

Washington State Auditor's Office
Financial Statements Audit Report

**Washington Tree Fruit Research
Commission**

Audit Period
July 1, 2009 through June 30, 2012

Report No. 1009189

Issue Date
February 25, 2013



WASHINGTON
TROY KELLEY
STATE AUDITOR



**Washington State Auditor
Troy Kelley**

February 25, 2013

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,

**TROY KELLEY
STATE AUDITOR**

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**State of Washington
Washington Tree Fruit Research Commission
July 1, 2009 through June 30, 2012**

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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters in Accordance with *Government Auditing Standards*

**State of Washington
Washington Tree Fruit Research Commission
July 1, 2009 through June 30, 2012**

Washington Tree Fruit Research Commission
Wenatchee, Washington

We have audited the basic financial statements of the Washington Tree Fruit Research Commission, Chelan County, Washington, as of and for the years ended June 30, 2012, 2011 and 2010, and have issued our report thereon dated February 14, 2013.

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.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audits, we considered the Commission's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of 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*.

This report is intended for the information and use of management. 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 cursive script that reads "Troy X. Kelley". The signature is written in black ink and is positioned above the printed name and title.

TROY KELLEY
STATE AUDITOR

February 14, 2013

Independent Auditor's Report on Financial Statements

State of Washington Washington Tree Fruit Research Commission July 1, 2009 through June 30, 2012

Washington Tree Fruit Research Commission
Wenatchee, Washington

We have audited the accompanying basic financial statements of the Washington Tree Fruit Research Commission, Chelan County, Washington, as of and for the years ended June 30, 2012, 2011 and 2010, as listed on page 5. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Washington Tree Fruit Research Commission, as of June 30, 2012, 2011 and 2010, and the changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6 through 11 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 the 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.

A handwritten signature in cursive script that reads "Troy X. Kelley". The signature is written in black ink and is positioned above the printed name and title.

TROY KELLEY
STATE AUDITOR

February 14, 2013

Financial Section

**State of Washington
Washington Tree Fruit Research Commission
July 1, 2009 through June 30, 2012**

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2012, 2011 and 2010

BASIC FINANCIAL STATEMENTS

Comparative Statement of Net Assets – 2012, 2011 and 2010

Comparative Statement of Revenues, Expenses, and Changes in Net Assets – 2012,
2011, and 2010

Comparative Statements of Cash Flows – 2012, 2011, 2010

Notes to the Financial Statements – 2012, 2011, 2010

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, 2009 through June 30, 2012. 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 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

- Total FY 2012 spending for the Commission of approximately \$4,414,203, consists mainly of external research operations at \$2,235,415 and salary and benefit expenses at \$1,104,477. Compared to FY 2011 overall spending of \$4,305,325 which \$2,564,601 is for external research operations and \$1,028,870 for salaries and benefits; FY 2010 overall spending of \$3,708,794 which \$2,170,306 is for external research operations and \$914,710 toward salaries and benefits; and FY 2009 overall spending of \$3,631,401 which \$2,216,020 is for external research operations and \$834,447 toward salaries and benefits.
- Total FY 2012 Revenues for the Commission consist of \$4,186,704 of which assessment revenues generated \$3,564,464, with grant income, lease income, investments, and other income covering the balance. Total revenues for FY 2011 were \$3,693,532 with assessment revenues of \$3,346,813; total revenues for FY 2010 were \$4,101,420 with assessment revenues of \$3,652,933; total revenues for FY 2009 were \$3,391,441 with assessment revenues of \$2,929,883. The grant income, lease income, investments, and other income make up the balance of revenues for each year.
- Total spending for capital purchases was \$137,361 for the FY 2012; \$116,780 for FY 2011; \$106,639 for FY 2010; and \$103,910 for FY 2009.
- The assets of the Commission exceeded its liabilities at the close FY 2012 by \$4,215,672 (net assets) and by \$4,443,172; \$5,054,964; \$4,662,338 at the close of FY 2011, 2010, and 2009 respectively.
- The Commission's total FY 2012 net assets of \$4,215,672 decreased the FY 2011 net assets of \$4,443,172 by \$227,499; the FY 2011 net assets of \$4,443,171 decreased the FY 2010 net assets by \$611,793; the FY 2010 net assets of \$5,054,964 increased the FY 2009 net assets by \$392,626.

- The Commission continues to operate without the need for operating debt borrowings during the current fiscal year.

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 assets. 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 assets presents information on the Commission's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Commission is improving or deteriorating. The statement of net assets can be found on page 9 of this report.

The statement of revenues and expenses combined with the statement of changes in net assets presents information showing how the Commission's net assets changed during the most recent fiscal year. All changes in net assets 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 assets can be found on page 10 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 12 through 22 of this report.

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

Financial Analysis

The Commission's net assets of \$4,215,672 at June 30, 2012 reflect a decrease over the previous year by \$227,499. Of the total net assets, \$3,266,746 was unrestricted. The largest portion of the Commission's net assets (\$4,215,672) reflects its cash, investments, and fixed assets. For FY 2011, 2010, and 2009, net assets increased/(decreased) by (\$611,793), \$392,626, and (\$239,960) respectively.

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

The overall financial position remains near same levels as FY 2011.

Washington Tree Fruit Research Commission, Net Assets

	<u>June 30, 2012</u>	<u>June 30, 2011</u>	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Current and other assets	\$ 3,718,694	\$ 3,795,097	\$ 4,380,221	\$ 3,990,512
Capital assets, net	<u>948,926</u>	<u>876,613</u>	<u>897,047</u>	<u>869,097</u>
Total Assets	<u>\$ 4,667,621</u>	<u>\$ 4,671,710</u>	<u>\$ 5,277,268</u>	<u>\$ 4,859,609</u>
Current and other liabilities	\$ 347,103	\$ 123,693	\$ 117,458	\$ 92,425
Special Industry Funds	<u>104,846</u>	<u>104,846</u>	<u>104,846</u>	<u>104,846</u>
Total Liabilities	<u>\$ 451,949</u>	<u>\$ 228,539</u>	<u>\$ 222,304</u>	<u>\$ 197,271</u>
Invested in Capital Assets, Net of Related Debt	\$ 948,926	\$ 876,613	\$ 897,047	\$ 869,097
Unrestricted	<u>\$ 3,266,746</u>	<u>\$ 3,566,558</u>	<u>\$ 4,157,916</u>	<u>\$ 3,793,241</u>
Total Net Assets	<u>\$ 4,215,672</u>	<u>\$ 4,443,171</u>	<u>\$ 5,054,964</u>	<u>\$ 4,662,338</u>
Total Liabilities and Net Assets	<u>\$ 4,667,621</u>	<u>\$ 4,671,710</u>	<u>\$ 5,277,268</u>	<u>\$ 4,859,609</u>

**WASHINGTON TREE FRUIT RESEARCH COMMISSION
COMPARATIVE STATEMENT OF REVENUE, EXPENSES
AND CHANGES IN NET ASSETS
JUNE 30, 2012, 2011, 2010, and 2009**

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Operating Income:				
Assessment Revenue	\$ 3,564,464	\$ 3,346,813	\$ 3,652,933	\$ 2,929,883
Other Revenue	-	-	-	-
TOTAL OPERATING INCOME	<u>\$ 3,564,464</u>	<u>\$ 3,346,813</u>	<u>\$ 3,652,933</u>	<u>\$ 2,929,883</u>
Operating Expenses:				
External Project Expenses	\$ 2,235,415	\$ 2,564,601	\$ 2,170,306	\$ 2,216,020
Research Operation Expenses	667,375	267,790	251,015	244,227
Employee Salaries	801,597	775,913	716,792	660,051
Employee Benefits	302,880	252,957	197,918	174,396
Administrative Services	79,183	69,213	61,195	57,783
Auditing/Accounting/Legal Fees	21,269	8,431	12,335	6,149
Bad Debt	322	2,188	-	1,656
Collection Fees	11,823	10,226	12,010	10,452
Computer Tech/Software	7,103	16,897	14,876	9,895
Misc Equipment Purchases	3,233	14,317	8,019	11,576
Misc Equip Maintenance & Repairs	345	167	2,369	205
Insurance Premiums	16,641	17,060	18,541	18,628
Misc Expenses	1,446	1,659	1,119	2,410
Telephone & Internet	14,466	14,197	13,318	13,155
Travel & Meetings	69,466	107,127	66,799	57,379
Utilities	21,643	15,933	14,717	13,788
Vehicle Fuel & Maintenance	91,903	73,151	59,506	56,736
Depreciation Expense	65,048	68,234	78,689	66,010
TOTAL OPERATING EXPENSES	<u>\$ 4,411,157</u>	<u>\$ 4,280,059</u>	<u>\$ 3,699,523</u>	<u>\$ 3,620,517</u>
NET OPERATING INCOME OR (LOSS)	<u>\$ (846,694)</u>	<u>\$ (933,246)</u>	<u>\$ (46,590)</u>	<u>\$ (690,634)</u>
Nonoperating Revenues (Expenses):				
Gain/Loss of Sale of Fixed Assets	\$ 2,823	\$ -	\$ 675	\$ -
Governmental Operating Grants	-	-	-	-
Other Grants	594,343	306,913	405,894	353,963
Other Income	-	-	-	1,556
Interest Income	9,326	17,569	25,005	93,117
Interest Expense	-	-	-	-
Orchard Lease Income	15,749	22,237	16,913	12,921
Wapato Property Expense	(3,046)	(25,266)	(9,271)	(10,884)
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>\$ 619,194</u>	<u>\$ 321,453</u>	<u>\$ 439,216</u>	<u>\$ 450,673</u>
NET INCOME (LOSS)	<u>\$ (227,499)</u>	<u>\$ (611,793)</u>	<u>\$ 392,626</u>	<u>\$ (239,960)</u>
Net Assets-July 1	\$ 4,443,171	\$ 5,054,964	\$ 4,662,338	\$ 4,902,298
NET ASSETS, June 30	<u>\$ 4,215,672</u>	<u>\$ 4,443,171</u>	<u>\$ 5,054,964</u>	<u>\$ 4,662,338</u>

Capital Assets and Long-Term Debt

CAPITAL ASSETS

The Commission's investment in capital assets as of June 30, 2012 amounts to \$948,926 (net of accumulated depreciation.) This investment in capital assets includes land, land improvements, buildings, building improvements and equipment. The total increase in the Commission's investment in capital assets for FY 2012 was \$137,361 compared to \$116,780 in FY 2011, \$106,639 in FY 2010 and \$103,910 in FY 2009.

Major capital asset events during the current fiscal year included the following:

Vehicle Purchase -	2011 Chevrolet Silverado
Equipment Purchases -	New phone system
Building Improvements -	Lab Remodel
Land Improvements -	Replant of Wapato property

Capital Assets at Year End

	June 30, 2012	June 30, 2011	June 30, 2010	June 30, 2009
Land	\$ 464,960	\$ 464,960	\$ 464,960	\$ 464,960
Buildings	226,475	226,475	226,475	226,475
Building Improvements	70,582	68,980	33,872	-
Land Improvements/CIP	103,581	-	-	-
Furniture and Equipment	612,832	598,994	586,302	580,469
	\$ 1,478,430	\$ 1,359,408	\$ 1,311,608	\$ 1,271,904

Refer to financial notes for further information.

LONG TERM DEBT

The Commission currently has no long term debt.

Non-Current Liabilities

Special Industry Fund

	Beginning Balance	Net Change	Ending Balance
Special Industry Fund	\$ 104,846	\$ -0-	\$104,846
	=====	=====	=====

The Special Industry Fund Account consists of funds collected to fund industry service programs related to sanitation, planting, production, harvesting, handling, processing, and shipping. There have been no changes since 1994.

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.

Effective with the 2012 crop (FY2013), the Washington tree fruit industry approved by referendum a "special project assessment" to expand research and outreach capacity at the Washington State University centers in Prosser and Wenatchee. The special project assessment goal is to raise \$32 million over a time period not to exceed 8 years. The \$32 million investment is to establish endowments in three areas to permanently leverage WSU resources and ensure the right people, programs, and facilities are focused on solving the most important challenges facing the Washington tree fruit industry. An advisory committee 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 special project assessment rate of \$1 per ton (approximately \$2.5 million per year) was approved on apples and pears only. Hearings are scheduled in the fall of 2012 for a re-run of the referendum on cherries and soft fruit.

The budget for 2012-2013 has been approved by the Commission.

WASHINGTON TREE FRUIT RESEARCH COMMISSION
COMPARATIVE STATEMENT OF NET ASSETS
JUNE 30, 2012, 2011, and 2010

	2012	2011	2010
<u>ASSETS</u>			
Current Assets:			
Cash-Unrestricted	\$ 2,087,674	\$ 2,208,717	\$ 3,510,411
Receivables	271,707	246,156	339,195
Investments-Unrestricted	1,342,746	1,326,789	513,904
Prepaid Exp. & Other Assets	<u>16,567</u>	<u>13,436</u>	<u>16,710</u>
TOTAL CURRENT ASSETS	<u>\$ 3,718,694</u>	<u>\$ 3,795,097</u>	<u>\$ 4,380,221</u>
Noncurrent Assets:			
Land	\$ 464,960	\$ 464,960	\$ 464,960
Buildings	226,475	226,475	226,475
Building Improvements	70,582	68,980	-
Building Improvements/CIP	-	-	33,872
Land Improvements/CIP	103,581	-	-
Furniture & Equipment	612,832	598,994	586,302
Accumulated Depreciation	<u>(529,504)</u>	<u>(482,795)</u>	<u>(414,561)</u>
TOTAL NONCURRENT ASSETS	<u>\$ 948,926</u>	<u>\$ 876,613</u>	<u>\$ 897,047</u>
TOTAL ASSETS	<u>\$ 4,667,621</u>	<u>\$ 4,671,710</u>	<u>\$ 5,277,268</u>
<u>LIABILITIES and NET ASSETS</u>			
Current Liabilities:			
Accounts Payable	\$ 233,086	\$ 20,990	\$ 37,936
Accrued Liabilities	<u>114,017</u>	<u>102,703</u>	<u>79,522</u>
TOTAL CURRENT LIABILITIES	<u>\$ 347,103</u>	<u>\$ 123,693</u>	<u>\$ 117,458</u>
Noncurrent Liabilities:			
Special Industry Fund	<u>\$ 104,846</u>	<u>\$ 104,846</u>	<u>\$ 104,846</u>
TOTAL NONCURRENT LIABILITIES	<u>\$ 104,846</u>	<u>\$ 104,846</u>	<u>\$ 104,846</u>
TOTAL LIABILITIES	<u>\$ 451,949</u>	<u>\$ 228,539</u>	<u>\$ 222,304</u>
Net Assets:			
Invested in Capital Assets, Net of Related Debt	\$ 948,926	\$ 876,613	\$ 897,047
Unrestricted Net Assets	<u>3,266,746</u>	<u>3,566,558</u>	<u>4,157,916</u>
TOTAL NET ASSETS	<u>\$ 4,215,672</u>	<u>\$ 4,443,171</u>	<u>\$ 5,054,964</u>
TOTAL LIABILITIES & NET ASSETS	<u>\$ 4,667,621</u>	<u>\$ 4,671,710</u>	<u>\$ 5,277,268</u>

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 ASSETS
JUNE 30, 2012, 2011, and 2010**

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Operating Income:			
Assessment Revenue	\$ 3,564,464	\$ 3,346,813	\$ 3,652,933
Other Revenue	-	-	-
TOTAL OPERATING INCOME	<u>\$ 3,564,464</u>	<u>\$ 3,346,813</u>	<u>\$ 3,652,933</u>
Operating Expenses:			
External Project Expenses	\$ 2,235,415	\$ 2,564,601	\$ 2,170,306
Research Operation Expenses	667,375	267,790	251,015
Employee Salaries	801,597	775,913	716,792
Employee Benefits	302,880	252,957	197,918
Administrative Services	79,183	69,213	61,195
Auditing/Accounting/Legal Fees	21,269	8,431	12,335
Bad Debts	322	2,188	-
Collection Fees	11,823	10,226	12,010
Computer Tech/Software	7,103	16,897	14,876
Misc Equipment Purchases	3,233	14,317	8,019
Misc Equipment Maintenance & Repairs	345	167	2,369
Insurance	16,641	17,060	18,541
Misc Expenses	1,446	1,659	1,119
Telephone & Internet	14,466	14,197	13,318
Travel & Meetings	69,466	107,127	66,799
Utilities	21,643	15,933	14,717
Vehicle Fuel & Maintenance	91,903	73,151	59,506
Depreciation Expense	65,048	68,234	78,689
TOTAL OPERATING EXPENSES	<u>\$ 4,411,157</u>	<u>\$ 4,280,059</u>	<u>\$ 3,699,523</u>
NET OPERATING INCOME OR (LOSS)	<u>\$ (846,694)</u>	<u>\$ (933,246)</u>	<u>\$ (46,590)</u>
Nonoperating Revenues (Expenses):			
Gain/Loss of Sale of Fixed Assets	\$ 2,823	\$ -	\$ 675
Governmental Operating Grants	-	-	-
Other Grants	594,343	306,913	405,894
Other Income	-	-	-
Interest Income	9,326	17,569	25,005
Interest Expense	-	-	-
Orchard Lease Income	15,749	22,237	16,913
Wapato Property Expense	(3,046)	(25,266)	(9,271)
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>\$ 619,194</u>	<u>\$ 321,453</u>	<u>\$ 439,216</u>
NET INCOME (LOSS)	<u>\$ (227,499)</u>	<u>\$ (611,793)</u>	<u>\$ 392,626</u>
Net Assets-July 1	\$ 4,443,171	\$ 5,054,964	\$ 4,662,338
NET ASSETS, June 30	<u>\$ 4,215,672</u>	<u>\$ 4,443,171</u>	<u>\$ 5,054,964</u>

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

Washington Tree Fruit Research Commission
Financial Statements
For the fiscal years ending June 30, 2010– June 30, 2012

WASHINGTON TREE FRUIT RESEARCH COMMISSION
Comparative Statements of Cash Flows
Years Ending June 30, 2012, 2011, and 2010

	2012	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers	3,530,350	3,440,204	3,687,672
Cash payments to suppliers	(3,021,354)	(3,173,445)	(2,680,345)
Cash payments to employees for services	(1,104,477)	(1,028,870)	(914,710)
Other	-0-	-0-	-0-
<i>Net cash provided by operating activities</i>	(595,481)	(762,111)	92,617
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:			
Other Project Grant income	594,343	306,913	405,894
Lease income	15,749	22,237	16,913
Other income	-0-	-0-	-0-
Proceeds from sale of fixed assets	2,823	-0-	675
Property Expenses	(3,046)	(25,266)	(9,271)
Other Expenses	-0-	-0-	-0-
<i>Net cash provided by non-capital financing activities</i>	609,868	303,884	414,211
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Fixed Assets (Net)	(137,361)	(47,800)	(106,639)
Interest paid on various contracts and debt issues	-0-	-0-	-0-
<i>Net cash (used) for capital and related financing activities</i>	(137,361)	(47,800)	(106,639)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest on Investments	9,326	17,569	25,005
Proceeds from sale and maturities on investments securities	8,562	(351)	(5,838)
Purchases of investments	(15,957)	(812,885)	(6,004)
<i>Net cash used for investing activities</i>	1,931	(795,667)	13,163
<i>Net increase/decrease in cash and cash equivalents</i>	(121,043)	(1,301,694)	413,352
Cash and cash equivalents at beginning of year	2,208,717	3,510,411	3,097,059
Cash and cash equivalents at end of year	2,087,674	2,208,717	3,510,411
Reconciliation of Operating Income(Loss) to Net Cash Provided by Operating Activities:			
Operating income (loss)	(846,694)	(933,246)	(46,590)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation Expense	65,048	68,234	78,689
Change in assets and liabilities:			
Receivables, net	(34,114)	93,391	34,739
Prepays	(3,131)	3,275	746
Accounts and other payables	227,132	9,224	6,585
Accrued expenses	(3,722)	(2,989)	18,448
<i>Net Cash provided by operating activities</i>	(595,481)	(762,111)	92,617

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 corporation and 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 represent 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 3

3. Receivables

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

4. Inventories

N/A

5. Capital Assets and Depreciation - See Note 4

6. 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, 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.

7. Accrued Liabilities – See Note 5 and Note 6

These accounts consist of accrued wages and accrued employee benefits.

8. Long Term Debt

The Commission currently has no long term debt.

9. Special Industry Fund – See Note 7

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 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

There have been no material violations of financial-related legal or contractual provisions.

NOTE 3 - 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 year end 2012 were \$2,114,393 the book balance for year end 2012 was \$2,087,674 with a difference of \$26,719 due to outstanding checks and deposits. Respectively, the bank balance for year end 2011 was \$2,209,515, the book balance for year end 2011 was \$2,208,717 with a difference of \$798 due to outstanding checks and deposits; the bank balance for year end 2010 was \$3,559,700, the book balance for year end 2010 was 3,510,411 with a difference of \$49,289 for outstanding checks and deposits. The differences are immaterial

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	6/30/10 Carrying	6/30/10 Market	6/30/11 Carrying	6/30/11 Market	6/30/12 Carrying	6/30/12 Market
CD’s	\$513,904	\$513,904	\$1,326,789	\$1,326,789	\$1,342,746	\$1,342,746

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

NOTE 4 - 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	15
Vehicles	5	Buildings	50
Equipment	5		

A summary of changes in general fixed assets follows:

Washington Tree Fruit Research Commission
Notes to the Financials
For the fiscal years ending June 30, 2010– June 30, 2012

Business Type Activities	Beginning Balance 6/30/09	Increases	Decreases	Ending Balance 6/30/10	Increases	Decreases	Ending Balance 6/30/11	Increases	Decreases	Ending Balance 6/30/12
Capital Assets, not being depreciated:										
Land	464,960	-	-	464,960	-	-	464,960	-	-	464,960
Land CIP	-	-	-	-	-	-	-	103,581	-	103,581
Building CIP	-	33,872	-	33,872	35,108	68,980	-	-	-	-
Total Capital Assets, not being depreciated	464,960	33,872	-	498,832	35,108	68,980	464,960	103,581	-	568,541
Capital Assets, being depreciated:										
Building	226,475	-	-	226,475	-	-	226,475	-	-	226,475
Building Improvements	-	-	-	-	68,980	-	68,980	1,602	-	70,582
Furniture and Equipment	580,469	72,767	66,934	586,302	12,692	-	598,994	32,177	18,340	612,831
Total Capital Assets, being depreciated	806,944	72,767	66,934	812,777	81,672	-	894,449	33,779	18,340	909,888
Less accumulated depreciation for:										
Building	68,111	4,400	-	72,511	4,400	-	76,911	4,412	-	81,323
Building Improvements	-	-	-	-	-	-	-	2,022	-	2,022
Land Improvements	-	-	-	-	-	-	-	-	-	-
Furniture and Equipment	334,695	74,289	66,934	342,050	63,834	-	405,884	58,614	18,340	446,158
Total accumulated depreciation	402,806	78,689	66,934	414,561	68,234	-	482,795	65,048	18,340	529,503
Total capital assets, being depreciated, net	404,138	(5,922)	-	398,216	13,438	-	411,654	(31,269)	-	380,385
Governmental activities capital assets, net	869,098	27,950	-	897,048	48,546	69,980	876,614	72,312	-	948,926

NOTE 5 - 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 retirement plans. Actuarial information is on a system-wide basis and is not considered pertinent to the Commission's financial statements. Contributions to the systems by both employee and employer are based upon gross wages covered by plan benefits.

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 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov. The following disclosures are made pursuant to 10 GASB Statements No. 27, *Accounting for Pensions by State and Local Government Employers* and No. 50, 11 *Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27*.

Public Employees' Retirement System (PERS) Plan 1, 2, and 3

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts (other than judges currently in the Judicial Retirement System); employees of legislative committees; community and technical colleges, college and university employees not participating in higher education retirement programs; judges of district and municipal courts; and employees of local governments. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

PERS is a cost sharing multiple employer retirement system comprised of three separate plans for membership purposes; Plan 1 and 2 are defined benefit plans and Plan 3 is a defined benefit plan with a defined contribution component.

PERS members who joined the system by September 30, 1977, are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercise an option to transfer their membership to Plan 3. PERS members joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3.

Notwithstanding, PERS Plan 2 and Plan 3 members may opt out of plan membership if terminally ill, with less than five years to live.

PERS Plan 1 and Plan 2 defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions.

PERS Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The monthly benefit is two percent of the average final compensation (AFC) per year of service. (AFC is the monthly average of the 24 consecutive highest-paid service credit months.) The retirement benefit may not exceed 60 percent of AFC. The monthly benefit is subject to a minimum for PERS Plan 1 retirees who have 25 years of service and have been retired 20 years, or who have 20 years of service and have been retired 25 years. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits. If a survivor option is chosen, the benefit is further reduced. A cost-of-living allowance (COLA) is granted at age 66 based upon years of service times the COLA amount. This benefit was eliminated by the Legislature, effective July 1, 2011. Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at three percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity payable to the age of 60. The allowance amount is \$350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60. A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the allowance amount is two percent of the AFC for each year of service reduced by two percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. A cost-of-living allowance was granted at age 66 based upon years of service times the COLA amount. This benefit was eliminated by the Legislature, effective July 1, 2011. Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at three percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 members can receive credit for military service. Members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for early retirement at the age of 65 with five years of service. The monthly benefit is two percent of the AFC per year of service. (AFC is the monthly average of the 60 consecutive highest-paid service months.)

PERS Plan 2 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 reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65.

PERS Plan 2 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.

- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2 retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price 33 Index), capped at three percent annually.

The surviving spouse or eligible child or children of a PERS Plan 2 member who dies after leaving eligible employment having earned ten years of service credit may request a refund of the member's accumulated contributions.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a monthly benefit of one percent of the AFC per year of service. (AFC is the monthly average of the 60 consecutive highest-paid service months.)

Effective June 7, 2006, PERS 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 twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

Vested Plan 3 members are eligible for normal retirement at age 65, or they may retire early with the following conditions and benefits:

- If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.
- If they have 30 service credit years and are at least 55 years old, they have the choice of a benefit that is reduced by three percent for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.

PERS Plan 3 defined benefit retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option. There is no cap on years of service credit and Plan 3 provides the same cost-of-living allowance as Plan 2.

PERS Plan 3 defined contribution retirement benefits are solely dependent upon contributions and the results of investment activities.

The defined contribution portion can be distributed in accordance with an option selected by the member, either as a lump sum or pursuant to other options authorized by the Director of the Department of Retirement Systems.

PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is two percent of the AFC per year of service. For Plan 3, the monthly benefit amount is one percent of the AFC per year of service.

These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index) capped at three percent annually.

PERS Plan 2 and Plan 3 members may have up to ten years of interruptive military service credit; five years at no cost and five years that may be purchased by paying the required contributions. Effective July 24, 2005, a member who becomes totally incapacitated for continued employment while serving the uniformed services, or a surviving spouse or eligible children, may apply for interruptive military service credit. Additionally, PERS Plan 2 and Plan 3 members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

PERS members may also purchase up to five years of additional service credit once eligible for retirement. This credit can only be purchased at the time of retirement and can be used only to provide the member with a monthly annuity that is paid in addition to the member's retirement benefit.

Beneficiaries of a PERS Plan 2 or Plan 3 member with ten years of service who is killed in the course of employment receive retirement benefits without actuarial reduction, if the member was not at normal retirement age at death. This provision applies to any member killed in the course of employment, on or after June 10, 2004, if found eligible by the Department of Labor and Industries.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a PERS member who dies in the line of service as a result of injuries sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of said member's covered employment, if found eligible by the Department of Labor and Industries.

There are 1,197 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2010:

Retirees and Beneficiaries Receiving Benefits	76,899
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	28,860
Active Plan Members Vested	105,521
Active Plan Members Non-vested	51,005
Total	262,285

Funding Policy Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at six percent for state agencies and local government unit employees, and 7.5 percent for state government elected officers. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. Under PERS Plan 3, employer contributions finance

the defined benefit portion of the plan, and member contributions finance the defined contribution portion. The Plan 3 employee contribution rates range from 5 percent to 15 percent based on member choice. Two of the options are graduated rates dependent on the employee's age.

The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payrolls, as of June 30, 2012, were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	7.07%	7.07%	7.07%**
Employee	6.0%	4.59%	***

* The employer rates include the employer administrative expense fee currently set at 0.16%.

** Plan 3 defined benefit portion only.

*** Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

Both the Commission and the employees made the required contributions. The Commission's required contributions for the years ending June 30 were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2012	\$0	\$37,850	\$3,855
2011	\$0	\$28,690	\$2,854
2010	\$0	\$29,173	\$2,860

NOTE 6 - 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 7 – 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 intent of this proposal is to create and maintain a \$100,000 fund for such purposes. The assessment shall be set annually by the Commission, upon approval of two-thirds of the voting members of the Commission. The referendum was approved by 83% of those voting. An assessment was not levied for the 2010, 2011, and 2012 crops.

NOTE 8 - CONTINGENCIES AND LITIGATION

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

NOTE 9 – ORCHARD LEASE

The Commission operates a lease consisting of orchard properties and referred to as the Wapato Property. The Lessee, Ron Wilcox, 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 is one year with an automatic renewal.

NOTE 10 – RISKS

There are no material legal or contractual violations during the periods submitted.

Separate insurance coverage is procured to cover building, personal property and autos owned solely by the commission.

For the purpose of securing collection of assessments, all research apple assessments are collected by the Washington Apple Commission and all research soft fruit assessments are collected by the Washington State Fruit Commission and then forwarded to the Washington Tree Fruit Research Commission to carry out the purpose of the Commission. 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.

The Commission did not have any settlements that exceeded it's coverage during each of the past years ending 2012, 2011, and 2010.

NOTE 11 – PRIOR PERIOD ADJUSTMENTS

There were no changes made to the prior period balances.

NOTE 12 – OTHER DISCLOSURES

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.