurement date corresponds with the financial statement reporting date. Accordingly, there are no factors to disclose which may affect the OPEB liability between the two dates. The total OPEB (benefit)/expense recognized for the years ended June 30, 2019 and June 30, 2018, was \$(3,821) and \$19,052, respectively.

NOTE 8– SPECIAL INDUSTRY FUND ACCOUNT

The Special Industry Fund Account consists of funds collected to fund industry service programs related to sanitation, planting, production, harvesting, handling, processing, and shipping. The assessment shall be set annually by the Commission, upon approval of two-thirds of the voting members of the Commission, to create and maintain this fund at or near one hundred thousand dollars. The referendum was approved by 83% of those voting. No assessment was levied on the 2019 and 2018 crops.

NOTE 9 - CONTINGENCIES AND LITIGATION

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

NOTE 10 – ORCHARD LEASE

The Commission operates a lease consisting of orchard properties and referred to as the Wapato Property. The Lessee, Wilcox Orchards LLC, is entitled to operate the leased premises subject to terms stated in the contract. The rental for the leased premises shall be ten percent (10%) of the total crop proceeds realized from the crops grown on the property and the term of the lease will expire 25 years from date of signing (April 12, 2044).

NOTE 11 – RISKS

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

The Commission maintains applicable insurance coverages through a self-procured insured policy obtained through Conover Insurance Services, LLC, the Washington State Liability Self Insurance Liability Program, and the State of Washington Alliant Mobile Vehicle Program.

The self-procured policy through Conover Insurance provides commercial property and general liability coverage up to \$2 million aggregate for general liability with a \$1 million per occurrence general liability. The Conover policy also includes a \$3 million umbrella that extends over the general liability and equipment liability.

The Washington State Self-Insurance Liability program provides coverage up to \$10 million for general and auto liability and related defense costs.

The State of Washington Alliant Mobile Vehicle Program provides an all risk equipment floater including earthquake and flood for equipment.

The Commission did not have any settlements that exceeded its coverage during each of the past years ending 2019 and 2018.

NOTE 12 – RELATED PARTIES

The Washington State Apple Commission (WAC), a separate entity established by the Washington State legislature as defined under RCW 15.24, exists primarily for the benefit of the people of the state of Washington and its economy. The WAC is charged with oversight by the director, to speak on behalf of the Washington state government with regards to apples and apple-related issues. The WAC appoints five of the nine members of the Commission.

The Washington State Fruit Commission (WSFC), a separate entity defined under RCW 15.28, was created in order to develop and promote Washington’s soft tree fruits as part of an existing comprehensive regulatory scheme. The WSFC appoints three of the nine members of the Commission.

Per RCW 15.26.250, both the WAC and WSFC are mandated to collect assessments due to Commission at the same time as collections are made to the WAC and WSFC. These funds are then passed on to the Commission expeditiously. The total regular and special assessments billed by both the WAC and WSFC were \$8,525,693 and \$9,255,287 in FY19 and FY18 respectively. The total fees paid to WAC for collections of apple assessments were \$6,774 and \$8,500 in FY19 and FY18 respectively.

The Washington tree fruit industry approved by referendum a “special project assessment” to expand research and outreach capacity at the Washington State University (WSU) centers in Prosser and Wenatchee. An Endowment Advisory Committee (EAC), appointed by tree fruit industry organizations will oversee all industry-endowed programs and have direct and regular input to the dean of the WSU college of Agricultural, Human, and Natural Resource Sciences. The Commission will appoint one of seven members to the EAC committee. Additionally, the manager of the Commission will serve as ex-officio, non-voting member to provide technical support and advice as needed.

- Starting with the **2012 crop year**, an additional **\$1.00 per ton** research assessment was levied on all Washington **apples and pears** for the “special project assessment”.
- Starting with the **2013 crop year**, an additional **\$1.00 per ton** research assessment was levied on all Washington stone fruits (**apricots, peaches, nectarines, prunes**,

and plums) and a \$4.00 per ton research assessment was levied on all Washington cherries for the “special project assessment.”

This special project assessment goal is to raise \$32 million over a time period not to exceed 8 years.

NOTE 13 – CHANGE IN ACCOUNTING PRINCIPLE

Beginning with the fiscal year ended June 30, 2017 the Commission implemented GASB 75 *Accounting and Financial Reporting by Employers Postemployment Benefits Other than Pensions (OPEB)*. Prior to the change, the Commission did not recognize and OPEB related liability.

The changes required under GASB 75 will yield more accurate accounting for OPEB elements including OPEB liability and OPEB expense. GASB 75 requires the determination of an Actuarially Determined Contribution (ADC). The ADC is calculated by an actuary, is required to be reasonable, take into account benefits earned during the present fiscal year, and employ reasonable amortization period for recognition of plan changes, assumption changes, and gains and losses associated with demographic and investment experience. In addition, GASB 75 requires certain post-measurement OPEB payments to be recorded as deferred outflows of resources associated with OPEB rather than expensed when paid. GASB 75 also requires significant changes to disclosures regarding OPEB plans.

In making the change in accounting principle, the Commission recorded a decrease in beginning net position for the year ended June 30, 2018 of \$276,861. An OPEB liability of \$276,861 was recorded at the start of the same fiscal year.

NOTE 14 – OTHER DISCLOSURES

The Fresh Pear and the Process Pear Committees (Committees); administered under the Department of Agriculture Marketing Service, 7 CFR Part 927, annually contracts with the Commission to manage the pear research projects as established and approved by the Committees. This includes research activity performed by staff (internal) and by researchers outside (external) of the Commission.

Prior to FY19, all external pear research was recorded as a receivable from the Committees. At the close of FY19, this process was changed for both FY19 and FY18 by reporting all pear research activity (internal and external) as an income and expense to the Commissions statements. This change in reporting will provide clarity to the overall pear research performed and managed by the Commission.

**Schedule of Proportionate Share of the Net Pension Liability as of a Measurement Date of
June 30**

	<u>PERS 1</u>				
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Employer's proportion of the net pension liability	0.004382%	0.005404%	0.005889%	0.006110%	0.005969%
Employer's proportionate share of the net pension liability	\$ 195,702	\$ 256,424	\$ 316,267	\$ 319,610	\$ 300,692
Employer's covered employee payroll - July 1 to June 30	\$ 583,512	\$ 710,508	\$ 703,567	\$ 696,631	\$ 634,291
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	33.54%	36.09%	44.95%	45.88%	47.41%
Plan fiduciary net position as a percentage of the total pension liability	63.22%	61.24%	57.03%	59.10%	61.19%

	<u>PERS 2/3</u>				
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Employer's proportion of the net pension liability	0.005628%	0.006951%	0.007548%	0.007893%	0.007685%
Employer's proportionate share of the net pension liability	\$ 96,093	\$ 241,514	\$ 380,036	\$ 282,021	\$ 155,342
Employer's covered employee payroll - July 1 to June 30	\$ 583,512	\$ 710,508	\$ 703,567	\$ 696,631	\$ 634,291
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	16.47%	33.99%	54.02%	40.48%	24.49%
Plan fiduciary net position as a percentage of the total pension liability	95.77%	90.97%	85.82%	89.20%	93.29%

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Employer Contributions as of June 30

	<u>PERS 1</u>				
	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily or contractually required contributions	\$ 33,183	\$ 29,293	\$ 33,891	\$ 33,179	\$ 26,924
Contributions in relation to the statutorily or contractually required contributions	<u>(33,183)</u>	<u>(29,293)</u>	<u>(33,891)</u>	<u>(33,179)</u>	<u>(26,924)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employer payroll	\$ 649,647	\$ 583,512	\$ 710,508	\$ 703,567	\$ 696,631
Contributions as a percentage of covered employee payroll	5.11%	5.02%	4.77%	4.72%	3.86%

	<u>PERS 2/3</u>				
	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily or contractually required contributions	\$ 48,810	\$ 43,426	\$ 44,264	\$ 43,238	\$ 35,952
Contributions in relation to the statutorily or contractually required contributions	<u>(48,810)</u>	<u>(43,426)</u>	<u>(44,264)</u>	<u>(43,238)</u>	<u>(35,952)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employer payroll	\$ 649,647	\$ 583,512	\$ 710,508	\$ 703,567	\$ 696,631
Contributions as a percentage of covered employee payroll	7.51%	7.44%	6.23%	6.15%	5.16%

Notes to Required Supplementary Information (RSI) Related to Pensions

There were no significant changes in benefit terms, changes in size or composition of the population covered by the benefit terms, assumptions, or other factors that significantly affected trends in the pension related amounts reported in RSI.

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Changes in OPEB Liability And Related Ratios for Year Ended June 30

	<u>2019</u>	<u>2018</u>
Service cost	\$ 22,749	\$ 25,087
Interest	12,112	10,750
Changes in benefit terms	-	-
Changes in experience data and assumptions	(38,682)	(16,785)
Benefit payments	(4,748)	(3,350)
Net change in total OPEB liability	\$ (8,569)	\$ 15,702
Total OPEB liability - beginning	292,563	276,861
Total OPEB liability - ending	<u>\$ 283,994</u>	<u>\$ 292,563</u>
Covered payroll	\$ 649,647	\$ 583,512
Total OPEB liability as a percentage of covered payroll	43.72%	50.14%

Notes to Required Supplementary Information (RSI) Related to OPEB

Other than the changes in the population covered by benefit terms shown in the accompanying notes to the financial statements, there were no significant changes in benefit terms, assumptions, or other factors that significantly affected trends in the OPEB related amounts reported in RSI.

No assets are accumulated in a trust that meets the criteria on paragraph 4 of GASB Pronouncement 75 to pay OPEB related benefits

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.

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