

**Farm Produce Insurance Authority  
(A Discretely Presented Component Unit  
of the State of Michigan)**

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

**December 31, 2014**

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## **Independent Auditors' Report**

To the Board of Directors of  
Farm Produce Insurance Authority  
and  
Mr. Doug Ringler, Auditor General  
State of Michigan

### **Report on the Financial Statements**

We have audited the accompanying financial statements 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, 2014 and 2013, 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, 2014 and 2013, and the respective changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of a Matter:**

As discussed in Note 1, the financial statements of the Farm Produce Insurance Authority, are intended to present the financial position and the changes in financial position and cash flows of only that portion of the activities of the State of Michigan that is attributable to Farm Produce Insurance Authority. They do not purport to, and do not, present fairly the financial position of the State of Michigan as of December 31, 2014, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

## **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 31, 2015 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 31, 2015

## **Farm Produce Insurance Authority Management Discussion and Analysis For the Year Ended December 31, 2014**

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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, 2014. 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.) established 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 increased grain dealer licensing fees to range from \$500 to \$1,000 per license based on bushel capacity. In addition to a new fee structure, PA 148 reduced bailment bond costs by eliminating warehouse, grain bank, and open storage bond requirements.

PA 149 allowed the Farm Produce Insurance Fund Authority, beginning January 1, 2013, to establish an "administrative premium". The amount of the premium is determined by the Authority and reflects the amount necessary to reimburse the Michigan Department of Agriculture and Rural Development (MDARD) for producer security activities. On June 27, 2012, the Farm Produce Insurance Fund Authority approved the rate of a \$.00015 assessment (15 cents on \$1,000 of grain sold). Farm produce buyers are required to collect the assessment from each producer's payment beginning January 1, 2013. The assessments collected are allocated to cover the costs of the producer security program. All assessment amounts over the allotted amount remain in the Farm Produce Insurance Fund. The Authority reviews 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 administrative assessments, producer assessments, money from other sources, and interest and other earnings. The Fund can only be used for the payment of valid claims, administrative and producer assessment refunds, administrative expenses, legal fees and expenses and reimbursement of the director for producer security activities. PA 149 also increased the

**Farm Produce Insurance Authority**  
**Management Discussion and Analysis**  
**For the Year Ended December 31, 2014**

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Authority's ability to allocate up to \$500,000 (prior \$250,000 limit) from the Fund to a separate account for administrative expenses, which explicitly exclude legal fees and legal expenses. In 2014, the Fund reported administrative expenses of \$332,401. A memorandum of understanding between the Authority and the Michigan Department of Agriculture & Rural Development (MDARD) provides that the Authority will reimburse MDARD an amount equal to administrative services and to reimburse the director for producer security expenses annually in accordance with P.A. 198. In 2014, the authority reimbursed MDARD \$310,000.

As of December 31, 2014, the net position of the Fund was reported as \$2,467,513. Since the Fund's net position first exceeded \$5 million at the close of fiscal year 2007, producer 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 Discussion and Analysis  
For the Year Ended December 31, 2014**

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The Authority's net position decreased \$3,731,890 (60.2%) from the previous fiscal year-end.

<u>Net Position</u>	<u>2014</u>	<u>2013</u>
Cash	\$ 892,676	\$ 708,297
Short-term investments	1,354,821	1,348,833
Assessment receivable	132,083	151,492
Interest receivable	24,438	24,549
Noncurrent investments	<u>3,928,884</u>	<u>3,972,446</u>
Total assets	<u>6,332,902</u>	<u>6,205,617</u>
Accounts payable	4,286	6,214
Estimated liability for incurred but unsettled claims	3,861,103	-
Total net position - unrestricted	<u>2,467,513</u>	<u>6,199,403</u>
Total liabilities and net position	<u>\$ 6,332,902</u>	<u>\$ 6,205,617</u>

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

<u>Change in Net Position</u>		
Assessment revenue	<u>\$ 352,873</u>	<u>\$ 388,750</u>
Claims	3,861,103	-
Administrative expenses	332,401	227,761
Assessment refunds	27,297	12,955
Legal expense	<u>1,200</u>	<u>1,200</u>
Total operating expenses	<u>4,222,001</u>	<u>241,916</u>
Investment income (loss)	<u>137,238</u>	<u>(15,375)</u>
Change in net position	<u>\$ (3,731,890)</u>	<u>\$ 131,459</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 2014, there were no producer assessments.

# **Farm Produce Insurance Authority**

## **Management Discussion and Analysis**

### **For the Year Ended December 31, 2014**

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#### **Administrative Assessments**

Beginning January 1, 2013, each producer paid to the Authority an administrative assessment of 0.015% 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 2014, administrative assessments totaled \$352,873.

#### **Refunds**

Assessment refunds of \$27,297 include facility refunds for inadvertent overpayments and producer refunds. A producer who paid an assessment may receive a refund of the assessment from the Fund by submitting a refund request, in writing, to the board. MDARD sent notice in January, 2015 to all producers who have requested refunds of the assessment since January 1, 2005. The notice informed the producer of the deadline and method for submitting a request for a refund and the method for reentering the program. In 2014, there were eight requests that were paid for a total of \$ 391.39. The authority also received three more requests from the same family, however proper detail was not provided 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 was one request for reentry for \$455.82 during 2014 and is included in assessment revenues.

#### **Claims**

A producer is permitted to submit a claim for reimbursement if he or she is a participant in the program. In 2014, 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. On October 31, 2014 MDARD issued a summary suspension for Lapeer Grain Co. based upon an imminent threat of financial loss to producers and their inability to pay producers within the time requirements of the Grain Dealers Act (PA 141 of 1939, as amended). MDARD verified approximately 122 producer claims received in 2015 and the FPIA board met to review claims on March 5, 2015. Potential exposure to the FPIA is estimated at \$3,861,103.

## **Farm Produce Insurance Authority Management Discussion and Analysis For the Year Ended December 31, 2014**

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### **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.

### **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 517-284-5642 or go to [www.michigan.gov/graindealers](http://www.michigan.gov/graindealers).

**Farm Produce Insurance Authority**  
**Statement of Net Position**  
**December 31, 2014 and 2013**

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	2014	2013
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 892,676	\$ 708,297
Investments, at fair value	1,354,821	1,348,833
Assessments receivable	132,083	151,492
Interest receivable	24,438	24,549
Total current assets	2,404,018	2,233,171
Non-current assets		
Investments, at fair value	3,928,884	3,972,446
<b>Total assets</b>	<b>\$ 6,332,902</b>	<b>\$ 6,205,617</b>
<b>Liabilities and net position</b>		
Current liabilities		
Accounts payable	\$ 4,286	\$ 6,214
Estimated liability for incurred but unsettled claims	3,861,103	-
Total liabilities	3,865,389	6,214
<b>Net position</b>		
Unrestricted	2,467,513	6,199,403
<b>Total liabilities and net position</b>	<b>\$ 6,332,902</b>	<b>\$ 6,205,617</b>

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, 2014 and 2013**

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	<u>2014</u>	<u>2013</u>
<b>Operating revenues</b>		
Assessment revenue	\$ 352,873	\$ 388,750
Total operating revenues	<u>352,873</u>	<u>388,750</u>
<b>Operating expenses</b>		
Claims	3,861,103	-
Administrative expenses	332,401	227,761
Assessment refunds	27,297	12,955
Legal fees	<u>1,200</u>	<u>1,200</u>
Total operating expenses	<u>4,222,001</u>	<u>241,916</u>
Operating Income (loss)	<u>(3,869,128)</u>	<u>146,834</u>
<b>Nonoperating revenues</b>		
Investment income (loss)	<u>137,238</u>	<u>(15,375)</u>
<b>Change in net position</b>	<b>(3,731,890)</b>	<b>131,459</b>
<b>Total net position at beginning of year</b>	<u>6,199,403</u>	<u>6,067,944</u>
<b>Total net position at end of year</b>	<u>\$ 2,467,513</u>	<u>\$ 6,199,403</u>

See Accompanying Notes to Financial Statements

**Farm Produce Insurance Authority**  
**Statement of Cash Flows**  
**For the Years Ended December 31, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
<b>Cash Flows From Operating Activities</b>		
Cash collections from customers	\$ 372,282	\$ 237,258
Payments to suppliers and customers	<u>(362,826)</u>	<u>(235,702)</u>
Net cash provided (used) by operating activities	<u>9,456</u>	<u>1,556</u>
<b>Cash Flows From Investing Activities</b>		
Proceeds from sales and maturities of investment securities	569,103	2,217,828
Purchase of investment securities	<u>(538,088)</u>	<u>(2,205,613)</u>
Interest and dividends on investments	<u>143,908</u>	<u>132,024</u>
Net cash provided (used) by investing activities	<u>174,923</u>	<u>144,239</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>184,379</b>	<b>145,795</b>
<b>Cash and cash equivalents at beginning of period</b>	<u>708,297</u>	<u>562,502</u>
<b>Cash and cash equivalents at end of period</b>	<u>\$ 892,676</u>	<u>\$ 708,297</u>
<b>Reconciliation of net operating income to net cash provided by operating activities</b>		
Surplus (deficiency) of operating revenues over expenditures	\$ (3,869,128)	\$ 146,834
Adjustments to reconcile net operating revenues to net cash from operating activities		
Increase (decrease) in:		
Refunds payable	(1,928)	6,214
Claims payable	3,861,103	-
(Increase) decrease in:		
Assessments receivable	<u>19,409</u>	<u>(151,492)</u>
<b>Net cash provided (used) by operating activities</b>	<u>\$ 9,456</u>	<u>\$ 1,556</u>

See Accompanying Notes to Financial Statements

**Farm Produce Insurance Authority**  
**Notes to Financial Statements**  
**December 31, 2014**

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**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 ten 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, except those that conflict with a GASB pronouncement. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

**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 began on January 1, 2013 and is allocated to cover the costs of the producer security program.

**Farm Produce Insurance Authority**  
**Notes to Financial Statements**  
**December 31, 2014**

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**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. Significant estimates related to unsettled producer claims are described in Note 7.

**Note 2 – Deposits and Investments**

Cash and investments held by the Authority at December 31, 2014 and 2013 were reported in the financial statements as follows:

	<u>2014</u>	<u>2013</u>
Checking	\$ 25,000	\$ 25,000
Cash investment fund	867,676	683,297
Investments	<u>5,283,705</u>	<u>5,321,279</u>
Total	<u><u>\$ 6,176,381</u></u>	<u><u>\$ 6,029,576</u></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, and municipal 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, 2014 and 2013, were as follows:

**Farm Produce Insurance Authority**  
**Notes to Financial Statements**  
**December 31, 2014**

	December 31, 2014		
	Fair Value	Rating	Rating Organization
Certificates of deposit	2,193,957	Not rated	N/A
Municipal bonds	202,985	AA+	S&P
	395,108	AA	S&P
	998,982	AA-	S&P
	25,696	A+	S&P
	136,477	A-	S&P
Collateralized mortgage obligations	427,074	Not rated	N/A
Corporate bonds	72,932	AA+	S&P
	221,737	A	S&P
	209,895	A-	S&P
	206,700	BBB	S&P
U.S. government agencies	192,162	AA+	S&P
Total investments	\$ 5,283,705		

	December 31, 2013		
	Fair Value	Rating	Rating Organization
Certificates of deposit	2,348,540	Not rated	N/A
Municipal bonds	199,897	AA+	S&P
	359,833	AA	S&P
	892,956	AA-	S&P
	277,669	A+	S&P
Collateralized mortgage obligations	476,369	Not rated	N/A
Corporate bonds	75,650	AA+	S&P
	102,719	A	S&P
	306,160	A-	S&P
	98,500	BBB	S&P
U.S. government agencies	182,986	AA+	S&P
Total investments	\$ 5,321,279		

**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, 2014**

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, 2014, the Authority's carrying amount of deposits and investments was \$ 6,176,381. Total deposits and investments held at banks were \$ 6,178,078. The Authority had \$ 25,000 in checking and \$ 2,193,957 in certificates of deposit held at financial institutions that were covered by federal depository insurance coverage. Deposits and investments of \$ 3,959,121 were uninsured and uncollateralized at December 31, 2014.

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 any single corporate or municipal bond to not exceed 5% of the total fund. The Authority had no securities that exceeded 5% of the Authority's total investments at December 31, 2014.

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. Maturities of investments held by the Authority at December 31, 2014 and 2013, were as follows:

Description	December 31, 2014				
	Fair Value	Less Than 1 Year	1 - 5 Years	6 - 10 Years	More than 10 Years
Certificates of deposit	\$ 2,193,957	\$ 701,385	\$ 1,295,868	\$ 196,704	\$ -
Municipal debt	1,759,249	479,981	877,714	401,554	-
Collateralized mortgage obligations	427,074	-	-	-	427,074
Corporate bonds	711,263	173,456	537,807	-	-
U.S. government agencies	192,162	-	-	192,162	-
<b>Total Investments</b>	<b>\$ 5,283,705</b>	<b>\$ 1,354,822</b>	<b>\$ 2,711,389</b>	<b>\$ 790,420</b>	<b>\$ 427,074</b>

**Farm Produce Insurance Authority**  
**Notes to Financial Statements**  
**December 31, 2014**

Description	December 31, 2013				
	Fair Value	Less Than 1 Year	1 - 5 Years	6 - 10 Years	More than 10 Years
Certificates of deposit	\$ 2,348,540	\$ 649,782	\$ 1,502,359	\$ 196,399	\$ -
Municipal debt	1,730,355	391,246	1,042,155	296,954	-
Collateralized mortgage obligations	476,369	-	-	-	476,369
Corporate bonds	583,029	307,805	275,224		-
U.S. government agencies	182,986	-	-	182,986	-
<b>Total Investments</b>	<b>\$ 5,321,279</b>	<b>\$ 1,348,833</b>	<b>\$ 2,819,738</b>	<b>\$ 676,339</b>	<b>\$ 476,369</b>

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

**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, 2014 and 2013. 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**

The Memorandum of Understanding (MOU) with MDARD provided for an annual reimbursement to the director for producer security expenses. The amount of expense incurred under the MOU for 2014 was \$310,000. The amount covers all costs expended by MDARD for review and administrative services performed in accordance with P.A. 198.

**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, administrative and 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, 2014, the Authority was aware of impending producer claims arising from an imminent grain dealer financial failure. A liability for estimated losses incurred was established in the accompanying financial statements in the amount of \$3,861,103, as of December 31, 2014.

**Farm Produce Insurance Authority**  
**Notes to Financial Statements**  
**December 31, 2014**

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**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 did not have any claims to pay for the year ended December 31, 2014 and 2013.

**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**

To the Board of Directors of  
Farm Produce Insurance Authority  
and  
Mr. Doug Ringler, Auditor General  
State of Michigan

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 accompanying financial statements of Farm Produce Insurance Authority as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise Farm Produce Insurance Authority's basic financial statements as listed in the table of contents, and have issued our report thereon dated March 31, 2015.

**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 31, 2015