

Northwest REPORTS

SPRING 2016
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Recap: Pacific Northwest Listeria Control Workshop

Successful conference for controlling pathogens and foodborne outbreaks through prevention and best practices



A *Listeria* outbreak is what keeps food processors up at night - it can be every company's nightmare. That's why food processors, microbiologists, risk assessors, and USDA and FDA regulators gathered in Portland, Oregon on May 2nd and 3rd to learn about preventing, controlling and dealing with an outbreak of *Listeria monocytogenes* in fruit, vegetable, dairy, seafood, and other food products facilities.

Sponsored by Fisher Construction Group and eight supporting sponsors, the *Listeria* Control Workshop drew more than 160 attendees and 22 speakers, including representatives from companies that have dealt with a *Listeria* outbreak.

Barry Bettinger, CEO of Snoqualmie Ice Cream in Snohomish, Washington, shared his story of how the company survived a voluntary, but devastating recall when two people tested positive for *Listeria monocytogenes* after they had consumed a high-protein shake made for a Seattle area hospital.

In an article published by Dairy Foods Magazine, Mr. Bettinger shared that the company had to implement a comprehensive review of production systems and a total reset of the facility. Despite a \$1 million cost to the company, Snoqualmie's loyal customers "were priceless in their support."

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Message from the Chair

The Power of Engagement

Greetings NWFP members,

A prime reason I am involved with NWFP and serve as its Board Chair is that the Association continues to look to the future by adapting to a changing industry. And our industry is truly facing a lot of changes.

The rollout of the Food Safety Modernization Act has implications for every food and beverage manufacturer, as well as along the industry supply chain. Avian flu and *Listeria* can cause a major health crisis for consumers and an economic challenge for manufacturers. Legislation, such as a rise in the minimum wage, has companies concerned about being able to keep a full workforce.

And yet through this seemingly constant environment of change, NWFP has made a difference by leading the way in helping its members address these issues and become stronger together.

NWFP Members can also lead the way by actively engaging with the Association. The Leadership Summit is one way to make a difference. These two days provide education, engagement, and networking for you and your colleagues. It is the ideal setting to assist companies in engaging and developing their leaders and encouraging rising stars.

Take time now to register and encourage your colleagues to do the same. The industry needs your input, and the Association wants your engagement. And where better to network than at beautiful Skamania Lodge! 🏡

Kurt McKnight

Chair, NWFP

President, EverFresh Fruit Company



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Letter from the President

Change, change, change

Dear Partners,

The food and beverage manufacturing industry is not only growing, it is changing. More small producers are entering the arena, and large companies are diversifying product lines. Business models are changing, too, as are responsibilities and titles. The executive vs. director vs. product manager distinction is transitioning, with more people wearing multiple hats and cross-team collaboration becoming a necessity for lean operations.

Recognizing this new state of food and beverage manufacturing, the NWFP is also changing in order to meet members' needs, starting with the Executive Business Summit (EBS). Now known as the Leadership Summit, the new name is intended to be more inclusive of member representatives who are not in a traditional C-suite business environment, and to extend invitations to processor representatives who are active on Association committees.

As with EBS, the Leadership Summit will continue to address the needs of our industry, providing a forum for thought-provoking presentations, interactive education, discussion, collaboration and, of course, invaluable networking.

The NWFP Leadership Summit is scheduled for May 19-21, 2016 at Skamania Lodge in Stevenson, Washington. Look for your invitation to join colleagues at this one-of-a-kind industry event. 🏡

David McGiverin

President

Northwest Food Processors Association



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Why Join NWFPA?

Top Reasons to Join NWFPA:

- Drive legislative policy and regulatory decisions
- Access technical and regulatory resources
- Support the industry
- Develop professional relationships and leadership skills
- Access education and gain insight to emerging industry trends
- Profitability
- Promote overall safety and credibility of your business

Now is a perfect time to join or renew your membership in the Northwest Food Processors Association. Whether you are a first time or returning member, this is the time to make that membership decision to ensure the association's financial health. Joining NWFPA gives your company access to a host of unique growth opportunities.

In the last year, NWFPA has made great strides in our outreach program. We brought industry meetings to Bellingham, Puyallup, Boardman, and Quincy. We organized training courses in Tacoma, Portland, Salem, Tri-Cities, and Boardman-- to name a few. We held meetings in Portland to discuss the M&E tax in Oregon that brought legislators, lobbyists, and food processors together to examine the implications and impact of the tax on bakery companies. A similar meeting was held in Salem to include dairy processors, bakeries and egg processors. In early August a food safety summit was held regarding bio-security and the Avian Influenza issue rising in the industry. Be sure to check our event calendar for more information.

NWFPA offers your business four types of membership depending on what nature of company you represent:

- Northwest Food Processor
- Affiliate Food Processor
- Associate Food Processor
- Industry Supplier

Engagement opportunities in Committees, PACs, Training Center, Northwest Reports, and Events are at your fingertips when you are a member of NWFPA. Partnership opportunities include a strengthened commitment to communication and development of resources including our outreach program, regulatory and legislative research, as well as significant contributions to energy programs that impact Northwest food processors. 🍷

Call **Tawnia Linde** at **503.327.2212** for more information or email membership@nwfpa.org.



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Continued from page 1 - LISTERIA WORKSHOP RECAP

Steve Gill of Gills Onions in Oxnard, California spoke of his company's culture of preparedness and prevention, offering tips to other food processors that can be implemented by thinking in terms of eliminating cross contamination.

"Finding and stopping *Listeria* in our operations is a constant game of cat and mouse," said Gill. "And we don't want the mouse to win."

He suggested following several industry prevention best practices, such as:

- Ensure product separation: pre-wash/post-wash or RAW/RTE area separation
- Ensure drainage cannot cross-contaminate during process, is cleanable, and is checked regularly during environmental sampling for *Listeria*
- Reduce facility humidity (*Listeria* thrives in it)
- Keep people and equipment used in raw/dirty areas from entering clean/RTE areas



Steve Gill, Gills Onions, and Lisa Ford discuss his presentation at the Monday Reception sponsored by Parker, Smith, & Feek.

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Continued from page 6 - LISTERIA WORKSHOP RECAP

- Color code the cleaning equipment for each task, so there's no cross-over usage between areas, such as: yellow tools for bin washing; red for outdoor cleaning; purple for packaging areas; etc.
- Use different forklifts for different areas.


Dr. Mickey Parish of the FDA, and Gary Kushner, food regulatory lawyer with Hogan Lovells, discussed the regulatory policies of the FDA, USDA and Codex Alimentarius, a collection of internationally recognized food standards.

Mansour Samadpour, IEH Laboratories and Consulting, explained the epidemiology of foodborne outbreaks, and the impact of whole genome sequencing on the ability to link a food processor from their environmental samples to an undetected outbreak.

Other sessions focused on case studies, commodity-specific issues, regulatory policies, building and equipment issues, principles of sanitation and environmental monitoring, crisis preparedness, and the role of social media in crisis communications.

A panel of representatives from The Alliance for Listeriosis

Prevention, a national coalition of food industry organizations, addressed how various industries from many sectors are coming together to address this pressing issue.

For more information on topics covered at the *Listeria* Control Workshop, email or call Brian Campbell at bcampbell@nwfpa.org or 503.327.2211 



Cliff Coles, California Microbiology Controls Consulting, and Dr. John Butts, Food Safety by Design, present on business readiness at the Pacific Northwest Listeria Control Workshop.



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Northwest Food Processors Association 2016 Legislative Report

The 2016 Northwest Legislative sessions delivered the mixed results we saw from the previous year. NWFPA tracked roughly 130 pieces of legislation in the three states of Washington, Oregon, and Idaho. While Idaho and Washington passed no new laws harmful to food businesses, we saw several in Oregon that will increase the cost of doing business in that state.

In Oregon and Washington, the “even-numbered” year (such as 2016) is considered a shorter legislative session with compressed timelines and a limited number of bill introductions, which purposely create a short legislative calendar. However, Idaho does not make this distinction and has a “regular” session each year.

Idaho

Idaho’s Legislative session began on January 11 and adjourned on March 25. NWFPA was pleased with the progress made on some key pieces of legislation and the focus and support Idaho gives toward the food industry there.

NWFPA sponsored legislation, HB 499, passed this year.

Currently, the Idaho Department of Health and Welfare (IDHW) provides food safety inspections under contract from the Federal Food and Drug Administration (FDA). In preparation with new Food Safety Modernization Act (FSMA) requirements, HB 499 made the Idaho State Department of Agriculture (ISDA) the delegated authority for FSMA oversight and regulation of non-retail activities in Idaho. The bill also directs that, when ISDA and IDHW work through this transition there will be coordinated and negotiated rulemaking to ensure there is clarity on responsibilities over every area of food safety. Additionally, the bill also notes that restaurants, grocery stores, cottage food establishments, and any other retail entities would remain under IDHW authority for food safety.

Important progress was made on environmental issues as well. Significant financial support was allotted toward a robust managed aquifer recharge program. This has been the focus of many legislators over recent years in hopes of making aquifers a sustainable resource for Idahoans in the future. In addition to the managed recharge program, critical progress was made for Idaho to stay on track with state primacy efforts on the NPDES program with the U.S. Environmental Protection Agency.

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Continued from page 8 - LEGISLATIVE SESSION OVERVIEW

Education continued to carry the attention of Idaho elected officials this session. Overall, the education budget saw a 7.4% increase as the legislature continues to invest in Governor Otter's education task force recommendations. By far the largest ticket item in the state's budget, totaling over \$1.5 billion for K-12 funding, received overwhelming bipartisan support from both sides of the rotunda.

The overall state budget saw a 6.6% increase for the 2017 fiscal year totaling \$3.27 billion in general fund spending. Legislators continue to be cautious about spending and not growing government at the same level as the economy.

There will be an important ballot initiative this November as a result of legislative action this session. HJJR 5, The Administrative Rules Constitutional Amendment, is an amendment to Idaho's Constitution that will confirm the Legislature's authority to accept or reject the rules proposed by state agencies each year. The legislation received overwhelming support from both sides of the Capital this session. Currently, the Legislature reviews every new administrative rule each year to make sure the laws they have passed are being implemented properly and consistently. Without this legislative oversight, agencies could implement overreaching and burdensome rules that negatively impact the livelihood or way of life in Idaho.

We had a number of great wins in Idaho this session. We look forward to continuing our work with legislative leaders on a handful of issues for the 2017 legislative session, including taxes and Medicaid expansion.

Oregon

Oregon's legislative session started on February 1 and adjourned on March 3. The 32-day short session provided numerous challenges for Oregon's business community with major policy issues involving additional workforce costs, energy costs, and threats of new mandates on state agencies and Oregon employers.

Major tax issues were sidelined during the 2016 session in preparation for an eventual ballot fight on gross receipts taxes in November (Initiative Petition 28). House Democrats did pursue legislation that would require corporate tax disclosure from C-Corps. The bill was popular with some legislators in the House, but was opposed by the Chair of the Senate Revenue Committee Mark Hass and was sidelined for the duration of the short session.

The Department of Revenue advanced a technical fix, SB 1506, to the machinery and property tax exemption that was passed during the 2015 session to benefit food processors. The bill simply modified the reporting requirements for those applying for the tax exemption. Legislation clarified that the equipment must cost \$100,000. In order to verify this, processors simply need to show the cost of the investment or the invoices for the new equipment.

Unions pushed aggressively and won a significant increase in the minimum wage. As a result, the two ballot measures of \$13.50 and \$15.00/hr have been withdrawn from consideration on the November ballot. The legislature narrowly passed SB 1532 that established a three-tier system for increasing the state's minimum wage.

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Keeping Pace with Global Seafood Demand

Silver Bay Seafoods LLC is a processor of fish products based in Sitka, Alaska. Born out of the vision of a group of fishermen, Silver Bay's integrated approach to catching and processing fish for domestic and international markets has seen tremendous growth. In less than ten years of operation, the company has grown from a single processing facility to one of the largest seafood companies in Alaska, operating five processing facilities throughout the state, with plans to begin processing squid in California in the near future.

Working closely with Silver Bay, Fisher Construction Group of Burlington, Washington is nearing completion of a 64,679 sq. ft. processing plant with offices in Valdez, Alaska. Breaking ground in April of 2015, the construction crews worked 12-hour shifts through the summer to close-in the building before the first snow arrived in November. Once closed-in, crews worked through the winter installing the fire, refrigeration, mechanical systems, along with the equipment, so the facility is ready to begin processing pink salmon in June.

The Valdez processing facility will operate during summer fishing season, primarily processing pink salmon which will then be sent companies for end-use processing. Beyond the meat itself, this Silver Bay facility will process salmon roe for wild salmon caviar, and recover fish oil from the remaining solids.

With an eye towards maximum production during the peak season, Fisher installed 1,760 feet of underground supply lines to transfer fish from the tender boats to the processing plant. The underground supply lines provided multiple advantages: they are less prone to freezing and didn't require overhead support systems.



Designed to Meet Silver Bay's Specific Needs

To process a lot of fish quickly, the new Valdez facility features a robust refrigeration system when measured against typical food processing standards. Because the city of Valdez was not able to allocate enough power to meet Silver Bay's needs, ten generators will support the plant, delivering 7 Megawatts of power to run the processing operations until the power grid is expanded. The two freeze tunnels and a plate freezer can freeze up to 130,000 round pounds of salmon per hour.

A refrigerated salt water system (RSW) circulates chilled water to the tanks, lowering the temperature of the fish for processing as quickly as possible, maximizing the quality of the product.

Built Clean

The highly automated facility meets food safety standards and is designed to hold up to the tough rigor of daily cleaning. A mezzanine was built to process and freeze the salmon caviar. The mezzanine clean room has a sloped epoxy floor and boxed girders to minimize the possibility of cross-contamination and harborage of micro-organisms.

It is Called 'The Last Frontier' for a Reason

Building in Alaska takes tremendous planning and forethought. Before breaking ground on the processing plant, Fisher built a three-story bunk house to house the construction workers, and later plant employees, in the small community on Prince William Sound whose population is about 4,000 people.

The processing plant and bunkhouse are built to withstand a winter snow-pack of up to 27 feet. From the structural steel down to every tool and its replacement,



all of the construction materials were carefully planned by the construction crew and packed in containers to make the 1,500 mile trip by barge from Seattle.

The building's structural design dealt with the particular challenge of locating in an area very prone to earthquakes. The Great Alaska Quake of 1964 caused severe damage and loss of life throughout the region. Valdez itself was relocated after the quake. Seismic engineering and construction have made tremendous advancements in years since. For this plant, Fisher's team drove 252 steel piles in the substrate below the 10 inch structural slab and grade beams.

The processing plant is built with composite structural steel, a standing seam roof and metal siding. The structure itself is designed to withstand the wind and snow loads that an Alaskan winter can dole out. For fire protection, a dry sprinkler system was installed, making it possible stand empty in the off season, and restart for seasonal production.

The fifth Silver Bay processing plant in Alaska, this plant will provide seasonal work for up to 350 people.

Fun Facts:

- > Onion is Latin for "large pearl".
- > Biting down on a wooden spoon while chopping an onion will stop your eyes from watering.
- > Lettuce is a member of the sunflower family.

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- \$14.75 for the Portland Urban Growth Boundary by 2022;
- \$13.50 in Benton, Clackamas, Clatsop, Columbia, Deschutes, Hood River, Jackson, Josephine, Lane, Lincoln, Linn, Marion, Multnomah, Polk, Tillamook, Wasco, Washington and Yamhill counties by 2022;
- \$12.50 in Malheur, Lake, Harney, Wheeler, Sherman, Gilliam, Wallowa, Grant, Jefferson, Baker, Union, Crook, Klamath, Douglas, Coos, Curry, Umatilla and Morrow counties by 2022.

Efforts by the business community to pass technical changes to the paid sick leave law were rejected by Democratic leadership. SB 1581 would have made paid sick leave compliance more reasonable for local business by fixing issues brought up by the business community during the BOLI rulemaking process late in 2015. Although the unions blocked this bill in the legislature, BOLI did commit to re-opening the rules process to allow further input from business.

Energy issues dominated discussion throughout the short session. Legislators were divided on the policies to focus on. The Senate, led by Senators Beyer and Edwards, preferred policies centered on cap and trade. The business community was absent in opposition to significant increases in energy costs, with NWFPA and the Industrial Customers of Northwest Utilities as the only business groups opposing the measure.

The House aggressively moved forward with an agreement reached by environmental groups and the Investor Owned Utilities (IOUs) to eliminate coal, increase the Renewable Portfolio Standard, and provide for new solar opportunities. When all was said and done, industrial ratepayers took a significant hit during the 2016 short session. Prior to session, under the presumption that several ballot measures would be headed to the ballot box in November, the IOUs and members of the environmental and renewable communities forged an agreement that provided significant benefits to both. Ratepayers and the Public Utility Commission were excluded from discussions.

The Legislature even attempted to address genetically engineered (GE) goods in this extremely short session. HB 4122, which originally attempted to change the current prohibition of local governments from enacting regulations on agriculture seed, was amended to require the labeling of GE fish for human consumption. This legislation narrowly passed in the House. In the Senate, the clock saved us. Legislators were unwilling to take up the controversial issue primarily because of the lack

of bi-partisan support for the measure. The bill died in the Senate Health Care Committee. It is highly likely that advocates for the GE bill will be back in 2017.

When lawmakers originally proposed yearly sessions, the short 35-day session was sold as a way for the Legislature to make budget adjustments and minor policy "fixes." What we saw in the 2016 session was politics becoming the primary driver for 2016 issues. Ballot measures are the new, emerging weapon to force legislative action, particularly in the short session. A new trend emerged in 2016 that will surely inform the strategies of interest groups going forward for all future short sessions: Filing ballot measures as a hammer to spur legislative action.

Washington

The Washington State Legislature began their 60-day session on January 11 and adjourned on March 10. Governor Jay Inslee immediately called for a special session because the Legislature failed to find agreement on the budget. The Legislature adjourned again on March 29 after a 20-day special session. In total, the Legislature took 80 days to agree on a 2016 supplemental operating budget. The 2016 supplemental operating budget adds \$191 million in net spending to the existing \$38.2 billion 2015-2017 biennial operating budget. The supplemental budget leaves in place all tax preferences for businesses, additional money to pay for last summer's wildfires, new funding for homelessness, mental health care, and charter schools.

It should be noted that Governor Inslee vetoed 27 bills the last week of the regular session hoping that it would pressure legislators to finish their budget negotiations on time. The House and Senate passed all 27 bills with override votes during the special session, making the bills into laws immediately. In the weeks following final adjournment, Inslee partially vetoed several bills and completely vetoed one bill that would have raised funding for rural economic development.

The Governor will now turn his attention, along with all the members in the house and most members in the Senate, to campaigning for reelection. The Senate Republicans have a tough road ahead given the nature of Washington State politics and the national trend, to maintain majority and control of the state Senate. House Democrats will use momentum from up the ballot to try and take back seats they have lost over the past few years. The House majority has been nearly eliminated down to a 2 seat advantage for Democrats.



Generally speaking, the food industry fared well during the 2015 Legislative Session with no harmful legislation passed. In fact, there were not much activity on bills that directly affected Washington's food industry. This has everything to do with the balance of power being split in Olympia and thus creating difficulty in passing harmful legislation.

The biggest momentum was around an alternative to Initiative 732, the proposed ballot initiative that would create a state carbon tax. An alternative became a discussion point after a collective realization of the problems with I-732. Labor unions, environmental groups, and many others opposed I-732 for a range of different reasons. While there were many suggestions for an alternative, not one concept gained enough votes for passage. We fully expect to see I-732 appear on November's ballot. Additionally, Initiative 1437, the alternative proposed by labor and environment groups to I-732, is in the process of gathering signatures for November's ballot as well. Many Democrats in the legislature believe the alternative proposal would be less damaging to the state general fund and therefore support the efforts of the I-1437 campaign. NWFP will oppose any effort that places a price on carbon since we oppose state-based solutions to climate change.

Washington's Legislature also saw several bills to increase the state's minimum wage. However, unlike Oregon, Washington's more pro-business Legislature did not pass a wage increase. In the end, Leadership was happy to let this issue be decided on the ballot in November. Currently, there are potentially two ballot initiatives that could raise the minimum wage in Washington. Labor unions are backing a measure of \$13.50 an hour statewide by 2020 with 7 days of mandatory paid sick leave, while Washington's Restaurant Association is sponsoring \$12 an hour statewide by 2020 with 5 days of mandatory paid sick leave. This issue is likely to resurface next year if the ballot initiatives fail.

A bill introduced late in session, SB 6660, would have increased the hazardous substance tax whenever program revenues dropped below \$175 million. This bill sought to recover shrinking revenues for the Model Toxics Control Act, or MTCA, that have coincided with decreasing fuel prices. The result is fewer contaminated waste sites are being cleaned up, causing alarm among the environmental community and legislators. The bill received a hearing in the Senate Ways and Means Committee where it died. There is indication, however, that this bill will be reintroduced next session when the likelihood of passage is greater.

Look for the full NWFP 2016 Legislative Report coming soon!

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2016 Expo Recap: Hot industry issues draw record attendance

The annual Food and Beverage Manufacturers Expo, held January 11 - 13, 2016 at the Oregon Convention Center in Portland, drew record attendance, including substantial numbers of individuals from food & beverage companies. Total attendees to the annual event numbered 3,524, a 22% increase over 2015. Of that number, 1,410 were food processors, 37% more than last year.



Got Milk?



Monday morning keynote general session, sponsored by Fisher Construction Group, presented Jeff Manning, creator of "Got Milk?," the most successful and enduring campaign in U.S. advertising history. Manning presented ideas for collaborative marketing between companies. Over 250 attendees joined NWFP to learn the immeasurable value of partnership in the food & beverage industry.

Walmart at Expo



Bank of America sponsored the Tuesday keynote luncheon, bringing Frank Yiannis, Vice President for Food Safety at Walmart, to the stage. Industry professionals attended the session as Frank discussed the importance of creating a strong food safety culture. This topic was also a main attraction in the Food Safety Forum, which offered a popular series of sessions on the Food Safety Modernization Act.

Education, Education, Education



Over 50 hours of education were held across 2 ½ days of the conference. Record breaking attendance in food safety and continuous improvement sessions showed that regulation, food safety, and production performance are all hot topics.

"There was keen interest in FSMA, as those regulations are being rolled out and the industry has to adapt," said David McGivern, president of NWFP. "Also of high interest

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were the sessions presenting lean manufacturing applications for food processors. Our members are very focused on achieving and maintaining food safety while becoming more efficient."

The Trade Show Floor



The Expo floor hosted more than 400 exhibitor booths with over 300 companies represented. Products and services ranging from heavy equipment to environmental consulting were represented in the expo hall. Eleven food and beverage companies participated in Taste of the Northwest, sponsored by Schwabe, Williamson & Wyatt, spotlighting products from Oregon, Washington and

Monday Night Reception



After the first day of the show, attendees joined exhibitors and sponsors at the DoubleTree Hotel for a fun reception. Over 800 industry professionals enjoyed delicious NW foods while mingling with their peers and making new connections. The Welcome Reception was sponsored by Cascadia Capital, Contractors Northwest Inc., and Lineage Logistics.

Thank you infor for sponsoring the charging stations at Expo 2016!

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Scavenger Hunt at Expo!



New in 2016, NWFPA offered a digital scavenger hunt to attendees as a way to engage them on the expo floor with a wider variety of vendors. Tasks on the hunt included snapping photos of speakers, equipment, and vendors. Exhibiting sponsors of the scavenger hunt included Wondwerware PacWest, Safe Quality Foods Institute, WITT Gas Controls, and Agrian, Inc. The prizes for attendees who completed all tasks in the scavenger hunt included an iPad mini, a Visa gift card, and the grand prize won by a representative of Del Monte Foods: a 6 day trip for two to Hawaii!

Job Fair

NWFPA closed out the 2016 Expo by hosting our 1st Annual Food & Beverage Processing Job Fair. Joined by local workforce partners, NWFPA brought together 20 manufacturing companies and over 200 active job seekers. The three hour event was a great success, showing just how important the food and beverage manufacturing industry is to the Northwest.



The 103rd annual Expo will be held January 9-11, 2017 at the Oregon Convention Center. Early bird booth and sponsorship registration are open: <http://bit.ly/nwfpexpo2017>

Stay connected at nwfp.org/nwfp-events

ERI Scholarship Winners



DREW FORLINI, UNIVERSITY OF IDAHO

Drew is a Senior at UI studying Food Science, Biochemistry, and Microbiology. He has worked at the WSU Creamery in cheese production and interned in quality assurance at Idaho Milk Products.



RYAN KOWALSKI, WASHINGTON STATE UNIVERSITY

Ryan holds a Bachelors of Science in Chemistry and is working on his Ph.D. in Food Science. Ryan's research is focused on extrusion processing and the effects it has on waxy wheat varieties originating in the Pacific Northwest.



OMAR MIRANDA, OREGON STATE UNIVERSITY

Omar is a second year Masters Candidate with the goal of becoming a top level researcher in Food Quality. While receiving his BS in Food Science, Omar interned for Kerr Concentrates as a Quality Control Inspector.



FASB Issues New Lease Accounting Standard

Under the FASB's new standard, all leases will be recognized by lessees on the balance sheet through a right-of-use (ROU) asset and corresponding lease liability, including today's operating leases.

For all non-public companies, the standard is effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early application is permitted for all entities.

This marks the final chapter in the FASB's long-standing objective of providing greater transparency and comparability to an entity's leasing activities. It also brings GAAP into general alignment with the International Financial Reporting Standards.

CLASSIFICATION AND MEASUREMENT

There are some terminology changes under the FASB's new lease accounting model; however, all leases will still be classified by lessees as one of two types—either a finance or operating lease—using criteria substantially similar to what is used today to classify leases as either capital or operating.

The below factors will impact the resulting accounting treatment under the new standard.

OTHER KEY PROVISIONS

Discount Rate

The rate the lessor charges the lessee will be defined as "the rate implicit in the lease." When the lessee can't determine that rate, the lessee will use its incremental borrowing rate. Non public entities will be permitted to make an accounting policy election to use a risk-free rate. If there's a change in the discount rate, the lessee will adjust the ROU asset and lease liability using the revised discount rate in the period of such change and use the new rate on a prospective basis.

Lease Term

The lease term will be determined at the lease commencement date (the date the underlying asset is made available for use to the lessee) based on the noncancelable term of the lease.

A lessee should reassess the lease term only upon the occurrence of a significant event or a significant change in circumstances that are within the control of the lessee. If the lease term changes, a lessee will remeasure the lease liability using revised inputs (discount rate and allocation of contract consideration, for example) at the reassessment date and will adjust the ROU asset accordingly.

However, if the ROU asset is reduced to zero, a lessee will recognize any remaining amount in earnings in the period in which the lease term is reassessed. The lease will be classified as a finance lease when it contains a purchase option and the lessee is reasonably certain to exercise that option.

Scope Exclusions

The new standard is applicable to all leased and subleased assets with the exception of a few notable exclusions:

- Leases of intangible assets
- Leases to explore for or use minerals, oil, natural gas, and similar non-regenerative resources
- Leases of biological assets, including timber
- Leases of inventory
- Leases of assets under construction

For those operating in certain agricultural operations, the definition of biological assets includes assets such as trees, shrubs and farm animals.

TRANSITION AND EFFECTIVE DATE

Upon adoption of the new standard, lessees are required to apply a modified retrospective transition approach for capital and operating leases existing at, or entered into

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after, the beginning of the earliest comparative period presented in the financial statements.

The FASB provided some specific relief to lessees upon transition. An accounting policy election can be made to not reassess any of the following:

- Whether any expired or existing contracts are or contain leases
- Lease classification for any expired or existing leases
- Initial direct costs for any expired or existing leases

If a lessee elects to apply this relief, it must be applied in its entirety to all leases and can't be applied on a leases-by-lease or provision-by-provision basis.

Next Steps

Although companies have nearly three years (or more) before the effective date of the ASU, implementation efforts shouldn't be delayed. Start with:

Organize a team. Involving individuals from various departments within your company may be beneficial to help evaluate the effects of the coming changes. This evaluation should also be made when negotiating and entering into new lease arrangements from this point forward.

Take inventory. Begin taking inventory of existing lease arrangements and other contractual agreements or performance metrics that will be impacted by this change—loan covenants, borrowing base calculations, and compensation arrangements, among others. Then consider whether they'll need modification prior to implementation of the new standard.

We're Here to Help

We will continue to follow this topic and provide more in-depth guidance that dissects the new rules and explains how they'll affect a wide range of lease transactions. For any questions or to better understand how this new standard may affect your business, contact your Moss Adams professional.



Jeff Dieleman
CPA, Partner
Moss Adams LLP

Jeff has provided auditing, accounting, and advisory services to clients in the agribusiness industry since 1996. He is experienced with grain, agronomy, retail operations, and cooperatives. Jeff manages and participates in financial statement audits, with related recommendations for cost savings and efficiency improvements.

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This issue of Northwest Reports is sponsored by Moss Adams LLP's Food Processing and Agricultural Practice group of business and financial consulting CPAs. Moss Adams serves as advisors to hundreds of food processing and agricultural companies. |

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NORTHWEST FOOD PROCESSORS ASSOCIATION

Northwest Food Processors Association

8338 NE Alderwood Road, Suite 160
Portland, OR 97220

Autumn Assembly

Registration Opens 6/1/16

The Riverside Golf & Country Club will host the golf tournament for NWFA processor and supplier members and their guests. Shotgun start will be at 12:30 pm, but check in opens at 10 am so golfers can compete in the Chipping & Putting Contests. Anglers will meet at the Holiday Inn to secure transportation if needed and travel to Beacon Rock State Park located near Bonneville Dam, just 45 minutes from Portland to cast for the largest fish. The reception and awards dinner will follow the tournament & fishing derby inside the Riverside Clubhouse. For more information email Sarah at semerson@nwfp.org.

Committee Meetings September 20, 2016
Holiday Inn | Portland Airport

Golf Tournament September 21, 2016
Riverside Country Club | Portland, Oregon

Fishing Derby September 21, 2016
Beacon Rock | Beacon Rock State Park

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