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UNITED STATES  
GENERAL ACCOUNTING OFFICE

# REPORT TO THE CONGRESS

JAN 22 1976



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## Audit Of Federal Crop Insurance Corporation Fiscal Year 1975

Department of Agriculture

FOD-76-8

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COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON, D.C. 20548

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To the President of the Senate and the  
Speaker of the House of Representatives

This report is on our audit of the Federal Crop  
Insurance Corporation, Department of Agriculture, for the  
fiscal year ended June 30, 1975.

We made our audit pursuant to the Government Corporation  
Control Act (31 U.S.C. 841) and the Federal Crop Insurance  
Act (7 U.S.C. 1513).

We are sending copies of this report to the Director,  
Office of Management and Budget; the Secretary of Agricul-  
ture; and the Chairman of the Board of Directors, Federal  
Crop Insurance Corporation.

A handwritten signature in cursive script, reading "James B. Stewart".

Comptroller General  
of the United States

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ABBREVIATIONS

FCIC	Federal Crop Insurance Corporation
GAO	General Accounting Office

D I G E S T

OPINION ON THE FINANCIAL STATEMENTS

In GAO's opinion, the comparative financial statements present fairly the financial position of the Federal Crop Insurance Corporation at June 30, 1975 and 1974, and the results of its operations and the changes in its financial position for the years then ended, in conformity with principles and standards of accounting prescribed by the Comptroller General of the United States.

RESULTS OF OPERATIONS

The Corporation reported a net operating loss of \$30.6 million in fiscal year 1975--a net loss from insurance program operations of \$12.8 million and operating and administrative expenses of \$17.8 million.

At June 30, 1975, the Corporation reported a \$15.9 million capital impairment compared to a \$2.7 million capital surplus at the end of fiscal year 1974. The change in capital position resulted from a \$12.8 million net loss from insurance program operations and \$5.7 million paid from premium income for operating and administrative expenses.

For the second time in the Corporation's history, coverage of insured crops exceeded \$1 billion.

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## CHAPTER 1

### INTRODUCTION

1 The Federal Crop Insurance Corporation (FCIC), a wholly owned Government corporation, was created in 1938 to promote the national welfare by providing crop insurance to improve the economic stability of agriculture. FCIC also provides the research and experience needed to develop this insurance. FCIC insures crops against practically all causes of loss, including weather, insect infestation, and plant disease. 515

The Federal Crop Insurance Act (7 U.S.C. 1501) authorizes FCIC to set premiums at rates sufficient to cover claims for crop losses and to establish a reserve for unforeseen losses but not to pay operating and administrative expenses and the direct cost of loss adjustment--primarily crop inspections and loss determinations. Section 516(a) of the act limits the annual appropriation for FCIC's operating and administrative expenses to \$12 million and authorizes FCIC to pay the direct cost of loss adjustment and part of its operating and administrative expenses from premium income. In fiscal year 1975 FCIC was appropriated \$12 million and was authorized to spend up to \$6,117,000 (see p. 13, note 2) from premium income for these expenses.

2 FCIC is managed by a Board of Directors appointed and supervised by the Secretary of Agriculture. The Board consists of the manager of FCIC, two persons employed in the Department of Agriculture, and two persons experienced in the insurance business who are not otherwise employed by the Government. The principal FCIC officials during fiscal year 1975 are listed in the appendix. 12

## CHAPTER 2

### OPERATIONS

#### INSURANCE ACTIVITY FOR FISCAL YEAR 1975

FCIC's activities in fiscal year 1975 produced a net operating loss of \$30.6 million. The net loss from insurance program operations was \$12.8 million, and operating and administrative expenses were \$17.8 million.

FCIC's insurance program coverage for crop year 1974 totaled \$1,154 million and 23 agricultural commodities. Crop year 1974 marked the second time in FCIC's history that insurance coverage exceeded one billion dollars.

Crop year 1974 premiums on insured crops amounted to \$53.9 million while indemnities were \$63.2 million, resulting in a loss ratio of 1.17, the fifth highest ratio in the 27 years since reorganization. The \$9.2 million excess of indemnities over premiums was the second highest since reorganization. Of the 23 insured commodities, 12 showed unfavorable (greater than 1.00) loss ratios.

FCIC's major losses were \$13.5 million in the corn and \$3.8 million in the cotton insurance programs. The tobacco, peanut, and citrus programs helped offset these losses with excess premiums over indemnities of \$5.3 million, \$1.7 million, and \$1.6 million, respectively.

FCIC is authorized by section 508(a) of the Federal Crop Insurance Act to expand its insurance operations to cover not more than (1) three additional agricultural commodities and (2) 150 additional counties each year. In crop year 1974, as in 1973, FCIC insured 23 commodities. Ten more counties were covered in 1974 than in 1973, increasing the total to 1,442 counties.

#### CAPITAL IMPAIRMENT

At June 30, 1975, FCIC had impaired capital of \$15.9 million compared to capital surplus of \$2.7 million in 1974 and impaired capital of \$9.6 million in 1973, \$21.6 million in 1972, and \$36.2 million in 1971. Except for 1974, FCIC has been in a deficit position each year since fiscal year 1966.

Surplus at June 30, 1974	\$ 2,686,591
Losses during 1975	<u>-18,577,579</u>
Deficit at June 30, 1975	<u>\$-15,890,988</u>

This amount consists of \$15,222,481 deficit from insurance operations and a \$668,507 administrative fund deficit. The administrative fund deficit resulted from non-cash items charged to operating and administrative expenses.

The capital impairment combined with the \$60 million outstanding capital stock comprised the \$44,109,012 net captial balance at June 30, 1975. This balance reflects a decrease of \$18,577,579 from the beginning balance of \$62,686,591. The table below shows the composition of the fiscal year 1975 decrease.

Net loss from insurance program operations	\$12,795,612
Increase in administrative fund deficit	43,763
Premiums used to pay operating and administrative expenses (including prior years' expense adjustment)	<u>5,738,204</u>
Total	<u>\$18,577,579</u>

INSURANCE EXPERIENCE

As shown in schedule 4, FCIC's crop insurance programs from 1948 through 1974 resulted in an excess of premiums over indemnities of about \$61.3 million. Insurance gains totaled \$122.9 million for 16 crops, and insurance losses were \$61.5 million for 11 crops. FCIC has stopped insuring 1 of the 16 crops with gains and 3 of the 11 crops with losses.

The wheat and tobacco programs have produced insurance gains of \$47.2 million and \$38 million, respectively. In 27 years of operation, the wheat program has shown gains during 17 crop years and the tobacco program has experienced 25 favorable years.

Most of the insurance losses have been in the cotton and citrus programs--\$34.1 and \$15.1 million, respectively. The crop year 1974 cotton program had a loss ratio of 2.25, for its seventh loss in the last 9 years. During that period, cotton losses have totaled \$37.8 million. Cotton's overall loss ratio from 1948 through 1974 is 1.47. For crop year 1974, citrus recorded a .39 loss ratio, its second consecutive favorable year and its best loss ratio since 1966. In view of these recent successful years, the overall loss ratio for the citrus program stands at 1.52.

Neither the loss ratios nor the amounts of difference between premiums and indemnities necessarily reflect the actual or comparative profitabilities of individual commodity insurance programs. Operating and administrative expenses, as well as the direct cost of loss adjusters, are not matched against the individual insurance programs. Therefore, from a standpoint of total cost, the commodities with favorable loss ratios may not be as profitable as they first appear. Likewise the losing programs would show up even more unprofitably when all costs were applied. FCIC is not required by law to distribute the overhead costs or direct costs of loss adjusters to the individual commodity insurance programs.

#### OPERATING AND ADMINISTRATIVE EXPENSES

FCIC's comparative statement of income and expense for fiscal years 1975 and 1974 (schedule 2) shows that operating and administrative expenses for fiscal year 1975 were \$17,731,630 compared with \$16,588,105 for fiscal year 1974, an increase of \$1,143,525. The fiscal year 1975 expenses include a general salary increase and rental charges for space provided by the General Services Administration, for which FCIC had not been charged in previous years.

FCIC's statement of income and expense classifies expenses by items, such as personnel, travel, and agents' commissions. For management purposes, FCIC prepares annual cost statements showing operating and administrative expenses by function. The following table was extracted from fiscal years 1975 and 1974 functional cost statements.

	Fiscal year <u>1975</u>	Fiscal year <u>1974</u>
Underwriting, actuarial, and program development:		
Underwriting operations	\$ 1,346,851	\$ 1,013,747
Actuarial management	577,756	617,680
Program development	208,523	256,929
Program management	<u>125,277</u>	<u>138,174</u>
	b/ <u>2,258,408</u>	<u>2,026,530</u>
Marketing and collections:		
Sales promotion	774,722	825,650
Selling	4,225,552	4,269,685
Collections	1,608,783	1,549,084
Agents' agreements (note a)	1,469,383	1,269,379
Marketing management	253,464	260,411
Sales training meetings	251,439	303,128
Recruitment of sales per- sonnel	64,737	111,855
Field sales training	<u>205,707</u>	<u>262,781</u>
	<u>8,853,787</u>	b/ <u>8,851,974</u>
Contract servicing and claims:		
Applications	1,215,143	1,188,433
Acreage reports	2,083,061	2,099,982
Inspections	2,632,058	1,845,849
Meetings	168,034	150,457
Contract service management	430,559	377,518
Recruitment of loss adjusters	37,705	24,432
Field training	<u>52,874</u>	<u>22,930</u>
	b/ <u>6,619,435</u>	<u>5,709,601</u>
Total operating and administrative expenses	\$b/ <u><u>17,731,630</u></u>	<u><u>\$16,588,105</u></u>

a/Differs from "agents' commissions" as shown on FCIC's income and expense statement (schedule 2) because "agents' agreements" includes salaries and adjustments which are included in personnel costs and prior year adjustments on schedule 2.

b/Differs slightly from footed total due to rounding.

Although FCIC is not allowed to set premium rates to cover expenses, nearly \$44 million has been expended from

premium income for operating and administrative expenses and an additional \$30 million expended for the direct cost of loss adjusters. Therefore, FCIC is in an impaired capital position in spite of the fact that premiums have exceeded indemnities by \$61 million.

Annual appropriations for operating and administrative expenses are limited by law to \$12,000,000. To meet costs in excess of this amount, Congress has authorized FCIC to expend limited amounts of premium income, as provided for in annual appropriation acts. Since 1963, the amounts expended have averaged over \$3.1 million, reaching a high of \$6 million in 1975.

There is no statutory limit on the amount of direct cost of loss adjustment which may be paid out of premium income. Since 1963 the average has been \$1.9 million, with a high of \$3.2 million in 1975.

The Federal Crop Insurance Act provides that premiums be fixed at such rates sufficient to cover claims for crop losses and to establish as expeditiously as possible a reasonable reserve for unforeseen losses. This reserve clearly does not exist. The excess of premiums over indemnities, which was the intended source of the reserve, has been drawn off to pay expenses.

Therefore, FCIC has had to pay \$74 million in expenses out of premium income although they have not been allowed to recover these costs by setting premium rates adequate to pay indemnities, establish a reserve for unforeseen losses, and recover costs not otherwise provided for.

CHAPTER 3

SCOPE OF AUDIT AND

OPINION ON FINANCIAL STATEMENTS

Our audit was made in accordance with generally accepted auditing standards. The audit included such tests of FCIC's accounting records and financial transactions and such other auditing procedures as we determined necessary, considering the effectiveness of the internal control system, including audit work done by the Office of Audit, Department of Agriculture.

In our opinion, the accompanying comparative financial statements (schedules 1 through 3) present fairly the financial position of FCIC at June 30, 1975 and 1974, and the results of its operations and the changes in its financial position for the years then ended, in conformity with principles and standards of accounting prescribed by the Comptroller General of the United States.

Federal Crop Insurance Corporation  
 COMPARATIVE STATEMENT OF FINANCIAL CONDITION  
 June 30, 1975 and 1974

	Year Ended June 30		Increase or
	1975	1974	Decrease (-)
<u>ASSETS</u>			
<u>Cash:</u>			
Insurance program funds . . . . .	\$ 44,031,081	\$62,362,411	\$-18,331,330
Funds appropriated for operating and administrative expenses . . . . .	<u>2,473,575</u>	<u>2,412,825</u>	<u>60,750</u>
Total . . . . .	<u>46,504,656</u>	<u>64,775,236</u>	<u>-18,270,580</u>
<u>Accounts Receivable</u> . . . . .	33,464,564	23,025,528	10,439,036
Less estimated bad debts . . . . .	<u>1,359,036</u>	<u>1,269,753</u>	<u>89,283*</u>
Total . . . . .	<u>32,105,528</u>	<u>21,755,775</u>	<u>10,349,753</u>
<u>Furniture and Equipment:</u>			
Cost or transferred value . . . . .	599,156	583,913	15,243
Less accumulated depreciation . . . . .	<u>384,717</u>	<u>360,876</u>	<u>23,841*</u>
Total . . . . .	<u>214,439</u>	<u>223,037</u>	<u>-8,598</u>
Total Assets . . . . .	<u>\$ 78,824,623</u>	<u>\$86,754,048</u>	<u>\$ -7,929,425</u>
<u>LIABILITIES AND INVESTMENT</u>			
<u>Accounts Payable and Other Liabilities:</u>			
Agents' commissions payable . . . . .	\$ 1,158,135	\$ 870,065	\$ 288,070
Employees' accrued annual leave (note 6) . . . . .	915,221	898,669	16,552
Estimated indemnities payable . . . . .	1,077,230	677,082	400,148
Accrued payroll and other liabilities . . . . .	<u>1,867,203</u>	<u>1,981,905</u>	<u>-114,702</u>
Total . . . . .	<u>5,017,789</u>	<u>4,427,721</u>	<u>590,068</u>
<u>Deferred Premiums and Costs:</u>			
1975 crop year premiums, less approved indemnity claims, and bad debt expense (note 1) . . . . .	<u>29,622,822</u>	<u>19,564,736</u>	<u>10,058,086</u>
Total Liabilities . . . . .	<u>34,640,611</u>	<u>23,992,457</u>	<u>10,648,154</u>
Provision for Surety Losses (note 5) . . . . .	<u>75,000</u>	<u>75,000</u>	<u>--</u>
<u>Investment of U.S. Government (note 4):</u>			
Capital stock (authorized \$100,000,000) issued and outstanding . . . . .	60,000,000	60,000,000	--
Insurance program reserve or deficit (-) . . . . .	<u>-15,222,481</u>	<u>3,311,335</u>	<u>-18,533,816*</u>
Administrative fund deficit (Schedule 5) . . . . .	<u>68,507</u>	<u>-624,744</u>	<u>-43,763*</u>
Total Investment of U.S. Government . . . . .	<u>44,109,012</u>	<u>62,686,591</u>	<u>-18,577,579*</u>
Total Liabilities and Investment . . . . .	<u>\$ 78,824,623</u>	<u>\$86,754,048</u>	<u>\$ -7,929,425</u>

\* Deduction

The notes to financial statements are an integral part of this statement.

SCHEDULE 2

SCHEDULE 2

Federal Crop Insurance Corporation  
 COMPARATIVE STATEMENT OF INCOME AND EXPENSE  
 Fiscal Years 1975 and 1974

	Fiscal Year 1975	Fiscal Year 1974	Increase or Decrease (-)
<u>Insurance Operations:</u>			
Premiums . . . . .	\$ 53,935,846	\$ 47,544,546	\$ 6,391,300
Indemnities . . . . .	-63,185,344	-28,443,473	34,741,871*
Excess of premiums or indemnities (-) . . . . .	-9,249,498	19,101,073	-28,350,571
Cost of loss adjustment . . . . .	-3,190,581	-1,781,689	1,408,892*
Provision for losses on accounts receivable . . . . .	-276,727	-228,268	48,459*
Other income or expense (-) . . . . .	-78,806	-274,703	-195,897
Net income or loss (-) from direct insurance operations . . . . .	-12,795,612	16,816,413	-29,612,025
Reinsurance commissions and claims . . . . .	--	-255	255
Net income or loss (-) from reinsurance . . . . .	--	-255	255
Net income or loss (-) from insurance operations . . . . .	-12,795,612	16,816,158	-29,611,770
<u>Operating and Administrative Expenses:</u>			
Personnel compensation . . . . .	10,615,636	10,254,730	360,906
Personnel benefits . . . . .	1,084,388	1,027,485	56,903
Travel and transportation of persons . . . . .	1,674,229	1,631,854	42,375
Transportation of things . . . . .	117,401	94,139	23,262
Rent, communications and utilities (note 3) . . . . .	1,432,154	875,480	556,674
Printing and reproduction . . . . .	131,239	128,163	3,076
Other contractual services . . . . .	1,330,651	1,183,483	147,168
Agents' commissions . . . . .	1,488,756	1,158,989	329,767
Supplies and materials . . . . .	65,646	56,636	9,010
Expendable equipment . . . . .	42,701	30,588	12,113
Administrative claims . . . . .	1,791	--	1,791
Depreciation expense . . . . .	31,252	29,607	1,645
Net loss on sale and transfer of equipment . . . . .	-99	4,405	-4,504
Accrued annual leave . . . . .	16,552	61,674	-45,122
Prior year adjustments - other accrued operating and administrative expenses . . . . .	-300,667	50,872	-351,539
Total operating and administrative expenses (note 3) . . . . .	17,731,630	16,588,105	1,143,525
Leave earnings charged to ASCS . . . . .	-10,951	-12,116	1,165
Lapsed appropriation adjustments . . . . .	64,074	1,904	62,170
Reimbursements from others . . . . .	-2,786	-10,758	7,972
Adjusted total operating and administrative expenses a/ . . . . .	17,781,967	16,567,135	1,214,832
Net income or loss (-) from operations . . . . .	\$-30,577,579	\$ 249,023	\$-30,826,602

a/\$5,985,261 paid from premium income in 1975 and \$4,302,384 paid from premium income in 1974, an increase of \$1,682,877 (note 2).

\*Deduction

The notes to financial statements are an integral part of this statement.

Federal Crop Insurance Corporation  
 COMPARATIVE STATEMENT OF CHANGES IN FINANCIAL POSITION  
 Fiscal Years 1975 and 1974

	Fiscal Year <u>1975</u>	Fiscal Year <u>1974</u>	Increase or <u>Decrease (-)</u>
<u>Funds provided:</u>			
Premium income . . . . .	\$53,935,846	\$47,544,546	\$ 6,391,300
Decrease in working capital . . . . .	18,520,078	--	18,520,078
Appropriation for operating and administrative expense (note 2) . . . . .	12,000,000	12,000,000	--
Reduction in prior years' operating and administrative expense paid from premium income (note 2) . . . . .	235,973	--	235,973
Interest income . . . . .	3,302	3,771	-469
Reimbursable income from ASCS (note 7) . . . . .	<u>1,258,109</u>	<u>--</u>	<u>1,258,109</u>
Total funds provided . . . . .	<u>\$85,953,308</u>	<u>\$59,548,317</u>	<u>\$ 26,404,991</u>
<u>Funds applied:</u>			
Cost of indemnities . . . . .	\$63,185,344	\$28,443,473	\$ 34,741,871
Reinsurance commissions and claims . . . . .	--	255	-255
Cost of loss adjustment . . . . .	3,190,581	1,781,689	1,408,892
Operating and administrative expenses:			
Charged to appropriated funds . . . . .	11,996,058	11,969,850	26,208
Charged to insurance funds (note 2) . . . . .	5,985,261	4,302,384	1,682,877
Increase in prior years' operating and administrative expense paid from premium income (note 7) . . . . .	--	199,214	-199,214
Purchase of fixed assets . . . . .	22,554	43,369	-20,815
Miscellaneous expense . . . . .	82,108	278,475	-196,367
Appropriation transfer to General Services Administration . . . . .	--	5,525	-5,525
Debts Receivable charged off . . . . .	244,377	220,449	23,928
Increase in working capital . . . . .	--	12,303,634	-12,303,634
Expenditures for ASCS (note 7) . . . . .	<u>1,247,025</u>	<u>--</u>	<u>1,247,025</u>
Total funds applied . . . . .	<u>\$85,953,308</u>	<u>\$59,548,317</u>	<u>\$ 26,404,991</u>

The notes to financial statements are an integral part of this statement.

Federal Crop Insurance Corporation

COMPUTATION OF INSURANCE RESERVE  
For Crop Year 1974 and Cumulative for Crop Years 1948 through 1974  
As of June 30, 1975

11

Crop	Crop Year 1974				Crop Years 1948 through 1974			
	Premiums	Indemnities	Excess of Premiums or Indemnities (-)	Loss Ratio (ratio of indemnities to premiums)	Premiums	Indemnities	Excess of Premiums or Indemnities (-)	Loss Ratio (ratio of indemnities to premiums)
Apple . . . . .	\$ 510,063	\$ 760,693	\$ -250,630	1.49	\$ 3,755,534	\$ 5,524,612	\$ -1,769,078	1.47
Barley . . . . .	844,040	1,287,857	-443,817	1.53	14,928,236	10,281,009	4,647,227	.69
Bean . . . . .	441,767	55,544	386,223	.13	6,501,633	6,588,215	-86,582	1.01
Cherry . . . . .	--	--	--	--	149,954	391,504	-241,550	2.61
Citrus . . . . .	2,578,170	997,092	1,581,078	.39	28,927,247	44,005,000	-15,077,753	1.52
Combined Crop . . . . .	478,317	505,087	-26,770	1.06	34,140,669	38,466,164	-4,325,495	1.13
Corn . . . . .	10,431,923	23,978,369	-13,546,446	2.30	126,364,467	122,446,414	3,918,053	.97
Cotton . . . . .	3,044,789	6,845,783	-3,800,994	2.25	72,836,263	106,910,348	-34,074,079	1.47
Flax . . . . .	377,178	733,590	-356,412	1.94	15,510,295	12,748,521	2,761,774	.82
Grain Sorghum . . . . .	1,108,274	1,802,322	-694,048	1.63	12,284,331	9,441,737	2,842,594	.77
Grape . . . . .	226,037	20,460	205,577	.09	1,118,393	1,559,376	-440,983	1.39
Oat . . . . .	374,465	394,840	-20,375	1.05	7,295,017	4,194,273	3,100,744	.57
Pea, Dry . . . . .	32,276	7,713	24,563	.24	605,804	402,766	203,038	.66
Pea, Green . . . . .	398,697	326,720	71,977	.82	4,158,658	6,151,320	-1,992,662	1.48
Peach . . . . .	395,194	447,842	-52,648	1.13	5,356,602	7,468,386	-2,111,784	1.39
Peanut . . . . .	2,456,354	787,562	1,668,792	.32	13,354,327	7,779,490	5,574,837	.58
Potato . . . . .	--	--	--	--	1,269,604	2,668,998	-1,399,394	2.10
Raisin . . . . .	166,214	--	166,214	--	4,084,390	1,523,345	2,561,045	.37
Rice . . . . .	125,033	51,356	73,677	.41	774,434	373,627	400,807	.48
Safflower . . . . .	--	--	--	--	2,290	8,999	-6,709	3.93
Soybean . . . . .	5,183,583	5,192,175	-8,592	1.01	51,471,127	40,797,676	10,673,451	.79
Sugar Beet . . . . .	757,955	860,567	-102,612	1.14	4,902,909	4,334,187	568,722	.88
Sugarcane . . . . .	154,217	78,604	75,613	.51	1,327,119	982,944	344,175	.74
Tobacco . . . . .	7,480,312	2,159,120	5,321,192	.29	84,190,109	46,220,752	37,969,357	.55
Tomato . . . . .	29,637	70,421	-40,784	2.38	392,802	340,879	51,923	.67
Tung Nut . . . . .	--	--	--	--	89,526	67,469	22,057	.75
Wheat . . . . .	16,341,351	15,821,627	519,724	.97	302,415,172	255,198,298	47,216,874	.84
Total . . . . .	<u>\$53,935,846</u>	<u>\$63,185,344</u>	-9,249,498	1.17	<u>\$789,206,918</u>	<u>\$736,876,309</u>	61,330,609	.92
Direct cost of loss adjustment (-) . . . . .			-3,190,581				-29,718,991	
Other income and expense (-), Net . . . . .			-355,533				-2,939,699	
Net income from reinsurance . . . . .			--				201,462	
Net income or loss (-) from insurance operations excluding operating and administrative expenses . . . . .			-12,795,612				28,873,381	
Premium income applied to operating and administrative expenses . . . . .			-5,749,155				-44,118,929	
Indirect cost of leave earnings charged to ASCS . . . . .			10,951				23,067	
Insurance Program Deficit (-)			<u>\$-18,533,816</u>				<u>\$-15,222,481</u>	

The notes to financial statements are an integral part of this statement.

SCHEDULE 4

SCHEDULE 4

SCHEDULE 5

SCHEDULE 5

SCHEDULE 5

Federal Crop Insurance Corporation

ANALYSIS OF DEFICIT IN ADMINISTRATIVE FUND  
For Fiscal Years 1949 through 1975

	July 1, 1948 through <u>June 30, 1974</u>	Fiscal Year <u>1975</u>	July 1, 1948 through <u>June 30, 1975</u>
<u>Administrative Fund Expenses:</u>			
Total operating and administrative expenses . . . . .	\$242,518,259	\$17,795,704	\$260,313,963
Less: Reimbursements from others . . . . .	31,845	2,786	34,631
Premium income applied to operating and administrative expenses (note 2) . . . . .	<u>38,369,774</u>	<u>5,749,155</u>	<u>44,118,929</u>
Total . . . . .	<u>204,116,640</u>	<u>12,043,763</u>	<u>216,160,403</u>
<u>Deduct Net Appropriations:</u>			
Appropriations (note 2) . . . . .	210,575,742	12,000,000	222,575,742
Less lapses, rescissions and net transfers . . . . .	<u>7,083,846</u>	--	<u>7,083,846</u>
Net appropriations . . . . .	<u>203,491,896</u>	<u>12,000,000</u>	<u>215,491,896</u>
Administrative Fund Deficit (Schedule 1)	<u>\$ 624,744</u>	<u>\$ 43,763</u>	<u>\$ 668,507</u>
<u>Analysis of Deficit:</u>			
<u>Noncash charges:</u>			
Accrued annual leave . . . . .	\$ 898,669	\$ 16,552	\$ 915,221
Depreciation . . . . .	511,243	31,252	542,495
Net loss on equipment dispositions . . . . .	21,410	-99	21,311
Equipment adjustment . . . . .	59,527	--	59,527
Depreciation adjustment . . . . .	<u>24,487</u>	<u>--</u>	<u>24,487</u>
	1,515,336	47,705	1,563,041
<u>Less:</u>			
Furniture and equipment acquisitions capitalized . . . . .	839,705	22,554	862,259
Undelivered orders . . . . .	<u>50,887</u>	<u>-18,612</u>	<u>32,275</u>
Administrative Fund Deficit . . . . .	<u>\$ 624,744</u>	<u>\$ 43,763</u>	<u>\$ 668,507</u>

The notes to financial statements are an integral part of this statement.

## NOTES TO FINANCIAL STATEMENTS-JUNE 30, 1975

1. Accounting Basis

Insurance operations shown for fiscal year 1975 relate principally to the 1974 crop year. Crop year 1975 premiums in the amount of \$30,345,549 have been deferred for inclusion in fiscal year 1976 accounts. In a like manner the estimate of possible losses in the collection of 1975 crop year premiums and approved 1975 crop year indemnities have been deferred. These two items total \$722,726.

Operating and administrative expenses are not allocated to crop years but are recorded and accounted for in the fiscal year in which the expense was paid or incurred.

2. Source of Funds for Operating and Administrative Expenses

The Corporation received an appropriation of \$12,000,000 (Public Law 93-563, approved December 31, 1974) for fiscal year 1975. The Law also provided that the Corporation may pay up to \$5,643,000 of operating and administrative expenses from premium income. The Second Supplemental Appropriations Act (Public Law 94-32, approved June 12, 1975) authorized payment of an additional \$474,000 of operating and administrative expenses from premium income. The operating and administrative expenses paid from premium income consisted of \$5,985,261 for expenses applicable to fiscal year 1975, less an adjustment of \$235,973 for prior fiscal years' expenses. There was a downward adjustment of \$133 in the annual leave charged ASCS during the prior fiscal year.

3. Services and Benefits Furnished the Corporation

Services and benefits, the estimated costs of which are not for the most part readily determinable, have been furnished to the Corporation by other Government agencies without charge. Among these are audit and investigative services provided by the Office of Audit and Office of Investigation of the Department of Agriculture, legal services rendered by the Department of Agriculture and Justice, and disbursing services furnished by the Treasury Department. Effective July 1, 1974, agencies occupying space under the assignment control of the General Services Administration were assessed a Standard Level User Charge, for that space and related services, pursuant to Public Law 92-313. This resulted in an

increase of approximately \$400,000 for the fiscal year. The Corporation is not required to pay interest on the Government's investment in capital stock (\$60,000,000 at June 30, 1975) and does not receive interest on its funds on deposit with the Treasury (\$44,031,081 at June 30, 1975).

4. Investment of U.S. Government

A net loss of \$73,000,000 was sustained from insurance operations through the 1947 crop year. The loss offset by cancellation of an equal amount of outstanding capital stock pursuant to Section 5 of the Act of August 25, 1949 (63 Stat. 665). In August 1955, the Secretary of the Treasury subscribed and paid for \$13,000,000 of the unissued capital stock pursuant to the Supplemental Appropriation Act, 1957 (70 Stat. 678). During fiscal year 1970, an additional \$10,000,000 of capital stock was subscribed to by the Secretary of the Treasury of the United States of America. Pursuant to Public Law 91-127, approved November 26, 1969, the amount of \$10,000,000 was credited to the Federal Crop Insurance Corporation Fund. During fiscal year 1972, an additional \$10,000,000 of capital stock was subscribed to by the Secretary of the Treasury of the United States of America. Pursuant to Public Law 92-73, approved August 10, 1971, the amount of \$10,000,000 was credited to the Federal Crop Insurance Corporation Fund. During fiscal year 1962, the accumulated deficit from appropriated funds was reduced by \$50,097,996, which represented the total expense for fiscal years 1938 through 1948. This adjustment was made in order to report operating and administrative expenses on a basis comparable with operations of the insurance fund.

5. Contingent Liabilities

The Corporation customarily has a contingent liability under the Federal Tort Claims Act for various unresolved small claims arising out of automobile accidents or for other wrongful acts of employees. Corporation officials believe the reserve for surety losses which was established in lieu of bonding of employees is sufficient to cover any liability that may arise.

6. Accrued Annual Leave Liability

The increase in the unfunded annual leave liability represents the fiscal year change through pay period 12, or through June 21, 1975.

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7. Services Provided ASCS

Reimbursable income from ASCS (Agriculture Stabilization and Conservation Service) and Expenditures for ASCS resulted from assistance provided ASCS for field inspections. In fiscal year 1974, the two items were netted against increase in prior years' operating and administrative expense paid from premium income, which was shown as a net application of funds. In fiscal year 1974, the actual increase in prior years' operating and administrative expense paid from premium income would have been \$211,331. Likewise, the reimbursable income from ASCS would have been \$354,658 and the expenditures for ASCS would have been \$342,542. In fiscal year 1975, separate accounts were maintained for the reimbursements and expenditures pertaining to ASCS and were reported on a gross basis as funds provided and applied.

PRINCIPAL OFFICIALS RESPONSIBLEFOR ADMINISTERING ACTIVITIESDURING FISCAL YEAR 1975AppointedDEPARTMENT OF AGRICULTURE

## SECRETARY OF AGRICULTURE:

Earl L. Butz

Dec. 1971

## UNDER SECRETARY OF AGRICULTURE:

J. Phil Campbell, Jr.

Jan. 1969

FEDERAL CROP INSURANCE CORPORATION

## BOARD OF DIRECTORS:

Clayton Yeutter, Chairman  
(Assistant Secretary for International Affairs and Commodity Programs)

Mar. 1974

Glen A. Weir  
(Associate Administrator, Agricultural Stabilization and Conservation Service)

Nov. 1973

Melvin R. Peterson  
(Manager, Federal Crop Insurance Corporation)

June 1973

John M. Brabham (industry member)

Nov. 1973

Encil V. Sharp (industry member)

Nov. 1973

## CORPORATION OFFICIALS:

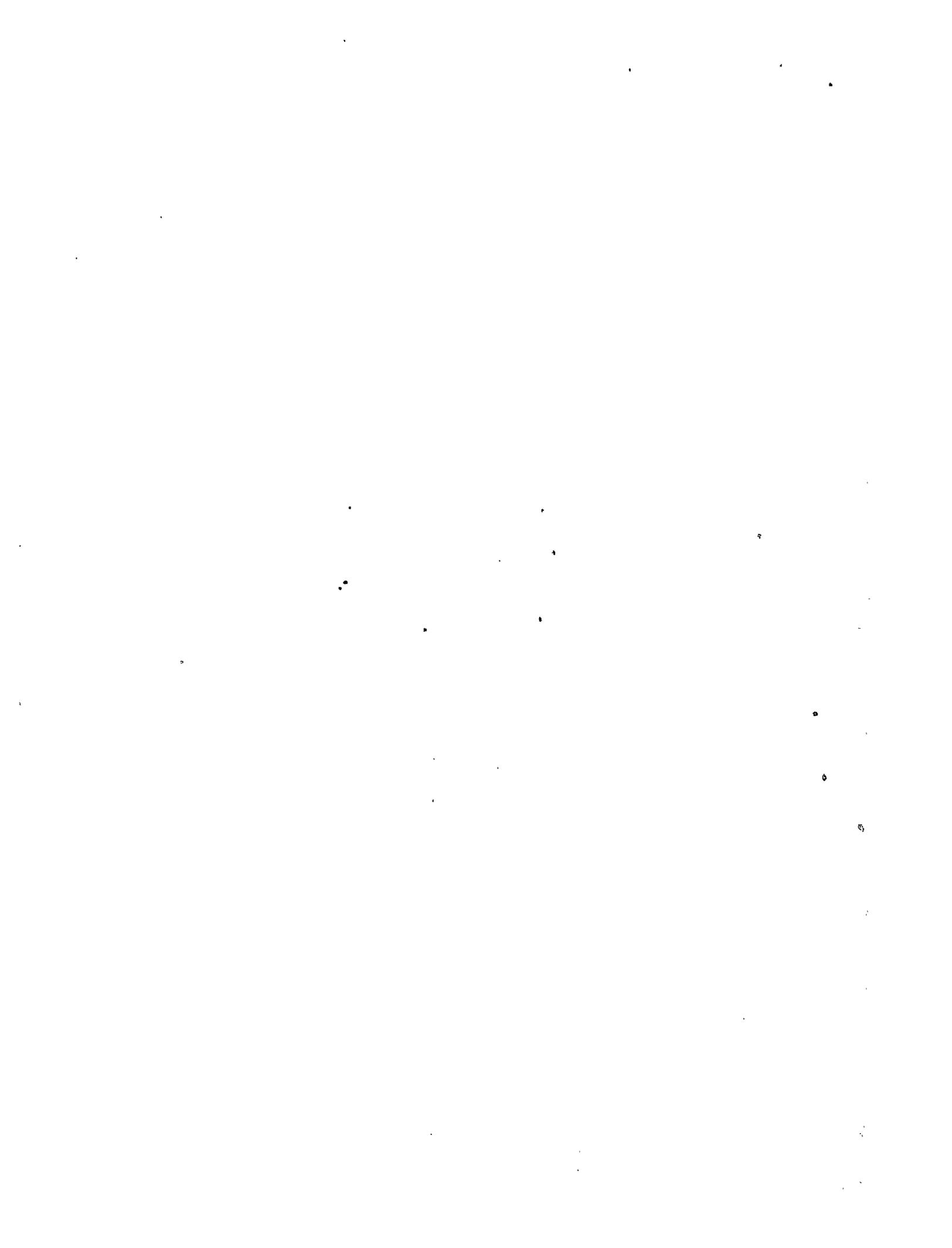
Melvin R. Peterson, Manager

June 1973

David W. McElwrath, Deputy Manager

Apr. 1972





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