

Annual Report

Agricultural Producer Security Trust Fund

Year Ended June 30, 2012

Issued November 14, 2012



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

TABLE OF CONTENTS

Statement of Revenues, Expenditures, and Cash Balances	3
Notes to Statement of Revenues, Expenditures, and Cash Balances	4
Note 1 -- Accounting Methodology	4
Note 2 -- Statements of Revenues, Expenditures, and Cash Balances by Industry Group	5
Note 3 -- Revenues	9
Note 4 -- Expenditures	14
Note 5 -- Fund Balances and Statutory Trigger Amounts	18
Note 6 -- Individual Security	23
Note 7 -- Aggregate Estimated Default Exposure	24
Note 8 -- License History	26

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

	Years Ended		
	<u>June 30, 2012</u>	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Revenues			
Assessments			
Grain Dealers	\$728,000	\$682,000	\$432,000
Grain Warehouse Keepers	94,000	120,000	56,000
Milk Contractors	123,000	438,000	709,000
Vegetable Contractors	34,000	16,000	30,000
Total Assessments	979,000	1,256,000	1,227,000
Licenses Fees & Administrative Revenues			
Grain Dealers	83,000	166,000	308,000
Grain Warehouse Keepers	289,000	283,000	282,000
Milk Contractors	150,000	140,000	149,000
Vegetable Contractors	53,000	49,000	70,000
Total License Fees & Monthly Fees	575,000	638,000	809,000
Interest Revenue	15,000	20,000	24,000
Grain Dealer – Audits for Marketing Boards	10,000	9,000	10,000
Miscellaneous Revenue	-	-	-
Total Revenues	\$1,579,000	\$1,923,000	\$2,070,000
Expenditures			
Salaries and Fringe			
Grain Dealers	281,000	284,000	284,000
Grain Warehouse Keepers	250,000	253,000	281,000
Milk Contractors	331,000	323,000	280,000
Vegetable Contractors	107,000	104,000	78,000
Total Salaries and Fringe	969,000	964,000	923,000
Supplies and Services			
Grain Dealers	64,000	64,000	64,000
Grain Warehouse Keepers	50,000	49,000	62,000
Milk Contractors	51,000	42,000	46,000
Vegetable Contractors	16,000	8,000	11,000
Total Supplies and Services	181,000	163,000	183,000
Total Expenditures	\$1,150,000	\$1,127,000	\$1,106,000
Total Revenues Less Total Expenditures	429,000	796,000	964,000
Beginning Cash Balance	11,372,000	10,576,000	9,612,000
Ending Cash Balance	\$11,801,000	\$11,372,000	\$10,576,000

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 21 of this report.

Grain Dealer	<i>Years Ended</i>		
	<i>June 30, 2012</i>	<i>June 30, 2011</i>	<i>June 30, 2010</i>
Indemnity Function			
Revenues			
Assessments Collected	\$728,500	\$681,700	\$432,000
Interest Income	4,600	5,400	6,100
Total Revenues	733,100	687,100	438,100
Expenditures			
Default Payments to Producers	-	-	-
License Fee Credits (transfer to Administrative Function)	282,200	140,800	-
Total Expenditures	282,200	140,800	-
Net Revenues Less Expenses	450,900	546,300	438,100
Beginning Balance	3,708,700	3,162,400	2,724,300
Ending Balance - Indemnity Function	\$ 4,159,600	\$ 3,708,700	\$ 3,162,400
Administrative Function			
Revenues			
License Fee Credits (transfer from Indemnity Function)	\$282,200	\$140,800	\$ -
License Fees (cash collected from licensees)	83,200	166,300	307,900
Gross License Fees	365,400	307,100	307,900
Audits for Marketing Boards	10,000	8,600	10,000
Miscellaneous Income	-	-	-
Interest Income	-	-	-
Total Revenues	375,400	315,700	317,900
Expenditures			
Salaries and Fringe	281,400	284,100	283,600
Supplies and Services	64,400	63,500	63,700
Miscellaneous Expenses	-	-	-
Total Expenditures	345,800	347,600	347,300
Net Revenues Less Expenses	29,600	(31,900)	(29,400)
Beginning Balance	(861,700)	(829,800)	(800,400)
Ending Balance -- Administrative Function	\$ (832,100)	\$ (861,700)	\$ (829,800)
Combined Indemnity Function plus Administrative Function			
Total Revenue (net of licensee fee credits)	\$826,300	\$862,000	\$756,000
Total Expenses (net of license fee credits)	345,800	347,600	347,300
Net Revenues Less Expenses	480,500	514,400	408,700
Beginning Balance	2,847,000	2,332,600	1,923,900
Ending Balance, Grain Dealer	\$ 3,327,500	\$ 2,847,000	\$ 2,332,600

Grain Warehouse Keeper

	<i>Years Ended</i>		
	<i>June 30, 2012</i>	<i>June 30, 2011</i>	<i>June 30, 2010</i>
Indemnity Function			
Revenues			
Assessments Collected	\$94,100	\$120,100	\$56,200
Interest Income	700	800	900
Total Revenues	94,800	120,900	57,100
Expenditures			
Default Payments to Producers	-	-	-
License Fee Credits (transfer to Administrative Function)	-	-	-
Total Expenditures	-	-	-
Net Revenues Less Expenditures	94,800	120,900	57,100
Beginning Balance	557,900	437,000	379,900
Ending Balance - Indemnity Function	\$652,700	\$557,900	\$437,000
Administrative Function			
Revenues			
License Fee Credits (transfer from Indemnity Function)	\$ -	\$ -	\$ -
License Fees (cash collected from licensees)	289,200	283,200	282,200
Gross License Fees	289,200	283,200	282,200
Miscellaneous Income	-	-	-
Interest Income	-	-	-
Total Revenues	289,200	283,200	282,200
Expenditures			
Salaries and Fringe	249,800	252,900	280,900
Supplies and Services	50,300	49,500	61,900
Miscellaneous Expenditure	-	-	-
Total Expenditures	300,100	302,400	342,800
Net Revenues Less Expenditures	(10,900)	(19,200)	(60,600)
Beginning Balance	(896,500)	(877,300)	(816,700)
Ending Balance -- Administrative Function	\$(907,400)	\$(896,500)	\$(877,300)
Combined Indemnity Function plus Administrative Function			
Total Revenue (net of license fee credits)	\$ 384,000	\$ 404,100	\$ 339,300
Total Expenditures (net of license fee credits)	300,100	302,400	342,800
Net Revenues Less Expenditures	83,900	101,700	(3,500)
Beginning Balance	(338,600)	(440,300)	(436,800)
Ending Balance, Grain Warehouse Keeper	\$(254,700)	\$(338,600)	\$(440,300)

Milk Contractor	<i>Years Ended</i>		
	<i>June 30, 2012</i>	<i>June 30, 2011</i>	<i>June 30, 2010</i>
Indemnity Function			
Revenues			
Assessments Collected	\$122,500	\$438,200	\$708,600
Interest Income	8,400	11,700	14,400
Total Revenues	130,900	449,900	723,000
Expenditures			
Default Payments to Producers	-	-	-
License Fee Credits (transfer to Administrative Function)	263,300	263,400	249,200
Total Expenditures	263,300	263,400	249,200
Net Revenues Less Expenditures	(132,400)	186,500	473,800
Beginning Balance	7,353,600	7,167,100	6,693,300
Ending Balance - Indemnity Function	\$ 7,221,200	\$ 7,353,600	\$ 7,167,100
Administrative Function			
Revenues			
License Fee Credits (transfer from Indemnity Function)	\$263,300	\$263,400	\$249,200
License Fees (cash collected from licensees)	149,900	139,600	148,600
Gross License Fees	413,200	403,000	397,800
Miscellaneous Income	-	-	-
Interest Income	600	600	800
Total Revenues	413,800	403,600	398,600
Expenditures			
Salaries and Fringe	331,000	323,200	280,300
Supplies and Services	51,100	42,200	46,300
Miscellaneous Expenditures	-	-	-
Total Expenditures	382,100	365,400	326,600
Net Revenues Less Expenditures	31,700	38,200	72,000
Beginning Balance	445,000	406,800	334,800
Ending Balance -- Administrative Function	\$ 476,700	\$ 445,000	\$ 406,800
Combined Indemnity Function plus Administrative Function			
Total Revenue (net of license fee credits)	\$281,400	\$590,100	872,400
Total Expenditures (net of license fee credits)	382,100	365,400	326,600
Net Revenues Less Expenditures	(100,700)	224,700	545,800
Beginning Balance	7,798,600	7,573,900	7,028,100
Ending Balance -- Milk Contractor	\$ 7,697,900	\$ 7,798,600	\$ 7,573,900

Vegetable Contractor	<i>Years Ended</i>		
	<i>June 30, 2012</i>	<i>June 30, 2011</i>	<i>June 30, 2010</i>
Indemnity Functions			
Revenues			
Assessments Collected	\$33,900	\$16,500	\$30,000
Interest Income	1,100	1,700	2,400
Total Revenues	35,000	18,200	32,400
Expenditures			
Default Payments to Producers	-	-	-
License Fee Credits (transfer to Administrative Function)	94,200	110,900	102,300
Total Expenditures	94,200	110,900	102,300
Net Revenues Less Expenditures	(59,200)	(92,700)	(69,900)
Beginning Balance	989,200	1,081,900	1,151,800
Ending Balance - Indemnity Function	\$ 930,000	\$ 989,200	\$ 1,081,900
Administrative Functions			
Revenues			
License Fee Credits (transfer from Indemnity Function)	\$94,200	\$110,900	\$102,300
License Fees Collected	52,400	49,000	69,900
Gross License Fees	146,600	159,900	172,200
Miscellaneous Income	-	-	-
Interest Income	100	100	-
Total Revenues	146,700	160,000	172,200
Expenditures			
Salaries and Fringe	106,600	104,300	77,900
Supplies and Services	15,600	7,700	11,000
Miscellaneous Expenditures	-	-	-
Total Expenditures	122,200	112,000	88,900
Net Revenues Less Expenditures	24,500	48,000	83,300
Beginning Balance	76,200	28,200	(55,100)
Ending Balance -- Administrative Function	\$ 100,700	\$ 76,200	\$ 28,200
Combined Indemnity Function plus Administrative Function			
Total Revenue (net of license fee credits)	\$ 87,500	\$ 67,300	\$ 102,300
Total Expenditures (net of license fee credits)	122,200	112,000	88,900
Net Revenues Less Expenditures	(34,700)	(44,700)	13,400
Beginning Balance	1,065,400	1,110,100	1,096,700
Ending Balance -- Vegetable Contractor	\$1,030,700	\$1,065,400	\$1,110,100

Note 3 – Revenues

The following tables present a detailed presentation of Fund revenue. Please note these tables do not include license fee credits as revenue. (For more information on license fee credits, see Note 5.)

**GRAIN DEALER
REVENUE DETAIL**

	Years Ended		
	<u>June 30, 2012</u>	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Indemnity Function Subaccount			
Assessments	\$336,963	\$464,292	\$254,310
Deferred Payment Assessments	383,039	212,664	173,446
Penalty -- Late Assessment	8,492	4,699	4,198
Interest (Allocated)	4,597	5,427	6,179
Subtotal -- Indemnity Function Subaccount	733,091	687,082	438,133
Administrative Function Subaccount			
Annual License Fees			
Annual License Application Fee	7,250	7,150	7,350
Annual License Fee (based on purchases)	61,290	146,909	287,000
Additional Locations License Fee	10,900	9,500	9,725
Surcharge -- Non-audited Financial Statement	-	-	-
Penalty -- Late Financial Statement	500	1,100	1,000
Penalty -- Late License Renewal	600	752	1,100
Penalty -- Operating Without License -- New	1,500	500	500
Penalty -- Operating Without License -- Renewal	1,000	-	1,000
Audit Services for Marketing Boards and Misc. Other	200	382	203
Audit Services for Corn Marketing Board	6,080	4,320	4,254
Audit Services for Soybean Marketing Board	4,000	4,320	5,756
Interest (Allocated)			
Subtotal -- Administrative Function Subaccount	93,320	174,933	317,888
Total Revenue Grain Dealer	\$826,411	\$862,015	\$756,021

**GRAIN WAREHOUSE KEEPER
REVENUE DETAIL**

	Years Ended		
	<u>June 30, 2012</u>	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Indemnity Function Subaccount			
Assessments	\$90,132	\$119,167	\$55,479
Penalty -- Late Assessment	3,959	892	736
Interest (Allocated)	735	801	858
Subtotal -- Indemnity Function Subaccount	94,825	120,860	57,073
Administrative Function Subaccount			
License Fee			
License Filing Fee	2,825	2,750	2,800
Additional Locations Fee	5,475	5,625	5,475
Inspection Fees	250,000	242,000	242,100
Supplemental Inspection Fee	29,175	32,175	29,550
Penalty -- Operating w/o license -- New	500		
Penalty -- Operating w/o License -- Renew	500		1,000
Penalty -- Late Financial Statement	200	400	400
Penalty -- Late License Renewal	600	400	900
Interest (Allocated)			
Misc. adjustments, overpayments & transfers		(182)	
Subtotal -- Administrative Function Subaccount	289,275	283,168	282,225
Total Revenue -- Grain Warehouse Keeper	\$384,100	\$404,028	\$339,298

**MILK CONTRACTOR
REVENUE DETAIL**

	Years Ended		
	<u>June 30, 2012</u>	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Indemnity Function Subaccount			
Assessments	\$121,352	\$436,450	\$706,785
Penalty -- Late Assessment	1,175	1,753	1,828
Interest (Allocated)	8,436	11,650	14,380
Subtotal -- Indemnity Function Subaccount	130,963	449,853	722,993
Administrative Function Subaccount			
Monthly License Fee	142,567	132,853	145,106
Annual License Fee	3,100	2,900	2,950
Penalty -- Operating without license	2,000	2,000	
Penalty -- Late Financial Statement	900	700	400
Penalty -- Late License Renew & Monthly Fees	800	1,100	126
Penalty -- Late Monthly Fees	545	27	35
Interest (Allocated)	522	662	752
Subtotal -- Administrative Function Subaccount	150,434	140,242	149,369
Total Revenue -- Milk Contractor	\$281,397	\$590,095	\$872,362

**VEGETABLE CONTRACTOR
REVENUE DETAIL**

	Years Ended		
	<u>June 30, 2012</u>	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Indemnity Function Subaccount			
Assessments	\$33,850	\$16,281	\$29,981
Deferred Payment Assessment			
Penalty -- Late Assessment		200	50
Interest (allocated)	1,107	1,686	2,347
Subtotal - Indemnity Function Subaccount	34,957	18,167	32,378
Administrative Function Subaccount			
Annual License Application Fee	1,631	1,365	1,475
Contract Obligation License Fee	37,029	34,572	54,459
License Fee -- Nonparticipating Potato Buyer	12,863	12,997	13,080
Penalty -- Operating w/o License (New)	500		500
Penalty -- Late License Fee	200		100
Penalty -- Late Financial Statement	200	100	300
Interest (Allocated)	95	52	27
Misc. adjustments, overpayments & transfers	(5)		
Subtotal -- Administrative Function Subaccount	52,513	49,086	69,941
Total Revenue -- Vegetable Contractor	\$87,470	\$67,253	\$102,319

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 are 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

Statute and Rule Changes to Assessment Rates and Amounts

The statutory assessment rates for the grain warehouse keeper and the milk contractor portions of the program were modified prior to the fiscal year ending June 30, 2010. Generally, assessment rates for grain warehouse keepers increased by 50% over previous rates. Assessment rates for certain milk contractors were reduced. The reduction was made in the milk contractor's debt to equity ratio assessment rate.

Further, prior to January 2009, the minimum assessment amount for all contributing contractors was \$20. In 2009 new administrative rules dictate minimum assessment amounts based on the contractors' size. Minimum assessment amounts are now \$100, \$200, or \$500 for grain dealers, milk contractors and vegetable contractors, and \$100 or \$250 for grain warehouse keepers.

In addition to the assessments based on current ratio and debt to equity ratio, an assessment may be applied to deferred payment transactions. Prior to January 2010 this deferred payment assessment applied to the grain dealer and vegetable contractor program areas. However, in 2009 Wisconsin Act 296 repealed this assessment for vegetable contractors.

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* 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.

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 ATCP 99.135, ATCP 99.255, ATCP 100.135 and ATCP 101.255. Further, assessment calculators are available by clicking into the various areas of https://datcp.wi.gov/Pages/Programs_Services/AgriculturalProducerSecurity.aspx

- 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. 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, and then subtracting any credit provided under s. [126.26 \(5\)](#), Wis. Stats. 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.

- 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 Income

The Wisconsin Department of Administration deposits interest into the Fund accounts 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 income 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. 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, 2012, 2011 and 2010, the Fund received interest revenue of \$15,491.92, \$20,275.86, and \$24,544.17 respectively. This means that average annualized interest rates for these three years were 0.14%, 0.19%, and 0.26% respectively.

Note 4 – Expenditures

Employee Expenditures

Before July 1, 2009, the program had a total of 14.52 Full Time Employees (FTEs) authorized to the Program. However, the 2009-2011 Biennial Budget permanently eliminated 1.10 FTE from the Program. Therefore, throughout the fiscal years ending June 30, 2010 and June 30, 2011, the authorized position authority was 13.42 FTE. 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 as fairly as possible 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, 2012, is shown in the schedule below.

	Grain Dealer	Grain Warehouse Keeper	Milk Contractor	Vegetable Contractors	Total
Agricultural Auditor	2.80	2.20	3.05	0.75	8.80
Agricultural Auditor Supervisor	0.25	0.25	0.25	0.25	1.00
Budget and Policy Analyst				0.20	0.20
Financial Specialist		0.25			0.25
Office Operations Associate	0.60	0.40			1.00
Trade Practices Analyst (Vacant)			0.70		0.70
TOTAL	3.65	3.10	4.00	1.20	11.95

Expenditure Detail

Below, 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			
	Years Ended		
	<u>June 30, 2012</u>	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Personnel Expenditures			
Classified Civil Services Salaries	\$202,533	\$185,739	\$188,078
Fringe Benefit Expenditure	78,929	98,417	95,462
Subtotal:	281,462	284,156	283,540
Supplies & Services			
Advertising/Legal Notices	308	-	849
Contractual Services Exp	3,178	1,762	1,630
Dues and Subscriptions	270	100	116
Indirect Cost Allowance	13,706	13,341	11,230
Insurance	962	1,190	1,278
Maint. & Repair – Land/Structures	17	-	-
Mailing	933	916	1,022
Maint & Repair – Other Equipment	10	31	--
Non State or Non-STS Calls	753	707	668
Other Admin & Operating	97	1,853	1,741
Printing	144	253	440
Rent / Lease of Equipment	167	167	83
Rental of State-Owned Space	23,230	22,207	25,966
Materials & Supplies - Other	1,054	436	1,241
STS Charges	--	-	58
Travel & Training/In-State	3,168	3,841	3,632
Travel & Training/Out-of-State	478	304	70
Other Travel & Training Exp	15,895	16,393	13,725
Subtotal:	64,370	63,501	63,749
Miscellaneous Expenditure	--	--	--
Total Grain Dealer Expenditures	\$345,832	\$347,657	\$ 347,289

**GRAIN WAREHOUSE KEEPER
EXPENDITURE DETAIL**

	<u>June 30, 2012</u>	<u>Years Ended June 30, 2011</u>	<u>June 30, 2010</u>
Personnel Expenditures			
Classified Civil Services Salaries	\$172,329	\$164,056	\$190,789
Fringe Benefit Expenditure	77,506	88,853	90,151
Subtotal:	249,835	252,909	280,940
Supplies & Services			
Advertising / Legal Notices	308	-	-
Contractual Services Exp	2,738	1,497	1,880
Dues and Subscriptions	80	100	116
Indirect Cost Allowance	11,640	11,331	11,230
Insurance	823	1,190	1,390
Mailing	423	526	434
Maint & Repair – Other Equipment	10	31	-
Non State or Non-STS Calls	772	723	667
Other Admin & Operating	-	1,253	1,222
Printing	50	54	111
Rent/Lease of Equipment	167	167	84
Rent Privately-Owned Space	-	-	-
Rental of State-Owned Space	19,742	19,080	25,966
Materials & Supplies - Other	796	390	2,318
STS Charges	-	-	25
Travel & Training/In-State	2,048	2,382	3,336
Travel & Training/Out-of-State	-	41	-
Other Travel & Training Exp	10,689	10,734	13,051
Subtotal:	50,286	49,499	61,830
Miscellaneous Expenditure	-	-	-
Total Grain Warehouse Keeper Expenditures	\$300,121	\$302,408	\$342,770

**MILK CONTRACTOR
EXPENDITURE DETAIL**

	<u>June 30, 2012</u>	<u>Years Ended June 30, 2011</u>	<u>June 30, 2010</u>
Personnel Expenditures			
Classified Civil Services Salaries	\$230,187	\$215,320	\$189,994
Fringe Benefit Expenditure	100,833	107,891	90,358
Subtotal:	331,020	323,211	280,352
Supplies & Services			
Contractual Services Exp	3,066	1,664	1,705
Dues and Subscriptions	-	150	388
Indirect Cost Allowance	12,391	15,899	12,595
Insurance	1,074	1,152	1,280
Maint & Repair - Land/Structures	-	-	165
Mailing	1,227	1,364	1,204
Maint & Repair - Other Equipment	181	183	78
Non State or Non-STS Calls	1,773	1,770	1,418
Other Admin & Operating	-	1,364	1,160
Printing	227	438	511
Rent/Lease of Equipment	406	394	394
Rent Privately-Owned Space	1,232	1,126	816
Rental of State-Owned Space	20,796	15,143	17,731
Materials & Supplies - Other	1,124	959	1,523
STS Charges	-	-	217
Supplies & Services Transfer	-	(7,220)	-
Travel & Training/In-State	3,285	3,622	2,475
Travel & Training/Out-of-State	421	884	169
Other Travel & Training Exp	3,886	3,301	2,425
Subtotal:	51,089	42,193	46,254
Miscellaneous Expenditure	-	-	-
Total Milk Contractor Expenditures	\$ 382,109	\$ 365,404	\$326,606

**VEGETABLE CONTRACTOR
EXPENDITURE DETAIL**

	Years Ended		
	<u>June 30, 2012</u>	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Personnel Expenditures			
Classified Civil Services Salaries	\$76,641	\$71,962	\$54,231
Fringe Benefit Expenditure	29,951	32,310	23,702
Subtotal:	106,592	104,272	77,933
Supplies & Services			
Contractual Services Exp	1,168	483	426
Dues and Subscriptions	-	-	16
Indirect Cost Allowance	3,755	3,107	2,739
Insurance	328	308	344
Mailing	148	111	164
Non State or Non-STS Calls	175	173	153
Other Admin & Operating	-	625	626
Printing	45	24	153
Rent Privately-Owned Space	315	375	220
Rental of State-Owned Space	6,499	5,048	4,433
Materials & Supplies - Other	-	65	1
Supplies & Services Transfer	-	(3,556)	-
Travel & Training/In-State	1,930	548	996
Travel & Training / Out-of-State	208	95	-
Other Travel & Training Exp	1,042	300	695
Subtotal	15,613	7,706	10,966
Miscellaneous Expenditure	-	-	-
Total Vegetable Contractor Expenditures	\$122,205	\$111,978	\$ 88,899

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, 2012	Maximum Statutory Balance
Grain Dealers	\$ 1,000,000	\$ 3,327,500	\$ 6,000,000
Grain Warehouse Keepers	\$ 200,000	\$ (254,700)	\$ 1,000,000
Milk Contractors	\$ 3,000,000	\$ 7,697,900	\$ 12,000,000
Vegetable Contractors	\$ 800,000	\$ 1,030,700	\$ 3,000,000
Entire Fund	\$ 5,000,000	\$ 11,801,400	\$ 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 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

⁴ Section 126.88, Wis. Stats.

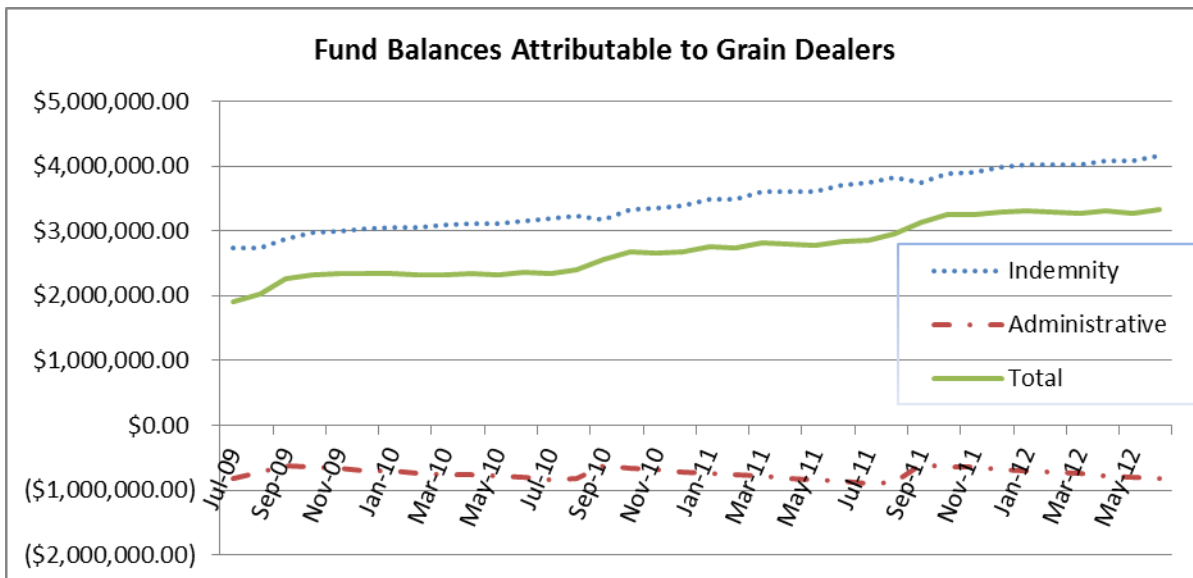
⁵ ATCP 99.126(5), ATCP 99.235(4), ATCP 100.135(10), and ATCP 101.245(4), Wisconsin Administrative Code.

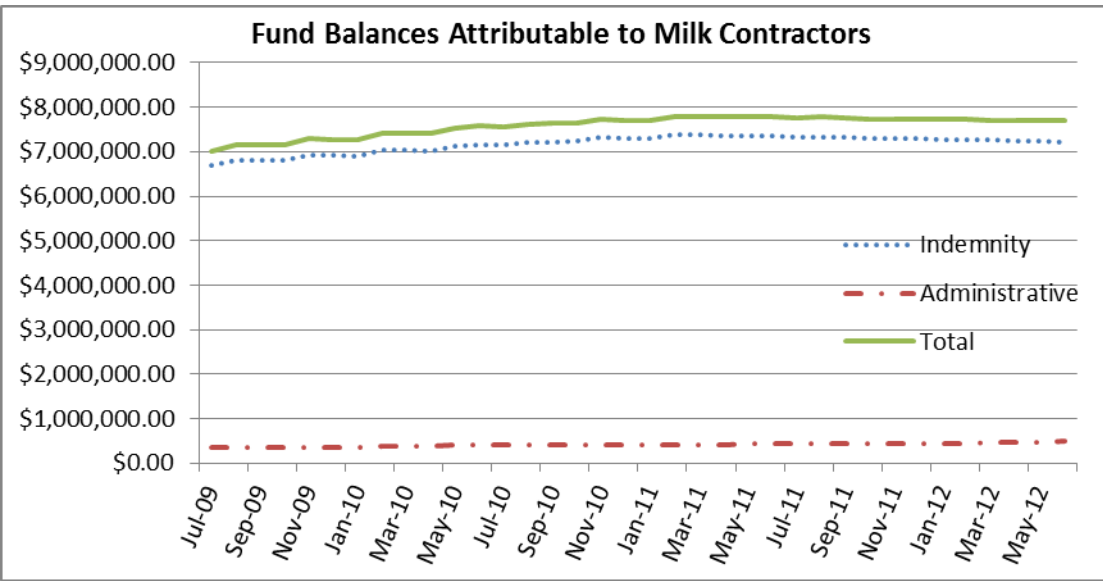
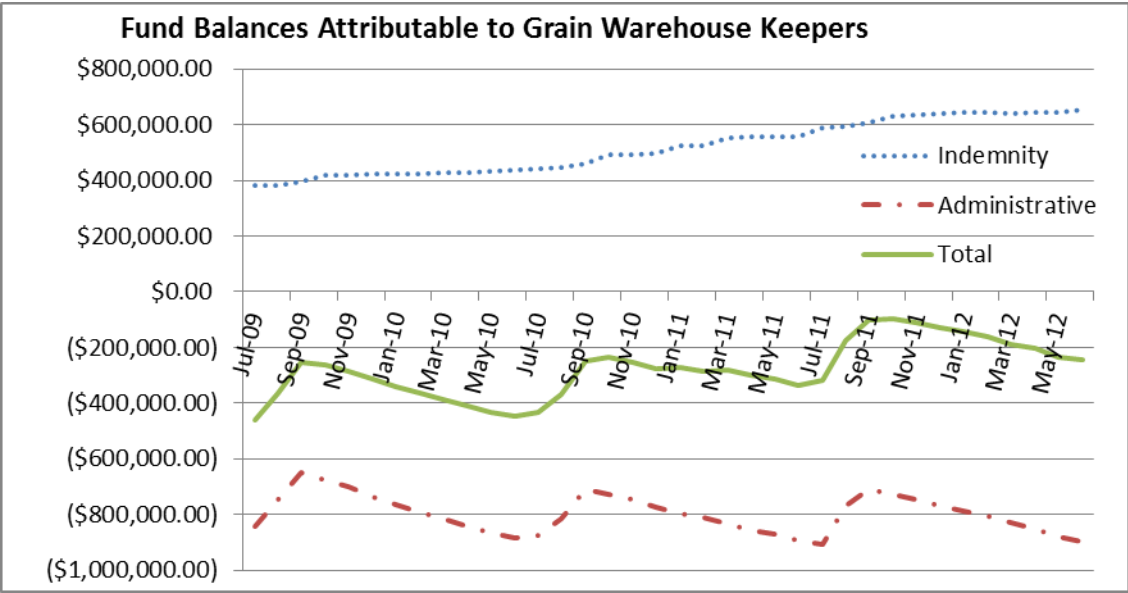
As of February 28, 2011 and 2012, the fund balance attributable to milk contractors was \$7,790,968 and \$7,722,293 and the overall fund balance was \$11,339,746 and \$11,902,483. Therefore, contributing milk contractors that have contributed in each of the five preceding license years do not need to pay annual assessments for the license year that began May 1, 2011 through April 30, 2012 and license year that began May 1, 2012 ending on April 30, 2013.

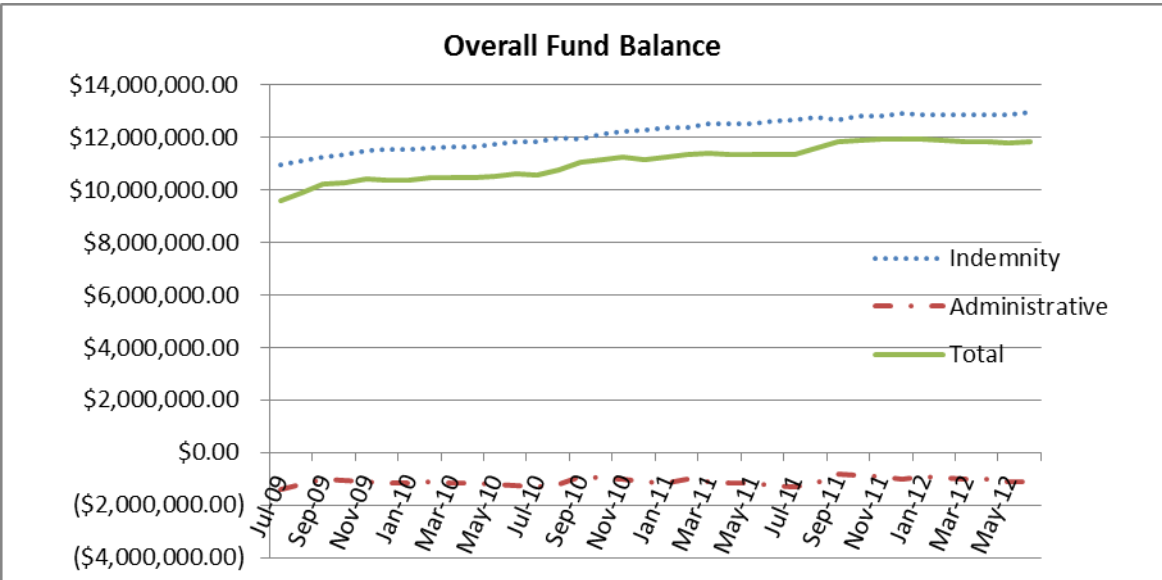
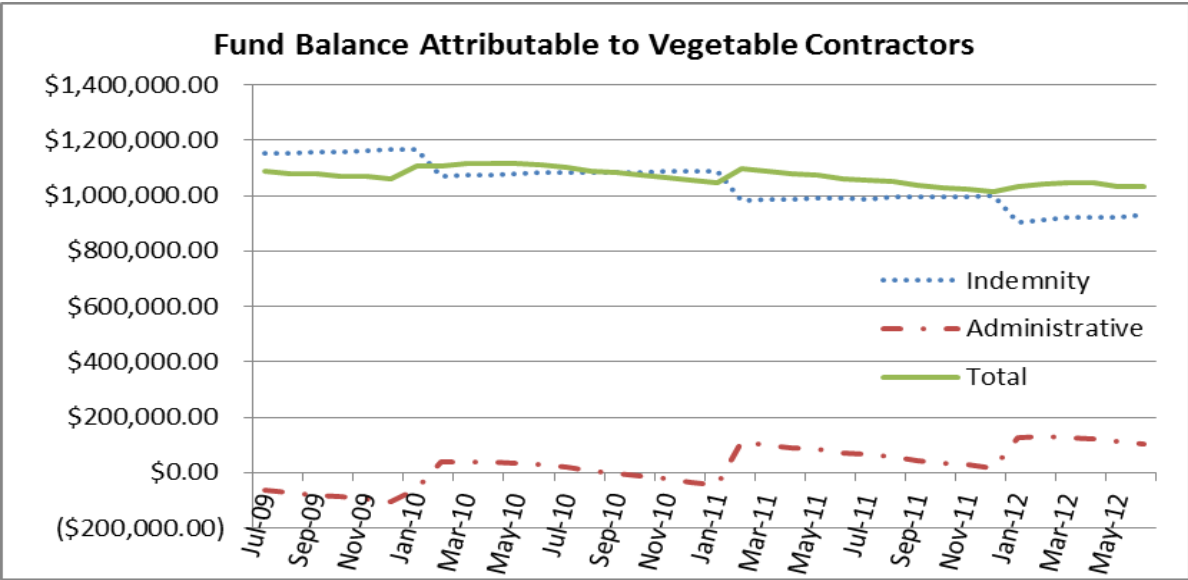
As of May 31, 2012, the Fund balance attributable to grain dealers was \$3,278,436 and the overall fund balance was \$11,767,555. Therefore, contributing grain dealers that have contributed in each of the five preceding license years do not need to pay an annual assessment for the license year that began September 1, 2012 ending on August 30, 2013. The report is as of fiscal year ending June 30, 2012 so this will not appear on the reports until year ended June 30, 2013.

Subaccount Monthly Cash Balances

Cash balances in each subaccount at the end of each month during the fiscal years 2010, 2011 and 2012 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 certain 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, 2012, the Department held a total of \$69,572,653 in individual security. As of June 30, 2011, the department held a total of \$72,295,169. And as of June 30, 2010, the department held a total of \$53,797,532. On all three dates, security was from either grain dealers or milk contractors. On the date of June 30, 2012 a vegetable contractor was requested to provide security due to an item listed as other reasons. There was no security from grain warehouse keepers. The total amount of security held as of June 30, 2012, by type of security and reason it was held, is shown in the table below.

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
Grain Dealers				
Disqualified	\$ -	\$ -	\$ -	\$ -
Deferred Payment	720,000	104,013	-	824,013
Exposure Greater than \$20 Million	-	-	-	-
Voluntary	29,853,139	-	-	29,853,139
Other	-	-	-	-
Total	\$ 30,573,139	\$ 104,013	\$ -	\$ 30,677,152
Milk Contractors				
Disqualified	\$ -	\$ 865,400	\$ 159,488	1,024,888
Exposure Greater than \$20 Million	29,610,600	-	-	29,610,600
Voluntary	7,710,000	-	-	7,710,000
Other	-	500,000	-	500,000
Total	\$ 37,320,600	\$ 1,365,400	\$ 159,488	\$ 38,845,488
Vegetable Contractors				
Disqualified	\$ -	\$ -	\$ -	\$ -
Exposure Greater than \$20 Million	-	-	-	-
Voluntary	-	-	-	-
Other	-	-	50,013	50,013
Total	\$ -	\$ -	\$ 50,013	\$ 50,013

Note 7 – Aggregate Estimated Default Exposure

As of about June 30, 2012, the grand total of all contractors' "Estimated Default Exposure" was approximately \$869,600,068. "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.

⁸ S. 126.16(1)(c)1., Wis. Stats.

⁹ S. 126.31(1)(b)1., Wis. Stats.

- **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.
- **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” amount 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, goes beyond the original purpose of this figure. Nevertheless, it is at least somewhat useful as an approximate measure for total risk to the fund and to producers.

The aggregate “Estimated Default Exposure” for each of the four license types are shown. In the table below, 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	\$182,335,967	58%	\$54,096,597	77%	\$157,907,737	39%	\$32,151,165	39%	\$426,491,466	48%
Producers										
Copayment on fund claim	43,099,918	14%	9,264,102	13%	96,828,848	24%	6,378,835	8%	155,571,703	18%
Contractor exceeds max fund payout*	63,469,679	20%	6,496,989	9%	13,926,725	3%	25,213,335	31%	109,106,728	13%
Nonparticipating contractors	-		-		94,278,216	23%	18,184,990	22%	112,463,206	13%
Producers Sub Total	106,569,597	34%	15,761,091	23%	205,033,789	51%	49,777,160	61%	377,141,637	43%
Individual Security	27,071,464	9%	-		38,845,488	10%	50,013		65,966,965	8%
Grand Total	\$315,977,028		\$69,857,688		\$401,787,014		\$81,978,338		\$869,600,068	

The amounts shown in the table above for milk contractors and vegetable contractors 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.

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.

¹¹ S. 126.61(1)(b)1., Wis. Stats.

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.
- 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.

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

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
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

Grain Dealer (continued)		
License Year	Total Bushels Reported	Total Deferred Payment Reported
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
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
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
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