



Office of the Washington State Auditor
Pat McCarthy

Financial Statements and Federal Single Audit Report

Washington Apple Commission

For the period July 1, 2019 through June 30, 2020

Published February 16, 2021

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

February 16, 2021

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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TABLE OF CONTENTS

| | |
|---|----|
| Schedule of Findings and Questioned Costs..... | 4 |
| 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..... | 6 |
| Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance in Accordance With the Uniform Guidance | 9 |
| Independent Auditor's Report on the Financial Statements..... | 12 |
| Financial Section..... | 16 |
| About the State Auditor's Office..... | 49 |

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Washington Apple Commission July 1, 2019 through June 30, 2020

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 Program

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> |
|-----------------|--------------------------------------|
| 10.618 | Agricultural Trade Promotion 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

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 Apple Commission July 1, 2019 through June 30, 2020

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, as of and for the year ended June 30, 2020, 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 25, 2021.

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, 2020, 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.

As discussed in Note 13 to the financial statements, in February 2020, a state of emergency was declared that could have a negative financial effect on the Commission.

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 25, 2021

INDEPENDENT AUDITOR'S REPORT

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, 2019 through June 30, 2020

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, 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, 2020. 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, 2020.

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, reading "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy

State Auditor

Olympia, WA

January 25, 2021

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

Washington Apple Commission July 1, 2019 through June 30, 2020

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, as of and for the year ended June 30, 2020, 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

relevant to the Commission's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Washington Apple Commission, as of June 30, 2020, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 1, the financial 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, 2020, 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.

As discussed in Note 13 to the financial statements, in February 2020, a state of emergency was declared that could have a negative financial effect on the Commission. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 16 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board

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

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Commission's basic financial statements as a whole. 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 25, 2021 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.

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Pat McCarthy

State Auditor

Olympia, WA

January 25, 2021

FINANCIAL SECTION

Washington Apple Commission July 1, 2019 through June 30, 2020

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2020

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2020

Statement of Revenue, Expenses and Changes in Net Position – 2020

Statement of Cash Flows – 2020

Notes to the Financial Statements – 2020

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of Net Pension Liability – PERS 1, PERS 2/3 – 2020

Schedule of Employer Contributions – PERS 1, PERS 2/3 – 2020

Schedule of Changes in OPEB Liability and Related Ratios – 2020

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2020

Notes to the Schedule of Expenditures of Federal Awards – 2020

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, 2020 and 2019. Please read the MD&A in conjunction with the Commission's financial statements.

USING THE FINANCIAL REPORTS

The financial reports consist of the following: Statement of Net Position, Statement of Revenue, Expenses and Changes in Net Position, Statement of Cash Flows, Notes to the Financial Statements, Required Supplementary Information, Schedule of Expenditures of Federal Awards, and Notes to the Schedule of Expenditures of Federal Awards. 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 including assessment deposits, vendor checks, MAP & ATP 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.
- In 2004, the Board of Commissioners 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 creating a General Reserve Fund would proactively set aside a portion of current investment funds to help react to a future industry crisis if needed. As of June 30, 2020, there is a balance of \$3,500,000 in these Board Designated Reserves. Prior Board approval is needed to release these funds for general use. Other than this need for prior board approval, there are no limitations which will affect the availability of resources for future use.
- As of June 30, 2020, there is a balance in Net Assessment Receivable consisting of amounts owing to WAC for assessments due on fresh apple shipments. 94% of the Assessment receivable is for current invoices due within 35 days. 4% of this balance is made up of invoices that were paid shortly after year-end. The remaining 2% is for two invoices 45 days old, paid shortly after. Our average collection time on assessment billings is 35-40 days.
- The Export MAP, ATP, 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, 2020. This balance consists of five (5) MAP and four (4) ATP claims. All outstanding claims were reimbursed in full by October 2, 2020.

- All point of sale materials and gratuity items were inventoried at year end and are valued at their net realizable cost.

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.

Operating Lease Assets & Liabilities:

- In the fiscal year 2018, the Commission implemented GASB Statement No. 87 *Leases*, which required the Commission to recognize a lease asset and liability for long term operating leases. Previously, lease payments were expensed as incurred. Reference Note 9 in the Notes to the Financial Statements for details of the operating lease assets and liabilities.

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

- Reference Note 5 in the Notes to the Financial Statements for details regarding the Commission's pension plan activity.

OPEB Liability:

- GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)*, requires significant disclosures regarding OPEB plans. Note 12 in the Notes to the Financial Statements discloses details regarding the Commission's OPEB plan activity.

CONDENSED FINANCIAL DATA – STATEMENT OF NET POSTION

| | <u>2020</u> | <u>2019</u> |
|---|---------------------------|---------------------------|
| Current Assets | \$7,479,744 | \$8,137,793 |
| Noncurrent Assets | <u>990,048</u> | <u>1,036,376</u> |
| Total Assets | 8,469,792 | 9,174,169 |
| Deferred Outflows of Resources | 36,713 | 27,754 |
| Total Assets and Deferred Outflows of Resources | <u>\$8,506,505</u> | <u>\$9,201,923</u> |
| Current Liabilities | \$1,151,752 | \$1,815,628 |
| Noncurrent Liabilities | <u>708,132</u> | <u>614,532</u> |
| Total Liabilities | 1,859,884 | 2,430,160 |
| Deferred Inflows of Resources | 79,312 | 152,189 |
| Net Investment in Capital Assets | 990,048 | 1,036,376 |
| Unrestricted | <u>5,577,261</u> | <u>5,583,198</u> |

| | | |
|---|--------------------|--------------------|
| Total Net Position | 6,567,309 | 6,619,574 |
| Total Liabilities, Deferred Inflows of Resources and Net Position | <u>\$8,506,505</u> | <u>\$9,201,923</u> |

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION

Operating Revenue:

- The Commission collects an assessment on the net weight of all Washington apples shipped at 8.75 cents per hundredweight (100 pounds of apples). 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 2020 crop was larger than that of 2019 resulting in an increase in cash received from growers this fiscal year.
- In 2020, the Commission spent 52% of its Operating revenues on the Export program, 36% in support of other industry organizations and 12% on Administrative costs, compared to 55%, 37% and 8% respectively in 2019.

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 increased 18% from last year, 6% due to board approved salary increases and 12% mainly due to the increase in the actuarially determined OPEB liability calculated for 2020. As of June 30, 2020, WAC employed 7 full-time and 4 part-time employees. Benefits increased with a 2.5% increase in the Employer Retirement contribution and a \$23/month increase in FTE contribution rates for Health Care benefits.
- Rep contract fees increased in 2020 with additional fees needed for Reps to administer the ATP grant program that began this season.
- The decrease in Export promotions in 2020 was due to effects of COVID-19 restrictions in most markets resulting in country-wide lockdowns or postponement of promotional activities originally planned for this season. We were still able to meet our required industry match dollars required by both the MAP and ATP programs, but many activities were postponed until 2021 in hopes that COVID restrictions will be reduced.
- The Commission remains a full dues paying member of US Apple Association and Northwest Horticulture Council, and 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.
- Professional fees decreased in 2020 as Trademark expenses to register & maintain our Washington apple logos were not as high as in 2019 when we registered the Crispy Appleguy character in most of our international markets.
- International travel remained high earlier in the season as Export Staff and Reps traveled more to implement programs related to our new ATP funding and to conduct international market visits evaluating WA apple promotional programs. However, travel dropped off altogether in March 2020 due to COVID-19 travel restrictions and for the safety of all WAC employees and contractors.
- Depreciation expense has reduced due to the implementation of the revised capitalization policy for capital assets as explained in Note 4 in the Notes to the Financial Statements.

- Facility costs to maintain the building, equipment and grounds have remained constant over the last few years. Due to the change in our Capital Asset policy, there will be increased facility costs expensed annually in the future.
- The Washington Apple Commission Operating Expenses in 2020 exceed Operating Revenues by \$185,848 compared to \$263,084 in 2019.

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.

MAP & GBI Grant Funding

- The total MAP grant funds allocated to the Washington Apple Commission to use from July 1, 2019 through June 30, 2020 was \$5,108,903 million.
- The total GBI (Global Based Initiative) grant funds allocated for year three (3) of (3) of the Taste US program in Canada was \$400,000.
- Due to COVID-19 pandemic, WAC was forced to cancel or postpone a number of MAP and GBI activities due to COVID-19 lockdowns and/or new health and safety regulations in the various international markets. FAS allowed cooperators to roll over these MAP & GBI funds into the 2020-21 program year. \$1,326,365 in MAP funds and \$105,563 in GBI funds were carried over to our 2020-21 fiscal year.
- The Commission spent \$3,782,538 of the allocated \$5,108,903 MAP funds and spent \$294,437 of the \$400,000 GBI funds. WAC submitted and received reimbursement on 20 MAP claims.

ATP Grant Funding

- In response to the imposition of tariffs by other countries on U.S. agricultural products, as part of the Trump administration's trade aid package, \$300,000,000 was awarded to promotional organizations to help mitigate losses resulting from these recent trade tariffs. Of these available funds, the Washington Apple Commission applied for and was awarded \$9,957,600 in funds from the Agricultural Trade Promotions (ATP) program administered by the USDA's Foreign Agricultural Service (FAS). This ATP funding is intended to ameliorate the negative impacts of recent international trade actions on U.S. agriculture by developing, maintaining, and expanding commercial export markets for U. S. agricultural commodities and products. These funds are only to be used in specific markets for activities previously approved in our original grant proposal. Participants in the ATP program are required to contribute a total amount in goods, services, and/or cash equal to at least 10 percent of the total grant award. The Commission has pledged to match a minimum of \$995,760 in industry funds over the course of the ATP promotional program. WAC has tentatively allocated ATP funds over a three (3) year timeframe but FAS will allow funds to be utilized up to five (5) years as needed.
- The Foreign Trade Committee and WAC Board approved an allocation by country to best utilize these additional funds.
- Actual ATP country programs began in several countries on July 1, 2019.
- The Commission spent \$2,863,028 in ATP funds in 2019-20 leaving \$7,094,573 left to spend over the next 2-4 years.

Other Non-Operating Revenue & Expenses

- 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.
- 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 have continued to increase this year due to rising interest rates on maturing Certificates of Deposits.

Analysis:

The Washington Apple Commission's annual budget is based on current and historical data provided by the Washington State Tree Fruit Association (WSTFA). As is the situation with most agriculture, many factors influence yield including the cyclic nature of the annual crop, planting trends, market pricing and Mother Nature just to name a few. Therefore, predicting a crop and setting a budget are 'best guesses' and continue to evolve as the season progresses. In principle, approximately 65-70% of all Washington grown apples sell into the U.S. domestic market, with the balance exported to over 60 countries. U.S. domestic demand remains static, and as crop volumes fluctuate, additional export sales can be needed to offset limited domestic demand.

Washington apple growers are optimistic and progressive when considering new varieties and planting techniques. For the first time in several decades, the world renown Red Delicious has lost its #1 position to Gala in total volume produced. Cosmic Crisp, a new proprietary variety available to Washington growers only is beginning to impact domestic consumer demand. This season Washington produced just 1.6 million bushels, but expectations are to surpass 20 million by 2026 – the Cosmic Tsunami is coming. There are over 40 new proprietary varieties planted with an expectation to increase consumption.

Consumer demands are changing, and growers are reacting with new high value varieties to match consumer demand with an increased focus on yield per acre, new flavors, and improved texture. These modern orchards use new horticultural structures that can minimize the cyclic nature of our business. Expectations are for more consistent production volumes as the industry matures and replaces mainstream varieties with new orchards using close proximity planting and trellis systems. Our industry will look a lot different in a few short years as new varieties displace mainstream.

Supporting and building international demand is the priority of the Washington Apple Commission, and as the industry continues to evolve from a variety and production standpoint, export markets play an increasingly important role in maintaining grower returns. International shipments fluctuate between 28% to 34% with a historical high in 2014-15 of 50,592,461 boxes followed by a decade low in 2015-16 of 33,061,707 boxes. Even with this fluctuation, consistent messaging and promotional activities must be maintained to support long term brand strategies on behalf of the Washington apple growers. Revenue changes due to the harvest swings described above, influence operational expenses depending upon the promotional support deemed necessary to address these unpredictable market forces. Many factors influence our activities including Trade issues (steel & aluminum tariffs), the China trade war, high U.S. dollar valuation, increased competition from China (#1 apple producer worldwide) and the EU (#2 producer) requiring nimble strategic marketing alterations throughout the season.

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

| | <u>2020</u> | <u>2019</u> |
|---|---------------------------|---------------------------|
| Operating Revenues | \$4,500,897 | \$4,061,060 |
| Non-Operating Revenues | <u>7,073,585</u> | <u>5,938,221</u> |
| Total Revenues | \$11,574,482 | \$9,999,281 |
| Operating Expenses | 4,686,745 | 4,324,144 |
| Non-Operating Expenses | <u>6,940,002</u> | <u>5,816,049</u> |
| Total Expenses | 11,626,747 | 10,140,193 |
| Change in Net Assets | (52,265) | (140,912) |
| Total Net Assets – Beginning of Year | 6,619,574 | 6,926,951 |
| Adjustment to Beginning Net Position – Change in Accounting Estimate | <u>- 0 -</u> | <u>(166,465)</u> |
| Total Net Assets – End of Year | <u><u>\$6,567,309</u></u> | <u><u>\$6,919,574</u></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, 2020

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

CURRENT ASSETS

| | | |
|---------------------------------|----------------|-----------|
| Cash - Unrestricted | \$ 1,286,724 | |
| Time Certificates of Deposit | 658,004 | |
| Board Designated Investments | 3,500,000 | |
| Net Fresh Assessment Receivable | 379,685 | |
| Federal Grant Receivable | 1,474,689 | |
| Other Receivables | 1,965 | |
| Inventory | 31,973 | |
| Prepaid Expenses | <u>146,704</u> | |
| Total Current Assets | | 7,479,744 |

NONCURRENT ASSETS

| | | |
|--|--------------------|---------|
| Building | 1,986,832 | |
| Land Improvements | 114,343 | |
| Building Furniture, Fixtures & Equipment | 123,052 | |
| Automobiles | 50,843 | |
| Leased Office Equipment | 23,779 | |
| Less: Accumulated Depreciation | <u>(1,463,910)</u> | |
| | 834,939 | |
| Land | <u>155,109</u> | |
| Total Capital Assets | <u>990,048</u> | |
| Total Noncurrent Assets | | 990,048 |

DEFERRED OUTFLOWS OF RESOURCES

36,713

TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

\$ 8,506,505

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

CURRENT LIABILITIES

| | |
|----------------------------------|---------------|
| Accounts Payable | \$ 1,060,808 |
| Accrued Vacation Payable | 76,103 |
| Lease Liability, Current Portion | 4,605 |
| OPEB Liability, Current Portion | <u>10,236</u> |
| Total Current Liabilities | 1,151,752 |

NONCURRENT LIABILITIES

| | |
|---|----------------|
| Net Pension Liability | 247,286 |
| Lease Liability, Net of Current Portion | 12,664 |
| OPEB Liability, Net of Current Portion | <u>448,182</u> |
| Total Noncurrent Liabilities | 708,132 |

Total Liabilities 1,859,884

DEFERRED INFLOWS OF RESOURCES

79,312

NET POSITION

| | | |
|----------------------------------|------------------|------------------|
| Net Investment in Capital Assets | 990,048 | |
| Unrestricted | <u>5,577,261</u> | |
| Total Net Position | | <u>6,567,309</u> |

TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

\$ 8,506,505

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, 2020

OPERATING REVENUES

| | |
|--------------------|--------------|
| Assessment Revenue | \$ 4,500,897 |
|--------------------|--------------|

| | |
|--|--------------------------|
| | Total Operating Revenues |
|--|--------------------------|

OPERATING EXPENSES

| | |
|-----------------------|-----------|
| Salaries and Benefits | 1,014,988 |
|-----------------------|-----------|

| | |
|-----------------|---------|
| Contracted Reps | 848,880 |
|-----------------|---------|

| | |
|-------------------|---------|
| Export Promotions | 390,262 |
|-------------------|---------|

| | |
|------------------------|-----------|
| Industry Organizations | 1,735,441 |
|------------------------|-----------|

| | |
|-------------------|--------|
| Professional Fees | 78,509 |
|-------------------|--------|

| | |
|-------------------------------|---------|
| Travel, Training and Meetings | 336,042 |
|-------------------------------|---------|

| | |
|--------------|--------|
| Depreciation | 57,101 |
|--------------|--------|

| | |
|-----------------|--------|
| Office Expenses | 96,887 |
|-----------------|--------|

| | |
|----------------|--------|
| Facility Costs | 84,221 |
|----------------|--------|

| | |
|--------------------|--------|
| Business Insurance | 22,266 |
|--------------------|--------|

| | |
|---------------|--------|
| Miscellaneous | 22,148 |
|---------------|--------|

| | |
|--|--------------------------|
| | Total Operating Expenses |
|--|--------------------------|

| | |
|--------------------------------|------------------|
| OPERATING INCOME (LOSS) | (185,848) |
|--------------------------------|------------------|

NON-OPERATING REVENUES (EXPENSES)

| | |
|-----------------------|-----------|
| Federal Grant Revenue | 6,940,002 |
|-----------------------|-----------|

| | |
|-----------------------|-------------|
| Federal Grant Expense | (6,940,002) |
|-----------------------|-------------|

| | |
|---------------------------|--------|
| Office Space Lease Income | 36,807 |
|---------------------------|--------|

| | |
|------------------------|-------|
| Conference Room Rental | 5,372 |
|------------------------|-------|

| | |
|----------------------------|-------|
| Net Fee for Service Income | 9,132 |
|----------------------------|-------|

| | |
|----------------------------------|-------|
| Gain (Loss) on Sale of Inventory | 3,626 |
|----------------------------------|-------|

| | |
|-----------------|--------|
| Interest Income | 78,400 |
|-----------------|--------|

| | |
|------------------------|-----|
| Other Income (Expense) | 246 |
|------------------------|-----|

| | |
|--|---|
| | Total Non-Operating Revenues (Expenses) |
|--|---|

| | |
|--|-----------------|
| INCREASE (DECREASE) IN NET POSITION | (52,265) |
|--|-----------------|

| | |
|---|------------------|
| NET POSITION - BEGINNING OF YEAR | 6,619,574 |
|---|------------------|

| | |
|-----------------------------------|---------------------|
| NET POSITION - END OF YEAR | \$ 6,567,309 |
|-----------------------------------|---------------------|

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

WASHINGTON APPLE COMMISSION
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2020

CASH FLOWS FROM OPERATING ACTIVITIES

| | |
|--|--------------------|
| Cash received as assessments from growers | \$ 4,494,596 |
| Cash payments for goods and services | (2,689,430) |
| Cash payments to employees | (999,430) |
| Cash payments to industry organizations | <u>(1,735,441)</u> |
| Net cash (used) provided by operating activities | <u>(929,706)</u> |

**CASH FLOWS FROM NONCAPITAL
FINANCING ACTIVITIES**

| | |
|---|----------------|
| Cash reimbursements from FAS | 7,312,782 |
| Cash payments for goods and services reimbursable by FAS | (6,940,002) |
| Other cash income | <u>55,393</u> |
| Net cash provided (used) by noncapital financing activities | <u>428,173</u> |

**CASH FLOWS FROM CAPITAL AND
RELATED FINANCING ACTIVITIES**

| | |
|---|----------|
| Property and equipment additions | <u>-</u> |
| Net cash used by capital and related financing activities | <u>-</u> |

CASH FLOWS FROM INVESTING ACTIVITIES

| | |
|--|------------------|
| Transfer to board designated investments | (500,000) |
| Interest received on investments | 78,400 |
| Payments on lease liabilities | <u>(5,633)</u> |
| Net cash (used) provided by investing activities | <u>(427,233)</u> |

NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS (928,765)

CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR 2,873,493

CASH AND CASH EQUIVALENTS AT END OF YEAR \$ 1,944,728

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

WASHINGTON APPLE COMMISSION
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2020

**RECONCILIATION OF OPERATING INCOME
TO NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES**

| | |
|--|---------------------|
| Operating (loss) income | \$ (185,848) |
| Adjustments to reconcile change in net assets to net cash (used) provided by operating activities - | |
| Depreciation | 57,101 |
| (Increase) decrease in current assets - | |
| Receivables | (6,301) |
| Prepaid expenses | (137,406) |
| Increase (decrease) in current liabilities - | |
| Accounts payable | (672,809) |
| Accrued vacation and related payroll taxes | 8,490 |
| Increase (decrease) in deferred inflows, outflows and pension and OPEB liabilities | <u>7,068</u> |
| Net cash (used) provided by operating activities | <u>\$ (929,706)</u> |

SCHEDULE OF NON-CASH ITEMS

| | |
|--|-------------|
| Adjustment to net position - change in accounting estimate | <u>\$ -</u> |
|--|-------------|

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

WASHINGTON APPLE COMMISSION

Notes to the Financial Statements

June 30, 2020

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 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.

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 net realizable value 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 were set aside by the Commission in the event that there is a future industry need for the funds. Board approval is needed to release these funds for general use.

WASHINGTON APPLE COMMISSION

Notes to the Financial Statements

June 30, 2020

The balance of the Board Designated Reserves is \$3,500,000. Other than the need for prior board approval, there are no other limitations which will affect the availability of resources for future use.

Operating Revenues consist of assessment dollars collected from Washington fruit warehouses on all apples shipped for both fresh and slices at 8.75 cents per hundredweight (100 pounds of apples) based on net shipping weight. Operating expenses are the costs associated with following the Apple Commission's core mission 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.

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.

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, 2020, the Commission had the following investments:

| <u>Investment Type</u> | <u>Maturity Year</u> | <u>2020</u> |
|-------------------------|--------------------------|--------------------|
| Cash Management Savings | N/A | \$1,002,422 |
| Certificates of Deposit | 2020 | 1,630,722 |
| Certificates of Deposit | 2021 | 2,422,168 |
| Certificates of Deposit | 2022 | 105,114 |
| Total | | <u>\$5,160,426</u> |

WASHINGTON APPLE COMMISSION

Notes to the Financial Statements

June 30, 2020

These investments are recorded on the Statement of Net Position as follow:

| | <u>2020</u> |
|---|--------------------|
| Savings and certificates of deposits – unrestricted | \$1,660,426 |
| Board designated investments | <u>3,500,000</u> |
| Total | <u>\$5,160,426</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, 2020, these excess amounts totaled \$3,099,593.

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

| <u>Institution</u> | <u>Investment Type</u> | <u>2020</u> |
|-------------------------------|---|-------------|
| Banner Bank | Certificate of Deposit | \$625,009 |
| Cashmere Valley Bank | Certificate of Deposit / Business Savings | 1,656,032 |
| Key Bank | Certificate of Deposit | 998,541 |
| US Bank | Certificate of Deposit | 428,777 |
| Washington Federal | Certificate of Deposit | 565,893 |
| Yakima Federal Savings & Loan | Certificate of Deposit | 325,341 |

Certificates of Deposits are purchased with varying maturity dates with terms ranging from 7-36 months to mitigate interest rate risk and to ensure that cash needed for operations will be available.

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, 2020, the Commission had no investments that meet the GASB criteria for measurement at fair value.

NOTE 4 - CAPITAL ASSETS AND DEPRECIATION

CAPITAL ASSET DEFINED

Capital assets are tangible or intangible assets having initial useful lives extending beyond a reporting period. Such assets may include land and improvements to land, buildings and building improvements, building furniture and fixtures, parking lots, vehicles, and machinery and equipment.

WASHINGTON APPLE COMMISSION

Notes to the Financial Statements

June 30, 2020

POLICY APPROACH

Any repairs and maintenance are expensed as incurred regardless of the dollar amount. Costs are only capitalized if they result in a betterment/improvement to the original capital asset if they 1) extend the useful life, or 2) increase the service capacity or efficiency of the asset.

Certain expenditures may be classified separately from the rest of the structure, such as the roof of the main or conference room buildings, on the grounds that the asset may be replaced several times over the life of the building.

When there is a change in the estimated useful life due to an improvement of an asset, depreciation charges for future periods will be revised based on the new book value and the new estimated useful life. No adjustment will be made to prior periods. If it is determined that an existing asset's useful life needs to be extended, future depreciation charges will be revised based on the original cost allocated over the asset's new estimated useful life.

COST TO BE RECORDED

All capital assets are stated at historical cost, or the original amount spent to acquire the asset.

DEPRECIATION METHOD

The straight-line depreciation method is used for all WAC assets. The cost of an individual capital asset (less any salvage value) is allocated equally over its estimated useful life. Buildings and land improvements are depreciated over twenty (20) to fifty (50) years. Depreciation of furniture, fixtures, and equipment is computed using three (3) to ten (10) year asset lives. The Washington Apple Commission's Capitalization threshold is \$5,000 for any individual item. Office equipment items under \$5,000 such as computers, laptops, printers, office furniture, and the like are charged to expense but tagged with an inventory number

which allows WAC to track the location of the items purchased. Repairs and maintenance costs that keep or restore an asset to its original condition will be expensed as they are incurred, regardless of dollar amount.

DATE PLACED IN SERVICE

An asset will be capitalized and begin to be depreciated in the month it is either substantially completed (when it can perform its intended function) or placed in service. Depreciation expense will be booked annually at the end of each fiscal year for all assets that remain in service.

ESTIMATED USEFUL LIFE

The objective of depreciation is to spread the costs of capital assets incurred in one period equitably over multiple periods for which the capital asset will benefit. Depreciation must be based on a reasonable estimate of expected useful life, or the number of years WAC expects to use that asset in operations. The useful life will be periodically reviewed and adjusted prospectively when needed to ensure that the asset's cost is allocated over its useful life.

FULLY DEPRECIATED ASSETS

Starting in 2018, WAC will not fully depreciate assets that are still in service. Those assets that are currently on the books that are fully depreciated but are still in service, will remain until their life is exhausted. No

WASHINGTON APPLE COMMISSION
Notes to the Financial Statements
June 30, 2020

subsequent adjustments will be made. However, those assets that are still depreciating will be re-assessed annually before their estimated life is due to expire and adjusted as needed.

INVENTORY

All capital assets are inventoried at least once per fiscal year to confirm location, condition, and to re-evaluate whether the estimated useful life is still sufficient. At this time, assets no longer in service may be either sent to the State surplus or destroyed if damaged and unusable. In both cases, these assets will be taken off the books. Asset additions will also be recorded and begin depreciation the month they were placed in service.

A complete capital asset inventory is maintained which states each asset by category listing WAC's inventory equipment number (if applicable), the date the asset was placed in service, the historical cost, and its estimated useful life.

Fixed asset depreciation and amortization expense for fiscal year 2020 was \$57,101.

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 ended June 30, 2020

| Aggregate Pension Amounts – All Plans | |
|--|------------|
| Pension liabilities | \$ 247,286 |
| Pension assets | \$ -0- |
| Deferred outflows of resources | \$ 36,713 |
| Deferred inflows of resources | \$ 79,312 |
| Pension expense/expenditures | \$ 5,776 |

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.

WASHINGTON APPLE COMMISSION

Notes to the Financial Statements

June 30, 2020

Public Employees' Retirement System (PERS)

PERS members include elected officials; state employees; employees of the Supreme, Appeals and Superior Courts; employees of the legislature; employees of district and municipal courts; employees of local governments; and higher education employees not participating in higher education retirement programs. PERS is comprised of three separate pension plans for membership purposes. PERS plans 1 and 2 are defined benefit plans, and PERS plan 3 is a defined benefit plan with a defined contribution component.

PERS Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for the year ended June 30, 2020 were as follows:

| PERS Plan 1 | Actual Contribution Rates: | |
|-------------------------------|----------------------------|----------|
| | Employer | Employee |
| July 1, 2019 to June 30, 2020 | 12.86% | 6.00% |

There are no Commission employees enrolled in PERS Plan 1 during the year ended June 30, 2020.

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.

WASHINGTON APPLE COMMISSION

Notes to the Financial Statements

June 30, 2020

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

Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for the year ended June 30, 2020 were as follows:

| PERS Plan 2/3 | Actual Contribution Rate | | |
|-------------------------------|--------------------------|------------|------------|
| | Employer 2/3 | Employee 2 | Employee 3 |
| July 1, 2019 to June 30, 2020 | 12.86% | 7.90% | variable |

The Commission's actual contributions to the plan were \$91,733 for the year ended June 30, 2020. Of that, \$34,436 was the required Plan 1 UAAL contribution and \$57,297 was the PERS 2/3 contribution. Employee contributions to the plan were \$57,152 for the year ended June 30, 2020.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2020 with a valuation date of June 30, 2019. The actuarial assumptions used in the valuation are summarized in the Actuarial Section of DRS' CAFR located on the DRS employer-resource GASB webpage. The assumptions reflect the results of the Office of the State Actuary's (OSA) *2008-2013 Experience Study* and the *2097 Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2019 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2020. Plan liabilities were rolled forward from June 30, 2019, to June 30, 2020 reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

WASHINGTON APPLE COMMISSION

Notes to the Financial Statements

June 30, 2020

- **Inflation:** 2.75% total economic inflation; 3.50% salary inflation
- **Salary increases:** In addition to the base 3.50% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.40%

Mortality rates were developed using the Society of Actuaries' Pub. H-210 mortality rates, which vary by member status (e.g., active retiree, or survivor), as our base table. OSA applied age offsets for each system, as appropriate, to better tailor the mortality rates to the demographics of each plan. OSA applied the long-term NP-2017 generational improvement scale, also developed by the Society of Actuaries, to project mortality rates for every year after the 2010 base table. Under "generational" mortality, a member is assumed to receive additional mortality improvements in each future year throughout their lifetime.

Actuarial results OSA provided reflect the following changes in assumptions and methods:

- Updated their demographic assumptions based on the results of their latest demographic study.
- Updated the Early Retirement Factors and Joint-and-Survivor Factors used on their model.
- The current valuation includes liabilities and assets for Plan 3 members purchasing Total Allocation Portfolio annuities when determining contribution rates and funded status.
- OSA changed their method to updating certain data items the change annually. Examples include the public safety duty-related death lump sum and Washington state average wage. OSA has set these values to 2018 and will project then into the future using assumptions until the next Demographic Experience Study in 2025.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.40 percent.

To determine that rate, an asset sufficiency test was completed to test whether each pension plan's fiduciary net position was sufficient to make all projected future benefit payments for current plan members.

Based on the assumptions described in OSA's certification letter within the DRS CAFR, the pension plan's 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 7.40% was used to determine the total liability.

Long-Term Expected Rate of Return

The OSA selected a 7.40% long-term rate of return on pension plan investments using a building-block method. In selecting this assumption, OSA reviewed the historical experience data, considered the historical conditions that produced past annual investment return, and considered Capital Market Assumptions (CMAs) and simulated expected investment returns the Washington State Investment Board (WSIB) provided. The CMAs contain three pieces of information for each class of assets WSIB invests in: expected annual return, standard deviation of the annual return, and correlation between the annual returns of each asset class with every other asset class.

WASHINGTON APPLE COMMISSION

Notes to the Financial Statements

June 30, 2020

The WSIB uses CMAs and their target asset allocation to simulate future investment returns at various future times.

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, 2020, are summarized in the table below. The inflation component used to create the table is 2.20 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

| Asset Class | Target Allocation | % Long-Term Expected Real Rate of Return Arithmetic |
|-----------------|-------------------|---|
| Fixed Income | 20.00% | 2.20% |
| Tangible Assets | 7.00% | 5.10% |
| Real Estate | 18.00% | 5.80% |
| Global Equity | 32.00% | 6.30% |
| Private Equity | 23.00% | 9.30% |
| | 100.00% | |

Sensitivity of NPL

The table below presents the Commission's proportionate share of the net pension liability calculated using the discount rate of 7.4 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 (6.4 percent) or 1-percentage point higher (8.4 percent) than the current rate.

| Plan | 1% Decrease (6.4%) | Current Discount Rate (7.4%) | 1% Increase (8.4%) |
|-------------|--------------------|------------------------------|--------------------|
| PERS 1 UAAL | \$ 210,099 | \$ 167,736 | \$ 130,791 |
| PERS 2/3 | \$ 494,983 | \$ 79,550 | \$ (262,559) |

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, 2020, the Commission reported a total pension liability of \$247,286 for its proportionate share of the net pension liabilities as follows:

WASHINGTON APPLE COMMISSION

Notes to the Financial Statements

June 30, 2020

| Plan | Liability |
|-----------------|------------|
| PERS 1 UAAL | \$ 167,736 |
| PERS 2/3 | \$ 79,550 |
| Total Liability | \$ 247,286 |

At June 30, 2020 the Commission's proportionate share of the collective net pension liabilities was as follows:

| Plan | Proportionate Share 6/30/20 | Proportionate Share 6/30/19 | Change in Proportion |
|-------------|-----------------------------|-----------------------------|----------------------|
| PERS 1 UAAL | 0.004751% | 0.004931% | (0.000180)% |
| PERS 2/3 | 0.006220% | 0.006362% | (0.000142)% |

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30, 2020 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, 2020, and the actuarial valuation date on which the total pension liability is based was as of June 30, 2019, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended June 30, 2020, the Commission recognized pension expense as follows:

| Plan | Pension Expense |
|-------------|-----------------|
| PERS 1 UAAL | \$ 824 |
| PERS 2/3 | \$ 4,952 |

Deferred Outflows of Resources and Deferred Inflows of Resources

At June 30, 2020, the Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| 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 | \$ - | \$ 28,478 | \$ - | \$ 9,971 |
| Net difference between projected and actual investment earnings on pension plan investments | - | - | 934 | 4,040 |
| Changes of assumptions | - | 1,133 | - | 54,340 |
| Changes in proportion and differences between contributions and proportionate share of contributions | - | 7,102 | - | 10,029 |
| Contributions subsequent to the measurement date | - | - | - | - |
| TOTAL | \$ - | \$ 36,713 | \$ 934 | \$ 78,378 |

WASHINGTON APPLE COMMISSION
Notes to the Financial Statements
June 30, 2020

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, 2020. 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 |
|----------------------------|--------------------|-----------------|
| 2021 | \$ (4,238) | \$ (34,068) |
| 2022 | \$ (133) | \$ (8,949) |
| 2023 | \$ 1,293 | \$ 355 |
| 2024 | \$ 2,144 | \$ 7,069 |
| 2025 | \$ - | \$ (2,141) |
| Thereafter | \$ - | \$ (3,931) |

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, and 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.

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. WAC routinely consults the Attorney General's Office whenever there is a question regarding potential litigation or situation of risk.

Per Executive Order 16-06, The Commission instituted an Enterprise Risk Management policy and annually provides DES with an undated Risk Register that identifies any potential risk exposures and what measures WAC has in place to mitigate these risks.

WASHINGTON APPLE COMMISSION
Notes to the Financial Statements
June 30, 2020

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, 2020, the contingent liability under this formula was \$35,039.

NOTE 9 - OPERATING LEASE

The Washington Apple Commission leases certain office equipment on operating leases.

A mail machine was leased under terms that provided for 60 monthly payments of \$449 that expired in October 2019. A new mail machine is leased under terms that provide for 63 monthly payments of \$179 commencing in November 2019 and expiring in January 2025.

A copier is leased under terms that provide for 60 monthly payments of \$233 commencing in June 2018 and expiring in May 2023.

The Washington Apple Commission has \$23,779 of leased equipment with \$6,787 of accumulated depreciation as of June 30, 2020.

The present value of the lease payments is recorded as a lease liability upon commencement and amortized over the term of the lease agreement. The Commission paid a total of \$6,021 under lease arrangements for the year ended June 30, 2020 with \$5,633 and \$388 applied to principal and interest, respectively.

Principal and interest requirements to maturity for the lease liability at June 30, 2020 are as follows:

| <u>Fiscal Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total Lease Payment</u> |
|--------------------|------------------|-----------------|----------------------------|
| 2020-21 | \$4,605 | \$337 | \$4,942 |
| 2021-22 | 4,715 | 227 | 4,942 |
| 2022-23 | 4,596 | 113 | 4,709 |
| 2023-24 | 2,106 | 42 | 2,148 |
| 2024-25 | 1,246 | 7 | 1,253 |
| Total | <u>\$17,268</u> | <u>\$726</u> | <u>\$17,994</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

WASHINGTON APPLE COMMISSION

Notes to the Financial Statements

June 30, 2020

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 was set to terminate after a total of \$32 million was collected, or eight crops years, whichever occurred first. On January 9, 2020, the TFRC voted to end the collections for this endowment.

As of January 21, 2020, the Washington Apple Commission currently collects an assessment on behalf of Tree Fruit Research in the amount of \$1.00/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

WASHINGTON APPLE COMMISSION

Notes to the Financial Statements

June 30, 2020

approved millage dues level of \$.007. For fiscal year 2019-20, based on a 5-year average of 167,142,771 bushels, the Commission's annual dues payable to US Apple was \$1,169,999.

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

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. However, per NHC's Reserve policy, if their balance in reserves exceeds 50% of the average of the past three (3) years' annual operating budgets, NHC is to return funds proportionately to its membership based on the percentage of the overall budget paid by each organization. For 2019-20 the Commission's annual dues to NHC was \$538,889.

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

NOTE 12 - DEFINED BENEFIT OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLANS

The following table represents the aggregate OPEB amounts for all plans subject to the requirements of GASB 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, for the year ended June 30, 2020:

| Aggregate OPEB Amounts | |
|-------------------------------------|------------|
| OPEB liabilities | \$ 458,418 |
| OPEB assets | \$ - |
| OPEB deferred outflows of resources | \$ - |
| OPEB expense | \$ 102,926 |

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

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

The relationship between the PEBB OPEB plan and its member employers, their employees, and retirees is not formalized in a contract or plan document. Rather, the benefits are provided in accordance with a substantive plan in effect at the time of each valuation. A substantive plan is one in which the plan terms are understood by the employers and plan members. This understanding is based on communications between the HCA, employers, and plan members, and the historical pattern of practice with regard to the sharing of benefit costs. The understanding by the employer and plan members is that there is no contractual

WASHINGTON APPLE COMMISSION
Notes to the Financial Statements
June 30, 2020

obligation to continue the substantive plan as an employee benefit on an ongoing basis. Nevertheless, the actuarial assumption used in valuations presented in this footnote assume that this substantive plan will be carried forward into the future.

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

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

At June 30, 2020, the following employees were covered by the benefit terms:

| Employees Covered by Benefit Terms | |
|--|----|
| Inactive employees or beneficiaries currently receiving benefits | 3 |
| Inactive employees entitled to but not yet receiving benefits | 0 |
| Active employees | 7 |
| Total | 10 |

The plan is funded on a pay-as-you-go basis and there are no assets accumulated in a qualifying trust. During the year ended June 30, 2020 actuarially determined OPEB benefits were \$12,693.

Assumptions and Other Inputs

The Commission uses the alternative measurement method (AMM) in determining its total OPEB liability. The AMM is accomplished by utilizing the AMM Online Tool provided by the Washington State Office of the State Actuary (OSA). The OSA relied on its 2018 PEBB OPEB Actuarial Valuation Report and OPEB Actuarial Valuation for the State's June 30, 2020 Fiscal Year-End report for the purpose of developing the AMM Online Tool.

The total OPEB liability was determined using the following methodologies: actuarial valuation date was June 30, 2020 and the measurement date was June 30, 2020. The actuarial cost method was Early Age. The amortization method used immediate recognition.

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

The total OPEB liability was determined using the following actuarial assumptions, applied to all period included in the measurement, unless otherwise specified. Inflation rate was 2.75% and the projected salary change was 3.5% plus service-based salary increases. Health care trend rates assumptions vary slightly by

WASHINGTON APPLE COMMISSION

Notes to the Financial Statements

June 30, 2020

medical plan. The initial rate is approximately 7.00%, reaching an ultimate rate of approximately 5.00% in 2020. The post-retirement participation rate is 65.00% and the percentage with spouse coverage is 45.00%

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

Mortality rates were based on the Healthy RP-2000 Table published by the Society of Actuaries. The Office of the State Actuary applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis, meaning members are assumed to receive additional mortality improvements in each future year throughout their lifetime.

The discount rate used to measure the total OPEB liability was 3.50 percent at the beginning of the measurement year and 2.21 percent at the end of the measurement year.

Specific assumptions made by the Office of the State Actuary to develop the AMM Online Tool that vary from those described above are: 2/3 of members select a UMP plan and 1/3 select a Kaiser Permanente (KP) plan, UMP pre- and post-Medicare costs and premiums are equal to the Uniform Medical Plan, the KP pre-Medicare costs and premiums are a 50/50 blend of KP Classic and KP Value, the KP post-Medicare costs and premiums are equal to KP Medicare. The estimated retirement service for each active cohort is based on the average entry age of 35. Assumption for retirement, disability, termination, and mortality are based on the 2018 PEBB OPEB Actuarial Valuation Report with the assumptions that all employees are retirement eligible at age 55, retirement rate is that for members with < 30 years of service, and 100%

retirement rate after the age of 70. Each cohort is assumed to be a 50/50 male/female split and eligible spouses are the same age as the primary member. The age-based cohorts were based on the overall distribution of Washington State employees and retirees that participate in PEBB. Dental benefits are not included when calculating the Total OPEB Liability.

The following presents the total OPEB Liability calculated using the current healthcare cost trend rate (HCTR), as well as what the OPEB liability would be if it were calculated using a discount rate that is 1.0 percentage point lower and 1.0 percentage point higher than the current rate.

| | 1% Decrease | Current HCTR | 1.0% Increase |
|----------------------|-------------|--------------|---------------|
| Total OPEB Liability | \$ 387,697 | \$ 458,418 | \$549,230 |

The following presents the total OPEB liability calculated using the current discount rate (DR), as well as what the OPEB liability would be if it were calculated using a discount rate that is 1.0 percentage point lower or 1.0 percentage point higher than the current rate.

| | 1% Decrease | Current DR | 1.0% Increase |
|----------------------|-------------|------------|---------------|
| Total OPEB Liability | \$ 539,346 | \$ 458,418 | \$ 393,844 |

WASHINGTON APPLE COMMISSION
Notes to the Financial Statements
June 30, 2020

Changes in the Total OPEB liability

For the year ended June 30, 2020, a schedule of changes in the total OPEB liability are as follows.

| | |
|--|-------------------|
| | |
| Total OPEB Liability at June 30, 2019 | \$ 365,389 |
| Service cost | 13,431 |
| Interest | 13,087 |
| Changes in experience data and assumptions | 76,408 |
| Changes in benefit terms | - |
| Benefit payments | (9,897) |
| Other charges | - |
| Change in OPEB estimate | 93,029 |
| Total OPEB Liability at June 30, 2020 | \$458,408 |

Except for an increase of the retiree population from 3 to 4, and the removal of excise tax on high value health care plans, there were no significant changes in benefit terms, assumptions, or other factors that significantly affect measurement of the total OPEB liability since the prior measurement date. There were no benefit payments in the measurement period attributable to the purchase of allocated insurance contracts. The OPEB measurement date corresponds with the financial statement reporting date. Accordingly, there are no factors to disclose which may affect the OPEB liability between the two dates. The total OPEB (benefit)/expense recognized for the year ended June 30, 202 was \$102,923.

NOTE 13 – COVID-19 PANDEMIC

In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of a deadly virus that causes COVID-19 disease. In the months following the declaration, precautionary measures to slow the spread of the virus were ordered. These measures include closing schools, cancelling public events, limiting public and private gatherings, and restricting business operations, travel, and non-essential activities.

The Commission relies on the apple production industry for substantially all its financial support. Impacts of the pandemic have been felt by the apple production industry to varying degrees, but there have been no material impacts to the Commission, either financial or operational. However, many market activities in the Commission's international promotional program were either cancelled or postponed due to COVID-19 lockdowns and/or new health and safety regulations world-wide. This necessitated a shift from on the ground promotional activities to higher-level brand building programs. Commission employees instituted several specific sanitary protocols to maintain a safe workplace and to ensure the health of staff and others. The Visitor Center is closed to the Public until further notice.

The length of time these measures will continue to be in place, and the full extent of the financial impact of the Apple Commission is unknown at this time.

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of the Net Pension Liability as of June 30

PERS I UAAL

| | <u>2020</u> | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> |
|---|-------------|-------------|-------------|-------------|-------------|
| Employer's proportion of the net pension liability | 0.004751% | 0.004931% | 0.004702% | 0.004784% | 0.004982% |
| Employer's proportionate share of the net pension liability | \$ 167,736 | \$ 189,614 | \$ 209,993 | \$ 227,005 | \$ 267,557 |
| Employer's covered employee payroll | \$ 723,446 | \$ 691,798 | \$ 624,817 | \$ 603,334 | \$ 592,314 |
| Employer's proportionate share of the net pension liability as a percentage of covered employee payroll | 23.19% | 27.41% | 33.61% | 37.63% | 45.17% |
| Plan fiduciary net position as a percentage of the total pension liability | 68.64% | 67.12% | 63.22% | 61.24% | 57.03% |

PERS 2/3

| | <u>2020</u> | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> |
|---|-------------|-------------|-------------|-------------|-------------|
| Employer's proportion of the net pension liability | 0.006220% | 0.006362% | 0.006065% | 0.006154% | 0.006392% |
| Employer's proportionate share of the net pension liability | \$ 79,550 | \$ 61,797 | \$ 103,554 | \$ 213,822 | \$ 321,832 |
| Employer's covered employee payroll | \$ 723,446 | \$ 691,798 | \$ 624,817 | \$ 603,334 | \$ 592,314 |
| Employer's proportionate share of the net pension liability as a percentage of covered employee payroll | 11.00% | 8.93% | 16.57% | 35.44% | 54.33% |
| Plan fiduciary net position as a percentage of the total pension liability | 97.22% | 97.77% | 95.77% | 90.97% | 85.82% |

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Employer Contributions as of June 30

| | PERS 1 UAAL | | | |
|--|---------------|---------------|---------------|---------------|
| | <u>2020</u> | <u>2019</u> | <u>2018</u> | <u>2017</u> |
| Statutorily or contractually required contributions | \$ 34,436 | \$ 35,357 | \$ 31,428 | \$ 28,779 |
| Contributions in relation to the statutorily or contractually required contributions | (34,436) | (35,357) | (31,428) | (28,779) |
| Contribution deficiency (excess) | \$ - | \$ - | \$ - | \$ - |
| Covered employer payroll | \$ 723,446 | \$ 691,798 | \$ 624,817 | \$ 603,334 |
| Contributions as a percentage of covered employee payroll | 4.76% | 5.11% | 5.03% | 4.77% |
| PERS 2/3 | | | | |
| | <u>2020</u> | <u>2019</u> | <u>2018</u> | <u>2017</u> |
| Statutorily or contractually required contributions | \$ 57,297 | \$ 51,962 | \$ 46,799 | \$ 37,588 |
| Contributions in relation to the statutorily or contractually required contributions | (57,297) | (51,962) | (46,799) | (37,588) |
| Contribution deficiency (excess) | \$ - | \$ - | \$ - | \$ - |
| Covered employer payroll | \$ 723,446 | \$ 691,798 | \$ 624,817 | \$ 603,334 |
| Contributions as a percentage of covered employee payroll | 7.92% | 7.51% | 7.49% | 6.23% |
| Administrative fees | \$ 1,302 | \$ 1,245 | \$ 1,124 | \$ 1,086 |
| Covered employer payroll | \$ 723,446 | \$ 691,798 | \$ 624,817 | \$ 603,334 |
| Admin. fee as a percentage of covered employee payroll | 0.18% | 0.18% | 0.18% | 0.18% |
| Contributions and administrative fees as a percentage of covered employee payroll | <u>12.86%</u> | <u>12.80%</u> | <u>12.70%</u> | <u>11.18%</u> |

Notes to Required Supplementary Information (RSI) Related to Pensions

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

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Changes in OPEB Liability And Related Ratios Information is Available for 2018-2020

| | <u>2020</u> | <u>2019</u> | <u>2018</u> |
|---|-------------------|-------------------|-------------------|
| Service cost | \$ 13,431 | \$ 13,462 | \$ 13,402 |
| Interest | 13,087 | 15,810 | 8,601 |
| Changes in experience data and assumptions | 76,408 | (53,037) | (14,468) |
| Changes in benefit terms | - | - | - |
| Benefit payments | (9,897) | (11,697) | - |
| Other | - | - | - |
| Net change in total OPEB liability | \$ 93,029 | \$ (35,462) | \$ 7,535 |
| Change in OPEB estimate | - | 166,465 | - |
| Total OPEB liability - beginning | 365,389 | 234,386 | 226,851 |
| Total OPEB liability - ending | <u>\$ 458,418</u> | <u>\$ 365,389</u> | <u>\$ 234,386</u> |
| Covered payroll | \$ 723,446 | \$ 691,798 | \$ 624,817 |
| Total OPEB liability as a percentage of covered payroll | 63.37% | 52.82% | 37.51% |

Notes to Required Supplementary Information (RSI) Related to OPEB

Except for an increase of the retiree population from 3 to 4, and the removal of excise tax on high value health care plans, there were no significant changes in benefit terms, assumptions, or other factors that significantly affected trends in the OPEB related amounts reported in RSI.

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

WASHINGTON APPLE COMMISSION
Schedule of Expenditures of Federal Awards
For the Year Ended June, 30, 2020

| 1 Federal Agency Name/Pass-Through Agency Name | 2 Federal Program Name | 3 CFDA Number | 4 Other ID Number | 5 | | |
|--|---|---------------------|-------------------------|--|--------------------------------|-----------------------------------|
| | | | | Amount Provided to Subrecipients | From Pass-Through Awards | From Direct Awards Total |
| Department of Agriculture, Foreign Agricultural Service | Market Access Program | 10.601 | 109 | | | \$4,076,974 |
| Department of Agriculture, Foreign Agricultural Service | Agricultural Trade Promotion Program | 10.618 | ATP-2019-WSAC | | | \$2,863,028 |
| Total Federal Awards Expended | | | | \$0 | \$0 | \$6,940,002 |

WASHINGTON APPLE COMMISSION
Notes to the Schedule of Expenditures of Federal Awards
June 30, 2020

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 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 Washington State Constitution and is part of the executive branch of state government. The State Auditor is elected by the people of Washington and serves four-year terms.

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

As an agency, the State Auditor's Office has the independence necessary to objectively perform audits, attestation engagements and investigations. Our work is designed to comply with professional standards as well as to satisfy the requirements of federal, state and local laws. The Office also has an extensive quality control program and undergoes regular external peer review to ensure our work meets the highest possible standards of accuracy, objectivity and clarity.

Our audits look at financial information and compliance with federal, state and local laws for all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits and cybersecurity audits of state agencies and local governments, as well as state whistleblower, fraud and citizen hotline investigations.

The results of our work are available to everyone through the more than 2,000 reports we publish each year on our website, www.sao.wa.gov. Additionally, we share regular news and other information via an email subscription service and social media channels.

We take our role as partners in accountability seriously. The Office provides training and technical assistance to governments both directly and through partnerships with other governmental support organizations.

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