

Florida Foundation Seed Producers, Inc.

Financial Statements
and
Independent Auditors' Reports

June 30, 2018 and 2017

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Kattell and Company, P.L.

Certified Public Accountants Serving the Nonprofit Community

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Florida Foundation Seed Producers, Inc.
P.O. Box 309
Greenwood, FL 32443

Report on Financial Statements

We have audited the accompanying financial statements of Florida Foundation Seed Producers, Inc. (the Corporation), which comprise the Statements of Financial Position as of June 30, 2018 and 2017, and the related Statements of Activities, Functional Expenses, and Cash Flows for the years ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements. Management is responsible for the preparation and fair presentation of these financial statements in accordance with the 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.

Auditors' Responsibility. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards required 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.

Opinions. In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter. As discussed in Note 10 to the financial statements, Hurricane Michael caused significant damage to the Corporation, the financial impact of which is not subject to reasonable estimation at this time. Our opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2018 on our consideration of the Corporation's internal control over financial reporting (internal control) 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 and compliance and the results of that testing, and not to provide an opinion on internal control or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control and compliance.

Kattell and Company, P.L.

October 25, 2018

"Not everything that counts can be counted, and not everything that can be counted counts."

- Albert Einstein

Statements of Cash Flows
For the Years Ending June 30, 2018 and 2017
Florida Foundation Seed Producers, Inc.

	<u>2018</u>	<u>2017</u>
Cash Flows from Operating Activities		
Royalties:		
Collections	\$ 14,922,904	\$ 12,524,286
Payments to FAES	(10,353,332)	(7,824,820)
Payments to Breeders	(2,789,643)	(2,128,493)
Payments of Expenses	<u>(270,346)</u>	<u>(609,394)</u>
Net Cash from Royalties	1,509,583	1,961,579
Seed Production and Sales:		
Sales of Peanuts	2,034,361	1,989,618
Sale of Other Seed	92,458	109,635
Seed costs:		
Contract Growers	(850,175)	(670,055)
Wages and Benefits	(253,145)	(230,937)
Seed, Plants, Fertilizer and Supplies	(49,757)	(56,646)
Seed Processing Costs	(98,249)	(128,240)
Equipment and Facilities Costs	(143,177)	(205,936)
All Other Costs	<u>(123,280)</u>	<u>(79,792)</u>
Net Cash from Production and Sales of Seed	609,036	727,647
Other Operating Cash Flows:		
Interest on Deposits	48,173	23,256
Other Collections	93,409	27,701
Payroll Disbursements	(405,506)	(377,040)
Other Disbursements	<u>(220,432)</u>	<u>(250,249)</u>
Net Cash Provided by Operating Activities	1,634,263	2,112,894
Cash Flows from Investing Activities		
Proceeds from Sale of Fixed Assets	4,500	--
Property Purchases to be reimbursed by Cost Sharing Programs	(99,961)	--
Purchases of Property and Equipment	<u>(224,038)</u>	<u>(76,567)</u>
Net Cash Used by Investing Activities	(319,499)	(76,567)
Net Change in Cash	1,314,764	2,036,327
Cash, Beginning	<u>11,818,151</u>	<u>9,781,824</u>
Cash, End	<u>\$ 13,132,915</u>	<u>\$ 11,818,151</u>

See accompanying notes.

Statements of Financial Position
June 30, 2018 and 2017
Florida Foundation Seed Producers, Inc.

	<u>2018</u>	<u>2017</u>
Assets		
<hr/>		
Cash:		
Non-Interest Bearing	\$ 142,150	\$ 126,747
Interest Bearing	12,990,765	11,691,404
Total Cash	13,132,915	11,818,151
Accounts Receivable	117,680	153,959
Other Receivables	129,651	25,000
Prepaid Expenses	51,171	26,166
Seed Inventory	72,121	90,410
Investment in Growing Crop	58,208	48,928
Property, Plant & Equipment (Net)	2,788,954	2,805,858
Total Assets	\$ 16,350,700	\$ 14,968,472
Liabilities and Net Assets		
<hr/>		
Liabilities:		
Accounts Payable	\$ 115,002	\$ 78,263
Payroll Related Payables	227	78
Accrued Employee Leave	71,647	67,252
High Oleic Royalty Payable	--	46,398
Royalty Distribution Payable	7,062,509	7,014,198
Total Liabilities	7,249,385	7,206,189
Net Assets – Unrestricted		
Invested in Capital Assets	2,788,954	2,805,858
Other	6,312,361	4,956,425
Total Net Assets	9,101,315	7,762,283
Total Liabilities and Net Assets	\$ 16,350,700	\$ 14,968,472

See accompanying notes.

Statements of Activities
For the Years Ending June 30, 2018 and 2017
Florida Foundation Seed Producers, Inc.

	<u>2018</u>	<u>2017</u>
Farm Income:		
Sale of Seed:		
Peanuts	\$ 1,998,082	\$ 2,016,333
Other	92,458	109,635
Land Rent	11,150	14,282
Other Farm Income	<u>76,339</u>	<u>--</u>
Total Farm Income	<u>2,178,029</u>	<u>2,140,250</u>
Cost of Seed Sold	<u>(1,701,528)</u>	<u>(1,593,647)</u>
Gross Profit – Farming Operations	476,501	546,603
Other Income:		
Royalties and Net Collection Fee	1,465,044	1,245,607
Membership and License Income	4,719	6,960
Interest Income	48,173	23,256
Miscellaneous Income	<u>1,201</u>	<u>6,459</u>
Total Other Income	<u>1,519,137</u>	<u>1,282,282</u>
Total Revenues	1,995,638	1,828,885
Expenses:		
Program Services:		
Licensing	390,160	366,830
Farming	<u>135,234</u>	<u>134,997</u>
Total Program Services	<u>525,394</u>	<u>501,827</u>
Support Activities	<u>141,862</u>	<u>145,814</u>
Total Expenses	<u>667,256</u>	<u>647,641</u>
Excess of Revenues over Expenses	1,328,382	1,181,244
Gain on Asset Disposals	<u>10,650</u>	<u>--</u>
Change in Net Assets	1,339,032	1,181,244
Net Assets, Beginning	<u>7,762,283</u>	<u>6,581,039</u>
Net Assets, End	<u>\$9,101,315</u>	<u>\$ 7,762,283</u>

See accompanying notes.

Statements of Functional Expenses
June 30, 2018 and 2017
Florida Foundation Seed Producers, Inc.

2018				
	Program Services		Support	Total
	Licensing	Farming	Activities	
Advertising and Marketing	\$ 915	\$ 914	\$ --	\$ 1,829
Depreciation	7,588	5,943	6,280	19,811
Dues and Memberships	1,114	872	922	2,908
Insurance	941	737	780	2,458
Meeting Expense	24,352	1,981	8,044	34,377
Other	4,503	3,527	3,726	11,756
Office Supplies	4,146	3,247	3,431	10,824
Payroll – Employees in Greenwood	54,929	51,725	44,666	151,320
Payroll – Taxes and Benefits	15,773	14,853	12,825	43,451
Payroll – IFAS Agreement	137,804	38,733	38,732	215,269
Accounting and Legal Services	--	--	15,534	15,534
Repairs and Maintenance	2,020	1,583	1,672	5,275
Telephone	3,660	2,867	3,029	9,556
Utilities – Water and Electric	2,683	2,102	2,221	7,006
Contributions	129,732	6,150	--	135,882
Total	\$ 390,160	\$ 135,234	\$ 141,862	\$ 667,256

2017				
	Program Services		Support	Total
	Licensing	Farming	Activities	
Advertising and Marketing	\$ 734	\$ 733	\$ --	\$ 1,467
Depreciation	6,994	6,606	5,828	19,428
Dues and Memberships	11,184	1,119	987	13,290
Insurance	883	834	736	2,453
Meeting Expense	27,552	7,555	11,421	46,528
Other	3,710	3,504	3,092	10,306
Office Supplies	3,565	3,367	2,971	9,903
Payroll – Employees in Greenwood	49,341	47,254	40,758	137,353
Payroll – Taxes and Benefits	20,847	19,966	17,221	58,034
Payroll – IFAS Agreement	134,099	37,523	37,523	209,145
Accounting and Legal Services	--	--	19,509	19,509
Repairs and Maintenance	1,859	1,755	1,549	5,163
Telephone	2,953	2,789	2,461	8,203
Utilities – Water and Electric	2,109	1,992	1,758	5,859
Contributions	101,000	--	--	101,000
Total	\$ 366,830	\$ 134,997	\$ 145,814	\$ 647,641

See accompanying notes.

Notes to Financial Statements
June 30, 2018 and 2017
Florida Foundation Seed Producers, Inc.

NOTE 1 – NATURE OF THE ENTITY

Florida Foundation Seed Producers, Inc. (the Corporation) is a not-for-profit corporation organized under the laws of the State of Florida.

The Corporation works with the Institute of Food and Agricultural Sciences of the University of Florida (the University) for the purpose of increasing foundation seed from the point at which a variety is developed by a trained plant breeder to the state at which ample stocks are made available to qualified seed producers. The Corporation owns 500 acres of land near Marianna, Florida. It owns farming equipment, processing equipment and storage facilities that it uses to grow, harvest and process the foundation seed for sale.

Also, the Corporation acts as an agent for the Florida Agricultural Experiment Station (FAES) and collects royalties on released and licensed cultivars. In its capacity as agent, the Corporation provides office space and personnel to handle the plant variety protection, trademark, plant patent and plant breeders' rights applications. The Corporation facilitates the licensing and marketing of FAES released cultivars and is responsible for the negotiation, execution, and management of contracts thereto.

The Corporation has been classified as a direct support organization of the University. As such, the Corporation is a component unit of the University as that term is defined by generally accepted accounting principles applicable to governmental entities. However, these financial statements present the financial position, changes in net assets and cash flows of the Corporation only.

The Corporation is tax exempt under Section 501(c)(3) of the Internal Revenue Code and does not earn any unrelated business taxable income. Therefore, no provision for income taxes is reflected in the accompanying financial statements. In addition, the Corporation qualifies for the charitable contributions deduction and has been classified by the Internal Revenue Service as an organization that is not a private foundation. The Corporation is operated exclusively for charitable, scientific and educational purposes. The Corporation holds no uncertain tax positions and, therefore, has no policy for evaluating them.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the Corporation have been prepared on the accrual basis of accounting.

Cash

Cash consists of time and demand deposits at financial institutions. As a direct support organization of the University of Florida, all deposits with financial institutions qualify as public deposits and are covered by Florida's Public Deposits Program as defined in Section 280.02, Florida Statutes.

Receivables

Accounts receivable consist of amounts due for sales of seed and seed products. Other receivables consist of amounts due to the Corporation that arise in the normal course of business. The Corporation records receivables at net realizable value. No allowance is provided since all receivables are deemed fully collectible.

Seed Inventory and Investment in Growing Crop

Seed Inventory is carried at the lower of cost or market as determined on a specific identification basis. The investment in growing crop is stated at cost incurred to date, which does not exceed its expected net realizable value when sold. The costs of planting, cultivating, harvesting, cleaning, treating, bagging and warehousing operations are allocated to the investment in growing crop, the cost of seed inventory, and are also the basis for cost of seed sold.

Notes to Financial Statements
June 30, 2018 and 2017
Florida Foundation Seed Producers, Inc.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

Property, Plant and Equipment

Purchases and improvements costing more than \$1,000 are capitalized at cost, while all maintenance, repairs, and minor renewals are expensed as incurred. Capitalized assets are depreciated using the straight-line method over estimated useful lives as follows:

Buildings	10 – 30 years
Farm Equipment	5 – 20 years
Warehouse Equipment	5 – 25 years
Vehicles	3 – 5 years
Office Equipment and Furniture	3 – 10 years

Management reviews fixed assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment is measured by comparing the carrying amount of the assets to the sum of expected future cash flows (undiscounted and without interest charges) resulting from use of the asset and its eventual disposition. The Corporation has not recognized any impairment on its fixed assets.

Revenue Recognition

Sale of Seed. Sales of seed are recognized as revenue when the seed is delivered to the customer.

Other Farm Income. Other farm income consists of amounts remitted from United States Department of Agriculture in accordance with the National Farm Bill. These amounts are recognized when received.

Royalty and Research Income. The Corporation acts as the collection agent for FAES. In exchange for these services, the Corporation receives ten percent of net collections (after deducting applicable expenses). The Corporation recognizes this collection fee when amounts are collected.

Expense Allocations

A large portion of the Corporation's costs are capitalized as the costs of growing crop. When the crop is harvested, these costs become the costs of seed inventory. Upon sales, these costs are reported as the costs of seed sold. All costs associated with planting, harvesting, warehousing, cleaning and treating seed are included in the costs of seed.

All other costs are classified as expenses. Program service expenses include the costs of managing the farming and warehousing operations and the costs of performing and managing licensing activities. Support service expenses include all costs that are not included in costs of seed, farming or licensing. Most expenses are assigned directly to one of the Corporation's two functions. Gross payroll costs of each employee are assigned to the functions depending on where each employee spends their time and fringe benefits are allocated in proportion to total gross payroll. However, certain expenses are allocated to the functional categories based on an estimate of the purpose achieved by the expenditure.

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 vary from the estimates that were used.

Notes to Financial Statements
June 30, 2018 and 2017
Florida Foundation Seed Producers, Inc.

NOTE 3 – PROPERTY AND EQUIPMENT

Property and Equipment consists of the following:

	<u>2018</u>	<u>2017</u>
Land	\$ 448,266	\$ 448,266
Construction-in-Progress	37,198	--
Buildings	1,281,472	1,164,300
Farm Equipment	1,088,541	1,064,927
Warehouse Equipment	2,474,200	2,476,966
Vehicles	80,114	80,114
Office Equipment and Furniture	28,020	25,895
	<u>5,437,811</u>	<u>5,260,468</u>
Accumulated Depreciation	<u>(2,648,857)</u>	<u>(2,454,610)</u>
Net	<u>\$ 2,788,954</u>	<u>\$ 2,805,858</u>

NOTE 4 – ROYALTY AND RESEARCH INCOME

FAES assigns its rights to seed varieties and nursery stock to the Corporation. The Corporation, acting as agent for FAES, enters into contracts with licensees that grant certain production and distribution rights. In return for these contracts, the licensees pay a royalty, based on total sales, to the Corporation. The Corporation, in turn, makes distributions to FAES and inventors. In addition, the Corporation serves as a collection agent for a limited number of research contracts. Royalty contracts require payment at least annually.

Royalty and research expenses are netted against gross royalty income. In some cases, royalties received are not distributed, rather they are held to offset expected future expenses; these are called “held revenues”. Net Royalties are generally distributed as follows: 10% is retained by the Corporation as the collection agent, 70% is paid to FAES, and 20% is distributed to the faculty breeders under the Cultivar Research Incentive Program (CRIP).

Royalty and research receipts, costs and distributions consisted of the following:

	<u>2018</u>	<u>2017</u>
Gross Royalty Receipts	\$ 14,971,580	\$ 13,124,095
Less: Direct costs	(314,541)	(313,560)
Less: Held Revenues	<u>(19,279)</u>	<u>(363,376)</u>
Royalty Receipts Distributed	14,637,760	12,447,159
Less: Collection fee to FFSP	(1,465,044)	(1,245,607)
Less: CRIP and other distributions	<u>(2,778,072)</u>	<u>(2,404,900)</u>
FAES Distribution before Deductible Costs	10,394,644	8,796,652
Less: Costs deducted from FAES	<u>(1,024)</u>	<u>(13,952)</u>
Amounts remitted or due to FAES	<u>\$ 10,393,620</u>	<u>\$ 8,782,700</u>

Royalties are received throughout the year. The Corporation summarizes receipts for the two six month periods ending December 31 and June 30. Distributions are made shortly thereafter. The amount reported on the Statement of Financial Position as Royalty Distribution Payable is the amount of distributions due from collections for the six-month periods ended June 30, 2018 and 2017.

Notes to Financial Statements
June 30, 2018 and 2017
Florida Foundation Seed Producers, Inc.

NOTE 5 – CONCENTRATIONS

Credit Risk. Financial instruments that subject the Corporation to a concentration of credit risk consist principally of deposits with banks and accounts receivable.

Bank Deposits. The Corporation is a direct support organization of the University of Florida. As such, the Corporation's bank deposits meet the definition of public deposits in Section 280.02, Florida Statutes. The Corporation's cash is held in banks that meet the definition of qualified public depositories. As a result, all of the Corporation's deposits are secured in accordance with the provisions of the Florida Security for Public Depositors Act.

Accounts Receivable. The Corporation's accounts receivable generally have a limited concentration of credit risk because of the dispersion of receivables from different individual farmers, farming organizations and geographies. However, at June 30, 2018 and 2017, 60% and 39%, respectively, of balance of accounts receivable was due from two vendors.

Sales. For the years ended June 30, 2018 and 2017, sales to the top three customers accounted for 74% and 78% of the Corporation's annual sales of seed, respectively.

NOTE 6 – DEFINED CONTRIBUTION PENSION PLAN

The Corporation makes contributions of 10% of salary to individual retirement accounts of all eligible employees under a Simplified Employee Pension-Individual Retirement Accounts Contribution Agreement as authorized by Section 408(k) of the Internal Revenue Code. Retirement contributions for the years ended June 30, 2018 and 2017, were \$28,694 and \$28,132 respectively.

NOTE 7 – STATEMENT OF CASH FLOWS

The following is the reconciliation of the Change in Net Assets to Net Cash from Operating Activities.

	<u>2018</u>	<u>2017</u>
Change in Net Assets	\$ 1,339,032	\$ 1,181,244
Gain on Asset Disposals	(10,650)	--
Equipment Donation to FAES	6,150	--
Depreciation – general	19,808	19,428
Depreciation – related to farm operations	221,134	221,266
Changes in:		
Receivables	31,589	(59,628)
Prepaid expenses	(25,005)	20,920
Seed Inventory	18,289	8,656
Investment in growing crop	(9,280)	(7,881)
Payables	(5,115)	(272,017)
Royalty distribution payable	48,311	1,000,906
Net Cash Provided by Operating Activities	<u>\$ 1,634,263</u>	<u>\$ 2,112,894</u>

Notes to Financial Statements
June 30, 2018 and 2017
Florida Foundation Seed Producers, Inc.

NOTE 8 – RELATED PARTY TRANSACTIONS

Related parties include staff members or members of the board of directors of the Corporation.

Sales and Receivables. Sales to related parties or to organizations where those related parties have significant influence were \$1,024,296 and \$1,002,655 for the years ended June 30, 2018 and 2017, respectively. Accounts receivable at June 30, 2018 and 2017, included \$48,931 and \$20,580, respectively, due from related parties.

Bank Deposits. The Corporation held approximately \$13,020,690 and \$11,543,000 at June 30, 2018 and 2017, respectively, on deposit with the First Federal Bank of Florida. The Corporation's Audit Committee chairman is an officer at the local branch office of First Federal Bank of Florida.

Purchases of Goods or Services. The Corporation purchased \$216,465 and \$194,325 of peanuts from a contract grower related to a member of management for the years ended June 30, 2018 and 2017, respectively.

NOTE 9 – COMMITMENTS

Prior to June 30, 2018, the Corporation entered into a contract for the purchase and installation of a chemical storage facility. The Corporation paid \$15,999 at the signing of the contract, which is reported in construction in progress, and is obligated to pay the contract balance of \$15,998 upon delivery.

Prior to June 30, 2018, the Corporation entered into a contract to purchase a tractor for \$192,927. The Corporation will pay the contracted price when the tractor is delivered in the next fiscal year.

NOTE 10 – SUBSEQUENT EVENTS

The Corporation has evaluated events and transactions for potential recognition or disclosure through October 25, 2018, which is the date the financial statements were available to be issued.

On October 10, 2018, Hurricane Michael traveled through the panhandle of Florida and brought significant damage to the Corporation's structures, equipment and 2018 peanut crop. Although the Corporation is making efforts to mitigate the losses to the peanut crop, and will pursue insurance remedies, the long term financial impact is not subject to reasonable estimation.

Kattell and Company, P.L.

Certified Public Accountants Serving the Nonprofit Community

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS

To the Board of Directors,
Florida Foundation Seed Producers, Inc.

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 Florida Foundation Seed Producers, Inc. (the Organization) as of and for the year ended June 30, 2018, as listed in the table of contents, and the related notes to financial statements, which collectively comprise the Organization's basic financial statements, and have issued our report thereon dated October 25, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization'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 Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Organization'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. **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 the Organization's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed **no instances of noncompliance or other matters** that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization'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 Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Kattell and Company, P.L.

October 25, 2018

Kattell and Company, P.L.

Certified Public Accountants Serving the Nonprofit Community

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October 25, 2018

Audit Committee and Board of Directors
Florida Foundation Seed Producers, Inc.

We have audited the financial statements of Florida Foundation Seed Producers, Inc. (the Organization) for the year ended June 30, 2018, and have issued our report thereon dated October 25, 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 letter to you dated July 9, 2018. Professional standards also require that we communicate to you the following information related to our audit.

Qualitative Aspects of Accounting Practices and Financial Statement Display

Accounting Policies. Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Organization are described in the notes to the financial statements.

- No new accounting policies were adopted and the application of existing policies was not changed during the year.
- We noted no transactions entered into by the Organization during the year 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. 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. Significant estimates include:

Allocation of expenses to functional categories. Certain costs are assigned directly to one function or another since that cost relates only to one function. Other costs are allocated based on an estimate of the function benefited by the cost. In many cases those allocations are based on an estimate of the time spent by personnel in each of the functions.

Useful lives of depreciable assets. Management estimates the useful lives and salvage values of depreciable assets when they are acquired. The difference between cost and estimated salvage value of these assets is then charged as a cost of seed or as an expense over the estimated useful lives of the assets.

Allocations of Seed Costs. The Organization allocates the costs of seed among crops and then to cost of sales, investment in growing crop, and seed inventory. These cost allocations include:

- Estimates of employee time devoted to crops.
- A proration of common costs to crops based on acres planted.
- An allocation of depreciation costs to crops based on acres planted.
- An estimate of net realizable value of inventory on hand.

We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Disclosures. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

- Note 4 provides detail of the amount of royalties collected and remitted to FAES and Inventors.
- Note 10 identifies the effects of Hurricane Michael as a significant subsequent event.

Adjustments. Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management.

- We assisted management with the preparation of adjusting entries related to property depreciation and allocations of seed costs.
- We did not identify and significant adjustments that were not made.

October 25, 2018

Audit Committee and Board of Directors
Florida Foundation Seed Producers, Inc.

Our Working Relationship with Management

Difficulties Encountered in Performing the Audit. We encountered **no difficulties** in dealing with management in performing and completing our audit.

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.

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 Organization'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.

Pre-engagement Consultations. 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 Organization'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 Comments and Recommendations

Payment of Federal Unemployment Taxes. The Internal Revenue Service (IRS) determined that the Organization was exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code effective September 29, 2017. One of the benefits of that classification of exemption is that the Organization is also exempt from paying federal unemployment tax. The Organization should discontinue paying federal unemployment taxes and seek whatever refunds may be available.

Pending Revision of Articles of Incorporation. The IRS provided the more favorable recognition of exemption based on a commitment that the Organization would amend the dissolution clause of its articles of incorporation. The Organization has yet to complete that amendment.

* * * * *

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

Very truly yours,

Kattell and Company, P.L.

"Not everything that counts can be counted, and not everything that can be counted counts."
- Albert Einstein



Florida Foundation Seed Producers, Inc.

October 25, 2018

Kattell and Company, P.L.
808-B NW 16th Avenue
Gainesville, FL 32601

This representation letter is provided in connection with your audits of the financial statements of Florida Foundation Seed Producers, Inc., which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements, for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of October 25, 2018, the following representations made to you during your audits.


Financial Statements


- 1) We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated July 9, 2018, including our responsibility for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP.
- 2) The financial statements referred to above are fairly presented in conformity with U.S. GAAP.
- 3) We acknowledge our responsibility 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.
- 4) We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
- 5) Significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
- 6) Related-party relationships and transactions, if any, have been appropriately accounted for and disclosed in accordance with U.S. GAAP.
- 7) All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.
- 8) There were no uncorrected misstatements. In addition, you have assisted us with the attached listing of adjusting journal entries that have been posted to the Organization's accounts. We are in agreement with those adjustments.
- 9) The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with U.S. GAAP.
- 10) Material concentrations have been appropriately disclosed in accordance with U.S. GAAP.
- 11) Guarantees, whether written or oral, under which the Organization is contingently liable, have been properly recorded or disclosed in accordance with U.S. GAAP.

Information Provided

- 12) We have provided you with:
 - a) Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters.
 - b) Additional information that you have requested from us for the purpose of the audit.
 - c) Unrestricted access to persons within the Organization from whom you determined it necessary to obtain audit evidence.
 - d) Minutes of the meetings of the governing board or summaries of actions of recent meetings for which minutes have not yet been prepared.

- e) Communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices, if any.
- 13) All material transactions have been recorded in the accounting records and are reflected in the financial statements.
 - 14) We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
 - 15) We have no knowledge of any fraud or suspected fraud that affects the Organization and involves:
 - a) Management,
 - b) Employees who have significant roles in internal control, or
 - c) Others where the fraud could have a material effect on the financial statements.
 - 16) We have no knowledge of any allegations of fraud or suspected fraud affecting the Organization's financial statements communicated by employees, former employees, grantors, regulators, or others.
 - 17) We have no knowledge of any instances of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements.
 - 18) We are not aware of any pending or threatened litigation, claims, or assessments or unasserted claims or assessments that are required to be accrued or disclosed in the financial statements in accordance with U.S. GAAP, and we have not consulted a lawyer concerning litigation, claims, or assessments.
 - 19) We have disclosed to you the identity of the Organization's related parties and all the related-party relationships and transactions of which we are aware.
 - 20) The Organization has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
 - 21) We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us.
 - 22) The Organization is an exempt organization under Section 501(c)(3) of the Internal Revenue Code. Any activities of which we are aware that would jeopardize the Organization's tax-exempt status, and all activities subject to tax on unrelated business income or excise or other tax, if any, have been disclosed to you. All required filings with tax authorities are up-to-date.
 - 23) We have identified and disclosed to you all instances that have occurred, or are likely to have occurred, of fraud and noncompliance with provisions of laws and regulations that we believe have a material effect on the financial statements or other financial data significant to the audit objectives, and any other instances that warrant the attention of those charged with governance.
 - 24) We have identified and disclosed to you all instances that have occurred, or are likely to have occurred, of noncompliance with provisions of contracts and grant agreements that we believe have a material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.
 - 25) We have identified and disclosed to you all instances that have occurred, or are likely to have occurred, of abuse that could be quantitatively or qualitatively material to the financial statements or other financial data significant to the audit objectives
 - 26) We have contracted for you to perform the following nonaudit services:
 - a) Assistance with journal entries related to property and equipment and seed costs.
 - b) Assistance with drafting of the financial statements.
 - c) Assistance with preparation of the IRS Form 990.
 In regard to the nonaudit services performed by you, we have—
 1. Assumed all management responsibilities.
 2. Designated an individual within senior management with suitable skill, knowledge, or experience to oversee the services.
 3. Evaluated the adequacy and results of the services performed.
 4. Accepted responsibility for the results of the services.

Signature: 
 Title: EXECUTIVE DIRECTOR - Sec./TREASURER

Signature: 
 Title: Office Manager

Client **Florida Foundation Seed Producers**
 File Name **FFSP**
 Period Ending **6/30/2018**

Account	Description	Debit	Credit
Adjusting Journal Entry JE-1			
AJE Needed to get BOY NA to agree			
360000	NET ASSETS - BEGINNING BALANCE	10,000.00	
791000	MEMBERSHIPS & DUES		10,000.00
Total		10,000.00	10,000.00
Adjusting Journal Entry JE-2			
FFSP donated used planters to UF. Planters were fully depreciated.			
541200	Gain on Disposal of Donated asset		6,150.00
842000	DONATIONS / CONTRIBUTIONS	6,150.00	
Total		6,150.00	6,150.00
Adjusting Journal Entry JE-3			
Leave accrual adjustment			
211200	A/P - ESCHEATMENT LIABILITY		4,394.71
623000	Leave Accrual Adjustment	4,394.71	
Total		4,394.71	4,394.71
Adjusting Journal Entry JE-4			
To transfer FFSP royalty revenue			
221000	DEPOSITS HELD IN TRUST	815,407.15	
469106	ROYALTIES		815,407.15
Total		815,407.15	815,407.15
Adjusting Journal Entry JE-5			
Adjust property accounts for disposals and depreciation			
183001	FARM EQUIPMENT		43,929.20
183002	WAREHOUSE EQUIPMENT		2,766.03
192000	ACC DEPR - BUILDING & IMPROVE		26,971.17
193000	ACC DEPR - FURNITURE & EQUIP		1,036.00
193001	ACCUM. DEP. FARM EQUIPMENT	1,556.39	
193002	ACCUM DEP WHAREHOUSE EQUIPMENT		146,856.68
193003	ACCUM. DEP. VEHICLES		20,939.49
788000	Depreciation Expense	240,942.18	
Total		242,498.57	242,498.57
Adjusting Journal Entry JE-6			
Adjust seed costs.			
152000	INVENT GOODS PURCH FOR RESALE		18,289.49
152001	INVESTMENTS IN GROWING CROPS	9,279.94	
470021	COG GRASSES	2,707.27	
470022	COG PEANUTS	292,752.05	

Journal Entries

Client **Florida Foundation Seed Producers**File Name **FFSP**Period Ending **6/30/2018**

Account	Description	Debit	Credit
470023	COG SOYBEANS	5,992.40	
470025	COG ALL OTHER CROPS		106,152.97
470027	COG SMALL GRAINS	34,844.50	
788000	Depreciation Expense		240,328.01
788001	Depreciation Expense - Vehicles	15,791.67	
788003	Depreciation Buildings	3,402.64	
Total		364,770.47	364,770.47