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Report to the Congress

September 1986

FINANCIAL AUDIT

Federal Crop Insurance Corporation's Financial Statements for 1985 and 1984

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United States
General Accounting Office
Washington, D.C. 20548

Comptroller General
of the United States

B-114834

September 19, 1986

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

This report presents our opinion on the financial statements of the Federal Crop Insurance Corporation for the years ended September 30, 1985 and 1984, and our reports on the Corporation's system of internal accounting controls and compliance with laws and regulations.

Our opinion, while unqualified, emphasizes our concern about the Corporation's continued losses, negative capital position, and unfavorable working capital position These factors indicate that the Corporation may be unable to continue in existence without additional financial assistance from the Congress Our report on the Corporation's system of internal accounting controls discloses that it has a material weakness in internal controls over reinsurance companies that sell and service multiperil crop insurance under agreements with the Corporation. Our report on the Corporation's compliance with laws and regulations discloses that the Corporation improperly transferred $50 million from its administrative fund to its program fund.

The Federal Crop Insurance Corporation is a wholly owned government corporation in the U.S. Department of Agriculture. It was created in 1938 to provide farm producers with crop insurance as protection against losses resulting from unavoidable causes, such as adverse weather, insects, and disease. The Comptroller General is required to audit the financial transactions of wholly owned government corporations under 31 U.S.C 9105. We conducted our examination in accordance with generally accepted government auditing standards

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

Charles A Bowsher

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Comptroller General
of the United States

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The Board of Directors
Federal Crop Insurance Corporation

We have examined the statement of financial condition of the Federal Crop Insurance Corporation as of September 30, 1985 and 1984, and the related statements of loss and changes in accumulated deficit and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted government auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

We have previously reported on the financial statements of the Corporation for the year ended September 30, 1984, on March 15, 1985. The accompanying financial statements for 1984 have been restated to recognize the correction of an error in the cumulative effect of a change in accounting principle as described in note 3.

For the years ended September 30, 1985 and 1984, the Corporation incurred losses of $222 million and $211 million, respectively, from insuring agricultural crops against all unavoidable risks, and it could sustain further losses in subsequent periods. The Corporation has not established premium rates that adequately cover losses on insured crops which would enable it to build a reasonable reserve against unforeseen losses, as authorized by the Federal Crop Insurance Act. Corporation officials contend that unusually adverse weather conditions caused the losses. The Corporation has made the Congress aware of its financial difficulties and has received additional funding authority to pay producers' claims. The Corporation is also in the process of examining the potential for premium rate increases, adjusting the level and extent of coverage on the basis of individual policyholders' histories, and spreading potential risk through reinsurance contracts. Although it has taken some actions to improve its financial position, the Corporation's losses from operations have resulted in an accumulated deficit of $738 million and $516 million and a negative capital position of $194 million and $23 million (restated) as of September 30, 1985 and 1984, respectively. Furthermore, as of September 30, 1985 and 1984, the Corporation's current liabilities exceeded its current assets by $82 million and $23 million, respectively. As discussed in notes 6 and 10, these factors indicate that the Corporation may be unable to continue in existence without additional financial assistance from the Congress.

As described in note 10, subsequent to September 30, 1985, the Corporation, under the Food Security Act of 1985, used funds from the Commodity Credit Corporation to pay producers' losses. As of May 13, 1986, the Corporation had received $138 million from Commodity Credit Corporation and has an additional $112 million available for use during fiscal year 1986. Even with these additional funds, the Corporation's financial position and cash flow have not improved. The Corporation still faces financial difficulties in the future unless long-term solutions to its equity problem are instituted.

In our opinion, the financial statements referred to above present fairly the financial position of the Federal Crop Insurance Corporation as of September 30, 1985 and 1984, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Charles A. Bowsher

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Comptroller General
of the United States

May 13, 1986

Report on Internal Accounting Controls

We have examined the financial statements of the Federal Crop Insurance Corporation for the years ended September 30, 1985 and 1984, and have issued our report thereon dated May 13, 1986. This report pertains only to our study and evaluation of the system of internal accounting controls for the year ended September 30, 1985. (Our report on the study and evaluation of the system of internal accounting controls for the year ended September 30, 1984, is presented in GAO/AFMD-85-54, dated September 30, 1985.)

As part of our examination, we made a study and evaluation of the system of internal accounting controls to the extent we considered necessary to evaluate the system as required by generally accepted government auditing standards. The purpose of our study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the Corporation's financial statements. For the purpose of this report, we have classified the significant internal accounting controls in the following categories:

- cash,
- direct insurance losses,
- direct insurance sales,
- financial reporting, and
- reinsurance.

Our study and evaluation included all of the control categories listed above, except we did not evaluate the accounting controls over all functions within any of the categories because it was more efficient to expand substantive audit tests. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting controls taken as a whole or on any of the categories identified above.

The management of the Corporation is responsible for establishing and maintaining a system of internal accounting controls. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that (1) assets are safeguarded against loss from unauthorized use or disposition and (2) that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any system of internal accounting controls, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with procedures may deteriorate.

Our study and evaluation made for the limited purpose described in the second paragraph would not necessarily disclose all material weaknesses in the system of internal accounting controls. Accordingly, we do not express an opinion on the system of internal accounting controls of the Corporation taken as a whole or on any of the categories of controls identified in the second paragraph. However, our study and evaluation disclosed the following condition which we believe could result in errors or irregularities in amounts material to the Corporation's financial statements, which may not be promptly detected.

We found that the Corporation does not verify premium and loss information submitted by reinsurance companies who sell and service multiperil crop insurance policies under agreements with it. Therefore, the Corporation has no assurance that financial information reported to them by the reinsurance companies is accurate. The Corporation uses this information as the basis for making payments to the reinsurance companies and for reporting reinsurance income, losses, and expenses on its financial statements.

Except for the weakness discussed above, our study and evaluation disclosed no other conditions which we considered to be material in relation to the Corporation's financial statements taken as a whole. We considered the above conditions in determining the nature, timing, and extent of the audit tests to be applied in our examination. We extended our audit tests sufficiently to conclude that this condition would not require qualification of our opinion on the Corporation's financial statements for the year ended September 30, 1985.

During the course of our examination, we did identify a number of other weaknesses in internal accounting controls and procedures which, together with the material weakness previously discussed, were reported to the Corporation in a management letter dated June 20, 1986. Although we did not consider the other weaknesses to be material to its financial statements, they nonetheless merit corrective action to strengthen the Corporation's internal accounting controls.

Report on Compliance With Laws and Regulations

We have examined the financial statements of the Federal Crop Insurance Corporation for the years ended September 30, 1985 and 1984, and have issued our report thereon dated May 13, 1986. Our examinations were made in accordance with generally accepted government auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures, including tests of compliance with laws and regulations, as we considered necessary in the circumstances. This report pertains only to our review of compliance with laws and regulations for the year ended September 30, 1985. (Our report on compliance with laws and regulations for the year ended September 30, 1984, is presented in GAO/AFMD-85-54, dated September 30, 1985.)

In our opinion, the Corporation, except for the matter discussed below, complied with the terms and provisions of laws and regulations for the transactions tested that could have materially affected its financial statements.

During fiscal year 1985, $50 million was transferred from the Corporation's appropriation for administrative and operating expenses to its fund for paying insurance indemnities to farm producers The transfer was made pursuant to 7 U.S.C. 2257, which provides that:

> "Not to exceed 7 per centum of the amount appropriated for any fiscal year for the miscellaneous expenses of the work of any bureau, division, or office of the Department of Agriculture shall be available interchangeably for expenditures on the objects included within the general expenses of such bureau, division, or office but no more than 7 per centum shall be added to any one item of appropriation except in cases of extraordinary emergency." [Emphasis added.]

Application of the 7-percent limitation on the amount that may be transferred from any one account under section 2257 to the $200 million appropriated for administrative and operating expenses should have resulted in a transfer not exceeding $14 million. The administrative and operating expenses appropriation was reimbursed for the $50 million after the Corporation received additional funds in the Supplemental Appropriations Act, 1985 (Public Law 98-88, Aug. 15, 1985). Notwithstanding the subsequent reimbursement, we believe that $36 million of the amount transferred was improper.

In connection with our examination, nothing came to our attention that caused us to believe that the Corporation was not in compliance with the terms and provisions of laws and regulations for those transactions not tested.

The fund transfer matter explained above was considered in determining the nature, timing, and extent of the audit tests to be applied in our examination, and does not affect our report on the Corporation's financial statements dated May 13, 1986.

Financial Statements

Statement of Financial Condition

	September 30, 1985	September 30, 1984 (Restated note 3)
ASSETS	--------(thousands)--------	
CURRENT ASSETS		
Cash (note 5)	$ 128,909	$ 157,622
Accounts receivable:		
Producers, less allowance for uncollectible accounts of $3,425 in 1985 and $6,069 in 1984	95,652	125,437
Other	21,186	37,362
Total current assets	245,747	320,421
FURNITURE AND EQUIPMENT		
Furniture and equipment	3,082	2,655
Accumulated depreciation	(775)	(541)
Total furniture and equipment	2,307	2,114
Total assets	$ 248,054	$ 322,535
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Accounts payable:		
Estimated losses	$ 92,094	$ 146,714
Agents' commissions	14,257	18,035
Loss adjustment expense	94	768
Reinsurance accounts	183,950	122,187
Other	11,678	17,678
Unearned premium	25,252	38,296
Total current liabilities	327,325	343,678
LONG-TERM LIABILITIES		
Note payable to U.S. Treasury (note 9)	113,000	
Accrued annual leave	2,017	1,805
Total long-term liabilities	115,017	1,805
Commitments and contingencies (note 7)		
EQUITY OF THE U.S. GOVERNMENT (note 6)		
Capital stock ($500,000 authorized), issued and outstanding	500,000	450,000
Paid in capital	37,978	37,978
Accumulated deficit	(738,058)	(516,385)
Unexpended obligated appropriation	5,792	5,459
Total equity	(194,288)	(22,948)
Total liabilities and equity	$ 248,054	$ 322,535

The accompanying notes are an integral part of the statements.

Statement of Loss and Changes in Accumulated Deficit

	Years ended September 30, 1985	1984 (Restated note 3)
	------(thousands)------	
REVENUES		
Premiums Earned:		
Direct sales	$ 134,357	$ 180,068
Reinsurance less company share of gain of $4,145 and $3,182	324,288	220,426
Interest earned	5,905	3,599
Other	54	34
Total revenues	464,604	404,127
EXPENSES		
Insurance losses:		
Direct claims	211,890	271,912
Reinsurance less company share of loss of $4,058 and $6,147	474,300	338,031
	686,190	609,943
Insurance servicing costs:		
Sales agents' commissions	19,822	25,535
Loss adjustment	9,393	12,908
Reinsurance administration	79,570	53,328
Reinsurance loss adjustment	28,016	19,039
Bad debts	31	2,264
Losses and other costs for prior years (note 4)	(311)	3,342
	136,521	116,416
Administrative and other costs:		
Administrative expenses	68,264	60,990
Interest on Treasury loan (note 9))	366	
Depreciation	234	207
	68,864	61,197
Total expenses	891,575	787,556
Loss from operations	(426,971)	(383,429)
Appropriations	205,298	172,008
Loss for current year	(221,673)	(211,421)
Cumulative effect of change in accounting principle (note 3)	______	(201,775)
Net loss	(221,673)	(413,196)
Accumulated deficit, beginning of fiscal year	(516,385)	(128,072)
Reimbursement for fiscal year 1982 expenses		24,883
Accumulated deficit, end of fiscal year	($738,058)	($516,385)

The accompanying notes are an integral part of the statements.

Statement of Changes in Financial Condition

	Years ended September 30, 1985	1984 (Restated note 3)
	--------(thousands)--------	
APPLICATION OF FUNDS		
Operations:		
Net loss for the year	$ 221,673	$ 413,196
Items not requiring outlay in the current period:		
Depreciation	(234)	(207)
Decrease in unearned premium	13,044	249,713
Decrease in accounts payable	3,097	219,896
Purchase of equipment	427	351
Total funds applied	238,007	882,949
SOURCES OF FUNDS		
Sale of capital stock (note 6)	50,000	50,000
Decrease in accounts receivable	45,961	11,243
Increase in unexpended appropriations	333	4,595
Loan received from Treasury (note 9)	113,000	
Decrease in deferred charges		549,375
Reimbursement for fiscal year 1982 expenses		24,883
Total funds provided	209,294	640,096
Decrease in cash	$ 28,713	$ 242,853
CHANGE IN CASH BALANCE		
Cash, beginning of fiscal year	$ 157,622	$ 400,475
Cash, end of fiscal year	128,909	157,622
Decrease in cash	$ 28,713	$ 242,853

The accompanying notes are an integral part of the statements.

Notes to Financial Statements

1. **The Corporation.** The Federal Crop Insurance Corporation (FCIC) was created on February 16, 1938, and is a wholly owned government corporation within the U.S. Department of Agriculture. FCIC manages an all-risk crop insurance program to assist in stabilizing and protecting the farm sector of the nation's economy. The program was restricted in both geographic area and crops covered until the Federal Crop Insurance Act of 1980 (Public Law 96-365) called for improving the insurance program and expanding it nationwide to eventually phase out the disaster payment program. The Act calls for an actuarially sound, nationwide cost-sharing insurance program for agricultural producers to protect their production investment against unavoidable risks.

For the 1985 crop year, all-risk crop insurance was available in 3,012 counties with policies covering 40 different commodities.

2. **Summary of Significant Accounting Policies.** Accounting basis - FCIC maintains separate funds for the insurance program and for administrative support. However, for financial statement presentation purposes, the two funds are combined and are presented on the accrual basis of accounting following generally accepted accounting principles as applied to the casualty insurance industry.

Estimated losses - FCIC bases estimated losses on incidents which have occurred and which will ultimately result in FCIC making payments. The estimate includes amounts for which claims had been submitted, but not settled as of the fiscal year-end, and amounts for claims which had not been submitted.

Premium revenue - FCIC recognizes premium revenue proportionately over the crop insurance period. FCIC's risk of loss 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 normal harvest period. Most of the premium earned at year-end had not been collected.

Acquisition costs - FCIC includes only agents' commissions and reinsurance administrative expenses as acquisition costs since they are the only expenses that vary with and are directly related to acquiring new and renewal business. Financial Accounting Standards Board Statement Number 60 "Accounting and Reporting by Insurance Enterprises" requires insurance companies to capitalize and amortize prepaid acquisition costs in proportion to premium revenue recognized. As of year-end, FCIC did not have any prepaid acquisition costs.

Reinsurance - Section 106(4) of the Federal Crop Insurance Act of 1980 authorized FCIC to enter into reinsurance agreements with private insurance companies under which FCIC assumes most of the risk of loss on crop insurance written by the companies. In fiscal year 1985, FCIC had three reinsurance agreements--its standard agreement with 49 companies to sell and service multiperil crop insurance; a modified agreement with one company to insure nursery stock; and an agreement with one company to sell multiperil crop insurance in Puerto Rico. FCIC and the reinsurance companies share reinsurance income and losses based on the ratio of losses to premiums.

FCIC also reimburses the companies for administrative and loss adjustment expenses on a percentage of premiums and/or loss basis. Furthermore, FCIC's contracts with the reinsurance companies entitle the companies to 20 percent of the amount in a company's reinsurance account, but not more than 5 percent of the book premium written by the company for a 5-year period, beginning in 1981. After 5 years, FCIC's and the reinsurance company's share of reinsurance income will be recalculated and amounts due to the company will be adjusted accordingly. As of September 30, 1985, FCIC had accumulated $1.9 million for subsequent payment to the reinsurance companies. FCIC's reinsurance income, losses, administrative expenses, and loss adjustment expenses are accounted for on the same basis as FCIC uses for its direct business.

In fiscal year 1985 and 1984, FCIC's share of reinsurance premiums was $324.3 and $220.4 million, respectively, while its share of losses was $474.3 and $338.0 million. The companies' share of premiums in fiscal year 1985 was $4.1 million, and their share of losses was $4.1 million. In fiscal year 1984, the companies, share of premium was $3.2 million, while their share of losses was $6.1 million.

Premium subsidy - FCIC includes premium subsidy received from appropriations in revenues in the fiscal year earned. Section 106(1) of the Federal Crop Insurance Act of 1980 directed FCIC to pay a portion of producers' premiums and provided appropriations for that purpose. Since 1981, FCIC has been paying 30 percent of each producer's premium on any coverage up to a maximum of 65 percent of recorded or appraised average yield. FCIC's share of premium included in revenues was as follows:

	1985	1984
	-----(millions)---	
Direct sales	$ 30.0	$39.7
Reinsurance	71.8	52.3
Total premium subsidy	$101.8	$92.0

Furniture and Equipment are stated at acquisition cost or transferred value. Assets with a purchase price of $1,000 or greater and which have a useful life of over 1 year and improvements that extend the useful life of an asset are capitalized. FCIC uses the straight-line method of depreciating assets over their estimated useful service life of 10 years.

Employee benefits plans - Substantially all of FCIC's employees are covered by the Civil Service Retirement System, which is currently two-tiered. For employees hired prior to January 1, 1984, FCIC withholds approximately 7 percent of their gross earnings. Their contribution is then matched by FCIC and the sum transferred to the Civil Service Retirement Fund from which this employee group will receive retirement benefits. For employees hired on or after January 1, 1984, FCIC withholds, in addition to social security withholdings, approximately 1.3 percent of their gross earnings, but matches such withholdings with a 7 percent contribution, as above. This second employee group will receive retirement benefits from the Civil Service Retirement System along with the Social Security System to which they currently contribute. For 1985 and 1984, FCIC contributed $1.6 and $1.4 million, respectively, to the Civil Service retirement system. FCIC's contribution to the Social Security system was $.6 million each year.

Although FCIC funds a portion of pension benefits under the Civil Service Retirement System relating to its employees and makes the necessary payroll withholdings from them, it does not disclose the assets of the Civil Service Retirement System nor does it disclose actuarial data with respect to accumulated plan benefits or the unfunded pension liability relative to its employees. Reporting of such amounts is the responsibility of the U.S. Office of Personnel Management. Data regarding the Civil Service Retirement System's actuarial present value of accumulated benefits, assets available for benefits, and unfunded pension liability are not allocated to individual departments and agencies.

Appropriations - In addition to appropriations received for premium subsidies, FCIC receives annual appropriations for administrative and operating expenses. Depending on whether the funds have been obligated and the service or product constructively delivered, the appropriations are presented on either the Statement of Changes in Financial Condition or the Statement of Loss and Changes in Accumulated Deficit. The Statement of Loss includes all funds that have been obligated and the related service or product constructively delivered. The Statement of Changes in Financial Condition includes obligated funds for undelivered orders.

3. **Change in Accounting Principle.** The method of matching costs and revenues in the financial statements changed in fiscal year 1984 from prior years to bring the statements into conformance with generally accepted accounting principles, including <u>Financial Accounting Standards Board Statement Number 60</u>. FCIC historically deferred all revenues and losses of the current crop year to the following fiscal year. Other expenses were recognized in the fiscal year they were paid.

In fiscal year 1984, FCIC spread premium revenue over a period of risk using historical information on when crop losses occurred and recognized only the income and the acquisition costs that related to fiscal year 1984 operations.

FCIC also recognized estimated losses and the related loss adjustment expenses on the same basis as it recognizes premium revenue. The loss adjustment expenses are included in the 1984 and 1985 statements on a percentage basis using the average cost to settle a claim. The cumulative effect of the change in accounting principle was to increase the loss for fiscal year 1984 by $201.8 million.

Correction of error - The 1984 financial statements have been restated to correct the cumulative effect of the change in accounting principle. The net loss and insurance program deficit were understated by $10.4 million, while unexpended appropriations, included in the capital section of the statement of financial condition was overstated by $1.3 million. FCIC's assets were understated by $4.9 million; its liabilities were understated by $6.8 million; and its capital was overstated $11.8 million.

4. **Change in Accounting Estimate.** In fiscal year 1984, FCIC reduced its estimate of losses by $29.9 million. This reduction related to crop year 1981 claims for sugar beet losses in North Dakota and Minnesota which FCIC was disputing as of September 30, 1984. FCIC recognized these losses in fiscal year 1982, but reversed them in fiscal year 1984 because of the remote likelihood of payment. The effect of this change in estimate was to decrease FCIC's fiscal year 1984 loss from operations, loss for current year, and net loss by $29.9 million.

FCIC also had losses and other costs for prior years of $3.3 million in fiscal year 1984. In fiscal year 1985, FCIC had additional prior year premium income of $1.0 million, and costs for prior years of $0.7 million, for a net addition of $0.3 million. These amounts represent adjustments to premiums and losses for 1948 through 1981 crop years; adjustments to crop year 1982 agents' commission expenses; and adjustments to crop year 1982 reinsurance administrative expenses.

5. **Cash.** FCIC maintains separate funds for the insurance program and for administrative support. The administrative fund can only be used to pay administrative and operating costs of FCIC, and cannot be used to pay producers' losses. The cash balance in each fund was as follows:

	1985	1984
	(millions)	
Program	$ 33.3	$ 62.5
Administrative	95.6	95.1
Total	$128.9	$157.6

6. **Capital.** FCIC's operations since fiscal year 1981 have resulted in an accumulated deficit of $738.1 million as of September 30, 1985, and $516.4 million as of September 30, 1984, placing FCIC in a negative capital position. FCIC attributes this negative position primarily to adverse weather conditions. FCIC has made the Congress aware of its financial difficulties and has received additional funding authority to pay producer claims.

Section 101 of the Federal Crop Insurance Act of 1980, directed the cancellation of outstanding capital stock and increased the authorized amount of capital from $200 to $500 million. In accordance with the mandate of the Act, capital stock of $200 million was cancelled. As a result of this reorganization, cumulative expenses and the direct cost of loss adjustment paid from the insurance fund were written off and a balance of $38 million from the $200 million was recorded as contributed capital.

Section 110 of the Federal Crop Insurance Act of 1980 authorized the Secretary of Agriculture to use the funds of the Commodity Credit Corporation (CCC) to pay FCIC losses if funds available to FCIC for that purpose were insufficient. The authority to use CCC funds expired 1 year from the date the authority was first used. During fiscal year 1981, FCIC used $250 million of CCC funds to reduce FCIC's accumulated deficit. The authority to use CCC funds expired on October 26, 1981.

As of September 30, 1985, FCIC has issued all authorized capital stock, as follows.

	(millions)
P.L. 97-103, December 23, 1981	$250
P.L. 97-370, December 18, 1982	150
P.L. 98-396, August 22, 1984	50
P.L. 98-88, August 15, 1985	50
Total stock issued	$500

7. **Commitments and Contingencies.** Commitments - FCIC leases office space, data processing equipment and other office equipment from private contractors and the General Services Administration. Substantially all of these operating leases are renewable at FCIC's option. Lease expense for fiscal years 1985 and 1984 was $1.2 million each year.

Contingent liabilities - As of September 30, 1985, a number of lawsuits were outstanding against FCIC concerning disputes on claims. FCIC's legal counsel considers it unlikely that FCIC will receive any material adverse judgment on these cases.

8. **Services Provided.** Services, the cost of which are for the most part not readily determinable, have been provided without charge to FCIC by other government agencies. Among these services 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.

9. **Treasury Loan.** On August 19, 1985, a promissory note was established between the Secretary of Agriculture and the Secretary of the Treasury under the borrowing authority granted by section 516(d) of the Federal Crop Insurance Act. The note allows the advance of no more than $113 million at any one time, with any outstanding balance on the note due January 1, 1988. Interest on the unpaid principal balance of each advance outstanding is payable semiannually on January 1 and July 1 of each year. The interest is payable at a rate equal to the current average market yield on outstanding marketable obligations of the United States of comparable maturities during the month preceding the issuance of such notes or obligations which averaged 8.875 percent. The effective interest rate based upon balances maintained in excess of $113 million was 2.54 percent. As of September 30, 1985, FCIC had received the entire $113 million and had accrued interest payable of $.4 million.

10. **Subsequent Events.** To strengthen FCIC's financial position, the Congress, as part of the Food Security Act of 1985 (enacted December 23, 1985) reinstated FCIC's authority to use CCC funds to pay producers' losses. On January 8, 1986, FCIC's Board of Directors approved a resolution to request that the Secretary of Agriculture borrow funds from Commodity Credit Corporation (CCC) to pay producers' losses. As of May 13, 1986, FCIC had received $138 million from CCC, and has available for use an additional $112 million during fiscal year 1986. Although these funds have enabled FCIC to pay producers' losses and to reimburse reinsurance companies for FCIC's share of the companies' losses, the additional funds have not improved FCIC's financial position. FCIC still faces financial difficulties in the future unless long-term solutions to improve its capital position are identified and implemented.

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