

Annual Report

Agricultural Producer Security Trust Fund

Year Ended June 30, 2015

Issued December 1, 2015



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

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Wisconsin Agricultural Producer Security Trust Fund
Statement of Revenues and Expenditures, and Cash Balances
(Rounded to tens)

	Years Ended		
	<u>30-Jun-15</u>	<u>30-Jun-14</u>	<u>30-Jun-13</u>
Revenues			
Assessments			
Grain Dealers	972,940	908,770	807,500
Grain Warehouse Keepers	79,120	63,920	63,430
Milk Contractors	47,400	58,030	90,670
Vegetable Contractors	90,330	87,170	30,800
Total Assessments	1,189,790	1,117,890	992,400
Licenses Fees & Administrative Revenues			
Grain Dealers	31,040	48,600	33,250
Grain Warehouse Keepers	272,710	275,380	276,750
Milk Contractors	139,090	137,730	164,670
Vegetable Contractors	166,000	111,460	90,960
Total License Fees & Monthly Fees	608,840	573,170	565,630
Interest Revenue	5,590	8,750	16,450
Grain Dealer – Audits for Marketing Boards	3,280	9,280	7,200
Miscellaneous Revenue	0	0	0
Total Revenues	1,807,500	1,709,090	1,581,680
Expenditures			
Salaries and Fringe			
Grain Dealers	250,290	245,480	262,100
Grain Warehouse Keepers	217,990	219,290	236,660
Milk Contractors	310,260	294,320	288,410
Vegetable Contractors	102,260	97,300	99,150
Total Salaries and Fringe	880,800	856,390	886,320
Supplies and Services			
Grain Dealers	84,010	61,030	60,820
Grain Warehouse Keepers	51,870	44,900	47,940
Milk Contractors	75,910	54,880	57,270
Vegetable Contractors	21,890	16,550	14,680
Total Supplies and Services	233,680	177,360	180,710
Loan Repayment (Principal and Interest)	0	0	0
Premiums Paid on Financial Backing	0	0	0
Default Payments to Producers	7,083,360	185,270	1,980
Miscellaneous Expense	0	0	0
Total Expenditures	8,197,840	1,219,020	1,069,010
Net Total Revenues Less Total Expenditures	(6,390,340)	490,070	512,670
Beginning Cash Balance	12,804,170	12,314,100	11,801,430
Ending Cash Balance	6,413,830	12,804,170	12,314,100

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 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 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	Years Ended		
	30-Jun-15	30-Jun-14	30-Jun-13
Indemnity Function			
Revenues			
Assessments Collected	972,940	908,770	807,500
Interest Income	2,210	2,970	5,250
Total Revenues	975,150	911,740	812,750
Expenses			
Loan Repayment – Principal	0	0	0
Loan Repayment -- Interest	0	0	0
Premiums on Financial Backing	0	0	0
Default Payments to Producers	0	185,270	1,980
License Fee Credits (transfer to Admin. Func.)	267,360	281,850	301,960
Total Expenses	267,360	467,120	303,940
Net Revenues Less Expenses	707,790	444,620	508,810
Beginning Balance	5,113,030	4,668,410	4,159,600
Ending Balance - Indemnity Function	5,820,820	5,113,030	4,668,410
Administrative Function			
Revenues			
License Fee Credits (transfer from Indem. Func.)	267,360	281,850	301,960
License Fees (cash collected from licensees)	31,040	48,600	33,250
Gross License Fees	298,400	330,450	335,210
Audits for Marketing Boards	3,280	9,280	7,200
Miscellaneous Income	0	0	0
Interest Income	0	0	0
Total Revenues	301,680	339,730	342,410
Expenses			
Salaries and Fringe	250,290	245,480	262,100
Supplies and Services	84,010	61,030	60,820
Miscellaneous Expenses	0	0	0
Total Expenses	334,300	306,510	322,920
Net Revenues Less Expenses	(32,620)	33,220	19,490
Beginning Balance	(779,350)	(812,570)	(832,060)
Ending Balance -- Administrative Function	(811,970)	(779,350)	(812,570)
Combined Indemnity Function plus Administrative Function			
Total Revenue (net of licensee fee credits)	1,009,470	969,620	853,200
Total Expenses (net of license fee credits)	334,300	491,780	324,900
Net Revenues Less Expenses	675,170	477,840	528,300
Beginning Balance	4,333,680	3,855,840	3,327,540
Ending Balance, Grain Dealer	5,008,850	4,333,680	3,855,840

Grain Warehouse Keeper	Years Ended		
	30-Jun-15	30-Jun-14	30-Jun-13
Indemnity Function			
Revenues			
Assessments Collected	79,120	63,920	63,430
Interest Income	340	470	820
Total Revenues	79,460	64,390	64,250
Expenses			
Loan Repayment – Principal	0	0	0
Loan Repayment -- Interest	0	0	0
Premiums on Financial Backing	0	0	0
Default Payments to Producers	0	0	0
License Fee Credits	0	0	0
Total Expenses	0	0	0
Net Revenues Less Expenses	79,460	64,390	64,250
Beginning Balance	781,340	716,950	652,700
Ending Balance - Indemnity Function	860,800	781,340	716,950
Administrative Function			
Revenues			
License Fee Credits (transfer from indm. func.)	0	0	0
License Fees (cash collected from licensees)	272,710	275,380	276,750
Gross License Fees	272,710	275,380	276,750
Miscellaneous Income	0	0	0
Interest Income	0	0	0
Total Revenues	272,710	275,380	276,750
Expenses			
Salaries and Fringe	217,990	219,290	236,650
Supplies and Services	51,870	44,900	47,940
Miscellaneous Expense	0	0	0
Total Expenses	269,860	264,190	284,590
Net Revenues Less Expenses	2,850	11,190	(7,840)
Beginning Balance	(904,010)	(915,200)	(907,360)
Ending Balance -- Administrative Function	(901,160)	(904,010)	(915,200)
Combined Indemnity Function plus Administrative Function			
Total Revenue	352,170	339,770	341,000
Total Expenses	269,860	264,190	284,590
Net Revenues Less Expenses	82,310	75,580	56,410
Beginning Balance	(122,670)	(198,250)	(254,660)
Ending Balance, Grain Warehouse Keeper	(40,360)	(122,670)	(198,250)

Milk Contractor		Years Ended		
		30-Jun-15	30-Jun-14	30-Jun-13
Indemnity Function				
Revenues				
	Assessments Collected	47,400	58,030	90,680
	Interest Income	2,660	4,290	8,540
Total Revenues		50,060	62,320	99,220
Expenses				
	Loan Repayment – Principal	0	0	0
	Loan Repayment – Interest	0	0	0
	Premiums on Financial Backing	0	0	0
	Default Payments to Producers	1,012,790	0	0
	License Fee Credits	306,810	280,420	264,690
Total Expenses		1,319,600	280,420	264,690
Net Revenues Less Expenses		(1,269,540)	(218,100)	(165,470)
Beginning Balance		6,837,660	7,055,760	7,221,230
Ending Balance - Indemnity Function		5,568,120	6,837,660	7,055,760
Administrative Function				
Revenues				
	License Fee Credits (transfer from indem func)	306,810	280,420	264,690
	License Fees (cash collected from licensees)	139,090	137,730	164,670
	Gross License Fees	445,900	418,150	429,360
	Miscellaneous Income	0	0	0
	Interest Income	270	370	610
Total Revenues		446,170	418,520	429,970
Expenses				
	Salaries and Fringe	310,260	294,320	288,410
	Supplies and Services	75,910	54,880	57,270
	Miscellaneous Expenses	0	0	0
Total Expenses		386,170	349,200	345,680
Net Revenues Less Expenses		60,000	69,320	84,290
Beginning Balance		630,250	560,930	476,640
Ending Balance -- Administrative Function		690,250	630,250	560,930
Combined Indemnity Function plus Administrative Function				
	Total Revenue (net of license fee credits)	189,420	200,420	264,500
	Total Expenses (net of license fee credits)	1,398,960	349,200	345,680
Net Revenues Less Expenses		(1,209,540)	(148,780)	(81,180)
Beginning Balance		7,467,910	7,616,690	7,697,870
Ending Balance -- Milk Contractor		6,258,370	7,467,910	7,616,690

Vegetable Contractor	Years Ended		
	30-Jun-15	30-Jun-14	30-Jun-13
Indemnity Functions			
Revenues			
Assessments Collected	90,330	87,170	30,800
Interest Income	0	530	1,100
Total Revenues	90,330	87,700	31,900
Expenses			
Loan Repayment – Principal	0	0	0
Loan Repayment – Interest	0	0	0
Premiums on Financial Backing	0	0	0
Default Payments to Producers	6,070,570	0	0
License Fee Credits	(100)	86,540	83,980
Total Expenses	6,070,470	86,540	83,980
Revenues Less Expenses	(5,980,140)	1,160	(52,080)
Beginning Balance	879,130	877,970	930,050
Ending Balance - Indemnity Function	(5,101,010)	879,130	877,970
Administrative Functions			
Revenues			
License Fee Credits (transfer from indem func)	(100)	86,540	83,980
License Fees (cash collected from licensees)	166,000	111,460	90,960
Gross License Fees	165,900	198,000	174,940
Miscellaneous Income	0	0	0
Interest Income	110	120	120
Total Revenues	166,010	198,120	175,060
Expenses			
Salaries and Fringe	102,260	97,300	99,150
Supplies and Services	21,890	16,550	14,680
Miscellaneous Expenses	0	0	0
Total Expenses	124,150	113,850	113,830
Revenues Less Expenses	41,860	84,270	61,230
Beginning Balance	246,120	161,850	100,620
Ending Balance -- Administrative Functions	287,980	246,120	161,850
Combined Indemnity Function plus Administrative Function			
Total Revenue (net of license fee credits)	256,440	199,280	122,980
Total Expenses (net of license fee credits)	6,194,720	113,850	113,830
Net Revenues Less Expenses	(5,938,280)	85,430	9,150
Beginning Balance	1,125,250	1,039,820	1,030,670
Ending Balance -- Vegetable Contractor	(4,813,030)	1,125,250	1,039,820

(Charts above rounded to the tens)

Note 3 – Revenues

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

**GRAIN DEALER
REVENUE DETAIL**

	Fiscal Year Ended		
	<u>June 30, 2015</u>	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Indemnity Function SubAccount			
Assessments	94,600	122,440	56,740
Deferred Payment Assessments	876,380	786,030	749,750
Penalty -- Late Assessment	1,960	300	1,010
Interest (allocated)	2,210	2,970	5,250
Subtotal -- Indemnity Function	975,150	911,740	812,750
Administrative Function SubAccount			
Annual License Application Fee	6,420	6,550	6,930
Annual License Fee (based on purchases)	8,050	27,050	12,620
Additional Locations License Fee	11,500	12,100	11,500
Penalty -- Late Financial Statement	1,000	700	500
Penalty -- Late License Renewal	800	700	800
Penalty -- Operating Without License -- New	500	500	-
Penalty -- Operating Without License -- Renewal	1,500	1,000	1,000
Audit Services for Corn Marketing Board	2,360	4,640	3,600
Audit Services for Soybean Marketing Board	2,360	4,640	3,600
Miscellaneous	(170)	-	(100)
Subtotal -- Administrative Function	34,320	57,880	40,450
TOTAL	1,009,470	969,620	853,200

**GRAIN WAREHOUSE KEEPER
REVENUE DETAIL**

	Fiscal Year Ended		
	<u>June 30, 2015</u>	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Indemnity Function SubAccount			
Assessments	78,560	63,570	62,490
Penalty -- Late Assessment	560	350	940
Interest (Allocated)	340	470	820
Subtotal - Indemnity Function SubAccount	79,460	64,390	64,250
Administrative Function SubAccount			
Annual License Application Fee	2,520	2,630	2,700
Annual License Fee (based on capacity)	246,000	246,000	237,500
Additional Locations Fee	4,070	4,530	5,320
Supplemental Inspection Fee	17,050	20,900	28,980
Penalty -- Operating w/o License -- Renew	1,500	-	500
Penalty -- Late Financial Statement	700	400	200
Penalty -- Late License Renewal	700	400	1,300
Misc. adjustments, overpayments & transfers	170	20	250
Subtotal - Administrative Function SubAccount	272,710	275,380	276,750
TOTAL	352,170	339,770	341,000

**MILK CONTRACTOR
REVENUE DETAIL**

	Fiscal Year Ended		
	<u>June 30, 2015</u>	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Indemnity Function Subaccount			
Assessments	47,050	57,370	89,890
Penalty -- Late Assessment	350	660	790
Interest (allocated)	2,660	4,290	8,540
Subtotal - Indemnity Function SubAccount	50,060	62,320	99,220
Administrative Function Subaccount			
Monthly License Fee	134,830	131,980	157,670
Annual License Fee	3,050	3,150	3,050
Penalty -- Operating w/o license	-	1,500	2,500
Penalty -- Late Financial Statement	900	500	600
Penalty -- Late License Renewal	200	500	500
Penalty -- Late Monthly Fees	110	90	350
Interest (allocated)	270	380	610
Subtotal - Administrative Function Subaccount	139,360	138,100	165,280
TOTAL	189,420	200,420	264,500

**VEGETABLE CONTRACTOR
REVENUE DETAIL**

	Fiscal Year Ended		
	<u>June 30, 2015</u>	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Indemnity Function Subaccount			
Assessments	90,180	86,870	30,740
Penalty -- Late Assessment	150	300	60
Interest (allocated)	-	530	1,100
Subtotal - Indemnity Function	90,330	87,700	31,900
Administrative Function Subaccount			
Annual License Application Fee	1,850	670	1,700
Contract Obligation License Fee	148,900	96,340	76,660
Lic Fee -- Nonparticipating Potato Buyer	14,050	13,950	12,000
Penalty -- Operating w/o License (New)	1,000	-	-
Penalty -- Late License Fee	200	300	500
Penalty -- Late Financial Statement	-	200	100
Interest (allocated)	110	120	120
Subtotal -- Administrative Function	166,110	111,580	91,080
TOTAL	256,440	199,280	122,980

(Charts above rounded to tens)

Assessments

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

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

License Fees and Inspection Fees

License fees must be paid to obtain a license. Whereas *assessments* (discussed above) are intended to provide a source of funding in the event producers need to be reimbursed for a default; *license fees* and *inspection fees* for grain warehouse keepers are meant to pay for the operating expenditures of the Program. Hence, *assessment revenue* is reported in the indemnity function subaccounts whereas *license fee revenue* is reported in the administrative function subaccounts. Further, whereas *assessment rates* are partially based on the amount of risk a given licensee poses (they incorporate the licensee's balance sheet ratios into the formula) – license fees are based simply on the overall purchases (or storage capacity) of the licensee.

- Grain Dealer Revenue Detail
 - Nonrefundable license processing fee of \$25.
 - Base License fee of \$0.0010 per bushel, and rounding the product to the nearest \$100, less any fee credits for which the grain dealer qualifies. Except license fee may not be less than \$100 or more than \$10,000.
 - Additional locations fee (for each location greater than one) of \$100
 - Audit services for marketing boards. While on site for routine grain dealer audits, the bureau regularly performs compliance exams on behalf of the Wisconsin Corn Marketing Board and the Wisconsin Soybean Marketing Board to confirm grain dealers are properly reporting check-off obligations to those organizations. The Program then bills the marketing boards for time spent doing this work.

- Grain Warehouse Keeper Revenue Detail
 - Nonrefundable license processing fee of \$25.
 - Additional locations license fee of \$25 for each grain warehouse location.
 - Inspection Fees. \$0.0025 per bushel, rounding the product to the nearest \$1,000, less any fee credits for which the grain warehouse keeper qualifies. Except, the inspection fee may not be less than \$1,000 or more than \$10,000.

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

- Supplemental inspection fee, for each location other than the main location, of \$275.
- Milk Contractor Revenue Detail
 - Nonrefundable license processing fee of \$25.
 - Monthly License fees, by the 25th day of each month, a monthly license fee of \$0.0015 for each 100 pounds of producer milk that the milk contractor procured in this state during the preceding month, less any fee credits for which the milk contractor qualifies.
- Vegetable Contractor Revenue Detail
 - Nonrefundable license processing fee of \$25.
 - Contract Obligation fees of \$25 plus \$0.0875 cents for each \$100 in contract obligations reported, less any fee credits for which the vegetable contractor qualifies.
 - A processing potato buyer may elect not to participate in the fund.
 - A processing potato buyer that has elected not to participate in the fund pays the lesser of \$25 plus \$0.0875 for each \$100 in contract obligations reported or \$2,000.

Late Payment Surcharges and Other Penalties

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

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

Interest Revenue

The Wisconsin Department of Administration deposits interest into the fund at the end of each month. The interest rate is determined monthly based on the overall return on the State of Wisconsin's entire cash holdings. The division allocates interest revenue among the eight subaccounts based on each subaccount's prior month ending balance as a percentage of the entire fund. Except that, in the event that a subaccount has a negative balance, that subaccount is ignored and the interest is allocated among the subaccounts with positive balances. Generally, the monthly interest rates received by the fund rise and fall along with other interest rates throughout the broader economy. For the Fiscal Years ended June 30, 2015, 2014 and 2013; the Fund received interest revenue of \$5,585.40, \$8,753.14, and \$16,449.28 respectively. This means that average annualized interest rates for these three years were 0.09%, 0.07%, and 0.14% respectively.

Miscellaneous Revenue and Expenditure

The amounts listed as Miscellaneous Revenue and Expenditures for the time period presented in the charts above were minor overpayments and transfer of fees to the appropriate accounts.

Note 4 – Expenditures

Employee Expenditures

The Department has authority to allocate FTEs within the license type subaccounts. The Department strives to place each FTE in the industry subaccount for which that person performs most of their duties. Positions that cannot be directly tied to an individual industry subaccount are allocated proportionally among the four subaccounts. The Division has periodically made revisions to the allocations to ensure they reflect the actual work being done as accurately as possible.

Allocation of the authorized FTEs, as of June 30, 2015, is shown in the schedule below.

	Grain Dealer	Grain Warehouse Keeper	Milk Contractor	Vegetable Contractors	Total
Agricultural Auditor	2.80	2.20	3.20	0.80	9.00
Agricultural Auditor Supervisor	0.25	0.25	0.25	0.25	1.00
Financial Specialist			0.50	0.20	0.70
Office Operations Associate	0.60	0.40			1.00
Unassigned (Vacant – 0.25 FTE)					0.25
TOTAL	3.65	2.85	3.95	1.25	11.95

Expenditure Detail

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

**GRAIN DEALER
EXPENDITURE DETAIL**

	FY 14-15	FY 13-14	FY 12-13
Indemnity Function SubAccount			
Default Payments to Producers	-	185,270	1,980
Subtotal -- Indemnity Function	-	185,270	1,980
Administrative Function SubAccount			
Personnel Expenditures			
Classified Civil Services Salaries	180,580	179,210	188,590
Fringe Benefit Expenditure	69,710	66,270	73,510
Subtotal	250,290	245,480	262,100
Supplies and Services			
Advertising/Legal Notices	230	1,190	-
Contractual Services Exp	26,280	1,520	1,620
Dues and Subscriptions	120	120	120
Fixed Assets	20	-	-
Fuel & Supplies - Vehicles	20	-	-
Indirect Cost Allowance	16,790	15,790	13,560
Insurance	900	470	720
Minor Equipment & Software	-	170	-
Maint & Repair - Land/Structure	20	110	-
Mailing	690	630	680
Maint & Repair - Other Equipment	20	10	10
Maint & Repair - Vehicles	-	20	-
Non State or Non-STS Calls	930	810	760
Other Admin & Operating	1,280	1,200	1,250
Printing	-	40	140
Rent/Lease of Equipment	220	350	170
Rental of State-Owned Space	21,380	24,050	23,160
Materials & Supplies -- Other	1,820	1,330	940
STS Charges	-	70	-
Travel & Training / In-State	4,160	2,400	3,420
Travel & Training /Out-of-State	80	130	340
Other Travel & Training Exp	9,050	10,620	13,930
Subtotal	84,010	61,030	60,820
Subtotal -- Administrative Function	334,300	306,510	322,920
Miscellaneous Expenditure	-	-	-
Total	334,300	491,780	324,900

**GRAIN WAREHOUSE KEEPER
EXPENDITURE DETAIL**

	FY 14-15	FY 13-14	FY 12-13
Indemnity Function SubAccount			
Default Payments to Producers	-	-	-
Subtotal -- Indemnity Function	-	-	-
Administrative Function SubAccount			
Personnel Expenditures			
Classified Civil Services Salaries	147,670	151,030	160,400
Fringe Benefit Expenditure	70,320	68,260	76,250
Subtotal	217,990	219,290	236,650
Supplies and Services			
Advertising/Legal Notices	230	-	-
Contractual Services Exp	4,050	1,300	1,370
Dues and Subscriptions	80	80	80
Fuel & Supplies - Vehicles	10	-	-
Indirect Cost Allowance	12,840	12,070	11,520
Insurance	760	420	630
Mailing	480	390	380
Maint & Repair - Other Equipment	10	10	10
Maint & Repair - Vehicles	-	20	-
Non State or Non-STS Calls	650	760	780
Other Admin & Operating	1,610	1,130	1,140
Printing	-	40	50
Rent/Lease of Equipment	150	270	170
Rental of State-Owned Space	18,570	18,670	19,650
Materials & Supplies -- Other	1,240	820	730
Travel & Training / In-State	5,170	1,920	1,870
Travel & Training /Out-of-State	80	90	100
Other Travel & Training Exp	5,940	6,910	9,460
Subtotal	51,870	44,900	47,940
Subtotal -- Administrative Function	269,860	264,190	284,590
Miscellaneous Expenditure	-	-	-
Total	269,860	264,190	284,590

**MILK CONTRACTOR
EXPENDITURE DETAIL**

	FY 14-15	FY 13-14	FY 12-13
Indemnity Function SubAccount			
Default Payments to Producers	1,012,790	-	-
Subtotal -- Indemnity Function	1,012,790	-	-
Administrative Function SubAccount			
Personnel Expenditures			
Classified Civil Services Salaries	207,570	198,660	212,040
Fringe Benefit Expenditure	102,690	95,660	76,370
Subtotal	310,260	294,320	288,410
Supplies and Services			
Advertising/Legal Notices	450	-	-
Contractual Services Exp	23,720	1,650	1,770
Dues and Subscriptions	150	-	-
Indirect Cost Allowance	12,440	13,560	16,720
Insurance	1,010	500	840
Minor Equipment & Software	-	310	-
Maint & Repair - Land/Struct.	-	50	40
Mailing	1,380	1,550	1,100
Maint & Repair - Other Equipment	170	160	190
Non State or Non-STS Calls	2,420	1,960	1,870
Other Admin & Operating	1,260	1,190	1,790
Printing	-	40	20
Rent/Lease of Equipment	480	370	370
Rent Privately-Owned Space	1,350	1,320	1,280
Rental of State-Owned Space	22,780	20,850	20,710
Materials & Supplies -- Other	1,130	1,920	1,370
Travel & Training / In-State	4,690	3,710	4,820
Travel & Training /Out-of-State	240	340	680
Other Travel & Training Exp	2,240	5,400	3,700
Subtotal	75,910	54,880	57,270
Subtotal -- Administrative Function	386,170	349,200	345,680
Miscellaneous Expenditure	-	-	-
Total	1,398,960	349,200	345,680

**VEGETABLE CONTRACTOR
EXPENDITURE DETAIL**

	FY 14-15	FY 13-14	FY 12-13
Indemnity Function SubAccount			
Default Payments to Producers	6,070,570	-	-
Subtotal -- Indemnity Function	6,070,570	-	-
Administrative Function SubAccount			
Personnel Expenditures			
Classified Civil Services Salaries	68,780	66,390	72,720
Fringe Benefit Expenditure	33,480	30,910	26,430
Subtotal	102,260	97,300	99,150
Supplies and Services			
Advertising/Legal Notices	-	-	-
Contractual Services Exp	6,040	520	530
Indirect Cost Allowance	4,150	3,900	4,460
Insurance	330	170	220
Mailing	550	180	100
Non State or Non-STS Calls	10	180	180
Other Admin & Operating	1,190	1,120	1,060
Printing	-	40	50
Rent Privately-Owned Space	340	330	320
Rental of State-Owned Space	5,780	6,950	6,470
Materials & Supplies -- Other	100	140	180
Travel & Training / In-State	1,570	1,980	930
Travel & Training /Out-of-State	760	200	-
Other Travel & Training Exp	1,070	840	180
Subtotal	21,890	16,550	14,680
Subtotal -- Administrative Function	124,150	113,850	113,830
Miscellaneous Expenditure	-	-	-
Total	6,194,720	113,850	113,830

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 May 31 [s. 126.11(6), Wis. Stats.]
- Grain Warehouses Keepers \$ 300,000 on May 31 [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 milk contractor and grain dealer license groups received license fee credits in each of the three fiscal years reported in this document. The vegetable contractor stopped receiving license fee credits during the current fiscal year after their balance fell below the threshold required to receive the credits.

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, 2015	Maximum Statutory Balance
Grain Dealers	\$ 1,000,000	\$ 5,008,845	\$ 6,000,000
Grain Warehouse Keepers	\$ 200,000	\$ (40,361)	\$ 1,000,000
Milk Contractors	\$ 3,000,000	\$ 6,258,373	\$ 12,000,000
Vegetable Contractors	\$ 800,000	\$ (4,813,031)	\$ 3,000,000
Entire Fund	\$ 5,000,000	\$ 6,413,826	\$ 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 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

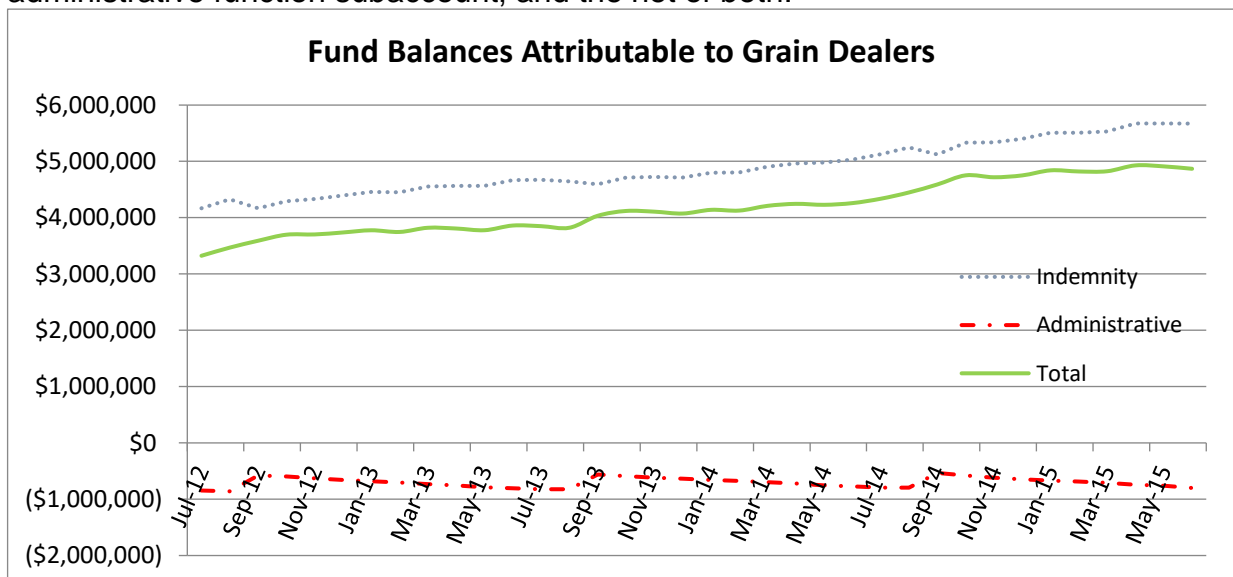
However, an Emergency Rules were passed lowering the required overall fund balance required for a holiday to at least \$5,000,000.

As of February 28, 2015, the fund balance attributable to milk contractors was \$7,337,233 and the overall fund balance was \$7,370,561. Therefore, contributing milk contractors that have contributed in each of the five preceding license years do not pay an annual assessment for the license year that began May 1, 2015 and will end on April 30, 2016.

As of May 31, 2015 the fund balance attributable to grain dealers was \$4,911,207 and the overall fund balance was \$7,365,868. Therefore, contributing grain dealers that have contributed in each of the five preceding license years do not pay an annual assessment for the license year that began September 1, 2015 and will end on August 31, 2016.

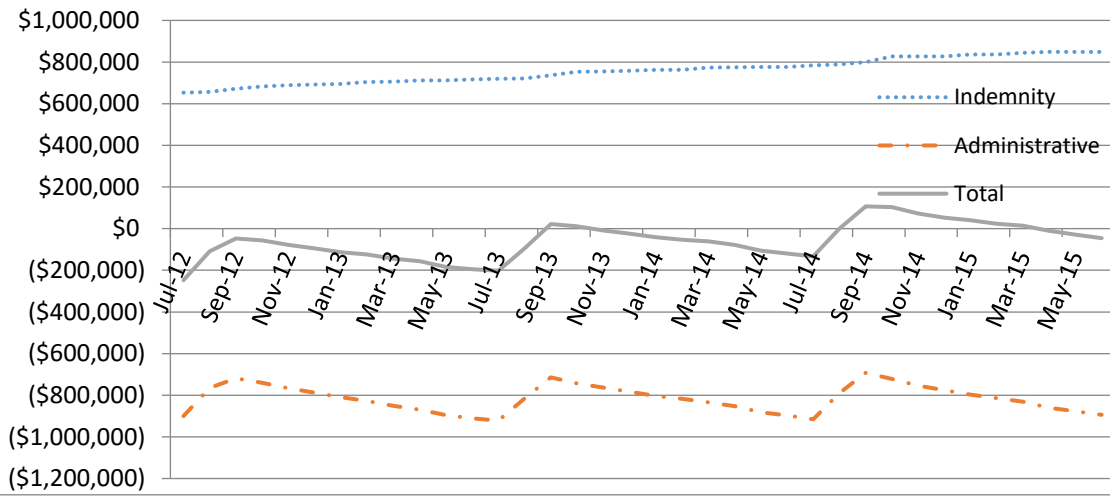
Subaccount Monthly Cash Balances

Cash balances in each subaccount at the end of each month during the Fiscal Years 2013, 2014 and 2015 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.

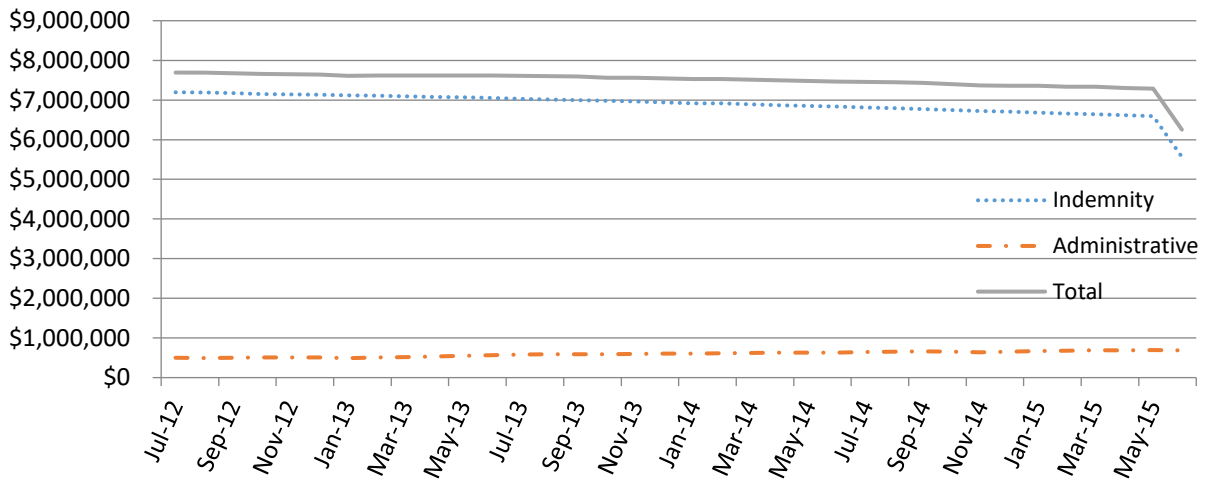


⁵ ATCP 99.126(5), ATCP 99.235(4), ATCP 100.135(10), and ATCP 101.245(4), Wisconsin Administrative Code.

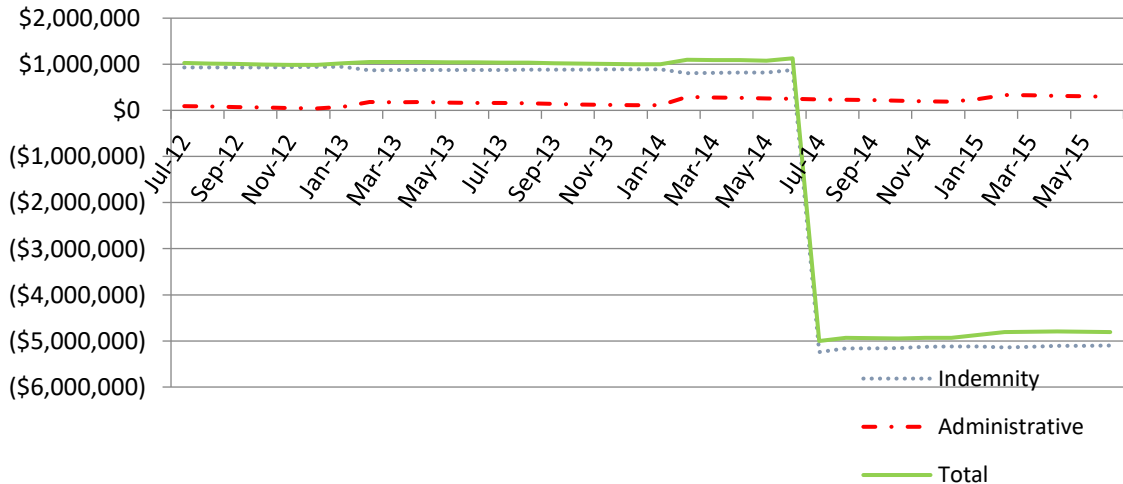
Fund Balances Attributable to Grain Warehouse Keepers



Fund Balances Attributable to Milk Contractors



Fund Balances Attributable to Vegetable Contractors



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, 2015, the department held a total of \$117,916,567 in individual securities. The total amount of security held as of June 30, 2015, by type of security and reason it was held, is shown in the table below.

	Bonds	Letter of Credit	CDs and other cash equivalents	Total Security
Grain Dealers				
Deferred Payment	\$ 100,000	\$ 266,000	\$ 927,441	\$ 1,293,441
Voluntary	36,259,779	-	-	36,259,779
Total	\$ 36,359,779	\$ 266,000	\$ 927,441	\$ 37,553,220
Milk Contractors				
Disqualified	\$ -	\$ 1,200,400	\$ 142,400	\$ 1,342,800
Exposure Greater than \$20 Million	58,532,676	-	6,830,471	65,363,147
Voluntary	7,710,000	-	-	7,710,000
Other	-	500,000	-	500,000
Total	\$ 66,242,676	\$ 1,700,400	\$ 6,972,871	\$ 74,915,947
Vegetable Contractors				
Other	\$ 5,447,400	\$ -	\$ -	\$ 5,447,400
Total	\$ 5,447,400	\$ -	\$ -	\$ 5,447,400

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.

Note 7 – Aggregate Estimated Default Exposure

As of June 30, 2015, the grand total of all contractors' "Estimated Default Exposure" was \$1,093,034,103. "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.
- **Vegetable Contractors.**¹¹ Seventy-five percent of the highest amount of unpaid contract obligations that the vegetable contractor had at any time during the last twelve months.

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

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

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.

¹¹ S. 126.61(1)(b)1., Wis. Stats.

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

Fund	Grain Dealer		Grain Warehouse Keeper		Milk Contractor		Vegetable Contractor		Overall	
	\$	%	\$	%	\$	%	\$	%	\$	%
Producers										
Copayment on fund claim	42,631,085	9%	4,140,745	14%	69,506,550	14%	8,678,057	8%	124,956,437	11%
Contractor exceeds max fund payout*	203,515,780	44%	2,675,866	9%	86,797,055	18%	49,220,424	45%	342,209,125	31%
Nonparticipating contractors	-	0%	-	0%	134,855,039	27%	22,771,305	21%	157,626,344	14%
Producers Sub Total	246,146,865	53%	6,816,610	22%	291,158,644	59%	80,669,786	73%	624,791,905	57%
Individual Security	25,188,744	5%	-	0%	74,915,947	15%	225,000	0%	100,329,691	9%
Grand Total	\$ 461,167,199		\$ 30,649,444		\$ 491,440,588		\$ 109,776,872		\$ 1,093,034,103	

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

Note 8 – License History

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

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

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

The tables below show the number of licenses issued and the obligations or, for Grain Warehouse, the storage capacity reported. For Grain Dealers, additional amounts reported are total bushels purchased and total deferred payments made.

GRAIN DEALER				
License Year	Licenses Issued	Total Bushels Reported	Total Purchases Reported	Total DP Reported
2015 / 2016	244	385,365,675	\$2,046,937,724.98	\$263,722,370.99
2014 / 2015	249	351,788,691	\$2,403,340,977.00	\$260,941,793.00
2013 / 2014	258	400,823,098	\$2,919,177,409.31	\$245,494,567.87
2012 / 2013	274	378,966,400	\$2,365,294,942.53	\$226,152,173.63
2011 / 2012	288	454,962,837	\$2,257,068,777.21	\$127,216,085.10
2010 / 2011	287	361,803,947	\$1,699,023,816.74	\$91,623,760.92
2009 / 2010	292	338,283,870	\$1,739,085,053.18	\$81,360,205.63
2008 / 2009	304	N/A	\$1,543,566,358.32	\$62,374,687.49
2007 / 2008	315	N/A	\$939,289,124.70	\$56,623,614.24
2006 / 2007	324	N/A	\$691,707,480.83	\$46,379,702.57
2005 / 2006	308	N/A	\$759,116,757.41	\$61,841,188.11
2004 / 2005	291	N/A	\$790,598,092.27	\$52,122,067.23

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

GRAIN WAREHOUSE KEEPER		
License Year	Licenses Issued	Total Capacity
2015 / 2016	96	111,836,055
2014 / 2015	99	108,651,388
2013 / 2014	101	109,542,279
2012 / 2013	103	102,174,345
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	Licenses Issued	Total Obligations
2015 / 2016	115	\$ 7,094,983,256
2014 / 2015	120	\$ 5,996,509,973
2013 / 2014	120	\$ 5,612,011,214
2012 / 2013	119	\$ 5,544,595,746
2011 / 2012	118	\$ 4,465,441,273
2010 / 2011	114	\$ 3,527,503,717
2009 / 2010	115	\$ 4,873,420,108
2008 / 2009	116	\$ 4,469,117,061
2007 / 2008	114	\$ 3,930,467,857
2006 / 2007	109	\$ 3,925,469,873
2005 / 2006	115	\$ 3,995,556,599
2004 / 2005	111	\$ 3,038,044,137

VEGETABLE CONTRACTOR		
License Year	Licenses Issued	Total Obligations
2015 / 2016	40	\$ 322,047,777
2014 / 2015	39	\$ 315,109,222
2013 / 2014	39	\$ 315,395,738
2012 / 2013	37	\$ 236,101,361
2011 / 2012	37	\$ 307,748,089
2010 / 2011	36	\$ 282,116,910
2009 / 2010	37	\$ 213,589,108
2008 / 2009	36	\$ 174,331,307
2007 / 2008	36	\$ 171,318,055
2006 / 2007	39	\$ 159,293,822
2005 / 2006	40	\$ 164,116,406
2004 / 2005	39	\$ 137,200,177

Note 9 –Defaults

Allens, Inc.

On October 28, 2013, a licensed vegetable contractor, Allens, Inc., filed a voluntary petition for relief under Chapter 11 bankruptcy (reorganization). The Chapter 11 was subsequently converted to a Chapter 7 liquidation. The department revoked Allens vegetable contractor license on November 18, 2013. Between September 6, 2013 and December 20, 2013, twenty-two default claims were filed with the department against Allens. Nineteen claims were allowable, three claims were disallowed, and payments were made in July 2015 from the Agricultural Producer Security Fund in the aggregate amount of \$6,120,689.28. Cash security of \$50,123.74 filed by Allens was used to partially reimburse the Agricultural Producer Security Fund. The Wisconsin Department of Justice is representing the department in on going legal proceedings and pursuing reimbursement for these claim payments.

As of June 30, 2014, the default process was in its final stages and funds to pay the default had been set aside (encumbered) in the state accounting system. As a result, the state accounting system recognized these payments as a FY2014 expenditure, even though checks weren't issued until after the end of the fiscal year. For the purposes of this annual report, we have elected to reflect the payments in FY2015, the fiscal year in which payments were made.

Liberty Milk Marketing Cooperative

On December 19, 2014, a licensed milk contractor, Liberty Milk Marketing Cooperative, defaulted on payments to milk producers and entered state receivership on December 22, 2014. DATCP initiated a Recovery Proceeding and received twenty-seven default claims from milk producers. All twenty-seven claims were allowed and payments were made in June 2014 from the Agricultural Producer Security Fund in the aggregate amount of \$1,012,789.82. The Wisconsin Department of Justice is representing the department in the receivership proceedings and pursuing reimbursement for these claim payments.