

F058

IA-1700
Cat 4043

~~75-0002~~
097114



REPORT TO THE CONGRESS



Audit Of Federal Crop Insurance Corporation Fiscal Year 1974

Department Of Agriculture

**BY THE COMPTROLLER GENERAL
OF THE UNITED STATES**

FOD-75-7

~~702217~~

097114

JAN. 20, 1975



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 report is on our audit of the Federal Crop Insurance Corporation, Department of Agriculture, for the fiscal year ended June 30, 1974.

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

C o n t e n t s

	<u>Page</u>
DIGEST	i
CHAPTER	
1 INTRODUCTION	1
2 OPERATIONS	2
Insurance activity for fiscal year 1974	2
Capital surplus	3
Insurance experience	4
Operating and administrative expenses	4
3 SCOPE OF AUDIT	7
4 OPINION OF FINANCIAL STATEMENTS	8
FINANCIAL STATEMENTS	
Schedule	
1 Comparative statement of financial condition, June 30, 1974 and 1973	9
2 Comparative statement of income and expense, fiscal years 1974 and 1973	10
3 Comparative statement of sources and application of funds, fiscal years 1974 and 1973	11
4 Computation of insurance reserve for crop year 1973 and cumulative for crop years 1948 through 1973, as of June 30, 1974	12

	<u>Page</u>
Schedule (Continued)	
5 Analysis of deficit in administrative fund for fiscal years 1949 through 1974	14
Notes to financial statements, June 30, 1974	15

APPENDIX

I Principal officials responsible for administering activities during fiscal year 1974	18
---	----

ABBREVIATIONS

· FCIC	Federal Crop Insurance Corporation
GAO	General Accounting Office

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.

OPINION ON FINANCIAL STATEMENTS

In GAO's opinion, the financial statements present fairly the Corporation's financial position at June 30, 1974, and the results of its operations and the sources and application of its funds for the year then ended, in conformity with principles and standards of accounting prescribed by the Comptroller General of the United States.

OTHER MATTERS OF INTEREST

The Corporation reported that, for the first time in its history, coverage of insured crops exceeded \$1 billion. Premium income of \$47.5 million exceeded indemnity payments by \$19.1 million. Expenses totaled \$18.9 million, \$12 million of which

was covered by fiscal year 1974 appropriated funds. Such appropriations now exceed \$200 million.

The Corporation has a yearend capital surplus of \$2.7 million, compared with a \$9.6 million capital impairment at the beginning of the year. This is the first time since 1965 that the Corporation has been in a capital surplus position.

RECOMMENDATIONS OR SUGGESTIONS

This report contains no recommendations or suggestions.

MATTERS FOR CONSIDERATION BY
THE CONGRESS

This report is submitted to the Congress, as required by law, to disclose the results of the annual audit of the Corporation and such other information considered necessary to inform the Congress of 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 crops against practically all causes of 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 cost of adjusting losses--primarily costs of 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 1974, FCIC was appropriated \$12 million and was authorized to spend up to \$4,640,000 from premium income for these expenses.

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 1974 are listed in the appendix.

CHAPTER 2

OPERATIONS

INSURANCE ACTIVITY FOR FISCAL YEAR 1974

FCIC's activities in fiscal year 1974 produced a net operating gain of \$249,000. The net gain from insurance program operations was \$16.8 million, and operating and administrative expenses were \$16.6 million.

FCIC's insurance program coverage for crop year 1973 totaled \$1,008 million on 23 agricultural commodities. Crop year 1973 marked the first time in FCIC's history that insurance coverage exceeded \$1 billion.

Crop year 1973 premiums on insured crops were \$47.5 million and indemnities were \$28.4 million, resulting in a loss ratio of 0.60. This ratio equaled the 1971 and 1972 ratios, and it was only the sixth time in FCIC's history that the loss ratio had been 0.60 or less. Of the 23 insured commodities, 14 showed favorable (less than 1.00) loss ratios.

Premiums exceeded indemnities for corn, soybeans, and wheat insurance by \$6.7 million, \$3.3 million, and \$2.2 million, respectively. FCIC's major losses were \$0.4 million and \$0.3 million in the peach and sugarcane insurance programs, respectively. The peach program, which had a 2.41 loss ratio for crop year 1973, has had an unfavorable loss ratio 9 times in its 17 year history. The sugarcane program, with a 2.78 loss ratio in crop year 1973, had its first unfavorable experience in 7 years.

Section 508(a) of the Federal Crop Insurance Act authorizes FCIC to expand its insurance operations to cover not more than (1) 3 additional agricultural commodities and (2) 150 additional counties each year. In crop year 1973, as in 1972, FCIC insured 23 commodities. In 1973, 10 more counties were covered than in 1972, increasing the total to 1,432 counties.

FCIC did not participate in a reinsurance program with Farm Insurance of Puerto Rico during fiscal year 1974. No future involvement in Puerto Rico reinsurance is anticipated.

CAPITAL SURPLUS

At June 30, 1974, FCIC had a capital surplus of \$2.7 million compared with impaired capital of \$9.6 million in 1973, \$21.6 million in 1972, and \$36.2 million in 1971. This is the first time since fiscal year 1965 that FCIC has been in a capital surplus position.

Deficit at June 30, 1973	\$-9,556,907
Earnings during 1974	<u>12,243,498</u>
Surplus at June 30, 1974	<u>\$ 2,686,591</u>

This total comprises a \$3,311,335 surplus from insurance operations and a \$624,744 administrative fund deficit. The administrative fund deficit resulted from noncash items being charged to operating and administrative expenses.

The capital surplus and the \$60 million outstanding capital stock constituted the \$62,686,591 unimpaired capital balance at June 30, 1974. This balance was \$12,243,498 more than the beginning balance of \$50,443,093. The table below shows the composition of the fiscal year 1974 increase.

Capital source

Net gain from insurance program operations	\$16,816,158
Increase in administrative fund deficit	-71,061
Premiums used to pay operating and administrative expenses (including prior years' expense adjustment)	<u>-4,501,599</u>
Total	<u>\$12,243,498</u>

INSURANCE EXPERIENCE

As shown in schedule 4, FCIC's crop insurance programs from 1948 through 1973 resulted in premiums exceeding indemnities by about \$70.6 million. Insurance gains were \$130.2 million for 16 crops, and insurance losses were \$59.6 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 had gains of \$46.7 million and \$32.6 million, respectively. The wheat program had gains in 16 of its 26 years of operation, and the tobacco program has had gains in 24 of its 26 years of operation.

Most of the insurance losses have been in the cotton and citrus programs--\$30.3 and \$16.7 million, respectively. The crop year 1973 cotton program had a loss ratio of 0.46, which equaled the most favorable ratio in 14 years. During the past 8 years, cotton losses have totaled \$34.0 million. For crop year 1973, citrus had a favorable loss ratio of 0.46, its best performance since 1966. From 1967 through 1973, citrus insurance losses have totaled \$13.4 million.

Neither the loss ratios nor the difference between premiums and indemnities necessarily reflect the actual or comparative profitability of individual commodity insurance programs. Operating and administrative expenses, as well as the direct cost of loss adjustors, 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 unprofitable if all costs were applied. FCIC is not required by law to distribute the overhead costs or direct costs of loss adjustors to the individual commodity insurance programs.

OPERATING AND ADMINISTRATIVE EXPENSES

FCIC's comparative statement of income and expense for fiscal years 1974 and 1973 (sch. 2) shows that operating and administrative expenses for fiscal year 1974 were \$16,588,105 compared with \$14,834,666 for fiscal year 1973, an increase of \$1,753,439. Fiscal year 1974 expenses

include a general salary increase and a retroactive pay increase applicable to fiscal year 1973.

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 the fiscal year 1974 and 1973 functional cost statements.

<u>Function</u>	Fiscal year <u>1974</u>	Fiscal year <u>1973</u>
Underwriting, actuarial, and program development:		
Underwriting operations	\$ 1,013,747	\$ 809,848
Actuarial management	617,680	467,321
Program development	256,929	229,128
Program management	<u>138,174</u>	<u>81,642</u>
Total	<u>2,026,530</u>	<u>1,587,939</u>
Marketing and collections:		
Sales promotion	825,650	755,466
Selling	4,269,685	3,977,165
Collections	1,549,084	1,478,878
Agents' agreements (note a)	1,269,379	911,651
Marketing management	260,411	256,528
Sales training meetings	303,128	294,276
Recruitment of sales personnel	111,855	96,204
Field sales training	<u>262,781</u>	<u>247,356</u>
Total	^b <u>8,851,974</u>	^b <u>8,017,526</u>
Contract servicing and claims:		
Applications	1,188,433	1,006,124
Acreage reports	2,099,982	1,915,325
Inspections	1,845,849	1,850,929
Meetings	150,457	119,563
Contract service management	377,518	294,298
Recruitment of loss adjusters	24,432	13,439
Field training	<u>22,930</u>	<u>29,524</u>
Total	<u>5,709,601</u>	^b <u>5,229,201</u>
Total operating and administrative expenses	<u>\$16,588,105</u>	<u>\$14,834,666</u>

^a Differs 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 prior year adjustments on schedule 2.

^b Differs slightly from footed total due to rounding.

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, including audit work by the Office of the Inspector General, Department of Agriculture.

CHAPTER 4

OPINION OF 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 important of these services and benefits was using Government funds without paying interest. But, to offset 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, 1974, and the results of its operations and sources and application of its funds for the year then ended, in conformity with principles and standards of accounting prescribed by the Comptroller General of the United States.

FEDERAL CROP INSURANCE CORPORATION

SCHEDULE 1

COMPARATIVE STATEMENT OF FINANCIAL CONDITION
JUNE 30, 1974 AND 1973

ASSETS	Year ended June 30		Increase or decrease (-)
	1974	1973	
CASH:			
Insurance program funds	\$62,362,411	\$48,828,968	\$13,533,443
Funds appropriated for operating and administrative expenses	<u>2,412,825</u>	<u>1,874,250</u>	<u>538,575</u>
Total	<u>64,775,236</u>	<u>50,703,218</u>	<u>14,072,018</u>
ACCOUNTS RECEIVABLE:			
	23,025,528	22,533,092	492,436
Less estimated bad debts	<u>1,269,753</u>	<u>1,252,773</u>	<u>16,980*</u>
Total	<u>21,755,775</u>	<u>21,280,319</u>	<u>475,456</u>
FURNITURE AND EQUIPMENT:			
Cost or transferred value	583,913	569,269	14,644
Less accumulated depreciation	<u>360,876</u>	<u>355,589</u>	<u>5,287*</u>
Total	<u>223,037</u>	<u>213,680</u>	<u>9,357</u>
Total assets	<u>\$86,754,048</u>	<u>\$72,197,217</u>	<u>\$14,556,831</u>
LIABILITIES AND INVESTMENT			
ACCOUNTS PAYABLE AND OTHER LIABILITIES:			
Agents' commissions payable	\$ 870,065	\$ 682,435	\$ 187,630
Employees' accrued annual leave	898,669	836,995	61,674
Estimated indemnities payable	677,082	1,063,128	-386,046
Accrued payroll and other liabilities	<u>1,981,905</u>	<u>1,348,778</u>	<u>633,127</u>
Total	<u>4,427,721</u>	<u>3,931,336</u>	<u>496,385</u>
DEFERRED PREMIUMS AND COSTS:			
1974 crop year premiums, less approved indemnity claims, and bad debt expense (note 1)	<u>19,564,736</u>	<u>17,747,788</u>	<u>1,816,948</u>
Total liabilities	<u>23,992,457</u>	<u>21,679,124</u>	<u>2,313,333</u>
PROVISION FOR SURETY LOSSES	<u>75,000</u>	<u>75,000</u>	<u>-</u>
INVESTMENT OF U.S. GOVERNMENT:			
Capital stock (authorized \$100,000,000) issued and outstanding	60,000,000	60,000,000	-
Insurance program deficit (-) or reserve	3,311,335	-9,003,224	12,314,559
Administrative fund deficit (sch. 5)	<u>-624,744</u>	<u>-553,683</u>	<u>71,061*</u>
Total investment of U.S. Government	<u>62,686,591</u>	<u>50,443,093</u>	<u>12,243,498</u>
Total liabilities and investment	<u>\$86,754,048</u>	<u>\$72,197,217</u>	<u>\$14,556,831</u>

*Deduction

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

SCHEDULE 2

FEDERAL CROP INSURANCE CORPORATION

COMPARATIVE STATEMENT OF INCOME AND EXPENSE
FISCAL YEARS 1974 and 1973

	Fiscal year <u>1974</u>	Fiscal year <u>1973</u>	Increase or decrease (-)
INSURANCE OPERATIONS:			
Premiums	\$ 47,544,546	\$ 41,953,821	\$5,590,725
Indemnities	<u>28,443,473</u>	<u>25,250,712</u>	<u>3,192,761</u>
Excess of indemnities or premiums (-)	-19,101,073	-16,703,109	2,397,964
Cost of loss adjustment	1,781,689	1,860,617	-78,928
Provision for losses on accounts receivable	228,268	-71,605	299,873
Other expense or income (-)	<u>274,703</u>	<u>37,412</u>	<u>237,291</u>
Net loss or income (-) from direct insurance operations	<u>-16,816,413</u>	<u>-14,876,685</u>	<u>1,939,728</u>
Reinsurance premiums	-	53,765	-53,765
Reinsurance commissions and claims	<u>255</u>	<u>22,456</u>	<u>-22,201</u>
Net loss or income (-) from reinsurance	<u>255</u>	<u>-31,309</u>	<u>-31,564</u>
Net loss or income (-) from insurance operations	<u>-16,816,158</u>	<u>-14,907,994</u>	<u>1,908,164</u>
OPERATING AND ADMINISTRATIVE EXPENSES:			
Personnel compensation	10,254,730	9,610,235	644,495
Personnel benefits	1,027,485	882,298	145,187
Travel and transportation of persons	1,631,854	1,569,083	62,771
Transportation of things	94,139	43,826	50,313
Rent, communications, and utilities	875,480	869,888	5,592
Printing and reproduction	128,163	93,620	34,543
Other contractual services	1,183,483	856,781	326,702
Agents' commissions	1,158,989	931,893	227,096
Supplies and materials	56,636	46,150	10,486
Expendable equipment	30,588	33,763	-3,175
Depreciation expense	29,607	29,991	-384
Net loss on sale and transfer of equipment	4,405	-7,688	12,093
Accrued annual leave	61,674	-3,811	65,485
Prior-year adjustments--other accrued operating and administrative expenses	<u>50,872</u>	<u>-121,363</u>	<u>172,235</u>
Total operating and administrative expenses	<u>16,588,105</u>	<u>14,834,666</u>	<u>1,753,439</u>
Leave earnings charged to Agricultural Stabilization and Conservation Service	-12,116	-	-12,116
Lapsed appropriation adjustments	1,904	400	1,504
Reimbursements from others	<u>-10,758</u>	<u>-1,451</u>	<u>-9,307</u>
Adjusted total operating and administrative expenses (note a)	<u>16,567,135</u>	<u>14,833,615</u>	<u>1,733,520</u>
NET LOSS OR INCOME (-) FROM OPERATIONS	<u>\$ -249,023</u>	<u>\$ -74,379</u>	<u>\$ 174,644</u>

^a\$4,302,384 paid from premium income in 1974 and \$2,987,470 paid from premium income in 1973, an increase of \$1,314,914 (note 2).

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

SCHEDULE 3

FEDERAL CROP INSURANCE CORPORATION

COMPARATIVE STATEMENT OF SOURCES AND APPLICATION OF FUNDS
FISCAL YEARS 1974 and 1973

	Fiscal year <u>1974</u>	Fiscal year <u>1973</u>	Increase or decrease (-)
FUNDS PROVIDED:			
Premium income	\$47,544,546	\$41,953,821	\$5,590,725
Reinsurance premiums	-	53,765	-53,765
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	-120,940
Interest income	<u>3,771</u>	<u>1,692</u>	<u>2,079</u>
Total funds provided	<u>\$59,548,317</u>	<u>\$54,130,218</u>	<u>\$5,418,099</u>
FUNDS APPLIED:			
Cost of indemnities	\$28,443,473	\$25,250,712	\$3,192,761
Reinsurance commissions and claims	255	22,456	-22,201
Cost of loss adjustment	1,781,689	1,860,617	-78,928
Operating and administrative expenses:			
Charged to appropriated funds	11,969,850	11,948,592	21,258
Charged to insurance funds	4,302,384	2,987,470	1,314,914
Increase in prior years' operating and administrative expense paid from premium income	199,214	-	199,214
Purchase of fixed assets	43,369	21,521	21,848
Miscellaneous expense	278,475	39,104	239,371
Appropriation transfer to General Services Administration	5,525	21,666	-16,141
Debts receivable charged off	220,449	171,960	48,489
Increase in working capital	<u>12,303,634</u>	<u>11,806,120</u>	<u>497,514</u>
Total funds applied	<u>\$59,548,317</u>	<u>\$54,130,218</u>	<u>\$5,418,099</u>

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

SCHEDULE 4

FEDERAL CROP INSURANCE CORPORATION

COMPUTATION OF INSURANCE RESERVE

FOR CROP YEAR 1973 AND CUMULATIVE FOR CROP YEARS 1948 THROUGH 1973

AS OF JUNE 30, 1974

Crop	Crop year 1973			Loss ratio (ratio of indemnities to premiums)
	Premiums	Indemnities	Excess of premiums or indemnities (-)	
Apple	\$ 636,950	\$ 833,154	\$ -196,204	1.31
Barley	1,232,745	1,064,294	168,451	.86
Bean	367,878	334,684	33,194	.91
Cherry	-	-	-	-
Citrus	2,557,142	1,179,417	1,377,725	.46
Combined crop	444,004	453,332	-9,328	1.02
Corn	8,943,828	2,274,122	6,669,706	.25
Cotton	3,066,541	1,416,643	1,649,898	.46
Flax	348,785	431,315	-82,530	1.24
Grain sorghum	1,114,908	267,533	847,375	.24
Grape	222,888	348,786	-125,898	1.56
Oat	384,421	397,016	-12,595	1.03
Pea, dry	35,767	39,656	-3,889	1.11
Pea, green	197,514	318,728	-121,214	1.61
Peach	310,756	748,250	-437,494	2.41
Peanut	2,110,999	433,687	1,677,312	.21
Potato	-	-	-	-
Raisin	105,584	2,466	103,118	.02
Rice	67,179	42,368	24,811	.63
Safflower	-	-	-	-
Soybean	4,805,224	1,517,858	3,287,366	.32
Sugar beet	544,274	418,839	125,435	.77
Sugarcane	152,183	423,600	-271,417	2.78
Tobacco	6,506,871	4,349,047	2,157,824	.67
Tomato	18,066	17,531	535	.97
Tung nut	-	-	-	-
Wheat	13,370,039	11,131,147	2,238,892	.83
Total	\$47,544,546	\$28,443,473	19,101,073	.60
Direct cost of loss adjustment (-)			-1,781,689	
Other income and expense (-), net			-502,971	
Net income from reinsurance			-255	
Net income or loss (-) from insurance operations ex- cluding operating and administrative expenses			16,816,158	
Premium income applied to operating and administra- tive expenses			-4,513,715	
Indirect cost of leave earnings charged to Agricultural Stabilization and Conserva- tion Service			12,116	
Insurance program surplus			<u>\$12,314,559</u>	

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

SCHEDULE 4

Crop years 1948 through 1973			
<u>Premiums</u>	<u>Indemnities</u>	<u>Excess of premiums or indemnities (-)</u>	<u>Loss ratio (ratio of indemnities to premiums)</u>
\$ 3,245,471	\$ 4,763,919	\$ -1,518,448	1.47
14,084,196	8,993,152	5,091,044	.64
6,059,866	6,532,671	-472,805	1.08
149,954	391,504	-241,550	2.61
26,349,077	43,007,908	-16,658,831	1.63
33,662,352	37,961,077	-4,298,725	1.13
115,932,544	98,468,045	17,464,499	.85
69,791,480	100,064,565	-30,273,085	1.43
15,133,117	12,014,931	3,118,186	.79
11,176,057	7,639,415	3,536,642	.68
892,356	1,538,916	-646,560	1.72
6,920,552	3,799,433	3,121,119	.55
573,528	395,053	178,475	.69
3,759,961	5,824,600	-2,064,639	1.55
4,961,408	7,020,544	-2,059,136	1.42
10,897,973	6,991,928	3,906,045	.64
1,269,604	2,668,998	-1,399,394	2.10
3,918,176	1,523,345	2,394,831	.39
649,401	322,271	327,130	.50
2,290	8,999	-6,709	3.93
46,287,544	35,605,501	10,682,043	.77
4,144,954	3,473,620	671,334	.84
1,172,902	904,340	268,562	.77
76,709,797	44,061,632	32,648,165	.57
363,165	270,458	92,707	.74
89,526	67,469	22,057	.75
<u>286,073,821</u>	<u>239,376,671</u>	<u>46,697,150</u>	.84
<u>\$744,271,072</u>	<u>\$673,690,965</u>	70,580,107	.91
		-26,528,410	
		-2,584,166	
		<u>201,462</u>	
		41,668,993	
		-38,369,774	
		<u>12,116</u>	
		<u>\$ 3,311,335</u>	

SCHEDULE 5

FEDERAL CROP INSURANCE CORPORATION
 ANALYSIS OF DEFICIT IN ADMINISTRATIVE FUND
 FOR FISCAL YEARS 1949 THROUGH 1974

	July 1, 1948 through <u>June 30, 1973</u>	Fiscal year <u>1974</u>	July 1, 1948 through <u>June 30, 1974</u>
ADMINISTRATIVE FUND EXPENSES:			
Total operating and administrative expenses	\$225,928,250	\$16,590,009	\$242,518,259
Less: Reimbursements from others	21,087	10,758	31,845
Premium income applied to operating and administrative expenses	<u>33,856,059</u>	<u>4,513,715</u>	<u>38,369,774</u>
Total	<u>192,051,104</u>	<u>12,065,536</u>	<u>204,116,640</u>
DEDUCT NET APPROPRIATIONS:			
Appropriations	198,575,742	12,000,000	210,575,742
Less lapses, recisions, and net transfers	<u>7,078,321</u>	<u>5,525</u>	<u>7,083,846</u>
Net appropriations	<u>191,497,421</u>	<u>11,994,475</u>	<u>203,491,896</u>
Administrative fund deficit (sch. 1)	<u>\$ 553,683</u>	<u>\$ 71,061</u>	<u>\$ 624,744</u>
ANALYSIS OF DEFICIT:			
Noncash charges:			
Accrued annual leave	\$ 836,995	\$ 61,674	\$ 898,669
Depreciation	481,636	29,607	511,243
Net loss on equipment dispositions	17,005	4,405	21,410
Equipment adjustment	59,527	-	59,527
Depreciation adjustment	<u>24,487</u>	<u>-</u>	<u>24,487</u>
	1,419,650	95,686	1,515,336
Less:			
Furniture and equipment acquisitions capitalized	796,336	43,369	839,705
Undelivered orders	<u>69,631</u>	<u>-18,744</u>	<u>50,887</u>
Administrative fund deficit	<u>\$ 553,683</u>	<u>\$ 71,061</u>	<u>\$ 624,744</u>

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

NOTES TO FINANCIAL STATEMENTS - JUNE 30, 1974

1. Accounting Basis

Insurance operations shown for fiscal year 1974 relate principally to the 1973 crop year. Crop year 1974 premiums in the amount of \$19,994,158 have been deferred for inclusion in fiscal year 1975 accounts. In a like manner the estimate of possible losses in the collection of 1974 crop year premiums and approved 1974 crop year indemnities have been deferred. These two items total \$429,422.

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 93-135, approved October 24, 1973) for fiscal year 1974. The Law also provided that the Corporation may pay up to \$3,632,000 of operating and administrative expenses from premium income. The Second Supplemental Appropriations Act, 1974 (Public Law 93-305, approved June 8, 1974) authorized payment of an additional \$1,008,000 of operating and administrative expenses from premium income. The operating and administrative expenses paid from premium income consisted of \$4,302,384 for expenses applicable to fiscal year 1974, plus \$211,331 for prior fiscal years' expenses, which includes \$159,000 for 1973 retroactive pay increase costs, less reimbursement of \$12,116 for the indirect cost of leave earnings charged to the Agricultural Stabilization and Conservation Service of the United States Department of Agriculture.

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, 1974) and does not receive interest on its funds on deposit with the Treasury (\$62,362,411 at June 30, 1974).

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.

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 22, 1974.

APPENDIX

PRINCIPAL OFFICIALS RESPONSIBLE

FOR ADMINISTERING ACTIVITIES

DURING FISCAL YEAR 1974

Tenure of office
From To

DEPARTMENT OF AGRICULTURE

SECRETARY OF AGRICULTURE:

Earl L. Butz

Dec. 1971 Present

UNDER SECRETARY OF AGRICULTURE:

J. Phil Campbell, Jr.

Jan. 1969 Present

FEDERAL CROP INSURANCE CORPORATION

BOARD OF DIRECTORS:

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

Mar. 1974 Present

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

Nov. 1973 Present

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

June 1973 Present

John M. Brabhan (industry member)

Nov. 1973 Present

Encil V. Sharp (industry member)

Nov. 1973 Present

Carrol G. Brunthaver, Chairman
(Assistant Secretary for International
Affairs and Commodity Programs)

July 1972 Jan. 1974

Elvin J. Person (Deputy Administrator,
Programs, Agricultural Stabilization
and Conservation Service)

July 1972 Nov. 1973

Fred W. Benson (industry member)

July 1969 Nov. 1973

Elmo A. Carlson (industry member)

July 1969 Nov. 1973

CORPORATION OFFICIALS:

Melvin R. Peterson, Manager

June 1973 Present

David W. McElwrath, Deputy Manager

Apr. 1972 Present

Copies of GAO reports are available to the general public at a cost of \$1.00 a copy. There is no charge for reports furnished to Members of Congress and congressional committee staff members, officials of Federal, State, local, and foreign governments; members of the press, college libraries, faculty members, and students, and non-profit organizations.

Requesters entitled to reports without charge should address their requests to:

U.S. General Accounting Office
Distribution Section, Room 4522
441 G Street, NW.
Washington, D.C. 20548

Requesters who are required to pay for reports should send their requests with checks or money orders to:

U.S. General Accounting Office
Distribution Section
P.O. Box 1020
Washington, D.C. 20013

Checks or money orders should be made payable to the U.S. General Accounting Office. Stamps or Superintendent of Documents coupons will not be accepted. Please do not send cash.

To expedite filling your order, use the report number in the lower left corner of the front cover.

AN EQUAL OPPORTUNITY EMPLOYER

UNITED STATES
GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

OFFICIAL BUSINESS
PENALTY FOR PRIVATE USE, \$300

POSTAGE AND FEES PAID
U. S. GENERAL ACCOUNTING OFFICE



THIRD CLASS
