

Annual Report

Agricultural Producer Security Trust Fund

Year Ended June 30, 2013

Issued November 19, 2013



Division of Trade and Consumer Protection
Bureau of Business Trade Practices
Agricultural Producer Security Section

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Wisconsin Agricultural Producer Security Trust Fund
Statement of Revenues and Expenditures, and Cash Balances

	Years Ended		
	<u>30-Jun-13</u>	<u>30-Jun-12</u>	<u>30-Jun-11</u>
Revenues			
Assessments			
Grain Dealers	808,000	728,000	682,000
Grain Warehouse Keepers	63,000	94,000	120,000
Milk Contractors	91,000	123,000	438,000
Vegetable Contractors	31,000	34,000	16,000
Total Assessments	993,000	979,000	1,256,000
Licenses Fees & Administrative Revenues			
Grain Dealers	33,000	83,000	166,000
Grain Warehouse Keepers	277,000	289,000	283,000
Milk Contractors	165,000	150,000	140,000
Vegetable Contractors	91,000	53,000	49,000
Total License Fees & Monthly Fees	566,000	575,000	638,000
Interest Revenue	16,000	15,000	20,000
Grain Dealer – Audits for Marketing Boards	7,000	10,000	9,000
Miscellaneous Revenue	-	-	-
Total Revenues	1,582,000	1,579,000	1,923,000
Expenditures			
Salaries and Fringe			
Grain Dealers	262,000	281,000	284,000
Grain Warehouse Keepers	237,000	250,000	253,000
Milk Contractors	288,000	331,000	323,000
Vegetable Contractors	99,000	107,000	104,000
Total Salaries and Fringe	886,000	969,000	964,000
Supplies and Services			
Grain Dealers	61,000	64,000	64,000
Grain Warehouse Keepers	48,000	50,000	49,000
Milk Contractors	57,000	51,000	42,000
Vegetable Contractors	15,000	16,000	8,000
Total Supplies and Services	181,000	181,000	163,000
Loan Repayment (Principal and Interest)	-	-	-
Premiums Paid on Financial Backing	-	-	-
Default Payments to Producers	2,000	-	-
Miscellaneous Expense	-	-	-
Total Expenditures	1,069,000	1,150,000	1,127,000
Net Total Revenues Less Total Expenditures	513,000	429,000	796,000
Beginning Cash Balance	11,801,000	11,372,000	10,576,000
Ending Cash Balance	12,314,000	11,801,000	11,372,000

Wisconsin Agricultural Producer Security Trust Fund
Notes to Statement of Revenues and Expenditures, and Cash Balances

OVERVIEW

The Wisconsin Agricultural Producer Security Trust Fund (the Fund) is established under Section 25.463, Wis. Stats., and is administered by the Department of Agriculture, Trade and Consumer Protection (the Department). The Fund is maintained within the Department's Agricultural Producer Security Program (the Program). The Program is governed by Ch. 126 of the Wisconsin Statutes. The purpose of the Program is to provide some level of assurance that milk, vegetable and grain producers will be paid for their products. Generally, persons who purchase grain, milk or vegetables from Wisconsin producers, and grain warehouse keepers who store producer owned grain, are required to comply with the provisions of Ch. 126, Wis. Stats. Collectively, these parties are defined as "Contractors". Ch. 126, Wis. Stats., contains a variety of provisions to ensure that Contractors are able to pay producers. However, if a contractor does fail to pay, producers may be able to make a claim against the Fund.

Fund revenues primarily consist of assessments and license fees paid by licensed Contractors. Fund expenditures include administrative expenditures of operating the Program, and any costs associated with insurance or other backing for the fund. Further, should a contractor fail to pay a grain, milk or vegetable producer, that producer may be able to make a claim against the Fund for partial reimbursement.

Note 1 – Accounting Methodology

The Statement of Revenues and Expenditures, and Cash Balances are presented using the cash basis method of accounting. Revenues are recognized when received by the Fund, and expenditures are recognized when disbursed from the Fund.

Responsibility for management of the Fund is split. The Fund is managed within the State of Wisconsin Accounting System, known as WISMART. The State of Wisconsin, Department of Administration is responsible for the overall management of this system. In addition, the State of Wisconsin Investment Board oversees management of investment activities. (See Chapter 25, Wis. Stats.)

Within the Department, the Division of Management Services (DMS) manages and accounts for the overall bank activity and administers transactions as part of WISMART. In addition, state law¹ requires the department to account for the balance in the Fund that is attributable to each of the four contractor license types within the program. Accordingly, the Division of Trade and Consumer Protection (the Division) maintains a parallel, but more detailed accounting system. The four industry license type categories are:

- ❑ Grain Dealers
- ❑ Grain Warehouse Keepers
- ❑ Milk Contractors
- ❑ Vegetable Contractors

¹ Section 126.05(2), Wis. Stats.

On a monthly basis, the Division records revenues and expenditures from the state's accounting system, allocates interest revenue, and then reconciles balances, revenues, and expenditures to the "Cash Balance Report" maintained by DMS.

The Fund has two general functions in each of the four Fund industry categories:

- ❑ Indemnity Function
- ❑ Administrative Function

Four separate industry groups with two separate functions means that there are eight separate portions, or "subaccounts", to the fund. The Division's accounting system maintains revenues, expenditures, and balances for each of these subaccounts separately.

The indemnity function category consists of assessment revenues collected from contractors. Indemnity function expenditures include any payments to producers as a result of default claims, any payments to insurance or financial services companies for the financial backing of the Fund, and license fee credits.² The administrative function category consists of license fee revenues and expenditures related to administering the Program.

DMS maintains a monthly Cash Balance Report. This is a record of cash activity segregated by industry category, but does not account for the monthly cash balances in each of the industry categories or functions. The division accounts for the monthly cash balances in each of the industry categories and functions, and allocates any revenues and expenditures not categorized by the DMS. The division reconciles its records to WISMAART and to the Cash Balance Report every month.

Note 2 – Statements of Revenues, Expenditures, and Cash Balances by Industry Group

Revenues, expenditures, and cash balances for each of the eight separate subaccounts are shown on the following pages 6 - 9. In addition, there is a section combining the indemnity function and administrative function subaccounts at the bottom of each of the four license categories.

² Please refer to Section 126.06, Wis. Stats., for provisions relating to contingent financial backing of the Fund. For a discussion of license fee credits, see Note 5, on Page 20 of this report.

Grain Dealer		Years Ended		
		30-Jun-13	30-Jun-12	30-Jun-11
Indemnity Function				
Revenues				
Assessments Collected		807,500	728,500	681,700
Interest Income		5,300	4,600	5,400
Total Revenues		812,800	733,100	687,100
Expenses				
Loan Repayment – Principal		-	-	-
Loan Repayment -- Interest		-	-	-
Premiums on Financial Backing		-	-	-
Default Payments to Producers		2,000	-	-
License Fee Credits (transfer to Admin. Function)		302,000	282,200	140,800
Total Expenses		304,000	282,200	140,800
Net Revenues Less Expenses		508,800	450,900	546,300
Beginning Balance		4,159,600	3,708,700	3,162,400
Ending Balance - Indemnity Function		4,668,400	4,159,600	3,708,700
Administrative Function				
Revenues				
License Fee Credits (transfer from Indemnity Function)		302,000	282,200	140,800
License Fees (cash collected from licensees)		33,200	83,200	166,300
Gross License Fees		335,200	365,400	307,100
Audits for Marketing Boards		7,200	10,100	8,600
Miscellaneous Income		-	-	-
Interest Income		-	-	-
Total Revenues		342,400	375,500	315,700
Expenses				
Salaries and Fringe		262,100	281,500	284,100
Supplies and Services		60,800	64,400	63,500
Miscellaneous Expenses		-	-	-
Total Expenses		322,900	345,900	347,600
Net Revenues Less Expenses		19,500	29,600	(31,900)
Beginning Balance		(832,100)	(861,700)	(829,800)
Ending Balance -- Administrative Function		(812,600)	(832,100)	(861,700)
Combined Indemnity Function plus Administrative Function				
Total Revenue (net of licensee fee credits)		853,300	826,400	862,000
Total Expenses (net of license fee credits)		324,900	345,900	347,600
Net Revenues Less Expenses		528,400	480,500	514,400
Beginning Balance		3,327,500	2,847,000	2,332,600
Ending Balance, Grain Dealer		3,855,900	3,327,500	2,847,000

Grain Warehouse Keeper		Years Ended		
		30-Jun-13	30-Jun-12	30-Jun-11
Indemnity Function				
Revenues				
Assessments Collected	\$ 63,500	\$ 94,100	\$ 120,100	
Interest Income	800	700	800	
Total Revenues	64,300	94,800	120,900	
Expenses				
Loan Repayment – Principal	-	-	-	
Loan Repayment -- Interest	-	-	-	
Premiums on Financial Backing	-	-	-	
Default Payments to Producers	-	-	-	
License Fee Credits	-	-	-	
Total Expenses	-	-	-	
Net Revenues Less Expenses	64,300	94,800	120,900	
Beginning Balance	652,700	557,900	437,000	
Ending Balance - Indemnity Function	\$ 717,000	\$ 652,700	\$ 557,900	
Administrative Function				
Revenues				
License Fee Credits (transfer from Indemnity Function)	\$ -	\$ -	\$ -	
License Fees (cash collected from licensees)	276,800	289,200	283,200	
Gross License Fees	276,800	289,200	283,200	
Miscellaneous Income	-	-	-	
Interest Income	-	-	-	
Total Revenues	276,800	289,200	283,200	
Expenses				
Salaries and Fringe	236,700	249,800	252,900	
Supplies and Services	47,900	50,300	49,500	
Miscellaneous Expense	-	-	-	
Total Expenses	284,600	300,100	302,400	
Net Revenues Less Expenses	(7,800)	(10,900)	(19,200)	
Beginning Balance	(907,400)	(896,500)	(877,300)	
Ending Balance -- Administrative Function	\$ (915,200)	\$ (907,400)	\$ (896,500)	
Combined Indemnity Function plus Administrative Function				
Total Revenue	\$ 341,100	\$ 384,000	\$ 404,100	
Total Expenses	284,600	300,100	302,400	
Net Revenues Less Expenses	56,500	83,900	101,700	
Beginning Balance	(254,700)	(338,600)	(440,300)	
Ending Balance, Grain Warehouse Keeper	\$ (198,200)	\$ (254,700)	\$ (338,600)	

Milk Contractor		Years Ended		
		30-Jun-13	30-Jun-12	30-Jun-11
Indemnity Function				
Revenues				
Assessments Collected	90,700	122,500	438,200	
Interest Income	8,500	8,400	11,700	
Total Revenues	99,200	130,900	449,900	
Expenses				
Loan Repayment – Principal	-	-	-	
Loan Repayment – Interest	-	-	-	
Premiums on Financial Backing	-	-	-	
Default Payments to Producers	-	-	-	
License Fee Credits	264,700	263,300	263,400	
Total Expenses	264,700	263,300	263,400	
Net Revenues Less Expenses	(165,500)	(132,400)	186,500	
Beginning Balance	7,221,200	7,353,600	7,167,100	
Ending Balance - Indemnity Function	7,055,700	7,221,200	7,353,600	
Administrative Function				
Revenues				
License Fee Credits (transfer from Indemnity Function)	264,700	263,300	263,400	
License Fees (cash collected from licensees)	164,700	149,900	139,600	
Gross License Fees	429,400	413,200	403,000	
Miscellaneous Income	-	-	-	
Interest Income	600	600	600	
Total Revenues	430,000	413,800	403,600	
Expenses				
Salaries and Fringe	288,400	331,000	323,200	
Supplies and Services	57,300	51,100	42,200	
Miscellaneous Expenses	-	-	-	
Total Expenses	345,700	382,100	365,400	
Net Revenues Less Expenses	84,300	31,700	38,200	
Beginning Balance	476,700	445,000	406,800	
Ending Balance -- Administrative Function	561,000	476,700	445,000	
Combined Indemnity Function plus Administrative Function				
Total Revenue (net of license fee credits)	264,500	281,400	590,100	
Total Expenses (net of license fee credits)	345,700	382,100	365,400	
Net Revenues Less Expenses	(81,200)	(100,700)	224,700	
Beginning Balance	7,697,900	7,798,600	7,573,900	
Ending Balance -- Milk Contractor	7,616,700	7,697,900	7,798,600	

Vegetable Contractor		Years Ended		
		30-Jun-13	30-Jun-12	30-Jun-11
Indemnity Functions				
Revenues				
Assessments Collected		30,800	33,900	16,500
Interest Income		1,100	1,100	1,700
Total Revenues		31,900	35,000	18,200
Expenses				
Loan Repayment – Principal		-	-	-
Loan Repayment – Interest		-	-	-
Premiums on Financial Backing		-	-	-
Default Payments to Producers		-	-	-
License Fee Credits		84,000	94,200	110,900
Total Expenses		84,000	94,200	110,900
Revenues Less Expenses		(52,100)	(59,200)	(92,700)
Beginning Balance		930,000	989,200	1,081,900
Ending Balance - Indemnity Function		877,900	930,000	989,200
Administrative Functions				
Revenues				
License Fee Credits (transfer from Indemnity Function)		84,000	94,200	110,900
License Fees (cash collected from licensees)		91,000	52,400	49,000
Gross License Fees		175,000	146,600	159,900
Miscellaneous Income		-	-	-
Interest Income		100	100	100
Total Revenues		175,100	146,700	160,000
Expenses				
Salaries and Fringe		99,200	106,600	104,300
Supplies and Services		14,700	15,600	7,700
Miscellaneous Expenses		-	-	-
Total Expenses		113,900	122,200	112,000
Revenues Less Expenses		61,200	24,500	48,000
Beginning Balance		100,700	76,200	28,200
Ending Balance -- Administrative Function		161,900	100,700	76,200
Combined Indemnity Function plus Administrative Function				
Total Revenue (net of license fee credits)		123,000	87,500	67,300
Total Expenses (net of license fee credits)		113,900	122,200	112,000
Net Revenues Less Expenses		9,100	(34,700)	(44,700)
Beginning Balance		1,030,700	1,065,400	1,110,100
Ending Balance -- Vegetable Contractor		1,039,800	1,030,700	1,065,400

Note 3 – Revenues

The tables below represent a more detailed presentation of revenue into the fund. Please note that these tables do not include license fee credits as revenue. (For more information on license fee credits, see Note 5.)

GRAIN DEALER REVENUE DETAIL			
	Fiscal Year Ended		
	30-Jun-13	30-Jun-12	30-Jun-11
Indemnity Function SubAccount			
Assessments	56,743	336,963	464,292
Deferred Payment Assessments	756,958	383,039	212,664
Penalty -- Late Assessment	1,010	8,492	4,699
Interest (allocated)	5,249	4,597	5,427
Subtotal -- Indemnity Function	819,960	733,091	687,082
Administrative Function SubAccount			
Annual License Application Fee	6,925	7,250	7,150
Annual License Fee (based on purchases)	12,624	61,290	146,909
Additional Locations License Fee	11,500	10,900	9,500
Surcharge -- Non-audited Financial Statement	-	-	-
Penalty -- Late Financial Statement	500	500	1,100
Penalty -- Late License Renewal	800	600	752
Penalty -- Operating Without License -- New	-	1,500	500
Penalty -- Operating Without License -- Renewal	1,000	1,000	-
Audit Services for Marketing Boards and Misc.	-	200	382
Audit Services for Corn Marketing Board	3,600	6,080	4,320
Audit Services for Soybean Marketing Board	3,600	4,000	4,320
Interest (allocated)	-	-	-
Miscellaneous	(100)	-	-
Subtotal -- Administrative Function	40,449	93,320	174,933
TOTAL	860,409	826,411	862,015

**GRAIN WAREHOUSE KEEPER
REVENUE DETAIL**

	Fiscal Year Ended		
	30-Jun-13	30-Jun-12	30-Jun-11
Indemnity Function SubAccount			
Assessments	62,487	90,132	119,167
Penalty -- Late Assessment	941	3,959	892
Interest (Allocated)	824	735	801
Subtotal -- Indemnity Function	64,252	94,825	120,860
Administrative Function SubAccount			
Annual License Application Fee	2,700	2,825	2,750
Additional Locations Fee	5,325	5,475	5,625
Inspection Fees	237,500	250,000	242,000
Supplemental Inspection Fee	28,975	29,175	32,175
Penalty -- Operating w/o license -- New	-	500	-
Penalty -- Operating w/o License -- Renew	500	500	-
Penalty -- Late Financial Statement	200	200	400
Penalty -- Late License Renewal	1,300	600	400
Interest (Allocated)	-	-	-
Misc. adjustments, overpayments & transfers	250		(182)
Subtotal -- Administrative Function	276,750	289,275	283,168
TOTAL	341,002	384,100	404,028

**MILK CONTRACTOR
REVENUE DETAIL**

	Fiscal Year Ended		
	30-Jun-13	30-Jun-12	30-Jun-11
Indemnity Function SubAccount			
Assessments	82,681	121,352	436,450
Penalty -- Late Assessment	788	1,175	1,753
Interest (allocated)	8,544	8,436	11,650
Subtotal -- Indemnity Function	92,013	130,963	449,853
Administrative Function SubAccount			
Monthly License Fee	157,672	142,567	132,853
Annual License Fee	3,050	3,100	2,900
Penalty -- Operating w/o license	2,500	2,000	2,000
Penalty -- Late Financial Statement	600	900	700
Penalty -- Late License Renewal	500	800	1,100
Penalty -- Late Monthly Fees	348	545	27
Interest (allocated)	613	522	662
Subtotal -- Administrative Function	165,283	150,434	140,242
TOTAL	257,296	281,397	590,095

**VEGETABLE CONTRACTOR
REVENUE DETAIL**

	Fiscal Year Ended		
	30-Jun-13	30-Jun-12	30-Jun-11
Indemnity Function SubAccount			
Assessments	30,741	33,850	16,281
Penalty -- Late Assessment	56	-	200
Interest (allocated)	1,096	1,107	1,686
Subtotal - Indemnity Function	31,893	34,957	18,167
Administrative Function SubAccount			
Annual License Application Fee	1,700	1,631	1,365
Contract Obligation License Fee	76,658	37,029	34,572
Lic Fee -- Nonparticipating Potato Buyer	12,000	12,863	12,997
Penalty -- Operating w/o License (New)	-	500	-
Penalty -- Late License Fee	500	200	-
Penalty -- Late Financial Statement	100	200	100
Interest (allocated)	123	95	52
Miscellaneous (allocated)	-	(5)	-
Subtotal -- Administrative Function	91,081	52,513	49,086
TOTAL	122,974	87,470	67,253

Assessments

The Division maintains billing and account receivable systems that track assessments by individual contractor and by license year. Each contractor's assessment amount is calculated by multiplying the "assessment rate" by the contractor's total procurements (or storage capacity in the case of grain warehouse keepers).

Generally, assessment rates are calculated using a complex formula that is based on the contractor's current ratio and debt-to-equity ratio. The assessment rate is higher for contractors having weaker financial positions. The assessment rate for contractors that are not required to file a financial statement is a fixed rate based on the number of years the contractor contributed to the Fund. The Department calculates the annual assessment at the beginning of each license year.³

License Fees and Inspection Fees

License fees must be paid to obtain a license. Whereas *assessments* (discussed above) are intended to provide a source of funding in the event producers need to be reimbursed for a default; *license fees* and *inspection fees* for grain warehouse keepers are meant to pay for the operating expenditures of the Program. Hence, *assessment revenue* is reported in the indemnity function subaccounts whereas *license fee revenue*

³ For more details about the assessment calculation, please see Wisconsin Statutes Sections 126.15, 126.30, 126.46, 126.60 and Wisconsin Administrative Code Sections ATPC 99.135, ATPC 99.255, ATPC 100.135 and ATPC 101.255. Further, assessment calculators are available by clicking into the various areas of https://datcp.wi.gov/Pages/Programs_Services/AgriculturalProducerSecurity.aspx

is reported in the administrative function subaccounts. Further, whereas *assessment rates* are partially based on the amount of risk a given licensee poses (they incorporate the licensee's balance sheet ratios into the formula) – license fees are based simply on the overall purchases (or storage capacity) of the licensee.

- Grain Dealer Revenue Detail
 - Nonrefundable license processing fee of \$25.
 - Base License fee of \$0.0010 per bushel, and rounding the product to the nearest \$100, less any fee credits for which the grain dealer qualifies. Except license fee may not be less than \$100 or more than \$10,000.
 - Additional locations fee (for each location greater than one) of \$100
 - Audit services for marketing boards. While on site for routine grain dealer audits, the bureau regularly performs compliance exams on behalf of the Wisconsin Corn Marketing Board and the Wisconsin Soybean Marketing Board to confirm grain dealers are properly reporting check-off obligations to those organizations. The Program then bills the marketing boards for time spent doing this work.
- Grain Warehouse Keeper Revenue Detail
 - Nonrefundable license processing fee of \$25.
 - Additional locations license fee of \$25 for each grain warehouse location.
 - Inspection Fees. \$0.0025 per bushel, rounding the product to the nearest \$1,000, less any fee credits for which the grain warehouse keeper qualifies. Except, the inspection fee may not be less than \$1,000 or more than \$10,000.
 - Supplemental inspection fee, for each location other than the main location, of \$275.
- Milk Contractor Revenue Detail
 - Nonrefundable license processing fee of \$25.
 - Monthly License fees, by the 25th day of each month, a monthly license fee of \$0.0015 for each 100 pounds of producer milk that the milk contractor procured in this state during the preceding month, less any fee credits for which the milk contractor qualifies.
- Vegetable Contractor Revenue Detail
 - Nonrefundable license processing fee of \$25.
 - Contract Obligation fees of \$25 plus \$0.0875 cents for each \$100 in contract obligations reported, less any fee credits for which the vegetable contractor qualifies.
 - A processing potato buyer may elect not to participate in the fund.
 - A processing potato buyer that has elected not to participate in the fund pays the lesser of \$25 plus \$0.0875 for each \$100 in contract obligations reported or \$2,000.

Late Payment Surcharges and Other Penalties

Under both the license fee and the assessment provisions of the producer security law; there are several penalties and surcharges. These include:

- Late fee for failing to file an annual license renewal application and license fee payment. (\$100)
- Late fee for failing to pay a monthly license fee when due (milk contractors only). (20% of the amount due)
- Late fee for failing to file a required financial statement. (\$100)
- Surcharge for operating without a license. (\$500)
- Late fee for failing to pay an assessment installment by the required due date. (\$50 or 10% of the amount due; whichever is greater)

Interest Revenue

The Wisconsin Department of Administration deposits interest into the fund at the end of each month. The interest rate is determined monthly based on the overall return on the State of Wisconsin's entire cash holdings. The division allocates interest revenue among the eight subaccounts based on each subaccount's prior month ending balance as a percentage of the entire fund. Except that, in the event that a subaccount has a negative balance, that subaccount is ignored and the interest is allocated among the subaccounts with positive balances. Generally, the monthly interest rates received by the fund rise and fall along with other interest rates throughout the broader economy. For the Fiscal Years ended June 30, 2013, 2012 and 2011; the Fund received interest revenue of \$16,449.28, \$15,491.92 and \$20,275.87 respectively. This means that average annualized interest rates for these three years were 0.14%, 0.14%, and 0.19% respectively.

Miscellaneous Revenue and Expenditure

No amount has been allocated to Miscellaneous Revenue and Expenditures for the time period presented in the charts above.

Note 4 – Expenditures

Employee Expenditures

Throughout the fiscal year ended June 30, 2011, the program had a total of 13.42 full time employees (FTEs) authorized to the program. The State Budget for the 2011-13 biennium included a provision to eliminate 1.47 FTE from the program. Therefore, as of July 1, 2011, the total FTE count was 11.95. The Department has authority to allocate FTEs within the license type subaccounts. The Department strives to place each FTE in the industry subaccount for which that person performs most of their duties. Positions that cannot be directly tied to an individual industry subaccount are allocated proportionally among the four subaccounts. The Division has periodically made revisions to the allocations to ensure they reflect the actual work being done as accurately as possible.

Allocation of the authorized FTEs, as of June 30, 2013, is shown in the schedule below.

	Grain Dealer	Grain Warehouse Keeper	Milk Contractor	Vegetable Contractors	Total
Agricultural Auditor	2.80	2.20	3.20	0.80	9.00
Agricultural Auditor Supervisor	0.25	0.25	0.25	0.25	1.00
Financial Specialist			0.70		0.70
Office Operations Associate	0.60	0.40			1.00
Unassigned (Vacant – 0.25 FTE)					0.25
TOTAL	3.65	2.85	4.15	1.05	11.95

Due to recent retirements and vacancies these allocations were reviewed and minor adjustments were made in fiscal year 2013.

Expenditure Detail

Following, is a detail of expenditures incurred by each of the four program areas. All expenditures were incurred from the administrative function subaccounts.

**GRAIN DEALER
EXPENDITURE DETAIL**

	Year Ended		
	30-Jun-13	30-Jun-12	30-Jun-11
Personnel Expenditures			
Classified Civil Services Salaries	188,593	202,533	185,739
Fringe Benefit Expenditure	73,509	78,929	98,417
Subtotal	262,102	281,462	284,156
Supplies and Services			
Advertising/Legal Notices	-	308	-
Contractual Services Exp	1,618	3,178	1,762
Dues and Subscriptions	120	270	100
Indirect Cost Allowance	13,560	13,706	13,341
Insurance	722	962	1,190
Maint & Repair - Land/Structures	-	17	-
Mailing	684	933	916
Maint & Repair - Other Equipment	7	10	31
Non State or Non-STS Calls	765	753	707
Other Admin & Operating	1,254	97	1,853
Printing	136	144	253
Rent/Lease of Equipment	167	167	167
Rent Privately-Owned Space	-	-	-
Rental of State-Owned Space	23,156	23,230	22,207
Materials & Supplies -- Other	942	1,054	436
STS Charges	-	-	-
Travel & Training / In-State	3,421	3,168	3,841
Travel & Training /Out-of-State	336	478	304
Other Travel & Training Exp	13,932	15,895	16,393
Subtotal	60,820	64,370	63,501
Miscellaneous Expenditure	1,982	-	-
Total Grain Dealer Expenditures	323,418	345,832	347,657

**GRAIN WAREHOUSE KEEPER
EXPENDITURE DETAIL**

	Year Ended		
	30-Jun-13	30-Jun-12	30-Jun-11
Personnel Expenditures			
Classified Civil Services Salaries	160,401	172,329	164,056
Fringe Benefit Expenditure	76,253	77,506	88,853
Subtotal	236,654	249,835	252,909
Supplies and Services			
Advertising/Legal Notices	-	308	-
Contractual Services Exp	1,374	2,738	1,497
Dues and Subscriptions	80	80	100
Indirect Cost Allowance	11,517	11,640	11,331
Insurance	626	823	1,190
Mailing	380	423	526
Maint & Repair - Other Equipment	7	10	31
Non State or Non-STS Calls	780	772	723
Other Admin & Operating	1,145	-	1,253
Printing	49	50	54
Rent/Lease of Equipment	167	167	167
Rent Privately-Owned Space	-	-	-
Rental of State-Owned Space	19,651	19,742	19,080
Materials & Supplies -- Other	732	796	390
STS Charges	-	-	-
Travel & Training / In-State	1,869	2,048	2,382
Travel & Training /Out-of-State	102	-	41
Other Travel & Training Exp	9,462	10,689	10,734
Subtotal	47,941	50,286	49,499
Miscellaneous Expenditure	-	-	-
Total Grain Warehouse Keeper Expenditures	284,595	300,121	302,408

**MILK CONTRACTOR
EXPENDITURE DETAIL**

	Year Ended		
	30-Jun-13	30-Jun-12	30-Jun-11
Personnel Expenditures			
Classified Civil Services Salaries	212,044	230,187	215,320
Fringe Benefit Expenditure	76,368	100,834	107,891
Subtotal	288,412	331,021	323,211
Supplies and Services			
Advertising/Legal Notices	-	-	-
Contractual Services Exp	1,773	3,066	1,664
Dues and Subscriptions	-	-	150
Indirect Cost Allowance	16,718	12,391	15,899
Insurance	843	1,074	1,152
Maint & Repair - Land/Struct.	38	-	-
Mailing	1,103	1,227	1,364
Maint & Repair - Other Equipment	192	181	183
Non State or Non-STS Calls	1,872	1,773	1,770
Other Admin & Operating	1,785	-	1,364
Printing	15	227	438
Rent/Lease of Equipment	373	406	394
Rent Privately-Owned Space	1,281	1,232	1,126
Rental of State-Owned Space	20,710	20,796	15,143
Materials & Supplies -- Other	1,365	1,124	959
STS Charges	-	-	-
Supplies & Services Transfer	-	-	(7,220)
Travel & Training / In-State	4,819	3,285	3,622
Travel & Training /Out-of-State	681	421	884
Other Travel & Training Exp	3,699	3,886	3,301
Subtotal	57,267	51,089	42,193
Miscellaneous Expenditure	-	-	-
Total Milk Contractor Expenditures	345,679	382,110	365,404

**VEGETABLE CONTRACTOR
EXPENDITURE DETAIL**

	Year Ended		
	30-Jun-13	30-Jun-12	30-Jun-11
Personnel Expenditures			
Classified Civil Services Salaries	72,718	76,641	71,962
Fringe Benefit Expenditure	26,431	29,951	32,310
Subtotal	99,149	106,592	104,272
Supplies and Services			
Contractual Services Exp	532	1,168	483
Dues and Subscriptions	-	-	-
Indirect Cost Allowance	4,458	3,755	3,107
Insurance	217	328	308
Mailing	105	148	111
Non State or Non-STS Calls	180	175	173
Other Admin & Operating	1,063	-	625
Printing	54	45	24
Rent Privately-Owned Space	320	315	375
Rental of State-Owned Space	6,472	6,499	5,048
Materials & Supplies -- Other	175	-	65
Supplies & Services Transfer	-	-	(3,556)
Travel & Training / In-State	928	1,930	548
Travel & Training /Out-of-State	-	208	95
Other Travel & Training Exp	179	1,042	300
Subtotal	14,683	15,613	7,706
Miscellaneous Expenditure	-	-	-
Total Vegetable Contractor Expenditures	113,832	122,205	111,978

Supplies and services expenditures are charged to the individual subaccounts based on employee allocations. For example, the Wisconsin Department of Administration collects rent for office space from the department. The Department allocates the rent expenditures across the industry license type categories based on the number of FTEs in each individual program. Therefore, the allocation of FTEs among the four subaccounts has a direct impact on supplies and services expenditure amounts listed in the schedules above.

Note 5 –Fund Balances and Statutory Trigger Amounts

License Fee Credits

The crediting of excess Fund balances over the minimum threshold is an integral component of the program. Should the balance attributable to any one of the four industry groups exceed the specified minimum threshold, the department must use a portion of the excess as a credit to the next year's license fees owed by contributing contractors in that particular industry license type category. The minimum balance threshold for each license type is as follows:

- Grain Dealers \$2,000,000 on June 30 [s. 126.11(6), Wis. Stats.]
- Grain Warehouses Keepers \$ 300,000 on June 30 [s. 126.26(5), Wis. Stats.]
- Milk Contractors \$4,000,000 on February 28 [s. 126.42(3), Wis. Stats.]
- Vegetable Contractors \$ 825,000 on November 30 [s. 126.56(6), Wis. Stats.]

In the event any of the industry groups exceed the thresholds listed above, the Department, in the following license year, issues a license fee credit to each contributing contractor who files a timely application. For the Grain Dealer, Milk Contractor and Vegetable Contractor license groups, the amount of the credit is fifty percent (50%) of the excess above the minimum balance threshold. In the case of the Grain Warehouse Keeper license group, the amount of the credit is twelve and a half percent (12.5%) of the excess. The credit is allocated among the contractors based on the total amount paid in license fees over the four preceding license years.

The vegetable contractor, milk contractor and grain dealer license groups received license fee credits in each of the three fiscal years reported in this document.

Minimum and Maximum Fund Balances

Ch. 126, Wis. Stats., permits the Department to modify fund assessments by administrative rule. Further, the statute *requires* the Department to modify assessments in order to maintain fund balances greater than the minimum and less than the maximum amounts.⁴ These amounts are as follows:

	Minimum Statutory Balance	Actual Balance as of June 30, 2013	Maximum Statutory Balance
Grain Dealers	\$ 1,000,000	\$ 3,855,840	\$ 6,000,000
Grain Warehouse Keepers	\$ 200,000	\$ (198,249)	\$ 1,000,000
Milk Contractors	\$ 3,000,000	\$ 7,616,692	\$ 12,000,000
Vegetable Contractors	\$ 800,000	\$ 1,039,816	\$ 3,000,000
Entire Fund	\$ 5,000,000	\$ 12,314,099	\$ 22,000,000

Assessment Holiday

Pursuant to administrative rules,⁵ contractors who have been contributing contractors for at least five years may forego paying any fund assessments for the following license

⁴ Section 126.88, Wis. Stats.

⁵ ATCP 99.126(5), ATCP 99.235(4), ATCP 100.135(10), and ATCP 101.245(4), Wisconsin Administrative Code.

year if, as of the specified date, the overall fund balance is at least \$11,000,000, and fund balance attributable to the industry group meets the specified minimum balance:

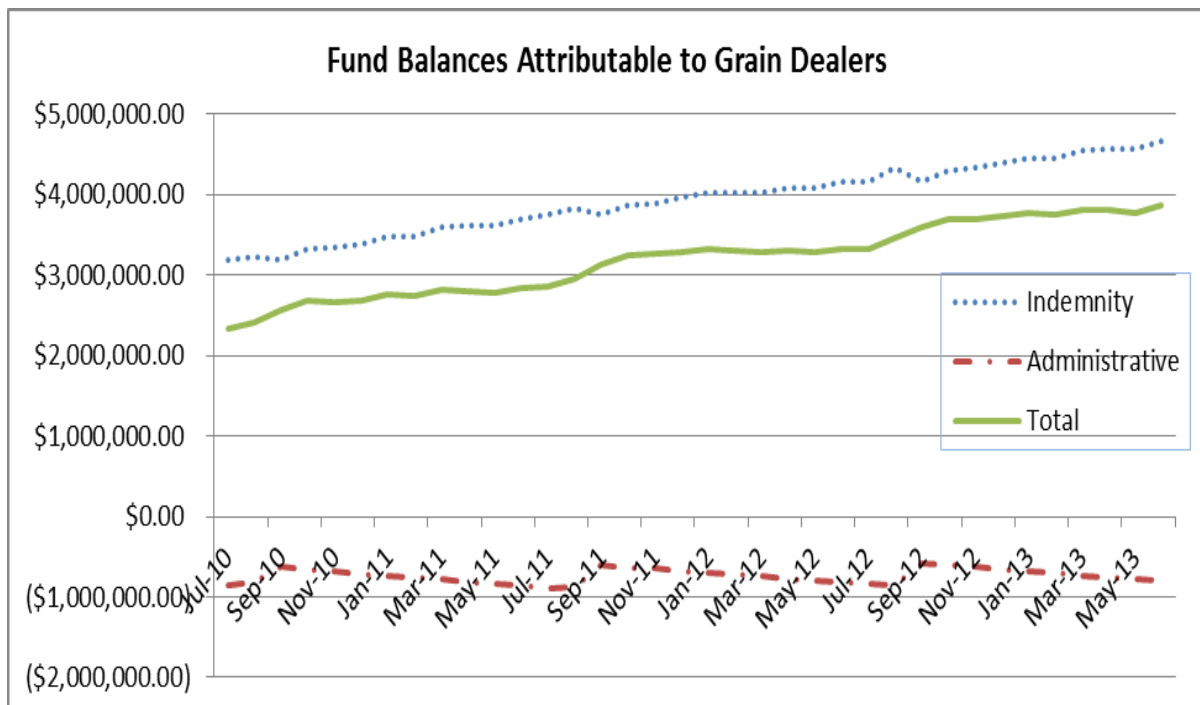
- For grain dealers, \$3,000,000 as of May 31
- For grain warehouse keepers, \$500,000 as of May 31
- For milk contractors, \$6,000,000 as of February 28
- For vegetable contractors, \$1,500,000 as of November 30

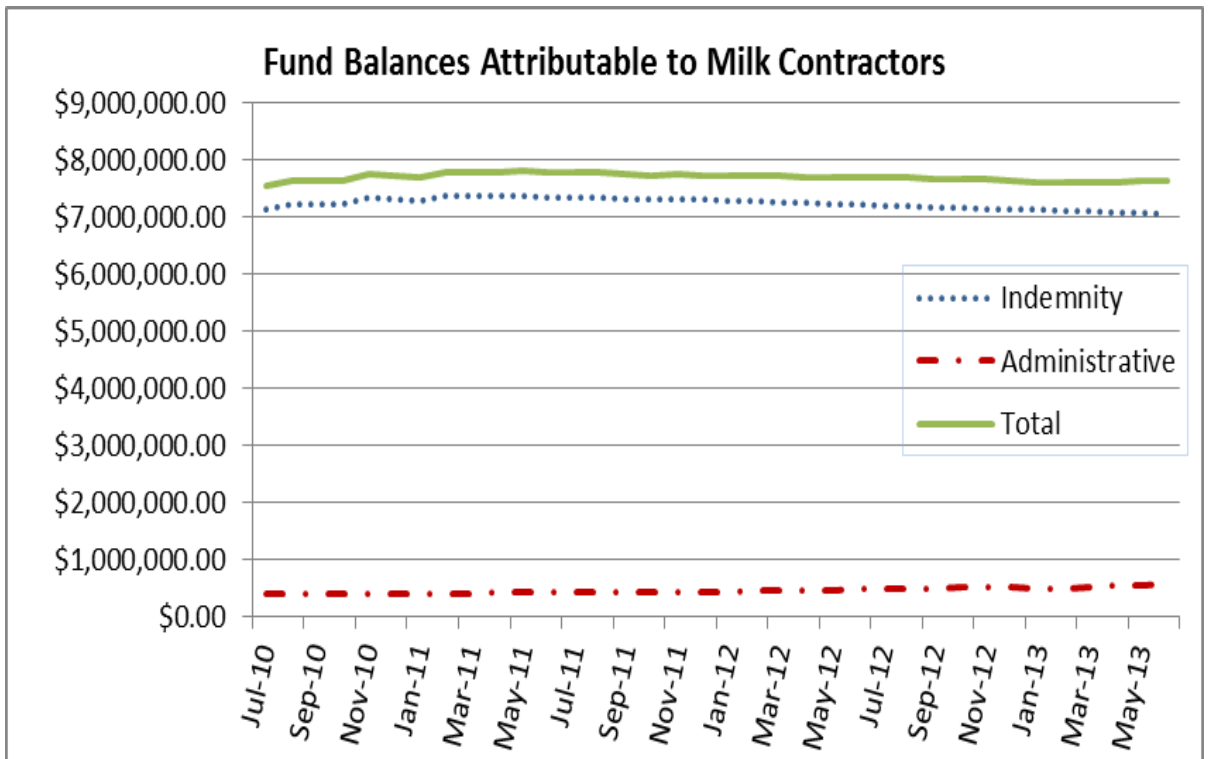
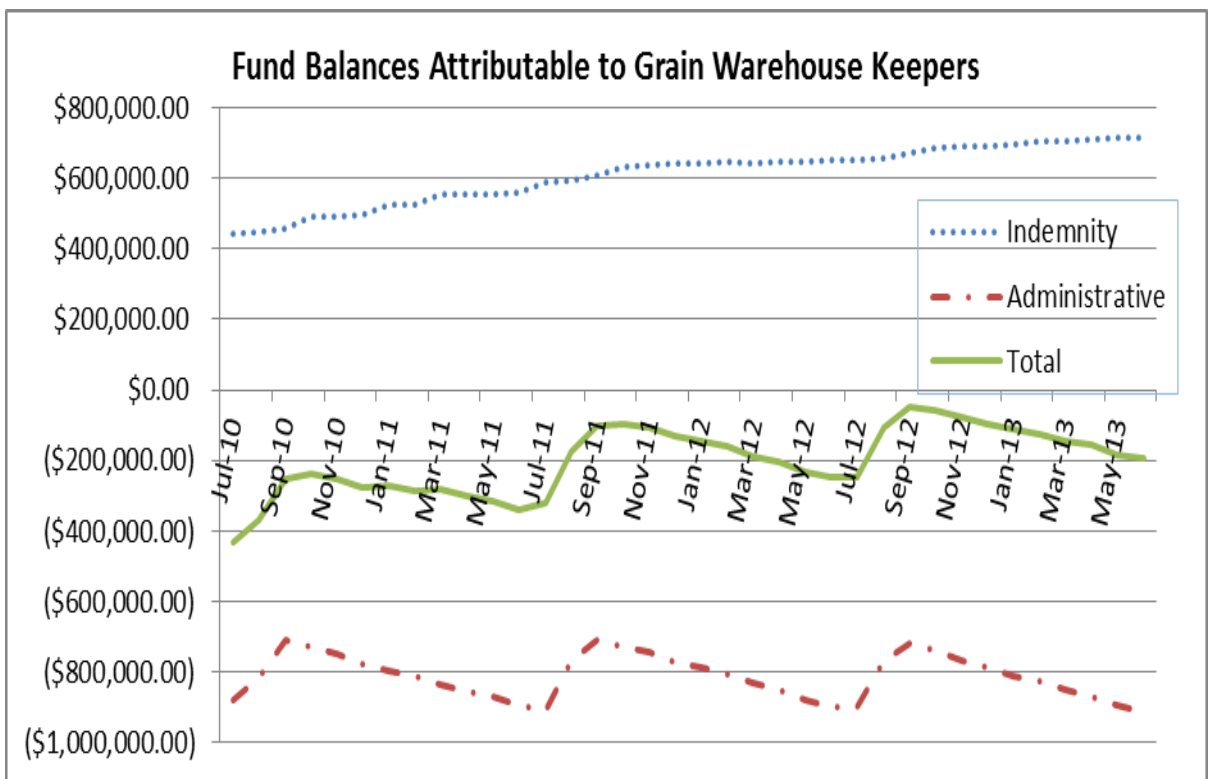
As of February 28, 2013, the fund balance attributable to milk contractors was \$7,614,531 and the overall fund balance was \$12,289,053. Therefore, contributing milk contractors that have contributed in each of the five preceding license years do not need to pay an annual assessment for the license year that began May 1, 2013 and will end on April 30, 2014.

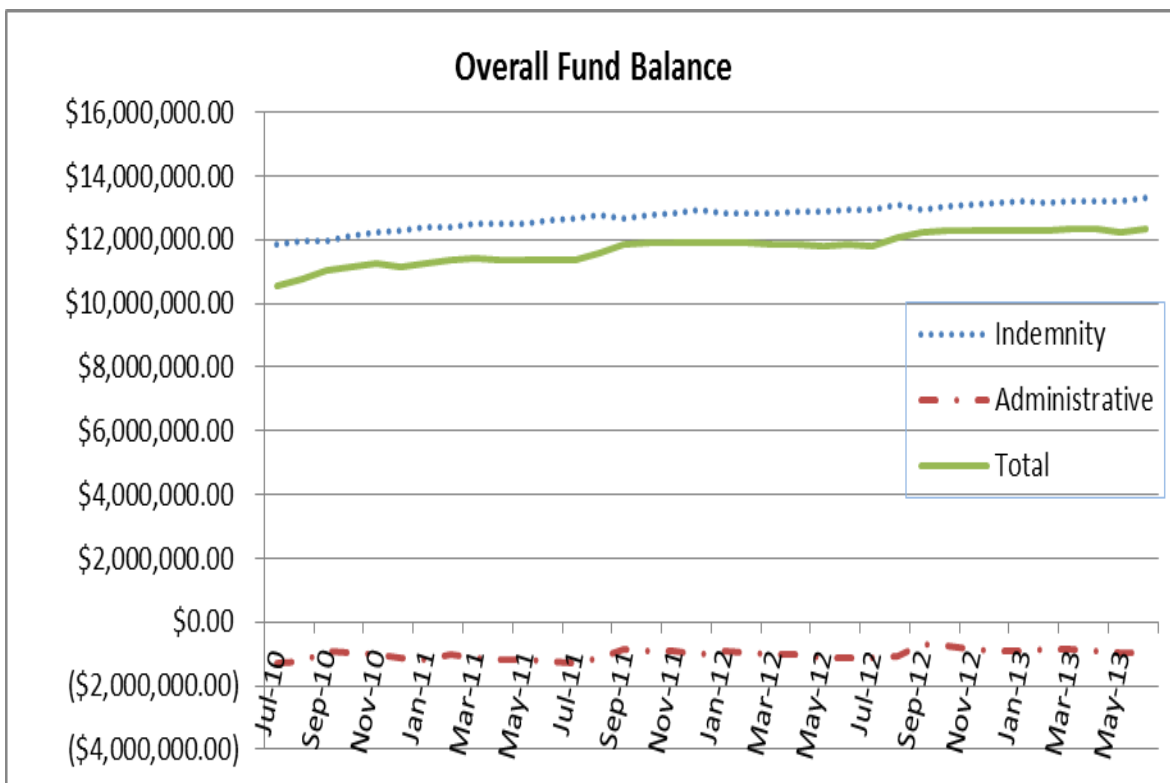
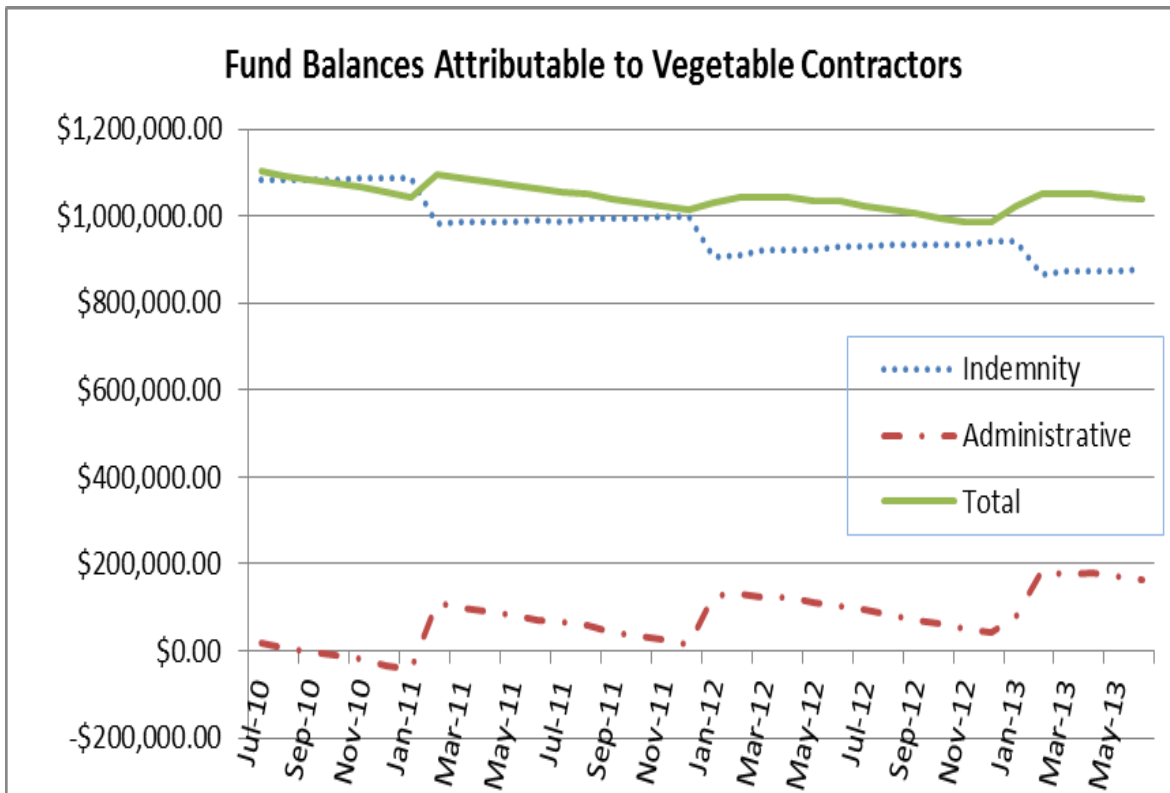
As of May 31, 2013 the fund balance attributable to grain dealers was \$3,777,455 and the overall fund balance was \$12,255,714. Therefore, contributing grain dealers that have contributed in each of the five preceding license years do not need to pay an annual assessment for the license year that began September 1, 2013 and will end on August 31, 2014.

Subaccount Monthly Cash Balances

Cash balances in each subaccount at the end of each month during the Fiscal Years 2011, 2012 and 2013 are shown in the charts below. There is a chart for each of the four industry groups, plus a chart for the overall Fund. On each chart, there are lines representing the month-end balance for the indemnity function subaccount, administrative function subaccount, and the net of both.







Note 6 – Individual Security

The department holds security from some licensed contractors for the benefit of producers. The security can be filed in the form of an irrevocable letter of credit, commercial surety bond, certificate of deposit or cash. Security is held for various reasons which include the following:

- **Disqualified:** Contractors who have a financial statement that shows negative owners equity when they are first applying for a license must file individual security. These contractors do not contribute to the fund.
- **Deferred Payment:** Grain dealers that use deferred payment and have debt to equity ratios that do not meet the minimum statutory requirement⁶ must file individual security in addition to contributing to the fund.
- **Estimated Default Exposure in Excess of \$20 million.** Contributing contractors who do not meet minimum financial ratios⁷ and whose estimated default exposure exceeds \$20 million dollars are required to post security in an amount equal to the difference between the contractor's estimated default exposure and \$20 million. These contractors receive a proportionate reduction in their annual assessments.
- **Voluntary:** Contributing contractors whose estimated default exposure exceeds the maximum amount that can be paid out of the fund for any one default (60% of the total fund balance) may voluntarily file security to cover the difference. These contractors receive a proportionate reduction in their annual assessments.
- **Other:** If a contributing contractor is unable to file a required financial statement for initial licensing, is otherwise unable to comply with statutory provisions, or presents an especially excessive risk to producers, the department may require individual security.

As of June 30, 2013, the department held a total of \$67,351,531 in individual securities. As of June 30, 2012, the department held a total of \$69,572,653 in individual securities. And as of June 30, 2011, the department held a total of \$72,295,169 in individual securities. The total amount of security held as of June 30, 2013, by type of security and reason it was held, is shown in the table below.

	Bonds	Letter of Credit	CDs and other cash equivalents	Total Security
Grain Dealers				
Disqualified	\$ -	\$ -	\$ -	\$ -
Deferred Payment	120,000	266,000	921,863	1,307,863
Exposure Greater than \$20 Million	-	-	-	-
Voluntary	23,000,000	-	-	23,000,000
Other	-	-	-	-
Total	\$ 23,120,000	\$ 266,000	\$ 921,863	\$ 24,307,863

⁶ The minimum requirement is a debt to equity ratio of 4:1

⁷ The current ratio must be at least 1.25:1 and the debt to equity ratio must be no more than 4:1 for grain dealers, grain warehouse keepers, and vegetable contractors; and 2:1 for milk contractors.

	Bonds	Letter of Credit	CDs and other cash equivalents	Total Security
Milk Contractors				
Disqualified	\$ -	\$ 865,400	\$ 142,400	1,007,800
Exposure Greater than \$20 Million	33,775,800	-	-	33,775,800
Voluntary	7,710,000	-	-	7,710,000
Other	-	500,000	-	500,000
Total	\$ 41,485,800	\$ 1,365,400	\$ 142,400	\$ 42,993,600
Vegetable Contractors				
Disqualified	\$ -	\$ -	\$ -	-
Exposure Greater than \$20 Million	-	-	-	-
Voluntary	-	-	-	-
Other	-	-	50,068	50,068
Total	\$ -	\$ -	\$ 50,068	\$ 50,068

Note 7 – Aggregate Estimated Default Exposure

As of June 30, 2013, the grand total of all contractors' "Estimated Default Exposure" was \$1,143,629,402. "Estimated Default Exposure" is defined in the statutes and is generally intended to be a measure of the monetary risk to producers should a contractor default on obligations.

The definitions of "Estimated Default Exposure", specific to each contractor type, are listed below:

- **Grain Dealers.⁸** The sum of:
 - Thirty-five percent of the grain dealer's average monthly payment for the 3 months, during the preceding 12 months, in which the grain dealer made the largest monthly payments for producer grain procured in this state
 - The grain dealer's highest total, at any one time during the preceding 12 months, of unpaid obligations for producer grain procured in this state.
- **Grain Warehouse Keepers.⁹** Twenty percent of the current local market value of grain that the grain warehouse keeper holds in this state for others.
- **Milk Contractors.¹⁰** Seventy-five percent of either:
 - the highest amount of unpaid milk payroll obligations at any time during the previous 12 months, or
 - the highest amount of monthly milk payroll obligations at any time during the previous 12 months.

⁸ S. 126.16(1)(c)1., Wis. Stats.

⁹ S. 126.31(1)(b)1., Wis. Stats.

¹⁰ S. 126.47(1)(b)1., Wis. Stats. The statute allows milk contractors' "estimated default exposure" to be based on either the milk contractor's highest amount outstanding or the milk contractor's highest monthly payroll. The milk contractor may choose either. In most cases, the two numbers are similar to each other (because of traditional payment terms in the dairy industry) and most milk contractor report the monthly payroll number because it is easier to extract from their accounting systems. However, for the few milk contractors who pay producers on shorter payment terms, the highest amount outstanding number could be substantially smaller than the monthly payroll number.

- **Vegetable Contractors.**¹¹ Seventy-five percent of the highest amount of unpaid contract obligations that the vegetable contractor had at any time during the last twelve months.

A contractor's "Estimated Default Exposure" number is used to determine "notice to producer" requirements and individual security requirements. Using all contractors' "estimated default exposure" amounts in aggregate, as we are here, is beyond the original purpose of the number. Nevertheless, it is at least somewhat useful as an approximate measure for total risk to the fund and to producers.

In the table below, the aggregate "Estimated Default Exposure" for each of the four license types is shown in the columns. Further, the portion of risk that would fall to the fund, producers, and providers of individual security are shown in rows.

Aggregate "Estimated Default Exposure" by Industry Group and by Party that would incur the Loss

	Grain Dealer		Grain Warehouse Keeper		Milk Contractor		Vegetable Contractor		Overall	
Fund	\$ 228,618,725	54%	\$ 52,668,700	68%	\$ 152,610,776	29%	\$ 37,417,458	33%	\$ 471,315,659	41%
Producers										
Copayment on fund claim	53,879,931	13%	15,338,593	20%	106,276,067	20%	8,843,596	8%	184,338,187	16%
Contractor exceeds max fund payout*	116,053,615	28%	9,479,586	12%	112,365,529	21%	42,129,844	37%	280,028,574	24%
Nonparticipating contractors	-	0%	-	0%	116,223,914	22%	25,917,728	23%	142,141,642	12%
Producers Sub Total	169,933,546	40%	24,818,179	32%	334,865,510	63%	76,891,168	67%	606,508,403	53%
Individual Security	22,761,672	5%	-	0%	42,993,600	8%	50,068	0%	65,805,340	6%
Grand Total	\$ 421,313,943		\$ 77,486,879		\$ 530,469,886		\$ 114,358,694		\$ 1,143,629,402	

The amounts shown in the table above for milk contractor and vegetable contractor are simply the total of amounts that each individual contractor is required to report to DATCP on their annual license application (or more frequently if the contractor maintains individual security). The amounts shown on the table above for grain dealer and grain warehouse keeper are estimates extrapolated from a limited sample of individual licensees' purchase and storage records.

The rows in the table above show the distribution of risk. For any one potential default by any one contractor, the financial loss would be distributed among three basic areas: the Producer Security Fund, producers with whom the defaulting contractor did business or providers of individual security (mostly surety companies in the case of bonds or banks in the case of letters of credit). Focusing more specifically on producers; there are three ways that default losses by a licensed contractor can be incurred by the producer:

- Claims against the fund require a copayment. Generally, fund claims against milk contractors and grain dealers are 80% of the loss, fund claims against vegetable contractors are 90% of the loss. (These percentages are lower for claim amounts that exceed certain thresholds.) Fund claims against grain warehouse keepers are 100% of the loss; but are limited to \$100,000 per producer.

¹¹ S. 126.61(1)(b)1., Wis. Stats.

- Claims exceed amount available in the fund. Total fund payments are limited to 60% of fund balance and some contractors' "estimated default exposure" exceeds that amount.
- Nonparticipating contractors. Some milk contractors and vegetable contractors neither participate in the fund nor file individual security. There is no fund or security coverage available to producers who do business with these companies. (Milk contractors who submit Audited financial statements that show certain minimum balance sheet ratios may choose whether or not to participate.) (Vegetable contractors who purchase potatoes for processing and follow certain contract and payment provisions may opt-out of the fund if they wish.)

Note 8 – License History

In the producer security program, each industry group has a separate license and expiration. The statutory¹² expirations are:

- For Grain Dealers, August 31
- For Grain Warehouse Keepers, August 31
- For Milk Contractors, April 30
- For Vegetable Contractors, January 31

Each contractor reports on the renewal license application the total amount of obligations for a complete fiscal year to have been paid to producers, or for grain warehouse keepers the total storage capacity available. For new contractors, an original application is an estimate of what the contractor predicts will be purchased to make a total obligation or storage capacity for the upcoming 12 month period.

The tables below show the amount of licenses issued and the obligations or for Grain Warehouse the storage capacity reported. For Grain Dealers other reported amounts are total bushels and total deferred payments.

Grain Dealers		
License Year	# of Licenses issued	Total Purchases Reported
2013-2014	258	\$2,919,177,409
2012-2013	271	\$2,663,398,536
2011-2012	288	\$2,257,068,777
2010-2011	287	\$1,699,023,817
2009-2010	292	\$1,739,085,053
2008-2009	304	\$1,543,566,358
2007-2008	315	\$ 939,289,125
2006-2007	324	\$ 691,707,481
2005-2006	308	\$ 759,116,757
2004-2005	291	\$ 790,598,092

¹² ss. 126.11(4)(g), 126.26(3)(f), 126.41(3)(d) and 126.56(4)(e), Wis. Stats.

Grain Dealer (continued)		
License Year	Total Bushels Reported	Total Deferred Payment Reported
2013-2014	400,823,098	\$245,494,568
2012-2013	424,541,834	\$239,510,773
2011-2012	454,962,837	\$127,216,085
2010-2011	361,803,947	\$ 91,623,761
2009-2010	338,283,870	\$ 81,360,206
2008-2009	NA	\$ 62,374,687
2007-2008	NA	\$ 56,623,614
2006-2007	NA	\$ 46,379,703
2005-2006	NA	\$ 61,841,188
2004-2005	NA	\$ 52,122,067

Grain Warehouse Keepers		
License Year	# of Licenses issued	Total Capacity Reported
2013-2014	101	109,542,279
2012-2013	103	102,329,821
2011-2012	106	99,369,562
2010-2011	108	138,478,653
2009-2010	111	121,502,437
2008-2009	132	185,189,691
2007-2008	131	186,263,430
2006-2007	141	183,476,129
2005-2006	136	157,764,306
2004-2005	133	143,703,824

Milk Contractor		
License Year	# of Licenses issued	Total Obligation Reported
2013-2014	120	\$5,612,011,214
2012-2013	119	\$5,544,595,746
2011-2012	118	\$4,465,441,273
2010-2011	114	\$3,527,503,717
2009-2010	115	\$4,873,420,108
2008-2009	116	\$4,469,117,061
2007-2008	114	\$3,930,467,857
2006-2007	109	\$3,925,469,873
2005-2006	115	\$3,995,556,599
2004-2005	111	\$3,038,044,137

Vegetable Contractor		
License Year	# of Licenses issued	Total Obligation Reported
2013-2014	39	\$315,395,738
2012-2013	37	\$236,101,361
2011-2012	37	\$307,748,089
2010-2011	36	\$282,116,910
2009-2010	37	\$213,589,108
2008-2009	36	\$174,331,307
2007-2008	36	\$171,318,055
2006-2007	39	\$159,293,822
2005-2006	40	\$164,116,406
2004-2005	39	\$137,200,177

Note 9 –Cuff Nutrition Services, LLC Default

On June 20, 2012, Cuff Nutrition Services, LLC filed for Chapter 7 Bankruptcy in the United States Bankruptcy Court Eastern District of Wisconsin. Cuff was a licensed grain dealer but was not required to hold a grain warehouse keeper license. Between June 28, 2012 and July 26, 2012, the department received four default claims against Cuff from Wisconsin grain producers. Two of the claims related to the sale of grain and two related to storage obligations. Producer Claims relating to storage obligations were not allowed because Cuff was not A licensed grain warehouse keeper. One of the claims filed by a grain producer who sold grain was disallowed because the producer failed to present the check for payment within 30 days of receipt as required by the statute. The remaining claim was paid from the Agricultural Producer Security Fund in the amount of \$1,982.07.

Note 10 –Subsequent Events

GB Elevator, LLC

Between March 21, 2013 and April 12, 2013, three grain producers filed, with the department, default claims against GB Elevator, LLC. GB was a licensed grain dealer at the time of the default to producers. The department suspended GB's grain dealer license on March 28, 2013. All three claims were allowable and payments were made in August 2013 from the Agricultural Producer Security Fund. The aggregate amount of payments was \$125,001.09.

Ruby Grain, LLC

Between September 10, 2013 and September 30, 2013, thirteen producers filed, with the department, default claims against Ruby Grain, LLC. Ruby was a licensed grain dealer at the time of the default to producers. Ruby withdrew their application to renew their grain dealer license for the 2013--2014 license year. A proposed decision has been drafted allowing all thirteen claims. The deadline for filing objections to the proposed decision is December 6, 2013. The aggregate amount of the proposed payments from the Agricultural Producer Security Fund is \$60,269.46.

Allens, Inc.

Between September 6, 2013 and November 12, 2013, fifteen producers filed, with the department, default claims against Allens, Inc. On October 28, 2013, Allens filed a voluntary petition for relief under Chapter 11 bankruptcy. Allen's was a licensed vegetable contractor at the time of the default to producers. The department revoked Allens vegetable contractor license on November 18, 2013. An investigation is under way to determine potential claims against the Agricultural Producer Security Fund. Pending outcomes from both the bankruptcy and the department's default proceeding, payments from the Fund could reach several million dollars.