

TEXAS COOPERATIVE INSPECTION PROGRAM

AUDITED FINANCIAL STATEMENTS

AS OF AND FOR THE YEAR ENDED AUGUST 31, 2022

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Table of Contents

	<u>Page</u>
Independent Auditors' Report	1
Management's Discussion and Analysis (Unaudited)	4
Financial Statements:	
Statement of Net Position	8
Statement of Revenues, Expenses, and Changes in Net Position	9
Statement of Cash Flows	10
Notes to Financial Statements	11



Independent Auditors' Report

Texas Cooperative Inspection Program
11044 Research Boulevard, Suite D-225
Austin, Texas 78759

Qualified Opinion

We have audited the accompanying financial statements of Texas Cooperative Inspection Program (the Program) which comprise the statement of net position as of August 31, 2022, and the related statements of revenues, expenses, changes in net position, and cash flows for the years then ended and the related notes to the financial statements.

In our opinion, except for the omission of the information described in the Basis for Qualified Opinion section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of Texas Cooperative Inspection Program as of August 31, 2022, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Qualified Opinion

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. 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 Program, 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 except for the following qualification.

Management has not adopted Governmental Accounting Standards Board (GASB) issued Statement No. 68, *Accounting and Financial Reporting for Pensions (GASB 68)*, and accordingly, has not considered the need to measure the Program's liability to employees for defined benefit pensions. GASB 68 requires the liability to employees for defined benefit pensions (net pension liability) to be measured as the portion of the present value of projected benefit payments to be provided through the pension plan to current active and inactive employees that is attributed to those employees' past periods of service (total pension liability), less the amount of the pension plan's fiduciary net position.

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 Program's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

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 auditors' report that includes our opinion. 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 the Program'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 the Program's ability to continue as a going concern for a reasonable period of time.

Other Matter

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Atchley & Associates, LLP

Austin, Texas

January 9, 2023

**TEXAS COOPERATIVE INSPECTION PROGRAM
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED AUGUST 31, 2022**

The Texas Cooperative Inspection Program (the Program) operates through a cooperative agreement between the Texas Department of Agriculture (TDA) and the United States Department of Agriculture (USDA). The Program is responsible for the inspection of all fruits, vegetables, tree nuts, and peanuts grown in Texas or imported into the United States through Texas. These inspections benefit the citrus, vegetable, tree nut, and peanut industries of the state by ensuring that USDA standards are met, thereby enhancing the marketability of commodities for producers and shippers and providing consumers with consistent, quality products.

The Program has an administrative office in Austin, an office in Alamo, in the Rio Grande Valley, for oversight of the fruit and vegetable operations, and offices in Gorman, near Stephenville, and in Brownfield, near Lubbock, responsible for all tree nut and peanut inspections.

The employees of the Program are neither TDA employees, nor are they USDA employees. TDA administers the Program and USDA licenses the inspectors for each commodity. At no time in the Program's history has it been, nor is it now, an official agency of TDA or USDA. The Program operates entirely on a user fee basis and receives funding from neither the federal or state government. Funds are retained in a federal trust with independent audits conducted annually and USDA compliance and financial audits conducted every five years.

Financial Highlights for the Year Ended August 31, 2022

- The Program's assets exceeded its liabilities at the close of August 31, 2022, by \$68,294,974 (net position).
- Cash and cash equivalents as of August 31, 2022, were \$64,604,571.
- The Program had total expenses of \$21,540,272 for the year ended August 31, 2022.
- The Program's total net cash and cash equivalents increased by \$11,454,880 during the year.

Overview of the Financial Statements

Management's Discussion and Analysis is intended to serve as an introduction to the Program's basic financial statements. The basic financial statements included in this report are those of a special purpose government engaged only in business-type activities. The basic financial statements are briefly described below.

- **Statement of Net Position** – Reports the Program's current financial assets and liabilities along with fixed assets.
- **Statement of Revenues, Expenses and Changes in Fund Net Position** – Reports the Program's operating revenues, along with operating expenses.
- **Statement of Cash Flows** – Reports the Program's cash flows from operating and investing activities.
- **Notes to Financial Statements** – The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

**TEXAS COOPERATIVE INSPECTION PROGRAM
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED AUGUST 31, 2022**

Program Financial Analysis

Over time, significant changes in the net position are an indicator of whether the Program's financial health is improving or deteriorating. Assets exceeded liabilities by \$68,294,974 at the close of the fiscal year ended August 31, 2022.

**Net Position
As of August 31,**

<u>Description</u>	<u>2021</u>	<u>2022</u>
Current assets	\$ 57,955,051	\$ 69,226,299
Fixed assets	464,892	443,562
Total assets	\$ 58,419,943	\$ 69,669,861
Current liabilities	1,332,951	1,374,887
Total liabilities	1,332,951	1,374,887
Net Position	\$ 57,086,992	\$ 68,294,974

**Statement of Revenues, Expenses, and Changes in Net Position
Fiscal Year Ended August 31,
(in 000's)**

<u>Description</u>	<u>2021</u>	<u>2022</u>	<u>\$ Change</u>
<i>Revenues:</i>			
Operating revenues	\$ 33,773	\$ 32,736	\$ (1,037)
Interest income	24	12	(12)
Total revenues	33,797	32,748	(1,049)

**TEXAS COOPERATIVE INSPECTION PROGRAM
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED AUGUST 31, 2022**

**Statement of Revenues, Expenses, and Changes in Net Position - Continued
Fiscal Year Ended August 31,
(in 000's)**

<u>Description</u>	<u>2021</u>	<u>2022</u>	<u>\$ Change</u>
<i>Expenses:</i>			
Salaries	\$ 5,853	\$ 7,130	\$ 1,277
Payroll related costs	1,875	2,151	276
Other operating expenses	795	845	50
Travel	521	548	27
Fees to USDA	6,932	6,623	(309)
Fees to TDA	4,393	4,165	(228)
Citrus maturity costs	18	12	(6)
Parts and supplies	84	66	(18)
Total expenses	20,471	21,540	1,069
Change in Net Position	13,326	11,208	\$ (2,118)
Net position, September 1:	43,761	57,087	
Net position, August 31:	\$ 57,087	\$ 68,295	

Fixed Assets

The Program's fixed assets consist of land, buildings and improvements, automobiles and business equipment, and software used in administering the inspection program and depreciated over five to fifty years depending on asset type.

**Fixed Assets - August 31, 2022
(net of depreciation)**

Land	\$ 18,364
Office Buildings	181,397
Improvements	80,586
Automobiles	-
Office Equipment	157,611
Software	5,604
Total	\$ 443,562

**TEXAS COOPERATIVE INSPECTION PROGRAM
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED AUGUST 31, 2022**

Fixed Assets - Continued

The Program added fixed assets of \$97,825 during the current year. Fixed asset additions during the current fiscal year included the following:

**Fixed Asset Additions
Fiscal Year Ended August 31, 2022**

Improvements	\$	951
Office Equipment		93,999
Software		2,875
	<u>\$</u>	<u>97,825</u>

Economic Factors and Next Year's Financial Plan

The Program derives its funding on a fee for services basis; the revenue is tied to the production, importation, and shipping of agriculture commodities. Numerous factors including planting intentions, demand outlook for various agriculture commodities, and long term weather forecast all directly influence production of agriculture commodities needing inspection from Program inspectors.

Texas Commodities available for Program inspection in 2023 represent those commodities traditionally grown in Texas. These crops include onions, grapefruits, oranges, peanuts, and pecans. Texas citrus, hopefully, will see increased fruit production in 2023 as producers continue to recover from the devastating freeze Texas citrus orchards endured in February 2021. Texas grown peanuts (farmer stock peanuts) will be down in 2023 due to continued and significant drought conditions impacting west Texas production areas.

The Program expects continued growth from import commodities coming through Texas ports of entry. These imports include avocados, tomatoes, citrus, grapes, and onions. These imports from Mexico, all needing Program inspection, will continue to be the strongest segment of revenue generation.

Contacting the Program's Administrative Office

The financial report is designed to provide a general overview of the Program's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Administrative Director, Texas Cooperative Inspection Program, 11044 Research Blvd, Suite D-225, Austin, Texas 78759, (512) 795-1157.

TEXAS COOPERATIVE INSPECTION PROGRAM
STATEMENT OF NET POSITION
Proprietary Fund Type - Enterprise Fund
August 31, 2022

ASSETS

Current assets:

Cash and cash equivalents	\$ 64,604,571
Accounts receivable	2,317,504
Inventory	144,275
Certificates of deposit	2,047,286
Prepaid expenses	112,663
Total current assets	69,226,299

Property and equipment:

Land	18,364
Buildings	421,442
Improvements	286,007
Automobiles	60,973
Furniture and equipment	1,274,763
Software costs	1,493,243
Less: accumulated depreciation	(3,111,230)
Total property and equipment	443,562

TOTAL ASSETS \$ 69,669,861

LIABILITIES

Current liabilities:

Accounts payable - trade	\$ 11,643
Due to U.S. Department of Agriculture	574,038
Due to Texas Department of Agriculture	141,124
Other accounts payable	282,855
Other current liabilities	365,227
Total current liabilities	\$ 1,374,887

NET POSITION

Invested in capital assets	443,562
Unrestricted net position	67,851,412
Total net position	\$ 68,294,974

The accompanying notes are an integral part of these financial statements.

TEXAS COOPERATIVE INSPECTION PROGRAM
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN NET POSITION
Proprietary Fund Type - Enterprise Fund
Year Ended August 31, 2022

OPERATING REVENUES:

Inspection fees	\$ 29,214,461
Hourly and overtime charges paid by shippers	2,729,773
Mileage paid by shippers	376,280
Sample fees	247,768
Printing	117,679
Repairs/sales of equipment	46,362
Miscellaneous	3,257
Total operating revenues	<u>32,735,580</u>

OPERATING EXPENSES:

Salaries	7,129,784
Fees to U.S. Department of Agriculture	6,623,146
Fees to Texas Department of Agriculture	4,164,654
Payroll related costs	2,150,980
Other operating expenses	845,006
Travel	547,589
Parts and supplies	66,738
Citrus maturity costs	12,375
Total operating expenses	<u>21,540,272</u>

Operating income	11,195,308
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NON-OPERATING REVENUES:

Interest income	<u>12,674</u>
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CHANGE IN NET POSITION	11,207,982
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Net position, beginning of year	<u>57,086,992</u>
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Net position, end of year	<u><u>\$ 68,294,974</u></u>
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The accompanying notes are an integral part of these financial statements.

TEXAS COOPERATIVE INSPECTION PROGRAM
STATEMENT OF CASH FLOWS
Proprietary Fund Type - Enterprise Fund
Year Ended August 31, 2022

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from customers	\$ 32,887,356
Cash paid to employees	(6,988,971)
Cash paid for payroll taxes	(609,303)
Cash paid for employee benefits	(1,533,791)
Cash paid to suppliers for goods and services	(1,319,330)
Cash paid for fees	(10,895,930)

Net cash provided by operating activities	11,540,031
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CASH FLOWS FROM INVESTING ACTIVITIES:

Investment income	12,674
Purchase of equipment	(97,826)

Net cash used in investing activities	(85,152)
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NET INCREASE IN CASH AND CASH EQUIVALENTS	11,454,879
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Cash and cash equivalents, beginning of year	53,149,692
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Cash and cash equivalents, end of year	\$ 64,604,571
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RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:

Operating income	\$ 11,195,308
Adjustments to reconcile changes in net position to net cash provided by operating activities:	
Depreciation and amortization	119,156
Decrease in accounts receivable	151,776
Decrease in prepaid expense	112,300
Increase in inventories	(80,445)
Increase in accounts payable and other accrued liabilities	41,936

Net cash provided by operating activities	\$ 11,540,031
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The accompanying notes are an integral part of these financial statements.

TEXAS COOPERATIVE INSPECTION PROGRAM
NOTES TO FINANCIAL STATEMENTS
Proprietary Fund Type - Enterprise Fund
Year Ended August 31, 2022

A. NATURE OF PROGRAM

The Texas Cooperative Inspection Program (the Program) was created in May 1992 through a cooperative agreement between the Texas Department of Agriculture (TDA) and the United States Department of Agriculture (USDA) to make inspection services for fresh fruits, vegetables, peanuts, and other products, authorized by Congress, more widely available to growers, shippers, processors, and receivers than would be possible without the cooperation of the TDA. The Program levies fees for its services and is a totally self-supporting entity. No state or federal government agency has appropriated any funds to or for the Program.

The USDA provides a Federal Program Manager who is responsible for supervising the inspection program activities within the state. The TDA appoints a State Administrator to manage the operations of the inspection service. Due to the nature of the cooperative agreement, related party transactions exist between the Program, the TDA and the USDA.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation and Basis of Accounting

The accounting and reporting policies of the Program conform to generally accepted accounting principles as applicable to governments. The accompanying financial statements are presented on the accrual basis of accounting, where revenues are recognized when earned and expenses are recognized when incurred.

As stated above, the Program is a cooperative effort of the TDA and USDA, but does not receive any funds from either agency. All revenues to the Program are derived from its services. As such, management of the Program has prepared the basic financial statements consistent with other proprietary-type entities.

Fund Accounting

The accounts of the Program are organized on the basis of a fund, which is considered to be a separate accounting entity. The operations of the fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, equity, revenues, and expenses. The Program maintains a proprietary fund type or enterprise fund.

Enterprise funds are used to account for operations that are financed and operated in a manner similar to a private business. The intent is to recover cost of providing goods or services to users of the Program through user charges. Proprietary funds are accounted for on an economic resources measurement focus. This means that all assets and liabilities associated with their operation and activity are included on their statements of net position. Their reported net position is segregated into unrestricted contributed net position and invested in capital assets. Proprietary fund type operating statements present increases (revenue) and decreases (expenses) in the total net position.

TEXAS COOPERATIVE INSPECTION PROGRAM
NOTES TO FINANCIAL STATEMENTS
Proprietary Fund Type - Enterprise Fund
Year Ended August 31, 2022

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Program considers cash and cash equivalents to include demand deposit accounts, certificates of deposit with maturities of 90 days or less at time of purchase, and other accounts that have the general characteristics of demand deposits in that the customer may deposit additional funds at any time and also effectively withdraw funds at any time without prior notice or penalty.

Inventory

Inventory is valued at the lower of cost or net realizable value. Inventory consists of replacement and repair parts for peanut equipment.

Investments

Investments are reported at cost. Thereafter, investments are reported at their fair values in the statements of financial position, and changes in fair value are reported as investment income in the Statement of of Revenues, Expenses, and Changes in Net Position.

Property and Equipment

Depreciation is computed on all exhaustible fixed assets using the straight-line method over the estimated useful lives of the assets. The estimated useful lives are as follows:

Buildings	20-50 years
Improvements	5-20 years
Automobiles	3-5 years
Furniture and Equipment	5-10 years
Software	5-15 years

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles require management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Subsequent Events

Management of the Program has evaluated subsequent events for disclosure through the date of the independent auditors' report, the date the financial statements were available to be issued.

TEXAS COOPERATIVE INSPECTION PROGRAM
NOTES TO FINANCIAL STATEMENTS
Proprietary Fund Type - Enterprise Fund
Year Ended August 31, 2022

C. CASH DEPOSITS AND CERTIFICATES OF DEPOSIT

The Program maintains several bank accounts at two banks. Deposits at these banks are secured by Federal Deposit Insurance Corporation (FDIC) coverage and by pledged municipal and United States government securities.

At August 31, 2022, total cash balances in excess of FDIC coverage and pledged municipal and United States government securities was \$0.

The pledged securities, and their fair market values, at August 31, 2022, for deposits in Wells Fargo Bank were:

Description	Maturity	Rate	Amount
Liberty Mutual Insurance			
Company Surety Bond	N/A	N/A	\$ 35,000,000
FN ZL3007	4/1/2042	3.5%	8,999,432
FN AS7140	5/1/2031	2.5%	2,582,126
FN AS7343	6/1/2046	3.0%	10,374,685
FR QD5205	1/1/2052	2.5%	8,871,099
Total			\$ 65,827,342

The pledged securities, and their fair market values, at August 31, 2022, for deposits in Frost Bank were:

Description	Maturity	Rate	Amount
FNMA 30-Year Fixed	10/1/2046	3.00%	\$ 632,409
ARLINGTON TX ISD	2/15/2039	5.00%	1,518,420
ARLINGTON TX ISD	2/15/2039	5.00%	303,684
CYPRESS-FAIRBANKS TX ISD	2/15/2039	5.00%	103,049
CYPRESS-FAIRBANKS TX ISD	2/15/2039	5.00%	515,245
BEXAR CNTY TX	6/15/2030	3.00%	501,400
GNMA 15-Year Fixed	10/15/2024	4.00%	97,857
GNMA 30-Year Fixed	3/15/2033	5.50%	86,828
GNMA 30-Year Fixed	3/15/2033	5.50%	116,561
GNMA 30-Year Fixed	3/15/2033	5.50%	50,491
GNMA 30-Year Fixed	3/15/2033	5.50%	166,187
GNMA 30-Year Fixed	3/15/2033	5.50%	26,590
Total			\$ 4,118,721

TEXAS COOPERATIVE INSPECTION PROGRAM
NOTES TO FINANCIAL STATEMENTS
Proprietary Fund Type - Enterprise Fund
Year Ended August 31, 2022

D. FIXED ASSETS

The following is a summary of changes in capital assets for the year ended August 31, 2022:

	September 1, 2021	Additions	Deletions	August 31, 2022
Capital assets not being depreciated				
Land	\$ 18,364	\$ -	\$ -	\$ 18,364
Total capital assets not being depreciated	<u>18,364</u>	<u>-</u>	<u>-</u>	<u>18,364</u>
Capital assets being depreciated:				
Buildings	421,442	-	-	421,442
Improvements	285,056	951	-	286,007
Automobiles	60,973		-	60,973
Furniture & equipment	1,180,764	93,999	-	1,274,763
Software costs	1,490,368	2,875	-	1,493,243
Total capital assets being depreciated	<u>3,438,603</u>	<u>97,825</u>	<u>-</u>	<u>3,536,428</u>
Less accumulated depreciation for:				
Buildings	229,585	10,460	-	240,045
Improvements	189,786	15,635	-	205,421
Automobiles	48,780	12,193	-	60,973
Furniture & equipment	1,041,175	75,977	-	1,117,152
Software costs	1,482,749	4,890	-	1,487,639
Total accumulated depreciation	<u>2,992,075</u>	<u>119,155</u>	<u>-</u>	<u>3,111,230</u>
Total capital assets being depreciated, net	<u>446,528</u>	<u>(21,330)</u>	<u>-</u>	<u>425,198</u>
Total capital assets, net	<u>\$ 464,892</u>	<u>\$ (21,330)</u>	<u>\$ -</u>	<u>\$ 443,562</u>

Depreciation expense is \$119,156 for the year ended August 31, 2022.

E. VACATION PAY

Employees of the Program accrue vacation leave benefits for each month of employment. At the end of six months of continuous employment, the accumulated leave benefits are considered earned by the employee and, if not used during the fiscal year, are carried forward. The maximum hours an employee may carry forward is based on years of service. Upon termination from the Program, an employee is paid for any earned, unused vacation leave time.

TEXAS COOPERATIVE INSPECTION PROGRAM
NOTES TO FINANCIAL STATEMENTS
Proprietary Fund Type - Enterprise Fund
Year Ended August 31, 2022

F. EMPLOYEE PENSION PLAN

Plan Description

The Program participates in a joint contributory retirement plan, administered by the Employees Retirement System of Texas, for its non-seasonal, full-time employees. The Employees Retirement System of Texas Plan (ERSTP) is considered to be a single-employer defined benefit pension plan. ERSTP provides retirement, disability, and death benefits to plan members and their beneficiaries. Article XVI of the Texas Constitution assigns authority to establish and amend benefit provisions to the State legislature.

The Employees Retirement System of Texas issues a publicly available Comprehensive Annual Financial Report that includes financial statements and required supplementary information for ERSTP. That report may be obtained by writing to Employees Retirement System of Texas, P.O. Box 13207, Austin, Texas 78711-3207.

Funding Policy

The contribution requirements of plan members and the State are established, and may be amended, by the State legislature. Plan members are required to contribute 9.5% of their annual covered salary. The Program is required to contribute at a rate set by the Texas Legislature, currently at 10.0% of annual covered payroll. The Program contributed \$393,132 to the plan for the year ended August 31, 2022.

G. REMITTANCES TO RELATED PARTIES

The Program, under its cooperative agreement between TDA and USDA, remits a percentage of its inspection fee revenue to the government entities that administer the agreement. The Program remits 5.3% of gross receipts to USDA for shipping point inspections, 8% of gross receipts for "Terminal Market" inspections, and 25% of gross receipts for work performed by Federal licensees. The Program pays TDA up to 15% of all inspection fees billed by the Program as authorized by the Cooperative Agreement No. 19-SCIDX-TX-0015 Amendment 1 between USDA and TDA dated March 16, 2020.

During the year ended August 31, 2022, the Program's expenses for these administrative reimbursements were \$4,164,654 and \$6,623,146 to the TDA and USDA, respectively. At August 31, 2022, the Program had a liability for these reimbursements and other fees of \$141,124 and \$574,038 to the TDA and USDA, respectively.

TEXAS COOPERATIVE INSPECTION PROGRAM
NOTES TO FINANCIAL STATEMENTS
Proprietary Fund Type - Enterprise Fund
Year Ended August 31, 2022

H. COMMITMENTS AND CONTINGENCIES - RENTAL

The Program's administrative office is located at 11044 Research Boulevard, Suite D-225, in Austin, Texas. This lease is with G+I VIII Stratum, LP for the period from January 1, 2020 through February 28, 2027. The Program has elected not to adopt Governmental Accounting Standards Board 87, *Leases*, as it has determined that adoption would not have a significant impact to the financial statements. The total future payments under this noncancelable lease are as follows:

<u>Year Ending August 31:</u>	
2023	\$ 77,366
2024	78,759
2025	80,177
2026	81,620
2027	<u>41,298</u>
Total	<u>\$ 359,220</u>

Rent expense under all operating leases was \$129,067 for the year ended August 31, 2022.

I. CONCENTRATIONS AND RISKS

As outlined in Note A, the Program inspects fresh fruits, vegetables, peanuts, and other produce for growers, shippers, processors, and receivers in the State of Texas. The Program levies fees for its service and is totally self-supporting. The growers, shippers, processors, and receivers are not required to have inspections and may elect out of the inspection program.