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REPORT TO THE CONGRESS



Audit Of Federal Crop Insurance Corporation Fiscal Year 1970 B-114834

Department of Agriculture

BY THE COMPTROLLER GENERAL
OF THE UNITED STATES

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

B-114834

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

This is our report on the audit of the Federal Crop Insurance Corporation, Department of Agriculture, for the fiscal year ended June 30, 1970.

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

Copies of this report are being sent 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

D I G E S T

WHY THE AUDIT WAS MADE

The Government Corporation Control Act and the Federal Crop Insurance Act require the General Accounting Office (GAO) to audit annually the Federal Crop Insurance Corporation, Department of Agriculture, and to report to the Congress on the results.

FINDINGS AND CONCLUSIONS

In GAO's opinion, the accompanying financial statements present fairly the financial position of the Corporation at June 30, 1970, the results of its operations, and the sources and application of its funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year and with applicable Federal laws. (See p. 13.)

The Corporation reported a net operating loss of \$20.8 million in fiscal year 1970, a net loss from insurance operations of \$6.9 million, and operating and administrative expenses of \$13.9 million. The loss from insurance operations resulted primarily from losses on the insurance of cotton and citrus crops and, to a lesser extent, losses on grapes, tomatoes, potatoes, sugar beets, and tobacco. (See p. 5.)

At June 30, 1970, the Corporation's capital was impaired by about \$34.3 million. This impairment has occurred over the past 5 years. The impairment in fiscal year 1970--\$8.8 million--resulted from the net loss from insurance operations of \$6.9 million, the payment from premium income of \$1.8 million for operating and administrative expenses, and an administrative fund deficit of \$156,000 resulting from noncash charges to operating and administrative expenses. (See p. 7.)

The net investment of the U.S. Government in the Corporation increased from \$14.5 million at the beginning of the year to \$15.7 million at the close of the year. This change consisted of increases of \$22 million--increases in subscription by the Secretary of the Treasury to capital stock of \$10 million and in appropriations and reimbursements of \$12 million--offset by the net loss from operations of \$20.8 million.

The Corporation's statement of income and expense (sch. 2, p. 18) classifies operating and administrative costs by object class, such as

personnel compensation, travel, agents' commissions, supplies, and materials. The Corporation prepares, for management purposes, annual cost statements showing, by function, its operating and administrative expenses. The Corporation's major functions are marketing of insurance, program operations, loss adjustments, and actuarial operations. A table, extracted from the Corporation's functional cost statements, is presented on page 11 and shows the operating and administrative expenses, by function, for fiscal years 1970 and 1969.

RECOMMENDATIONS OR SUGGESTIONS

None.

AGENCY ACTIONS AND UNRESOLVED ISSUES

None.

MATTERS FOR CONSIDERATION BY THE CONGRESS

This report contains no recommendations or suggestions requiring action by the Congress. It is submitted to the Congress as required by the Government Corporation Control Act to disclose the results of the annual audit of the Corporation and such other information as deemed necessary to keep the Congress informed on the operations and financial condition of the Corporation.

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ABBREVIATIONS

FCIC	Federal Crop Insurance Corporation
GAO	General Accounting Office

D I G E S T

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RECOMMENDATIONS OR SUGGESTIONS

None.

AGENCY ACTIONS AND UNRESOLVED ISSUES

None.

MATTERS FOR CONSIDERATION BY THE CONGRESS

This report contains no recommendations or suggestions requiring action by the Congress. It is submitted to the Congress as required by the Government Corporation Control Act to disclose the results of the annual audit of the Corporation and such other information as deemed necessary to keep the Congress informed on the operations and financial condition of the Corporation.

CHAPTER 1

GENERAL COMMENTS

The General Accounting Office has made an audit of the Federal Crop Insurance Corporation (FCIC), Department of Agriculture, for the fiscal year ended June 30, 1970. The scope of the audit is described on page 12.

FCIC is a wholly owned Government corporation which was created in 1938 to promote the national welfare by improving the economic stability of agriculture through a sound system of crop insurance and by providing the means for the research and experience helpful in devising and establishing such insurance. FCIC insures crops against practically all causes of crop losses, including weather, insect infestation, and plant disease.

The Federal Crop Insurance Act (7 U.S.C. 1501) authorizes FCIC to fix premiums at rates to cover claims for crop losses and to establish a reserve against unforeseen losses. No authorization is provided, however, for fixing premiums at rates sufficient to cover operating and administrative expenses and the direct cost of loss adjustment--primarily costs of crop inspections and loss determinations. Section 516(a) of the act sets a limitation of \$12 million on funds to be appropriated for each fiscal year to cover FCIC's operating and administrative expenses and also authorizes FCIC to pay the direct cost of loss adjustment and part of its operating and administrative expenses from premium income.

For a number of years the annual appropriation acts have provided funds from two sources--appropriations and funds derived from premium income--with which to pay operating and administrative expenses. FCIC received an appropriation of \$12 million for fiscal year 1970 (83 Stat. 259). The appropriation act provided that FCIC could pay up to \$1,648,000 of the operating and administrative expenses from premium income. The act provided also for the Secretary of the Treasury to subscribe and pay for \$10 million in capital stock of FCIC. FCIC received an additional \$691,000 under the Second Supplemental Appropriation Act, 1970 (84 Stat. 218), approved May 19, 1970.

The management of FCIC is vested in its Board of Directors which is subject to appointment and general supervision by the Secretary of Agriculture. The Board consists of the manager of FCIC, two other 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 officials of FCIC during fiscal year 1970 are listed in appendix I.

CHAPTER 2

OPERATIONS

INSURANCE ACTIVITY FOR FISCAL YEAR 1970

FCIC incurred a net operating loss in fiscal year 1970 of about \$20.8 million, consisting of a net loss from insurance operations of about \$6.9 million (principally in crop year 1969), which included the cost of making loss adjustments of about \$2.2 million and included operating and administrative expenses of about \$13.9 million.

FCIC's insurance coverage for crop year 1969 totaled about \$919 million on 24 different agricultural commodities. Premiums on insured crops amounted to about \$48.7 million and indemnities amounted to \$53.1 million, which resulted in an unfavorable loss ratio of 1.09. For two insured crops, indemnities exceeded premiums by substantial amounts, as shown below.

<u>Crop</u>	<u>Premiums</u>	<u>Indemnities</u>	<u>Excess indemnities</u>
Cotton	\$7,622,066	\$19,942,302	\$12,320,236
Citrus	3,308,493	6,067,109	2,758,616

To a lesser extent, crop year 1969 insurance of grapes, tomatoes, potatoes, sugar beets, and tobacco also resulted in excess indemnities.

The insurance of crop year 1969 cotton resulted in excess indemnities in 15 of the 17 States in which cotton was insured; the fourth consecutive year in which excess indemnities were incurred. The larger excess indemnities incurred were about \$5.6 million in Texas and about \$1 million each in California, Louisiana, and South Carolina. The insurance of citrus crops in Florida resulted in excess indemnities of about \$1.9 million.

Although the insurance of some crops resulted in excess indemnities, the insurance of other crops resulted in excess premiums, as shown below.

<u>Crop</u>	<u>Premiums</u>	<u>Indemnities</u>	<u>Excess premiums</u>
Wheat	\$13,199,339	\$9,732,305	\$3,467,034
Corn	8,085,640	4,652,965	3,432,675
Barley	962,838	291,461	671,377
Grain sorghum	1,076,711	441,739	634,972

For crop year 1969, the more significant results from the insurance of wheat were excess premiums of about \$2 million each in Kansas and North Dakota and excess indemnities of about \$1.9 million in Washington. The insurance of corn crops in Minnesota resulted in excess premiums of about \$1.4 million.

FCIC is authorized by section 508(a) of the 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 1969, FCIC expanded its insurance operations from 1,395 to 1,425 counties but did not insure any additional crops.

On June 11, 1970, FCIC exercised its option to renew a reinsurance agreement with the Farm Insurance of Puerto Rico (the company), pursuant to section 508(f) of the act. The original agreement was executed in 1968 and was renewed in 1969. The renewed agreement covers the period May 1, 1970, through April 30, 1971, and provides for FCIC's participation in 11.8 percent of the company's insurance of coffee, shade, orange, and citron trees; and bananas, plantains, oranges, papayas, and citrons. FCIC will participate in 10.3 percent of the company's insurance of coffee crops. FCIC's aggregate liability under the reinsurance agreement is limited to specified dollar maximums for each covered crop. The hazards covered by the company's insurance program are limited to hurricanes and squalls on the island of Puerto Rico.

In fiscal year 1970, FCIC realized a net income of \$42,753 from its participation in the company's insurance

program compared with \$58,108 in fiscal year 1969, the first year of its participation in the program.

IMPAIRMENT OF CAPITAL

At June 30, 1970, FCIC's capital of \$50 million was impaired by \$34,331,952. This capital impairment has occurred over the past 5 fiscal years, as follows:

<u>Fiscal</u> <u>year</u>	<u>Amount</u>
1966	\$ 8,873,118
1967	-6,211,349
1968	16,538,784
1969	6,309,482
1970	<u>8,821,917</u>
	<u>\$34,331,952</u>

The capital impairment resulted from (1) a deficit from insurance program operations of \$33,733,269, resulting primarily from the use of insurance premiums to pay for operating and administrative expenses and from the direct cost of loss adjustment (sch. 4) and (2) an administrative fund deficit of \$598,683 (sch. 5).

The unimpaired capital balance of about \$15.7 million at June 30, 1970, is only about \$1.2 million higher than the \$14.5 million balance at the start of fiscal year 1970, even though \$10 million in new capital was provided during the year through subscription of additional capital stock by the Secretary of the Treasury. The further impairment of capital of about \$8.8 million resulted from the net loss from insurance operations of about \$6.9 million, the use of premium income of about \$1.8 million for payment of operating and administrative expenses, and an administrative fund deficit of about \$156,000 resulting from noncash items charged to administrative expenses.

For fiscal year 1971, the Congress appropriated \$12 million and authorized the use of \$2.3 million of premium income for payment of operating and administrative expenses.

INSURANCE EXPERIENCE

As shown in schedule 4, FCIC's insurance of crops during crop years 1948-69 resulted in an excess of premiums over indemnities for damage to insured crops of about \$12.5 million--a favorable loss ratio of 0.98--which comprised:

Excess premiums from insurance of certain crops--
\$65.1 million

Excess indemnities from insurance of other crops--
\$52.6 million

The major portion of the excess indemnities was incurred on the insurance of the following crops.

<u>Crop</u>	<u>Premiums</u>	<u>Indemnities</u>	<u>Excess indemnities</u>
Cotton	\$54,539,046	\$82,563,502	\$28,024,456
Citrus	15,366,505	27,347,723	11,981,218
Combined crop	31,977,199	37,253,056	5,275,857
Pea, green	2,713,752	4,895,403	2,181,651
Potato	1,269,604	2,669,694	1,400,090

For crop years 1948-65, cotton insurance premiums exceeded indemnities by about \$3.7 million and for crop years 1966-69, indemnities exceeded premiums by about \$31.7 million, resulting in excess indemnities of about \$28 million for crop years 1948-69.

FCIC's annual report to the Congress for 1969 showed that, for crop years 1961-68, cotton insurance coverage per acre had increased under the program and premium rates had decreased. The table below, developed from FCIC actuarial records, shows the relation of cotton insurance premiums to coverage per acre for crop years 1961-69.

<u>Crop year</u>	<u>FCIC premium as a percent of coverage</u>	<u>Average insurance coverage per acre</u>
1961	7.2	\$ 54.34
1962	6.2	67.45
1963	6.2	80.56
1964	6.3	84.07
1965	6.3	84.23
1966	5.8	95.75
1967	5.1	115.67
1968	5.1	124.99
1969	5.5	116.58
1961-69	6.0	98.08

FCIC reduced cotton insurance coverages per acre and increased premium rates for the 1969-70 crop years in an effort to reduce the excess indemnities on insured cotton.

FCIC's excess indemnities on insured citrus crops have almost tripled since crop year 1965. Excess indemnities on insured citrus crops from inception of the program in 1951 through crop year 1965 were about \$4.4 million and had increased to about \$12 million by the close of crop year 1969. In an attempt to reduce excess indemnities on insured citrus crops, FCIC recently modified the citrus insurance programs in the three States--Arizona, California, and Florida--where such insurance was offered in crop year 1969.

The potato insurance program, which operated for 8 years with indemnities exceeding premiums each year, is being discontinued effective with the 1970 crop year. Also FCIC has terminated the tung nut insurance program effective with crop year 1971, because demand for such insurance has declined to the point where continuation of the program is not warranted.

The following table lists those crops on which the major portion of the excess premiums was realized for crop years 1948-69. The favorable experience on these crops is an offset to the excess indemnities incurred on the insurance of other crops.

<u>Crop</u>	<u>Premiums</u>	<u>Indemnities</u>	<u>Excess premiums</u>
Wheat	\$235,656,705	\$212,181,450	\$23,475,255
Tobacco	54,878,762	32,900,986	21,977,776
Soybean	29,737,573	25,873,054	3,864,519
Barley	9,988,434	6,450,431	3,538,003

Historically, the tobacco and wheat insurance programs have been the most successful--tobacco premiums have exceeded indemnities in 20 years of the 22-year period and wheat premiums have exceeded indemnities in 12 years of the 22-year period. Although the insurance of other crops--flax, grain sorghum, oats, peanuts, and raisins--has also resulted in excess premiums, the amounts of such excess premiums have been relatively small.

OPERATING AND ADMINISTRATIVE EXPENSES

FCIC's comparative statement of income and expense for fiscal years 1970 and 1969 (sch. 2, p. 18) shows that operating and administrative costs for fiscal year 1970 amounted to \$13.9 million compared with about \$13.3 million for fiscal year 1969, an increase of about \$680,000. FCIC internal reports attribute this increase to increases in personnel compensation and benefits of about \$900,000 due to pay raises in July and December 1969, which were partly offset by decreases in agents' commissions and advertising expenses.

FCIC's statement of income and expense classifies the expenses by object class, such as personnel compensation, travel, agents' commissions, supplies, and materials. FCIC prepares, for management purposes, annual cost statements showing, by function, its operating and administrative expenses. The following table, extracted from FCIC's functional cost statements, shows the operating and administrative expenses, by function, for fiscal years 1970 and 1969.

<u>Function</u>	<u>Fiscal year 1970</u>	<u>Fiscal year 1969</u>
Marketing of insurance:		
Sales promotion	\$ 806,362	\$ 841,053
Selling	3,968,271	3,758,759
County offices	1,763,646	1,522,432
Agents' agreements (note a)	951,921	1,158,285
Sales management	<u>267,255</u>	<u>249,293</u>
Total	<u>7,757,455</u>	<u>7,529,822</u>
Program operations:		
Program development	92,729	125,724
Applications	606,104	572,963
Acreage reports	1,155,965	1,163,450
Collections	804,870	676,356
Program management	<u>328,452</u>	<u>287,051</u>
Total	<u>2,988,120</u>	<u>2,825,544</u>
Loss adjustment	1,974,231	1,757,593
Actuarial	1,212,607	1,147,922
Unallocated (note b)	<u>-</u>	<u>6,034</u>
Total operating and administrative expenses	<u>\$13,932,413</u>	<u>\$13,254,847</u>

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

^bRepresents reimbursements which, in the income and expense statement (sch. 2), are applied against related expenses.

CHAPTER 3

SCOPE OF AUDIT

Our audit was made in accordance with generally accepted auditing standards and accordingly included such tests of FCIC's accounting records and financial transactions and such other auditing procedures as we considered necessary in the circumstances.

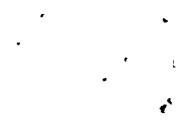
CHAPTER 4

OPINION OF FINANCIAL STATEMENTS

In our opinion, the accompanying financial statements (schs. 1 through 5) present fairly the financial position of FCIC at June 30, 1970, and the results of its operations and sources and application of its funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year and with applicable Federal laws.

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FINANCIAL STATEMENTS



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FEDERAL CROP INSURANCE CORPORATION

COMPARATIVE STATEMENT OF FINANCIAL CONDITION

JUNE 30, 1970 AND 1969

	Year ended June 30		Increase or decrease(-)
	1970	1969	
ASSETS			
CASH:			
Insurance program funds	\$15,582,560	\$14,906,743	\$ 675,817
Funds appropriated for operating and administrative expenses	<u>1,715,665</u>	<u>1,651,905</u>	<u>63,760</u>
Total	<u>17,298,225</u>	<u>16,558,648</u>	<u>739,577</u>
ACCOUNTS AND NOTES RECEIVABLE	27,075,285	26,523,344	551,941
Less estimated bad debts	<u>1,461,236</u>	<u>1,375,697</u>	<u>85,539*</u>
Total	<u>25,614,049</u>	<u>25,147,647</u>	<u>466,402</u>
FURNITURE AND EQUIPMENT:			
Cost or transferred value	524,509	511,916	12,593
Less accumulated depreciation	<u>290,549</u>	<u>280,353</u>	<u>10,196*</u>
Total	<u>233,960</u>	<u>231,563</u>	<u>2,397</u>
Total assets	<u>\$43,146,234</u>	<u>\$41,937,858</u>	<u>\$ 1,208,376</u>
LIABILITIES AND INVESTMENT			
ACCOUNTS PAYABLE AND OTHER LIABILITIES:			
Agents' commissions payable	\$ 709,679	\$ 873,988	\$ -164,309
Employees' accrued annual leave	857,130	713,577	143,553
Estimated indemnities payable	3,278,295	2,794,468	483,827
Accrued payroll and other liabilities	<u>1,139,284</u>	<u>913,133</u>	<u>226,151</u>
Total	<u>5,984,388</u>	<u>5,295,166</u>	<u>689,222</u>
DEFERRED PREMIUMS AND COSTS:			
1970 crop year premiums, less approved indemnity claims, reinsurance expense, and bad debt expense (note 1)	<u>21,418,798</u>	<u>22,077,727</u>	<u>-658,929</u>
Total liabilities	<u>27,403,186</u>	<u>27,372,893</u>	<u>30,293</u>
PROVISION FOR SURETY LOSSES (note 5)	<u>75,000</u>	<u>75,000</u>	<u>-</u>
INVESTMENT OF U.S. GOVERNMENT:			
Capital stock (authorized \$100,000,000) issued and outstanding (note 4)	50,000,000	40,000,000	10,000,000
Insurance program deficit (schedule 4)	-33,733,269	-25,067,637	-8,665,632*
Administrative fund deficit (schedule 5)	<u>-598,683</u>	<u>-442,398</u>	<u>-156,285*</u>
Total investment of U.S. Government	<u>15,668,048</u>	<u>14,489,965</u>	<u>1,178,083</u>
Total liabilities and investment	<u>\$43,146,234</u>	<u>\$41,937,858</u>	<u>\$ 1,208,376</u>

*Deduction

The notes following schedule 5 are an integral part of this statement.

SCHEDULE 2

FEDERAL CROP INSURANCE CORPORATION

COMPARATIVE STATEMENT OF INCOME AND EXPENSE

FISCAL YEARS 1970 AND 1969

	Fiscal year 1970	Fiscal year 1969	Increase or decrease(-)
INSURANCE OPERATIONS:			
Premiums	\$48,744,536	\$48,873,196	\$ -128,660
Indemnities	<u>53,145,487</u>	<u>51,083,518</u>	<u>2,061,969</u>
Excess of indemnities or premiums(-)	4,400,951	2,210,322	2,190,629
Cost of loss adjustment	2,225,932	2,197,914	28,018
Provision for losses on accounts receivable	252,502	20,261	232,241
Other expense or income(-)	<u>58,646</u>	<u>191,790</u>	<u>-133,144</u>
Net loss or income(-) from direct insurance operations	<u>6,938,031</u>	<u>4,620,287</u>	<u>2,317,744</u>
Reinsurance premiums	70,889	96,344	-25,455
Reinsurance commissions and claims	<u>28,136</u>	<u>38,236</u>	<u>-10,100</u>
Net loss or income(-) from reinsurance	<u>-42,753</u>	<u>-58,108</u>	<u>-15,355</u>
Net loss or income(-) from insurance operations	<u>6,895,278</u>	<u>4,562,179</u>	<u>2,333,099</u>
OPERATING AND ADMINISTRATIVE EXPENSES:			
Personnel compensation	8,996,105	8,116,024	880,081
Personnel benefits	685,454	623,130	62,324
Travel and transportation of persons	1,491,019	1,507,253	-16,234
Transportation of things	17,089	21,159	-4,070
Rent, communications and utilities	655,863	633,044	22,819
Printing and reproduction	115,701	170,622	-54,921
Other contractual services	819,506	913,950	-94,444
Agents' commissions	976,231	1,194,071	-217,840
Supplies and materials	52,980	79,222	-26,242
Expendable equipment	25,822	22,755	3,067
Administrative claims	"	15	-15
Depreciation expense	29,827	30,904	-1,077
Net loss on sale and transfer of equipment	1,918	3,010	-1,092
Accrued annual leave	143,553	41,948	101,605
Prior year adjustments--other accrued operating and administrative expenses	<u>-78,655</u>	<u>-102,260</u>	<u>23,605</u>
Total operating and administrative expenses	<u>13,932,413</u>	<u>13,254,847</u>	<u>677,566</u>
Lapsed appropriation adjustments	<u>34</u>	<u>-</u>	<u>34</u>
Adjusted total operating and administrative expenses (note a)	<u>13,932,447</u>	<u>13,254,847</u>	<u>677,600</u>
NET LOSS FROM OPERATIONS	<u>\$20,827,725</u>	<u>\$17,817,026</u>	<u>\$3,010,699</u>

^a\$1,849,117 paid from premium income in 1970 and \$1,735,039 paid from premium income in 1969, an increase of \$114,078 (note 2).

The notes following schedule 5 are an integral part of this statement.

FEDERAL CROP INSURANCE CORPORATION

COMPARATIVE STATEMENT OF SOURCES AND APPLICATION OF FUNDS

FISCAL YEARS 1970 AND 1969

	Fiscal year <u>1970</u>	Fiscal year <u>1969</u>	Increase or decrease(-)
FUNDS PROVIDED:			
Premium income	\$48,744,536	\$48,873,196	\$ -128,660
Reinsurance premiums	70,889	96,344	-25,455
Subscription to capital stock	10,000,000	-	10,000,000
Appropriation for operating and administrative expense	12,000,000	11,517,500	482,500
Reduction in prior years' operat- ing and administrative expense paid from premium income	78,763	98,760	-19,997
Interest income	5,457	5,530	-73
Decrease in working capital	<u>-</u>	<u>6,418,076</u>	<u>-6,418,076</u>
Total funds provided	<u>\$70,899,645</u>	<u>\$67,009,406</u>	<u>\$ 3,890,239</u>
FUNDS APPLIED:			
Cost of indemnities	\$53,145,487	\$51,083,518	\$ 2,061,969
Reinsurance commissions and claims	28,136	38,236	-10,100
Cost of loss adjustment	2,225,932	2,197,914	28,018
Operating and administrative ex- penses:			
Charged to appropriated funds	11,976,799	11,542,707	434,092
Charged to insurance funds	1,849,117	1,735,039	114,078
Purchase of fixed assets	34,143	24,844	9,299
Miscellaneous expense	64,103	197,320	-133,217
Appropriation transfer to General Services Administration	4,188	9,956	-5,768
Debts receivable charged off	160,476	179,872	-19,396
Increase in working capital	<u>1,411,264</u>	<u>-</u>	<u>1,411,264</u>
Total funds applied	<u>\$70,899,645</u>	<u>\$67,009,406</u>	<u>\$ 3,890,239</u>

The notes following schedule 5 are an integral part of this statement.

FEDERAL CROP INSURANCE CORPORATION

COMPUTATION OF INSURANCE RESERVE

FOR CROP YEAR 1969 AND CUMULATIVE FOR CROP YEARS 1948 THROUGH 1969

AS OF JUNE 30, 1970

Crop	Crop year 1969			
	Premiums	Indemnities	Excess of premiums or indemnities(-)	Loss ratio (ratio of indemnities to premiums)
Apple	\$ 372,862	\$ 89,078	\$ 283,784	.24
Barley	962,838	291,461	671,377	.30
Bean	398,399	328,308	70,091	.82
Cherry	-	-	-	-
Citrus	3,308,493	6,067,109	-2,758,616	1.83
Combined crop	393,118	24,484	368,634	.06
Corn	8,085,640	4,652,965	3,432,675	.58
Cotton	7,622,066	19,942,302	-12,320,236	2.62
Flax	522,857	141,170	381,687	.27
Grain sorghum	1,076,711	441,739	634,972	.41
Grape	102,662	272,005	-169,343	2.65
Oat	723,934	319,930	404,004	.44
Pea, dry	50,013	5,900	44,113	.12
Pea, green	451,473	356,559	94,914	.79
Peach	366,440	148,333	218,107	.40
Peanut	1,007,586	646,799	360,787	.64
Potato	55,156	85,375	-30,219	1.55
Raisin	386,669	114,993	271,676	.30
Rice	42,913	18,766	24,147	.44
Safflower	-	-	-	-
Soybean	4,235,380	3,761,879	473,501	.89
Sugar beet	540,648	684,263	-143,615	1.27
Sugarcane	144,352	11,014	133,338	.08
Tobacco	4,650,973	4,940,655	-289,682	1.06
Tomato	35,433	64,852	-29,419	1.83
Tung nut	8,581	3,243	5,338	.38
Wheat	13,199,339	9,732,305	3,467,034	.74
Total	<u>\$48,744,536</u>	<u>\$53,145,487</u>	-4,400,951	1.09
Direct cost of loss adjustment(-)			-2,225,932	
Other income and expense(-), net			-311,148	
Net income from reinsurance			<u>42,753</u>	
Net income or loss(-) from insurance operations excluding operating and administrative expenses			-6,895,278	
Premium income applied to operating and administrative expenses			<u>-1,770,354</u> (note 2)	
Insurance program deficit(-)			<u>\$ -8,665,632</u>	

The notes following schedule 5 are an integral part of this statement.

Crop years 1948 through 1969			
Premiums	Indemnities	Excess of premiums or indemnities(-)	Loss ratio (ratio of indemnities to premiums)
\$ 1,534,719	\$ 1,773,672	\$ -238,953	1.16
9,988,434	6,450,431	3,538,003	.65
4,521,329	5,292,552	-771,223	.17
149,954	391,504	-241,550	2.61
15,366,505	27,347,723	-11,981,218	1.78
31,977,199	37,253,056	-5,275,857	1.16
79,284,002	80,644,601	-1,360,599	1.02
54,539,046	82,563,502	-28,024,456	1.51
13,722,053	10,723,463	2,998,590	.78
6,289,951	4,400,932	1,889,019	.70
304,348	503,170	-198,822	1.65
4,910,660	2,487,803	2,422,857	.51
389,932	229,071	160,861	.59
2,713,752	4,895,403	-2,181,651	1.80
3,679,085	4,623,281	-944,196	1.26
5,316,251	3,208,786	2,107,465	.60
1,269,604	2,669,694	-1,400,090	2.10
3,103,306	1,520,659	1,582,647	.49
414,437	207,016	207,421	.50
2,290	8,999	-6,709	3.93
29,737,573	25,873,054	3,864,519	.87
2,083,060	1,618,736	464,324	.78
408,042	52,304	355,738	.13
54,878,762	32,900,986	21,977,776	.60
233,568	199,042	34,526	.85
84,250	55,469	28,781	.66
<u>235,656,705</u>	<u>212,181,450</u>	<u>23,475,255</u>	.90
<u>\$562,558,817</u>	<u>\$550,076,359</u>	12,482,458	.98
		-18,767,252	
		-1,785,411	
		<u>100,861</u>	
		-7,969,344	
		<u>-25,763,925</u>	
		<u>\$-33,733,269</u> (schedule 1)	

SCHEDULE 5

FEDERAL CROP INSURANCE CORPORATION

ANALYSIS OF DEFICIT IN ADMINISTRATIVE FUND

FOR FISCAL YEARS 1949 THROUGH 1970

	July 1, 1948 through <u>June 30, 1969</u>	Fiscal year <u>1970</u>	July 1, 1948 through <u>June 30, 1970</u>
COMPUTATION OF DEFICIT:			
Administrative fund expenses:			
Total operating and administrative expenses	\$167,962,444	\$13,932,447	\$181,894,891
Less:			
Reimbursements from others	-	9,996	9,996
Premium income applied to operating and administrative expenses	<u>23,993,571</u>	<u>1,770,354</u>	<u>25,763,925</u>
Total	<u>143,968,873</u>	<u>12,152,097</u>	<u>156,120,970</u>
Deduct net appropriations:			
Appropriations	150,575,742	12,000,000	162,575,742
Less lapses, recisions and net transfers	<u>7,049,267</u>	<u>4,188</u>	<u>7,053,455</u>
Net appropriations	<u>143,526,475</u>	<u>11,995,812</u>	<u>155,522,287</u>
Administrative fund deficit (schedule 1)	<u>\$ 442,398</u>	<u>\$ 156,285</u>	<u>\$ 598,683</u>
ANALYSIS OF DEFICIT:			
Noncash charges:			
Accrued annual leave	\$ 713,577	\$ 143,553	\$ 857,130
Depreciation	362,671	29,827	392,498
Net loss on equipment disposition	21,300	1,918	23,218
Equipment adjustment	59,527	-	59,527
Depreciation adjustment	<u>24,487</u>	<u>-</u>	<u>24,487</u>
Total	1,181,562	175,298	1,356,860
Less:			
Furniture and equipment acquisitions capitalized	699,547	34,143	733,690
Undelivered orders	<u>39,617</u>	<u>-15,130</u>	<u>24,487</u>
Administrative fund deficit	<u>\$ 442,398</u>	<u>\$ 156,285</u>	<u>\$ 598,683</u>

The notes following this schedule are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1970

1. Accounting Basis

Insurance operations shown for fiscal year 1970 relate principally to the 1969 crop year. Crop year 1970 premiums and unapplied cash collections totaling \$21,995,328 have been deferred for inclusion in fiscal year 1971 accounts. In a like manner the estimate of possible losses in the collection of 1970 crop year premiums and approved 1970 crop year indemnities have been deferred. These two items total \$576,530.

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 91-127 approved November 26, 1969) for fiscal year 1970. The Law also provided that the Corporation may pay up to \$1,648,000 of operating and administrative expenses from premium income. In addition, House Joint Resolution 1232 (Public Law 91-257, approved May 19, 1970) provided that the Corporation may pay up to \$691,000 of operating and administrative expenses from premium income. This made a total of \$2,339,000. The operating and administrative expenses paid from premium income consisted of \$1,849,117 for expenses applicable to fiscal year 1970, less an adjustment of \$78,763 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 (\$50,000,000 at June 30, 1970) and does not receive interest on its funds on deposit with the Treasury (\$15,582,560 at June 30, 1970).

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 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.

APPENDIX

PRINCIPAL OFFICIALS OF THE
FEDERAL CROP INSURANCE CORPORATION
DEPARTMENT OF AGRICULTURE
DURING FISCAL YEAR 1970

	<u>Tenure of office</u>	
	<u>From</u>	<u>To</u>
SECRETARY OF AGRICULTURE: Clifford M. Hardin	Jan. 1969	Present
UNDER SECRETARY OF AGRICULTURE: J. Phil Campbell, Jr.	Jan. 1969	Present
BOARD OF DIRECTORS:		
Clarence D. Palmby, Chairman (Assistant Secretary)	June 1969	Present
Carroll G. Brunthaver (Associate Administrator, Agricultural Stabilization and Conservation Service)	June 1969	Present
Richard H. Aslakson (Manager, Federal Crop Insurance Cor- poration)	June 1969	Present
Fred W. Benson (industry mem- ber)	July 1969	Present
Elmo A. Carlson (industry member)	July 1969	Present
CORPORATION OFFICIALS:		
Richard H. Aslakson, Manager	Feb. 1969	Present
Frank Naylor, Jr. Deputy Manager	May 1969	Present

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