

TEXAS COOPERATIVE INSPECTION PROGRAM

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2013

TEXAS COOPERATIVE INSPECTION PROGRAM
Audited Financial Statements
For the Year Ended August 31, 2013

Table of Contents

	<u>Page</u>
Independent Auditors' Report	1
Management's Discussion and Analysis	3
Financial Statements:	
Statement of Net Position	7
Statement of Revenues, Expenses, and Changes in Net Position	8
Statement of Cash Flows	9
Notes to Financial Statements	10



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 which comprise the statement of net position as of August 31, 2013, 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. 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 consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Texas Cooperative Inspection Program as of and for the year ended August 31, 2013, 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.



Austin, Texas
January 17, 2014

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 2013

- The Program's assets exceeded its liabilities at the close of August 31, 2013 by \$5,767,666 (net position).
- Cash and cash equivalents as of August 31, 2013 were \$4,650,455.
- The Program had total expenses of \$5,055,810 for the year ended August 31, 2013.
- The Program's total net cash and cash equivalents increased by \$640,662 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 exceed liabilities by \$5,125,940 at the close of the fiscal year ended August 31, 2012.

Net Position – August 31,

Description	2012	2013
Current assets	\$4,552,672	\$5,309,784
Fixed assets	877,764	731,406
Total assets	5,430,436	6,041,190
Current liabilities	304,496	273,524
Total liabilities	304,496	273,524
Net Position	\$5,125,940	\$5,767,666

The Program's net position increased during the current fiscal year by \$641,726.

Change in Net Cash and Cash Equivalents Fiscal Year Ended August 31, (000's)

Description	2012	2013	Change
<i>Income</i>			
Operating revenues	\$4,296	\$5,693	\$1,397
Interest income	6	5	-1
Total operating revenues	4,302	5,698	1,396
<i>Expenses</i>			
Salaries	2,764	2,816	52
Payroll related costs	881	882	1
Other operating expenses	631	706	75
Travel	364	303	-61
Fees to USDA	180	244	64
Fees to TDA	55	0	-55
Parts and supplies	52	105	53
Total expenses	4,927	5,056	129
Increase(decrease) in net income	(625)	642	\$1,267
Net position September 1	5,751	5,126	
Net position August 31	\$5,126	\$5,768	

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 are being depreciated over five to fifty years depending on asset type.

Fixed Assets – August 31, 2013 (net of depreciation)

Land	\$ 18,364
Office Buildings	120,649
Improvements	42,319
Automobiles	16,749
Office Equipment	66,087
Software	<u>467,238</u>
Total	<u>\$731,406</u>

The Program added fixed assets of \$2,990 during the current year. Fixed asset additions during the current fiscal year included the following:

Fixed Asset Additions Fiscal Year Ended August 31, 2013

Land	\$ -
Office Buildings	-
Improvements	-
Automobiles	-
Office Equipment	2,990
Software	<u>-</u>
Total	<u>\$2,990</u>

Office equipment costs included upgrading computers.

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 and shipping of agriculture commodities. As the production of these commodities is strongly influenced by weather and market conditions, likewise, so is the income of the Program. Not only is the Program influenced by weather conditions related to the amount of production, it can be further influenced by adverse weather conditions that occur during the harvest period resulting in seasonal employees remaining on the payroll longer than anticipated. Although some additional payroll is taken into consideration in the yearly financial plan, there are situations that can extend longer than anticipated.

The outlook for the 2013 crop of commodities available for TCIP inspection services is expected to decrease slightly. Much of the decrease will be to the Texas peanut crop estimated to be 40 to 50,000 tons less than the 2012 crop. This shortfall in tonnage should be offset by an increase in inspection fees for peanuts that TCIP put into effect September 1, 2013. The new fee structure includes a \$2.10 per ton increase for the inspection of farmer stock peanuts and a \$.70 per ton increase for shelled stock peanuts.

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, 2013

ASSETS

Current Assets

Cash	\$ 2,636,124
Certificates of deposit	2,014,331
Total Cash and Cash Equivalents	4,650,455

Accounts receivable	407,496
Inventory	171,231
Prepaid expenses	80,602
Total Current Assets	5,309,784

Property and Equipment

Land	18,364
Buildings	292,733
Improvements	123,444
Automobiles	59,905
Furniture and equipment	794,403
Software costs	1,464,793
Accumulated depreciation	(2,022,236)
Total Property and Equipment	731,406

TOTAL ASSETS	\$ 6,041,190
---------------------	---------------------

LIABILITIES

Current Liabilities

Accounts payable - trade	\$ 695
Due to U.S. Department of Agriculture	12,507
Due to U.S. Texas Department of Agriculture	33,993
Accrued vacation pay	174,878
Other current liabilities	51,451
Total Current Liabilities	273,524

NET POSITION

Invested in capital assets	731,406
Unrestricted net position	5,036,260
Total Net Position	5,767,666

TOTAL LIABILITIES AND NET POSITION	\$ 6,041,190
-------------------------------------------	---------------------

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, 2013**

OPERATING REVENUES:

Inspection fees	\$ 4,130,287
Hourly and overtime charges paid by shippers	1,025,329
Sample fees	135,705
Printing	175,789
Mileage paid by shippers	131,308
Repairs/sales of equipment	88,076
Miscellaneous	6,571
Total Operating Revenues	5,693,065

OPERATING EXPENSES:

Salaries	2,815,448
Payroll related costs	881,856
Other operating expenses	706,264
Travel	303,113
Fees to U.S. Department of Agriculture	244,803
Fees to Texas Department of Agriculture	-
Parts and supplies	104,326
Total Operating Expenses	5,055,810

Operating Income 637,255

NON-OPERATING REVENUES:

Interest income	4,471
-----------------	-------

CHANGE IN NET POSITION 641,726

Net position, September 1, 2012 5,125,940

Net position, August 31, 2013 \$ 5,767,666

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, 2013

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from customers	\$ 5,583,142
Cash paid to employees	(2,829,529)
Cash paid for payroll taxes	(285,511)
Cash paid for employee benefits	(585,794)
Cash paid to suppliers for goods and services	(1,033,890)
Cash paid for fees	<u>(209,237)</u>
 Net Cash Provided by Operating Activities	 <u>639,181</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Investment income	4,471
Purchase of equipment	<u>(2,990)</u>
 Net Cash Provided by Investing Activities	 <u>1,481</u>

NET INCREASE IN CASH AND CASH EQUIVALENTS

	640,662
Cash and Cash Equivalents, September 1, 2012	<u>4,009,793</u>
 Cash and Cash Equivalents, August 31, 2013	 <u><u>\$ 4,650,455</u></u>

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Operating income	\$ 637,255
Adjustments to reconcile changes in net position to net cash provided by operating activities	
Depreciation and amortization	149,348
Increase in accounts receivable	(109,923)
Increase in prepaid expense	(2,521)
Increase in inventories	(4,006)
Decrease in accounts payable and other accrued liabilities	<u>(30,972)</u>
Net Cash Provided by Operating Activities	<u><u>\$ 639,181</u></u>

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, 2013

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.

The Program has adopted Government Accounting Standards Board (GASB) Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. This Statement amends the net asset reporting requirements in Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis for State and Local Governments, and other pronouncements incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position rather than net assets. GASB Statement No. 63 became effective for fiscal years beginning after December 15, 2011, and has been implemented in the Program's financial statements for the year ended August 31, 2013. There have been no adjustments to the Program's financial statements as a result of implementation of GASB Statement No. 63.

TEXAS COOPERATIVE INSPECTION PROGRAM
NOTES TO FINANCIAL STATEMENTS
Proprietary Fund Type - Enterprise Fund
Year Ended August 31, 2013

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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 a cost of services or "capital maintenance" 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.

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, 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 market. 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	50 years
Improvements	20 years
Furniture and Equipment	5-10 years
Software	5-15 years

TEXAS COOPERATIVE INSPECTION PROGRAM
NOTES TO FINANCIAL STATEMENTS
Proprietary Fund Type - Enterprise Fund
Year Ended August 31, 2013

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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 financials were issued.

C. CASH DEPOSITS AND CERTIFICATES OF DEPOSIT

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

The pledged securities, and their fair market values, at August 31, 2013, for deposits in Frost Bank were:

<u>Description</u>	<u>Amount</u>
GNMA 30 Year Fixed	<u>\$ 2,078,819</u>

The pledged securities, and their fair market values, at August 31, 2013, for deposits in Wells Fargo Bank were:

<u>Description</u>	<u>Amount</u>
FN - 3138AAYX3	\$ 43,516
FN - 3138E2EW1	342,098
FN - 3138M4R87	274,174
FN - 3138W7GF5	4,734
FN - 3138W9BD1	4,994
FN - 3138WPGZ1	14,214
FN - 3138WTRU2	14,334
FN - 31412M5A2	88,586
FN - 31413KXV8	13,393
FN - 31414GJ42	69,468
FN - 31415LML8	10,780
FN - 31415SYU0	287,452
FN - 31417DTE3	60,312
FN - 31417ES51	107,623

TEXAS COOPERATIVE INSPECTION PROGRAM
NOTES TO FINANCIAL STATEMENTS
Proprietary Fund Type - Enterprise Fund
Year Ended August 31, 2013

C. CASH DEPOSITS AND CERTIFICATES OF DEPOSIT, Continued

Description	Amount
FN - 31418AEBO	\$ 217,309
FN - 31418AKW7	245,406
FN - 31418UCG7	35,123
FN - 31419GP65	481,210
G2 - 36202DUK5	231,645
GN - 36225BN95	51,621
Total	<u><u>\$ 2,597,992</u></u>

D. FIXED ASSETS

The following is a summary of changes in capital assets for the year ended August 31, 2013:

	September 1, 2012	Additions	Deletions	August 31, 2013
Capital assets, not being depreciated				
Land	\$ 18,364	\$ -	\$ -	\$ 18,364
Total capital assets not being depreciated	18,364	-	-	18,364
Capital assets, being depreciated:				
Buildings	292,733	-	-	292,733
Improvements	123,444	-	-	123,444
Automobiles	59,905	-	-	59,905
Furniture & equipment	791,413	2,990	-	794,403
Software costs	1,464,793	-	-	1,464,793
Total capital assets being depreciated	<u>2,732,288</u>	<u>2,990</u>	<u>-</u>	<u>2,735,278</u>
Less accumulated depreciation for:				
Buildings	166,332	5,752.00	-	172,084
Improvements	68,771	12,354	-	81,125
Automobiles	41,062	2,094	-	43,156
Furniture & equipment	667,301	61,015	-	728,316
Software costs	929,422	68,133	-	997,555
Total accumulated depreciation	<u>1,872,888</u>	<u>149,348</u>	<u>-</u>	<u>2,022,236</u>
Total capital assets, being depreciated, net	<u>859,400</u>	<u>(146,358)</u>	<u>-</u>	<u>713,042</u>
Total capital assets, net	<u><u>\$ 877,764</u></u>	<u><u>\$ (146,358)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 731,406</u></u>

TEXAS COOPERATIVE INSPECTION PROGRAM
NOTES TO FINANCIAL STATEMENTS
Proprietary Fund Type - Enterprise Fund
Year Ended August 31, 2013

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. Upon termination from the Program, an employee is paid for any earned unused vacation leave time.

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 issues a publicly available 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 6.0% of their annual covered salary. The Program is required to contribute at a rate set by the Texas Legislature, currently at 6.45% of annual covered payroll. The Program contributed \$108,240 to the plan for the year ended August 31, 2013.

G. REMITTANCES TO RELATED PARTIES

The Program, under its cooperative agreement between the TDA and the USDA, remits a percentage of its inspection fee revenue to the two government entities that administer the agreement. The objective of the remittance is to reimburse the two government entities for their administrative costs. The Program remits a maximum of 5.3% of gross receipts to USDA for shipping point inspections and 8% of gross receipts for "Terminal Market" inspections. The fee accrued for TDA is estimated at a maximum rate of 4% of the gross receipts for all inspections and that amount is subsequently adjusted when the actual amount is determined, usually in the subsequent year. This adjustment is recognized as revenue from TDA as unexpended fees.

TEXAS COOPERATIVE INSPECTION PROGRAM
NOTES TO FINANCIAL STATEMENTS
Proprietary Fund Type - Enterprise Fund
Year Ended August 31, 2013

G. REMITTANCES TO RELATED PARTIES, Continued

During the year ended August 31, 2013, the Program's expenses for these administrative reimbursements were \$0 and \$244,803 to the TDA and USDA, respectively. At August 31, 2013, the Program had a liability for these reimbursements and other fees of \$33,993 and \$12,507 to the TDA and USDA, respectively.

H. COMMITMENTS AND CONTINGENCIES-RENTAL

The Program conducted its operations for the fiscal year in leased facilities at 11044 Research Boulevard, Suite D-225, in Austin, Texas. This lease is with USAA Stratum Executive Center Joint Venture for the period from September 1, 2004 through August 31, 2014.

As of August 31, 2013 the Program has \$76,781 in future minimum rental payments required under the operating lease that has non-cancelable lease terms in excess of one year.

Rent expense under all operating leases was \$78,057 for the year ended August 31, 2013.

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.