

**National Potato Promotion Board  
d/b/a Potatoes USA**

**Financial Statements and Required  
Supplementary Information**

**June 30, 2018**

**(With Independent Auditor's Report Thereon)**

*Kundinger, Corder & Engle, P.C.*

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*Certified Public Accountants*

**National Potato Promotion Board d/b/a Potatoes USA**  
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## **Independent Auditor's Report**

**Board of Directors  
National Potato Promotion Board  
d/b/a Potatoes USA:**

### **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, d/b/a Potatoes USA, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Potatoes USA's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our 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 opinion.

### **Opinion**

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 d/b/a Potatoes USA as of June 30, 2018, 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.

**Board of Directors  
National Potato Promotion Board  
d/b/a Potatoes USA**

**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 3–7 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 Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Potatoes USA's basic financial statements. The other supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Costs Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and is also not a required part of the basic financial statements.

The other supplementary information, as listed in the table of contents, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

*Other Reporting Required by Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated January 8, 2019, on our consideration of Potatoes USA'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 Potatoes USA's internal control over financial reporting and compliance.

*Kuendinger, Caudre & Gingle, P.C.*

January 8, 2019

**National Potato Promotion Board d/b/a Potatoes USA**  
**Management's Discussion and Analysis**  
**June 30, 2018**

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**Management's Discussion and Analysis**

Management's discussion and analysis of National Potato Promotion Board's (Potatoes USA) financial performance provides an overview of Potatoes USA's financial activities for the year ended June 30, 2018. This annual report consists of a series of financial statements. The Statement of Net Position (on page 8) and the Statement of Activities (on page 9) provide information about the activities of Potatoes USA as a whole and present a longer-term view of Potatoes USA's finances. For governmental activities, these statements explain how these services were financed in the short term, as well as what remains for future spending. We encourage readers to consider the information presented here in conjunction with Potatoes USA's basic financial statements and notes to the financial statements to enhance their understanding of the activities and financial health of Potatoes USA.

Potatoes USA 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.

**Financial Highlights**

- Potatoes USA's assets exceeded its liabilities by a net position of \$11,215,698 as of June 30, 2018, reflecting a decrease in net position of (\$117,873) since June 30, 2017.
- Potatoes USA's general fund ending fund balance totaled \$11,102,637 at June 30, 2018. This ending fund balance includes \$1,290,823 in restricted funds, \$2,327,834 in funds assigned for specific purposes by the Board of Directors, \$134,781 in non-spendable funds, and \$7,349,199 in unassigned funds.

**Overview of Financial Statements**

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

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

Because Potatoes USA 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 Potatoes USA's finances using the accrual basis of accounting. The government-wide financial statements report information on all of the activities of Potatoes USA.

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

# **National Potato Promotion Board d/b/a Potatoes USA**

## **Management's Discussion and Analysis**

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### **Overview of Financial Statements, Continued**

The Statement of Activities presents information reflecting how Potatoes USA'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.

#### Fund Financial Statements

Potatoes USA uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Traditional users of Potatoes USA'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 Potatoes USA 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.

Potatoes USA adopts an annual appropriated budget for all of its governmental funds. A budgetary comparison statement has been provided for Potatoes USA'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 governmental fund financial statements.

In fiscal year 2018, Potatoes USA'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, Potatoes USA makes every effort to keep these costs down. Administrative costs include Potatoes USA's cost to conduct program activities both domestically and internationally and to operate its administrative office.

**National Potato Promotion Board d/b/a Potatoes USA**  
**Management's Discussion and Analysis**

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**Government-wide Financial Analysis**

The following table reflects the condensed statements of net position as of June 30:

	<u>2018</u>	<u>2017</u>
Assets:		
Cash and cash equivalents	\$ 2,408,860	1,291,946
Investments	6,872,905	7,037,819
Assessments receivable	2,051,985	1,793,961
Claims receivable	3,171,159	3,067,812
Other receivables	83,514	128,433
Prepaid items	134,781	64,270
Capital assets, net	<u>270,764</u>	<u>375,255</u>
Total assets	\$ <u>14,993,968</u>	<u>13,759,496</u>
Liabilities:		
Accounts payable	\$ 2,962,523	1,716,957
Accrued expenses	572,682	398,951
Deferred rent	85,362	73,463
Capital lease obligations	<u>157,703</u>	<u>236,554</u>
Total liabilities	<u>3,778,270</u>	<u>2,425,925</u>
Net position:		
Net investment in capital assets	113,061	138,701
Restricted	1,290,823	1,209,200
Unrestricted	<u>9,811,814</u>	<u>9,985,670</u>
Net position	\$ <u>11,215,698</u>	<u>11,333,571</u>

The following table reflects the condensed statement of activities for the years ended June 30:

	<u>2018</u>	<u>2017</u>
Revenue:		
Assessments	\$ 14,467,798	14,948,212
Contributions	398,043	502,591
Grants	5,312,864	5,120,734
Other revenue	<u>214,746</u>	<u>167,090</u>
Total revenue	<u>20,393,451</u>	<u>20,738,627</u>
Expenditures:		
Program	18,190,573	17,907,668
Operating	<u>2,320,751</u>	<u>2,120,376</u>
Total expenditures	<u>20,511,324</u>	<u>20,028,044</u>
Change in net position	\$ <u>(117,873)</u>	<u>710,583</u>

## National Potato Promotion Board d/b/a Potatoes USA

### Management's Discussion and Analysis

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#### Revenue

##### General Fund

Potatoes USA collects assessments of \$.03 per hundred-weight of potatoes grown in the United States for human consumption. It also receives assessments based on the fresh weight equivalent of potatoes and potato products imported from foreign countries. Interest income is earned on Potatoes USA's reserve which is invested in money market funds and certificates of deposit.

The following table highlights the General Fund's revenue for the year ended June 30, 2018 as compared to the year ended June 30, 2017:

	<u>2018</u>	<u>2017</u>
Assessments	\$ 14,467,798	14,948,212
Contributions	398,043	502,591
Food Truck	75,550	115,613
Investment return	94,269	51,477
Other revenue	<u>44,927</u>	<u>—</u>
Total revenue	\$ <u>15,080,587</u>	<u>15,617,893</u>

- Potatoes USA recorded total assessments revenue of \$14.4 million during the year ended June 30, 2018. This is a decrease of \$480,414 from the year ended June 30, 2017.
- Investment return is generated from Potatoes USA's investments. Potatoes USA earned \$94,269 in the year ended June 30, 2018. This is an increase of \$42,792 from the year ended June 30, 2017.
- Potatoes USA 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. Contributions recognized during the year ended June 30, 2018 total \$398,043. Unspent amounts remaining at June 30, 2018 are reflected in the restricted fund balance.

##### MAP Fund

Potatoes USA 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 U.S. 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 \$4,826,422 for the year ended June 30, 2018 of which \$4,825,371 was expended under the new award and \$22,262 was expended under the previous award, compared to \$5,056,268 for the year ended June 30, 2017 of which \$4,768,221 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 for 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 for Quality Samples Program (QSP), which is designed to pay for commercially viable samples of U.S. agricultural products to be tested by end users in foreign countries.

Grants funded by USDA are primarily on a reimbursement basis.



# **National Potato Promotion Board d/b/a Potatoes USA**

## **Management's Discussion and Analysis**

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### **Capital Assets**

During the year ended June 30, 2018, Potatoes USA acquired \$13,957 of office furniture, leasehold improvements, vehicles, and equipment, bringing its capital asset balance to \$270,764 net of accumulated depreciation of \$557,837.

### **General Fund Budgetary Highlights**

The most significant budgeted fund is the General Fund.

	<u>Final Budget</u>	<u>Actual</u>
Beginning fund balance	\$ 11,194,870	11,194,870
Revenues	14,917,890	15,080,587
Expenditures	(16,041,772)	(15,172,820)
Ending fund balance	\$ <u>10,070,988</u>	<u>11,102,637</u>

The 2018 General Fund budget was amended during the year to include special projects and to ensure the budget categories aligned closely with actual expenditures as required by USDA.

### **Requests for Information**

Potatoes USA's financial statements are designed to present users with a general overview of Potatoes USA's finances and to demonstrate Potatoes USA's accountability. If there are any questions about the report or additional information is needed, please contact Potatoes USA, 4949 South Syracuse Street, Suite 400, Denver, Colorado 80237.

**National Potato Promotion Board d/b/a Potatoes USA**  
**Statement of Net Position and Governmental Funds Balance Sheet**  
**June 30, 2018**

	General Fund	MAP Fund	Nonmajor - Other Grants	Total	Adjustments	Statement of Net Position
<b>Assets:</b>						
Cash and cash equivalents (note 2) \$	1,080,179	1,328,681	—	2,408,860	—	2,408,860
Investments (note 2)	6,872,905	—	—	6,872,905	—	6,872,905
Assessments receivable	2,051,985	—	—	2,051,985	—	2,051,985
Claims receivable	—	2,864,769	306,390	3,171,159	—	3,171,159
Other receivables	83,514	—	—	83,514	—	83,514
Interfund balances (note 3)	2,584,070	—	—	2,584,070	(2,584,070)	—
Prepaid expenses	134,781	—	—	134,781	—	134,781
Capital assets (notes 4 and 6):						
Office furniture	—	—	—	—	122,265	122,265
Office equipment	—	—	—	—	323,721	323,721
Vehicles	—	—	—	—	382,615	382,615
Less accumulated depreciation	—	—	—	—	(557,837)	(557,837)
Capital assets, net	—	—	—	—	270,764	270,764
Total assets	<u>\$ 12,807,434</u>	<u>4,193,450</u>	<u>306,390</u>	<u>17,307,274</u>	<u>(2,313,306)</u>	<u>14,993,968</u>
<b>Liabilities:</b>						
Accounts payable	\$ 1,046,753	1,787,203	128,567	2,962,523	—	2,962,523
Accrued expenses	572,682	—	—	572,682	—	572,682
Interfund balances (note 3)	—	2,406,247	177,823	2,584,070	(2,584,070)	—
Deferred rent	85,362	—	—	85,362	—	85,362
Capital lease obligations (note 6)	—	—	—	—	157,703	157,703
Total liabilities	<u>1,704,797</u>	<u>4,193,450</u>	<u>306,390</u>	<u>6,204,637</u>	<u>(2,426,367)</u>	<u>3,778,270</u>
<b>Fund Balances/Net Position:</b>						
Fund balances:						
Non-spendable	134,781	—	—	134,781	(134,781)	—
Restricted	1,290,823	—	—	1,290,823	(1,290,823)	—
Assigned	2,327,834	—	—	2,327,834	(2,327,834)	—
Unassigned	7,349,199	—	—	7,349,199	(7,349,199)	—
Total fund balances	<u>11,102,637</u>	<u>—</u>	<u>—</u>	<u>11,102,637</u>	<u>(11,102,637)</u>	<u>—</u>
Commitments and contingencies (notes 5 through 9)	—	—	—	—	—	—
Total liabilities and fund balances	<u>\$ 12,807,434</u>	<u>4,193,450</u>	<u>306,390</u>	<u>17,307,274</u>		
<b>Net Position:</b>						
Net investment in capital assets					113,061	113,061
Restricted					1,290,823	1,290,823
Unrestricted					9,811,814	9,811,814
Total net position					<u>11,215,698</u>	<u>11,215,698</u>

See the accompanying notes to the financial statements.

**National Potato Promotion Board d/b/a Potatoes USA**  
**Statement of Activities and Governmental Fund Revenues, Expenditures, and Changes in Fund Balances**  
**Year Ended June 30, 2018**

	General Fund	MAP Fund	Nonmajor - Other Grants	Total	Adjust- ments	Statement of Net Activities
<b>Revenue:</b>						
Assessments	\$ 14,467,798	—	—	14,467,798	—	14,467,798
Contributions	398,043	—	—	398,043	—	398,043
Grants	—	4,847,633	465,231	5,312,864	—	5,312,864
Other revenue	214,746	—	—	214,746	—	214,746
<b>Total revenue</b>	<b>15,080,587</b>	<b>4,847,633</b>	<b>465,231</b>	<b>20,393,451</b>	<b>—</b>	<b>20,393,451</b>
<b>Expenditures:</b>						
Program	12,877,709	4,847,633	465,231	18,190,573	—	18,190,573
Personnel costs	1,350,923	—	—	1,350,923	—	1,350,923
Board travel	18,400	—	—	18,400	—	18,400
Staff and field operations travel	34,764	—	—	34,764	—	34,764
Professional services	151,313	—	—	151,313	—	151,313
Office	358,477	—	—	358,477	—	358,477
USDA user fees	180,546	—	—	180,546	—	180,546
Depreciation	—	—	—	—	118,448	118,448
Other	107,880	—	—	107,880	—	107,880
<b>Total current expenditures</b>	<b>15,080,012</b>	<b>4,847,633</b>	<b>465,231</b>	<b>20,392,876</b>	<b>118,448</b>	<b>20,511,324</b>
Capital outlay	92,808	—	—	92,808	(92,808)	—
<b>Total capital outlay</b>	<b>92,808</b>	<b>—</b>	<b>—</b>	<b>92,808</b>	<b>(92,808)</b>	<b>—</b>
<b>Total expenditures</b>	<b>15,172,820</b>	<b>4,847,633</b>	<b>465,231</b>	<b>20,485,684</b>	<b>25,640</b>	<b>20,511,324</b>
<b>Deficiency of revenue over expenditures</b>	<b>(92,233)</b>	<b>—</b>	<b>—</b>	<b>(92,233)</b>	<b>(25,640)</b>	<b>(117,873)</b>
<b>Fund balances at beginning of year</b>	<b>11,194,870</b>	<b>—</b>	<b>—</b>	<b>11,194,870</b>	<b>138,701</b>	<b>11,333,571</b>
<b>Fund balances at end of year</b>	<b>\$ 11,102,637</b>	<b>—</b>	<b>—</b>	<b>11,102,637</b>	<b>113,061</b>	<b>11,215,698</b>

See the accompanying notes to the financial statements.

**National Potato Promotion Board d/b/a Potatoes USA**  
**General Fund**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Budget and Actual**  
**Year Ended June 30, 2018**

	Original Budget	Final Budget	Actual	Variance From Final
<b>Revenue:</b>				
Assessments	\$ 14,000,000	14,300,000	14,467,798	167,798
Contributions	653,000	398,050	398,043	(7)
Other revenue	578,000	219,840	214,746	(5,094)
<b>Total revenue</b>	<u>15,231,000</u>	<u>14,917,890</u>	<u>15,080,587</u>	<u>162,697</u>
<b>Expenditures:</b>				
Program	14,446,819	13,795,072	12,877,709	917,363
Personnel services and benefits	1,417,709	1,400,000	1,350,923	49,077
Board travel	23,500	16,000	18,400	(2,400)
Staff and field operations travel	50,000	35,000	34,764	236
Professional services	85,750	155,000	151,313	3,687
Office	346,737	345,550	358,477	(12,927)
USDA user fees	201,836	184,800	180,546	4,254
Other	158,718	110,350	107,880	2,470
<b>Total current expenditures</b>	<u>16,731,069</u>	<u>16,041,772</u>	<u>15,080,012</u>	<u>961,760</u>
Capital outlay	<u>—</u>	<u>—</u>	<u>92,808</u>	<u>(92,808)</u>
<b>Total capital expenditures</b>	<u>—</u>	<u>—</u>	<u>92,808</u>	<u>(92,808)</u>
<b>Total expenditures</b>	<u>16,731,069</u>	<u>16,041,772</u>	<u>15,172,820</u>	<u>868,952</u>
<b>Deficiency of revenue over expenditures</b>	<u>\$ (1,500,069)</u>	<u>(1,123,882)</u>	<u>(92,233)</u>	<u>(1,031,649)</u>

See the accompanying notes to the financial statements.

**National Potato Promotion Board d/b/a Potatoes USA**  
**MAP Fund**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Budget and Actual**  
**Year Ended June 30, 2018**

	Original Budget	Final Budget	Actual	Variance From Final
<b>Revenue:</b>				
Grants	\$ 4,848,684	4,848,684	4,847,633	(1,051)
<b>Total revenue</b>	<u>4,848,684</u>	<u>4,848,684</u>	<u>4,847,633</u>	<u>(1,051)</u>
<b>Expenditures:</b>				
Program	<u>4,848,684</u>	<u>4,848,684</u>	<u>4,847,633</u>	<u>1,051</u>
<b>Total expenditures</b>	<u>4,848,684</u>	<u>4,848,684</u>	<u>4,847,633</u>	<u>1,051</u>
<b>Excess of revenue over     expenditures</b>	\$ <u>          —</u>	<u>          —</u>	<u>          —</u>	<u>          —</u>

See the accompanying notes to the financial statements.

# **National Potato Promotion Board d/b/a Potatoes USA**

## **Notes to Financial Statements**

**June 30, 2018**

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### **(1) Summary of Significant Accounting Policies**

#### **(a) General**

The National Potato Promotion Board d/b/a Potatoes USA, 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.

Potatoes USA follows the Government 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. Potatoes USA does not have any component units.

Potatoes USA 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.

#### **(b) Basis of Accounting and Financial Statement Presentation**

##### *Government-Wide Statements*

Because Potatoes USA 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 Potatoes USA. Interfund activity, if any, has been removed from these statements.

The government-wide financial statements are designed to distinguish functions of Potatoes USA 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). Potatoes USA has no business-type activities.

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

# National Potato Promotion Board d/b/a Potatoes USA

## Notes to Financial Statements

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### **(1) Summary of Significant Accounting Policies, Continued**

#### **(b) Basis of Accounting and Financial Statement Presentation, Continued**

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

Potatoes USA utilizes two types of governmental funds. The General Fund is Potatoes USA's main operating fund. It accounts for all financial resources of Potatoes USA 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. Potatoes USA's Special Revenue Funds include the Market Access Program (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*

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.

Government 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.

#### **(c) Use of Estimates**

The preparation 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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

# **National Potato Promotion Board d/b/a Potatoes USA**

## **Notes to Financial Statements**

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### **(1) Summary of Significant Accounting Policies, Continued**

#### **(d) 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. Cash and cash equivalents may include cash on hand, demand deposits, and savings accounts.

#### **(e) Investments**

Investments consist of money market accounts and certificates of deposit and are carried at fair value in the governmental funds balance sheet and statement of net position.

#### **(f) Concentrations of Credit Risk**

Financial instruments which potentially subject Potatoes USA to concentrations of credit risk consist principally of cash and cash equivalents and investments. Potatoes USA's bank accounts at year-end were entirely covered by federal depository insurance or collateral held by Potatoes USA's custodial banks under provisions of the Colorado Public Deposit Protection Act (PDPA).

PDPA requires financial institutions to pledge collateral having a market value of at least 102% of the aggregate public deposits not insured by federal depository insurance. Eligible collateral includes municipal bonds, U.S. government securities, mortgages, and deeds of trust.

State statutes authorize Potatoes USA to invest in obligations of the U.S. Treasury and U.S. agencies, obligations of the State of Colorado or of any county, school district, and certain towns and cities therein, notes or bonds secured by insured mortgages or trust deeds, obligations of national mortgage associations, and certain repurchase agreements and money market funds.

Potatoes USA is also required to follow the Agricultural Marketing Service (AMS) investment policy, which defines the types of investments Potatoes USA can purchase and the collateral requirements for Potatoes USA's cash and investments. Potatoes USA utilizes Zions National Bank as its investment custodian.

Board policy requires that there always be funds on hand sufficient to liquidate all of the outstanding obligations of Potatoes USA as of June 30 of each year after considering anticipated accounts receivable due to Potatoes USA. At June 30, 2018, Potatoes USA was in compliance with this requirement.

#### **(g) Budgets**

Potatoes USA'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 U.S. GAAP as capital outlays are not budgeted.

#### **(h) Revenue Recognition**

Assessments are recognized as revenue in the period to which the assessment relates. Grant revenue is recognized as expenditures occur.



# National Potato Promotion Board d/b/a Potatoes USA

## Notes to Financial Statements

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### **(1) Summary of Significant Accounting Policies, Continued**

#### **(i) 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 from other funds and due to other funds.

#### **(j) Prepaid Expenses**

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.

#### **(k) Capital Assets**

Potatoes USA capitalizes property and equipment with an initial cost, or fair value if donated, over \$500 and an estimated useful life of more than one year. Assets purchased for ownership by the government, the use of which benefits Potatoes USA, are not capitalized. Costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from three to ten years.

#### **(l) Fund Equity**

In the fund financial statements, governmental funds report restrictions of fund balance for amounts that are legally restricted by law or outside parties for use for specific purposes.

Restrictions for Potatoes USA are recorded up to the maximum equity available in the fund balance and consist of:

##### *Non-spendable fund balance*

These funds cannot be spent because they are either not in spendable form (such as prepaid expenses) or legally or contractually required to be maintained intact. Potatoes USA's non-spendable fund balance at June 30, 2018 is \$134,781 and consists of prepaid insurance, advance payments to vendors, and a lease deposit.

##### *Restricted fund balance*

These restrictions are established by external parties (such as grantors), constitutional provisions, or legislation and require the funds to be used for a specific purpose. Aggregate unspent contributions made to the National Fry and National Chip Processor Trials comprise Potatoes USA's restricted fund balance, which totals \$1,290,823 at June 30, 2018.

##### *Committed fund balance*

These are funds that are constrained for specific purposes according to limitations imposed by the Board of Directors prior to the end of the fiscal year. Committed funds may be removed or changed only through formal action of the Board of Directors. Potatoes USA has no committed fund balance as of June 30, 2018.

# National Potato Promotion Board d/b/a Potatoes USA

## Notes to Financial Statements

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### **(1) Summary of Significant Accounting Policies, Continued**

#### **(l) Fund Equity, Continued**

##### *Assigned fund balance*

Assigned fund balances are amounts Potatoes USA intends to use for specific purposes. Intent can be expressed by the Board of Directors or by an official to which Potatoes USA delegates authority. Restricted funds are considered to be spent first followed by assigned and unassigned for an expenditure for which any could be used.

The Board of Directors has established a cash reserve of \$500,000 to satisfy the requirements of a USDA mandate and has allocated an additional \$1,500,000 for a total cash reserve of \$2,000,000. These funds are designated to wind down the business of Potatoes USA if it were to ever go out of existence. In addition to the USDA-mandated cash fund, Potatoes USA has also assigned the proceeds from chipping potato seed sales to support the NCPT program. At June 30, 2018, the assigned seed proceeds have a total balance of \$327,834.

##### *Unassigned fund balance*

All funds that do not meet any of the criteria above are considered unassigned. Potatoes USA will only report a positive unassigned fund balance in the General Fund.

#### **(m) Deferred Rent**

Deferred rent represents the unamortized portion of lessor incentives (free rent and escalating rental payments) received in conjunction with Potatoes USA's office lease. Potatoes USA amortizes deferred rent over the life of the lease.

#### **(n) Income Taxes**

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

#### **(o) Subsequent Events**

Management is required to evaluate, through the date the financial statements are issued or available to be issued, events or transactions that may require recognition or disclosure in the financial statements, and to disclose the date through which subsequent events were evaluated. Potatoes USA's financial statements were available to be issued on January 8, 2019, and this is the date through which subsequent events were evaluated.

### **(2) Cash and Cash Equivalents and Investments**

At June 30, 2018, the carrying value of Potatoes USA's cash and investments are reflected in the financial statements as follows:

Cash and cash equivalents	\$ 2,408,860
Investments	<u>6,872,905</u>
Total cash and investments	<u>\$ 9,281,765</u>

# National Potato Promotion Board d/b/a Potatoes USA

## Notes to Financial Statements

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### (2) Cash and Cash Equivalents and Investments, Continued

Potatoes USA's bank balances and investments are collateralized as follows:

FDIC insured bank deposits	\$ 250,000
Collateralized bank deposits	2,158,860
Money market fund	4,380,045
Short-term investments	1,262,006
Long-term investments*	<u>1,230,854</u>
Total cash and investments	<u>\$ 9,281,765</u>

\*On September 14, 2017, AMS granted Potatoes USA an exception to the current investment policy permitting Potatoes USA to extend investment maturities past the one-year limit to a maximum of five years. These long-term investments still adhere to insurance limits and risk-adverse requirements as stated in the AMS Investment policy.

At June 30, 2018, short-term investments are invested in a money market fund that bears an interest rate of 1.78% and certificates of deposits that bear interest rates ranging from 1.48% to 1.50%. At June 30, 2018, long-term investments are invested in certificates of deposit that bear interest rates ranging from 1.70% to 2.40%.

Potatoes USA 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. 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. At June 30, 2018, all short-term investments are valued at Level 1 inputs under the fair value hierarchy.

At June 30, 2018, Potatoes USA held \$4,380,045 in the Federal Government Obligations Money Market fund at Zions Bank. This investment cannot be categorized since it is not evidenced by specific securities. The investment is rated AAAM by Standard and Poor's. The approximate net asset value at June 30, 2018 is \$4,380,045.

### (3) Interfund Transactions

Potatoes USA 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 Statement of Net Position for the governmental funds. The purpose of the interfund balances is to cover cash flow needs until a 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, 2018, the following balances were due between funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	MAP Fund	\$ 2,406,247
General Fund	Other Grants Funds	<u>177,823</u>
		<u>\$ 2,584,070</u>

# National Potato Promotion Board d/b/a Potatoes USA

## Notes to Financial Statements

### (4) Capital Assets

Capital assets activity during the year ended June 30, 2018 included the following:

	July 1, <u>2017</u>	<u>Additions</u>	<u>Disposals</u>	June 30, <u>2018</u>
Office furniture	\$ 108,843	13,422	—	122,265
Office equipment	323,186	535	—	323,721
Vehicles	<u>382,615</u>	<u>—</u>	<u>—</u>	<u>382,615</u>
Total capital assets	814,644	13,957	—	828,601
Less accumulated depreciation	<u>(439,389)</u>	<u>(118,448)</u>	<u>—</u>	<u>(557,837)</u>
Capital assets, net	<u>\$ 375,255</u>	<u>(104,491)</u>	<u>—</u>	<u>270,764</u>

### (5) Operating Leases

Potatoes USA is obligated under various operating leases for equipment and office space that expire through 2023. Future minimum rental payments under these leases are as follows for the year ended June 30, 2018:

2019	\$ 205,040
2020	209,233
2021	201,281
2022	199,402
2023	<u>151,909</u>
Total	<u>\$ 966,865</u>

Total lease expense for the year ended June 30, 2018 was \$204,396.

### (6) Capital Lease Obligations

Potatoes USA leases vehicles under various agreements that are classified as capital leases. The cost of these vehicles under capital leases totals \$382,615 at June 30, 2018 and have been included in capital assets – vehicles. Amortization expense for the year ended June 30, 2018 was \$78,851 and has been included in depreciation expense.

The future minimum lease payments under the capital leases for the years ended June 30 are as follows:

2019	\$ 78,852
2020	<u>78,851</u>
Total	<u>\$ 157,703</u>

### (7) Retirement Plan

Effective July 1, 1990, Potatoes USA established a defined contribution, profit sharing plan (the Plan) administered by The Standard. The Plan covers all employees and requires no minimum funding standards and can be amended by the Board of Directors. The employer contribution is currently 8% of employees' salaries. The Plan allows employees to contribute up to the maximum IRS limit. For the year ended June 30, 2018, Potatoes USA contributed \$247,457 to the Plan.

# National Potato Promotion Board d/b/a Potatoes USA

## Notes to Financial Statements

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### **(8) Commitment and Contingencies**

Potatoes USA has contracted with independent representatives in Indonesia, Taiwan, Myanmar, Japan, South Korea, 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 from July 1, 2017 to June 30, 2018. Contracts are negotiated annually and are expected to be renewed for the next fiscal year.

Should Potatoes USA not properly administer MAP funds pursuant to the MAP regulations as interpreted by the FAS, Potatoes USA's General Fund would be responsible to repay the U.S. government. Management believes the MAP Fund is being administered in accordance with MAP regulations and that any such liability is unlikely.

Potatoes USA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries; and natural disasters. Potatoes USA purchases commercial insurance for risks of loss in excess of deductible amounts. Settled claims have not exceeded this coverage in any of the past three fiscal years.

### **(9) Advances to Market Access Program**

Potatoes USA is the cooperator, with assistance of the USDA Foreign Agricultural Service (FAS), in receiving and managing the MAP Fund. Potatoes USA is responsible for properly administering approximately \$4.8 million of these funds. MAP regulations require that, after the first 90 days, Potatoes USA must first disburse the funds under the program, then request reimbursement from the U.S. government. To meet these short-term cash needs, Potatoes USA 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, 2018, no amounts were due to FAS.

### **(10) Reconciliation of Statement of Net Position and Governmental Funds Balance Sheet**

The Statement of Net Position and Governmental Funds Balance Sheet includes an adjustment between Fund Balance – Total Governmental Funds and Net Position for capital assets and leases. Capital assets and leases used in governmental activities are not financial resources and, therefore, are not reported in the Governmental Funds Balance Sheet.

Fund balance of Governmental Funds	\$ 11,102,637
Capital assets used in governmental activities not reported in the Governmental Funds	270,764
Capital lease obligations	<u>(157,703)</u>
Total net position	\$ <u>11,215,698</u>

**National Potato Promotion Board d/b/a Potatoes USA**  
**Notes to Financial Statements**

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**(11) Reconciliation of Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balances**

The Statement of Activities and Governmental Fund Revenues, Expenditures, and Changes in Fund Balances 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, depreciation, and capital leases.

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.

Year ended June 30, 2018:

Net change in fund balance – Governmental Funds	\$ (92,233)
Depreciation and capital outlay	(104,491)
Principal portion of lease payments	<u>78,851</u>
Change in net position of Governmental Activities	\$ ( <u>117,873</u> )

**National Potato Promotion Board d/b/a Potatoes USA**  
**Statement of Cash Flows, General Fund**  
**Year Ended June 30, 2018**

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**Cash flows from operating activities:**

Decrease in net position	\$ (92,233)
Adjustments to reconcile decrease in net position to net cash provided by operating activities:	
Net realized and unrealized gains on investments	(518)
Purchases of capital assets	13,957
Net payments on capital leases	78,851
(Increase) decrease in operating assets:	
Assessments receivable	(258,024)
Other receivables	44,919
Prepaid expenses	(70,511)
Increase in operating liabilities:	
Accounts payable	799,953
Accrued liabilities	173,731
Deferred rent	11,899
	<u>702,024</u>
Net cash provided by operating activities	<u>702,024</u>

**Cash flows from investing activities:**

Purchases of capital assets	<u>(13,957)</u>
Net cash used in investing activities	<u>(13,957)</u>

**Cash flows from financing activities:**

Purchases of investments	165,432
Principal payments on capital leases	(78,851)
Decrease in due from other funds	<u>(506,157)</u>
Net cash used in financing activities	<u>(419,576)</u>

<b>Increase in cash and cash equivalents</b>	<b>268,491</b>
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<b>Cash and cash equivalents at beginning of year</b>	<b><u>811,688</u></b>
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<b>Cash and cash equivalents at end of year</b>	<b><u><u>\$ 1,080,179</u></u></b>
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See the accompanying notes to the financial statements.

**National Potato Promotion Board d/b/a Potatoes USA**  
**Statement of Cash Flows, MAP Fund**  
**Year Ended June 30, 2018**

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<b>Cash flows from operating activities:</b>	
Change in net position	\$ —
Adjustments to reconcile increase in net position to net cash provided by operating activities:	
Increase in operating assets:	
Claims receivable	(7,737)
Increase in operating liabilities:	
Accounts payable	<u>434,658</u>
Net cash provided by operating activities	<u>426,921</u>
<b>Cash flows from financing activities:</b>	
Increase in due to other funds	<u>421,502</u>
Net cash provided by financing activities	<u>421,502</u>
<b>Increase in cash and cash equivalents</b>	848,423
<b>Cash and cash equivalents at beginning of year</b>	<u>480,258</u>
<b>Cash and cash equivalents at end of year</b>	<u><u>\$ 1,328,681</u></u>

See the accompanying notes to the financial statements.



**National Potato Promotion Board d/b/a Potatoes USA**  
**Schedule of Program Expenditures, General Fund**  
**Budget and Actual**  
**Year Ended June 30, 2018**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>Marketing</b>			
Consumer	\$ 2,131,391	2,051,799	79,592
Food Service	1,035,195	1,003,482	31,713
Digital/Measurement	125,000	123,267	1,733
Ingredients	426,478	365,904	60,574
Retail	603,718	558,634	45,084
Reputation Management	80,000	89,202	(9,202)
Research and Analysis	538,000	572,851	(34,851)
Program Implementation	2,203,770	2,092,613	111,157
International	2,821,448	2,479,179	342,269
<b>Total Marketing</b>	9,965,000	9,336,931	628,069
<b>Research and Analysis</b>			
Potato Research Advisory Committee	40,000	29,712	10,288
Alliance for Potato Research and Education	500,000	500,000	—
Administrative Expenses	221,676	248,755	(27,079)
National Fry Processor Trials	243,323	215,758	27,565
National Chip Program	996,758	776,906	219,852
<b>Total Research and Analysis</b>	2,001,757	1,771,131	230,626
<b>Industry Outreach</b>			
Program Implementation	32,850	26,040	6,810
Potato Industry Leadership Institute	500	178	322
Industry Committee and Grower Relations	287,000	256,745	30,255
Policy	5,650	1,092	4,558
State and National Partnering	32,000	28,518	3,482
<b>Total Industry Outreach</b>	358,000	312,573	45,427
<b>National Chip Processor Trials</b>	115,000	115,000	—
<b>Sponsorships</b>	12,895	12,895	—
<b>Contingency Fund</b>	4,300	4,300	—

*(Continued)*

**National Potato Promotion Board d/b/a Potatoes USA**  
**Schedule of Program Expenditures, General Fund (Continued)**  
**Budget and Actual**  
**Year Ended June 30, 2018**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>Annual Meeting</b>	\$ 140,880	145,871	(4,991)
<b>Board Member</b>	63,100	62,948	152
<b>Administrative Committee</b>	140,000	139,560	440
<b>Executive Committee</b>	139,000	139,641	(641)
<b>Special Projects</b>	458,000	445,326	12,674
<b>Food Trucks</b>	393,500	387,894	5,606
<b>Check-off Coalition</b>	3,640	3,639	1
<b>Total Program Expenditures</b>	<u>\$ 13,795,072</u>	<u>12,877,709</u>	<u>917,363</u>

**National Potato Promotion Board d/b/a Potatoes USA**  
**Schedule of Administrative Expenditures, General Fund**  
**Budget and Actual**  
**Year Ended June 30, 2018**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Personnel costs	\$ 1,400,000	1,350,923	49,077
Board travel	16,000	18,400	(2,400)
Staff and field operations travel	35,000	34,764	236
Professional services	155,000	151,313	3,687
Office expenses	175,550	178,830	(3,280)
Office lease	170,000	179,647	(9,647)
USDA user fees	184,800	180,546	4,254
Other operating expenses	<u>110,350</u>	<u>107,880</u>	<u>2,470</u>
Total administrative expenditures	<u>\$ 2,246,700</u>	<u>2,202,303</u>	<u>44,397</u>
<b>Reconciliation to U.S. GAAP basis</b>			
Capital outlay		<u>92,808</u>	
Total administrative expenditures per statement of activities		<u>2,295,111</u>	

**National Potato Promotion Board d/b/a Potatoes USA**  
**Schedule of Program Expenditures, MAP Fund**  
**Budget and Actual**  
**Year Ended June 30, 2018**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>Marketing Year 2017 Expenditures Incurred in Fiscal Year 2018</b>			
China			
Foodservice	\$ 270,000	281,202	(11,202)
Retail	85,000	85,004	(4)
Consumer/PPM	55,000	68,054	(13,054)
Market Access & Implementation	<u>31,398</u>	<u>13,885</u>	<u>17,513</u>
Total China	441,398	448,145	(6,747)
Mexico			
Foodservice	236,000	227,214	8,786
Retail	131,000	126,202	4,798
Ingredient	80,000	74,586	5,414
Consumer/PPM	75,000	80,006	(5,006)
Market Access & Implementation	<u>50,000</u>	<u>42,874</u>	<u>7,126</u>
Total Mexico	572,000	550,882	21,118
Japan			
Foodservice	440,000	318,709	121,291
Ingredient	120,000	150,406	(30,406)
Consumer/PPM	<u>73,000</u>	<u>71,777</u>	<u>1,223</u>
Total Japan	633,000	540,892	92,108
South Korea			
Foodservice	265,000	294,926	(29,926)
Retail	60,000	62,888	(2,888)
Ingredient	95,000	117,657	(22,657)
Consumer/PPM	<u>61,000</u>	<u>77,099</u>	<u>(16,099)</u>
Total South Korea	\$ 481,000	552,570	(71,570)

*(Continued)*

**National Potato Promotion Board d/b/a Potatoes USA**  
**Schedule of Program Expenditures, MAP Fund (Continued)**  
**Budget and Actual**  
**Year Ended June 30, 2018**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>Marketing Year 2017 Expenditures Incurred in Fiscal Year 2018</b>			
Philippines			
Foodservice	\$ 215,000	220,744	(5,744)
Retail	85,000	78,562	6,438
Ingredient	110,000	99,861	10,139
Consumer/PPM	<u>50,000</u>	<u>48,242</u>	<u>1,758</u>
Total Philippines	460,000	447,409	12,591
Taiwan			
Foodservice	135,000	153,822	(18,822)
Retail	85,000	88,411	(3,411)
Consumer/PPM	48,000	56,561	(8,561)
Market Access & Implementation	<u>15,000</u>	<u>7,161</u>	<u>7,839</u>
Total Taiwan	283,000	305,955	(22,955)
Thailand			
Foodservice	135,000	144,067	(9,067)
Ingredient	<u>20,000</u>	<u>22,914</u>	<u>(2,914)</u>
Total Thailand	155,000	166,981	(11,981)
Indonesia			
Foodservice	100,000	51,413	48,587
Ingredient	<u>20,000</u>	<u>709</u>	<u>19,291</u>
Total Indonesia	120,000	52,122	67,878
Malaysia			
Foodservice	155,000	206,500	(51,500)
Retail	75,000	93,607	(18,607)
Ingredient	60,000	88,730	(28,730)
Consumer/PPM	<u>53,000</u>	<u>63,144</u>	<u>(10,144)</u>
Total Malaysia	\$ 343,000	451,981	(108,981)

*(Continued)*

**National Potato Promotion Board d/b/a Potatoes USA**  
**Schedule of Program Expenditures, MAP Fund (Continued)**  
**Budget and Actual**  
**Year Ended June 30, 2018**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>Marketing Year 2017 Expenditures Incurred in Fiscal Year 2018</b>			
Central America			
Foodservice	\$ 282,000	276,296	5,704
Retail	145,000	145,399	(399)
Ingredient	20,000	23,856	(3,856)
Consumer/PPM	<u>50,000</u>	<u>71,260</u>	<u>(21,260)</u>
Total Central America	497,000	516,811	(19,811)
Vietnam			
Foodservice	135,000	121,814	13,186
Retail	80,000	67,104	12,896
Ingredient	60,000	36,206	23,794
Consumer/PPM	<u>602</u>	<u>602</u>	<u>—</u>
Total Vietnam	275,602	225,726	49,876
Myanmar			
Foodservice	100,000	91,982	8,018
Retail	40,000	37,302	2,698
Ingredient	<u>30,000</u>	<u>27,572</u>	<u>2,428</u>
Total Myanmar	170,000	156,856	13,144
Global Evaluation			
Rep Meeting	97,422	114,522	(17,100)
Market Maintenance	18,000	—	18,000
Market Evaluation	20,000	22,462	(2,462)
Market Research	<u>60,000</u>	<u>62,016</u>	<u>(2,016)</u>
Total Evaluation	\$ 195,422	199,000	(3,578)

*(Continued)*

**National Potato Promotion Board d/b/a Potatoes USA**  
**Schedule of Program Expenditures, MAP Fund (Continued)**  
**Budget and Actual**  
**Year Ended June 30, 2018**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>Marketing Year 2017 Expenditures Incurred in Fiscal Year 2018</b>			
SEED PROMOTION			
Global Resources			
International Organizations	\$ 15,000	13,728	1,272
International Promotions	5,000	4,891	109
Market Access	5,000	6,389	(1,389)
Market Maintenance	<u>45,000</u>	<u>43,277</u>	<u>1,723</u>
Total Global Resources	70,000	68,285	1,715
Guatemala			
Market Access	5,000	8,160	(3,160)
Market Development	5,000	1,140	3,860
Reverse Trade Mission	22,500	26,245	(3,745)
Trade Education	<u>5,000</u>	<u>8,389</u>	<u>(3,389)</u>
Total Guatemala	37,500	43,934	(6,434)
Morocco			
Market Access	5,000	2,040	2,960
Market Development	10,000	4,418	5,582
Reverse Trade Mission	25,000	18,029	6,971
Trade Education	<u>5,000</u>	<u>1,579</u>	<u>3,421</u>
Total Morocco	45,000	26,066	18,934
Myanmar			
Market Access	5,000	2,040	2,960
Market Development	5,000	17,554	(12,554)
Reverse Trade Mission	30,000	51,505	(21,505)
Trade Education	<u>7,500</u>	<u>657</u>	<u>6,843</u>
Total Myanmar	47,500	71,756	(24,256)
Total Seed Promotion	<u>200,000</u>	<u>210,041</u>	<u>(10,041)</u>
<b>Marketing Year 2017 Expenditures</b>	<b>\$ <u>4,826,422</u></b>	<b><u>4,825,371</u></b>	<b><u>1,051</u></b>

**National Potato Promotion Board d/b/a Potatoes USA**  
**Schedule of Program Expenditures, MAP Fund (Continued)**  
**Budget and Actual**  
**Year Ended June 30, 2018**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>Marketing Year 2016 Expenditures Incurred in Fiscal Year 2018</b>			
Malaysia			
Foodservice	\$ 11,162	11,162	—
Philippines			
Ingredient	6,000	6,000	—
Myanmar			
Seed Reverse Trade Mission	1,700	1,700	—
Guatemala			
Seed Reverse Trade Mission	1,700	1,700	—
Morocco			
Seed Reverse Trade Mission	1,700	1,700	—
<b>Marketing Year 2016 Expenditures</b>	<b>\$ 22,262</b>	<b>22,262</b>	<b>—</b>
<b>Total Expenditures</b>	<b>\$ 4,848,684</b>	<b>4,847,633</b>	<b>1,051</b>



**National Potato Promotion Board d/b/a Potatoes USA**  
**Schedule of Program Expenditures, QSP Program**  
**Budget and Actual**  
**Year Ended June 30, 2018**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>Agreement 2017-04 (Expires 6/30/2019)</b>			
Central America Fresh Potato Samples			
Chip – stock	\$ 25,000	12,100	12,900
Indonesia Dehydrated Potato Product Samples	3,000	–	3,000
Japan Product Sampling - Ingredient	7,000	1,803	5,197
South Korea Dehydrated Potato Product Samples	4,000	6,158	(2,158)
Mexico Dehydrated & Fresh Chip–Stock			
Potato Samples	10,000	6,561	3,439
Malaysia Dehydrated Potato Product Samples	4,000	4,300	(300)
Philippines Dehydrated Potato Product Samples	15,000	16,363	(1,363)
Thailand Dehydrated Potato Product Samples	3,000	–	3,000
Vietnam Dehydrated Potato Product Samples	5,000	2,770	2,230
Myanmar Seed Potato Variety Trial Samples	45,000	16,644	28,356
Burma/Myanmar Potato Product Samples	15,000	5,100	9,900
Guatemala Seed Potato Variety Trial Samples	45,000	18,057	26,943
Morocco Seed Potato Variety Trial Samples	25,000	24,545	455
Latin America Samples	15,000	–	15,000
 <b>Total Expenditures</b>	 \$ <u>221,000</u>	 <u>114,401</u>	 <u>106,599</u>

**National Potato Promotion Board d/b/a Potatoes USA**  
**Schedule of Program Expenditures, EMP Program**  
**Budget and Actual**  
**Year Ended June 30, 2018**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>Agreement # 2014-18 (Expires 6/30/2019)</b>			
Introduction of Fresh Product in Mexico	\$ 85,000	—	85,000
<b>Agreement # 2014-25 (Expires 6/30/2019)</b>			
Market Assessments - Myanmar	17,953	—	17,953
Market Assessments - Guatemala	26,598	—	26,598
Market Assessments - Morocco	28,249	—	28,249
Variety Trials - Myanmar	28,438	33,111	(4,673)
Variety Trials - Guatemala	13,808	27,099	(13,291)
Variety Trials - Morocco	57,517	31,607	25,910
	<u>172,564</u>	<u>91,817</u>	<u>80,746</u>
<b>Total Expenditures</b>	<u><u>\$ 257,564</u></u>	<u><u>91,817</u></u>	<u><u>165,746</u></u>

**National Potato Promotion Board d/b/a Potatoes USA**  
**Schedule of Program Expenditures, TASC Program**  
**Budget and Actual**  
**Year Ended June 30, 2018**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>Agreement # 2013-09 (Expired 6/30/2018)</b>			
Pathogen Biology	\$ 45,287	13,036	32,251
<b>Agreement # 2013-35 (Expires 9/30/2018)</b>			
Official Visits for Market Access	8,151	7,896	255
<b>Agreement # 2015-18 (Expired 7/31/2017)</b>			
Potato Rot Policies	73,000	—	73,000
<b>Agreement # 2016-08 (Expires 6/30/2019)</b>			
Zebra Chip (ZC) and Potato Exports	383,106	172,870	210,236
<b>Agreement # 2016-03 (Expires 7/31/2019)</b>			
Official Visits for Market Access	90,200	65,211	24,989
<b>Total Expenditures</b>	<b>\$ 599,744</b>	<b>259,013</b>	<b>340,731</b>

**National Potato Promotion Board d/b/a Potatoes USA**  
**Schedule of Capital Assets**  
**Year Ended June 30, 2018**

Date of Purchase	Item	Cost
<b>Office furniture</b>		
June 2018	Dishwasher	\$ 955
June 2018	Standing desk	657
March 2018	Flatware	3,255
September 2017	Furniture	1,544
September 2017	Furniture	810
August 2017	Furniture	4,020
August 2017	Furniture	1,131
July 2017	Standing Desks	1,050
June 2017	Office furniture	1,655
May 2017	Office furniture	4,026
May 2017	Office furniture	628
May 2017	Office furniture	591
January 2017	Standing desks	990
September 2016	Key technology	750
June 2016	Standing desks	1,110
April 2015	Key technology	535
October 2014	Modular furniture	2,710
October 2014	Leasehold improvements - build-out construction	29,124
July 2014	Leasehold improvements - design	2,828
April 2013	Office artwork	1,700
April 2013	Office chairs	3,440
January 2013	18 office chairs	4,000
January 2013	Conference table and chairs	7,010
July 2008	Chairs	346
June 2008	Server rack	1,273
May 2008	Four office chairs	445
September 2007	Conference and lobby chairs	2,365
September 2007	Kitchen refrigerator	743
November 2006	File cabinets and shelves	957
August 2004	Aeron chair	650
July 2003	Desk and two chairs	620
February 2002	Modular furniture and installation	4,000
April 2000	2 desks, conference table, 5 desk chairs	1,967
December 1993	12 chairs, 7 steno chairs, conference table	3,610

*(Continued)*

**National Potato Promotion Board d/b/a Potatoes USA**  
**Schedule of Capital Assets (Continued)**  
**Year Ended June 30, 2018**

Date of Purchase	Item	Cost
<b>Office furniture</b>		
December 1993	Two executive chairs	\$ 550
September 1991	Desk, credenza, file, three chairs	5,050
January 1990	Lateral file	395
June 1989	Two walnut display frames	800
September 1989	Computer table	103
June 1989	Blue living room chair	275
June 1989	Blue loveseat	629
June 1989	Blue wingback chair	309
June 1989	Brass and glass end table	159
December 1988	Black leather sofa	1,255
June 1987	Gray metal shelving	512
June 1987	Gray metal shelving	512
June 1987	Gray metal shelving	512
December 1986	Cylinder base glass table	390
December 1986	Oak and glass bookcases	820
September 1986	Upholstery for chairs	345
September 1986	Reupholster chairs	2,248
July 1986	Chair, desk and file cabinet	1,400
June 1986	Terminal table	294
October 1985	Executive chair	858
August 1985	Conference chair	296
August 1985	Conference chair	296
August 1985	Conference chair	296
August 1985	Conference chair	296
August 1985	Conference chair	296
August 1985	Conference chair	296
August 1985	Conference chair	296
August 1985	Conference chair	296
August 1985	Conference chair	296
August 1985	Printer table	233
December 1984	Work table	143
December 1984	Steno chair	171
November 1984	Credenza	601

*(Continued)*

**National Potato Promotion Board d/b/a Potatoes USA**  
**Schedule of Capital Assets (Continued)**  
**Year Ended June 30, 2018**

Date of Purchase	Item	Cost
<b>Office furniture</b>		
October 1984	Office chair	\$ 244
October 1978	Typewriter table	185
October 1978	Westinghouse work chair	143
October 1978	Westinghouse work chair	143
October 1978	Bookcase	114
October 1978	Work table	119
September 1977	Steno desk	498
September 1977	Four drawer lateral file	378
September 1977	Work table	155
June 1977	Four drawer lateral file	466
June 1977	Walnut credenza	322
June 1975	Steno desk - left	397
March 1975	Five drawer lateral file	419
March 1975	Five drawer lateral file	419
March 1975	Five drawer lateral file	419
March 1975	Five drawer lateral file	419
October 1974	Steno desk	418
September 1974	Executive desk	380
September 1974	Four drawer file cabinet	122
September 1974	Four drawer file cabinet	122
September 1974	Four drawer file cabinet	122
September 1974	Four drawer file cabinet	122
September 1974	Four drawer file cabinet	122
September 1974	Four drawer file cabinet	122
November 1973	Two drawer lateral file	175
November 1973	Two drawer lateral file	175
September 1973	Credenza	297
September 1973	Five drawer lateral file	333
February 1973	Four drawer file cabinet	101
February 1973	Four drawer file cabinet	101
January 1973	Four drawer file cabinet	101
January 1973	Four drawer file cabinet	101
January 1973	Four drawer file cabinet	101
October 1972	Executive desk	500

*(Continued)*

**National Potato Promotion Board d/b/a Potatoes USA**  
**Schedule of Capital Assets (Continued)**  
**Year Ended June 30, 2018**

<u>Date of Purchase</u>	<u>Item</u>	<u>Cost</u>
<b>Office furniture</b>		
October 1972	Credenza	\$ 445
August 1972	Two drawer lateral file	175
August 1972	Three drawer wood cabinet	115
July 1972	Executive chair	159
	<b>Total furniture</b>	<u>\$ 122,265</u>
<b>Office equipment</b>		
August 2017	Telephone	\$ 535
June 2017	Television	1,165
May 2017	Dell computer	600
December 2016	Dell computer	600
December 2016	Dell computer	384
December 2016	Sanity solutions	1,848
November 2016	Live consulting	694
October 2016	Dell computer	388
September 2016	Live consulting	1,226
September 2016	Live consulting	1,879
September 2016	Computer equipment	739
June 2016	Computers	95
May 2016	Conference room equipment	5,300
May 2016	Northstar-network	875
April 2016	Dell computer	40
April 2016	Dell computer	696
March 2016	Computers	495
March 2016	Northstar-network	4,099
March 2016	Dell computer	3,063
March 2016	Associate technology solutions	4,334
February 2016	Sanity solutions	25,415
February 2016	Computers	1,831
January 2016	Sanity solutions	2,509
January 2016	Northstar - network	4,456
January 2016	Computer	2,964
December 2015	Sanity solutions	6,912
November 2015	Northstar - network	4,026

*(Continued)*

**National Potato Promotion Board d/b/a Potatoes USA**  
**Schedule of Capital Assets (Continued)**  
**Year Ended June 30, 2018**

<u>Date of Purchase</u>	<u>Item</u>	<u>Cost</u>
<b>Office equipment</b>		
September 2015	Computer	\$ 1,864
July 2015	Computers	3,037
May 2015	Computer installations - Northstar	2,107
April 2015	Dell docking station and webcams	2,036
March 2015	Three Microsoft Surface Pros	6,539
December 2014	Polycom conference phone	717
October 2014	Laptop installations - Northstar	1,323
September 2014	Docking stations and computer	1,043
September 2014	Four monitor stands	1,770
September 2014	E7440 laptop	2,680
August 2014	Apple computer	1,716
August 2014	Phone, docking station, monitor, and computer	821
February 2014	Printer	848
July 2013	Monopad display kit	7,489
April 2013	Surface Pro Pad	1,527
April 2013	Scanner	899
January 2013	Scanner	1,153
December 2012	Kindle	714
July 2012 - May 2013	Computer network - hardware, software, licensing	21,426
April - June 2012	Computer network - hardware, software, licensing	102,505
April - June 2012	Phone system upgrade - Northstar	16,181
April - June 2012	Phone network cabling	7,700
November 2011	Dell UPS	1,390
November 2011	Electrical work for server closet	613
March 2011	Dell computer	1,270
December 2010	Five external hard drives and interface	748
August 2010	Northstar - server backup drives	1,400
June 2010	Printer	2,950
April 2010	Dell 4210x DLP projector	734
January 2009	CDW - Multi-function printer	1,315
September 2007	Mail machine	2,977
September 2006	ATS software	2,968
August 2006	ATS software	1,495
May 2006	Color printer	830

*(Continued)*



**National Potato Promotion Board d/b/a Potatoes USA**  
**Schedule of Capital Assets (Continued)**  
**Year Ended June 30, 2018**

<u>Date of Purchase</u>	<u>Item</u>	<u>Cost</u>
<b>Office equipment</b>		
January 2005	Database software - ATS	\$ 3,520
March 2004	Database software - ATS	27,568
July 2002	Advanced systems mailing system	3,695
January 2002	LP0130 projector and case	4,053
February 2001	Conference speaker	993
August 2000	25 APC surge suppressors	758
July 1998	MAS 90 software upgrade	1,870
July 1995	MAS 90 A/P software	1,596
June 1994	Mitsubishi TV and VCR	776
February 1992	Overhead projector	511
December 1984	Kodak carousel projector	544
June 2010	Write-off computers that were stolen or sold	(4,116)
	<b>Total office equipment</b>	<b>\$ 323,721</b>
<b>Vehicles</b>		
June 2017	2017 Chevrolet Silverado	\$ 49,752
March 2016	2016 Ford E3K 32 foot truck	175,545
November 2015	2016 Ford F59 20 foot truck	157,318
	<b>Total vehicles</b>	<b>\$ 382,615</b>
	<b>Total capital assets</b>	<b>\$ 828,601</b>

**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**

**Board of Directors  
National Potato Promotion Board  
d/b/a Potatoes USA:**

We have audited, in accordance with the 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 the governmental activities, the major fund, and the aggregate remaining fund information of National Potato Promotion Board d/b/a Potatoes USA, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Potatoes USA's basic financial statements, and have issued our report thereon dated January 8, 2019.

***Internal Control over Financial Reporting***

In planning and performing our audit of the financial statements, we considered Potatoes USA'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Potatoes USA's internal control. Accordingly, we do not express an opinion on the effectiveness of Potatoes USA'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 Potatoes USA'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*.

**Board of Directors  
National Potatoes Promotion Board  
d/b/a Potatoes USA**

***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 the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Kumdingen, Caudra & Congle, P.C.*

January 8, 2019

**Independent Auditor's Report on Compliance for Each Major Program  
and on Internal Control over Compliance Required by the Uniform Guidance**

**Board of Directors  
National Potato Promotion Board  
d/b/a Potatoes USA:**

***Report on Compliance for Each Major Federal Program***

We have audited National Potato Promotion Board d/b/a Potatoes USA's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Potatoes USA's major federal programs for the year ended June 30, 2018. Potatoes USA's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Potatoes USA's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Potatoes USA's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Potatoes USA's compliance.

***Opinion on Each Major Federal Program***

In our opinion, National Potato Promotion Board d/b/a Potatoes USA complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

**Board of Directors  
National Potato Promotion Board  
d/b/a Potatoes USA**

***Report on Internal Control over Compliance***

Management of Potatoes USA is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Potatoes USA's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Potatoes USA's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Kremding, Cordia & Congle, P.C.*

January 8, 2019

**National Potato Promotion Board d/b/a Potatoes USA**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2017**

Federal grantor/pass-through grantor/program or cluster title	Identifying Number	Federal CFDA number	Federal expend- itures
<b><i>U.S. Department of Agriculture</i></b>			
<b><i>Direct Programs:</i></b>			
Market Access Program	Market Year 16	10.601	\$ 22,262
Market Access Program	Market Year 17	10.601	4,825,371
Subtotal Market Access Program			<u>4,847,633</u>
Emerging Markets Program	2014-25	10.603	<u>91,817</u>
Technical Assistance for Specialty Crops Program	2013-09	10.604	13,036
Technical Assistance for Specialty Crops Program	2013-35	10.604	7,896
Technical Assistance for Specialty Crops Program	2016-03	10.604	65,211
Technical Assistance for Specialty Crops Program	2016-08	10.604	172,870
Subtotal Technical Assistance for Specialty Crops Program			<u>259,013</u>
Quality Samples Program	2017-04	10.605	<u>114,401</u>
<b><i>Total Direct Programs</i></b>			<u>5,312,864</u>
<b><i>Total U.S. Department of Agriculture</i></b>			<u>5,312,864</u>
<b><i>Total Expenditures of Federal Awards</i></b>			<u><u>\$ 5,312,864</u></u>

**Note 1: Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of National Potato Promotion Board d/b/a Potatoes USA under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Potatoes USA, it is not intended to and does not present the net position, changes in net position, or cash flows of Potatoes USA.

**Note 2: Summary of Significant Accounting Policies**

- (a) Expenditures reported in the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- (b) Potatoes USA has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

**National Potato Promotion Board d/b/a Potatoes USA**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2018**

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**A. Summary of Auditor's Results**

1. The auditor's report expresses an unmodified opinion on whether the financial statements of National Potato Promotion Board d/b/a Potatoes USA were prepared in accordance with GAAP.
2. No significant deficiencies relating to the audit of the financial statements are reported in the *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*.
3. No instances of noncompliance material to the financial statements of Potatoes USA, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies in internal control over major federal award programs are reported in the *Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance*. No material weaknesses are reported.
5. The auditors' report on compliance for the major federal award programs for Potatoes USA expresses an unmodified opinion on all major federal programs.
6. Audit findings that are required to be reported in accordance with 2 CFR section 200.516(a) are reported in this Schedule.
7. The major program tested was: U.S. Department of Agriculture, Market Access Program, CFDA No. 10.601.
8. The threshold used for distinguishing between Type A and B programs was \$750,000.
9. Potatoes USA did not qualify as a low-risk auditee.

**B. Findings – Financial Statement Audit**

None.

**C. Findings and Questioned Costs – Major Federal Award Programs Audit**

None.

**National Potato Promotion Board d/b/a Potatoes USA**  
**Summary Schedule of Prior Audit Findings**  
**Year Ended June 30, 2018**

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2017-001 Audit Adjustments (Material Weakness)

Condition: As a result of the audit, several adjusting journal entries were made to convert the books from a cash basis to an accrual basis in order to fairly present the financial statements in accordance with GAAP. Adjustments of \$3,141,442 were made to accrue revenue, and adjustments of \$2,005,255 were made to accrue expenses.

Cause: There was turnover in the accounting department during the year, and the new staff was not aware of the prior audit recommendation. Because this is only performed once a year, staff was unaware they needed to convert the books from a cash basis to an accrual basis.

Recommendation: We recommend the Controller establish a written year-end closing process to properly convert the books from a cash basis to an accrual basis. We further recommend all accounting staff be trained on how to properly close the books at year-end.

Current Status: The recommendation was adopted, resulting in no audit adjustments made during the current year audit.



**Independent Auditor's Report on Compliance and on Internal Control over Compliance in  
Accordance with Standards of the Agricultural Marketing Service Agency of the United States  
Department of Agriculture, Potato Research and Promotion Act**

**Board of Directors  
National Potato Promotion Board  
d/b/a Potatoes USA:**

***Report on Compliance***

We have audited National Potato Promotion Board d/b/a Potatoes USA's compliance with the types of compliance requirements contained in the standards of the Agriculture Marketing Service (AMS) Agency of the United States Department of Agriculture, Potato Research and Promotion Act that are indicated below for the year ended June 30, 2018.

***Management's Responsibility***

Management is responsible for compliance with the requirements of the standards of AMS, specifically as stated under Opinion on Compliance below.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for based on our audit of the types of compliance requirements referred to below. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the standards of AMS. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to below that could have a direct and material effect on Potatoes USA has occurred. An audit includes examining, on a test basis, evidence about Potatoes USA's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance. However, our audit does not provide a legal determination of Potatoes USA's compliance.

***Opinion on Compliance***

In our opinion, Potatoes USA complied, in all material respects, with the types of compliance requirements referred to below for the year ended June 30, 2018.

In connection with our audit, nothing came to our attention, insofar as it relates to accounting matters, that caused us to believe that Potatoes USA:

- 1) Failed to comply with Section 1207.360 of the Potato Research and Promotion Plan relating to use of assessments for the purpose of influencing legislation, as that term is defined in Section 4911(d) and (e)(2) of Title 26 of the Internal Revenue Code, or for the purpose of influencing governmental policy or action.

**Board of Directors  
National Potatoes Promotion Board.  
d/b/a Potatoes USA**

- 2) Was not in compliance with the terms of the Agricultural Marketing Service Investment Policy, other than an exception granted by the U.S. Department of Agriculture, which describes the types of instruments in which Potatoes USA may invest, insofar as they relate to accounting matters.
- 3) Was not in compliance with the requirement to have internal controls over funds that meet auditing standards.
- 4) Was not in compliance with the requirement that assessment funds be used only for projects authorized in a budget approved by the U.S. Department of Agriculture, insofar as they relate to accounting matters.
- 5) Was not in compliance with the provisions of the Potato Research and Promotion Act related to the use of assessment funds, insofar as they relate to accounting matters.

However, it should be noted that our audit was not directed primarily towards obtaining knowledge of such noncompliance.

***Report on Internal Control over Compliance***

Management of Potatoes USA is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Potatoes USA's internal control over compliance with the types of requirements that could have a direct and material effect to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance and report on internal control over compliance in accordance with AMS, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Potatoes USA's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of AMS. Accordingly, this report is not suitable for any other purpose.

*Kundinger, Corda & Gogle, P.C.*

January 8, 2019