

**FARM PRODUCE
INSURANCE AUTHORITY
(A Discretely Presented Component Unit
of the State of Michigan)**

**Annual Financial Statements and
Independent Auditors' Report**

December 31, 2012

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Independent Auditors' Report

Board of Directors
Farm Produce Insurance Authority
and
Mr. Thomas H. McTavish, Auditor General
State of Michigan

Report on the Financial Statements

We have audited the accompanying statement of Net Position of Farm Produce Insurance Authority (The "Authority"), a discretely presented component unit of the State of Michigan, as of and for the years ended December 31, 2012 and 2011, and the related statements of revenues, expenses, and changes in Net Position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Farm Produce Insurance Authority, as of December 31, 2012 and 2011, and the respective changes in its net position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters:

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information, because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2013 on our consideration of the Farm Produce Insurance 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Farm Produce Insurance Authority's internal control over financial reporting and compliance.

Yeo & Yeo, P.C.

Lansing, MI
March 28, 2013

Farm Produce Insurance Authority
Management's Discussion and Analysis
For the year ended December 31, 2012

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, 2012. 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.

On May 30, 2012, Governor Rick Snyder signed Public Acts 148 (PA 148) and 149 (PA 149) of 2012, updating the Michigan Grain Dealers Act, PA 141 of 1939, as amended, and the Farm Produce Insurance Act (FPIA), PA 198 of 2003, as amended. The legislation ensures sufficient funds for producer security programs without reliance on general fund dollars.

PA 148 increases grain dealer licensing fees to range from \$500 to \$1,000 per license based on bushel capacity. In addition to a new fee structure, Senate Bill 887 will reduce bailment bond costs by eliminating warehouse, grain bank, and open storage bond requirements.

PA 149 allows the Farm Produce Insurance Fund Authority, beginning January 1, 2013, to establish an "administrative premium". The amount of the premium will be determined by the Authority and reflect the amount necessary to reimburse the Michigan Department of Agriculture and Rural Development (MDARD) for producer security activities. On June 27th, the Farm Produce Insurance Fund Authority approved the rate of a \$.00015 assessment (15 cents on \$1,000 of grain sold). Farm produce buyers will be required to collect the assessment from each producer's payment beginning January 1, 2013. The assessments collected will be allocated to cover the costs of the producer security program. All assessment amounts over the allotted amount will remain in the Farm Produce Insurance fund. The Authority will review the assessment and program annually.

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. PA 149 also increased the Authority's ability to allocate up to \$500,000 (prior \$250,000 limit) from the Fund to a separate account for

Farm Produce Insurance Authority
Management's Discussion and Analysis
For the year ended December 31, 2012

administrative expenses, which explicitly exclude legal fees and legal expenses. In 2012, the Fund reported administrative expenses of \$108,951. A memorandum of understanding between the Authority and the Michigan Department of Agriculture & Rural Development (MDARD) provides for 1.5% of the investment balance as of June 1, of the current year to cover administrative expenses.

As of December 31, 2012, the net position of the Fund were reported as \$6,067,944. Since the Fund's net position 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 position in the Fund.

Financial Analysis

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

The statement of revenues, expenses, and changes in net position presents information showing how the Authority's net position changed during the most recent fiscal year. All changes in net position 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.

Farm Produce Insurance Authority
Management's Discussion and Analysis
For the year ended December 31, 2012

The Authority's net position increased \$7,924 (0.1%) from the previous fiscal year-end.

| | <u>Net position</u> | |
|-----------------------------------|-----------------------------------|----------------------------|
| | <u>2012</u> | <u>2011</u> |
| Cash | \$ 562,502 | \$ 1,037,983 |
| Short-term investments | 1,268,378 | 1,358,059 |
| Interest receivable | 24,696 | 27,460 |
| Noncurrent investments | 4,212,368 | 3,636,518 |
| Total assets | <u>\$ 6,067,944</u> | <u>\$ 6,060,020</u> |
| | | |
| Total net position - unrestricted | <u><u>\$ 6,067,944</u></u> | <u><u>\$ 6,060,020</u></u> |

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

| | <u>Changes in Net position</u> | |
|-----------------------------|--------------------------------|---------------------------|
| | <u>2012</u> | <u>2011</u> |
| Assessment revenue | \$ 251 | \$ 395 |
| Total operating revenues | <u>251</u> | <u>395</u> |
| | | |
| Administrative expenses | 108,951 | 105,827 |
| Assessment refunds | - | 65,773 |
| Total operating expenses | <u>108,951</u> | <u>171,600</u> |
| | | |
| Investment revenue | 116,624 | 139,066 |
| Total nonoperating revenues | <u>116,624</u> | <u>139,066</u> |
| | | |
| Change in net position | <u><u>\$ 7,924</u></u> | <u><u>\$ (32,139)</u></u> |

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 2012, assessments collected totaled \$251.

Farm Produce Insurance Authority
Management's Discussion and Analysis
For the year ended December 31, 2012

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. MDARD 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 2012, 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 2012.

Claims

A producer is permitted to submit a claim for reimbursement if he or she is a participant in the program. In 2012, there were no claims received.

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.

In addition to the above requirements, if MDARD 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 2012, there were no recorded failures of licensed grain dealers that would impact the Farm Produce Insurance fund.

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. PA 149 also defined the Authority's board ability to make investments.

**Farm Produce Insurance Authority
Management's Discussion and Analysis
For the year ended December 31, 2012**

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, MDARD, at 517-241-2865 or go to www.michigan.gov/graindealers.

Farm Produce Insurance Authority
Statement of Net Position
December 31, 2012 and 2011

| | 2012 | 2011 |
|----------------------------|--------------|--------------|
| Assets | | |
| Current assets | | |
| Cash | \$ 562,502 | \$ 1,037,983 |
| Investments, at fair value | 1,268,378 | 1,358,058 |
| Interest receivable | 24,696 | 27,460 |
| Total current assets | 1,855,576 | 2,423,501 |
| Non-current assets | | |
| Investments, at fair value | 4,212,368 | 3,636,519 |
| Total assets | \$ 6,067,944 | \$ 6,060,020 |
| Net position | | |
| Unrestricted | \$ 6,067,944 | \$ 6,060,020 |

See Accompanying Notes to Financial Statements

Farm Produce Insurance Authority
Statement of Revenues, Expenses and Changes in Net Position
For the Years Ended December 31, 2012 and 2011

| | 2012 | 2011 |
|--|--------------|--------------|
| Operating revenues | | |
| Assessment revenue | \$ 251 | \$ 395 |
| Operating expenses | | |
| Administrative expenses | 108,951 | 105,827 |
| Assessment refunds | - | 65,773 |
| Total operating expenses | 108,951 | 171,600 |
| Operating loss | (108,700) | (171,205) |
| Nonoperating revenues | | |
| Investment revenue | 116,624 | 139,066 |
| Total nonoperating revenue | 116,624 | 139,066 |
| Change in net position | 7,924 | (32,139) |
| Total net position at beginning of year | 6,060,020 | 6,092,159 |
| Total net position at end of year | \$ 6,067,944 | \$ 6,060,020 |

See Accompanying Notes to Financial Statements

Farm Produce Insurance Authority
Statement of Cash Flows
For the Years Ended December 31, 2012 and 2011

| | <u>2012</u> | <u>2011</u> |
|--|---------------------|---------------------|
| Cash Flows From Operating Activities | | |
| Cash collections from customers | \$ 251 | \$ 395 |
| Payments to suppliers and customers | <u>(108,951)</u> | <u>(265,195)</u> |
| Net cash used by operating activities | <u>(108,700)</u> | <u>(264,800)</u> |
| Cash Flows From Investing Activities | | |
| Proceeds from sales and maturities of investment securities | 2,863,151 | 7,282,041 |
| Purchase of investment securities | <u>(3,381,419)</u> | <u>(7,274,521)</u> |
| Interest and dividends on investments | <u>151,487</u> | <u>131,156</u> |
| Net cash provided (used) by investing activities | <u>(366,781)</u> | <u>138,676</u> |
| Net decrease in cash and cash equivalents | (475,481) | (126,124) |
| Cash and cash equivalents at beginning of period | <u>1,037,983</u> | <u>1,164,107</u> |
| Cash and cash equivalents at end of period | <u>\$ 562,502</u> | <u>\$ 1,037,983</u> |
| Reconciliation of net operating income to net cash provided by operating activities | | |
| Deficiency of operating revenues over expenditures | <u>\$ (108,700)</u> | <u>\$ (171,205)</u> |
| Adjustments to reconcile net operating revenues to net cash from operating activities | | |
| Decrease in: | | |
| Accounts payable | <u>-</u> | <u>(93,595)</u> |
| Net cash used by operating activities | <u>\$ (108,700)</u> | <u>\$ (264,800)</u> |

See Accompanying Notes to Financial Statements

Farm Produce Insurance Authority
Notes to Financial Statements
December 31, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

The Farm Produce Insurance Authority (the "Authority") was established by Public Act No. 198, Public Acts of 2003 (the "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 and Rural Development (MDARD) and functions under the governance of a nine member Board of Directors.

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. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, 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 (the "Fund") contains more than \$ 5,000,000 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 \$ 5,000,000 as of December 31, 2007. Assessments under the Act will resume when the fund contains less than \$ 3,000,000 at the end of the preceding fiscal year.

During 2012, Public Act 149 was passed which establishes an administrative premium that is to be paid by the Authority to reimburse MDARD for producer security activities. The Fund approved an assessment of .015% of net proceeds from all farm produce sold by producers to licensed grain dealers in the State. This assessment will begin on January 1, 2013 and will be allocated to cover the costs of the producer security program.

Farm Produce Insurance Authority
Notes to Financial Statements
December 31, 2012

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (US GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 – DEPOSITS AND INVESTMENTS

Cash and investments held by the Authority at December 31, 2012 and 2011 were reported in the financial statements as follows:

| | <u>2012</u> | <u>2011</u> |
|----------------------|---------------------|---------------------|
| Checking | \$ 25,000 | \$ 25,000 |
| Cash investment fund | 537,502 | 1,012,983 |
| Investments | <u>5,480,746</u> | <u>4,994,577</u> |
| Total | <u>\$ 6,043,248</u> | <u>\$ 6,032,560</u> |

The Authority uses one bank to manage all of its deposits and investments. The Board of Directors is authorized to invest excess funds only as permitted in Act 198, P.A. 2003. The investment policy authorizes investment in bonds and securities of the United States Government, bank accounts, certificates of deposit, corporate bonds 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, 2012 and 2011, were as follows:

Farm Produce Insurance Authority
Notes to Financial Statements
December 31, 2012

| | December 31, 2012 | | |
|-------------------------------------|---------------------|-----------|------------------------|
| | Fair Value | Rating | Rating Organization |
| Certificates of deposit | 2,062,399 | Not rated | N/A |
| Municipal bonds | 201,584 | AA+ | S&P |
| | 101,541 | AA | S&P |
| | 1,168,435 | AA- | S&P |
| | 203,102 | A+ | S&P |
| | 64,374 | BBB+ | S&P |
| Collateralized mortgage obligations | 881,960 | Not rated | N/A |
| Corporate bonds | 77,771 | AA+ | S&P |
| | 106,634 | A | S&P |
| | 313,697 | A- | S&P |
| | 100,014 | BBB | S&P |
| U.S. government agencies | 199,235 | AA+ | S&P |
| Total investments | <u>\$ 5,480,746</u> | | |

| | December 31, 2011 | | |
|-------------------------------------|---------------------|-----------|------------------------|
| | Fair Value | Rating | Rating Organization |
| Certificates of deposit | 1,597,064 | Not rated | N/A |
| Municipal bonds | 45,678 | AA+ | S&P |
| | 100,902 | AA | S&P |
| | 1,053,232 | AA- | S&P |
| | 133,475 | A+ | S&P |
| | 149,954 | BBB+ | S&P |
| | 195,002 | SP-1+ | S&P |
| Collateralized mortgage obligations | 1,462,355 | Not rated | N/A |
| U.S. government agencies | 256,915 | A | S&P |
| Total investments | <u>\$ 4,994,577</u> | | |

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.

Farm Produce Insurance Authority
Notes to Financial Statements
December 31, 2012

The State's policy required 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, 2012, the Authority's carrying amount of deposits and investments was \$ 6,043,248. Total deposits and investments held at banks were \$ 6,044,404. The Authority had \$ 25,000 in checking and \$ 2,062,399 in certificates of deposit held at financial institutions that were covered by federal depository insurance coverage. Deposits and investments of \$ 3,957,005 were uninsured and uncollateralized at December 31, 2012.

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.

Concentration of Credit Risk

Concentration of credit risk for investments is the risk of loss attributable to the magnitude of the Authority's investment with a single issuer. The Authority has an investment policy that limits corporate and municipal bonds to not exceed 5% of the total fund. The Authority's had no securities that exceeded 5% of the Authority's total investments at December 31, 2012.

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, 2012, were as follows:

| Description | December 31, 2012 | | | | |
|-------------------------------------|---------------------|---------------------|---------------------|-------------------|-----------------------|
| | Fair Value | Less Than 1 Year | 1 - 5 Years | 6 - 10 Years | More than 10 Years |
| Certificates of deposit | \$ 2,062,399 | \$ 1,001,016 | \$ 858,271 | \$ 203,112 | \$ - |
| Municipal debt | 1,739,036 | 267,362 | 1,111,224 | - | 360,450 |
| Collateralized mortgage obligations | 881,960 | - | - | - | 881,960 |
| Corporate bonds | 598,116 | - | 598,116 | - | - |
| U.S. government agencies | 199,235 | - | - | 199,235 | - |
| Total Investments | \$ 5,480,746 | \$ 1,268,378 | \$ 2,567,611 | \$ 402,347 | \$ 1,242,410 |

The investments above complied with subsection four of Act 198, P.A. 2003.

Farm Produce Insurance Authority
Notes to Financial Statements
December 31, 2012

NOTE 3 – LINE OF CREDIT

The Authority has a \$ 1,000,000 revolving line of credit with Comerica Bank, of which \$ 0 was outstanding at December 31, 2012 and 2011. The line bears interest of 3%, is due on demand, and is collateralized by all assets of the Authority.

NOTE 4 - TRANSACTIONS WITH OTHER STATE AGENCIES

Pursuant to a Memorandum of Understanding (MOU) with the Michigan Department of Agriculture and Rural Development (MDARD), the Authority has agreed to reimburse MDARD 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 MOU as of December 31, 2012 and 2011 were \$ 91,243 and \$ 90,874, respectively.

NOTE 5 - RISK MANAGEMENT

The Authority is exposed to various risks related to torts; property damage and destruction, errors and omissions, 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 6 – NET POSITION

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 Board can allocate up to \$ 500,000 from the Fund to a separate account for administrative expenses, which explicitly exclude legal fees and legal expenses.

NOTE 7 - COMMITMENTS AND CONTINGENCIES

As of December 31, 2012, 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.

NOTE 8 - 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 \$ 0 for claims for the year ended December 31, 2012 and 2011.

SUPPLEMENTAL INFORMATION

**Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial
Statements Performed in Accordance With
*Government Auditing Standards***

Independent Auditors' Report

Management and the Board of Directors
Farm Produce Insurance Authority
and
Mr. Thomas H. McTavish, Auditor General

We have audited, in accordance with the 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, the statements of revenues, expenses, and changes in net position and cash flows of Farm Produce Insurance Authority as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise Farm Produce Insurance Authority's basic financial statements, and have issued our report thereon dated March 28, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Farm Produce Insurance Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Farm Produce Insurance Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Farm Produce Insurance Authority's internal control.

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 a 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. A *significant deficiency* is a deficiency, or a 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Farm Produce Insurance Authority's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Yeo & Yeo, P.C.

Lansing, MI
March 28, 2013