



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

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

Issue Date – (Inserted by OS)

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.



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

ABOUT THE STATE AUDITOR’S OFFICE

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

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

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

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

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

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

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

Contact information for the State Auditor’s Office	
Public Records requests	PublicRecords@sao.wa.gov
Main telephone	(564) 999-0950
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov