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BY THE COMPTROLLER GENERAL



Report To The Congress

OF THE UNITED STATES

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Audit Of The Financial Statements Of Federal Crop Insurance Corporation, Fiscal Year 1978

The Corporation reported an operating loss of \$78.2 million for fiscal year 1978, due primarily to drought conditions affecting the corn, tobacco, and wheat crops.

At September 30, 1978, the Corporation had a deficit of \$152.4 million leaving \$47.6 million from the \$200 million capital the Treasury invested. Preliminary estimates indicate that premiums in fiscal year 1979 will exceed indemnities by about \$43.2 million, reversing the trend of the last 3 years. The Corporation is a part of the Department of Agriculture.



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

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

This report summarizes the results of our audit of the financial statements of the Federal Crop Insurance Corporation, Department of Agriculture, for the fiscal year ended September 30, 1978.

We made our audit pursuant to the Government Corporation Control Act (31 U.S.C. 841) which requires GAO to make such an audit at least every 3 years.

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

James A. Stairs
Comptroller General
of the United States

D I G E S T

OPINION ON THE FINANCIAL STATEMENTS

In GAO's opinion, ^{A.} the financial statements present fairly the financial position of the Federal Crop Insurance Corporation at September 30, 1978, and the results of its operations and the changes in its financial position for the year then ended, in accordance with generally accepted accounting principles. (See p. 9.)

RESULTS OF OPERATIONS

The Corporation reported a net operating loss of \$78.2 million in fiscal year 1978-- a net loss from insurance program operations (crop year 1977 business) of \$55.0 million and operating and administrative expenses of \$23.2 million. (See p. 2.)

At September 30, 1978, the Corporation reported a depletion in capital of \$66.2 million for the fiscal year. This change in capital resulted from a \$55.0 million net loss from insurance program operations and \$11.2 million paid from premium income for operating and administrative expenses. (See p. 13.)

The fiscal year 1978 loss is the largest in the Corporation's history. The excess of indemnities over premiums totaled \$60.7 million on corn, tobacco, and wheat crops. Gains were recorded on most of the other insured crops. (See p. 2.)

To cover large losses from July 1, 1975, to September 30, 1978, the Corporation has used \$136.5 million of the \$140.0 million the Congress authorized the Treasury to invest in capital stock during that period. (See p. 3.)

Preliminary estimates indicate that in fiscal year 1979 (crop year 1978) premiums will exceed indemnities by about \$43.2 million, which should offset in part the large deficits of recent years. (See p. 3.)

✓ In 40 pilot counties, the Corporation is testing the capability of the county Agricultural Stabilization and Conservation Service delivery system to improve underwriting practices and increase sales of crop insurance. This test was initiated to improve the existing program as well as support proposed legislation for an all-risk subsidized crop insurance program which would replace several disaster relief programs including the free disaster payment program of the Commodity Credit Corporation. Federal Crop Insurance Corporation officials claim it is too early to evaluate whether Agricultural Stabilization and Conservation Service county offices can effectively classify farms for risk, but they did cite several formidable barriers to increasing sales by independent insurance agents. (See p. 6.) *A*

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ABBREVIATIONS

FCIC	Federal Crop Insurance Corporation
GAO	General Accounting Office

CHAPTER 1

INTRODUCTION

The Federal Crop Insurance Corporation (FCIC), a Government-owned 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. 1508b) authorizes FCIC to set premiums at rates sufficient to cover claims for crop losses and to establish a reserve for unforeseen losses, and within limits prescribed by applicable appropriation acts, to pay operating and administrative expenses. In addition, Section 1516a provides that the direct cost of loss adjustments--primarily adjusters' salary and travel costs for settling crop loss claims--may be considered non-administrative expenses and, therefore, paid from premium income.

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 Department of Agriculture employees, and two persons experienced in the insurance business who are not employed by the Government.

To improve operations FCIC has transferred various Washington headquarters staff to the National Service Office at Kansas City, Missouri; increased the number of regional offices from 14 to 16; and gave the Regional Directors greater authority over their operations. They no longer report to the Manager, National Service Office, in Kansas City. Instead they now report indirectly to the Corporation Manager in Washington, D.C., through the Executive Assistant, a part of the Corporation Manager's staff, located in the National Service Office.

CHAPTER 2

RESULTS OF INSURANCE OPERATIONS

INSURANCE LOSS FOR FISCAL YEAR 1978

Crop insurance programs resulted in a net operating loss of \$78.2 million in fiscal year 1978 (crop year 1977 business), consisting of \$55.0 million net loss from insurance operations and \$23.2 million from operating and administrative expenses. (See schedule 2.) This is the largest loss in the Corporation's history. The insurance program coverage totaled \$2.1 billion for 24 agricultural commodities.

The insurance loss consisted of \$47.1 million excess of indemnities (\$148.9 million) over premiums (\$101.8 million), plus \$7.9 million mainly for loss adjustment and other insurance costs. The loss to premium ratio was 1.46, the 10th highest in the Corporation's history.

Of the 24 insured crops, 9 showed unfavorable (greater than 1.00) loss ratios. (See schedule 4.) The Corporation's major insurance losses were \$26.0 million for corn, \$22.0 million for tobacco, and \$12.7 million for wheat. Drought caused most of the losses, with hail, excess moisture, winter kill, and wind also causing sizable losses. The citrus, cotton, peanut, and soybean programs helped offset these losses with premiums in excess of indemnities of \$12.2 million.

Since our report 1/ covering fiscal year 1975 activities, the Corporation has added sunflowers to its coverage, for a total of 24 crops. During crop years 1975 through 1977, 25 more counties have been covered, for a total of 1,467 counties. This increase consists of 26 new counties and 1 discontinued county.

RECENT LOSSES SERIOUSLY DEplete NEW CAPITAL

At September 30, 1978, the Corporation had depleted its capital of \$200 million by \$152.4 million, resulting mainly from a \$79.7 million deficit from insurance operations, including a \$47.0 million cost of adjusting losses, and a

1/"Audit of Federal Crop Insurance Corporation, Fiscal Year 1975" (FOD-76-8, Jan. 22, 1976).

\$72.2 million of premium revenues used for operating and administrative expenses.

Since our last audit 3 years ago, the Corporation's activities have produced a net loss of \$19.6 million, \$77.8 million, and \$78.2 million in fiscal years 1976, 1977, and 1978, respectively. At the end of fiscal year 1978 the Government's investment was \$47.6 million--the residual of the \$200 million capital stock issued.

The Government's net investment increased only \$3.5 million in these 3 years, even though it invested an additional \$140 million in the capital stock of the Corporation. (See note 3 to financial statements.)

Total investment	September 30, 1978	\$47,573,139
Total investment	June 30, 1975	<u>44,109,012</u>
		\$ <u>3,464,127</u>

The table below shows the change in the depleted capital of \$136.5 million from July 1, 1975, to September 30, 1978:

Depleted capital, July 1, 1975	-\$ 15,890,988
Net losses from insurance program	- 108,607,806
Premium income used to pay operating and administrative expenses (including prior year adjustments)	- 28,089,184
Decrease in administrative fund deficit	<u>161,117</u>
Depleted capital, September 30, 1978	<u>-\$152,426,861</u>

Preliminary estimates at February 28, 1979, indicate that fiscal year 1979 (crop year 1978 business) insurance operations (excluding cost of loss adjustments and administrative expenses) will produce a surplus of about \$43.2 million. This will offset, in part, the large deficits of recent years.

INSURANCE EXPERIENCE

As shown in schedule 4, the Corporation's crop insurance programs from 1948 through 1977 resulted in an excess of indemnities over premiums of \$27.5 million. Insurance gains totaled \$111.6 million for 16 crops, and insurance losses

were \$139.1 million for 12 crops. The Corporation has stopped insuring 1 of the 16 crops with gains and 3 of the 12 crops with losses.

The wheat, tobacco, and soybean programs have produced insurance gains of \$47.4 million, \$16.4 million, and \$20.5 million, respectively. In the 30 years since 1948, the wheat program has shown gains in 19 years, and the tobacco program has experienced 26 favorable years. Since 1955, when the soybean program started, it has experienced gains in 19 of the 23 years.

Most of the insurance losses have been in citrus, corn, and cotton--\$15.8 million, \$61.5 million, and \$49.3 million, respectively. In the last 3 years, citrus and cotton programs have experienced losses in only 1 year, while the corn program has shown losses in all 3 years.

For the 1978-79 season, the Corporation has entered into a reinsurance agreement with the Agricultural Development Administration of Puerto Rico, after being out of the program for 6 years. (See note 4 to financial statements.) The Corporation could earn as much as \$276,000 gross profit, exclusive of claims paid, under this agreement. The Corporation's risk is 65 percent of every risk written by the Agricultural Development Administration, with the total liability limited to \$7,689,500. Insurance coverage is provided against hurricane and squall risks on such crops as coffee, bananas, papaya fruit, oranges, citron, sugarcane, and tobacco.

Neither the loss ratios nor the amounts of difference between premiums and indemnities necessarily reflect the actual or comparative profitabilities of individual commodity insurance programs. Operating and administrative expenses, as well as the direct cost of loss adjustments, are not matched with 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 an even greater loss if all costs were applied. The Corporation is not required by law to distribute the overhead costs or direct cost of loss adjustments to the individual commodity insurance programs. Corporation officials said that distributing costs between two or more crops grown in an area would at best be judgmental and arbitrary.

OPERATING AND ADMINISTRATIVE EXPENSES

Operating and administrative expenses for fiscal year 1978 were \$23.2 million, compared with \$19.6 million for

fiscal year 1977, an increase of \$3.6 million. (See schedule 2.) This increase was due mainly to a general salary increase in October 1977 and the cost of expanding the insurance program into 50 new counties for the 1978 crop.

Because the Corporation has not been allowed by law to set premium rates high enough to cover operating and administrative expenses, about \$72.2 million has been expended from premium income for such expenses. Also, \$47.0 million has been expended for the cost of adjusting losses.

Section 1516a of the Federal Crop Insurances Act authorizes annual appropriations for operating and administrative expenses not to exceed \$12 million. To meet costs in excess of this amount, the Congress has authorized the Corporation to expend limited amounts of premium income, as provided for in annual appropriation acts. For fiscal year 1978, the Congress authorized spending \$12,418,000 from premium income; expenditures amounted to \$11,289,982 from premium income. The amount expended from premium income in fiscal year 1977 was \$7.9 million.

There is no statutory limit on the amount of direct cost of loss adjustment that may be paid out of premium income. The following table shows amounts paid in the last 3 fiscal years.

<u>Fiscal year</u>	<u>Direct cost of loss adjustment</u>
1976 (15 months)	\$4,891,255
1977	6,138,174
1978	6,228,401

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

Therefore, the Corporation has had to pay \$72.7 million for operating and administrative expenses and \$47.0 million for the cost of adjusting losses out of premium income because premium rates were not high enough to recover these costs in addition to establishing reserve for unforeseen losses.

CORPORATION'S EFFORTS TO INCREASE
PARTICIPATION AND IMPROVE ITS
UNDERWRITING PRACTICES

In recent years numerous bills have been introduced in the Congress to expand protection against crop losses and to merge the crop insurance program with the Commodity Credit Corporation's direct payment disaster program with some premium subsidy contemplated.

In a December 1977 report to the Congress 1/ we recommended that the Secretary of Agriculture and the Corporation's Board of Directors develop a personalized crop insurance program with both production guarantees and premiums based on each producer's history of yields. We concluded that such a program would be more attractive and salable--with increased actuarial soundness and equity--and thereby should stimulate producer participation. A later Corporation-financed study 2/ confirmed that one of the causes for low participation may be that coverages and rates fail to reflect the needs of many producers.

In commenting on our 1977 report, the Corporation manager concurred with the principles of individualizing insurance premiums and guarantees. And for crop year 1978, the Corporation initiated a pilot program in 20 counties in 9 States, which was later expanded to 40 counties in 18 States for crop year 1979. The purpose of this program is to test the capability of the Agricultural Stabilization and Conservation Service county offices to sell insurance, provide more individualized coverage distribution, administer the crop insurance program (excluding loss adjustment), and prepare for anticipated legislation which would consolidate all disaster coverage under the shield of a subsidized all-risk crop insurance program. The test includes using independent agents for selling the insurance.

The Corporation let each pilot county office, its committee, and FCIC field underwriters experiment with ways to obtain better individual farm data, assess the relative

1/"The Federal Crop Insurance Program Can Be Made More Effective" (FOD-77-7, December 1977).

2/"An Analysis of the Present and Proposed Federal Crop Insurance Programs," Actuarial Research Corporation, March 1978, p. 4.

classify farms by homogeneous groups. For historical yield data, the test relies on the availability of such data by farm unit in the county office and on the collective judgments of the people affiliated with the county offices. The Corporation believes that collection of yield data should be the responsibility of other agencies, such as the Economics, Statistics, and Cooperatives Service and the Agricultural Stabilization and Conservation Service.

Corporation officials told us that the Department of Agriculture is committed to improving its actuarial practices and adopting, to the extent practicable, the principles of personalized rates and guarantees. Selected improvements in insurance packages for rice, sugarcane, and sweet corn were claimed. But the officials believe that comprehensive results will take several years.

Corporation officials believe that overall coordination and support of the test by both agencies is good but speculated that in the first year spotty performance in a few counties was due to

- decreased motivation to test a delivery system to sell the existing crop insurance when it became evident that subsidized crop insurance legislation would not be enacted in 1978;
- the committee retaining the traditional means to classify farm productivity by area designation (yields plotted on county maps by soil, or township and range lines) when it was more appropriate to distribute coverage on an individual farm basis; and
- increased workload of county offices--caused by the grain reserve and set-aside programs--without experienced manpower augmentation during the test to sell crop insurance.

The Agricultural Stabilization and Conservation Service test coordinator suggested that any shortfall in expected performance was likely to be attributable to unattractive low coverages established by FCIC which do not meet the producers' needs.

Use of independent agents to sell crop insurance was not successful. Corporation officials attributed the lack of success to unattractive commission rates and restrictions which prevented the agents from servicing the contract,

thereby reducing opportunities to sell the producer other types of insurance.

The Corporation recently offered improved commission arrangements to representatives of the farm products insurance industry. A Corporation official told us that the insurance industry still refuses to endorse participation of independent agents in the test. He said the industry foresees Agriculture's proposed all-risk subsidized insurance of crops and other farm products as a Government intrusion into the commercial market. Independent agents are participating in the test in only 1 of the 40 counties for crop year 1979.

County employees needed better over-the-counter sales training, particularly in improving the quality control over insurance applications and planted acreage reports which are sent directly to FCIC's National Service Office for computer processing. To improve over-the-counter sales efforts, the Corporation and the Agricultural Stabilization and Conservation Service have acted to improve sales training, instituted uniform procedures, and provided for better coordination between the agencies at the county level.

CHAPTER 3

SCOPE OF AUDIT AND

OPINION ON FINANCIAL STATEMENTS

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

In our opinion, the accompanying financial statements, prepared by the Federal Crop Insurance Corporation, present fairly its financial position at September 30, 1978, and the results of its operations for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Federal Crop Insurance Corporation
 COMPARATIVE STATEMENT OF FINANCIAL CONDITION
 September 30, 1978 and 1977

	<u>Year Ended Sept. 30</u>	<u>1978</u>	<u>1977</u>	<u>Increase or</u> <u>Decrease (-)</u>
<u>ASSETS</u>				
<u>Cash:</u>				
Insurance program funds	\$	53,666,614	\$ 49,820,609	\$ 3,846,005
Funds appropriated for operating and administrative expenses		<u>2,956,397</u>	<u>2,252,218</u>	<u>704,179</u>
Total		<u>56,623,011</u>	<u>52,072,827</u>	<u>4,550,184</u>
<u>Accounts Receivable</u>		83,929,874	89,491,732	-5,561,858
Less estimated bad debts		<u>2,477,104</u>	<u>2,203,880</u>	<u>273,224</u>
Total		<u>81,452,770</u>	<u>87,287,852</u>	<u>-5,835,082</u>
<u>Deferred Charges:</u>				
1978 crop year indemnities and bad debt expense (note 1)		<u>51,481,636</u>	<u>168,742,957</u>	<u>-117,261,321</u>
<u>Furniture and Equipment:</u>				
Cost or transferred value		734,899	532,809	202,090
Less accumulated depreciation		<u>290,155</u>	<u>286,715</u>	<u>3,440</u>
Total		<u>444,744</u>	<u>246,094</u>	<u>198,650</u>
 Total Assets	 \$	 <u>190,002,161</u>	 <u>\$308,349,730</u>	 <u>\$-118,347,569</u>
<u>LIABILITIES AND INVESTMENT</u>				
<u>Accounts Payable and Other Liabilities:</u>				
Agents' commissions payable	\$	1,371,691.	\$ 1,738,422	\$ -366,731
Employees' accrued annual leave		1,141,237	1,009,767	131,470
Estimated indemnities payable		43,269,378	135,964,716	-92,695,338
Accrued payroll and other liabilities		<u>3,124,682</u>	<u>3,508,370</u>	<u>-383,688</u>
Total		<u>48,906,988</u>	<u>142,221,275</u>	<u>-93,314,287</u>
<u>Deferred Premiums and Costs:</u>				
1978 crop year premiums (note 1)		<u>93,447,034</u>	<u>102,277,604</u>	<u>-8,830,570</u>
Total Liabilities		<u>142,354,022</u>	<u>244,498,879</u>	<u>-102,144,857</u>
<u>Provision for Surety Losses (note 2)</u>		<u>75,000</u>	<u>75,000</u>	<u>—</u>
<u>Investment of U. S. Government (note 3):</u>				
Capital stock (authorized \$200,000,000) issued and outstanding		200,000,000	150,000,000	50,000,000
Insurance program deficit (-) or reserve		<u>-151,919,471</u>	<u>-85,688,689</u>	<u>-66,230,782</u>
Administrative fund deficit (Schedule 5)		<u>-507,390</u>	<u>-535,460</u>	<u>28,070</u>
Total Investment of U. S. Government		<u>47,573,139</u>	<u>63,775,851</u>	<u>-16,202,712</u>
Total Liabilities and Investment	\$	<u>190,002,161</u>	<u>\$308,349,730</u>	<u>\$-118,347,569</u>

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

Federal Crop Insurance Corporation
COMPARATIVE STATEMENT OF INCOME AND EXPENSE
Fiscal Years 1978 and 1977

	Fiscal Year 1978	Fiscal Year 1977	Increase or Decrease (-)
<u>Insurance Operations:</u>			
Premiums	\$101,797,932	\$ 90,820,376	\$10,977,556
Indemnities	<u>148,944,345</u>	<u>142,360,236</u>	<u>6,584,109</u>
Excess of indemnities or premiums (-) . . .	47,146,413	51,539,860	-4,393,447
Cost of loss adjustment	6,228,401	6,138,174	90,227
Provision for losses on accounts receivable .	492,362	454,597	37,765
Other expense or income (-)	<u>1,278,434</u>	<u>69,863</u>	<u>1,208,571</u>
Net loss or income (-) from direct insurance operations	<u>55,145,610</u>	<u>58,202,494</u>	<u>-3,056,884</u>
Net loss or income (-) from reinsurance (note 4)	<u>-162,798</u>	<u>—</u>	<u>-162,798</u>
Net loss or income (-) from insurance operations	<u>54,982,812</u>	<u>58,202,494</u>	<u>-3,219,682</u>
<u>Operating and Administrative Expenses:</u>			
Personnel compensation	12,554,843	11,139,805	1,415,038
Personnel benefits	1,596,018	1,390,523	205,495
Travel and transportation of persons	2,090,627	1,628,400	462,227
Transportation of things	230,510	217,773	12,737
Rent, communications and utilities	2,061,243	1,782,977	278,266
Printing and reproduction	333,218	215,689	117,529
Other contractual services	1,859,127	1,396,808	462,319
Agents' commissions	2,031,144	1,738,422	292,722
Supplies and materials	120,289	82,795	37,494
Expendable equipment	221,774	133,997	87,777
Administrative claims	1,397	208	1,189
Depreciation expense	29,931	23,199	6,732
Net loss on sale and transfer of equipment . .	-5,504	3,641	-9,145
Accrued annual leave	131,470	7,628	123,842
Prior year adjustments - other accrued operating and administrative expenses . . .	<u>-46,349</u>	<u>-169,521</u>	<u>123,172</u>
Total Operating and administrative expenses (note 5)	<u>23,209,738</u>	<u>19,592,344</u>	<u>3,617,394</u>
Leave earnings charged to ASCS	—	-1,861	1,861
Lapsed appropriation adjustments	-1,093	-947	-146
Reimbursements from others	<u>-2,377</u>	<u>-2,135</u>	<u>-242</u>
Adjusted total operating and administrative expenses ^{a/}	<u>23,206,268</u>	<u>19,587,401</u>	<u>3,618,867</u>
Net loss or income (-) from operations	<u>\$ 78,189,080</u>	<u>\$ 77,789,895</u>	<u>\$ 399,185</u>

^{a/} \$11,289,982 paid from premium income in 1978 fiscal year and \$7,900,916 paid from premium income in 1977 fiscal year. The 1978 fiscal year increase was \$3,389,066 (note 6).

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

SCHEDULE 3

SCHEDULE 3

Federal Crop Insurance Corporation

COMPARATIVE STATEMENT OF CHANGES IN FINANCIAL POSITION
Fiscal Years 1978 and 1977

	Fiscal Year 1978	Fiscal Year 1977	Increase or Decrease (-)
<u>Funds provided:</u>			
Premium income	\$101,797,932	\$ 90,820,376	\$ 10,977,556
Reinsurance premiums (note 4)	264,176	--	264,176
Decrease in working capital	15,948,099	--	15,948,099
Appropriation for operating and administrative expense (note 6)	12,000,000	12,000,000	--
Reduction in prior years' operating and administrative expense paid from premium income (note 6)	42,013	170,155	-128,142
Interest income	5,627	2,963	2,664
Reimbursable income from ASCS (note 7)	465,200	857,658	-392,458
Reimbursable income from SBA (note 8)	183,963	--	183,963
Capital stock issued	<u>50,000,000</u>	<u>90,000,000</u>	<u>-40,000,000</u>
Total funds provided	<u>\$180,707,010</u>	<u>\$193,851,152</u>	<u>\$-13,144,142</u>
<u>Funds applied:</u>			
Cost of indemnities	\$148,944,345	\$142,360,236	\$ 6,584,109
Reinsurance commissions and claims (note 4)	101,378	--	101,378
Cost of loss adjustment	6,228,401	6,138,174	90,227
Operating and administrative expenses:			
Charged to appropriated funds	11,802,402	11,822,171	-19,769
Charged to insurance funds (note 6)	11,289,982	7,900,916	3,389,066
Increase in working capital	--	24,395,617	-24,395,617
Purchase of fixed assets	223,077	100,038	123,039
Appropriation transfer to Office of the Secretary	13,632	--	13,632
Miscellaneous expense	1,200,999	72,827	1,128,172
Debts receivable charged off	170,569	203,515	-32,946
Expenditures for ASCS (note 7)	465,200	857,658	-392,458
Expenditures for SBA (note 8)	183,963	--	183,963
Cost of crop insurance study (note 9)	<u>83,062</u>	<u>--</u>	<u>83,062</u>
Total funds applied	<u>\$180,707,010</u>	<u>\$193,851,152</u>	<u>\$-13,144,142</u>

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

Federal Crop Insurance Corporation
 COMPUTATION OF INSURANCE RESERVE
 For Crop Year 1977 and Cumulative for Crop Years 1948 through 1977
 As of September 30, 1978

Crop	Crop Year 1977				Crop Years 1948 through 1977			
	Premiums	Indemnities	Excess of Premiums or Indemnities (-)	Loss Ratio (ratio of indemnities to premiums)	Premiums	Indemnities	Excess of Premiums or Indemnities (-)	Loss Ratio (ratio of indemnities to premiums)
Apple	\$ 371,938	\$ 718,766	\$ -346,828	1.93	\$ 4,787,173	\$ 6,719,084	\$ -1,931,911	1.40
Barley	3,086,767	3,046,462	40,305	.99	20,683,450	16,549,084	4,134,366	.80
Bean	390,292	384,804	5,488	.99	7,892,229	7,735,846	156,383	.98
Cherry	—	—	—	—	149,954	391,504	-241,550	2.61
Citrus	2,174,193	610,696	1,563,497	.28	36,028,000	51,784,231	-15,756,231	1.44
Combined Crop	610,355	647,286	-36,931	1.06	35,893,027	39,716,334	-3,823,307	1.11
Corn	30,439,429	56,509,733	-26,070,304	1.86	199,571,499	261,062,243	-61,490,744	1.31
Cotton	5,802,828	2,760,222	3,042,606	.48	86,156,033	135,430,233	-49,274,200	1.57
Flax	652,525	938,902	-286,377	1.44	16,962,996	14,924,614	2,038,382	.88
Grain Sorghum	1,852,048	872,072	979,976	.47	17,900,338	13,088,014	4,812,324	.73
Grape	231,269	889,232	-657,963	3.85	1,800,763	2,526,238	-725,475	1.40
Oat	1,057,840	589,287	463,553	.56	9,587,000	7,081,048	2,505,952	.74
Pea, Dry	87,472	613,284	-525,812	7.01	745,773	1,046,018	-300,245	1.40
Pea, Green	400,050	811,576	-411,526	2.03	5,382,102	7,649,286	-2,267,184	1.42
Peach	248,341	125,520	122,821	.51	6,355,559	8,276,850	-1,921,291	1.30
Peanut	2,533,444	1,432,915	1,100,529	.57	21,283,375	11,448,681	9,834,694	.54
Potato	—	—	—	—	1,269,604	2,668,998	-1,399,394	2.10
Raisin	664,677	12,228	652,449	.02	5,183,269	4,255,120	928,149	.82
Rice	242,622	173,613	69,009	.72	1,873,552	868,768	1,004,784	.46
Safflower	—	—	—	—	2,290	8,999	-6,709	3.93
Soybean	10,590,045	4,091,966	6,498,079	.39	76,372,085	55,922,044	20,450,041	.73
Sugar Beet	1,297,691	425,384	872,307	.33	8,492,792	7,629,322	863,470	.90
Sugarcane	168,524	740,886	-27,638	.84	1,936,758	1,372,397	564,361	.71
Sunflower	464,186	56,081	408,105	.12	560,209	89,590	470,619	.16
Tobacco	11,133,880	33,084,955	-21,951,075	2.97	117,586,453	101,225,738	16,360,715	.86
Tomato	23,300	18,552	4,748	.80	467,051	425,138	41,913	.91
Tung Nut	—	—	—	—	89,526	67,469	22,057	.75
Wheat	27,279,216	39,989,923	-12,710,707	1.47	379,202,835	331,760,786	47,442,049	.87
Total	\$101,797,932	\$148,964,345	-47,146,413	1.46	\$1,064,215,695	\$1,091,723,677	-27,507,982	1.03
Direct Cost of loss adjustment (-)			-6,228,401				-46,976,821	
Other income and expense (-), Net			-1,770,796				-5,613,883	
Net income from reinsurance			162,798				364,261	
Net income or loss (-) from insurance operations excluding operating and administrative expenses			-54,982,812				-79,734,425	
Premium income applied to operating and administrative expenses			-11,247,970				-72,213,074	
Indirect cost of leave earnings charged to ASCS			—				28,028	
Insurance Program Deficit (-)			\$-66,230,782				\$-151,919,471	

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

Federal Crop Insurance Corporation
 ANALYSIS OF DEFICIT IN ADMINISTRATIVE FUND
 For Fiscal Years 1949 through 1978

	July 1, 1948 through <u>Sept. 30, 1977</u>	Fiscal Year <u>1978</u>	July 1, 1948 through <u>Sept. 30, 1978</u>
<u>Administrative Fund Expenses:</u>			
Total operating and administrative expenses	\$304,150,306	\$23,208,645	\$327,358,951
Less: Reimbursements from others	47,846	2,377	50,223
Premium income applied to operating and administrative expenses (note 6)	<u>60,965,104</u>	<u>11,247,970</u>	<u>72,213,074</u>
Total	<u>243,137,356</u>	<u>11,958,298</u>	<u>255,095,654</u>
<u>Deduct Net Appropriations:</u>			
Appropriations (note 6)	249,685,742	12,000,000	261,685,742
Less lapses, recisions and net transfers	<u>7,083,846</u>	<u>13,632</u>	<u>7,097,478</u>
Net appropriations	<u>242,601,896</u>	<u>11,986,368</u>	<u>254,588,264</u>
Administrative Fund Deficit (Schedule 1)	<u>\$ 535,460</u>	<u>\$ -28,070</u>	<u>\$ 507,390</u>
<u>Analysis of Deficit:</u>			
<u>Noncash charges:</u>			
Accrued annual leave	\$ 1,009,767	\$ 131,470	\$ 1,141,237
Depreciation	597,822	29,931	627,753
Net loss on equipment dispositions	31,633	-5,504	26,129
Equipment adjustment	198,979	--	198,979
Depreciation adjustment	<u>-65,668</u>	<u>--</u>	<u>-65,668</u>
	1,772,533	155,897	1,928,430
<u>Less:</u>			
Furniture and equipment acquisitions capitalized	1,008,860	223,077	1,231,937
Undelivered orders	<u>228,213</u>	<u>-39,110</u>	<u>189,103</u>
Administrative Fund Deficit	<u>\$ 535,460</u>	<u>\$ -28,070</u>	<u>\$ 507,390</u>

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

NOTES TO FINANCIAL STATEMENTS - SEPTEMBER 30, 1978

1. Accounting Basis

Insurance operations shown for the fiscal year 1978 relate principally to the 1977 crop year. Crop year 1978 recorded premiums totaling \$93,447,034 have been deferred for inclusion in fiscal year 1979 accounts. The corresponding recorded and estimated indemnities totaling \$50,967,677 and bad debt expense of \$513,959 has likewise been deferred. These two items total \$51,481,636.

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. 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.

3. 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 1977, the Secretary of the Treasury of the United States of America subscribed to \$30,000,000 of unissued capital stock pursuant to Public Law 94-473 approved October 11, 1976, which was issued November 2, 1976, and \$10,000,000 of unissued capital stock pursuant to Public Law 95-26 approved May 4, 1977, which was issued in May 1977.

The Federal Crop Insurance Act was amended by Public Law 95-47, 95th Congress, approved June 16, 1977, to increase authorized capital stock to \$150,000,000, an increase of \$50,000,000. Effective July 1, 1977, the \$50,000,000 was made available to Federal Crop Insurance Corporation.

The Federal Crop Insurance Act was amended by Public Law 95-181, 95th Congress, approved November 15, 1977, to increase the authorized capital stock to \$200,000,000, an increase of \$50,000,000. The Secretary of the Treasury of the United States of America subscribed to and paid for \$30,000,000 of capital stock which was issued March 7, 1978, and the remainder of the unissued capital stock of \$20,000,000 was issued September 29, 1978. The Corporation had no unissued capital stock at September 30, 1978.

4. Puerto Rico Reinsurance

The Corporation entered into a reinsurance agreement with Agricultural Development Administration, a division of the Department of Agriculture of Puerto Rico for 1978-1979 operations effective May 1, 1978. The Corporation has agreed to accept by way of reinsurance 65 percent quota share of each and every risk written by the Company on the Island of Puerto Rico provided that the amount so ceded shall not exceed \$7,689,500 in the aggregate. The 1978 crop year operations show a net income of \$162,798.

5. Services and Benefits Furnished the Corporation

Services and benefits, the estimated costs of which are not for the most part readily determinable, have been furnished to the Corporation by other Government agencies without charge. Among these are audit and investigative services provided by the Office of Audit and Office of Investigation of the Department of Agriculture, legal services rendered by the Department of Agriculture and Justice, and disbursing services furnished by the Treasury Department. The Corporation is not required to pay interest on the Government's investment in capital stock (\$200,000,000 at September 30, 1978) and does not receive interest on its deposit with the Treasury (\$56,623,011 at September 30, 1978).

6. Source of Funds for Operating and Administrative Expenses

The Corporation received an appropriation of \$12,000,000 approved September 30, 1977 (Public Law 95-97, approved August 12, 1977) effective October 1, 1977. The Law also provided that the Corporation may pay up to \$11,413,000 from premium income. The Second Supplemental Appropriations Act, 1978, provided that an additional \$1,005,000 of operating and administrative expense could be paid from premium income, a total of \$12,418,000.

The total operating and administrative expenses paid from premium income consisted of \$11,289,982 for expenses applicable to the 1978 fiscal year less an adjustment of \$42,013 for prior fiscal years' expenses.

7. Services Provided ASCS

Reimbursable income from ASCS and expenditures for ASCS resulted from assistance furnished ASCS for field inspections.

A memorandum of understanding effective for the 1978 fiscal year provides that the Agricultural Stabilization and Conservation Service will reimburse the Corporation at a flat rate of \$20.00 per inspection which represents the estimated cost of work performed under the terms of the agreement. The total reimbursement for 23,260 inspections amounted to \$465,200 which covered training, disaster appraisals and liason assistance.

8. Services Provided SBA

The Deputy Secretary of Agriculture requested the services of certain crop insurance employees to assist the Small Business Administration in processing loan applications in Georgia. For the services performed, the Corporation earned reimbursable income of \$183,963 with a corresponding expenditure for these services.

9. Cost of Crop Insurance Study

Public Law 95-181, enacted November 15, 1977, provides that appropriated funds not to exceed \$200,000 for fiscal year 1978 may be used to undertake the cost of a study of alternative programs to all-risk, all-crop insurance. Public Law 95-240 approved March 7, 1978, appropriated \$30,000,000 capital stock, thereby making \$200,000 available for the crop insurance study. The total 1978 fiscal year charge to insurance funds is \$83,062.

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