U.S. Department of Agriculture
Office of Inspector General
Audit Report

U.S. Department of Agriculture
Risk Management Agency
Federal Crop Insurance
Corporation's
Financial Statements
For Fiscal Years 2001 and 2000

Report No.
05401-9-FM
February 2002

USDA

UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington D.C. 20250

DATE: FEB 25 2002

REPLY TO ATTN OF: 05401-9-FM

SUBJECT: Risk Management Agency
Federal Crop Insurance Corporation's
Financial Statements as of September 30, 2001 and 2000

TO: Phyllis Honor
Acting Administrator
Risk Management Agency

This report presents the auditors' opinion on the Risk Management Agency (RMA) and Federal Crop Insurance Corporation's (FCIC) principal financial statements for the fiscal years ended September 30, 2001, and 2000. Reports on RMA's and FCIC's internal control structure and on their compliance with laws and regulations are also provided.

KPMG Peat Marwick LLP, an independent certified public accounting firm, conducted the audit. We monitored the progress of the audit at all key points, reviewed the workpapers, and performed other procedures, as we deemed necessary. We determined that the audit was conducted in accordance with generally accepted auditing standards, Government Auditing Standards (issued by the Comptroller General of the United States), and the Office of Management and Budget's Bulletin No. 01-02, "Audit Requirements for Federal Financial Statements."

It is the opinion of KPMG Peat Marwick LLP, that the financial statements present fairly, in all material respects, RMA/FCIC's financial position as of September 30, 2001, and 2000, and its net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations for the years then ended, in conformity with generally accepted accounting principles. We agree with that opinion. The KPMG Peat Marwick LLP report on RMA/FCIC's internal control structure over financial reporting identified one material condition. Specifically, KPMG disclosed that RMA controls over reinsured organizations do not provide reasonable assurance that material misstatements in the financial statements will be prevented or detected on a timely basis. The results of KPMG's tests of compliance disclosed instances of noncompliance with the Privacy Act of 1974 and the Clinger-Cohen Act.

Joyce N. Fleischman

JOYCE N. FLEISCHMAN
Acting Inspector General

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Independent Auditors' Report on Consolidated Financial Statements

The Inspector General
U.S. Department of Agriculture and the
Board of Directors of the Federal
Crop Insurance Corporation:

We have audited the accompanying consolidated balance sheets of the Federal Crop Insurance Corporation (FCIC) as of September 30, 2001 and 2000, and the related consolidated statements of net cost, changes in net position, budgetary resources, and financing for the years then ended. The consolidated financial statements are the responsibility of the FCIC's management. Our responsibility is to express an opinion on the consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 01-02 require that we plan and perform the audits to obtain reasonable assurance that the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures relating to the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the FCIC as of September 30, 2001 and 2000, and its net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The information in the Management's Discussion and Analysis, Supplementary Stewardship Information, and Required Supplementary Information sections is not a required part of the consolidated financial statements, but is supplementary information required by the Federal Accounting Standards Advisory Board or OMB Bulletin No. 97-01, *Form and Content of Agency Financial Statements*, as amended. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit the information in the Management's Discussion and Analysis, Supplementary Stewardship Information, and Required Supplementary Information sections, and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued reports, dated January 25, 2002, on our consideration of the FCIC's internal control over financial reporting and its compliance with certain provisions of laws and regulations. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be read in conjunction with this report in considering the results of our audit.

KPMG LLP

January 25, 2002

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Independent Auditors' Report on Internal Control over Financial Reporting

The Inspector General
U.S. Department of Agriculture and the
Board of Directors of the Federal
Crop Insurance Corporation:

We have audited the consolidated balance sheet of the Federal Crop Insurance Corporation (FCIC) as of September 30, 2001, and the related consolidated statement of net cost, changes in net position, budgetary resources, and financing for the year then ended, and have issued our report thereon dated January 25, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

In planning and performing our audit, we considered the FCIC's internal control over financial reporting by obtaining an understanding of the FCIC's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 01-02 and *Government Auditing Standards*. We did not test all internal controls as defined by the Federal Managers' Financial Integrity Act (FMFIA) of 1982. The objective of our audit was not to provide assurance on the FCIC's internal control. Consequently, we do not provide an opinion on internal control over financial reporting.

Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect FCIC's ability to record, process, summarize, and report financial data consistent with the assertions by management in the consolidated financial statements. Material weaknesses are conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements, in amounts that would be material in relation to the consolidated financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected.

We noted one matter described in Exhibit I involving the internal control over the financial reporting and its operation that we consider to be a reportable condition. We believe this reportable condition is also a material weakness. This material weakness was not reported in FCIC's FMFIA report because management did not believe that this constituted a material weakness at the time the report was filed on October 1, 2001. This condition was considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2001 consolidated financial statements, and this report does not affect our report dated January 25, 2002 on these consolidated financial statements.

Additional Required Procedures

As required by OMB Bulletin No. 01-02, we considered the FCIC's internal control over required supplementary stewardship information by obtaining an understanding of the FCIC's internal control, determining whether these internal controls had been placed in operation, assessing control risk, and performing tests of controls. Our procedures were not designed to provide assurance on internal control over required supplementary stewardship information, and, accordingly, we do not provide an opinion on such controls.

As further required by OMB Bulletin No. 01-02, with respect to internal control related to performance measures determined by management to be key and reported in the Management's Discussion and Analysis section of the FCIC Consolidated Financial Statements, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions. Our procedures were not designed to provide assurance on internal control over reported performance measures, and, accordingly, we do not provide an opinion on such controls.

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We also noted other matters involving internal control and its operation that we have reported to the management of the FCIC in a separate letter dated January 25, 2002.

This report is intended solely for the information and use of the FCIC's management, the Department of Agriculture's Office of the Inspector General, OMB, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

January 25, 2002

Federal Crop Insurance Corporation
Material Weakness in Internal Control

Monitoring of Reinsured Organizations

The Office of Risk Compliance (ORC), Fiscal Operations and Systems Division (FOSD), and the Reinsurance Services Division (RSD), representing different areas of Risk Management Agency (RMA), are responsible for performing separate control procedures governing the Reinsured Organizations. In addition, the Reinsured Organizations (ROs) are responsible under the Standard Reinsurance Agreement to self regulate their operations through the completion and submission of a Manual 14 review which is then subject to further internal review.

The ORC's objective related to monitoring ROs is to ensure program integrity by following up on complaints and referrals, and identifying program vulnerabilities. In addition, the ORC is responsible for conducting the internal review of the submitted Manual 14 reviews from the Reinsured Organizations. The FOSD's objective related to monitoring ROs is to perform financial reviews – reviewing premium collections to ensure they were reported timely and accurately, reviewing total RO loss amounts to ensure they were reported properly through the Data Acceptance System, and reviewing reconciliations of escrow accounts to ensure they were correct – of the Reinsured Organizations. The RSD is responsible for setting requirements for quality control standards and training for the insurance providers. The RSD's objective related to monitoring ROs is to monitor the financial capabilities of the Reinsured Organizations and perform oversight and administration functions over the Standard Reinsurance Agreements (SRAs).

While the different areas of the RMA perform valid, specific control procedures in attaining their objectives, these components of internal controls were not performed or performed too narrowly to accomplish their intent. During fiscal year 2001, the ORC did not complete internal reviews of the Manual 14 reviews submitted by the Reinsured Organizations. The FOSD and the ORC (through a third party provider) conducted four financial reviews (two each) in comparison to the eight financial reviews included in the 2001 work plans. Also, the components of internal control currently performed by the different areas of the RMA are incomplete, as they do not adequately address the risk of unreported or fraudulently reported data. Specific internal controls are not designed or operated in such a manner to allow employees to detect these risks of financial statement misstatement in the normal course of performing their assigned functions.

The Office of the Inspector General (OIG) issued a draft audit report entitled "Monitoring of RMA's Implementation of Manual 14 Reviews/Quality Control Review System" in November 2001. The OIG position is that RMA's quality control program does not meet the standards for internal control in the Federal government. The OIG believes the quality control system employed by RMA does not provide reasonable assurance that assets are safeguarded against waste, loss, unauthorized use, or misappropriation. The OIG recommended that the RMA revise its FMFIA report dated October 1, 2001, to identify the absence of a reliable quality control review system as a material weakness. RMA's response to the audit stated their belief that this did not constitute a material weakness.

The effect of the above noted conditions precludes RMA's internal control from providing reasonable assurance that material misstatements in the financial statements will be prevented or detected on a timely basis.

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Independent Auditors' Report on
Compliance with Laws and Regulations

The Inspector General
U.S. Department of Agriculture and the
Board of Directors of the Federal
Crop Insurance Corporation:

We have audited the consolidated balance sheet of the Federal Crop Insurance Corporation (FCIC) as of September 30, 2001, and the related consolidated statement of net cost, changes in net position, budgetary resources, and financing for the year then ended, and have issued our report thereon dated January 25, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

The management of the FCIC is responsible for complying with laws and regulations applicable to the agency. As part of obtaining reasonable assurance about whether the FCIC's consolidated financial statements are free of material misstatement, we performed tests of the FCIC's compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of the consolidated financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 01-02, including certain requirements referred to in the Federal Financial Management Improvement Act (FFMIA) of 1996. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws and regulations applicable to the FCIC. However, providing an opinion on compliance with laws and regulations was not an objective of our audit, and, accordingly, we do not express such an opinion.

The results of our tests of compliance with the laws and regulations described in the preceding paragraph, exclusive of FFMIA, disclosed three instances of noncompliance with the following laws and regulations that is required to be reported under *Government Auditing Standards* and OMB Bulletin No. 01-02, as described below.

Law or regulation	Instance of noncompliance
Privacy Act of 1974	The Risk Management Agency (RMA) does not have all required notices of the existence and character of the system of records published in the Federal Registrar. RMA has not demonstrated that it has established rules of conduct for persons involved in the design, development, operation, or maintenance of these system of records and instructed each such person with respect to such rules and the requirements of the Privacy Act of 1974, and the penalties for noncompliance.

Law or regulation	Instance of noncompliance
	Additionally, RMA has not demonstrated that it has established the appropriate administrative, technical, and physical safeguards to ensure the security and confidentiality of records and to protect against any anticipated threats or hazards to their security or integrity which could result in substantial harm, embarrassment, inconvenience, or unfairness to any individual on whom information is maintained.
Privacy Act of 1974	FCIC could not demonstrate that it had appropriate interaction with a Data Integrity Board as required by the Privacy Act of 1974.
Clinger-Cohen Act	FCIC's Chief Information Officer (CIO) does not perform the required duties outlined in the Clinger-Cohen Act.

Under FFMIA, we are required to report whether FCIC's financial management systems substantially comply with (1) federal financial management systems requirements, (2) applicable federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA section 8-3(a) requirements.

The results of our tests disclosed no instances in which FCIC's financial management systems did not substantially comply with the three requirements discussed in the preceding paragraph.

We also noted other matters involving compliance with laws and regulations that, under *Government Auditing Standards* and OMB Bulletin No. 01-02, were not required to be included in this report, that we have reported to the management of FCIC in a separate letter dated January 25, 2002.

This report is intended solely for the information and use of the FCIC's management, the Department of Agriculture's Office of Inspector General, OMB, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

January 25, 2002

FEDERAL CROP INSURANCE CORPORATION
RISK MANAGEMENT AGENCY
CONSOLIDATED FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 2001 and 2000

MANAGEMENT'S DISCUSSION AND ANALYSIS

Mission and Organizational Structure

Organizational Structure

The Federal Crop Insurance Corporation (FCIC) is a wholly owned government corporation created February 16, 1938 (7 U.S.C. 1501). The program was amended by Public Law (P.L.) 96-365, dated September 26, 1980, to provide for nationwide expansion of a comprehensive crop insurance program.

The Risk Management Agency (RMA) was established under provisions of the Federal Agriculture Improvement and Reform Act of 1996 (1996 Act), P.L. 104-127, signed April 4, 1996. The 1996 Act amended the Department of Agriculture Reorganization Act of 1994 (1994 Act), P.L. 103-354, Title II, by requiring the Secretary of Agriculture (the Secretary) to establish within the U.S. Department of Agriculture (USDA) an independent office responsible for supervision of the FCIC, administration and oversight of programs authorized under the Federal Crop Insurance Act, such as any pilot insurance plans or other programs involving revenue insurance, risk management education, risk management savings accounts, or the use of the futures markets to manage risk and support farm income that may be established under the Federal Crop Insurance Act or other law; and any other programs the Secretary considers appropriate. The Federal Crop Insurance Act as amended through 2001, is hereafter referred to as the Act.

Mission

The purpose of the FCIC and RMA, (hereafter the combined entities will be referred to as the FCIC), is to promote the national welfare by improving the economic stability of agriculture through a sound system of crop insurance and other risk management tools. Stabilizing rural communities through an actuarially sound system of crop insurance has been an important public policy of the United States for over half a century. The FCIC is committed to transforming yesterday's crop insurance program into a broad-based safety net for producers to assure American agriculture remains solid, solvent, and globally competitive through the twenty-first century.

The mission of the FCIC is to provide and support cost-effective means of managing risk for agricultural producers in order to improve the economic stability of agriculture. The goal of the FCIC is to strengthen the safety net for agricultural producers through sound risk management programs and education.

The objectives include the following items:

- Increase the number of economically sound risk management tools that are available and utilized by producers to meet their needs;
- Increase the agricultural community's awareness of risk management alternatives; and
- Improve program integrity and protect taxpayers' funds.

Regulatory Acts Impacting the FCIC

The President signed the Agricultural Risk Protection Act of 2000 into law on June 20, 2000. Major provisions of this new legislation include: Expanded use of contracts and partnerships for the research and development of policies and other risk management tools; prohibited research and development by the FCIC; revised CAT administrative fees and loss adjustment expense reimbursements; significantly revised premium subsidy; provided for livestock coverage authorization and reimbursement of research, development, and maintenance costs for products submitted to the Corporation; expanded risk management education and assistance; provided funds to address under served areas, States, and commodities; established an expert review panel and procedures for reviewing policies, plans of insurance, and related material or modifications; improved program compliance and integrity provisions; provided for acceptance of electronic information; also good farming practices were to include scientifically sound sustainable and organic farming practices; and others not included herein.

Additional major legislation that has impacted the crop insurance program over the past several years include the following:

On October 13, 1994, the President of the United States signed H.R. 4217, the 1994 Act, P.L. 103-354. The highlights of the 1994 Act for crop insurance are as follows:

- Repeal of disaster authority
- Catastrophic crop insurance coverage
- Incentives were provided to reduce out of pocket costs if producers purchased additional coverage
- Linkage to other farm programs to ensure participation
- Created the "Noninsured Assistance Program" (NAP) for crops not covered by crop insurance.

On May 3, 1996, the Secretary's memorandum 1010-2 established RMA

- The 1996 Act provided for FSA to carry out the NAP rather than FCIC.
- Delivery: The 1996 Act phased out the delivery of catastrophic coverage through the Farm Service Agency (FSA).
- In fiscal year 1997, producers could choose to buy the CAT coverage either through private insurance agents or a USDA county office.

On April 22, 1998; the 1994 Act was amended by the Agricultural Research Extension and Education Reform Act of 1998 (AREERA).

- Section 531 - revised Section 516 of the 1994 Act to move funding for sales commissions for agents from discretionary funding to mandatory funding.

- Section 531 - limited payments from the insurance fund for research and development expenses for subsequent reinsurance years.
- Required administrative fees and additional fees to be deposited in the FCIC insurance fund and be available for programs of the FCIC.
- Limited the rate paid to reinsured companies for administrative and operating costs .
- Set the rate at 11 % of premium for CAT policies. With the 2000 ARPA legislation, this rate was reduced to 8% after the 2000 reinsurance year.

Business Overview

In the 2001 and 2000 crop years, reinsured companies delivered all policies. These private insurance companies write multiple-peril crop insurance (MPCI) and reinsure the risks with the FCIC. These companies are compensated by the FCIC for expenses associated with marketing and fully servicing (including loss adjustment, claims processing, billings, and premium collections) the crop insurance policies written. The 1996 Act phased out, beginning with the 1997 crop year, the delivery of the FCIC catastrophic crop insurance policies through the USDA county offices.

Approximately 1.3 million policies were written in crop years 2001 and 2000 with an estimated $3.0 billion in premium for crop year 2001, and $2.5 billion in premium for crop year 2000. For the 2001 and 2000 crop years, an estimated $3.2 billion and $2.5 billion, were to be paid in indemnities. Crop insurance was available for 77 different commodities (approximately 600 commodities as enumerated for disaster assistance purposes), for crop year 2001 and crop year 2000. Crop year 2001 and 2000, coverage was available in over 3,000 counties covering all 50 states and Puerto Rico.

The FCIC maintains two separate funds, one for administrative and operating purposes (A&O Fund), and one for the crop insurance program (Insurance Fund). The A&O Fund is used to pay salaries and other administrative expenses. The Insurance Fund is used to pay for all types of crop losses including any remaining 1995 crop year Non-Insured Assistance Program (NAP) losses. The Insurance Fund also pays for the reinsured companies administrative expenses associated with marketing and fully servicing the crop insurance policies written. Operating expenses of the reinsured companies are reimbursed by the FCIC, as authorized by the 1994 Act. The premium costs of insured persons are subsidized under the terms of the 1994 Act. In fiscal year 1999, the Emergency Financial Assistance premium discount, under the authority of Section 102 (g)(2) of Public Law 105-277, dated October 21, 1998, provided for the Secretary, acting through the FCIC, to encourage future crop insurance participation by offering premium discounts to purchasers of crop insurance. In fiscal year 2000 under the authority of Section 814 of Public Law 106-78, dated October 22, 1999 an additional premium discount to producers was provided.

The FCIC is headquartered in Washington, D.C. This office provides overall policy, program, and general management leadership for establishing and administering insurance and reinsurance policies for the farmer and the industry.

The FCIC's Kansas City, Missouri, office provides operational and processing support to the program functions. These functions include analyzing productivity and risk in the determination of premium rates; developing new risk management tools for producers;

analyzing changes in terms of crop insurance contracts; exploring expansion of program coverage; developing and maintaining underwriting standards to ensure uniform application of underwriting procedures; assisting in the processing of insurance documents; recording detailed accounting and statistical data; and preparing required accounting, statistical, and management reports. Many of the research and development activities are now done through contracts and partnerships with other organizations.

The reinsured companies process insurance documents, bill and collect premiums, and pay losses according to stipulations within the insurance policy and reinsurance agreement with the FCIC. The reinsured companies electronically transmit to the FCIC, at least monthly, all data required under the reinsurance agreement in order to receive their contracted reimbursements. R&D divisions located in Kansas City, Missouri, assist in processing all insurance data, record detailed accounting and statistical data, prepare the required accounting, statistical, and management reports for business from all sources, and collect all crop and accounting data needed for policy determinations, underwriting decisions, and financial management.

Ten regional offices formulate and recommend policies specific to the needs of the region for which each is responsible. They provide customer service, problem identification, resolution and/or referral, as well as assistance to delivery system partners regarding program issues related to underwriting and claims administration.

Six regional compliance offices provide assurance of program integrity by conducting program reviews and audits to assure mandates, policies and procedures are effective and are followed by persons involved in delivering crop insurance. The six field offices also conduct investigations into complaints alleging fraud or abuse of existing insurance programs. This ensures fair and equitable treatment of the farmer, taxpayer, and the FCIC.

Federal Crop Insurance Program - Activities

The Federal crop insurance program comprises the following major activities:

(1) Program Management includes the board of directors, the administrator's office and staff offices that report directly to the administrator's office.

(2) Research and Development (R&D) involves the design and development of crop insurance programs, policies and standards, and the establishment and maintenance of rates and coverage's for crops in each county. This activity also includes the evaluation of current crop insurance plans and policies, and includes development of strategies for increasing participation in the crop insurance program. It also includes the data processing and accounting for the FCIC's program operations. With the passage of the Agricultural Risk Protection Act of 2000, effective fiscal year 2001, these design and development of crop insurance programs are now done through contracts and partnerships with other organizations.

(3) Insurance Services has responsibility for delivering RMA programs through a system of ten regional service offices and reinsured companies. It provides support, information, and advice to the Office of the Administrator; delivers risk

management education programs to producers through private and public education partners; coordinates RMA responses to emergency situations; maintains existing FCIC products through field underwriting assessments; assists in new product development; and supports RMA civil rights and outreach initiatives. Headquarters staff complement field activities by ensuring consistent application of actuarially sound insurance principles in field-level underwriting and by monitoring a uniform system of loss adjustment.

(4) Compliance provides program oversight and quality control of the reinsured companies. It ensures the integrity of the crop insurance program through reviews of reinsured companies' operations and ensures the delivery of crop insurance is in accordance with applicable laws, regulations, and procedures.

Federal Crop Insurance Program – Insurance Plans

Revenue Crop Insurance Plans

Crop Revenue Coverage (CRC) was developed by Redland Insurance Company and submitted to FCIC for approval in 1996, Revenue Assurance (RA) was developed by Farm Bureau Mutual Insurance Company of Iowa and submitted to the FCIC for approval in 1997, and Income Protection (IP) was developed in 1997 by the FCIC. These plans respond to the directive of the 1994 Act which directed the FCIC to develop a pilot crop insurance program which provided coverage against reduced gross income as a result of a reduction in yield or price, and has been improved and/or expanded each year. The FCIC Board of Directors approved, for the 1999 crop year, a fourth plan, Group Risk Income Protection (GRIP), submitted by IGF Insurance Company.

CRC, RA, and IP have many similar features, yet some very distinctive features. They guarantee revenue by insuring yield and price variability. Indemnities are due when any combination of yield and price result in revenue that is less than the revenue guarantee. CRC, RA, and IP plans are similar in that they use the policy terms and conditions of the APH plan of MPCI as the basic coverage. APH provides the yield component and provides a yield forecast through the insureds records of historic yields. It also provides a documented process to determine the yield for the insurance period.

GRIP offers producers a guarantee against decline in county revenue, which is based on the Chicago Board of Trade futures prices and National Agricultural and Statistics Service county yields as adjusted by the FCIC. The GRIP policy provides coverage on an enterprise unit basis. The amount of any loss will be finalized when the final county yields and harvest price are known in the spring following the crop year. The GRIP policy contains no replant, late, or prevented planting provisions.

Revenue protection for all products is provided by extending traditional MPCI protection based on APH to include price variability. The price component common to the CRC, RA, IP, and GRIP plans is that these plans use the commodity futures market for price discovery. Price discovery occurs twice in the CRC, RA, IP and GRIP plans: first, before the insurance period (Projected, Base or Expected Price) to establish the revenue guarantee and premium, and second, at harvest time (Harvest Price). The CRC and RA (if elected) plans provide increased protection when the Harvest Price is above Base Price. All revenue insurance plans pay the insured producer an indemnity when any combination of harvested and appraised yield and Harvest Price results in insurance revenue that is less than the revenue guarantee.

The Projected, Base, or Expected Price, and Harvest Prices are the average of the daily settlement prices for the commodity futures contract and exchange listed in the insurance contract. The Projected, Base, or Expected Price is the average of the daily settlement prices during the month prior to insurance coverage as designated in the insurance contract. Harvest Price is an average for the month designated in the insurance contract near the end of the insurance period.

Crop Revenue Coverage (CRC) Insurance plan:

This pilot insurance plan was initiated as a submission under Section 508(h) of the 1994 Act beginning with the 1996 crop year as a 2 year pilot for corn (grain only) and soybeans in all counties in Iowa and Nebraska. Approximately 82,700 CRC policies were purchased in 1996 (approximately 25% of the corn and soybean policies sold in Iowa and Nebraska). CRC is the most widely available of the revenue insurance products. The policy protects a producer's revenue whenever low prices, low yields, or a combination of both, causes revenue to fall below a guaranteed level selected by the producer. After further enhancements to the insurance plan, over the past five years, CRC policies were purchased in 2001 crop year to include Corn in 41 states, Cotton in 17 states, Grain Sorghum in 23 states, Rice in 6 states, Soybean in 33 states, and Wheat in 33 states.

Revenue Assurance (RA):

Also, in accordance with the 1996 Act, the Board approved the RA insurance plan of insurance originally submitted by Farm Bureau Mutual Insurance Company of Iowa as a pilot project covering corn and soybeans for the 1997 and 1998 crop years.

The RA insurance plan had expanded by fiscal year 2001 to include corn policies purchased in 15 states, soybean policies purchased in 15 states, wheat policies purchased in 12 states, Barley policies purchased in 2 states and Canola and Sunflower policies purchased in 1 state.

Group Risk Income Protection

Group Risk Income Protection (GRIP) was submitted under Section 508(h) of the 1994 Act by IGF Insurance Company as a "Pilot Insurance plan" beginning with the 1999 crop year. It is an alternative insurance plan to the MPCI program for corn and soybeans in all counties of Illinois, Indiana, and Iowa, where GRP was offered. Corn policies have increased from approximately 664 policies in 1999 to 1,533 policies in 2001; and soybean policies have increased from approximately 504 policies in 1999 fiscal year to 1,579 policies in 2001. While there was minimal market penetration in Iowa and Illinois, in Indiana GRIP corn constituted 2.8 percent of all corn policies sold in 1999 crop year and increased to 5.6 percent of corn policies sold in the 2001 crop year. GRIP soybeans were 2.3 percent of all soybean policies sold in 1999 crop year and 6.32 percent of all soybean policies sold in the 2001 crop year in Indiana. GRIP will remain available for corn and soybeans in all counties where GRP is offered in Indiana, Illinois, and Iowa.

FCIC-Developed Pilot Programs

The FCIC currently has 28 pilot insurance plans underway that implement legislation or test new and innovative crop insurance concepts. Crop insurance pilot insurance plans available for the 2001 crop year (2002 crop year for citrus dollar) include insurance plans for adjusted gross revenue, avocado actual production history, avocado revenue, avocado/mango trees, blueberries, cabbage, cherries, citrus (dollar), corn rootworm integrated pest management, coverage enhancement option, crambe, cultivated clams, cultivated wild rice, dairy options, Florida fruit trees, fresh market beans, the Income Protection (IP) plan of insurance, millet, mint, mustard, onion pilot stage removal option, pecan revenue, processing chile peppers, processing cucumbers, rangeland (GRP), strawberries, sweet potatoes, and winter squash (including pumpkins). A pilot Apple Quality Option is also available on a limited basis under the apple crop insurance program.

Dairy Options Pilot Program (DOPP)

This pilot program was developed during the 1998 fiscal year to help dairy farmers better manage price risk. DOPP is significantly different than traditional crop insurance. It is designed to give dairy producers the opportunity to learn how futures and options markets work by training and real-world experience. The training session gives producers a good overview on how options work and how they can be incorporated into marketing plans. Dairy farmers than select a broker and lock in a minimum value for their future milk production through the purchase of a government-subsidized put option. The subsidy dramatically lowers the cost for this risk management tool, enabling dairy farmers to learn to use a risk management tool they otherwise might be hesitant to try. Thus, DOPP seeks to improve marketing skills of dairy farmers by sharing costs as they learn to use put options. Responsibilities for DOPP were transferred to RMA's Risk Management Education (RME) Division during fiscal year 1999. During Round I in fiscal year 1999, DOPP operated in 38 counties in a total of 7 states. For Round II in fiscal year 2000, RMA expanded DOPP to include a total of 61 new counties in 32 milk producing states. Small changes were made in the program, which enhanced the educational experience of the participating dairy producers. Round III of DOPP, during fiscal year 2001, expanded the program to 275 counties in 39 states. This included the pilot counties from both previous rounds. RMA was directed to allow dairy producers from previous rounds the opportunity to participate in DOPP for more than one year. Training accessibility for participating dairy producers and commodity brokers was expanded beyond the program's classroom limitation. DOPP was the first futures and options training designed for dairy producers and the program achieved flagship status by going online, headlining USDA's distance learning capability. The next round of DOPP will be expanded to include the 275 counties from Round III, plus 25 new counties. This will reach the total number of 300 counties as authorized in the Agricultural Risk Protection Act of 2000.

Although DOPP is an RMA program, it is funded from the Commodity Credit Corporation (CCC), instead of the FCIC fund. RMA is authorized up to $9 million in Fiscal Year (FY) 2001; $15 million in FY 2002; and $2 million in FY 2003 for options pilot programs.

Increase Participation and Program Growth

In addition to premium subsidies of approximately $941 million and Emergency Financial Assistance (EFA) premium discounts of $400 million in the 2000 fiscal year, the FCIC continues to encourage producer acceptance and program participation through outreach and educational activities directed at informing the agricultural community of the "new risk environment" and how crop insurance is one component that can be used to mitigate potential losses. The FCIC's goals include ensuring that producers have sufficient information to adequately assess their own risk in today's uncertain agribusiness environment. Activities include participation in agricultural related events and expositions around the country and distributing the crop insurance industry's guide entitled, "Managing Risk - Being Prepared" Outreach and education on the crop insurance program and other risk management tools will increase under the mandate found in the 1996 Act.

The 1996 Act directs the development of risk management education and conducting an options pilot program. The risk management focus will provide education about the management of financial risks inherent in the production and marketing of agricultural commodities. The options pilot program will facilitate the participation and education of producers in commodity futures trading programs and forward contract options. Both initiatives will train producers in the use of insurance programs and options as tools and strategies for their farming operations. The options pilot program is designed to be budget neutral to the extent feasible, which limits its potential for wide use.

Risk Management Education

RMA continues to partner with the Cooperative State Research, Education, and Extension Service (CSREES), the Commodity Futures Trading Commission (CFTC), and the USDA National Office of Outreach, to provide Risk Management Education (RME) to U.S. farmers and ranchers, as mandated in Section 192 of the 1996 FAIR Act. In addition, the Agricultural Risk Protection Act of 2000 significantly increased RMA's role in delivering education and outreach programs.

The RME Division provides farmers with information and with educational opportunities to become more aware of risk, know the tools available to manage risk, and learn strategies for making sound risk management decisions.

The following are highlights of RME Activities for FY 2001:

- **Local Training Activities**

Producers trained. The number of producers trained locally in risk management tools and skills as a result of RME-sponsored activities during FY2001 was 30,095.

Number of Activities. The number of training sessions funded was 858.

RME Supportive Activities

- *Expanded network of RME education partners.* Made 17 presentations to national farm groups, explaining RMA programs. Network of RME education partners continues to provide momentum for local activities.

- *Distance Learning.* Designed and launched the first on-line distance learning course produced within the USDA to reach producers with internet availability.
- *Risk Management Curriculum.* Supervised the development and production of a Basic Risk Management curriculum. Also, enabled the distribution of a comprehensive risk management curriculum to AgEd instructors nationwide.
- *New Risk Management Education Tools.* Enabled the development or expansion of new decision and informational aids, including CropRisk, an Internet database on Cost of Production, AgRisk, AgMAS, and I-DRMER. Many of these programs originated with RME grants funded at the end of FY 1998 but continue to yield significant benefits.
- *USDA Outlook Conference 2001.* Contributed ideas and concepts as a member of the USDA Program Planning Committee. Supervised the development of one session to be conducted on risk management.

One of the distinguishing features of the 2000 Act is the emphasis on risk management education (RME). The 2000 Act provides general direction and funding for 5 major RME initiatives:

- *Partnerships for Risk Management Development and Implementation. (Section 131)* The Risk Management Agency (RMA) is directed to form partnerships to conduct producer training in risk management, with a priority to producers of specialty crops and to producers who have been under-served by current crop insurance plans. Of the amount available for all insurance plans in this section, RMA has earmarked $2 million per year for 5 years from the FCIC fund to conduct this specialty crop educational initiative.

At the beginning of fiscal year 2001, RMA developed a plan to provide producers with training and informational opportunities on financial management, crop insurance, marketing contracts, and other existing and emerging risk management tools. By the close of fiscal year 2001, RMA established 4 partnership agreements. The agreements are with the State Departments of Agriculture in Florida, Michigan, Virginia and Washington.

- *Crop Insurance Education and Information. (Section 133)* RMA is directed to target producers in certain selected States with a special RME effort. Funding comes from the FCIC fund and totals $5 million per year for 5 years. The Secretary selected 15 States which have low crop insurance participation for this program: Maine, New Hampshire, Vermont, New York, Connecticut, Massachusetts, Rhode Island, New Jersey, Delaware, Pennsylvania, Maryland, West Virginia, Wyoming Utah, and Nevada.

  In October 2000, RMA developed a plan to reach the 15 under-served states with risk management education. At the end of FY 2001, cooperative agreements have been established in 12 of the 15 under-served states. These cooperative agreements will deliver extensive risk management education to producers. Specifically, the cooperative agreements ensure partners will develop risk management curriculum that will expand the amount of risk management information available; promote risk management educational opportunities; inform agribusiness leaders of increased emphasis on risk management; and deliver training on risk management to producers with an emphasis on reaching small farms. These measures are designed to increase opportunities for participation in the crop insurance program.

Risk Management Education Competitive Grants. (Section 133) This subsection directs the Secretary to use the Cooperative State Research, Education and Extension Service (CSREES) to offer a competitive grants program for the education of producers nationwide in the whole range of risk management tools. Funding comes from the FCIC fund and totals $5 million per year for 5 years.

The Manager of FCIC, who is the Administrator of RMA, is accountable for the FCIC fund and all monies transferred from it. Because RMA's Administrator is accountable for the fund, RMA has explored the possibility of including requirements and conditions in this transfer. However, the Office of General Counsel had advised RMA's Chief Financial Officer that "since the program was never under the authority of the Risk Management Agency (RMA), RMA cannot impose any controls on the funding and should simply transfer the funds with a statement that the transfer is to fulfill the obligations under section 524(a)(3) of the Act."

The paper transfer was completed in the spring of 2001. Once the transfer was completed, CSREES published a Request for Proposal. The proposal selection process is now complete, but has not been formally announced.

- *Agricultural Management Assistance. (Section 133))* Section 133(b) of the Agricultural Risk Protection Act of 2000 (the 2000 Act) authorizes the Secretary to provide cost-share assistance for a variety of uses to producers in under-served states. A total of $10 million (per year for 5 years) from the Commodity Credit Corporation (CCC) was authorized for this assistance. For Fiscal Year 2001, RMA, NRCS (Natural Resources Conservation Service), and AMS (Agricultural Marketing Service) offered cost-share programs under this authority. Specifically, RMA offered a cost-share program for Adjusted Gross Revenue (AGR) insurance, a "whole farm" pilot insurance program. Under this program, which was available in eleven northeastern under-served states, RMA paid 50% of a producer's AGR premium cost. RMA also paid the entire administrative fee ($30 per policy) for all eligible policies. Of the $10 million authorized for cost-share programs, RMA earmarked $2 million for its AGR Cost-Share Program. However, under a *Memorandum of Understanding* between RMA and NRCS, unused funds were transferred to NRCS for cost-sharing conservation practices.

- *Option Pilot Programs. (Section 134)* This section, extended RMA's authority to offer options pilot programs until December 31, 2004. It expanded the authority to operate options pilot programs from a maximum of 100 counties with a 6 county limit per state to a maximum of 300 counties with a limit of 25 counties per state. Moreover, RMA was directed to offer DOPP in selected counties for more than one year, and to allow producers in these counties to participate multiple times. Funds were authorized from the Commodity Credit Corporation (CCC) for up to $9 million in Fiscal Year (FY) 2001; $15 million in FY 2002; and $2 million in FY 2003 for options pilot programs.

Performance Goals, Objectives, and Results

The key performance goals and results that follow were selected from RMA's revised fiscal year 2001 and fiscal year 2002 Annual Performance Plan and RMA's Strategic Plan for fiscal years 2000-2005.

Strategic Goal:

To strengthen the safety net for agricultural producers through sound risk management programs and education.

The FCIC develops and delivers (in coordination with and through the private sector) a variety of risk management products to enable agricultural producers to manage their risks. These products help producers protect themselves from yield risks, market risks, or other risks faced in their farming operations. The FCIC's new legislative initiatives resulting from the passage of the ARPA further contribute to producers' ability to protect their financial stability, and comprise the major component of the safety net for agricultural producers. The ARPA includes significant changes in the manner in which the FCIC accomplishes its goal, including expanded use of contracts and partnerships. These changes will expedite and strengthen the research and development process to enable new and innovative risk management tools to be utilized by producers. These tools go far beyond traditional crop insurance programs which in the past, have been the primary focus of the FCIC. These efforts, and the resulting new FCIC tools for producers will truly enable the FCIC to achieve its vision of transforming yesterday's crop insurance program into a broad-based safety net for producers through the 21st century. An expanded, comprehensive risk management education and outreach program will increase agricultural producers' awareness of their new and improved risk management opportunities. The FCIC's goal provides a solid foundation and direction for the future and is directly linked to the Secretary's Overview on Goal 1.1, "Provide an effective safety net and promote a strong and sustainable U.S. farm economy."

Objective: 1.1

Increase the availability and utilization of economically-sound risk management tools to meet producers needs.

Producers' needs are continuously being assessed by the FCIC and its private sector partners to ensure new and innovative risk management alternatives are available to meet producers' needs.

Strategies for Achieving the Objective

1. Assess needs and interest for risk management tools for producers of specific agricultural commodities.
2. Lead the contracting and partnership efforts to assist agricultural partners in the research, development, implementation, and maintenance of new tools such as revenue coverage, underserved commodities and areas, specialty crops, livestock, cost of production plans, and other non-traditional risk management products.
3. Maintain and continuously improve existing products.
4. Evaluate products and take appropriate actions.
5. Evaluate and improve process for private companies submitting and gaining approval/disapproval of alternative products.

Performance Goal and Indicators:
The following outcomes assess the effectiveness of the FCIC's contribution to the safety net for agricultural producers through utilization of risk management tools related to increasing the availability and utilization of economically-sound risk management tools to meet producers needs.

	Crop Year 1999 Actual	Crop Year 2000 Actual	Crop Year 2001 Actual	Crop Year 2002 Target
Performance Goal: Increase the availability and utilization of economically-sound risk management tools to meet producers needs.				
Indicators:				
Percent Participation (percent of planted acres of principal crops as reported by NASS, other than hay, that are insured). 2005 Target = 84.3% participation	73%	78.3%	79.7%	84.2%
Number of insurance plans available (crop year data). 2005 Target = 149 insurance plans	138	146	147	149
Number of non-insurance plans available. 2005 Target = 5 non-insurance plans	1	1	1	3
Net acres insured (acres in thousands) 2005 Target = 226,163 acres insured	196,377	204,514	215.000	222,027
Total insurance in force (dollars in thousands – crop year data). 2005 Target = $42,175,500 insurance in force	30,864,958	33,946,202	37,200,000	36,334,500
Total crop insurance premium (dollars in thousands). 2005 Target = $3,743,900	2,304,695	2,503,542	2,992,000	3,188,800

Objective 1.2:

Increase the agricultural community's awareness of risk management alternatives.

Through contracts and partnerships, the agricultural community will have available a comprehensive risk management education and outreach program. The FCIC will provide leadership, funding, and a strategy for institutionalizing this risk management program.

Strategies for Achieving the Objective:

1. Enhance the process to identify and reach underserved areas, States, commodities, producers, and other members of the agricultural community (e.g., farm publications, education courses, etc.).
2. Prepare and deliver Risk Management Education (RME) products.

Performance Goal and Indicators:

The following outcomes assess the effectiveness of the FCIC's contribution to the safety net for agricultural producers through utilization of risk management tools related to increasing the agricultural community's awareness of risk management alternative.

	FY 1999 Actual	FY 2000 Actual	FY 2001 Actual	FY 2002 Target
Performance Goal: Increase the availability and utilization of economically-sound risk management tools to meet producers needs.				
Indicators:				
Total number of producers attending RME sessions being coordinated or facilitated throughout the U.S.	14,500	21,036	12,300	12,500
Number of dairy producers participating in the Dairy Options Pilot Program (DOPP)	1,450	1,250	2,900	5,000
Number of producers using risk management distance learning courses available on the Internet.	-	-	500	1,000
Total number of crop insurance policies in force (in thousands – crop year to date)	1,285	1,286	1,300	1,298
Total number of RME sessions being coordinated or facilitated throughout the U.S.	950	1,200	1,500	1,800
Number of DOPP sessions being coordinated or facilitated throughout the U.S.	-	55	275	350
Number of risk management clubs or marketing clubs being coordinated or facilitated throughout the U.S.	-	40	50	60

Objective 1.3:

Improve program integrity and protect taxpayer's funds.

This objective is achieved by conducting internal and external reviews, investigations, program evaluations, and audits to address inherent program vulnerabilities, deter abuse, and minimize program costs. This will be done in coordination with private sector delivery partners, oversight bodies, and appropriate contracts and partnerships with others.

Strategies for Achieving the Objective:

1. Develop and maintain a system to continually evaluate and improve internal and external management controls.
2. Expand the use of contracts and partnerships in the evaluation of new and existing risk management tools, including the implementation of an expert panel to review products before they are sent to the FCIC Board of Directors, in accordance with the requirements of ARPA.
3. Implement the process identified in the Concurrence Process and Signature Authorities memo signed by the RMA Administrator to the Deputy Administrator for Research and Development on October 4, 2000, to ensure adequate review and concurrence of new risk management tools.
4. Review, improve, and maintain performance standards for delivery partners.

5. Implement and maintain a process to ensure evaluation of financial performance measures of various reinsurance agreements.
6. Develop and apply data mining and other state-of-the-art technology to compliance methodology.

Performance Goal and Indicators:
The following outcomes assess the effectiveness of the FCIC's contribution to the safety net for agricultural producers through utilization of risk management tools related to improving program integrity and protecting taxpayer's funds.

	FY 1999 Actual	FY 2000 Actual	FY 2001 Actual	FY 2002 Target
Performance Goal: Increase the availability and utilization of economically-sound risk management tools to meet producers needs.				
Indicators:				
Crop insurance loss ratio (crop year data)	0.93	1.01	1.06	1.075

2001 and 2000 Performance Measurements

The FCIC's estimated premium level for its reinsured business was $3.0 billion for the 2001 crop year, with insured producers paying $1.22 billion and the remaining $1.78 billion paid in premium subsidies and EFA discounts. The FCIC provided approximately $37.2 billion of insurance protection on about 1.3 million policies for approximately 888,000 insureds. These crop policies provide coverage for over 215.0 million acres, which are approximately 79.7% of the insurable acres nationwide. For the 2001 crop year policies, the FCIC estimates that approximately $3.2 billion of indemnities will be paid to insureds on approximately 297,000 indemnity claims. For crop year 2000 policies, the FCIC paid approximately $2.563 billion to insureds on approximately 319,000 indemnity claims. The loss ratio for 2001 is estimated to be 106.00% compared to the FCIC's actual loss ratio of 101.26% in 2000.

Crop Year 2001 and 2000 Baseline Program Performance Data
(dollar amounts in thousands)

	2001 Actual	2000 Actual
Number of policies	1,300,000	1,321,826
Number of claims	297,000	319,000
Premiums	$2,992,000	$2,531,649
Administrative costs	$ 730,270	$ 626,051
Ultimate claims expense	$3,166,350	$2,563,483
Loss ratio	106.00%	101.26%

The FCIC has pursued several initiatives to improve actuarial soundness and contain costs within the MPCI program. The FCIC has steadily followed direction provided by the Act, to increase the share of risk to private insurance companies. Also, the FCIC has gradually reduced the rate of reinsured company administrative expense reimbursement. FCIC continues to work with the private insurance industry to review issues under contract. The objectives of this effort include:

- To seek changes which will strengthen the program through greater participation,
- To determine more accurately the approximate cost of required activities to effectively deliver crop insurance,
- To identify currently required activities that may be prudently eliminated, and
- To identify activities which can be accomplished more efficiently.

The FCIC has increased the risk to private sector in the reinsurance agreement since passage of the Act. Following the major losses of the 1993 crop year when reinsured companies lost approximately $83 million, the FCIC elected to make only minor changes to the reinsurance agreement so the FCIC could observe the performance of the reinsurance agreement under less severe conditions. However, because of lower loss ratios in recent years, the reinsured companies have been able to achieve substantial underwriting gains. The reinsured companies' underwriting gains in 2000 were $287.8 million and are estimated to be $293 million for the 2001 crop year. These gains are primarily due to the excellent growing and harvest conditions that occurred during the 2000 and 2001 crop years.

1992-2001 in Retrospect

An overall review of the period 1992 through 2001 reveals a substantial change in delivery of the MPCI product and unusually turbulent weather patterns. The FCIC's authorizing legislation was amended prior to 1990 to improve its ability to administer an actuarially sound program. In 1995, farmers were required to purchase crop insurance in order to obtain linkage to other USDA programs. This is the reason for the substantial premium increase from 1994 to 1995. In 2000 premium also increased substantially due to $400 million in premium discounts being offered to producers.

10 Year Summary of Premiums and Losses
(in millions)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	10 Yr. Total
Premiums	756	756	950	1,542	1,837	1,775	1,879	2,304	2,532	2,992	17,323
Losses	918	1,655	598	1,566	1,487	991	1,673	2,420	2,563	3,166	17,037
Loss Ratio											98%

For the crop years 1992 through 2001, the program has paid out an average of $0.98 for every dollar of premium. In addition to the cost of the excess losses, administrative expenses of the program and premium subsidy have averaged $424 million and $887 million, respectively, over the past ten years.

Premium subsidies have increased significantly since the 1995 crop year due to the 100% subsidization of catastrophic insurance premiums by the U.S. government. In addition to premium subsidies for the 2000 crop year, insureds also received premium discounts of $400 million as an incentive to purchase higher coverage levels.

There are significant efforts underway that have shown early signs of loss ratio improvements, such as implementation of the nonstandard classification system (NCS), Group Risk Protection (GRP), and the analysis of premium rates as discussed under the "2000 Program Performance" section. However, the significant decline in recent loss ratios is mainly due to excellent growing and harvest conditions.

Financial Performance

The following are measures of the FCIC's financial performance:

Net Operating Cost

		2001 Fiscal Year	2000 Fiscal Year
Total Program Costs	$	4,138,446	3,087,614
Less Earned revenues		(975,885)	(912,472)
Net cost of operations	$	3,162,561	2,175,142

The previous measure indicates the FCIC's net operating cost. The increase in net operating costs was primarily due to the increase in losses that were recognized from crop year 2000 in fiscal year 2001.

Operating Results

		2001 Fiscal Year	2000 Fiscal Year
Appropriations and other financing sources used	$	3,301,811	2,034,587
Less net cost of operations		(3,162,561)	(2,175,142)
Prior period adjustments		84	(318)
Net change in Cumulative Results of Operations	$	139,334	(140,873)

The previous measure indicates that net operating costs are essentially financed by appropriations.

Financial Obligations

		2001 Fiscal Year	2000 Fiscal Year
Entity Assets	$	3,635,271	2,675,708
Liabilities covered by budgetary resources	$	2,893,539	2,151,306
Ratio of entity assets to liabilities covered by budgetary resources		1.26	1.24

Net Position

		2001 Fiscal Year	2000 Fiscal Year
Total assets	$	3,635,271	2,675,708
Total liabilities		(2,902,291)	(2,159,562)
Net Position	$	732,980	516,146

The above measures provide an indication of the net position of the FCIC as of September 30, 2001 and 2000. The primary reason for the increase of the ratio of entity assets to liabilities covered by budgetary resources as well as the net position is the FY 2001 increase in appropriations.

Financial Highlights

The FCIC has prepared its financial statements in accordance with the accounting standards codified in the Statements of Federal Accounting Standards and the Form and Content requirements contained in the Office of Management and Budget (OMB) Bulletin 97-01 and its updates.

Financial Statements

Limitation on Financial Statements

The financial statements have been prepared to report the financial position and results of operations of the entity, pursuant to the requirements of 31 U.S.C. 3515 (b). While the statements have been prepared from the books and records of the entity in accordance with the formats prescribed by OMB, the statements are in addition to the reports used to monitor and control budgetary resources, which are prepared from the same books and records. The statements should be read with the realization that they are a component of the U.S. Government, a sovereign entity. One implication of this is that liabilities cannot be liquidated without legislation that provides resources to do so.

Consolidated Balance Sheet

The FCIC's total assets as of September 30, 2001 were $3.6 billion and as of September 30, 2000 were $2.7 billion. The Fund Balance with Treasury and Accounts Receivable Net, $3.53 billion and $2.62 billion, respectively, are 96.9 and 97.7 percent, respectively, of total assets. The Liability for Estimated Losses on Insurance Claims, $1.9 billion in FY 2001 and $1.3 billion in FY 2000, respectively, are approximately 65 percent of total liabilities in FY 2001 and 61 percent of total liabilities in FY 2000.

Statement of Net Cost

The FCIC's net cost of operations for FY 2001 was $3.2 billion, a 45 percent increase over the FY 2000 net cost of operations that was $2.2 billion. The indemnity costs and program delivery costs are 98.0 percent of the FCIC's cost of operations in FY 2001 and 97.2 percent in FY 2000.

Statement of Net Position

The net cost of operations of the corporation increased in FY 2001. This was due to an increase in the estimated premiums and an increase in estimated losses. Our loss ratio was an estimated 88 percent in FY 2000 and 106 percent in FY 2001.

Statement of Budgetary Resources

Appropriations, combined with other budgetary resources made available and adjustments totaled $4.7 billion in FY 2001 and $3.4 billion in FY 2000, while total outlays were $2.5 billion in FY 2001 and $ 2.3 billion in FY 2000.

Budgetary Resources

		2001 Fiscal Year	2000 Fiscal Year
Appropriations	$	3,466,581	774,966
Unobligated balance brought forward		285,325	1,140,002
Transfers from CCC		-0-	830,000
Offsetting Collections and Adjustments		925,258	635,306
Total	$	4,677,164	3,380,274

Statement of Financing

The total budgetary and non-budgetary resources used to finance operations totaled $3.2 billion in FY 2001 and $2.2 billion in FY 2000, of which $35.8 million in FY 2001 and $7.2 million were items not part of the net cost of operations. Additional components of the net cost of operations that did not require or generate revenue were $.6 million for FY 2001 and $1.2 million for FY 2000.

Systems, Controls, and Legal Compliance

Risk Compliance

The focus of the compliance function continues to ensure the integrity of the crop insurance program and its delivery by increasing effectiveness, efficiency and timeliness of reviews performed on the companies which participate in the delivery of MPCI.

The priority of the past year was to aggressively implement the myriad of requirements of the Agricultural Risk Protection Act (ARPA) of 2000, Section 121, Improving Program Compliance and Integrity. These accomplishments constitute the largest portion of the fiscal year 2001 work effort.

ARPA mandated new requirements in the areas of program compliance and integrity but the act did not cause a change to Risk Compliance's overall mission, goals, or business objectives. Instead ARPA impacted existing business processes and provided additional management tools.

Other fiscal year 2001 objectives include the following:

1. Maintained continuity of operations during the change of administrations and subsequent acting appointments.

2. Completed significant special reviews

3. Improved the tracking and follow-up of systemic program vulnerabilities and weaknesses contained in published reports.

4. Improved Risk Compliance's internal public affairs program. Publication of key news releases to publicize anti-fraud initiatives to enhance fraud prevention and deterrence.

5. Improved strategic capability through the complete deployment and full-scale operation of the Special Investigations Branch and the positioning of key personnel at a regional hot spot.

6. Continued improvements in OIG/GAO audit report implementation and management.

7. Standardized Risk Compliance's business practices with the publication of the Compliance Manual.

8. Assessed case management and reporting capabilities.

The role of Risk Compliance is to ensure that laws, policies, and procedures are followed and administered effectively. Risk Compliance seeks to maintain program integrity. This is accomplished through a systematic review process for the detection and prevention of crop insurance program abuse. Properly done, this requires a proactive approach in which the FCIC and the industry work together to increase awareness, develop programs, identify systems and processes, and take other actions to minimize the potential for crop insurance program abuse. Such an approach is ultimately aimed at the proactive prevention of fraud and abuse, rather than reactive.

Three problem areas generate a three-part mission for Risk Compliance;

1. All providers of insurance face fraud and abuse problems (up to 30% more in some lines of insurance).

2. Government reliance on private contractor support (the FCIC relies on private companies for delivery).

3. The existence of MPCI program vulnerabilities.

Missions:

1. Obtain fraud and abuse rates as close to zero as resources allow.

2. Determine and report reinsured company levels of contract compliance.

3. Test for and report specific program vulnerabilities.

Risk Compliance's goal is to reduce taxpayer and producer burden generated by fraud and abuse, contract noncompliance, and program vulnerabilities. The reinsured companies counter fraud and abuse in program delivery by performing growing season inspections, reviewing reported producer yields, performing on sight inspections, avoiding conflicts of interest, and initiating and engaging in litigation on issues important to the MPCI program. The reinsured companies are also an important source of information concerning program vulnerabilities.

Risk Compliance's efforts are focused on investigation work generated by Office of the Inspector General (OIG) Hotline complaints, a variety of other external sources, and National Operations Reviews (NOR) of companies to determine compliance with the Standard Reinsurance Agreement (SRA) requirements and to determine MPCI program vulnerabilities.

The scheduled Risk Compliance work areas for 2002:

1. Monitor and aggressively track program findings and recommendations.

2. Conduct program reviews.

3. Track cases and complaints with a goal of reducing the number of open cases to ensure their timely resolution.

4. Implement and facilitate sanction actions and follow-up; including the tracking of reimbursements and repayments that must be managed in coordination with Research and Development.

5. Direct the implementation of the ARPA requirements.

Ultimately, Risk Compliance produces a positive impact on MPCI program integrity through its findings of noncompliance. Risk Compliance provides information and evidence to the FCIC Contracting Officer and other key operating and policy elements of the FCIC. This material provides a basis for action against wrong doers and for MPCI program modification. Risk Compliance works with the Department of Justice through the USDA OIG's criminal division and the Office of General Counsel (OGC) (civil) where matters indicate a need for litigation.

Federal Managers' Financial Integrity Act

The FCIC takes measures to conduct self-assessments, identify material weaknesses, and implement timely corrective action through the annual Federal Managers' Financial

Integrity Act (FMFIA) reporting process.

The FCIC addresses audit findings and recommendations timely and works closely with the OIG, GAO, OCFO, Department of Justice (DOJ), and Assistant US Attorneys (AUSA) to timely implement effective, responsive corrective actions and improvements.

The compilation of these activities has enabled FCIC to identify and reduce program vulnerabilities, which has contributed to improved program integrity and protection of taxpayer's funds. A reduction in program vulnerabilities, improved program integrity, and protection of taxpayer's funds, in turn, enhance the economic safety net for farmers and ranchers.

The Federal Financial Management Improvement Act (FFMIA) requires that agencies implement and maintain financial management systems that comply substantially with federal financial management system requirements, applicable federal accounting standards, and the U.S. government standard general ledger at the transaction level. During its financial statement audit, the OIG and independent auditors report on whether or not financial management systems comply substantially. If the systems do not, then a plan is required to bring the systems into compliance.

Based on the results of the FY 2000 financial statement audit, it was determined that the FCIC had substantially complied with these requirements.

Our auditors have communicated a material weakness as it relates to our internal control process over the reinsured organizations. While management does not agree with the findings of our auditors, the company will investigate and improve the internal controls if and when appropriate.

The Agricultural Risk Protection Act (ARPA) of 2000, Section 515, mandated new requirements in the area of program compliance and integrity. These new requirements once fully implemented should enhance management information systems and facilitate the detection and enforcement of program fraud, waste, and abuse.

With the resources provided in the ARPA for data warehousing, data mining and other information technology capabilities, RMA plans to significantly improve its compliance enforcement capabilities and reduce overall program vulnerabilities. Cooperative agreements and contracts are in place to greatly supplement this already existing effort in incremental phases over the next 5 years. Using the trends, indicators and analyses provided by these systems, we will be more proactive and aggressive in managing and monitoring program integrity issues.

RMA has entered into a contractual agreement to establish a pattern recognition system, enabling the Agency to identify trends signaling poor performance and/or potential/actual fraud, waste, and abuse of resources. The objectives of the contract are to identify trends, patterns, anomalies and relationships between reinsured organizations, insurance agents, adjusters, and producers in crop insurance data indicative of excess claim adjustment over actual crop loss. The vendor shall incorporate Data Analysis and Data Mining techniques to accomplish this objective. Implementation of this system will enable the Agency to target review efforts in those areas deemed the most vulnerable, thereby enhancing program integrity and protecting taxpayers' funds. To manage both the increased span of control within the internal components of the agency and to ensure unity of authority without compromising the necessity for decentralized operations, RMA reviewed and updated its delegations of authority from the Administrator to the Deputy Administrator for Compliance. The revised delegation provides for the separation of authority at the various levels within Compliance that ensures that the processes for reviews and investigations, adjudication and appeals provides for administrative due process and are conducted fairly and impartially. By tailoring its management functions to meet and exceed the requirements of ARPA, RMA maintains the integrity of the compliance business processes and in doing so, is in a better position to maintain the integrity of crop insurance programs.

The agency is also in the process of updating its recently fielded Compliance Tracking System (CTS) designed to improve monitoring and follow-up of findings and recommendations identified through internal reviews and audits. The system is designed to facilitate trend analysis studies that, again, enable the agency to target and correct potential/actual performance and compliance vulnerabilities in a timely manner. We plan to examine the feasibility of incorporating a management information system in CTS that will enable us to better monitor, analyze, and report on more aspects of the crop insurance program. Together with our developing data reconciliation, data warehousing and data mining capabilities, RMA's information management of voluminous crop insurance program data will gradually improve over the next 5 years. This will enable us to greatly enhance our ability to detect and prevent insurance fraud in all sectors of our market.

RMA conducts reviews designed to evaluate reinsured company performance, detect and correct program vulnerabilities, and collect underpaid premiums and overpaid indemnities. We also conduct investigations into complaints and allegations received from various sources such as producers, agents, and OIG hotline.

RMA's key partner in maintaining program integrity are the reinsured companies. We will continue to foster these relationships while emphasizing the need for the companies' quality control programs to improve and assisting the companies in that improvement process. Our objective is to develop within the companies the same stewardship of taxpayer's funds as our own values and beliefs.

As RMA implements the many changes specified and implied by ARPA requirements over the next several years, the agency will maintain close liaisons and partnerships with other government agencies and private sector companies to keep abreast of technological changes and innovative best practices especially in the areas of combating insurance fraud, investigative tactics and techniques, information management systems, or any other worthwhile venture that may assist the agency in its quest to save the taxpayers' dollars.

Actuarial Development of Underwriting Performance

The systematic adjustment of premium rates and coverage's by the FCIC is producing additional cost savings for the federal government by reducing crop losses and placing the MPCI program on a more actuarially sound basis. These annual adjustments were initiated beginning with the 1991 crop year as a result of the Act and have begun to stabilize the financial performance of the crop insurance program. Annual premium rate increases are limited by law to no more than 20%. The FCIC continues to increase premium rates as needed.

Actual Production History Underwriting

The FCIC's Actual Production History (APH) underwriting procedure of MPCI requires APH guarantees to be calculated with emphasis on the producer's actual yield records versus proxy yields. Yield guarantees are calculated using 4 years of actual records, building to a 10-year database. For producers who do not provide 4 years of actual yield records, the yield guarantee is a percentage of the proxy yield, which is calculated for each year's missing yield record. The percentage of the proxy yield is 100% when 3 years of records are provided, 90% for 2 years, 80% for 1 year, and 65% when no records are provided. New producers of crops who do not have records of actual yields may use 100 percent of the proxy yield.

Policyholder Tracking System

The FCIC's Policyholder Tracking System (PHTS), a process within the DAS, uses the policyholder's Social Security Number (SSN) or Employer Identification Number (EIN) to track the policyholder's insurance history. The FCIC utilizes the PHTS to create a nationwide database to track producer participation in crop insurance programs, develop adequate production documentation, identify high-risk producers, assess the performance of insurance providers and other activities to improve the integrity and fiscal responsibility of the federal crop insurance program.

Ineligible Tracking System

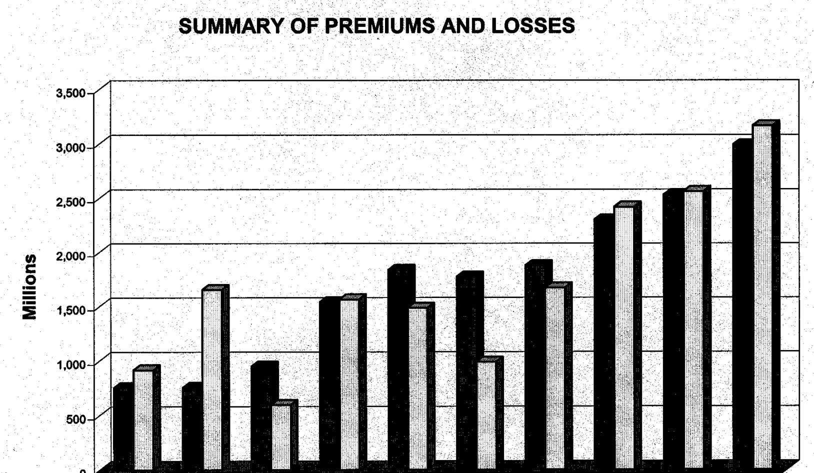
The FCIC implemented the Ineligible Tracking System (ITS) in October 1997, for the 1998 crop year. The ITS identifies persons who have rendered themselves ineligible for crop insurance benefits as a result of a violation of crop insurance policy provisions. The FCIC will not reinsure a crop insurance policy for a person identified as ineligible.

Updating of Insurance Policy Terms and Conditions

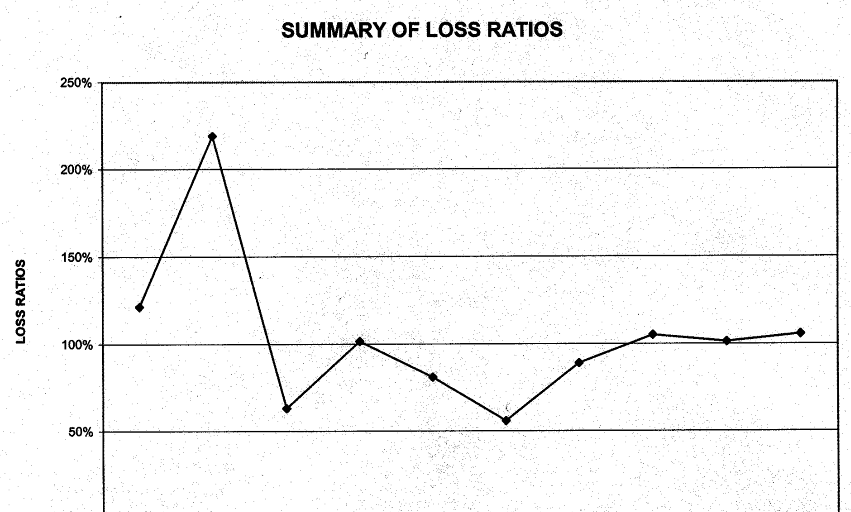
7CFR Part 400, General Administrative Regulations-Subpart T-Federal Crop Insurance Reform, Insurance Implementation; Regulations for the 1999 and Subsequent Reinsurance Years and 7CFR Part 400, General Administrative Regulations-Subpart U-Ineligibility for Programs Under the Federal Crop Insurance Act and 7CFR Part 402-Catastrophic Risk Protection Endorsement; Regulations for the 1999 and Subsequent Reinsurance Years were revised and published as interim rules on July 30, 1998, to implement the Research Act enacted June 23, 1998. Final rules for these regulations were published on July 28, 1999, to also implement statutory mandates of the 1999 Appropriations Act, enacted on October 19, 1998.

Premium Rate Analysis

The FCIC continues to review the premium rate making methodologies to increase the integrity and performance of the crop insurance program. In addition, the Economic Research Service (ERS), an agency of the USDA, is reviewing the FCIC's crop insurance program rates, financial elements of the standard reinsurance agreement, and yield coverage. Independently, the ERS has entered into a cooperative agreement with the actuarial firm of Milliman and Robertson to review the FCIC's actuarial processes. Additionally, the ERS provides feasibility studies of crops that represent opportunities for expansion of the crop insurance program. The FCIC also uses the resources of the CSREES to provide information about the financial situation of farmers so the FCIC can make more informed decisions for program improvement.



	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Premium	756	756	950	1,542	1,837	1,775	1,879	2,304	2,532	2,992
Losses	918	1,655	598	1,566	1,487	991	1,673	2,420	2,563	3,166



	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Loss Ratio	1.21	2.19	0.63	1.02	0.81	0.56	0.89	1.05	1.01	1.06

FEDERAL CROP INSURANCE CORPORATION
RISK MANAGEMENT AGENCY
CONSOLIDATED BALANCE SHEETS
As of September 30, 2001 and 2000
(in thousands)

		2001	2000
ASSETS			
Intragovernmental			
Fund Balance with U.S. Treasury (Note 2)	$	2,492,528	1,558,612
Accounts Receivable, Net (Note 4)		4,192	346
Total Intragovernmental Assets		2,496,720	1,558,958
Accounts Receivable, Net (Note 4)		1,029,199	1,057,053
Advances and Prepayments (Note 3)		108,893	59,361
General Property, Plant, and Equipment, Net		459	336
Total Assets	$	3,635,271	2,675,708
LIABILITIES			
Intragovernmental			
Accounts Payable	$	10,201	16,504
Unearned Revenue (Note 6)		318,689	230,133
Accrued Federal Compensation Act Bills		553	592
Other Liabilities (Note 7)		125	4,152
Total Intragovernmental Liabilities		329,568	251,381
Accounts Payable (Note 5)		119,053	36,742
Federal Employees Compensation Act Liability		4,926	4,539
Annual Leave		3,273	3,125
Estimated Losses on Insurance Claims (Note 13)		1,899,323	1,313,659
Accrued Program Liabilities		79	79
Unearned Revenue (Note 6)		220,250	195,180
Other Liabilities (Note 7)		325,819	354,857
Total Liabilities		2,902,291	2,159,562
COMMITMENTS & CONTINGENCIES (Note 7)			
NET POSITION (Note 9)			
Capital Stock		500,000	500,000
Additional Paid-in Capital		37,978	37,978
Unexpended Appropriations		113,809	36,309
Cumulative Results of Operations		81,193	(58,141)
Total Net Position		732,980	516,146
Total Liabilities and Net Position	$	3,635,271	2,675,708

See accompanying notes to consolidated financial statements.

FEDERAL CROP INSURANCE CORPORATION
RISK MANAGEMENT AGENCY
CONSOLIDATED STATEMENTS OF NET COST
For the Years Ended September 30, 2001 and 2000
(in thousands)

	2001	2000
PROGRAM COSTS:		
Multi-Peril Crop Insurance Program Costs:		
Intragovernmental:		
Other Program Costs (Note 11)	$ 29,236	41,204
Indemnity Costs (Note 10)	3,408,176	2,461,564
Program Delivery Costs (Note 11)	647,556	539,737
Other Program Costs (Note 11)	53,478	45,109
Total Non-Federal Costs	4,109,210	3,046,410
Total Program Production Costs	4,138,446	3,087,614
Less Earned Revenues (with Reinsured Organizations):		
Net Insurance Premium Revenue (Note 10)	914,636	868,852
Other Revenue	61,249	43,620
Total Earned Revenues	975,885	912,472
Net Cost of Operations	$ 3,162,561	2,175,142

See accompanying notes to consolidated financial statements.

FEDERAL CROP INSURANCE CORPORATION
RISK MANAGEMENT AGENCY
CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION
For the Years Ended September 30, 2001 and 2000
(in thousands)

	2001	2000
Net Cost of Operations	$ 3,162,561	2,175,142
Financing Sources		
Appropriations Used (Note 12)	3,229,528	1,611,654
Imputed Financing	8,748	8,711
EFA Premium Discount Funding From CCC (Note 12)	63,197	414,222
Other Financing Sources	338	-
Net Results of Operations	139,250	(140,555)
Net Results Not Affecting Net Position:		
Prior Period Adjustments	84	(318)
Net Change in Cumulative Results of Operations	139,334	(140,873)
Increase (Decrease) in Unexpended Appropriations	77,500	(826,916)
Change in Net Position	216,834	(967,789)
Net Position - Beginning of Year	516,146	1,483,935
Net Position - End of Year	$ 732,980	516,146

See accompanying notes to consolidated financial statements.

FEDERAL CROP INSURANCE CORPORATION
RISK MANAGEMENT AGENCY
CONSOLIDATED STATEMENTS OF BUDGETARY RESOURCES
For the Years Ended September 30, 2001 and 2000
(in thousands)

	2001	2000
Budgetary Resources:		
Budget authority (Note 12)	$ 3,466,581	774,966
Unobligated balances - beginning of period	285,325	1,140,002
Unobligated balances tranferred from CCC (Note 12)	-	830,000
Spending authority from offsetting collections	913,788	639,250
Adjustments	11,470	(3,944)
Total budgetary resources	$ 4,677,164	3,380,274
Status of Budgetary Resources:		
Obligations incurred	$ 4,152,305	3,094,949
Unobligated balances - available	517,073	279,375
Unobligated balances - not available	7,786	5,950
Total, status of budgetary resources	$ 4,677,164	3,380,274
Outlays:		
Obligations incurred	$ 4,152,305	3,094,949
Less:		
Spending authority from offsetting collections	(913,788)	(639,250)
Actual adjustments	(6,040)	(6,349)
Obligated balance, net - beginning of period	1,265,428	1,157,489
Less:		
Obligated balance, net - end of period	(1,969,520)	(1,265,428)
Total outlays	$ 2,528,385	2,341,411

See accompanying notes to consolidated financial statements.

FEDERAL CROP INSURANCE CORPORATION
RISK MANAGEMENT AGENCY
CONSOLIDATED STATEMENTS OF FINANCING
For the Years Ended September 30, 2001 and 2000
(in thousands)

	2001	2000
Resources Used to Finance Operations:		
Budgetary		
Budgetary Resources Obligated for Items to Be Received or Provided to Others	$ 4,152,305	3,094,949
Less: Offsetting Collections, Recoveries of Prior-year Authority, and Changes in Unfilled Customer Orders	(919,828)	(639,250)
Net Budgetary Resources Used to Finance Operations	3,232,477	2,455,699
Non-budgetary		
Net Non-budgetary Resources Used to Finance Operations - Costs Incurred by Others Without Reimbursement	8,748	8,711
Other Non-budgetary Resources	(44,110)	(283,268)
Total Resources Used to Finance Operations	3,197,115	2,181,142
Resources Used to Fund Items Not Part of the Net Cost of Operations:		
(Decrease) or Increase in Budgetary Resources Obligated to Goods or Services Not Yet Received or Benefits Not Yet Provided	(35,553)	(7,654)
Resources Funding Expenses Recognized in Prior Periods	85	(319)
Resources Financing the Acquisition of Assets or Liquidation of Liabilities	291	796
Total Resources Used to Fund Items Not Part of the Net Cost of Operations	(35,177)	(7,177)
Resources Used to Finance the Net Cost of Operations	3,161,938	2,173,965
Components of Net Cost of Operations Not Requiring or Generating Revenue During the Reporting Period:		
Expenses or Earned Revenue Related to the Disposition of Assets or or Liabilities, or Allocation of Their Cost Over Time	111	164
Expenses Which Will Be Financed With Budgetary Resources Recognized in Future Periods	497	896
Other Net Cost Components Not Requiring or Generating Resources During the Reporting Period	15	117
Total Components of Net Cost of Operations Not Requiring or Generating Resources During the Reporting Period	623	1,177
Net Cost of Operations	$ 3,162,561	2,175,142

See accompanying notes to consolidated financial statements.

FEDERAL CROP INSURANCE CORPORATION
RISK MANAGEMENT AGENCY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2001 and 2000

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Reporting Entity

The Federal Crop Insurance Corporation (FCIC) is a wholly owned government corporation within the United States Department of Agriculture (USDA) and is not subject to federal, state, or local income taxes and, accordingly, no provision for income taxes is reported. These consolidated financial statements include the Risk Management Agency (RMA) and the FCIC; hereafter the combined entity will be referred to as the FCIC. The FCIC was established with the Federal Crop Insurance Act, which was enacted as Title V of the Agricultural Adjustment Act of 1938 (52 Statute 72). The FCIC manages a multiple-peril crop insurance (MPCI) program to assist in stabilizing and protecting the farming sector of the nation's economy. This program was restricted until the Federal Crop Insurance Act of 1980 (Public Law 96-365) expanded the program nationwide to eventually phase out the disaster payment program that was authorized by the Agriculture Act of 1949, as amended.

The RMA was established under provision of the Federal Agricultural Improvement and Reform Act of 1996 (the 1996 Act), Public Law 104-127, signed April 4, 1996. This act amended the Department of Agriculture Reorganization Act of 1994, P.L. 103-354, Title II, to require the Secretary to establish within the USDA, an independent office responsible for supervision of the FCIC, administration and oversight of programs authorized under the Federal Crop Insurance Act (7 U.S.C. 1501 et seq.), any pilot or other programs involving revenue insurance, risk management education, risk management savings accounts, or the use of the futures market to manage risk and support farm income that may be established under the Federal Crop Insurance Act or other law; and such other programs the Secretary considers appropriate.

On June 20, 2000 the President signed the Agricultural Risk Protection Act of 2000 into law effective starting with fiscal year 2001. Major provisions of this new legislation include: expanded use of contracts and partnerships for the research and development of policies and other risk management tools; prohibited research and development by the FCIC; revisions in CAT administrative fees and loss adjustment expense reimbursement; significant premium subsidy changes; livestock coverage authorization, reimbursement of research, development and maintenance costs for products submitted to the FCIC; expanded risk management education and assistance; provisions to address under-served areas, States, and commodities; establishment of an expert review panel and procedures for reviewing policies, plans of insurance, and related material or modifications; improved program compliance and integrity provisions; availability and acceptance of electronic information; good farming practices to include scientifically sound sustainable and organic farming practices; and others not included herein.

The objectives include the following items:

- Increase the number of economically sound risk management tools that are available and utilized by producers to meet their needs;
- Increase the agricultural community's awareness of risk management alternatives; and
- Improve program integrity and protect taxpayers' funds.

The FCIC has one delivery system in place to market the MPCI program. The reinsurance business permits private insurance companies to write MPCI that is reinsured by the FCIC. These companies were compensated by the FCIC for expenses associated with marketing and fully servicing (including claims adjustment, claims processing, billings, and premium collections) the MPCI policies reinsured by the FCIC. The reinsurance business has been the FCIC's sole delivery system for the MPCI since 1998. MPCI is available for 77 different commodities (approximately 600 commodities as enumerated for disaster assistance purposes) in over 3,000 counties with policies covering all 50 states and Puerto Rico.

The FCIC is under the direction and control of a board of directors, which is appointed by the Secretary.

The FCIC receives all federal appropriations from the U.S. Department of Agriculture, budget classification (code 350).

Basis of Presentation and Accounting

The accompanying consolidated financial statements have been prepared to report the balance sheet, net cost, changes in net position, budgetary resources, and financing of the FCIC. The consolidated financial statements have been prepared from the books and records of the FCIC in accordance with Generally Accepted Accounting Principles (GAAP). GAAP for Federal financial reporting entities recognizes the Federal Accounting Standards Advisory Board (FASAB) as the standard setting body. The financial statements are presented in accordance with the Office of Management and Budget (OMB) Bulletin 01-09, *Form and Content of Agency Financial Statements*. All significant transactions and balances among FCIC's appropriations have been eliminated in consolidation. These consolidated financial statements are different from the financial reports, prepared by the FCIC pursuant to OMB directives, which are used to monitor and control the FCIC's use of budgetary resources.

The FCIC records accounting transactions on both an accrual and budgetary basis of accounting. Under the accrual method, revenues are recognized when earned and expenses are recognized when incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of federal funds. All inter-fund balances have been eliminated in the accompanying consolidated financial statements.

Use of Estimates

The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The significant estimates made are in connection with the recognition of the losses on insurance claims liability.

Fair Value of Financial Instruments

In the case of the FCIC's financial instruments, the carrying values approximate fair values because of their short-term maturity.

Revenue and Subsidy Recognition

Premiums (including premium subsidies and premium discounts) are recognized as earned at the conclusion of each crop's growing season and are stated net of the underwriting gains, which will be returned to reinsured companies. The portion of premium not recognized during a fiscal year (unearned premium) is classified as unearned revenue, non-federal in the Balance Sheet. Conversely, the portion of the premium subsidy and Emergency Financial Assistance (EFA) premium discounts not recognized are classified as federal unearned revenue in the Balance Sheet. The FCIC's risk of loss commences when the crop is planted and continues through the growing season until the crop is harvested, destroyed or otherwise removed from the field. Premiums are generally collected at the end of the growing season when the crops are harvested. Under the standard reinsurance agreement (SRA), the collection of premiums is the responsibility of the reinsured company. With respect to catastrophic policies, the premium is fully subsidized by the federal government and only a nominal administrative fee is collected from the farmer.

Insurance Fund appropriations and other financing sources, other than premium subsidy and EFA premium discount, are recognized when earned, which corresponds to when the expenses are incurred. The amount of appropriations not earned is a component of unexpended appropriations in the net position of the Balance Sheet.

The Administrative and Operating (A&O) Fund appropriations and other financing sources are recognized when earned by matching the appropriation income to the expenses as they are incurred. Any A&O appropriations not earned are included as a component of unexpended appropriations in the net position of the Balance Sheet. In fiscal year 2000, the FCIC received appropriations for the Insurance Fund and the RMA received appropriations for the A&O Fund. The Insurance Fund appropriations are available until expended, while the A&O Fund appropriations are available to cover obligations incurred in a given fiscal year. These consolidated financial statements include all activity related to the Insurance Fund and A&O Fund appropriations.

Claims Recognition

The liability for estimated losses on insurance claims represents those claims that have been incurred, but for the most part, have not been reported to the FCIC as of the Balance Sheet date. Because of this, the estimation of these liabilities relies on calculations using historical experience adjusted for changes in crop growing conditions. Also, because of the significant uncertainties associated with the assumptions used, the ultimate liabilities may differ significantly from the recorded estimates.

Administrative expenses associated with claims adjusters and reinsured companies are paid through the FCIC's Insurance Fund. Indemnity costs are paid from premium proceeds, including premium subsidies and premium discounts, which are also a part of the FCIC's Insurance Fund.

The estimated aggregate loss ratio including the premium subsidy appropriation for 2001 crop year was approximately 106% ($1.06 of claims for every $1.00 of premium) and the actual aggregate loss ratio for 2000 crop year was approximately 101% ($1.01 for every $1.00 of premium). In the 2001 fiscal year, federal premium subsidy and EFA premium discounts funded approximately 59% of the total premium with approximately 41% being paid by the producer. In the 2000 fiscal year, approximately 54% of the total premiums were funded by federal premium subsidy and EFA premium discounts with approximately 46% being paid by the producer.

Reinsurance Administrative Expenses and Payables

The FCIC includes reinsurance administrative expenses as program costs because they vary with, and are directly related to, acquiring new and carry-over business. Due to loss ratios at or in excess of 100% of producer premium without regard to the premium subsidy appropriation, all reinsurance administrative expenses have been expensed in the period in which they were incurred.

Section 508 (k) of the 1994 Act authorizes the FCIC to enter into reinsurance agreements with private insurance companies. Under these agreements, the FCIC assumes the majority of the risk of loss on MPCI written by the reinsured companies.

The 1998 SRA was renewed through the 2001 reinsurance year, and provided for both proportional and nonproporational means by which the risk of loss may be ceded to the FCIC. The reinsured companies elect the method to transfer risk to the FCIC through their plan of operation. The plan of operation becomes a part of the SRA for each reinsurance year (July 1 through June 30).

Proportional reinsurance provides for a one-to-one percentage exchange of losses and premiums between the reinsured company and the FCIC. A reinsured company may not cede to the FCIC, under proportional methods, premiums that exceed 65% of its total book of business for the 2001 and 2000 reinsurance contracts. The FCIC uses nonproportional reinsurance programs which limit losses in the reinsured's retained book of business after the cessions made under proportional methods. Stop loss reinsurance is applied by state, by fund, if necessary, based upon the ratio of the reinsured's ultimate net losses to its retained net book premium.

The SRA provides for reimbursement to the reinsured companies for administrative expenses, including loss adjustment expenses. The SRA's reimbursement rates (as a percent of premium) are as follows for the 2001 and 2000 reinsurance years: Group Risk Plans (GRP), 22.7%; revenue plans that could increase liability at harvest, 21.1%; and all other plans, 24.5%. Reinsured companies were also allowed an expense reimbursement for adjusting catastrophic claims of 8% for the 2001 and 11% for the 2000 reinsurance years.

Fund Balance with Treasury

Fund Balance with Treasury represents the aggregate amount of funds in the FCIC's accounts with Treasury for which the FCIC is authorized to make expenditures and pay liabilities. The FCIC's Fund Balance with Treasury consists of appropriated funds and receipts collected from non-federal entities.

Property and Equipment

Property and equipment consists of office furniture, computer equipment, and computer software. Property and equipment with an acquisition cost of $5,000 or more and an estimated useful life of at least two years are capitalized. Property and equipment with an acquisition cost of less than $5,000 is expensed when purchased. Property and equipment is depreciated using the straight-line method over useful lives that range from 6 to 10 years. There are no restrictions on the use or convertibility of the FCIC's property and equipment.

Retirement Plans

Most employees hired after December 31, 1983 are covered by the Federal Employees Retirement System (FERS). FERS is a three-tiered retirement plan consisting of Social Security benefits, a basic plan benefit, and a thrift savings plan (TSP). The FCIC and the employee each contribute 6.2% of the employee's basic pay through payroll taxes for Social Security benefits. Under the FERS basic benefit plan, the employee contributes .8% of basic pay and the FCIC contributes 10.7% of basic pay for FERS employees. The cost of providing the FERS basic benefit is equal to the amounts contributed by the FCIC and the employees because the plan is fully funded.

A TSP account is automatically established for employees covered by FERS, and the FCIC makes a mandatory contribution of 1% of basic pay of basic pay to this account. Employees are eligible to contribute up to 11% (10% in fiscal year 2000) of basic pay to their TSP account subject to a maximum overall yearly contribution of $10,500 ($10,000 in calendar year 2000). The FCIC makes matching contributions, ranging from 1% to 4%, for employees who contribute to their TSP accounts.

Most employees hired on or before December 31, 1983, participate in the Civil Service Retirement System (CSRS), CSRS is a single benefit retirement plan. The FCIC and the employee each contribute 7% of the employee's basic pay. Employees covered under CSRS are eligible to contribute up to 6% of basic pay to a TSP account to a maximum overall yearly contribution of $10,500 ($10,000 in calendar year 2000). The FCIC makes no matching contributions to TSP accounts established by employees covered under CSRS.

The limits will continue to increase by one percentage point per year through fiscal year 2005, after which all participants will be eligible to contribute up to the Internal Revenue Code's annual deferral limit ($10,500 in calendar year 2001).

The FCIC does not report FERS or CSRS assets, accumulated plan benefits, or unfunded liabilities on its consolidated financial statements. Reporting such amounts is the responsibility of the Office of Personnel Management (OPM).

SFFAS No. 5, *Accounting for Liabilities of the Federal Government,* requires Federal entities to recognize an expense for pensions and other retirement benefits at the time the employee's services are rendered. The purpose of recognizing this expense is to record and report the full cost of each entity's operation. A corresponding revenue, Imputed Financing Sources, is recognized to the extent pension and other retirement benefit expenses exceed the amount paid to the OPM.

Net Position

Net position is the residual difference between assets and liabilities and is composed of capital stock, additional paid-in capital, unexpended appropriations, and cumulative results of operations. Unexpended appropriations represent the amount of unobligated and unexpended budget authority. Unobligated balances are the amount of appropriations or other authority remaining after deducting the cumulative obligations from the amount available for obligation and undelivered orders. Cumulative results of operations are the net result of the FCIC's operations since inception.

Prior Period Adjustments

The fiscal year 2000 and fiscal year 2001 prior period adjustments are related to the acquisition and capitalization of property, plant, and equipment.

Reclassifications

Certain reclassifications were made to prior year amounts to conform to the current year presentation.

2. FUND BALANCE WITH U.S. TREASURY:

2001 Fiscal Year
(in thousands)

		Appropriated Funds	Revolving Funds	Total
Obligated	$	34,961	1,933,344	1,967,670
Unobligated		7,786	516,437	524,858
Total	$	42,747	2,449,781	2,492,528

2000 Fiscal Year
(in thousands)

		Appropriated Funds	Revolving Funds	Total
Obligated	$	40,993	1,227,313	1,268,306
Unobligated		5,950	284,356	290,306
Total	$	46,943	1,511,669	1,558,612

The FCIC maintains separate accounts for the A&O and Insurance Funds. The A&O Fund is used to pay administrative and operating expenses. The Insurance Fund is used to pay losses, and can also be used to pay claim adjustment expenses, reinsured company expenses, and costs referenced in the ARPA. The FCIC does not earn interest on funds maintained in U.S. Treasury accounts. All funds are currently available to the FCIC except for the unobligated appropriated (i.e., A&O) funds that were only available for obligations through September 30, 2001.

3. ADVANCES:

Advances consist of the following:

		2001	2000
		(in thousands)	
Non-Federal:			
Advances to reinsured companies	$	108,893	59,361
Total Advances	$	108,893	59,361

The FCIC's advances to reinsured companies represent amounts funded to escrow accounts for which the companies' loss checks issued have not yet cleared.

4. ACCOUNTS RECEIVABLE, NET, FEDERAL AND NON-FEDERAL:

Accounts receivable, net, federal and non-federal is as follows:

2001 Fiscal Year (in thousands)	Gross Accounts Receivable	Allowance for Uncollectible Accounts: Beginning Balance	Allowance for Uncollectible Accounts: Additions (Reductions)	Allowance for Uncollectible Accounts: Ending Balance	Net Accounts Receivable
Federal:					
Other	$ 4,192		-	-	4,192
Federal Subtotal	4,192	-	-	-	4,192
Non-Federal:					
Reinsured Companies	1,033,293	4,128	148	4,276	1,029,017
Producers	350	900	(714)	186	164
Administrative & Other	18	-	-	-	18
Non-Federal Subtotal	1,033,661	5,028	(566)	4,462	1.029,199
Total	$ 1,037,853	5,028	(566)	4,462	1,033,391

2000 Fiscal Year (in thousands)	Gross Accounts Receivable	Allowance for Uncollectible Accounts: Beginning Balance	Allowance for Uncollectible Accounts: Additions (Reductions)	Allowance for Uncollectible Accounts: Ending Balance	Net Accounts Receivable
Federal:					
Other	$ 346	-	-	-	346
Federal Subtotal	346	-	-	-	346
Non-Federal:					
Reinsured Companies	1,060,982	3,931	197	4,128	1,056,854
Producers	1,093	1,220	(320)	900	193
Administrative & Other	6	1,970	(1,970)	-	6
Non-Federal Subtotal	1,062,081	7,121	(2,093)	5,028	1,057,053
Total	$ 1,062,427	7,121	(2,093)	5,028	1,057,399

Accounts receivable from reinsured companies represent premiums due the FCIC for crop insurance written by the reinsured companies and reinsured by the FCIC. The reinsured companies are responsible for collecting the premium from the producer and paying the FCIC, whether or not the premium has been collected from the producer. Reinsured companies are also responsible for a portion of the underwriting losses.

Producers' accounts receivable represent amounts due from individual producers for interest, overpaid indemnities, and premiums which are payable directly to the FCIC. It also includes estimated buy-up and CAT fees turned over by reinsured companies to the FCIC for collection. The FCIC provides an allowance for uncollectible accounts based upon historical experience. The FCIC's policy is to write-off receivables from direct business (which ceased in fiscal year 1997) for financial statement purposes. Receivables, amounting to approximately $0.2 million in fiscal year 2001 and $0.9 million in fiscal year 2000, that had previously been written-off, are carried in a subsidiary ledger for collection purposes for 10 years because delinquent accounts are referred to the USDA county offices, the Internal Revenue Service, and to other federal agencies for offset.

The FCIC's allowance for uncollectible accounts at September 30, 2000 included premium taxes which were paid to states under protest and for which the FCIC established a receivable and a 100% allowance in the fiscal year 1996 for $31 million. The remaining receivable allowance of approximately $2 million was written off in the 2000 fiscal year.

The FY 2001 allowance for uncollectible accounts also represents approximately $3.8 million for reinsurance recoverables and $0.5 million for uncollectible CAT and additional coverage fees in the fiscal year.

5. ACCOUNTS PAYABLE, NON-FEDERAL:

Accounts payable, non-federal, is as follows:

		2001	2000
		(in thousands)	
Reinsured companies	$	109,015	37,260
Administrative and other		10,038	(518)
Total accounts payable, non-federal	$	119,053	36,742

Accounts payable to reinsured companies represent the reimbursement to the reinsured companies for administrative expenses, including claim adjustment expenses, as provided by the SRA. The administrative and other accounts payable increased in fiscal year 2001 due to the ARPA funding and the increased costs associated with it.

6. UNEARNED REVENUE, FEDERAL AND NON-FEDERAL

Unearned revenue, federal and non-federal, are as follows:

		2001	2000
		(in thousands)	
Federal			
Unearned EFA discounts	$	-	65,964
Unearned AGR cost share		42	-
Unearned premium subsidy		318,647	164,169
Federal subtotal		318,689	230,133
Non-Federal			
Unearned premium		220,250	195,180
Total unearned premium	$	538,939	425,313

The FCIC receives appropriations for the Insurance Fund to provide funds for premium subsidy. The Insurance Fund includes funding for premium subsidy of approximately $1.6 billion in the 2001 fiscal year and $890 million in the 2000 fiscal year. The FCIC received a $13 million appropriation for the 1999 crop year EFA discount during the 2001 fiscal year and a $400 million transfer from the Commodity Credit Corporation (CCC) for the 2000 fiscal year. The premium subsidy and EFA discount are recognized as revenue in the same manner as premiums paid by the producers.

7. OTHER LIABILITIES:

Other liabilities covered by budgetary resources, federal and non-federal, are as follows:

		2001	2000
		(in thousands)	
Federal			
DOPP advance from CCC	$	138	138
Other accrued liabilities		(13)	4,014
Total other liabilities, federal subtotal	$	125	4,152
Non-Federal:			
Underwriting gain payable to reinsured companies (includes reserves)		323,747	352,798
Other accrued liabilities		2,072	2,059
Total other liabilities, non-federal subtotal	$	325,819	354,857
Total other liabilities	$	325,944	359,009

The Dairy Options Pilot Program (DOPP) is a pilot program to determine whether futures and options can provide a meaningful reduction in market risk faced by milk producers. The program that is administered by the FCIC is funded by the CCC funds that were advanced to the FCIC. The unobligated portion of DOPP funds is reflected as a liability because the funds will be returned to CCC, if unused.

Premiums and losses are reported monthly under the SRA and a periodic settlement, as stipulated in the agreement is calculated whereby the results of the business written by the reinsured companies are determined and an experience-rated underwriting gain or loss is computed. Underwriting gains are paid to the reinsured companies while the reinsured companies pay underwriting losses to the FCIC. However, a portion of the underwriting gain payable includes amounts being held in reserve from prior years for any future underwriting losses incurred by the reinsured companies.

8. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES:

Liabilities not covered by budgetary resources include approximately $8.8 million and $8.3 million for accrued annual leave and Federal Employees Compensation Act (FECA) liabilities at September 30, 2001 and 2000, respectively. Liabilities not covered by budgetary resources are not funded by current appropriations from Congress. Annual leave is accrued as it is earned and the accrual is reduced as it is taken. As of September 30, 2001 and 2000, the balance in the accrued annual leave account was adjusted to reflect current pay rates and annual leave balances.

9. NET POSITION:

Net position is as follows:

2001 Fiscal Year (in thousands)		Revolving Funds	Appropriated Funds	Total
Capital stock	$	500,000	-	500,000
Additional paid-in capital		37,978	-	37,978
Unexpended Appropriations:				
Unliquidated obligations		-	29,627	29,627
Unobligated, not available			7,786	7,786
Unobligated, available		76,396	-	76,396
Subtotal, unexpended Appropriations		76,396	37,413	113,809
Cumulative Results of Operations:				
Invested capital		-	459	459
Donated capital		3,958,073	-	3,958,073
Results of operations		(3,868,610)	(8,729)	(3,877,339)
Subtotal, cumulative results of operations		89,463	(8,270)	81,193
Total net position	$	703,837	29,143	732,980

2000 Fiscal Year (in thousands)		Revolving Funds	Appropriated Funds	Total
Capital stock	$	500,000	-	500,000
Additional paid-in capital		37,978	-	37,978
Unexpended Appropriations:				
Unliquidated obligations		-	30,359	30,359
Unobligated, not available		-	5,950	5,950
Subtotal, unexpended Appropriations		-	36,309	36,309
Cumulative Results of Operations:				
Invested capital		-	336	336
Donated capital		3,958,073	-	3,958,073
Results of operations		(4,008,294)	(8,256)	(4,016,550)
Subtotal, cumulative results of operations		(50,221)	(7,920)	(58,141)
Total net position	$	487,757	28,389	516,146

Donated Capital:

Prior to the 1994 Act, the Secretary was authorized to use the funds of the CCC, to pay claims of the FCIC if the funds available to the FCIC for that purpose were insufficient. The 1994 Act eliminated the need for the FCIC to request funds from the CCC. Although the authority to use the CCC funds still exists, the FCIC is now authorized to draw necessary funds directly from the U.S. Treasury (with USDA and OMB approval) to cover operating expenses including excess losses. Capital donated from the CCC totals approximately $3.9 billion.

Capital Stock:

Section 504 (a) of the 1994 Act directs authorizes capital stock of $500 million subscribed by the United States. There has been no change in the capital stock issued since August 15, 1985.

As of September 30, 2001 and 2000, the FCIC has issued all authorized stock as follows:

Public Law	Issued		Amount (in thousands)
97-103	December 23, 1981	$	250,000
97-370	December 18, 1982		150,000
98-396	December 22, 1984		50,000
99-088	August 15, 1985		50,000
Total Capital Stock		$	500,000

10. INDEMNITY COSTS AND NET INSURANCE PREMIUM REVENUES:

Insurance indemnity costs are as follows:

		2001	2000
		(in thousands)	
Catastrophic coverage	$	79,754	86,426
Additional coverage		3,325,227	2,374,915
Outside litigation		3,197	82
NAP		(2)	141
Insurance claims and indemnities	$	3,408,176	2,461,564

The CCC acts as the paying agent for the FCIC concerning 1995 Non-insured Assistance Program (NAP) payments. The FCIC advanced the CCC funds necessary for expected 1995 crop year NAP losses. CCC returned approximately $1.5 million during fiscal year 1999. No money was returned to FCIC in fiscal year 2000 or fiscal year 2001. CCC continues to retain approximately $184 thousand to pay out claims. Insurance indemnity costs were increased by approximately $141 thousand in fiscal year 2000 and reduced by approximately $2 thousand in fiscal year 2001.

Net insurance premium revenues are as follows:

		2001	2000
		(in thousands)	
Producer premium income	$	1,188,567	1,130,111
Underwriting gain due reinsured companies		(273,931)	(261,259)
Net insurance premium revenues	$	914,636	868,852

11. PROGRAM DELIVERY AND OTHER PROGRAM COSTS:

Program delivery costs are as follows:

		2001	2000
		(in thousands)	
Reinsurance administrative expenses	$	647,556	539,724
Claims adjustment costs for prior year FSA business		-	13
Total non-federal program delivery costs	$	647,556	539,737

Federal other program costs are as follows:

		2001	2000
		(in thousands)	
Reimbursable costs	$	15,520	28,496
Other retirement benefit, other post-employment benefit, FECA, and other costs		4,968	3,997
Imputed costs		8,748	8,711
Total federal other program costs	$	29,236	41,204

Non-federal program costs are as follows:

		2001	2000
		(in thousands)	
Interest costs	$	33	68
Other program costs		8,867	296
Administrative and other costs		44,578	44,745
Total non-federal other program costs	$	53,478	45,109

12. FINANCING SOURCES:

In fiscal years 2001 and 2000, the FCIC received an Insurance Fund appropriation of $3.4 billion and $697.76 million respectively, for premium subsidy, reinsurance administrative expenses and other program expenses and for research and development. In fiscal years 2001 and 2000, the RMA A&O Fund appropriation was $65.7 million and $77.2 million respectively.

The following table summarizes appropriations used:

		2001	2000
		(in thousands)	
Net A&O appropriation expensed	$	64,029	73,209
Appropriation for premium subsidy:			
Current fiscal year appropriation		1,702,901	554,123
Transfer from excess loss		95,426	373,244
Unearned premium subsidy:			
Beginning		164,169	175,756
Ending		(318,647)	(164,169)
Earned premium subsidy		1,643,849	938,954
Appropriation for R&D costs		-	3,500
Appropriation for ARPA costs		9,107	-
Appropriation for delivery costs		647,556	539,737
Appropriation for excess losses		864,989	56,113
Appropriation "returned" for NAP		(2)	141
Other insurance fund appropriations, net		1,521,650	599,491
Total appropriations used	$	3,229,528	1,611,654

Research and Development Expenses:
The 1994 Act authorized the FCIC to pay, to the extent necessary, expenses incurred to carry out research and development. In fiscal year 2000, $3.5 million was appropriated for R&D expenses with $3.5 million being obligated. The unexpended balance for R&D expenses as of September 30, 2000 was approximately $20.1 million that was transferred to excess losses. There was approximately $523 thousand unexpended balance for R&D expenses as of September 30, 2001. These unexpended balances are related to R&D expenses that were incurred before provisions of ARPA went into effect.

Provisions of ARPA place a major emphasis on contracting and partnering for development of risk management products. ARPA provides incentives for private parties to develop and submit new risk management products to the FCIC Board of Directors. In fiscal year 2001, $67.5 million ($5 million was transferred to CSREES) was appropriated for ARPA expenses with $8.4 million included as other program costs on the Statement of Net Cost. The unexpended balance for ARPA was approximately $54.1 million as of September 30, 2001.

Commodity Credit Corporation Transfers:
The FCIC received an $830 million funds transfer from the CCC in 2000 fiscal year for Emergency Financial Assistance (EFA) premium discounts. The EFA premium discounts were to encourage producers to buy additional coverage levels of crop insurance rather than the catastrophic coverage levels of crop insurance. $430 million was received for the 1999 crop year and $400 million for the 2000 crop year.

13. ESTIMATED LOSSES ON INSURANCE CLAIMS

The following table summarizes the activity in the accrual for estimated losses on insurance claims.

		2001	2000
		(in thousands)	
Balance as of October 1	$	1,313,659	1,198,946
Incurred Related to:			
Current year		2,652,839	1,806,788
Prior year		755,337	654,776
Total Incurred		3,408,176	2,461,564
Paid Related to:			
Current year		1,433,404	563,118
Prior year		1,389,108	1,783,733
Total Paid		2,822,512	2,346,851
Net balance as of September 30	$	1,899,323	1,313,659

The FCIC experienced adverse loss development related to the prior crop years in fiscal year 2001 and fiscal year 2000. As a result incurred claims related to prior years increased approximately $755.3 in fiscal year 2001 and $654.8 in fiscal year 2000.

The FCIC is a defendant in various litigation cases arising in the normal course of business. Management has recorded a liability in the accompanying consolidated financial statements for the estimated settlement amounts of these cases. This $3 million liability is based upon management's best estimate at the time of financial statement preparation. Furthermore, in order to defend its policies and procedures, the FCIC may, in some instances, pay litigation expenses and judgments over and above indemnities found under the SRA for reinsured companies. For this reason, the FCIC is consulted with and approves significant decisions in the litigation process. In addition, in 2001 fiscal year, a $3 million liability was recorded for class action suits filed in the United States District of Minnesota on behalf of sugar beet producers after reinsured companies refused to pay indemnities where damages were discovered after delivery and piling.

In the United States District Court for North Dakota, Southeastern Region, a class action suit was filed on behalf of durum wheat producers that had obtained a Crop Revenue Coverage durum wheat crop insurance policy. The upper limit of potential damages is not possible to determine at this time. By the order of the court, the amount in dispute is being held in an escrow account. As of September 30, 2001, the total principal in the escrow account is approximately $41.7 million, but until all claims are filed the total amount will not be known. The amount of principal paid into the escrow account is included in the indemnity costs on the Consolidated Statement of Net Costs.

14. STATEMENT OF BUDGETARY RESOURCES:

FCIC's Statement of Budgetary Resources serves as a tool to link budget execution data to information reported in the "actual" column of the Program and Financing Schedules in the Appendix of the Budget of the United States Government (referred to as the "President's Budget") as well as information reported in the Reports of Budget Execution and Budgetary Resources (SF-133). Some reporting differences do exist between comparable amounts in the Statement of Budgetary Resources, the President's Budget, and the SF-133. On an aggregate level, these differences amount to less that one-tenth of one percent of FCIC's total budgetary resources and are therefore considered immaterial. The differences are not due to error or omission; rather, the differences arise from timing, varying OMB reporting requirements, and current and prior year audit adjustments.

SUPPLEMENTARY STEWARDSHIP INFORMATION (UNAUDITED): Schedule 1

In response to the Secretary's 1996 Risk Management Education (RME) initiative, and as mandated by the 1996 Act, the FCIC has formed new partnerships with the Cooperative State Research, Education, and Extension Service (CSREES), the Commodity Futures Trading Commission, the USDA National Office of Outreach, Economic Research Service, and private industry to leverage the federal government's funding of its RME program by using both public and private organizations to help educate their members in agricultural risk management. The RME effort was launched in 1997 with a Risk Management Education Summit that raised awareness of the tools and resources needed by farmers and ranchers to manage their risks. RMA has built on this foundation during fiscal year 2001 by expanding State and Regional education partnerships; encouraging the development of information and technology decision aids; supporting the National Future Farmers of America (FFA) foundation with an annual essay contest; facilitating local training workshops; and supporting Cooperative Agreements with Educational and outreach organizations.

During fiscal year 2001, the RME worked toward the goals by funding approximately 1,500 risk management sessions compared to approximately 1,200 risk management sessions during fiscal year 2000. Most of these activities targeted producers directly. The number of producers reached through these sessions totaled more than 50,000 in fiscal year 2001 and 30,000 in fiscal year 2000. In addition to reaching producers, some training sessions helped those who work with producers, such as lenders, agricultural educators, and crop insurance agents, better understand those areas of risk management with which they may be unfamiliar. Total RME obligations incurred by the FCIC were approximately $4.9 million for fiscal year 2001 and $1.0 million for fiscal year 2000. The following table summarizes the RME initiatives since fiscal year 1998.

		2001	2000	1999	1998
			(dollars in thousands)		
RME Obligations	$	4,910	1,000	1,000	5,400
Number of producers attending RME sessions		50,000	30,000	14,500	N/A
Number of RME sessions held		1,500	1,200	950	N/A

One of the directives of ARPA is to step up the FCIC's educational and outreach efforts in certain areas of the country that have been historically underserved by the Federal crop insurance program. The Secretary determined that fifteen states met the underserved criteria. These states are Maine, Massachusetts, Connecticut, Wyoming, New Jersey, New York, Delaware, Nevada, Pennsylvania, Vermont, Maryland, Utah, Rhode Island, New Hampshire, and West Virginia.

See Independent Auditors' Report

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED):
Schedule 2

Intra-governmental balances:
FCIC reports the following amounts as intra-governmental assets and liabilities, which are included in the fiscal year 2001 and 2000, consolidated balance sheet:

Intra-governmental assets:

Fiscal Year 2001
(in thousands)

Agency		Fund Balance with Treasury	Accounts Receivable
Department of the Treasury	$	2,492,528	-
Department of Agriculture:			
Commodity Credit Corporation		-	184
Farm Service Agency		-	698
Other Federal Agencies		-	3,310
Total intra-governmental assets	$	2,492,528	4,192

Fiscal Year 2000
(in thousands)

Agency		Fund Balance with Treasury	Accounts Receivable
Department of the Treasury	$	1,558,612	-
Department of Agriculture:			
Commodity Credit Corporation		-	182
Other Federal Agencies		-	164
Total intra-governmental assets	$	1,558,612	346346

(continued)

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED): Schedule 2 (continued)

Intra-governmental liabilities:

Fiscal Year 2001
(in thousands)

Agency		Accounts Payable	Unearned Revenue	Other Liabilities
Within FCIC	$	-	318,689	-
Department of Labor (Not covered by budgetary resources)		-	-	553
Department of Agriculture:				
Commodity Credit Corporation		-	-	138
Farm Service Agency		5,988	-	-
Other Federal Agencies		4,213	-	(13)
Total intra-governmental liabilities	$	10,201	318,689	678

Fiscal Year 2000
(in thousands)

Agency		Accounts Payable	Unearned Revenue	Other Liabilities
Within FCIC	$	-	230,133	-
Department of Labor (Not covered by budgetary resources)		-	-	592
Department of Agriculture:				
Commodity Credit Corporation		-	-	138
Farm Service Agency		4,000	-	-
Other Federal Agencies		12,504	-	4,014
Total intra-governmental liabilities	$	16,504	230,133	4,744

The intra-governmental liabilities within the FCIC represent unearned premium subsidy and unearned EFA premium discounts for fiscal year 2001 and 2000.

See Independent Auditors' Report