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REPORT TO THE CONGRESS

Audit Of
Federal Crop Insurance Corporation
Fiscal Year 1973 B-114834

Department Of Agriculture

*BY THE COMPTROLLER GENERAL
OF THE UNITED STATES*

~~710616~~ **094272**

JAN. 8, 1974



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

B-114834

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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, 1973.

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 Agriculture; and the Chairman of the Board of Directors, Federal Crop Insurance Corporation.

James B. Stacks

Comptroller General
of the United States

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ABBREVIATIONS

FCIC Federal Crop Insurance Corporation

GAO General Accounting Office

*COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS*

AUDIT OF
FEDERAL CROP INSURANCE CORPORATION
FISCAL YEAR 1973
Department of Agriculture B-114834

D I G E S T

WHY THE AUDIT WAS MADE

The Government Corporation Control Act and the Federal Crop Insurance Act require GAO to audit annually the Federal Crop Insurance Corporation and to report to the Congress on the results.

The Corporation provides crop insurance and the research and experience needed to develop this insurance. It insures against practically all causes of crop loss, including weather, insect infestation, and plant disease.

At present the Corporation insures 23 agricultural commodities in 1,422 counties. The program for crop year 1972 provided insurance protection to farmers of about \$857 million.

OPINION ON FINANCIAL STATEMENTS

In GAO's opinion, the financial statements present fairly the Corporation's financial position at June 30, 1973, and the results of its operations and the changes in its financial position for the year then ended in conformity with principles and standards of accounting prescribed by the Comptroller General of the United States. (See p. 9.)

OTHER MATTERS OF INTEREST

The Corporation reported a net operating gain of \$74,000 in fiscal year 1973--a net gain from insurance operations of about \$14.9 million, less operating and administrative expenses of about \$14.8 million. (See p. 4.)

At June 30, 1973, the Corporation's capital was impaired by \$9.6 million, but the impairment has improved significantly for the second consecutive year. In fiscal year 1973 the impairment improved \$12.1 million due to a net gain from insurance program operations of \$14.9 million less a \$2.8 million payment from premium income for operating and administrative expenses. (See pp. 5 and 6.)

RECOMMENDATIONS OR SUGGESTIONS

This report contains no recommendations or suggestions.

MATTERS FOR CONSIDERATION BY
THE CONGRESS

This report is submitted to the Congress to disclose information on the Corporation's operations and financial condition.

CHAPTER 1

INTRODUCTION

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 against practically all causes of crop loss, including weather, insect infestation, and plant disease.

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 costs of adjusting losses--primarily costs for inspecting crops and determining losses. 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 1973, FCIC was appropriated \$12 million and was authorized to spend up to \$3,654,000 from premium income for these expenses (86 Stat. 599).

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 by the Department of Agriculture, and two persons experienced in the insurance business who are not otherwise employed by the Government. The principal officials of FCIC during fiscal year 1973 are listed in the appendix.

CHAPTER 2

OPERATIONS

INSURANCE ACTIVITY FOR FISCAL YEAR 1973

FCIC's activities in fiscal year 1973 produced a net operating gain of \$74,000. The net gain from insurance operations was \$14.9 million, and operating and administrative expenses were \$14.8 million.

For crop year 1972 FCIC insured 23 agricultural commodities for about \$857 million. Premiums on insured crops were \$42 million and indemnities were \$25.3 million, producing a loss ratio of 0.60. This loss ratio was the fifth lowest in the Corporation's history, following the fourth lowest of 0.59 for crop year 1971. The crop year 1972 experience showed a favorable (less than 1.00) loss ratio for 17 of the 23 insured commodities.

Premiums exceeded indemnities for wheat, corn, and tobacco insurance by \$6.9 million, \$6.2 million, and \$3.2 million, respectively. FCIC major losses occurred in the apple and citrus insurance programs, for which indemnities exceeded premiums by \$0.9 million and \$0.7 million, respectively. The apple program, which had a 3.26 loss ratio for crop year 1972, has had an unfavorable loss ratio for 5 of the past 10 years. The citrus program, with a 1.27 loss ratio in crop year 1972, has had an unfavorable loss ratio for 6 of the past 10 years.

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 1972, FCIC insured 23 commodities in 1,422 counties, the same as in crop year 1971.

On July 18, 1972, FCIC entered into its fifth annual quota share reinsurance agreement with the Farm Insurance of Puerto Rico. FCIC reinsured 13.38 percent of the Puerto Rican hurricane or squall insurance on (1) coffee crops, (2) coffee trees and shade trees, (3) bananas and plantains, (4) oranges, orange trees, and papayas, (5) orchard crops, (6) orchard trees, (7) citron crops, (8) citron trees, and (9) tobacco. Tobacco is also reinsured against drought, hail, flood, and fire.

In fiscal year 1973, FCIC had a net income of \$31,309 from its participation in the Puerto Rican insurance program. FCIC has had a net income of \$201,717 from this program since its inception in 1968. No reinsurance was offered FCIC for fiscal year 1974.

IMPAIRMENT OF CAPITAL

At June 30, 1973, FCIC's capital of \$60 million was impaired by about \$9.6 million, compared to \$21.6 million in 1972 and \$36.2 million in 1971. The following table shows the period in which the present impairment has accumulated.

<u>Fiscal year</u>	<u>Earnings or deficits (-)</u>
1966	\$ -8,873,118
1967	6,211,349
1968	-16,538,784
1969	-6,309,482
1970	-8,821,917
1971	-1,828,194
1972	14,550,526
1973	<u>12,052,713</u>
Net	\$ <u>-9,556,907</u>

The capital impairment resulted from a \$9,003,224 deficit from insurance operations--primarily from the use of insurance premiums to pay operating and administrative expenses and the direct costs of loss adjustment (see sch. 4)--and from a \$553,683 administrative fund deficit. The administrative fund deficit resulted from noncash items' being charged to operating and administrative expenses. (See sch. 5.)

The unimpaired capital balance at June 30, 1973, was \$50,443,093, compared with a \$38,390,380 balance at the beginning of the fiscal year. The table below shows the composition of the \$12,052,713 increase for fiscal year 1973.

<u>Capital source</u>	<u>Increase or decrease (-)</u>
Net gain from insurance program operations	\$14,907,994
Decrease in administrative funds deficit	11,248
Premiums used to pay operating and administrative expenses (net of prior years' expense adjustment)	<u>-2,866,529</u>
Total	<u>\$12,052,713</u>

INSURANCE EXPERIENCE

As shown in schedule 4, FCIC's crop insurance programs from 1948 through 1972 resulted in premiums exceeding indemnities by about \$51.5 million. Premiums exceeded indemnities by \$113.3 million for 16 crops and were \$61.8 million less than indemnities for 11 crops. FCIC has stopped insuring 1 of the 16 excess premium crops and 3 of the 11 excess indemnity crops.

The wheat and tobacco programs have produced excess premiums of \$44.6 million and \$30.5 million, respectively. The wheat insurance program has had excess premiums for 15 of its 25 years of operation, and the tobacco program has had excess premiums for 23 of its 25 years of operation.

Most of the excess indemnities were in the cotton and citrus insurance programs--\$31.9 and \$18 million, respectively. The crop year 1972 cotton insurance program had a loss ratio of 0.96, the first favorable ratio in 7 years. During this 7-year period, cotton indemnities exceeded premiums by \$35.6 million. For crop year 1972, citrus had an unfavorable loss ratio of 1.27. Since 1967, citrus indemnities have exceeded premiums by \$14.8 million.

OPERATING AND ADMINISTRATIVE EXPENSES

FCIC's comparative statement of income and expense (see sch. 2) shows that operating and administrative expenses for fiscal year 1973 were \$14,834,666, compared with \$14,653,541 for fiscal year 1972--an increase of \$181,095. The fiscal year 1973 expenses include a general salary increase which accounts for most of the increased expense.

On the comparative statement of income and expense, FCIC 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 the fiscal year 1973 and 1972 functional cost statements.

<u>Function</u>	<u>Fiscal year 1973</u>	<u>Fiscal year 1972</u>
Underwriting, actuarial, and program development:		
Underwriting operations	\$ 809,848	\$ 798,170
Actuarial management	467,321	426,063
Program development	229,128	256,894
Program management	<u>81,642</u>	<u>144,311</u>
Total	<u>1,587,939</u>	<u>1,625,438</u>
Marketing and collections:		
Sales promotion	755,466	678,919
Selling	3,977,165	3,889,231
Collections	1,478,879	1,576,559
Agents' agreements (note a)	911,652	895,763
Marketing management	256,528	282,849
Sales training meetings	294,276	317,576
Recruitment of sales personnel	96,204	58,590
Field sales training	<u>247,356</u>	<u>163,319</u>
Total	<u>8,017,526</u>	<u>7,862,806</u>
Contract servicing and claims:		
Applications	1,006,124	947,767
Acreage reports	1,915,325	1,931,752
Inspections	1,850,929	1,795,248
Meetings	119,563	137,806
Contract service management	294,298	298,988
Recruitment of loss adjusters	13,439	40,528
Field training	<u>29,523</u>	<u>13,675</u>
Total	<u>5,229,201</u>	<u>5,165,764</u>
Total operating and administrative expenses	<u>\$14,834,666</u>	^b <u>\$14,654,008</u>

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

^bDiffers from operating and administrative expenses shown on schedule 2 because capital equipment valued at \$437 was erroneously expensed on the functional cost statement. The expense total as shown on schedule 2 is the correct amount.

CHAPTER 3

SCOPE OF AUDIT

We made our audit 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 FCIC's internal control system which included audit work performed by the Office of the Inspector General, Department of Agriculture.

CHAPTER 4

OPINION ON FINANCIAL STATEMENTS

FCIC prepared the accompanying financial statements (schs. 1 through 5). As stated in note 3 to the statements, other Government agencies furnished without charge to FCIC services and benefits, the costs of which are not readily determinable. The most significant of these services and benefits was using Government funds without paying interest. But, to offset some of this cost, the Treasury has FCIC's large cash balance on deposit but does not pay interest on it.

In our opinion, the financial statements present fairly FCIC's financial position at June 30, 1973, and the results of its operations and changes in its financial position for the year then ended, in conformity with principles and standards of accounting prescribed by the Comptroller General of the United States.

SCHEDULE 1

FEDERAL CROP INSURANCE CORPORATION

COMPARATIVE STATEMENT OF FINANCIAL CONDITION

June 30, 1973 and 1972

ASSETS	Year ended June 30	
	1973	1972
CASH:		
Insurance program funds	\$48,828,968	\$ 36,247,396
Funds appropriated for operating and administrative expenses	<u>1,874,250</u>	<u>1,619,456</u>
Total	<u>50,703,218</u>	<u>37,866,852</u>
ACCOUNTS RECEIVABLE		
Less estimated bad debts	<u>1,252,773</u>	<u>1,527,337</u>
Total	<u>21,280,319</u>	<u>23,816,764</u>
FURNITURE AND EQUIPMENT:		
Cost or transferred value	569,269	537,961
Less accumulated depreciation	<u>355,589</u>	<u>323,499</u>
Total	<u>213,680</u>	<u>214,462</u>
Total assets	<u>\$72,197,217</u>	<u>\$ 61,898,078</u>
LIABILITIES AND INVESTMENT		
ACCOUNTS PAYABLE AND OTHER LIABILITIES:		
Agents' commissions payable	\$ 682,435	\$ 636,619
Employees' accrued annual leave	836,995	840,806
Estimated indemnities payable	1,063,128	1,061,760
Accrued payroll and other liabilities	<u>1,348,778</u>	<u>1,085,185</u>
Total	<u>3,931,336</u>	<u>3,624,370</u>
DEFERRED PREMIUMS AND COSTS:		
1973 crop year premiums, less approved indemnity claims, and bad debt expense (note 1)	<u>17,747,788</u>	<u>19,808,328</u>
Total liabilities	<u>21,679,124</u>	<u>23,432,698</u>
PROVISION FOR SURETY LOSSES	<u>75,000</u>	<u>75,000</u>
INVESTMENT OF U.S. GOVERNMENT:		
Capital stock (authorized \$100,000,000) issued and outstanding	60,000,000	60,000,000
Insurance program deficit	-9,003,224	-21,044,689
Administrative fund deficit (Schedule 5)	<u>-553,683</u>	<u>-564,931</u>
Total investment of U.S. Government	<u>50,443,093</u>	<u>38,390,380</u>
Total liabilities and investment	<u>\$72,197,217</u>	<u>\$ 61,898,078</u>

The notes on pages 17 and 18 are an integral part of this statement.

SCHEDULE 2

FEDERAL CROP INSURANCE CORPORATION

COMPARATIVE STATEMENT OF INCOME AND EXPENSE

FISCAL YEARS 1973 AND 1972

	Fiscal year <u>1973</u>	Fiscal year <u>1972</u>
INSURANCE OPERATIONS:		
Premiums	\$ 41,953,821	\$ 47,865,576
Indemnities	<u>25,250,712</u>	<u>28,573,942</u>
Excess of indemnities or premiums (-)	-16,703,109	-19,291,634
Cost of loss adjustment	1,860,617	1,832,264
Provision for losses on accounts receivable	-71,605	255,814
Other expense or income (-)	<u>37,412</u>	<u>42,348</u>
Net loss or income (-) from direct insurance operations	<u>-14,876,685</u>	<u>-17,161,208</u>
Reinsurance premiums	53,765	62,189
Reinsurance commissions and claims	<u>22,456</u>	<u>22,746</u>
Net loss or income (-) from reinsurance	<u>-31,309</u>	<u>-39,443</u>
Net loss or income (-) from insurance operations	<u>-14,907,994</u>	<u>-17,200,651</u>
OPERATING AND ADMINISTRATIVE EXPENSES:		
Personnel compensation	9,610,235	9,526,380
Personnel benefits	882,298	845,041
Travel and transportation of persons	1,569,083	1,641,698
Transportation of things	43,826	55,685
Rent, communications and utilities	869,888	827,893
Printing and reproduction	93,620	102,725
Other contractual services	856,781	852,019
Agents' commissions	931,893	860,396
Supplies and materials	46,150	50,973
Expendable equipment	33,763	20,172
Administrative claims	-	3,204
Depreciation expense	29,991	29,244
Net loss on sale and transfer of equipment	-7,688	1,618
Accrued annual leave	-3,811	-27,625
Prior year adjustments - other accrued operating and administrative expenses	<u>-121,363</u>	<u>-135,852</u>
Total operating and administrative expenses	<u>14,834,666</u>	<u>14,653,571</u>
Lapsed appropriation adjustments	400	306
Reimbursements from others	<u>-1,451</u>	<u>-</u>
Adjusted total operating and administrative expenses (note a)	<u>14,833,615</u>	<u>14,653,877</u>
NET LOSS OR INCOME (-) FROM OPERATIONS	<u>\$ -74,379</u>	<u>\$ -2,546,774</u>

^a \$2,987,470 paid from premium income in 1973 and \$2,819,916 paid from premium income in 1972, an increase of \$167,554 (note 2).

The notes on pages 17 and 18 are an integral part of this statement.

FEDERAL CROP INSURANCE CORPORATION

COMPARATIVE STATEMENT OF CHANGES IN FINANCIAL POSITION

FISCAL YEARS 1973 AND 1972

	Fiscal year <u>1973</u>	Fiscal year <u>1972</u>
FUNDS PROVIDED:		
Premium income	\$41,953,821	\$47,865,576
Reinsurance premiums	53,765	62,189
Subscription to capital stock	-	10,000,000
Appropriation for operating and administrative expense	12,000,000	12,000,000
Reduction in prior years' operating and administrative expense paid from premium income	120,940	133,524
Interest income	<u>1,692</u>	<u>3,126</u>
Total funds provided	<u>\$54,130,218</u>	<u>\$70,064,415</u>
FUNDS APPLIED:		
Cost of indemnities	\$25,250,712	\$28,573,942
Reinsurance commissions and claims	22,456	22,746
Cost of loss adjustment	1,860,617	1,832,264
Operating and administrative expenses:		
Charged to appropriated funds	11,948,592	11,960,073
Charged to insurance funds	2,987,470	2,819,916
Purchase of fixed assets	21,521	26,744
Miscellaneous expense	39,104	45,474
Appropriation transfer to General Services Administration	21,666	423
Debts receivable charged off	171,960	231,732
Increase in working capital	<u>11,806,120</u>	<u>24,551,101</u>
Total funds applied	<u>\$54,130,218</u>	<u>\$70,064,415</u>

The notes on pages 17 and 18 are an integral part of this statement.

FEDERAL CROP INSURANCE CORPORATION

COMPUTATION OF INSURANCE RESERVE

FOR CROP YEAR 1972 AND CUMULATIVE FOR CROP YEARS 1948 THROUGH 1972

AS OF JUNE 30, 1973

Crop	Crop year 1972			Loss ratio (ratio of indemnities to premiums)
	Premiums	Indemnities	Excess of premiums or indemnities(-)	
Apple	\$ 376,903	\$ 1,227,603	\$ -850,700	3.26
Barley	924,462	562,747	361,715	.61
Bean	414,139	214,216	199,923	.52
Cherry	-	-	-	-
Citrus	2,574,165	3,266,820	-692,655	1.27
Combined crop	375,987	108,538	267,449	.29
Corn	8,287,743	2,104,927	6,182,816	.25
Cotton	3,608,685	3,482,127	126,558	.96
Flax	207,140	144,497	62,643	.70
Grain sorghum	1,133,066	976,438	156,628	.86
Grape	147,363	605,078	-457,715	4.11
Oat	381,134	468,046	-86,912	1.23
Pea, dry	35,331	25,783	9,548	.73
Pea, green	221,267	107,586	113,681	.49
Peach	313,585	684,186	-370,601	2.18
Peanut	1,197,282	631,661	565,621	.53
Potato	-	-	-	-
Raisin	108,230	220	108,010	.01
Rice	65,732	37,461	28,271	.57
Safflower	-	-	-	-
Soybean	3,898,323	3,049,733	848,590	.78
Sugar beet	500,283	500,490	-207	1.01
Sugarcane	201,369	189,327	12,042	.94
Tobacco	5,004,895	1,796,267	3,208,628	.36
Tomato	31,364	26,399	4,965	.84
Tung nut	-	-	-	-
Wheat	11,945,373	5,040,562	6,904,811	.42
Total	<u>\$41,953,821</u>	<u>\$25,250,712</u>	16,703,109	.60
Direct cost of loss adjustment(-)			-1,860,617	
Other income and expense (-), Net			34,193	
Net income from reinsurance			<u>31,309</u>	
Net income or loss(-) from in- surance operations excluding operating and administrative expenses			14,907,994	
Premium income applied to oper- ating and administrative ex- penses			<u>-2,866,529</u>	
Insurance program deficit(-)			<u>\$12,041,465</u>	

The notes on pages 17 to 18 are an integral part of this statement.

SCHEDULE 4

Crop years 1948 through 1972

<u>Premiums</u>	<u>Indemnities</u>	<u>Excess of premiums or indemnities(-)</u>	<u>Loss ratio (ratio of indemnities to premiums)</u>
\$ 2,608,521	\$ 3,930,765	\$ -1,322,244	1.51
12,851,451	7,928,858	4,922,593	.62
5,691,988	6,197,987	-505,999	1.09
149,954	391,504	-241,550	2.61
23,791,935	41,828,491	-18,036,556	1.76
33,218,348	37,507,745	-4,289,397	1.13
106,988,716	96,193,923	10,794,793	.90
66,724,939	98,647,922	-31,922,983	1.48
14,784,332	11,583,616	3,200,716	.78
10,061,149	7,371,882	2,689,267	.73
669,468	1,190,130	-520,662	1.78
6,536,131	3,402,417	3,133,714	.52
537,761	355,397	182,364	.66
3,562,447	5,505,872	-1,943,425	1.55
4,650,652	6,272,294	-1,621,642	1.35
8,786,974	6,558,241	2,228,733	.75
1,269,604	2,668,998	-1,399,394	2.10
3,812,592	1,520,879	2,291,713	.40
582,222	279,903	302,319	.48
2,290	8,999	-6,709	3.93
41,482,320	34,087,643	7,394,677	.82
3,600,680	3,054,781	545,899	.85
1,020,719	480,740	539,979	.47
70,202,926	39,712,585	30,490,341	.57
345,099	252,927	92,172	.73
89,526	67,469	22,057	.75
<u>272,703,782</u>	<u>228,245,524</u>	<u>44,458,258</u>	.84
<u>\$696,726,526</u>	<u>\$645,247,492</u>	51,479,034	.93
		-24,746,721	
		-2,081,195	
		<u>201,717</u>	
		24,852,835	
		<u>-33,856,059</u>	
		<u>\$ -9,003,224</u>	

SCHEDULE 5

FEDERAL CROP INSURANCE CORPORATION
 ANALYSIS OF DEFICIT IN ADMINISTRATIVE FUND
 FOR FISCAL YEARS 1949 THROUGH 1973

	July 1, 1948 through <u>June 30, 1972</u>	Fiscal year <u>1973</u>	July 1, 1948 through <u>June 30, 1973</u>
ADMINISTRATIVE FUND EXPENSES:			
Total operating and administrative expenses	\$211,093,184	\$14,835,066	\$225,928,250
Less: Reimbursements from others	19,636	1,451	21,087
Premium income applied to operating and administrative expenses	<u>30,989,530</u>	<u>2,866,529</u>	<u>33,856,059</u>
Total	<u>180,084,018</u>	<u>11,967,086</u>	<u>192,051,104</u>
DEDUCT NET APPROPRIATIONS:			
Appropriations	186,575,742	12,000,000	198,575,742
Less lapses, recisions and net transfers	<u>7,056,655</u>	<u>21,666</u>	<u>7,078,321</u>
Net appropriations	<u>179,519,087</u>	<u>11,978,334</u>	<u>191,497,421</u>
Administrative fund deficit (Schedule 1)	<u>\$ 564,931</u>	<u>\$ -11,248</u>	<u>\$ 553,683</u>
ANALYSIS OF DEFICIT:			
Noncash charges:			
Accrued annual leave	\$ 840,806	\$ -3,811	\$ 836,995
Depreciation	451,645	29,991	481,636
Net loss on equipment dispositions	24,693	-7,688	17,005
Equipment adjustment	59,527	-	59,527
Depreciation adjustment	<u>24,487</u>	<u>-</u>	<u>24,487</u>
	1,401,158	18,492	1,419,650
Less:			
Furniture and equipment acquisitions capitalized	774,815	21,521	796,336
Undelivered orders	<u>61,412</u>	<u>8,219</u>	<u>69,631</u>
Administrative fund deficit	<u>\$ 564,931</u>	<u>\$ -11,248</u>	<u>\$ 553,683</u>

The notes on pages 17 and 18 are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS - JUNE 30, 1973

1. Accounting Basis

Insurance operations shown for fiscal year 1973 relate principally to the 1972 crop year. Crop year 1973 premiums in the amount of \$18,328,710 have been deferred for inclusion in fiscal year 1974 accounts. In a like manner the estimate of possible losses in the collection of 1973 crop year premiums and approved 1973 crop year indemnities have been deferred. These two items total \$580,922.

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 92-399, approved August 22, 1972) for fiscal year 1973. The Law also provided that the Corporation may pay up to \$3,654,000 of operating and administrative expenses from premium income. The operating and administrative expenses paid from premium income consisted of \$2,987,470 for expenses applicable to fiscal year 1973, less an adjustment of \$120,940 for prior fiscal years' expenses.

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 rentals for field office space paid by the General Services Administration, audit and investigative services provided by the Office of the Inspector General of the Department of Agriculture, legal services rendered by the Department of Agriculture and Justice, and disbursing services furnished by the Treasury Department. The Corporation is not required to pay interest on the Government's investment in capital stock (\$60,000,000 at June 30, 1973) and does not receive interest on its funds on deposit with the Treasury (\$48,828,968 at June 30, 1973).

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 was 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 decrease in the unfunded annual leave liability represents the fiscal year change through pay period 12, or through June 23, 1973.

PRINCIPAL OFFICIALS RESPONSIBLE
FOR ADMINISTERING ACTIVITIES
DURING FISCAL YEAR 1973

	Tenure of office	
	From	To
<u>DEPARTMENT OF AGRICULTURE</u>		
SECRETARY OF AGRICULTURE:		
Earl L. Butz	Dec. 1971	Present
UNDER SECRETARY OF AGRICULTURE:		
J. Phil Campbell, Jr.	Jan. 1969	Present
<u>FEDERAL CROP INSURANCE CORPORATION</u>		
BOARD OF DIRECTORS:		
Carroll G. Brunthaver, Chairman (Assistant Secretary for International Affairs and Commodity Programs)	July 1972	Present
Elvin J. Person (Deputy Administrator, Programs, Agricultural Stabilization and Conservation Service)	July 1972	Present
Melvin R. Peterson (Manager, Federal Crop Insurance Corporation)	June 1973	Present
Richard H. Aslakson (Manager, Federal Crop Insurance Corporation)	Feb. 1969	Jan. 1973
Fred W. Benson (Industry member)	July 1969	Present
Elmo A. Carlson (Industry member)	July 1969	Present
CORPORATION OFFICIALS:		
Melvin R. Peterson, Manager	June 1973	Present
Richard H. Aslakson, Manager	Feb. 1969	Jan. 1973
David W. McElwrath, Deputy Manager	Apr. 1972	Present

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