# Farm Credit Administration

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

# Performance and Accountability Report
# Fiscal Year 2011

# 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 2011

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) 2011.

I am pleased to report that FCA achieved each of the goals outlined in its Strategic Plan and achieved or exceeded all of the measurable performance areas targeted for FY 2011. 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 is especially vigilant in examining and overseeing System institutions and Farmer Mac. We are closely monitoring emerging risks that affect the System as a whole, and we are increasing on-site examination time and conducting sensitivity stress tests. We have also stepped up communication and policy development efforts to ensure that the institutions' directors and managers have the guidance they need to guard against and control the risks that threaten their institutions or the System as a whole. Because of rapidly rising farmland prices in the Midwest, we have enhanced our guidance related to the management of collateral risk. We also held two roundtable meetings in 2011 to discuss farm real estate markets with other financial regulators. In addition, we are working closely with the System to improve the availability of loan data, and we have provided additional guidance related to loan portfolio management. 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 2011 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 **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 Policy Statements to read "Examination Policy" (FCA-PS-53).

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.

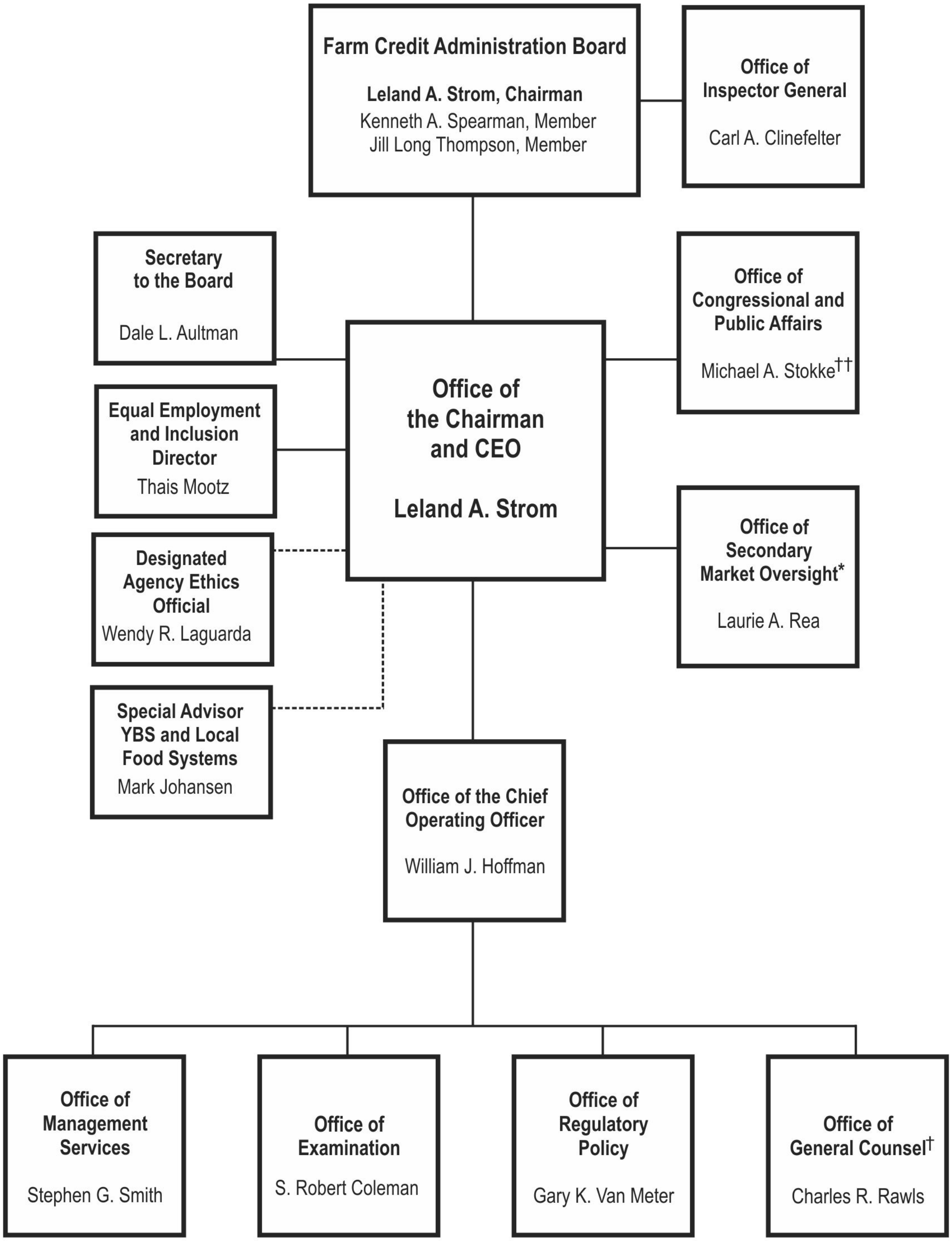
The **Office of Inspector General** provides independent and objective oversight of Agency programs and operations through audits, inspections, evaluations, investigations, and the review of proposed legislation and regulations. The office promotes economy and efficiency within FCA and seeks to prevent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

# Organization
## Farm Credit Administration
As of September 30, 2011




***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

FCA's mission is to ensure a safe, sound, and dependable source of credit and related services for agriculture and rural America. In its Strategic Plan, FYs 2008–2013, FCA identified two goals it must meet to fulfill its mission. For each goal, the Agency identified a set of means and strategies to achieve the goal and a set of performance measures to measure its success in meeting the goal.

In May 2011, the FCA Board approved a Strategic Plan, FYs 2011–2016. However, the FY 2011 Performance and Accountability Report is based on the Strategic Plan, FYs 2008–2013, since this was the plan in effect during most of the reporting period.

FCA's Performance Report shows that FCA achieved the goals identified in the Strategic Plan, FYs 2008–2013, and achieved or exceeded all performance measures. The following is a summary analysis of FCA's performance in reaching its goals.

## Goal 1 Highlights—Public Mission

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

There are 12 means and strategies and five performance measures established for Goal 1 in the Strategic Plan (see table 6a). The five performance measures are as follows:

1. Percentage of FCS institutions with satisfactory business plans and management systems for providing constructive credit and related services to all potential customers, including institutions with acceptable corrective action plans
2. Whether Farmer Mac has developed and implemented a marketing program to appropriately grow program assets consistent with its mission and whether it has received a satisfactory rating from the Office of Secondary Market Oversight (OSMO) or is operating under a corrective action plan acceptable to OSMO
3. Percentage of direct-lender institutions with satisfactory internal controls over consumer compliance and borrower-rights compliance, including institutions with acceptable corrective action plans
4. Percentage of instances in which the Agency solicits public comment and input on applicable regulatory initiatives using supplemental approaches to the notice and comment rulemaking process
5. Percentage of direct-lender institutions that have satisfactory programs to furnish sound and constructive credit and related services to young, beginning, and small (YBS) farmers, ranchers, and producers or harvesters of aquatic products, including institutions with acceptable corrective action plans

The Agency achieved or exceeded its targets for all five measures associated with Goal 1. FCA examiners reviewed the business plans and management systems of 88 FCS institutions and found that all had satisfactory plans and systems or had acceptable corrective action plans in place. Farmer Mac has a marketing program to grow its program assets consistent with its mission and has received a satisfactory rating from OSMO or is operating under a corrective action plan acceptable to OSMO.

Agency examiners performed compliance reviews at 71 direct-lender institutions and determined that all had satisfactory internal controls over consumer compliance and borrower-rights compliance. To gather a broad range of public input during the rulemaking process, FCA used supplemental approaches in all three of its regulatory initiatives. In addition, FCA examiners reviewed the YBS farmer programs at 73 direct-lender institutions and determined that all of the programs were satisfactory or the institutions were operating under acceptable corrective action plans.

## 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 means and strategies and seven measures for Goal 2 (see table 6b). The seven performance measures are as follows:

1. Number of institutions that FCA placed in receivership because of financial failure during the previous 12 months
2. The total assets of FCS institutions that FCA has determined are fundamentally sound in all material respects
3. Percentage of FCS institutions with composite Financial Institution Rating System (FIRS) ratings of 3, 4, or 5 with acceptable corrective action plans in place to address the problems identified by FCA examiners
4. Percentage of System assets in institutions with ratios of adverse assets to risk funds of less than 100 percent
5. Percentage of institutions complying with regulatory capital ratio requirements (permanent capital ratio, total surplus ratio, core surplus ratio, net collateral ratio, risk-based capital), including institutions with acceptable corrective action plans
6. Percentage of FCS institutions with acceptable action plans to correct violations of laws and regulations identified by FCA examinations
7. Percentage of institutions that have satisfactory audit and review programs, including institutions with acceptable corrective action plans

FCA achieved or exceeded all of its targets associated with Goal 2. No institutions were placed in receivership during the reporting period, and 96.7 percent of the System's total assets were fundamentally sound in all material respects. All of the 13 institutions (100 percent) with FIRS ratings of 3 or higher had acceptable corrective action plans in place.

Of the System's assets, 99.5 percent were in institutions with ratios of adverse assets to risk funds of less than 100 percent. In addition, all institutions complied with regulatory capital ratio requirements. All of the institutions in which FCA examiners had identified violations of laws or regulations had acceptable corrective action plans or were in the process of developing such plans. Also, FCA examiners reviewed the audit and review programs of 72 institutions and found either that the programs were satisfactory or that the institutions were operating under acceptable corrective action plans.

# 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

Tepid economic growth, financial market turmoil, and volatile margins in the agricultural economy pose significant management challenges for borrowers, FCS institutions, and FCA alike.

Although the country emerged from the deep global recession in 2009, U.S. economic growth continues to lag behind the growth rates of past recoveries, despite immense fiscal and monetary stimulation. Several causes contribute to this lag:

- Because of the slow and uneven pace of the recovery, employers have been reluctant to add to their payrolls, keeping unemployment rates high long after the recession officially ended.
- Consumers who had accumulated record debt before the recession are now spending and borrowing less.
- Although housing prices may have hit bottom, the weak housing market negatively affects both consumer confidence and the ability of households to obtain credit.
- The uncertainty of future U.S. budget and tax policies is adding to economic uncertainty for consumers and businesses, including those in the agricultural sector.
- The prospect of sovereign debt default in Europe has unsettled global financial markets, increasing risks and uncertainty associated with investing capital.

These and other factors have contributed to a slowing in worldwide economic growth and to instability in global commodity and currency markets.

While capital markets remain volatile, the System's ability to issue debt across the yield curve has remained strong, and investor demand for System securities has been favorable across all products, leading to historically low costs for System debt. Global investors have sought safety in the U.S. Treasuries market, causing historically low interest rates to drop even further. Investor demand has been strong despite Standard and Poor's downgrade of U.S. Government debt from AAA to AA+ and its subsequent downgrade of System debt. However, a reversal of global market conditions could raise System borrowing costs and spreads.

Potential reform of legislation affecting Government-sponsored enterprises contributes to the uncertainty in the current financial environment. Although the System remains fundamentally safe and sound and may not be a direct target of reform, reform legislation could indirectly affect the cost and flexibility of the System's funding sources.

In part because of strong growth in Asia's developing economies following the recession, export demand for agricultural products has been robust, and this demand has contributed to higher farm commodity prices. But growth rates, even in these economies, could dissipate. Inflationary pressures, labor shortages, and government policies, including credit misallocations, could slow China's economic growth. Because the demand for U.S. agricultural products depends increasingly on exports, any slowing of world economic growth, especially in China, presents a challenge to U.S. agriculture.

USDA has forecast near-record farm incomes for 2011 as a result of high prices for important commodities. A rare two-year decline in average U.S. corn production, coupled with strong domestic and foreign demand, has pushed stocks of this key commodity to historically low levels. Domestic corn demand has been driven by the ramp-up of U.S. ethanol production. However, this demand is now leveling off, because ethanol's mandated usage has nearly been reached; this increases the odds that worldwide supply will catch up with demand.

Grain is a major cost for livestock producers, and higher feed costs have kept livestock margins down despite more favorable livestock prices in 2011. For some time now, producers in industries like feedlots and broilers have either lost money or made no profit. Gross margins for cow-calf, hog, and turkey operations have more favorable outlooks going into 2012. However, volatile feed costs, as well as drought in areas of the Southwest, could dramatically affect these margins, too. The weak economy and the depressed housing market continue to negatively affect parts of the forestry and nursery sectors.

Driven by high profit margins for corn and soybeans and low interest rates, Midwest farmland values rose sharply again in 2011. In some markets, prices for prime cropland increased by near-record levels as farmers and investors competed for the limited number of parcels for sale. FCA is closely monitoring the use of credit for land purchases; thus far, current lending practices and standards appear to be keeping excessive debt leverage in check. 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 because of the weak housing and commercial development market.

In general, the current operating environment for agricultural producers is more volatile and risky. As a result, the repayment capacity of producers is more volatile; this, in turn, increases credit risk, as well as collateral risk, for lenders. The rise in price volatility affects not only the prices farmers receive for their products but also the prices they pay for their inputs and the value of the collateral that enables them to borrow. Rising costs of production, greater investments in machinery and equipment, and higher land costs (both to purchase and to rent) are increasing operating capital needs and lending risks; these cost increases hit less experienced and less capitalized young and beginning farmers particularly hard. In such an environment, risk management tools are more critical than ever to business success.

Government farm programs are up for renewal in 2012. Because of budgetary limitations, these programs may not offer the same level of support for the farm sector as in the past; if this is the case, risks for agricultural lenders will increase. Furthermore, today's historically low interest rates can be expected to rise if the economic recovery achieves a firmer footing, and this may bring additional credit and collateral risk.

Consumer interests are giving rise to some important new trends in agriculture. More producers are targeting local markets, using sustainable production practices, practicing organic farming, and making changes in the ways they confine their farm animals. These trends may not fit well within existing loan approval processes, and they may require lenders to offer new or modified lending products and processes.

### Credit Risk

The System remains strong, safe, and secure overall, and its performance measures of credit quality have been steady due to strong farm incomes for many crop and livestock producers. As of June 30, 2011, approximately 85 percent of System institutions by number, and 97 percent of System institutions by total assets, received satisfactory risk ratings of 1 or 2. These numbers reflect the strength of the System overall in a time of difficulty.

Despite currently high volatility in commodity prices, the risk profile for the System has stabilized over the past year. The number of institutions with ratings of 1 or 2 increased slightly, while the number with unsatisfactory ratings of 3 or 4 declined to 13. The number of institutions with ratings of 3 or 4 declined because of rating upgrades, as well as mergers. No institution has the lowest rating of 5. FCA expects the System's risk profile to remain stable in the year ahead, though volatility in commodity markets and the heightened uncertainty and risk in the U.S. general economy make the credit risk environment very difficult to predict.

Another development that reflects an improvement in the System's credit risk profile is a decline in the number of institutions under supervisory action. FCA places a System institution under supervisory action when FCA examiners find weaknesses and unacceptable conditions at the institution. Although merger activity contributed to the decline in the number of institutions under supervisory action this year, steady credit conditions throughout much of the System have helped to keep the number of problem institutions relatively low. Deteriorating conditions in certain geographic areas and large loan concentrations in weak industries characterize several institutions under supervisory action.

After a few years of rapid growth, System asset growth has slowed considerably since 2009. Capital levels relative to risk are adequate at most institutions, and overall capital levels have steadily increased because of the System's strong earnings. Asset quality remains satisfactory overall, although adverse assets and nonaccrual loans remain elevated from the extremely low levels in 2008. System earnings have been very strong in the past few years. The System posted record net income in 2010 and is on track for another record in 2011.

The System has had ready access to short-term funding and has adequate access to longer-term funding. The August 5, 2011, Standard & Poor's downgrade of U.S. long-term debt and the subsequent related downgrade of System long-term debt has had no adverse impact on the System's ability to raise funds. In fact, its cost of funds decreased as investors fled to quality in the face of increasingly uncertain financial markets.

### 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. FCA's management continues to intensify oversight, take proactive measures to safeguard institutions, and identify emerging risks across institutions.

FCA evaluates System institution risk using the Financial Institution Rating System, which is based on the component factors of capital, assets, management, earnings, liquidity, and sensitivity. The overall composite ratings and component ratings range from 1, which is the best, to 5, which is the worst risk rating.

The Agency's Office of Examination continues to focus its workforce on examination and oversight activities at System institutions. The office has implemented detailed strategies, including increased on-site examination time, to identify and address emerging risks at System institutions. The office concentrates its examination time and resources on those System institutions at greatest risk.

In addition, the Office of Examination has identified three National Risk Topics in the fiscal year 2012 Operating Plan to ensure that all examinations have consistent priorities and focus on material and emerging risks. For fiscal year 2012, the National Risk Topics include

- loan portfolio management,
- collateral risk management, and
- borrower profitability and repayment capacity.

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

With increased 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. In recent months, the Agency has taken the following measures:

- In June 2010, the Agency issued an Informational Memorandum to the System to provide collateral risk management guidance. FCA issued this guidance to address concerns that rapidly rising farmland prices in the Midwest may increase collateral risk.

- The Office of Examination has provided additional loan portfolio management examination guidance to its examiners and has shared this guidance with System institutions.

- FCA organized two roundtable meetings in 2011 with the other financial regulators to discuss issues related to farm real estate markets and other emerging risks in agricultural lending.

- FCA continues to work closely with the System to enhance the availability 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 continues to communicate with other Federal agencies on issues affecting System funding, liquidity, and investment risks.

**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 will 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 initiated rulemaking projects to perform the following:

- Further enhance regulatory capital consistent with Basel III concepts
- Improve liquidity investment requirements
- Strengthen loan portfolio investment management practices
- Address disclosure and compliance requirements for executive compensation, pension, and other benefits programs
- Provide guidance on service, outreach, and diversity in all marketplace segments.

FCA's regulatory program will continue to focus on key System risk and mission issues.

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 Wall Street Reform and Consumer Protection Act. The Agency has initiated a rulemaking project regarding the capital and margin requirements for using 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 monitoring the regulations that other financial regulators are creating to 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 2012 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.

Current investments include the following:

- Improving the quality and availability of data, particularly loan and commodity data, without making unreasonable requests of regulated institutions
- Expanding interconnectivity with FCS computing systems to provide timely and reliable access to loan data
- Investing in technology that improves the ways employees communicate and collaborate
- Providing standard hardware and software configurations 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 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. FCA either refunds any funds earned in excess of obligations or uses them to determine assessment amounts for the next year.

For the past few years, 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. See below for additional information about FCA's financial condition for fiscal years (FYs) 2011 and 2010.

### FCA's Assets, Liabilities, and Net Position

The balance sheet on page 52 presents the financial condition of FCA as of the 2011 and 2010 fiscal year-ends. It presents the value of FCA's assets, 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, prepayments, and property and equipment. During FY 2011, total assets increased by $4,334,565, or 12.3 percent, from FY 2010. The increase in investment holdings, which

**Table 1. Composition of Assets**

| Fiscal Year | Fund Balance with Treasury | Investments | Accounts Receivable and Prepayments | Property and Equipment | Total |
|---|---|---|---|---|---|
| 2011 | $ 1,193,978 | $ 37,132,206 | $ 468,012 | $ 671,504 | $ 39,465,700 |
| 2010 | $ 846,045 | $ 33,642,535 | $ 551,307 | $ 91,248 | $ 35,131,135 |

**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 |
|---|---|---|---|---|---|---|
| 2011 | $ 884,348 | $ 5,833,721 | $ 527,537 | $ 1,241,526 | $ 4,195,631 | $ 12,682,763 |
| 2010 | $ 813,278 | $ 5,800,761 | $ 468,668 | $ 1,212,282 | $ 2,132,270 | $ 10,427,259 |

grew by approximately $3.5 million from 2010 to 2011, accounted for more than 80 percent of the increase in total assets. As part of the Agency's investment strategy, FCA purchased $11,712,487 in long-term securities throughout the year. The fund balance with Treasury of $1,193,978 represents 3.0 percent of FCA's total assets. It is generally more advantageous for this amount to be lower since all excess cash is invested in U.S. Treasury securities; however, funds were received from FCS institutions on September 30, after the cutoff period for investing.

The increase in the value of FCA's property and equipment represents the largest percentage increase in assets during FY 2011. The net book value of capitalized property and equipment increased from $91,248 to $671,504, or 635.9 percent, because FCA bulk-purchased new laptops for all employees in FY 2011. FCA made the purchase in accordance with its scheduled laptop replacement cycle program. The old laptops were fully depreciated prior to the purchase of the new laptops.

Total liabilities, as shown in table 2, consist of accounts payable, payroll and benefit accruals, employer contributions and taxes payable, workers' compensation, and deferred revenue. Like total assets, FCA's total liabilities also increased; total liabilities increased by $2,255,504, or 21.6 percent, from 2010 to 2011. The large increase 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 increase in total liabilities.

At the end of FY 2011, FCA received $4,195,631 in assessments from FCS financial institutions that were not yet due. At the beginning of FY 2012, this amount becomes due and payable to FCA and will be reclassified as revenue received in October.

Employer contributions and taxes payable, which increased by 12.6 percent, account for the second highest percentage increase in liabilities. This amount increased because the number of FCA employees rose in FY 2011.

As shown in table 3 and on the balance sheet, FCA's net position increased by $2,079,061, or 8.4 percent, from September 30, 2010, to September 30, 2011. The increased cash and investment holdings account for this significant increase.

The net position primarily consists of cash and investments in U.S. Treasury securities, which the Farm Credit Act of 1971, as amended, permits the Agency to use during unforeseen emergencies so that FCA does not have to rely on other sources of cash. As of September 30, 2011, the net position was 69.9 percent of the Agency's cash and investment balances. The Agency's net position, which is 211.2 percent of its total liabilities, is more than adequate to cover its liabilities.

**Table 3. Composition of Net Position**

| Fiscal Year | Adjusted Beginning Balance | Imputed Costs | Net Cost of Operations | Ending Balance |
|---|---|---|---|---|
| 2011 | $24,703,876 | $5,054,879 | ($2,975,818) | $26,782,937 |
| 2010 | $24,451,441 | $5,044,417 | ($4,791,982) | $24,703,876 |

**Table 4. Available Funding**

| Funding and Funding Sources | 2011 | 2010 |
|---|---|---|
| Assessments (current year) | $52,500,000 | $49,100,000 |
| Assessments (carryover from prior years) | 6,900,000 | 5,400,000 |
| Reimbursable activity | 596,563 | 852,516 |
| Interest from investments | 560,206 | 554,413 |
| Total | $60,556,769 | $55,906,929 |

**FCA's Funding and Fund Sources**

Table 4 shows the funding that was available or collected by FCA for FYs 2011 and 2010. Funding and fund sources increased by $4,649,840, or 8.3 percent, from FY 2010 to FY 2011. An increase in the 2011 assessments and in assessment carryover from prior years mainly accounts for this increase. Funding agreements received for reimbursable activity decreased in FY 2011, whereas interest from investments increased only slightly in FY 2011 from FY 2010. Reimbursable funding decreased by 30.0 percent because the Agency continued to perform reimbursable work under funding already in place prior to FY 2011.

In FY 2011, FCA continued to carry out the Agency's mission, program goals, and objectives within the available funding amount. As table 5 shows, FCA used $53,376,466, or 88.1 percent, of the funds available in 2011, compared with $50,910,019, or 91.1 percent, of the amount of funds available in 2010. The amount of available funds remaining in 2011 totaled $7,180,303, compared with $4,996,910 in 2010. In FY 2011, 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 82.2 percent of total funds used in 2011. Personnel compensation and benefits increased by $1,825,285, or 4.3 percent, because of an increase in staff from 2010. Funds used for property and equipment increased by $985,328, or 402.5 percent, the largest percentage increase among all of the budget categories. This increase occurred because FCA, which replaces its hardware and software on a normal life-cycle basis, bulk-purchased laptops for all employees during FY 2011.

## PERFORMANCE AND FINANCIAL RESULTS

This section describes FCA's financial condition and the results of its efforts to meet its performance goals and objectives for the fiscal years ended September 30, 2011, and September 30, 2010. Please read this information 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 sections of this report that cover budgetary obligations.

FCA continues to ensure that the FCS, including Farmer Mac, remains a sound and dependable source of credit and related financial services to U.S. agriculture and rural areas. Furthermore, the Agency provides reimbursable services to other Government agencies and nongovernmental enti-

**Table 5. Funds Used by Major Budget Category**

| Budget Category | FY 2011 | Percent of Total | FY 2010 | Percent of Total |
|---|---|---|---|---|
| Personnel compensation and benefits | $ 43,899,796 | 82.3% | $ 42,074,511 | 82.6% |
| Travel and transportation | 3,331,447 | 6.2% | 3,701,185 | 7.3% |
| Contractual services | 3,277,466 | 6.1% | 3,388,696 | 6.7% |
| Property and equipment | 1,230,157 | 2.3% | 244,829 | 0.5% |
| Other | 1,637,600 | 3.1% | 1,500,798 | 2.9% |
| Total | $ 53,376,466 | 100.0% | $ 50,910,019 | 100.0% |

ties. The Agency's accomplishment of its strategic goals and objectives, coupled with the continued business growth and sound condition of the FCS despite the troubled economy, attests to the quality of FCA products, services, and operations.

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 primary source of funding for FCA is the annual assessment of FCS institutions, which increased $3,400,000, or 6.9 percent, in 2011. This follows increases of $4,000,000, or 8.9 percent, in 2010 and $2,550,000, or 6.0 percent, in 2009.

The net cost of FCA programs totaled $2,975,818 for the 12 months ended September 30, 2011, compared with $4,791,982 for the same period the previous year. Costs exceeded revenues in both 2011 and 2010 because of noncash imputed expenses of approximately $5 million each year for employee retirement liability and building rent. FCA is required to report imputed costs on the Statement of Net Cost in accordance with the Statements of Federal Financial Accounting Standards. During 2011, cash revenues exceeded cash disbursed and contributed to the increase in FCA's cash and investment holdings. As a result, cash and investments totaled $38,326,184, compared with $34,488,580 for September 30, 2010. Cash received from assessments and reimbursable activity in any given year is based on FCA Board-approved budgets, which are expected to be adequate to fund operations for the year.

The total cost of FCA's programs for FY 2011 is $57,163,153, compared with $55,364,576 for FY 2010. Employee salaries and benefits represent the Agency's most significant cost. For 2011, employee compensation totaled $43,978,718, or 76.9 percent of total cost. FCA program costs increased because the Agency hired additional staff and adjusted the compensation of Agency employees. FCA salary and benefits increased $1,902,071, or 4.5 percent, from 2010.

The Agency increased its staff by 10 full-time-equivalent positions in 2011 to address demands for more onsite presence in FCS institutions and to fulfill the human capital plan for resource needs. The Agency adjusted its employee compensation by $775,820 to provide pay-for-performance increases to non-executive employees. 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's ability to maintain effective operations will require FCA staff to acquire new skill sets for meeting the regulatory demands of an evolving FCS. FCA's ongoing strategic study concludes that the FCS will continue to evolve to have fewer—but much larger and more complex—institutions. This will place greater pressure on FCA examiners and analysts to have the right skills to address demands and risks associated with evolving agricultural and rural economies.

Another challenge facing FCA is the attrition of its staff: FCA expects that, by 2016, approximately 35 percent of its staff will retire or resign. In 2011, FCA continued to make organizational changes related to the examination function, as well as changes associated with its examination activities, to accommodate anticipated FCS changes and to better utilize staff skill sets. Furthermore, FCA updated its comprehensive Human Capital Plan to address staff resource needs through the recruitment, mentoring, training, and promotion of staff, and through the use of career internship programs to attract promising new employees.

The Agency complied with the President's pay freeze for Federal employees. 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 2011 totaled $54,187,335, up $3,614,741 from 2010. Increases in earned revenues during FY 2011 resulted from increases in the assessments paid by FCS institutions, including Farmer Mac; from increases in earnings from reimbursable services to non-FCS entities; and from increases in interest income on investments in U.S. Treasury securities. Like earned revenues, program costs also increased during the 12 months ended September 30, 2011, but the increase in revenues mitigated the increase in program costs. As a result, the net program costs decreased in 2011 by $1,816,164 from 2010.

**Public Mission Program**

FCA invests significant resources in its policymaking and regulatory functions to ensure that the FCS, including Farmer Mac, fulfills its public mission as Congress mandated. The Agency maintained its prior-year performance by meeting or exceeding all of its 2011 goals for rulemaking and corporate activity projects.

For the fiscal year ended September 30, 2011, program cost for public mission was $11,833,497, representing a 6.6 percent increase, or an increase of $736,892, from the same period the previous year. Program cost for the public mission is 20.7 percent of FCA's total costs for 2011. FCA continued to provide regulation, policy, and guidance for the FCS, including Farmer Mac, to fully utilize its authorities to increase the safe and sound flow of funds to U.S. agriculture and rural areas. The Agency maintained its focus in 2011 on increasing FCS lending to young, beginning, and small farmers and ranchers.

FCA continued to encourage the FCS to develop new products and services to reach out to potential customers and to serve the public good. The Agency focused on ensuring that the outreach programs of the FCS institutions, including Farmer Mac, provided credit and related financial services to all eligible customers, including young, beginning, and small farmers and ranchers. Furthermore, the FCA Board approved a proposed rule requiring System institutions to emphasize diversity and inclusion in their operation and business plans. In addition, to protect the rights of loan applicants and borrowers, FCA reviewed and investigated inquiries and complaints regarding the FCS loan process and acts of alleged discrimination.

During FY 2011, through the issuance of Bookletters and Informational Memorandums, FCA provided interpretive guidance to System institutions to enable them to better understand their lending authorities and therefore to more appropriately market their products and services. In addition, FCA encouraged FCS institutions to form partnerships with non-System lenders to bring funds back into rural communities for needed facilities and for the support of agricultural production and employment. The Agency promoted public participation in the rulemaking process and sought to reduce the regulatory burden on the FCS. Through these efforts, FCA eliminated unnecessary, redundant, or outdated regulations; corrected cross-reference errors; and clarified the intent of a regulatory provision. FCA's corporate activity continued to be low; the FCS has a relatively small number of institutions because of the many mergers since 2000.

**Safety and Soundness Program**

The examination and supervision of the FCS represents the most significant part of FCA program costs. FCA continued to add resources in 2011 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 14 institutions as of September 30, 2011, reflects the risk facing the FCS today.

FCA met its goals and measure targets to ensure the safety and soundness of the FCS institutions, including Farmer Mac. Program cost for the examination and supervision of the FCS increased $1,041,972 to $44,227,156, or 77.4 percent of FCA's total costs in 2011. The FCS, remains fundamentally sound, with 99.5 percent of FCS assets in institutions with ratios of adverse assets to risk funds of less than 100 percent. FCA continues to monitor progress on the issues of concern.

The Office of Examination continued its reorganization plans to better use its resources and employee skill sets and to enhance risk oversight programs. FCA provides conclusions and recommendations to institution boards of directors on their institutions' risks and regulatory compliance. Agency examiners provide feedback through written communication and through meetings with senior management and boards of FCS institutions.

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. FCA maintains effective early-warning and risk identification systems and oversight programs to identify and address emerging risks and related issues in FCS institutions.

**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. Program cost for other activity increased $19,713 to $1,102,500 in 2011 because of increases in salaries and benefits. The costs for providing reimbursable services represented approximately 1.9 percent of FCA's total costs in 2011, compared with 2.0 and 1.9 percent for 2010 and 2009, respectively. Earned revenue for other activity totaled $1,140,404 for 2011, compared with $896,322 for 2010.

Reimbursable services provided by FCA primarily include examining the NCB and institutions affiliated with USDA. FCA performs an annual examination of the NCB as directed by Congress. FCA has performed examinations under interagency agreements of affiliated institutions for USDA since 2001.

## LIMITATIONS OF THE FINANCIAL STATEMENTS

The principal financial statements have been prepared to report the financial position and results of operations of FCA, 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 to provide the Agency with several financial management services.

Through this partnership, 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 needs. It is Web based and interfaces with other systems to integrate other key FCA activities, such as e-payroll, e-travel, purchase card activity, and Federal investments. Through its partnership with the Administrative Resource Center, FCA obtains the best value while maintaining a high standard of financial management practices.

Although FCA maintains its procurement services in house, the Agency partners with the Administrative Resource Center for procurement system services. 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 the Administrative Resource Center, 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 on Office of Inspector General (OIG) audits, inspections, evaluations, and related activities, and Agency follow-up. The OIG's two semiannual reports covering FY 2011 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 Recommendations**

| | |
|---|---|
| Recommendations or agreed-upon actions uncorrected as of October 1, 2010: | 11 |
| New agreed-upon actions during FY 2011: | 1 |
| Agreed-upon actions corrected during FY 2011: | 11 |
| Open agreed-upon actions as of September 30, 2011: | 1 |
| Recommendations or agreed-upon actions open more than one year: | 1 |

**Summary of OIG Audit, Inspection, and Evaluation Activities**

At the beginning of FY 2011, there were 11 open agreed-upon actions carried over from FY 2010. The OIG issued three audit, inspection, or evaluation reports during FY 2011 that resulted in one new agreed-upon action.

- On November 8, 2010, 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 2010. The auditor opined that FCA's principal financial statements presented fairly, in all material respects, the financial position of the Agency as of September 30, 2010. 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, 2010, of an evaluation of the Agency's compliance with the Federal Information Security Management Act for FY 2010. While the report revealed no significant deficiencies, it did contain one agreed-upon action, which was closed by management on January 4, 2011.

- The OIG issued a final audit report on September 12, 2011, on the Agency's approval process of the Farm Credit Banks Funding Corporation's debt issuances on behalf of the FCS banks. The audit, which found the Agency's approval process to be in compliance with all guidelines, produced no action items.

Ten additional agreed-upon actions were closed in FY 2011 resulting from two reports issued in the prior fiscal year.

- The OIG issued a final report on July 26, 2010, of an inspection of FCA's compliance with the Government in the Sunshine Act. Although the OIG found that the Agency adheres to the Sunshine Act, the inspection did produce one agreed-upon action, which management closed on May 2, 2011.

- The OIG issued a final report on September 16, 2010, of an inspection of FCA's process for reviewing, tracking, and responding to FCS borrowers' complaints. Although the OIG found that the process for handling borrower complaints is satisfactory, the inspection produced ten agreed-upon actions. Nine were closed during FY 2011, but one remains open.

### 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 annually evaluate 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 2011, 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 2011.

### 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 2011, FCA and its shared-service provider paid all bills within the time requirement, thus resulting in $0 in interest penalties. Payments are made by electronic funds transfer through the use of 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. Although the act has no material effect on FCA because the Agency operates with virtually no delinquent debt, FCA, if necessary, will transfer debts that are older than 180 days 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 in programs 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, 2011, 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, 2011, 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, 2011

# Program Performance

# FCA Performance Report

FCA is an independent Federal agency responsible for regulating and examining the Farm Credit System and 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 agriculture and rural America. Its vision is to enable the FCS, in partnership with others, to meet the changing needs of 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 ensuring that institutions take corrective action when necessary. 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 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 2008–2013 also contains "desired outcomes" for each goal, as well as 19 in-depth descriptions of the "means and strategies" that the Agency uses to accomplish these goals and to achieve the desired outcomes and results. In addition, the 12 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.

FCA published its five-year Strategic Plan for Fiscal Years 2008–2013 in May 2008. The FCA Board published the Strategic Plan for Fiscal Years 2011–2016 in May 2011. This Performance Report is based on the 2008–2013 plan because that was the plan in effect for the majority of the July 1, 2010, through June 30, 2011, reporting period.

The Strategic Plan for Fiscal Years 2011–2016 has the same two strategic goals as the 2008–2013 plan, but there are a few notable differences. The 2008–2013 plan contains in-depth descriptions of the "means and strategies" that the Agency uses to accomplish its strategic goals, but the 2011–2016 plan contains "strategies" and "actions" for achieving goals. The 2011–2016 plan also addresses the vastly changed environment facing agriculture: historically low interest rates; commodity and input price volatility; sustainability, environmental, food safety, and animal welfare issues; and pressure to reduce subsidies for ethanol and support payments in the upcoming Farm Bill.

However, the substance and direction of both the 2008–2013 Strategic Plan and the 2011–2016 Strategic Plan remain focused on improving effectiveness and efficiency; minimizing the cost burden on 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 their respective means and strategies were effective in helping to meet both strategic goals described below.

## Goal 1—Ensure 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. The Agency established 12 means and strategies to accomplish this goal, and it defined 5 performance measures to evaluate the Agency's progress and success.

The means and strategies refer to initiatives that

- encourage the FCS to establish outreach programs for providing credit and other financially related products to better serve chartered territories;
- ensure equitable treatment of borrowers and applicants;
- encourage cooperation among System and non-System lenders to facilitate the flow of funds to agriculture and rural areas; and
- encourage Farmer Mac to broaden its customer base and agricultural secondary markets to serve a wide variety of originating lenders, including community banks, commercial banks, agricultural banks, and insurance companies.

In addition, because the System is required by statute to offer programs to provide financially sound and constructive credit and related services to young, beginning, and small (YBS) farmers and ranchers, FCA continues to encourage the FCS to improve its service to YBS producers. By cultivating the next generation of farmers and ranchers, the FCS helps ensure that our Nation will be able to produce the food and fiber that future generations of consumers will need.

FCA also recognizes that for agriculture to flourish, it is equally important to ensure that the Nation's cooperatives and farm-related businesses have access to a dependable source of credit and financially related services so that they may successfully process and market the products of agriculture. The Agency believes that its regulatory supervision of the FCS must be flexible to ensure that the benefits Congress intended the System and Farmer Mac to provide to America's agricultural and rural areas continue without disruption. The means and strategies contained in the Strategic Plan are designed to help ensure that the FCS and Farmer Mac fulfill their public mission.

The following discussion provides additional information on the activities the Agency undertook to accomplish Goal 1.

#### Means and Strategy #1—Ensure that FCS lenders and Farmer Mac fulfill their public mission by reaching out to all potential eligible customers.

FCA examinations conducted by the Agency's Office of Examination (OE) evaluated the business and marketing plans and credit delivery programs of System institutions during 2011. 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. 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.

In addition, the FCA Board recently approved a proposed rule that would amend 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 proposed rule specifically addresses the importance of diversity and inclusion. It would also require institutions to assess their progress in carrying out these strategies.

Through its Office of Secondary Market Oversight (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 agriculture, 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.

One of FCA's principal responsibilities is to ensure that the System and Farmer Mac serve the public good. To fulfill this responsibility, FCA maintains a program of responding to and investigating, as needed, issues raised by the System's loan applicants and borrowers and other members of the public regarding the activities of FCS institutions and Farmer Mac. During the reporting period from July 1, 2010, through June 30, 2011, the Agency responded to 57 borrower inquiries. FCA's investigations found no material violations of law or regulation. The investigations did not reveal any information or evidence to suggest that the System's direct-lender institutions were not adequately fulfilling their mission.

**Means and Strategy #2—Ensure that all eligible customers have access to sound credit and related financial services and encourage outreach activities for all eligible customers, including minority and socially disadvantaged farmers and ranchers and minority-owned cooperatives.**

In addition to the regulations that govern the rights of System loan applicants and borrowers, 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. 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. On the basis of examinations and investigations conducted, FCA concluded that eligible and creditworthy customers have access to the System and are treated fairly and equitably. FCA also noted continued compliance with equal credit opportunity and equal housing laws. 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.

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.

**Means and Strategy #3—Enable the System and Farmer Mac to serve evolving customer needs by maintaining a regulatory environment responsive to the changing needs of agriculture and rural America.**

To the extent permitted by the Farm Credit Act, the Agency explores all avenues to be flexible in its interpretive guidance to System institutions and Farmer Mac. When examining compliance with borrower-eligibility and scope-of-lending rules, examiners work closely with the Office of General Counsel and the Office of Regulatory Policy to ensure an appropriate and consistent interpretation of statutes and regulations.

The interpretations derived are 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.

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 permit System institutions with direct-lending authority to purchase certain agricultural and cooperative loans from the Federal Deposit Insurance Corporation.

- The FCA Board approved a proposed rule that would amend 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 proposed rule specifically addresses the importance of diversity and inclusion. It would also require institutions to assess their progress in carrying out their strategies.

- The FCA Board adopted a Policy Statement reaffirming its commitment to cooperative principles and promoting the participation of System members in their institutions. The Agency then issued an Informational Memorandum notifying System institutions of the Policy Statement and emphasizing that operating in a cooperative manner requires the boards of directors and management to engage and communicate with members and to provide members with value-added benefits.

- 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.

- OSMO, with assistance from 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 evaluated and responded to requests by Farmer Mac to manage various investments in its liquidity reserve whose risk had significantly changed during the recent period of instability in the capital markets. OSMO staff continued to manage regulatory projects related to the Risk-Based Capital Stress Test and other areas of supervision, including liquidity and diversity and inclusion within Farmer Mac's customer base and staff.

**Means and Strategy #4—Emphasize regulatory activities related to young, beginning, and small (YBS) farmers, ranchers, and producers or harvesters of aquatic products.**

Since 1998, the Agency has focused considerable resources on improving the implementation and controls of YBS programs and the reporting of YBS lending results. FCA continues to evaluate YBS programs and related trends in System lending activities based on the demographics of chartered territories and FCS efforts to provide financial or business management assistance and outreach to YBS farmers.

All programs evaluated by examiners for the reporting period were considered satisfactory. As a result of the examination and regulatory attention FCA has placed on YBS lending, the System has increased its focus on, and improved its administration of, YBS programs, the quality of board reporting, and public disclosure. Borrowers have directly benefited: YBS loan volume has risen since 2001.

YBS initiatives remain a priority of the Agency, and FCS institutions continue to implement the guidance provided in the revised 2007 Bookletter, "Providing Sound and Constructive Credit to YBS Farmers, Ranchers, and Producers or Harvesters of Aquatic Products" (BL-040). The guidance provided in this Bookletter is important to 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.

**Means and Strategy #5—Emphasize Farmer Mac's obligation to promote and encourage the inclusion of qualified loans for small farms and family farmers in the agricultural mortgage secondary market.**

The statute requires Farmer Mac to promote and encourage the inclusion of small and family farms in its programs. 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.

**Means and Strategy #6—Encourage the System and Farmer Mac to use guarantee programs including, but not limited to, USDA programs and to work with Federal and State agencies that offer such programs in order to streamline processes.**

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.

Farmer Mac provides secondary market liquidity to Federal and State guarantee programs through its Farmer Mac II and Farmer Mac III programs, respectively. Growth in Farmer Mac II program volume exceeded 9 percent in each of the last two performance reporting periods. Farmer Mac reports its participation in the USDA programs in the annual Mission Report to FCA.

**Means and Strategy #7—Encourage all System institutions and Farmer Mac to continue to include a discussion in annual reports of how they are meeting their public mission.**

FCA's routine examinations of institution business plans and shareholder and public disclosures include a review of how the institutions fulfill and discuss their public mission as GSEs. When examiners identify reasons for concern that institutions are not meeting their public mission or discussing the public mission appropriately in their annual reports, they address the issue with institution officials in the examination oversight process.

Farmer Mac's year-end 2010 Annual Report and Form 10-K filing 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 ongoing marketing efforts.

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

**Means and Strategy #8—Enable the agricultural GSEs to restructure themselves to best serve their customers and rural America.**

During the year, the FCA Board approved three requests to merge operations. One of the merger requests involved three institutions and the other two requests each involved two institutions. The Board also granted preliminary approval to the request from an agricultural credit bank and a farm credit bank to merge their districts and operations.

**Means and Strategy #9—Ensure that regulatory definitions reflect the changes in agriculture, rural areas, and the financial marketplace.**

FCA monitors changes in the regulatory community and periodically reviews and updates its 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.

Farmer Mac received guidance from OSMO on various regulatory and statutory compliance issues. During FY 2010, these issues focused especially on building capital and asset quality.

**Means and Strategy #10—Identify and eliminate, consistent with law and safety and soundness, all regulations that are unnecessary, unduly burdensome, or not based on law.**

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.

**Means and Strategy #11—Encourage partnerships between System and non-System lenders and Farmer Mac that facilitate the flow of funds to agriculture and rural areas.**

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 investment programs allow System institutions to partner with non-System lenders to bring funds into rural communities for needed facilities.

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.

**Means and Strategy #12—Communicate best practices or establish guidelines when appropriate on FCA-regulated institutions' efficient and effective use of partnerships and other relationships with non-FCA-regulated entities to facilitate the flow of funds to agriculture and rural areas.**

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. 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; OSMO believes these efforts strengthen Farmer Mac's relationship with originating sellers and servicers.

## 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. FCA's examination and regulatory supervision of each institution, as well as Farmer Mac, is the principal avenue by which this goal is achieved.

The Agency established seven means and strategies to accomplish this goal and defined seven performance measures to evaluate the progress and success of its oversight of the System. The means and strategies address the critical components of effective supervision and require FCA to maintain an effective training program for examiners, to coordinate regulatory guidance and examination procedures, to focus on risk management and risk-bearing capabilities of institutions, and to identify risk and to ensure that any necessary corrective actions are taken in a timely manner.

The seven performance measures in the FCA Strategic Plan are designed to measure the overall safety and soundness of the System and Farmer Mac, and FCA's performance in keeping System institutions fundamentally sound in all material respects and in compliance with laws and regulations. The following discussion provides additional details on the activities that contributed to FCA's overall achievement of Goal 2.

### Means and Strategy #1—Maintain an effective examination and oversight program through maintenance of the Precommission Training Program and ongoing training of commissioned examiners.

The wave of Agency retirements and the growing complexity and sophistication of the institutions examined have created the need to attract examination staff and to build staff skill levels and competencies. 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.

**Means and Strategy #2—Develop regulatory guidance and examination procedures that keep pace with evolving strategies used by the FCS and Farmer Mac in addressing the changing needs of their customers in rural areas.**

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, 2010, through June 30, 2011, FCA developed and issued various forms of guidance, such as the following:

- The FCA Board approved a proposed rule that would amend 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 proposed rule specifically addresses the importance of diversity and inclusion. It would also require institutions to assess their progress in carrying out these strategies.

- 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. In addition, each System institution's board of directors must adopt a written policy to effectively measure, limit, and monitor exposures to concentration risks resulting from lending and leasing activities.

- The FCA Board issued a Bookletter to provide clarification and guidance regarding FCA's regulations and expectations related to investment asset management. The Bookletter identifies the key elements that each institution should include in its investment asset management framework. The objective of the Bookletter is to help institutions prudently manage their investments in changing markets.

- The FCA Board issued a Bookletter that communicates the Agency's expectations for the submission of proposals to merge FCS banks. The FCA Board recognizes that merger decisions primarily rest with System stockholders. However, given the complexity of issues that may result from bank mergers, the FCA Board also wants to ensure that merger applications identify and comprehensively address all the broad implications for the System and its institutions.

- The FCA Board adopted a Policy Statement reaffirming its commitment to cooperative principles and promoting the participation of System members in their institutions. The Agency then issued an Informational Memorandum notifying System institutions of the Policy Statement and emphasizing that operating in a cooperative manner requires the boards of directors and management to engage and communicate with members, and to provide members with value-added benefits.

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 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.

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 includes the following focus areas:

- Loan Portfolio Management
- Large, Complex, and Shared Assets
- Collateral Risk Management
- Compensation Programs and Corporate Governance
- Borrower Rights and Compliance
- Financial Management
- Counterparty Risk

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.

**Means and Strategy #3—Evaluate whether each FCS institution and Farmer Mac have established and are maintaining proactive risk management practices commensurate with their respective risk-bearing capacities.**

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 commensurate with their respective risk-bearing capacities. Examiners encourage and evaluate risk concentration management and the use of risk parameters, stress testing, and loan underwriting standards.

In addition, FCA proactively issues risk management guidance to the System, such as the following:

- "FCA's Stress Testing Expectations for All FCS Institutions," an Informational Memorandum issued in March 2010
- "Collateral Risk Management in Farm Credit System Institutions," an Informational Memorandum issued in June 2010
- "Farm Credit System Investment Asset Management," a Bookletter issued in December 2010
- "Loan Underwriting Standards—Borrower Financial Information," an Informational Memorandum issued in March 2011

OSMO conducted examination activities and monitoring and oversight reviews that focused on Farmer Mac's risk management practices. During 2011, Farmer Mac continued to focus on strengthening its capital position while continuing to broaden 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.

**Means and Strategy #4—Evaluate whether each direct-lender institution maintains systems that allow it to analyze the characteristics of risk and borrower profiles in its loan portfolio.**

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.

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.

**Means and Strategy #5—Evaluate whether management and board governance of FCA-regulated institutions is keeping pace with the increasing size and complexity of institutions' operations.**

Examiners continue to make recommendations, where appropriate, to further strengthen institution governance. In particular, examiners are focusing on the effectiveness of audit and review programs and the scope and depth of activities performed by audit committees.

The Agency finalized a rule that took effect in 2006 to strengthen the governance of FCS institutions. The intent was to enhance board oversight; improve disclosure of compensation arrangements; provide guidance on director qualifications; and strengthen requirements for audit, nominating, and compensation committees. FCA examiners concluded that the overall compliance of System institutions with the governance rule is satisfactory.

Periodically, FCA also issues communications to FCS institutions regarding governance. Recent communications include the following:

- In July 2009, FCA issued "Compensation Committees," a Bookletter providing guidance on prudent compensation committee practices.
- In November 2010, FCA distributed 20 copies per FCS institution of "The Role of Farm Credit System Nominating Committees," a brochure about the rights and obligations of Nominating Committee members and how to identify good candidates for the board of directors.
- In December 2010, OE issued its FY 2011 National Oversight Plan. Among other risk topics, the plan specifically addressed "compensation programs and corporate governance."

Board governance practices at Farmer Mac remain a central focus of the annual FCA examination because of the extent to which these practices resonate throughout Farmer Mac's operations. The Farmer Mac board has made good progress in addressing FCA's recent recommendations. FCA routinely monitors Farmer Mac's adherence to the Sarbanes-Oxley Act's provisions on board governance, as well as industry self-regulatory standards established by the New York Stock Exchange.

**Means and Strategy #6—Maintain early warning systems, research, and analysis that allow timely identification of emerging risks in FCS institutions and incorporate the findings into examination and oversight programs.**

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 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. The areas of risk assessed are credit, interest rate, liquidity, operations, compliance, strategic, reputation, and internal controls.

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 make significant progress on enhancements to the Risk-Based Capital Stress Test; these enhancements have required extensive research and analysis of risks.

**Means and Strategy #7—Ensure that examinations include sufficient samples of assets to ensure that material risks to the FCS are appropriately identified and managed.**

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
- Compensation programs and corporate governance

# Table 6a
# Goal 1—Public Mission
# Performance Measures and Results
## July 1, 2010, to June 30, 2011

| Measure | Results | 2008 | | 2009 | | 2010 | | 2011 | | 2011 |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Target | Results | Target | Results | Target | Results | Target | Results | Results vs. Target |
| 1. Percentage of FCS institutions[1] with satisfactory business plans and management systems for providing constructive credit and related services to all potential customers, including institutions with acceptable corrective action plans | FCA examiners reviewed the strategic business plans and management systems of 88 FCS institutions. All plans and systems were found to be satisfactory, or the institutions had acceptable corrective action plans. | >90% | 100% | ≥90% | 100% | ≥90% | 100% | ≥90% | 100% | ▲ |
| 2. Whether Farmer Mac has developed and implemented a marketing program to appropriately grow program assets consistent with its mission and whether it has received a satisfactory rating from the Office of Secondary Market Oversight (OSMO) or is operating under a corrective action plan acceptable to OSMO | Farmer Mac has a marketing program that accomplishes this measure and has received a satisfactory rating from OSMO or is operating under a corrective action plan acceptable to OSMO. | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | ✓ |
| 3. Percentage of direct-lender institutions with satisfactory internal controls over consumer compliance and borrower-rights compliance, including institutions with acceptable corrective action plans | FCA examiners performed compliance reviews at 71 direct-lender institutions. All had satisfactory internal controls over consumer compliance and borrower-rights compliance. | ≥90% | 100% | ≥90% | 100% | ≥90% | 100% | ≥90% | 100% | ▲ |

Note: The following defines the symbols and abbreviations used to describe targets in the Performance Measures and Results tables: > is greater than; ≥ is greater than or equal to; N/A indicates either that the measure is not applicable or that FCA's performance could not be measured; ▲ indicates FCA's performance exceeded the FY 2011 target; ✓ indicates FCA achieved the FY 2011 target.

1. For purposes of performance measurement, the term "institutions" does not include the FCS service corporations, the National Consumer Cooperative Bank, Farmer Mac (unless specifically noted), or institutions that FCA examines on behalf of the Small Business Administration and the U.S. Department of Agriculture on a contract basis.

## Table 6a
## Goal 1—Public Mission
## Performance Measures and Results
### July 1, 2010, to June 30, 2011

| Measure | Results | 2008 Target | 2008 Results | 2009 Target | 2009 Results | 2010 Target | 2010 Results | 2011 Target | 2011 Results | 2011 Results vs. Target |
|---|---|---|---|---|---|---|---|---|---|---|
| 4. Percentage of instances in which the Agency solicits public comment and input on applicable regulatory initiatives using supplemental approaches[2] to the notice and comment rulemaking process | Supplemental approaches were used on three of three regulatory initiatives. | ≥40% | 89% | ≥40% | 50% | ≥40% | 50% | ≥40% | 100% | ▲ |
| 5. Percentage of direct-lender institutions that have satisfactory programs to furnish sound and constructive credit and related services to young, beginning, and small (YBS) farmers, ranchers, and producers or harvesters of aquatic products, including institutions with acceptable corrective action plans | FCA examiners reviewed the YBS programs at 73 direct-lender institutions. All of the programs were found to be satisfactory, or the institutions were operating under acceptable corrective action plans. | ≥90% | 100% | ≥90% | 100% | ≥90% | 100% | ≥90% | 100% | ▲ |

2. Supplemental approaches include advance notices of proposed rulemaking, comment period reopenings and extensions, constituent/congressional committee meetings, public meetings, focus groups, town meetings, and other approaches to gathering a broad range of public input. To ensure technical accuracy, the results reported were calculated by dividing the number of regulatory initiatives that used supplemental approaches by the total number of regulatory projects published in the Regulatory Performance Plan. The process for reporting performance results for supplemental approaches was addressed in a recent report by the Office of Inspector General. The results reported here are in accordance with the Inspector General's recommendations.

## Table 6b
## Goal 2—Safety and Soundness
## Performance Measures and Results
**July 1, 2010, to June 30, 2011**

| Measure | Results | 2008 Target | 2008 Results | 2009 Target | 2009 Results | 2010 Target | 2010 Results | 2011 Target | 2011 Results | 2011 Results vs. Target |
|---|---|---|---|---|---|---|---|---|---|---|
| 6. Number of institutions that FCA placed in receivership because of financial failure during the previous 12 months | During the past 12 months, no FCS institutions were placed in receivership. | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | ✓ |
| 7. The total assets of FCS institutions that FCA has determined are fundamentally sound in all material respects | Of the System's total assets, 96.7 percent were determined to be fundamentally sound in all material respects. | ≥90% | 99% | ≥90% | 98.7% | ≥90% | 96% | ≥90% | 96.7% | ▲ |
| 8. Percentage of FCS institutions with composite Financial Institution Rating System (FIRS) ratings of 3, 4, or 5 with acceptable corrective action plans in place to address the problems identified by FCA examiners | Thirteen FCS institutions had composite FIRS ratings of 3 or worse, and all institutions had acceptable corrective action plans in place. | 100% | 100% | 100% | 100% | 100% | 94.4% | 100% | 100% | ✓ |
| 9. Percentage of System assets in institutions with ratios of adverse assets to risk funds of less than 100 percent | Of the System's assets, 99.5 percent were in institutions with ratios of adverse assets to risk funds of less than 100 percent. | ≥90% | 100% | ≥90% | 99.7% | ≥90% | 99.6% | ≥90% | 99.5% | ▲ |
| 10. Percentage of institutions complying with regulatory capital ratio requirements (permanent capital ratio, total surplus ratio, core surplus ratio, net collateral ratio, risk-based capital), including institutions with acceptable corrective action plans | All FCS institutions complied with the regulatory capital requirements. | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | ✓ |

## Table 6b
## Goal 2—Safety and Soundness
## Performance Measures and Results
**July 1, 2010, to June 30, 2011**

| Measure | Results | 2008 Target | 2008 Results | 2009 Target | 2009 Results | 2010 Target | 2010 Results | 2011 Target | 2011 Results | 2011 Results vs. Target |
|---|---|---|---|---|---|---|---|---|---|---|
| 11. Percentage of FCS institutions with acceptable action plans to correct violations of laws and regulations identified by FCA examinations | FCA examiners identified 57 FCS institutions with violations of laws and regulations. All had acceptable corrective action plans in place or were in the process of developing such plans. | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | ✓ |
| 12. Percentage of institutions that have satisfactory audit and review programs, including institutions with acceptable corrective action plans | FCA examiners reviewed the audit and review programs of 72 FCS institutions. All of the programs were found to be satisfactory, or the institutions were operating under acceptable corrective action plans. | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | ✓ |

# 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) 2011 financial statements. In addition, the auditor identified no material weaknesses in the Agency's internal controls or instances of noncompliance with laws and regulations. These opinions reflect FCA's uncompromising commitment to excellence in financial reporting. FY 2011 marks the 18th 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 controls oversees FCA's internal controls program. The team met in FY 2011 and performed an assessment of FCA's internal control program. The senior assessment team's members were selected from all major programs at FCA to ensure that the Agency maintained and reinforced a cohesive, robust internal control environment.

The Agency's record of accomplishment extended to other areas of review as well. The annual independent Federal Information Security Management Act review of the Agency's information systems security program revealed no significant or material weaknesses. The Office of Personnel Management completed an audit with only two required actions and concluded the following:

- FCA empowers its workforce by promoting learning and leadership development skills at every level.
- Employees understand the importance of their work in relation to the Agency's mission, and managers communicate the Agency's goals and objectives regularly.
- Overall, FCA's recruitment and staffing program meets the Agency's operational needs and complies with Federal laws, regulations, and merit system principles.

FCA also participated in a Federal Government Continuity of Operations exercise that focused on establishing priorities for essential functions and conducting operations from a pre-planned devolution location. FCA achieved its objectives at both its Emergency Operations Center and its devolution location.

Strong performance budgeting and financial controls will remain a priority at FCA during FY 2012. However, to build upon its tradition of accountability and transparency, the Agency is 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. Agency offices continue to collaborate to integrate FCA's mission-support activities with the Agency's two basic functions—issuing regulations and implementing public policy, and identifying risk and taking corrective action.

In closing, all successful organizations recognize that their most important resource is a 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.

Sincerely,

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 8, 2011

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, 2011. 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, 2011 and 2010, 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 work 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 7, 2011.

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, even though some factors affecting this challenge may be influenced by events that are outside the control of the Agency. Second, but no less important, 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 the economic volatility and risks in that industry. While the FCS remains generally safe and sound, recent adversity in several major commodity groups has caused deterioration in a number of FCS institutions, although very recently this deterioration seems to have stabilized. The Agency's **challenge** is to continue to ensure the System's ability to withstand such vulnerabilities in the long-term and to remain safe and sound.

**Mission**

Further, the overall environment facing agriculture, rural America, and the FCS is ever-changing, presenting new opportunities and altering historical perspectives on System operations. 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

**System Oversight**

Even though farm income on the whole remains strong, several factors have caused deterioration in a number of FCS institutions in recent years. This deterioration and the effect these factors have on the ongoing condition of the FCS continue to warrant the careful attention of FCA. As represented by FCA's Office of Examination (OE), some of these factors are

- inadequate oversight and management by some institution boards and management teams, respectively;
- severe weather conditions ranging from extreme heat in the Midwest, to drought in Texas and other southern states, to flooding along the Mississippi and other rivers;
- stress in livestock and dairy operations as a result of high feed prices;
- stress in the poultry, forestry, and nursery sectors; and
- escalated land values that may not be sustainable.

Other factors that may affect agriculture and FCS institutions negatively are potential demand issues for agricultural products should the global economy continue to decline and should there be reductions in farm program payments.

In providing for System oversight, the **challenge** for the Agency is twofold: to continue to be an independent, objective, and effective regulator; and 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.

**Staffing**

The Agency has a comprehensive 5-year Human Capital Plan covering FYs 2012-2016. Recent recruitment initiatives for all levels within the Agency have utilized broad search criteria, and focused on obtaining the best skill-sets and achieving diversity in FCA's workforce.

FCA's Board of Directors 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

- projections indicate that one-third of the Agency workforce is eligible to retire during the next five 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 the FCA; and
- 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, identifying the critical skills needed in the future, appropriately allocating resources between line and staff functions, and by ensuring continuity in both management positions and other professional staff.

**Organization**

Although the Agency's statutory mission has remained constant, other factors affect the Agency's operations and organization. A major factor is the recurring turnover in the FCA Board's composition and Chairmanship. Additionally, since the most recent substantive FCA reorganization some 6 years ago, the heads of several offices have changed, FCS's banks and associations have continued merging, geographic territories of merged institutions have changed, FCS institutions' products and the examination thereof have become more complex, and one conditionally approved merged bank will likely exceed $100 billion in total assets in the foreseeable future.

These and other factors bear on FCA's organizational structure, particularly that of the OE, as it is the largest FCA unit and potentially most affected by changes in the FCS. For example, an OE organizational consideration could be the number and location of its examination field offices, in addition to its ongoing overall structure.

Given that change affecting the FCS and FCA is ongoing as described above, and that the most recent changes to FCA's organization occurred several years ago, a **challenge** to the FCA Board and senior management is to periodically reassess FCA's organizational structure to ensure it remains optimal in relation to all relevant factors.

**Leveraging Technology**

The Agency's ability to leverage investments in new 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 new information technology (IT) initiatives to improve Agency operations. Over the past few years, the Agency made significant investments in new technologies and began implementing several tools to improve communication, collaboration, and efficiency of operations. The Agency's **challenge** is to maximize the use of new IT investments that will increase Agency efficiency and effectiveness. The successful implementation of new technologies will provide FCA staff with the IT tools and skills that will enable the Agency 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, 2011 and 2010 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 audit.

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 audit provides 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, 2011 and 2010 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 7, 2011 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. The MD&A, although not a part of the basic financial statements, is required by OMB Circular A-136, *Financial Reporting Requirements*, as revised. As such, it is considered 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.

Bean & Company

Largo, Maryland
November 7, 2011

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, 2011 and have issued our report thereon dated November 7, 2011. 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 7, 2011

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# 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, 2011 and have issued our report thereon dated November 7, 2011. 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 reportable instances of 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.

Brown & Company

Largo, Maryland
November 7, 2011

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# FINANCIAL STATEMENTS AND RELATED NOTES

**FARM CREDIT ADMINISTRATION**
**BALANCE SHEET**
**As of September 30, 2011 and 2010**

| | 2011 | 2010 |
|---|---|---|
| **ASSETS** | | |
| Intragovernmental | | |
| Fund balance with Treasury (Note 2) | $ 1,193,978 | $ 846,045 |
| Investments (Note 3) | 37,132,206 | 33,642,535 |
| Accounts receivable (Note 4) | - | 165,041 |
| Prepaid expenses | - | - |
| Total intragovernmental | 38,326,184 | 34,653,621 |
| Accounts receivable (Note 4) | 336,991 | 216,592 |
| General property, equipment, and software, net (Note 5) | 671,504 | 91,248 |
| Prepaid expenses | 131,021 | 169,674 |
| **Total assets** | **$ 39,465,700** | **$35,131,135** |
| **LIABILITIES** | | |
| Intragovernmental | | |
| Accounts payable | $ 126,489 | $ 57,164 |
| Accrued post-employment compensation | 63,708 | 51,721 |
| Employer contributions and payroll taxes payable | 451,096 | 399,087 |
| Total intragovernmental | 641,293 | 507,972 |
| Accounts payable | 757,859 | 756,114 |
| Actuarial workers' compensation liability (Note 6) | 1,177,818 | 1,160,561 |
| Accrued payroll and benefits | 5,833,721 | 5,800,761 |
| Employer contributions and payroll taxes payable | 76,433 | 69,345 |
| Accrued taxes payable | 8 | 236 |
| Deferred revenue | 4,195,631 | 2,132,270 |
| **Total liabilities** | **$ 12,682,763** | **$10,427,259** |
| **NET POSITION** | | |
| Cumulative results of operations | 26,782,937 | 24,703,876 |
| **Total net position** | **$ 26,782,937** | **$24,703,876** |
| **Total liabilities and net position** | **$ 39,465,700** | **$35,131,135** |

The accompanying notes are an integral part of these statements.

**FARM CREDIT ADMINISTRATION**
**STATEMENT OF NET COST**
**For the Years Ended September 30, 2011 and 2010**

| | 2011 | 2010 |
|---|---|---|
| **PROGRAM COSTS** | | |
| **Public Mission** | | |
| Gross costs | $ 11,833,497 | $ 11,096,605 |
| Less: Earned revenues | (11,263,081) | (10,177,633) |
| Net Cost | 570,416 | 918,972 |
| **Safety and Soundness** | | |
| Gross costs | 44,227,156 | 43,185,184 |
| Less: Earned revenues | (41,783,850) | (39,498,639) |
| Net Cost | 2,443,306 | 3,686,545 |
| **Other Activities** | | |
| Gross costs | 1,102,500 | 1,082,787 |
| Less: Earned revenues | (1,140,404) | (896,322) |
| Net Cost | (37,904) | 186,465 |
| **Net cost of operations (Notes 7 and 8)** | **$ 2,975,818** | **$ 4,791,982** |

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, 2011 and 2010**

| | 2011 | 2010 |
|---|---|---|
| **CUMULATIVE RESULTS OF OPERATIONS** | | |
| Beginning balances | $ 24,703,876 | $ 24,451,441 |
| Other financing sources | | |
| Imputed financing sources from costs absorbed by others | | |
| Federal employee benefits (Note 9) | 2,879,879 | 3,044,417 |
| Rent (Note 10) | 2,175,000 | 2,000,000 |
| Total financing sources | 5,054,879 | 5,044,417 |
| Less: Net cost of operations | (2,975,818 ) | 4,791,982 |
| **Net position—Ending balances** | **$ 26,782,937** | **$ 24,703,876** |

The accompanying notes are an integral part of these statements.

**FARM CREDIT ADMINISTRATION**
**STATEMENT OF BUDGETARY RESOURCES**
**For the Years Ended September 30, 2011 and 2010**

| | 2011 | 2010 |
|---|---|---|
| **BUDGETARY RESOURCES** | | |
| Unobligated balance brought forward, October 1: | $ 25,612,144 | $ 25,161,982 |
| Budget authority | | |
| Spending authority from offsetting collections | | |
| Earned | | |
| Collected | 56,644,245 | 50,795,446 |
| Change in receivables from Federal sources | (226,859) | (120,471) |
| Change in unfilled customer orders | | |
| Without advance from Federal sources | (241,556) | 115,455 |
| Anticipated for rest of year, without advances | - | - |
| Subtotal | 56,175,830 | 50,790,430 |
| Total Budgetary Resources (Note 11) | $ 81,787,974 | $ 75,952,412 |
| **STATUS OF BUDGETARY RESOURCES** | | |
| Obligations Incurred - Reimbursable | $ 52,735,587 | $ 50,340,268 |
| Unobligated balance available - Exempt from apportionment | 24,856,756 | 23,479,874 |
| Unobligated balance not available | 4,195,631 | 2,132,270 |
| **Total status of budgetary resources** | **$ 81,787,974** | **$ 75,952,412** |
| **CHANGE IN OBLIGATED BALANCE** | | |
| Obligated balance, net | | |
| Unpaid obligations, brought forward, October 1 | $ 9,033,784 | $ 8,198,078 |
| Less: Uncollected customer payments from Federal sources, brought forward, October 1 | (1,263,026) | (1,268,041) |
| Total unpaid obligated balance, net | 7,770,758 | 6,930,037 |
| Obligations incurred net | 52,735,587 | 50,340,268 |
| Less: Gross outlays | (52,548,420) | (49,504,562) |
| Change in uncollected customer payments from Federal sources | 468,415 | 5,015 |
| **Total, unpaid obligated balance, net, end of period** | **$ 8,426,340** | **$ 7,770,758** |
| Obligated balance, net, end of period | | |
| Unpaid obligations | $ 9,220,951 | $ 9,033,784 |
| Less: Uncollected customer payments from Federal sources | (794,611) | (1,263,026) |
| **Total, unpaid obligated balance, net, end of period** | **$ 8,426,340** | **$ 7,770,758** |
| **NET OUTLAYS** | | |
| Gross outlays | $ 52,548,420 | $ 49,504,562 |
| Less: Offsetting collections | (56,644,245) | (50,795,446) |
| Net outlays | $ (4,095,825) | $ (1,290,884) |

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 and Statement of Social Insurance 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.

*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, 2011 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 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.

*I. Liabilities*—Liabilities may be covered or not 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 nonvested 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

| | 2011 | 2010 |
|---|---|---|
| **Fund balance with Treasury** | | |
| Revolving fund | $ 1,193,978 | $ 846,045 |
| Total fund balance with Treasury | $ 1,193,978 | $ 846,045 |
| | | |
| **Status of fund balance with Treasury** | | |
| Unobligated balance | | |
| Available | $ 24,856,756 | $ 23,479,874 |
| Unavailable | 4,195,631 | 2,132,270 |
| Obligated balance not yet disbursed | 8,426,340 | 7,770,758 |
| Subtotal—Status of fund balance | 37,478,727 | 33,382,902 |
| | | |
| Funds invested with Treasury | | |
| Net of unamortized discount | (36,284,749) | (32,536,857) |
| | | |
| **Total fund balance with Treasury** | **$ 1,193,978** | **$ 846,045** |

## Note 3. Investments

**Intragovernmental Securities**

**Amounts for 2011 Balance Sheet Reporting**

| | Cost | Unamortized (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 |

**Amounts for 2010 Balance Sheet Reporting**

| | Cost | Unamortized (Premium) Discount | Investments Net | Interest Receivable | 09/30/10 Investment Balance | Market Value Disclosure |
|---|---|---|---|---|---|---|
| Nonmarketable | | | | | | |
| Market-based | $34,184,445 | $(810,865) | $33,373,580 | $268,955 | $33,642,535 | $34,027,653 |

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 $560,206 and $554,413 for FYs 2011 and 2010, respectively.

## Note 4. Accounts Receivable

| | 2011 | 2010 |
|---|---|---|
| **Intragovernmental** | | |
| Reimbursements for services provided | $ - | $165,041 |
| Expenditure refunds | - | - |
| Subtotal | - | 165,041 |
| | | |
| **With the public** | | |
| Assessments | 302,923 | 181,050 |
| Expenditure refunds | 34,068 | 35,542 |
| Subtotal | 336,991 | 216,592 |
| | | |
| **Total accounts receivable** | **$336,991** | **$381,633** |

## Note 5. General Property, Equipment, and Software

| | 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** |

| | As of September 30, 2010 | | | | |
|---|---|---|---|---|---|
| | **Estimated Useful Life** | **Depreciation Method** | **Acquisition Value** | **Accumulated/ Amortized Depreciation** | **Book Value** |
| Equipment | 3 years | Straight line | $547,485 | $(456,237) | $91,248 |
| **Total** | | | **$547,485** | **$(456,237)** | **$91,248** |

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

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 2011 and 2010 are $1,177,818 and $1,160,561, 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 8.9 to 9.2; however, the compensation LBP ratio decreased from 10.3 to 10.2.

## Note 7. Intragovernmental Costs and Exchange Revenue

| | Farm Credit Administration for the Years Ended September 30, 2011 and 2010 | |
|---|---|---|
| | 2011 | 2010 |
| **Public Mission** | | |
| Intragovernmental costs | $ 2,929,122 | $ 2,640,548 |
| Public costs | 8,904,375 | 8,456,057 |
| Total costs—Public mission | 11,833,497 | 11,096,605 |
| Intragovernmental earned revenue | (118,250) | (113,336) |
| Public earned revenue | (11,144,831) | (10,064,297) |
| Total revenue—Public mission | (11,263,081) | (10,177,633) |
| Net program costs—Public mission | 570,416 | 918,972 |
| **Safety and Soundness** | | |
| Intragovernmental costs | 11,150,332 | 10,692,049 |
| Public costs | 33,076,824 | 32,493,135 |
| Total costs—Safety and soundness | 44,227,156 | 43,185,184 |
| Intragovernmental earned revenue | (441,956) | (441,076) |
| Public earned revenue | (41,341,894) | (39,057,56) |
| Total revenue—Safety and soundness | (41,783,850) | (39,498,639) |
| Net program costs—Safety and soundness | 2,443,306 | 3,686,545 |
| **Other Activity** | | |
| Intragovernmental costs | 199,505 | 229,732 |
| Public costs | 902,995 | 853,055 |
| Total costs—Other activity | 1,102,500 | 1,082,787 |
| Intragovernmental earned revenue | (838,118) | (737,061) |
| Public earned revenue | (302,286) | (159,261) |
| Total revenue—Other activity | (1,140,404) | (896,322) |
| Net program costs—Other activity | (37,904) | 186,465 |
| **Net cost of operations (+/-)** | **$ 2,975,818** | **$ 4,791,982** |

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

### Farm Credit Administration
### for the Year Ended September 30, 2010

| | Office | | | | |
|---|---|---|---|---|---|
| | **Examination** | **Regulatory Policy** | **Secondary Market Oversight** | **Other Organizations** | **Total** |
| **Public Mission** | | | | | |
| Gross costs | $ 345,866 | $ 3,762,805 | $ 400,962 | $ 6,586,972 | $11,096,605 |
| Less: Earned revenue | (315,273) | (3,430,710) | (391,192) | (6,040,458) | (10,177,633) |
| Net program cost | 30,593 | 332,095 | 9,770 | 546,514 | 918,972 |
| **Safety and Soundness** | | | | | |
| Gross costs | 28,885,241 | 1,234,672 | 765,384 | 12,299,887 | 43,185,184 |
| Less: Earned revenue | (26,351,417) | (1,125,463) | (746,733) | (11,275,026) | (39,498,639) |
| Net program cost | 2,533,824 | 109,209 | 18,651 | 1,024,861 | 3,686,545 |
| **Other Activity** | | | | | |
| Gross costs | 777,845 | 11,547 | 4,966 | 288,429 | 1,082,787 |
| Less: Earned revenue | (643,893) | (9,559) | (4,111) | (238,759) | (896,322) |
| Net program cost | 133,952 | 1,988 | 855 | 49,670 | 186,465 |
| **Net Cost of Operations** | **$ 2,698,369** | **$ 443,292** | **$ 29,276** | **$ 1,621,045** | **$ 4,791,982** |

## Note 9. Federal Employee Benefits

| | 2011 | 2010 |
|---|---|---|
| Imputed pension cost | $1,287,485 | $1,514,913 |
| Other imputed retirement benefits | 1,592,394 | 1,529,504 |
| **Total** | **$ 2,879,879** | **$3,044,417** |

*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. 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 2011 and 2010. Corresponding amounts of imputed revenue are recorded to offset the imputed cost.

*Other Retirement Benefit Expenses*—SFFAS No. 5 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

| | 2011 | 2010 |
|---|---|---|
| Leased field offices | $ 1,119,906 | $ 994,552 |
| FCA headquarters | 1,055,094 | 1,005,448 |
| **Total** | **$ 2,175,000** | **$ 2,000,000** |

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 amounts are estimates based on the FCSBA estimated budget for 2011 and 2010. In accordance with SFFAS No. 4, 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 2011**

The 2013 Budget of the United States Government, with the Actual Column completed for FY 2011, 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 2012. It will be available on FCA's Web site at www.fca.gov/reports/publications.html.

**FY 2010**

The 2012 Budget of the United States Government, with the Actual Column completed for FY 2010, 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, unpaid, at the end of the period should be disclosed. For the years ended September 30, 2011 and 2010, undelivered orders, unpaid, amounted to $1,911,638 and $1,899,357, respectively.

## Note 13. Reconciliation of the Net Cost of Operations to the Budget

SFFAS No. 7 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.

## Note 13. Reconciliation of the Net Cost of Operations to the Budget (continued)

| | Farm Credit Administration for the Years Ended September 30, 2011 and 2010 | |
|---|---|---|
| | **2011** | **2010** |
| **Resources Used to Finance Activities** | | |
| Budgetary resources obligated | | |
| Obligations incurred | $ 52,735,587 | $ 50,340,268 |
| Less: Spending authority from offsetting collections and recoveries | (56,175,830) | (50,790,430) |
| Net obligations | (3,440,243) | (450,162) |
| Other resources | | |
| Imputed financing from costs absorbed by others | 5,054,879 | 5,044,417 |
| Other resources | 2,063,361 | 39,549 |
| Net other resources used to finance activities | 7,118,240 | 5,083,966 |
| Total resources used to finance activities | 3,677,997 | 4,633,804 |
| Resources used to finance items not part of the net cost of operations | (763,647) | (326,111) |
| Total resources used to finance the net cost of operations | 2,914,350 | 4,307,693 |
| Components of the net cost of operations that will not require or generate resources in the current period | 61,468 | 484,289 |
| Net cost of operations | $ 2,975,818 | $ 4,791,982 |

# Other Accompanying Information

**Table 7. Summary of Financial Statement Audit**

| | |
|---|---|
| Audit Opinion | Unqualified |
| Restatement | No |

| Material Weaknesses | Beginning Balance | New | Resolved | Consolidated | Ending Balance |
|---|---|---|---|---|---|
| (Not applicable) | | | | | |
| [Name of weakness] | | | | | |
| [Name of weakness] | | | | | |
| Total material weaknesses | | | | | |

# Additional Information

The Farm Credit Administration Performance and Accountability Report Fiscal Year 2011 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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1501 Farm Credit Drive
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1110/100