



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

June 30, 2022

Board of Commissioners  
Washington State Dairy Products Commission  
Lynnwood, Washington

**Contracted CPA Firm's Audit Report on Financial Statements**

We have reviewed the audit report issued by a certified public accounting (CPA) firm on the financial statements of the Washington State Dairy Products Commission for the fiscal years ended December 31, 2020 and 2019. The Commission contracted with the CPA firm for this audit and requested that we accept it in lieu of performing our own audit.

Based on this review, we have accepted this report in lieu of the audit required by RCW 43.09.260. The Office of the Washington State Auditor did not audit the accompanying financial statements and, accordingly, we do not express an opinion on those financial statements.

This report is being published on the Office of the Washington State Auditor website as a matter of public record.

Sincerely,

Pat McCarthy, State Auditor  
Olympia, WA

***Americans with Disabilities***

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**WASHINGTON DAIRY PRODUCTS COMMISSION**  
**(A Component Unit of the State of Washington)**

Financial Statements

For the Years Ended December 31, 2020 and 2019

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## **Independent Auditor's Report**

**To the Board of Commissioners  
Washington Dairy Products Commission  
Lynnwood, Washington**

We have audited the accompanying financial statements of Washington Dairy Products Commission (the Commission), a Component Unit of the State of Washington, which comprise the balance sheets as of December 31, 2020 and 2019, the statements of revenue, expenses, and changes in net position, and cash flows for the years then ended and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

## **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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 obtained is sufficient and appropriate to provide a basis for our audit opinion.



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## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Commission as of December 31, 2020 and 2019, and the results of its operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Matters of Emphasis**

As discussed in Note 1 to the financial statements, the Commission is an agency of the State of Washington, however the Commission's financial statements are not representative of the State of Washington's financial affairs. Our opinion is not modified in respect to this matter.

## **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 10, and the schedules of proportionate share of the net pension liability and schedules of employer contributions on pages 33 through 37, 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.



Certified Public Accountants  
April 14, 2021

**WASHINGTON DAIRY PRODUCTS COMMISSION**  
**(A Component Unit of the State of Washington)**

**Management's Discussion and Analysis**  
**For the Years Ended December 31, 2020 and 2019**

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Management's Discussion and Analysis (MD&A) presents a narrative overview and analysis of the financial activities of the Washington Dairy Products Commission for the years ended December 31, 2020 and 2019. The MD&A is designed to assist readers of financial statements in focusing on significant financial activities and issues in the financial statements as a whole.

**The Organization and Program**

The Washington Dairy Products Commission (the Commission) is a self-governing state agency with that authority granted to it by, and subject to the limitations of, RCW 15.44 and the constitution and policies adopted by the Commission.

The dairy industry is a very significant part of Washington State's history, culture, economy and future. In order to develop and promote Washington's dairy industry, as part of an already existing comprehensive regulatory scheme, the legislature established the Washington State Dairy Products Commission and declared:

1. It is vital to the continued economic well-being of the citizens of this state and their general welfare that its dairy products be properly promoted by (a) enabling the dairy industry to help themselves in establishing orderly, fair, sound, efficient, and unhampered marketing, grading, and standardizing of the dairy products they produce and (b) working to stabilize the dairy industry by increasing consumption of dairy products within the state, the nation and internationally.
2. Dairy producers operate within a regulatory environment that imposes burdens on them for the benefit of society and the citizens of the state and includes restrictions on marketing autonomy. Those restrictions may impair the dairy producer's ability to compete in local, domestic and foreign markets.
3. It is in the overriding public interest that support for the dairy industry is clearly expressed, that adequate protection is given to agricultural commodities, uses, activities, and operations, and that dairy products are promoted individually, and as part of a comprehensive industry to:
  - a. Enhance the reputation and image of Washington State's agricultural industry;
  - b. Increase the sale and use of Washington State's dairy products in local, domestic, and foreign markets;
  - c. Protect the public by educating the public in reference to the quality, care, and methods used in the production of Washington State's dairy products;
  - d. Increase the knowledge of the health-giving qualities and dietetic value of dairy products; and
  - e. Support and engage in programs or activities that benefit the production, handling, processing, marketing, and uses of dairy products produced in Washington State.
4. The Commission is established for the purpose of protecting the health, peace, safety and general welfare of the people of this state.

The majority of the Commission's funding is through the collection of assessments on milk produced within Washington State. The Commission may decrease or increase the current level of assessment provided for in RCW 15.44.080 following a hearing conducted in accordance with the Administrative Procedure Act, chapter 34.05 RCW, provided that the current level of assessment established in this manner shall not exceed the maximum authorized assessment rate established by producers in the most recent referendum.

**WASHINGTON DAIRY PRODUCTS COMMISSION**  
**(A Component Unit of the State of Washington)**

**Management's Discussion and Analysis (Continued)**  
**For the Years Ended December 31, 2020 and 2019**

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**The Organization and Program (Continued)**

Upon receipt of a petition bearing the names of 20% of the producers requesting a reduction in the current level of assessment, the Commission shall hold a hearing in accordance with chapter 34.05 RCW to receive producer testimony. After considering the testimony of the producer, the Commission may adjust the current level of assessment.

Additional funding is received through the sale of educational materials, processor assessments, interest income, and other miscellaneous income.

**Overview of the Financial Statements**

The Commission's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP). These financial statements cover the years ended December 31, 2020 and 2019.

The financial statements include the Balance Sheets, Statements of Revenues, Expenses and Changes in Net Position, Statements of Cash Flows and Notes to Financial Statements.

The Balance Sheets provide a record, or snapshot, of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the Commission at the close of the year. It provides information about the nature and amounts of investments in resources (assets) and obligations to creditors (liabilities). It provides a basis for assessing its liquidity and financial flexibility.

The Statements of Revenues, Expenses and Changes in Net Position present the results of the business activities over the course of the year. This information can be used to determine whether the Commission has successfully recovered all its costs through its user fees and other charges, and to evaluate its financial viability and credit worthiness.

The Statements of Cash Flows report cash receipts, cash payments and net changes in cash resulting from operating, capital and related financing and investing activities over the course of the year. The statements present information on where cash came from and what it was used for.

The Notes to Financial Statements provide useful information regarding the Commission's significant account balances and activities, certain material risks, estimates, obligations, commitments, contingencies, and subsequent events, if any.

**Financial Highlights 2020**

In the year ended December 31, 2020, operating expenses for the Commission were \$6,344,252 and operating revenues were \$6,950,746. Operating revenues were over budget and expenses were under budget. The decreased operating expenses compared to budget can be attributed primarily to reduced spending against all areas due to the impacts of COVID-19.

Producer income increased approximately .05% due to increased milk production. The decrease in educational revenues can be attributed to the transition to free on-line downloadable materials along with the discontinuation of nutrition materials for sale online. In 2020 the increase in net position can be attributed primarily to increased milk production, a decrease in the net pension liability along with decreased spending across all operational areas due to the impacts of COVID-19.

**WASHINGTON DAIRY PRODUCTS COMMISSION**  
**(A Component Unit of the State of Washington)**

**Management's Discussion and Analysis (Continued)**  
**For the Years Ended December 2020 and 2019**

**Financial Analysis**

**Condensed Financial Statement**  
**Balance Sheets**  
**December 31, 2020 and 2019**

	2020	2019	Change	Percentage Change
Current assets	\$ 5,797,978	\$ 5,473,610	\$ 324,368	6%
Current assets, Montana				
Dairy Program	377,497	317,181	60,316	19%
Capital assets, net	391,246	425,202	(33,956)	-8%
<b>Total Assets</b>	<b>6,566,721</b>	<b>6,215,993</b>	<b>350,728</b>	<b>6%</b>
Deferred outflows of resources	191,764	178,856	12,908	7%
<b>Total Assets and Deferred Outflows of Resources</b>	<b>\$ 6,758,485</b>	<b>\$ 6,394,849</b>	<b>\$ 363,636</b>	<b>6%</b>
Current liabilities	\$ 739,910	\$ 887,737	\$ (147,827)	-17%
Other post employment				
benefits (OPEB) obligation	762,792	723,040	39,752	5%
Pension liability	487,781	533,703	(45,922)	-9%
<b>Total Liabilities</b>	<b>1,990,483</b>	<b>2,144,480</b>	<b>(153,997)</b>	<b>-7%</b>
Deferred inflows of resources	103,713	257,668	(153,955)	-60%
<b>Total Liabilities and Deferred Inflows of Resources</b>	<b>2,094,196</b>	<b>2,402,148</b>	<b>(307,952)</b>	<b>-13%</b>
<b>Net Position:</b>				
Unrestricted	4,273,043	3,567,499	705,544	20%
Invested in capital assets, net of related debt	391,246	425,202	(33,956)	-8%
<b>Total Net Position</b>	<b>4,664,289</b>	<b>3,992,701</b>	<b>671,588</b>	<b>17%</b>
<b>Total Liabilities, Deferred Inflows and Net Position</b>	<b>\$ 6,758,485</b>	<b>\$ 6,394,849</b>	<b>\$ 363,636</b>	<b>6%</b>



**WASHINGTON DAIRY PRODUCTS COMMISSION**  
**(A Component Unit of the State of Washington)**

**Management's Discussion and Analysis (Continued)**  
**For the Years Ended December 31, 2020 and 2019**

**Financial Analysis (Continued)**

**Condensed Financial Statement**  
**Statements of Revenues, Expenses and Changes in Net Position**  
**For the Years Ended December 31, 2020 and 2019**

	<u>2020</u>	<u>2019</u>	<u>Change</u>	<u>Percentage Change</u>
<b>Operating Revenues:</b>				
Total operating revenues	\$ 6,950,746	\$ 6,967,249	\$ (16,503)	0%
Total operating expenses	<u>6,344,252</u>	<u>7,191,959</u>	<u>(847,707)</u>	<u>-12%</u>
<b>Operating Income (Loss)</b>	<b>606,494</b>	<b>(224,710)</b>	<b>831,204</b>	<b>-370%</b>
Nonoperating revenues	<u>65,094</u>	<u>24,205</u>	<u>40,889</u>	<u>169%</u>
<b>Change in Net Position</b>	<b>671,588</b>	<b>(200,505)</b>	<b>872,093</b>	<b>-435%</b>
Net position, beginning of year	<u>3,992,701</u>	<u>4,193,206</u>	<u>(200,505)</u>	<u>-5%</u>
<b>Net Position, End of Year</b>	<b><u>\$ 4,664,289</u></b>	<b><u>\$ 3,992,701</u></b>	<b><u>\$ 671,588</u></b>	<b><u>17%</u></b>

**Financial Highlights 2019**

In the year ended December 31, 2019, operating expenses for the Commission were \$7,191,959 and operating revenues were \$6,967,249. Operating revenues were over budget while expenses were under budget. The decreased operating expenses compared to budget can be attributed primarily to reduced spending in all budget areas. Staff members were requested to cut spending the last quarter of the year to provide for a greater reserve balance for the 2020 budget year.

Producer income increased approximately 3.5% due to increased milk production. The decrease in educational revenues can be attributed to decreased marketing of educational materials.

**WASHINGTON DAIRY PRODUCTS COMMISSION**  
**(A Component Unit of the State of Washington)**

**Management's Discussion and Analysis (Continued)**  
**For the Years Ended December 31, 2019 and 2018**

**Financial Analysis**

**Condensed Financial Statement**  
**Balance Sheets**  
**December 31, 2019 and 2018**

	2019	2018	Change	Percentage Change
Current assets	\$ 5,473,610	\$ 5,380,175	\$ 93,435	2%
Current assets, Montana Dairy Program	317,181	307,551	9,630	3%
Capital assets, net	425,202	458,308	(33,106)	-7%
<b>Total Assets</b>	<b>6,215,993</b>	<b>6,146,034</b>	<b>69,959</b>	<b>1%</b>
Deferred outflows of resources	178,856	135,918	42,938	32%
<b>Total Assets and Deferred Outflows of Resources</b>	<b>\$ 6,394,849</b>	<b>\$ 6,281,952</b>	<b>\$ 112,897</b>	<b>2%</b>
Current liabilities	\$ 887,737	\$ 511,667	\$ 376,070	73%
Other post employment benefits (OPEB) obligation	723,040	696,966	26,074	4%
Pension liability	533,703	634,725	(101,022)	-16%
<b>Total Liabilities</b>	<b>2,144,480</b>	<b>1,843,358</b>	<b>301,122</b>	<b>16%</b>
Deferred inflows of resources	257,668	245,388	12,280	5%
<b>Total Liabilities and Deferred Inflows of Resources</b>	<b>2,402,148</b>	<b>2,088,746</b>	<b>313,402</b>	<b>15%</b>
<b>Net Position:</b>				
Unrestricted	3,567,499	3,734,898	(167,399)	-4%
Investment in capital assets net of related debt	425,202	458,308	(33,106)	-7%
<b>Total Net Position</b>	<b>3,992,701</b>	<b>4,193,206</b>	<b>(200,505)</b>	<b>-5%</b>
<b>Total Liabilities, Deferred Inflows and Net Position</b>	<b>\$ 6,394,849</b>	<b>\$ 6,281,952</b>	<b>\$ 112,897</b>	<b>2%</b>

**WASHINGTON DAIRY PRODUCTS COMMISSION**  
**(A Component Unit of the State of Washington)**

**Management's Discussion and Analysis (Continued)**  
**For the Years Ended December 31, 2019 and 2018**

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**Financial Analysis (Continued)**

**Condensed Financial Statement**  
**Statements of Revenues, Expenses and Changes in Net Position**  
**For the Years Ended December 31, 2019 and 2018**

	<u>2019</u>	<u>2018</u>	<u>Change</u>	<u>Percentage Change</u>
<b>Operating Revenues:</b>				
Total operating revenues	\$ 6,967,249	\$ 6,921,936	\$ 45,313	1%
Total operating expenses	<u>7,191,959</u>	<u>6,789,992</u>	<u>401,967</u>	<u>6%</u>
<b>Operating (Loss) Income</b>	<b>(224,710)</b>	<b>131,944</b>	<b>(356,654)</b>	<b>-270%</b>
Nonoperating revenues	<u>24,205</u>	<u>44,095</u>	<u>(19,890)</u>	<u>-45%</u>
<b>Change in Net Position</b>	<b>(200,505)</b>	<b>176,039</b>	<b>(376,544)</b>	<b>-214%</b>
Net position, beginning of year	<u>4,193,206</u>	<u>4,017,167</u>	<u>176,039</u>	<u>4%</u>
<b>Net Position, End of Year</b>	<b><u>\$ 3,992,701</u></b>	<b><u>\$ 4,193,206</u></b>	<b><u>\$ (200,505)</u></b>	<b><u>-5%</u></b>

**Capital Assets**

Assets in excess of \$1,000 in original cost, such as buildings, equipment, furniture and fixtures, and automobiles, are capitalized and depreciated over their estimated economic lives. See Note 2 of the financial statements for further discussion on capital assets.

**WASHINGTON DAIRY PRODUCTS COMMISSION**  
**(A Component Unit of the State of Washington)**

**Management's Discussion and Analysis (Continued)**  
**For the Years Ended December 31, 2020 and 2019**

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**Economic Outlook**

In 2020, the Board of Directors continued to explore opportunities in the export market by supporting the United States Dairy Exports Commission and the next 5% Plan.

The Dairy Commission implemented two priority programs - the "Northwest Fluid Milk Revitalization" initiative and the "Fuel Up to Play 60" (FUTP60) school program through the 2019 - 2020 year. The Commission continued to work in the area of hunger initiatives, the culinary scene, and dairy trust building programs as part of its local partnerships and retail promotions. The Commission's programming focused on promoting dairy as part of a healthy and active lifestyle with a focus to drive sales and build trust for WA dairy.

There continues to be consumer concerns about production practices. The community relations team focused on telling the story of Washington dairy to put a face on the dairy farm families. The efforts educate the public on the products the farmers produce along with how they take care of their animals, employees, and the environment - land, water and air.

The NW Fluid Milk Revitalization initiative is in partnership with Dairy Management Inc. (DMI) and Darigold through the existing UDIA agreement. The partnership focuses on driving fluid milk sales and value in the Northwest through marketing efforts around value-added fluid products, specifically Darigold FIT leveraging sales channel and consumer marketing efforts.

The FUT60 program is part of the part of the Unified Marketing Plan. Through an agreement with the National Football League (NFL), dairy farmers are bringing a nutrition component to the NFL's "Play 60" program, which encourages 60 minutes of physical activity each day. The Washington Dairy Commission and Dairy Council partnered with the Seattle Seahawks to implement this program throughout the State of Washington and Alaska, including providing grant dollars to schools for equipment and program support.

In the area of hunger initiatives, the Commission developed programs with local food banks and retailers and participated with partners to promote dairy consumption and address food insecurity. Local partnerships with Safeway/Albertsons, Rosauers and media supported food drives at retail to continue to ensure that consumers and underserved populations have access to local dairy.

The Commission continues to promote its initiatives by working in partnership with dairy processors, retailers, schools, and foodservice companies. The Commission is currently working with schools to support breakfast programs and healthy beverage choices to boost the sale and consumption of dairy products within the school environment and to encourage good nutrition. Additionally, the Commission educated students about dairy farming through the Dairy Ambassador Program and virtual farm tours and digital content.

For 2020 year the dairy industry was dominated by the disruption of the food supply chain due to COVID-19. In some areas of the country milk dumping occurred due to the rapidly changing supply/demand situation surrounding retail and foodservice. In Washington there was no significant milk dumping. At retail grocery store level, there were limits put on milk purchases at many stores during the months of March and April due to COVID-19 which caused widespread out of stock situations on store shelves. As production ramped up to meet consumer demand at retail and shoppers began to understand and lessen their anxiety about covid-19, supplies began to become more stable and consistent. Due to most restaurants being shut down, more consumers began to cook at home, so demand for milk and other dairy products at retail remained above average and continued at record levels throughout the year. Dairy at the retail grocery store level ended the year with a positive growth trend vs. 2019.

**WASHINGTON DAIRY PRODUCTS COMMISSION**  
**(A Component Unit of the State of Washington)**

**Management's Discussion and Analysis (Continued)**  
**For the Years Ended December 31, 2020 and 2019**

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**Economic Outlook (Continued)**

Nationally, for U.S. dairy farmers 2019 was dominated two things: the weather and the government. Extensive flooding in the Midwest made it impossible for many farmers to plant feed crops on time and many co-ops struggled to find markets for their members' milk with Walmart sourcing and processing their own milk, retaliatory tariffs placed on exports, and Dean Foods filing for bankruptcy. However, milk prices overall began to trend up at the end of 2019, helping end a four year slump which saw a record number of dairies cease operation in 2019.

Through November 2019, U.S. dairy exports to China were down about 23% due to retaliatory tariffs. Domestic cheese and butter exports continued to struggle awaiting passage of the United States-Mexico-Canada Agreement (USMCA) due at the beginning of 2020 to replace the North American Free Trade Agreement (NAFTA). With passage of the USMCA, dairy exports to Mexico and Canada are expected to see a robust resurgence.

Retail fluid milk sales continued their slow downward trend due to the growth of plant-based milk alternatives and increased beverage choices taking "share of stomach", however there were bright spots of growth. Whole milk share continues to grow supported with science demonstrating the value of natural fats in the diet, especially for growing children. Value added milk beverages like flavored milks, protein enhanced milks, lactose free milks and ultra-filtered reduced sugar milks are growing at an impressive rate. New packaging options away from the traditional gallon or half gallon plastic jug and paper gable are also fueling growth both at retail and in schools. Foodservice, online, and other retail segments continue to show promise for fluid milk sales as value added products and packaging continue to evolve. Milk and dairy are increasingly included in the buying plans of major food assistance organizations as well, even as supplies of USDA trade mitigation milk continued to ship to food banks in Washington State and nationally. As food banks focus on more fresh food offerings to their clients, dairy will continue to play a bigger role as a cost effective source of protein for their millions of clients nationwide.

Branded and local artisan natural cheeses, as well as butter continued to show growth at retail and in foodservice driven by flavor innovation, quality and taste. Yogurt sales were flat overall for 2019 and ice cream actually saw a slight dip in sales at retail due to price increases because of increased ingredient cost, although regional sales of ice cream and yogurt vary widely. Finally, many smaller dairy categories like cream cheese, cottage cheese, sour cream etc. posted modest but steady growth at the retail level as a result of science, innovation and taste profile.

Scientific studies continue to indicate no link between saturated fat and risk of heart disease, diabetes, and stroke. The growing science affirms the consumers' desire to move to healthier and more sustainable products which includes dairy.

The Commission's 2020 and 2021 budgets are conservative and the Board of Commissioners continues to maintain a reserve to meet operational and opportunistic needs as well as unanticipated income shortfalls.

**Additional Information**

Questions and inquiries may be directed to the Washington Dairy Products Commission, 4201 198th Street SW, Suite 101, Lynnwood, Washington 98036, (425) 672-0687.

# WASHINGTON DAIRY PRODUCTS COMMISSION

## Balance Sheets

December 31, 2020 and 2019

	2020	2019
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 5,211,749	\$ 4,837,125
Cash - Montana Dairy Program	366,570	305,867
Accounts receivable	586,229	636,485
Accounts receivable - Montana Dairy Program	10,927	11,314
<b>Total Current Assets</b>	<b>6,175,475</b>	<b>5,790,791</b>
Capital assets not being depreciated	304,000	304,000
Capital assets, net of accumulated depreciation	87,246	121,202
<b>Total Assets</b>	<b>6,566,721</b>	<b>6,215,993</b>
<b>Deferred Outflows of Resources:</b>		
Deferred outflows related to pensions	182,008	169,305
Commission OPEB contributions subsequent to measurement date	9,756	9,551
<b>Total Deferred Outflows of Resources</b>	<b>191,764</b>	<b>178,856</b>
<b>Total Assets and Deferred Outflows of Resources</b>	<b>\$ 6,758,485</b>	<b>\$ 6,394,849</b>
<b>Current Liabilities:</b>		
Accounts payable and accrued expenses	\$ 608,239	\$ 819,065
Accounts payable - Montana Dairy Program	11,074	500
Current portion of other post employment benefits (OPEB) obligation	120,597	68,172
<b>Total Current Liabilities</b>	<b>739,910</b>	<b>887,737</b>
Long term portion of OPEB obligation	762,792	723,040
Pension liability	487,781	533,703
<b>Total Liabilities</b>	<b>1,990,483</b>	<b>2,144,480</b>
<b>Total Deferred Inflows of Resources:</b>		
Deferred inflows related to pensions	48,893	245,320
Changes in OPEB assumptions	54,820	12,348
<b>Total Deferred Inflows of Resources</b>	<b>103,713</b>	<b>257,668</b>
<b>Net Position:</b>		
Unrestricted	4,273,043	3,567,499
Net investment in capital assets	391,246	425,202
<b>Total Net Position</b>	<b>4,664,289</b>	<b>3,992,701</b>
<b>Total Liabilities, Deferred Inflows and Net Position</b>	<b>\$ 6,758,485</b>	<b>\$ 6,394,849</b>

See accompanying notes.

# WASHINGTON DAIRY PRODUCTS COMMISSION

## Statements of Revenues, Expenses and Changes in Net Position For the Years Ended December 31, 2020 and 2019

	2020	2019
<b>Operating Revenues:</b>		
Producer assessments - check off	\$ 6,813,147	\$ 6,809,578
Educational assessments and sales	137,599	157,671
<b>Total Operating Revenues</b>	<b>6,950,746</b>	<b>6,967,249</b>
<b>Operating Expenses:</b>		
Program-		
Media and sponsorships	2,206,607	3,067,670
Public relations	1,149,016	1,615,997
Nutrition marketing and education	409,139	544,880
Research, retail promotions and business development	2,174,887	1,311,883
Total program expenses	5,939,649	6,540,430
Administrative expenses	404,603	651,529
<b>Total Operating Expenses</b>	<b>6,344,252</b>	<b>7,191,959</b>
<b>Operating Income (Loss)</b>	<b>606,494</b>	<b>(224,710)</b>
<b>Nonoperating Revenues:</b>		
Montana Dairy Program operations, net	49,741	9,131
Interest and Miscellaneous Income	8,853	8,461
Consulting services	6,500	6,613
<b>Total Nonoperating Revenues</b>	<b>65,094</b>	<b>24,205</b>
<b>Change in Net Position</b>	<b>671,588</b>	<b>(200,505)</b>
Net position, beginning of year	3,992,701	4,193,206
<b>Net Position, End of Year</b>	<b>\$ 4,664,289</b>	<b>\$ 3,992,701</b>

See accompanying notes.

# WASHINGTON DAIRY PRODUCTS COMMISSION

## Statements of Cash Flows

For the Years Ended December 31, 2020 and 2019

	2020	2019
<b>Operating Activities:</b>		
Cash received from customers	\$ 7,001,389	\$ 6,924,065
Cash paid to employees	(1,779,832)	(2,075,629)
Cash paid to suppliers of goods and services	(4,851,324)	(4,691,525)
Receipts from consulting services	6,500	6,613
Net receipts from the Montana Dairy Program	49,741	9,131
<b>Net Cash Provided by Operating Activities</b>	<b>426,474</b>	<b>172,655</b>
<b>Capital and Related Financing Activities:</b>		
Purchases of capital assets		(11,431)
<b>Net Cash Used in Capital and Related Financing Activities</b>		<b>(11,431)</b>
<b>Cash Flows From Investing Activities:</b>		
Receipt of interest	8,853	8,461
<b>Net Cash Provided by Investing Activities</b>	<b>8,853</b>	<b>8,461</b>
<b>Change in Cash and Cash Equivalents</b>	<b>435,327</b>	<b>169,685</b>
<b>Cash and Cash Equivalents Balance:</b>		
Beginning of year	5,142,992	4,973,307
<b>End of Year</b>	<b>\$ 5,578,319</b>	<b>\$ 5,142,992</b>
<b>Cash and Cash Equivalents Balance is Composed of the Following at December 31:</b>		
Cash and cash equivalents	\$ 5,211,749	\$ 4,837,125
Cash - Montana Dairy Program	366,570	305,867
	<b>\$ 5,578,319</b>	<b>\$ 5,142,992</b>

See accompanying notes.



**WASHINGTON DAIRY PRODUCTS COMMISSION**

**Statements of Cash Flows (Continued)**  
**For the Years Ended December 31, 2020 and 2019**

	<u>2020</u>	<u>2019</u>
<b>Reconciliation of Change in Net Position to Net Cash Used in Operating Activities:</b>		
Change in net position	\$ 671,588	\$ (200,505)
Adjustments to reconcile change in net position to cash flows from operating activities-		
Loss on disposal of assets		4,960
Depreciation	33,956	39,577
Interest income	(8,853)	(8,461)
Changes in assets and liabilities:		
Accounts receivable	50,643	(48,144)
Inventory		114,764
Deferred outflows of resources	(12,908)	(42,938)
Accounts payable and accrued expenses	(200,252)	375,517
Pension liability	(45,922)	(101,022)
OPEB obligation	92,177	26,627
Deferred inflows of resources	(153,955)	12,280
<b>Net Cash Provided by Operating Activities</b>	<b><u>\$ 426,474</u></b>	<b><u>\$ 172,655</u></b>

See accompanying notes.

## WASHINGTON DAIRY PRODUCTS COMMISSION

### Notes to Financial Statements

For the Years Ended December 31, 2020 and 2019

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#### Note 1 - Organization and Summary of Significant Accounting Policies

**Operations** - The Washington Dairy Products Commission (the Commission) is an agency fund and component unit of the State of Washington. The Commission's primary purpose is to build demand for milk and dairy products and to protect and build the image of the dairy industry. The Commission develops and implements a variety of marketing and communication programs including research, nutrition education, and general education about dairy products and the industry. The Commission's revenues are primarily generated through collection of assessments on milk produced within Washington State.

The Commission was created by the Washington State Legislature in 1939 under RCW 15.44. The Commission is governed by a nine-member Board appointed by the Director of the State Department of Agriculture. The State appoints the governing body and provides financial benefit to the Commission and therefore, the financial accountability criteria as defined by the Government Accounting Standards Board (GASB) have been met and the Commission is a component unit of the State of Washington.

The Commission performs programs and activities, such as general nutritional education, with an emphasis on dairy products. Sectors served by the Commission include: (1) health professionals, (2) educational institutions, (3) consumers, and (4) the dairy industry.

The Commission administers the funds for the Montana Dairy Program (the Program). The Program promotes demand for milk and dairy products and to protect and build the image of the dairy industry. The Commission develops and implements a variety of marketing and communication programs including research, nutrition education, and general education about dairy products and the industry. The Commission also has an agreement to provide accounting and program services to the Program. A nominal fee is paid to the Commission for these services each month. The net activity of the Program has been included in the Commission's statements of revenues, expenses and changes in net position as part of nonoperating activities.

**Impacts of the COVID-19 Pandemic** - In March 2020, the World Health Organization categorized COVID-19 as a global pandemic, prompting many national, regional, and local governments to implement preventative or protective measures, such as travel and business restrictions, temporary store closures, and wide-sweeping quarantines and stay-at-home orders. As a result of the spread of COVID-19, and at the government's direction, on March 23, 2020, the Commission employees converted to working remotely. This format will continue until the government allows in-person activities to resume. As a result, the Commission has experienced minor impacts to its operating revenues along with decreased operating expenses across all business areas. As of the date these financial statements were available to be issued the COVID-19 pandemic was ongoing and the related governmental preventive and protective measures continued, and as a result, the related financial impact and duration of the pandemic cannot be reasonably estimated at this time. To mitigate the financial impacts of the COVID-19 pandemic management is reducing expenses, and is taking other actions to manage cash flows.

**Basis of Accounting and Presentation** - The financial statements of the Commission have been prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) as applied to special-purpose governments. GASB is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The Commission is a government enterprise. Enterprise funds are accounted for on the economic resources measurement focus using the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

**WASHINGTON DAIRY PRODUCTS COMMISSION**

**Notes to Financial Statements  
For the Years Ended December 31, 2020 and 2019**

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**Note 1 - Continued**

**Operating and Nonoperating Activity** - Operating activities include revenues from assessments on milk producers and processors, educational material sales, and expenses associated with the development and implementation of a variety of marketing, education and communication programs. Nonoperating activities include the Montana Dairy Program operations, interest, miscellaneous income and consulting services.

**Cash and Cash Equivalents** - For purposes of reporting cash flows, cash includes cash on hand and on deposit with financial institutions. The Commission considers all liquid investments with original maturities of less than three months at the date of acquisition and all nonnegotiable certificates of deposit to be cash equivalents. Cash on hand was \$5,578,319 and \$5,142,992 for the years ended December 31, 2020 and 2019, respectively.

Custodial credit risk for deposits is the risk that, in event of a failure of a depository financial institution, the Commission would not be able to recover deposits or will not be able to recover collateral securities that at in possession of an outside party. The Commission's cash deposits are mostly covered by the Federal Depository Insurance Corporation (FDIC) or by collateral held in multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission of the State of Washington (PDPC). Cash is deposited with a financial institution as public funds in compliance with the rules of the PDPC. Balances are collateralized by securities held by the financial institution's trust department in the Commission's name.

**Accounts Receivable** - Accounts receivable are comprised primarily of amounts due from assessments. No allowance for uncollectible balances has been deemed necessary by management based upon the Commission's historical experience of collections.

**Inventory** - Inventory is comprised of educational materials and is stated at the lower of cost or market. Cost is determined under the average cost basis. The Commission closed out their nutritional education materials operations and wrote off all inventory items during the year ended December 31, 2019.

**Capital Assets** - Capital assets are stated at cost less accumulated depreciation. All capital assets purchased for more than \$5,000 with a useful life of greater than one year are capitalized. Maintenance and repairs are charged to operations as incurred. Expenditures that represent additions and betterments are capitalized. Depreciation is provided using the straight-line method over the following estimated useful lives:

Buildings and improvements	20 years
Furniture, fixtures and computer equipment	4 - 10 years
Vehicles	4 - 5 years

**Income Taxes** - The Commission, as a state agency, is exempt from federal and state income taxes. Accordingly, no provision for income taxes is necessary.

## WASHINGTON DAIRY PRODUCTS COMMISSION

### Notes to Financial Statements

For the Years Ended December 31, 2020 and 2019

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#### Note 1 - Continued

**Compensated Absences** - The Commission has a policy for compensated absences which allows employees to accumulate up to 240 hours; however, compensated absences may be accumulated above the maximum allowed between the time 240 hours is accrued and the employee's anniversary date of employment. Management tracks the accumulated compensated absences for employees, which totaled \$113,923 and \$101,524 for the years ended December 31, 2020 and 2019, respectively.

**Pensions** - 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.

**Advertising** - The Commission expenses all advertising and marketing costs when incurred. Advertising costs were \$219,122 and \$1,025,783 for the years ended December 31, 2020 and 2019, respectively.

**Use of Estimates** - The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

**Reclassifications** - Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation. There has been no impact to changes in net position or total net position as a result of these classifications.

**Subsequent Events** - The Commission has evaluated subsequent events through April 14, 2021, the date on which the financial statements were available to be issued.

WASHINGTON DAIRY PRODUCTS COMMISSION

Notes to Financial Statements  
For the Years Ended December 31, 2020 and 2019

**Note 2 - Capital Assets**

The following is a summary of changes in capital assets:

	December 31, 2019	Additions	Disposals	December 31, 2020
<b>Capital Assets</b>				
<b>Being Depreciated:</b>				
Building and improvements	\$ 663,039	\$ -	\$ -	\$ 663,039
Vehicles	40,899			40,899
Furniture, fixtures and computer equipment	197,686			197,686
<b>Total Capital Assets</b>				
<b>Being Depreciated</b>	<b>901,624</b>			<b>901,624</b>
Less accumulated depreciation	(780,422)	(33,956)		(814,378)
<b>Depreciable Capital Assets, Net</b>	<b>121,202</b>	<b>(33,956)</b>		<b>87,246</b>
<b>Capital Assets Not</b>				
<b>Being Depreciated:</b>				
Land	304,000			304,000
<b>Total Capital Assets</b>	<b>\$ 425,202</b>	<b>\$ (33,956)</b>	<b>\$ -</b>	<b>\$ 391,246</b>

# WASHINGTON DAIRY PRODUCTS COMMISSION

## Notes to Financial Statements For the Years Ended December 31, 2020 and 2019

### Note 2 - Continued

	December 31, 2018	Additions	Disposals	December 31, 2019
<b>Capital Assets</b>				
<b>Being Depreciated:</b>				
Building and improvements	\$ 663,039	\$ -	\$ -	\$ 663,039
Vehicles	40,899			40,899
Furniture, fixtures and computer equipment	229,453	11,431	(43,198)	197,686
<b>Total Capital Assets</b>				
<b>Being Depreciated</b>	<b>933,391</b>	<b>11,431</b>	<b>(43,198)</b>	<b>901,624</b>
Less accumulated depreciation	(779,083)	(39,577)	38,238	(780,422)
<b>Depreciable Capital Assets, Net</b>	<b>154,308</b>	<b>(28,146)</b>	<b>(4,960)</b>	<b>121,202</b>
<b>Capital Assets Not</b>				
<b>Being Depreciated:</b>				
Land	304,000			304,000
<b>Total Capital Assets</b>	<b>\$ 458,308</b>	<b>\$ (28,146)</b>	<b>\$ (4,960)</b>	<b>\$ 425,202</b>

Depreciation expense was \$33,956 and \$39,577 with approximately \$6,792 and \$7,915 charged to each of the five programs, and administrative expenses, in the statements of revenues, expenses and changes in net position for the years ended December 31, 2020 and 2019, respectively.

### Note 3 - Commitments and Contingencies

**Operating Leases** - The Commission has operating leases for postal and copier equipment rental. Minimum future rental payments under noncancelable operating leases having remaining terms in excess of one year in aggregate approximate:

For the Year Ending December 31,

2021	\$ 16,920
2022	16,807
2023	16,807
2024	12,941
2024	1,344
Thereafter	336
	<u>\$ 65,155</u>

## WASHINGTON DAIRY PRODUCTS COMMISSION

### Notes to Financial Statements

For the Years Ended December 31, 2020 and 2019

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#### Note 3 - Continued

**Sponsorship** - In July 2012, the Commission entered into a three-year contract, totaling \$443,000, to be paid in semi-annual installments, with Washington Interscholastic Activities Association as a co-title sponsor of various activities. The contract was renewed for an additional three years in both 2016 and 2019. The contract was amended in 2020. The amount paid in the years ended December 31, 2020 and 2019, was \$60,000 and \$169,000, respectively. Future amounts payable on the contract include:

For the Year Ending December 31,

2021	\$ 90,000
2022	90,000
2023	<u>90,000</u>
	<u><u>\$ 270,000</u></u>

In June 2019, the Commission renewed a three-year contract, totaling \$51,000, to be paid in semi-annual installments, with the University of Montana as a co-title sponsor of various activities. The amount paid in both the years ended December 31, 2020 and 2019, was \$13,700 and \$64,000, respectively. Future amounts payable on the contract include:

For the Year Ending December 31,

2021	<u>\$ 13,000</u>
	<u><u>\$ 13,000</u></u>

In April 2019, the Commission entered a three-year contract, totaling \$78,813 with Montana State University as a co-title sponsor of various activities. The amount paid in both the years ended December 31, 2020 and 2019, was \$26,407 and \$51,019, respectively. Future amounts payable on the contract include:

For the Year Ending December 31,

2021	\$ 26,907
2022	<u>13,782</u>
	<u><u>\$ 40,689</u></u>

In June 2019, the Commission entered into a three-year contract, totaling \$405,983, to be paid in annual installments, with the Seahawks as a co-title sponsor of various activities. The amount paid in both the years ended December 31, 2020 and 2019, was \$8,624 and \$234,752. Future amounts payable are \$138,683 to be paid in 2021.

**Contingent Liability** - During the year ended December 31, 2015, the Commission's media vendor filed for bankruptcy, and the Commission terminated its media contract with the vendor. At December 31, 2020 and 2019, a contingent liability for approximately \$300,000 is included in accounts payable and accrued expenses in the balance sheets for the full balance of unpaid invoices to the vendor. Actual payments may differ from the amount accrued as of December 31, 2020 and 2019.

**WASHINGTON DAIRY PRODUCTS COMMISSION**

**Notes to Financial Statements  
For the Years Ended December 31, 2020 and 2019**

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**Note 3 - Continued**

**Property Contingency** - The Dairy Products Commission owns and occupies property and the building located at 4201 198th Street SW in Lynnwood, Washington 98036. This property is designated as part of the City of Lynnwood's City Center Zone Districts and is further designated as entirely within the route of a proposed new street. The City has not yet implemented a program to acquire properties, including the Commission's property, to build this street improvement. If/when the City elects to proceed with this project, the City may not have the authority to condemn the Commission's property given court decisions interpreting RCW 8.12.030 (the City's general condemnation authority statute).

The courts' decisions can be interpreted to preclude city condemnation when state property is presently dedicated to a public use. The Commission's use and occupancy of its property appears to qualify as such a public use. Even if a condemnation action by the City is not legally possible, the Commission could face pressure to voluntarily sell its property to allow for the City's project to proceed. Upon condemnation or voluntary sale, the Commission would proceed through processes involving the use of qualified appraisals to identify the fair market value of the property. Upon any such sale, the Commission would be entitled to use any net proceeds for purposes including the purchase of property for its operations. For purposes of this statement, it is assumed that the Commission's property has appreciated in value and that a sale would generate net proceeds rather than loss. This assumption would need to be validated if/when the City takes tangible steps to begin the above-referenced property acquisitions for the street improvement project affecting the Commission's property.

**Note 4 - Pension Plan**

The following table represents the aggregate pension amounts for the year ending December 31, 2020:

Pension liabilities	\$	487,781
Deferred outflows of resources		(182,008)
Deferred inflows of resources		48,893
Pension expense/expenditures		55,059

**State Sponsored Pension Plans** - Substantially all Washington Dairy Products 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

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



## WASHINGTON DAIRY PRODUCTS COMMISSION

### Notes to Financial Statements For the Years Ended December 31, 2020 and 2019

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#### Note 4 - Continued

**Public Employee's 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 2020 were as follows:

#### PERS Plan 1:

<u>Actual Contribution Rates</u>	<u>Employer</u>	<u>Employee*</u>
<b>January - June 2020:</b>		
PERS Plan 1	7.92%	6.00%
PERS Plan 1 UAAL	4.76%	
Administrative fee	0.18%	
	<b>12.86%</b>	<b>6.00%</b>
<b>July - December 2020:</b>		
PERS Plan 1	7.92%	6.00%
PERS Plan 1 UAAL	4.87%	
Administrative fee	0.18%	
	<b>12.97%</b>	<b>6.00%</b>

\* For employees participating in JBM, the contribution rate was 12.26%

## WASHINGTON DAIRY PRODUCTS COMMISSION

### Notes to Financial Statements

For the Years Ended December 31, 2020 and 2019

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#### Note 4 - Continued

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

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

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

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

## WASHINGTON DAIRY PRODUCTS COMMISSION

### Notes to Financial Statements For the Years Ended December 31, 2020 and 2019

#### Note 4 - Continued

##### 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%. 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 2020 were as follows:

##### PERS Plan 2/3:

<u>Actual Contribution Rates</u>	<u>Employer</u>	<u>Employee*</u>
<b>January - June 2020:</b>		
PERS Plan 2/3	7.92%	7.90%
PERS Plan 1 UAAL	4.76%	
Administrative fee	0.18%	
Employee PERS Plan 3		Varies
	<u><b>12.86%</b></u>	<u><b>7.90%</b></u>
<b>July - December 2020:</b>		
PERS Plan 2/3	7.92%	7.90%
PERS Plan 1 UAAL	4.87%	
Administrative fee	0.18%	
Employee PERS Plan 3		Varies
	<u><b>12.97%</b></u>	<u><b>7.90%</b></u>

\* For employees participating in JBM, the contribution rate was 19.75%.

The Washington Dairy Products Commission's actual PERS plan contributions were \$65,836 to PERS Plan 1 and \$84,048 to PERS Plan 2/3 for the year ended December 31, 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 were based on the results of the Office of the State Actuary's (OSA) *2013-2018 Experience Study* and the *2019 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.

Inflation - 2.75% total economic inflation; 3.5% salary inflation.

## WASHINGTON DAIRY PRODUCTS COMMISSION

### Notes to Financial Statements For the Years Ended December 31, 2020 and 2019

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#### Note 4 - Continued

Salary Increases - In addition to the base 3.5% salary inflation assumption, salaries are also expected to grow by promotions and longevity.

Investment Rate of Return - 7.4%

Mortality rates were developed using the Society of Actuaries' Pub. H-2020 mortality rates, which vary by member status, as the base table. The 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 MP-2017 generational improvement scale, also developed by the Society Actuaries, to project mortality rates for every year after the 2010 base table. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

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

- OSA updated its demographic assumptions based on the results of its latest demographic experience study. See OSA's 2013-2018 Demographic Experience Study at [leg.wa.gov/osa](http://leg.wa.gov/osa).
- OSA updated the Early Retirement Factors and Joint-and-Survivor factors used in its model to match the ones implemented by DRS on October 1, 2020. These factors are used to value benefits for members who elect to retire early and for survivors of members that die prior to retirement.
- The valuation includes liabilities and assets for Plan 3 members purchasing Total Allocation Portfolio annuities when determining contribution rates and funded status.
- OSA simplified its modeling of medical premium reimbursements for survivors of duty-related deaths in LEOFF 2.
- OSA changed its method of updating certain data items that change annually, including the public safety duty-related death lump sum and Washington state average wage. OSA set these values at 2018 and will project them into the future using assumptions until the next Demographic Experience Study in 2025. See [leg.wa.gov/osa](http://leg.wa.gov/osa) for more information on this method change.

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

To determine that rate, an asset sufficiency test 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 OSA's assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.4 percent was used to determine the total liability.

## WASHINGTON DAIRY PRODUCTS COMMISSION

### Notes to Financial Statements For the Years Ended December 31, 2020 and 2019

#### Note 4 - Continued

**Long-Term Expected Rate of Return** - The long-term expected rate of return on the DRS pension plan investments of 7.4 percent was determined using a building-block-method. In selecting this assumption, the Office of the State Actuary (OSA) reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered Capital Market Assumptions (CMA's) and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the CMA's and their target asset allocation to simulate future investment returns over various time horizons.

**Estimated Rates of Return by Asset Class** - Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2020, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return
Fixed income	20.00%	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%
	<b>100.00%</b>	

**Sensitivity of Net Pension Liability** - The table below presents the Washington Dairy Products Commission proportionate share of the net pension liability calculated using the discount rate of 7.4 percent, as well as what the Washington Dairy Product 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	\$ 443,286	\$ 353,905	\$ 275,956
PERS 2/3	833,059	133,884	(441,888)

**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.

## WASHINGTON DAIRY PRODUCTS COMMISSION

### Notes to Financial Statements

For the Years Ended December 31, 2020 and 2019

#### Note 4 - Continued

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions** - At December 31, 2020, the Washington Dairy Products Commission reported a total pension liability of \$487,781 for its proportionate share of the net pension liabilities as follows:

	<u>Liability</u>
PERS 1	\$ 353,901
PERS 2/3	<u>133,880</u>
<b>Pension Liability</b>	<b><u>\$ 487,781</u></b>

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

<u>Plan</u>	<u>Proportionate Share 6/30/2019</u>	<u>Proportionate Share 6/30/2020</u>	<u>Change in Proportion</u>
PERS 1	0.010950%	0.010024%	-0.000926%
PERS 2/3	0.011596%	0.010468%	-0.001128%

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in the *Schedules of Employer and Nonemployer Allocations* for all plans except LEOFF 1.

The collective net pension liability (asset) was measured as of June 30, 2020, and the actuarial valuation date on which the total pension liability (asset) 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 December 31, 2020, the Washington Dairy Products Commission recognized pension expense as follows:

	<u>Pension Expense</u>
PERS 1	\$ 20,676
PERS 2/3	<u>34,383</u>
<b>Total Pension Expense</b>	<b><u>\$ 55,059</u></b>

# WASHINGTON DAIRY PRODUCTS COMMISSION

## Notes to Financial Statements

For the Years Ended December 31, 2020 and 2019

### Note 4 - Continued

#### Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2020, the Washington Dairy Products Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
<b>PERS 1</b>		
Net difference between projected and actual investment earnings	\$ -	\$ (1,970)
Contributions subsequent to measurement date	32,067	
	<b>\$ 32,067</b>	<b>\$ (1,970)</b>
<b>PERS 2/3</b>		
Differences between expected and actual experience	\$ 47,927	\$ (16,778)
Net difference between projected and actual investment earnings		(6,799)
Changes in assumptions	(2,582)	(91,451)
Changes in amortization		37,898
Changes in proportion and differences between contributions and proportionate share of contributions	64,517	30,207
Contributions subsequent to measurement date	40,079	
	<b>\$ 149,941</b>	<b>\$ (46,923)</b>

Deferred outflows of resources related to pensions resulting from the Washington Dairy Commission contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2020. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

For the Year Ending December 31,	<b>PERS 1</b>
2021	\$ (8,942)
2022	(281)
2023	2,728
2024	4,525
	<b>\$ (1,970)</b>

## WASHINGTON DAIRY PRODUCTS COMMISSION

### Notes to Financial Statements

For the Years Ended December 31, 2020 and 2019

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#### Note 4 - Continued

For the Year Ending December 31,	PERS 2/3
2021	\$ (41,989)
2022	4,772
2023	20,431
2024	30,093
2025	11,238
Thereafter	496
	<u>\$ 25,041</u>

#### Note 5 - Risk Management

The Commission is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Commission carries commercial insurance for risk of loss. The Commission did not have settled claims in excess of its commercial insurance coverage in the past year.

The Commission provides medical insurance for employees and dependents under an elective health care plan. Benefits are subject to scheduled limitations and exclusions.

#### Note 6 - Related Party Transaction

In each of the years ended December 31, 2020 and 2019, the Commission paid \$20,000 and \$51,000, respectively, to the Washington State Dairy Council (the Council) for the right to utilize the Council's name. Two members of the Commission's management serve on the Board of Directors of the Council.

#### Note 7 - Concentrations

During the years ended December 31, 2020 and 2019, 94% and 98%, respectively, of total operating revenue was derived from a dairy cooperative that collects assessments for numerous producers. At December 31, 2020 and 2019, 90% and 92%, respectively, of total accounts receivable balance was derived from this dairy cooperative.

#### Note 8 - Other Post-Employment Benefits

OPEB activity and balances as of and for the years ended December 31, 2020 and 2019 are as follows:

	2020	2019
OPEB liability	\$ 883,389	\$ 791,212
Deferred outflows	9,756	9,551
Deferred inflows	(54,820)	(12,348)
OPEB expenses	(110,841)	(58,621)



## WASHINGTON DAIRY PRODUCTS COMMISSION

### Notes to Financial Statements For the Years Ended December 31, 2020 and 2019

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#### Note 8 - Continued

The following table shows the changes in the Commission's total OPEB liability:

OPEB Liability, December 31, 2019	\$ 791,212
Changes for the year-	
Service cost	27,636
Interest	28,385
Changes in assumptions	54,820
Other changes	2,796
Benefit payments	<u>(21,460)</u>
<b>OPEB Liability Ending Balance, December 31, 2020</b>	<b><u>\$ 883,389</u></b>

**Plan Description** - The state, through the Health Care Authority (HCA), administers an agent multiple-employer defined benefit other post-employment benefit (OPEB) plan. The Public Employees' Benefits Board (PEBB), created within HCA, is authorized to design and determine the terms and conditions of employee and retired employee participation and coverage. PEBB established eligibility criteria for both active employees and retirees. Benefits purchased by PEBB include medical, dental, life and long-term disability.

The relationship between PEBB OPEB and its member employers and their employees and retirees is not formalized in a contract or plan document. Rather, the benefits are provided in accordance with a substantive plan. A substantive plan is one in which the plan terms are understood by the employers and plan members. The understanding is based on communication between the HCA, employers and plan members, and the historical pattern of practice with regard to sharing of benefit costs. The PEBB OPEB plan is administered by the state, is funded on a pay-as-you-go basis, does not issue a publicly available financial report and has no assets.

The PEBB retiree OPEB plan is available to employees who elect to continue coverage and pay the administratively established premiums at the time they retire 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.

Retirees who are not yet eligible for Medicare benefits may continue participation in the state's non-Medicare community-rated health insurance risk pool on a self-pay basis. Retirees in the non-Medicare risk pool receive an implicit subsidy. The implicit subsidy exists because retired members pay a premium based on a claims experience for active employees and other non-Medicare retirees. The subsidy is valued using the difference between age-base claims cost and the premium. Retirees who are enrolled in both Part A and B of Medicare may participate in the state's Medicare community-rated health insurance risk pool. Medicare retirees receive an explicit subsidy in the form of reduced premiums. Annually, the HCA administrator recommends an amount for next year's explicit subsidy for inclusion in the Governor's budget.

**Benefits Provided** - The PEBB retiree OPEB plan is available to employees who elect to continue coverage and pay the administratively establish premiums at the time they retire under the provisions of the retirement system they belong to.

# WASHINGTON DAIRY PRODUCTS COMMISSION

## Notes to Financial Statements For the Years Ended December 31, 2020 and 2019

### Note 8 - Continued

**Employees Covered by Benefit Terms** - At June 30, 2020, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	7
Inactive employees entitled to but not yet receiving benefits	
Active employees	<u>12</u>
<b>Total Participants</b>	<b><u>19</u></b>

The plan is funded on a pay-as-you-go basis and there are no assets accumulated in a qualifying trust.

**Actuarial Assumptions and Other Inputs** - The total OPEB liability in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.75 percent
Salaries Increases	3.5 percent plus service-based increases
Discount Rate	3.50 percent
Healthcare Cost Trend Rates	RP-2000 mortality tables, set back one year for males. Mortality is projected on a generational basis using Scale BB for males and females.
Actuarial Cost Method	Entry Age Normal.

**Sensitivity Analysis** - The following presents the total OPEB liability of the Commission, as well as what the Commission's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (7.7 percent decreasing to 6.7 percent) or 1-percentage-point higher (7.7 percent increasing to 8.7 percent) than the current healthcare cost trend rates:

	1% Decrease	Healthcare cost trend rate	1% Increase
	<u>5.30%</u>	<u>6.30%</u>	<u>7.30%</u>
<b>Total OPEB Liability</b>	<b><u>\$ 665,584</u></b>	<b><u>\$ 883,389</u></b>	<b><u>\$ 953,826</u></b>

The following presents the total OPEB liability of the Commission's calculated liability using the discount rate of 3.5 percent, as well as what the OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (2.5 percent) or 1-percentage point higher (4.5 percent) than the current rate.

	1% Decrease	Current discount rate	1% Increase
	<u>1.21%</u>	<u>2.21%</u>	<u>3.21%</u>
<b>Total OPEB Liability</b>	<b><u>\$ 935,699</u></b>	<b><u>\$ 883,389</u></b>	<b><u>\$ 676,297</u></b>

# WASHINGTON DAIRY PRODUCTS COMMISSION

## Notes to Financial Statements

For the Years Ended December 31, 2020 and 2019

### Note 8 - Continued

**Changes in the Total OPEB Liability** - The following represents the changes in the OPEB liability during the year ended December 31, 2020.

OPEB Liability, December 31, 2019	\$ 791,212
Changes for the year-	
Service cost	30,432
Interest	28,385
Changes in assumptions	54,820
Benefit payments	<u>(21,460)</u>
<b>OPEB Liability Ending Balance, December 31, 2020</b>	<b><u>\$ 883,389</u></b>

**OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB** - For the year ended December 31, 2020, the Commission recognized OPEB expense of \$110,841. At December 31, 2020, the Commission reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Inflows of Resources	Deferred Outflows of Resources
Changes of assumptions	\$ 54,820	\$ -
Commission contributions subsequent to measurement date		<u>9,756</u>
	<b><u>\$ 54,820</u></b>	<b><u>\$ 9,756</u></b>

Deferred outflows of resources of \$9,756 resulting from payments subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ended December 31, 2020. Other amounts reported as deferred outflows and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

For the Year Ending December 31,

2021	\$ (6,091)
2022	(6,091)
2023	(6,091)
2024	(6,091)
2025	(6,091)
Thereafter	<u>(24,365)</u>
	<b><u>\$ (54,820)</u></b>

## **SUPPLEMENTARY INFORMATION**

**WASHINGTON DAIRY PRODUCTS COMMISSION**  
**Schedules of Proportionate Share of the Net Pension Liability**  
**PERS 1**  
**As of June 30, 2020**  
**Last 10 Fiscal Years\***

	2015	2016	2017	2018	2019	2020
Employer's proportion of the net pension liability	0.011133%	0.011294%	0.010439%	0.010185%	0.010950%	0.010024%
Employer's proportionate share of the net pension liability	\$ 582,359	\$ 606,541	\$ 495,339	\$ 454,866	\$ 421,066	\$ 353,905
Employer's covered employee payroll	\$ 171,818	\$ 177,156	\$ 133,082	\$ 107,601	\$ 111,368	\$ 115,823
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	338.94%	342.38%	372.21%	422.73%	378.09%	305.56%
Plan fiduciary net position as a percentage of the total pension liability	59.10%	57.03%	61.24%	63.22%	67.12%	68.64%

**Notes to Schedule:**

Changes in benefit terms, and change in the size or composition of the population covered by the benefit terms will affect the trends in the amounts reported in the schedule.

\* Until a full 10-year trend is compiled, governments should present information only for those years for which information is available (June 30, 2015 and after).

\* Covered payroll is the payroll on which contributions to a pension plan are based (GASB 82, par. 5).

See independent auditor's report.

**WASHINGTON DAIRY PRODUCTS COMMISSION**  
**Schedules of Proportionate Share of the Net Pension Liability**  
**PERS 2/3**  
**As of June 30, 2020**  
**Last 10 Fiscal Years\***

	2015	2016	2017	2018	2019	2020
Employer's proportion of the net pension liability	0.010019%	0.011008%	0.010296%	0.010534%	0.011596%	0.010468%
Employer's proportionate share of the net pension liability	\$ 357,985	\$ 507,621	\$ 357,737	\$ 179,859	\$ 112,637	\$ 133,380
Employer's covered employee payroll	\$ 889,044	\$ 934,207	\$ 1,009,430	\$ 1,085,965	\$ 1,260,140	\$ 1,217,583
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	40.27%	54.34%	35.44%	16.56%	8.94%	10.95%
Plan fiduciary net position as a percentage of the total pension liability	89.20%	85.82%	90.97%	95.77%	97.77%	97.22%

**Notes to Schedule:**

Changes in benefit terms, and change in the size or composition of the population covered by the benefit terms will affect the trends in the amounts reported in the schedule.

\* Until a full 10-year trend is compiled, governments should present information only for those years for which information is available (June 30, 2015 and after).

\* Covered payroll is the payroll on which contributions to a pension plan are based (GASB 82, par. 5).

See independent auditor's report.

**WASHINGTON DAIRY PRODUCTS COMMISSION**  
**Schedules of Employer Contributions**  
**PERS 1**  
**As of December 31, 2020**  
**Last 10 Fiscal Years\***

	2015	2016	2017	2018	2019	2020
Statutorily or contractually required contributions	\$ 17,794	\$ 63,695	\$ 65,212	\$ 70,352	\$ 81,342	\$ 65,836
Contributions in relation to the statutorily or contractually required contributions	(17,794)	(63,695)	(65,212)	(70,352)	(81,342)	(65,836)
<b>Contribution Deficiency (Excess)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
Covered employer payroll	\$ 174,383	\$ 170,004	\$ 106,035	\$ 109,485	\$ 113,595	\$ 117,560
Contributions as a percentage of covered employer payroll	10.20%	37.47%	61.50%	64.26%	71.61%	56.00%

**Notes to Schedule:**

Changes in benefit terms, and change in the size or composition of the population covered by the benefit terms will affect the trends in the amounts reported in the schedule.

- \* Until a full 10-year trend is compiled, governments should present information only for those years for which information is available (June 30, 2015 and after).
- \* Covered payroll is the payroll on which contributions to a pension plan are based (GASB 82, par. 5).
- \* Contributions are actual employer contributions to the plan. For PERS 1 this includes the portion of PERS 2/3 and PSERS 2 contributions that fund the PERS 1 UAAL. Contributions do not include employer-paid member contributions (GASB 82, Par. 8).

See independent auditor's report.

**WASHINGTON DAIRY PRODUCTS COMMISSION**  
**Schedules of Employer Contributions**  
**PERS 2/3**  
**As December 31, 2020**  
**Last 10 Fiscal Years\***

	2015	2016	2017	2018	2019	2020
Statutorily or contractually required contributions	\$ 92,919	\$ 58,766	\$ 75,461	\$ 83,823	\$ 104,387	\$ 84,048
Contributions in relation to the statutorily or contractually required contributions	(92,919)	(58,766)	(75,461)	(83,823)	(104,387)	(84,048)
<b>Contribution Deficiency (Excess)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
Covered employer payroll	\$ 909,116	\$ 943,269	\$ 1,072,368	\$ 1,117,609	\$ 1,352,907	\$ 1,061,210
Contributions as a percentage of covered employer payroll	10.22%	6.23%	7.04%	7.50%	7.72%	7.92%

**Notes to Schedule:**

Changes in benefit terms, and change in the size or composition of the population covered by the benefit terms will affect the trends in the amounts reported in the schedule.

- \* Until a full 10-year trend is compiled, governments should present information only for those years for which information is available (June 30, 2015 and after).
- \* Covered payroll is the payroll on which contributions to a pension plan are based (GASB 82, par. 5).
- \* Contributions are actual employer contributions to the plan. For PERS 1 this includes the portion of PERS 2/3 and PSERS 2 contributions that fund the PERS 1 UAAL. Contributions do not include employer-paid member contributions (GASB 82, Par. 8).

See independent auditor's report.



**WASHINGTON DAIRY PRODUCTS COMMISSION**  
**OPEB Liability**  
**Schedule of Changes in Total Other Liability and Related Ratios**  
**As December 31, 2020**  
**Last 10 Fiscal Years\***

	<u>2018</u>	<u>2019</u>	<u>2020</u>
Total OPEB liability - beginning	\$ 751,250	\$ 764,584	\$ 794,008
Service cost	36,875	29,798	27,636
Interest	27,985	30,366	28,385
Changes in benefit terms			
Differences between expected and actual experience			
Changes of assumptions	(38,549)	(13,891)	54,820
Benefit payments	(12,977)	(19,646)	(21,460)
Other changes		778	(2,020)
<b>Total OPEB Liability - Ending</b>	<b><u>\$ 764,584</u></b>	<b><u>\$ 794,008</u></b>	<b><u>\$ 883,389</u></b>
Covered-employee payroll	\$ 1,247,189	\$ 1,466,502	\$ 1,178,770
Total OPEB liability as a % of covered payroll	61.30%	54.14%	74.94%

\* Until a full 10-year trend is compiled, only information for those years available is presented.

No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB 75.