

TEXAS COOPERATIVE INSPECTION PROGRAM

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2014

TEXAS COOPERATIVE INSPECTION PROGRAM
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For the Year Ended August 31, 2014

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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 which comprise the statement of net position as of August 31, 2014, 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 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, 2014, 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 28, 2015

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 2014

- The Program's assets exceeded its liabilities at the close of August 31, 2014 by \$7,056,336 (net position).
- Cash and cash equivalents as of August 31, 2014 were \$6,114,835.
- The Program had total expenses of \$5,214,093 for the year ended August 31, 2014.
- The Program's total net cash and cash equivalents increased by \$1,464,380 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 \$7,056,336 at the close of the fiscal year ended August 31, 2014.

Net Position – August 31,

Description	2013	2014
Current assets	\$5,309,784	\$6,862,019
Fixed assets	731,406	632,327
Total assets	6,041,190	7,494,346
Current liabilities	273,524	438,010
Total liabilities	273,524	438,010
Net Position	\$5,767,666	\$7,056,336

The Program's net position increased during the current fiscal year by \$1,288,670.

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

Description	2013	2014	Change
<i>Income</i>			
Operating revenues	\$5,693	\$6,500	\$807
Interest income	5	2	-3
Total operating revenues	5,698	6,502	804
<i>Expenses</i>			
Salaries	2,816	2,748	-68
Payroll related costs	882	877	-5
Other operating expenses	706	713	7
Travel	303	314	11
Fees to USDA	244	273	29
Fees to TDA	0	201	201
Parts and supplies	105	88	-17
Total expenses	5,056	5,214	158
Change in Net Position	642	1,288	\$646
Net position September 1	5,126	5,768	
Net position August 31	\$5,768	\$7,056	

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, 2014 (net of depreciation)

Land	\$ 18,364
Office Buildings	114,898
Improvements	50,189
Automobiles	14,655
Office Equipment	31,854
Software	<u>402,367</u>
Total	<u>\$632,327</u>

The Program added fixed assets of \$41,956 during the current year. Fixed asset additions during the current fiscal year included the following:

Fixed Asset Additions Fiscal Year Ended August 31, 2014

Improvements	\$ 23,661
Office Equipment	<u>18,295</u>
Total	<u>\$41,956</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 2015 crop of commodities available for TCIP inspection services is expected to maintain or slightly increase the level experienced in 2014. The spring and fall rains of 2014 have left good moisture levels in key peanut and vegetable producing areas in the state. This increase in soil moisture should give Texas peanut and vegetable farmer's confidence that planted acres will produce a viable crop at harvest time. Import commodities, such as avocados and tomatoes,

available for inspection are also projected to increase. The increase of import commodities, particularly from Mexico, is due to improved highway infrastructure from production areas in western Mexico to south Texas.

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, 2014

ASSETS

Current Assets

Cash	\$ 4,100,504
Certificates of deposit	2,014,331
Total Cash and Cash Equivalents	6,114,835

Accounts receivable	547,612
Inventory	137,194
Prepaid expenses	62,378
Total Current Assets	6,862,019

Property and Equipment

Land	18,364
Buildings	292,733
Improvements	147,105
Automobiles	59,905
Furniture and equipment	812,698
Software costs	1,464,793
Accumulated depreciation	(2,163,271)
Total Property and Equipment	632,327

TOTAL ASSETS

7,494,346

LIABILITIES

Current Liabilities

Accounts payable - trade	6,014
Due to U.S. Department of Agriculture	14,715
Due to Texas Department of Agriculture	200,800
Accrued vacation pay	174,041
Other current liabilities	42,440
Total Current Liabilities	438,010

NET POSITION

Invested in capital assets	632,327
Unrestricted net position	6,424,009
Total Net Position	\$ 7,056,336

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, 2014

OPERATING REVENUES:

Inspection fees	\$ 4,579,995
Hourly and overtime charges paid by shippers	1,385,527
Sample fees	140,288
Printing	80,351
Mileage paid by shippers	151,401
Repairs/sales of equipment	151,159
Miscellaneous	11,653
Total Operating Revenues	6,500,374

OPERATING EXPENSES:

Salaries	2,748,505
Payroll related costs	876,785
Other operating expenses	713,205
Travel	313,992
Fees to U.S. Department of Agriculture	272,781
Fees to Texas Department of Agriculture	200,800
Parts and supplies	88,025
Total Operating Expenses	5,214,093

Operating Income	1,286,281
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NON-OPERATING REVENUES:

Interest income	2,389
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CHANGE IN NET POSITION	1,288,670
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Net position, September 1, 2013	5,767,666
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Net position, August 31, 2014	\$ 7,056,336
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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, 2014

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from customers	\$ 6,360,258
Cash paid to employees	(2,749,342)
Cash paid for payroll taxes	(275,413)
Cash paid for employee benefits	(611,751)
Cash paid to suppliers for goods and services	(915,239)
Cash paid for fees	<u>(304,566)</u>
 Net Cash Provided by Operating Activities	 <u>1,503,947</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Investment income	2,389
Purchase of equipment	<u>(41,956)</u>
 Net Cash Used by Investing Activities	 <u>(39,567)</u>

NET INCREASE IN CASH AND CASH EQUIVALENTS

	1,464,380
Cash and Cash Equivalents, September 1, 2013	<u>4,650,455</u>
 Cash and Cash Equivalents, August 31, 2014	 <u><u>\$ 6,114,835</u></u>

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Operating income	\$ 1,286,281
Adjustments to reconcile changes in net position to net cash provided by operating activities	
Depreciation and amortization	141,035
Increase in accounts receivable	(140,116)
Increase in prepaid expense	34,037
Increase in inventories	18,224
Decrease in accounts payable and other accrued liabilities	<u>164,486</u>
Net Cash Provided by Operating Activities	<u><u>\$ 1,503,947</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, 2014

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, 2014

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 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

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, 2014, for deposits in Frost Bank were:

<u>Description</u>	<u>Amount</u>
GNMA 30 Year Fixed	<u>\$ 2,105,141</u>

TEXAS COOPERATIVE INSPECTION PROGRAM
NOTES TO FINANCIAL STATEMENTS
Proprietary Fund Type - Enterprise Fund
Year Ended August 31, 2014

C. CASH DEPOSITS AND CERTIFICATES OF DEPOSIT, Continued

The pledged securities, and their fair market values, at August 31, 2014, for deposits in Wells Fargo Bank were:

Description	Amount
FN - 3138AW4D2	\$ 3,602,489
FN - 3138NYWU5	50,283
FN - 3138WQA28	111,644
FN - 31419AGZ4	40,228
Total	<u>\$ 3,804,644</u>

D. FIXED ASSETS

The following is a summary of changes in capital assets for the year ended August 31, 2014:

	September 1, 2013	Additions	Deletions	August 31, 2014
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	23,661	-	147,105
Automobiles	59,905	-	-	59,905
Furniture & equipment	794,403	18,295	-	812,698
Software costs	1,464,793	-	-	1,464,793
Total capital assets being depreciated	<u>2,735,278</u>	<u>41,956</u>	<u>-</u>	<u>2,777,234</u>
Less accumulated depreciation for:				
Buildings	172,084	5,751	-	177,835
Improvements	81,125	15,791	-	96,916
Automobiles	43,156	2,094	-	45,250
Furniture & equipment	728,316	52,528	-	780,844
Software costs	997,555	64,871	-	1,062,426
Total accumulated depreciation	<u>2,022,236</u>	<u>141,035</u>	<u>-</u>	<u>2,163,271</u>
Total capital assets, being depreciated, net	713,042	(99,079)	-	613,963
Total capital assets, net	<u>\$ 731,406</u>	<u>\$ (99,079)</u>	<u>\$ -</u>	<u>\$ 632,327</u>

TEXAS COOPERATIVE INSPECTION PROGRAM
NOTES TO FINANCIAL STATEMENTS
Proprietary Fund Type - Enterprise Fund
Year Ended August 31, 2014

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 of Texas 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 \$104,054 to the plan for the year ended August 31, 2014.

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.

During the year ended August 31, 2014, the Program's expenses for these administrative reimbursements were \$200,800 and \$272,781 to the TDA and USDA, respectively. At August 31, 2014, the Program had a liability for these reimbursements and other fees of \$200,800 and \$14,715 to the TDA and USDA, respectively.

TEXAS COOPERATIVE INSPECTION PROGRAM
NOTES TO FINANCIAL STATEMENTS
Proprietary Fund Type - Enterprise Fund
Year Ended August 31, 2014

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 (USAA) for the period from September 1, 2004 through August 31, 2014. On July 2, 2014, the Program and USAA executed an amendment to this lease to extend the term of the lease through December 31, 2019. The total future payments under this noncancelable lease are as follows:

<u>Year Ending August 31:</u>	<u>Lease Payments</u>
2015	\$ 54,198
2016	82,803
2017	84,308
2018	85,814
2019	87,318
Therafter	<u>29,608</u>
Total	<u><u>\$ 424,049</u></u>

Rent expense under all operating leases was \$73,452 for the year ended August 31, 2014.

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.