MICHIGAN

OFFICE OF THE AUDITOR GENERAL

# AUDIT REPORT

FINANCIAL AUDIT
OF THE

## FARM PRODUCE INSURANCE AUTHORITY

(A Discretely Presented Component Unit of the State of Michigan)

January 1, 2009 through December 31, 2009

THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

791-0360-10

The auditor general shall conduct post audits of financial transactions and accounts of the state and of all branches, departments, offices, boards, commissions, agencies, authorities and institutions of the state established by this constitution or by law, and performance post audits thereof.

– Article IV, Section 53 of the Michigan Constitution

Audit report information can be accessed at:
*http://audgen.michigan.gov*

Michigan

*Office of the Auditor General*

# REPORT SUMMARY

*Financial Audit*

*Farm Produce Insurance Authority*

*(A Discretely Presented Component Unit of the State of Michigan)*

*January 1, 2009 through December 31, 2009*

**Report Number:**
**791-0360-10**

**Released:**
**May 2010**

*A financial audit determines if the financial statements are fairly presented; considers internal control over financial reporting; and determines compliance with requirements material to the financial statements. This financial audit of the Farm Produce Insurance Authority was conducted as part of the constitutional responsibility of the Office of the Auditor General.*

***Financial Statements:***

**Auditor's Report Issued**

We issued an unqualified opinion on the Farm Produce Insurance Authority's financial statements.

~ ~ ~ ~ ~ ~ ~ ~ ~ ~

**Internal Control Over Financial Reporting**

We did not report any findings related to internal control over financial reporting.

~ ~ ~ ~ ~ ~ ~ ~ ~ ~

**Noncompliance and Other Matters Material to the Financial Statements**

We did not identify any instances of noncompliance or other matters applicable to the financial statements that are required to be reported under *Government Auditing Standards*.

~ ~ ~ ~ ~ ~ ~ ~ ~ ~

***Background:***

The Farm Produce Insurance Act (Act 198, P.A. 2003) created the Farm Produce Insurance Authority. The Authority, a discretely presented component unit of the State of Michigan, was established as a program in which producers of dry beans, grains, or corn may contribute a percentage of their proceeds to the Farm Produce Insurance Fund and may recover from the Fund for losses caused by a grain dealer's financial failure.

The producers shall continue to pay assessments into the Fund until the Authority's board certifies that the Fund contains more than $5 million at the end of the preceding fiscal year. As of December 31, 2007, the Fund exceeded $5 million and producer assessments were ceased. Assessments are not required to be paid until either of the following occurs: (1) the board certifies that the Fund contained less than $3 million at the end of the preceding fiscal year or (2) in any fiscal year in which the board certifies that the Fund contained at least $3 million at the end of the previous fiscal year, the board is aware of a failure of a licensed grain dealer, and the board determines that the amount required to satisfy claims equals or exceeds the net assets in the Fund.

~ ~ ~ ~ ~ ~ ~ ~ ~ ~

A copy of the full report can be obtained by calling 517.334.8050 or by visiting our Web site at: http://audgen.michigan.gov

Michigan Office of the Auditor General
201 N. Washington Square
Lansing, Michigan 48913

**Thomas H. McTavish, C.P.A.**
Auditor General

**Scott M. Strong, C.P.A., C.I.A.**
Deputy Auditor General

STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL
201 N. WASHINGTON SQUARE
LANSING, MICHIGAN 48913
(517) 334-8050
FAX (517) 334-8079

THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

May 7, 2010

Mr. Don Koivisto, Chair
Farm Produce Insurance Authority
Constitution Hall
Lansing, Michigan

Dear Mr. Koivisto:

This is our report on the financial audit of the Farm Produce Insurance Authority, a discretely presented component unit of the State of Michigan, for the period January 1, 2009 through December 31, 2009.

This report contains our report summary, our independent auditor's report on the financial statements, the Authority management's discussion and analysis, and the Authority's basic financial statements. This report also contains our independent auditor's report on internal control over financial reporting and on compliance and other matters and a glossary of acronyms and terms.

We appreciate the courtesy and cooperation extended to us during this audit.

AUDITOR GENERAL

791-0360-10

This Page Left Intentionally Blank

## TABLE OF CONTENTS

## FARM PRODUCE INSURANCE AUTHORITY


| | Page |
|---|---|
| INTRODUCTION | |
| Report Summary | 1 |
| Report Letter | 3 |
| INDEPENDENT AUDITOR'S REPORT | |
| Independent Auditor's Report on the Financial Statements | 8 |
| MANAGEMENT'S DISCUSSION AND ANALYSIS | |
| Management's Discussion and Analysis | 11 |
| BASIC FINANCIAL STATEMENTS | |
| Statement of Net Assets | 18 |
| Statement of Revenues, Expenses, and Changes in Net Assets | 19 |
| Statement of Cash Flows | 20 |
| Notes to the Financial Statements | 21 |
| INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL AND COMPLIANCE | |
| Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters | 28 |

GLOSSARY

Glossary of Acronyms and Terms 31

# INDEPENDENT AUDITOR'S REPORT

STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL
201 N. WASHINGTON SQUARE
LANSING, MICHIGAN 48913
(517) 334-8050
FAX (517) 334-8079

THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

Independent Auditor's Report on
the Financial Statements

Mr. Don Koivisto, Chair
Farm Produce Insurance Authority
Constitution Hall
Lansing, Michigan

Dear Mr. Koivisto:

We have audited the accompanying financial statements of the Farm Produce Insurance Authority, a discretely presented component unit of the State of Michigan, as of and for the fiscal year ended December 31, 2009, as identified in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the financial statements present only the Farm Produce Insurance Authority and do not purport to, and do not, present fairly the financial position of the State of Michigan or its component units as of December 31, 2009 and the changes in financial position and cash flows thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Farm Produce Insurance Authority as of December 31, 2009 and the changes in financial position and cash flows for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 8 to the financial statements, the Authority restated its beginning cash on its statement of cash flows for the fiscal year ended December 31, 2009.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 7, 2010 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 11 through 15 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

AUDITOR GENERAL

April 7, 2010

# MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion of the Farm Produce Insurance Authority (Authority) financial performance provides an overview of the Authority's financial activities for the twelve months ended December 31, 2009. Please read it in conjunction with the financial statements.

**Farm Produce Insurance Act**

The Farm Produce Insurance Act (Act 198, P.A. 2003, Section 285.311 of the *Michigan Compiled Laws* et seq.) establishes a program in which producers of dry beans, grains, or corn may contribute a percentage of their proceeds to a new fund and may recover from the fund for losses caused by a grain dealer's financial failure. Act 198, P.A. 2003, works in concert with the producer security requirements of the Grain Dealers Act (Act 141, P.A. 1939, as amended). Since 1974 producers have lost approximately $14.9 million due to failures from Michigan grain dealers. Producers have recovered approximately $6.2 million through legal actions and the enforcement provisions of the Grain Dealers Act.

**Farm Produce Insurance Fund**

Act 198, P.A. 2003, established the Farm Produce Insurance Fund (Fund). The Fund consists of producer assessments, money from other sources, and interest and other earnings. The Fund can only be used for the payment of valid claims, producer assessment refunds, administrative expenses, and legal fees and expenses. The Authority's board can allocate up to $250,000 from the Fund to a separate account for administrative expenses, which explicitly exclude legal fees and legal expenses. In 2009, the Fund reported administrative expenses of $109,676. A memorandum of understanding between the Authority and the Michigan Department of Agriculture (MDA) provides for 1.5% of the investment balance as of June 1, 2009 to cover administrative expenses.

As of December 31, 2009, the net assets of the Fund were reported as $6,175,744. Since the Fund's net assets exceeded $5 million at the close of fiscal year 2007, assessments are not required to be paid until either of the following occurs: (1) The board certifies that the Fund contained less than $3 million at the end of the preceding fiscal year or (2) in any fiscal year in which the board certifies that the Fund contained at least $3 million at the end of the previous fiscal year, the board is aware of a failure of a licensed grain dealer, and the board determines that the amount required to satisfy claims equals or exceeds the net assets in the Fund.

**Financial Analysis**

The statement of net assets; the statement of revenues, expenses, and changes in net assets; and the statement of cash flows report information about the Authority and about its activities that help explain how the Authority's financial position has changed as a result of this year's activities. These statements are presented using the accrual basis of accounting. The current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The statement of net assets presents the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets measure whether the Authority's financial position is improving or declining.

The statement of revenues, expenses, and changes in net assets presents information showing how the Authority's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying events giving rise to the change occur, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in these statements for some items that will result in cash flows in future fiscal periods.

The statement of cash flows presents information about the cash receipts and cash payments of the Authority during the fiscal year. Cash flow information is used to assess (a) the Authority's ability to generate future net cash flows, (b) its ability to meet its obligations as they come due, (c) its needs for external financing, (d) reasons for differences between operating income and associated cash receipts and payments, and (e) the effects on its financial position of both its cash and its noncash investing, capital, and financing transactions during the fiscal year.

The Authority's net assets decreased $31,354 (0.5%) from the previous fiscal year-end.

Net Assets

| | 2009 | 2008 |
|---|---|---|
| Cash | $ 1,702,531 | $ 1,019,436 |
| Short-term investments | 1,055,693 | 1,390,772 |
| Interest receivable | 13,548 | 19,292 |
| Noncurrent investments | 3,446,842 | 3,815,477 |
| Total assets | $ 6,218,614 | $ 6,244,977 |
| Accounts payable | $ 92,870 | $ 87,879 |
| Total liabilities | $ 92,870 | $ 87,879 |
| Total net assets - restricted | $ 6,125,744 | $ 6,157,098 |

The following reflects how the Authority's net assets changed during the fiscal year:

Changes in Net Assets

| | 2009 | 2008 |
|---|---|---|
| Assessment revenue | $ 12,046 | $ 234,731 |
| Total operating revenues | $ 12,046 | $ 234,731 |
| Claims | $ 5,233 | $ 176,922 |
| Administrative expenses | 109,676 | 108,347 |
| Advertising expenses | 782 | 3,688 |
| Assessment expenses | | 13,334 |
| Total operating expenses | $ 115,691 | $ 302,291 |
| Investment revenue | $ 70,785 | $ 216,496 |
| Claims recovery | 470 | 190,211 |
| Refund of legal fees | 551 | |
| Recovery of memorandum of understanding charges | | 63,299 |
| Miscellaneous | 484 | 458 |
| Total nonoperating revenues (expenses) | $ 72,290 | $ 470,464 |
| Change in net assets | $ (31,354) | $ 402,904 |

**Producer Assessments**

Beginning January 1, 2005, each producer paid to the Authority a producer assessment of 0.2% of the net proceeds from all farm produce (defined to mean dry edible beans, soybeans, small grains, cereal grains, or corn) that is sold by the producer to a licensed grain dealer. The licensed grain dealer is required to deduct the assessment from the proceeds of the sale and pay the assessment to the Authority on behalf of the producer. In 2009, assessments collected totaled $12,046.

**Refunds**

A producer who paid an assessment may receive a refund of the assessment from the Fund by submitting a demand, in writing, to the board. MDA sent notice in February 2009 to all producers who requested a refund of the assessment during 2008. The notice informed the producer of the deadline and method for submitting a demand for a refund and the method for reentering the program. In 2009, there were no requests for refunds and no refunds were paid.

A producer that receives a refund is permitted to reenter the farm insurance program if the producer submits a request for reentry; the board reviews and approves that request for reentry into the program; and the producer pays into the Fund all previous producer funds that were refunded to the producer, along with any interest on the refund. There were no requests for reentry during 2009.

**Claims**

A producer is permitted to submit a claim for reimbursement if he or she is a participant in the program. In 2009, there was one claim of $5,233 paid from an October 2008 failure.

The board may require a claimant who receives payment to subrogate to the board or the Authority all of the claimant's rights to collect on any other compensation arising from the failure of the licensee. The claimant in 2009 signed a subrogation agreement and management believes that through bankruptcy it will recover between 50% and 66% of the claim originating during 2008 and paid in 2009.

In addition to the above requirements, if MDA determines that a licensed grain dealer has failed, the board could pursue any subrogation rights obtained from claimants or, if the Fund does not sufficiently cover all valid claims, borrow money for the payment of claims. During 2009, there were no recorded failures of licensed grain dealers.

**Financial Institution**

The Authority may invest or direct a financial institution to invest the money in the Fund that is not necessary to meet current obligations. All interest and earnings are credited to the Fund, and any money remaining in the Fund at the close of the fiscal year remains in the Fund and will not lapse into the State's General Fund. Money in the Fund is only to be used for those purposes set forth in Act 198, P.A. 2003, and cannot be transferred to any other fund or appropriated for any other purpose. In 2004, the board selected Comerica Bank as the financial institution.

**Contacting the Farm Produce Insurance Fund**

The financial report is designed to provide the Legislature, the executive branch of the government, the public, and other interested parties with an overview of the financial results of the Authority's activities and to show the accountability for the money it receives. If you have any questions about this report or need additional information regarding the Farm Produce Insurance Authority, contact Jeff Haarer, Producer Security Services Section Manager, MDA, at 517-241-2865 or go to www.michigan.gov/graindealers.

This Page Left Intentionally Blank

# BASIC FINANCIAL STATEMENTS

FARM PRODUCE INSURANCE AUTHORITY
Statement of Net Assets
December 31, 2009

| | 2009 |
|---|---|
| **Assets** | |
| Current Assets | |
| Cash | $ 1,702,531 |
| Investments, at fair value (Note 2) | 1,055,693 |
| Interest receivable | 13,548 |
| Total current assets | $ 2,771,772 |
| Noncurrent Assets | |
| Investments, at fair value (Note 2) | 3,446,842 |
| Total assets | $ 6,218,614 |
| **Liabilities** | |
| Current Liabilities | |
| Accounts payable (Note 3) | 92,870 |
| **Net Assets - Restricted** (Note 5) | $ 6,125,744 |

The accompanying notes are an integral part of the financial statements.

FARM PRODUCE INSURANCE AUTHORITY
Statement of Revenues, Expenses, and Changes in Net Assets
Fiscal Year Ended December 31, 2009

| | 2009 |
|---|---|
| **Operating Revenues** | |
| Assessment revenue | $ 12,046 |
| Total operating revenues | $ 12,046 |
| **Operating Expenses** | |
| Claims | $ 5,233 |
| Administrative expenses | 109,676 |
| Advertising expenses | 782 |
| Total operating expenses | $ 115,691 |
| Operating income (loss) | $ (103,645) |
| **Nonoperating Revenues (Expenses)** | |
| Investment revenue | $ 70,785 |
| Claims recovery | 470 |
| Refund of legal fees | 551 |
| Miscellaneous | 484 |
| Total nonoperating revenues (expenses) | $ 72,290 |
| Change in net assets | $ (31,354) |
| Total net assets at beginning of year | 6,157,098 |
| Total net assets at end of year | $ 6,125,744 |

The accompanying notes are an integral part of the financial statements.

FARM PRODUCE INSURANCE AUTHORITY
Statement of Cash Flows
Fiscal Year Ended December 31, 2009

| | 2009 |
|---|---|
| **Cash Flows From Operating Activities** | |
| Cash collections from assessments | $ 12,046 |
| Payments to suppliers | (105,467) |
| Claims Paid | (5,233) |
| Net cash provided (used) by operating activities | $ (98,654) |
| **Cash Flows From Nonoperating Activities** | |
| Cash collection from claims recovery | $ 470 |
| Refund of legal fees | 551 |
| Miscellaneous | 484 |
| Net cash provided by nonoperating activities | $ 1,505 |
| **Cash Flows From Investing Activities** | |
| Proceeds from sales and maturities of investment securities | $ 9,221,532 |
| Purchase of investments securities | (8,573,966) |
| Interest and dividends on investments | 132,676 |
| Net cash provided (used) by investing activities | $ 780,243 |
| **Net increase (decrease) in cash** | $ 683,095 |
| **Cash at beginning of period (Note 8)** | 1,019,436 |
| **Cash at end of period** | $ 1,702,531 |
| **Reconciliation of operating income (loss) to net cash provided (used) by operating activities** | |
| Operating income (loss) | $ (103,645) |
| Adjustments to reconcile operating income to net cash provided (used) by operating activities: | |
| Increase (decrease) in accounts payable | $ 4,991 |
| Total adjustments | $ 4,991 |
| Net cash provided (used) by operating activities | $ (98,654) |

The accompanying notes are an integral part of the financial statements.

Note 1 Summary of Significant Accounting Policies

Reporting Entity

The Farm Produce Insurance Authority (Authority) was established by Act 198, P.A. 2003 (Act), as a public body corporate, to provide insurance to farm produce producers against losses from the failure of grain dealers. The Authority is within, but not a part of, the Michigan Department of Agriculture (MDA) and functions under the governance of a nine-member board.

Basis of Presentation

The Authority is classified as a discretely presented component unit of the State of Michigan. Accordingly, the Authority's financial statements are included in the *State of Michigan Comprehensive Annual Financial Report*. The accompanying financial statements are not intended to present the financial position and the changes in financial position and cash flows of the State of Michigan or its component units.

Basis of Accounting

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. As allowed by the Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the Authority follows all GASB pronouncements and those Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins that were issued on or before November 30, 1989, except those that conflict with a GASB pronouncement.

Revenue Recognition

Operating revenue is recognized based on producer assessments of 0.2% of net proceeds from all farm produce sold by producers to licensed grain dealers in the State. A producer may elect to not participate in the program and to forfeit any claim for recoveries as provided for under the Act.

Assessments will cease under the Act if the Farm Produce Insurance Fund (Fund) contains more than $5 million at the end of the preceding fiscal year. The Authority ceased collection of assessments as of January 1, 2008 as a result of the Fund containing more than $5 million as of December 31, 2007. Assessments under the Act will resume if the Fund contains less than $3 million at the end of the preceding fiscal year.

Note 2 Deposits and Investments

Cash and investments held by the Authority at December 31, 2009 were as follows:

| Description | Amount |
|---|---|
| Checking | $ 25,000 |
| Cash investment fund | 1,677,531 |
| Investments | 4,502,535 |
| Total | $ 6,205,066 |

The Authority uses one bank to manage all of its deposits and investments. The Authority's board is authorized to invest excess funds only as permitted in Section 1, Act 20, P.A. 1943. The investment policy authorizes investment in bonds and securities of the United States government, bank accounts, certificates of deposit, and commercial paper.

The Authority's cash and investments are subject to certain types of risk, which are detailed below:

**Credit Risk**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Authority has an investment policy that would limit its investment choices regarding credit risk. Credit quality ratings of debt securities held by the Authority at December 31, 2009 were as follows:

| Investment | Fair Value | Rating | Rating Organization |
|---|---|---|---|
| Corporate bonds | $ 132,033 | AA+ | Standard & Poor's |
| Certificates of deposit | 2,055,088 | Not rated | N/A |
| U.S. government securities | 1,568,601 | Not rated | N/A |
| U.S. government agencies | 746,813 | AAA | Standard & Poor's |
| Total investments | $ 4,502,535 | | |

**Custodial Credit Risk**

Custodial credit risk for deposits is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor-government's name.

The State's policy requires the following criteria to lessen the custodial credit risk: all financial institutions holding the State's money must pledge collateral equal to the amount of the account balance for all demand and time deposits, to secure the State's funds; a bank, savings and loan association, or credit union holding State funds must be organized under the laws of Michigan or federal law and maintain a principal office or branch office in the State of Michigan; and no deposit in any financial organization may be in excess of 50% of the net worth of the organization. The Authority has no formal investment policy that would further limit its choices of custodian.

At December 31, 2009, the Authority had $25,000 and $1,677,531 in checking and cash investment fund bank deposits, respectively. The checking account and up to $250,000 of the cash investment fund amount were covered by federal depository insurance coverage. However, $1,427,531 was exposed to custodial credit risk because it was uninsured and the collateral held by the pledging bank's trust department was not in the Authority's name.

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to a transaction, the Authority will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The Authority does not have an investment policy for limiting custodial credit risk. At December 31, 2009, $746,813 of the Authority's $4,502,535 in investments was exposed to custodial credit risk.

**Concentration of Credit Risk**

Concentration of credit risk is the risk of loss attributable to the magnitude of the Authority's investment with a single issuer. The Authority does not have a policy for limiting the dollar value of investments with a single user. The Authority's securities, not issued or explicitly guaranteed by the U.S. government, that exceeded 5% of the Authority's total investments at December 31, 2009 were as follows:

| Name of Issuer | Amount | Percentage of Investment |
|---|---|---|
| Federal Home Loan Banks | $ 499,375 | 11.1% |
| Federal Home Loan Mortgage Corp. (Freddie Mac) | $ 247,438 | 5.5% |
| Commercial Bank of Alma Michigan CD | $ 248,108 | 5.5% |
| Community Shores Bank CD | $ 248,735 | 5.5% |
| MBANK Manistique Michigan CD | $ 249,820 | 5.5% |
| Michigan Community Bank of Ann Arbor CD | $ 250,403 | 5.6% |
| Signature Bank CD | $ 248,318 | 5.5% |
| United Bank CD | $ 249,740 | 5.5% |

**Interest Rate Risk**

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Authority's investment policy does not restrict investment maturities, other than commercial paper, which can only be purchased with a maximum maturity of 270 days. Maturities of investments held by the Authority at December 31, 2009 were as follows:

| Description | Fair Value | Less Than 1 Year | 1 - 5 Years | Over 5 Years |
|---|---|---|---|---|
| Corporate bonds | $ 132,033 | $ | $ 132,033 | $ |
| Certificates of deposit | 2,055,088 | 1,055,693 | 999,396 | |
| U.S. government securities | 1,568,601 | | | 1,568,601 |
| U.S. government agencies | 746,813 | | 746,813 | |
| Total investments | $4,502,535 | $1,055,693 | $1,878,242 | $1,568,601 |

Note 3 Transactions With Other State Agencies

Pursuant to a memorandum of understanding with MDA, the Authority has agreed to reimburse MDA for administrative services equal to 1.5% of all investments annually. The amount of the investments is to be calculated from the investment balance as of June 1 of the current calendar year. The amount of expenses incurred under the memorandum of understanding for 2009 was $92,447, which is included as an account payable on the statement of net assets.

Note 4 Risk Management

The Authority is exposed to various risks related to torts, property damage and destruction, errors and omissions, and workers' compensation and unemployment compensation. The State of Michigan has elected not to purchase commercial insurance for many of the risks of losses to which the Authority is exposed, but to self-insure for such risks. More detailed information on risk management is available in the *State of Michigan Comprehensive Annual Financial Report.*

Note 5 Restricted Net Assets

Pursuant to Act 198, P.A. 2003, the Fund can only be used for the payment of valid claims, producer premium refunds, administrative expenses, and legal fees and expenses. The Authority's board can allocate up to $250,000 from the Fund to a separate account for administrative expenses, which explicitly exclude legal fees and legal expenses.

Note 6 Commitments and Contingencies

As of December 31, 2009, the Authority was not aware of any actual or impending grain dealer failures. Accordingly, no liability for estimated losses incurred but not reported has been established in the accompanying financial statements. As disclosed in Note 9, Subsequent Event, the Authority learned of a grain dealer failure that occurred after December 31, 2009.

Note 7 Recovery Claims

The Authority may require a claimant who receives payment to subrogate to the Authority all of the claimant's rights to collect any other compensation arising from the failure of the licensee. The Authority paid $5,233 in claims for fiscal year 2009. The Authority has made a bankruptcy claim through the Department of Attorney General, and the Authority believes that it will recover between 50% and 66% of this amount.

Note 8 Change in Cash Equivalents

The Authority restated its beginning cash on the statement of cash flows from $23,572 to $1,019,436 in order to properly reflect its cash for the current period. As of December 31, 2008, the Authority's short-term investments included $995,864 of cash.

Note 9 Subsequent Event

On March 16, 17, and 18, 2010, MDA published notice of a grain dealer's failure. The Authority estimates total losses of $1.9 million as a result of this failure. As of April 7, 2010, the Authority had received claims totaling $1.4 million. The Authority's approval or disapproval of these claims is pending.

# INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL AND COMPLIANCE

STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL
201 N. WASHINGTON SQUARE
LANSING, MICHIGAN 48913
(517) 334-8050
FAX (517) 334-8079

THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

Independent Auditor's Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters

Mr. Don Koivisto, Chair
Farm Produce Insurance Authority
Constitution Hall
Lansing, Michigan

Dear Mr. Koivisto:

We have audited the financial statements of the Farm Produce Insurance Authority, a discretely presented component unit of the State of Michigan, as of and for the fiscal year ended December 31, 2009, as identified in the table of contents, and have issued our report thereon dated April 7, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting
In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined in the preceding paragraph.

Compliance and Other Matters

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

This report is intended solely for the information and use of the Governor, the Legislature, the Farm Produce Insurance Authority Board, management, and others within the Authority and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

AUDITOR GENERAL

April 7, 2010

# GLOSSARY

| | |
|---|---|
| deficiency in internal control over financial reporting | The design or operation of a control that does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. |
| financial audit | An audit that is designed to provide reasonable assurance about whether the financial schedules and/or financial statements of an audited entity are presented fairly in all material respects in conformity with the disclosed basis of accounting. |
| GASB | Governmental Accounting Standards Board. |
| internal control | A process, effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance about the achievement of the entity's objectives with regard to the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. |
| material misstatement | A misstatement in the financial schedules and/or financial statements that causes the schedules and/or statements to not present fairly the financial position or the changes in financial position or cash flows in conformity with the disclosed basis of accounting. |
| material weakness in internal control over financial reporting | A deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial schedules and/or financial statements will not be prevented, or detected and corrected on a timely basis. |

| | |
|---|---|
| MDA | Michigan Department of Agriculture. |
| significant deficiency in internal control over financial reporting | A deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. |
| unqualified opinion | An auditor's opinion in which the auditor states that the financial schedules and/or financial statements presenting the basic financial information of the audited agency are fairly presented in conformity with the disclosed basis of accounting. |

This Page Left Intentionally Blank

STATE OF MICHIGAN

OFFICE of the AUDITOR GENERAL