



CPAs & BUSINESS ADVISORS

To the Members of  
American Pecan Council  
Fort Worth, Texas

We have audited the financial statements of American Pecan Council (the Council) for the period of inception to September 30, 2017, and have issued our report thereon dated July 13, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated April 2, 2018. Professional standards also require that we communicate to you the following information related to our audit.

### Significant Audit Findings

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Council are described in the notes to the financial statements. As discussed in Note 8 to the financial statements, American Pecan Council has early adopted the provisions of FASB Accounting Standards Update 2016-14, *Presentation of Financial Statements of Not-For-Profit Entities*. We noted no transactions entered into by the Council during the period for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no sensitive estimates affecting the financial statements.

The financial statement disclosures are neutral, consistent, and clear.

### Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit. Management of the Council did a commendable job in preparing for the audit. They prepared the requested schedules and documents in a timely manner and were available for questions at all times.

### Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. Attachment A includes the material misstatement detected as a result of audit procedures that was corrected by management.

### Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### Management Representations

We have requested certain representations from management that are included in the management representation letter dated July 13, 2018.

### Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Council's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Council's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### Other Matter

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the budget to actual schedule to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Members and management of the Council and is not intended to be and should not be used by anyone other than these specified parties.

If you have any questions regarding the above, please do not hesitate to call.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Abilene, Texas  
July 13, 2018

**Attachment A**

**Adjusting Journal Entry #1**

6050 Marketing Research and Development

2000 Accounts Payable

**Total**

\$ 949,306

\$ 949,306

\$ 949,306

\$ 949,306



# **AMERICAN PECAN COUNCIL**

FINANCIAL STATEMENTS  
and  
SUPPLEMENTARY  
INFORMATION  
together with  
INDEPENDENT AUDITOR'S  
REPORT

FOR THE PERIOD OF INCEPTION TO  
SEPTEMBER 30, 2017

**AMERICAN PECAN COUNCIL**

**Financial Statements**

**For the Period of Inception to September 30, 2017**

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CPAs & BUSINESS ADVISORS

## Independent Auditor's Report

To the Members of  
American Pecan Council

### Report on the Financial Statements

We have audited the accompanying financial statements of American Pecan Council (a nonprofit organization), which comprise the statement of financial position as of September 30, 2017, and the related statements of activities, functional expenses and cash flows for the period of inception to September 30, 2017, and the related notes to the financial statements.

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

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

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our 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 financial position of American Pecan Council as of September 30, 2017, and the changes in net assets and its cash flows for the period of inception to September 30, 2017 in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As discussed in Note 8 to the financial statements, American Pecan Council has early adopted the provisions of FASB Accounting Standards Update 2016-14, *Presentation of Financial Statements of Not-For-Profit Entities*. Our opinion is not modified with respect to this matter.

***Other Matters***

***Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The budget to actual schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. The budget to actual schedule 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. 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 budget to actual schedule 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 13, 2018, on our consideration of the American Pecan Council's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 the American Pecan Council's internal control over financial reporting and compliance.

*Eide Bailly LLP*

Abilene, Texas  
July 13, 2018

**FINANCIAL STATEMENTS**

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AMERICAN PECAN COUNCIL

Statement of Financial Position

As of September 30, 2017

ASSETS

**Current Assets:**

Cash and Cash Equivalents	\$	5,103,770
Total Current Assets	\$	5,103,770

**Fixed Assets:**

Property, Plant, and Equipment	\$	4,146
Less: Accumulated Depreciation	(	139)
Total Fixed Assets	\$	4,007

**Other Assets:**

Security Deposit	\$	2,000
Total Other Assets	\$	2,000

<b>TOTAL ASSETS</b>	\$	<u>5,109,777</u>
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LIABILITIES AND NET ASSETS

**Current Liabilities:**

Accounts Payable	\$	1,770,836
Total Current Liabilities	\$	1,770,836
Total Liabilities	\$	1,770,836

**Net Assets:**

Without Donor Restriction	\$	3,338,941
Total Net Assets	\$	3,338,941

<b>TOTAL LIABILITIES AND NET ASSETS</b>	\$	<u>5,109,777</u>
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The accompanying notes are an integral part of this statement.

AMERICAN PECAN COUNCIL

Statement of Activities

For the Period of Inception to September 30, 2017

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>Revenue:</b>			
Assessment Income	\$ 6,310,230	\$ -0-	\$ 6,310,230
Donations	110	-0-	110
Interest Earned	2,535	-0-	2,535
Total Revenue	<u>\$ 6,312,875</u>	<u>\$ -0-</u>	<u>\$ 6,312,875</u>
<b>Expenses:</b>			
Program Service Expense	\$ 2,700,963	\$ -0-	\$ 2,700,963
Supporting Service Expense	272,971	-0-	272,971
Total Expenses	<u>\$ 2,973,934</u>	<u>\$ -0-</u>	<u>\$ 2,973,934</u>
Change in Net Assets	\$ 3,338,941	\$ -0-	\$ 3,338,941
Net Assets, Beginning	-0-	-0-	-0-
Net Assets, Ending	<u>\$ 3,338,941</u>	<u>\$ -0-</u>	<u>\$ 3,338,941</u>

The accompanying notes are an integral part of this statement.

**AMERICAN PECAN COUNCIL**

**Statement of Functional Expenses**

**For the Period of Inception to September 30, 2017**

	<b>Program Service</b>	<b>Supporting Service</b>		<b>Total</b>
		<b>Management and General</b>	<b>Fundraising</b>	
Administrative	\$ -0-	\$ 255,418	\$ -0-	\$ 255,418
Communication	-0-	283	-0-	283
Depreciation	-0-	139	-0-	139
Finance	-0-	17	-0-	17
Marketing, Research, and Development	2,700,963	-0-	-0-	2,700,963
Personnel	-0-	17,114	-0-	17,114
Total Expenses	<u>\$ 2,700,963</u>	<u>\$ 272,971</u>	<u>\$ -0-</u>	<u>\$ 2,973,934</u>

The accompanying notes are an integral part of this statement.

# AMERICAN PECAN COUNCIL

## Statement of Cash Flows

For the Period of Inception to September 30, 2017

### **Cash Flows From Operating Activities:**

Cash Received from Assessments	\$ 6,310,230
Cash Received from Donors	110
Cash Received from Interest Earned	2,535
Cash Paid for Operating Expenses	<u>( 1,204,959)</u>
Net Cash Provided by Operating Activities	<u>\$ 5,107,916</u>

### **Cash Flows From Investing Activities:**

Purchases of Property, Plant, and Equipment	<u>(\$ 4,146)</u>
Net Cash Used by Investing Activities	<u>(\$ 4,146)</u>

Net Increase in Cash \$ 5,103,770

Cash, Beginning of Period -0-

Cash, End of Period \$ 5,103,770

### **Reconciliation of Increase in Net Assets to**

#### **Net Cash Provided by Operating Activities:**

Increase in Net Assets	\$ 3,338,941
Adjustments to Reconcile Increase in Net Assets to Net Cash Provided by Operating Activities:	
Depreciation Expense	139
Changes in Assets and Liabilities:	
(Increase) in Security Deposit	( 2,000)
Increase in Accounts Payable	<u>1,770,836</u>
Net Cash Provided by Operating Activities	<u><u>\$ 5,107,916</u></u>

The accompanying notes are an integral part of this statement.

**AMERICAN PECAN COUNCIL**

**Notes to the Financial Statements**

**For the Period of Inception to September 30, 2017**

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Council and Nature of Activities – American Pecan Council (the Council), is a nonprofit federal marketing order established on December 19, 2016. Its purpose is to promote marketing, distribution, and consumption of pecans including product development, nutritional research, and container development. As of September 30, 2017, the Council’s revenue was derived primarily from voluntary assessments submitted by pecan handlers. The assessment is based on the type of pecan and the number of pounds sold.

Basis of Accounting – The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles. Under this basis of accounting, revenues are recognized when earned, and expenses are generally recognized when incurred.

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.

Federal Income Tax – As of September 30, 2017, the Council has applied for status as a 501(c)(6) organization. Under Section 501(c)(6) of the Internal Revenue Code, the Council would be exempt from federal income tax on all income except unrelated business income as noted under Section 511 of the Internal Revenue Code. As of the date of this report, the application is still pending.

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.

**NOTE 2: CASH**

The Council maintains interest-bearing cash accounts at financial institutions that are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. Cash held by the Council may at times exceed the FDIC coverage limit.

**NOTE 3: LIQUIDITY AND AVAILABILITY**

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

Cash and Cash Equivalents	\$ 5,103,770
	<u>\$ 5,103,770</u>

**NOTE 4: NET ASSETS**

The Council has adopted the Financial Accounting Standards Board (FASB) Codification 958, Not-for-Profit Entities (formerly Statement of Financial Accounting Standards No. 117, *Financial Statements of Not-for-Profit Councils*). FASB 958 requires the Council to classify its net assets based on the existence or absence of donor-imposed restrictions. These classifications of net assets are described as follows:

# AMERICAN PECAN COUNCIL

## Notes to the Financial Statements

### For the Period of Inception to September 30, 2017

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Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

With Donor Restrictions – Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. As of September 30, 2017, there were no donor restrictions placed on net assets.

#### **NOTE 5: PROPERTY, PLANT, AND EQUIPMENT**

The Council capitalizes all expenditures in excess of \$500 for property and equipment at cost. Depreciation is provided over the estimated useful lives of the respective assets on a straight-line basis. Depreciation expense was \$139 for the period of inception to September 30, 2017, respectively.

Property, plant, and equipment consists of the following at September 30, 2017:

Equipment	\$	4,146
Less: Accumulated Depreciation	(	139)
	<u>\$</u>	<u>4,007</u>

#### **NOTE 6: RELATED PARTY**

The Council reimburses Council members and employees for travel expenses to and from Council meetings. The Council paid \$81,436 in travel reimbursements for Council meetings for the period of inception to September 30, 2017.

#### **NOTE 7: SUBSEQUENT EVENTS**

The Council entered into a four-year lease agreement on October 15, 2017. The monthly rent includes a base rate of \$2,400 in addition to expense reimbursements for electricity, cable, and internet access.

The date to which events occurring after September 30, 2017, the date of the most recent statement of financial position, have been evaluated for possible adjustment to the financial statements or disclosure is July 13, 2018, the date on which the financial statements were available to be issued.

#### **NOTE 8: ADOPTION OF ACCOUNTING STANDARDS UPDATE 2016-14**

American Pecan Council early adopted the provisions of FASB Accounting Standards Update 2014-16, *Presentation of Financial Statements of Not-For-Profit Entities*, as of the period of inception as management believes the standard improves the usefulness and understandability of APC's financial statement reporting.

**SUPPLEMENTARY INFORMATION**

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AMERICAN PECAN COUNCIL

Budget to Actual Comparison Schedule

For the Period of Inception to September 30, 2017

	Actual	Operating Budget
<b>Revenue:</b>		
Assessment Income	\$ 6,310,230	\$ 6,000,000
Donations	110	-0-
Interest Earned	2,535	-0-
<b>Total Revenue</b>	<b>\$ 6,312,875</b>	<b>\$ 6,000,000</b>
<b>Expenses:</b>		
Administrative	\$ 255,418	\$ 900,000
Communication	283	100,000
Compliance	-0-	200,000
Depreciation	139	-0-
Finance	17	75,000
Governance	-0-	75,000
Marketing/Research and Development	2,700,963	3,850,000
Personnel	17,114	50,000
Reporting and Statistics	-0-	250,000
<b>Total Expenses</b>	<b>\$ 2,973,934</b>	<b>\$ 5,500,000</b>
<b>Change in Net Assets</b>	<b>\$ 3,338,941</b>	<b>\$ 500,000</b>

See Independent Auditor's Report





CPAs & BUSINESS ADVISORS

**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 American Pecan Council (the Council) as of and for the period of inception to September 30, 2017, and the related notes to the financial statements, which collectively comprise the Council's basic financial statements, and have issued our report thereon dated July 13, 2018.

**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) 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 the Council's internal control. Accordingly, we do not express an opinion on the effectiveness of the Council's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and responses, we identified a deficiency in internal control that we consider to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and responses to be a material weakness: 2017-A.

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.

## **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 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*.

## **The Council's Response to Finding**

The Council's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Council's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## **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.



Abilene, Texas  
July 13, 2018

**AMERICAN PECAN COUNCIL**  
**Schedule of Findings and Responses**  
**Period of Inception to September 30, 2017**

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

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness identified?	Yes- Finding 2017-A
• Significant deficiencies identified that are not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	No

**B. Findings Related to the Financial Statements which are Required to be Reported in Accordance with *Government Auditing Standards***

Finding 2017-A:	Financial Reporting
Type of Finding:	Material Weakness
Criteria or Specific Requirement:	Management of the Council is responsible for the preparation and fair presentation of the financial statements in accordance with generally accepted accounting principles (GAAP). This includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of the financial statements that are free from material misstatements.
Statement of Condition:	During the course of our engagement, we proposed a material audit adjustment to the Council's recorded account balances in the areas of accounts payable and marketing research and development expense, which if not recorded, would have resulted in a material misstatement of the Council's financial statements. Additionally, we noted that the September 30, 2017 accounts payable balance was reconciled from the detailed schedule to the general ledger but the reconciliation had no documentation of a secondary review and approval.
Cause:	The Council does not prepare and has not developed internal controls over financial reporting to provide for the preparation of the financial statements and related disclosures that are free from material misstatements.

**B. Findings Related to the Financial Statements which are Required to be Reported in Accordance with *Government Auditing Standards* – continued**

Effect:	The need for these adjustments indicates that the Council's interim financial information is not materially correct, which may affect management decisions made during the course of the year.
Recommendation:	We recommend that the Council develop internal controls over financial reporting to prevent material misstatements in its financial statements. Further, we recommend that management document their review and approval of accounts payable reconciliations by notation of a signature and date.
View of Responsible Officials:	We agree with the finding.