Farm Credit Administration

. . . we ensure a dependable source of credit for agriculture and rural America

Performance and Accountability Report
Fiscal Year 2012

Contents

List of Acronyms Appearing in Report

CEO	chief executive officer
Farmer Mac	Federal Agricultural Mortgage Corporation
FCA	Farm Credit Administration
FCS	Farm Credit System
FCSIC	Farm Credit System Insurance Corporation
FIRS	Financial Institution Rating System
FY	fiscal year
GAAP	generally accepted accounting principles
GSE	Government-sponsored enterprise
IT	information technology
NCB	National Consumer Cooperative Bank
OE	Office of Examination
OIG	Office of Inspector General
OMB	Office of Management and Budget
OPM	Office of Personnel Management
OSMO	Office of Secondary Market Oversight
USDA	United States Department of Agriculture
YBS	young, beginning, and small (farmers and ranchers)

Statement of the Chairman and CEO

November 2012

As Chairman and Chief Executive Officer of the Farm Credit Administration, and on behalf of the FCA Board, I invite you to review this Performance and Accountability Report. It details the Agency's accomplishments and program and financial performance for fiscal year (FY) 2012.

I am pleased to report that FCA achieved the goals outlined in its Strategic Plan and achieved or exceeded all performance targets for which there are data to measure performance. As the arm's length regulator of the Farm Credit System (System) and the Federal Agricultural Mortgage Corporation (Farmer Mac), we have two primary goals: (1) to ensure that the System and Farmer Mac fulfill their public missions for the good of agriculture and rural areas and (2) to examine and oversee them to ensure that they remain safe and sound.

During this period of increased volatility and risk, FCA has been especially vigilant in examining and overseeing System institutions and Farmer Mac, focusing in particular on institutions with the highest risk. Throughout the year, we emphasized sound loan portfolio management and stress testing among System institutions.

We also closely monitored emerging issues that can affect the System as a whole. For example, we have been monitoring the increase in farmland values, and we've been working closely with System institutions to ensure that sound lending standards are maintained. We have also been monitoring the effects of the recent drought on System borrowers and lenders. Our goal is to make sure that the lending programs and internal controls of the institutions we regulate remain sound so that they can continue providing the credit that farmers, ranchers, and other rural Americans rely upon.

FCA is accountable for financial results in addition to programmatic results. I am happy to report that FCA's FY 2012 financial statements have received an unqualified opinion from an independent auditor. These financial statements provide a fair representation of FCA's accounting practices and demonstrate its commitment to sound fiscal management. Effective and efficient internal operations are critical to the Agency's ability to meet its goals, and FCA's management is committed to the continual improvement of its internal operations. I am proud that FCA continues its tradition of strong financial controls and disciplines.

As we face the challenges ahead, FCA renews its commitment to its mission: to ensure a safe, sound, and dependable source of credit and related services for agriculture and rural America. Thanks to its experienced, hard-working staff, the Agency has made, and will continue to make, a positive difference. Together, we will strive to do what is best for agriculture, rural America, and the American people, whom we serve.

Leland A. Strom
Chairman and CEO
Farm Credit Administration

Management's Discussion and Analysis

FCA at a Glance

The Farm Credit Administration (FCA or Agency) is an independent agency in the Executive branch of the U.S. Government. FCA is responsible for regulating and supervising the banks, associations, and related entities in the Farm Credit System (FCS or System), including the Federal Agricultural Mortgage Corporation (Farmer Mac).

The FCS is a nationwide network of borrower-owned financial institutions that provide credit to farmers, ranchers, residents of rural communities, agricultural and rural utility cooperatives, and other eligible borrowers.

FCA was created by a 1933 Executive order of President Franklin D. Roosevelt; the Agency now derives its powers and authorities from the Farm Credit Act of 1971, as amended (12 U.S.C. 2001-2279cc). The U.S. Senate Committee on Agriculture, Nutrition, and Forestry and the U.S. House of Representatives Committee on Agriculture oversee FCA and the FCS.

FCA is responsible for ensuring that the System remains a dependable source of credit for agriculture and rural America. The Agency does this in two specific ways:

- It ensures that FCS institutions, including Farmer Mac, operate safely and soundly and comply with applicable laws and regulations. FCA's examinations and oversight strategies focus on an institution's financial condition and any material existing or potential risk, as well as on the ability of its board of directors and management to direct its operations. The Agency also evaluates each institution's compliance with laws and regulations to serve eligible borrowers, including young, beginning, and small farmers and ranchers. If a System institution violates a law or regulation or operates in an unsafe or unsound manner, FCA uses its supervisory and enforcement authorities to ensure appropriate corrective action.
- It develops policies and regulations that govern how System institutions conduct their business and interact with customers. FCA's policy and regulation development focuses on protecting System safety and soundness; implementing the Farm Credit Act; providing minimum requirements for lending, related services, investments, capital, and mission; and ensuring adequate financial disclosure and governance. FCA also approves corporate charter changes, System debt issuance, and other financial and operational matters.

The Agency has its headquarters and a field office in McLean, Virginia. FCA also has field offices in Bloomington, Minnesota; Dallas, Texas; Denver, Colorado; and Sacramento, California.

FCA does not receive a Federal appropriation. The Agency is funded through assessments paid by System institutions and by reimbursable activities.

FCA policy, regulatory agenda, and supervisory and examination activities are established by a full-time, three-person Board whose members are appointed by the President of the United States with the advice and consent of the Senate. Board members serve a six-year term and may not be reappointed after serving a full term or more than three years of a previous member's term but may remain on the Board until a successor is nominated by the President and confirmed by the Senate. The President designates one member as Chairman of the Board, who serves in that capacity until the end of his or her own term. The Chairman also serves as FCA's Chief Executive Officer (CEO).

FCA Board members also serve as members of the Farm Credit System Insurance Corporation board of directors.

Mission

The Farm Credit Administration ensures a safe, sound, and dependable source of credit and related services for agriculture and rural America.

FCA Offices

As of September 30, 2011, FCA had 289 full- and part-time employees. These employees are divided among the following offices, with the majority serving in the Office of Examination.

The **FCA Board** manages, administers, and establishes policies for FCA. The Board approves the policies, regulations, charters, and examination and enforcement activities that ensure a strong FCS. The Board also provides for the examination and supervision of the FCS, including Farmer Mac, and oversees the activities of the FCS Building Association, which acquires, manages, and maintains FCA headquarters and field office facilities.

The **Secretary to the Board** serves as the Parliamentarian for the Board and keeps permanent and complete records of the acts and proceedings of the Board. He or she ensures that the Board complies with statutory, regulatory, and internal operation reporting requirements. The Secretary to the Board also serves as Secretary to the Farm Credit System Insurance Corporation Board. In addition, he or she serves as the Sunshine Act Official for the FCA Board.

The **Chairman of the FCA Board** serves as the chief executive officer (CEO). The CEO enforces the rules, regulations, and orders of the FCA Board. He or she directs the implementation of policies and regulations adopted by the FCA Board. The Office of the Chief Executive Officer plans, organizes, directs, coordinates, and controls FCA's day-to-day operations and leads the Agency's efforts to achieve and manage a diverse workforce.

The **Chief Operating Officer (COO)** has broad responsibility for planning, directing, and controlling the operations of the Offices of Management Services, Examination, Regulatory Policy, and General Counsel in accordance with the operating philosophy and policies of the FCA Board. He or she supervises and provides policy direction to the executive staff responsible for managing these offices. The COO oversees and coordinates the development and implementation of the Agency-wide Strategic, Operating, and Budget plans and activities. The COO also coordinates the resolution of internal policy, personnel, and program issues with Agency executive leadership and the FCA Board.

The **Office of Congressional and Public Affairs (OCPA)** serves as the Agency's principal point of contact for Congress, the media, other Government agencies, FCS institutions, employees, System borrowers, and the public. OCPA develops and monitors legislation pertinent to FCA and the FCS, serves as the Agency's congressional liaison, facilitates intergovernmental relations, and prepares testimony for the Chairman and other Board members. The office also provides information to external audiences through news releases, fact sheets, reports, and other publications. It cultivates relationships with media representatives who report on matters related to agriculture and rural credit, and it manages the content of the FCA website. OCPA also organizes special meetings, briefings for international visitors, and field hearings.

The **Office of Examination** is responsible for examining and supervising each FCS institution in accordance with the Farm Credit Act and applicable regulations. The office develops oversight plans; conducts examinations; monitors the System's condition and current and emerging risks to the System; and develops supervisory strategies to ensure that the FCS operates in a safe and sound manner, complies with the law and regulations, and fulfills its public policy purpose. For more information about the role of the Office of Examination, go to www.fca.gov/law/guidance.html and click View Board Polcy Statements to read "Examination Policy" (FCA-PS-

The **Office of General Counsel (OGC)** provides the FCA Board and staff with legal counsel as well as guidance on general corporate, personnel, ethics, and administrative matters. OGC supports the Agency's development and promulgation of regulations, civil litigation, enforcement of applicable laws and regulations, and implementation of conservatorships and receiverships. The office serves as the liaison to the Federal Registrar and maintains the Agency's public rulemaking files. OGC also handles Freedom of Information Act requests and matters pertaining to the Privacy Act.

The **Office of Inspector General** provides independent and objective oversight of Agency programs and operations through audits, inspections, evaluations, investigations, and the review of proposed legislation and regulations. The office promotes economy and efficiency within FCA and seeks to prevent and detect fraud, waste, abuse, and mismanagement in the Agency's programs and operations.

The **Office of Regulatory Policy (ORP)** manages policy and regulation development activities that ensure the safety and soundness of the FCS and support the System's mission. Policy and regulation development activities include the analysis of policy and strategic risks to the System on the basis of economic trends and other risk factors. ORP also evaluates all regulatory and statutory prior approvals for System institutions on behalf of the FCA Board, including chartering and other corporate approvals as well as funding approvals.

The **Office of Management Services (OMS)** manages and delivers the Agency's information technology, financial, human capital, and administrative services. The office coordinates planning efforts, including information resources management, security, human capital, and financial plans for the Agency. By centrally planning, managing, and delivering resource services, OMS enables the Agency's program offices to fully focus their time and attention on their respective mission-related responsibilities.

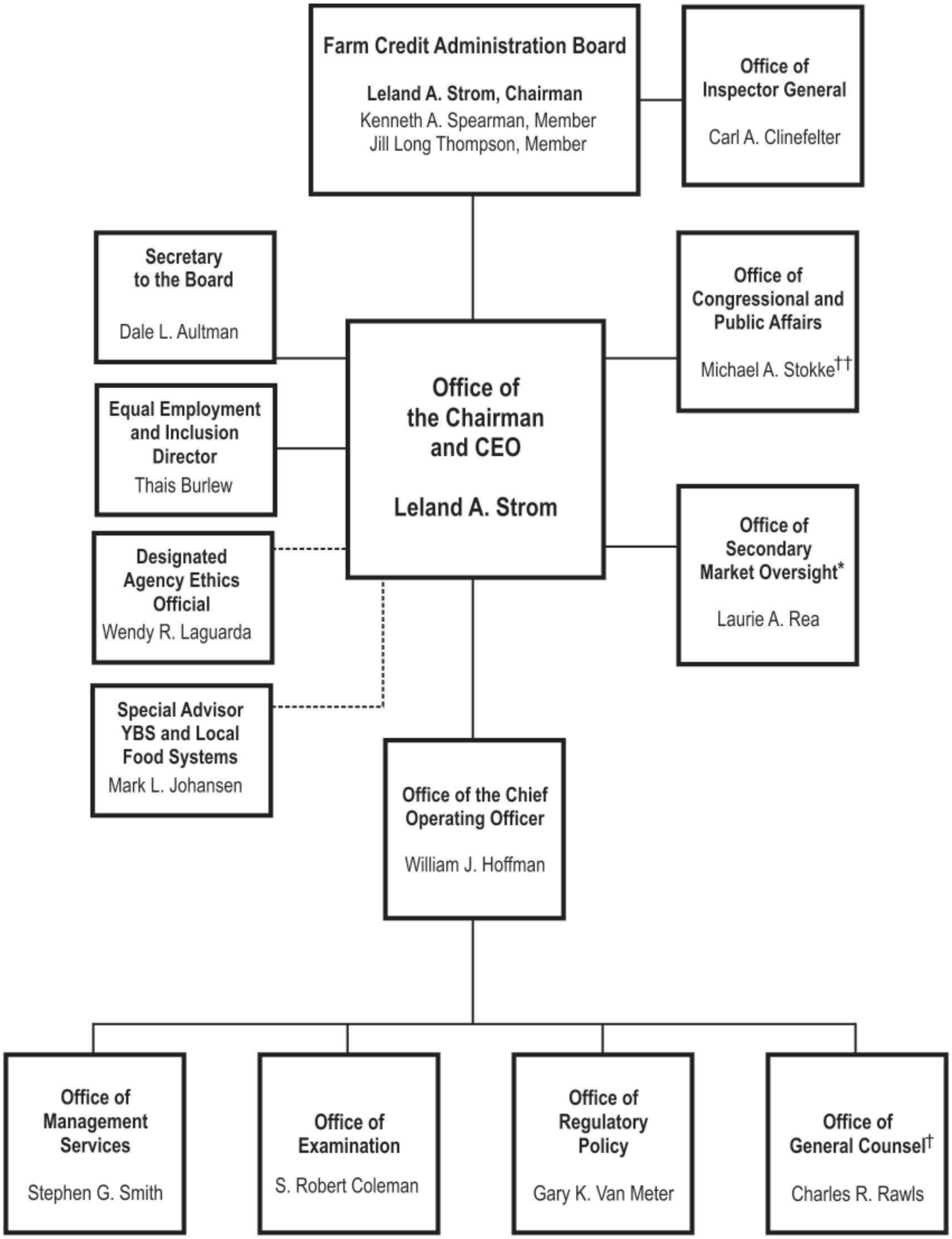
The **Office of Secondary Market Oversight (OSMO)** provides for the examination, regulation, and supervision of Farmer Mac to ensure its safety and soundness and the accomplishment of its public policy purpose as authorized by Congress. OSMO also ensures that Farmer Mac complies with applicable laws and regulations, and it manages FCA's enforcement activities with respect to Farmer Mac.

The **Office of Equal Employment Opportunity** and Inclusion manages and directs the Agency-wide Diversity, Inclusion, and Equal Employment Opportunity Program for FCA and FCSIC. The office serves as the chief liaison with the Equal Employment Opportunity Commission and the Office of Personnel Management on all EEO, diversity, and inclusion issues. The office provides counsel and leadership to Agency management to carry out its continuing policy and program of nondiscrimination, affirmative action, and diversity.

The **Designated Agency Ethics Official** is designated by the FCA Chairman to administer the provisions of title I of the Ethics in Government Act of 1978, as amended, to coordinate and manage FCA's ethics program and to provide liaison to the Office of Government Ethics with regard to all aspects of FCA's ethics program.

The **Special Advisor for YBS and Local Food Systems** serves as the Agency's staff person focused on providing advice to the Board on issues related to FCS lending to young, beginning, and small farmers and ranchers and other eligible borrowers involved in local food systems. The Special Advisor analyzes and reports on FCS efforts and results in lending to these farmers, provides input for the annual report to Congress on YBS lending, and provides advice on the development of Agency policy and guidance related to FCS efforts in these lending areas.

Organization
Farm Credit Administration
As of September 30, 2012



***Reports to the Board for policy and to the CEO for administration.**
†Maintains a confidential advisory relationship with each of the Board members.
††Serves as Executive Assistant to the Chairman.

Highlights of FCA's Performance Goals and Results

In May 2011, the FCA Board approved the Agency's Strategic Plan for FYs 2011–2016. FCA's mission as stated in the Strategic Plan is to ensure a safe, sound, and dependable source of credit and related services for all creditworthy and eligible persons in agriculture and rural America. In its Strategic Plan, FCA identifies two goals it must meet to fulfill its mission. For each goal, the Agency identifies strategies and actions to achieve the goal and a set of performance measures to measure its success in meeting the goal.

FCA's Performance Report shows that FCA achieved the goals identified in the Strategic Plan and achieved or exceeded all performance measures for which there are data to measure performance. The following is a summary analysis of FCA's performance in reaching its goals.

Goal 1 Highlights—Public Mission

Ensure that the FCS and Farmer Mac fulfill their public mission for agriculture and rural areas.

There are seven strategies and six performance measures established for goal 1 in the Strategic Plan (see table 5a). The six performance measures are as follows:

1. Percentage of FCS institutions with satisfactory operating and strategic plans for providing products and services to all creditworthy and eligible persons. (Target: ≥90 percent)
2. Whether Farmer Mac's business plan contains strategies to promote and encourage the inclusion of all qualified loans, including small and family farm loans, in its secondary market programs, and whether its business activities further its mission to provide a source of long-term credit and liquidity for qualifying loans. (Target: Yes)
3. Percentage of direct-lender institutions with satisfactory consumer and borrower-rights compliance. (Target: ≥90 percent)
4. Percentage of direct-lender institutions with satisfactory YBS programs. (Target: ≥90 percent)
5. Follow-up evaluation on appropriate rules and regulations issued related to GSE mission will demonstrate they meet the intended outcome. (Establish baseline in 2013—minimum one year after new rules are established, 5 percent improvement per year thereafter)
6. Percentage of times the Agency reaches out to nontraditional commenters to solicit their input on regulations related to GSE mission. (Target: 100 percent)

The Agency achieved or exceeded its targets for four of the six measures associated with goal 1. FCA examiners reviewed the operating and strategic plans of FCS institutions and found that 100 percent have satisfactory plans for providing products and services to all creditworthy and eligible persons. FCA's Office of Secondary Market Oversight (OSMO) found that Farmer Mac's business plan contains adequate strategies to promote and encourage the inclusion of all qualified loans, including small and family farm loans, in its secondary market programs. OSMO also found that Farmer Mac's business activities further its mission to provide a source of long-term credit and liquidity.

Agency examiners determined that 98 percent of direct-lender institutions have satisfactory consumer and borrower-rights compliance. In addition, FCA examiners concluded that all direct-lender institutions have satisfactory YBS programs.

We have no results to report for performance measures 5 and 6. For performance measure 5, we will establish a baseline in 2013 and measure against the baseline thereafter. Since performance measures 5 and 6 became effective, we have not issued a proposed regulation related to the System's mission as a Government-sponsored enterprise.

Goal 2 Highlights—Safety and Soundness

Evaluate risk and provide timely and proactive oversight to ensure the safety and soundness of the FCS and Farmer Mac.

There are seven strategies and seven performance measures for goal 2 (see table 5b). The seven performance measures are as follows:

1. Percentage of System assets in institutions with composite CAMELS (capital, assets, management, earnings, liquidity, and sensitivity) ratings of 1 or 2. (Target: ≥90 percent)
2. Percentage of requirements in supervisory agreements with which FCS institutions have at least substantially complied within 18 months of execution of the agreements. (Target: ≥80 percent)
3. Percentage of institutions complying with regulatory capital ratio requirements (permanent capital ratio, total surplus ratio, core surplus ratio, net collateral ratio). (Target: ≥90 percent)
4. Whether the Office of Secondary Market Oversight examination and oversight plan and activities effectively identify emerging risks, and whether appropriate supervisory and corrective actions are implemented to effect change when needed. (Target: Yes)
5. Percentage of institutions with satisfactory audit and review programs, including institutions with acceptable corrective action plans. (Target: 100 percent)
6. Percentage of employees who report in the annual FCA employee viewpoint survey of being committed to, and engaged in, the Agency's work. (Target: Increase average score by 2 percent annually until it reaches at least 80 percent)
7. Percentage of FCS institutions providing FCA with consolidated loan data. (Target for 2012: ≥80 percent; target for 2013: ≥90 percent; target for 2014: 100 percent)

FCA achieved or exceeded all of its targets associated with goal 2. Ninety-eight percent of the System's assets are in institutions that have CAMELS ratings of 1 or 2. In addition, FCS institutions complied at least substantially with 99 percent of the requirements in supervisory agreements within 18 months of the execution of the agreements. All institutions complied with regulatory capital ratio requirements.

OSMO's examination and oversight plan and activities effectively identify emerging risks, and appropriate supervisory and corrective actions have been taken. FCA examiners found that all institutions have satisfactory audit and review programs, including institutions with acceptable corrective action plans. In addition, all FCS institutions are providing FCA with consolidated loan data.

Finally, 81 percent of FCA's employees reported in the annual FCA employee viewpoint survey that they are committed to, and engaged in, the Agency's work. This is the first year that FCA has measured this metric. The results will act as a benchmark for future assessments.

In 2011, FCA was recognized as the fifth best place to work of all small agencies in the Federal Government. Issued annually by the Partnership for Public Service, the Best Places to Work rankings are the most comprehensive and authoritative rating of employee satisfaction and commitment in the Federal Government.

Management Challenges

FCA is the Federal regulator for the Farm Credit System. Its mission is to ensure a safe, sound, and dependable source of credit and related services for agriculture and rural America. FCA faces external and internal management challenges, many of which stem from changes in agriculture and in the financial services industry. The Agency must anticipate and react to these changes in order to provide a regulatory framework within which the System can fulfill its mission.

ECONOMIC ENVIRONMENT

Sluggish economic activity, both domestically and abroad; debt crises in Europe; and the worst drought to hit the U.S. farm sector in more than 50 years pose significant risks to the financial and agricultural sectors in the near term. Disturbances in the Middle East are contributing to volatility in energy markets. Lower purchases of Chinese products by the United States and Europe are reducing growth prospects for China, which in turn could lower Chinese imports of U.S. agricultural products.

Outlook for U.S. Economy

The outlook for the U.S. economy continued to weaken in the third quarter of 2012, with slowing consumer and business spending; slowdowns in manufacturing, industrial, and utilities production; and a collapse in durable goods orders. Earnings reports by major companies for October fell short of expectations on sales, giving heightened concern about prospects for economic growth. On a positive note, however, the housing sector seems to be strengthening.

Despite significant monetary accommodation provided by the Federal Reserve to stimulate the economy and reduce unemployment, growth forecasts for personal income, business investment, and industrial production for 2013 have been scaled back. Recent projections put the U.S. unemployment rate for 2013 in the mid-7 to mid-8 percent range, which is well above the average of 5.1 percent from January 2000 to mid-2007.

The outlook remains clouded by political uncertainty tied to the U.S. presidential election and a burdensome $16 trillion national debt. Unless the Administration and Congress can work out an agreeable path forward before year-end, $607 billion in mandated spending cuts and tax increases are scheduled to take effect in January 2013. The U.S. economy would slow by as much as 0.5 percent next year if Congress allows the tax increases and budget cuts to go into effect, according to the Congressional Budget Office.

The dollar is expected to appreciate modestly this year. The dollar has strengthened as a Eurozone recession, coupled with uncertainty about the evolving Euro debt situation, induced a flow into dollar-based assets.

Farm Income

The drought of 2012 was the worst since 1956, leading to sharp reductions in the production of corn, soybeans and other crops, which sent livestock feed costs to record highs. Many livestock operations and ethanol plants face significant stress, with some ethanol plants cutting back their operations while others shut down altogether.

Despite the drought, USDA is forecasting record levels of farm income in 2012; gains in corn and soybeans prices and large increases in crop insurance payments largely offset reduced crop yields. Nevertheless, gains by crop producers are expected to be offset by significant losses by livestock farmers caused by record feed expenses and heat stress on animals.

Farm asset growth is expected to exceed increases in farm debt, and farm equity is expected to reach an all-time high of nearly $2.3 trillion in 2012. Increases in the value of farm real estate and financial assets are expected to more than offset an anticipated rise in non-real estate debt. Farm real estate debt is predicted to decline slightly in 2012. Debt repayment capacity utilization—a measure of farm exposure to financial risk—is forecast to be at its lowest level since 1970, which is favorable.

Agricultural Exports

FY 2013 agricultural exports are projected at a record $143.5 billion, in line with slightly higher projected world economic growth in 2013. Higher export values are expected for grains, soybeans, and horticultural products while cotton exports are forecast to decline slightly. Exports of livestock products are forecast marginally lower; declines in dairy, pork, and poultry are expected to outweigh growth in beef. Low interest rates should provide inexpensive credit for financing trade. The main risk to trade in 2013 is a significant spillover of the Eurozone debt problems to other financial institutions and markets, as well as a slowdown in Chinese import demand.

Farmland Values

U.S. farmland values continued to rise in 2012. Farmers are using record farm income to purchase land to expand their operations, and investors are purchasing land as a source of more stable returns than stocks and bonds have provided in recent years. Record low interest rates are also contributing to the rise in farmland values because they make it less costly for farmers to borrow. Crop insurance also plays a role by reducing losses, particularly in the case of catastrophic events like this year's drought.

Federal Reserve Bank surveys in August 2012 indicated double-digit increases in farmland prices in the Midwest and the Plains states, raising concerns that a correction in farmland values could occur in the future. FCA is closely monitoring developments in farmland markets and has worked closely with System institutions to ensure that sound lending standards are maintained. Farm real estate debt levels have risen modestly within the System over the past year. And while prime agricultural land prices have soared, values for agricultural land in transition, such as recreational land and land on urban fringes, have softened in recent years because of the weak housing and commercial development markets.

Farm Bill

The Farm Bill, the legislation that Congress negotiates every five years to set U.S. agriculture, food, nutrition, conservation, and forestry policy, expired at the end of September 2012. Congress did not enact a new law to replace the expiring 2008 Farm Bill before recessing until after the election, so it will need to address this farm legislation when it returns. Consequently, there is considerable uncertainty surrounding the provisions of the new Farm Bill and how much support they will provide to Farm Credit System borrowers.

Demand for System Securities

Investor concerns caused by a number of global issues continue to increase the volatility of capital markets; however, the System continues to experience strong demand for its securities across the yield curve, providing historically low costs to the System in both overall yields and spreads. Global investors have sought safety in U.S. Treasury securities as well as in U.S. Government-sponsored enterprise (GSE) securities. However, a reversal of global market conditions or increased domestic fiscal concerns could raise System borrowing costs and spreads.

CREDIT RISK

The System remains fundamentally safe and sound, with credit quality in the System's loan portfolio gradually improving. While uncertain economic conditions, volatile commodity prices, and stress related to the severe drought in the United States will present ongoing challenges for the System, the vast majority of System institutions are financially well-positioned to absorb and manage adverse changes in the risk environment.

FCA evaluates System institution risk using the Financial Institution Rating System (FIRS) in which component ratings for capital, assets, management, earnings, liquidity, and sensitivity factor into an overall composite rating. Component and composite ratings are based on a scale of 1 (the best) to 5 (the worst). According to FIRS ratings, the risk profile for the System has improved over the past year, with the number of institutions rated 1 or 2 increasing and the number with unsatisfactory ratings of 3 or 4 declining. As of June 30, 2012, approximately 87 percent of System institutions by number, and 97 percent of System institutions by total assets, had a composite risk rating of 1 or 2; no institution had the lowest rating of 5.

FCA expects the System's risk profile to remain stable in the year ahead, but the risk environment will continue to be elevated because of volatility in commodity markets and uncertainty and risk in the U.S. and global economies.

Another indicator of strength in the System's credit risk profile is the continued low number of institutions under supervisory action. A System institution is placed under supervisory action when FCA examiners find weaknesses and unacceptable conditions at the institution. Factors contributing to increased FCA supervisory levels with certain System institutions include adverse general economic conditions, ongoing weakness in specific farm sectors, and rapid changes in the risk environment for agriculture.

Total capital for the System has steadily increased primarily because of strong earnings: the System posted record net income in 2010 and 2011. Capital levels relative to risk are appropriate at most institutions, and asset quality remains satisfactory overall. Adverse assets and nonaccrual loans remain elevated from the extremely low levels in 2008 but are well within the System's risk-bearing capacity.

SAFETY AND SOUNDNESS

During this period of increased volatility and risk, extra caution and vigilance are required to protect the safety and soundness of institutions. The Agency's Office of Examination has responded to this challenging risk environment by maintaining a strong examination and supervision presence while focusing on the institutions with the highest risk. The office continues to emphasize sound loan portfolio management and stress testing among System institutions. In the current risk environment, these activities are essential to an institution's ability to mitigate and manage the risks inherent in its balance sheet.

In addition, the Office of Examination has identified four National Risk Topics in the fiscal year 2013 Operating Plan to ensure that all examinations have consistent priorities and focus on material and emerging risks. For fiscal year 2013, the National Risk Topics include the following:

- Drought and related risks
- Loan portfolio management
- Standards of conduct
- Diversity and inclusion

The Agency will address these risk topics in each institution's oversight plan.

With continuing volatility and financial stress, System institutions must exercise caution at all levels—from making individual loans to ensuring that portfolio risk management policies are adequate. Recognizing this challenge, FCA continues to focus communication, meetings, and regulatory requirements on safety and soundness issues. Some of the measures taken include the following:

- FCA is actively engaged with System institutions to monitor and assess the potential collateral risk associated with the increase in farmland prices in the Midwest. In June 2010, the Agency issued an Informational Memorandum to the System to provide collateral risk management guidance, and we continue to discuss this risk topic with System institutions.

- The Office of Examination continues to expand and enhance its loan portfolio management examination guidance for its examiners and the System to focus on the fundamentals of administering a loan portfolio.

- FCA continues to take the lead in organizing roundtable meetings with the other financial regulators to discuss issues related to farm real estate markets and other emerging risks in agricultural lending.

- FCA is working with the System to enhance the availability and completeness of loan data. An improved and more consistent loan database will enable the Agency to access key loan information for examination purposes, as well as for systemic risk analyses.

- FCA regularly communicates with other Federal agencies on issues affecting System funding, liquidity, and investment risks.

- FCA continues to leverage technology resources and functionality to improve effectiveness and efficiency in the examination of System institutions.

HUMAN CAPITAL

The evolution of agriculture, rural America, and the financial services industry requires FCA to have an experienced and qualified professional staff to meet the expected growth and expanding complexity of the FCS.

According to projections, one-third of the Agency's workforce may turn over during the next five years. Therefore, the Agency must find ways to retain historical knowledge and perspectives on the programs, practices, and mission of the FCS, as well as FCA. On the other hand, the loss and replacement of employees will provide FCA with many opportunities to diversify its workforce.

FCA's Human Capital Plan focuses on ensuring that the Agency keeps a highly skilled and competent workforce. It calls for the following measures:

- Have effective succession plans in place, including ways to develop future executive, manager, and supervisor leadership skills
- Explore and develop methods to capture and retrieve historical knowledge, perspectives, experiences, and insights before they are lost through retirements
- Effectively communicate with employees and fully embrace the diversity of its workforce
- Require employees to obtain more in-depth skills in the areas of credit, finance, operations, examination, and supervision
- Understand and use information technology to embrace new methods of analyzing and modeling risk to the FCS
- Effectively manage projects and contracts for which the Agency often uses specialists to perform narrowly defined tasks
- Continue to recruit and retain high-quality candidates, including minorities, people with disabilities, and veterans

REGULATORY ENVIRONMENT

FCA's regulatory program provides guidance to System institutions on maintaining safety and soundness and serving their mission. For example, FCA plans to initiate or take further action on rulemaking projects to perform the following:

- Further enhance regulatory capital consistent with Basel III concepts
- Improve liquidity requirements
- Address investment eligibility requirements, including an appropriate standard of creditworthiness to replace credit ratings as required by section 939A of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act)
- Enhance data for evaluating risk in System loan portfolios through a common loan identifier or alternative for shared assets
- Strengthen guidance on standards of conduct

FCA's regulatory program will continue to focus on key System risk and mission issues. FCA will also continue to work with the U.S. Department of Agriculture to support the development of the Rural Business Investment Company program to provide access to capital to rural America.

FCA is also focusing on the following national issues:

- FCA is carefully following the national debate on Government-sponsored enterprise reform because the outcome could affect FCA, the System, and System borrowers.

- FCA is implementing the Dodd-Frank Act. The Agency is participating in a joint rulemaking project regarding the capital and margin requirements for over-the-counter derivatives; it has also initiated rulemaking projects to replace credit ratings in FCA regulations with other creditworthiness standards. In addition, FCA is consulting with other financial regulators as they implement the Dodd-Frank Act to ensure that there are no unintended consequences for the System or FCA and to determine whether FCA should make changes to its own regulations to keep them consistent with the regulations of other agencies.

- Finally, FCA will monitor the Farm Bill negotiations for issues that could affect the System and FCA.

INFORMATION TECHNOLOGY

Information technology is key to improving Agency performance. FCA plans its technology investments carefully, seeking to understand how it can use technology immediately and in the future to enhance and support business processes.

Investments include the following:

- Developing applications designed to meet staff needs while preserving corporate knowledge for the future workforce

- Improving the quality and availability of data, particularly loan and commodity data, without making unreasonable requests of regulated institutions

- Investing in technology that improves the ways employees communicate, collaborate, and work

- Giving Agency users a toolset that provides for a reliable, secure technology environment

Over the next five years, technology will be important to achieving FCA's mission cost-effectively. The Agency will continually embrace and adopt new technology; however, it will choose its IT investments carefully—through a disciplined process that weighs the risks against expected returns or results. In particular, FCA plans to invest in information technology to help it better identify and address systemic risks and to help it improve the effectiveness of its examinations. Cost-containment will remain a high priority, but the Agency must be ready and able to make improvements that support its long-term mission.

Analyses and Highlights of FCA's Financial Statements

FINANCIAL HIGHLIGHTS

Financial Operation of FCA

FCA operates under the authority of the Farm Credit Act of 1971, as amended. It maintains a revolving fund from which its planned administrative expenses are paid. The revolving fund is funded primarily from assessments received from the Farm Credit System institutions, including the Federal Agricultural Mortgage Corporation (Farmer Mac) and the System's service corporations.

FCA assesses FCS institutions, including Farmer Mac, and charges them directly or bills them in accordance with a formula established by FCA regulations. Since 2006, FCA has opted to use the excess funds, or carryover funds, towards determining assessments to bill System institutions for subsequent fiscal years. On the basis of the approved assessments, Congress usually imposes a limitation on the amount of obligations that FCA may incur in a given fiscal year.

In addition to assessments, FCA receives funds from two other sources. It receives funds for reimbursable services provided to other Government agencies and for examinations of non-Government entities such as the National Consumer Cooperative Bank (NCB). The Agency's reimbursable work mainly includes services performed for the Farm Credit System Insurance Corporation and the U.S. Department of Agriculture (USDA).

FCA also receives funds from interest earned on investments with the U.S. Department of the Treasury. The Agency uses interest earned on investments to build and maintain an Agency reserve. The reserve ensures that FCA can effectively and efficiently respond to unanticipated, one-time, mission-related issues without increasing assessments. The following sections provide additional information about FCA's financial condition for fiscal years 2012 and 2011.

FCA's Assets, Liabilities, and Net Position

The balance sheet on page 52 presents the financial condition of FCA as of the 2012 and 2011 fiscal year-ends. It presents the value of FCA's assets, which represent resources owned by FCA, as well as its liabilities, which represent what FCA owes to the public and other Government agencies. The difference between the total assets and total liabilities represents FCA's net position.

As shown in table 1, FCA's total assets include its fund balance with Treasury, investments, accounts receivable and prepayments, and property and equipment. During FY 2012, total assets increased by $1,841,713, or 4.7 percent, from FY 2011. This was a much lower percentage increase than the increase from FY 2010 to FY 2011, which was 12.3 percent.

FCA's investment portfolio accounts for the largest portion of FCA's total assets. The increase in investment holdings, which grew by approxi-

Table 1. Composition of Assets

Fiscal Year	Fund Balance with Treasury	Investments	Accounts Receivable and Prepayments	Property and Equipment	**Total**
2012	$ 717,196	$ 39,824,559	$ 362,755	$ 402,903	**$ 41,307,413**
2011	$ 1,193,978	$ 37,132,206	$ 468,012	$ 671,504	**$ 39,465,700**

Table 2. Composition of Liabilities

Fiscal Year	Accounts Payable	Accrued Liabilities (Payroll and Benefits)	Employer Contributions and Taxes Payable	Workers' Compensation (Funded and Unfunded)	Deferred Revenue	**Total**
2012	$ 614,214	$ 5,974,658	$ 553,100	$ 1,281,534	$ 3,363,965	**$ 11,787,471**
2011	$ 884,348	$ 5,833,721	$ 527,537	$ 1,241,526	$ 4,195,631	**$ 12,682,763**

mately $2.7 million from 2011 to 2012, was the primary reason for the increase in total assets. FCA purchased $10,649,729 in U.S. Treasuries during fiscal year 2012, using an investment strategy that enables the Agency to both maintain a steady cash flow for Agency operations and to earn interest to build the Agency reserve. The reserve funds are held in contingency and are available to address specific, one-time, unforeseen events. Agency carryover funds are also invested until needed for such purposes as offsetting assessment increases to the FCS institutions each fiscal year.

As of September 30, 2012, the Agency held $717,196 in cash, which represents 1.7 percent of FCA's total assets. FCA generally prefers to hold less in cash and to invest all excess cash in U.S. Treasury securities; however, funds were received from FCS institutions on September 30, after the cutoff period for investing.

The Agency's liabilities, as shown in table 2, consist of accounts payable, payroll and benefit accruals, employer contributions and taxes payable, workers' compensation, and deferred revenue. FCA's total liabilities decreased by $895,292, or 7.1 percent, from 2011 to 2012. Like the percentage change in total assets, the percentage change in total liabilities from FY 2011 to FY 2012 was much smaller than in the previous year.

The large decrease in deferred revenue, which represents income from non-Federal sources for services that have not yet been provided, accounts for more than 90 percent of the decrease in total liabilities. At the end of FY 2012, FCA received $3,363,965 in assessments from FCS institutions that were not yet due and were classified as deferred revenue. At the beginning of FY 2013, this amount becomes due and payable to FCA and will be reclassified as revenue earned in October.

The net position, which represents the Agency's cumulative results of operations since inception, increased by $2,737,005, or 10.2 percent during FY 2012. The composition of the net position is displayed in the Statement of Changes in Net Position on page 54.

FCA's Status of Funds

Table 3 shows the funding that was available or collected by FCA for FYs 2012 and 2011. Funding and fund sources increased by $648,606, or 1.1 percent, from FY 2011 to FY 2012. The primary source of funding for FCA is the annual assessment of FCS institutions, which increased $1,600,000, or 3.0 percent, in 2012. This follows increases of $3,400,000, or 6.9 percent, in 2011 and $4,000,000, or 8.9 percent, in 2010. The smaller increase in assessments in FY 2012 is the result of savings achieved by not granting pay raises to employees holding senior-executive-equivalent positions and by reducing employee relocation costs. Prudent travel practices and the use of technology also contributed to savings that enabled the Agency to lower assessments on FCS institutions.

Funding agreements received for reimbursable work increased in FY 2012 by 24.2 percent primarily because of a new agreement signed with USDA for additional work. Interest from investments decreased in FY 2012 because of the lower interest rates in the past year. Funding in any given year from assessments, reimbursable agreements, and interest from investment activity is based on FCA Board-approved budgets and are expected to be adequate to fund operations for the year.

In FY 2012, FCA continued to carry out the Agency's mission, program goals, and objectives within the available funding amount. As table 4 shows, FCA used $53,188,195, or 86.9 percent,

Table 3. Available Funding

Funding and Funding Sources	2012	2011
Assessments (current year)	$54,100,000	$52,500,000
Assessments (carryover from prior years)	5,900,000	6,900,000
Reimbursable activity	740,690	596,563
Interest from investments	464,685	560,206
Total	**$61,205,375**	**$60,556,769**

of the funds available in 2012, compared with $53,376,466, or 88.1 percent, of the amount of funds available in 2011. The amount of available funds remaining in 2012 totaled $8,017,180, compared with $7,180,303 in 2011. In FY 2012, the Agency continued to use its funds in accordance with established plans. Personnel compensation and benefits account for the most significant use of funds at FCA, representing 84.4 percent of total funds used in 2012.

Funds used for property and equipment decreased by $283,296, or 23.0 percent, the largest percentage decrease among all of the budget categories. This decrease occurred because FCA, which replaces its hardware and software on a normal life-cycle basis, made no major purchases in FY 2012 as it did during FY 2011.

PROGRAM COSTS AND REVENUES

This section describes FCA's program cost and revenues for the fiscal years ended September 30, 2012, and September 30, 2011. This information is to be read in conjunction with the financial statements, notes to the financial statements, and other sections of the Performance and Accountability Report. Because this section focuses on the cost of operations, some of the data provided here may differ from data provided in other sections of this report that cover budgetary obligations.

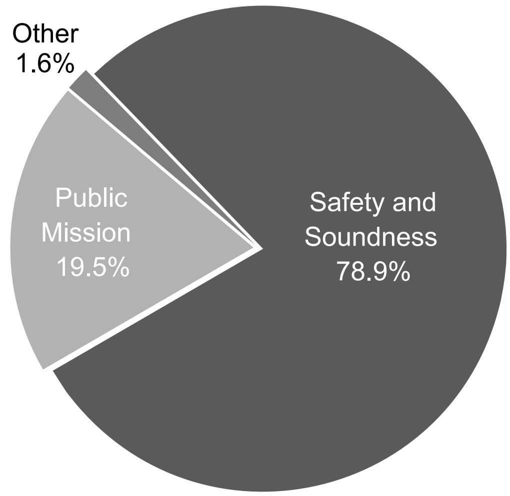
The FCA Board and management regularly review the Agency's five-year strategic plan to update expectations for FCA's operations according to the challenges facing the FCS. As part of the Agency's strategic planning, FCA has developed human capital and information resource plans to promote efficiency and effectiveness. FCA has managed costs through sound business planning and effective resource management.

The net cost of FCA programs totaled $2,887,921 for the 12 months ended September 30, 2012, compared with $2,975,818 for the same period the previous year. Because of noncash imputed expenses for employee retirement liability and building rent, costs exceeded revenues in 2012 by $5.6 million and by $5.1 million in 2011. (See notes 9 and 10 in the "Notes to the Financial Statements" section.) During 2012, cash receipts exceeded cash disbursements and contributed to the increase in FCA's cash and investment holdings. As a result, cash and investments totaled $40,541,755, compared with $38,326,184 for September 30, 2011.

Table 4. Funds Used by Major Budget Category

Budget Category	FY 2012	Percent of Total	FY 2011	Percent of Total
Personnel compensation and benefits	$44,897,271	84.4%	$43,899,796	82.2%
Travel and transportation	3,076,753	5.8%	3,331,447	6.2%
Contractual services	2,693,640	5.1%	3,277,466	6.1%
Property and equipment	946,861	1.8%	1,230,157	2.3%
Other	1,573,670	3.0%	1,637,600	3.1%
Total	**$53,188,195**	**100%**	**$53,376,466**	**100%**

Figure 1. FY 2012 Gross Costs by Agency Goals



The total cost of FCA's programs for FY 2012 is $58,453,167 compared with $57,163,153 for FY 2011. Figure 1 shows the breakdown of FY 2012 gross costs for each of the Agency's goals. Virtually all costs are in support of the Agency's mission and program goals.

Employee salaries and benefits represent the Agency's most significant cost. For 2012, employee compensation totaled $44,930,557, or 76.9 percent of total cost. FCA program costs increased because the Agency adjusted the compensation of Agency employees. FCA salary and benefits increased $951,839, or 2.2 percent, from 2011. This is primarily attributable to the pay-for-performance increases for non-executive employees and the compensation adjustment related to the advancement of employees working under the career ladder employment programs. The pay adjustment for non-executive employees was in accordance with the spirit and intent of the President's general pay freeze for Federal employees. Salaries for executive positions were frozen.

FCA plans to maintain competitive employee compensation after the pay freeze by periodically performing compensation studies in accordance with the Financial Institution Reform, Recovery, and Enforcement Act of 1989 to keep FCA salaries and benefits comparable with the salaries and benefits of other Federal financial institution regulators. FCA believes the plans for staff resources and compensation should provide adequate means for the Agency to continue to perform its mission to provide the FCS with effective regulation and oversight.

Although earned revenues increased from the previous year, they remain below the Agency's program costs. Earned revenues for 2012 totaled $55,565,246, up $1,377,911 from 2011. Increases in earned revenues during FY 2012 resulted from increases in the assessments paid by FCS institutions, including Farmer Mac. Like earned revenues, program costs also increased during the 12 months ended September 30, 2012, but the increase in revenues mitigated the increase in program costs. As a result, the net program costs decreased in 2012 by $87,896 from 2011.

Public Mission Program

FCA invests significant resources in its policy-making, regulatory, and corporate activity functions to ensure that the FCS, including Farmer Mac, fulfills its public mission as mandated by Congress. During FY 2012, FCA continued to ensure the safe and sound flow of funds to U.S. agriculture and rural areas by providing regulation, policy, and guidance for the FCS and Farmer Mac. The Agency also continued to encourage the FCS to increase its service to young, beginning, and small farmers and ranchers.

For the fiscal year ended September 30, 2012, program cost for public mission was $11,420,694, representing a 3.5 percent decrease, or a decline of $412,803, from the same period the previous year. The cost for the public mission program is 19.5 percent of FCA's total costs for 2012.

Safety and Soundness Program

The examination and supervision of the FCS represents the most significant part of FCA's program costs. FCA continued to add resources in 2012 to ensure that its examination and oversight program would meet the challenges of today's troubled financial environment and the volatility of agricultural commodity prices. The number of institutions under FCA supervisory action, which totaled 10 institutions as of September 30, 2012, reflects the risk facing the FCS today.

To maintain its quality of products, services, and operations, FCA continues to incur significant costs in the recruitment and training of staff through its Precommissioned Examiner Program. These recruiting and training efforts are necessary to meet human resource needs because a large number of FCA employees are expected to retire within the next five years.

During FY 2012, FCA met its goals and performance targets to ensure the safety and soundness of FCS institutions, including Farmer Mac. Program cost for the examination and supervision of the FCS increased $1,869,968 to $46,097,124, which represents 78.9 percent of FCA's total costs in 2012.

Other Activity

Other activity represents the examination and oversight of the NCB and the performance of reimbursable services for USDA and the Farm Credit System Insurance Corporation. While funding agreements for reimbursable activity increased during FY 2012, actual costs incurred for these activities decreased $167,151 to $935,349 in 2012. The disparity between the funding and the actual costs is primarily a function of the timing of the receipt of funding agreements versus the actual completion of the work.

The costs for providing reimbursable services represented approximately 1.6 percent of FCA's total costs in 2012, compared with 1.9 and 2.0 percent for 2011 and 2010, respectively. Earned revenue for other activity totaled $955,836 for 2012, compared with $1,140,404 for 2011.

LIMITATIONS OF THE FINANCIAL STATEMENTS

The principal financial statements have been prepared to report the financial position and results of FCA operations, pursuant to the requirements of 31 U.S.C. 3515(b). The Agency has prepared its statements from its books and records in accordance with U.S. generally accepted accounting principles (GAAP) for Federal entities and the formats prescribed by the Office of Management and Budget; however, the statements are in addition to the financial 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 for a component of the U.S. Government, a sovereign entity.

Systems, Controls, and Legal Compliance

Federal agencies are required to comply with a wide range of laws and regulations, to develop and maintain effective internal controls, and to maintain systems that generate timely, accurate, and useful information with which to make informed decisions. This section provides information on FCA's financial management system and its compliance with the following acts:

- The Inspector General Act
- The Federal Managers' Financial Integrity Act
- The Federal Financial Management Improvement Act
- The Prompt Payment Act
- The Debt Collection Improvement Act
- The Improper Payments Elimination and Recovery Act

FCA's Financial Management System

FCA partners with the Bureau of the Public Debt's Administrative Resource Center (ARC) to provide the Agency with several financial management services. This partnership helps the Agency maximize efficiency while maintaining a high standard of financial management practices.

Through its partnership with ARC, FCA uses Oracle Federal Financials as its financial management system of record. Oracle Federal Financials is a commercial, off-the-shelf software package, which is certified by the Chief Financial Officers Council to meet Federal Government accounting requirements. It is web based and interfaces with other systems to integrate key FCA activities, such as e-payroll, e-travel, purchase card activity, and Federal investments.

Although FCA maintains its procurement function in-house, the Agency partners with ARC for procurement system services and support. The procurement system is fully integrated with Oracle Federal Financials. This integration enables FCA to check its funds in real time and to commit and obligate funds as transactions are approved.

By working with ARC, FCA complies with the Office of Management and Budget's Financial Management Line of Business Initiative, which encourages agencies to improve the cost, quality, and performance of financial management systems by using shared services.

Inspector General Act

The Inspector General Act of 1978, as amended, requires semiannual reporting to the agency head and Congress. These reports describe Office of Inspector General (OIG) audits, inspections, evaluations, and related activities, and Agency follow-up. The OIG's two semiannual reports covering FY 2012 are available at www.fca.gov/home/inspector.html. Information about recommendations or agreed-upon actions in audits, inspections, and evaluations by the OIG, as well as management's progress in taking corrective action, is summarized below.

The OIG continues to report recommendations to correct audit, inspection, or evaluation findings as "agreed-upon actions" whenever the OIG and management have agreed on an acceptable way to resolve a recommendation. The OIG's objective is to recognize management's preferred method of correcting problems whenever the approach is reasonable.

Summary of OIG Audit, Inspection, and Evaluation Activities

At the beginning of FY 2012, there was one open agreed-upon action carried forward from FY 2011. The OIG issued five audit, inspection, or evaluation reports during FY 2012, resulting in eleven agreed-upon actions; all have been acted upon and closed during this fiscal year. In addition, the OIG issued a management advisory report, and an observation. For more details, see the bulleted list below. Each report can be found in its entirety on the FCA OIG website.

- On November 7, 2011, the OIG issued the audit report on the Agency's financial statements, internal control over financial reporting, and compliance with certain laws and regulations for FY 2011. The auditors opined that FCA's principal financial statements presented fairly, in all material respects, the financial position of the Agency as of September 30, 2011. The audit also showed no material weaknesses in internal control and no instances of noncompliance with certain laws or regulations. It produced no recommendations or agreed-upon actions.

- The OIG issued a final report on November 15, 2011, of an evaluation of the Agency's compliance with the Federal Information Security Management Act for FY 2011. It produced no recommendations or agreed-upon actions.

- The OIG issued a final audit report on November 17, 2011, "Contracting Activities." The audit resulted in seven agreed-upon actions; all actions were addressed by management before the final audit report was issued.

- The OIG issued a final inspection report on August 17, 2012, "Information Technology Equipment Acquisition." The inspection found the overall IT acquisition process was effective in determining the best and most cost-effective IT equipment for the Agency's operations. Four agreed-upon actions resulted. These agreed-upon actions will further strengthen the IT acquisition process. All agreed-upon actions were closed during this reporting period.

- The OIG issued a management advisory report on September 12, 2012, "Survey of FCA's Use of Social Media." Since FCA does not have an active social media presence, the OIG issued this management advisory report to highlight the issues that should be considered while evaluating the use of social media as an Agency communication tool. Through a survey, the OIG identified the extent of FCA employees' use of social media and identified potential training needs. Results of the survey and a comparison of the use of social media at FCA with the use of social media at other agencies were presented to the Board and management.

- As has been observed three times in the past, an IG Observation was issued to continue to emphasize the prudence of pursuing the appointment of an Inspector General for the Farm Credit System Insurance Corporation.

Summary of OIG Audit, Inspection, and Evaluation Recommendations

Recommendations or agreed-upon actions uncorrected as of October 1, 2011	1
New agreed-upon actions during FY 2012	11
Agreed-upon actions corrected during FY 2012	12
Open agreed-upon actions as of September 30, 2012	0
Recommendations or agreed-upon actions open more than one year	0

OIG Survey of FCS Institutions Regarding the Agency's Examination Function

The OIG conducts a quarterly survey of FCS institutions regarding the Agency's examination function and examiners. Quarterly reports and a fiscal year summary report are issued to the Chief Examiner and the FCA Board. Numerical ratings and narrative comments provided by respondents generally reflect favorably on the examination process and examiners. However, the comments of survey respondents often provide information that the Agency can use to strengthen its examination processes.

Federal Managers' Financial Integrity Act

The Federal Managers' Financial Integrity Act requires agencies to establish management controls over their programs and financial systems to provide reasonable assurance that the integrity of Federal programs and operations is protected. As a result, FCA uses management controls to hold managers accountable for the performance of their programs.

Managers evaluate annually the adequacy of the management controls related to their activities to determine whether the controls conform to the principles and standards established by the Office of Management and Budget and the Government Accountability Office. The results of these evaluations are used to determine whether there are any material weaknesses.

During FY 2012, the Senior Assessment Team, which was established to provide oversight and accountability for internal controls, completed its assessment of the Agency's internal control programs, policies, and processes. To conduct the assessment, the team used the Government Accountability Office's internal control management and evaluation tool. Sections of the tool were used as a guide to assess the effectiveness of FCA's internal control and to identify important aspects of control that may need improvement.

The assessment was presented in five sections corresponding to the five standards for internal control: control environment, risk assessment, control activities, information and communications, and monitoring. The team concluded that FCA's system of internal control is effective.

As a result of the assessment and management's annual internal control reviews, the Chairman can provide reasonable assurance that the Agency has no material weakness or financial system nonconformance that places FCA's overall control system at risk.

Federal Financial Management Improvement Act

The Federal Financial Management Improvement Act requires certain Executive branch departments and agencies to report on their substantial compliance with Federal financial management system requirements, Federal accounting standards, and the U.S. Standard General Ledger. Although FCA is not required to report under this act, the Agency was in substantial compliance with these system requirements for FY 2012.

Prompt Payment Act

The Prompt Payment Act generally requires agencies to pay vendors 30 days after receipt of a valid invoice for goods and services ordered and delivered. During FY 2012, FCA and its shared-service provider paid most bills within the time requirement. However, because of system and timing issues, FCA paid $6 in interest penalties. Payments are made by electronic funds transfer through the Secure Payment System.

Debt Collection Improvement Act

The Debt Collection Improvement Act prescribes standards for carrying out Federal agency collection actions. It also prescribes policy for referring an agency's uncollectible debts to the proper Federal agency for follow-up collection and litigation. The act has no material effect on FCA because the Agency operates with virtually no delinquent debt. However, if debts are outstanding for more than 180 days, FCA will transfer them to the Treasury Department for cross-servicing.

Improper Payments Elimination and Recovery Act

The Improper Payments Elimination and Recovery Act and OMB Circular A-123, Appendix C: Requirements for Effective Measurement and Remediation of Improper Payments, require agencies to

- review all programs and activities to identify those that are susceptible to significant erroneous payments,
- obtain estimates of the annual amount of improper payments,
- implement a plan to reduce erroneous payments, and
- report estimates of the annual amount of improper payments and the progress in reducing them.

Although these requirements do not apply to FCA, the Agency does have internal control procedures in place to ensure that it makes payments properly.

Statement of Assurance

The Farm Credit Administration's (FCA's or Agency's) management is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA). FCA conducted an assessment of the effectiveness of its internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations in accordance with OMB Circular A-123, Management's Responsibility for Internal Control. Based on the results of this evaluation, the Agency can provide reasonable assurance that its internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations, as of September 30, 2012, was operating effectively and no material weaknesses were found in the design or operation of the internal controls.

In addition, FCA conducted its assessment of the effectiveness of internal control over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations, in accordance with the requirements of Appendix A of OMB Circular A-123. Based on the results of this evaluation, the Agency can provide reasonable assurance that its internal control over financial reporting as of June 30, 2012, was operating effectively and no material weaknesses were found in the design or operation of the internal control over financial reporting.

Leland A. Strom
Chairman and Chief Executive Officer
FARM CREDIT ADMINISTRATION

September 30, 2012

PROGRAM PERFORMANCE

FCA Performance Report

FCA is an independent Federal agency responsible for regulating and examining the Farm Credit System and the Federal Agricultural Mortgage Corporation (Farmer Mac). Both of these organizations are Government-sponsored enterprises (GSEs) that serve agriculture and rural America.

FCA's mission is to ensure a safe, sound, and dependable source of credit and related services for creditworthy and eligible persons in agriculture and rural America.

The Agency fulfills its mission by performing two principal program activities: (1) issuing regulations and implementing public policy, and (2) identifying risk and taking corrective action. Consistent with FCA's mission and program activities, the FCA Board adopted two strategic goals. These goals, which remain the primary focus of the Agency's activities, are as follows:

- Ensure that the FCS and Farmer Mac fulfill their public mission for agriculture and rural areas.
- Evaluate risk and provide timely and proactive oversight to ensure the safety and soundness of the FCS and Farmer Mac.

To further clarify what FCA expects to accomplish for the public good, the Agency's Strategic Plan for Fiscal Years (FYs) 2011–2016 contains a "desired outcome" for each goal, as well as 14 strategies that the Agency uses to accomplish these goals and to achieve the desired outcomes and results. In addition, the 13 performance measures with associated "targets" show the extent of the Agency's success in accomplishing each aspect of its mission to regulate and ensure the safety and soundness of the FCS and Farmer Mac.

The 2011–2016 Strategic Plan addresses the vastly changed environment facing agriculture: historically low interest rates; commodity and input price volatility; sustainability, environmental, food safety, and animal welfare issues; land values; diversity; and pressure to reduce subsidies and support payments in the upcoming Farm Bill.

The substance and direction of the 2011–2016 Strategic Plan remain focused on operating effectively and efficiently; minimizing costs for FCS borrowers and Farmer Mac customers; and helping ensure a safe, sound, and dependable source of credit and financially related services for agriculture and rural America. On the basis of its performance results, FCA believes that its two program activities and strategies were effective in helping to meet both strategic goals described below.

Goal 1—Ensure that the FCS and Farmer Mac fulfill their public mission for agriculture and rural areas.

The primary purpose of goal 1 is to maximize the ability of the FCS and Farmer Mac to fulfill their purposes and meet their public mission as defined by Congress in the Farm Credit Act of 1971, as amended. The Agency established seven strategies to accomplish this goal, and it defined six performance measures to evaluate the Agency's progress and success.

Strategy #1: Within the framework of the Farm Credit Act, continuously update policies and regulations to provide an operating environment for the System and Farmer Mac that meets the changing needs of agriculture and rural America.

The following are examples of FCA activities that helped the FCS serve its evolving needs and those of its borrowers within the provisions of the Farm Credit Act:

- The FCA Board approved a final rule that amended FCA's regulations to require that each System institution include in its operational and business plan a marketing plan with strategies for providing the institution's products and services to all creditworthy and eligible persons. This rule specifically addresses the importance of diversity and inclusion.

- The FCA Board adopted a final rule to lower the lending and leasing limit on loans and leases to one borrower or lessee from 25 percent of an institution's lending and leasing base to no more than 15 percent of its base. The rule applies to all System institutions operating under title I or II of the Farm Credit Act.

- The FCA Board approved a final rule that amended FCA's regulations to permit System institutions with direct-lending authority to purchase certain agricultural and cooperative loans from the Federal Deposit Insurance Corporation.

- FCA continued evaluating several mission-related investment pilot programs that it had previously approved to determine to what extent these System partnerships and investments are helping to increase the availability of funds to agriculture and rural America.

- The Agency continued to conduct a comprehensive study of the loan syndication market to determine what changes, if any, are needed in FCA's approach toward syndications and assignments.

FCA monitors changes in the regulatory community and periodically reviews and updates its policies and regulations to ensure that definitions of terms are relevant. When rules are published as final rules, these definitions are again reviewed for completeness and accuracy with respect to industry and market parlance. FCA also issues Informational Memorandums to FCS institutions to provide them with technical clarification or examination guidance.

As part of every rulemaking project, FCA considers ways to reduce the burden of existing rules and to minimize the regulatory burden of the rule being proposed. Also, in accordance with section 212(b) of the Farm Credit System Reform Act of 1996 and FCA's Policy Statement on regulatory philosophy, the FCA Board regularly solicits public comments on regulations that are unnecessary, unduly burdensome, or not based on law. The last such solicitation was in June 2008.

As a result, in June 2010, the FCA Board approved a rule amending its regulations to eliminate unnecessary, redundant, or outdated regulations; to correct cross-reference errors; and to clarify the intent of a regulatory provision. The next public solicitation will be in 2013. Also, the FCA Board has adopted a Plan for Retrospective Analysis of Existing Rules, which lays out FCA's commitment to eliminate ineffective and burdensome regulations as well as to further open access to its rulemaking process.

Agency staff continues to develop regulations to provide timely and proactive oversight of System risk. The goal is to maintain the safety and soundness of the FCS and Farmer Mac while keeping pace with their changing needs. During the reporting period from July 1, 2011, through June 30, 2012, FCA developed and issued various regulations and forms of guidance, such as the following:

- **Liquidity and Funding—**The FCA Board approved a proposed rule in November 2011 to ensure that FCS funding and liquidity requirements are safe, sound, and appropriate. The rule also invited comment on the best way to measure the creditworthiness of liquid investments purchased by System banks. The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) requires agencies to adopt regulations that use standards of creditworthiness other than credit ratings issued by Nationally Recognized Statistical Rating Organizations.

- **Capital Adequacy–Risk-Weighting Revisions: Alternatives to Credit Ratings—**The FCA Board approved an advance notice of proposed rulemaking in August 2011 to solicit public input on amending our capital regulations to comply with a provision of the Dodd-Frank Act that requires agencies to replace the references to credit ratings with references to other appropriate standards of creditworthiness.

- **Investment Management—**The FCA Board approved a proposed rule in July 2011 to strengthen our investment management regulations. In addition, the proposed rule solicited public input on ways other than credit ratings to determine creditworthiness for eligible investments purchased by System institutions.

- **Farmer Mac Nonprogram Investments and Liquidity—**The FCA Board approved a proposed rule in October 2011 to revise regulations governing Farmer Mac's liquidity and investment management. The rule also addressed the Dodd-Frank Act provision requiring agencies to replace references to credit ratings with other appropriate standards for measuring creditworthiness. The rule solicited public input on how best to replace these references in regulations pertaining to Farmer Mac.

- **Planning—**The FCA Board approved a final rule in April 2012 to require that FCS institutions' operational and strategic business plans contain human capital plans and marketing plans that include, among other things, outreach toward diversity and inclusion.

- **Senior Officer Compensation Disclosures—**The FCA Board approved a proposed rule in December 2011 that would amend our regulations related to disclosures made by System banks and associations to their stockholders and investors. The purpose of the rule is to provide full, transparent, and consistent disclosures on issues related to senior officer compensation.

- **System Audit Committee—**The FCA Board approved a proposed rule in January 2012 to expand the authorities of the System Audit Committee.

- **National Oversight and Examination Program for 2012—**We issued an Informational Memorandum in January 2012 that summarized the National Oversight Plan for 2012. The plan detailed strategies for addressing critical risks or other areas of focus in the System.

- **Agency Lending Guidance—**In the fall of 2011, we began a project to review the need for additional policy guidance on providing credit and related services to all eligible, creditworthy agricultural producers in an institution's chartered territory.

The Agency routinely communicates matters to System institutions that are intended to protect the institutions' safety and soundness and to help them manage risk. This guidance facilitates the flow of funds to agriculture and rural areas by providing System institutions with sound practices to follow in developing and implementing lending programs and information technology. Ultimately, this guidance can assist institutions in managing loan and funding programs more efficiently.

Farmer Mac continues to enhance its relationships with its loan sellers and servicers. FCA's Office of Secondary Market Oversight (OSMO) evaluates Farmer Mac's efforts to strengthen its relationship with its servicers through Farmer Mac's informational forums, its updates to its formal servicing guidelines, and its independent credit reviews. These efforts have helped sellers and servicers to better understand Farmer Mac's underwriting standards and loan servicing expectations.

Through OSMO, FCA encourages innovations in Farmer Mac's product development within the bounds of safety and soundness and the provisions of the Farm Credit Act. OSMO's ongoing communication, examination reports, and off-site monitoring of Farmer Mac provide timely guidance to management on the risk implications of new products and policies.

Over the reporting period, OSMO, with assistance from the Office of Examination (OE) and the Office of General Counsel, provided Farmer Mac with guidance on various regulatory compliance issues, policy direction, and questions regarding new products. OSMO closely monitored various investments in Farmer Mac's liquidity reserve whose risk significantly changed during the financial crisis of 2008.

OSMO staff continues to manage regulatory rulemaking projects related to investment management, and the staff continues to update other areas of supervision, including capital planning, liquidity management, and the Risk-Based Capital Stress Test.

Strategy #2: Emphasize the public purpose and mission-related responsibilities of the agricultural GSEs serving rural America, including the use of innovative programs for serving the credit and related service needs of young, beginning, and small (YBS) farmers, ranchers, and producers or harvesters of aquatic products.

FCA examinations evaluated the operating and strategic plans and credit delivery programs of System institutions. Examinations also evaluated YBS farmer and rancher programs relative to the demographics of chartered territories to assess trends in lending to YBS farmers and ranchers and to assess the System's efforts to provide financial or business management assistance and outreach to YBS farmers and ranchers. All YBS programs evaluated by examiners for the reporting period were considered satisfactory.

The FCA Board recently approved a final rule that amended FCA's regulations to require that each System institution include in its operational and strategic business plan a marketing plan with strategies for providing the institution's products and services to all creditworthy and eligible persons. This final rule specifically addresses the importance of diversity and inclusion. In addition, each institution must report annually to its board of directors on the progress the institution has made in accomplishing the strategies and actions.

In the fall of 2011, we began a project to review whether additional guidance is needed for YBS lending by FCS associations. Also, we began a project to review the need for additional policy guidance on providing credit and related services to all eligible creditworthy agricultural producers in an institution's chartered territory. This would include identifying any barriers to efficiently and cost-effectively providing credit for newer products and marketing systems such as local foods and organic agriculture.

FCS institutions continue to implement the guidance provided in FCA's revised 2007 Bookletter, "Providing Sound and Constructive Credit to YBS Farmers, Ranchers, and Producers or Harvesters of Aquatic Products" (BL-040). This guidance helps ensure that all System institutions are fully engaged and use all available authorities to assist YBS farmers to begin or expand their operations and to remain in agricultural or aquacultural production.

Each year, we survey FCS associations regarding their YBS programs. With the information received, we prepare an annual report that we publish at FCA Annual Reports on the Farm Credit System on our website.

Through OSMO, FCA evaluates Farmer Mac's mission accomplishment. Farmer Mac's customer base includes financial institutions and other lenders that seek a secondary market for their agricultural, rural housing, and rural utility cooperative loan portfolios. As part of its oversight activities, OSMO evaluates Farmer Mac's performance in reaching out to all potential customers and in creating easy access to its services.

Farmer Mac submits its annual mission report to OSMO at the end of each calendar year. The report includes data on Farmer Mac's participation in Federal and State guarantee programs, the geographic distribution of Farmer Mac's program business, and data on activity related to rural utilities. In addition, the report includes data on activity related to small and family farms, which Farmer Mac is required by statute to promote and encourage.

Reporting requirements developed by OSMO for Farmer Mac monitor its operations with regard to statutory requirements for nondiscrimination against small borrowers and lenders. These reporting requirements also serve to encourage Farmer Mac's efforts to pass on its objectives in meeting the credit needs of small and family farms to the lenders with which it works. To further support Farmer Mac in these efforts, OSMO provides timely feedback on various issues, including loan eligibility on prospective new lines of business.

Strategy #3: Encourage System institutions to find and develop both public and private partnerships and alliances with other financial service providers to address the changes in agriculture through new and existing programs.

FCA encourages FCS institutions that have adequate capital resources to prudently use participations and similar-entity lending authorities to meet risk management objectives. These authorities allow lenders to diversify risk and to more fully meet agricultural credit needs. In addition, Investments in Rural America pilot programs allow System institutions to partner with non-System lenders to bring funds into rural communities for needed facilities.

As a part of its evaluation of YBS programs, the Agency continues to assess the extent to which FCS institutions use loan guarantee programs. FCA encourages FCS institutions to work with Federal and State agencies that offer such programs. For example, the Agency encourages FCS institutions to meet the requirements to qualify for the USDA Farm Service Agency's "preferred lender" status.

Agency staff members encourage institutions to use guarantees as a risk management tool. These guarantees also help borrowers. Loan guarantees are encouraged for YBS borrowers with limited financial capacity and existing borrowers who are temporarily experiencing financial difficulties.

OSMO encourages partnerships between Farmer Mac and System and non-System lenders. Farmer Mac has partnership initiatives with various System lenders and with community banks through the American Bankers Association and the Independent Community Bankers of America.

Further, Farmer Mac continues to provide significant levels of financing to non-System lenders through direct purchases through its "cash window," AgVantage, and rural utility financing programs. These transactions advance Farmer Mac's initiative to diversify its marketing focus and increase the flow of funds to rural areas.

Farmer Mac provides secondary market liquidity to Federal and State guarantee programs through its Farmer Mac II program. Annual growth in Farmer Mac II program volume exceeded 9 percent in each of the past two performance reporting periods. FCA further encourages Farmer Mac II activity by requiring Farmer Mac to report annually to the Agency on its participation in USDA guarantee programs.

Also, as noted under strategy 1, Farmer Mac continues to enhance its relationships with its loan sellers and servicers, and OSMO evaluates Farmer Mac's efforts to increase and strengthen these relationships.

Strategy #4: Promote System business practices, including outreach activities to all creditworthy eligible potential customers, emphasizing minority and socially disadvantaged farmers and ranchers and minority-owned entities.

FCA examinations assess the System's efforts to provide financial or business management assistance and outreach to YBS farmers and ranchers. The results achieved through these initiatives have been fruitful. The System continues to effectively implement programs to meet the needs of YBS farmers and ranchers, as well as of other borrowers.

As discussed under strategy 2, the FCA Board recently approved a final rule to require each direct-lender institution to include in its business plan strategies and actions to market the institution's products and services to all eligible and creditworthy persons, with specific outreach toward diversity and inclusion within each market segment.

In addition, FCA's program activities include processes that review borrower inquiries and complaints about the loan-granting process and provide for investigations of any allegations of discrimination. During the reporting period from July 1, 2011, through June 30, 2012, the Agency responded to 48 borrower inquiries.

FCA's investigations found no material violations of law or regulation. Examiners did not discover any discriminatory pattern or practice, any overt or deliberate discrimination against any eligible customers, or an unwillingness of FCS institutions to serve their chartered territories. Although the Agency did not find discriminatory patterns or practices or any overt discrimination against any eligible customers, its examinations found some technical violations of applicants' rights. Those violations were promptly corrected or addressed in follow-up plans by System institutions, as required by FCA examiners.

On the basis of examinations and investigations conducted, FCA has concluded that eligible and creditworthy customers have access to the System and are treated fairly and equitably. FCA also has noted continued compliance with equal credit opportunity and equal housing laws.

Farmer Mac is required by statute to promote and encourage the inclusion of small and family farms in its programs. OSMO has developed reporting requirements for Farmer Mac to ensure that it addresses statutory requirements for nondiscrimination against small borrowers and lenders.

These reporting requirements also serve to encourage Farmer Mac's efforts to pass on its objectives in meeting the credit needs of small and family farms to the lenders with which it works.

To further support Farmer Mac in these efforts, OSMO provides timely feedback on various issues, including loan eligibility on prospective new lines of business.

OSMO continues to observe constructive initiatives within Farmer Mac to enhance the accessibility of its programs for all market participants, including those involved in rural utilities and Federal and State agricultural loan guarantee programs. These initiatives focus, in part, on efforts to ensure equitable treatment of all potential borrowers and the lenders who serve them. As with any secondary market entity, it can be a challenge for Farmer Mac to ensure equitable treatment of borrowers within the operations of its primary lenders.

During examinations, OSMO reviews the consistent and appropriate application of loan underwriting standards on loans presented to Farmer Mac for purchase or guarantee. Further, Farmer Mac's annual mission report now includes a section specifically addressing its financing of rural utilities and small farmers.

OSMO issued an advance notice of proposed rulemaking in 2011 soliciting public input on potential expansion of regulatory business planning requirements to include a focus on diversity and inclusion. Also, in cooperation with the FCA Office of Diversity and Inclusion, OSMO plans to coordinate and host an information-sharing presentation to all FCA staff from the National AgrAbility Project to increase Agency awareness of the challenges faced by disabled farmers to unconscious bias on the part of direct lenders; this bias could affect the ability of lenders to objectively evaluate repayment risk for disabled potential borrowers.

Strategy #5: Promote public trust and investor confidence in the System and Farmer Mac by developing policy guidance that helps them achieve their mission.

FCA helps promote public trust and investor confidence in the System and Farmer Mac by helping ensure that the System and Farmer Mac meet their mission to serve agriculture and rural America. See strategy 1 for a discussion of some of the ways the Agency has helped the System and Farmer Mac achieve their mission.

Agency guidance is communicated to System institutions to enable them to better understand their lending authorities and therefore to more appropriately market their products and services to prospective eligible customers. FCA also publishes its semiannual Regulatory Performance Plan on its website so that the public is notified of upcoming regulatory actions and is provided the opportunity to participate in the regulatory process. In addition, the Agency's e-Government program allows the public to make comments in electronic format and to review comments from others on the FCA website.

FCA further supports public trust and investor confidence by reviewing borrower inquiries and complaints about the loan-granting process and by investigating any allegations of discrimination. As described more fully under strategy 4 above, examiners have not discovered any discriminatory pattern or practice, any overt or deliberate discrimination against any eligible customers, or an unwillingness of FCS institutions to serve their chartered territories.

As discussed earlier, OSMO continues to observe constructive initiatives within Farmer Mac to enhance the accessibility of its programs for all market participants, including those involved in rural utilities and Federal and State agricultural loan guarantee programs. Also, in response to OSMO's encouragement of greater focus on public mission, Farmer Mac's year-end Annual Report and Form 10-K filing now include several references to its public mission. In its ongoing monitoring and annual examination of Farmer Mac, OSMO reviews how Farmer Mac intends to achieve its public mission in the coming year. It evaluates Farmer Mac's business and marketing plans, marketing and public policy committee meeting minutes, and marketing efforts. Farmer Mac actively oversees its sellers/servicers, ensuring that loans sold into the secondary market meet its underwriting standards and that processes are in place to detect fraud and operational errors.

Guidance provided by FCA through these monitoring efforts has had a positive impact on Farmer Mac's public disclosures related to mission. FCA will continue to encourage regular disclosure of Farmer Mac's mission accomplishments.

Strategy #6: Consistent with cooperative principles and the Farm Credit Act, enable the agricultural GSEs to structure themselves to best serve their customers and rural America.

During the year, FCA approved several mergers and other corporate activities.

- On December 12, 2011, a Farm Credit Bank was chartered as a subsidiary of CoBank, ACB. Then, on January 1, 2012, U.S. AgBank, FCB, merged with the Farm Credit Bank subsidiary of CoBank. The resulting entity was an Agricultural Credit Bank with a Farm Credit Bank subsidiary. This merger reduced the number of System banks from five to four.

- On January 1, 2012, two Agricultural Credit Associations affiliated with U.S. AgBank, FCB, merged their operations. Also on this date, FCA granted a charter to a new service corporation formed to provide human resource services and benefits to employees of several FCS institutions.

- On July 1, 2012, two associations affiliated with AgFirst Farm Credit Bank merged, bringing the total number of System associations to 82 (79 Agricultural Credit Associations and 3 Federal Land Credit Associations), compared with 84 associations a year earlier.

Strategy #7: Encourage full participation from stakeholders in the development and review of regulatory proposals.

The Agency reaches out to stakeholders to gain input and insight on regulatory proposals before we issue rules. FCA publishes its semiannual Regulatory Performance Plan on its website. This notifies the public of upcoming regulatory actions and gives members of the public the opportunity to participate in the regulatory process. In addition, the Agency's e-Government program allows the public to make comments in electronic format and to review comments from others on the FCA website.

Where practicable, we solicit input from stakeholders before we publish rules for comment. In some cases, we use advance notices of proposed rulemaking to obtain input. In almost all cases, we publish our proposed rules with at least a 60-day comment period. For regulatory proposals that relate to the System's GSE mission, we will also reach out to nontraditional commenters for their input.

OSMO conducted extensive outreach to various interest groups as part of its rulemaking project related to business planning, particularly with respect to provisions related to diversity and inclusion.

Goal 2—Evaluate risk and provide timely and proactive oversight to ensure the safety and soundness of the FCS and Farmer Mac.

The primary purpose of goal 2 is to maintain the safety and soundness of the FCS and Farmer Mac and to ensure compliance with laws and regulations. We accomplish this goal primarily by examining and supervising each System institution and Farmer Mac. The Agency established seven strategies to accomplish this goal and defined seven performance measures to evaluate the progress and success of its oversight of the System.

Strategy #1: Ensure that staff provides prompt and comprehensive information to the FCA Board and remains flexible and responsive to the Board's priorities so that the Board will be better able to make fully informed, arm's length decisions.

OE reports important issues at least monthly or as needed and provides a quarterly report on the condition of the System to the FCA Board.

OSMO provides quarterly briefings on all key aspects of its oversight of Farmer Mac's operations. As an example of OSMO's responsiveness to the Board's emerging priorities, OSMO contacted USDA's Risk Management Agency to obtain information for the Board on the risk-mitigating effects of crop insurance on agricultural lenders.

Strategy #2: Recruit and retain a diverse and highly skilled workforce to meet FCA's current and future needs.

In a report submitted to Congress, the U.S. Office of Personnel Management recognized FCA for a leading practice in the area of diversity and inclusion. OPM's FY 2010 Federal Equal Opportunity Recruitment Program Report recognized FCA and four other Federal agencies for their diversity and inclusion practices.

FCA was recognized for fostering accountability in the area of diversity and inclusion. "The Farm Credit Administration created a Human Capital Management Plan (HCMP) that integrates workforce planning and deployment, employee development and recruitment, and retention strategies into the agency's strategic planning process," states the report. "Specifically, the HCMP is designed to ensure the continued development of a results-oriented workforce aligned with the agency's strategic goals and objectives and emphasizes the importance of staff possessing the skills, talents, and knowledge necessary to support the agency's mission."

The Agency's recruiting strategy seeks to attract individuals from a variety of groups that are often underrepresented: women, veterans, minorities, and individuals with disabilities. As a result of this strategy, the Agency has improved its overall diversity profile.

According to results from the FCA Annual Employee Survey, our employees understand the importance of their work in relation to the Agency's mission, and managers communicate the Agency's goals and objectives regularly. The responses of FCA employees in all categories of the annual survey are consistently more positive than the average Government-wide responses. Although we are proud of these results, we continue to make improvements to increase the positive responses to the survey.

Overall, FCA's recruitment and staffing program meets the Agency's operational needs and complies with Federal laws, regulations, and merit system principles. In all case files OPM reviewed, human resource staff adjudicated veterans' preference properly and selected from the highest ranked candidates.

In 2011, FCA was recognized as the fifth best place to work of all small agencies in the Federal Government. Every year, the Partnership for Public Service issues its rankings for the best places to work in the Federal Government—the most comprehensive and authoritative rating of employee satisfaction and commitment in the Federal Government.

In addition to working hard to recruit a diverse, highly qualified staff and then working hard to retain these employees, we must also focus on our mission and its specific human capital needs. The wave of Agency retirements and the growing complexity and sophistication of the institutions we examine have created the need to attract examination staff and to build the skill levels and competencies of our examiners. FCA has established a recruiting and training program to ensure that this need is met.

The objective of the Precommission Training Program is to develop the next generation of diverse and highly motivated examiners with the knowledge, skills, and talents necessary to accomplish the Agency's mission. The Precommission Training Program is the primary focus and responsibility of the Staff Development Division, which was formed in 2005. The program has been redesigned to focus on skills development in FCA's primary areas of oversight—credit, finance, and operations.

FCA also makes a considerable investment in the development of commissioned examiners. The Agency promotes their development through its human capital planning, career path development, and specialty programs. The specialty programs include the areas of credit, finance, and operations and are designed to enable examiners to gain technical expertise and to encourage their professional development and certification.

Strategy #3: Continue proactive oversight of institution-specific and systemic risks.

Risk management practices are evaluated as a normal and routine part of FCA's examinations, and conclusions and recommendations are shared with System boards of directors. An integral part of those evaluations is determining whether FCS institutions have proactive risk management practices. Examiners encourage and evaluate risk concentration management and the use of risk parameters, stress testing, and loan underwriting standards.

FCA examiners evaluate whether direct-lender institutions maintain systems that allow them to properly assess the loans and resulting risk exposures in their portfolios. Overall, FCS institutions have adequate risk identification and management systems in place and continue to enhance these capabilities. OE's Operating Plan focuses on risk supervision and examination of assets. It also contains strategies for strengthening the System's risk identification and management processes.

The plan includes activities to be conducted in the following areas:

- Loan portfolio management
- Large, complex, and shared assets
- Collateral risk management
- Profitability and repayment capacity

The System has implemented a two-dimensional risk rating system, consisting of a 14-point borrower "probability-of-default" scale and "loss-given-default" ratings, to better measure risk exposures in individual loans and the overall portfolio. The FCS continues to enhance this system through periodic refinements, and FCA is closely evaluating the System's implementation of this risk-rating methodology. The resulting risk ratings provide for more granular risk identification and more differential and sophisticated risk management. The System also performs database querying and stress testing.

OSMO conducted examination activities and monitoring and oversight reviews that focused on Farmer Mac's risk management practices. During 2011 and 2012, Farmer Mac continued to focus on strengthening its capital position while broadening its customer base. Risk management practices continued to improve both in Farmer Mac's program book of business and its liquidity investment portfolio. Additional capital securities issued through a consolidated trust in early 2010 helped shore up its capital position; OSMO continues to monitor asset growth supported by these hybrid capital securities.

The nature of OSMO's ongoing examination process and policy supervision provide proactive oversight of Farmer Mac throughout the year. Farmer Mac's portfolio of program volume from non-System lenders allows for a broader sampling of the agricultural lending sector than just System institutions—which adds value to the Agency's perspective on systemic risks.

Strategy #4: Promote a vibrant program of Systemwide risk supervision that uses early-warning systems, research, and analyses to identify emerging systemic risks and yields proactive examination direction and policy guidance for use internally and externally.

The Agency has the following systems to help identify emerging risks in a timely manner.

- OE maintains a dynamic Financial Institution Rating System to evaluate changes in the financial condition of FCS institutions each quarter.
- OE presents a quarterly detailed risk analysis to the FCA Board that identifies emerging risks within the System. The presentation also provides supporting background information from the Federal Farm Credit Banks Funding Corporation.
- OE presents emerging risk issues to the Agency's Risk Committee, which was established under Board Policy Statement 64.
- OE maintains an oversight program for each institution, which includes a risk-assessment process that allows for a more proactive and forward-looking perspective of risk.

In addition to examination-related activities, the Agency maintains commodity price databases, farm income and trade data, lending data, and other economic databases for the use of examiners and others in the Agency. These databases, as well as periodic presentations on economic and collateral risks and industry trends, enable examiners and others in FCA to stay current on the changing agricultural and financial sectors.

OE routinely researches and analyzes emerging risks and related issues and incorporates the findings into examination and oversight programs and guidance to System institutions. OE's Risk Supervision Division directs the National Oversight Plan, and the Risk Council provides input into the development of the plan. The council also recommends the strategies and level of monitoring or analysis for each risk and assigns staff members to monitor it.

OSMO has instituted several periodic reporting requirements for Farmer Mac that collectively serve as an early-warning system across all of Farmer Mac's functional areas. This ongoing monitoring provides significant detail on debt spreads and term structure, derivative contracts, liquidity, and nonprogram investments.

OSMO also reviews information about the legal and financial structure of Farmer Mac's new products; this review is critical to the Agency's oversight of Farmer Mac activities. In addition, OSMO staff continues to enhance the Risk-Based Capital Stress Test; this requires extensive research and analysis of risks. In addition, OSMO is collaborating with other FCA offices on a new simulation-based economic capital model.

Strategy #5: Use Agency supervisory and enforcement authorities effectively to remediate weakened institutions.

FCA uses a risk-based supervisory and enforcement program to differentially respond to the risks and particular oversight needs of FCS institutions. If FCA discovers unacceptable risks, it takes action to ensure that the identified risks are appropriately mitigated. Corrective actions include reducing risk exposures; increasing capital and enhancing earnings, which improves an institution's ability to bear risk; and strengthening risk management.

The Agency uses a three-tiered supervision program: normal supervision, special supervision, and enforcement actions. Institutions under normal supervision are performing in a safe and sound manner and operating in compliance with applicable laws and regulations. These institutions are able to correct identified weaknesses in the normal course of business.

For those institutions displaying more serious or protracted weaknesses, FCA shifts from normal to special supervision, and its examination oversight increases accordingly. Under special supervision, an institution is given clear and firm regulatory guidance to address identified weaknesses, and the institution is allowed time to correct the problems.

If informal supervisory approaches have not been or are not likely to be successful, FCA will use its formal enforcement authorities to ensure that the operations of FCS institutions are safe and sound and are in compliance with laws and regulations. FCA may take an enforcement action for a number of reasons:

- A situation threatens an institution's financial stability.
- An institution has a safety and soundness problem or has violated a law or regulation.
- An institution's board is unable or unwilling to correct problems FCA has identified.

FCA's enforcement authorities include the following powers:

- To enter into formal agreements
- To issue cease-and-desist orders
- To levy civil money penalties
- To suspend or remove officers, directors, and other persons

If an enforcement action is taken, the FCS institution must operate under, and report back to, FCA. FCA's examiners oversee the institution's performance to ensure compliance with the enforcement action.

As of June 30, 2012, FCA had formal written agreements with six associations, whose assets totaled $2.5 billion, or 1.1 percent of all System assets. The written agreements require the associations to take corrective actions for certain areas of their operations, including financial condition and performance, portfolio management, and asset quality. FCA is using its supervisory and enforcement authorities effectively to remediate weakened institutions.

Strategy #6: Promote the continued importance and improvement in the quality of System loan data for use of both the Agency and the System in risk management and business planning.

Through the FCS Loan Database Project, FCA is working to improve the quality of the reporting of System loan data. The primary objective of the project is to establish an enterprise system for the timely and dependable collection, storage, and retrieval of data for examination activities. This objective has largely been met. The secondary objective is to enable more robust analyses of the FCS as a whole, and this requires uniform and standard data fields.

In FY 2012, we began receiving datasets in a new, standard format. FCA developed a tool for the System institutions to use to validate the data before they submit their files to FCA. This has increased the data quality. We received three quarters of information in the new format; with the September 2012 quarter, we will conclude parallel testing with the old system.

We are now working to develop related tools to support systemic risk analyses, loan portfolio analysis, and loan review activities. The System's development of a means to report shared assets will further support systemic risk analyses, loan portfolio analysis, and loan review activities.

Strategy #7: Develop regulatory guidance and examination procedures that keep pace with evolving strategies and new programs to meet the changing needs of agriculture and rural America.

Agency staff continues to develop regulations and examination guidance to provide timely and proactive oversight of System risk. The goal is to maintain the safety and soundness of the FCS and Farmer Mac while keeping pace with their changing needs. See strategy 1 under goal 1 for examples of guidance the Agency issued during the current reporting period to strengthen safety and soundness.

Examination teams are formed according to the types of institutions that are examined, and institution types are defined by certain common characteristics and potential risks. The examination teams coordinate closely with the Risk Supervision Division on enforcement and special supervision activities. The Risk Supervision Division also provides systemic risk analysis and develops and coordinates OE's National Oversight Plan.

The National Oversight Plan has enabled the Agency to increase its national focus and to have greater flexibility in assigning examiners to material risk and emerging issues. It also allows for a coordinated, Systemwide oversight and examination approach. The National Oversight Plan focuses on the following areas:

- Loan Portfolio Management
- Collateral Risk Management
- Profitability and Repayment Capacity
- Public Mission

The Examination Policy Division provides proactive guidance to System institutions through Informational Memorandums and also maintains and develops new guidance for examiners through the Examination Manual and ongoing communications. These communications are designed to keep pace with evolving business models used by System institutions and to support the Agency's risk-based supervisory approach. Beginning in 2011, OE issued and communicated to the FCS four new Loan Portfolio Management Examination Guidance Modules. Three additional modules will be developed within the next year.

With respect to Farmer Mac, FCA encourages innovations in its product development within the bounds of safety and soundness and the provisions of the Farm Credit Act. OSMO's ongoing communication, examination reports, and off-site monitoring of Farmer Mac provide timely guidance to management on the risk implications of new products.

OSMO rulemaking pertaining to Farmer Mac's liquidity management makes direct reference to evolving international regulatory standards and strategies for measuring the quality and quantity of liquidity reserves. OSMO plans to adopt a similar approach in its capital planning rulemaking project.

Table 5a
Goal 1—Public Mission
Performance Measures and Results
July 1, 2012, to June 30, 2012

Measure	Results	2012 Target	2012 Results	2012 Results vs. Target
1. Percentage of FCS institutions with satisfactory operating and strategic plans for providing products and services to all creditworthy and eligible persons.	All FCS institutions had satisfactory operating and strategic plans for providing products and services to all creditworthy and eligible persons.	≥90%	100%	▲
2. Whether Farmer Mac's business plan contains strategies to promote and encourage the inclusion of all qualified loans, including small and family farm loans, in its secondary market programs, and whether its business activities further its mission to provide a source of long-term credit and liquidity for qualifying loans.	Farmer Mac's business plan contains adequate strategies to promote and encourage the inclusion of all qualified loans, including small and family farm loans, in its secondary market programs. Its business activities further its mission to provide a source of long-term credit and liquidity.	Yes	Yes	✓
3. Percentage of direct-lender institutions with satisfactory consumer and borrower-rights compliance.	Ninety-eight percent of direct-lender institutions have satisfactory consumer and borrower-rights compliance.	≥90%	98%	▲
4. Percentage of direct-lender institutions with satisfactory YBS programs.	All direct-lender institutions have satisfactory YBS programs.	≥90%	100%	▲
5. Follow-up evaluation on appropriate rules and regulations issued related to GSE mission will demonstrate they meet the intended outcome.		N/A*	N/A	
6. Percentage of times the Agency reaches out to nontraditional commenters to solicit their input on regulations related to GSE mission.		100%	N/A	

* Baseline will not be established until 2013.

Note: The above measures were adopted in May 2011 when FCA published its Strategic Plan for FYs 2011–2016.

Table 5b
Goal 2—Safety and Soundness
Performance Measures and Results
July 1, 2012, to June 30, 2012

Measure	Results	2012 Target	2012 Results	2012 Results vs. Target
1. Percentage of System assets in institutions with composite CAMELS ratings of 1 or 2.	Ninety-eight percent of System assets have composite CAMELS ratings of 1 or 2.	≥90%	98%	▲
2. Percentage of requirements in supervisory agreements with which FCS institutions have at least substantially complied within 18 months of execution of the agreements.	FCS institutions complied at least substantially with 99 percent of the requirements in supervisory agreements within 18 months of the execution of the agreements.	≥80%	99%	▲
3. Percentage of institutions complying with regulatory capital ratio requirements (permanent capital ratio, total surplus ratio, core surplus ratio, net collateral ratio).	All institutions have complied with regulatory capital ratio requirements.	≥90%	100%	▲
4. Whether the Office of Secondary Market Oversight examination and oversight plan and activities effectively identify emerging risks, and whether appropriate supervisory and corrective actions are implemented to effect change when needed.	OSMO activities effectively identify emerging risks, and appropriate supervisory and corrective actions have been taken.	Yes	Yes	✓
5. Percentage of institutions with satisfactory audit and review programs, including institutions with acceptable corrective action plans.	All institutions have satisfactory audit and review programs, including institutions with acceptable corrective action plans.	100%	100%	✓
6. Percentage of employees who report in the annual FCA employee viewpoint survey of being committed to, and engaged in, the Agency's work.	This is the first year that FCA has measured this metric. The reported results will act as a benchmark for future assessments.	≥80%[a]	81%	▲
7. Percentage of FCS institutions providing FCA with consolidated loan data.	All FCS institutions provided FCA with consolidated loan data.	≥80%[b]	100%	▲

[a] Target is to increase the average score by 2 percent annually until it reaches at least 80 percent.
[b] Target for 2012 is at least 80 percent; target for 2013 is at least 90 percent; target for 2014 is 100 percent.

Note: The above measures were adopted in May 2011 when FCA published its Strategic Plan for FYs 2011–2016.

Auditor's Reports and Financial Statements

Letter from the Chief Financial Officer

I am pleased to report that FCA received an unqualified audit opinion on its fiscal year (FY) 2012 financial statements. In addition, the auditor identified no material weaknesses in our internal controls and no instances of noncompliance with laws and regulations. These opinions reflect our uncompromising commitment to excellence in financial reporting. FY 2012 marks the 19th year that FCA has achieved a clean audit opinion.

This record of accomplishment reflects the strong internal control environment that the FCA Board and senior managers have established within the organization. A senior assessment team for internal control oversees FCA's internal control program. The team's members were selected from all major programs at FCA to ensure that we maintain and reinforce a cohesive, robust internal control environment. In FY 2012, the team updated and validated FCA's internal assessment tool and assessed FCA's internal control program.

FCA fully supports the Federal Government's initiative for promoting efficient spending and accountability. FCA has reduced, and will continue to reduce, administrative costs and to operate in a more efficient, cost-effective manner. Part of our strategy for strong controls over expenditures is effective communication with Agency staff members who are involved in requesting, approving, and processing contracts. We have also begun using the Government's Do Not Pay portal to ensure that we only do business with legitimate vendors.

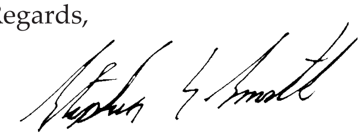
The Agency's record of accomplishment extends to other areas of review as well. The annual independent Federal Information Security Management Act review of our information systems security program revealed no significant or material weaknesses.

FCA also participated in a Federal Government Continuity of Operations exercise that included an evaluation by the Department of Homeland Security and the Federal Emergency Management Agency of the completeness and effectiveness of the FCA Continuity of Operations Plan. The exercise tested our command and control communication strategy and our ability to operate from our remote emergency site. It included a tabletop devolution exercise involving key continuity staff and the Agency's senior leadership. Through this exercise, we successfully demonstrated our ability to implement command and control and to operate from an Emergency Operations Center.

Strong performance budgeting and financial controls will remain a priority at FCA during FY 2013. To build upon our tradition of accountability and transparency, we are committed to moving beyond the achievement of clean audit opinions and reliable reporting. FCA will continue to deliver information to Agency managers for metrics to improve accountability and transparency and to empower managers to make sound and effective decisions. Our offices continue to collaborate to integrate our mission-support activities with our two basic functions—issuing regulations and implementing public policy, and identifying risk and taking corrective action.

In closing, I would like to recognize our dedicated, talented staff. FCA benefits immensely from its innovative, skilled team, whose members work diligently to fulfill the Agency's mission by establishing and adhering to its policies and controls.

Regards,



Stephen G. Smith
Chief Financial Officer
Farm Credit Administration

Farm Credit Administration

Office of Inspector General
1501 Farm Credit Drive
McLean, VA 22102-5090
(703) 883-4030

November 5, 2012

The Honorable Leland A. Strom, Chairman and Chief Executive Officer
The Honorable Kenneth A. Spearman, Board Member
The Honorable Jill Long Thompson, Board Member
Farm Credit Administration
1501 Farm Credit Drive
McLean, Virginia 22102-5090

Dear Chairman Strom and Board Members Spearman and Long Thompson:

This letter transmits the reports on the audit of the Farm Credit Administration's (FCA's or Agency's) financial statements, internal control over financial reporting, and compliance with certain laws and regulations for the fiscal year (FY) ended September 30, 2012. The Office of Inspector General (OIG) contracted with the U.S. Department of the Treasury's Bureau of the Public Debt (BPD) for Brown & Company CPAs, PLLC (Brown & Co.), an independent accounting firm, to perform the audit.

Brown & Co. issued an unqualified opinion on the Agency's financial statements. It opined that FCA's principal financial statements present fairly, in all material respects, the financial position of the Agency as of the FYs ended September 30, 2012 and 2011, in conformity with generally accepted accounting principles. Brown & Co. issued two other reports. Its report on internal control noted no matters considered to be material weaknesses. Brown & Co.'s report on compliance with laws and regulations relating to the Agency's determination of financial statement amounts cited no instances of noncompliance. In the OIG's opinion, Brown & Co.'s audit provides a reasonable basis on which to render its opinions and we concur with its reports. All three reports from Brown & Co. are dated November 5, 2012.

The OIG's contract with BPD required that Brown & Co. perform the audit in accordance with Government Auditing Standards issued by the Comptroller General of the United States and Office of Management and Budget Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. To ensure the quality of the work performed, the OIG

- reviewed Brown & Co.'s approach to and planning of the audit,
- evaluated the qualifications and independence of the auditors,
- monitored the progress of the audit,
- examined work papers, and
- reviewed the audit reports.

Management and Performance Challenges

As part of the Agency's annual Performance and Accountability Report, the Inspector General is required by law to provide a summary statement on management and performance challenges facing the Agency. The challenges identified fall into two general categories. First is the challenge related to FCA's mandate of ensuring a safe, sound, and dependable Farm Credit System (FCS or System) as a source of credit and related services to agriculture and rural America. However, it should be recognized that some factors affecting this challenge may be influenced by events outside the control of the Agency. Second, and of equal importance, is the challenge related to the Agency remaining an independent, objective, and effective regulator of the FCS.

Farm Credit System

Safety and Soundness

The System is a lender to a single industry – agriculture – and is therefore vulnerable to economic volatility and other risks in that industry. While the FCS remains generally safe and sound, several factors, including insufficient board and management oversight in a number of FCS institutions, adverse economic trends in several agricultural sectors, and extremely adverse weather conditions, have caused deterioration in a number of FCS institutions in recent years. A continuation of these factors, exacerbated by current high land values if they prove to be unsustainable, could result in systemic deterioration in the System. The Agency must continue to oversee rehabilitation of institutions exhibiting serious weaknesses and ensure that the FCS is able to withstand such vulnerabilities in the long-term and remain safe and sound.

In providing for System oversight, the **challenge** for the Agency is twofold: to continue to be an independent, objective, and effective regulator; to continue to assess in a timely manner economic and operational conditions affecting System institutions; and to take prompt preemptive or remedial actions to ensure their ongoing safety and soundness.

Mission

Further, the overall environment facing agriculture, rural America, and the FCS is ever-changing, presenting new vulnerabilities and opportunities. FCA's **challenge** in this environment is to continue to ensure the FCS fulfills its public policy purpose of providing constructive credit to farmers, ranchers, rural residents, agricultural and rural utility cooperatives, and other eligible borrowers.

Farm Credit Administration

Agency Governance

The Farm Credit Act of 1971, as amended, provides for a full-time, three-member Board to govern the Agency. Board members are appointed by the President and confirmed by the Senate, and the President designates the Chairman. Since Chairman Strom's term ended on October 13, 2012, the President will at some point name a new Chairman and the Board will receive a new member.

All three current Board members are well-experienced, with each having been on the Board for a number of years. Nevertheless, a full-time, three-member Board, particularly when a new Chairman is named and a new member(s) joins the Board, presents an ongoing **challenge** of coordination and cooperation for the Chairman and Board Members in defining roles and responsibilities. In this regard, the Board's various rules of operation are a significant asset; they provide a foundation for trust and shared expectations among its members, enable the Board to engage in professional and constructive policy debate, and provide continuity of operations and a sound course for the Board and the Agency.

Agency Organization

Although the Agency's statutory mission has remained constant, many factors affect the Agency's operations and organization. A major factor is the periodic turnover in the Board's composition and Chairmanship. In addition, the banks and associations of the FCS have continued merging, geographic territories of merged institutions have changed, and FCS institutions' products and the examination thereof have become more complex.

These and other factors bear on FCA's organizational structure. An ongoing **challenge** to the Board and senior management is to periodically reassess FCA's organizational structure to ensure it remains optimal in relation to all relevant factors.

Agency Staffing

The Agency has a comprehensive five-year Human Capital Plan covering FYs 2012 to 2016. Recent recruitment initiatives for all levels within the Agency have used broad search criteria, and have focused on obtaining the best skill sets and achieving diversity in FCA's workforce.

The Board and senior management recognize the area of human capital as critical for the ongoing success of FCA as an effective Federal financial regulator. A few of the factors contributing to the critical nature of human capital, as delineated by the Agency's Office of Management Services, are as follows:

- Projections indicate that a substantial portion of the Agency's workforce is eligible to retire during the next several years.
- The loss of employees during this period will challenge the Agency to retain historical knowledge and perspectives on the programs, practices, and mission of the FCS as well as that of FCA.
- The evolution of FCA, agriculture and rural America, the FCS, and the financial services industry means FCA will need to continue to attract and maintain an experienced and qualified professional staff to meet the anticipated growth and complexity of the FCS and its environment.

The Agency's **challenge** is to continue to emphasize the implementation of its human capital plan to ensure FCA has the staff it needs to remain an effective regulator of the FCS by, for example, continuing to identify the critical skills needed in the future, appropriately allocating resources between line and staff functions, and ensuring continuity within senior management and other staff positions.

Leveraging Technology

The Agency's ability to leverage investments in technologies is a key element in management's efforts to continually improve Agency performance by increasing the efficiency and effectiveness of operations. The Agency has an active information resource management planning process that identifies, reviews, and prioritizes information technology (IT) initiatives to improve Agency operations. Over the past few years, the Agency made significant investments in technologies and began implementing several tools to improve communication, collaboration, and efficiency of operations. The Agency's **challenge** is to continue to maximize the use of IT investments that will increase Agency efficiency and effectiveness. The successful implementation of technologies will provide FCA staff with the IT tools and skills that will enable the Agency to continue to

- improve the quality and availability of data without creating an undue burden on the FCS;
- streamline business processes and build business intelligence to provide decision-makers with timely management information;
- develop electronic recordkeeping and knowledge management capability for capturing, maintaining, and sharing institutional knowledge;
- improve communication with stakeholders; and
- protect FCA information systems and data from ever-increasing external and internal threats.

Respectfully,

Carl A. Clinefelter

Carl A. Clinefelter
Inspector General

BROWN & COMPANY CPAs, PLLC
CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT CONSULTANTS

INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

Farm Credit Administration
The Board and Office of Inspector General

We have audited the accompanying balance sheet of the Farm Credit Administration (FCA) as of September 30, 2012 and 2011 and the related statements of net cost, changes in net position, and budgetary resources, for the years then ended (collectively referred to as the financial statements). These financial statements are the responsibility of FCA's management. Our responsibility is to express an opinion on these 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 *U.S. Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and OMB Bulletin No. 07-04, as amended, require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the FCA as of September 30, 2012 and 2011 and its net costs, changes in net position, and budgetary resources for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *U.S. Government Auditing Standards* and OMB Bulletin No. 07-04, as amended, we have also issued our reports dated November 5, 2012 on our consideration of the FCA 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 *U.S. Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management Discussion and Analysis (MD&A) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by OMB Circular A-136, *Financial Reporting Requirements*, as revised, that considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Brown & Company

Largo, Maryland
November 5, 2012

BROWN & COMPANY CPAs, PLLC
CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT CONSULTANTS

INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Farm Credit Administration
The Board and Office of Inspector General

We have audited the financial statements of the Farm Credit Administration (FCA) as of and for the year ended September 30, 2012 and have issued our report thereon dated November 5, 2012. 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 *U.S. Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements,* as amended.

In planning and performing our audit, we considered the FCA's internal control over financial reporting by obtaining an understanding of the FCA's internal control, determined whether internal controls had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 07-04, as amended. The objective of our audit was not to provide an opinion on internal control and therefore, we do not express an opinion on internal control.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be a material weakness or significant deficiency. Under standards issued by the American Institute of Certified Public Accountants and OMB Bulletin No. 07-04, as amended, a material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency in internal control, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. Because of inherent limitations in internal controls, misstatements, losses, or non-compliance may nevertheless occur and not be detected. However, we noted no matters involving the internal control and its operation that we considered to be a material weakness as defined above.

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

Brown & Company

Largo, Maryland
November 5, 2012

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CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT CONSULTANTS

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

Farm Credit Administration
The Board and Office of Inspector General

We have audited the financial statements of the Farm Credit Administration (FCA) as of and for the year ended September 30, 2012 and have issued our report thereon dated November 5, 2012. 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 *U.S. Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements,* as amended.

The management of the FCA is responsible for complying with laws and regulations applicable to the FCA. As part of obtaining reasonable assurance about whether the FCA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain other laws and regulations specified in OMB Bulletin No. 07-04, as amended. We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to the FCA.

The results of our tests of compliance with laws and regulations disclosed no material noncompliance with laws and regulations discussed in the preceding paragraph that are required to be reported under *U.S. Government Auditing Standards* or OMB Bulletin No. 07-04, as amended.

Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit, and, accordingly, we do not express such an opinion. However, we noted no noncompliance with laws and regulations, which could have a direct and material effect on the determination of financial statement amounts.

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

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FINANCIAL STATEMENTS

FARM CREDIT ADMINISTRATION
BALANCE SHEET
As of September 30, 2012 and 2011

	2012	2011
ASSETS		
Intragovernmental		
Fund balance with Treasury (Note 2)	$ 717,196	$ 1,193,978
Investments (Note 3)	39,824,559	37,132,206
Accounts receivable (Note 4)	102,388	-
Total intragovernmental	40,644,143	38,326,184
Accounts receivable (Note 4)	133,556	336,991
General property, plant and equipment, net (Note 5)	402,903	671,504
Prepaid expense	126,811	131,021
Total assets	$ 41,307,413	$ 39,465,700
LIABILITIES		
Intragovernmental		
Accounts payable	$ 128,674	$ 126,489
Accrued post-employment compensation	34,488	63,708
Employer contributions and payroll taxes payable	472,579	451,096
Total intragovernmental	635,741	641,293
Accounts payable	485,540	757,859
Actuarial workers' compensation liability (Note 6)	1,247,046	1,177,818
Accrued payroll and benefits	5,974,658	5,833,721
Employer contributions and payroll taxes payable	80,521	76,433
Deferred revenue	3,363,965	4,195,631
Accrued taxes payable	-	8
Total liabilities	$ 11,787,471	$ 12,682,763
NET POSITION		
Cumulative results of operations	$ 29,519,942	$ 26,782,937
Total net position	29,519,942	26,782,937
Total liabilities and net position	$ 41,307,413	$ 39,465,700

The accompanying notes are an integral part of these statements.

FARM CREDIT ADMINISTRATION
STATEMENT OF NET COST
For the Years Ended September 30, 2012 and 2011

	2012	2011
PROGRAM COSTS		
Public Mission		
Gross costs	$ 11,420,694	$ 11,833,497
Less: earned revenue	(10,835,149)	(11,263,081)
Net costs	$ 585,545	$570,416
Safety and Soundness		
Gross costs	$ 46,097,124	$ 44,227,156
Less: earned revenue	(43,774,261)	(41,783,850)
Net costs	$ 2,322,863	$ 2,443,306
Other Activity		
Gross costs	$ 935,349	$ 1,102,500
Less: earned revenue	(955,836)	(1,140,404)
Net costs	$ (20,487)	$ (37,904)
Net cost of operations (Notes 7 and 8)	$ 2,887,921	$ 2,975,818

The accompanying notes are an integral part of these statements.

FARM CREDIT ADMINISTRATION
STATEMENT OF CHANGES IN NET POSITION
For the Years Ended September 30, 2012 and 2011

	2012	2011
CUMULATIVE RESULTS OF OPERATIONS		
Beginning balances	$26,782,937	$ 24,703,876
Other Financing Sources (Non-Exchange)		
Imputed financing sources from costs absorbed by others		
Federal employee benefits (Note 9)	2,674,926	2,879,879
Rent (Note 10)	2,950,000	2,175,000
Total financing sources	5,624,926	5,054,879
Net cost of operations	(2,887,921)	(2,975,818)
Net change	2,737,005	2,079,061
Cumulative results of operations	$29,519,942	$ 26,782,937
Net position	$29,519,942	$ 26,782,937

The accompanying notes are an integral part of these statements.

FARM CREDIT ADMINISTRATION
STATEMENT OF BUDGETARY RESOURCES
For the Years Ended September 30, 2012 and 2011

	2012	2011
BUDGETARY RESOURCES		
Unobligated balance brought forward, October 1	$ 29,052,387	$ 25,612,144
Unobligated balance brought forward, October 1, as adjusted	29,052,387	25,612,144
Unobligated balance from prior-year budget authority, net	29,052,387	25,612,144
Spending authority from offsetting collections	54,897,944	56,175,830
Total budgetary resources (Note 11)	$ 83,950,331	$ 81,787,974
STATUS OF BUDGETARY RESOURCES		
Obligations incurred	$ 52,083,691	$ 52,735,587
Unobligated balance, end of year		
Exempt from apportionment	28,502,675	24,856,756
Not available	3,363,965	4,195,631
Total unobligated balance, end of year	31,866,640	29,052,387
Total budgetary resources (Note 11)	$ 83,950,331	$ 81,787,974
CHANGE IN OBLIGATED BALANCE		
Unpaid obligations brought forward, October 1	$ 9,220,951	$ 9,033,784
Uncollected customer payments from Federal sources brought forward, October 1	(794,611)	(1,263,026)
Obligated balance, start of year	8,426,340	7,770,758
Obligated balance, start of year, as adjusted	8,426,340	7,770,758
Obligations incurred	52,083,691	52,735,587
Outlays (gross)	(52,621,819)	(52,548,420)
Change in uncollected customer payments from Federal sources	29,375	468,415
Obligated balance, end of year		
Unpaid obligations, end of year	8,682,824	9,220,951
Uncollected customer payments from Federal sources, end of year	(765,236)	(794,611)
Obligated balance, end of year	$ 7,917,588	$ 8,426,340
BUDGET AUTHORITY AND OUTLAYS, NET		
Budget authority, gross	$ 54,897,943	$ 56,175,830
Actual offsetting collections	(54,927,318)	(56,644,245)
Change in uncollected customer payments from Federal sources	29,375	468,415
Budget authority, net	$ (0)	$0
Outlays, gross	52,621,819	52,548,420
Actual offsetting collections	(54,927,318)	(56,644,245)
Agency outlays, net	$ (2,305,499)	$ (4,095,825)

The accompanying notes are an integral part of these statements.

NOTES TO THE FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies

A. Reporting Entity—The Farm Credit Administration (FCA or Agency) is an independent agency in the executive branch of the U.S. Government. FCA is responsible for the regulation and examination of the banks, associations, and related entities that compose the Farm Credit System (FCS or System), including the Federal Agricultural Mortgage Corporation (Farmer Mac). Specifically, FCA is empowered to ensure safe and sound operations of all System institutions. Initially created by an Executive order of the President in 1933, FCA now derives its power and authority from the Farm Credit Act of 1971, as amended (Act). The Act requires System institutions to be examined periodically by FCA. Policymaking for FCA is vested in a full-time, three-person Board whose members are appointed by the President with the advice and consent of the Senate.

B. Basis of Accounting and Presentation—The accompanying financial statements have been prepared in accordance with the Office of Management and Budget's (OMB's) Circular No. A-136, Financial Reporting Requirements. In addition, the financial statements have been prepared from and are fully supported by the books and records of FCA in accordance with generally accepted accounting principles in the United States and the Statements of Federal Financial Accounting Standards (SFFAS) prescribed by the Federal Accounting Standards Advisory Board, the official body for setting accounting standards for the Federal Government. FCA's transactions are recorded using the accrual basis of accounting. Under this method, revenues are recognized when earned, and expenses are recognized when goods or services are received, without regard to receipt of funds or payment of cash. FCA is not subject to apportionment. Budgetary accounting has been applied to facilitate compliance with legal constraints and control over the use of funds.

The statements consist of the Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, and Statement of Budgetary Resources. Please note that the Statement of Custodial Activity, the Statement of Social Insurance, and the Statement of Changes in Social Insurance Amounts contained in OMB Circular No. A-136 are not applicable to FCA and are not included as a part of the financial statements. The financial statements and associated notes are presented on a comparative basis, and all amounts are presented in dollars.

C. Fund Balance with Treasury—FCA maintains a revolving, no-year account with the U.S. Treasury through which cash receipts and disbursements are processed. The funds that are available are obtained from assessments and reimbursable activities. FCA does not receive appropriated funds.

D. Investments—The Act gives FCA the authority to invest in public debt securities with maturities suitable to FCA's needs. FCA invests solely in U.S. Treasury securities, which are normally held to maturity and carried at cost. Investments are adjusted for unamortized premiums or discounts. Premiums and discounts are amortized and interest is accrued using the level-yield, scientific method of effective interest amortization over the term of the respective issues. The Agency uses interest earned on investments to build and maintain an Agency reserve for the purpose of being able to respond effectively and efficiently to unanticipated, one-time, mission-related issues without increasing assessments. Agency investments include carryover funds that are invested until needed for items such as offsetting assessment increases to the FCS institutions each fiscal year.

E. Accounts Receivable—Accounts receivable are composed of

1. reimbursements for administrative expenses incurred by FCA according to agreements with other Federal entities,
2. assessments from institutions in accordance with the Act and FCA regulations, and
3. amounts owed FCA that are generated through the normal course of business with employees and vendors.

Amounts due from Federal agencies are considered fully collectible. An allowance for uncollectible amounts receivable from the public is established when either

1. on the basis of a review of outstanding accounts and the failure of all collection efforts, management determines that collection is unlikely to occur after considering the debtor's ability to pay, or
2. an account for which no allowance has been established is submitted to the Department of the Treasury for collection, which takes place when it becomes 180 days delinquent.

The Office of Management Services (OMS), in conjunction with the Agency's accounting service provider, the Bureau of the Public Debt, reviews the Agency's accounts receivable on a regular basis. OMS has determined that all accounts receivable as of September 30, 2012 are fully collectible.

F. Advances and Prepaid Charges—Advance payments are generally prohibited by law. There are some exceptions, such as reimbursable agreements, subscriptions, and certain payments to contractors and employees. Payments made before the receipt of goods and services are recorded as advances or prepaid charges at the time of prepayment and are recognized as expenses when the related goods and services are received. This process helps to minimize large dollar fluctuations in cost and provides for the recognition of cost based on use. When the prepayment amount has minimal impact on cost, it is more cost effective to expense the advance or prepayment at the time of payment. Therefore, FCA recognizes dollar thresholds in the recording of advances and prepayments.

G. General Property, Equipment, and Software—Property (including vehicles), equipment, and software are recorded at cost, net of an allowance for accumulated depreciation. Repairs and maintenance costs are expensed as incurred. FCA operates under a policy whereby property, equipment, and software with itemized costs of $50,000 or more and a useful life of two years or more are capitalized. Individual items that are less than $50,000 but meet the bulk purchase criteria of $500,000 or more are also capitalized. The straight-line method of depreciation with half-year convention is used to allocate the cost of capitalized property, equipment, and software over their estimated useful lives.

H. Accounts Payable—Accounts payable consist of amounts owed to other Federal agencies and the public. FCA makes payments in a timely manner in accordance with the Prompt Payment Act. Interest penalties are paid when payments are late.

I. Liabilities—Liabilities may or may not be covered by budgetary or other resources. Liabilities covered by budgetary resources are those liabilities for which funding is available to pay amounts due. Liabilities for which funding is not available to pay amounts due are classified as liabilities not covered by budgetary resources. Except for the Actuarial Workers' Compensation Liability, all of FCA's liabilities are covered by budgetary resources. Intragovernmental liabilities are claims against FCA by other Federal agencies.

J. Rent—The Act provides for FCA to occupy buildings and to use land owned and leased by the FCS Building Association (FCSBA), an entity owned by the System banks. The FCA Board oversees the FCSBA activities on behalf of its owners. FCA is not charged for the use of the buildings or land, nor does it pay for maintenance and repair of buildings and land improvements. Rent is reflected on FCA's books as an imputed cost and an imputed financing source.

K. Federal Employee Benefits—Federal employee benefits include benefits earned by employees for pension, postretirement health insurance, and life insurance. For reporting purposes, each employing Federal agency is required to recognize its share of the Federal government's cost and imputed financing for these benefits. To meet this requirement, the Office of Personnel Management (OPM) provides to each agency the cost factors used in the calculation of these Federal employee benefit expenses.

L. Annual, Sick, and Other Leave—Annual leave, compensatory leave, credit hours, and some other types of leave are accrued as a funded liability when earned, with an offsetting reduction for leave taken. The accrued leave liability for each of these types of leave is calculated using current pay rates. Sick leave and other types of non-vested leave are expensed as the leave is taken.

M. Assessments—A substantial portion of FCA's revenues is based on direct assessments billed to System institutions that are regulated or examined by FCA. FCA also recognizes revenues based on examination services provided by the Office of Examination. Direct assessments are derived using a formula established in the FCA regulations and are based, in part, on the average risk-adjusted assets and the overall financial health of the institution being assessed.

N. Deferred Revenue—Prior to the beginning of each fiscal year, in accordance with the Act, FCA determines the amount of funding required from assessments for the subsequent fiscal year and the amount of the assessment to be apportioned to each System institution, including Farmer Mac. Each year, these estimates are provided to the System institutions during September. The unearned funds received prior to the beginning of the new fiscal year are established as deferred revenue and are reported as such on the Balance Sheet. These amounts are also reported as Unobligated Balance Not Available on the Statement of Budgetary Resources.

O. Use of Estimates—Management has made certain estimates and assumptions when reporting assets, liabilities, revenue, and expenses; it has also made estimates and assumptions in the note disclosures. Actual results could differ from these estimates. Some estimates include year-end accruals of accounts and accrued workers' compensation.

Note 2. Fund Balance with Treasury

	2012	2011
Fund balance with Treasury		
Revolving fund	$ 717,196	$ 1,193,978
Total fund balance with Treasury	$ 717,196	$ 1,193,978
Status of fund balance with Treasury		
Unobligated balance		
Available	$ 28,502,675	$ 24,856,756
Unavailable	3,363,965	4,195,631
Obligated balance not yet disbursed	7,917,588	8,426,340
Subtotal—Status of fund balance	39,784,228	37,478,727
Funds invested with Treasury		
Net of unamortized discount	(39,067,032)	(36,284,749)
Total fund balance with Treasury	**$ 717,196**	**$ 1,193,978**

Note 3. Investments

Intragovernmental Securities

Amounts for 2012 Balance Sheet Reporting

	Cost	Amortized (Premium) Discount	Investments Net	Interest Receivable	09/30/12 Investment Balance	Market Value Disclosure
Nonmarketable						
Market-based	$40,215,706	$(580,715)	$39,634,991	$189,568	$39,824,559	$40,201,499

Amounts for 2011 Balance Sheet Reporting

	Cost	Amortized (Premium) Discount	Investments Net	Interest Receivable	09/30/11 Investment Balance	Market Value Disclosure
Nonmarketable						
Market-based	$37,692,254	$(767,184)	$36,925,070	$207,136	$37,132,206	$37,561,405

Premiums and discounts are amortized and interest is accrued using the level-yield, scientific method of effective interest amortization over the term of the respective issues. Interest earned on investments was $464,685 and $560,206 for FYs 2012 and 2011, respectively.

Note 4. Accounts Receivable

	2012	2011
Intragovernmental		
Reimbursements for services provided	$ 97,525	$ -
Expenditure refunds	4,863	-
Subtotal	102,388	-
With the public		
Assessments	105,847	302,923
Expenditure refunds	27,709	34,068
Subtotal	133,556	336,991
Total accounts receivable	**$235,944**	**$336,991**

Note 5. General Property, Equipment, and Software

	As of September 30, 2012				
	Estimated Useful Life	**Depreciation Method**	**Acquisition Value**	**Accumulated/ Amortized Depreciation**	**Book Value**
Equipment	3 years	Straight line	$805,805	$(402,902)	$402,903
Total			**$805,805**	**$(402,902)**	**$402,903**

	As of September 30, 2011				
	Estimated Useful Life	**Depreciation Method**	**Acquisition Value**	**Accumulated/ Amortized Depreciation**	**Book Value**
Equipment	3 years	Straight line	$805,805	$(134,301)	$671,504
Total			**$805,805**	**$(134,301)**	**$671,504**

Note 6. Actuarial Workers Compensation Liability (Not Covered by Budgetary Resources)

The Department of Labor (DOL) estimates future workers' compensation liability for specified entities that are preparing statements under the Chief Financial Officers Act and the Government Management Reform Act. The actuarial liability estimates for benefits under the Federal Employees' Compensation Act (FECA) include the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases, plus a component for incurred but unreported claims. Because FCA is not one of the specified entities for which DOL provides individual agency estimates on a routine basis, FCA calculated its actuarial liability amount by using the DOL model to estimate FECA actuarial liability.

The FECA actuarial liability amounts for fiscal years 2012 and 2011 are $1,247,046 and $1,177,818, respectively. The increase in the amount may be attributed to the changes in the FECA medical and compensation liability to benefits paid (LBP) ratios provided by DOL in its model for estimating the actuarial liability amount. The medical LBP ratio applicable to FCA increased from 9.2 to 9.6 along with the compensation LBP ratio which increased from 10.2 to 10.3.

Note 7. Intragovernmental Costs and Exchange Revenue

	Farm Credit Administration for the Years Ended September 30, 2012 and 2011	
	2012	2011
Public Mission		
Intragovernmental costs	$ 2,885,266	$ 2,929,122
Public costs	8,535,428	8,904,375
Total costs—Public mission	11,420,694	11,833,497
Intragovernmental earned revenue	(92,268)	(118,250)
Public earned revenue	(10,742,881)	(11,144,831)
Total revenue—Public mission	(10,835,149)	(11,263,081)
Net program costs—Public mission	585,545	570,416
Safety and Soundness		
Intragovernmental costs	11,855,937	11,150,332
Public costs	34,241,187	33,076,824
Total costs—Safety and soundness	46,097,124	44,227,156
Intragovernmental earned revenue	(372,418)	(441,956)
Public earned revenue	(43,401,843)	(41,341,894)
Total revenue—Safety and soundness	(43,774,261)	(41,783,850)
Net program costs—Safety and soundness	2,322,863	2,443,306
Other Activity		
Intragovernmental costs	203,874	199,505
Public costs	731,475	902,995
Total costs—Other activity	935,349	1,102,500
Intragovernmental earned revenue	(854,885)	(838,118)
Public earned revenue	(100,951)	(302,286)
Total revenue—Other activity	(955,836)	(1,140,404)
Net program costs—Other activity	(20,487)	(37,904)
Net cost of operations (+/-)	**$ 2,887,921**	**$ 2,975,818**

The purpose of this classification of FCA's revenue and cost is to enable the Federal Government to provide consolidated financial statements and not to match public and intragovernmental revenue with costs that are incurred to produce public and intragovernmental revenue. The intragovernmental costs relate to the source of goods and services purchased by FCA and not to the classification of related revenue.

Note 8. Suborganization Program Costs/Program Costs by Segment

Farm Credit Administration
for the Year Ended September 30, 2012

	Office				
	Examination	Regulatory Policy	Secondary Market Oversight	Other Organizations	Total
Public Mission					
Gross costs	$ 250,083	$ 3,945,912	$ 500,576	$ 6,724,123	$11,420,694
Less: Earned revenue	(237,425)	(3,746,175)	(458,680)	(6,392,869)	(10,835,149)
Net program cost	12,658	199,737	41,896	331,254	585,545
Safety and Soundness					
Gross costs	30,615,251	1,277,764	638,495	13,565,614	46,097,124
Less: Earned revenue	(29,057,741)	(1,213,038)	(562,871)	(12,940,611)	(43,774,261)
Net program cost	1,557,510	64,726	75,624	625,003	2,322,863
Other Activity					
Gross costs	594,463	34,327	664	305,895	935,349
Less: Earned revenue	(607,484)	(35,079)	-	(313,273)	(955,836)
Net program cost	(13,021)	(752)	664	(7,378)	(20,487)
Net cost of operations	**$ 1,557,147**	**$ 263,711**	**$ 118,184**	**$ 948,879**	**$ 2,887,921**

Note 8. Suborganization Program Costs/Program Costs by Segment (continued)

Farm Credit Administration
for the Year Ended September 30, 2011

	Office				
	Examination	**Regulatory Policy**	**Secondary Market Oversight**	**Other Organizations**	**Total**
Public Mission					
Gross costs	$ 456,722	$ 4,174,365	$ 412,963	$ 6,789,447	$11,833,497
Less: Earned revenue	(429,506)	(3,922,291)	(457,075)	(6,454,209)	(11,263,081)
Net program cost	27,216	252,074	(44,112)	335,238	570,416
Safety and Soundness					
Gross costs	29,861,918	1,125,036	551,203	12,688,999	44,227,156
Less: Earned revenue	(28,108,082)	(1,056,949)	(610,082)	(12,008,737)	(41,783,850)
Net program cost	1,753,836	68,087	(58,879)	680,262	2,443,306
Other Activity					
Gross costs	788,356	11,728	(5,078)	307,494	1,102,500
Less: Earned revenue	(815,460)	(12,131)	5,253	(318,066)	(1,140,404)
Net program cost	(27,104)	(403)	175	(10,572)	(37,904)
Net cost of operations	**$ 1,753,948**	**$ 319,758**	**$(102,816)**	**$ 1,004,928**	**$ 2,975,818**

Note 9. Federal Employee Benefits

	2012	2011
Imputed pension cost	$ 1,140,528	$ 1,287,485
Other imputed retirement benefits	1,534,398	1,592,394
Total	**$ 2,674,926**	**$ 2,879,879**

Retirement—FCA employees are covered under the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS) to which FCA makes contributions according to plan requirements. CSRS and FERS are multiemployer plans. FCA does not maintain or report information about the assets of the plan, nor does it report actuarial data for accumulated plan benefits. The reporting of such amounts is the responsibility of OPM. FCA reports the amount of its pension expense for employees in accordance with SFFAS No. 5, Accounting for Liabilities of the Federal Government. When the amount of the payment expense remitted to OPM is less than the full cost to the Government, an imputed cost is recognized. The above imputed costs represent the amounts recognized by FCA for FYs 2012 and 2011. Corresponding amounts of imputed revenue are recorded to offset the imputed cost.

Other Retirement Benefit Expenses—SFFAS No. 5, Accounting for Liabilities of the Federal Government, requires employing Federal agencies to recognize an expense for the cost of providing health benefits and life insurance to its employees after they retire. Factors used to calculate these costs were provided by OPM to meet this requirement. As with pension payments, imputed costs are recognized when amounts remitted for health benefits and life insurance are less than the full cost to the Government. Corresponding amounts of imputed revenue are recorded to offset the imputed cost.

Note 10. Rent

	2012	2011
Leased field offices	$ 1,167,457	$ 1,119,906
FCA headquarters	1,782,543	1,055,094
Total	**$ 2,950,000**	**$ 2,175,000**

In accordance with the Act, FCA occupies buildings owned and leased by the FCSBA. The FCA administrative headquarters building and land are located in McLean, Virginia. In addition, the FCSBA leases office space for field offices on behalf of FCA at various locations throughout the United States. Rent is provided at no cost to FCA. The above imputed rent expense is an estimate based on the FCSBA estimated budget for 2012. In accordance with SFFAS No. 4, Managerial Cost Accounting Concepts and Standards for the Federal Government, the rent expense and the associated imputed revenue are recorded as a nonmonetary transaction.

Note 11. Explanation of Differences Between the Statement of Budgetary Resources and the Budget of the United States Government

FY 2012

The 2014 Budget of the United States Government, with the Actual Column completed for FY 2012, had not been published as of the date of these financial statements. The budget is expected to be published and delivered to Congress in early February 2013. It will be available on FCA's Web site at www.fca.gov/reports/publications.html.

FY 2011

The 2013 Budget of the United States Government, with the Actual Column completed for 2011, has been reconciled to the amounts reported in the Statement of Budgetary Resources, and there are no significant differences.

Note 12. Undelivered Orders at the End of the Period

SFFAS No. 7, Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting, states that the amount of budgetary resources obligated for undelivered orders at the end of the period should be disclosed. For the periods ended September 30, 2012, and 2011, undelivered orders amounted to $1,506,365 and $1,911,638, respectively.

Note 13. Incidental Custodial Collections

During FY 2012, the FCA assessed and collected a civil monetary penalty and deposited it into the General Fund Receipt Account. The amount of the penalty was $100,000 and because it was immaterial to the financial statements and incidental to the Agency's mission, there is no Statement of Custodial Activity. The funds were transferred to the Department of the Treasury as of the end of FY 2012.

Note 14. Reconciliation of the Net Cost of Operations to the Budget

SFFAS No. 7, Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting, requires a reconciliation of proprietary and budgetary information in a way that helps users relate the two. Standard Federal Financial Accounting Concepts No. 2, Entity and Display, provides concepts for reconciling budgetary and financial accounting by adding a category of financial information to further satisfy users' need to understand "how information on the use of budgetary resources relates to information on the cost of program operations." The objective of this information is to provide an explanation of the differences between budgetary and financial (proprietary) accounting. This is accomplished by a reconciliation of budgetary obligations and nonbudgetary resources to the reporting entity with its net cost of operations. Comparative displays of this reconciliation for the current year and prior year follow.

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Reconciliation of Net Cost of Operations to Budget
for the Years Ended September 30, 2012 and 2011

	2012	2011
Resources Used to Finance Activities		
Budgetary resources obligated		
Obligations incurred	$ 52,083,691	$ 52,735,587
Spending authority from offsetting collections and recoveries	(54,897,944)	(56,175,830)
Net obligations	(2,814,253)	(3,440,243)
Other resources		
Imputed financing from costs absorbed by others	5,624,926	5,054,879
Other resources	(831,666)	2,063,361
Net other resources used to finance activities	4,793,260	7,118,240
Total resources used to finance activities	1,979,007	3,677,997
Resources used to finance items not part of the net cost of operations	623,345	(763,647)
Total resources used to finance the net cost of operations	2,602,352	2,914,350
Components of the net cost of operations that will not require or generate resources in the current period	285,569	61,468
Net cost of operations	$ 2,887,921	$ 2,975,818

Other Accompanying Information

Table 6. Summary of Financial Statement Audit

Audit Opinion	Unqualified
Restatement	No

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
(Not applicable)					
Total material weaknesses					

Table 7. Summary of Management Assurances

Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)

Statement of Assurance: Unqualified

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
(Not applicable)						

Effectiveness of Internal Control over Operations (FMFIA § 2)

Statement of Assurance: Unqualified

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
(Not applicable)						

Conformance with Financial Management System Requirements (FMFIA § 4)

Statement of Assurance: Systems conform

Non-Conformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
(Not applicable)						

Compliance with Federal Financial Management Improvement Act (FMFIA)

	Agency	Auditor
Overall Substantial Compliance	Yes	Yes
1. System Requirements	Yes	
2. Accounting Standards	Yes	
3. USSGL at Transaction Level	Yes	

Additional Information

The Farm Credit Administration Performance and Accountability Report Fiscal Year 2012 is available on FCA's Web site at www.fca.gov. While supplies last, printed copies of this publication and earlier editions may be obtained without charge from

Office of Congressional and Public Affairs
Farm Credit Administration
1501 Farm Credit Drive
McLean, VA 22102-5090
Telephone: 703-883-4056
Fax: 703-790-3260
E-mail: info-line@fca.gov

The Federal Farm Credit Banks Funding Corporation, with the support of the System banks, prepares the financial press releases and the System's annual and quarterly information statements, which contain the System's combined financial statements. Copies are available on the Funding Corporation's Web site at www.farmcredit-ffcb.com or from

Federal Farm Credit Banks Funding Corporation
10 Exchange Place
Suite 1401
Jersey City, NJ 07302
Telephone: 201-200-8000

The Farm Credit System Insurance Corporation publishes an annual report. Copies are available on FCSIC's Web site at www.fcsic.gov or from

Farm Credit System Insurance Corporation
1501 Farm Credit Drive
McLean, VA 22102
Telephone: 703-883-4380

In addition, FCS banks and associations are required by regulation to prepare annual and quarterly financial reports. Copies of these documents are available for public inspection at FCA headquarters in McLean, Virginia.

Copies are available from
Office of Congressional and Public Affairs
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