



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

## **Financial Statements and Federal Single Audit Report**

# **Washington Apple Commission**

**For the period July 1, 2015 through June 30, 2016**

**Published February 23, 2017**

**Report No. 1018603**





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

February 23, 2017

Board of Commissioners  
Washington Apple Commission  
Wenatchee, Washington

**Report on Financial Statements and Federal Single Audit**

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

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

Sincerely,

Pat McCarthy  
State Auditor  
Olympia, WA

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## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

### Washington Apple Commission July 1, 2015 through June 30, 2016

#### SECTION I – SUMMARY OF AUDITOR’S RESULTS

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

#### Financial Statements

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

##### Internal Control over Financial Reporting:

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

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

#### Federal Awards

##### Internal Control over Major Programs:

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

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

We reported no findings that are required to be disclosed in accordance with 2 CFR 200.516(a).

### **Identification of Major Federal Programs:**

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

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

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

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

## **SECTION II – FINANCIAL STATEMENT FINDINGS**

None reported.

## **SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

None reported.

**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**

**State of Washington  
Washington Apple Commission  
July 1, 2015 through June 30, 2016**

Board of Commissioners  
Washington Apple 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 Apple Commission, Chelan County, Washington, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated January 31, 2017. As discussed in Note 2 to the financial statements, during the year ended June 30, 2016, the Commission implemented Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*.

The financial statements of the Washington Apple Commission, an agency of the state of Washington, are intended to present the financial position, and the changes in financial position, and where applicable, cash flows of only the respective portion of the activities of the state of Washington that is attributable to the transactions of the Commission. They do not purport to, and do not, present fairly the financial position of the state of Washington as of June 30, 2016, the changes in its financial position, or where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

## **INTERNAL CONTROL OVER FINANCIAL REPORTING**

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

the Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control.

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

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

## COMPLIANCE AND OTHER MATTERS

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

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

## PURPOSE OF THIS REPORT

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

It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

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

Pat McCarthy

State Auditor

Olympia, WA

January 31, 2017



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

## Washington Apple Commission July 1, 2015 through June 30, 2016

Board of Commissioners  
Washington Apple Commission  
Wenatchee, Washington

### REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the compliance of the Washington Apple Commission, Chelan County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the Commission's major federal programs for the year ended June 30, 2016. The Commission's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs.

#### Management's Responsibility

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

#### Auditor's Responsibility

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

program occurred. An audit includes examining, on a test basis, evidence about the Commission's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

### **Opinion on Each Major Federal Program**

In our opinion, the Commission complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

### **REPORT ON INTERNAL CONTROL OVER COMPLIANCE**

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal

control that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Purpose of this Report**

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

A handwritten signature in black ink that reads "Pat McCarthy". The signature is fluid and cursive, with the first name "Pat" and last name "McCarthy" clearly legible.

Pat McCarthy

State Auditor

Olympia, WA

January 31, 2017

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## **Washington Apple Commission July 1, 2015 through June 30, 2016**

Board of Commissioners  
Washington Apple Commission  
Wenatchee, Washington

### **REPORT ON THE FINANCIAL STATEMENTS**

We have audited the accompanying financial statements of the Washington Apple Commission, Chelan County, Washington, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed on page 16.

#### **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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Commission's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances,

but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of basic of the Washington Apple Commission, as of June 30, 2016, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Matters of Emphasis**

As discussed in Note 2 to the financial statements, in 2016, the Commission adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. Our opinion is not modified with respect to this matter.

As discussed in Note 1, the financial statements of the Washington Apple Commission, an agency of the state of Washington, are intended to present the financial position, and the changes in financial position, and where applicable, cash flows of only the respective portion of the activities of the state of Washington that is attributable to the transactions of the Commission. They do not purport to, and do not, present fairly the financial position of the state of Washington as of June 30, 2016, the changes in its financial position, or where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter

## **Other Matters**

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 17 through 22 and pension plan information on pages 39 through 40 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the

Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Supplementary and Other Information***

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

## **OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS**

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2017 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 black ink that reads "Pat McCarthy". The signature is written in a cursive style with a large, stylized "P" and "M".

Pat McCarthy

State Auditor

Olympia, WA

January 31, 2017

## **FINANCIAL SECTION**

### **Washington Apple Commission July 1, 2015 through June 30, 2016**

#### **REQUIRED SUPPLEMENTARY INFORMATION**

Management's Discussion and Analysis – 2016

#### **BASIC FINANCIAL STATEMENTS**

Statement of Net Position – 2016

Statement of Revenues, Expenses and Changes in Net Position – 2016

Statement of Cash Flows – 2016

Notes to Financial Statements – 2016

#### **REQUIRED SUPPLEMENTARY INFORMATION**

Schedule of Proportionate Share of the Net Pension Liability – 2016

Schedule of Employer Contributions – 2016

#### **SUPPLEMENTARY AND OTHER INFORMATION**

Schedule of Expenditures of Federal Awards – 2016

Notes to the Schedule of Expenditures of Federal Awards – 2016



## **WASHINGTON APPLE COMMISSION MANAGEMENT'S DISCUSSION AND ANALYSIS**

Our discussion and analysis of the Washington Apple Commission's financial performance provides an overview of the Commission's financial activities for the fiscal years ended June 30, 2016 and 2015. Please read the MD&A in conjunction with the Commission's financial statements.

### **USING THE FINANCIAL REPORTS**

The financial reports consist of the following: A Statement of Net Position, a Statement of Revenue, Expenses and Changes in Net Position, a Statement of Cash Flows and Notes to the financial statements. These reports provide information about the activities of the Washington Apple Commission as a whole and present a longer-term view of the Commission's finances. The Notes to the financial statements are an integral part of the financial statements. Please read in conjunction to the financial statement figures.

### **WASHINGTON APPLE COMMISSION FINANCIAL STATEMENT REVIEW:**

#### **STATEMENT OF NET POSITION**

##### **Current Assets:**

- WAC maintains two bank accounts. The main account is used for all general checking; assessment deposits, vendor checks; MAP reimbursements; payroll tax deposits and employee direct deposits. The second account is used for Export check writing and international wire transfers.
- The unrestricted funds are maintained in an interest bearing Cash Management account, and fixed rate Certificates of Deposits held at Banner Bank, Cashmere Valley Bank, Central Valley Bank, Key Bank, Peoples Bank, US Bank, Washington Federal, Washington Trust Bank, and Yakima Federal Savings & Loan. All are public depositories administered by the State of Washington Public Deposit Protection Commission. (Reference Note 3 in the Notes to the Financial Statements for Investment details).
- As of June 30, 2016 there is a balance in Net Assessment Receivable consisting of amounts owing to WAC for assessments due on fresh apple shipments. 86% of the Assessment receivable is for current invoices due within 30 days. 13% of the outstanding receivable balance consists of 3 shippers, with invoices over 35 days old. The additional 1% outstanding is for one shipper that recently declared bankruptcy with a balance due that will most likely be uncollected and written off with prior board approval in 2017. Our average collection time on assessment billings is 35-40 days.
- The Export MAP, TASC and WSDA programs are set up on a reimbursement basis. All activities are paid for out of WAC dollars and then reimbursed by the Foreign Agricultural Service (FAS) and the Washington State Department of Agriculture (WSDA). The Federal Grant Receivable is the balance of expenses accrued by WAC still pending reimbursement from FAS as of June 30, 2016. This balance consists of five MAP claims and one TASC claim. All outstanding claims were reimbursed in full by September 30, 2016.
- All point of sale materials and gratuity items were inventoried at year end and are valued at their net realizable cost.

### Board Designated Investments:

- In December 2004, the Board of Commissioners passed a motion to designate \$150,000 of current investment funds to create a General Reserve Fund. The goal was to set aside a percentage of the Commission's working capital equal to 10% of assessment revenues or approximately \$350,000, to fully fund this reserve. This goal was met in July 2008. From this date to April 2014, as the crop size has increased creating higher assessment revenues, the Board has been able to set aside an additional \$650,000 in working capital to increase the General Reserve Fund to \$1,000,000. At the May 2015 Board meeting, the Board discussed how unforeseen circumstances such as a Port slow down or the potential for a food safety issue could become huge obstacles for the apple industry as a whole, and how increasing the board designated reserves would proactively set aside funds to help react to a future industry crisis if needed. The Board unanimously approved to increase these reserves to \$3,000,000. Board approval is needed to release these funds for general use. Other than this Board Designation, there are no other restrictions or limitations which will affect the availability of resources for future use.

### Capital Assets:

- All property and equipment are stated at cost and depreciated over their useful lives. (Reference Note 4 in the Notes to the Financial Statements)

### Deferred Outflows of Resources, Deferred Inflows of Resources and Net Pension Liability:

- In accordance with GASB 63 and GASB 68, the Commission has changed the way it reports liabilities, deferred outflows of resources, and deferred inflows of resources associated with pensions effective with the beginning of the 2016 fiscal year. (Reference Note 2 and Note 5 in the Notes to the Financial Statements for details regarding this Accounting policy change and the Commission's pension plan activity)

### CONDENSED FINANCIAL DATA – STATEMENT OF NET POSTION

	<u>2016</u>	<u>2015</u>
Current Assets	\$6,764,911	\$6,544,175
Noncurrent Assets	<u>1,296,591</u>	<u>1,353,210</u>
Deferred Outflows of Resources	66,583	- 0 -
Total Assets and Deferred Outflows of Resources	<u>\$8,128,084</u>	<u>\$7,897,385</u>
Current Liabilities	\$986,877	\$981,436
Noncurrent Liabilities	<u>589,389</u>	<u>- 0 -</u>
Total Liabilities	1,576,266	981,436
Deferred Inflows of Resources	38,232	- 0 -
Net Investment in Capital Assets	1,296,589	1,353,210
Unrestricted	<u>5,216,997</u>	<u>5,562,739</u>
Total Net Position	<u>6,513,586</u>	<u>6,915,949</u>

Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$8,128,084</u>	<u>\$7,897,385</u>
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## STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION

### Operating Revenue:

- The Commission assesses the net weight of Washington apple shipments at the rate of 3.5 cents per 40 lb. box. Shippers are billed every two weeks and assessment revenues are being paid on an average of 35-40 days from date of invoice.
- The cyclical nature of the crop sizes directly affect the assessment revenue collected. The 2016 crop was smaller than that of 2015 resulting in a decrease in cash received from growers this fiscal year.
- In 2016, the Commission spent 53% of its Operating revenues on the Export program, 39% in support of other industry organizations and only 8% on Administrative costs, compared to 57%, 35% and 8% respectively in 2015.

### Operating Expenses:

- The Commission continues to streamline operations, reduce costs and be extremely efficient with the limited resources we have to operate with.
- Salaries & Benefit expense decreased 13% from last year, due to the elimination of one full-time staff position and the pension expense adjustment resulting from the implementation of GASB 68. WAC staff currently consists of 6 full-time and 3 part-time employees.
- Rep contract fees decreased in 2016 because the Russian market was closed to the United States and WAC could no longer promote Washington Apples in this country. We cancelled the contract with our Russia Far-East representative and reduced the contract payment for our Western Russia representative to a small retainer fee for her to continue to provide us market information in hopes the market will open back up again to the US in the near future.
- Export promotions decreased in 2016 with a smaller crop than that of 2015 where additional funding was needed to help move the largest WA apple crop thus far in history. These larger crops are the result of fruit now being harvested from higher density orchards that produce more fruit per acre, creating a greater industry need to move more shipments overseas to compensate for the oversupply. The Commission will maintain this focus on increasing International promotional support as the apple crops continue to increase in volume.
- The Commission remains full dues paying members of US Apple Association and Northwest Horticulture Council, and also helps support other various industry organizations. Dues for US Apple and NHC are calculated each year based on a 3-5 year average of Washington apple production. Dues for both organizations continue to increase as a result of higher year averages based on increased WA apple production.
- Travel, Trainings & Meetings expense was significantly higher in 2015 as we brought our 14 International Representatives to Washington State for a group Rep Meeting to discuss promotional strategies for the different markets as well as showcase the many new apple varieties and orchard/warehouse practices that are now in place. Smaller regional meetings were held in 2016 such as an Asian reps meeting with WAC staff at Asia Fruit Logistica in Hong Kong. Meetings with Mexico and Central/South American reps were planned around the ANTAD trade show in Guadalajara.
- Bad Debt expense represents the portion of WAC Assessment receivable that we anticipate as being uncollectable due to a shipper in the northern district declaring bankruptcy.

- Facility costs to maintain the building, equipment and grounds in 2016 were consistent with 2015 spending. Over the last 5 years, we have replaced the 24 year old HVAC systems, remodeled the offices, painted the building both inside and out as well as replaced the carpet and old florescent lighting. In 2015, the Conference facility was remodeled with new carpet, paint and furnishings. Industry members now enjoy a newly updated facility to conduct their business meetings.
- The Washington Apple Commission Operating Revenues in 2016 exceed Operating Expenses by \$148,786 compared to \$312,880 in 2015. Despite the small decrease in Washington Apple shipments, Operating Revenues still exceeded Operating Expenses this year.

### **Non-Operating Revenue (Expenses):**

- Non-Operating Revenues and Expenses of the Commission are those items not generated by or in use of assessment dollars, such as office space/conference room rental, interest income, fee for service income and gain/(loss) on sale of inventory or capital assets.
  - In 2016, nearly 71% of all Export expenses were paid for with funds from the USDA grant programs compared to 68% in 2015. The total MAP and WSDA funds allocated to the Washington Apple Commission to use from July 1, 2015 through June 30, 2016 were nearly \$5.2 million.
  - The Commission spent \$5,179,019 of MAP grant funds and submitted and received reimbursement for 22 MAP claims.
  - WSDA specialty crop grant funds were awarded to design a new website to replace the outdated bestapples.com site. This 3-year grant totaling \$50,000 has now been completed. \$35,000 was used in 2015 while the remaining \$15,000 was used in 2016. The new website went live in November 2015. We have received numerous complements from users regarding the new look, how it is now mobile friendly and easy to navigate.
  - The Washington Apple Commission is the pass through organization for a 5-year TASC (Technical Assistance for Specialty Crops) grant utilized by Washington State University and the Tree Fruit Research Commission to identify and manage sources of quarantine-significant post-harvest diseases in Pacific Northwest apple and pear orchards. 2016 was year 2 of this 5-year grant. \$1,913,831 is the total TASC allocation. \$528,906 of the TASC funds have been used thus far.
  - All available WAC office space not utilized by staff is leased out to tenants and the conference rooms are frequently rented by industry and other organizations throughout the year. In 2017, the Washington Apple Education Foundation expanded their office space, and another organization, FAVCO, has moved in to fully utilize the remaining offices vacated last year. As a result, lease income will increase up to capacity in 2017.
  - POS sales continue to increase due to the on-line ordering system available on our website.
  - The main source of service income is derived from quarterly billings to the Tree Fruit Research Commission for collection of their assessment revenues which is mandated by RCW 15.26.250.
  - Interest revenues remain consistent with that of 2015.

### **Adjustment to Beginning Net Position – Change in Accounting Principle:**

- In in implementation of GASB 63 and GASB 68, the Commission has changed the way it reports liabilities, deferred outflows and inflows of resources associated with pensions effective with the beginning of the 2016 fiscal year. As of July 1, 2015 the Commission recorded an increase in net pension liability of \$553,223, a deferred inflow of \$85,301 less a deferred outflow of \$27,981

resulting in a net position decrease of \$610,543. (Reference Note 2 and Note 5 in the Notes to the Financial Statements for details regarding this Accounting policy change and the Commission's pension plan activity)

### **Analysis:**

The Washington Apple Commission sets the annual budget for the season based on the crop estimates and past shipment reports generated by the Washington State Tree Fruit Association. In years past, 100 million boxes was the norm for total annual shipments with approximately 70 million boxes shipped domestically and 30 million boxes to international markets. The US demand for Washington Apples has become fairly stagnant over the years while at the same time the total apple production has steadily increased. This has necessitated the need to increase exports of Washington Apples to markets outside of the country to take care of the excess supply.

Historically, the apple crop is cyclical in nature where the total number of apples produced each year may fluctuate by several million boxes. Yet growers throughout the US are removing old orchard blocks and replacing them with new trellised tree plantings that will double or triple the volume per acre. These plantings are now coming to fruition offsetting the old cyclical crop fluctuations.

Over the past few seasons, Export shipments have continued to increase. Historically the industry has exported 32-34% overseas. In 2014, this number increased to 37 million boxes, and in 2015 with the largest crop to date of 142 million boxes, 49 million boxes were shipped internationally. Conversely, in 2016, with a much smaller crop of 115 million boxes, international sales dropped to 29%. As the 2017 crop is estimated at over 137 million boxes, Export staff and Reps will continue to ramp up international promotions to assist in increasing the number of boxes shipped overseas. The increase or decrease in Operating revenues and expenses year after year are tied very closely to the increase or decrease in the size of the apple crop. However, the high value of the US dollar, changing world economics, unforeseen trade issues and the increased apple production by our competition (China and the EU) makes the international marketplace unpredictable and will require strategic marketing efforts on our part to move these larger crops.

### **CONDENSED FINANCIAL DATA – STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION**

	<u><b>2016</b></u>	<u><b>2015</b></u>
Operating Revenues	\$4,278,337	\$4,775,127
Non-Operating Revenues	<u>5,682,105</u>	<u>5,402,147</u>
Total Revenues	\$9,960,442	\$10,177,274
Operating Expenses	4,129,551	4,462,247
Non-Operating Expenses	<u>5,622,711</u>	<u>5,332,743</u>
Total Expenses	<u>9,752,262</u>	<u>9,794,990</u>
Change in Net Assets	208,180	382,284
Total Net Assets – Beginning of Year	6,915,949	6,533,665
Adjustment to Beginning Net Position –		

Change in Accounting Principle	<u>(610,543)</u>	<u>- 0 -</u>
Total Net Assets – End of Year	<u>\$6,513,586</u>	<u>\$6,915,949</u>

## NOTES TO THE FINANCIAL STATEMENTS

The accompanying Notes are an integral part of the financial statements. The Notes give a more detailed description of the Washington Apple Commission's accounting and reporting policies, investment portfolio, capital assets and depreciation, pension plans, assessment rate structure, risk management strategy, commitments, current operating leases and related industry organizations. Please read in conjunction to the financial statement figures.

WASHINGTON APPLE COMMISSION  
STATEMENT OF NET POSITION  
As of June 30, 2016  
**ASSETS AND DEFERRED OUTFLOWS OF RESOURCES**

**CURRENT ASSETS**

Cash - Unrestricted	\$ 1,722,026	
Time Certificates of Deposit	315,331	
Board Designated Investments	3,000,000	
Net Assessment Receivable	357,621	
Federal Grant Receivable	1,321,053	
Other Receivables	4,807	
Inventory	33,851	
Prepaid Expenses	10,222	
Total Current Assets		6,764,911

**NONCURRENT ASSETS**

Building	2,298,953	
Land Improvements	124,816	
Building Furniture, Fixtures & Equipment	273,184	
Automobiles	50,843	
Less: Accumulated Depreciation	(1,606,315)	
	1,141,481	
Land	155,109	
	1,296,591	
Total Noncurrent Assets		1,296,591

**DEFERRED OUTFLOWS OF RESOURCES**

66,583

**TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES**

**\$ 8,128,084**

**LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION**

**CURRENT LIABILITIES**

Accounts Payable	\$ 939,868
Accrued Vacation Payable	47,009
Total Current Liabilities	986,877

**NONCURRENT LIABILITIES**

Net Pension Liability	589,389	
Total Liabilities		1,576,266

**DEFERRED INFLOWS OF RESOURCES**

38,232

**NET POSITION**

Net Investment in Capital Assets	1,296,590	
Unrestricted	5,216,996	
Total Net Position		6,513,586

**TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION**

**\$ 8,128,084**

The accompanying notes are an integral part of this financial statement.

WASHINGTON APPLE COMMISSION  
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION  
For the Year Ended June 30, 2016

	<u>2016</u>
<b>OPERATING REVENUES</b>	
Assessment Revenue	<u>4,278,337</u>
 Total Operating Revenues	 <u>4,278,337</u>
 <b>OPERATING EXPENSES</b>	
Salaries and Benefits	743,494
Contracted Reps	634,000
Export Promotions	522,090
Industry Organizations	1,614,159
Professional Fees	30,837
Travel, Training and Meetings	326,963
Depreciation	82,698
Bad Debt Expense	5,056
Office Expenses	58,369
Facility Costs	62,481
Business Insurance	23,155
Miscellaneous	<u>26,249</u>
 Total Operating Expenses	 <u>4,129,551</u>
 <b>OPERATING INCOME (LOSS)</b>	 <u>148,786</u>
 <b>NON-OPERATING REVENUES (EXPENSES)</b>	
Federal Grant Revenue	5,617,151
Federal Grant Expense	(5,617,151)
Office Space Lease Income	27,359
Conference Room Rental	1,604
Net Fee for Service Income	6,912
Gain (Loss) on Sale of Assets	(5,560)
Gain (Loss) on Sale of Inventory	8,117
Interest Income	20,522
Other Income (Expense)	<u>440</u>
 Total Non-Operating Revenues (Expenses)	 <u>59,394</u>
 <b>INCREASE (DECREASE) IN NET POSITION</b>	 208,180
 <b>NET POSITION - BEGINNING OF YEAR</b>	 6,915,949
 <b>ADJUSTMENT TO BEGINNING NET POSITION - CHANGE IN ACCOUNTING PRINCIPLE</b>	 (610,543)
 <b>NET POSITION - END OF YEAR</b>	 <u><u>6,513,586</u></u>

*The accompanying notes are an integral part of this financial statement.*



**WASHINGTON APPLE COMMISSION**  
**STATEMENT OF CASH FLOWS**  
**For the Year Ended June 30, 2016**

	<u>2016</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash received as assessments from growers	\$ 4,280,993
Cash payments for goods and services	(1,668,538)
Cash payments to employees	(797,895)
Cash payments to industry organizations	<u>(1,614,159)</u>
Net cash provided by operating activities	<u>200,401</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Cash reimbursements from FAS	5,778,693
Cash payments for goods and services reimbursable by FAS	(5,617,151)
Other cash income	<u>78,200</u>
Net cash provided by noncapital financing activities	<u>239,742</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Property and equipment additions	<u>(31,638)</u>
Net cash used by capital and related financing activities	<u>(31,638)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest received on investments	<u>20,522</u>
Net cash (used) provided by investing activities	<u>20,522</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	429,027
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>1,608,330</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u><u>\$ 2,037,357</u></u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	
Operating income	\$ 148,786
Adjustments to reconcile change in net assets	
to net cash provided by operating activities -	
Depreciation	82,698
Decrease (increase) in current assets -	
Receivables	7,711
Prepaid expenses	5,269
(Decrease) increase in current liabilities -	
Accounts payable	10,338
Accrued vacation and related payroll taxes	(4,896)
Decrease in deferred inflows, outflows and pension liability	<u>(49,505)</u>
Net cash provided by operating activities	<u><u>\$ 200,401</u></u>
<b>SCHEDULE OF NON-CASH ITEMS</b>	
Adjustment to net assets-change in accounting principle	<u><u>\$ 610,543</u></u>

*The accompanying notes are an integral part of this financial statement.*

## **WASHINGTON APPLE COMMISSION**

### **Notes to the Financial Statements**

June 30, 2016

#### **NOTE 1 - REPORTING ENTITY**

The Washington Apple Commission (formerly the Washington State Apple Advertising Commission) is a commodity commission created in 1937 by and subject to Washington State law. The financial statements have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governments.

The Washington Apple Commission provides the following services: research; education; federal Market Access Program (MAP) fund administration to promote Washington State apples in foreign markets; to maintain and protect the Washington apple logo and intellectual properties; and to provide funding and support for other industry organizations that are important to the Washington apple industry.

The Commission is governed by a 14-member Board of Commissioners that approves the budget and sets direction for the Commission's operations. The Board is appointed by the Director of the Washington State Department of Agriculture.

The Commission's primary source of revenue is an assessment on all packed Washington apples based on the net weight of the apples when shipped. The assessment is collected from Washington fruit warehouses after the packed apples are shipped. The Commission's revenue is substantially dependent on the yearly volume of Washington apple shipments. Since the Commission is a nonprofit State organization, it is not subject to Federal income tax.

As required by GAAP, management has considered all potential component units in defining the reporting entity and believe that the Commission has no component units required to be included as part of the reporting entity.

Beginning with the year ended June 30, 2013, the Washington Apple Commission had elected to change its fiscal year end from August 31 to June 30.

#### **NOTE 2 - ACCOUNTING POLICIES**

The Washington Apple Commission uses proprietary fund accounting policies which are in accordance with generally accepted accounting principles in all material respects. Outlined below are those policies considered particularly significant.

Assessment revenues and related receivables are recognized in the period packed apples are shipped as reported on the Washington State Department of Agriculture's certificates of compliance.

The USDA - Foreign Agricultural Service (FAS) reimbursements and related receivables for foreign export marketing programs are recognized in the period in which expenses qualified for reimbursement are incurred.

Inventories of merchandise and point of sale materials are valued at the lower of cost or market on a first-in, first-out basis.

All costs necessary to administer the foreign trade program, protect the WAC logo and intellectual properties, fund other industry organizations, and maintain the facility, are expensed in the year incurred.

Board designated funds represent cash and investments that are restricted by the Commission for specific purposes. Board approval is needed to release these funds for general use.

## WASHINGTON APPLE COMMISSION

### Notes to the Financial Statements

June 30, 2016

The balance of the Board Designated Reserves is \$3,000,000. Other than this designation, there are no other restrictions or other limitations which will affect the availability of resources for future use.

Operating Revenues are strictly the assessment dollars collected from Washington fruit warehouses after the packed apples are shipped at 3.5 cents-per-box. Operating expenses are the costs associated with following the Apple Commission's core missions detailed in Note 1.

Non-Operating Revenues and Expenses of the Commission are those items not generated by or in use of assessment dollars, such as office space/conference room rental, interest income, or gain/(loss) on sale of inventory or capital assets. Federal grant revenues and their related expenses are also classified as Non-Operating.

For purposes of the statement of cash flows, the Commission considers all highly liquid debt instruments purchased with a maturity of three months or less (and not designated by the Board) to be cash equivalents.

The Commission's checking and savings accounts and certificates of deposit are maintained in bank branches and savings and loan institutions located in Washington State. The accounts are fully covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses.

Pursuant to GASB Statements 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB 68, *Accounting and Financial Reporting for Pensions*, the Commission has changed the way it reports liabilities, deferred outflows of resources, and deferred inflows of resources associated with pensions effective with the beginning of the 2016 fiscal year. Previous to the change, the Commission reported pension expense for the statutorily required employer's contribution to the pension plan. No amounts were reported for any portion of the pension plan liability for future payments to covered Commission employees. With the accounting change, the Commission has recorded a liability for its share of the excess of the pension plan projected benefits over pension plan assets (net pension liability). In addition, certain changes to the net pension liability are recorded as deferred outflows of resources and deferred inflows of resources. The effect on net position of the deferred outflows and inflows of resources is recorded over time. In making the change of accounting principle, the Commission recorded a decrease to net position of \$610,543 and increases of net pension liability, deferred outflows of resources and deferred inflows of resources of \$553,223, \$27,981 and \$85,301, respectively. These changes were effective at the beginning of the 2016 fiscal year. GASB 68 also requires significant changes to disclosures regarding pension plans. Note 5 discloses details regarding the Commission's pension plan activity.

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.

# WASHINGTON APPLE COMMISSION

## Notes to the Financial Statements

June 30, 2016

As a result of the implementation of GASB 63 and 68 as outlined in the previous paragraphs, certain amounts reported in the financial statements (including the notes) for fiscal year ended June 30, 2015 may have been changed or reclassified to conform with the fiscal year ended June 30, 2016 presentation.

### NOTE 3 – DEPOSITS AND INVESTMENTS

All investments of the Commission's funds are in certificates of deposits or business savings accounts. Amounts are stated at cost plus accrued interest, which approximates fair market value.

As of June 30, 2016, the Commission had the following investments:

<u>Investment Type</u>	<u>Maturity Year</u>	<u>2016</u>
Cash Management Savings	N/A	\$1,316,925
Certificates of Deposit	2016	1,595,220
Certificates of Deposit	2017	1,547,451
Certificates of Deposit	2018	<u>172,660</u>
Total		<u>\$4,632,256</u>

These investments are recorded on the balance sheet as follow:

	<u>2016</u>
Savings and certificates of deposits – unrestricted	\$1,632,256
Board designated investments	<u>3,000,000</u>
Total	<u>\$4,632,256</u>

As required by State law, all deposits and investments of the Commission are with Washington State banks and savings and loan institutions approved by the PDPC. The Commission's investment policy contains no limitations to the amount that can be invested in any one public depository. Deposit amounts in excess of the FDIC insured limit of \$250,000 are secured by securities held by the financial institutions which are in a pool administered by the Washington Public Deposit Protection Commission. As of June 30, 2016, these excess amounts totaled \$2,431,747.

Investments in single issuers that exceed 5% of total investments are as follows:

<u>Institution</u>	<u>Investment Type</u>	<u>2016</u>
Banner Bank	Certificate of Deposit	\$304,130
Cashmere Valley Bank	Certificate of Deposit / Business Savings	1,849,479
Central Valley Bank	Certificate of Deposit	409,340
Key Bank	Certificate of Deposit	645,572
Peoples Bank	Certificate of Deposit	237,123
US Bank	Certificate of Deposit	412,310
Washington Federal	Certificate of Deposit	238,212
Yakima Federal Savings & Loan	Certificate of Deposit	310,916

Certificates of Deposits are purchased with varying maturity dates with terms ranging from 12-29 months to mitigate interest rate risk and to ensure that cash needed for operations will be available.

# WASHINGTON APPLE COMMISSION

## Notes to the Financial Statements

June 30, 2016

GASB Codification Section 3100, *Fair Value Measurement*, establishes the following hierarchy that prioritizes the inputs used to measure fair value:

Level 1: Quoted prices in active markets for identical assets or liabilities as of the reporting date.

Level 2: Observable inputs other than Level 1 prices which are either directly or indirectly observable as of the reporting date.

Level 3: Unobservable inputs supported by little or no market activity.

As of June 30, 2016 the Commission had no investments that meet the GASB criteria for measurement at fair value.

### NOTE 4 – CAPITAL ASSETS AND DEPRECIATION

Property and equipment are stated at cost. Buildings and land improvements are depreciated using the straight-line method over twenty (20) to fifty (50) years. Depreciation of furniture, fixtures and equipment is computed on the straight-line method using three (3) to ten (10) year asset lives. The Washington Apple Commission's Capitalization threshold is \$1,000. Maintenance and repairs, including the replacement of minor items, are charged to expense. Depreciation and amortization expense for fiscal year 2016 was \$82,698.

Capital Asset activity for the year ended June 30, 2016 was as follows:

	Beginning Balance <u>7/1/15</u>	<u>Increases</u>	Decreases	Ending Balance <u>6/30/16</u>
Capital Assets not being depreciated:				
Land	\$ <u>155,109</u>	--	--	\$ <u>155,109</u>
<b>Total Capital Assets not being depreciated</b>	<b><u>\$ 155,109</u></b>			<b><u>\$ 155,109</u></b>
Capital Assets, being depreciated:				
Buildings	\$ 2,281,005	17,947	--	\$ 2,298,953
Building Furniture & Fixtures	65,102	--	--	65,102
Land Improvements	124,816	--	--	124,816
Equipment	219,039	13,690	24,647	208,082
Auto	50,843	--	--	50,843
Other	<u>- 0 -</u>	<u>--</u>	<u>--</u>	<u>- 0 -</u>
<b>Total Capital Assets being depreciated</b>	<b><u>2,740,806</u></b>	<b><u>31,637</u></b>	<b><u>24,647</u></b>	<b><u>2,747,796</u></b>
Less Accumulated Depreciation for:				
Buildings	1,211,543	60,264	--	1,271,807
Building Furniture & Fixtures	54,442	1,102	--	55,544
Land Improvements	124,816	--	--	124,816
Equipment	151,055	11,163	19,087	143,131
Auto	847	10,169	--	11,016
Other	<u>- 0 -</u>	<u>--</u>	<u>--</u>	<u>- 0 -</u>
<b>Total Accumulated Depreciation</b>	<b><u>1,542,704</u></b>	<b><u>85,698</u></b>	<b><u>19,087</u></b>	<b><u>1,606,315</u></b>
<b>Total Net Capital Assets being depreciated</b>	<b><u>\$1,198,102</u></b>	<b><u>(\$ 51,061)</u></b>	<b><u>\$ 5,560</u></b>	<b><u>\$1,141,481</u></b>

# WASHINGTON APPLE COMMISSION

## Notes to the Financial Statements

June 30, 2016

### NOTE 5 - 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 2016

Aggregate Pension Amounts – All Plans	
Pension liabilities	\$ 589,389
Pension assets	\$ - 0 -
Deferred outflows of resources	\$ 66,583
Deferred inflows of resources	\$ 38,232
Pension expense/expenditures	\$ 16,254

#### State Sponsored Pension Plans

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

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

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

Or the DRS CAFR may be downloaded from the DRS website at [www.drs.wa.gov](http://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.

# WASHINGTON APPLE COMMISSION

## Notes to the Financial Statements

June 30, 2016

### Contributions

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2016 and 2015 were as follows:

PERS Plan 1	Actual Contribution Rates:	
	Employer	Employee
Sept 1, 2013 to June 30, 2015	9.21%	6.00%
July 1, 2015 to June 30, 2016	11.18%	6.00%

There were no Commission employees enrolled in PERS Plan 1 during the year ended June 30, 2016 and June 30, 2015.

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

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

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

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



# WASHINGTON APPLE COMMISSION

## Notes to the Financial Statements

June 30, 2016

### Contributions

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

PERS Plan 2/3	Actual Contribution Rate		
	Employer 2/3	Employee 2	Employee 3
Sept 1, 2013 to June 30, 2015	9.21%	4.92%	variable
July 1, 2015 to June 30, 2016	11.18%	6.12%	variable

The Commission's actual contributions to the plan were \$66,221 and \$59,311 for the years ended June 30, 2016 and 2015, respectively. Employee contributions to the plan were \$36,250 and \$31,684 for the years ended June 30, 2016 and 2015, respectively.

### **Actuarial Assumptions**

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

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

- **Inflation:** 3% total economic inflation; 3.75% salary inflation
- **Salary increases:** In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.5%

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

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

- For all systems, except LEOFF Plan 2, the assumed valuation interest rate was lowered from 7.80% to 7.70%. Assumed administrative factors were updated.
- Valuation software was corrected on how the nonduty disability benefits for LOEFF Plan 2 active members is calculated.
- New LEOFF Plan 2 benefit definitions were added within the OSA valuations software to model legislation signed into law during the 2015 legislative session.



**WASHINGTON APPLE COMMISSION**  
**Notes to the Financial Statements**  
June 30, 2016

**Discount Rate**

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

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

**Long-Term Expected Rate of Return**

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

**Estimated Rates of Return by Asset Class**

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

<b>Asset Class</b>	<b>Target Allocation</b>	<b>% Long-Term Expected Real Rate of Return Arithmetic</b>
Fixed Income	20%	1.70%
Tangible Assets	5%	4.40%
Real Estate	15%	5.80%
Global Equity	37%	6.60%
Private Equity	23%	9.60%
	<b>100%</b>	

**Sensitivity of NPL**

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

**WASHINGTON APPLE COMMISSION****Notes to the Financial Statements**

June 30, 2016

<b>Plan</b>	<b>1% Decrease (6.5%)</b>	<b>Current Discount Rate (7.5%)</b>	<b>1% Increase (8.5%)</b>
PERS 1 UAAL	\$ 322,647	\$ 267,557	\$ 220,149
PERS 2/3	\$ 592,551	\$ 321,832	\$ (167,532)

**Pension Plan Fiduciary Net Position**

Detailed information about the State's pension plans' fiduciary net position is available in the separately issued DRS financial report.

**Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At June 30, 2016, the Commission reported a total pension liability of \$589,389 for its proportionate share of the net pension liabilities as follows

<b>Plan</b>	<b>Liability</b>
PERS 1 UAAL	\$ 267,557
PERS 2/3	\$ 321,832
Total Liability	\$ 589,389

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

<b>Plan</b>	<b>Proportionate Share 6/30/15</b>	<b>Proportionate Share 6/30/16</b>	<b>Change in Proportion</b>
PERS 1 UAAL	0.005619%	0.004982%	(0.000637)%
PERS 2/3	0.007257%	0.006392%	(0.000865)%

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

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

**Pension Expense**

For the year ended June 30, 2016, the Commission recognized pension expense as follows:

<b>Plan</b>	<b>Pension Expense</b>
PERS 1 UAAL	\$ (20,933)
PERS 2/3	\$ 37,187

**Deferred Outflows of Resources and Deferred Inflows of Resources**

At June 30, 2016, the Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**WASHINGTON APPLE COMMISSION****Notes to the Financial Statements**

June 30, 2016

Classification of Deferred Inflow/Deferred Outflow	Deferred Outflows of Resources		Deferred Inflows of Resources	
	PERS 1 UAAL	PERS 2/3	PERS 1 UAAL	PERS 2/3
Differences between expected and actual experience	\$ -	\$ 17,137	\$ -	\$ 10,624
Net difference between projected and actual investment earnings on pension plan investments	6,737	39,383	-	-
Changes of assumptions	-	3,326	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	-	-	27,608
Contributions subsequent to the measurement date	-	-	-	-
<b>TOTAL</b>	<b>\$ 6,737</b>	<b>\$ 59,846</b>	<b>\$ -</b>	<b>\$ 38,232</b>

Deferred outflows of resources related to pensions resulting from the Commission's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported 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 UAAL	PERS 2/3
2017	\$ (1,659)	\$ (7,993)
2018	\$ (1,659)	\$ (7,992)
2019	\$ 6,187	\$ 21,898
2020	\$ 3,867	\$ 15,702
2021	\$ -	\$ -
Thereafter	\$ -	\$ -

**NOTE 6 - ASSESSMENT RATE**

The assessment rate on all Washington apples (fresh and sliced) shipped is 8.75 cents per hundredweight based on net shipping weight, or 3.5 cents per standard 40 lb. box.

**NOTE 7 – RISK MANAGEMENT**

“Risk” is defined as anything that could prevent the achievement of a goal. Though we can never completely eliminate risk, the Commission makes every effort to minimize risks by implementing internal controls and procedures, segregating duties and procuring adequate insurance policies to protect against the potential of risk in such areas as liability, property, auto, health & welfare, and compliance.

The Washington Apple Commission is self-insured through the State of Washington to protect against general liability claims up to \$12,500,000. The State Public Officials Bond covers the Treasurer up to \$50,000 and the Public Employees Blanket Fidelity Bond protects the State from losses caused by dishonest acts of Commission employees. We have procured commercial property, auto, foreign liability, Director's & Officers liability, Media & Professional liability insurance policies through Conover Insurance to help mitigate any loss due to those risk factors. The Washington State Health Care Authority Public Employees Benefit program provides medical, dental, vision, life and disability insurance benefits to all eligible full-time WAC employees.

# WASHINGTON APPLE COMMISSION

## Notes to the Financial Statements

June 30, 2016

The Washington Apple Commission recognizes the importance of risk management and tries to incorporate the best practices listed in Executive Order 01-05 into our daily planning and agency-wide strategic focus. We routinely consult the Attorney General's Office whenever there is a question regarding potential litigation or situation of risk.

The Commission has not had any claims over the past 10 years and does not anticipate any losses in the near future. We strive to identify any risk exposures in our strategic planning and long-term focus and develop internal strategies as needed to address any potential risks.

### NOTE 8 – COMMITMENTS

Upon retirement or death, employees receive one day of pay for each four days of accumulated sick leave. As of June 30, 2016 the contingent liability under this formula was \$21,895.

### NOTE 9 – OPERATING LEASE

The Washington Apple Commission leases certain office equipment as well as a company vehicle on operating leases. The lease expense for the year ended June 30, 2016 was \$5,518. The approximate total future lease commitments are as follows:

<u>Fiscal Year</u>	<u>Mail Machine</u>	<u>Copier</u>	<u>Auto</u>	<u>Total Lease Expense</u>
2016-17	\$1,792	\$3,726	- 0 -	\$5,518
2017-18	\$1,792	\$3,415	- 0 -	\$5,207
2018-19	\$1,792	- 0 -	- 0 -	\$1,792
2019-20	\$896	- 0 -	- 0 -	\$896
Thereafter	- 0 -	- 0 -	- 0 -	<u>- 0 -</u>
				<u>\$13,413</u>

### NOTE 10 – RELATED ORGANIZATIONS

The Washington State Tree Fruit Research Commission (TFRC) is a separate entity established by the Washington State legislature in 1969 as defined under RCW 15.26. This commission was created to “promote and carry on research and administer specific industry service programs, ...which will or may benefit the planting, production, harvesting, handling, processing or shipment of tree fruit of this state...” Under this code, assessments are levied on all commercial tree fruit produced in the state for fresh or processing use. Per RCW 15.26.250, the Washington Apple Commission is mandated to collect the assessments due TFRC at the time we collect our own assessments and then pass those assessments on to them expeditiously. WAC bills TFRC quarterly for the actual cost of time and materials necessary to collect their assessments.

Previous to 2012, the Washington Apple Commission collected and forwarded the research assessment on behalf of TFRC in the amount of \$1.00/ton for all fresh, sliced and processed apples. Effective September 1, 2012, TFRC passed a Special Project Assessment on apples to fund contractual endowments with Washington State University to permanently expand and enhance the institution's capability to conduct research of specific interest to tree fruit producers in the state. This increased assessment of an additional \$1.00/ton will terminate after a total of \$32 million is collected, or eight crops years, whichever occurs first.

## WASHINGTON APPLE COMMISSION

### Notes to the Financial Statements

June 30, 2016

As of September 1, 2012, the Washington Apple Commission currently collects an assessment on behalf of Tree Fruit Research in the amount of \$2.00/ton for all fresh, sliced and processed apples.

The Washington State Tree Fruit Research Commission has nine members: three appointed by the Washington State Fruit Commission; five appointed by the Washington Apple Commission; and one appointed by the Washington Director of Agriculture to represent the pear industry.

#### NOTE 11 – INDUSTRY ORGANIZATIONS

##### US Apple Association

US Apple is a non-profit corporation, organized and incorporated in 1970 under the laws of the District of Columbia. The WAC and US Apple sign an annual memorandum of agreement which outlines the services US Apple provides the Commission in return for WAC's annual dues.

With oversight by the Director of Agriculture, the Washington Apple Commission is authorized in RCW 15.24.070(16) to provide funding and support to organizations providing support and leadership to and the representation of the apple industry.

US Apple provides the following services to the Commission:

- **Public Relations** – US Apple will provide information on agricultural issues related to apples to both the US Congress and to the appropriate administrative agencies such as the United States Department of Agriculture (USDA), Food and Drug Administration (FDA) and the Environmental Protection Agency (EPA).
- **Education** – US Apple will work on health and nutrition issues such as the healthy aspects of eating apples and apple products and develop public relations and educational materials.
- **Crisis Management** – US Apple will develop materials for and handle Crisis Management domestically for the apple industry and provide support to the apple industry export agencies in the event of an export crisis.
- **Weekly Newsletter** – US Apple will provide regular reports of its activities to the Commission. Additionally, US Apple will collect and disseminate information of interest to the Commission, growers and shippers.
- **Statistics** – US Apple will compile and disseminate statistics on fresh and processor apple holdings on the national apple crop.
- **Encourage and Promote Consumption of Apples and Apple Products** – US Apple will encourage and promote the consumption of apples and apple products by developing and producing press releases and long lead magazine articles, developing health messages that marketers can use in their programs and developing other public relations activities. The materials and activities will include the release of health studies on the benefits of eating apples and apple products.

US Apple has adopted bylaws to regulate its operations and establish a formula for charging dues. These dues are calculated on a 5-year average of Washington State's apple production multiplied by a board approved millage dues level of \$.007. For fiscal year 2015-16, based on a 5-year average of 146,238,305 bushels, the Commission's annual dues payable to US Apple was \$1,023,668.

US Apple has 24 Board of Directors, five of which are appointed by the Washington Apple Commission.

# **WASHINGTON APPLE COMMISSION**

## **Notes to the Financial Statements**

June 30, 2016

### Northwest Horticultural Council

The Northwest Horticultural Council (NHC) was incorporated in 1947 with the broad purpose of coordinating the activities of its members and to assist in handling problems common to the Northwest tree fruit industry, including but not limited to, export problems, negotiation of trade agreements, securing just and equitable freight rates for both domestic and ocean transportation, spray residue and other general industrial problems. Its current work focuses on national and international policy issues affecting growers and shippers in Idaho, Oregon and Washington.

Northwest Horticultural Council has adopted bylaws to regulate its operations and establish a formula for allocating the anticipated annual expense of its operations between contributing participants. This formula is based on a 3-year average of production for each commodity. The Apple Commission's obligation for 2015-16 was \$573,127.

NHC has nine Trustees, three of which are appointed by the Washington Apple Commission.

## REQUIRED SUPPLEMENTARY INFORMATION

### Schedule of Proportionate Share of the Net Pension Liability as of June 30 Information is Available for 2016

PERS 1 UAAL	
	<u>2016</u>
Employer's proportion of the net pension liability	0.004982%
Employer's proportionate share of the net pension liability	\$ 267,557
Employer's covered employee payroll	\$ 592,314
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	45.17%
Plan fiduciary net position as a percentage of the total pension liability	57.03%
PERS 2/3	
	<u>2016</u>
Employer's proportion of the net pension liability	0.006392%
Employer's proportionate share of the net pension liability	\$ 321,832
Employer's covered employee payroll	\$ 592,314
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	54.33%
Plan fiduciary net position as a percentage of the total pension liability	85.82%

## REQUIRED SUPPLEMENTARY INFORMATION

### Schedule of Employer Contributions as of June 30 Information is Available for 2016

#### PERS 1 UAAL

	<u>2016</u>
Statutorily or contractually required contributions	\$ 28,253
Contributions in relation to the statutorily or contractually required contributions	<u>(28,253)</u>
Contribution deficiency (excess)	<u>\$ -</u>
Covered employer payroll	\$ 592,314
Contributions as a percentage of covered employee payroll	4.77%

#### PERS 2/3

	<u>2016</u>
Statutorily or contractually required contributions	\$ 36,901
Contributions in relation to the statutorily or contractually required contributions	<u>(36,901)</u>
Contribution deficiency (excess)	<u>\$ -</u>
Covered employer payroll	\$ 592,314
Contributions as a percentage of covered employee payroll	6.23%
Administrative fees	\$ 1,066
Covered employer payroll	\$ 592,314
Admin. fee as a percentage of covered employee payroll	0.18%
Contributions and administrative fees as a percentage of covered employee payroll	<u>11.18%</u>



**WASHINGTON APPLE COMMISSION**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended June, 30, 2016**

1 Federal Agency Name/Pass-Through Agency Name	2 Federal Program Name	3 CFDA Number	4 Other ID Number	5 Expenditures	
				From Pass-Through Awards	From Direct Awards
Department of Agriculture, Foreign Agricultural Service	Market Access Program	10.601	109		\$5,179,019
Department of Agriculture, Foreign Agricultural Service	Technical Assistance for Specialty Crops Program	10.604	2014-17		\$423,132
Department of Agriculture, Agricultural Marketing Service / Pass-Through to Washington State Department of Agriculture	Specialty Crop Grant Program - Farm Bill	10.170	K1490	\$15,000	\$15,000
Total Federal Awards Expended				\$15,000	\$5,602,151
					\$5,617,152

The accompanying notes are an integral part of this financial statement.

**WASHINGTON APPLE COMMISSION**  
**Notes to the Schedule of Expenditures of Federal Awards**  
June 30, 2016

**NOTE 1 – BASIS OF ACCOUNTING**

The Schedule of Expenditures of Federal Awards is prepared on the same basis of accounting as the Washington Apple Commission's financial statements. The Washington Apple Commission uses the accrual method of accounting.

**NOTE 2 – PROGRAM COSTS**

The amounts shown as current and prior year expenditures represent the Federal portion of the program costs on the Schedule of Expenditures of Federal Awards.

**NOTE 3 – INDIRECT COST RATE**

The Washington Apple Commission has elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

## 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	<a href="mailto:PublicRecords@sao.wa.gov">PublicRecords@sao.wa.gov</a>
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Toll-free Citizen Hotline	(866) 902-3900
Website	<a href="http://www.sao.wa.gov">www.sao.wa.gov</a>