

Annual Report

Agricultural Producer Security Trust Fund

Year Ended June 30, 2011

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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	2
Notes to Statement of Revenues, Expenditures, and Cash Balances	3
Note 1 -- Accounting Methodology	3
Note 2 -- Statements of Revenues, Expenditures, and Cash Balances by Industry Group	4
Note 3 -- Revenues	9
Note 4 -- Expenditures	15
Note 5 -- Fund Balances and Statutory Trigger Amounts	21
Note 6 -- Individual Security	25
Note 7 -- Aggregate Estimated Default Exposure	26

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

	Years Ended		
	<u>June 30, 2011</u>	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Revenues			
Assessments			
Grain Dealers	681,655	431,954	409,473
Grain Warehouse Keepers	120,059	56,215	38,417
Milk Contractors	438,203	708,613	895,871
Vegetable Contractors	16,481	30,031	20,075
Total Assessments	1,256,398	1,226,813	1,363,836
Licenses Fees & Administrative Revenues			
Grain Dealers	166,293	307,878	162,345
Grain Warehouse Keepers	283,168	282,225	151,900
Milk Contractors	139,580	148,617	163,331
Vegetable Contractors	49,034	69,914	12,032
Total License Fees & Monthly Fees	638,075	808,634	489,608
Interest Revenue	20,276	24,544	121,304
Grain Dealer – Audits for Marketing Boards	8,640	10,010	6,938
Miscellaneous Revenue	-	-	-
Total Revenues	1,923,389	2,070,001	1,981,686
Expenditures			
Salaries and Fringe			
Grain Dealers	284,156	283,540	291,446
Grain Warehouse Keepers	252,909	280,940	294,332
Milk Contractors	323,211	280,352	276,642
Vegetable Contractors	104,272	77,933	78,045
Total Salaries and Fringe	964,548	922,765	940,465
Supplies and Services			
Grain Dealers	63,501	63,749	66,813
Grain Warehouse Keepers	49,499	61,829	59,637
Milk Contractors	42,193	46,254	52,217
Vegetable Contractors	7,706	10,966	12,503
Total Supplies and Services	162,899	182,798	191,170
Loan Repayment (Principal and Interest)	-	-	-
Premiums Paid on Financial Backing	-	-	316,600
Default Payments to Producers	-	-	-
Miscellaneous Expense	-	-	163
Total Expenditures	1,127,447	1,105,563	1,448,398
Net Total Revenues Less Total Expenditures	795,942	964,438	533,288
Beginning Cash Balance	10,576,374	9,611,936	9,078,648
Ending Cash Balance	11,372,316	10,576,374	9,611,936

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

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, grain and vegetable 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.

Revenues into the fund consist mostly of assessments and license fees paid by licensed contractors. Expenditures to the fund 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 Statements of Cash Balances, Revenues and Expenditures 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 enters 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 Functions
- Administrative Functions

Four separate industry groups multiplied by two separate functions means that there are actually 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 functions category consists of assessment revenues collected from contractors. Indemnity functions 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 functions 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 WISMART 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 reported below. In addition, there is a statement combining the indemnity function and administrative function subaccounts for each of the four license groups.

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.

Revenues, expenditures, and net cash balances for grain dealer subaccounts are show below:

Grain Dealer	Years Ended		
	June 30, 2011	June 30, 2010	June 30, 2009
Indemnity Function			
Revenues			
Assessments Collected	\$ 681,655	\$ 431,954	\$ 409,473
Interest Income	5,427	6,179	28,404
Total Revenues	687,082	438,133	437,877
Expenditures			
Premiums on Financial Backing	-	-	64,408
Default Payments to Producers	-	-	-
License Fee Credits (transfer to Admin. Func.)	140,839	-	-
Total Expenditures	140,839	-	64,408
Net Revenues Less Expenses	546,243	438,133	373,469
Beginning Balance	3,162,425	2,724,292	2,350,823
Ending Balance - Indemnity Function	\$ 3,708,668	\$ 3,162,425	\$ 2,724,292
Administrative Function			
Revenues			
License Fee Credits (transfer from Indem. Func.)	\$ 140,839	\$ -	\$ -
License Fees (cash collected from licensees)	166,293	307,878	162,345
Gross License Fees	307,132	307,878	162,345
Audits for Marketing Boards	8,640	10,010	6,938
Miscellaneous Income	-	-	-
Interest Income	-	-	-
Total Revenues	315,772	317,888	169,283
Expenditures			
Salaries and Fringe	284,156	283,540	291,446
Supplies and Services	63,501	63,749	66,813
Miscellaneous Expenses	-	-	41
Total Expenditures	347,657	347,289	358,300
Net Revenues Less Expenses	(31,885)	(29,401)	(189,017)
Beginning Balance	(829,819)	(800,418)	(611,401)
Ending Balance -- Administrative Function	(861,704)	(829,819)	(800,418)
Combined Indemnity Function plus Administrative Function			
Total Revenue (net of licensee fee credits)	862,015	756,021	607,160
Total Expenses (net of license fee credits)	347,657	347,289	422,708
Net Revenues Less Expenses	514,358	408,732	184,452
Beginning Balance	2,332,606	1,923,874	1,739,422
Ending Balance, Grain Dealer	\$ 2,846,964	\$ 2,332,606	\$ 1,923,874

Revenues, expenditures, and net cash balances for the grain warehouse keeper subaccounts are shown below:

Grain Warehouse Keeper	<i>Years Ended</i>		
	<i>June 30, 2011</i>	<i>June 30, 2010</i>	<i>June 30, 2011</i>
Indemnity Function			
Revenues			
Assessments Collected	\$ 120,059	\$ 56,215	\$ 38,417
Interest Income	801	858	4,133
Total Revenues	120,860	57,073	42,550
Expenditures			
Premiums on Financial Backing	-	-	-
Default Payments to Producers	-	-	-
License Fee Credits (transfer to Admin. Func.)	-	-	-
Total Expenditures	-	-	-
Net Revenues Less Expenditures	120,860	57,073	42,550
Beginning Balance	437,015	379,942	337,392
Ending Balance - Indemnity Function	\$ 557,875	\$ 437,015	\$ 379,942
Administrative Function			
Revenues			
License Fee Credits (transfer from Indem. Func.)	\$ -	\$ -	\$ -
License Fees (cash collected from licensees)	283,168	282,225	151,900
Gross License Fees	283,168	282,225	151,900
Miscellaneous Income	-	-	-
Interest Income	-	-	-
Total Revenues	283,168	282,225	151,900
Expenditures			
Salaries and Fringe	252,909	280,940	294,332
Supplies and Services	49,499	61,830	59,637
Miscellaneous Expenditure	-	-	41
Total Expenditures	302,408	342,770	354,010
Net Revenues Less Expenditures	(19,240)	(60,545)	(202,110)
Beginning Balance	(877,270)	(816,726)	(614,616)
Ending Balance -- Administrative Function	\$ (896,510)	\$ (877,271)	\$ (816,726)
Combined Indemnity Function plus Administrative Function			
Total Revenue (net of license fee credits)	\$ 404,028	\$ 339,298	\$ 194,450
Total Expenditures (net of license fee credits)	302,408	342,770	354,010
Net Revenues Less Expenditures	101,620	(3,472)	(159,560)
Beginning Balance	(440,255)	(436,783)	(277,223)
Ending Balance, Grain Warehouse Keeper	\$ (338,635)	\$ (440,255)	\$ (436,783)

Revenues, expenditures, and net cash balances for the milk contractor subaccounts are show below:

Milk Contractor	<i>Years Ended</i>		
	<i>June 30, 2011</i>	<i>June 30, 2010</i>	<i>June 30, 2009</i>
Indemnity Function			
Revenues			
Assessments Collected	\$ 438,203	\$ 708,613	\$ 895,871
Interest Income	11,650	14,380	71,668
Total Revenues	449,853	722,993	967,539
Expenditures			
Premiums on Financial Backing	-	-	191,411
Default Payments to Producers	-	-	-
License Fee Credits (transfer to Admin. Func.)	263,372	249,179	215,034
Total Expenditures	263,372	249,179	406,445
Net Revenues Less Expenditures	186,481	473,814	561,094
Beginning Balance	7,167,136	6,693,322	6,132,228
Ending Balance - Indemnity Function	\$ 7,353,617	\$ 7,167,136	\$ 6,693,322
Administrative Function			
Revenues			
License Fee Credits (transfer from Indem. Func.)	\$ 263,372	\$ 249,179	\$ 215,034
License Fees (cash collected from licensees)	139,580	148,617	163,331
Gross License Fees	402,952	397,796	378,365
Miscellaneous Income	-	-	-
Interest Income	662	752	3,413
Total Revenues	403,614	398,548	381,778
Expenditures			
Salaries and Fringe	323,211	280,352	276,642
Supplies and Services	42,193	46,254	52,217
Miscellaneous Expenditures	-	-	41
Total Expenditures	365,404	326,606	328,900
Net Revenues Less Expenditures	38,210	71,942	52,878
Beginning Balance	406,752	334,810	281,932
Ending Balance -- Administrative Function	\$ 444,962	\$ 406,752	\$ 334,810
Combined Indemnity Function plus Administrative Function			
Total Revenue (net of license fee credits)	\$ 590,095	\$ 872,362	\$ 1,134,283
Total Expenditures (net of license fee credits)	365,404	326,606	520,311
Net Revenues Less Expenditures	224,691	545,756	613,972
Beginning Balance	7,573,888	7,028,132	6,414,160
Ending Balance -- Milk Contractor	\$ 7,798,579	\$ 7,573,888	\$ 7,028,132

Revenues, expenditures, and net cash balances for the vegetable contractor subaccounts are show below:

Vegetable Contractor	<i>Years Ended</i>		
	<i>June 30, 2011</i>	<i>June 30, 2010</i>	<i>June 30, 2009</i>
Indemnity Functions			
Revenues			
Assessments Collected	\$ 16,481	\$ 30,031	\$ 20,075
Interest Income	1,686	2,347	13,687
Total Revenues	18,167	32,378	33,762
Expenditures			
Premiums on Financial Backing	-	-	60,780
Default Payments to Producers	-	-	-
License Fee Credits (transfer to Admin. Func.)	110,833	102,292	65,972
Total Expenditures	110,833	102,292	126,752
Net Revenues Less Expenditures	(92,666)	(69,914)	(92,990)
Beginning Balance	1,081,923	1,151,837	1,244,827
Ending Balance - Indemnity Function	\$ 989,257	\$ 1,081,923	\$ 1,151,837
Administrative Functions			
Revenues			
License Fee Credits (transfer from Indem. Func.)	\$ 110,833	\$ 102,292	\$ 65,972
License Fees Collected	49,034	69,914	12,032
Gross License Fees	159,867	172,206	78,004
Miscellaneous Income	-	-	-
Interest Income	52	27	-
Total Revenues	159,919	172,233	78,004
Expenditures			
Salaries and Fringe	104,272	77,933	78,045
Supplies and Services	7,706	10,966	12,503
Miscellaneous Expenditures	-	-	41
Total Expenditures	111,978	88,899	90,589
Net Revenues Less Expenditures	47,941	83,334	(12,585)
Beginning Balance	28,211	(55,123)	(42,538)
Ending Balance -- Administrative Function	\$ 76,152	\$ 28,211	\$ (55,123)
Combined Indemnity Function plus Administrative Function			
Total Revenue (net of license fee credits)	\$ 67,253	\$ 102,319	\$ 45,794
Total Expenditures (net of license fee credits)	111,978	88,899	151,369
Net Revenues Less Expenditures	(44,725)	13,420	(105,575)
Beginning Balance	1,110,134	1,096,714	1,202,289
Ending Balance -- Vegetable Contractor	\$ 1,065,409	\$ 1,110,134	\$ 1,096,714

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.)

REVENUE DETAIL			
GRAIN DEALER			
	<u>FY 10-11</u>	<u>FY 09-10</u>	<u>FY 08-09</u>
Indemnity Function Subaccount			
Assessments	464,292	254,310	275,062
Deferred Payment Assessments	212,664	173,446	132,080
Penalty -- Late Assessment	4,699	4,198	2,331
Interest (Allocated)	5,427	6,179	28,404
Subtotal -- Indemnity Function Subaccount	687,082	438,133	437,877
Administrative Function Subaccount			
Annual License Fees			141,570
Annual License Application Fee	7,150	7,350	
Annual License Fee (based on purchases)	146,909	287,000	
Additional Locations License Fee	9,500	9,725	
Surcharge -- Non-audited Financial Statement			16,575
Penalty -- Late Financial Statement	1,100	1,000	1,600
Penalty -- Late License Renewal	752	1,100	1,100
Penalty -- Operating Without License -- New	500	500	1,000
Penalty -- Operating Without License -- Renewal		1,000	500
Audit Services for Marketing Boards and Misc. Other	382	203	6,938
Audit Services for Corn Marketing Board	4,320	4,254	
Audit Services for Soybean Marketing Board	4,320	5,756	
Interest (Allocated)			
Subtotal -- Administrative Function Subaccount	174,933	317,888	169,283
Total Revenue Grain Dealer	862,015	756,021	607,160

**REVENUE DETAIL
GRAIN WAREHOUSE KEEPER**

	<u>FY 10-11</u>	<u>FY 09-10</u>	<u>FY 08-09</u>
Indemnity Function Subaccount			
Assessments	119,167	55,479	37,673
Penalty -- Late Assessment	892	736	744
Interest (Allocated)	801	858	4,133
Subtotal -- Indemnity Function Subaccount	120,860	57,073	42,550
Administrative Function Subaccount			
License Fee			10,900
License Filing Fee	2,750	2,800	
Additional Locations Fee	5,625	5,475	
Inspection Fees	242,000	242,100	137,000
Supplemental Inspection Fee	32,175	29,550	
Penalty -- Operating w/o license -- New			2,000
Penalty -- Operating w/o License -- Renew		1,000	500
Penalty -- Late Financial Statement	400	400	500.00
Penalty -- Late License Renewal	400	900	1,000
Interest (Allocated)			
Misc. adjustments, overpayments & transfers	(182)		
Subtotal -- Administrative Function Subaccount	283,168	282,225	151,900
Total Revenue -- Grain Warehouse Keeper	404,028	339,298	194,450

**REVENUE DETAIL
MILK CONTRACTOR**

	<u>FY 10-11</u>	<u>FY 09-10</u>	<u>FY 08-09</u>
Indemnity Function Subaccount			
Assessments	436,450	706,785	891,790
Penalty -- Late Assessment	1,753	1,828	4,081
Interest (Allocated)	11,650	14,380	71,668
Subtotal -- Indemnity Function Subaccount	449,853	722,993	967,539
Administrative Function Subaccount			
Monthly License Fee	132,853	145,106	158,892
Annual License Fee	2,900	2,950	2,600
Penalty -- Operating without license	2,000		
Penalty -- Late Financial Statement	700	400	600
Penalty -- Late License Renew & Monthly Fees	1,100	126	1,239
Penalty -- Late Monthly Fees	27	35	
Interest (Allocated)	662	752	3,413
Subtotal -- Administrative Function Subaccount	140,242	149,369	166,744
Total Revenue -- Milk Contractor	590,095	872,362	1,134,283

**VEGETABLE CONTRACTOR
REVENUE DETAIL**

	<u>FY 10-11</u>	<u>FY 09-10</u>	<u>FY 08-09</u>
Indemnity Function Subaccount			
Assessments	16,281	29,981	19,783
Deferred Payment Assessment			192
Penalty -- Late Assessment	200	50	100
Interest (allocated)	1,686	2,347	13,687
Subtotal - Indemnity Function Subaccount	18,167	32,378	33,762
Administrative Function Subaccount			
Annual License Application Fee	1,365	1,475	1,131
Contract Obligation License Fee	34,572	54,459	4,801
License Fee -- Nonparticipating Potato Buyer	12,997	13,080	6,000
Penalty -- Operating w/o License (New)		500	
Penalty -- Late License Fee		100	100
Penalty -- Late Financial Statement	100	300	
Interest (Allocated)	52	27	
Subtotal -- Administrative Function Subaccount	49,086	69,941	12,032
Total Revenue – Vegetable Contractor	67,253	102,319	45,794

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 based on multiplying the “assessment rate” by the contractor’s total purchases (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 portion of the program and the milk contractor portion of the program were modified before the beginning of Fiscal Year 2010. Generally, assessments rates for grain warehouse keepers increased by 50% over previous rates. Assessment rates for certain milk contractors were reduced. The amount of the reduction – if any depends on a given milk contractor’s debt to equity ratio.

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

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' relative 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; in some cases there is an assessment applied to deferred payment transactions. Up until January 2010 this deferred payment assessment applied to the grain dealer and vegetable contractor program areas. However, 2009 Wisconsin Act 296 repealed this assessment for vegetable contractors.

License Fees and Inspection Fees

License fees must be paid in order 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* are meant to pay for the operating expenditures of the program. Hence, *assessment revenue* is reported in the indemnity function subaccounts and *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.

Early in Fiscal Year 2010, DATCP staff reorganized how it uses various revenue codes across the producer security program. Therefore, in the tables above, the revenues for Fiscal Year 2010 and Fiscal Year 2011 are not exactly comparable to Fiscal Year 2009. Generally, the 2010 and 2011 numbers represent a more detailed presentation. Specifically, the differences are:

- Grain Dealer Revenue Detail
 - License fees.
 - In FY 09-10 and FY 10-11, the nonrefundable annual license application fee, the additional locations fee and the base license fee (based on volume of grain) are each listed separately. In FY 08-09, these amounts are combined into one line item (along with a per-truck license fee that was repealed in 2009).
 - Further, these license fees were significantly modified by the new administrative rule that passed in 2009. The individual amounts are compared in the table below.

Changes in Grain Dealer License Fees

	After January 2009	Before January 2009
Nonrefundable license processing fee	\$25	\$25
Base license fee	1/10 cent per bushel of grain purchased, rounded to the nearest \$100. Except license fee is limited to a minimum of \$100 and a maximum of \$10,000	\$50 if less than \$50,000 in purchases. \$200 if at least \$50,000 but less than \$500,000 in purchases. \$500 if at least \$500,000.
Additional locations fee (for each location greater than one)	\$100	\$225 if grain dealer also had Wisconsin grain purchases of at least \$500,000
Truck license fee	\$0	\$45
Surcharge for filing non-audited financial statement	\$0	\$425

- 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 bureau then bills the marketing boards for time spent doing this work. In FY 09-10 and FY 10-11, the amount billed to each of the two boards is listed separately. In FY 08-09, these amounts are combined into a single line item.
- Grain Warehouse Keeper Revenue Detail
 - License fees. In FY 09-10 and FY 10-11, the nonrefundable annual license application fee and the additional locations license fee are each listed on separate line items. In FY 08-09, these amounts are combined into a single line item.
 - Inspection Fees. In FY 09-10, the Grain Warehouse Keeper inspection fee and the supplemental inspection fee (for locations greater than one) are each listed separately. In FY 08-09, these supplemental inspection fees are included in the line labeled “Inspection Fees”.
 - Further, these license fees and inspection fees were significantly modified by the new administrative rule that passed in 2009. The individual amounts are compared in the table below.

Changes in Grain Warehouse Keeper License Fees

	After January 2009 (FY 09-10)	Before January 2009
Nonrefundable license processing fee	\$25	\$25
Additional locations fee	\$25 for each grain warehouse location.	\$25 for each grain warehouse location.
Inspection Fee based on capacity in bushels:	¼ cent (\$0.0025) per bushel of licensed grain storage capacity, rounded to the nearest \$1,000. Except license fee is limited to a minimum of \$1,000 and a maximum of \$10,000	\$500 if capacity less than 150,000 bushels. \$550 if capacity between 150,000 and 250,000 bushels. \$600 if capacity between 250,000 and 500,000 bushels. \$650 if capacity between 500,000 and 750,000 \$700 if capacity between 750,000 and 1,000,000 bushels \$800 if capacity between 1,000,000 and 2,000,000 bushels. \$900 if capacity between 2,000,000 and 3,000,000 bushels. \$1,000 if capacity between 3,000,000 and 4,000,000 bushels. \$1,100 if combined capacity greater than 4,000,000.
Supplemental inspection fee, for each location greater than one.	\$275	\$275

- Milk Contractor – Late License Renewal and Monthly Fees. For most of FY 09-10 and all of FY 10-11, late fees for failing to submit a license renewal by the due date and late fees for failing to file monthly license fees by the due date are recorded in separate line items. However, for the first couple months of FY 09-10 and in all of FY 08-09, these amounts are combined in a single line item.

Unlike the other three license types, milk contractor license fees did not see a change in rates with the new administrative rules of January, 2009.

- Vegetable Contractor. Unlike the other three license types, there are no significant differences between the classifications of the various types of revenue received in the three fiscal years shown above. There were, however, significant changes to the statutory license fee rates.

Changes in Vegetable Contractor License Fees

	After January 2009 (FY 09-10)	Before January 2009
Nonrefundable license processing fee	\$25	\$25
Contract Obligation Fees	\$25 plus \$0.0875 for each \$100 of contract obligations	\$25 plus \$0.0575 for each \$100 of contract obligations
License Fee for Nonparticipating Potato Buyer	The lesser of: \$25 plus \$0.0875 for each dollar of contract obligations; or \$2,000.	\$500

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. In general, 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 licenses. (\$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, 2011, 2010 and 2009; the Fund received interest revenue of \$20,276, \$24,544.17, and \$121,304 respectively. This means that average annualized interest rates for these three years were 0.19%, 0.26%, and 1.34% respectively.

Miscellaneous Revenue and Expenditure

The fund received \$163.00 in miscellaneous revenue during Fiscal Year 2008. This was the result of redepositing an amount into the fund after a check issued during a previous accounting period was never cashed. In both cases, the miscellaneous revenue was allocated equally among the four industry group administrative function subaccounts because the department was unable to determine which group the original expenditure belonged to. However, the Department of Administration reversed this entry a few months into Fiscal Year 2009. Therefore, the financial statements show a \$163 miscellaneous expense. As with the miscellaneous income the previous year, the expense amount was allocated equally among the four industry groups.

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 2009-10 and 2010-11 Fiscal Years, the authorized position authority was 13.42 FTE. 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, 2011, 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			0.70		0.70
Unassigned (and vacant)	1.47				1.47
TOTAL	5.12	3.10	4.00	1.20	13.42

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.

Expenditure Detail

Below, is a detail of expenditures incurred by each of the four program areas. With the exception of “Contingent Financial Backing”, all expenditures were incurred from the administrative function subaccounts.

GRAIN DEALER			
EXPENDITURE DETAIL			
	FY 2010-2011	FY 2009-2010	FY 2008-2009
Contingent Financial Backing	\$ -	\$ -	\$ 64,408
Personnel Expenditures			
Classified Civil Services Salaries	185,739	188,078	194,888
Fringe Benefit Expenditure	98,417	95,462	96,558
Subtotal:	284,156	283,540	291,446
Supplies & Services			
Advertising/Legal Notices	--	849	--
Contractual Services Exp	1,762	1,630	2,031
Dues and Subscriptions	100	116	100
Indirect Cost Allowance	13,341	11,230	12,454
Insurance	1,190	1,278	1,283
Mailing	916	1,022	948
Maint & Repair – Other Equipment	31	--	--
Non State or Non-STS Calls	707	668	970
Other Admin & Operating	1,853	1,741	1,785
Printing	253	440	71
Rent / Lease of Equipment	167	83	--
Rent Privately-Owned Space	--	--	398
Rental of State-Owned Space	22,207	25,966	25,246
Materials & Supplies - Other	436	1,241	389
STS Charges	--	58	54
Travel & Training/In-State	3,841	3,632	5,136
Travel & Training/Out-of-State	304	70	351
Other Travel & Training Exp	16,393	13,725	15,597
Subtotal:	63,501	63,749	66,813
Miscellaneous Expenditure	--	--	41
Total Grain Dealer Expenditures	\$ 347,657	\$ 347,289	\$ 422,708

**GRAIN WAREHOUSE KEEPER
EXPENDITURE DETAIL**

	FY 2010-2011	FY 2009-2010	FY 2008-2009
Contingent Financial Backing	\$ -	\$ -	\$ -
Personnel Expenditures			
Classified Civil Services Salaries	164,056	190,789	203,303
Fringe Benefit Expenditure	88,853	90,151	91,029
Subtotal:	252,909	280,940	294,332
Supplies & Services			
Advertising / Legal Notices	-	-	-
Contractual Services Exp	1,497	1,880	1,723
Dues and Subscriptions	100	116	100
Indirect Cost Allowance	11,331	11,230	12,454
Insurance	1,190	1,390	1,109
Mailing	526	434	504
Maint & Repair – Other Equipment	31	-	-
Non State or Non-STS Calls	723	667	854
Other Admin & Operating	1,253	1,222	1,222
Printing	54	111	24
Rent/Lease of Equipment	167	84	-
Rent Privately-Owned Space	-	-	398
Rental of State-Owned Space	19,080	25,966	25,246
Materials & Supplies - Other	390	2,318	275
STS Charges	-	25	35
Travel & Training/In-State	2,382	3,336	2,441
Travel & Training/Out-of-State	41	-	150
Other Travel & Training Exp	10,734	13,051	13,102
Subtotal:	49,499	61,830	59,637
Miscellaneous Expenditure	-	-	41
Total Grain Warehouse Keeper Expenditures	\$ 302,408	\$ 342,770	\$ 354,010

**MILK CONTRACTOR
EXPENDITURE DETAIL**

	FY 2010-2011	FY 2009-2010	FY 2008-2009
Contingent Financial Backing	\$ -	\$ -	\$ 191,411
Personnel Expenditures			
Classified Civil Services Salaries	215,320	189,994	191,879
Fringe Benefit Expenditure	107,891	90,358	84,763
Subtotal:	323,211	280,352	276,642
Supplies & Services			
Contractual Services Exp	1,664	1,705	1,924
Dues and Subscriptions	150	388	276
Indirect Cost Allowance	15,899	12,595	9,477
Insurance	1,152	1,280	1,096
Maint & Repair - Land/Struct	-	165	17
Mailing	1,364	1,204	1,313
Maint & Repair - Other Equipment	183	78	98
Non State or Non-STS Calls	1,770	1,418	1,801
Other Admin & Operating	1,364	1,160	1,160
Printing	438	511	311
Rent/Lease of Equipment	394	394	395
Rent Privately-Owned Space	1,126	816	3,370
Rental of State-Owned Space	15,143	17,731	20,742
Materials & Supplies - Other	959	1,523	1,345
STS Charges	-	217	312
Supplies & Services Transfer	(7,220)	-	-
Travel & Training/In-State	3,622	2,475	2,508
Travel & Training/Out-of-State	884	169	756
Other Travel & Training Exp	3,301	2,425	5,316
Subtotal:	42,193	46,254	52,217
Miscellaneous Expenditure			41
Total Milk Contractor Expenditures	\$ 365,404	\$ 326,606	\$ 520,311

**VEGETABLE CONTRACTOR
EXPENDITURE DETAIL**

	FY 2010-2011	FY 2009-2010	FY 2008-2009
Contingent Financial Backing	\$ -	\$ -	\$ 60,780
Personnel Expenditures			
Classified Civil Services Salaries	71,962	54,231	55,408
Fringe Benefit Expenditure	32,310	23,702	22,637
Subtotal:	104,272	77,933	78,045
Supplies & Services			
Contractual Services Exp	483	426	481
Dues and Subscriptions		16	-
Indirect Cost Allowance	3,107	2,739	3,685
Insurance	308	344	275
Mailing	111	164	127
Non State or Non-STS Calls	173	153	238
Other Admin & Operating	625	626	626
Printing	24	153	80
Rent Privately-Owned Space	375	220	843
Rental of State-Owned Space	5,048	4,433	5,185
Materials & Supplies - Other	65	1	64
Supplies & Services Transfer	(3,556)		
Travel & Training/In-State	548	996	740
Travel & Training / Out-of-State	95		
Other Travel & Training Exp	300	695	159
Subtotal	7,706	10,966	12,503
Miscellaneous Expenditure			41
Total Vegetable Contractor Expenditures	\$ 111,978	\$ 88,899	\$ 151,369

Generally, 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 agency 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.

Contingent Financial Backing / Trade Credit Insurance Premium Expenditure

The department entered into a trade credit insurance policy during Fiscal Year 2008-2009. This policy specifically named seventeen of the largest contributing contractors. Had one of the named contractors defaulted on payments to producers, DATCP would have made a claim against the policy to cover a portion of the producers' losses. The policy period began on July 1, 2008. DATCP made a premium payment of \$316,600 in August 2008. The premium was split proportionally among the three indemnity fund groups that benefited from the policy, based on the amount of coverage each group received. (The policy did not cover grain warehousing activities.) The department allowed this policy to expire without renewal in June, 2009.

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. The minimum balance threshold for each industry group 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. 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 and milk contractor license groups received license fee credits in each of the three fiscal years reported in this document. The grain dealer license group received a license fee credit for the first time with the license year that began on September 1, 2010, and for the second time with the license year that began on September 1, 2011.

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, 2011	Maximum Statutory Balance
Grain Dealers	\$ 1,000,000	\$ 2,846,963	\$ 6,000,000
Grain Warehouse Keepers	\$ 200,000	\$ (338,635)	\$ 1,000,000
Milk Contractors	\$ 3,000,000	\$ 7,798,579	\$ 12,000,000
Vegetable Contractors	\$ 800,000	\$ 1,065,409	\$ 3,000,000
Entire Fund	\$ 5,000,000	\$ 11,372,316	\$ 22,000,000

⁴ Section 126.88, Wis. Stats.

Assessment Holiday

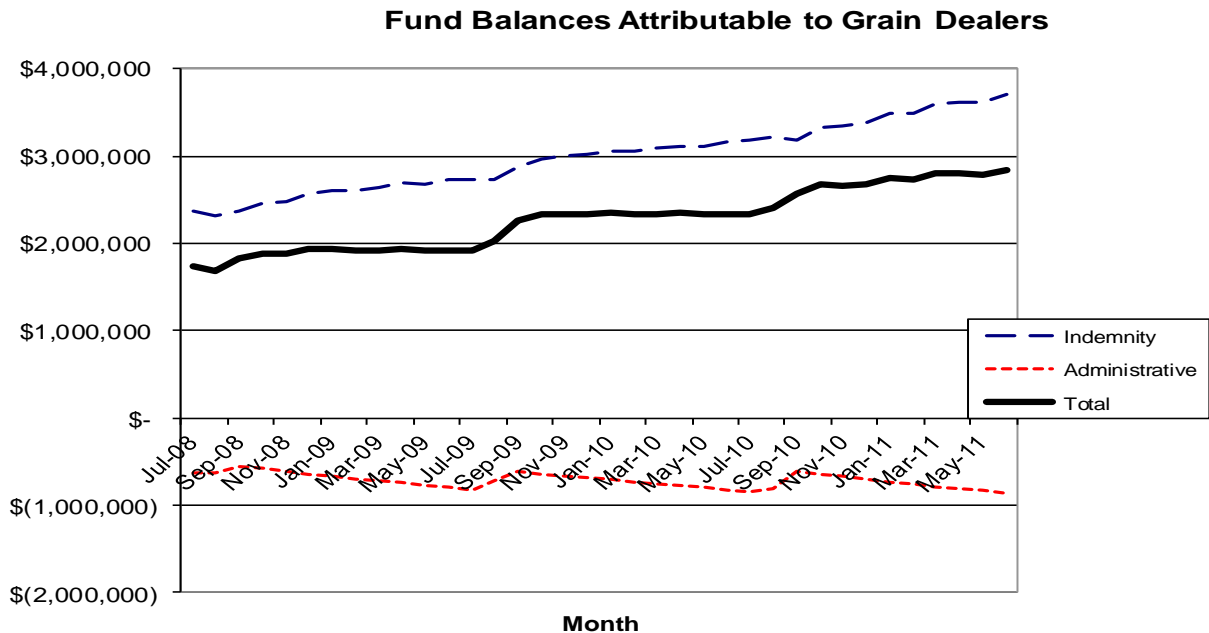
Pursuant to administrative rules,⁵ contractors who have been contributing contractors for at least five years may forego paying any fund assessments for the following license year if, as of the specified date, the overall fund balance is at least \$11,000,000, and fund balance attributable to the industry group meets the specified minimum balance:

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

As of February 28, 2011, the fund balance attributable to milk contractors was \$7,790,968 and the overall fund balance was \$11,339,746. 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, 2011 and will end on April 30, 2012.

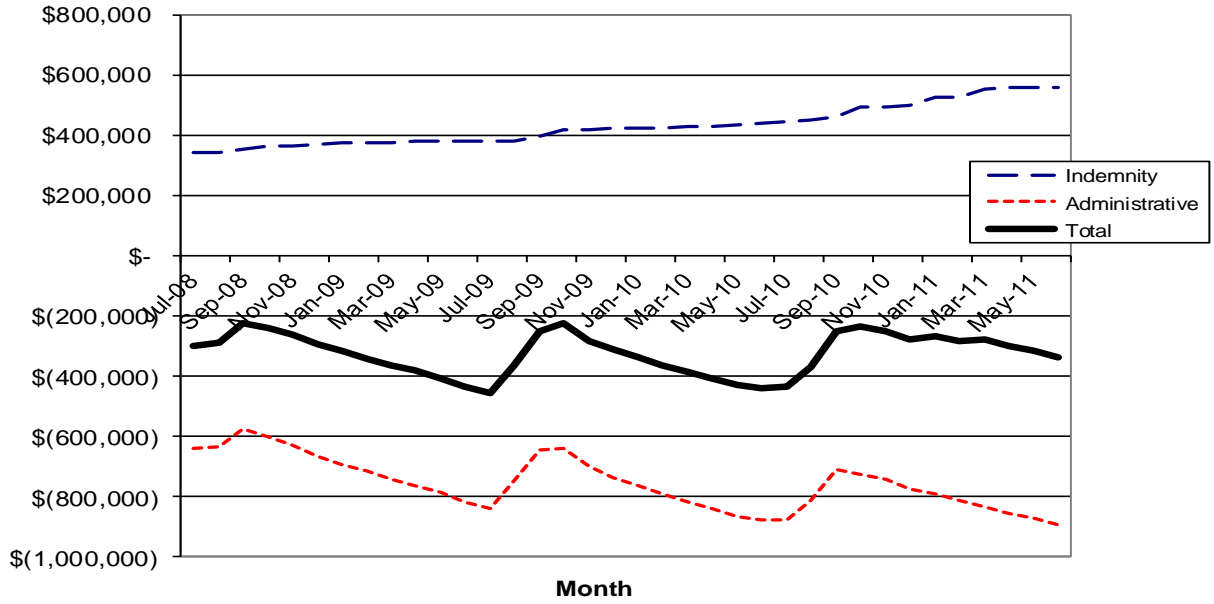
Subaccount Monthly Cash Balances

Cash balances in each subaccount at the end of each month during the Fiscal Years 2009, 2010 and 2011 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.

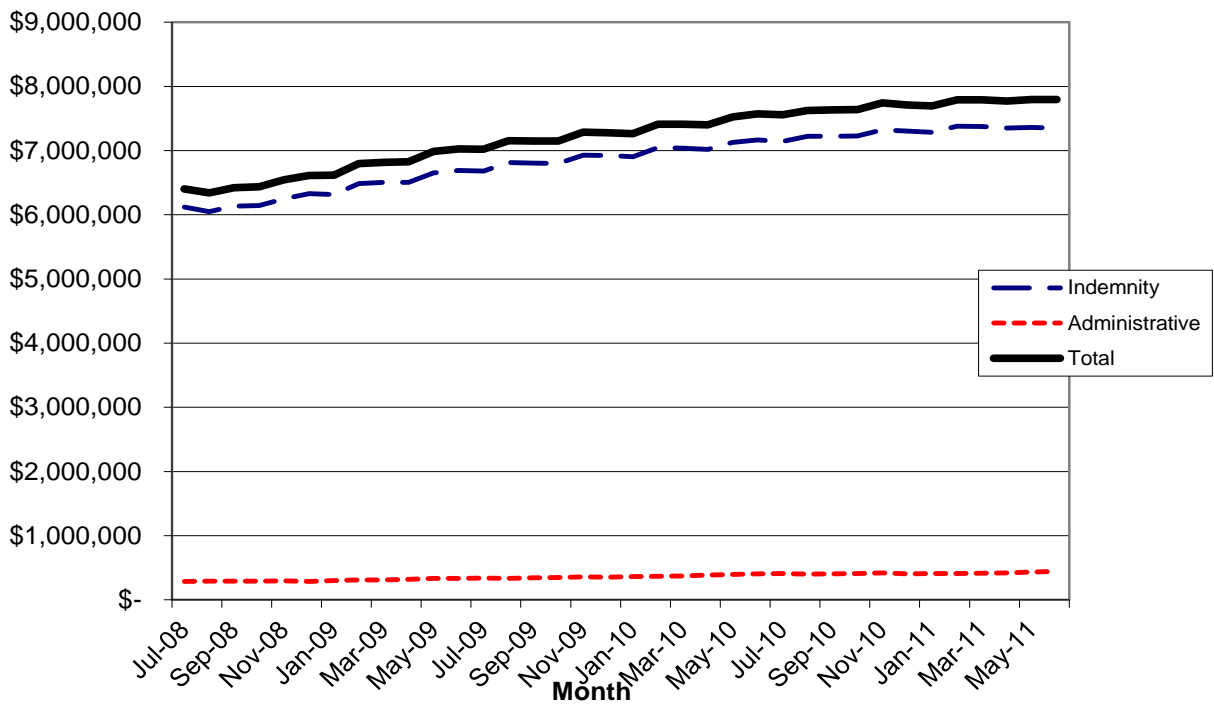


⁵ ATCP 99.126(5), ATCP 99.235(4), ATCP 100.135(10), and ATCP 101.245(4), Wisconsin Administrative Code.

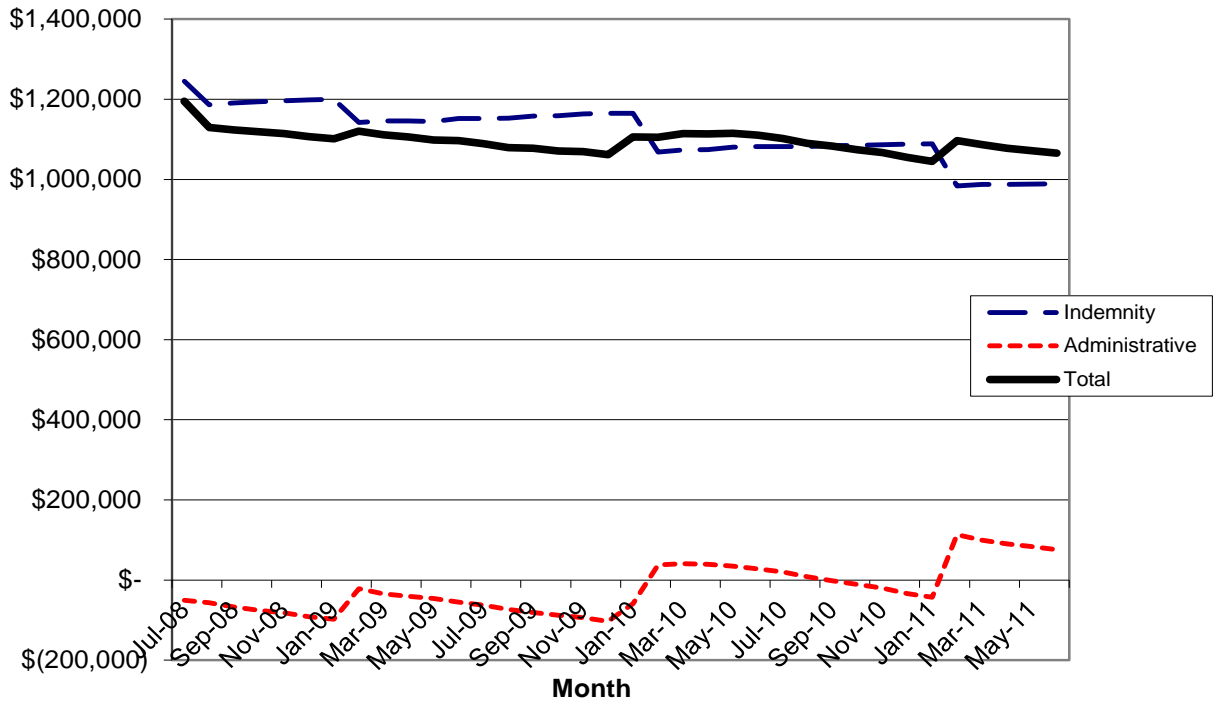
Fund Balances Attributable to Grain Warehouse Keepers



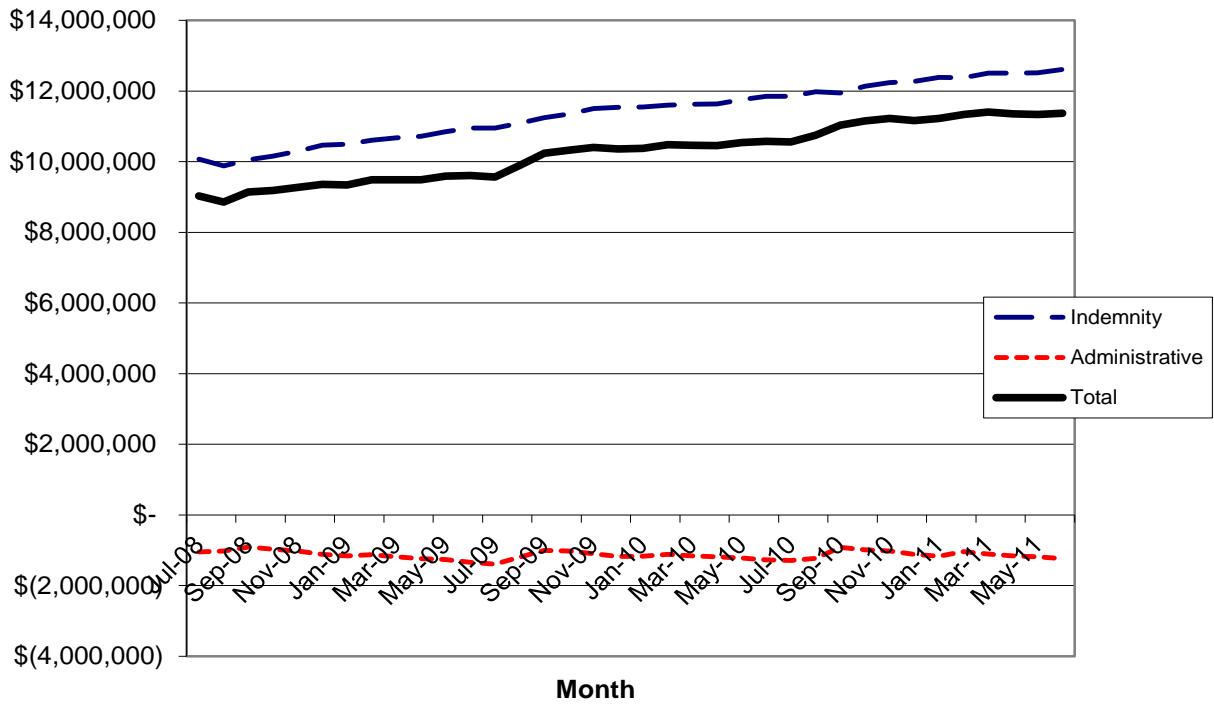
Fund Balances Attributable to Milk Contractors



Fund Balances Attributable to Vegetable Contractors



Overall Fund Balance



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, 2011, the department held a total of \$72,295,169 in individual securities. As of June 30, 2010, the department held a total of \$53,797,532. On both dates, all security was from either grain dealers or milk contractors. There was no security from either grain warehouse keepers or vegetable contractors. The total amount of security held as of June 30, 2011, by type of security and reason it was held, is shown in the table below.

⁶ The minimum requirement is a debt to equity ration 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	120,000	70,000	160,498	190,000
Exposure Greater than \$20 Million	-	-	-	-
Voluntary	23,599,111	-	-	23,599,111
Other	-	-	-	-
Total	23,719,111	\$ 70,000	\$ -	\$ 23,789,111
Milk Contractors				
Disqualified	\$ -	\$ 751,212	\$ 159,488	\$ 910,700
Exposure Greater than \$20 Million	24,016,000	-	-	24,016,000
Voluntary	23,709,358	-	-	23,709,358
Other	-	500,000	-	500,000
Total	\$ 47,725,358	\$ 1,251,212	\$ 159,488	\$ 49,136,058

Note 7 – Aggregate Estimated Default Exposure

As of about June 30, 2011, the grand total of all contractors’ “Estimated Default Exposure” was about \$726,453,000. “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 are 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	\$ 149,900,000	70%	\$ 47,382,000	83%	\$ 118,787,000	34%	\$ 30,919,000	28%	\$ 346,988,000	48%
Producers										
Copayment on fund claim	35,899,000	17%	3,566,000	6%	43,894,000	13%	8,248,000	7%	91,607,000	13%
Contractor exceeds max fund payout*	17,918,000	8%	5,919,000	10%	32,771,000	10%	43,312,000	39%	99,920,000	14%
Nonparticipating contractors	-		-		100,281,000	29%	28,574,000	26%	128,855,000	18%
Producers Sub Total	53,817,000	25%	9,485,000	17%	176,946,000	51%	80,134,000	72%	320,382,000	44%
Individual Security	10,049,000	5%	-		49,034,000	14%	-		59,083,000	8%
Grand Total	\$ 213,766,000		\$ 56,867,000		\$ 344,767,000		\$ 111,053,000		\$ 726,453,000	

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.
- 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.

¹¹ S. 126.61(1)(b)1., Wis. Stats.

- 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.)