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

Financial Reports

December 31, 2016 and 2015

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YEO & YEO
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Independent Auditors' Report

To the Board of Directors of
Farm Produce Insurance Authority

Mr. Doug Ringler, CPA, CIA
Auditor General
Office of the Auditor General

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, 2016 and 2015, 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.

Opinion

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, 2016 and 2015, 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, 2016 and 2015, and the changes in its financial position and its cash flows for the years 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.

Adoption of New Accounting Standards

As described in Note 1 to the financial statements, during the year ended December 31, 2016, the Authority adopted GASB Statement No. 72, *Fair Value Measurement and Application* and GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. 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 6 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 April 3, 2017 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, Michigan
April 3, 2017

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, 2016. 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 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 2005, producers have lost approximately $19.5 million due to failures from Michigan grain dealers. Producers have recovered approximately $11.2 million through the Authority's claims process and enforcement of the provisions of the Grain Dealers Act.

In June 2016, Governor Rick Snyder signed Public Acts 263 and 264 of 2016, 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 improves producer security protection.

P.A. 263 amends the Grain Dealers Act to establish a priority for producers and lenders for farm produce, effective at the time of the delivery of the farm produce for sale or storage under a bailment agreement, or when funds are advanced by the lender, and shall terminate when the liability of the grain dealer to the claimant is discharged. There is a one year phase in.

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. 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 2016, the Authority reimbursed MDARD $365,000.

P.A. 264 amends the Farm Produce Insurance Act to require a producer to pay producer premiums until the Farm Produce Insurance Authority board certified that the Farm Produce Insurance Fund contains more than $10.0 million, instead of $5.0 million. Thus, the reinstated Program Assessment of 0.002 will continue to be assessed in combination with the Administrative Premium Assessment of fifteen-thousandths percent (0.00015) for a total FPIA Assessment of 0.00215 until the fund reaches $10 million. PA 264 also requires a producer to file a claim with the Farm Produce Insurance Authority within 18 months of the date that the title of farm produce transferred from the producer to grain dealer.

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.

Starting October 1, 2015, the reinstated Program Assessment of 0.002 was assessed in combination with the Administrative Premium Assessment of fifteen-thousandths of one percent (0.00015) for a total FPIA Assessment of 0.00215. The Administrative Premium Assessment of 0.00015 is a continuous assessment that began on January 1, 2013, to reimburse the Michigan Department of Agriculture and Rural Development for Producer Security Administration costs. The reinstated Program Assessment of 0.002 will be collected until the FPIA certifies that the Fund, excluding the proceeds of Administrative Premiums assessed, contains more than $10,000,000 at the end of the preceding fiscal year. At December 31, 2016, the net position of the fund was reported as $7,904,447.

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.

The Authority's net position increased $3,523,076 (80.4%) from the previous fiscal year-end.

Net Position	2016	2015
Cash	$ 1,241,802	$ 175,643
Short-term investments	1,226,394	249,917
Assessment receivable	1,928,001	1,765,707
Claims recovery receivable	151,053	-
Interest receivable	7,778	3,800
Noncurrent investments	3,379,168	2,252,817
Total assets	7,934,196	4,447,884
Accounts payable	$ 16,293	$ 8,897
Claims payable	13,456	57,616
Total net position - unrestricted	7,904,447	4,381,371
Total liabilities and net position	$ 7,934,196	$ 4,447,884

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

Change in Net Position	2016	2015
Assessment revenue	$ 4,302,774	$ 1,939,567
Adjustment from claims settlement	-	290,645
Other income	153,519	1,359
Total operating revenues	4,456,293	2,231,571
Claims	512,023	2,586
Administrative expenses	384,075	319,210
Assessment refunds	29,583	14,844
Legal expense	1,789	9,312
Total operating expenses	927,470	345,952
Investment income (loss)	(5,747)	28,239
Change in net position	$ 3,523,076	$ 1,913,858

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 2016, there were $ 4,088,451 of producer assessments.

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 2016, administrative assessments totaled $214,323.

Refunds

Assessment refunds of $29,583 include facility refunds for inadvertent overpayments and producer refunds. A producer who paid an assessment may receive a refund of the assessment from the Authority by submitting a refund request, in writing, to the board. MDARD sent notice in January, 2016 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 2016, there were twenty four requests that were paid for a total of $ 15,545.

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 2016.

Claims

A producer is permitted to submit a claim for reimbursement if he or she is a participant in the program. In 2016, the Authority approved $512,023 in claims related to elevator failures with $ 13,456 payable at year end.

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.

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. P.A. 198 also defined the Authority's board ability to make investments.

Contacting the Farm Produce Insurance Authority

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.

Farm Produce Insurance Authority
Statement of Net Position
December 31, 2016 and 2015

	2016	2015
Assets		
Current assets		
Cash and cash equivalents	**$ 1,241,802**	$ 175,643
Investments, at fair value	**1,226,394**	249,917
Assessments receivable	**1,928,001**	1,765,707
Claims recovery receivable	**151,053**	-
Interest receivable	**7,778**	3,800
Total current assets	**4,555,028**	2,195,067
Non-current assets		
Investments, at fair value	**3,379,168**	2,252,817
Total assets	**$ 7,934,196**	$ 4,447,884
Liabilities and net position		
Current liabilities		
Accounts payable	**$ 16,293**	$ 8,897
Claims payable	**13,456**	57,616
Total liabilities	**29,749**	66,513
Net position		
Unrestricted	**7,904,447**	4,381,371
Total liabilities and net position	**$ 7,934,196**	$ 4,447,884

See Accompanying Notes to the Financial Statements

Farm Produce Insurance Authority
Statement of Revenues, Expenses and Changes in Net Position
For the Years Ended December 31, 2016 and 2015

	2016	2015
Operating revenues		
Assessment revenue	$ 4,302,774	$ 1,939,567
Adjustment from claims settlement	-	290,645
Other income	153,519	1,359
Total operating revenues	4,456,293	2,231,571
Operating expenses		
Claims	512,023	2,586
Administrative expenses	384,075	319,210
Assessment refunds	29,583	14,844
Legal fees	1,789	9,312
Total operating expenses	927,470	345,952
Operating income	3,528,823	1,885,619
Nonoperating revenues (loss)		
Investment income (loss)	(5,747)	28,239
Change in net position	3,523,076	1,913,858
Total net position at beginning of year	4,381,371	2,467,513
Total net position at end of year	$ 7,904,447	$ 4,381,371

See Accompanying Notes to the Financial Statements

Farm Produce Insurance Authority
Statement of Cash Flows
For the Years Ended December 31, 2016 and 2015

	2016	2015
Cash Flows From Operating Activities		
Cash collections from customers	**$ 4,142,946**	$ 597,947
Payments to suppliers and customers	**(964,234)**	(4,144,828)
Net cash provided (used) by operating activities	**3,178,712**	(3,546,881)
Cash Flows From Investing Activities		
Proceeds from sales and maturities of investments	**1,940,320**	3,940,754
Purchase of investments	**(4,101,043)**	(1,189,855)
Interest and dividends on investments	**48,170**	78,949
Net cash provided (used) by investing activities	**(2,112,553)**	2,829,848
Net change in cash and cash equivalents	**1,066,159**	(717,033)
Cash and cash equivalents at beginning of period	**175,643**	892,676
Cash and cash equivalents at end of period	**$ 1,241,802**	$ 175,643
Reconciliation of net operating income to net cash provided by operating activities		
Operating income	**$ 3,528,823**	$ 1,885,619
Adjustments to reconcile net operating revenues to net cash from operating activities		
Changes in operating assets and liabilities:		
Assessments receivable	**(162,294)**	(1,633,624)
Claims recovery receivable	**(151,053)**	-
Accounts payable	**7,396**	4,611
Claims payable	**(44,160)**	(3,803,487)
Net cash provided (used) by operating activities	**$ 3,178,712**	$ (3,546,881)

See Accompanying Notes to the Financial Statements

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.

Cash and Cash Equivalents
Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value based on quoted market price.

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.

Program assessments (which were reinstated in October 2015) will continue under the Act until the Farm Produce Insurance Fund (the "Fund") reaches $10,000,000. As of December 31, 2016, the Fund contained $7,904,447 and the assessment was still required.

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 Authority 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.

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.

Adoption of New Accounting Standards

The Governmental Accounting Standards Board ("The GASB") has issued Statement No. 72 *Fair Value Measurements and Applications.* Statement 72 provides guidance for accounting and financial reporting issues related to fair value measurement. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The guidance establishes a three level hierarchy of inputs for valuation of fair value. Statement 72 is effective for the year ending December 31, 2016 and has been adopted on a retrospective basis.

The Government Accounting Standards Board (GASB) issued Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. The objective of this Statement is to identify the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement supersedes Statement No. 55, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. Statement 76 is effective for the year ending December 31, 2016.

Note 2 – Deposits and Investments

Cash and investments held by the Authority at December 31, 2016 and 2015 were reported in the financial statements as follows:

	2016	2015
Checking	$ 17,268	$ 22,500
Cash investment fund	1,224,534	153,143
Investments	4,605,562	2,502,734
Total	$ 5,847,364	$ 2,678,377

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:

Custodial Credit Risk - Deposits

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 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, 2016, the Authority's carrying amount of deposits held at banks (checking, money market, and certificates of deposit) was $3,741,765, made up of $25,000 in checking, $1,224,534 in money market, and $2,492,231 in certificates of deposit. Of these amounts, $2,517,231 were covered by federal depositor insurance coverage (FDIC) while $1,224,534 was uninsured or uncollateralized by FDIC at December 31, 2016.

Custodial Credit Risk - Investments

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. The Authority's investment securities total $2,113,332 and are held by a counter party in the Authority's name and were uninsured and unregistered.

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 were as follows:

	December 31, 2016		
	Fair Value	Rating	Rating Organization
Certificates of deposit	$ 2,492,231	Not rated	N/A
U.S. government obligations	199,024	Not rated	N/A
Collateralized mortgage obligations	724,059	Not rated	N/A
Corporate bonds	300,740	AA-	S&P
	200,295	A+	S&P
	293,307	A	S&P
	98,253	BBB	S&P
U.S. government agencies	297,653	AA+	S&P
Total investments	$ 4,605,562		

	December 31, 2015		
	Fair Value	Rating	Rating Organization
Certificates of deposit	$ 1,944,475	Not rated	N/A
Municipal bonds	75,644	AA	S&P
	51,505	A+	S&P
Collateralized mortgage obligations	331,621	Not rated	N/A
Corporate bonds	1,036	BBB+	S&P
U.S. government agencies	98,453	AA+	S&P
Total investments	$ 2,502,734		

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, 2016.

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, 2016 and 2015, were as follows:

	December 31, 2016				
Description	Fair Value	Less Than 1 Year	1 - 5 Years	6 - 10 Years	More than 10 Years
Certificates of deposit	$ 2,492,231	$ 825,941	$ 1,666,290	$ -	$ -
U.S government obligations	199,024	-	199,024	-	-
Collateralized mortgage obligations	724,059	-	-	-	724,059
Corporate bonds	892,595	400,452	396,320	95,823	-
U.S. government agencies	297,653	-	297,653	-	-
Total Investments	$ 4,605,562	$ 1,226,393	$ 2,559,287	$ 95,823	$ 724,059

	December 31, 2015				
Description	Fair Value	Less Than 1 Year	1 - 5 Years	6 - 10 Years	More than 10 Years
Certificates of deposit	$ 1,944,475	$ 249,918	$ 1,694,557	$ -	$ -
Municipal debt	127,149	-	127,149	-	-
Collateralized mortgage obligations	331,621	-	-	-	331,621
Corporate bonds	1,036	-	1,036	-	-
U.S. government agencies	98,453	-	-	98,453	-
Total Investments	$ 2,502,734	$ 249,918	$ 1,822,742	$ 98,453	$ 331,621

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

Note 3 – Fair Value Measurements

The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in the entirety are categorized based on the lowest level input that is significant to the valuation. The Authority's assessment of the significance of particular inputs to these fair value measurements requires judgement and considers factors specific to each asset or liability.

Municipal and corporate bonds, collateralized mortgage obligations, and U.S. governmental agencies categorized as Level 2 assets have been valued using a market approach using a matrix pricing model and other significant observable inputs. Certificates of deposit, and U.S. government obligation as Level 1 assets are calculated using quoted prices for identical assets in active markets.

The Authority has the following recurring fair value measurements as of December 31, 2016 and 2015:

	Balance at December 31, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Certificates of deposit	$ 2,492,231	$ 2,492,231	$ -
U.S. government obligations	199,024	199,024	-
Collateralized mortgage obligations	724,059	-	724,059
Corporate bonds	892,595	-	892,595
U.S. government agencies	297,653	-	297,653
	$ 4,605,562	$ 2,691,255	$ 1,914,307

	Balance at December 31, 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Certificates of deposit	$ 1,944,475	$ 1,944,475	$ -
Municipal bonds	127,149	-	127,149
Collateralized mortgage obligations	331,621	-	331,621
Corporate bonds	1,036	-	1,036
U.S. government agencies	98,453	-	98,453
	$ 2,502,734	$ 1,944,475	$ 558,259

Note 4 – 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, 2016 and 2015. The line bears interest of 3%, is due on demand, and is collateralized by all assets of the Authority.

Note 5 – 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 2016 was $365,000. The amount covers all costs expended by MDARD for review and administrative services performed in accordance with P.A. 198.

Note 6 – 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 7 – 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 8 – Commitments and Contingencies

As of December 31, 2016, the Authority was not aware of any actual or impending grain dealer failures not already reflected in the financial statements. Accordingly, no liability for estimated losses incurred but not reported has been established in the accompanying financial statements.

Note 9 – 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 had $ 151,053 and $ 887 of recovery claims for the years ended December 31, 2016 and 2015.

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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

Mr. Doug Ringler, CPA, CIA
Auditor General
Office of the 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 accompanying financial statements of Farm Produce Insurance Authority as of and for the year ended December 31, 2016, 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 April 3, 2017.

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, Michigan
April 3, 2017