

**TEXAS COOPERATIVE INSPECTION PROGRAM**

**AUDITED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED AUGUST 31, 2017**

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AUDITED FINANCIAL STATEMENTS  
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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, 2017, 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 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, 2017, 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

March 23, 2018

## 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, 2017

- The Program's assets exceeded its liabilities at the close of August 31, 2017 by \$15,132,735 (net position).
- Cash and cash equivalents as of August 31, 2017, were \$13,880,294.
- The Program had total expenses of \$6,586,635 for the year ended August 31, 2017.
- The Program's total net cash and cash equivalents increased by \$3,154,622 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 \$15,132,735 at the close of the fiscal year ended August 31, 2017.

Description	Net Position As of August 31,	
	2016	2017
Current assets	\$ 11,739,359	\$ 15,175,475
Fixed assets	482,599	467,915
<b>Total assets</b>	<b>\$ 12,221,958</b>	<b>\$ 15,463,390</b>
Current liabilities	369,697	510,665
<b>Total liabilities</b>	<b>369,697</b>	<b>510,665</b>
<b>Net Position</b>	<b>\$ 11,852,261</b>	<b>\$ 15,132,735</b>

The Program's net position increased during the current fiscal year by \$3,280,474.

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

Description	2016	2017	\$ Change
<i>Revenues:</i>			
Operating revenues	\$ 9,069	\$ 9,863	\$ 794
Interest income	2	4	2
<b>Total revenues</b>	<b>9,071</b>	<b>9,867</b>	<b>796</b>
<i>Expenses:</i>			
Salaries	3,347	3,499	152
Payroll related costs	1,115	1,201	86
Other operating expenses	652	537	(115)
Travel	395	405	10
Fees to USDA	399	558	159
Fees to TDA	-	241	241
Parts and supplies	189	146	(43)
<b>Total expenses</b>	<b>6,097</b>	<b>6,587</b>	<b>490</b>
<b>Change in Net Position</b>	<b>\$ 2,974</b>	<b>\$ 3,280</b>	<b>\$ 306</b>
Net position, September 1	8,878	11,852	
<b>Net position, August 31</b>	<b>\$ 11,852</b>	<b>\$ 15,132</b>	

## 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, 2017 (net of depreciation)

Land	\$	18,364
Office Buildings		108,355
Improvements		41,967
Automobiles		8,374
Office Equipment		61,176
Software		229,679
<b>Total</b>	<b>\$</b>	<b>467,915</b>

The Program added fixed assets of \$82,942 during the current year. Fixed asset additions during the current fiscal year included the following:

### Fixed Asset Additions Fiscal Year Ended August 31, 2017

Buildings	\$	11,900
Improvements		16,600
Office Equipment		54,442
<b>Total</b>	<b>\$</b>	<b>82,942</b>

## 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. 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.

Conditions in 2018 are expected to provide Texas farmers favorable growing conditions for commodities inspected by the Program. Peanut production in the state is expected to be stable and should provide a harvest exceeding 300,000 tons of peanuts needing inspection. Planting intentions for Texas vegetables and citrus is also expected to be equal to 2017 plantings.

### **Economic Factors and Next Year's Financial Plan – continued**

Import commodities from Mexico including avocados, onions and tomatoes are also projected to be strong. These import commodities all need Program inspection. Strong United States consumer demand for these commodities will help support this growing segment of revenue for the Program throughout 2018.

### **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, 2017**

**ASSETS**

Current assets:

Cash and cash equivalents:

Cash	\$ 11,865,963
Certificates of deposit	2,014,331

Total cash and cash equivalents	13,880,294
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Accounts receivable	1,065,872
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Inventory	178,584
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Prepaid expenses	50,725
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Total current assets	15,175,475
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Property and equipment:

Land	18,364
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Buildings	304,633
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Improvements	171,555
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Automobiles	31,406
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Furniture and equipment	894,875
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Software costs	1,468,793
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Less: accumulated depreciation	(2,421,711)
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Total property and equipment	467,915
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<b>TOTAL ASSETS</b>	<b>\$ 15,643,390</b>
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**LIABILITIES**

Current liabilities:

Accounts payable - trade	\$ 8,388
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Due to U.S. Department of Agriculture	165,044
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Due to Texas Department of Agriculture	48,363
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Accrued vacation pay	166,508
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Other current liabilities	122,352
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Total current liabilities	510,655
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**NET POSITION**

Invested in capital assets	467,915
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Unrestricted net position	14,664,820
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Total net position	\$ 15,132,735
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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, 2017**

**OPERATING REVENUES:**

Inspection fees	\$ 7,376,983
Hourly and overtime charges paid by shippers	1,909,372
Sample fees	109,540
Printing	52,841
Mileage paid by shippers	172,126
Repairs/sales of equipment	225,713
Miscellaneous	16,195
Total operating revenues	<u>9,862,770</u>

**OPERATING EXPENSES:**

Salaries	3,499,330
Payroll related costs	1,200,852
Other operating expenses	536,855
Travel	404,686
Fees to U.S. Department of Agriculture	557,787
Fees to Texas Department of Agriculture	240,778
Parts and supplies	146,347
Total operating expenses	<u>6,586,635</u>

Operating income	3,276,135
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**NON-OPERATING REVENUES:**

Interest income	<u>4,339</u>
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<b>CHANGE IN NET POSITION</b>	3,280,474
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Net position, beginning of year	<u>11,852,261</u>
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Net position, end of year	<u><u>\$ 15,132,735</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, 2017**

**CASH FLOWS FROM OPERATING ACTIVITIES:**

Cash received from customers	\$ 9,570,556
Cash paid to employees	(3,499,524)
Cash paid for payroll taxes	(373,804)
Cash paid for employee benefits	(828,951)
Cash paid to suppliers for goods and services	(976,946)
Cash paid for fees	(658,106)

<b>Net cash provided by operating activities</b>	3,233,225
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**CASH FLOWS FROM INVESTING ACTIVITIES:**

Investment income	4,339
Purchase of equipment	(82,942)

<b>Net cash used in investing activities</b>	(78,603)
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<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	3,154,622
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<b>Cash and cash equivalents, beginning of year</b>	10,725,672
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<b>Cash and cash equivalents, end of year</b>	\$ 13,880,294
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**RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES**

Operating income	\$ 3,276,135
Adjustments to reconcile changes in net position to net cash provided by operating activities:	
Depreciation and amortization	97,627
Decrease in accounts receivable	(292,214)
Decrease in prepaid expense	21,007
Increase in inventories	(10,287)
Increase in accounts payable and other accrued liabilities	140,957

<b>Net cash provided by operating activities</b>	\$ 3,233,225
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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, 2017**

**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, 2017**

**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 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, 2017, total cash balances in excess of FDIC coverage and pledged municipal and United States government securities was \$3,655.

**TEXAS COOPERATIVE INSPECTION PROGRAM**  
**NOTES TO FINANCIAL STATEMENTS**  
**Proprietary Fund Type - Enterprise Fund**  
**Year Ended August 31, 2017**

The pledged securities, and their fair market values, at August 31, 2017, for deposits in Wells Fargo Bank were:

Description	Maturity	Rate	Amount
FNMA 30-Year Fixed	5/1/2043	3.00%	<u>\$ 10,960,666</u>

**C. CASH DEPOSITS AND CERTIFICATES OF DEPOSIT, Continued**

The pledged securities, and their fair market values, at August 31, 2017, for deposits in Frost Bank were:

Description	Maturity	Rate	Amount
GNMA 15-Year Fixed	4/30/2020	1.38%	\$ 799,656
GNMA 30-Year Fixed	10/15/2024	4.00%	819,855
GNMA 30-Year Fixed	3/15/2033	5.50%	235,570
GNMA 30-Year Fixed	3/15/2033	5.50%	316,240
GNMA 30-Year Fixed	3/15/2033	5.50%	136,987
GNMA 30-Year Fixed	3/15/2033	5.50%	450,878
GNMA 30-Year Fixed	3/15/2033	5.50%	72,140
Total			<u>\$ 2,831,325</u>

**D. FIXED ASSETS**

The following is a summary of changes in capital assets for the year ended August 31, 2017:

	September 1, 2016	Additions	Deletions	August 31, 2017
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	11,900	-	304,633
Improve	154,955	16,600	-	171,555
Automob	31,406			31,406
Furniture & equipment	840,433	54,442	-	894,875
Software	1,468,793	-	-	1,468,793
Total capital assets being depreciated	<u>\$ 2,788,320</u>	<u>\$ 82,942</u>	<u>\$ -</u>	<u>\$ 2,871,262</u>

**TEXAS COOPERATIVE INSPECTION PROGRAM**  
**NOTES TO FINANCIAL STATEMENTS**  
**Proprietary Fund Type - Enterprise Fund**  
**Year Ended August 31, 2017**

**D. FIXED ASSETS, Continued**

	September 1, 2016	Additions	Deletions	August 31, 2017
Less accumulated depreciation for:				
Buildings	\$ 189,337	\$ 6,941	\$ -	\$ 196,278
Improvements	120,595	8,993	-	129,588
Automobiles	20,938	2,094	-	23,032
Furniture & equipment	812,997	20,702	-	833,699
Software costs	1,180,218	58,896	-	1,239,114
Total accumulated depreciation	<u>2,324,085</u>	<u>97,626</u>	<u>-</u>	<u>2,421,711</u>
Total capital assets, being depreciated, net	<u>464,235</u>	<u>(14,684)</u>	<u>-</u>	<u>449,551</u>
Total capital assets, net	<u>\$ 482,599</u>	<u>\$ (14,684)</u>	<u>\$ -</u>	<u>\$ 467,915</u>

**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.

**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 \$141,374 to the plan for the year ended August 31, 2017.

**TEXAS COOPERATIVE INSPECTION PROGRAM**  
**NOTES TO FINANCIAL STATEMENTS**  
**Proprietary Fund Type - Enterprise Fund**  
**Year Ended August 31, 2017**

**G. REMITTANCES TO RELATED PARTIES**

The Program, under its cooperative agreement between the USDA, remits a percentage of its inspection fee revenue to the government entity that administer the agreement. 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. In November 2016, the Program signed a new cooperative agreement with TDA changing the fee from being 4% of the gross receipts for all inspections to a flat rate based on the cost of the Executive Director's salary and the information technology services described in Exhibit A of the TDA-TCIP Agreement.

During the year ended August 31, 2017, the Program's expenses for these administrative reimbursements were \$240,778 and \$577,787 to the TDA and USDA, respectively. In addition, the Program reimburses the TDA for actual administrative costs incurred on behalf of the Program. During the year ended August 31, 2017, the Program's expenses related to these reimbursements was \$27,075. At August 31, 2017, the Program had a liability for these reimbursements and other fees of \$48,363 and \$165,044 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 (USAA) for the period from September 1, 2014 through December 31, 2019. The total future payments under this noncancelable lease are as follows:

<u>Year Ending August 31:</u>	
2018	85,814
2019	87,318
2020	<u>29,608</u>
Total	<u><u>\$ 202,740</u></u>

Rent expense under all operating leases was \$93,200 for the year ended August 31, 2017.

**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.