

UNITED SORGHUM CHECKOFF PROGRAM

LUBBOCK, TEXAS

BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2017

AND

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

LUBBOCK, TEXAS

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**UNITED SORGHUM CHECKOFF PROGRAM
LUBBOCK, TEXAS**

**BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2017**

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Independent Auditor's Report

Board of Directors
United Sorghum Checkoff Program
Lubbock, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the governmental fund of the United Sorghum Checkoff Program (USCP), as of and for the year ended September 30, 2017, and the related notes to the basic financial statements, which collectively comprise USCP's basic financial statements as listed in the table of contents.

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.

Auditor's Responsibility

Our responsibility is to express opinions 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 of material misstatement.

An audit includes performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 auditor considers internal control relevant to the entity's preparation and fair presentation to 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 opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and general fund of the United Sorghum Checkoff Program as of September 30, 2017, and the respective changes in financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that budgetary comparison information on page 11 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.

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Supplemental Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise USCP's basic financial statements. The Supplementary Statement of Assessment Revenues by State is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Supplementary Statement of Assessment Revenues by State is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated November 20, 2017, on our consideration of the USCP's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

Lubbock, Texas

November 20, 2017

UNITED SORGHUM CHECKOFF PROGRAM

EXHIBIT A

STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET
SEPTEMBER 30, 2017

	Major Fund		
	<u>General Fund</u>	<u>Adjustments (Note 2)</u>	<u>Statement of Net Position</u>
ASSETS			
Cash and Cash Equivalents	\$ 1,910,069	\$	\$ 1,910,069
Temporary Cash Investments	12,158,768		12,158,768
Accounts Receivable	1,192		1,192
Interest Receivable		<u>7,512</u>	<u>7,512</u>
 Total Assets	 <u>\$ 14,070,029</u>	 <u>\$ 7,512</u>	 <u>\$ 14,077,541</u>
 LIABILITIES			
Accounts Payable - General	\$ 328,035	\$	\$ 328,035
Accounts Payable - Passback	1,875,809		1,875,809
Long-Term Commitments		<u>7,675,462</u>	<u>7,675,462</u>
 Total Liabilities	 <u>\$ 2,203,844</u>	 <u>\$ 7,675,462</u>	 <u>\$ 9,879,306</u>
 FUND BALANCE/NET POSITION			
Fund Balance:			
Committed for Managerial Reserve	\$ 2,500,000	\$ (2,500,000)	\$ 0
Committed for Projects	7,675,462	(7,675,462)	0
Unassigned	<u>1,690,723</u>	<u>(1,690,723)</u>	<u>0</u>
 Total Fund Balance	 <u>\$ 11,866,185</u>	 <u>\$ (11,866,185)</u>	 <u>\$ 0</u>
 Total Liabilities and Fund Balance	 <u>\$ 14,070,029</u>		
 Net Position:			
Unrestricted		<u>\$ 4,198,235</u>	<u>\$ 4,198,235</u>
 Total Net Position		 <u>\$ 4,198,235</u>	 <u>\$ 4,198,235</u>

See accompanying notes to the financial statements.

UNITED SORGHUM CHECKOFF PROGRAM

EXHIBIT B

STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2017

	Major Fund		Statement of Activities
	<u>General Fund</u>	<u>Adjustments (Note 2)</u>	
REVENUES			
Assessments	\$ 6,828,575	\$	\$ 6,828,575
Refund of Duplicate Payments	(18,028)		(18,028)
Closed Contract Funds Returned	250,532		250,532
Investment Income	<u>127,628</u>	<u>(1,167)</u>	<u>126,461</u>
Total Revenues	<u>\$ 7,188,707</u>	<u>\$ (1,167)</u>	<u>\$ 7,187,540</u>
EXPENDITURES/EXPENSES			
Administrative	\$ 687,513	\$ (100,000)	\$ 587,513
USDA Oversight and Reserves	100,180		100,180
Crop Improvement	3,531,536	902,361	4,433,897
Market Development	1,842,683	(196,144)	1,646,539
Renewables	722,197	(87,331)	634,866
Collaborative Sorghum Investment Program	200,000	(200,000)	
Regionalization	99,764	(99,764)	
State Funding Passback	<u>1,548,010</u>		<u>1,548,010</u>
Total Expenditures/Expenses	<u>\$ 8,731,883</u>	<u>\$ 219,122</u>	<u>\$ 8,951,005</u>
Excess (Deficit) Revenues Over (Under) Expenditures	\$ (1,543,176)	\$ 1,543,176	\$ 0
Change in Net Position		(1,763,465)	(1,763,465)
Fund Balance/Net Position:			
Beginning of the Year	<u>13,409,361</u>	<u>(7,447,661)</u>	<u>5,961,700</u>
End of the Year	<u>\$ 11,866,185</u>	<u>\$ (7,667,950)</u>	<u>\$ 4,198,235</u>

See accompanying notes to the financial statements.

UNITED SORGHUM CHECKOFF PROGRAM

NOTES TO BASIC FINANCIAL STATEMENTS

1. Nature of Operations

The United Sorghum Checkoff Program (USCP) was created by the Sorghum Promotion, Research, and Information Order (the Order) approved on May 6, 2008 and became effective on July 1, 2008. The Order was implemented under the authority of the Commodity Promotion, Research, and Information Act of 1996. The Order established an industry-funded promotion, research, and information program for sorghum designed to strengthen the sorghum industry's position in the marketplace, as well as to maintain and expand markets and uses for sorghum.

USCP is financed by producers and importers of sorghum who pay assessments based on the value of the sorghum they produce or import. Grain sorghum is assessed at a rate of 0.60% of market value received by the producer and forage sorghum is assessed at a rate of 0.35% of the market value received by the producer. Total net assessments collected for the year ended September 30, 2017 totaled \$6,810,547.

2. Summary of Significant Accounting Policies

A. Basis of Accounting and Presentation

Government-Wide Financial Statements

The Statement of Net Position and the Statement of Activities display information about the government-wide entity as a whole. These statements report information on all of the nonfiduciary activities of USCP. The effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. USCP currently does not have business-type activities.

These government-wide financial statements were prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment. USCP does not have any program revenues.

UNITED SORGHUM CHECKOFF PROGRAM

NOTES TO FINANCIAL STATEMENTS

Fund Financial Statements

USCP follows GASB Statement No. 54, which redefines how fund balances of the governmental funds are presented in the financial statements. Fund balances are classified as follows:

Nonspendable fund balance – amounts that are not in nonspendable form (such as inventory) or are required to be maintained intact.

Restricted fund balance – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.

Committed fund balance – amounts constrained to specific purposes by USCP itself, using its highest level of decision-making authority. To be reported as committed, amounts cannot be used for any other purpose unless USCP takes the same highest level action to remove or change the constraint.

Assigned fund balance – amounts USCP intends to use for a specific purpose. Intent can be expressed by an official or body to which USCP delegates authority.

Unassigned fund balance – amounts that are available for any purpose.

For the fiscal year ended September 30, 2017, USCP has committed and unassigned fund balances. USCP has committed fund balance in the amount of \$2,500,000 to set up a managerial reserve, and \$7,675,462 to fund long-term commitments disclosed in Note 6. This managerial reserve account is equal to 45% of the prior year's budget.

Fund Accounting

Separate financial statements are provided for the governmental fund. Major governmental funds are reported as separate columns in the fund financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, USCP considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

USCP reports the following major governmental fund:

General Fund - Accounts for financial resources in use for general types of operations. This is a budgeted fund and fund balances are considered as resources available for use.

UNITED SORGHUM CHECKOFF PROGRAM

NOTES TO FINANCIAL STATEMENTS

Explanation of Differences between the Governmental Fund Balance Sheet and the Statement of Net Position:

Fund Balance - September 30, 2017	\$ 11,866,185
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Interest receivable on investments is not recorded in the funds.	7,512
Long-term commitments are not due and payable in the current period and therefore are not reported in the funds.	<u>(7,675,462)</u>
Net Position of Governmental Activities	<u>\$ 4,198,235</u>

Explanation of Differences between the Governmental Fund Operating Statement and the Statement of Activities:

Change in Fund Balance - Year Ended September 30, 2017	\$ (1,543,176)
Amounts reported for governmental activities in the Statement of Activities (SOA) are different because:	
The change in accrued interest income on investments is reflected in the SOA.	(1,167)
The change in long-term commitments is reflected in the SOA.	<u>(219,122)</u>
Change in Net Position of Governmental Activities	<u>\$ (1,763,465)</u>

B. Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

C. Cash and Cash Equivalents

For purposes of classifying investments, USCP considers all highly-liquid investments with a purchased maturity of three months or less to be cash equivalents. Cash equivalents are recorded at cost.

D. Net Position

Unrestricted net position represent amounts currently available for the use in USCP's operations. For the fiscal year ended September 30, 2017, USCP has unrestricted net position of \$4,198,235.

UNITED SORGHUM CHECKOFF PROGRAM

NOTES TO FINANCIAL STATEMENTS

E. "Pass Back"

Under the Order, as described in Note 1, USCP is required to "pass back" a percentage of the assessments collected to the state from which the amount was collected. USCP agreed to pass back 25% of the collections to the states which amounted to \$1,548,010 for the year ended September 30, 2017.

3. Cash and Investments

A. Cash

On September 30, 2017, the bank balances of USCP's deposits was \$1,910,069. As of September 30, 2017, USCP's bank balances were not exposed to custodial credit risk because they were secured and collateralized by securities held by the pledging financial institutions' trust departments.

B. Investments

USCP's investments are categorized based on criteria specified by GASB as follows:

- 1) Insured or registered, with securities held by the entity or its agent in the entity's name.
- 2) Uninsured and unregistered, with securities held by the counter party's trust department or agent in the entity's name.
- 3) Uninsured and unregistered, with securities held by the counter party or by the counter party's trust department or agent, but not in the entity's name.

At September 30, 2017, USCP had investments totaling \$12,158,768, all of which were held in certificates of deposit at numerous separate financial institutions. These investments are considered "insured or registered" as they are secured and collateralized by securities held by the pledging financial institutions' trust departments.

For the year ended September 30, 2017, USCP funds were not discovered to be used for influencing government policy or action. The board adhered to the AMS investment policy or, alternatively, the exception to the Investment Policy as approved by AMS on July 12, 2017. Funds were used only for projects and other expenses authorized in a budget approved by USDA and in accordance with Guidelines for AMS Oversight of Commodity Research and Promotion Programs.

4. Management Fee

USCP has entered into a management contract with National Sorghum Producers to provide day-to-day management of the operations of USCP and to facilitate a coordinated program of research, promotion, and information. These day-to-day operations will include assessment collection and coordination, compliance, and program oversight. For the year ended September 30, 2017, payments under this agreement totaled \$1,576,864.

UNITED SORGHUM CHECKOFF PROGRAM

NOTES TO FINANCIAL STATEMENTS

5. Income Tax Status

USCP is classified as a tax-exempt entity that engages in activities under the aegis of the USDA.

6. Commitments, Contingencies, and Subsequent Events

As of September 30, 2017, there were no claims or assessments nor any litigation pending against USCP.

USCP's management has evaluated subsequent events through November 20, 2017, the date which the financial statements were available for issue.

Long-term commitments are recognized in the Government-Wide financial statements. Current year activity and the September 30, 2017 liabilities for these commitments are as follows:

<u>Program</u>	<u>Beginning Balance 9/30/2016</u>	<u>Contracts Added</u>	<u>Payments/ Adjustments</u>	<u>Ending Balance 9/30/2017</u>
Crop Improvement	\$ 3,455,595	\$ 3,573,000	\$ 2,642,998	\$ 4,385,597
Market Development	1,017,702	772,950	969,094	821,558
Renewables	456,509	165,000	252,331	369,178
ICE Shared	118,340	321,750	349,391	90,699
Collaborative Sorghum Investment Program	1,800,000		200,000	1,600,000
Administrative	100,000		100,000	
Regionalization	508,194		99,764	408,430
	<u>\$ 7,456,340</u>	<u>\$ 4,832,700</u>	<u>\$ 4,613,578</u>	<u>\$ 7,675,462</u>

REQUIRED SUPPLEMENTARY INFORMATION

UNITED SORGHUM CHECKOFF PROGRAM

RSI

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2017

	(Unaudited) Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Assessments	\$ 6,250,000	\$ 6,828,575	\$ 578,575
Refund of Duplicate Payments		(18,028)	(18,028)
Closed Contract Funds Returned		250,532	250,532
Investment Income		127,628	127,628
Total Revenues	<u>\$ 6,250,000</u>	<u>\$ 7,188,707</u>	<u>\$ 938,707</u>
EXPENDITURES			
Administrative	\$ 610,000	\$ 687,513	\$ (77,513)
USDA Oversight and Reserves	115,000	100,180	14,820
Crop Improvement	4,500,000	3,531,536	968,464
Market Development	1,750,000	1,842,683	(92,683)
Renewables	725,000	722,197	2,803
Collaborative Sorghum Investment Program		200,000	(200,000)
Regionalization		99,764	(99,764)
State Funding Passback	<u>1,600,000</u>	<u>1,548,010</u>	<u>51,990</u>
Total Expenditures	<u>\$ 9,300,000</u>	<u>\$ 8,731,883</u>	<u>\$ 568,117</u>
Excess of Revenues Over Expenditures	<u>\$ (3,050,000)</u>	<u>\$ (1,543,176)</u>	<u>\$ 1,506,824</u>
FUND BALANCE			
Beginning of Year - October 1, 2016		<u>13,409,361</u>	
End of Year - September 30, 2017		<u>\$ 11,866,185</u>	

SUPPLEMENTAL INFORMATION

UNITED SORGHUM CHECKOFF PROGRAM

SCHEDULE 1

SUPPLEMENTARY STATEMENT
OF ASSESSMENT REVENUES BY STATE
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2017

Assessment Revenues:

Qualified State Sorghum Producer Organizations	
Kansas	\$ 3,781,076
Texas	1,754,773
Nebraska	199,370
Oklahoma	299,839
Louisiana	39,279
Arkansas	36,002
New Mexico	29,034
Colorado	186,504
Kentucky	5,615
Total Qualified State Sorghum Producer Organizations	<u>\$ 6,331,492</u>
States Without Qualified State Sorghum Producer Organizations	
Illinois	\$ 28,100
Missouri	74,585
Arizona	3,676
South Dakota	212,996
Pennsylvania	2,355
Mississippi	18,759
Tennessee	3,317
Wisconsin	610
New Jersey	271
Maryland	8,116
Iowa	958
Georgia	3,156
South Carolina	3,676
North Carolina	43,279
Virginia	6,877
Alabama	1,142
Indiana	15,842
Minnesota	4,071
California	147
Delaware	934
Florida	30
Ohio	2,438
Washington	2,282
Total States Without Qualified State Sorghum Producer Organizations	<u>\$ 437,617</u>
Imports	<u>\$ 36,644</u>
Late Fees	<u>\$ 4,794</u>
Total Assessment Revenues	<u><u>\$ 6,810,547</u></u>

INTERNAL CONTROL SECTION

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Independent Auditor's Report

Board of Directors
United Sorghum Checkoff Program
Lubbock, Texas

We have audited, 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, the financial statements of the governmental activities and governmental fund of the United Sorghum Checkoff Program (USCP), as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise USCP's basic financial statements, and have issued our report thereon dated November 20, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered USCP's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of USCP's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether USCP's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

Lubbock, Texas

November 20, 2017