

U.S. Highbush Blueberry Council

FINANCIAL STATEMENTS
December 31, 2017 and 2016

U.S. Highbush Blueberry Council

CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1 - 3
FINANCIAL STATEMENTS	
Statements of Financial Position	4
Statements of Activities	5
Statements of Cash Flows	6
Notes to Financial Statements	7 - 10
SUPPLEMENTARY INFORMATION	
Schedules of Revenue and Expenditures - Actual Compared to Budget	11 - 12
Schedules of Program Expenditures - Actual Compared to Budget	13 - 16
Schedules of General and Administrative Expenditures - Actual Compared to Budget	17 - 18
Schedules of Cash Receipts and Disbursements	19
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 <i>GOVERNMENT</i> <i>AUDITING STANDARDS</i>	20 - 21

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, 2017 and 2016, 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, 2017 and 2016, 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 11 - 19 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 23, 2018, 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, 2017 and 2016, 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, 2017 and 2016;
- 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 23, 2018
Roseville, California

U.S. Highbush Blueberry Council

STATEMENTS OF FINANCIAL POSITION

December 31, 2017 and 2016

ASSETS

	<u>2017</u>	<u>2016</u>
Current assets:		
Cash	\$ 7,381,986	\$ 7,577,892
Accounts receivable	770,160	455,315
Promotional materials	40,562	29,647
Prepaid expenses	<u>129,745</u>	<u>18,519</u>
Total current assets	8,322,453	8,081,373
Equipment, net	<u>-</u>	<u>-</u>
Total assets	<u><u>\$ 8,322,453</u></u>	<u><u>\$ 8,081,373</u></u>

LIABILITIES AND NET ASSETS

Current liabilities:		
Accounts payable	\$ 1,132,540	\$ 641,740
Health research contract obligations	1,146,463	1,005,923
Deferred crop assessments	<u>3,900,177</u>	<u>4,593,807</u>
Total liabilities	6,179,180	6,241,470
Unrestricted net assets	<u>2,143,273</u>	<u>1,839,903</u>
Total liabilities and net assets	<u><u>\$ 8,322,453</u></u>	<u><u>\$ 8,081,373</u></u>

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, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Revenue:		
Domestic crop assessments	\$ 4,771,906	\$ 4,432,109
Foreign crop assessments	3,577,559	3,442,318
Grant revenue	882,300	226,754
Gains from contract expirations	-	122,250
Other revenue	<u>14,376</u>	<u>10,174</u>
Total revenue	<u>9,246,141</u>	<u>8,233,605</u>
Expenses:		
Market promotion and publicity	5,955,333	5,434,890
Research	1,161,024	1,068,574
Industry relations	100,112	85,371
Food safety	551,849	93,233
USHBC program fees	208,440	207,833
General and administrative	<u>966,013</u>	<u>915,252</u>
Total expenses	<u>8,942,771</u>	<u>7,805,153</u>
Change in unrestricted net assets	303,370	428,452
Unrestricted net assets, beginning of year	<u>1,839,903</u>	<u>1,411,451</u>
Unrestricted net assets, end of year	<u>\$ 2,143,273</u>	<u>\$ 1,839,903</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, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Cash received from growers and governmental agencies	\$ 8,217,198	\$ 8,273,077
Cash paid to vendors and employees	(8,423,282)	(7,766,749)
Interest received	10,178	8,762
	<u>(195,906)</u>	<u>515,090</u>
Net increase (decrease) in cash	(195,906)	515,090
Cash, beginning of year	<u>7,577,892</u>	<u>7,062,802</u>
Cash, end of year	<u>\$ 7,381,986</u>	<u>\$ 7,577,892</u>
Reconciliation of change in unrestricted net assets <u>to net cash provided by (used in) operating activities:</u>		
Change in unrestricted net assets	\$ 303,370	\$ 428,452
Adjustments to reconcile change in unrestricted net assets to net cash provided by (used in) operating activities:		
Depreciation	-	257
Gain on contract expiration	-	(122,250)
Change in operating assets and liabilities:		
Accounts receivable	(314,845)	(92,006)
Promotional materials	(10,915)	(1,923)
Prepaid expenses	(111,226)	(427)
Accounts payable	490,800	6,797
Health research contract obligations	140,540	43,991
Deferred crop assessments	(693,630)	252,199
	<u>(195,906)</u>	<u>515,090</u>

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

U.S. Highbush Blueberry Council

Notes to Financial Statements
December 31, 2017 and 2016

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, 2017 and 2016.

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, 2017 and 2016, 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, 2017 and 2016

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, 2017 and 2016 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 2016 financial statements have been reclassified, with no effect to change in unrestricted net assets, to conform to the 2017 financial statement presentation.

U.S. Highbush Blueberry Council

NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent Events

Events and transactions have been evaluated for potential recognition or disclosure through February 23, 2018, 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 \$703,421 and \$673,615 for the years ended December 31, 2017 and 2016, respectively. Additionally, the Council paid NABC annual service fees of \$120,000 for each of the years ended December 31, 2017 and 2016.

At December 31, 2017 and 2016, payables to NABC of \$148,898 and \$56,596, respectively, are included in accounts payable.

NOTE 4: ACCOUNTS RECEIVABLE

Accounts receivable consists of the following at December 31, 2017 and 2016:

	2017	2016
Domestic crop assessments	\$ 18,632	\$ 19,247
Foreign crop assessments	336,852	425,777
Expense reimbursement due from NABC	-	10,291
Grant reimbursements from USDA	414,676	-
Total	\$ 770,160	\$ 455,315

NOTE 5: EQUIPMENT

Equipment consists of the following at December 31, 2017 and 2016:

	2017	2016
Office equipment	\$ 7,628	\$ 7,628
Accumulated depreciation	(7,628)	(7,628)
Total	\$ -	\$ -

Depreciation expense was \$257 for the year ended December 31, 2016. As of December 31, 2016, equipment was fully depreciated.

U.S. Highbush Blueberry Council

NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

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, 2017 and 2016 totaled \$1,146,463 and \$1,005,923, 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 \$4,266 to \$4,521 during 2016 and 2017, 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 \$438 (of which \$394 was allocated to the Council), commencing in March 2017 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>	
2018	\$ 54,246
2019	<u>22,603</u>
Total	<u>\$ 76,849</u>

The rental expenses allocated to the Council totaled \$52,773 and \$53,117 for the years ended December 31, 2017 and 2016, 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 2017 and 2016, 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, 2017 and 2016, was \$29,718 and \$24,693, respectively.

SUPPLEMENTARY INFORMATION

U.S. Highbush Blueberry Council

SCHEDULES OF REVENUE AND EXPENDITURES
 ACTUAL COMPARED TO BUDGET
 For the Years Ended December 31, 2017 and 2016

	2017		
	Actual	Budget (Unaudited)	Actual Over (Under) Budget
Revenue:			
Domestic crop assessments	\$ 4,771,906	\$ 4,687,977	\$ 83,929
Foreign crop assessments	3,577,559	3,500,000	77,559
Grant revenue	882,300	551,985	330,315
Other revenue	14,376	-	14,376
Total revenue	<u>9,246,141</u>	<u>8,739,962</u>	<u>506,179</u>
Expenditures:			
Program expenditures:			
Market promotion and publicity	5,955,333	6,066,000	(110,667)
Research	1,161,024	1,616,500	(455,476)
Industry relations	100,112	305,500	(205,388)
Food safety	551,849	563,485	(11,636)
USHBC program fees	208,440	231,000	(22,560)
Total program expenditures	<u>7,976,758</u>	<u>8,782,485</u>	<u>(805,727)</u>
General and administrative	<u>966,013</u>	<u>1,644,515</u>	<u>(678,502)</u>
Total expenditures	<u>8,942,771</u>	<u>10,427,000</u>	<u>(1,484,229)</u>
Excess (deficit) of revenues over expenditures	<u>\$ 303,370</u>	<u>\$ (1,687,038)</u>	<u>\$ 1,990,408</u>

U.S. Highbush Blueberry Council

SCHEDULES OF REVENUE AND EXPENDITURES
 ACTUAL COMPARED TO BUDGET (CONTINUED)
 For the Years Ended December 31, 2017 and 2016

	2016		
	Actual	Budget (Unaudited)	Actual Over (Under) Budget
Revenue:			
Domestic crop assessments	\$ 4,432,109	\$ 4,533,192	\$ (101,083)
Foreign crop assessments	3,442,318	3,100,000	342,318
Grant revenue	226,754	-	226,754
Gains from contract expirations	122,250	-	122,250
Other revenue	10,174	-	10,174
Total revenue	8,233,605	7,633,192	600,413
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	7,805,153	8,527,883	(722,730)
Excess (deficit) of revenues over expenditures	\$ 428,452	\$ (894,691)	\$ 1,323,143

U.S. Highbush Blueberry Council

SCHEDULES OF PROGRAM EXPENDITURES
 ACTUAL COMPARED TO BUDGET
 For the Years Ended December 31, 2017 and 2016

	2017		
	Actual	Budget (Unaudited)	Actual Over (Under) Budget
Market promotion and publicity:			
Consumer/food service publicity	\$ 3,388,684	\$ 3,400,000	\$ (11,316)
Food manufacturer publicity	650,000	650,000	-
Export food manufacturer promo	730,692	700,000	30,692
Export market development	482,699	552,000	(69,301)
Unallocated market promotion	(10,915)	-	(10,915)
USDA MAP Allocation	200,000	200,000	-
Export coordination	62,333	68,000	(5,667)
Market research allocation	102,540	98,000	4,540
Expanded consumer market research	334,300	334,300	-
Promotion and publicity reserve	15,000	63,700	(48,700)
Total market promotion and publicity	5,955,333	6,066,000	(110,667)
Research:			
Research unallocated expense	55,000	161,607	(106,607)
Research screeners	28,750	50,000	(21,250)
University of E. Anglia, UK (Cassidy)	398,138	398,138	-
Université Laval, Canada (Vohl)	248,898	248,898	-
Colorado State University (S. Johnson)	138,028	138,028	-
Cornell University (Thalacker-Mercer)	53,329	53,329	-
Harvard (Sesso)	21,263	-	21,263
Blueberry research bank	61,860	50,000	11,860
Mind study blueberries	11,267	25,000	(13,733)
Researcher travel	10,047	14,000	(3,953)
Research administrator	99,997	100,000	(3)
Sponsorships	2,000	2,500	(500)
Blueberry research meeting	22,339	50,000	(27,661)
Research reserve	10,108	325,000	(314,892)
Total research	1,161,024	1,616,500	(455,476)

U.S. Highbush Blueberry Council

SCHEDULES OF PROGRAM EXPENDITURES
 ACTUAL COMPARED TO BUDGET (CONTINUED)
 For the Years Ended December 31, 2017 and 2016

	2017		
	Actual	Budget (Unaudited)	Actual Over (Under) Budget
Industry relations:			
Industry relations activities	\$ 15,642	\$ 35,000	\$ (19,358)
Bluespaper	23,710	16,000	7,710
USHBC evaluation/strategic plan	36,000	54,000	(18,000)
Grower engagement/education	6,115	16,500	(10,385)
Blueberry acreage study	1,275	4,000	(2,725)
Professional memberships	17,370	15,000	2,370
Industry relations reserve	-	165,000	(165,000)
Total industry relations	100,112	305,500	(205,388)
Food safety:			
Alert site server/maintenance	987	17,500	(16,513)
Media retainer	30,750	25,500	5,250
Media training	4,500	16,500	(12,000)
Issue management reserve	-	5,000	(5,000)
Printing	88	2,000	(1,912)
Alliance for Food and Farming	10,000	10,000	-
Pest analysis for fresh market access	5,299	40,000	(34,701)
South Korea MRL Review	23,400	19,500	3,900
TASC Insect Trade Barrier Project	326,985	351,985	(25,000)
TASC IR4 EU MRL	147,840	20,000	127,840
Food safety reserve	2,000	55,500	(53,500)
Total food safety	551,849	563,485	(11,636)
USHBC program expenditures:			
USDA/AMS administration fee	88,440	110,000	(21,560)
U.S. Office of General Counsel fee	-	1,000	(1,000)
NABC resources and service fee	120,000	120,000	-
Total USHBC program expenditures	208,440	231,000	(22,560)
Total program expenditures	\$ 7,976,758	\$ 8,782,485	\$ (805,727)

U.S. Highbush Blueberry Council

SCHEDULES OF PROGRAM EXPENDITURES
 ACTUAL COMPARED TO BUDGET (CONTINUED)
 For the Years Ended December 31, 2017 and 2016

	2016		
	Actual	Budget (Unaudited)	Actual Over (Under) 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, 2017 and 2016

	2016		
	Actual	Budget (Unaudited)	Actual Over (Under) Budget
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)
Total industry relations	85,371	162,500	(77,129)
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)
Total food safety	93,233	200,000	(106,767)
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	-
Total USHBC program expenditures	207,833	232,000	(24,167)
Total program expenditures	\$ 6,889,901	\$ 7,595,100	\$ (705,199)

U.S. Highbush Blueberry Council

SCHEDULES OF GENERAL AND ADMINISTRATIVE EXPENDITURES
ACTUAL COMPARED TO BUDGET

For the Years Ended December 31, 2017 and 2016

	2017		
	Actual	Budget (Unaudited)	Actual Over (Under) Budget
General expenditures:			
Office rental and occupancy expenses	\$ 47,676	\$ 46,804	\$ 872
Office insurance and taxes	722	1,080	(358)
Subscriptions	2,629	5,550	(2,921)
Printing	12,282	14,400	(2,118)
Office supplies	10,258	9,900	358
Telephone and fax	5,363	9,000	(3,637)
Computer IT service	16,503	12,900	3,603
Equipment repairs and maintenance	3,708	4,500	(792)
Equipment rental	5,097	10,800	(5,703)
Postage and shipment	9,500	9,900	(400)
Auto allowance	7,020	7,020	-
Bank charges	1,684	1,000	684
Officers' liability	3,859	3,900	(41)
Bonding insurance	-	2,000	(2,000)
Commodity coalition initiative	3,298	2,500	798
IBO dues	-	2,000	(2,000)
Special project reserve	-	18,581	(18,581)
Total general expenditures	129,599	161,835	(32,236)
Administrative expenditures:			
Employee salary and wages	444,209	389,777	54,432
Employee benefits	67,711	72,102	(4,391)
Payroll taxes	27,336	26,486	850
Workers' compensation insurance	643	3,910	(3,267)
Bookkeeping service	25,500	25,500	-
Retirement program	1,445	2,805	(1,360)
Legal/audit fees	20,593	20,000	593
Trade monitoring	10,000	10,080	(80)
Depreciation	927	125	802
Travel and meetings	237,424	303,400	(65,976)
Reserve	626	628,495	(627,869)
Total administrative expenditures	836,414	1,482,680	(646,266)
Total general and administrative expenditures	\$ 966,013	\$ 1,644,515	\$ (678,502)

U.S. Highbush Blueberry Council

SCHEDULES OF GENERAL AND ADMINISTRATIVE EXPENDITURES
 ACTUAL COMPARED TO BUDGET (CONTINUED)
 For the Years Ended December 31, 2017 and 2016

	2016		
	Actual	Budget (Unaudited)	Actual Over (Under) Budget
General expenditures:			
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)
Total general expenditures	118,386	150,000	(31,614)
Administrative expenditures:			
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
Total administrative expenditures	796,866	782,783	14,083
Total general and administrative expenditures	\$ 915,252	\$ 932,783	\$ (17,531)

U.S. Highbush Blueberry Council

SCHEDULES OF CASH RECEIPTS AND DISBURSEMENTS
For the Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Receipts:		
Domestic crop assessments	\$ 3,664,216	\$ 4,738,338
Foreign crop assessments	3,666,484	3,306,573
Grant revenue	882,300	226,754
Other revenue	<u>14,376</u>	<u>10,174</u>
Total receipts	<u>8,227,376</u>	<u>8,281,839</u>
Disbursements:		
Market promotion and publicity	5,850,460	5,460,154
Research	1,026,198	1,027,320
Industry relations	90,981	90,901
Food safety	362,412	91,036
USHBC program fees	220,622	185,651
General and administrative	<u>872,609</u>	<u>911,687</u>
Total disbursements	<u>8,423,282</u>	<u>7,766,749</u>
Excess (deficit) of receipts over disbursements	(195,906)	515,090
Cash, beginning of year	<u>7,577,892</u>	<u>7,062,802</u>
Cash, end of year	<u><u>\$ 7,381,986</u></u>	<u><u>\$ 7,577,892</u></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, 2017 and 2016, 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 23, 2018.

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 23, 2018
Roseville, California