

AMERICAN PECAN COUNCIL
Financial Statements
For the Year Ended September 30, 2022

AMERICAN PECAN COUNCIL

Financial Statements

For the Year Ended September 30, 2022

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Independent Auditor's Report

To the Members of
American Pecan Council
Fort Worth, Texas

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the enterprise fund of the American Pecan Council (the Council) as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise the Council's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the enterprise fund of the Council, as of September 30, 2022, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Council and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Correction of Error

As discussed in Note 10 to the financial statements, certain errors resulting in the misstatement of expenditures and accounts payable and revenue and accounts receivable as of September 30, 2021, were discovered by management of the Council during the current year. Accordingly, a restatement has been made to the net position of the Enterprise Fund as of October 1, 2021, to correct the error. Our opinions are not modified with respect to that matter.

Adoption of New Accounting Standard

As discussed in Note 11 to the financial statements, the Council has adopted the provisions of Government Accounting Standards Board (GASB) Statement No. 87, *Leases*, for the year ended September 30, 2022.

Accordingly, a restatement has been made to the enterprise fund net position as of October 1, 2021, to restate beginning net position. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Council's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Council's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Council's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis on pages 4 through 7 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 GAAS, 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Council’s basic financial statements. The budgetary comparison schedule for the enterprise fund is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 GAAS. In our opinion, the budgetary comparison schedule for the enterprise fund is 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 July 14, 2023 on our consideration of the Council’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Council’s 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 Council’s internal control over financial reporting and compliance.



Abilene, Texas
July 14, 2023

AMERICAN PECAN COUNCIL

Management's Discussion and Analysis

As management of the American Pecan Council (the Council), we offer readers this narrative overview and analysis of the financial activities of the Council for the year ended September 30, 2022. The Management's Discussion and Analysis should be read in conjunction with the accompanying basic financial statements and the accompanying notes to those financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Council's basic financial statements. The Council's basic financial statements are comprised of four components: 1) Statement of Net Position – Enterprise Fund, 2) Statement of Revenues, Expenses, and Changes in Net Position – Enterprise Fund, 3) Statement of Cash Flows – Enterprise Fund, and 4) Notes to the Basic Financial Statements.

Financial Analysis of the Council's Funds

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. The Council, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Council has one proprietary fund, an enterprise fund.

Proprietary Fund

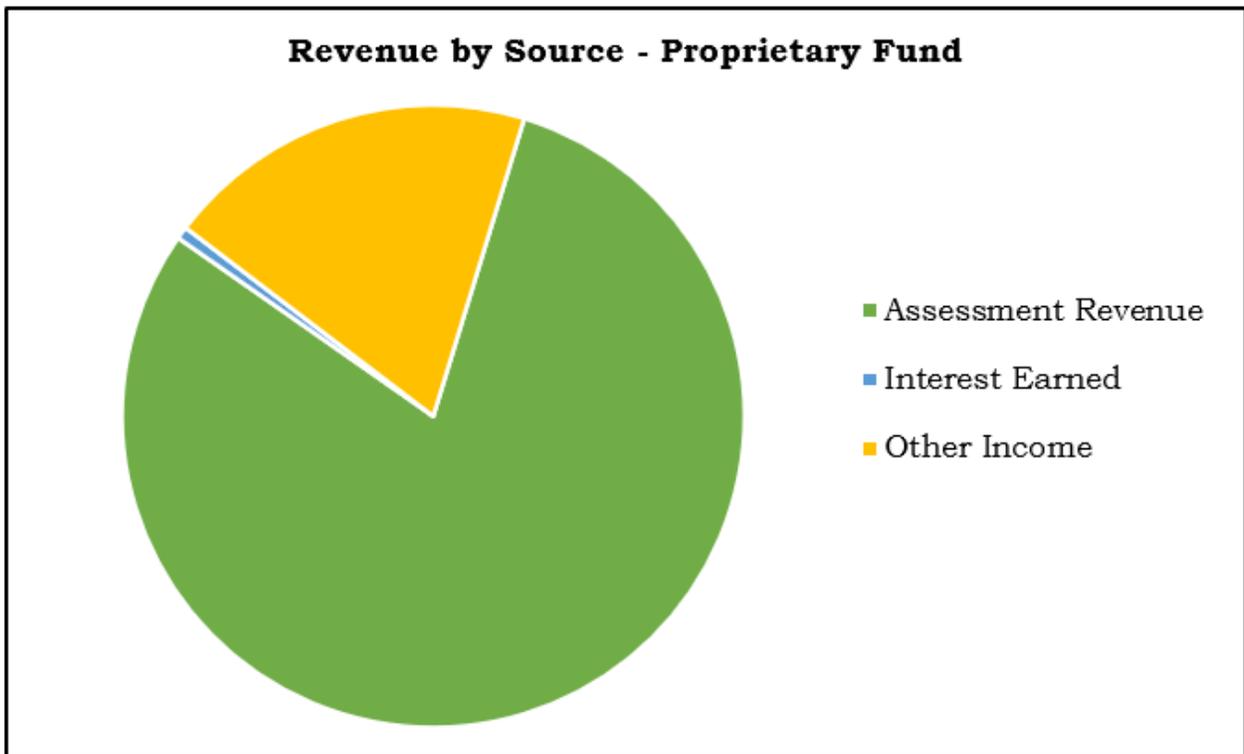
The Council's proprietary fund, specifically an enterprise fund, reported unrestricted net position of \$3,493,406, a decrease of \$3,125,746 or 47.22% in comparison with the prior year. The net decrease is due to the Council's decrease in assessment income due to the formation of the American Pecan Promotion Board. Assessments are no longer required for Native, Seedling, or Substandard pecans, and assessments on Improved pecans decreased from .03 to .01 per pound.

| | 2022 | 2021 Restated |
|------------------------------------|---------------------|--------------------------|
| ASSETS: | | |
| Current and Other Assets | \$ 4,271,330 | \$ 7,434,643 |
| Noncurrent Assets | 113,173 | 275,182 |
| Total Assets | <u>\$ 4,384,503</u> | <u>\$ 7,709,825</u> |
| LIABILITIES: | | |
| Current Liabilities | \$ 808,957 | \$ 815,491 |
| Long-term Liabilities | 61,652 | 257,770 |
| Total Liabilities | <u>\$ 870,609</u> | <u>\$ 1,073,261</u> |
| NET POSITION: | | |
| Investment in Capital Assets | \$ 20,488 | \$ 17,412 |
| Unrestricted | 3,493,406 | 6,619,152 |
| Total Net Position | <u>\$ 3,513,894</u> | <u>\$ 6,636,564</u> |
| Total Liabilities and Net Position | <u>\$ 4,384,503</u> | <u>\$ 7,709,825</u> |

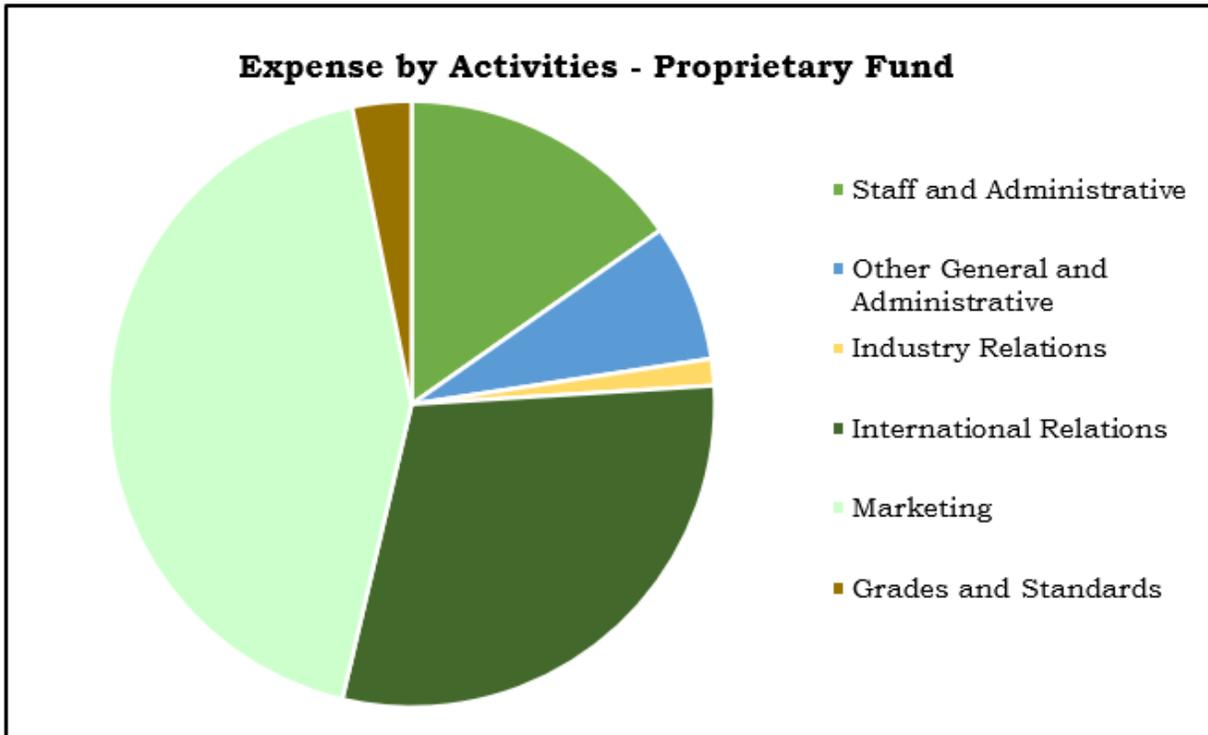
The Council's total net position decreased by \$3,122,670 for the fiscal year ended in September 30, 2022. The current year decrease in net position is due to a decrease in assessment income.

| | 2022 | 2021 |
|-------------------------|---------------------|----------------------|
| REVENUE: | | |
| Operating Revenue | \$ 2,591,402 | \$ 10,005,324 |
| Nonoperating Revenue | 648,518 | 611,814 |
| Total Revenue | <u>\$ 3,239,920</u> | <u>\$ 10,617,138</u> |
| EXPENSES: | | |
| Operating Expenses | \$ 6,278,103 | \$ 9,006,554 |
| Nonoperating Expenses | -0- | 1,035 |
| Total Expenses | <u>\$ 6,278,103</u> | <u>\$ 9,007,589</u> |
| Change in Net Position | (\$ 3,038,183) | \$ 1,609,549 |
| Net Position, Beginning | 6,636,564 | 5,027,015 |
| Prior Period Adjustment | (84,487) | -0- |
| Net Position, Ending | <u>\$ 3,513,894</u> | <u>\$ 6,636,564</u> |

Revenues for the Council are categorized in the chart below. Of the Council's \$3,239,920 total revenue, \$2,591,402 or 79.98% represents assessment revenue and \$648,518 or 20.02% represents interest revenue and marketing access program funding.



Expenses for the Council are categorized in the following chart. Of the Council's \$6,278,103 total operating expenses, \$959,415 or 15.28% relates to staff and administrative expenses, \$459,557 or 7.32% relates to other general and administrative expenses, \$89,171 or 1.42% relates to industry relations, \$1,861,518 or 29.65% relates to marketing, \$2,711,001 or 43.18% relates to international relations, and \$197,441 or 3.15% relates to grades and standards.



The Council has total assets of \$4,384,503, which includes net capital assets of \$113,173. This is a decrease in total assets of \$3,067,554. The total change is the net effect of a \$2,334,109 decrease in cash, \$493,718 decrease in accounts receivable, \$335,488 decrease in prepaid expense, and \$95,761 increase in capital assets.

Capital Assets

As of the year ended September 30, 2022, the Council had \$113,173 (net of accumulated depreciation and amortization) invested in a broad range of capital assets, including equipment, furniture and fixtures, lease improvements, and right of use assets. The current year purchases and disposals in capital assets, as well as an increase in depreciation, contributes to the increase in net capital assets of \$95,761.

| | Enterprise Activities | |
|---|-----------------------|------------------|
| | 2022 | 2021 |
| Equipment | \$ 16,571 | \$ 15,223 |
| Furniture and Fixtures | 19,126 | 19,126 |
| Right of Use Asset | 128,349 | -0- |
| Less: Accumulated Depreciation and Amortization | (50,873) | (16,937) |
| Net Capital Assets | <u>\$ 113,173</u> | <u>\$ 17,412</u> |

Notes to the Basic Financial Statements

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the fund financial statements.

Other Information

In addition to the basic financial statements and accompanying notes to the basic financial statements, this report also presents certain supplementary information concerning the original and amended budgetary schedules.

Budget

The Council's members approved the fiscal 2022 budget on August 31, 2021. Operating revenues were less than budgeted by \$558,598. Additionally, the Council's operating expenses were \$2,553,578 less than budgeted.

Future Economic Factors and Next Year's Budget

The Council has approved Enterprise Fund budgets in the amount of \$2,610,000 for operating revenues and \$6,645,108 for operating expenses for the year ending September 30, 2023. This is a decrease of \$540,000 in operating revenue and a decrease of \$2,141,448 in operating expenses for the fiscal year 2023. The 2023 expenses are directly offset by non-operating revenues of \$4,035,108, which is a decrease of \$1,168,882 for the fiscal year 2023.

REQUEST FOR INFORMATION

The financial report is designed to provide a general overview of the Council's finances for all those with an interest in the Council's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: American Pecan Council, 3880 Hulen Street, Suite 650, Fort Worth, Texas 76107 or info@americanpecan.com.

AMERICAN PECAN COUNCIL

Statement of Net Position - Enterprise Fund

As of September 30, 2022

ASSETS

Current Assets:

| | |
|---------------------------|--------------|
| Cash and Cash Equivalents | \$ 3,872,738 |
| Accounts Receivable | 324,896 |
| Prepaid Expenses | 67,821 |
| | <hr/> |
| Total Current Assets | \$ 4,265,455 |

Noncurrent Assets:

| | |
|---|------------|
| Depreciable Capital Assets | \$ 164,046 |
| Accumulated Depreciation and Amortization | (50,873) |
| | <hr/> |
| Total Noncurrent Assets | \$ 113,173 |

Other Assets:

| | |
|--------------------|----------|
| Security Deposit | \$ 5,875 |
| | <hr/> |
| Total Other Assets | \$ 5,875 |

TOTAL ASSETS

\$ 4,384,503

LIABILITIES AND NET POSITION

Current Liabilities:

| | |
|--------------------------------------|------------|
| Accounts Payable | \$ 777,924 |
| Noncurrent Lease Obligations Payable | 31,033 |
| | <hr/> |
| Total Current Liabilities | \$ 808,957 |

Long-term Liabilities

| | |
|-----------------------------|------------|
| Lease Obligations Payable | \$ 61,652 |
| | <hr/> |
| Total Long-term Liabilities | \$ 61,652 |
| | <hr/> |
| Total Liabilities | \$ 870,609 |

Net Position:

| | |
|----------------------------------|--------------|
| Net Investment in Capital Assets | \$ 20,488 |
| Unrestricted | 3,493,406 |
| | <hr/> |
| Total Net Position | \$ 3,513,894 |

TOTAL LIABILITIES AND NET POSITION

\$ 4,384,503

The accompanying notes are integral part of this statement.

AMERICAN PECAN COUNCIL

Statement of Revenues, Expenses, and Changes in Net Position - Enterprise Fund

For the Year Ended September 30, 2022

Operating Revenues:

| | | |
|-------------------------|----|------------------|
| Assessment Income | \$ | 2,591,402 |
| Total Operating Revenue | \$ | <u>2,591,402</u> |

Operating Expenses:

| | | |
|-------------------------------|----|------------------|
| General Administrative: | | |
| Staff and Administrative | \$ | 959,415 |
| Insurance | | 7,916 |
| Compliance | | 179,875 |
| Other General Administrative | | 271,766 |
| Industry Relations: | | |
| Industry Relations Activities | | 87,027 |
| Industry Research | | 2,144 |
| International Relations | | 1,861,518 |
| Marketing | | 2,711,001 |
| Grades and Standards | | <u>197,441</u> |
| Total Operating Expenses | \$ | <u>6,278,103</u> |

Operating Loss (\$ 3,686,701)

Nonoperating Revenues (Expenses):

| | | |
|-----------------------------|----|----------------|
| Interest Earned | \$ | 20,999 |
| Other Income: | | |
| Marketing Access Program | | <u>627,519</u> |
| Total Nonoperating Revenues | \$ | <u>648,518</u> |

Change in Net Position (\$ 3,038,183)

Net Position, Beginning as Previously Stated \$ 6,636,564

Prior Period Adjustment (84,487)

Net Position, Beginning as Restated \$ 6,552,077

Net Position, Ending \$ 3,513,894

The accompanying notes are integral part of this statement.

AMERICAN PECAN COUNCIL

Statement of Cash Flows - Enterprise Fund

For the Year Ended September 30, 2022

Cash Flows From Operating Activities:

| | |
|---------------------------------------|----------------|
| Cash Received from Assessments | \$ 3,038,836 |
| Cash Paid for Salaries and Benefits | (959,415) |
| Cash Paid for Operating Expenses | (5,025,037) |
| | <hr/> |
| Net Cash Used by Operating Activities | (\$ 2,945,616) |

Cash Flows From Capital and Related Financing Activities:

| | |
|---|-------------|
| Acquisition of Capital Assets | (\$ 1,348) |
| Cash Paid for Lease Liability - Interest Portion | (2,961) |
| Cash Paid for Lease Liability - Principle Portion | (32,702) |
| | <hr/> |
| Net Cash Used by Capital and Related Financing Activities | (\$ 37,011) |

Cash Flows From Noncapital Financing Activities:

| | |
|--|------------|
| Cash Received for Marketing Access Program Funding | \$ 627,519 |
| | <hr/> |
| Net Cash Provided by Noncapital Financing Activities | \$ 627,519 |

Cash Flows From Investing Activities:

| | |
|---|-----------|
| Cash Received from Interest Earned | \$ 20,999 |
| | <hr/> |
| Net Cash Provided by Investing Activities | \$ 20,999 |

Net Decrease in Cash (\$ 2,334,109)

Cash, Beginning of Period

 6,206,847

Cash, End of Period

 \$ 3,872,738

Reconciliation of Operating Loss to Net Cash

Used by Operating Activities:

| | |
|--|----------------|
| Operating Loss | (\$ 3,686,701) |
| Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities: | |
| Depreciation Expense | 7,072 |
| Amortization Expense | 26,864 |
| Changes in Assets and Liabilities: | |
| Decrease in Accounts Receivable | 447,434 |
| Decrease in Prepaid Expenses | 335,486 |
| Decrease in Accounts Payable | (75,771) |
| | <hr/> |
| Net Cash Used by Operating Activities | (\$ 2,945,616) |

The accompanying notes are integral part of this statement.

AMERICAN PECAN COUNCIL

Notes to the Basic Financial Statements

For the Year Ended September 30, 2022

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity – American Pecan Council (the Council) is a federal marketing order created, organized, and exists under and pursuant to Title 7 Part 986 of the Code of Federal Regulations. The Council was established on December 19, 2016. Its purpose is to promote marketing, distribution, and consumption of pecans including product development, nutritional research, and container development. The marketing order authorizes data collection; research and promotion activities; and regulation of grade, size, quality, pack and containers for pecans. The Council is comprised of six sheller members, nine producer members representing three Councils, an accumulator member, and a public member. Each member will have one alternate. Initial members and alternates will be nominated to four-year terms. The Council assists the Secretary of Agriculture with the operations of the program: quality regulations, research and promotion, pack and container requirements, and data collection.

As of September 30, 2022, the Council's revenue was derived primarily from assessments submitted by pecan handlers. The assessment is based on the type of pecan and the number of pounds sold.

The Council is a single program government engaged in only business-type activities.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation - The Council's basic financial statements are presented on the full accrual basis of accounting and conform to accounting principles generally accepted in the United States of America.

The activities of the Council are accounted for within a single proprietary fund type, specifically an enterprise fund. The Enterprise Fund is used to account for operations that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the expenses, including depreciation, of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

The accounting and financial reporting used by the Council is determined by its measurement focus. The transactions of the Council are accounted for on a flow of economic resources measurement focus and utilize the accrual method of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the period in which they are incurred and become measurable.

The operating revenue in the proprietary funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as nonoperating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as nonoperating expenses.

Use of Estimates - The preparation of financial statements in conformity with U.S. generally accepted accounting principles includes the use of estimates that affect the financial statements. Accordingly, actual results could differ from those estimates.

Budgetary Data - The Council adopted its final budget on August 31, 2021 for the October 1, 2021 to September 30, 2022 fiscal year. The budget is adopted on the accrual basis of accounting and is adopted by the Council's members for the purpose of management control.

AMERICAN PECAN COUNCIL

Notes to the Basic Financial Statements

For the Year Ended September 30, 2022

Cash and Cash Equivalents - The Council considers cash and cash equivalents to include all monies in banks and all highly liquid debt instruments purchased with an original maturity of three months or less. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial instruments.

Receivables and Payables - Accounts receivables are stated at their gross value, and where appropriate, are reduced by the estimated portion that is expected to be uncollectible. As of September 30, 2022, no allowance for uncollectible receivables has been determined. With the support of the United States Department of Agriculture, the Council deems all receivables to be collectible.

The Council believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances.

Prepaid Expenses - Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses in the financial statements.

Capital Assets - Capital assets are reported in the Enterprise Fund financial statements. Such assets are stated at cost if purchased or constructed. Assets acquired by gift or bequest are recorded at their acquisition value at the date of transfer. The Council's policy is to capitalize and depreciate all capital assets with an initial, individual cost of \$500 or more and an estimated life in excess of one year.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Depreciation of exhaustible capital assets is charged as an expense against operations, and accumulated depreciation is reported on the Statement of Net Position. Depreciation has been provided over the useful lives using the straight-line method of depreciation. The useful lives by type of asset are as follows:

| | |
|------------------------|---------|
| Equipment | 5 years |
| Furniture and Fixtures | 5 years |
| Leasehold Improvements | 5 years |

Leases - The council is a party as lessee for a non-cancellable long-term building lease. The corresponding lease obligation payable is recorded in an amount equal to the present value of the expected future minimum lease payments paid, discounted by an applicable interest rate.

The Council generally uses an estimate based on the historical treasury rate as the discount rate for leases unless the rate that the vender charges is known.

NOTE 2: DEPOSITS

The Council maintains interest-bearing cash accounts at financial institutions that are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. Deposits as of September 30, 2022 were fully secured by FDIC and securities pledged in the name of the Council.

AMERICAN PECAN COUNCIL

Notes to the Basic Financial Statements

For the Year Ended September 30, 2022

NOTE 3: NET POSITION

In the Statement of Net Position, equity is classified as Net Position and displayed in three components:

- Net Investment in Capital Assets - consists of capital assets, net of accumulated depreciation and amortization and reduced by the outstanding balance of any notes or other borrowings attributable to those capital assets. For the year ended September 30, 2022, the Council had no outstanding note balances.
- Restricted Net Position - consists of net position with constraints placed on the use either by external groups, such as grantors or laws and regulations of other governments, or law through constitutional provisions or enabling legislation.
- Unrestricted Net Position - remaining net position that does not meet the definition of "Restricted" or "Net Investment in Capital Assets."

NOTE 4: NET POSITION FLOW ASSUMPTION

Sometimes the government will fund expenses for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Council's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

NOTE 5: CAPITAL ASSETS

Current year changes in capital assets are summarized below.

| | Beginning Balance | | | Ending Balance |
|---|----------------------|--------------------|---------------------|-------------------|
| | Restated | Additions | Deletions | |
| Equipment | \$ 15,223 | \$ 1,348 | \$ -0- | \$ 16,571 |
| Furniture and Fixtures | 19,126 | -0- | -0- | 19,126 |
| Right of Use Asset | 257,770 | -0- | (129,421) | 128,349 |
| Less: Accumulated Depreciation/ Amortization | (16,937) | (33,936) | -0- | (50,873) |
| Net Capital Assets | <u>\$ 275,182</u> | <u>(\$ 32,588)</u> | <u>(\$ 129,421)</u> | <u>\$ 113,173</u> |

NOTE 6: LONG-TERM LIABILITIES

The Council, as a lessee, has entered into a lease agreement for the property located at 3880 Hulen Street, Suite 650. A summary of the lease terms and interest rates are as follows.

Office Lease: The facility is shared with the American Pecan Promotion Board with the agreement to split 50% of the cost starting June 30, 2022. Total annual installments are \$55,125. An implied interest rate was used in lieu of a stated rate in the agreement. The installments increase annually in August of each year and end July 31, 2025.

AMERICAN PECAN COUNCIL

Notes to the Basic Financial Statements

For the Year Ended September 30, 2022

Beginning July of 2022, the American Pecan Promotion Board became responsible for 50% of the monthly rent. As a result, the present value of the future minimum lease payments was reduced.

Total Lease Obligations \$92,685
Future minimum lease payments to be received are as follows:

| <u>For the Year Ended September 30, 2022</u> | <u>Principal</u> | <u>Interest</u> | <u>Total Payments</u> |
|--|------------------|-----------------|-----------------------|
| 2023 | \$ 31,033 | \$ 2,842 | \$ 33,875 |
| 2024 | 32,932 | 1,643 | 34,575 |
| 2025 | 28,720 | 405 | 29,125 |
| 2026 | -0- | -0- | -0- |
| 2027 | -0- | -0- | -0- |
| | <u>\$ 92,685</u> | <u>\$ 4,890</u> | <u>\$ 97,575</u> |

NOTE 7: CHANGES IN LONG-TERM LIABILITIES

Long-term liability activity for year ended September 30, 2022.

| | <u>Beginning Balance Restated</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Due Within One Year</u> |
|-----------------|---|------------------|-------------------|---------------------------|--------------------------------|
| Operating Lease | \$ 257,770 | \$ -0- | (\$ 165,085) | \$ 92,685 | \$ 31,033 |

NOTE 8: SCHEDULE OF NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITY

Remeasurement of lease liability and right of use asset upon lease modification. \$ 129,421

NOTE 9: RELATED PARTY TRANSACTIONS

The Council reimburses Council members and employees for travel expenses to and from Council meetings. The Council paid \$12,904 in travel reimbursements for Council meetings for the year ended September 30, 2022.

NOTE 10: PRIOR PERIOD ADJUSTMENTS

The beginning net position of the proprietary fund has been restated to record prior year assessments received in the current fiscal year as well as amendments to prior year assessments. Prior period adjustments were also made to accounts payable to account for the correction to international relations expense and marketing expense recorded in the wrong year. A reconciliation of the prior period ending net position to the current year beginning net position is as follows.

| | |
|--|---------------------|
| Beginning Net Position, as Previously Stated | \$ 6,636,564 |
| Adjustment to Correct Accounts Receivable | (46,283) |
| Adjustment to Correct Accounts Payable | (38,204) |
| Beginning Net Position, as Restated | <u>\$ 6,552,077</u> |

The above adjustments decreased the change in net position by \$84,487 in the prior year.

AMERICAN PECAN COUNCIL

Notes to the Basic Financial Statements

For the Year Ended September 30, 2022

NOTE 11: CHANGES IN ACCOUNTING PRINCIPLES

For 2022, the Council implemented Governmental Accounting Standards Board (GASB) Statement No. 87, Leases. GASB Statement No. 87 enhances the relevance and consistency of information of the government's leasing activities. It establishes requirements for lease accounting based on the principle that leases are financings of the right to use an underlying asset. A lessee is required to recognize a lease liability and an intangible right to use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. These changes were incorporated in the Council's 2022 financial statements and had an effect on the beginning net position of the Enterprise Fund. The Council recognized \$257,770 in net book value for the right of use asset and lease obligation liability of \$257,770 for the office space located at 3880 Hulen Street, Suite 650.

NOTE 12: NEW PRONOUNCEMENTS

The GASB has issued several new accounting pronouncements, which will be effective in subsequent years. A description of the new accounting pronouncements, the fiscal year in which they are effective, and the Council's consideration of the impact of these pronouncements are described below:

GASB Statement No. 96: Subscription-Based Information Technology Arrangements - Statement 96 was issued in May 2020. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, Leases, as amended. This standard becomes effective for the Council in fiscal year 2022. The Council has not yet determined the impact of this statement.

GASB issued Statement No. 100, Accounting Changes and Error Corrections. - Statement 100 was issued in June 2022 and is an amendment of GASB Statement No. 62. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The requirements of this Statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Earlier application is encouraged. The effects of this change on the Council's financial statements have not yet been determined.

NOTE 13: SUBSEQUENT EVENTS

The date to which events occurring after September 30, 2022, the date of the most recent statement of financial position, have been evaluated for possible adjustment to the financial statements or disclosure is July 14, 2023, the date on which the financial statements were available to be issued.

AMERICAN PECAN COUNCIL

Budgetary Comparison Schedule - Enterprise Fund

For the Year Ended September 30, 2022

| | Budget | | Actual | Variance |
|---------------------------------------|---------------------|---------------------|---------------------|----------------------------|
| | Original | Amended | | Favorable (Unfavorable) |
| Operating Revenue: | | | | |
| 2021-2022 Improved | \$ 3,150,000 | \$ 3,150,000 | \$ 2,460,828 | (\$ 689,172) |
| 2022-2023 Improved | -0- | -0- | 130,574 | 130,574 |
| Total Operating Revenue | \$ 3,150,000 | \$ 3,150,000 | \$ 2,591,402 | (\$ 558,598) |
| Operating Expenses: | | | | |
| General Administration: | | | | |
| Staff and Administration: | | | | |
| Salaries | \$ 786,504 | \$ 786,504 | \$ 667,700 | \$ 118,804 |
| Contract Labor | -0- | -0- | 115,420 | (115,420) |
| Benefits: | | | | |
| IRA | 24,600 | 24,600 | 18,155 | 6,445 |
| Health | 144,996 | 144,996 | 112,421 | 32,575 |
| Taxes | 62,004 | 62,004 | 45,719 | 16,285 |
| Total Staff and Administration | \$ 1,018,104 | \$ 1,018,104 | \$ 959,415 | \$ 58,689 |
| Insurance: | | | | |
| Travel | \$ 2,700 | \$ 2,700 | \$ 1,233 | \$ 1,467 |
| General | 7,704 | 7,704 | 660 | 7,044 |
| D&O/Members | 12,996 | 12,996 | 444 | 12,552 |
| Fidelity | 4,404 | 4,404 | 5,579 | (1,175) |
| Total Insurance | \$ 27,804 | \$ 27,804 | \$ 7,916 | \$ 19,888 |
| Compliance: | | | | |
| Attorney/Crisis Management | \$ 24,996 | \$ 24,996 | \$ -0- | \$ 24,996 |
| Audit Financial | 20,004 | 20,004 | 21,000 | (996) |
| Compliance Travel | 45,000 | 45,000 | -0- | 45,000 |
| Sheller/Handler Audits | 125,004 | 125,004 | 154,111 | (29,107) |
| Printing/Forms/Postage | 9,996 | 9,996 | 4,764 | 5,232 |
| Total Compliance | \$ 225,000 | \$ 225,000 | \$ 179,875 | \$ 45,125 |
| Rent: | | | | |
| Interest Expense | \$ 87,000 | \$ 87,000 | \$ 28,312 | \$ 58,688 |
| Amortization Expense | -0- | -0- | 2,961 | (2,961) |
| | -0- | -0- | 26,864 | (26,864) |
| Total Rent | \$ 87,000 | \$ 87,000 | \$ 58,137 | \$ 28,863 |
| Accounting/Financials | \$ 78,000 | \$ 78,000 | \$ 69,522 | \$ 8,478 |
| Telephone/Mobile/Internet | 20,004 | 20,004 | 20,659 | (655) |
| Travel Office | 35,004 | 35,004 | 33,578 | 1,426 |
| Travel Committee | 86,172 | 86,172 | 11,080 | 75,092 |
| Supplies | 9,996 | 9,996 | 3,271 | 6,725 |
| Maintenance/Buildout | 15,000 | 15,000 | -0- | 15,000 |
| Printing | 20,004 | 20,004 | 18,896 | 1,108 |
| IT/Furniture/Software | 24,996 | 24,996 | 31,210 | (6,214) |
| Subscriptions | 20,004 | 20,004 | 13,653 | 6,351 |
| Depreciation | -0- | -0- | 7,072 | (7,072) |
| Miscellaneous | 5,004 | 5,004 | 4,688 | 316 |
| Total General Administration | \$ 1,672,092 | \$ 1,672,092 | \$ 1,418,972 | \$ 253,120 |

See Independent Auditors' Report.

AMERICAN PECAN COUNCIL

Budgetary Comparison Schedule - Enterprise Fund

For the Year Ended September 30, 2022

| | Budget | | Actual | Favorable (Unfavorable) |
|--|--------------|--------------|--------------|----------------------------|
| | Original | Amended | | |
| Contingency Fund | \$ 580,932 | \$ 580,932 | \$ -0- | \$ 580,932 |
| Technology Upgrades | \$ 99,996 | \$ 99,996 | \$ -0- | \$ 99,996 |
| Industry Relations: | | | | |
| Compliance: | | | | |
| Compliance Materials | \$ 5,004 | \$ 5,004 | \$ -0- | \$ 5,004 |
| Workshops | 5,004 | 5,004 | -0- | 5,004 |
| Total Compliance | \$ 10,008 | \$ 10,008 | \$ -0- | \$ 10,008 |
| Industry Relations Activities: | | | | |
| Annual Reports | \$ 8,004 | \$ 8,004 | \$ -0- | \$ 8,004 |
| Communication Materials | 50,004 | 50,004 | 36,145 | 13,859 |
| Travel | 50,004 | 50,004 | 29,014 | 20,990 |
| WS-Field Events | 249,996 | 249,996 | -0- | 249,996 |
| Association Sponsorship | 69,996 | 69,996 | 9,633 | 60,363 |
| Handler Portal Maintenance | 9,996 | 9,996 | -0- | 9,996 |
| Fishhook: | | | | |
| Prior Year Carry-over | 67,404 | 67,404 | 235 | 67,169 |
| Meltwater | 12,000 | 12,000 | 12,000 | -0- |
| Total Industry Relations Activities | \$ 517,404 | \$ 517,404 | \$ 87,027 | \$ 430,377 |
| Industry Research: | | | | |
| NASS | \$ -0- | \$ -0- | \$ 2,144 | (\$ 2,144) |
| Research Contingency | 216,000 | 216,000 | -0- | 216,000 |
| Total Industry Research | \$ 216,000 | \$ 216,000 | \$ 2,144 | \$ 213,856 |
| Total Industry Relations | \$ 743,412 | \$ 743,412 | \$ 89,171 | \$ 654,241 |
| International Relations: | | | | |
| Unified Export Strategy/Emerging Market Proposal | \$ -0- | \$ -0- | \$ 118,750 | (\$ 118,750) |
| International Nut Congress-Nut Health Research | 99,996 | 99,996 | 100,000 | (4) |
| Travel | 65,004 | 65,004 | 23,916 | 41,088 |
| International Consulting - Grant Writing | 95,004 | 95,004 | -0- | 95,004 |
| Weber Shandwick - China | 650,004 | 650,004 | 457,352 | 192,652 |
| Weber Shandwick - Germany | 450,000 | 450,000 | 800,000 | (350,000) |
| Emerging Market Program Research | 500,004 | 500,004 | 360,000 | 140,004 |
| Market Access Program | -0- | -0- | 1,500 | (1,500) |
| Contingency Fund | 650,004 | 650,004 | -0- | 650,004 |
| Total International Relations | \$ 2,510,016 | \$ 2,510,016 | \$ 1,861,518 | \$ 648,498 |
| Marketing: | | | | |
| Aspire IQ | \$ 50,004 | \$ 50,004 | \$ 141,808 | (\$ 91,804) |
| iHeart Media/Digital Magnet | 800,004 | 800,004 | 800,000 | 4 |
| Eat Well Global | 80,004 | 80,004 | 273,948 | (193,944) |
| NPSA Chef's Summit | 99,996 | 99,996 | 156,000 | (56,004) |
| IRI Reporting | 150,000 | 150,000 | -0- | 150,000 |
| Weber Shandwick | 999,996 | 999,996 | 1,211,082 | (211,086) |
| Research - Nut Health | 384,996 | 384,996 | 126,100 | 258,896 |
| Total Marketing | \$ 2,565,000 | \$ 2,565,000 | \$ 2,711,001 | (\$ 146,001) |

See Independent Auditors' Report.

AMERICAN PECAN COUNCIL

Budgetary Comparison Schedule - Enterprise Fund

For the Year Ended September 30, 2022

| | Budget | | Actual | Favorable (Unfavorable) |
|---|-----------------------|-----------------------|-----------------------|----------------------------|
| | Original | Amended | | |
| Grades and Standards: | | | | |
| Research Contingency (FAIR): | | | | |
| Prior Year Carry-over | \$ 99,996 | \$ 99,996 | \$ -0- | \$ 99,996 |
| Travel | 20,004 | 20,004 | 41 | 19,963 |
| Shelf-Life Study: | | | | |
| Prior Year Carry-over | 170,112 | 170,112 | -0- | 170,112 |
| Carbon Assessment Services | 120,000 | 120,000 | -0- | 120,000 |
| Economic Study | 99,996 | 99,996 | -0- | 99,996 |
| Electronic Repoting Forms | -0- | -0- | 15,300 | (15,300) |
| Pricing Through Marketing Channels | 39,996 | 39,996 | -0- | 39,996 |
| Quality Assurance Program | 65,004 | 65,004 | 182,100 | (117,096) |
| Total Grades and Standards | \$ 615,108 | \$ 615,108 | \$ 197,441 | \$ 417,667 |
| Total Operating Expenses | \$ 8,786,556 | \$ 8,786,556 | \$ 6,278,103 | \$ 2,508,453 |
| Operating Income (Loss) | (\$ 5,636,556) | (\$ 5,636,556) | (\$ 3,686,701) | \$ 1,949,855 |
| Nonoperating Revenues and Expenses: | | | | |
| Interest Earned | \$ -0- | \$ -0- | \$ 20,999 | \$ 20,999 |
| Management Fee | 800,004 | 800,004 | -0- | (800,004) |
| Past Outstanding | 399,996 | 399,996 | -0- | (399,996) |
| Prior Year Carry-over - 2020 Expense Offset | 722,508 | 722,508 | -0- | (722,508) |
| Reserve | 2,180,004 | 2,180,004 | -0- | (2,180,004) |
| EMP Funding | 500,004 | 500,004 | -0- | (500,004) |
| Marketing Access Program (MAP) | 1,249,992 | 1,249,992 | 627,519 | (622,473) |
| Total Nonoperating Revenue | \$ 5,852,508 | \$ 5,852,508 | \$ 648,518 | (\$ 5,203,990) |
| Change in Net Position | \$ 215,952 | \$ 215,952 | (\$ 3,038,183) | (\$ 3,254,135) |

See Independent Auditors' Report.



Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Members of
American Pecan Council
Fort Worth, Texas

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the American Pecan Council (the Council), as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise Council’s basic financial statements and have issued our report thereon dated July 14, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Council's internal control over financial reporting (internal control) as the basis for designing 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 the Council’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Council’s internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as item 2022-001 that we consider to be a material weakness.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Council's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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.

The Council's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Council's response to the findings identified in our audit and described in the accompanying Schedule of Findings and Responses. The Council's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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.

A handwritten signature in black ink that reads "Eide Sully LLP". The signature is written in a cursive, flowing style.

Abilene, Texas

July 14, 2023

Recommendation:

We recommend the Council implement additional procedures to verify that all expenditures and revenue are recorded in the correct period.

View of Responsible Officials:

Refer to the Corrective Action Plan.



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AMERICAN PECAN COUNCIL
Summary Schedule of Prior Audit Findings and Corrective Action Plan
For the Year Ended September 30, 2022

Summary Schedule of Prior Audit Findings – Prior audit finding was repeated again this year. See below.

Corrective Action Plan –

Finding Summary:

After the completion of the audit for the year ended September 30, 2021, a vendor submitted a bill in July 2022 for the 2021 fiscal year. It was determined that, as an individual transaction, the effect on net position was minimal and a decision was made to leave the transaction in the 2022 fiscal year. As a result, the September 30, 2022 expenditures were overstated, and current year beginning net position was overstated. During the course of the audit, a proposed audit adjustment was made to correct the Council recorded expenditures and net position for the amount of \$38,204.

Throughout the fiscal year 2022, the Council received from handlers multiple amended assessments for the prior year. As a result, the beginning net position was adjusted in the amount of \$46,283. The books are adjusted throughout the year as the amendments are received.

Responsible Individuals:

Alexander Ott, Executive Director

Corrective Action Plan:

Management agrees with the finding. The receivables continue to be a challenge as we are still identifying handlers and are seeing consolidation. Further education is still needed for the smaller handlers. However, the Council has begun industry audits and we are 2-3 years into this process. This area will continue to be a focus for improvement.

Prior period adjustment for payable – in July 2022, after the 2021 audit was issued, the Council received a bill from a vendor for the previous year.