

TEXAS COOPERATIVE INSPECTION PROGRAM

AUDITED FINANCIAL STATEMENTS

AS OF AND FOR THE YEAR ENDED AUGUST 31, 2020

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Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Texas Cooperative Inspection Program (the Program) which comprise the statement of net position as of August 31, 2020, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then 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 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 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 auditors' 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 auditors consider 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 qualified audit opinion.

Basis for Qualified Opinion

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.

Qualified Opinion

In our opinion, except for the matter described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Texas Cooperative Inspection Program as of August 31, 2020, 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.

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

December 29, 2020

Management's Discussion and Analysis

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, 2020

- The Program's assets exceeded its liabilities at the close of August 31, 2020 by \$43,760,664 (net position).
- Cash and cash equivalents as of August 31, 2020, were \$41,486,931.
- The Program had total expenses of \$12,979,733 for the year ended August 31, 2020.
- The Program's total net cash and cash equivalents increased by \$11,137,671 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 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.

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 \$43,760,664 at the close of the fiscal year ended August 31, 2020.

Description	Net Position As of August 31,	
	2019	2020
Current assets	\$ 32,206,043	\$ 44,501,592
Fixed assets	528,195	561,372
Total assets	32,734,238	45,062,964
Current liabilities	459,543	1,302,300
Total liabilities	459,543	1,302,300
Net Position	\$ 32,274,695	\$ 43,760,664

The Program's net position increased during the current fiscal year by \$11,485,969.

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

Description	2019	2020	\$ Change
<i>Revenues:</i>			
Operating revenues	\$ 17,762	\$ 24,402	\$ 6,640
Interest income	39	64	25
Total revenues	17,801	24,466	6,665
<i>Expenses:</i>			
Salaries	4,224	5,181	957
Payroll related costs	1,407	1,792	385
Other operating expenses	609	713	104
Travel	505	441	(64)
Fees to USDA	1,207	3,178	1,971
Fees to TDA	245	1,561	1,316
Citrus maturity costs	69	20	(49)
Parts and supplies	83	94	11
Total expenses	8,349	12,980	4,631
Change in Net Position	9,452	11,486	\$ 2,034
Net position, September 1	22,823	32,275	
Net Position, August 31	32,275	43,761	

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, 2020 (net of depreciation)

Land	\$	18,364
Office Buildings		186,541
Improvements		97,289
Automobiles		24,388
Office Equipment		169,056
Software		65,734
Total	\$	561,372

The Program added fixed assets of \$192,126 during the current year. Fixed asset additions during the current fiscal year included the following:

Fixed Asset Additions Fiscal Year Ended August 31, 2020

Office Buildings	\$	80,800
Office Equipment		111,326
	\$	192,126

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 2021 will represent those commodities TCIP traditionally inspects. These crops include onions, grapefruits, oranges, peanuts and pecans. Oranges, grapefruits, onions and pecans should all be at similar levels as experienced in 2020. Peanuts, with drought conditions increasing in the heavy production area of west Texas could see a decrease in tonnage needing inspection.

Economic Factors and Next Year's Financial Plan – continued

TCIP expects continued growth from import commodities coming through Texas ports of entry. These imports include avocados, citrus, grapes, onions and tomatoes. These imports from Mexico, all needing Program inspection, will be the strongest segment of revenue generation. Tomatoes were a new commodity to be inspected in 2020 due to the implementation of the U.S. Department of Commerce initiated tomato suspension agreement for Mexican tomato imports. The agreement took effect in April 2020. 2021 will represent the first full year for the agreement so tomatoes will represent an even stronger revenue stream.

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, 2020

ASSETS

Current assets:

Cash and cash equivalents:

Cash	\$ 39,465,301
Certificates of deposit	2,021,630

Total cash and cash equivalents	41,486,931
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Accounts receivable	2,811,722
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Inventory	94,138
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Prepaid expenses	108,801
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Total current assets	44,501,592
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Property and equipment:

Land	18,364
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Buildings	405,667
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Improvements	271,631
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Automobiles	60,973
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Furniture and equipment	1,142,155
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Software costs	1,487,177
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Less: accumulated depreciation	(2,824,595)
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Total property and equipment	561,372
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TOTAL ASSETS	\$ 45,062,964
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LIABILITIES

Current liabilities:

Accounts payable - trade	\$ 7,553
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Due to U.S. Department of Agriculture	503,774
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Due to Texas Department of Agriculture	324,628
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Other accounts payable	233,431
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Other current liabilities	232,914
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Total current liabilities	1,302,300
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NET POSITION

Invested in capital assets	561,372
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Unrestricted net position	43,199,292
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Total net position	\$ 43,760,664
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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, 2020

OPERATING REVENUES:

Inspection fees	\$ 21,785,228
Hourly and overtime charges paid by shippers	1,915,025
Mileage paid by shippers	278,996
Sample fees	180,698
Printing	175,475
Repairs/sales of equipment	64,408
Miscellaneous	2,471
Total operating revenues	<u>24,402,301</u>

OPERATING EXPENSES:

Salaries	5,180,832
Fees to U.S. Department of Agriculture	3,177,889
Payroll related costs	1,791,833
Fees to Texas Department of Agriculture	1,560,519
Other operating expenses	713,391
Travel	441,032
Parts and supplies	94,725
Citrus maturity costs	19,512
Total operating expenses	<u>12,979,733</u>

Operating income	11,422,568
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NON-OPERATING REVENUES:

Interest income	<u>63,401</u>
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CHANGE IN NET POSITION	11,485,969
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Net position, beginning of year	<u>32,274,695</u>
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Net position, end of year	<u><u>\$ 43,760,664</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, 2020

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from customers	\$ 23,315,350
Cash paid to employees	(5,079,942)
Cash paid for payroll taxes	(447,722)
Cash paid for employee benefits	(1,339,703)
Cash paid to suppliers for goods and services	(1,187,256)
Cash paid for fees	(3,994,331)
	11,266,396
Net cash provided by operating activities	11,266,396

CASH FLOWS FROM INVESTING ACTIVITIES:

Investment income	63,401
Purchase of equipment	(192,126)
	(128,725)
Net cash used in investing activities	(128,725)

NET INCREASE IN CASH AND CASH EQUIVALENTS 11,137,671

Cash and cash equivalents, beginning of year 30,349,260

Cash and cash equivalents, end of year \$ 41,486,931

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:

Operating income	\$ 11,422,568
Adjustments to reconcile changes in net position to net cash provided by operating activities:	
Depreciation and amortization	158,949
Increase in accounts receivable	(1,086,951)
Increase in prepaid expense	(47,289)
Increase in inventories	(23,638)
Increase in accounts payable and other accrued liabilities	842,757
	842,757
Net cash provided by operating activities	\$ 11,266,396

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, 2020

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, 2020

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.

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.

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, 2020, total cash balances in excess of FDIC coverage and pledged municipal and United States government securities was \$0.

TEXAS COOPERATIVE INSPECTION PROGRAM
NOTES TO FINANCIAL STATEMENTS
Proprietary Fund Type - Enterprise Fund
Year Ended August 31, 2020

C. CASH DEPOSITS AND CERTIFICATES OF DEPOSIT, Continued

The pledged securities, and their fair market values, at August 31, 2020, for deposits in Wells Fargo Bank were:

Description	Maturity	Rate	Amount
FN ZL3007	4/1/2042	3.50%	\$ 6,774,177
FN AS7343	6/1/2046	3.00%	12,585,522
FN AU1876	7/1/2043	3.50%	5,911,228
FN BH9222	1/1/2048	4.00%	13,234,821
Total			<u>\$ 38,505,748</u>

The pledged securities, and their fair market values, at August 31, 2020, for deposits in Frost Bank were:

Description	Maturity	Rate	Amount
FNMA 30-Year Fixed	10/1/2046	3.00%	\$ 1,269,219
ARLINGTON TX ISD	2/15/2039	5.00%	1,675,290
GNMA 15-Year Fixed	10/15/2024	4.00%	298,228
GNMA 30-Year Fixed	3/15/2033	5.50%	130,673
GNMA 30-Year Fixed	3/15/2033	5.50%	175,422
GNMA 30-Year Fixed	3/15/2033	5.50%	75,988
GNMA 30-Year Fixed	3/15/2033	5.50%	250,107
GNMA 30-Year Fixed	3/15/2033	5.50%	40,017
Total			<u>\$ 3,914,944</u>

D. FIXED ASSETS

The following is a summary of changes in capital assets for the year ended August 31, 2020:

	September 1, 2019	Additions	Deletions	August 31, 2020
Capital assets not being depreciated				
Land	\$ 18,364	\$ -	\$ -	\$ 18,364
Total capital assets not being depreciated	18,364	-	-	18,364

TEXAS COOPERATIVE INSPECTION PROGRAM
NOTES TO FINANCIAL STATEMENTS
Proprietary Fund Type - Enterprise Fund
Year Ended August 31, 2020

D. FIXED ASSETS, Continued

	September 1, 2019	Additions	Deletions	August 31, 2020
Capital assets being depreciated:				
Building	\$ 324,867	\$ 80,800	\$ -	\$ 405,667
Improvements	271,631	-	-	271,631
Automobiles	60,973	-	-	60,973
Furniture & equipment	1,030,829	111,326	-	1,142,155
Software costs	1,487,177	-	-	1,487,177
Total capital assets being depreciated	<u>3,175,477</u>	<u>192,126</u>	<u>-</u>	<u>3,367,603</u>
Less accumulated depreciation for:				
Buildings	211,173	7,953	-	219,126
Improvements	160,013	14,329	-	174,342
Automobiles	24,390	12,195	-	36,585
Furniture & equipment	909,867	63,232	-	973,099
Software costs	1,360,203	61,240	-	1,421,443
Total accumulated depreciation	<u>2,665,646</u>	<u>158,949</u>	<u>-</u>	<u>2,824,595</u>
Total capital assets being depreciated, net	<u>509,831</u>	<u>33,177</u>	<u>-</u>	<u>543,008</u>
Total capital assets, net	<u>\$ 528,195</u>	<u>\$ 33,177</u>	<u>\$ -</u>	<u>\$ 561,372</u>

Depreciation expense is \$158,949 for the year ended August 31, 2020.

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, 2020

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 9.5% of annual covered payroll. The Program contributed \$280,173 to the plan for the year ended August 31, 2020.

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 a flat rate based on the cost of the Executive Director's salary and information technology services, described in Exhibit A of the TDA-TCIP Agreement, and other indirect administrative costs. Effective on April 1, 2020, the Program pays TDA up to 15% of all inspection fees billed by the Program.

During the year ended August 31, 2020, the Program's expenses for these administrative reimbursements were \$1,560,519 and \$3,177,889 to the TDA and USDA, respectively. At August 31, 2020, the Program had a liability for these reimbursements and other fees of \$324,628 and \$503,774 to the TDA and USDA, respectively.

TEXAS COOPERATIVE INSPECTION PROGRAM
NOTES TO FINANCIAL STATEMENTS
Proprietary Fund Type - Enterprise Fund
Year Ended August 31, 2020

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 September 1, 2014 through December 31, 2019. On June 6, 2019, the lease was extended for the period January 1, 2020 through February 28, 2027. The total future payments under this noncancelable lease are as follows:

<u>Year Ending August 31:</u>	
2021	\$ 74,655
2022	75,999
2023	77,366
2024	78,759
2025	80,177
Thereafter	<u>122,918</u>
Total	<u><u>\$ 509,874</u></u>

Rent expense under all operating leases was \$89,276 for the year ended August 31, 2020.

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.