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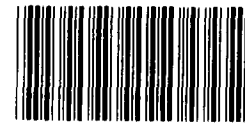
BY THE COMPTROLLER GENERAL

# Report To The Congress

OF THE UNITED STATES

## Review Of The Federal Crop Insurance Corporation's Financial Statements For The Year Ended September 30, 1981

GAO's review of the financial statements of the Federal Crop Insurance Corporation for the year ended September 30, 1981, resulted in significant accounting and financial reporting policy changes. The changes, which are described in note 2 to the financial statements, were made to the fiscal 1981 statements so that they would be in accordance with generally accepted accounting principles.



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GAO/AFMD-83-74  
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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 report presents the results of our review of the statement of financial position of the Federal Crop Insurance Corporation (FCIC) as of September 30, 1981, and the related statements of income and expense and changes in financial position for the year then ended. Our review was made pursuant to the provisions of 31 U.S.C. 9105, and in accordance with standards issued by the Comptroller General and by the American Institute of Certified Public Accountants. All of the information included in the financial statements was provided by FCIC's managers.

FCIC is a wholly owned Government corporation which was created in 1938 to provide farm producers with crop insurance as protection against losses resulting from unavoidable causes, such as weather, insects, and disease.

Significant accounting and financial reporting policy changes were made as a result of our review. These changes are described in detail in note 2 to the financial statements. The principal changes are:

- In prior years' financial statements, insurance premium revenue inappropriately included amounts earned in more than one fiscal year and excluded other amounts that should have been included. In the fiscal 1981 financial statements, insurance premium revenue includes amounts earned in fiscal 1981 and excludes amounts earned in any other fiscal year.
- In prior years' financial statements, loss on claims inappropriately included claims resulting from insurance coverage for more than one fiscal year and excluded other claims that should have been included. In the fiscal 1981 financial statements, loss on claims includes claims resulting from fiscal 1981 insurance coverage only.
- In prior years' financial statements, expended and unexpended appropriations were both reported in the statement of financial position. In the fiscal 1981 financial statements, expended appropriations are reported in the statement of income and expense; and obligated, but unexpended, appropriations are reported in the statement of financial position.

We are not aware of any other material changes that should be made to the statements in order for them to be in conformity with generally accepted accounting principles.

We are required to audit the accounts of FCIC at least once every 3 years. However, due to the above changes and the amount of time needed to produce acceptable financial statements, our scope was limited to interviewing FCIC personnel, analyzing financial data, and providing consultative services on accounting matters. This scope was less than what would be necessary to audit the accounts according to generally accepted government auditing standards. We chose not to spend the additional resources that would have been needed to extend our review to cover the events subsequent to fiscal 1981. Accordingly, we are not expressing an opinion on the enclosed fiscal 1981 financial statements. The subsequent periods will be covered by our next audit, scheduled for fiscal 1984.

Because of the significant accounting and financial reporting policy changes, the financial statements for the year ended September 30, 1981, should not be compared with previously submitted financial statements.

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



Comptroller General  
of the United States

FEDERAL CROP INSURANCE CORPORATION

STATEMENT OF FINANCIAL POSITION (Notes 1 and 2)

SEPTEMBER 30, 1981

<u>ASSETS</u>	(Unaudited) <u>September 30, 1981</u>
<u>Assets</u>	
Cash, including insurance program funds and appropriated funds (note 3A)	\$106,685,868
Accounts receivable, net of allowance for doubtful accounts of \$4,983,552 at September 30, 1981 (note 1C)	349,894,680
Furniture and equipment, net of accumulated depreciation of \$345,678 at September 30, 1981 (note 1D)	800,790
Deferred charges (note 1E)	<u>384,686,920</u>
Total assets	<u>\$806,068,258</u>
 <u>LIABILITIES AND INVESTMENT OF U.S. GOVERNMENT</u>	
<u>Liabilities</u>	
Estimated claims payable (note 1A)	\$354,078,003
Accrued payroll and other liabilities (note 3B)	21,825,707
Deferred premiums (note 1F)	<u>3,321,057</u>
Total liabilities	<u>\$379,224,767</u>
 <u>Investment of U.S. Government</u>	
Capital stock issued and outstanding (authorized \$500 million) (note 5A)	-
Contributed capital (note 5A)	<u>\$ 37,597,578</u>
Cumulative results of operations, restated September 30, 1981:	
Unrestricted	387,257,732
Restricted (note 4)	<u>75,000</u>
Total (note 5B)	<u>387,332,732</u>
Appropriations obligated but unexpended (note 5B)	<u>1,913,181</u>
Total Investment of U.S. Government	<u>\$426,843,491</u>
Total Liabilities and Investment	<u>\$806,068,258</u>

The accompanying notes are an integral part of these financial statements.

FEDERAL CROP INSURANCE CORPORATION

STATEMENT OF INCOME AND EXPENSE

FISCAL YEAR ENDED SEPTEMBER 30, 1981

<u>REVENUES</u>	(Unaudited) <u>Fiscal 1981</u>
Premiums (notes 1B and 2)	\$325,268,237
Reimbursements	71,698
Other income	<u>40,697</u>
Total revenues	<u>\$325,380,632</u>
<u>COSTS AND EXPENSES</u>	
Loss on claims (notes 1A and 2)	\$318,799,008
Personnel compensation and benefits (note 3C)	30,008,463
Agents' commissions (note 6)	27,658,124
Bad debt expense	3,443,114
Administrative costs (note 3D)	28,152,207
Claim adjustment contractors	3,680,806
Other expenses (note 6)	<u>557,989</u>
Total costs and expenses	<u>\$412,299,711</u>
EXCESS OF COSTS AND EXPENSES OVER REVENUES	\$(86,919,079)
APPROPRIATIONS OBLIGATED AND EXPENDED (note 5B):	
Administrative	56,021,284
Premium subsidy	45,887,633
NONRECIPROCAL TRANSFER FROM COMMODITY CREDIT CORPORATION (note 5A)	<u>250,000,000</u>
NET INCOME (LOSS)	<u>\$264,989,838</u>

The accompanying notes are an integral part of these financial statements.

FEDERAL CROP INSURANCE CORPORATION  
STATEMENT OF CHANGES IN FINANCIAL POSITION  
FISCAL YEAR ENDED SEPTEMBER 30, 1981

<u>FUNDS PROVIDED</u>	<u>(Unaudited)</u> <u>Fiscal 1981</u>
From Operations:	
Premiums	\$325,268,237
Less: Decrease in deferred premiums, and gain from reinsurance (note 6)	<u>(15,956,806)</u>
Nonreciprocal transfer from Commodity Credit Corporation	250,000,000
Reimbursements	71,698
Other income	40,697
Expended appropriations:	
Administrative	56,021,284
Premium subsidy	<u>45,887,633</u>
Funds provided from operations	\$661,332,743
Increase in estimated claims payable	134,265,769
Increase in accrued payroll and other liabilities	16,493,638
Increase in unexpended appropriations	<u>1,717,716</u>
Total funds provided	<u>\$813,809,866</u>
 <u>FUNDS APPLIED</u>	
To Operations:	
Loss on claims	\$318,799,008
Plus: Increase in deferred charges resulting from estimated claims (note 1E)	<u>139,490,969</u>
Personnel compensation and benefits	30,008,463
Agents' commissions	27,658,124
Administrative costs less depreciation	28,085,983
Claims adjustment contractors	3,680,806
Other expenses affecting cash	<u>557,009</u>
Total funds applied to operations	\$548,280,362
Increase in accounts receivable resulting from FY 1981 premium revenue	206,861,483
Purchase of furniture and equipment	230,488
Decrease in agents' commission payable	<u>1,880,583</u>
Total funds applied	<u>\$757,252,916</u>
Increase in cash	<u>\$ 56,556,950</u>
Change in cash balance:	
Cash, September 30, 1980	\$ 50,128,918
Cash, September 30, 1981	<u>106,685,868</u>
Increase in cash	<u>\$ 56,556,950</u>

The accompanying notes are an integral part of these financial statements.

## NOTES TO FINANCIAL STATEMENTS

### 1. Summary of Significant Accounting Policies

The Federal Crop Insurance Corporation maintains separate funds for the insurance program and administrative support. However, for financial statement presentation purposes, the two funds are combined. Furthermore, amounts presented in the financial statements are condensed to the extent possible. Supporting information for the condensed amounts is provided in the accompanying notes.

FCIC follows generally accepted accounting principles applicable to commercial enterprises. In some respects, FCIC's accounting and reporting practices differ from those found in the private sector due to FCIC's status as a wholly owned Government corporation and because of the nature of its operations. FCIC's accounting and reporting practices are summarized in the following notes.

#### A. Estimated claims payable and losses on claims

Estimated claims payable are based on incidents which have occurred and which will ultimately result in FCIC's making payments. The estimate includes amounts for which claims had been submitted, but not settled as of the fiscal yearend and amounts for claims which had not been submitted. The losses on claims recognized in the Statement of Income and Expense were mostly a result of the accrual of estimated claims payable.

#### B. Revenue and risk of loss recognition

Insurance premium revenue is based on a number of factors including the type of crop, number of acres planted, location price selected by the insured to be used in the event of a covered loss, and the insured's previous loss experience. FCIC's risk of loss generally commences when the crop is planted and continues until the crop is harvested, destroyed, or removed from the field, subject to a termination date which follows the usual harvest period.

The insured must file an acreage report with FCIC promptly after planting to ensure that the crop is covered. Insurance coverage may be denied if reports are not submitted promptly, if crops are planted late, and for other reasons. FCIC recognizes insurance premium income over the period of risk. Most of the crops--in terms of both dollar value and quantity--are planted and harvested within a single fiscal year.



C. Accounts receivable and allowance for doubtful accounts

Accounts receivable represent insurance premiums due from producers. Amounts recognized as revenues (note 1B) were mostly a result of the accrual of accounts receivable. The allowance for doubtful accounts is based on the gross amount of insurance coverage written.

D. Furniture and equipment

Furniture and equipment are recorded at cost or transferred value and are depreciated on a straight line basis. Repairs and maintenance are expensed as incurred. However, work which extends the useful life of an item or increases its productive capacity is capitalized at cost. Furniture and equipment totaled \$1,146,468 as of September 30, 1981. Accumulated depreciation as of that date totaled \$345,678.

E. Deferred charges

Deferred charges include estimated claims that will result from insurance contracts covering the 1981 crop year. The losses that will be the basis for these claims had not occurred as of September 30, 1981. Deferred charges also include bad debt expenses connected with premiums that were receivable as of September 30, 1981, for the portion of 1981 crop year insurance coverage that extended beyond September 30, 1981.

F. Deferred premiums

Deferred premiums include 1981 crop year premiums that had been paid or were receivable as of September 30, 1981, but were for insurance coverage for a period after September 30, 1981.

2. Changes in Accounting Principles--Premium Income and Claim Expense Recognition, Appropriation Recognition, and Cancellation of Contingent Liability

During fiscal 1981, FCIC changed its policy for recognizing insurance income and expenses. Formerly, FCIC recognized administrative and operating expenses on a fiscal year basis, but recognized insurance program income and expenses on a crop year basis. The crop year ended after the fiscal year. All premium income and claim expenses were deferred at fiscal yearend to be included in the following fiscal year's results of operations.

This accounting change, which was recommended by the U.S. General Accounting Office, matches insurance income and expenses with the associated administrative and operating expenses and appropriations. This accounting principle change results in improved disclosure in the Corporation's

financial statements because premium income is recognized in the period of risk, and losses on claims are recognized in the period when the incident resulting in a claim occurs.

In fiscal 1981, FCIC included appropriated funds expended during the year in the Statement of Income and Expense. It also included appropriated funds available for use during the year and obligated, but not expended, on the Statement of Financial Position. Formerly, appropriations were only recognized in the cumulative results of operations of the administrative fund.

FCIC also changed its accounting policy concerning anticipated liabilities under the Federal Tort Claims Act. Formerly, FCIC recognized a \$75,000 contingent liability for unresolved small claims from automobile accidents or other wrongful acts of employees rather than bonding employees. The General Accounting Office recommended eliminating the contingent liability and establishing a \$75,000 reserve in the cumulative results of operations. This change was made retroactive to September 30, 1979, by restating the cumulative results of operations.

The effect of these changes during fiscal 1981 was a change in the results of operations from a loss totaling \$40.3 million to net income totaling \$265.0 million.

The following schedule summarizes the changes in the fiscal 1981 results of operations.

	(Unaudited) <u>Fiscal 1981</u>
Net income (loss) under former method	\$(40,345,275)
Add: Increase in premium income	167,632,772
Expended appropriations	101,908,917
Decrease in losses on claims	37,560,431
Less: Increase in bad debt expense	<u>1,767,007</u>
Net income (loss) under revised method	<u>\$264,989,838</u>

### 3. Condensed Financial Statement Information

As mentioned in note 1, information contained in the primary financial statements--the Statement of Financial Position, Statement of Income and Expense and the Statement

of Changes in Financial Position--has been condensed to the extent possible for presentation purposes. Detailed information is presented below.

A. Cash

The cash balances for the insurance program and the administrative fund as of September 30, 1981, are shown below.

	(Unaudited) <u>September 30, 1981</u>
Insurance program funds	\$ 87,706,829
Funds appropriated for operating and administra- tive expenses	<u>18,979,039</u>
Total	<u>\$106,685,868</u>

B. Accrued payroll and other liabilities

Accrued payroll and other liabilities includes employees' accrued annual leave which was \$1,623,862 as of September 30, 1981.

FCIC employees accumulate unused annual leave for which payment must be made when the leave is used or when the employee retires or ceases to be employed by the Corporation.

C. Personnel compensation and benefits

Personnel compensation and benefits includes compensation, benefits, and increases in annual leave for employees during fiscal 1981. Amounts for fiscal 1981 are presented below.

	(Unaudited) <u>Fiscal 1981</u>
Personnel compensation	\$27,197,615
Personnel benefits	2,500,692
Benefits of former personnel	49,695
Increase in accrued annual leave	<u>260,461</u>
Total	<u>\$30,008,463</u>

D. Administrative costs

The following expenses have been included in administrative costs for fiscal 1981.

	<u>(Unaudited)</u> <u>Fiscal 1981</u>
Travel and transportation of persons	\$ 6,449,776
Transportation of things	292,316
Rent, communications, and utilities	4,775,601
Reinsurance expenses	3,427,045
Printing and reproduction	2,532,897
Other contractual services	9,216,011
Supplies and materials	576,752
Expendable equipment	810,290
Depreciation expense	66,224
Administrative claims	<u>5,295</u>
Total	<u>\$28,152,207</u>

4. Restriction of Cumulative Results of Operations  
For Small Claims Contingencies

The Corporation restricts a portion of the cumulative results of operations for anticipated liabilities under the Federal Tort Claims Act for various unresolved small claims from automobile accidents or other wrongful acts of employees. Corporation officials believe that the \$75,000 reserve, which was established in lieu of bonding employees, is sufficient to cover any liability that may arise.

5. Investment of the U.S. Government

Investment of the U.S. Government consists of capital stock, contributed capital, cumulative results of operations, and unexpended appropriations.

A. Capital stock and contributed capital

FCIC has twice been directed to cancel capital stock owned by the U.S. Government--in 1949 and again in 1981--to offset cumulative losses in the insurance program. In 1949, \$73 million of the then outstanding \$100 million capital stock was canceled, in accordance with provisions of law (63 Stat. 665), leaving \$27 million outstanding. Subsequently, additional capital stock totaling \$173 million was authorized and issued resulting in \$200 million of capital stock issued and outstanding as of September 30, 1980.

Public Law 96-365, enacted September 26, 1980, directed that capital stock outstanding be canceled and that the authorized amount of capital stock be reestablished at \$500 million. In accordance with the mandate of the act,

all capital stock outstanding totaling \$200 million, was canceled. Cumulative administrative and operating expenses of \$162.4 million were written off, and the balance of the \$200 million was regarded as contributed capital. Borrowing authority from the Department of the Treasury was contained in the new legislation, but had not been used as of September 30, 1981.

Section 110 of the Federal Crop Insurance Act of 1980 authorized the Secretary of Agriculture to use Commodity Credit Corporation funds to pay FCIC claims if funds available to FCIC for that purpose were insufficient. During fiscal 1981, \$250 million of Commodity Credit Corporation funds were used to pay claims. Under terms of the act, the authority to use such funds expired October 26, 1981.

**B. Cumulative results of operations**

The following schedule summarizes changes in the cumulative results of operations during fiscal 1981. The September 30, 1980, cumulative results of operations has been restated to reflect prior period adjustments resulting from accounting policy changes (note 2).

	(Unaudited) <u>Fiscal 1981</u>
Cumulative results of operations, September 30, 1980	\$(49,266,216)
Fiscal 1981 net income	264,989,838
Writeoff of cumulative administrative and operating expenses (note 5A)	162,375,593
Other	<u>9,233,517</u>
Cumulative results of operations, September 30, 1981	<u>387,332,732</u>

**C. Appropriations**

FCIC receives annual appropriations for administrative and operating expenses. For financial statement purposes, appropriated funds are presented on the Statement of Financial Position or the Statement of Income and Expense, depending upon whether the funds have been obligated and the service or product has been constructively delivered to FCIC. The Statement of Income and Expense includes the total of all funds which have been obligated and the related service or product constructively delivered to FCIC. Such amounts are known as expended appropriations. The remaining appropriated funds--unexpended appropriations--represent obligated funds for undelivered orders, and are presented in the Statement of Financial Position as part of the investment of the U.S. Government.

The Federal Crop Insurance Act of 1980 directed that a portion of the insurance premiums due for producers' insurance protection be paid by the Corporation and authorized appropriations for that purpose. Effective in 1981, 30 percent of each producer's premium on any coverage up to a maximum of 65 percent of recorded or appraised average yield is to be paid by the Corporation. Premiums are reduced if the producer elects to delete hail and fire coverage from the policy. FCIC's share of producers' premiums, for which the Corporation received appropriated funds, totaled \$45.9 million for fiscal 1981.

The following schedule summarizes the status of appropriated funds for fiscal 1981.

	(Unaudited) <u>Fiscal 1981</u>
Prior fiscal year appropriated administrative funds obligated but unexpended	\$ 195,465
Current fiscal year appropriations:	
Administrative	57,739,000
Premium subsidy	<u>45,887,633</u>
Funds available	\$103,822,098
Less: Funds expended	<u>101,908,917</u>
Appropriated administrative funds obligated but unexpended and available for subsequent fiscal year	\$ <u>1,913,181</u>

#### 6. Other Expenses

Other expenses include reinsurance claims adjustment expenses of \$467,601, miscellaneous expenses of \$89,408, and loss on equipment disposal of \$980.

The Federal Crop Insurance Act of 1980 authorized a reinsurance program allowing FCIC to share income and losses with insurance companies that provide all-risk crop insurance. In addition, FCIC reimburses the insurance companies for administrative costs associated with the crop insurance. The sharing of income and losses is based on the ratio of FCIC's claims to premiums. For fiscal 1981, FCIC's share of the gains on reinsurance totaled \$5,500,237. FCIC contracts with insurance companies provided that the lesser of (1) 5 percent of gross premiums or (2) 20 percent of FCIC's share of reinsurance income or loss will be accumulated for a 5-year period beginning in 1981. After 5 years, the FCIC and insurance company shares of reinsurance income or loss will be recalculated and the

amounts due to insurance companies will be adjusted accordingly. As of September 30, 1981, \$635,329 had been accumulated for subsequent payment to insurance companies.

7. Services and Benefits Furnished FCIC

Services and benefits, the cost of which are for the most part not readily determinable, have been furnished to the Corporation by other Government agencies without charge. Among these are audit and investigative services provided by the Offices of Audit and Investigation of the Department of Agriculture, legal services rendered by the Departments of Agriculture and Justice, and disbursing services furnished by the Department of the Treasury.

8. Insurance in Force

FCIC provides insurance for a wide range of crops. The major portion is referred to as "all-risk" crop insurance which covers unavoidable losses due to adverse weather conditions, insect infestation, plant disease, floods, wildlife, and earthquakes. Other insurance is available for specified risks only. Premium rates vary widely, depending on (1) the crop insured, (2) the risk of the area, (3) the amount of insurance protection per acre, and (4) previous insurance experience.





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