

**U.S. Highbush Blueberry Council**

**FINANCIAL STATEMENTS**  
**December 31, 2016 and 2015**

U.S. Highbush Blueberry Council

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## INDEPENDENT AUDITOR'S REPORT

To the U.S. Highbush Blueberry Council  
Folsom, California

### Report on the Financial Statements

We have audited the accompanying financial statements of U.S. Highbush Blueberry Council (the "Council") which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

### 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of U.S. Highbush Blueberry Council as of December 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Supplementary Information*

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information shown on pages 12 - 20 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. That information, except for the budget information marked "unaudited," has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, that information is fairly stated in all material respects in relation to the financial statements as a whole. The budget information marked "unaudited" has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated February 21, 2017, on our consideration of U.S. Highbush Blueberry Council's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering U.S. Highbush Blueberry Council's internal control over financial reporting and compliance.

### **Other Reporting Required by the United States Department of Agriculture**

In connection with our audits of the years ended December 31, 2016 and 2015, nothing came to our attention, insofar as it relates to financial and accounting matters, that causes us to believe that the U.S. Highbush Blueberry Council:

- Failed to comply with laws and regulations and U.S. Department of Agriculture Agricultural Marketing Service ("USDA AMS") Guidelines for AMS Oversight of Commodity Research and Promotion Programs applicable to the Association;
- Failed to comply with Section 1218.48 of the Blueberry Promotion, Research and Information Order, relating to the use of assessment funds for the purpose of influencing legislation or governmental action or policy;
- Expended assessment funds for purposes other than those authorized by the Commodity Promotion, Research and Information Act of 1996 and the Blueberry Promotion, Research and Information Order;
- Expended or obligated assessment funds on any projects prior to the fiscal year in which those funds were authorized to be expended by the U.S. Highbush Blueberry Council's approved Budget and Marketing Plan;
- Did not adhere to the original or amended Budget and Marketing Plan for the years ended December 31, 2016 and 2015;
- Did not obtain a written contract or agreement with any person or entity providing goods or services to the U.S. Highbush Blueberry Council;

- Failed to comply with USDA AMS Directive 2210.2, relating to the limitations on the types of investments which may be purchased by the U.S. Highbush Blueberry Council and the insurance or collateral that must be obtained for all U.S. Highbush Blueberry Council deposits and investments;
- Failed to comply with disclosure requirements for lease commitments;
- Failed to comply with standards established relating to contracts and USDA approval letters (if necessary); or
- Failed to comply with the by-laws of the U.S. Highbush Blueberry Council or any other policy of the U.S. Highbush Blueberry Council, specifically as they relate to all financial matters, including time and attendance, and travel.

However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.

*Propp Christensen Caniglia LLP*

February 21, 2017  
Roseville, California

U.S. Highbush Blueberry Council

STATEMENTS OF FINANCIAL POSITION  
December 31, 2016 and 2015

|                       | ASSETS       |              |
|-----------------------|--------------|--------------|
|                       | 2016         | 2015         |
| Current assets:       |              |              |
| Cash                  | \$ 7,577,892 | \$ 7,062,802 |
| Accounts receivable   | 455,315      | 363,309      |
| Promotional materials | 29,647       | 27,724       |
| Prepaid expenses      | 18,519       | 18,092       |
| Total current assets  | 8,081,373    | 7,471,927    |
| Equipment, net        | -            | 257          |
| Total assets          | \$ 8,081,373 | \$ 7,472,184 |

LIABILITIES AND NET ASSETS

|  |              |              |
|--|--------------|--------------|
| Current liabilities:   |              |              |
| Accounts payable   | \$ 641,740   | \$ 684,943   |
| Current portion of health research contract obligations      | 1,005,923    | 451,230      |
| Deferred crop assessments                                    | 4,593,807    | 4,341,608    |
| Total current liabilities                                    | 6,241,470    | 5,477,781    |
| Health research contract obligations, net of current portion | -            | 582,952      |
| Total liabilities  | 6,241,470    | 6,060,733    |
| Unrestricted net assets                                      | 1,839,903    | 1,411,451    |
| Total liabilities and net assets                             | \$ 8,081,373 | \$ 7,472,184 |

The accompanying notes are an integral part of these financial statements.

U.S. Highbush Blueberry Council

STATEMENTS OF ACTIVITIES  
 For the Years Ended December 31, 2016 and 2015

|  | <u>2016</u>         | <u>2015</u>         |
|--|---------------------|---------------------|
| Revenue:                                   |                     |                     |
| Domestic crop assessments                  | \$ 4,432,109        | \$ 4,598,592        |
| Foreign crop assessments                   | 3,442,318           | 2,923,045           |
| Grant revenue                              | 226,754             | 63,055              |
| Gains from contract expirations            | 122,250             | 95,089              |
| Other revenue                              | <u>10,174</u>       | <u>10,002</u>       |
| Total revenue                              | <u>8,233,605</u>    | <u>7,689,783</u>    |
| Expenses:                                  |                     |                     |
| Market promotion and publicity             | 5,434,890           | 4,788,746           |
| Research                                   | 1,068,574           | 1,179,587           |
| Industry relations                         | 85,371              | 73,156              |
| Food safety                                | 93,233              | 88,401              |
| USHBC program fees                         | 207,833             | 202,113             |
| General and administrative                 | <u>915,252</u>      | <u>783,583</u>      |
| Total expenses                             | <u>7,805,153</u>    | <u>7,115,586</u>    |
| Change in unrestricted net assets          | 428,452             | 574,197             |
| Unrestricted net assets, beginning of year | <u>1,411,451</u>    | <u>837,254</u>      |
| Unrestricted net assets, end of year       | <u>\$ 1,839,903</u> | <u>\$ 1,411,451</u> |

The accompanying notes are an integral part of these financial statements.

U.S. Highbush Blueberry Council

STATEMENTS OF CASH FLOWS  
For the Years Ended December 31, 2016 and 2015

|   | <u>2016</u>         | <u>2015</u>         |
|---|---------------------|---------------------|
| Cash flows from operating activities:   |                     |                     |
| Cash received from growers and governmental agencies  | \$ 8,273,077        | \$ 7,377,132        |
| Cash paid to vendors and employees  | (7,766,749)         | (6,055,953)         |
| Interest received   | 8,762               | 9,182               |
|   | <u>515,090</u>      | <u>1,330,361</u>    |
| Net increase in cash  | 515,090             | 1,330,361           |
| Cash, beginning of year   | <u>7,062,802</u>    | <u>5,732,441</u>    |
| Cash, end of year   | <u>\$ 7,577,892</u> | <u>\$ 7,062,802</u> |
| <br>  |                     |                     |
| Reconciliation of change in unrestricted net assets<br><u>to net cash provided by operating activities:</u> |                     |                     |
| Change in unrestricted net assets   | \$ 428,452          | \$ 574,197          |
| Adjustments to reconcile change in unrestricted net<br>assets to net cash provided by operating activities: |                     |                     |
| Depreciation  | 257                 | 489                 |
| Bad debt expense  | -                   | 10,278              |
| Gain on contract expiration   | (122,250)           | (95,089)            |
| Change in operating assets and liabilities:   |                     |                     |
| Accounts receivable   | (92,006)            | 17,038              |
| Promotional materials   | (1,923)             | 23,904              |
| Prepaid expenses  | (427)               | 667,803             |
| Accounts payable  | 6,797               | 185,459             |
| Health research contract obligations  | 43,991              | 171,700             |
| Deferred crop assessments   | 252,199             | (225,418)           |
|   | <u>515,090</u>      | <u>1,330,361</u>    |
| Net cash provided by operating activities   | <u>\$ 515,090</u>   | <u>\$ 1,330,361</u> |

The accompanying notes are an integral part  
of these financial statements.



U.S. Highbush Blueberry Council

Notes to Financial Statements  
December 31, 2016 and 2015

NOTE 1: NATURE OF ORGANIZATION

The North American Blueberry Council (the "NABC") submitted a proposal to the Agricultural Marketing Service Division (the "AMS") of the U.S. Department of Agriculture (the "USDA") for a national research and promotion program covering domestic and imported cultivated blueberries in December 1998. The program is authorized by the Commodity Promotion, Research and Information Act of 1996 (the "Act"). In March 2000, AMS held a referendum in which producers and importers of cultivated blueberries approved the Blueberry Promotion, Research and Information Order (the "Order"), thereby establishing the U.S. Highbush Blueberry Council (the "Council"). The Council is considered an instrumentality of the USDA which conducts administrative oversight of the Council's activities.

The purpose of the Council is to conduct promotion and research, and to provide consumer and industry information to maintain and increase the global awareness of highbush blueberries. As required by the Act, the Council must conduct an independent evaluation every five years to determine if the blueberry producers favor the termination or suspension of the Order.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the Council have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Basis of Presentation

The Council presents its financial statements in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 958, Subtopic 205, *Not-for-Profit Entities – Presentation of Financial Statements* (FASB ASC 958-205). Under FASB ASC 958-205, the Council is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted assets, temporarily restricted net assets and permanently restricted net assets. No temporarily or permanently restricted net assets existed at December 31, 2016 and 2015.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Council considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

The Council maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. Deposits that exceed the federally insured limit are collateralized by the financial institution with Freddie Mac mortgage backed securities. In order to comply with the Agricultural Marketing Service's investment policy, the Council is responsible for investing its funds only in interest-bearing accounts that are risk-free and short-term. At December 31, 2016 and 2015, all deposits were fully collateralized.

Investments

The Council is required to follow the AMS investment policy. Accordingly, the Council is authorized to invest in securities consisting of obligations issued or fully insured or guaranteed by the U.S. or any U.S. government agency, including obligations of government-sponsored corporations, which must mature within one year or less from the date of purchase.

U.S. Highbush Blueberry Council

Notes to Financial Statements  
December 31, 2016 and 2015

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable

Accounts receivable consist primarily of foreign and domestic crop assessments. Management considers accounts receivable as of December 31, 2016 and 2015 to be fully collectible; accordingly, no allowance for uncollectible accounts is recorded.

Promotional Materials

Supplies of promotional and educational materials are stated at cost and recorded as expenses in the period that they are distributed.

Equipment

Equipment is stated at cost or, if donated, at fair market value at date of receipt. The Council provides for depreciation over the estimated useful lives of equipment using the straight-line method.

Maintenance and repairs are charged to expense as incurred. Renewals and betterments, which extend the useful lives of assets, are capitalized.

Crop Assessments

Growers are assessed based upon pounds of blueberries produced in the previous crop year. Assessments received for the current crop year are deferred and reported as revenue in the Council's following financial reporting year.

Advertising Expenses

The Council uses advertising in its mission to maintain and increase the global awareness of highbush blueberries and the costs of the advertising are expensed as incurred.

Lobbying Expenses

The Council is prohibited from using assessment funds collected in activities influencing legislation, governmental action or policy, other than recommending to the Secretary amendments to the Order. Accordingly, the Council incurs no lobbying expenses.

Income Taxes

The Council is considered an instrumentality of the U.S. Department of Agriculture. As such, the Office of Chief Counsel of the Internal Revenue Service has ruled that organizations such as the Council are not subject to federal income taxation and are generally exempt from other forms of taxation such as state income taxes, personal and real property taxes, and sales taxes.

Estimates

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain amounts in the 2015 financial statements have been reclassified, with no effect to change in unrestricted net assets, to conform to the 2016 financial statement presentation.

U.S. Highbush Blueberry Council

NOTES TO FINANCIAL STATEMENTS  
December 31, 2016 and 2015

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent Events

Events and transactions have been evaluated for potential recognition or disclosure through February 21, 2017, the date that the financial statements were available to be issued.

NOTE 3: ADMINISTRATIVE SERVICES AGREEMENT

The Council entered into an agreement with the NABC in which NABC provides certain administrative services to the Council. Specifically, the agreement provides that NABC will maintain the Council's business office, which includes managing day-to-day operations and all correspondence and financial affairs. The NABC also assists in planning and implementing the Council's budget and in carrying out the Council's programs. In addition, NABC handles the collection and disbursement of the Council's assessment funds.

Based on projections of staff time and involvement, most general and administrative expenses are allocated approximately 15% to NABC and 85% to the Council. General and administrative expense reimbursements to NABC totaled \$673,615 and \$564,703 for the years ended December 31, 2016 and 2015, respectively. Additionally, the Council paid NABC annual service fees of \$120,000 for each of the years ended December 31, 2016 and 2015.

At December 31, 2016 and 2015, payables to NABC of \$56,596 and \$46,892, respectively, are included in accounts payable.

NOTE 4: ACCOUNTS RECEIVABLE

Accounts receivable consists of the following at December 31, 2016 and 2015:

|                                     | 2016       | 2015       |
|-------------------------------------|------------|------------|
| Domestic crop assessments           | \$ 19,247  | \$ 1,172   |
| Foreign crop assessments            | 425,777    | 290,032    |
| USDA Quality Samples Program        | -          | 72,105     |
| Expense reimbursement due from NABC | 10,291     | -          |
| Total                               | \$ 455,315 | \$ 363,309 |

NOTE 5: EQUIPMENT

Equipment consists of the following at December 31, 2016 and 2015:

|                          | 2016     | 2015     |
|--------------------------|----------|----------|
| Office equipment         | \$ 7,628 | \$ 7,628 |
| Accumulated depreciation | (7,628)  | (7,371)  |
| Total                    | \$ -     | \$ 257   |

Depreciation expense was \$257 and \$489 for the years ended December 31, 2016 and 2015, respectively.

U.S. Highbush Blueberry Council

NOTES TO FINANCIAL STATEMENTS  
December 31, 2016 and 2015

NOTE 6: HEALTH RESEARCH CONTRACT OBLIGATIONS

In accordance with the Order and to fulfill its purpose, the Council enters into contracts to provide grant funding to various blueberry related health research programs. Health research contract funding which has been authorized but remains unpaid at year-end is reported as a liability. Health research contract obligations at December 31, 2016 and 2015 totaled \$1,005,923 and \$1,034,182, respectively.

NOTE 7: OPERATING LEASE COMMITMENT

Through the Administrative Services Agreement with NABC described in Note 3, the Council leased office space under an operating lease agreement entered into on April 1, 2014. The terms of the operating lease provide for monthly payments which range from \$4,126 to \$4,266 during 2015 and 2016, and will increase annually throughout the remainder of the five year lease term (of which 90% is allocated to the Council).

Additionally, through the Administrative Services Agreement with NABC, the Council leases a copier under operating lease and maintenance agreements executed by NABC. The terms of the operating lease provide for monthly payments of \$538 (of which \$484 was allocated to the Council), commencing in August 2013 and continuing for thirty-nine months.

Commitments for future minimum rental payments under the remaining term of the operating lease agreements executed by NABC, of which the Council will be allocated approximately 90%, are as follows:

| <u>Year Ending December 31:</u> |                   |
|---------------------------------|-------------------|
| 2017                            | \$ 52,004         |
| 2018                            | 53,403            |
| 2019                            | <u>22,495</u>     |
| Total                           | <u>\$ 127,902</u> |

The rental expenses allocated to the Council totaled \$53,117 and \$52,863 for the years ended December 31, 2016 and 2015, respectively.

NOTE 8: RETIREMENT PLAN

Through the Administrative Services Agreement with NABC described in Note 3, the Council participates in a 401(k) plan. Effective January 1, 2012, NABC converted a previous Simplified Employee Pension plan to a plan under section 401(k) of the Internal Revenue Code ("401(k) plan"). The 401(k) plan covers all employees, except excluded employees, who are at least 21 years of age and have worked at least 1,000 hours during the twelve month period following the date of hire. During 2016 and 2015, the Council made a Safe Harbor non-elective contribution equal to 3% of employees' compensation. The Council may also make additional discretionary matching contributions.

Total retirement plan expense allocated to the Council for the years ended December 31, 2016 and 2015, was \$24,693 and \$20,920, respectively.

SUPPLEMENTARY INFORMATION

U.S. Highbush Blueberry Council

SCHEDULES OF REVENUE AND EXPENDITURES  
 ACTUAL COMPARED TO BUDGET  
 For the Years Ended December 31, 2016 and 2015

|  | 2016              |                       | Actual<br>Over (Under)<br>Budget |
|--|-------------------|-----------------------|----------------------------------|
|  | Actual            | Budget<br>(Unaudited) |                                  |
| Revenue:                                       |                   |                       |                                  |
| Domestic crop assessments                      | \$ 4,432,109      | \$ 4,533,192          | \$ (101,083)                     |
| Foreign crop assessments                       | 3,442,318         | 3,100,000             | 342,318                          |
| WUSATA export funds (Japan and Korea)          | 226,754           | -                     | 226,754                          |
| Gains from contract expirations                | 122,250           | -                     | 122,250                          |
| Other revenue                                  | 10,174            | -                     | 10,174                           |
| Total revenue                                  | <u>8,233,605</u>  | <u>7,633,192</u>      | <u>600,413</u>                   |
| Expenditures:                                  |                   |                       |                                  |
| Program expenditures:                          |                   |                       |                                  |
| Market promotion and publicity                 | 5,434,890         | 5,600,600             | (165,710)                        |
| Research                                       | 1,068,574         | 1,400,000             | (331,426)                        |
| Industry relations                             | 85,371            | 162,500               | (77,129)                         |
| Food safety                                    | 93,233            | 200,000               | (106,767)                        |
| USHBC program fees                             | 207,833           | 232,000               | (24,167)                         |
| Total program expenditures                     | 6,889,901         | 7,595,100             | (705,199)                        |
| General and administrative                     | 915,252           | 932,783               | (17,531)                         |
| Total expenditures                             | <u>7,805,153</u>  | <u>8,527,883</u>      | <u>(722,730)</u>                 |
| Excess (deficit) of revenues over expenditures | <u>\$ 428,452</u> | <u>\$ (894,691)</u>   | <u>\$ 1,323,143</u>              |

U.S. Highbush Blueberry Council

SCHEDULES OF REVENUE AND EXPENDITURES  
 ACTUAL COMPARED TO BUDGET (CONTINUED)  
 For the Years Ended December 31, 2016 and 2015

|                                       | 2015              |                       | Actual<br>Over (Under)<br>Budget |
|---------------------------------------|-------------------|-----------------------|----------------------------------|
|                                       | Actual            | Budget<br>(Unaudited) |                                  |
| Revenue:                              |                   |                       |                                  |
| Domestic crop assessments             | \$ 4,598,592      | \$ 4,567,800          | \$ 30,792                        |
| Foreign crop assessments              | 2,923,045         | 2,600,000             | 323,045                          |
| WUSATA export funds (Japan and Korea) | 63,055            | -                     | 63,055                           |
| USDA FAS Emerging Markets Program     | -                 | 528,000               | (528,000)                        |
| Gains from contract expirations       | 95,089            | -                     | 95,089                           |
| Other revenue                         | 10,002            | 58,200                | (48,198)                         |
| Total revenue                         | <u>7,689,783</u>  | <u>7,754,000</u>      | <u>(64,217)</u>                  |
| Expenditures:                         |                   |                       |                                  |
| Program expenditures:                 |                   |                       |                                  |
| Market promotion and publicity        | 4,788,746         | 5,030,000             | (241,254)                        |
| Research                              | 1,179,587         | 1,214,500             | (34,913)                         |
| Industry relations                    | 73,156            | 100,000               | (26,844)                         |
| Food safety                           | 88,401            | 198,250               | (109,849)                        |
| USHBC program fees                    | 202,113           | 221,000               | (18,887)                         |
| Total program expenditures            | <u>6,332,003</u>  | <u>6,763,750</u>      | <u>(431,747)</u>                 |
| General and administrative            | <u>783,583</u>    | <u>990,250</u>        | <u>(206,667)</u>                 |
| Total expenditures                    | <u>7,115,586</u>  | <u>7,754,000</u>      | <u>(638,414)</u>                 |
| Excess of revenues over expenditures  | <u>\$ 574,197</u> | <u>\$ -</u>           | <u>\$ 574,197</u>                |

U.S. Highbush Blueberry Council

SCHEDULES OF PROGRAM EXPENDITURES  
 ACTUAL COMPARED TO BUDGET  
 For the Years Ended December 31, 2016 and 2015

|                                      | 2016             |                       |                                  |
|--------------------------------------|------------------|-----------------------|----------------------------------|
|                                      | Actual           | Budget<br>(Unaudited) | Actual<br>Over (Under)<br>Budget |
| Market promotion and publicity:      |                  |                       |                                  |
| Consumer/food service publicity      | \$ 3,784,485     | \$ 3,802,690          | \$ (18,205)                      |
| Food manufacturer publicity          | 546,000          | 662,500               | (116,500)                        |
| Export market development            | 764,967          | 855,000               | (90,033)                         |
| Unallocated market promotion         | (1,923)          | -                     | (1,923)                          |
| USDA MAP Allocation                  | 264,473          | 200,000               | 64,473                           |
| Export coordination                  | 64,948           | 68,000                | (3,052)                          |
| Market research allocation           | 11,940           | 12,000                | (60)                             |
| Promotion and publicity reserve      | -                | 410                   | (410)                            |
| Total market promotion and publicity | <u>5,434,890</u> | <u>5,600,600</u>      | <u>(165,710)</u>                 |
| Research:                            |                  |                       |                                  |
| USDA/HNRCA Tufts 3 Year Study        | 1,750            | -                     | 1,750                            |
| Research unallocated expense         | -                | 119,845               | (119,845)                        |
| Research screeners                   | 22,600           | 15,000                | 7,600                            |
| 2017 Berry Health Ben Symposium      | 16,000           | 16,000                | -                                |
| University of Louisville Gupta       | (237)            | -                     | (237)                            |
| UCLA Med School (Gomez-Pinilla)      | 82,000           | 82,000                | -                                |
| State University of New York (Stote) | 32,894           | 32,894                | -                                |
| Louisiana State University (Francis) | 110,672          | 110,672               | -                                |
| Texas Woman's University             | 46,525           | 46,525                | -                                |
| University of Fraser Valley - BC     | 39,234           | 39,234                | -                                |
| University of Cincinnati (Krikorian) | 175,902          | 180,524               | (4,622)                          |
| University of Laval (Marette)        | 263,190          | 263,190               | -                                |
| University of Wisconsin (Reed)       | 125,116          | 125,116               | -                                |
| Blueberry research bank              | 48,227           | 50,000                | (1,773)                          |
| Researcher travel                    | 8,252            | 12,500                | (4,248)                          |
| Research administrator               | 80,217           | 80,000                | 217                              |
| Sponsorships                         | -                | 2,500                 | (2,500)                          |
| Blueberry research meeting           | 16,232           | 50,000                | (33,768)                         |
| Research reserve                     | -                | 174,000               | (174,000)                        |
| Total research                       | <u>1,068,574</u> | <u>1,400,000</u>      | <u>(331,426)</u>                 |



U.S. Highbush Blueberry Council

SCHEDULES OF PROGRAM EXPENDITURES  
 ACTUAL COMPARED TO BUDGET (CONTINUED)  
 For the Years Ended December 31, 2016 and 2015

|   | 2016                |                       | Actual<br>Over (Under)<br>Budget |
|---|---------------------|-----------------------|----------------------------------|
|   | Actual              | Budget<br>(Unaudited) |                                  |
| Industry relations:                     |                     |                       |                                  |
| Industry relations activities           | \$ 12,920           | \$ 35,000             | \$ (22,080)                      |
| Bluespaper                              | 15,714              | 15,600                | 114                              |
| USHBC evaluation/strategic plan         | 36,751              | 45,000                | (8,249)                          |
| Grower engagement/education             | 7,776               | 41,000                | (33,224)                         |
| Blueberry acreage study                 | -                   | 13,000                | (13,000)                         |
| Professional memberships                | 12,210              | 11,500                | 710                              |
| Industry relations reserve              | -                   | 1,400                 | (1,400)                          |
| <b>Total industry relations</b>         | <b>85,371</b>       | <b>162,500</b>        | <b>(77,129)</b>                  |
| Food safety:                            |                     |                       |                                  |
| Alert site server/maintenance           | 18,531              | 11,500                | 7,031                            |
| Media retainer                          | 30,685              | 24,750                | 5,935                            |
| Media training                          | 10,691              | 16,500                | (5,809)                          |
| Issue management reserve                | -                   | 5,000                 | (5,000)                          |
| Printing                                | 385                 | 2,000                 | (1,615)                          |
| Alliance for Food and Farming           | 10,000              | 10,000                | -                                |
| Good practices research study           | 14,537              | 30,500                | (15,963)                         |
| Pest analysis for fresh market access   | 7,304               | 75,000                | (67,696)                         |
| South Korea Mrl Review                  | 5,100               | 19,500                | (14,400)                         |
| Food safety reserve                     | (4,000)             | 5,250                 | (9,250)                          |
| <b>Total food safety</b>                | <b>93,233</b>       | <b>200,000</b>        | <b>(106,767)</b>                 |
| USHBC program expenditures:             |                     |                       |                                  |
| USDA/AMS administration fee             | 87,833              | 111,000               | (23,167)                         |
| U.S. Office of General Counsel fee      | -                   | 1,000                 | (1,000)                          |
| NABC resources and service fee          | 120,000             | 120,000               | -                                |
| <b>Total USHBC program expenditures</b> | <b>207,833</b>      | <b>232,000</b>        | <b>(24,167)</b>                  |
| <b>Total program expenditures</b>       | <b>\$ 6,889,901</b> | <b>\$ 7,595,100</b>   | <b>\$ (705,199)</b>              |

U.S. Highbush Blueberry Council

SCHEDULES OF PROGRAM EXPENDITURES  
 ACTUAL COMPARED TO BUDGET (CONTINUED)  
 For the Years Ended December 31, 2016 and 2015

|                                      | 2015             |                       |                                  |
|--------------------------------------|------------------|-----------------------|----------------------------------|
|                                      | Actual           | Budget<br>(Unaudited) | Actual<br>Over (Under)<br>Budget |
| Market promotion and publicity:      |                  |                       |                                  |
| Consumer/food service publicity      | \$ 2,925,100     | \$ 3,078,500          | \$ (153,400)                     |
| Food manufacturer publicity          | 600,216          | 600,000               | 216                              |
| Export market development            | 708,430          | 675,000               | 33,430                           |
| Unallocated market promotion         | -                | 121,000               | (121,000)                        |
| USDA MAP Allocation                  | 300,000          | 300,000               | -                                |
| Export coordination                  | 27,000           | 27,000                | -                                |
| FAS EMP China (USDA)                 | 41,500           | 41,500                | -                                |
| FAS EMP Brazil (USDA)                | 56,500           | 56,500                | -                                |
| FAS EMP Turkey (USDA)                | 65,000           | 65,000                | -                                |
| FAS EMP Indonesia (USDA)             | 65,000           | 65,000                | -                                |
| Promotion and publicity reserve      | -                | 500                   | (500)                            |
| Total market promotion and publicity | <u>4,788,746</u> | <u>5,030,000</u>      | <u>(241,254)</u>                 |
| Research:                            |                  |                       |                                  |
| Research unallocated expense         | 3,600            | 46,435                | (42,835)                         |
| University of East Anglia (Cassidy)  | 567,750          | 495,500               | 72,250                           |
| Simmons College                      | (1,620)          | -                     | (1,620)                          |
| Harvard                              | 88,576           | 88,576                | -                                |
| Laval University (Grenier)           | 45,000           | 45,000                | -                                |
| Michigan Tech (Tang)                 | 75,000           | 75,000                | -                                |
| Texas Woman's University (Juma)      | 66,296           | 66,296                | -                                |
| Louisiana State University (Francis) | 73,193           | 73,193                | -                                |
| Beckman University (Chen)            | 75,000           | 75,000                | -                                |
| Oakland Children's Hospital (McCann) | 35,000           | 35,000                | -                                |
| Texas Woman's University             | 1,813            | -                     | 1,813                            |
| Blueberry research bank              | 44,801           | 45,000                | (199)                            |
| Researcher travel                    | 7,063            | 12,000                | (4,937)                          |
| Research administrator               | 80,000           | 80,000                | -                                |
| Sponsorships                         | -                | 2,500                 | (2,500)                          |
| Blueberry research meeting           | 18,115           | 50,000                | (31,885)                         |
| Research reserve                     | -                | 25,000                | (25,000)                         |
| Total research                       | <u>1,179,587</u> | <u>1,214,500</u>      | <u>(34,913)</u>                  |

U.S. Highbush Blueberry Council

SCHEDULES OF PROGRAM EXPENDITURES  
 ACTUAL COMPARED TO BUDGET (CONTINUED)  
 For the Years Ended December 31, 2016 and 2015

|   | 2015                |                       | Actual<br>Over (Under)<br>Budget |
|---|---------------------|-----------------------|----------------------------------|
|   | Actual              | Budget<br>(Unaudited) |                                  |
| Industry relations:                     |                     |                       |                                  |
| Industry relations activities           | \$ 34,571           | \$ 35,000             | \$ (429)                         |
| USHBC evaluation/strategic plan         | 27,500              | 28,000                | (500)                            |
| Grower engagement/education             | 780                 | 15,000                | (14,220)                         |
| Blueberry acreage study                 | (190)               | -                     | (190)                            |
| Professional memberships                | 10,495              | 11,500                | (1,005)                          |
| Industry relations reserve              | -                   | 10,500                | (10,500)                         |
| <b>Total industry relations</b>         | <b>73,156</b>       | <b>100,000</b>        | <b>(26,844)</b>                  |
| Food safety:                            |                     |                       |                                  |
| Alert site server/maintenance           | 9,266               | 10,000                | (734)                            |
| Media retainer                          | 26,281              | 24,750                | 1,531                            |
| Media training                          | 10,011              | 16,500                | (6,489)                          |
| Issue management reserve                | -                   | 5,000                 | (5,000)                          |
| Printing                                | 725                 | 2,000                 | (1,275)                          |
| Alliance for Food and Farming           | 10,000              | 10,000                | -                                |
| Good practices research study           | 25,798              | 50,000                | (24,202)                         |
| Pest analysis for fresh market access   | 6,158               | 75,000                | (68,842)                         |
| Food safety reserve                     | 162                 | 5,000                 | (4,838)                          |
| <b>Total food safety</b>                | <b>88,401</b>       | <b>198,250</b>        | <b>(109,849)</b>                 |
| USHBC program expenditures:             |                     |                       |                                  |
| USDA/AMS administration fee             | 82,113              | 100,000               | (17,887)                         |
| U.S. Office of General Counsel fee      | -                   | 1,000                 | (1,000)                          |
| NABC resources and service fee          | 120,000             | 120,000               | -                                |
| <b>Total USHBC program expenditures</b> | <b>202,113</b>      | <b>221,000</b>        | <b>(18,887)</b>                  |
| <b>Total program expenditures</b>       | <b>\$ 6,332,003</b> | <b>\$ 6,763,750</b>   | <b>\$ (431,747)</b>              |

U.S. Highbush Blueberry Council

SCHEDULES OF GENERAL AND ADMINISTRATIVE EXPENDITURES  
ACTUAL COMPARED TO BUDGET

For the Years Ended December 31, 2016 and 2015

|  | 2016              |                       |                                  |
|--|-------------------|-----------------------|----------------------------------|
|  | Actual            | Budget<br>(Unaudited) | Actual<br>Over (Under)<br>Budget |
| <b>General expenditures:</b>                         |                   |                       |                                  |
| Office rental and occupancy expenses                 | \$ 45,493         | \$ 43,920             | \$ 1,573                         |
| Office insurance and taxes                           | 698               | 1,125                 | (427)                            |
| Subscriptions  | 4,843             | 3,375                 | 1,468                            |
| Printing   | 17,334            | 10,350                | 6,984                            |
| Office supplies                                      | 8,461             | 9,900                 | (1,439)                          |
| Telephone and fax                                    | 3,863             | 11,250                | (7,387)                          |
| Computer IT service                                  | 8,262             | 10,000                | (1,738)                          |
| Equipment repairs and maintenance                    | 2,974             | 4,500                 | (1,526)                          |
| Equipment rental                                     | 7,624             | 10,800                | (3,176)                          |
| Postage and shipment                                 | 4,622             | 9,900                 | (5,278)                          |
| Auto allowance                                       | 7,020             | 7,020                 | -                                |
| Bank charges   | 1,083             | 1,000                 | 83                               |
| Officers' liability                                  | 3,859             | 4,225                 | (366)                            |
| Bonding insurance                                    | -                 | 600                   | (600)                            |
| Commodity coalition initiative                       | 2,250             | 2,250                 | -                                |
| Special project reserve                              | -                 | 19,785                | (19,785)                         |
| <b>Total general expenditures</b>                    | <b>118,386</b>    | <b>150,000</b>        | <b>(31,614)</b>                  |
| <b>Administrative expenditures:</b>                  |                   |                       |                                  |
| Employee salary and wages                            | 365,336           | 378,600               | (13,264)                         |
| Employee benefits                                    | 58,079            | 62,434                | (4,355)                          |
| Payroll taxes  | 23,544            | 23,375                | 169                              |
| Workers' compensation insurance                      | 3,480             | 3,800                 | (320)                            |
| Bookkeeping service                                  | 25,500            | 25,500                | -                                |
| Retirement program                                   | 1,407             | 2,635                 | (1,228)                          |
| Legal/audit fees                                     | 16,559            | 15,300                | 1,259                            |
| Trade monitoring                                     | 10,000            | 10,114                | (114)                            |
| Depreciation   | 1,923             | 125                   | 1,798                            |
| Travel and meetings                                  | 291,038           | 260,900               | 30,138                           |
| <b>Total administrative expenditures</b>             | <b>796,866</b>    | <b>782,783</b>        | <b>14,083</b>                    |
| <b>Total general and administrative expenditures</b> | <b>\$ 915,252</b> | <b>\$ 932,783</b>     | <b>\$ (17,531)</b>               |

U.S. Highbush Blueberry Council

SCHEDULES OF GENERAL AND ADMINISTRATIVE EXPENDITURES  
 ACTUAL COMPARED TO BUDGET (CONTINUED)  
 For the Years Ended December 31, 2016 and 2015

|  | 2015              |                       |                                  |
|--|-------------------|-----------------------|----------------------------------|
|  | Actual            | Budget<br>(Unaudited) | Actual<br>Over (Under)<br>Budget |
| <b>General expenditures:</b>                         |                   |                       |                                  |
| Office rental and occupancy expenses                 | \$ 43,818         | \$ 42,462             | \$ 1,356                         |
| Office insurance and taxes                           | 708               | 990                   | (282)                            |
| Subscriptions  | 1,671             | 2,700                 | (1,029)                          |
| Printing   | 4,030             | 13,500                | (9,470)                          |
| Office supplies                                      | 9,492             | 12,000                | (2,508)                          |
| Telephone and fax                                    | 7,081             | 12,200                | (5,119)                          |
| Computer IT service                                  | 9,859             | 6,750                 | 3,109                            |
| Equipment repairs and maintenance                    | 1,913             | 10,800                | (8,887)                          |
| Equipment rental                                     | 9,045             | 10,800                | (1,755)                          |
| Postage and shipment                                 | 9,319             | 10,800                | (1,481)                          |
| Auto allowance                                       | 7,020             | 7,020                 | -                                |
| Bank charges   | 982               | 900                   | 82                               |
| Officers' liability                                  | 4,026             | 4,030                 | (4)                              |
| Bonding insurance                                    | -                 | 1,200                 | (1,200)                          |
| Commodity coalition initiative                       | 1,238             | 1,000                 | 238                              |
| Special project reserve                              | -                 | 3,750                 | (3,750)                          |
| <b>Total general expenditures</b>                    | <b>110,202</b>    | <b>140,902</b>        | <b>(30,700)</b>                  |
| <b>Administrative expenditures:</b>                  |                   |                       |                                  |
| Employee salary and wages                            | 305,431           | 326,937               | (21,506)                         |
| Employee benefits                                    | 45,627            | 49,913                | (4,286)                          |
| Payroll taxes  | 18,422            | 22,100                | (3,678)                          |
| Workers' compensation insurance                      | 3,795             | 3,740                 | 55                               |
| Bookkeeping service                                  | 24,990            | 25,500                | (510)                            |
| Retirement program                                   | 2,253             | 2,635                 | (382)                            |
| Legal/audit fees                                     | 15,300            | 15,300                | -                                |
| Trade monitoring                                     | 10,000            | 10,080                | (80)                             |
| Depreciation   | 1,079             | 125                   | 954                              |
| Bad debt expense                                     | 10,278            | -                     | 10,278                           |
| Travel and meetings                                  | 236,206           | 208,700               | 27,506                           |
| Reserve  | -                 | 184,318               | (184,318)                        |
| <b>Total administrative expenditures</b>             | <b>673,381</b>    | <b>849,348</b>        | <b>(175,967)</b>                 |
| <b>Total general and administrative expenditures</b> | <b>\$ 783,583</b> | <b>\$ 990,250</b>     | <b>\$ (206,667)</b>              |

U.S. Highbush Blueberry Council

SCHEDULES OF CASH RECEIPTS AND DISBURSEMENTS  
For the Years Ended December 31, 2016 and 2015

|                                       | <u>2016</u>         | <u>2015</u>         |
|---------------------------------------|---------------------|---------------------|
| Receipts:                             |                     |                     |
| Domestic crop assessments             | \$ 4,738,338        | \$ 4,407,780        |
| Foreign crop assessments              | 3,306,573           | 2,905,477           |
| Grant                                 | 226,754             | 63,055              |
| Other revenue                         | <u>10,174</u>       | <u>10,002</u>       |
| Total receipts                        | <u>8,281,839</u>    | <u>7,386,314</u>    |
| Disbursements:                        |                     |                     |
| Market promotion and publicity        | 5,460,154           | 3,866,307           |
| Research                              | 1,027,320           | 1,003,140           |
| Industry relations                    | 90,901              | 110,439             |
| Food safety                           | 91,036              | 68,401              |
| USHBC program fees                    | 185,651             | 206,250             |
| General and administrative            | <u>911,687</u>      | <u>801,416</u>      |
| Total disbursements                   | <u>7,766,749</u>    | <u>6,055,953</u>    |
| Excess of receipts over disbursements | 515,090             | 1,330,361           |
| Cash, beginning of year               | <u>7,062,802</u>    | <u>5,732,441</u>    |
| Cash, end of year                     | <u>\$ 7,577,892</u> | <u>\$ 7,062,802</u> |

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the U.S. Highbush Blueberry Council  
Folsom, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of U.S. Highbush Blueberry Council which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated February 21, 2017.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered U.S. Highbush Blueberry Council's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the U.S. Highbush Blueberry Council's internal control. Accordingly, we do not express an opinion on the effectiveness of the U.S. Highbush Blueberry Council's internal control.

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

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

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether U.S. Highbush Blueberry Council's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of U.S. Highbush Blueberry Council's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering U.S. Highbush Blueberry Council's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Propp Christensen Caniglia LLP*

February 21, 2017  
Roseville, California