



Financial Statements  
June 30, 2016

# National Potato Promotion Board

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## Independent Auditor's Report

To the Board of Directors  
National Potato Promotion Board  
Denver, Colorado

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the National Potato Promotion Board (the Board) dba the Potatoes USA as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the National Potato Promotion Board as of June 30, 2016, and the respective changes in financial position and the respective budgetary comparison information for the General Fund and the MAP Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 3, 2017 on our consideration of the National Potato Promotion Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering National Potato Promotion Board's internal control over financial reporting and compliance.

*Eide Bailly LLP*

Golden, Colorado  
January 3, 2017

**Required Supplementary Information**  
**Management's Discussion and Analysis**

**National Potato Promotion Board**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2016**

This section of the Annual Financial Report of the National Potato Promotion Board (the Board), dba Potatoes USA, formerly dba the United States Potato Board, provides readers with a narrative overview and analysis of the Board's financial performance during the fiscal year that ended on June 30, 2016. We encourage readers to consider the information presented here in conjunction with the Board's basic financial statements and notes to the financial statements, to enhance their understanding of the activities and financial health of the Board.

The Board receives assessments from potato growers and funding from the Foreign Agricultural Service (FAS) of the United States Department of Agriculture (USDA) for the purpose of carrying out an effective and continuous program of marketing, research, development, advertising, and promotion to help expand existing domestic and foreign potato markets as well as to develop new or improved markets.

### **Overview of Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Board's basic financial statements. The Board's basic financial statements consist of the following two components:

- Government-wide and Fund Financial Statements
- Notes to the Financial Statements

Because the Board has only two major funds it has presented government-wide financial and fund financial statements together with an adjustment column to show the reconciliation between the two required basic statements.

Government-wide Financial Statements. The government-wide statements are designed to provide readers with a broad overview of the Board's finances using the accrual basis of accounting. The government-wide financial statements report information on all of the activities of the Board.

The Statement of Net Position presents information on all of the Board's assets and liabilities. The difference between assets and liabilities is reported as net position.

The Statement of Activities presents information reflecting how the Board's net position has changed during the current fiscal year. All changes in net position are reported as soon as the underlying activity occurs. Thus, revenues and expenses are reported in these statements for some items that will only result in cash flows in future periods.

**National Potato Promotion Board**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2016**

Fund Financial Statements. The Board uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Traditional users of the Board's financial statements will find the fund financial statement presentation more familiar with a focus on major funds rather than fund types. All funds of the Board can be categorized as governmental funds as more fully discussed below.

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. A major fund should generally meet both of the following criteria: 1) total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10% of the corresponding total (assets, liabilities or expenditures/expenses) for all funds of that category or fund type (i.e. total governmental or total enterprise funds) and 2) total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5% of the corresponding total for all governmental and enterprise funds combined. The general fund is always considered a major fund.

Governmental Funds. Governmental funds are used to report those same functions reported as governmental activities in the government-wide financial statements. The fund financial statements are prepared on the modified accrual basis. Under the modified accrual basis of accounting, revenues are recognized when they become measurable and available, and expenditures are recognized when the related fund liability is incurred, with the exception of long-term obligations and similar long-term items which are recorded when due. The focus of governmental fund financial statements is on near-term inflows and outflows of spendable resources as well as on the balance of spendable resources available at the end of the fiscal year.

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the General Fund, and the MAP Fund. These two funds are considered to be major funds.

The Board adopts an annual appropriated budget for all of its governmental funds. A budgetary comparison statement has been provided for the Board's major funds (General Fund and MAP Fund) to demonstrate compliance with their budgets.

Notes to the Financial Statements. The notes to the basic financial statements are considered an integral part of the financial statements since they provide additional information needed to gain a full understanding of the data provided in both the government-wide and fund financial statements.

**National Potato Promotion Board  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2016**

**Financial Highlights**

- The Board's assets exceeded its liabilities by a net position of \$9,719,754 as of June 30, 2016, reflecting a decrease of \$952,629 in net position since the year ended June 30, 2015.
- The Board's general fund reported total ending fund balance of \$9,601,975 at June 30, 2016. Of this ending fund balance, \$2,327,834 is assigned for specific purposes by the board of directors, \$104,025 is non-spendable and \$7,170,116 is unassigned.

**Revenue**

General Fund

The Board collects assessments of \$.03 per hundred-weight of potatoes grown in the United States. It also receives assessments based on the fresh weight equivalent of potatoes and potato products imported from foreign countries. Interest income is earned on the Board's reserve which is invested in short-term certificates of deposit.

The following table highlights the General Fund's revenue for FY 2016 as compared to FY 2015:

	2016	2015
Assessment revenue	\$13,987,683	\$13,926,670
Contribution revenue	326,533	497,302
Chip Seed revenue	-	6,287
Investment income	42,145	26,588

- The Board collected total assessment revenue of \$13.9 million during the 2016 fiscal year. This is an increase of \$61,013 from fiscal year 2015.
- Investment Income is generated on the Board's short-term investments. The Board earned \$42,145 in fiscal year 2016. This is an increase of \$15,557 from fiscal year 2015.
- The Board generated no revenue in fiscal year 2016 from seed sales of new chipping potato varieties through its NCPT fast track program.
- The Board receives contributions from major fry processors, chip processors and state potato organizations for its National Fry Processor Trials (NFPT) and National Chip Processor Trials (NCPT) programs. These programs seek to identify new potato varieties that will lower acrylamide levels. Total contributions recognized in fiscal year 2016 were \$326,533. Unspent amounts during fiscal year 2016 are reflected in Unearned Revenue.



**National Potato Promotion Board  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2016**

**Financial Highlights (Continued)**

MAP Fund

The Board receives funding from the Foreign Agricultural Service (FAS) of the United States Department of Agriculture (USDA) under the Market Access Program (MAP). This program provides commodity groups with funds to be used to develop foreign markets for US agricultural products. Funds received are based upon the submission of an application to FAS known as the Unified Export Strategy (UES) and an evaluation known as the Country Progress Report (CPR). The MAP fund was awarded \$4,998,822 for fiscal year 2016 of which \$4,570,786 expended, compared to \$5,092,257 for fiscal year 2015 of which \$4,831,106 was expended.

Other Grant Funds

Funding is received from FAS under the Emerging Markets Program (EMP), which is designed to facilitate basic market development work for US agricultural exports in less developed emerging markets. Funds are received through Technical Assistance for Specialty Crops (TASC), which is designed to help overcome technical barriers to exports faced by specialty crops such as potatoes. Funds are received through the Quality Samples Program (QSP), designed to pay for commercially viable samples of US agricultural products to be tested by end users in foreign countries.

Grant funds funded by USDA grants are primarily on a reimbursement basis.

**Overview of the Financial Statements**

In fiscal year 2016, the Board's main sources of revenue were assessments and FAS foreign market development funding, as described above.

Administrative costs are not required to be capped. However, the United States Potato Board makes every effort to keep these costs down. Administrative costs include the Board's cost to conduct program activities both domestically and internationally and to operate its administrative office.

**National Potato Promotion Board**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2016**

**Government-wide Financial Analysis**

The following table reflects the condensed combined Statement of Net Position.

	Statements of Net Position June 30,	
	2016	2015
Assets:		
Cash and cash equivalents	\$ 2,476,929	\$ 1,927,931
Short-term Investments	6,576,069	8,133,815
Assessments receivable	1,184,357	1,237,062
Claims receivable	3,524,688	3,297,068
Other receivables	107,443	131,223
Prepaid expenses	104,025	198,983
Capital assets (net)	117,779	77,695
Total assets	\$ 14,091,290	\$ 15,003,777
Liabilities:		
Accounts payable	\$ 3,457,550	\$ 3,520,148
Accrued expenses	77,963	141,119
Unearned revenue	836,023	670,127
Total liabilities	4,371,536	4,331,394
Net position:		
Net investment in capital assets	117,779	77,695
Unrestricted	9,601,975	10,594,688
Total liabilities and net position	\$ 14,091,290	\$ 15,003,777

**National Potato Promotion Board**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2016**

**Government-wide Financial Analysis (Continued)**

The following table reflects the condensed combined Statement of Activities:

	Statement of Activities For the Year Ended June 30,	
	2016	2015
<b>Revenue:</b>		
Assessment revenues	\$ 13,987,683	\$ 13,926,670
Grant revenue	5,428,685	5,670,594
Chip Seed revenue	-	6,287
Contribution revenue	326,533	497,302
Investment earnings	42,145	26,588
<b>Total revenue</b>	<b>19,785,046</b>	<b>20,127,441</b>
<b>Expenditures/expenses:</b>		
Program	19,600,715	18,715,926
Operating	1,136,960	1,169,768
<b>Total expenditures/expenses</b>	<b>20,737,675</b>	<b>19,885,694</b>
 Change in net position	 \$ (952,629)	 \$ 241,747

**Capital Assets**

During FY 2016, the Board acquired \$73,119 of office furniture, leasehold improvements and equipment, bringing its capital asset balance to \$117,779 net of accumulated depreciation of \$296,084.

## **Basic Financial Statements**

**National Potato Promotion Board**  
**Governmental Funds Balance Sheet/Statement of Net Position**  
**June 30, 2016**

	General Fund	MAP Fund	Non-major Other Grant Funds	Total	Adjustments (Note 10)	Statement of Net Position
<b>ASSETS</b>						
Cash and cash equivalents	\$ 1,202,401	\$ 1,274,528	\$ -	\$ 2,476,929	\$ -	\$ 2,476,929
Short-term investments	6,576,069	-	-	6,576,069	-	6,576,069
Assessments receivable	1,184,357	-	-	1,184,357	-	1,184,357
Claims receivable	-	2,892,220	632,468	3,524,688	-	3,524,688
Accrued interest receivable	9,681	-	-	9,681	-	9,681
Other receivables	97,762	-	-	97,762	-	97,762
Due from other funds	2,520,378	-	-	2,520,378	(2,520,378)	-
Prepaid expenses	104,025	-	-	104,025	-	104,025
	<u>11,694,673</u>	<u>4,166,748</u>	<u>632,468</u>	<u>16,493,889</u>	<u>(2,520,378)</u>	<u>13,973,511</u>
Capital assets (net of accumulated depreciation):						
Office furniture	-	-	-	-	41,074	41,074
Office equipment	-	-	-	-	76,705	76,705
Total assets	<u>\$ 11,694,673</u>	<u>\$ 4,166,748</u>	<u>\$ 632,468</u>	<u>\$ 16,493,889</u>	<u>\$ (2,402,599)</u>	<u>\$ 14,091,290</u>
<b>LIABILITIES</b>						
Accounts payable	\$ 1,178,712	\$ 1,970,008	\$ 308,830	\$ 3,457,550	\$ -	\$ 3,457,550
Accrued expenses	77,963	-	-	77,963	-	77,963
Due to other funds	-	2,196,740	323,638	2,520,378	(2,520,378)	-
Unearned revenue	836,023	-	-	836,023	-	836,023
Total liabilities	<u>2,092,698</u>	<u>4,166,748</u>	<u>632,468</u>	<u>6,891,914</u>	<u>(2,520,378)</u>	<u>4,371,536</u>
<b>FUND BALANCES/NET POSITION</b>						
Fund Balances						
Non-spendable	104,025	-	-	104,025	(104,025)	-
Assigned	2,327,834	-	-	2,327,834	(2,327,834)	-
Unassigned	7,170,116	-	-	7,170,116	(7,170,116)	-
Total fund balances	<u>9,601,975</u>	<u>-</u>	<u>-</u>	<u>9,601,975</u>	<u>(9,601,975)</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 11,694,673</u>	<u>\$ 4,166,748</u>	<u>\$ 632,468</u>	<u>\$ 16,493,889</u>		
Net Position						
Invested in capital assets					117,779	117,779
Unrestricted					9,601,975	9,601,975
Total net position					<u>\$ 9,719,754</u>	<u>\$ 9,719,754</u>

The accompanying notes are an integral part of this statement.

**National Potato Promotion Board**  
**Statement of Governmental Funds Revenues, Expenditures,**  
**and Changes in Fund Balances/Statement of Activities**  
Year ended June 30, 2016

	General Fund	MAP Fund	Non-major Other Grant Funds	Total	Adjustments (Note 10)	Statement of Activities
Expenditures/expenses:						
Program	\$ 14,172,030	\$ 4,592,471	\$ 836,217	\$ 19,600,718	\$ -	\$ 19,600,718
Personnel services and benefits	422,145	-	-	422,145	-	422,145
Board travel	7,542	-	-	7,542	-	7,542
Staff and field operations travel	36,876	-	-	36,876	-	36,876
Professional services	89,299	-	-	89,299	-	89,299
Office	282,710	-	-	282,710	-	282,710
USDA user fees	130,815	-	-	130,815	-	130,815
Capital outlay	73,119	-	-	73,119	(73,119)	-
Depreciation	-	-	-	-	33,035	33,035
Other	134,538	-	-	134,538	-	134,538
Total expenditures/expenses	15,349,074	4,592,471	836,217	20,777,762	(40,084)	20,737,678
Program revenues:						
Assessments & Program Revenue	13,987,683	-	-	13,987,683	-	13,987,683
Contribution	326,533	-	-	326,533	-	326,533
Grant	-	4,592,471	836,217	5,428,688	-	5,428,688
Total program revenues	14,314,216	4,592,471	836,217	19,742,904	-	19,742,904
General revenues:						
Investment earnings	42,145	-	-	42,145	-	42,145
Total general revenues	42,145	-	-	42,145	-	42,145
Change in fund balance/net position	(992,713)	-	-	(992,713)	40,084	(952,629)
Fund balances/net position:						
Beginning of the year	10,594,688	-	-	10,594,688	77,695	10,672,383
End of the year	<u>\$ 9,601,975</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,601,975</u>	<u>\$ 117,779</u>	<u>\$ 9,719,754</u>

The accompanying notes are an integral part of this statement.

**National Potato Promotion Board**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance -**  
**Budget and Actual - General Fund - Budget Basis**  
Year ended June 30, 2016

	Original Budget	Final Budget	Actual	Variance- Favorable (Unfavorable)
<b>Revenues</b>				
Assessment & program revenue	\$ 13,361,000	\$ 13,361,000	\$ 13,987,683	\$ 626,683
Contribution revenue	496,000	496,000	326,533	(169,467)
Chip Seed revenue	148,885	148,885	-	(148,885)
Interest income	18,000	18,000	42,145	24,145
Total revenues	<u>14,023,885</u>	<u>14,023,885</u>	<u>14,356,361</u>	<u>332,476</u>
<b>Expenditures</b>				
Program	14,216,393	15,617,869	14,172,030	1,445,839
Personnel services and benefits	455,405	455,405	422,145	33,260
Board travel	23,500	23,500	7,542	15,958
Staff travel	18,500	18,500	36,876	(18,376)
Professional services	90,000	90,000	89,299	701
Office expenses	300,833	300,833	355,829	(54,996)
USDA user fees	186,000	186,000	130,815	55,185
Other	133,254	133,254	134,538	(1,284)
Total expenditures	<u>15,423,885</u>	<u>16,825,361</u>	<u>15,349,074</u>	<u>1,476,287</u>
Excess of revenues over (under) expenditures - BUDGET BASIS	<u>\$ (1,400,000)</u>	<u>\$ (2,801,476)</u>	(992,713)	<u>\$ 1,808,763</u>
<b>Reconciliation to Government-Wide Statements</b>				
Capital outlay			73,119	
Depreciation			<u>(33,035)</u>	
Change in Net Position			<u>\$ (952,629)</u>	

The accompanying notes are an integral part of this statement.

**National Potato Promotion Board**  
**Statements of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual – MAP Fund – Budget Basis**  
Year ended June 30, 2016

	Original Budget	Final Budget	YTD Actual	Variance favorable (unfavorable)
REVENUE				
Program Revenue	\$ 5,020,504	\$ 5,020,504	\$ 4,592,471	\$ (428,033)
EXPENDITURES				
Program Expenditures	5,020,504	5,020,504	4,592,471	428,033
Excess of revenues over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of this statement.



**National Potato Promotion Board**  
**Notes to Financial Statements**  
**June 30, 2016**

**1. Definition of Reporting Entity**

The National Potato Promotion Board dba the United States Potato Board, an instrumentality of the United States Department of Agriculture (USDA), was established by an act of Congress on January 11, 1971, to carry out an effective and continuous program of marketing, research, development, advertising, and promotion to help expand existing domestic and foreign potato markets and to develop new or improved markets.

The Board follows the Governmental Accounting Standards Board (GASB) accounting pronouncements that provide guidance for determining which governmental activities, organizations and functions should be included within the financial reporting entity. GASB pronouncements set forth the financial accountability of a governmental organization's elected governing body as the basic criterion for including a possible component governmental organization in a primary government's legal entity. Financial accountability includes, but is not limited to, appointment of voting majority of the organization's governing body, ability to impose its will on the organization, potential for organization to provide specific financial benefits or burdens and fiscal dependency. The Board does not have any component units.

The Board has implemented Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB 34) which established financial reporting standards for state and local governments including the establishment of the basic financial statements and required supplementary information, including Management's Discussion and Analysis.

**2. Summary of Significant Accounting Policies**

The more significant accounting policies of the Board are described as follows:

**Government-wide and fund financial statements**

Because the Board only has two major funds and one other grant fund, it has presented its government-wide financial statements and fund financial statements together with an adjustment column to show the reconciliation between the two required basic statements.

The government-wide financial statements - the Statement of Net Position and the Statement of Activities - report information on all of the activities of the Board. Interfund activity, if any, has been removed from these statements.

The government-wide financial statements are designed to distinguish functions of the Board that are principally supported by assessment revenues and operating grants (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The Board has no business-type activities.

**National Potato Promotion Board**  
**Notes to Financial Statements**  
**June 30, 2016**

**2. Summary of Significant Accounting Policies (continued)**

The primary governmental activities of the Board include the distribution of funds to promote and develop existing and new potato markets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or program. Program revenues include grants, assessments and other revenues. Other revenues not directly related to a particular function or program, if any, are reported separately as general revenues.

Since the Board does not operate any enterprise fund or internal service fund activities, there are no proprietary funds to include in this report.

The Board utilizes two types of governmental funds. The General Fund is the Board's main operating fund. It accounts for all financial resources of the Board except for those required to be accounted for in another fund. Special Revenue Funds account for proceeds of specific revenue sources that are legally restricted to expenditure for specific purposes. The Board's Special Revenue Funds include the MAP Fund and the Other Grants Fund. These funds account for grant funding received from the Foreign Agricultural Service.

The General and MAP funds are considered to be major governmental funds and are reported as separate columns in the fund financial statements.

**Measurement focus, basis of accounting and financial statement presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as expenditures when all of the eligibility and reimbursement requirements of the grantor have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Revenues are considered to be available when they are collectible within the current fiscal year or soon enough thereafter to pay liabilities of the current fiscal year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Under the modified accrual basis of accounting, as used in the governmental fund financial statements, acquisition costs of capital assets are recorded as expenditures at the time of purchase and depreciation is not recognized on these capital assets.

**Budgets**

The Board's budget is required to be approved by the USDA. No amendments are required provided the total amount appropriated remains the same. The budget is on a basis inconsistent with US GAAP, as capital outlays are not budgeted.

**National Potato Promotion Board**  
**Notes to Financial Statements**  
**June 30, 2016**

**2. Summary of Significant Accounting Policies (continued)**

**Income Taxes**

The Board is classified as an instrumentality of the United States Government by the Internal Revenue Service under Internal Revenue Code Section 115(a). Therefore, the Board is not subject to income taxation. Accordingly, no provision for income taxes is reflected in these financial statements. The Board is also exempt from all state and local sales taxes except for sales and excise taxes on utilities, travel and product sales to third parties.

**Cash and Cash Equivalents**

Cash and cash equivalents are defined as all cash accounts and short-term investments with an original maturity of three months or less.

**Short-Term Investments**

Short Term investments consist of money market funds and investments in certificates of deposit. Short-term investments are carried at fair market value in the governmental funds balance sheet/ statement of net position.

**Use of Estimates**

In preparing the Board's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

**Revenue Recognition**

Assessments are recognized as revenue in the period they are collected. Grant revenue is recognized as expenditures occur.

**Interfund Transactions**

Transactions which constitute reimbursements of a fund for expenditures or expenses initially made from that fund which are properly applicable to another fund or recorded as expenditures or expenses in the reimbursing fund and as reductions of the expenditure or expenses in the fund that is reimbursed. At year end, outstanding balances between funds are reported as "Due to/Due from other funds".

**Prepays**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**National Potato Promotion Board**  
**Notes to Financial Statements**  
**June 30, 2016**

**2. Summary of Significant Accounting Policies (continued)**

**Capital Assets**

Capital assets are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the Board as assets with an initial, individual cost of more than \$500 and a useful life of more than one year. All assets are valued at historical cost.

Costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset's life are not capitalized.

Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Office equipment	3 years
Office furniture	10 years

**Net Position**

In the government-wide financial statements, Net Position represents the difference between assets and liabilities. Net Position is reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws, or regulations of other governments.

If both restricted and unrestricted amounts of Net Position are available for use when an expense is made, it is the Board's policy to use restricted amounts first.

**Fund Balances**

The Board has implemented GASB Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a Board's fund balances more transparent.

In the fund financial statements the following classifications describe the relative strength of the spending constraints:

- *Non-spendable fund balance* – The portion of fund balance that cannot be spent because it is either not in spendable form (such as prepaid expenses) or it is legally or contractually required to be maintained intact.
- *Restricted fund balance* – The portion of the fund balance constrained to being used for a specific purpose by external parties (such as grantors), constitutional provisions or enabling legislation. The Board has no restricted fund balance.

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**2. Summary of Significant Accounting Policies (continued)**

- *Committed fund balance* – The portion of fund balance constrained for specific purposes according to limitations imposed by the Board of Directors prior to the end of the fiscal year. The constraint may be removed or changed only through formal action of the Board of Directors. The Board has no committed fund balance.
- *Assigned fund balance* – The portion of fund balance set aside for planned or intended purposes. The intended use may be expressed by the Board of Directors or other individuals authorized to assign funds to be used for a specific purpose.
- *Unassigned fund balance* – The residual portion of fund balance that does not meet any of the above criteria. The Board will only report a positive unassigned fund balance in the General Fund.

If both restricted and unrestricted amounts of fund balance are available for use when an expenditure is made, it is the Board's policy to use restricted amounts first. Unrestricted fund balance will be used in the following order: committed, assigned, and then unassigned.

**Subsequent Events**

The Board has evaluated subsequent events through January 3, 2017, the date which the financial statements were available to be issued.

**Newly Issued Accounting Pronouncements**

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*. This statement provides guidance for determining a fair value measurement for financial reporting purposes and guidance for applying fair value to certain investments and disclosure related to all fair value measurements. The Statement requires a government to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value. The techniques should be consistent with one or more of the following approaches: the market approach, the cost approach, or the income approach. Statement 72 is effective for financial statements for periods beginning after June 15, 2015 and early application is encouraged. The District has implemented the effect of this statement on these financial statements.

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**3. Cash and Investments**

The Board is required to follow the Agricultural Marketing Service (AMS) investment policy, which defines the types of investments the Board can purchase and the collateral requirements for the Board's cash and investments. The Board utilizes Merrill Lynch as its investment custodian until May 2016 and at that time moved to Zion's National Bank.

Board policy requires that there always be funds on hand sufficient to liquidate all of the outstanding obligations of the National Potato Promotion Board as of June 30 of each year after considering anticipated accounts receivable due the Board. At June 30, 2016, the Board was in compliance with this requirement.

At June 30, 2016, the carrying value of the Board's cash and investments are reflected in the financial statements as follows:

Cash and cash equivalents	\$ 2,476,929
Short-term investments	6,576,069
Total cash and investments	<u>\$ 9,052,998</u>

The Board's bank balances and short-term investments are collateralized as follows:

FDIC insured bank deposits	\$ 457,501
Collateralized bank deposits	2,688,794
FDIC insured short-term investments	6,576,069
Total cash and investments	<u>\$ 9,722,364</u>

At June 30, 2016 Short-term investments include \$1,961,319 of Certificates of Deposit (CDs) that bear interest at rates ranging from 0.340% to 0.628% with maturities to October 2016. The CDs are purchased for amounts under the FDIC insurance limits, and may be purchased at a premium or discount which adjusts interest rates to reflect current market yields. Short-term investments also include \$4,614,750 of amounts invested in a money market fund that bears interest at .34%.

**Investments**

The Board categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the asset.

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**3. Cash and Investments (continued)**

Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The Board has the following fair value measurements as of June 30, 2016 for the following short-term investments that do not meet the Board's definition of a cash and cash equivalent:

- Certificates of Deposits of \$245,015 are valued using quoted market prices (level 1)

*Interest rate risk:* As means of limiting its exposure to fair value losses arising from rising interest rates, the Board's investment policy requires that all investments must have a maturity period of 1 year or less.

*Custodial credit risk:* As means of minimizing custodial credit risk or the risk that an insurer or other counterparty to an investment will not fulfill its obligations, the Board's policy is to ensure that the entire balance investments is collateralized in the Board's name.

*Concentration of credit risk:* The concentration of credit risk, or the risk of loss attributed to the magnitude of a government's investment in a single issuer, occurs when deposits are not diversified. Board policy places no limit on the amount the Board may invest in any one issuer.

**4. Interfund Transactions**

**Due to/Due From**

The Board reports interfund balances between its funds. The sum of all balances presented in the table agrees with the sum of interfund balances presented in the balance sheets for the governmental funds. The purpose of the interfund balances are to cover cash flows until grant reimbursement is received for expenditures incurred. Interfund balances are generally expected to be repaid within one year of the financial statement date. At June 30, 2016, the following balances were due between funds:

Receivable Fund	Payable Fund	Amount
General Fund	MAP Fund	\$ 2,196,740
General Fund	Other Grant Funds	323,638
		\$ 2,520,378

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**5. Capital Assets**

Capital asset activity for the year ended June 30, 2016, was as follows:

	July 1, 2015	Additions	Retirements	June 30, 2016
Capital assets:				
Furniture & leasehold	\$ 99,093	\$ 1,110	\$ -	\$ 100,203
Equipment	241,651	72,009	-	313,660
Total capital assets	<u>\$ 340,744</u>	<u>\$ 73,119</u>	<u>\$ -</u>	<u>\$ 413,863</u>
Less accumulated depreciation:				
Furniture & leasehold	\$ 52,768	\$ 6,180	\$ -	\$ 58,948
Equipment	210,281	26,855	-	237,136
Total accumulated depreciation	<u>\$ 263,049</u>	<u>\$ 33,035</u>	<u>\$ -</u>	<u>\$ 296,084</u>
Total capital assets, net	<u>\$ 77,695</u>	<u>\$ 40,084</u>	<u>\$ -</u>	<u>\$ 117,779</u>

**6. Advances to Market Access Program**

The Board is the cooperator, with assistance of the USDA Foreign Agricultural Service (FAS), in receiving and managing Market Access Program (MAP) funds. The Board is responsible for properly administering approximately \$4.9 million of these funds. MAP regulations require that, after the first 90 days, the Board must first disburse the funds under the program, then request reimbursement from the U.S. government. To meet these short-term cash needs, the Board has been authorized to borrow 40% from FAS with 90 days to offset the advance with claims on behalf of the MAP fund. As of June 30, 2016, no amounts were due to FAS.

**7. Retirement Plan/Deferred Compensation Plan**

Effective July 1, 1990, the Board established a defined contribution profit sharing plan. The profit sharing plan covers all Board employees and requires no minimum funding standards. The employer contribution is currently 8% of employees' salaries. The profit sharing plan allows employees to contribute up to the maximum IRS limits. For the year ended June 30, 2016, the Board contributed \$168,889 to the profit sharing plan.



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**8. Lease Commitments**

The Board leases equipment and office space under non-cancelable operating leases that expire March 14, 2018, for an equipment lease, and March 31, 2023, for the office space lease. The Board is also responsible for its share of common operating costs on the office space lease and has an option to extend the lease another five years at the then prevailing market rate.

The Board's total lease commitments are as follows as of June 30, 2016:

Year ending June 30,		
2017	\$	153,703
2018		147,237
2019		147,353
2020		150,760
2021		154,167
Thereafter		277,671
Total	\$	<u>1,030,891</u>

Total lease expense for the year ended June 30, 2016, was \$152,941.

**9. Commitment and Contingencies**

The Board has contracted with independent representatives in Japan, South Korea, Hong Kong, China, Mexico, Costa Rica, Vietnam, the Philippines, Thailand and Singapore to administer the programs funded by the Market Access Program of the USDA. The contracts are for one year ranging from July 1, 2015, through June 30, 2016. Contracts are negotiated annually and are expected to be renewed for the next fiscal year.

Should the Board not properly administer the MAP fund pursuant to the MAP regulations as interpreted by the FAS, the Board's General Fund would be responsible to repay the U.S. government any of the funds that may have been improperly used. Management believes the MAP funds are being administered in accordance with MAP regulations and that any such liability is unlikely.

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**10. Reconciliation of Government-wide and Fund Financial Statements**

**Explanation of certain differences between the Governmental Funds Balance Sheet and the Government-wide Statement of Net Position**

The Governmental Funds Balance Sheet/Statement of Net Position includes an adjustment between Fund Balance – Total Governmental Funds and Net Position. The only elements to that adjustment pertain to capital assets and the elimination of the due to/from other funds.

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the Governmental Funds Balance Sheet. The \$117,779 adjustment to property and equipment, net of accumulated depreciation, represents the capital assets of the Board, net of accumulated depreciation.

Due to/from other funds are included within the fund financial statements but are excluded from the Government-wide Financial Statements. The \$2,520,378 adjustment to due to/from other funds represents the amounts within the Board that need to be eliminated.

**Explanation of certain differences between the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance and the Government-wide Statement of Activities**

The Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balances/Statement of Activities includes an adjustment between the change in fund balance of the governmental funds and the change in net position of the government-wide activities. The only elements to that adjustment pertain to capital outlay and depreciation.

When the purchase of capital assets is financed through governmental funds, the resources expended for those assets are reported as expenditures in the year they are incurred. However, in the Statement of Activities, the costs of those assets are allocated over their estimated useful lives and reported as depreciation expense, and a gain or loss is recognized for the difference between the proceeds, if any, from the disposal of those assets and their net book value. The \$73,119 adjustment represents the amount of capital assets purchased during the year and the \$33,035 adjustment represents the depreciation incurred during the year.