Approved Fred Kerr 1/26/83
Date

MINUTES OF THE SENATE COMMITTEE ON AGRICULTURE AND SMALL BUSINESS.

The meeting was called to order by Senator Fred A. Kerr at
Chairperson

10:00 a.m. on Tuesday, January 25, 1983, 19__ in room 423-S of the Capitol.

All members were present

Committee staff present: All were present.

Conferees appearing before the committee:

Marvin Webb, Director, Kansas Grain Inspection Department
T. C. Anderson, Executive Secretary, Kansas Society of CPA's
Dee Likes, Kansas Livestock Association

Senator Arasmith moved the minutes of the January 20, 1983 meeting be approved, seconded by Senator Karr. Motion carried.

Senator Kerr stated starting today the six bills introduced by the interim committee (S.B. 1-6) would be considered for the next several days. Senator Kerr then called on Marvin Webb to give a quick run-down relative to the apparent elevator problem which has taken place in southeast Kansas.

Mr. Webb stated they were notified about a week ago that the bank had caused the J & H Grain Company of Thayer to be placed into involuntary receivership. His department had made two recent examinations of this elevator and found there was a small grain shortage but nothing extraordinary. The court appointed a receivership immediately, but his department is concerned over the appointment--the department did not have any input on the appointment nor is he certain that they do under the law. But the Grain Inspection Department has asked the Attorney General's office to look into the credentials of the man who was appointed receiver.

Marvin Webb presented his testimony as contained in Attachment 1.
S. B. 1 - He feels Section 1 (c) (2) of the bill pertaining to net worth should apply to new applicants only and not to renewals which they have had on the books for sometime. It would be burdensome for the KBI to check all the approximately 630 licensees who renew their licenses each year. In line 173 "is" should be changed to "in"; and in line 219 "addition" should be changed to "additional".

S. B. 2 - Mr. Webb felt a specific date should be set out relative to when a warehouse should send statements to depositors as to the exact amount they have on deposit. He mentioned the date of December 10. (Later, Senator Arasmith questioned the advisability of perhaps setting the date as January 10.)

S. B. 3 - The department does not have any exceptions but would like for the Attorney General's office to give an opinion on a few interpretations.

S. B. 4 - Mr. Webb feels line 273 should be changed to read "all warehouse receipts shall be written upon warehouse receipt forms furnished by the State Grain Inspection Department.

S. B. 5 - The department believes in increasing the penalties and recommends this bill.

(MORE)

S. B. 6 - The department supports this bill as written.

Mr. Webb stated the department feels that overall these bills would be helpful.

T. C. Anderson distributed Attachment 2 (information relative to compilation statements) and Attachment 3 (pertaining to review statements). He stated a compilation is a resume service. The accountant takes information from management without going to the office to verify the information supplied. A review would more closely examine financial statements, but a review would not follow a transaction from beginning to end. An accountant would go to the firm to review certain statements. A review is a new concept. He had made several inquiries as to the cost of a review. His cost figures ranged from $2,000 to $3,000 for actual services performed. Multiple locations and additional products would increase the cost of a review.

Mr. Anderson feels that lines 58-62 in Senate Bill 1 should be removed and that CPA's and accountants should do the audit or review. He is opposed to allowing "in home" audits, reviews or compilations.

Dee Likes read his testimony as contained in Attachment 4. KLA does not support an indemnity fund nor any regulation which would necessitate higher costs to warehousemen. Answering Senator Karr's question, Mr. Likes stated they support the general thrust of the bills. The following quotation is taken from his testimony: "In conclusion, we commend the interim committee for its detailed study and careful consideration of this issue. We believe the package of bills which are the product of that study are logical, equitable and will do a great deal in order to deter and alleviate the problem of public grain warehouse failures."

The meeting was adjourned.

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SENATE

AGRICULTURE AND SMALL BUSINESS COMMITTEE

10:00 a.m., Room 423-S — Tuesday, Jan. 25, 1983
Date

NAME	ADDRESS	ORGANIZATION
Linda Wheeler	A&A Ins. agency, K.C. Mo.	IWOGKC-NAIW
Carolyn Boyd	" " " " "	" "
Gary M. Bothwell	Kans State Grain Insp	Topeka
Sam Reda	" " " "	"
Alan Conroy	Division of the Budget	"
Barry Swanson	Lawrence	Governor's office
Mary Harper	Healy, Ks 67850	AAM
Gerald Riley	Dighton, Ks	K.A.W.G.
Hal Johnson	Leg. Post Audit	—
Nancy Kantola	Topeka	Ks Co-op Council
Terry Wooten	TOPEKA	WICHITA EAGLE-BEACON
Charles Clinkenbeard	Topeka	Ks Soc CPA's
Jan Haack	Topeka	" " "
J.C. Anderson	Topeka	" " "
Jim Suber	"	Capital Journal
Ben Kellum	"	" "
Dale W Bailey	Concordia Ks	Intern / Rep B. Fuller
Dee Likes	Topeka	KLA
Bill Fuller	Miltonvale Ks	State Repr. - Ks. Legis.
Chris Walker	Mayetta Ks	NFO
Ivan W. Wyatt	McPherson	Ks Farmers Union

JOHN CARLIN
GOVERNOR
MARVIN R. WEBB
DIRECTOR

THE STATE OF KANSAS

GRAIN INSPECTION DEPARTMENT
GENERAL OFFICE
535 KANSAS AVE., TOPEKA, KANSAS 66603

WAREHOUSE DIVISION
PHONE (913) 296-3454

INSPECTION DIVISION
PHONE (913) 296-3451

INSPECTION POINTS
ATCHISON, KANSAS CITY, COLBY, SALINA, DODGE CITY, TOPEKA, HUTCHINSON, WICHITA

TESTIMONY BEFORE THE
SENATE AGRICULTURE & SMALL BUSINESS COMMITTEE

ROOM 423-S, CAPTIOL BUILDING

MARVIN R. WEBB, DIRECTOR
January 25, 1983

Senator Kerr and Members of the Committee:

I appreciate the opportunity to appear before you to request you consider some changes in these proposals which we believe may be important.

Senate Bill #1: The first change which we believe needs to be considered is on line 85, page 3 of Senate Bill #1. This should be restricted to a new entity as it would be necessary for the department to endeavor to secure clearance checks on all existing licensees. It is our belief it is the intent of this committee to be concerned with the new applicants. It would be burdensome to request the Kansas Bureau of Investigation to check all the approximately 630 licensees who renew their licenses each year.
Also, line 173 "is " should be changed to "in".
Line 219 "addition" should be changed to "additional".

Senate Bill #2: Section #1. states "(a) Every public warehouseman shall

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submit, on or before December 1 of each year, to each depositor. . ." We suggest this should be changed to a specific date. Since many depositors settle their accounts after January 1, it might be best to use a date of December 10. This would give the depositor the exact amount which he has on deposit in case he was not already aware of the correct amount.

Senate Bill #3: We have not determined any exceptions. However, we would like to ask the Attorney General's office for an opinion on the interpretation, in a few instances.

Senate Bill #4: page 8, paragraph (c), line 273. We believe this is ambiguous and should be changed to read "all warehouse receipts shall be written upon warehouse receipt forms furnished by the State Grain Inspection Department".

Senate Bill #5: We believe the increase in penalties would be an improvement and we recommend your favorable consideration.

Senate Bill #6: The only change occurs on line 32, changing the term of service from two years to the pleasure of the governor. We believe this is a needed change so that it coincides with the term of the Governor.

December 14, 1982

We have compiled the accompanying balance sheet as of November , 1982, and the related statement of income and accompanying information for the five months then ended, in accordance with standards established by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of management. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them or the accompanying information.

Management has elected to omit substantially all of the disclosures and the statement of changes in financial position and the statement of retained earnings required by generally accepted accounting principles. If the omitted disclosures and statement of changes in financial position and statement of retained earnings were included in the financial statements, they might influence the user's conclusions about the company's financial position, results of operations, and changes in financial position. Accordingly, these financial statements are not designed for those who are not informed about such matters.

ASSETS

CURRENT ASSETS:		
CASH ON HAND		$28.15
CASH IN BANK-TB&T		7,018.13
DEMAND INVESTMENTS		15,560.37
ACCOUNTS RECEIVABLE		35.75
TOTAL CURRENT ASSETS		22,642.40
PROPERTY AND EQUIPMENT, AT COST:		
AUTOMOBILE	$1,967.89	
OFFICE IMPROVEMENTS	1,026.37	
ACCUMULATED DEPRECIATION	(1,572.91)	
NET PROPERTY AND EQUIPMENT		1,421.35
TOTAL ASSETS		$24,063.75

SEE ACCOMPANYING
ACCOUNTANTS'
COMPILATION REPORT

LIABILITIES AND NET WORTH

CURRENT LIABILITIES:		
NOTES PAYABLE - TB&T		$.00
ACCOUNTS PAYABLE		10,125.00
FICA TAX PAYABLE		(542.45
FEDERAL W/H TAX PAYABLE		516.55
STATE W/H TAX PAYABLE		193.60
TAXES PAYABLE		64.99
TOTAL CURRENT LIABILITIES		10,357.69
NET WORTH:		
RETAINED EARNINGS	($3,510.45)	
Y-T-D NET INCOME (LOSS-)	17,216.51	
TOTAL NET WORTH		13,706.0
TOTAL LIABILITIES & NET WORTH		$24,063.7

SEE ACCOMPANYING
ACCOUNTANTS'
COMPILATION REPORT

	CURRENT PERIOD	%	YEAR-TO-DATE	%
INCOME:				
DUES-ACTIVE MEMBERS	$26,331.05	77.3	$27,171.45	43.1
DUES-ASSOCIATE MEMBERS	2,781.25	8.2	3,156.25	5.0
DUES-INDIVIDUAL MEMBERS	125.00	.4	150.00	.2
INSURANCE PROCESSING	423.00	1.2	2,149.50	3.4
RESALE MERCHANDISE	708.16	2.1	2,866.40	4.5
ADVERTISING	1,537.32	4.5	4,614.98	7.3
OTHER INCOME	282.24	.8	454.73	.7
REIMB.-FALL CONFERENCE	1,802.06	5.3	19,724.51	31.3
REIMB.-SERVICE SCHOOLS	.00	.0	1,330.00	2.1
REIMB.-CARBURATION	60.00	.2	1,160.00	1.8
REIMB.-MGMT SCHOOL	.00	.0	50.00	.1
REIMB.-OTHER	.00	.0	230.00	.4
TOTAL INCOME	34,050.08	100.0	63,057.82	100.0
EXPENSES:				
MTG.EXP.-FALL CONFERENCE	8,616.11	25.3	12,682.28	20.1
MTG. EXP.-SERVICE SCHOOL	.00	.0	353.74	.6
MTG. EXP.-CARBURATION	.00	.0	1,030.62	1.6
MTG.EXP.-OTHER	.00	.0	970.89	1.5
[illegible] NEWS	1,210.56	3.6	2,485.20	3.9
TRAVEL	.00	.0	201.64	.3
TELEPHONE	.00	.0	1,148.16	1.8
RENT	235.00	.7	1,060.00	1.7
SALARIES	3,308.45	9.7	14,301.76	22.7
CONTRACT LABOR	445.50	1.3	552.75	.9
OTHER TAX EXPENSE	108.36	.3	241.34	.4
POSTAGE	38.60	.1	1,470.54	2.3
OFFICE SUPPLIES	182.27	.5	1,164.37	1.8
PROMOTIONAL & MKT. DEVLP	.00	.0	2,657.60	4.2
NATIONAL DUES	4,082.50	12.0	4,082.50	6.5
PROFESSIONAL FEES	.00	.0	180.00	.3
OTHER EXPENSE	4.00	.0	378.54	.6
GROUP INSURANCE	161.06	.5	879.38	1.4
TOTAL EXPENSE	18,392.41	54.0	45,841.31	72.7
NET INCOME (LOSS-)	$15,657.67 *	46.0	$17,216.51 *	27.3

SEE ACCOMPANYING
ACCOUNTANTS'
COMPILATION REPORT

Gentlemen:

We have reviewed the accompanying balance sheets of , as of March , 1982 and 1981, and the related statements of operations, members' equity and changes in financial position for the years then ended, in accordance with standards established by the American Institute of Certified Public Accountants. All information included in these statements is the representation of the management of

A review consists principally of inquiries of association personnel and analytical procedures applied to financial data. It is substantially less in scope than an examination in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

Respectfully submitted,

April , 1982

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BALANCE SHEETS
March 31, 1982/1981

ASSETS

	1982	1981
Current Assets - Note 3		
Cash	$ 544,112.83	$ 555,196.61
Demand Notes	400,000.00	500,000.00
Accounts Receivable - Trade	753,995.34	735,432.52
Allowance for Doubtful Accounts	(25,046.33)	(23,728.64)
Grain Storage Receivable	90,053.48	76,739.35
Other Receivables	71,735.34	76,941.00
Inventory - Note 1	868,971.72	818,490.28
Prepaid Expenses	17,093.59	15,290.58
Total Current Assets	$2,720,915.97	$2,754,361.70
Investments - Notes 1 and 5		
Corporate Stock	$ 643,472.25	$ 608,582.32
Cash Surrender Value - Insurance	25,200.65	14,827.60
Total Investments	$ 668,672.90	$ 623,409.92
Property, Plant and Equipment - Notes 1, 2 and 6		
Cost	$2,210,633.00	$2,095,751.95
Less - Accumulated Depreciation and Amortization	955,793.00	833,522.22
Net Property, Plant and Equipment	$1,254,840.00	$1,262,229.73
Deferred Charges - Note 1	$ 19,000.00	$ 23,750.00
Other Assets		
Accounts Receivable - Trade	$ 150,204.45	$ 68,928.02
Total Assets	$4,813,633.32	$4,732,679.37

See Accompanying Notes to Financial Statements and Accountants' Review Report

LIABILITIES AND MEMBERS' EQUITY

	1982	1981
Current Liabilities		
Accounts and Grains Payable	$ 40,747.67	$ 33,782.84
Taxes and Expenses Payable	49,067.42	75,597.75
Collections Received in Advance	37,055.87	25,948.44
Grain Storage Collected in Advance	23,362.45	10,318.[illegible]
Current Maturities of Notes Payable - Note 3	54,608.03	78,966.20
Industrial Revenue Bonds - Note 6	75,000.00	25,000.00
Current Maturities of Certificates of Indebtedness - Note 3	30,050.00	30,550.00
Patronage Dividends Payable	85,831.07	153,387.52
Income Taxes Payable - Notes 1 and 4	5,109.16	4,237.08
Total Current Liabilities	$ 400,831.67	$ 437,787.85
Long-Term Liabilities, Excluding Current Maturities - Note 3		
Industrial Revenue Bonds - Note 6	$ 500,000.00	$ 575,000.00
Other	16,115.03	15,347.50
Total Long-Term Liabilities	$ 516,115.03	$ 590,347.50
Members' Equity		
Common Stock - 3,000 Authorized Shares $50.00 Par Value; Issued and Outstanding 1982 - 859 Shares, 1981 - 861 Shares	$ 42,950.00	$ 43,050.0[illegible]
Preferred Stock - 50,000 Authorized Shares $1.00 Par Value; None Issued and Outstanding	-0-	-0-
Deferred Patronage Dividends	3,256,828.82	3,134,790.01
Members' Allocated Reserve	242,932.75	244,955.93
Retained Earnings	353,975.05	281,748.08
Total Members' Equity	$3,896,686.62	$3,704,544.02
Commitments and Contingencies - Notes 3, 4, 5 and 6		
Total Liabilities and Members' Equity	$4,813,633.32	$4,732,679.37

Exhibit "B"

STATEMENTS OF OPERATIONS
For Years Ended March 31, 1982/1981

	1982	1981
Grain Sales	$10,573,803.66	$ 7,889,196.9
Supply Sales	4,377,131.40	4,738,002.1
PROMARK Sales	72,397.66	72,464.1
Total Sales	$15,023,332.72	$12,699,663.2
Cost of Grain Sales	$10,354,063.06	$ 7,516,119.6
Cost of Supply Sales	3,897,751.41	4,224,122.7
Cost of PROMARK Sales	72,397.66	72,464.1
Total Cost of Sales	$14,324,212.13	$11,812,706.4
Gross Margins on Sales	$ 699,120.59	$ 886,956.7
Other Operating Income		
Storage and Handling	$ 158,418.87	$ 96,381.0
Drying	75,765.59	20,351.4
Grinding and Mixing	87,566.74	108,364.7
Cleaning and Treating	34,070.82	25,829.
Delivery	107,311.95	116,646.
Spreader Rental	20,251.34	24,437.
Service Income	9,382.49	8,560.
Interest	30,478.66	12,441.
Finance Charges on Accounts Receivable	87,791.93	58,340.
Other Income, Net	4,200.23	1,804.
Total Other Operating Income	$ 615,238.62	$ 473,157.
Gross Income from Local Operations	$ 1,314,359.21	$ 1,360,114.
Operating Expenses		
Personnel Costs	$ 496,310.48	$ 443,006.
Fixed Expenses	272,599.10	211,287.
Other Operating Expenses	209,144.77	245,079.
Total Operating Expenses	$ 978,054.35	$ 899,373.
Earnings from Local Operations	$ 336,304.86	$ 460,741
Other Earnings		
Patronage Dividends	58,119.07	220,085
Earnings before Income Taxes and Patronage Dividends	$ 394,423.93	$ 580,826
Income Taxes - Note 4	(10,900.04)	(4,237
[illegible]	$ 383,523.89	$ 676.58

.ATEMENTS OF OPERATIONS - CON'T.

Distribution of Net Earnings	1982	1981
Patronage Dividends	$ 343,324.27	$ 613,550.09
Retained Earnings	40,199.62	63,039.35
Total	$ 383,523.89	$ 676,589.44

See Accompanying Notes to Financial Statements
and Accountants' Review Report

STATEMENTS OF CHANGES IN FINANCIAL POSITION
For Years Ended March 31, 1982/1981

Exhibit "C"

	1982	1981
Funds Provided		
Net Earnings before Patronage Dividends	$ 383,523.89	$ 676,589.44
Less Patronage Dividends Payable in Cash	85,831.07	153,387.52
	$ 297,692.82	$ 523,201.92
Items Included in Net Earnings not Affecting Working Capital		
Depreciation and Amortization	122,271.00	102,345.15
Patronage Dividends Received as Investments	(35,053.76)	(128,265.14)
Working Capital Provided by Operations	$ 384,910.06	$ 497,281.93
Investments in Other Cooperatives Redeemed	163.83	1.51
Depreciated Value of Property, Plant and Equipment Sold or Retired	-0-	170.40
Advances on Long-Term Bonds	-0-	575,000.00
Amortize Bond Issue Costs	4,750.00	-0-
Proceeds from Sale of Members' Equity	-0-	50.00
Underallocation of Prior Year's Cash Patronage	8,013.43	912.16
Other	767.53	730.00
Other Assets Charged Off	-0-	46,076.50
Total Funds Provided	$ 398,604.85	$1,120,222.50
Funds Applied		
Investment in Cash Surrender Value - Insurance	$ 10,373.05	$ 732.64
Purchase of Property, Plant and Equipment	114,881.27	626,798.93
Redemption of Members' Equity	8,937.83	4,757.40
Equities Applied to Accounts Receivable	-0-	9,371.01
Paid Deferred Patronage	104,625.82	109,441.09
Bond Issue Cost Capitalized	-0-	23,750.00
Current Maturities of Bonds	75,000.00	-0-
Current Maturities of Other Assets	81,276.43	21,409.59
Total Funds Applied	$ 395,094.40	$ 796,260.66
Increase in Working Capital	$ 3,510.45	$ 323,961.84
Working Capital Beginning of Year	2,316,573.85	1,992,612.01
Working Capital End of Year	$2,320,084.30	$2,316,573.85

... OF CHANGES IN FINANCIAL POSITION - CON'T.

Exhibit "C" Con't.

... (Decrease) in Components of Working Capital	1982	1981
Cash	$ (11,083.78)	$ 152,218.88
... and Nots	(100,000.00)	100,000.00
Receivables	25,353.60	95,254.25
Inventory	50,481.44	(37,501.49)
Prepaid Expenses	1,803.01	3,970.72
Accounts, Grain, Taxes and Expenses Payable	18,693.42	12,135.42
Collections in Advance	(24,151.86)	(719.90)
Current Maturities of Notes Payable and Other Long-Term Obligations	(25,141.83)	38,130.42
Patronage Dividends Payable	67,556.45	(39,526.46)
Total	$ 3,510.45	$ 323,961.84

See Accompanying Notes to Financial Statements and Accountants' Review Report

Exhibit "D"

STATEMENTS OF MEMBERS' EQUITY
For Years Ended March 31, 1982/1981

	Common Stock	Preferred Stock	Deferred Patronage Dividends	Members' Allocated Reserve	Retained Earnings	Total
Balance - March 31, 1980	$43,100.00	$ -0-	$2,798,307.11	$246,766.19	$215,776.14	$3,304,685.58
Distribution of Current Year's Net Earnings			613,550.09		63,039.35	676,589.44
Cash Portion of Patronage Dividends			(153,387.52)			(153,387.52)
Adjust 1980 Patronage Dividends			(2,020.43)		2,932.59	912.16
Equity Redemptions	(450.00)		(3,737.68)	(569.72)		(4,757.40)
1968 Deferred Patronage Retired			(108,283.38)	(1,157.71)		(109,441.09)
Equities Applied to Accounts Receivable			(9,288.18)	(82.83)		(9,371.01)
Equity Transfers	400.00		(350.00)			50.00
Balance - March 31, 1981	$43,050.00	$ -0-	$3,134,790.01	$244,955.93	$281,748.08	$3,704,544.02
Distribution of Current Year's Net Earnings			343,324.27		40,199.62	383,523.8[illegible]
Cash Portion of Patronage Dividends			(85,831.07)			(85,831.0[illegible]
Adjust 1981 Patronage Dividends			(24,013.92)		32,027.35	8,013.43
Equity Redemptions	(600.00)		(6,314.65)	(2,023.18)		(8,937.83)
1969 Deferred Patronage Retired			(104,625.82)			(104,625.82)
Equity Transfers	500.00		(500.00)			-0-
Balance - March 31, 1982	$42,950.00	$ -0-	$3,256,828.82	$242,932.75	$353,975.05	$3,896,686.62

See Accompanying Notes to Financial Statements and Accountants' Review Report

NOTES TO FINANCIAL STATEMENTS
March 31, 1982/1981

1. Summary of Significant Accounting Policies

Organization

The association is organized and operated on a cooperative basis as a marketing association and supply source for members. The common stock may be held only by producers of agriculture products or an organization of such persons.

Inventories

Inventories are valued at the lower of cost (first-in, first-out) or market. A summary of inventories is as follows:

	1982	1981
Grain	$417,965.95	$327,096.48
Supply	285,561.42	274,842.72
Fertilizer	107,903.72	176,109.11
Petroleum Products	57,540.63	40,441.97
Total	$868,971.72	$818,490.28

Grain Marketing Agreements

Under "PROMARK" marketing agreements, certain members have appointed FAR-MAR-CO., INC. to market their wheat. From proceeds received from PROMARK, the association makes progress payments to pool participants based on "pooled" wheat delivered under the agreement. Upon completing the fifteen-month marketing period, any proceeds remaining, after deduction of progress payments, expenses and per-unit retains, are paid to the pool participants and the "pool" is completed. The liability to pool participants, which represents the excess of gross sales proceeds received over the progress payments disbursed, has been reflected under the caption "Accounts and Grains Payable."

Investments

Investments in other cooperatives are valued at cost, if purchased, and at the face amount of the allocation, if received as patronage dividends.

Bond Amortization

Prepaid bond issue costs are deferred and charged against income on a straight-line basis over the life of the bond issue. The costs amortized for the years ended March 31, 1982 and 1981, amounted to $4,750.00, respectively.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Maintenance and repairs are charged to expense as incurred; major renewals and betterments are capitalized. When items of plant or equipment are sold or retired, the related cost and accumulated depreciation is removed from the accounts and any gain or loss is included in the results of operations.

FINANCIAL STATEMENTS - CON'T.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the respective assets. The association uses other depreciation methods for tax purposes where appropriate.

Employee Retirement Plan
The association's policy is to fund retirement costs currently which include provisions for funding prior service costs over a period of not more than forty years.

Income Taxes
The association operates as a cooperative not exempt from federal income taxes and, therefore, is subject to such taxes with respect to all earnings not paid or allocated to patrons. Investment tax credits, which amount to $18,193.39 for 1982 and $14,310.32 for 1981, are considered a reduction of federal income tax expense in the year the assets giving rise to the credits are placed in service. Unused investment tax credits available for pass-through to the members amounted to $2,082.88 for 1982 and $47,054.17 for 1981.

2. Property, Plant and Equipment
A summary of property, plant and equipment and depreciation expense is as follows:

	1982	1981
Land	$ 8,944.00	$ 8,944.00
Elevators, Feed Mill and Equipment	1,803,148.00	1,688,267.04
Office, Store Buildings and Equipment	16,426.00	16,426.01
Fertilizer Plant and Equipment	304,594.00	304,593.72
Petroleum Plant and Equipment	77,521.00	77,521.18
	$2,210,633.00	$2,095,751.95
Accumulated Depreciation and Amortization	955,793.00	833,522.22
	$1,254,840.00	$1,262,229.73
Depreciation Expense		
Depreciation	$ 101,094.00	$ 93,521.57
Amortization of Capital Leases	21,177.00	8,823.58
	$ 122,271.00	$ 102,345.15

3. Notes Payable and Other Long-Term Obligations

	1982	1981
Industrial Revenue Bonds (a)		
9% City of , Kansas. Interest Payable Semiannually with Annual Principal Payments Ranging from $25,000.00 in 1981 to $150,000.00 in 1985	$575,000.00	$600,000.00

[NOTES TO] FINANCIAL STATEMENTS - CON'T.

Notes Payable and Other Long-Term Obligations - Con't.

	1982	1981
Cooperative Finance Association (b)		
Fertilizer Loan Due in 1982	$ 54,608.03	$ 65,603.06
Chemical Loan Due in 1981	-0-	13,363.14
Total Cooperative Finance Association	$ 54,608.03	$ 78,966.20
Certificates of Indebtedness (c) 7%	$ 30,050.00	$ 30,550.00
Other (d)	$ 16,115.03	$ 15,347.50
	$675,773.06	$724,863.70
Less - Current Maturities	159,658.03	134,516.20
	$516,115.03	$590,347.50

(a) Present value of minimum lease payments; refer to footnote 6.

(b) Fertilizer and chemical inventories are pledged as security; interest is paid monthly.

(c) Subordinated to industrial revenue bonds.

(d) Present value of deferred compensation to key employees; refer to footnote 5.

Interest costs for the years ended March 31, 1982 and 1981, aggregated $70,322.61 and $40,770.81, respectively. The association capitalized interest on borrowed funds during construction periods of plant and equipment. Interest capitalized for the year ended March 31, 1981 was $5,689.79.

Notes payable and other long-term obligations mature during the fiscal years ended March 31 in the following amounts:

	Notes Payable	Other Long-Term Obligations	Total
1983	$ 75,000.00	$ 84,658.03	$159,658.03
1984	100,000.00	-0-	100,000.00
1985	100,000.00	-0-	100,000.00
1986	150,000.00	-0-	150,000.00
1987	150,000.00	-0-	150,000.00
1988 and After	-0-	16,115.03	16,115.03
Total	$575,000.00	$100,773.06	$675,773.06

... FINANCIAL STATEMENTS - CON'T.

Income Taxes
Total income tax expense for the years ended March 31, 1982 and 1981, was less than the amount computed by applying the Federal and State income tax rates to income before patronage dividends for the following reasons:

	1982		1981	
	Amount	% of Pretax Income	Amount	% of Pretax Income
Computed "Expected" Tax Expense on Earnings before Patronage Dividends	$176,134.72	44.66	$318,442.58	46.77
Increase (Reduction) in Tax Expense Attributable to: Patronage Dividends	(164,474.28)	(41.70)	(301,795.79)	(44.33)
Other, Net	(760.40)	(.19)	(12,409.71)	(1.82)
Total Tax Expense	$ 10,900.04	2.77	$ 4,237.08	.62

5. Employee Retirement Plan
The association participates in a retirement plan administered by Farmland Industries, Inc. The plan, which covers substantially all of the association employees, is funded by employee and employer contributions and may be terminated at the option of the association. The association's retirement expense for the years ended March 31, 1982 and 1981 was $19,489.24 and $21,225.86, respectively, which includes amortization of accrued liabilities over a period of 30 years. The association's policy is to fund pension costs accrued. At March 31, 1981 (the latest valuation date of the plan), the market value of the plan's assets exceeded the vested benefits under the plan. Since this is a multiemployer plan and the administrator does not report by individual employers, the amount that the net assets exceed vested benefits, the actuarial present value of vested and nonvested benefits and the plan's net assets are not available for this association.

The association adopted a deferred compensation plan providing retirement benefits for a key employee consisting of a single payment of $25,000.00 upon his retirement or death. The association currently is accruing this liability on a present value basis. The deferred compensation expense for the years ended March 31, 1982 and 1981 was $767.53 and $730.00, respectively, which is the present value of vested benefit increases.

This commitment has been informally funded with life insurance contracts on the individual concerned. The contracts have a face value greater than the aggregate payments due upon retirement or death and increased in cash value $10,373.05 and $732.64 in 1982 and 1981, respectively.

6. Capital Leases
The association leases a concrete annex and equipment which may be purchased for a nominal amount at the expiration of the leases. The association is required to provide insurance coverage on these items as specified by the lessor. Under the criteria established by FASB 13, these assets have been capitalized in the association's financial statements.

[illegible]NTS - CON'T.

[illegible] plant and equipment includes the following amounts reflecting the [illegible]ation of these assets:

	1982	1981
[illegible]ete Elevator	$461,977.00	$461,977.40
Concrete Elevator Machinery	119,370.00	119,370.37
	$581,347.00	$581,347.77
Less - Allowance for Amortization	30,001.00	8,823.58
	$551,346.00	$572,524.19

Lease amortization is included in depreciation expense.

The following is a schedule by years of the future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of March 31, 1982.

Year Ending	Amount
1983	$100,875.00
1984	145,000.00
1985	136,000.00
1986	177,000.00
1987	156,750.00
Net Minimum Lease Payments	$715,625.00
Less - Amount Representing Interest	140,625.00
Present Value of Net Minimum Lease Payments	$575,000.00

Kansas Livestock Association

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Owns and Publishes The Kansas STOCKMAN magazine and KLA News & Market Report newsletter.

Statement of the

KANSAS LIVESTOCK ASSOCIATION

to the

Senate Agriculture & Small Business Committee

Fred Kerr, Chairman

with reference to

Senate Bills 1 - 6

regulation of public grain warehousemen

Presented by

Dee Likes
Executive Secretary, Feedlot Division

January 25, 1983

Mr. Chairman and members of the committee, the Kansas Livestock Association appreciates the opportunity to present our views on the regulation of public grain warehousemen.

We realize this has grown into an emotional issue among farmers and legislators alike. We believe it would be wise for all of us to keep this situation in proper perspective.

There are some who believe that extreme measures are called for. Indemnity funds to repay farmers for losses, greatly increased bonding, insurance and auditing requirements have all been proposed.

While we sympathize with the unfortunate losses which have been experienced by farmers and ranchers as a result of grain elevator failures and shortages, we cannot support the types of remedies I've just mentioned. During several policy meetings, KLA members have rejected such ideas because they impose inequitable increases in the cost of doing business for a large number of producers in order to repay the losses of a few.

Basically, the sense of the dialogue among our members relative to these aforementioned proposals goes something like this:

Indemnity Fund - Indemnity funds, in essence, would force each purchaser and each seller of grain to pay a tax, with a mill levy as determined by the legislature, into a "slush fund" which could then be used to repay producers for losses of stored grain if a public grain warehouse should fail. This is nothing more than assessing a prior cost or expense against grain producers in order to pay for problems which are anticipated to occur in the future. Our members believe this is an extremely inequitable approach because it forces some producers to pay for the loss of others! This committee, the House Agriculture Committee and the Interim Committee have repeatedly heard testimony from conferee after conferee that emphasizes the unfairness of the losses experienced by those who store grain in public elevators. Ironically, the indemnity fund idea which is designed to protect those who store grain seeks to do so by levying a tax on those who participate in cash transactions and sell grain. We submit that cash transactions are not the problem and that an indemnity fund is not the solution. In fact, some have suggested that the very existence of such a fund might take elevator operators and the Kansas Grain Inspection Department "off the hook" because it would have no fear that producers would lose money in case of a public grain warehouse failure.

Bonding and Insurance - Substantially increased bonding and insurance requirements have two things in common: 1) As a practical matter, grain elevators are usually only able to afford bonding and insurance coverages which cover only a portion of their total dollar volume; and 2) Substantial increases in bonding or insurance coverages tend to have the same effect as the indemnity fund because all producers will pay for these increased coverages through higher handling and storage costs.

Audits - While careful, periodic auditing has some merit in determining the financial status of public grain warehouses, the benefits and the shortcomings of such audits should be recognized. While a careful and detailed audit can give the Kansas Grain Inspection Department a good method of analyzing an elevator's financial stability, an audit is simply a "picture" of that elevator's financial status at that point in time. As evidenced by the fact that one of the recent elevators which failed in Kansas was audited just several weeks prior to failure, the financial position of a grain elevator can change dramatically in an extremely short period of time due to commodity price changes and basis fluctuations.

KLA's policy resolution states that the Association will oppose an indemnity fund; the regulation and taxation of cash grain transactions; unreasonably expensive additional insurance, bonding and auditing requirements of public grain warehousemen.

The members of our association fully recognize that even though there have been only eleven elevator failures in Kansas during the last fifteen years and that Kansas compares favorably when you consider that there have been 279 bankruptcies in 41 states during the past ten years, these elevator failures are a problem, they do cause inequitable losses and, if possible, the Kansas legislature should take some action in order to correct this situation. We must keep in mind that as we seek to lessen the likelihood of producer losses of grain stored in a public grain warehouse that it is not feasible to legislate away the inherent risk that goes along with doing business. KLA closely monitored the activities of the special interim committee which studied this topic and we agree with the general provisions of SB 1-6 which were the product of that interim study.

SB 1 - stiffens the criteria for obtaining a public grain warehouse license by: requiring more detailed audits of elevators; stipulates that no license shall be issued to persons or companies who have been convicted of embezzlement, unauthorized delivery of stored grain, any felony or any violation of state or federal grain warehouse laws within ten years.

SB 2 - requires public grain storage facilities to annually notify each depositor of open storage or grain bank grain of the type and quantity of grain stored and the year the storage began.

SB 3 - clarifies existing laws giving the director of the State Grain Inspection Department authority to take charge of grain elevators within 48 hours after the department determines the elevator is insolvent. Authorizes the courts to appoint the director as temporary receiver until a permanent receiver can be appointed and further provides that a receiver shall have six months from the date of appointment to settle the receivership. The receivership may be extended for an additional six months.

SB 4 - increases criminal penalties for public grain warehousemen convicted of fraud, theft or embezzlement. Establishes that forgery or other false records, warehouse receipt fraud or unauthorized delivery of stored grain is a class D felony with a maximum fine of $10,000. Stipulates that grain embezzlement is a felony punishable by imprisonment for not less than 3 or more than 50 years.

SB 5 - establishes the Attorney General as the primary prosecutor for crimes committed by public grain warehousemen and requires that county or district attorneys assist the Attorney General in the prosecution.

SB 6 - provides that the director of the State Grain Inspection Department shall serve at the pleasure of the governor instead of the current two year term of service.

I might add that we believe SB 4 could be the most effective proposal of any yet discussed because it seeks to deter a public grain warehouseman from committing fraud, theft or embezzlement by establishing stringent criminal penalties for such actions. One other suggestion to the committee is to give consideration to making a specific provision within SB 4 which would also make such jail sentences "non-suspendable". There have been several instances where conferees have stated that it appeared that grain shortages were the result of elevator operators shipping such grain in order to deliver against a futures contract. I'll submit that if the criminal penalties for such theft were tough enough these individuals might have preferred instead to default on the futures contract rather than ship grain they didn't own. If elevator operators knew they would be guaranteed a non-suspendable jail sentence instead of a few months in a halfway house and a parole they would think twice before shipping someone else's grain.

In conclusion, we commend the interim committee for its detailed study and careful consideration of this issue. We believe the package of bills which are the product of that study are logical, equitable and will do a great deal in order to deter and alleviate the problem of public grain warehouse failures.