Farm Credit Administration

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

Performance and Accountability Report
Fiscal Year 2005

Contents

Statement of the Chairman and CEO

November 2005

As the Chairman and Chief Executive Officer of the Farm Credit Administration (FCA or Agency), and on behalf of the FCA Board, I invite you to review this report on the Agency's accomplishments and program and financial performance during fiscal year 2005. Through the publication of this Performance and Accountability Report, we share with you our efforts to fulfill our mission, to meet day to day operational challenges, and to remain steadfast in our goal to manage change by planning for the future.

I am pleased to report that FCA achieved each of its strategic plan goals and achieved or exceeded all but one of the performance measures this year. FCA's first goal is to ensure that the Farm Credit System (System) and the Federal Agricultural Mortgage Corporation (Farmer Mac) fulfill their public mission for agriculture and rural areas. Our second goal is to evaluate risk and provide timely and proactive oversight to ensure the System's and Farmer Mac's safety and soundness. The Agency's third goal, implementing the President's Management Agenda, requires reassessing the Agency's structure periodically to maintain an efficient and effective organization; and as a result of a strategic study this year, we were able to make significant structural improvements. This year's results demonstrate FCA's achievement of these three goals, while we recognize that the ultimate measure of the Agency's performance will be whether the regulated institutions continue to serve their mission and remain fundamentally sound in all material respects. In addition to our programmatic results, FCA is also accountable for financial results. I am pleased to report that our fiscal year 2005 financial statements have received an unqualified opinion from the Agency's independent auditor. Our financial statements present fairly the financial results of the Agency and demonstrate our commitment to sound financial management.

One of my goals as the Chief Executive Officer is to administer the programs of the Agency as efficiently and effectively as possible. Therefore, I rely on the Agency's systems of management controls to adhere to sound financial management practices, to comply with Federal law, and to protect the Agency's assets. I am happy to report that based on internal management evaluations, and in conjunction with the results of independent financial statement audits, the Agency can provide reasonable assurance that the objectives of Section 2 (internal controls) of the Federal Managers' Financial Integrity Act (FMFIA) have been achieved. The Agency can also provide reasonable assurance that the objectives of Section 4 (financial management systems) of FMFIA have been achieved as the Agency's financial systems conform to government-wide standards.

As we bring to a close another successful year for the FCA, I am proud to report that we were able to accomplish our mission to ensure a safe, sound, and dependable source of credit and related services for agriculture and rural America. Thanks to the highly experienced, hard working, and dedicated FCA staff, we made and will continue to make a positive difference. As our work reflects, we are committed to doing what is best for agriculture, rural America, and the American people whom we serve.

Nancy C. Pellett
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 within the executive branch of the U.S. Government 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, and agricultural and rural utility cooperatives.

Originally created by a 1933 Executive order of President Franklin D. Roosevelt, today's FCA derives its powers and authorities from the Farm Credit Act of 1971, as amended (Farm Credit Act or Act). The U.S. Senate Committee on Agriculture, Nutrition, and Forestry and the U.S. House of Representatives Committee on Agriculture oversee the FCA and the FCS.

The FCA is responsible for ensuring a dependable source of credit for agriculture and rural America. We do this in two specific ways. First, we conduct on-site examinations of Farm Credit System institutions to monitor and oversee the safety and soundness of their ongoing activities. These examinations also focus on whether System institutions are meeting their public mandate to serve all eligible borrowers. Second, we approve corporate charter changes and research, develop, and adopt rules, regulations, and other guidelines that govern how System institutions conduct their business and interact with their customers.

If a System institution violates a law or regulation, or if its operations are unsafe or unsound, FCA may use its enforcement authority to ensure that the problem is corrected. FCA also protects the rights of borrowers, issues and changes the charters of FCS institutions, reports to Congress on the financial condition and performance of the FCS, and approves the issuance of System debt obligations.

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

FCA policy and its regulatory agenda 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. They serve six-year terms and may not be reappointed after serving full terms or more than three years of previous members' terms. The President designates one member as Chairman of the Board, who serves until the end of his own term. The Chairman also serves as FCA's Chief Executive Officer (CEO).

The FCA does not receive a Federal appropriation. We are funded through assessments paid by System institutions.

Mission

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

FCA Offices

The 261 full- and part-time employees of the Farm Credit Administration work together to ensure that the Farm Credit System remains a dependable source of credit for agriculture and rural America. The following paragraphs explain the functions of each of the Agency's offices.

The FCA Board approves the policies, regulations, charters, and enforcement activities that ensure a strong Farm Credit System. The Board also provides for the examination and supervision of the FCS, including Farmer Mac, and oversees the FCS Building Association's (FCSBA's) activities.

The Secretary to the Board ensures that the FCA Board complies with statutory, regulatory, and internal operation procedures requirements. The Board Secretary is the Parliamentarian to the FCA and Farm Credit System Insurance Corporation (FCSIC) Boards.

The Office of the Chief Executive Officer (CEO) enforces the rules, regulations, and orders of the FCA Board. The CEO is responsible for directing the implementation of policies and regulations adopted by the FCA Board. The office plans, organizes, directs, coordinates, and controls Agency 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, and prepares testimony for the Chairman and other staff members. The office provides information to external audiences through news releases, information brochures and fact sheets, the annual FCA Performance and Accountability Report, and other publications. OCPA manages media relations regarding Agency activities, and the content of the FCA Web site. The office also coordinates special meetings, briefings for international visitors, and field hearings.

The Office of Examination promotes a safe and sound Farm Credit System through comprehensive oversight, examination, and regulatory standards. This allows the System to accomplish its congressional mandate as a Government-sponsored enterprise (GSE) for agriculture and rural America. The office ensures that FCS institutions comply with applicable laws and regulations, directs a program of examination policy formulation, and manages the Agency's enforcement actions.

The Office of the General Counsel provides the FCA Board and staff with legal counsel, as well as guidance on general corporate, personnel, ethics, and administrative matters. The office 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 Register*, creates and maintains the Agency's public rulemaking files, and handles the Agency's submission of the Unified Agenda of Federal Regulatory and Deregulatory Actions. The office also handles Freedom of Information Act requests and matters pertaining to the Privacy Act.

The Office of the Inspector General provides independent and objective oversight of Agency programs and operations through audits, inspections, 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, and abuse in the Agency's programs and operations.

The Office of Regulatory Policy manages all policy and regulation development activities that ensure the safety and soundness of the FCS and supports the System's mission as a dependable source of credit and related services for agriculture and rural America. Policy and regulation development activities include the analysis of policy and strategic risks to the System, considering economic trends and other risk factors. The office also evaluates all regulatory and statutory prior approvals for System institutions, including chartering and other corporate approvals, as well as funding approvals on behalf of the FCA Board.

The Office of Management Services manages and delivers information technology, financial, human capital, and administrative services for the Agency. The Office oversees the following functions:

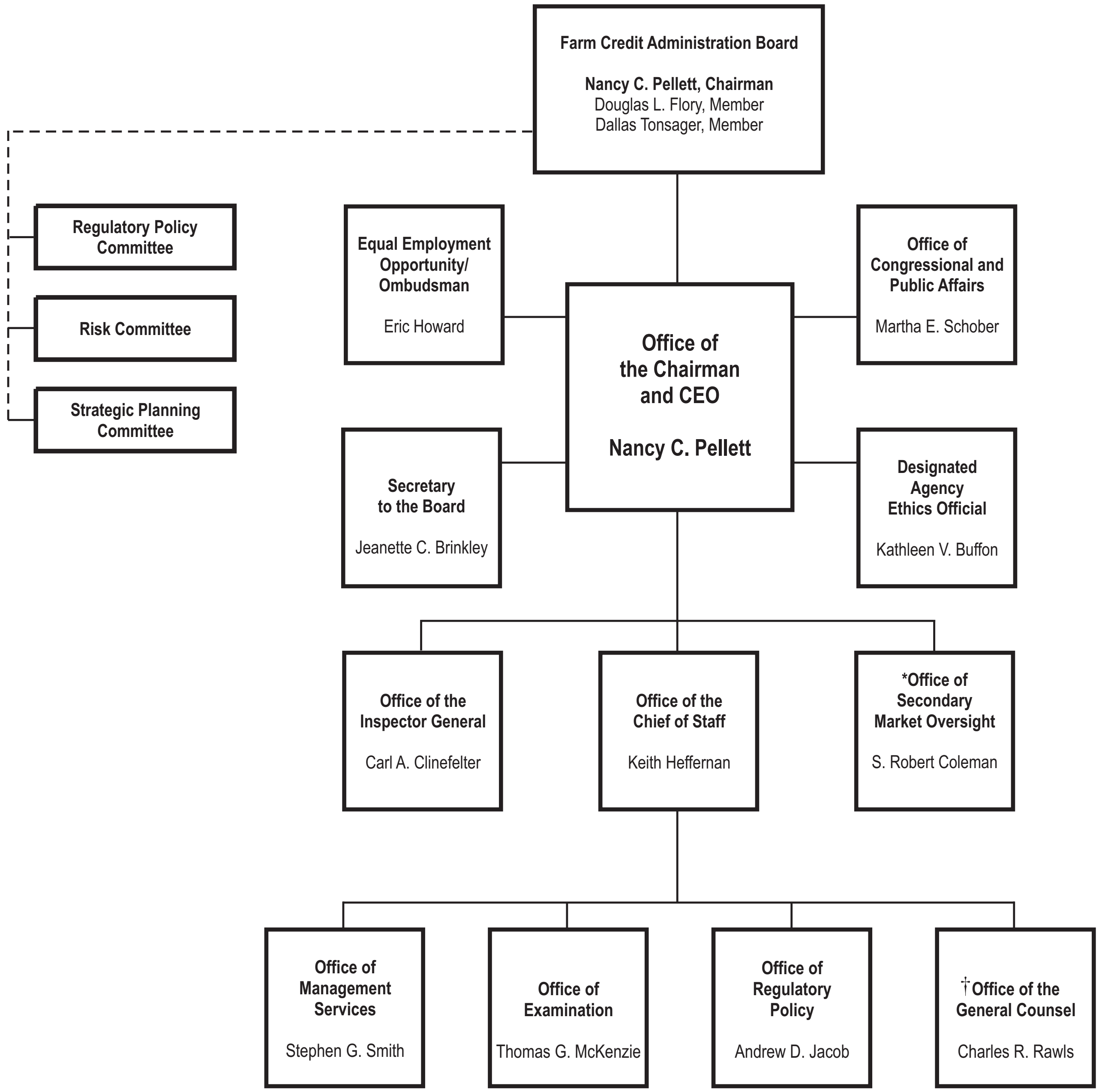
> *The Chief Administrative Officer* provides administrative services to the Agency, and directs FCA's Human Capital Program. The function develops policies and programs for staffing and placement, job evaluation, employee relations and benefits, payroll, training, contracting, procurement, mail, supply, transportation services, and property management.

> *The Chief Information Officer* oversees all FCA activities related to managing information and associated technology. This function establishes policies and plans for applying technology to meet business needs. It ensures the security and integrity of FCA's systems. It also administers the Agency's data and applications architecture, and provides database administration; systems development; customer assistance; and network, videoconferencing, Web, and e-business services. The office also administers the Agency's records management, knowledge management, and library services.

> *The Chief Financial Officer* provides timely, accurate, and reliable financial services to the Agency. The function establishes financial systems policies and procedures and ensures financial systems function in accordance with applicable standards. It also includes preparation of the Agency's budget. This function pays vendors and provides reports on the results of operations and budgetary resources.

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

Organization
Farm Credit Administration
As of September 30, 2005



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

Highlights of FCA's Performance Goals and Results

The principal foundation of the 2004–2009 strategic plan of the Farm Credit Administration serves to achieve the objectives for which Congress established the Farm Credit System. As provided in the Farm Credit Act of 1971, as amended (Act), the purpose of the FCS is to enhance the farmer-owned cooperative system by making credit available to farmers and ranchers and their cooperatives, for rural residences, and to associations and other entities upon which farming operations depend. The FCS provides an adequate and flexible flow of money into rural areas.

The Act further states Congress's policy that a prosperous, productive agriculture sector is essential to a free nation. Recognizing the growing need for credit in rural areas, the Act mandates that the farmer-owned cooperative FCS be designed to improve the income and well-being of American farmers and ranchers by furnishing sound, adequate, and constructive credit and closely related services for them, their cooperatives, and for selected farm-related businesses necessary for efficient farm operations. Therefore, the principal mission of the Agency is to ensure that those who engage in agriculture, live in rural areas, or operate farm-related businesses are provided access to the FCS for their credit and financially related needs.

The FCA's regulatory supervision and oversight of the FCS ensures that System institutions operate in a safe and sound manner and provide dependable sources of constructive credit and financially related services to agriculture and rural areas, as Congress intended. The ultimate measures of FCA's performance are whether the intended recipients are afforded access to the credit and services of the FCS, and whether the FCS is fundamentally sound in all material respects. The results FCA achieved in the reporting period ended June 30, 2005, indicate that it met these objectives, as the services of the Farm Credit System continued uninterrupted in a safe and sound manner throughout the United States and Puerto Rico.

Each year the FCA reviews its strategic plan and, as needed, updates aspects of the plan to ensure that each part remains relevant to the Agency's mission and is in sync with the current operating environment. In January of fiscal year (FY) 2005, the Agency refined several means and strategies and related performance measures to clarify strategies and targeted results, and to sharpen the focus on material issues that objectively measure the Agency's performance. No modifications were made to the Agency's goals, nor was its vision and mission altered. Those parts of the strategic plan remain relevant for the forthcoming operating environment.

The FCA strategic plan for 2004 through 2009 continues to include three goals, each of which has a "desired outcome" and itemized descriptions of the "means and strategies" by which the Agency carries out its mission. Additionally, performance measures that contain "targeted results" are used to determine whether the Agency effectively carried out its mission and achieved the desired outcomes of the strategic plan. Based on the results of operations for FY 2005, FCA successfully achieved each of the three goals in the strategic plan, and it achieved or exceeded all but one, or 94.4 percent, of the performance measures. The following is a summary analysis of FCA's goal performance in its mission to serve the public's interest.

Goal 1 Highlights—Public Mission:

Ensure the Farm Credit System and Federal Agricultural Mortgage Corporation (Farmer Mac) fulfill their public mission for agriculture and rural areas.

Twelve means and strategies and six performance measures are established for Goal 1 in the strategic plan. Four of those measures pertain to using supplemental approaches to gather a broad range of public input on regulatory initiatives: ensuring effective Young, Beginning, and Small Farmer programs; measuring changes in System use of Federal and State loan guarantee programs; and ensuring that System institutions meet consumer compliance and borrower rights requirements. One measure pertains to whether Farmer Mac has developed and implemented a marketing program to appropriately grow program assets consistent with its mission—and whether it received a satisfactory rating from the Office of Secondary Market Oversight (OSMO) or is operating under a corrective action plan acceptable to OSMO. FCA achieved or exceeded all but one of the six performance measures for Goal 1. The Agency was successful in getting System institutions to implement effective business and marketing plans; maintain effective internal control over consumer compliance and borrower rights; and establish effective programs for young, beginning, and small farmers. Although it came close to achievement, the Agency did not meet its goal of using supplemental approaches in soliciting public comments and input on regulations.

Goal 2 Highlights—Safety and Soundness:

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

Seven means and strategies and seven measures exist for Goal 2. The target of having all FCS institutions achieve a composite Financial Institution Rating System (FIRS) rating of 1 or 2 was exceeded, as were other safety and soundness targets. These favorable ratings occurred because all direct-lender institutions were well capitalized and maintained sound levels of risk-bearing capacity. No institutions were placed in receivership during the year, nor were any operating under enforcement actions. Furthermore, all FCS institutions and Farmer Mac complied with FCA capital adequacy regulations. In addition, the targets that measure institution compliance with laws and regulations and the objective to maintain effective audit and review programs were achieved. One of the Agency's targets pertains to the percentage of FCS institutions with FIRS ratings of 3, 4, or 5 having satisfactory corrective action plans. Since all FCS institutions had been supervised to the extent that all had FIRS ratings of 1 or 2, the substance of the measurement was fully achieved because institution action plans precluded deterioration to the less favorable FIRS ratings.

Goal 3 Highlights—President's Management Agenda:

Implement the President's Management Agenda.

Goal 3 has five means and strategies and five performance measures. The means and strategies and related performance measures focus on requiring an assessment of the Agency's structure every five years to maintain an efficient and effective organization, obtaining an unqualified audit opinion on its financial and accounting records, maintaining an effective system of internal control, maintaining compliance with Section 508 accessibility for the Agency's Web site and electronic devices, and ensuring that the Agency's information and technology services are continuously available. All of the means and strategies were effectively carried out in FY 2005, and all of the performance measures for Goal 3 were achieved or exceeded. The structure of the Agency was evaluated through strategic studies, which resulted in numerous structural changes to improve operations and efficiency, and the Agency received an unqualified opinion on its financial statements without any material internal control weaknesses identified by external auditors. Also, the Agency's Web pages and electronic devices remained in compliance with Section 508 accessibility rules throughout the year, and there were no unexpected disruptions to the Agency's computer system services.

Management Challenges

As the Federal regulator for the Farm Credit System, the Farm Credit Administration's primary mission is to ensure that FCS institutions operate safely and soundly and in compliance with all applicable laws and regulations. At present, FCA is faced with external and internal management challenges that are rooted in change. Changes in agriculture and in the financial services industry compel producers and lenders to adopt technology and new methods of doing business and adapt to national and global economic conditions. Just as producers and lenders must adapt to change, the Agency must also both anticipate and react to change in order to provide the System a regulatory environment within which it can fulfill its congressional mandate to provide dependable and constructive credit and related services to agriculture and rural America.

In this time of rapid change in rural America, FCA faces an overarching challenge: how to enable the System to carry out its mission and respond to the needs of its borrowers while ensuring the System's safety and soundness. While change provides opportunity for growth in the Farm Credit System, this opportunity brings additional challenges for FCA, which has the very difficult job of balancing the realities of the System's GSE status and public mission with its desire to expand and grow into new markets.

The congressionally mandated purpose of the System is to provide a permanent source of sound, adequate, and constructive credit to farmers and ranchers, and their cooperatives through good times and bad. FCA must balance its responsibility as the arm's-length regulator that ensures that the System is fundamentally sound and secure with its recognition of the need for regulatory flexibility so that the Farm Credit System is able to fulfill its GSE mandate to serve those in agriculture and rural areas.

Other external factors that offer continuing challenges to the Agency are the changes in agriculture. The budget deficit, natural disasters such as hurricanes, and trade issues will likely continue to require cuts in agriculture subsidies. Other challenges to agriculture include high energy prices and animal and plant diseases such as Bovine Spongiform Encephalopathy (BSE) and soybean rust.

On the other hand, agricultural producers have new capital-intensive opportunities such as the increased demand for alternative energy sources. Ethanol plants are multiplying, and developments in the bio-diesel industry and in wind energy are also beginning to garner much attention. These positive developments will likely create a significant demand for agricultural commodities and land.

Changing needs of rural communities are becoming a priority for policymakers and may also demand a Farm Credit System response, raising other issues for FCA. Recognition that the nation must stimulate and provide capital to rural areas or suffer the social and economic consequences of an economic downturn in those areas is growing. Rural America is now attracting retirees who want to return to their roots and younger people who want a better quality of life. The older group brings business experience and liquidity while the younger group brings enthusiasm and ambition. However, both groups demand amenities that have not been typical in rural America, such as high-speed Internet connections, recreation sites, and cultural opportunities. All these changes in agriculture and rural America will continue to affect the American farmer and rancher, which will in turn affect the Farm Credit System.

In addition to addressing the regulatory challenges arising from the System's response to these changes in agriculture and rural America, FCA is mindful of its responsibility to maintain the integrity of the System as a Government-sponsored enterprise. Recent accounting problems at other GSEs underscore the importance of FCA's continuing efforts to ensure that it and the Farm Credit System preempt any similar problems.

To address concerns stemming from the challenges facing other GSEs, the Agency is developing regulations on governance and disclosure requirements. After last year's attempt by a large System association to terminate its FCS status, FCA identified several issues that will be part of its planned consideration of regulatory changes to existing termination rules for Farm Credit System institutions.

From an internal perspective, as the System adapts to a changing environment, FCA must modify its workforce to make certain that the System's safety and soundness remain the first priority and that the Agency has the resources to meet its primary mission as defined by Congress. Our most valuable resource is our people; however, it is estimated that 100 of the 261 employees will be eligible to retire within the next five years. FCA's human capital strategies, which are linked to its mission, goals, and objectives, focus on ensuring that the Agency will continue to have a highly skilled and competent workforce in spite of potential retirements. To achieve this, FCA must continue to train existing employees and hire new employees to help lessen the impact that retirements could have on the Agency. With the retirement of senior staff members, the average tenure of FCA employees will decrease, making it essential for the Agency to face the challenges of securing the stability and skill level of its workforce through effective succession planning and cross training. Therefore, as a small agency, FCA is involved in strategic workforce planning on an ongoing basis. During FY 2005, Agencywide staffing studies were conducted and the organizational structure of the Agency is being modified to meet future staffing challenges.

In addition to periodic staffing studies, FCA has identified two primary methods for strategic workforce planning: an ongoing Workforce Analysis and a Five-Year Human Resource Plan. The Workforce Analysis project examines the age ranges of employees, their grade levels, their diversity, and their retirement and separations over the past five years, as well as employees eligible for retirement and a projection of anticipated retirements and separations over the next five years. The Five-Year Human Resources Plan is designed to ensure that FCA will have well-trained employees to accomplish the Agency's strategic goals and objectives. Special emphasis is being placed on a client-focused Agency structure and approach to better meet FCA's mission and customer needs. Organizational changes within FCA that began in 2005 following the results of Agencywide staffing studies will be completed in early 2006. Analyzing FCA workforce trends and future needs will help us identify our human capital challenges and invest properly in staff development.

Change is inevitable and always brings challenges. FCA management is committed to meeting these challenges and improving the Agency's efficiency and effectiveness. Our response to these challenges will ultimately ensure a safe and sound Farm Credit System that services the changing face of agriculture and rural America as Congress intended.

Analyses and Highlights of FCA's Financial Statements

Financial Highlights

Financial Operation of the FCA

The Farm Credit Administration operates under the authority of the Farm Credit Act of 1971, as amended. FCA maintains a revolving fund in which moneys are obtained primarily from assessments received from the Farm Credit System institutions, including the Federal Agriculture Mortgage Corporation and service corporations. Moneys are also received for reimbursable services provided to other government agencies. FCS institutions, including Farmer Mac, are assessed and charged directly or billed in accordance with a formula established by FCA regulations. Assessments and other income earned in excess of obligations are either refunded or considered in determining the amount to assess System institutions in the subsequent fiscal year. Congress usually imposes a limitation on the amount of obligations that may be incurred in a given fiscal year from assessments collected from the FCS and from Farmer Mac.

Additional information about FCA's financial condition for fiscal years 2005 and 2004 is included in the following subsections. Fiscal year data summaries of the various asset, liability, and net position accounts are also provided for comparative purposes.

FCA's Assets, Liabilities, and Net Position

The Balance Sheet displayed on page 53 of this report presents the financial condition of FCA as of the 2005 fiscal year end. It presents the value of FCA's assets and money FCA owes to the public or other government agencies. The difference between the assets and liabilities represents FCA's net position. As refelected on the Balance Sheet in Tables 1, 2, and 3, the net position increased approximately 7.5 percent from the FY 2004 balance. The reason for the increase in the Agency's net position may be attributed to an FY 2004 prior year adjustment of $1,290,975 that was made to establish a liability for life insurance coverage provided to former employees covered under FCA's Life Insurance Program. With an increase in liabilities, the FY 2004 net position was reduced, creating a corresponding increase in the net position for FY 2005.

As in years past, FCA continues to maintain a large portion of its excess cash needs in investments. During FY 2005, the investment amount increased by $906,864, or 5 percent, from $18,073,634 to $18,980,498. Interest earned increased from $446,656 to $634,148, or 42 percent. This attests to FCA's continued efforts to employ sound business practices in the use and management of its funds.

Composition of Assets

As shown in Table 1, although the Agency's investments increased by 5 percent, there were large decreases in the net book value of property and equipment and in the balances for accounts receivable and prepayments. These items decreased by 22.5 percent and 48.6 percent, respectively. During FY 2005, FCA purchased $319,462 of capitalized property items as compared with $1,298,323 in FY 2004. Also, of the property items donated or sold in 2005, one sale item had a $4,620-impact on the net book value. Generally, property

Table 1. Composition of Assets

Fiscal Year	Fund Balance with Treasury	Investments	Accounts Receivable and Prepayments	Property and Equipment	Total
2005	$1,195,445	$18,980,498	$464,128	$950,965	$21,591,036
2004	$1,065,048	$18,073,634	$902,751	$1,227,115	$21,268,548

items that the Agency sells or donates have a zero dollar impact on the net book value since the accumulated depreciation amount usually equals the acquisition cost. In addition to the decrease in purchases and the book value decrease from the property sale, the depreciation expense for FY 2005 increased by 2.7 percent, which further reduced the net book value of the property and equipment.

The 48.6 percent decrease in the accounts receivable and prepayments is mainly the result of a 68.6 percent decrease in accounts receivable due from other System entities for the 2005 fiscal year. In FY 2004, other System entities were assessed an additional $634,501 for services provided, compared with $199,507 that was assessed in fiscal year 2005. This decrease may be attributed to a reduction in cost considered in providing services to these entities and the continued efforts of FCA to reduce cost while still providing the quality service needed to perform its mission.

While the Fund Balance with Treasury remained basically the same as the FY 2004 balance, for cash management purposes, FCA would have preferred a lower balance for both years. FCA's goal is to invest funds in excess of the immediate cash needed to cover current liabilities and obligations. However, in both fiscal years, funds of $1,072,400 and $760,364, respectively, were received on September 30, after the investment cutoff period.

Composition of Liabilities

As depicted in Table 2, the total liabilities for FY 2005 decreased from the amount reported in FY 2004 by 7 percent. The decrease in the amount of the liabilities for FY 2005 can be attributed to the prior period adjustment of $1,290,975 made to increase the FY 2004 accrued liabilities for the life insurance coverage provided to former employees covered under FCA's Life Insurance Program. As a result of this adjustment, the total accrued liabilities decreased 24.9 percent, from $5,103,836 to $3,834,720. The other decrease in liabilities was in the charges for workers' compensation. The amount of decrease in the actuarial liability for workers' compensation, unemployment insurance benefits, and the liability for Federal Employees Compensation Act charges (classified as workers' compensation) is $219,686, which represents a decrease of 15.7 percent. The cause for the decrease was in the amount of the actuarial liability, which was computed using a model provided by the Department of Labor (DOL). The decrease in the actuarial liability amount may be attributed to the decrease in the medical payments covered during FY 2005.

Although employer contributions and taxes payable remained basically the same, there were major increases in the amounts of FCA's accounts payable and its deferred revenue and advances. The accounts payable liability increased from $307,372 to $616,546, or 100.6 percent. The reason for the increase in the accounts payable is that several payment documents and claims for larger dollar amounts than in previous years were received that were not disbursed prior to the fiscal year end. Also, with the need to accelerate the close of the year to meet the reporting due dates, the Agency continues to improve its processes in the establishment of accruals. The total liability increase for deferred revenue and advances was $546,118 or 31.3 percent. This liability component includes moneys received from Federal and public sources for which services have not yet been provided. During FY 2005, FCA received $2,285,697 in assessments from financial institutions within the FCS that are not yet due. The amount of moneys received represents an increase of 34.8 percent from the amount that was received in FY 2004 for FY 2005 services. The amount of the advance balance for reimbursable services provided to other government agencies remained the same as that of the previous year. Instead of obtaining an advance of funds from other government agencies, FCA will bill and collect moneys due as services are provided.

Composition of Net Position

As shown in Table 3, the significant change in the net position from FY 2004 to FY 2005 is the $1,112,654 decrease in the net cost of operations. This represented a decrease of 28.3 percent. In FY 2005, although the Agency's total cost remained basically the same, revenue from assessments to the FCS institutions, including Farmer Mac, earned reimbursable income, and interest from the investment of cash increased by $1,116,513 or 2.9 percent. The increase in total

Table 2. Composition of Liabilities

Fiscal Year	Accounts Payable	Accrued Liabilities (Payroll and Benefits, and Retirees' Life Insurance)	Employer Contributions and Taxes Payable	Workers' Compensation (Funded and Unfunded)	Deferred Revenue and Advances	Total
2005	$616,546	$3,834,720	$229,174	$1,183,429	$2,289,388	$8,153,257
2004 (Restated)	$307,372	$5,103,836	$208,515	$1,403,115	$1,743,270	$8,766,108

Table 3. Composition of Net Position

Fiscal Year	Adjusted Beginning Balance	Imputed Costs	Net Cost of Operations	Ending Balance
2005	$12,513,116	$3,747,614	($2,822,951)	$13,437,779
2004 (Restated)	$12,779,328	$3,658,717	($3,935,605)	$12,502,440

revenue with the total cost remaining about the same accounts for the improvement reflected in the net cost reported for FY 2005. Because of the $1,290,975 prior year expense adjustment that was made to recognize the Agency's prior years' liability for life insurance coverage provided to retirees formerly covered under FCA's Life Insurance Program, the net position's beginning balance for FY 2004 decreased. The FY 2004 beginning balance shown in Table 3 represents the net position after the adjustment. In FY 2005, net prior year adjustments were made that increased the beginning balance by less than 0.1 percent, from $12,502,440 to $12,513,116. The FY 2005 prior year adjustments were mainly for property depreciation corrections. Additional information related to FCA's revenue and cost, can be found in the subsection on the Performance and Financial Results located on this page.

FCA's Funding and Fund Sources

As previously stated, FCA maintains a revolving fund in which moneys are obtained primarily from assessments to System institutions, including Farmer Mac and other System entities. In addition, FCA provides reimbursable services to other government agencies and earns interest from investments with the Department of the Treasury. Table 4, below, depicts the funding that was available and/or collected by FCA for fiscal years 2005 and 2004.

As reflected in Table 4, there was an increase in the total available funding for FY 2005, as compared with FY 2004, of $1,418,557 or 3.3 percent. The increase in current year assessments of $1,000,000 and the $436,716 increase in the amount of the assessment carryover from prior years account for the funding increase in 2005. There was a decrease in the other two funding sources, when combined, of 0.9 percent. The amount of the funding decreased from $1,925,192 to $1,907,033.

In FY 2005, FCA used approximately 88.2 percent of the funds available as compared to approximately 92.9 percent that was used in FY 2004. As shown in Table 5, on page 14, at 84.6 percent, personnel compensation and benefits represent the largest percentage of funds used. This amount was approximately 2.2 percent less than the amount of the personnel compensation and benefits charges for fiscal year 2004. For the other budget categories listed in the table, the amounts varied between the fiscal years, with funds used for contractual services being the only increase in the amount of funds used. However, when comparing the percentage of funds used by category for fiscal years 2005 and 2004, the percentages are basically the same.

Performance and Financial Results

The following is a description of FCA's financial condition and results of operations as it relates to the Agency's performance goals and objectives for the fiscal years ended September 30, 2005, and September 30, 2004. This information should be read in conjunction with the financial statements, notes to the financial statements, and other sections of the Performance and Accountability Report.

FCA continues to perform its mission to ensure that cooperative FCS institutions, including Farmer Mac, remain a dependable source of credit and financially related services for U.S. agriculture and rural areas. We also continue to provide

Table 4. Available Funding

Funding and Funding Sources	2005	2004
Assessments (current year)	$39,400,000	$38,400,000
Assessments (carryover from prior years)	2,936,716	2,500,000
Reimbursable activity	1,272,885	1,478,536
Interest from investments	634,148	446,656
Total	$44,243,749	$42,825,192

Table 5. Funds Used by Major Budget Category

Budget Category	FY 2005	Percent of Total	FY 2004	Percent of Total
Personnel compensation and benefits	$33,033,087	84.6%	$33,759,491	84.9%
Travel and transportation of persons	1,745,296	4.5%	1,900,807	4.8%
Contractual services	2,894,598	7.4%	2,500,930	6.3%
Property and equipment	265,232	0.7%	415,475	1.0%
Other	1,089,029	2.8%	1,204,108	3.0%
Total	$39,027,242	100.0%	$39,780,811	100.0%

reimbursable services to other government agencies and nongovernmental entities. The business growth and sound condition of FCS institutions and the Agency's accomplishment of its performance goals and objectives confirm the quality of FCA's products, services, and operations. The implementation of initiatives from the strategic studies completed in 2005 should ensure that FCA operations remain efficient, effective, and adequately positioned to meet the regulatory demands from a changing FCS. Costs have been maintained through sound business planning and efficient use of resources. The annual assessment of the FCS, which is the primary source of funding for FCA, increased $1,000,000, or 2.6 percent, in 2005 and $1,700,000, or 4.6 percent, in 2004 after remaining virtually the same for the previous three years. In addition, FCA refunded $1,500,004 and $2,050,999 of unused carryover from prior-year assessments to FCS institutions in 2005 and 2004, respectively.

FCA's program cost remains stable. The total cost of FCA's programs for FY 2005 is $42,820,908, compared with $42,817,049 for FY 2004. Employees' salaries and benefits represent the Agency's most significant cost. For 2005, employee compensation totals $32,831,315, or 76.7 percent, of total cost. These costs decreased $963,180 from 2004, with a reduction in the number of staff due to attrition. The decrease in salary and benefits accompanied with decreases in travel and other costs mitigated the increase from contracts used to upgrade the Agency's financial management system and perform strategic studies for FCA operations.

A challenge for continuing the Agency's performance will be the ability to maintain a high-qualified and seasoned staff to meet regulatory demands from the FCS operating in a highly competitive economy. FCA strategic studies completed in 2005 concluded that the FCS will evolve in the next five years to fewer, but much larger and more complex, institutions. While FCA estimates that the number of institutions it regulates will decline by almost one-third by 2010, the System asset base will continue to grow at a healthy rate per year. During this time, the FCA expects a high level of staff attrition to continue, with almost 33 percent of its staff eligible to retire. In 2005, the FCA implemented various organizational and functional changes with examination and regulatory processes to accommodate anticipated FCS changes and ensure adequate staff for continuing operations in an efficient and effective manner. The FCA budget and operating plans addressed some of the staff resource needs through the career intern programs and programs that mentor, train, and promote existing staff. For some of the essential professional positions, the Agency recruited skilled and seasoned personnel. In addition, the Agency performs employee compensation studies. Under the Financial Institution Reform, Recovery, and Enforcement Act of 1989, the Agency must seek to stay comparable with salaries of other Federal financial institution regulators. Management believes its plans for staff resources and compensation should provide the adequate means for the FCA to continue to perform its mission to provide the FCS with effective regulation and oversight.

Earned revenues increased in 2005. For 2005, earned revenues totaled $39,997,883, up $1,116,439 from the previous year. Without the FCA refund, FCA earned $41,497,887 in revenues from the assessment of the FCS institutions, including Farmer Mac; from providing reimbursable services to non-FCS entities; and from interest income from investment of Agency cash in United States Treasury securities. FCA refunded the carryover from prior year assessments to FCS institutions after deciding the adequacy of its cash position to fund operations. The growth in earned revenue resulted from the increased assessment of FCS institutions and the rate of return from the Agency's investment of funds in United States Treasury securities. The increased revenue improved the net cost of FCA programs for the 12 months ended September 30, 2005. The net cost of FCA programs was $2,822,951, compared with $3,935,605 for the same period ended September 30, 2004.

FCA draws almost all of its cash from FCS assessments, reimbursable activity, and interest earned on invested funds. FCA refunds, on a proportionate basis, to FCS institutions the cash not needed to fund operations. FCA earned revenue exceeded its obligations and increased its cash and investments from 2004 to 2005. Cash received from assessments and reimbursable activity in any given year is based on FCA Board-approved budgets that are expected to be adequate to fund operations for that year. The Board-approved budgets have been subjected to a limitation on administrative expenses imposed by the U.S. Congress.

Safety and Soundness Program

The regulatory examination and supervision of the safety and soundness of the FCS and the FCS performance of its public mission mandated by the United States Congress represent the most significant part of FCA's program cost. FCA has exceeded its goal and measures to ensure the safety and soundness of FCS institutions, including Farmer Mac, and the performance of the FCS public mission to provide credit and financial services to United States agriculture and rural areas. Program cost for the examination and supervision of the FCS increased by $548,223 to $33,582,606, or 78 percent of FCA's total cost in 2005. All FCS institutions, including Farmer Mac, remain fundamentally sound, with no institution under any FCA supervisory or enforcement action. FCA remains proactive in its examination and oversight of FCS risk. This is evidenced by issuance of Agency Regulatory Philosophy Statement (PS-59) for risk-based supervision and FCA's work to propose rules on the governance of FCS institutions. FCA provides conclusions and makes recommendations where appropriate to institution boards of directors on their institution's risks and regulatory compliance in reports of examination. To maintain its quality of products, services, and operations, FCA continues to incur significant cost in the recruitment and training of staff through its pre-commissioned examiner program. This is necessary to meet anticipated human resource needs with the expected staff attrition. The increased emphasis on the further development of the Early Warning System to include a geographical information system and the performance of the FCA strategic study that was completed in May 2005 primarily contributed to the increase in cost for this goal.

Policy and Regulation Program

Program cost for policy and regulation is $7,128,952 for FY 2005. Program cost for policy and regulation decreased $346,788 to 17 percent of FCA's total cost in 2005 because of a decrease in corporate activity from FCS institution mergers. FCA works to ensure that FCS institutions provide sound and constructive credit and services to rural America through its rulemaking and corporate activities. In 2005, the Agency met or exceeded all of its performance measure targets for completing rulemaking and corporate activity projects, with one exception. FCA did not achieve its goal to use supplemental approaches in soliciting public comments and input on regulations. FCA continues to solicit the public to identify changes needed for reducing the Regulatory Burden on the FCS and to develop new products and services for identifying and monitoring FCS risk. This rulemaking action could result in new regulations and policies necessary for carrying out the Farm Credit Act and ensuring the safety and soundness of the FCS. FCA's corporate activity has declined, with the FCS having a relative small number of institutions remaining after the significant number of mergers that have occurred since 2000.

Other Activities

Other activities represent the examination and oversight of the National Cooperative Bank (NCB) and performance of reimbursable services for the Small Business Administration (SBA), the U.S. Department of Agriculture (USDA), and the Farm Credit System Insurance Corporation (FCSIC). Program cost for other activities decreased $197,576 to $2,109,350 in 2005. The net cost of other activities improved with the Agency's more accurate billing of applicable parties for the services provided and with an increase in the apportioned amount of 2005 interest revenue earned from FCA's investment of funds. Earned revenue for other activities totaled $1,620,522 for 2005, compared with $1,565,865 for 2004.

Reimbursable services provided by FCA are primarily for examining the NCB, which is required by statute, and for examinations under interagency agreements with the SBA and USDA. The FCA performs an annual examination of the NCB as directed by the United States Congress. FCA has performed examinations under interagency agreements with the SBA since 1999 and the USDA since 2001. The costs for providing reimbursable services represented approximately 5 percent of FCA's total costs in both 2005 and 2004.

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).

While the statements have been prepared from the books and records of the entity in accordance with U.S. generally accepted accounting principles (GAAP) for Federal entities and the formats prescribed by the Office of Management and Budget, the statements are in addition to the financial reports used to monitor and control budgetary resources that 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.

President's Management Agenda

The President's Management Agenda represents the President's goal to reform the Federal Government and make it more citizen centered, results oriented, and market based. Five Government-wide initiatives have been identified to improve performance in the following areas:

1. Strategic Management of Human Capital
2. Improved Financial Performance
3. Expanded Electronic Government
4. Budget and Performance Integration
5. Competitive Sourcing

FCA has actively responded to these initiatives by including them as a goal within the Agency's Strategic Plan. As part of the FCA Strategic Plan, the Agency has adopted the following approaches for implementation of the President's Management Agenda.

Strategic Management of Human Capital

FCA will link the Agency's human capital needs and strategies to its organizational mission, vision, core values, goals, and objectives. We will use strategic workforce planning and flexible tools to recruit, retain, and reward employees and to continue to develop a high-performing workforce. This will maximize the Agency's flexibility in accomplishing our mission effectively and efficiently.

Improved Financial Performance

The Agency will continue to invest significant resources in maintaining a financial management system that can produce accurate, reliable, and timely information to support policy, budget, and operating decisions. The system will facilitate consistent and comparable trend analysis over time and better performance measurements. For the past 11 years, FCA has received unqualified opinions on its annual financial statements, and that continues to be our goal.

Expanded Electronic Government

FCA will advance e-government strategies by continuing to support projects that offer performance gains across Agency boundaries, such as e-regulation, e-signatures, and e-procurement. We will continue to expand our ability to collect information electronically from the FCS over the Internet, and we will expand the information that is available to our constituents on our Web site. We will focus on compliance with Section 508 of the Rehabilitation Act of 1973, as amended, to ensure our electronic and information technology is accessible to people with disabilities. These and other initiatives will enable the public to have greater access and participate more fully in the Agency's decision-making process.

Budget and Performance Integration

Performance budgeting was implemented in previous budget submissions, and the Agency will continue to include high-quality outcome measures, accurately monitor the performance of programs, and integrate the presentation with associated costs. This information allows program costs and benefits to be clearly identified. This will enable the Agency to enhance its control over resources used and better establish accountability for results.

Competitive Sourcing

FCA supports the idea that competition promotes innovation, efficiency, and greater effectiveness. We will continue to determine our "core competencies" and then decide when to build internal capacity and when to contract for services from the private sector. This process will encourage the Agency to focus on continuous improvement and remove roadblocks to greater efficiency.

FCA is actively focusing on being more results-oriented through efficiency and accountability. We have set clear goals and implemented action plans, and we are following through on those plans. For more detailed information on FCA's accomplishments under each of the President' Management Agenda initiatives, please review Goal 3 in the FCA Performance Report on page 22.

Management Control Systems

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

- 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

FCA's Financial Management System

The Federal Financial System (FFS) is the financial management system used by FCA. The Agency is cross-serviced by the U.S. Department of the Interior's National Business Center (NBC). It shares a mainframe with NBC, which is more efficient than maintaining an in-house mainframe for one user the size of FCA.

FFS is the nucleus of FCA's accounting operations and accepts and processes data supplied by feeder systems, including payroll data from the National Finance Center, travel transactions from Travel Manager, and credit card transactions from Bank of America, the Agency's credit card provider. FCA has been operating under FFS since 2001, and the reliability of its information has been a major factor in achieving "clean" opinions from the financial statement audits. As FCA moves forward in 2006 to use the shared services of other government entities, the Agency will continue its efforts to provide management with timely, useful, and reliable information. The financial system of record will be that of the shared service provider.

Inspector General Act

The Inspector General Act of 1978, as amended, requires semiannual reporting on Inspector General audits and related activities, as well as agency follow-up. The Inspector General's two semiannual reports covering FY 2005 are available at www.fca.gov/oig. Information about recommendations made in audits and inspections by the Office of Inspector General (OIG), and management's progress in taking corrective action is summarized below.

OIG continues to report actions required to correct audit or inspection findings as agreed-upon actions whenever OIG and management have agreed on a mutually acceptable way to resolve a problem identified during reviews. OIG's objective is to recognize management's preferred method of correcting problems whenever the approach is reasonable. A recommendation often includes these agreed-upon actions.

Summary of Audit and Inspection Recommendations

October 1, 2004, to September 30, 2005

Recommendations uncorrected as of October 1, 2004	26
Recommendations made during FY 2005	8
Recommendations corrected during FY 2005	15
Open recommendations at September 30, 2005	19
Recommendations open more than one year	15

Summary of Audit Activities for FY 2005

At the beginning of FY 2005, there were 26 unimplemented recommendations. Two were from the audit of Performance Budgeting issued on March 23, 2001; two were from the audit on the Office of the Chief Financial Officer issued on January 24, 2002; four were from the audit of the Loan Account Reporting System issued August 28, 2003; five were from the audit on Farm Credit System Building Association Business Practices issued on March 9, 2004; five were from the audit of Human Capital: Job Classification issued June 29, 2004; three were from the inspection of FCA Board Policies issued on September 15, 2003; and five were from the inspection of Project Management issued September 9, 2004.

OIG issued three more audit reports and one more inspection report, as well as one review under the Federal Information Security Management Act. The audit and inspection reports contained a total of eight recommendations.

During this reporting period, management worked with OIG to close 15 recommendations.

At the end of the FY 2005 reporting period, there were eight recommendations and 11 agreed-upon actions remaining open. Two were agreed-upon actions from the audit of Performance Budgeting issued on March 23, 2001; two were agreed-upon actions from the audit on the Office of the Chief Financial Officer issued on January 24, 2002; four were agreed-upon actions from the audit of the Loan Account Reporting System issued on August 28, 2003; one was an agreed-upon action from the audit of Human Capital: Job Classification issued on June 29, 2004; two were agreed-upon actions from the audit on Call Report Verification issued on February 3, 2005; and two were recommendations from the audit of Performance Measures and Internal Controls issued July 1, 2005.

The inspection of FCA Board Policies, issued September 15, 2003, contains three recommendations to be closed. The inspection of Project Management, issued on September 9, 2004, contains three recommendations to be acted upon by management.

Federal Managers' Financial Integrity Act

The Federal Managers' Financial Integrity Act (FMFIA) 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 holds managers accountable for the performance of their programs through the use of management controls. Annually, managers evaluate the adequacy of the management controls surrounding their activities to determine whether they conform to the principles and standards established by the Office of Management and Budget and the General Accounting Office. The results of these management control evaluations are used to determine whether there are any problems to be reported as material weaknesses. As reported in the Chairman's message for FY 2005, the Agency has identified no material weakness or financial system nonconformance that place the overall control system at risk.

Federal Financial Management Improvement Act

The Federal Financial Management Improvement Act (FFMIA) 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. Government Standard General Ledger. Although FCA is not one of the agencies required to report under the FFMIA, FCA was in substantial compliance with these system requirements for FY 2005.

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 2005, FCA paid most of its bills within the time requirement. However, because of some invoice approval delays, FCA paid $351 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 (DCIA) prescribes standards for the administrative collection, compromise, suspension, and termination of Federal agency collection actions. It also prescribes policy for referral of agency uncollectible debts to the proper Federal agency for follow-up collection and litigation. Although the DCIA has no material effect on the FCA since it operates with virtually no delinquent debt, when appropriate, the Agency does transfer debts more than 180 days old to Treasury for cross-servicing.

Program Performance

Farm Credit Administration Performance Report

The Farm Credit Administration (FCA or agency) is an independent Federal agency responsible for regulating and examining the government-sponsored enterprises (GSEs) serving agriculture and rural America. These GSEs are the Farm Credit System (FCS or System) and the Federal Agricultural Mortgage Corporation (Farmer Mac). Our vision to maintain a flexible regulatory environment that meets current and future rural credit needs while ensuring safety and soundness is captured in the Agency's mission statement:

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

We fulfill that mission by performing two principal program activities: (1) issuing regulations and implementing public policy, and (2) identifying risk and taking corrective action. Consistent with our mission and program activities, in December 2003, the FCA Board adopted three strategic goals for fiscal years 2004–2009. Those goals, which remained the primary focus of the Agency's activities in FY 2005, are as follows:

1. Ensure that the Farm Credit System and Farmer Mac fulfill their public mission for agriculture and rural areas.
2. Evaluate risk and provide timely and proactive oversight to ensure the safety and soundness of the Farm Credit System and Farmer Mac.
3. Implement the President's Management Agenda (PMA).

To further clarify what we expect to accomplish for the public good, the FCA's strategic plan also contains "desired outcomes" for each goal, as well as 24 in-depth descriptions of the "means and strategies" that FCA uses to accomplish the goals and achieve the desired outcomes and results. In addition, 18 performance measures with associated "targets" determine the extent of the Agency's success in accomplishing each aspect of its mission to regulate the System and ensure safety and soundness.

FCA's strategic plan provides that it shall be reviewed annually to keep it updated to reflect expectations for the ensuing short- and long-term operating environments. Consequently, the FCA Board updated the means and strategies and several performance measures in January 2005 to better reflect current expectations for Agency operations that were affected by changes in the operating environment since the plan was adopted in 2003. However, the substance and direction of the plan remain focused on improving efficiency; minimizing the cost burden on FCS borrowers; and helping ensure a safe, sound, and dependable source of credit and financially related services for agriculture and rural America. Based on the results achieved, we believe the Agency's two program activities and our initiatives were effective in helping to meet each of the three strategic goals described below.

Strategic Goals and Outcomes

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

The primary purpose of Goal 1 is to maximize the System's and Farmer Mac's abilities to fulfill their purposes and meet their public missions, as defined by Congress in the Farm Credit Act. The Agency established 12 means and strategies to accomplish this goal, and it defined six performance measures to evaluate its progress and success.

The means and strategies address initiatives that encourage the FCS to establish outreach programs, as well as credit and other financially related products, to better serve chartered territories, ensure equitable treatment of borrowers and applicants, and encourage cooperation among System and non-System lenders to facilitate the flow of funds to agriculture and rural areas.

The Agency also focused attention on activities that it believed would help improve funding to new entrants into agriculture, defined as young, beginning, and small farmers and ranchers. The importance of this initiative has its roots in the need for the FCS to help cultivate the next generation of farmers and ranchers who will produce food and fiber, and provide the processing and marketing services needed for the nation's agriculture in the 21st century.

FCA recognized that for agriculture to flourish, it is equally important to ensure that our 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 yet, in accordance with the Act, ensure that the benefits Congress intended the System to provide to America's agriculture and rural areas continue without disruption. The means and strategies embodied in the FCA's Strategic Plan embrace these concepts so that all of the public can benefit as Congress intended from the GSEs it established to serve agriculture and rural areas.

The following discussion provides additional information on the Agency's activities that led to the overall accomplishment of Goal 1.

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

FCA examinations continue to evaluate whether System lenders are fulfilling their public mission by reaching out to all potential customers. The examinations in FY 2005 disclosed that the vast majority of institutions maintain effective business and marketing plans and effective credit delivery programs, as System lending continues to reflect quality loan growth.

Each institution's Young, Beginning, and Small (YBS) Farmer and Rancher program is also routinely evaluated, relative to agricultural census data, to assess trends in lending to YBS farmers and ranchers and the FCS'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, with the System steadily progressing in meeting the needs of YBS farmers and ranchers as well as other borrowers.

Through the Office of Secondary Market Oversight (OSMO), FCA evaluates Farmer Mac's mission accomplishments. Farmer Mac's customer base includes financial institutions and other lenders that seek a secondary market for their agriculture loan portfolios. As such, Farmer Mac's public mission is to provide a secondary market for the nation's agriculture. The evaluation of Farmer Mac's performance in reaching out to all potential customers and creating easy access to its services is a component of OSMO's annual examination as well as ongoing oversight activities. The annual mission report is submitted to OSMO at the end of each calendar year. The report includes data on Farmer Mac's participation in Federal and State guarantee programs and the geographic distribution of Farmer Mac's book of business. In future years, the report will be expanded to include data on small and family farms, which Farmer Mac is required by statute to promote and encourage. The annual examination of Farmer Mac reviews its business planning and disclosures related to mission accomplishment.

As a part of the Federal government, FCA has a principal responsibility to ensure that the System it regulates serves the public good. To fulfill this responsibility, FCA maintains a program of responding to and investigating, as needed, all issues raised by applicants and borrowers of the System and other members of the public regarding the activities of FCS institutions and Farmer Mac. During the reporting period from July 1, 2004, through June 30, 2005, the Agency addressed and responded to 26 borrower inquiries. Our investigations found no violations of law or regulation on the part of the FCS institutions in question. In general, we concluded the investigations by providing additional information to the inquirers and/or encouraging FCS institutions to follow up with the inquirers to resolve the issues raised. Although no overall conclusions can be drawn on mission accomplishment from the relative inactivity of borrower inquiries, this program did not reveal any information or evidence to suggest the System's direct lender institutions were not adequately fulfilling their missions.

Another example of Agency responsiveness to public inquiries on the System's mission occurred during the latter half of 2004. During that time, the Agency received and responded to more than 400 comments concerning the initiative by Farm Credit Services of America (an agricultural credit association headquartered in Omaha, Nebraska) to terminate its System status and subsequently sell itself to Rabobank Group of the Netherlands. Although the Agency did not actually receive an official request to terminate System status, the substance of each inquiry was addressed, and the FCA responded to every person who contacted the Agency on this matter. The strong voices raised by those opposing the sale was evidence that a GSE lender was valued by the public who considered that it was needed to continue serving the public mission as Congress intended in the four-state chartered territory.

Means and Strategy #2—Ensure all eligible customers have access and are treated equitably.

In addition to the regulations that govern the rights of applicants and borrowers, FCA's program activities include processes that review borrower inquiries and complaints about the loan-granting process and provide for investigations on any allegations of discrimination. Although FCA examinations have periodically identified issues concerning compliance with borrower rights regulations, the examiners have not discovered any discriminatory patterns of practice, overt or deliberate discrimination against any eligible customers, or an unwillingness of FCS institutions to serve their chartered territories. To the extent that examinations and investigations can determine, the Agency concluded that eligible and creditworthy customers have access to the System and are treated fairly and equitably. We also note continued compliance with equal credit opportunity and equal housing laws. Although we have not found significant patterns of practice or any overt discrimination against any eligible customers, our 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.

Means and Strategy #3—Enable the FCS and Farmer Mac to serve evolving customer needs by maintaining a flexible regulatory environment.

To the extent permitted by the Act, the Agency explores all avenues to be as flexible as possible in its interpretive guidance to System institutions. While examining compliance with borrower eligibility and scope of lending rules, examiners work closely with the Office of General Counsel (OGC) and the Office of Regulatory Policy (ORP) 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 more appropriately market their products and services to prospective eligible customers. FCA also publishes its semiannual Regulatory Performance Plan so that the public is notified of upcoming regulatory actions and provided the opportunity to participate in the regulatory process. In addition, the Agency improved its e-government program so that the public may make comments in electronic format and review comments from others on the FCA Web site.

Examples of regulatory flexibility and activities that helped the FCS serve its evolving needs and those of its borrowers within the provisions of the Act include the following:

1. An information memorandum was circulated that provided guidance to System institutions on their use of existing authorities for mission-related investments that would facilitate the flow of funds to rural areas. This guidance was intended to ensure a better understanding of the opportunities and risk presented by these authorities. Several pilot programs at System institutions have subsequently been approved.

2. A Bookletter was provided to all System institutions that explained options available to them under the Tobacco Transition Payment Program to better

serve borrower financial needs. Congress provided the tobacco payment program under the Fair and Equitable Tobacco Reform Act of 2004.

3. A proposed rule to amend regulations governing investments in Farmer Notes was initiated. This rule would make it easier for System institutions and non-System lenders to work together to finance producers.

4. A final rule was developed that provides an option to borrowers who want their loans to be syndicated to waive certain borrower rights. The intent of the proposed rule was to provide access to the System for such borrowers. The Agency discovered that this flexibility was necessary to meet the credit needs of borrowers as part of certain syndicated lending arrangements. The FCA Board acted on the proposed rule at the October 2004 Board meeting.

5. A proposed rule was developed that would amend FCA's liquidity reserve requirements for the banks of the Farm Credit System and change the eligible investment limit from 30 percent to 35 percent of total outstanding loans. The intent of the proposed rule was to ensure that FCS banks have adequate liquidity and flexibility to provide credit in all economic conditions. The FCA Board acted on the proposed rule at the October 2004 Board meeting.

6. Guidance was provided to certain institutions on various regulatory compliance and Call Report issues. Along with this guidance, enhancements were made to the Risk-Based Capital Stress Test, which strengthens a System institution's flexibility to serve customer needs through appropriate capitalization of risks.

7. The Farm Credit System Funding Corporation (Funding Corporation) was given approval to purchase Federal funds under section 4.2(d) of the Act as part of the contingency funding program for the FCS banks (April 2005 Board meeting). FCA's decision to approve the Funding Corporation's request enhances the System's alternative financing options in the event of unexpected disruptions in communications or operations, or in the event of payment system problems.

8. FCA continued to evaluate the development of new programs and products by Farmer Mac that are aimed at providing its products and services to rural America. These include program assets associated with ethanol production, as well as mission-related assets in financing instruments of rural utility cooperatives. They are closely monitored and supervised by FCA to ensure that the scale and risks of such investments remain appropriate.

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

Since 1998, the Agency has focused considerable resources on improving the implementation and controls of YBS programs and the reporting of YBS lending results. A part of that focus provided that FCA examiners would 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 for the reporting period were considered satisfactory, with only minor weaknesses related to a few compliance issues with the relatively new YBS regulations the FCA promulgated in 2004. As a result of the examination and regulatory attention FCA placed on YBS lending, there has been substantial improvement in the System's focus and administration of YBS programs, the quality of board reporting, and public disclosure. Borrowers have directly benefited, as YBS loan volume and loan numbers have been steadily rising over the past four years. YBS initiatives remain a priority of the Agency, as it continues to provide considerable oversight to the System's activities and programs related to YBS farmers, ranchers, and producers and harvesters of aquatic products.

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. As a secondary market lender, Farmer Mac is not always well positioned to capture detailed demographic data. Nevertheless, the Agency also focused on Farmer Mac's YBS activities. OSMO developed new reporting requirements for Farmer Mac that monitor the statutory requirements for nondiscrimination against small borrowers and lenders, and supported Farmer Mac's work with lenders to meet the credit needs of small and family farms. OSMO encouraged Farmer Mac to work with lenders to meet the credit needs of small and family farms by providing timely feedback on various issues, including loan eligibility on prospective new lines of business. OSMO also implemented a new annual mission report, which required Farmer Mac to collect data on small and family farms it serves.

Means and Strategy #6—Encourage the System and Farmer Mac to use guarantee programs and work with Federal and State agencies that offer such programs to streamline processes.

As a part of the evaluation of YBS programs, the Agency continues to assess the extent to which FCS institutions use guarantee programs. When needed, FCA encourages the FCS institutions to work with Federal and State agencies that offer such programs, including qualifying for the U.S. Department of Agriculture's Farm Service Agency's "preferred lender" status. System use of Federal and State guarantees has been growing as a percentage of the System's overall portfolio. Agency staff are mindful of how institutions can and should use guarantees as an effective risk management tool that helps borrowers who need this assistance. Loan guarantees are generally encouraged for YBS borrowers with limited financial capacity and existing borrowers who are temporarily experiencing financial difficulties. In addition, Farmer Mac provides secondary market liquidity to Federal and State guarantee programs through its Farmer Mac II program. In 2005, FCA promulgated new regulations that provide more flexible treatment of government-guaranteed loans in Farmer Mac's liquidity portfolio in recognition of the marketability of such loans.

Means and Strategy #7—Encourage all FCS 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 meet their public mission as Government-sponsored enterprises. The manner in which each institution is meeting its public mission is evaluated and, as needed, addressed with institution officials in the examination oversight process.

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

While the pace of institution merger and restructure has slowed, Agency staff continue to analyze and approve periodic requests by institutions to restructure to more effectively and efficiently serve their chartered territories in rural America. In the past, the most significant change in System structure has been the agricultural credit association (ACA) parent structure with a production credit association (PCA) and a Federal land credit association (FLCA) operating as subsidiaries. This structure allowed ACAs to benefit from the tax-exempt status of the long-term mortgage loan portfolio, as provided for by Congress in the Farm Credit Act. By the end of 2004, all ACAs had moved to the parent-subsidiary structure. During the year, the FCA Board approved several other System requests to amend corporate structures to enable the institutions to operate more efficiently while offering their borrowers a broader array of services.

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

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

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.

In support of section 212(b) of the Farm Credit System Reform Act of 1996 and FCA's Policy Statement on Regulatory Philosophy, the Agency solicited comments for the removal or revision of outdated, unnecessary, or burdensome regulations during spring 2003. Agency staff are completing a review and summary of the comments received. Any proposed regulatory modifications arising from the solicitation will be scheduled for Board consideration in FY 2006.

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 prudent use of loan participations to manage risk in FCS institutions vulnerable to commodity and geographic concentrations. This management tool diversifies risk and enables continued funding of all agriculture and related entities without excessive exposure that could threaten the safety and soundness of System institutions. Participations purchased from outside sources by FCS institutions have increased considerably as a percentage of the System's portfolio in recent years. FCA examiners reported an increased number of alliances with commercial banks and investment managers who provide deposit and investment products to System customers.

Means and Strategy #12—Publish best practices findings 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 each institution's safety and soundness and facilitate proper management of 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 management to originate, close, and manage loan and funding programs more efficiently. Farmer Mac continues to enhance its relationships with its loan sellers and servicers. In addition, Farmer Mac initiated new relationships with non-FCA-regulated entities in 2005, including commercial banks and cooperative lenders serving the power generation and distribution needs of rural communities.

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

The primary purpose of Goal 2 is to maintain the safety and soundness of the Farm Credit System and Farmer Mac and to ensure compliance with laws and regulations. FCA's examination and regulatory supervision of each System institution, which includes Farmer Mac, is the principal avenue by which this goal is achieved. The Agency established six means and strategies to accomplish this goal and defined seven performance measures to evaluate the progress and success of our oversight of the System. The means and strategies address the critical components of effective supervision and require FCA to maintain an effective examiner-training program, coordinate regulatory guidance and examination procedures, focus on risk management and risk-bearing capabilities of institutions, and identify risk and take corrective actions 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 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 led to FCA's achievement of Goal 2.

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

Like many other government agencies, the FCA examiner workforce is seasoned, with many nearing retirement age. To maintain a sufficient number of staff members skilled in their professions, the FCA continues to maintain a comprehensive pre-commissioned examiner training program to replenish a workforce depleted by attrition. The Agency maintains a recruitment program that provides training and development of career intern examiners over three to four years through the Pre-commission Training Program. Significant resources are expended to provide quality training to these employees. This program requires constant maintenance to update and improve training courses and materials, including many that will be updated to incorporate e-learning. FCA's strategy is designed to maintain a competent core of commissioned examiners, although it will take time for the pre-commissioned examiners to fully contribute to FCA's productivity.

FCA's examiner training also makes a considerable investment in post-commission staff development. This is accomplished through career path development and expansion of specialty examiner programs to additional technical areas. These programs are designed to encourage ongoing professional development and ensure that examiners are recognized and compensated for their expertise. Presently, the Agency maintains a cadre of commissioned examiners with specialized skills, including information technology examiners, capital markets specialists, certified public accountants, and quality assurance examiners.

Means and Strategy #2—Develop regulatory guidance and examination procedures that keep pace with evolving strategies used by the institutions comprising the two agricultural GSEs in addressing the changing needs of their customers in rural areas.

Agency staff continue to initiate regulation development activities designed to provide timely and proactive oversight of System risk that will ensure proper maintenance of the safety and soundness of the FCS while keeping pace with changing needs. Examples of Agency regulatory and reporting activity include the following:

- The FCA Board's adoption of a new Agency Regulatory Philosophy Statement (PS-59) that more clearly states FCA's philosophy for developing regulations.

- A proposed rule on receiverships, providing clarification on the handling of certain transactions when institutions are placed into receivership or conservatorship.

- Review of comments received in response to a proposed rule on the issuance of preferred stock.

- Review of capital adequacy requirements for System institutions based on changes proposed to the Basel Accord.

- A final rule modifying capital requirements to align risk of loss on credit exposures more closely to capital requirements and make our capital treatment more consistent with other financial regulatory agencies and changes in the market place.

- A study of current regulatory requirements governing eligibility and scope of lending to determine if the current regulatory requirements are reasonable in light of the changing needs of customers in agriculture and rural America.

- Changes in the Agency's Call Report requirements to update and improve detail on loan data and investments.

Recently, the FCA Board adopted a revised examination policy (PS-53) to guide a risk-based supervisory approach. To implement oversight programs in accordance with this directive, a strategic realignment of the Office of Examination is occurring, with division examination teams structured along functional lines by type of institution (grouping those with common characteristics and potential risks). The teams will coordinate closely with newly created Risk Supervision and Examination Policy Development divisions that will place greater emphasis on institution oversight and proactive supervision of Systemwide risk. These divisions will address real-time needs for additional Agency guidance on technical areas, regulatory changes, and emerging risks.

In addition, the Agency continues to develop examination procedures and guidance to keep pace with evolving strategies used by the institutions. Some examples include a bookletter and informational memorandum, Allowance for Loan Losses; the Essential Practices Guide for Information Technology discussed earlier; an informational memorandum on syndications; and guidance on various compliance issues. Also, clarification guidance was provided to System institutions regarding FCA regulations covering e-commerce activities. Furthermore, examiners are alert to identifying changes needed in examination procedures as part of their operational and strategic planning efforts.

With respect to Farmer Mac, the FCA encourages innovations in its product development within the bounds of safety and soundness considerations and provisions of the Act. OSMO's ongoing communications, examination reports, and offsite 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 (i.e., risk parameters, stress testing, loan underwriting standards, etc.) is evaluated as a normal and routine aspect of FCA's examinations, with conclusions and recommendations shared with System boards of directors through the Report of Examination. An integral part of those evaluations is a determination of whether the FCS institutions have proactive risk management practices commensurate with their respective risk-bearing capacities. FCA's recent annual review of loan underwriting standards showed that many FCS institutions are dynamic in their establishment and adjustment of standards to meet the needs of their operating environments.

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.

In a risk-based manner, FCA examiners evaluate whether each direct-lender institution maintains systems that allow it to analyze the characteristics of risk and borrower profiles appropriate for its loan portfolio. Although the timeliness and accuracy of data maintained by some FCS institutions could be improved, FCS institutions have adequate risk management systems in place and continue to make progress in positioning their balance sheets and management systems for the future. In addition, an effort is under way by the FCS to adopt an expanded risk-rating system with 14 rating categories. A major part of this system would include the development and maintenance of a dynamic loan portfolio information database. Improved technology and databases provide more capabilities to run queries and conduct stress testing of loan portfolios.

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.

FCA examinations evaluate whether management and board governance of FCA-regulated institutions is keeping pace with the increasing size and complexity of institution operations. Examination reports continue to make recommendations, where appropriate, for further strengthening institution governance, with a particular focus on the effectiveness of audit and review programs and the scope and depth of activities performed by audit committees.

FCA staff also worked on a proposed rule that would amend the governance of FCS institutions. The intent of the proposed rule is to enhance board oversight, improve disclosure of compensation arrangements; provide guidance on director qualifications; and strengthen requirements for audit, nominating, and compensation committees. The FCA Board acted on the proposed rule at the October 2004 meeting and is in the process of reviewing public comments on the proposed rule. The Agency also conducted a study to review how System associations implement the principles associated with the cooperative ownership structure mandated by Congress.

Board governance practices at Farmer Mac remain a central focus area in the annual FCA examination due to the extent to which these practices resonate throughout Farmer Mac. FCA is actively engaged in the oversight of Farmer Mac's implementation of 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 that allow timely identification of emerging risks and related issues in FCS institutions.

The Agency maintains an Early Warning System that provides for timely identification of emerging risks and related issues in FCS institutions. A major part of this system is within the Office of Examination (OE). First, the OE maintains a dynamic FIRS rating system and benchmark ratio program that evaluates changes in the financial condition of FCS institutions each quarter. Second, a detailed quarterly risk analysis report is prepared that identifies emerging risks on a Systemwide basis. Third, the OE prepares a semiannual risk analysis that prospectively evaluates potential risk. And finally, the OE maintains an ongoing oversight program of each institution whereby the assigned examiners review materials and other information provided to them by FCS institutions. In addition to examination-related activities, the Agency maintains commodity price databases, farm income and trade data, lending data, and other economic databases that are available to examiners and others in the Agency. These databases, as well as periodic presentations on assessing economic risks and changing industry trends, enable examiners and others in FCA to stay current on the changing agricultural and financial sectors.

During the year, FCA worked to develop a geographical information system that will allow the Agency to link System financial and chartering information with economic data, thus more easily pinpointing the geographical location of impending FCS risks. The Agency seeks to understand not only the risks facing each institution but also the underlying systemic risks that affect groups of institutions, the System as a whole, agriculture, and the financial sector.

Finally, FCA instituted several periodic reporting requirements of Farmer Mac, which collectively serve as an early warning system across all Farmer Mac functional areas. This ongoing monitoring provides significant detail on information such as debt spreads, terms of interest rate derivative contracts, liquidity, and nonprogram investments, which is critical to the Agency's oversight of Farmer Mac activities.

Means and Strategy #7—Undertake research and analysis of emerging risks and related issues and incorporate the findings into examination and oversight programs.

Agency staff routinely conduct research and analyze emerging risks and related issues and incorporate the findings into examination and oversight programs, guidance to System institutions, and regulatory policy development. During the reporting period, staff researched and communicated guidance on the potential for increased collateral risk that may emerge from changes in farm real estate values, and staff routinely evaluated the potential impact of concentration risks on System institutions' loan portfolios. Other recent guidance to the FCS included informational memoranda on Response Programs for Unauthorized Access to Customer Information and Customer Notice, and various compliance issues.

Other examples include research on the potential impact of the planned reversals to the allowance for loan losses at year-end 2004; an analysis of the impact of rising real estate values on risk to the System, which resulted in a precautionary informational memorandum on this subject on March 9, 2005; and reviews of the potential impact of Bovine Spongiform Encephalopathy (BSE or mad cow) disease in the cattle industry. Also in 2005, significant resources were employed to analyze and revise the Farmer Mac Risk-based Capital Stress Test in the areas of counterparty risk and the risk of carrying costs associated with loans purchased out of pools of mortgages backed by Farmer Mac guarantees and commitments. FCA also completed a study to evaluate regulatory requirements for GSE credit ratings.

Goal 3—Implement the President's Management Agenda.

The primary purpose of Goal 3 is to implement the PMA effectively and efficiently. This internally focused goal supports the five government-wide initiatives to make the government more results-oriented and focused on achievement and accountability. These initiatives are as follows:

1. Strategic Management of Human Capital—to maximize the value of FCA's most important resource, its workforce.

2. Improved Financial Performance—to produce accurate, reliable, and timely information to support policy, budget, and operating decisions.

3. Expanded Electronic Government—to strengthen our management of information technology resources and use the Internet to simplify and enhance service delivery.

4. Budget and Performance Integration—to enhance FCA's control over resources used and better establish accountability for results.

5. Competitive Sourcing—to encourage continuous improvement and remove roadblocks to greater efficiency.

The Agency's Strategic Plan includes five means and strategies and five performance measures that evaluate accomplishment of Goal 3. The following discussion provides additional information on the Agency's activities that led to the overall accomplishment of Goal 3.

Means and Strategy #1—Strategically manage human capital.

Sound human resource management is crucial to FCA's mission and goals. The Agency has a performance-based compensation system that rewards employees for individual job accomplishments that support the Agency's performance objectives. FCA is dedicated to effective human resource strategic planning, recruiting and hiring a diverse and competent workforce, establishing competitive compensation and benefits programs, training and developing highly qualified employees, developing policies to reward and recognize employees, and administering a performance management system that effectively measures an employee's contributions to the Agency's mission and goals.

Recruiting efforts continue to include individuals in underrepresented groups to create a more diverse workforce. FCA also maintains a supportive yet challenging workplace environment that encourages employees to excel in their job responsibilities and prepare them for future duties. To carry out this objective, FCA has various programs and policies to recruit qualified employees and retain them by rewarding accomplishments and helping employees balance work and family needs. The following are efforts that have recently been initiated; work is still under way to fully develop these programs.

- Paying for student loans as a recruiting tool to attract highly qualified employees;
- Identifying job competencies and developing career tracks within the Agency, which are placed in a database to assist employees and managers in enhancing their knowledge, skills, and abilities;
- Identifying and developing e-learning training opportunities as a cost-effective means to expand employee competencies;
- Creating a two-year career internship program to assist with succession planning needs;
- Linking strategic Agency goals to individual development plans and to the budget process to help prepare Agency staff for future endeavors;
- Expanding telework opportunities for employees to assist with continuity of operations in cases of natural disasters or emergencies; and
- Maintaining a variety of policies to help retain employees and assist them in balancing work and family needs, including flexible hours of duty, business casual dress, transit subsidies, voluntary 401(k) savings opportunities, reimbursements up to $150 for annual physical exams and preventive health screenings, donations of $750 to flexible spending accounts, and contributions up to $400 toward health and fitness programs and equipment.

FCA's programs and policies have enabled us to maintain a cohesive group of employees with the skills to accomplish current responsibilities and to expand their levels of expertise to address future issues.

Means and Strategy #2—Upgrade the Agency's financial management system.

FCA continues to place emphasis on maintaining a financial management system that can produce accurate, reliable, and timely information to support policy, budget, and operating decisions. Since FY 2001, FCA has been able to maintain this capability through the use of the American Management System's mainframe financial management system, the Federal Financial System (FFS). FFS was developed in the early 1980s. Although the system is very reliable, it is being phased out by the developer and was not recertified as compliant with the Joint Financial Management Improvement Program in 2003. Therefore, FCA has taken steps to migrate to a next-generation financial management system. FCA is currently evaluating the options available and through shared services, expects to migrate to a new system during FY 2006.

Means and Strategy #3—Continue the expansion of electronic government.

FCA is constantly striving to improve its e-government operations by adding more content to its Web site, enhancing its usability, and making it easier for FCS institutions to submit more kinds of reports and other information to the Agency. E-government initiatives during FY 2005 included the following:

- Providing users with a machine-readable privacy policy on the Agency's Web site;
- Expanding the Agency's partnership program with System institutions to securely exchange information over the Internet using Virtual Private Network (VPN) technology;
- Improving Agency employees' ability to work from remote sites through the expanded use of broadband VPN technology;
- Partnering with other agencies to participate in the governmentwide e-rulemaking program, which provides a central location for the public to access proposed regulations and comment on proposed regulations; and
- Enhancing FCA's Web site by adding Web-based access to public comment letters submitted to FCA on proposed rules, notices, requests for comments, and similar items that are published in the *Federal Register*. This enhancement supports e-government and improves customer service by providing the public and interested parties convenient access at any time of day to comment letters received by FCA. It also reduces the staff time required to copy, supply, and invoice requestors for providing paper copies of comment letters.

Means and Strategy #4—Continue the evolution of budget and performance integration.

The Agency continues the evolution of its performance budgeting program by aligning resource requirements for continuing programs and new initiatives with outputs and performance goals identified in the FCA strategic plan. FCA has continued to refine its budget formulation process to integrate budget resources with both Agencywide and individual office performance goals.

Means and Strategy #5—Give due consideration to competitive sourcing.

FCA commits to improving internal operations by using resources more effectively to solve workload challenges. To carry out this commitment, the Agency conducts an annual inventory of commercial activities that are not inherently Government, but are performed by Federal employees. FCA conducts the inventory according to the Federal Activities Inventory Reform Act of 1998 (FAIR) and the Office of Management and Budget Circular A-76, Performance of Commercial Activities. Through self-examination, FCA evaluates areas for potential improvements and identifies ways to enhance products and services. Open competition results in improvements and helps the Agency to perform its mission and meet its goals and objectives.

It is the Agency's goal to provide the best products and services to customers. Therefore, FCA continually reevaluates the effective use of Agency human capital to best carry out its mission within budget.

Table 6a
Goal 1—Mission
Performance Measures and Results

Measure	Results	FY 2002 Target[2]	FY 2002 Results	FY 2003 Target	FY 2003 Results	FY 2004 Target	FY 2004 Results	FY 2005[1] Target	FY 2005[1] Results	FY 2005 Results vs. Target
1. Percentage of FCS institutions[3] with satisfactory strategic business plans as rated by FCA examiners for providing constructive credit and related services to all potential customers, including those operating under corrective action plans acceptable to the FCA.[4]	Between July 1, 2004, and June 30, 2005, FCA examiners reviewed business plans of 86 institutions, and all except 2 were found to be satisfactory. One institution with a less than satisfactory business plan was required to take corrective actions and has implemented plans to do so that adequately addressed the examiners' concerns. The other institution with a less than satisfactory business plan was required to take corrective actions, and the plan was received by FCA on August 19, 2005.	NA	NA	NA	NA	100%	98%	>90%	99%	▲
2. The aggregate annual change in Farmer Mac's program assets in relation to the change in the total eligible agricultural mortgage market.	This measure was replaced with measure #3 below.	NA	NA	NA	NA	>1.00	Not available	NA	See # 3 below	NA
3. Farmer Mac has developed and implemented a marketing program to appropriately grow program assets consistent with its mission and 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.	NA	NA	NA	NA	NA	NA	Yes	Yes	✓

1. Because of the accelerated due date for the Performance and Accountability Report, the reportable performance period runs from July 1, 2004, to June 30, 2005.
2. The following defines the symbols and abbreviations used to describe targets in the Performance Measures and Results table: < is less than; > is greater than; ≤ is less than or equal to; ≥ is greater than or equal to; NA is not applicable or indicates FCA's performance could not be measured; ▲ indicates FCA's performance exceeded the FY 2005 target; ✓ indicates FCA achieved the target; ★ indicates FCA substantially accomplished the target in all material respects; and ▼ indicates FCA did not achieve its target.
3. For purposes of performance measurement, the term "institutions" does not include the FCS service corporations, the National Cooperative Bank (NCB), the Federal Agricultural Mortgage Corporation (Farmer Mac) (unless specifically noted), or institutions that FCA examines on behalf of the Small Business Administration (SBA) and the U.S. Department of Agriculture (USDA) on a contract basis.
4. Performance measure has been restated for clarity.

Table 6a
Goal 1—Mission
Performance Measures and Results

Measure	Results	FY 2002 Target[2]	FY 2002 Results	FY 2003 Target	FY 2003 Results	FY 2004 Target	FY 2004 Results	FY 2005[1] Target	FY 2005[1] Results	FY 2005 Results vs. Target
4. Percentage of direct-lender institutions with satisfactory internal controls over consumer compliance and borrower rights compliance, including those operating under corrective action plans acceptable to FCA. FCA examiner reviews of consumer compliance and borrower rights are absent any material deficiencies or weaknesses in internal controls.[4]	Between July 1, 2004, and June 30, 2005, we performed compliance reviews at 74 institutions; and all except 3 received satisfactory consumer compliance and borrower rights examination ratings. The 3 institutions with less than satisfactory consumer compliance have implemented corrective actions, including correcting the specific violations, improving procedures, providing additional training, and increasing internal review coverage of this area. The association response adequately addresses our concerns in this area.	NA	NA	NA	NA	100%	97%	≥90%	100%	▲
5. Percentage of instances in which FCA solicits public comment and input on applicable regulatory initiatives using supplemental approaches[5] to the notice and comment rulemaking process.	Supplemental approaches were used on 3 of 10 regulatory initiatives.	NA	NA	NA	NA	≥40%	72.3%	≥40%	30%	▼

5. Supplemental approaches include Advance Notice of Proposed Rulemaking (ANPRM), comment period reopenings and extensions, constituent/congressional committee meetings, public meetings, focus groups, town meetings, and other unique approaches to gather a broad range of public input. This result does not reflect several instances when FCA met with constituents prior to beginning a regulatory project. 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 the Inspector General (IG). The results reported herein are in accordance with the IG's recommendations.

Table 6a
Goal 1—Mission
Performance Measures and Results

Measure	Results	FY 2002		FY 2003		FY 2004		FY 2005[1]		FY 2005
		Target[2]	Results	Target	Results	Target	Results	Target	Results	Results vs. Target
6. Percentage of direct-lender institutions that have satisfactory programs as rated by FCA examiners to furnish sound and constructive credit and related services to young, beginning, and small (YBS) farmers, ranchers, and producers and harvesters of aquatic products, or that have acceptable corrective action plans in place.[4]	Between July 1, 2004, and June 30, 2005, FCA examined 78 direct-lender institutions, and all except 1 were found to be satisfactory or had acceptable corrective action plans in place to address deficiencies. Correctable deficiencies were identified in 6 associations' programs. The examiners recommended that 1 association include administration of the association's YBS program in the scope of future internal audits/reviews. In 2 more, they requested the association include YBS goals in its 2004 business plan. In another, they recommended expanding board reporting and including additional quantifiable business plan goals relative to lending. Finally, the examiners recommended 1 association include more defined goals in the business plan. Five of the 6 associations submitted acceptable corrective action plans to address the identified issues. One association's corrective action plan is not due to FCA until September 30, 2005.	NA	NA	100%	92%	100%	100%	≥90%	99%	▲
7. The aggregate annual change in the level of System participation in Federal and State guarantee programs in relation to the aggregate annual change in total Federal and State guarantee programs to further accomplish the System's public mission.[4]	This performance measure cannot be calculated for the State guarantee program activity due to a lack of reporting from State agencies. As stated in the FY 2004 Performance and Accountability Report, FY 2004 is the latest period for which data are available for reporting purposes.	NA	NA	NA	NA	≥1.00	NA	≥1.00	1.12	▲

Table 6b
Goal 2—Safety and Soundness
Performance Measures and Results

Measure	Results	FY 2002 Target[2]	FY 2002 Results	FY 2003 Target	FY 2003 Results	FY 2004 Target	FY 2004 Results	FY 2005[1] Target	FY 2005[1] Results	FY 2005 Results vs. Target
8. Number of institutions that FCA placed in receivership due to financial failure during the previous 12 months.[4]	During the past 12 months, no FCS institutions were placed in receivership.	NA	NA	NA	NA	0	0	0	0	✓
9. The total assets of FCS institutions that FCA has determined are fundamentally sound in all material respects.[4]	As of June 30, 2005, all FCS institutions were fundamentally sound in all material respects, as reflected by their composite FIRS rating of 1 or 2.	NA	NA	NA	NA	≥90%	100%	≥90%	100%	▲
10. Percentage of FCS institutions with composite FIRS ratings of 3, 4, or 5 with acceptable corrective action plans in place to address the underlying problems as determined by FCA examiners.[4]	As of June 30, 2005, no FCS institution had composite FIRS ratings of 3 or worse. Consequently, no corrective action plans were required.	NA	NA	NA	NA	100%	100%	100%	100%	✓
11. Percentage of System assets in institutions with adverse assets-to-risk funds less than 100 percent.[4]	All FCS institutions maintained adversely classified assets at levels that were within their risk-bearing capacity at June 30, 2005. The amount of risk funds exceeded the amount of adversely classified assets in all FCS institutions.	100%	100%	100%	100%	100%	100%	≥90%	100%	▲
12. Percentage of institutions complying with all regulatory capital ratio requirements (permanent capital ratio, total capital ratio, core surplus ratio, net collateral, risk-based capital), including those operating under corrective action plans acceptable to FCA.[4]	As of June 30, 2005, all System institutions complied with all provisions of FCA capital adequacy regulations.	100%	100%	100%	100%	100%	100%	100%	100%	✓

Table 6b
Goal 2—Safety and Soundness
Performance Measures and Results

Measure	Results	FY 2002		FY 2003		FY 2004		FY 2005[1]		FY 2005
		Target[2]	Results	Target	Results	Target	Results	Target	Results	Results vs. Target
13. Percentage of FCS institutions with acceptable action plans to correct violations of laws and regulations identified by FCA examinations.[4]	Between July 1, 2004, and June 30, 2005, 37 instances of noncompliance with laws or regulations were identified. Of these, all were resolved to FCA's satisfaction.	NA	NA	NA	NA	100%	93%	100%	100%	✓
14. Percentage of FCA-regulated institutions that have satisfactory audit and review programs as determined by FCA examiners, including those with corrective action plans acceptable to FCA.[4]	Between July 1, 2004, and June 30, 2005, the examiners reviewed 80 institutions' audit and review programs, and all except 3 were found to be satisfactory. Two of those institutions submitted corrective action plans that adequately addressed the examiners' concerns. The examiners' review of the third institution's corrective action plan for adequacy has not revealed any material deficiencies. Due to the timing, we are counting this instance as meeting the performance measure target.	NA	NA	NA	NA	100%	97%	100%	100%	✓

Table 6c
Goal 3—President's Management Agenda
Performance Measures and Results

Measure	Results	FY 2002		FY 2003		FY 2004		FY 2005[1]		FY 2005
		Target[2]	Results	Target	Results	Target	Results	Target	Results	Results vs. Target
15. FCA's human capital goals and strategies support mission needs and the President's Management Agenda (PMA).	This performance measure was discontinued during FY 2005.	NA	NA	NA	NA	Yes	Yes	NA[6]	NA[6]	NA
16. Structure of Agency is assessed at least once every 5 years[7] to determine whether changes are needed to better meet mission goals.	As the FCA workforce draws closer to retirement age, management continues to evaluate human capital needs. During 2005, staffing studies were conducted throughout the Agency to help identify workforce requirements needed to meet future needs. Organizational structural changes were made to improve operations and efficiency.	NA	NA	NA	NA	Yes	Not available	Yes	Yes	✓
17. Percentage of available authorities and programs that were used to expand recruitment methods in an effort to enhance the pool of qualified applicants for entry-level hiring to include more individuals in underrepresented groups.	This performance measure was discontinued during FY 2005.	NA	NA	NA	NA	100%	100%	NA[6]	NA[6]	NA
18. Percentage of vacancy announcements issued at multiple grade levels for positions in FCA's six most populous occupations in an effort to develop and fully use employees' potential.	This performance measure was discontinued during FY 2005.	NA	NA	NA	NA	100%	75%	NA[6]	NA[6]	NA
19. Percentage of vacant non-entry-level positions filled from within.	This performance measure was discontinued during FY 2005.	NA	NA	NA	NA	$\leq$60%	100%	NA[6]	NA[6]	NA

6. During FY 2005, modifications were made to the performance measures for Goal 3 to focus priority of operations on the achievement of meaningful results related to the programs of the Agency. This initiative eliminated 10 of the 15 performance measures because they had little relevance to FCA's overall mission and did not substantially relate to program activities.
7. The frequency for the assessment of the Agency's structure was revised from once every 3 years to once every 5 years to better reflect when staffing studies are actually conducted.

Table 6c
Goal 3—President's Management Agenda
Performance Measures and Results

Measure	Results	FY 2002 Target[2]	FY 2002 Results	FY 2003 Target	FY 2003 Results	FY 2004 Target	FY 2004 Results	FY 2005[1] Target	FY 2005[1] Results	FY 2005 Results vs. Target
20. Percentage of established career paths for FCA's six most populous occupations to allow for the internal advancement of high-potential candidates.	This performance measure was discontinued during FY 2005.	NA	NA	NA	NA	100%	100%	NA[6]	NA[6]	NA
21. Percentage of staff adhering to Individual Development Plans (IDPs) annually.	This performance measure was discontinued during FY 2005.	NA	NA	NA	NA	≥85%	Not available	NA[6]	NA[6]	NA
22. Audit opinion on the Agency's annual financial statements, as reported by the Agency's external auditors.	Performance measure goal was achieved for FY 2005. On November 1, 2004, the Agency received an unqualified audit opinion from its external auditors on the FY 2004 annual financial statements.	NA	NA	NA	NA	Unqualified	Unqualified	Unqualified	Unqualified	✓
23. Number of material internal control weaknesses reported by the Agency's financial auditors.	Performance measure goal was achieved for FY 2005. No material internal control weaknesses were identified by the Agency's external auditors during the 2004 year-end audit.	NA	NA	NA	NA	0	0	0	0	✓
24. The number of business days after each month-end that financial reports are available to Agency managers.	This performance measure was discontinued during FY 2005.	NA	NA	NA	NA	7	7.3	NA[6]	NA[6]	NA
25. Percentage of newly developed FCA training courses that are available electronically.	This performance measure was discontinued during FY 2005.	NA	NA	NA	NA	≥50%	100%	NA[6]	NA[6]	NA
26. Percentage of Agency staff with remote broadband connectivity.	This performance measure was discontinued during FY 2005.	NA	NA	NA	NA	≥25%	28.1%	NA[6]	NA[6]	NA

Table 6c
Goal 3—President's Management Agenda
Performance Measures and Results

Measure	Results	FY 2002 Target[2]	FY 2002 Results	FY 2003 Target	FY 2003 Results	FY 2004 Target	FY 2004 Results	FY 2005[1] Target	FY 2005[1] Results	FY 2005 Results vs. Target
27. Percentage of the Agency's Web pages and electronic devices that are section 508 accessibility compliant.[8]	Performance measure goal was exceeded for FY 2005. As of June 30, 2005, 95.4 percent of the Agency's Web pages and electronic devices were Section 508 accessibility compliant.	NA	NA	NA	NA	≥95%	95.5%	95%	95.4%	▲
28. FCA information and technology services are available on a continuous 24-hour basis to provide appropriate users access to Agency information, communications, and data collection services.[4]	Performance measure goal was again exceeded for FY 2005. FCA's network and Web components were available 98.3 percent of the time.[9]	NA	NA	NA	NA	≥97%	98.2%	≥97%	98.3%	▲
29. Performance of an annual inventory of FCA's commercial activities for evaluation of outsourcing alternatives.	This performance measure was discontinued during FY 2005.	NA	NA	NA	NA	Yes	Yes	NA[6]	NA[6]	NA

8. The goal of Section 508 of the Rehabilitation Act of 1973 as amended by the Workforce Investment Act of 1998 is to provide Federal employees with disabilities access to office systems and information equal to their nondisabled colleagues. It also ensures that people in the general public who have disabilities have equal access to government information.
9. In calculating the availability of information resources, FCA does not include the minutes of scheduled downtime for routine network maintenance.

Auditor’s Reports and Financial Statements

Letter from the Acting Chief Financial Officer

During fiscal year (FY) 2005, the Farm Credit Administration (FCA or Agency) continued to improve upon its excellent record in financial management. The Agency achieved a "clean" audit opinion on its financial statements by meeting the high standards established for sound financial management and reporting. As required by the Office of Management and Budget, FCA met all of the accelerated reporting dates for the quarterly financial statements and the Annual Performance and Accountability Report.

The excellent record in financial management is due in large measure to W. B. Erwin, former FCA Chief Financial Officer, who retired from his position on September 3, 2005. Mr. Erwin had more than 30 years of Federal service. Under his stewardship, the Agency implemented its current financial management system and a series of related systems, including Travel Manager, the Secure Payment System, and *Pay.gov.*

FCA is committed to continuing to build upon a track record of professional excellence, accountability, and responsibility in the administration of its programs and financial operations. During FY 2005, the Agency engaged outside expertise to conduct a series of strategic studies. These studies covered a five-year planning horizon and stressed the Agency's commitment to being effective and efficient. The studies are a reflection of our financial management initiatives, which stress the need for improvements as we work to meet increasing requirements with declining resources.

In response to the strategic studies, the Agency is aggressively taking advantage of opportunities for cost savings and process improvement. During the year, FCA began to merge its financial, human capital, technology, and administrative operations under a single management structure. More and more, we are using shared services with other Federal entities to maintain efficiencies in these operations.

As we begin another year, we will continue to implement financial management improvements that will provide managers and employees with better information to make FCA more efficient, effective, and accountable. We will work diligently to implement better systems and processes that support and represent added value to the Agency's program goals. In doing so, we will ensure that FCA represents a good value to all stakeholders and to the American people.

Betty J. Holden

Betty J. Holden
Acting Chief Financial Officer

Farm Credit Administration

Office of Inspector General
1501 Farm Credit Drive
McLean, Virginia 22102-5090
(703) 883-4000

November 4, 2005

The Honorable Nancy C. Pellett
Chairman of the Board
Farm Credit Administration
1501 Farm Credit Drive
McLean, Virginia 22102-5090

Dear Ms. Pellett:

This letter transmits the report on the audit of the Farm Credit Administration's (FCA or Agency) financial statements for the fiscal year ended September 30, 2005. The Office of Inspector General (OIG) contracted with Harper, Rains, Knight, & Company, P.A. (HRK), an independent accounting firm, to perform the audit. This letter also incorporates a summary of what I believe are significant management and performance challenges facing the Agency. I also described these challenges in the OIG Semiannual Report to the Congress dated September 30, 2005.

HRK issued an unqualified opinion. HRK opined that FCA's principal financial statements present fairly, in all material respects, the financial position of the Agency as of September 30, 2005 and 2004, in conformity with generally accepted accounting principles. HRK issued two other reports. Its report on internal control noted no matters considered to be material weaknesses. The HRK report on compliance with laws and regulations does not note any instances of noncompliance. In our opinion, HRK's work provides a reasonable basis on which to render its opinion and we concur with the reports.

The contract with HRK required that they perform the audit in accordance with "Government Auditing Standards" issued by the Comptroller General of the United States and the Office of Management and Budget Bulletin No. 01-02, "Audit Requirements for Federal Financial Statements." To ensure the quality of the work performed, the OIG:

reviewed HRK's approach and planning of the audit;
evaluated the qualifications and independence of the auditors;
monitored progress of the audit;
examined working papers;
and reviewed the audit report.

As part of the Agency's annual Performance and Accountability Report, the Inspector General is required to provide an opinion on the most serious management and performance challenges facing the Agency. In the most recent OIG Semiannual Report to Congress, I outlined substantive challenges confronting the Agency. These challenges fall into two general categories. First are the challenges related to the FCA's mission of ensuring a safe, sound, and dependable Farm Credit System (FCS or System) as a source of credit and related services to agriculture. Some of these challenges may be influenced by events that are outside the control of the Agency. Second, but no less important, are the challenges related to the Agency's operations.

FCS – The System lends to a single industry that is vulnerable to economic swings. Nevertheless, the FCS remains sound in all material respects. Earnings and capital levels continue to be strong and asset quality remains high. However, there are many facets of agriculture and rural America today that raise the question of whether there should be modifications to the Farm Credit Act of 1971, as amended (Act), in order to enhance the agricultural and rural economies of the future.

The FCA and the System have a responsibility to inform Congress when there is a need to update the Act in order to ensure the FCS is able to continue to provide constructive and sufficient credit and related services to agriculture into the future. Ensuring that Congress is so informed will require a consistency in approach and strategic thinking on the part of the Agency and the System to assist Congress in maintaining the Act as a dynamic and empowering vehicle for the ultimate benefit of America's farmers, ranchers, and other rural citizens.

FCA – The FCA must balance the demands of ensuring the FCS fulfills its public policy purpose; proactively examining System institutions for undue risk and weaknesses in governance and management; and yet providing a flexible regulatory environment for FCS institutions within the provisions of the Act. This challenge has become increasingly difficult because of the ever changing nature of agriculture, lending, and the financial marketplace.

In adapting to meet this changing landscape, the FCA Board must be ever vigilant to ensure the Agency's continued independence and objectivity as the System's safety and soundness regulator.

Strategic Planning – The FCA Board adopted its 2004-2009 Strategic Plan in December 2003. Since adoption, the Agency has a new Chairman and a new FCA Board member. These changes in leadership provide an opportunity to revise the plan to ensure that the current FCA Board's vision is fully incorporated.

The FCA Board refined the Agency's performance measures in January 2005. The performance measures should be evaluated on an ongoing basis to ensure they challenge and stretch the organization. An effective performance management system fosters achievement and accountability at the individual, organizational, and overall Agency levels.

Agency Governance – The Act provides for a full-time three-member FCA Board. The members are appointed by the President and confirmed by the Senate. For a relatively small agency, this board structure presents a challenge in defining the roles and responsibilities of the members relative to the governance of the Agency.

The Chairman took action to address this challenge by sharing authority in tasking another member with leading the FCA Board in its efforts on governance issues. This tasking applies to governance within both the Agency and System institutions. One significant result thus far was a collaborative review by the members of all FCA Board policies and the revision of many, including the FCA Board's operational policy. This updated operational policy now captures the current rules and processes related to the FCA Board's transaction of business.
To govern the Agency effectively, the FCA Board must be able to engage in professional policy debate in an environment of mutual trust and shared expectations. A foundation for achieving this is the FCA Board's revised operational policy.

Human Capital - In March 2001, the OIG recommended FCA develop a human capital plan. FCA management agreed to this recommendation. Under Chairman Pellett, Agency managers have focused on the challenge of marshalling and managing human capital to assure accountability and maximize FCA performance. While FCA still does not have a human capital plan, the Agency has made a significant investment in strategic studies that can serve as the plan's foundation. The objective of the strategic studies was to create a picture of the credit needs of the System and rural America in the intermediate- and long-term future and identify organizational and human capital opportunities to help FCA adapt. The approach is in marked contrast to the past where we noted the problem was the lack of a strategic approach in establishing a human capital plan.

FCA has transformed the strategic studies into management actions such as organizational changes, the realignment of human resources, and process improvements. These management initiatives should facilitate the development of a human capital plan that incorporates the elements recommended by the OIG in March 2001 and the optimal utilization of human capital.

Another challenge facing the Agency and a critical component of managing human capital is providing for management succession. Individuals with the potential to become managers should be identified, provided developmental opportunities, and, after demonstrating managerial capability, ultimately promoted to higher positions. This, as part of a human capital plan, should be linked to the Agency's Strategic Plan and is critical in the Agency's ongoing accomplishment of its mission.

Financial Management – Timely, accurate, and useful financial information is essential for:

day-to-day decision-making;
managing the Agency's operations more efficiently, effectively, and economically;
supporting results-oriented management approaches; and
ensuring accountability on an ongoing basis.

During FY 2001, FCA successfully implemented a financial management system. During September 2003, the Agency decided to purchase a new financial system. Management originally scheduled implementation of the new system during FY 2004. In September 2004, the OIG issued an inspection report that showed significant improvements were needed in the project management of this new financial management system to successfully complete implementation. In July 2005, this project was put on hold awaiting a reevaluation of this new system.

The Agency's continuing challenge is to outsource or bring yet another financial management system on line at a reasonable cost to FCA and concurrently leverage the system to deliver timely financial information, critical for making well-informed management decisions. The challenge suggests the Agency should develop measures of financial management success beyond receiving an unqualified financial statement audit opinion, as stated in the FCA 2004-2009 Strategic Plan. Measures such as delivering financial information that managers can use in day-to-day operations, and developing reports that capture the full cost of programs and projects can help bring about improvements.

Leveraging Technology - Information technology (IT) is a key element of management reform efforts that can help dramatically improve performance and reduce costs. The Agency has recognized that in order to meet the constraints of its budget, it must be able to maximize its return on investment in technology. FCA's challenge is to establish effective mechanisms to ensure that current and future members of staff have the skills to use technology to operate in an efficient and effective manner. Internally, there is an opportunity for IT to complement human capital initiatives to reformulate the work processes of FCA. There is also an opportunity to capture knowledge of employees who are approaching retirement. In order to take advantage of these opportunities, FCA will need to invest in training and reward employees who are able to develop innovative approaches in using technology to accomplish Agency goals.

Externally, E-Government offers many opportunities to better serve the public. FCA's challenge is to identify opportunities to make FCA more efficient and effective, and reduce costs through the use of E-Government strategies. FCA has begun to implement some E-Government applications, including the use of the Internet to collect and disseminate information and forms.

Respectfully,

Carl A. Clinefelter

Carl A. Clinefelter
Inspector General

Attachments

Copy to: The Honorable Douglas L. Flory, FCA Board Member
The Honorable Dallas P. Tonsager, FCA Board Member
Betty J. Holden, Acting Chief Financial Officer
William E. Howard, Audit Follow-up Official

HARPER, RAINS, KNIGHT & COMPANY
Certified Public Accountants
A Professional Association

Harper, Rains, Knight & Company, P.A.

ıns, Knight & Company, P.A. Certified Public Accountants Consultants
One Hundred Concourse 1052 Highland Colony Parkway, Suite 100 Ridgeland, Mississippi 39157
Telephone 601.605.0722 Facsimile 601.605.0733 www.hrkcpa.com

HARPER, RAINS, KNIGHT & COMPANY
Certified Public Accountants
A Professional Association

INDEPENDENT AUDITORS' REPORT
ON INTERNAL CONTROL

FARM CREDIT ADMINISTRATION
The Board and Office of Inspector General

We have audited the Principal Statements (hereinafter referred to as "financial statements") of the Farm Credit Administration (FCA) as of and for the fiscal years ended September 30, 2005 and 2004, and have issued our report thereon dated October 28, 2005. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and, Office of Management and Budget (OMB) Bulletin No. 01-02, "Audit Requirements for Federal Financial Statements."

In planning and performing our audits, we considered FCA's internal control over financial reporting by obtaining an understanding of the agency'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. 01-02. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982, such as those controls relevant to ensuring efficient operations. The objective of our audits was not to provide assurance on internal control. Consequently, we do not provide 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 reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the agency's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal controls, misstatements, losses, or noncompliance may nevertheless occur and not be detected. However, we noted no matters involving the internal control and its operation that we considered to be material weaknesses as defined above.

With respect to internal control related to performance measures reported in the Performance Report, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions, as required by OMB Bulletin No. 01-02. Our procedures were not designed to provide assurance on internal control over reported performance measures, and, accordingly, we do not provide an opinion on such controls.

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

Harper, Rains, Knight & Company, P.A.

October 28, 2005

Harper, Rains, Knight & Company, P.A. Certified Public Accountants Consultants
One Hundred Concourse 1052 Highland Colony Parkway, Suite 100 Ridgeland, Mississippi 39157
Telephone 601.605.0722 Facsimile 601.605.0733 www.hrkcpa.com

HARPER, RAINS, KNIGHT & COMPANY
Certified Public Accountants
A Professional Association

INDEPENDENT AUDITORS' REPORT
ON COMPLIANCE WITH LAWS AND REGULATIONS

FARM CREDIT ADMINISTRATION
The Board and Office of Inspector General

We have audited the Principal Statements (hereinafter referred to as "financial statements") of the Farm Credit Administration (FCA) as of and for the fiscal years ended September 30, 2005 and 2004, and have issued our report thereon dated October 28, 2005. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and, Office of Management and Budget (OMB) Bulletin No. 01-02, "Audit Requirements for Federal Financial Statements."

The management of FCA is responsible for complying with laws and regulations applicable to the agency. As part of obtaining reasonable assurance about whether the agency'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. 01-02, including the requirements referred to in the Federal Financial Management Improvement Act (FFMIA) of 1996. We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to FCA.

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

Under FFMIA, we are required to report whether the agency's financial management systems substantially comply with the Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA section 803(a) requirements.

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

Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audits and, accordingly, we do not express such an opinion.

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

Harper, Rains, Knight & Company, P.A.

October 28, 2005

Harper, Rains, Knight & Company, P.A. Certified Public Accountants Consultants
One Hundred Concourse 1052 Highland Colony Parkway, Suite 100 Ridgeland, Mississippi 39157
Telephone 601.605.0722 Facsimile 601.605.0733 www.hrkcpa.com

FINANCIAL STATEMENTS AND RELATED NOTES

FARM CREDIT ADMINISTRATION
BALANCE SHEET
As of September 30, 2005 and 2004

	2005	2004 Restated
ASSETS		
Intragovernmental		
Fund Balance with Treasury (Note 2)	$ 1,195,445	$ 1,065,048
Investments (Note 3)	18,980,498	18,073,634
Accounts Receivable (Note 4)	143,296	175,527
Prepaid Expenses	14,167	6,818
Total Intragovernmental	20,333,406	19,321,027
Accounts Receivable (Note 4)	202,265	636,580
General Property, Equipment, and Software, Net (Note 5)	950,965	1,227,115
Prepaid Expenses	104,400	83,826
Total Assets	$ 21,591,036	$ 21,268,548
LIABILITIES		
Intragovernmental		
Accounts Payable	$ 129,282	$ 25,935
Accrued Post-Employment Compensation (Note 6)	30,870	22,824
Advances from Others	3,363	3,363
Accrued Taxes Payable	1,490	4,708
Employer Contributions and Payroll Taxes Payable	196,077	177,260
Total Intragovernmental	361,082	234,090
Accounts Payable	487,264	281,437
Actuarial Workers Compensation Liability (Note 7)	1,152,559	1,380,291
Accrued Liabilities for Retirees' Life Insurance	–	1,290,975
Accrued Payroll and Benefits	3,834,720	3,812,861
Employer Contributions and Payroll Taxes Payable	31,607	26,547
Liability for Miscellaneous Funds Received	328	44,469
Deferred Revenue	2,285,697	1,695,438
Total Liabilities	8,153,257	8,766,108
NET POSITION		
Cumulative Results of Operations	13,437,779	12,502,440
Total Net Position	13,437,779	12,502,440
Total Liabilities and Net Position	$ 21,591,036	$ 21,268,548

The accompanying notes are an integral part of these statements.

FARM CREDIT ADMINISTRATION
STATEMENT OF NET COST
For the Years Ended September 30, 2005 and 2004

	2005	2004
PROGRAM COSTS		
Safety and Soundness:		
Intragovernmental Gross Costs	$ 8,104,280	$ 7,897,166
Less: Intragovernmental Earned Revenues	(497,335)	(346,768)
Intragovernmental Net Costs	7,606,945	7,550,398
Gross Costs with the Public	25,478,326	25,137,217
Less: Earned Revenues from the Public	(31,178,110)	(30,159,392)
Net Costs with the Public	(5,699,784)	(5,022,175)
Total Net Costs—Safety and Soundness	1,907,161	2,528,223
Policy and Regulation:		
Intragovernmental Gross Costs	1,507,230	1,504,041
Less: Intragovernmental Earned Revenues	(105,575)	(78,474)
Intragovernmental Net Costs	1,401,655	1,425,567
Gross Costs with the Public	5,621,722	5,971,699
Less: Earned Revenues from the Public	(6,596,415)	(6,730,945)
Net Costs with the Public	(974,693)	(759,246)
Total Net Costs—Policy and Regulation	426,962	666,321
Other Activities:		
Intragovernmental Gross Costs	490,264	535,161
Less: Intragovernmental Earned Revenues	(1,451,900)	(1,423,336)
Intragovernmental Net Costs	(961,636)	(888,175)
Gross Costs with the Public	1,619,086	1,771,765
Less: Earned Revenues from the Public	(168,622)	(142,529)
Net Costs with the Public	1,450,464	1,629,236
Total Net Costs—Other Activities	488,828	741,061
Net Cost of Operations (Notes 8 and 9)	$ 2,822,951	$ 3,935,605

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, 2005 and 2004

	2005	2004 Restated
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	$ 12,502,440	$ 14,125,805
Prior Period Adjustments–Correction of Errors (Note 10)	10,676	(1,346,477)
Beginning Balances, As Adjusted	12,513,116	12,779,328
Other Financing Sources:		
Imputed Financing from Costs Absorbed by Others		
Federal Employee Benefits (Note 11)	2,226,905	2,286,083
Rent (Note 12)	1,520,709	1,372,634
Total Financing Sources	3,747,614	3,658,717
Net Cost of Operations	(2,822,951)	(3,935,605)
Net Position—Ending Balances	$ 13,437,779	$ 12,502,440

The accompanying notes are an integral part of these statements.

FARM CREDIT ADMINISTRATION
STATEMENT OF BUDGETARY RESOURCES
For the Years Ended September 30, 2005 and 2004

	2005	2004 Restated
BUDGETARY RESOURCES		
Unobligated Balances—Beginning of Period (Note 13)	$ 11,847,551	$ 12,576,830
Spending Authority from Offsetting Collections:		
Earned		
Collected	41,029,705	38,915,092
Receivable from Federal Sources	18,695	(37,061)
Change in Unfilled Customer Orders		
Advance Received	–	(292,041)
Without Advance from Federal Sources	(147,728)	387,282
Subtotal–Spending Authority from Offsetting Collections	40,900,672	38,973,272
Total Budgetary Resources (Note 14)	$ 52,748,223	$ 51,550,102
STATUS OF BUDGETARY RESOURCES		
Obligations Incurred—Exempt from Apportionment	$ 38,753,505	$ 39,702,551
Unobligated Balance-Available—Exempt from Apportionment	11,708,693	10,107,644
Unobligated Balance-Not Available	2,286,025	1,739,907
Total Status of Budgetary Resources	$ 52,748,223	$ 51,550,102
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS		
Obligated Balance, Net, Beginning of Period	$ 7,209,314	$ 6,984,737
Obligated Balance, Net, End of Period:		
Accounts Receivable	$ (240,017)	$ (221,322)
Unfilled Customer Orders from Federal Sources	(299,458)	(447,186)
Undelivered Orders	1,885,491	2,235,275
Accounts Payable	4,711,310	5,642,547
Total–Obligated Balance, End of Period	$ 6,057,326	$ 7,209,314
Outlays:		
Disbursements	$ 40,034,525	$ 40,418,728
Collections	(41,029,705)	(38,623,051)
Net Outlays	$ (995,180)	$ 1,795,677

The accompanying notes are an integral part of these statements.

FARM CREDIT ADMINISTRATION
STATEMENT OF FINANCING
For the Years Ended September 30, 2005 and 2004

	2005	2004
RESOURCES USED TO FINANCE ACTIVITIES		
Budgetary Resources Obligated		
Obligations Incurred	$ 38,753,505	$ 39,702,551
Less: Spending Authority from Offsetting Collections	(40,900,672)	(38,973,272)
Net Obligations	(2,147,167)	729,279
Other Resources		
Imputed Financing from Costs Absorbed by Others (Notes 11 And 12)	3,747,614	3,658,717
Exchange Revenue Not in the Budget	590,259	(143,248)
Net Other Resources Used to Finance Activities	4,337,873	3,515,469
Total Resources Used to Finance Activities	2,190,706	4,244,748
RESOURCES USED TO FINANCE ITEMS NOT PART OF THE NET COST OF OPERATIONS		
Change in Budgetary Resources Obligated for Goods, Services, and Benefits Ordered but Not Yet Provided	174,134	718,378
Resources that Fund Expenses Recognized in Prior Periods	(680)	5,581
Actuarial FECA Liability Decrease	(227,732)	(465,072)
Resources that Finance the Acquisition of Assets	(346,308)	(1,349,176)
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	(400,586)	(1,090,289)
Total Resources Used to Finance the Net Cost of Operations	1,790,120	3,154,459
COMPONENTS OF THE NET COST OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD		
Components Requiring or Generating Resources in Future Periods:		
Decrease/Increase in Exchange Revenue Receivable from the Public	434,995	(45,586)
Total Components of Net Cost of Operations that Will Require or Generate Resources in Future Periods	434,995	(45,586)
Components Not Requiring or Generating Resources:		
Depreciation and Amortization	586,752	828,811
Refunds Receivable from the Public and Gain on Asset Disposition	11,084	(2,079)
Total Components of Net Cost of Operations that Will Not Require or Generate Resources	597,836	826,732
Total Components of Net Cost of Operations that Will Not Require or Generate Resources in the Current Period	1,032,831	781,146
Net Cost of Operations	$ 2,822,951	$ 3,935,605

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). 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. Policy making 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—As required by Public Law 107-289, the Accountability of Tax Dollars Act of 2002, the accompanying financial statements have been prepared in accordance with the Office of Management and Budget's (OMB) Circular No. A-136, Financial Reporting Requirements. Also, the financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and the Statements of Federal Financial Accounting Standards (SFFAS) prescribed by the Federal Accounting Standards Advisory Board, which has been designated the official body for setting standards for the Federal government. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. FCA's transactions are recorded on 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. Budgetary accounting has also been applied to facilitate compliance with legal constraints and control over the use of funds.

Please note that the Statement of Custodial Activity contained in OMB Circular No. A-136 is not applicable to FCA and is not included as a part of the financial statements. All amounts reported in the accompanying statements and related notes 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 recorded 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 comprised 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. The Office of the Chief Financial Officer (OCFO) reviews the Agency's accounts receivable on an ongoing basis. The OCFO has determined that all accounts receivable are fully collectible as of September 30, 2005.

F. 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 that property, equipment, and software with itemized costs of $5,000 or more and a useful life of two years or more are capitalized. Items that are less than $5,000 but meet the bulk purchase criteria 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.

G. Rent—The Act provides for FCA to occupy buildings and 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.

H. Federal Employee Benefits—Federal employee benefits include benefits earned by employees for pension, post-retirement 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.

I. 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.

J. Assessments—A substantial portion of FCA's revenues is based upon 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 FCA regulations and are based, in part, upon the average risk adjusted assets and the overall financial health of the institution being assessed.

K. Deferred Revenue—Prior to the beginning of each fiscal year, in accordance with the Act, the 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 the month of September. The unearned funds received prior to the beginning of the new fiscal year is established as a deferred revenue and is reported as such on the Balance Sheet. These amounts are also reported as Unobligated Funds-Not Available (for commitment/obligation) on the Statement of Budgetary Resources.

Note 2. Fund Balance with Treasury

	2005	2004 Restated
Fund Balance with Treasury		
Revolving Fund	$ 1,195,445	$ 1,065,048
Total Fund Balance with Treasury	$ 1,195,445	$ 1,065,048
Status of Fund Balance with Treasury		
Unobligated Balance		
Available	$ 11,708,693	$ 10,107,644
Unavailable	2,286,025	1,739,907
Obligated Balance Not Yet Disbursed	6,057,326	7,209,314
Subtotal—Status of Fund Balance	20,052,044	19,056,865
Funds Invested with Treasury		
Net of Unamortized Discount	(18,856,599)	(17,991,817)
Total Fund Balance with Treasury	**$ 1,195,445**	**$ 1,065,048**

Note 3. Investments

Intragovernmental Securities

Amounts for 2005 Balance Sheet Reporting	Amortized Cost	Unamortized (Premium) Discount	Investments Net	Required Market Value Disclosure
Non-Marketable				
Market-Based	$ 18,883,776	$ 21,224	$ 18,905,000	$ 18,719,699
Accrued Interest	96,722	-	-	96,722
Total	**$ 18,980,498**	**$ 21,224**	**$ 18,905,000**	**$ 18,816,421**

Amounts for 2004 Balance Sheet Reporting	Amortized Cost	Unamortized (Premium) Discount	Investments Net	Required Market Value Disclosure
Non-Marketable				
Market-Based	$ 18,027,839	($ 20,839)	$ 18,007,000	$ 18,015,136
Accrued Interest	45,795	–	–	45,795
Total	**$ 18,073,634**	**($ 20,839)**	**$ 18,007,000**	**$ 18,060,931**

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 $634,148 and $446,656 for fiscal years 2005 and 2004, respectively.

Note 4. Accounts Receivable

	2005	2004
Intragovernmental		
Reimbursements for Services Provided	$ 133,658	$ 175,168
Expenditure Refunds	9,638	359
Subtotal	143,296	175,527
With the Public		
Assessments	199,506	634,501
Vendor Overpayments	2,759	714
Other	–	1,365
Subtotal	202,265	636,580
Total Accounts Receivable	**$ 345,561**	**$ 812,107**

Note 5. General Property, Equipment, and Software

As of September 30, 2005

	Estimated Useful Life	Depreciation Method	Acquisition Value	Accumulated Amortization/ Depreciation	Book Value
Equipment	3 years	Straight Line	$ 1,643,658	($ 1,628,726)	$ 14,932
IT Equipment	3 years	Straight Line	1,490,766	(642,874)	847,892
Software	3 years	Straight Line	220,013	(148,700)	71,313
Vehicles	5 years	Straight Line	33,656	(16,828)	16,828
	Total		**$ 3,388,093**	**($ 2,437,128)**	**$ 950,965**

As of September 30, 2004

	Estimated Useful Life	Depreciation Method	Acquisition Value	Accumulated Amortization/ Depreciation	Book Value
Equipment	3 years	Straight Line	$ 1,801,545	($ 1,697,741)	$ 103,804
IT Equipment	3 years	Straight Line	1,182,239	(197,438)	984,801
Software	3 years	Straight Line	208,078	(101,494)	106,584
Vehicles	5 years	Straight Line	50,389	(18,463)	31,926
	Total		**$ 3,242,251**	**($ 2,015,136)**	**$ 1,227,115**

Note 6. Accrued Post-Employment Compensation

Intragovernmental—Covered by Budgetary Resources

	Current Liabilities
FECA and Unemployment Compensation Accrual—2005	$ 30,870
FECA Accrual—2004	$ 22,824

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to cover Federal civilian employees injured on the job, employees who have contracted a work-related occupational disease, and beneficiaries of employees whose deaths are attributable to job-related injury or occupational disease. Claims for benefits under the FECA for eligible FCA employees are administered by the Department of Labor (DOL) and ultimately paid by the FCA. In fiscal year 1999, FCA elected to annually reimburse the DOL for the actual benefit payments paid to its employees upon receiving notification of claims incurred. As of September 30, 2005, FCA had an outstanding claim of $24,965, all of which will be paid with the July 2005 through June 2006 billing.

The Unemployment Compensation for Federal Employees program provides benefits for eligible unemployed former civilian employees. It is administered by States as agents of the Federal government, and is operated under the same terms and conditions that apply to regular State Unemployment Insurance. The law of the State under which the claim is filed determines the benefit amount, the number of weeks benefits can be paid, and other eligibility conditions. For fiscal year 2005, an accrual of $5,905 was established to cover the estimated charge for unemployment compensation for the fourth quarter of the year. The total accrued post-employment compensation amount for the fiscal year is $30,870.

Note 7. Actuarial Workers Compensation Liability

The DOL estimates future workers compensation liability for specified entities preparing statements under the Chief Financial Officers' Act and the Government Management Reform Act. The actuarial liability estimates for FECA benefits 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 the DOL provides individual agency estimates on a routine basis, FCA calculated its actuarial liability amount using the DOL model for the estimation of FECA actuarial liability.

The FECA actuarial liability amounts for fiscal years 2005 and 2004 are $1,152,559 and $1,380,291, respectively. The decrease in the actuarial liability amount may be attributed to the decrease in the medical payments covered during fiscal year 2005. The FCA records the FECA actuarial liability as a liability that is "Not Covered by Budgetary Resources."

Note 8. Gross Cost and Earned Revenue by Budget Functional Classification

Functional Classification	Gross Cost (*)	Earned Revenue	Net Cost
Agriculture			
2005	$ 42,820,908	$ 39,997,957	$ 2,822,951
2004	$ 42,817,049	$ 38,881,444	$ 3,935,605

(*) Intragovernmental costs were in the amounts of $10,101,774 and $9,936,368 for fiscal years 2005 and 2004, respectively, and the intragovernmental revenue amounts were $2,054,810 and $1,848,578, respectively.

Note 9. Sub-Organization Program Costs/Program Costs by Segment

Farm Credit Administration
Supporting Schedule by Sub-Organization
For the Year Ending September 30, 2005

	Office				
	Examination	Policy & Analysis	Secondary Market Oversight	Support Organizations	Total
Safety & Soundness					
Intragovernmental	$ 2,507,090	$ 379,541	$ 69,492	$ 5,148,157	$ 8,104,280
With the Public	17,695,348	1,416,285	549,401	5,817,292	25,478,326
Total	20,202,438	1,795,826	618,893	10,965,449	33,582,606
Less: Earned Revenue	(19,055,139)	(1,693,841)	(583,746)	(10,342,719)	(31,675,445)
Net Program Cost	1,147,299	101,985	35,147	622,730	1,907,161
Policy & Regulation					
Intragovernmental	28,397	198,848	38,954	1,241,031	1,507,230
With the Public	184,258	2,535,188	280,804	2,621,472	5,621,722
Total	212,655	2,734,036	319,758	3,862,503	7,128,952
Less: Earned Revenue	(199,920)	(2,570,291)	(300,607)	(3,631,172)	(6,701,990)
Net Program Cost	12,735	163,745	19,151	231,331	426,962
Other Activities					
Intragovernmental	195,111	24,206	–	270,947	490,264
With the Public	1,586,075	1,878	–	31,133	1,619,086
Total	1,781,186	26,084	–	302,080	2,109,350
Less: Earned Revenue	(1,368,409)	(20,039)	–	(232,074)	(1,620,522)
Net Program Cost	412,777	6,045	–	70,006	488,828
Net Cost of Operations	**$ 1,572,811**	**$ 271,775**	**$ 54,298**	**$ 924,067**	**$ 2,822,951**

Note 9. Sub-Organization Program Costs/Program Costs by Segment (cont'd.)

Farm Credit Administration
Supporting Schedule by Sub-Organization
For the Year Ending September 30, 2004

	Office				
	Examination	Policy & Analysis	Secondary Market Oversight	Support Organizations	Total
Safety & Soundness					
Intragovernmental	$ 2,527,939	$ 369,548	$ 52,092	$ 4,947,587	$ 7,897,166
With the Public	17,250,962	1,393,964	338,183	6,154,108	25,137,217
Total	19,778,901	1,763,512	390,275	11,101,695	33,034,383
Less: Earned Revenue	(18,265,161)	(1,628,545)	(360,406)	(10,252,048)	(30,506,160)
Net Program Cost	1,513,740	134,967	29,869	849,647	2,528,223
Policy & Regulation					
Intragovernmental	12,559	206,952	40,403	1,244,127	1,504,041
With the Public	80,228	2,777,775	330,241	2,783,455	5,971,699
Total	92,787	2,984,727	370,644	4,027,582	7,475,740
Less: Earned Revenue	(84,517)	(2,718,695)	(337,608)	(3,668,599)	(6,809,419)
Net Program Cost	8,270	266,032	33,036	358,983	666,321
Other Activities					
Intragovernmental	219,679	26,748	–	288,734	535,161
With the Public	1,753,433	1,123	–	17,209	1,771,765
Total	1,973,112	27,871	–	305,943	2,306,926
Less: Earned Revenue	(1,339,284)	(18,917)	–	(207,664)	(1,565,865)
Net Program Cost	633,828	8,954	–	98,279	741,061
Net Cost of Operations	**$ 2,155,838**	**$ 409,953**	**$ 62,905**	**$1,306,909**	**$ 3,935,605**

Note 10. Prior Period Adjustments

FY 2005

In fiscal year 2005, prior period adjustments were made for the following:

Represents an expenditure refund adjustment against a prior year write-off of an accounts receivable.	$ 9
Represents depreciation expense adjustments for the net excess amounts recorded in fiscal year 2004.	9,667
Represents the prior year gain realized for the trade-in of a capitalized property item.	1,000
Total	**$ 10,676**

FY 2004 (Restated)

In fiscal year 2004, prior period adjustments were made for the following:

Represents an expense adjustment to recognize the Agency's prior years' liability for life insurance coverage provided to retirees formerly covered under FCA's Life Insurance Program.	($ 1,290,975)
Represents the net expenditure adjustments made to properly reflect cost recorded in prior budget fiscal years.	(15,985)
Represents a prior period adjustment to revenue to record the FY 2003 billing assessment to the National Cooperative Bank.	(39,517)
Total	**($ 1,346,477)**

Note 11. Federal Employee Benefits

	2005	**2004**
Imputed Pension Cost	$ 982,912	$ 1,124,517
Other Imputed Retirement Benefits	1,243,993	1,161,566
Total	**$ 2,226,905**	**$ 2,286,083**

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 the Office of Personnel Management (OPM). FCA reports the amount of its pension expense for employees in accordance with SFFAS No. 5 (see Note 1). 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 fiscal years 2005 and 2004. Corresponding amounts of imputed revenue are recorded to offset the imputed cost.

Other Retirement Benefits Expenses—SFFAS No. 5 (see Note 1) 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 12. Rent

	2005	2004
Leased Field Offices	$ 690,009	$ 752,095
FCA Headquarters	830,700	620,539
Total	**$ 1,520,709**	**$ 1,372,634**

In accordance with the Act, FCA occupies buildings owned and leased by the FCSBA. The FCA administrative headquarters building and land are located in McLean, Virginia. In addition, the FCSBA leases office space for field offices on behalf of FCA at various locations throughout the United States. Rent is provided at no cost to FCA. The above imputed rent expense is an estimate based on the FCSBA actual results of operations for the 12 months ended December 31, 2004.

In accordance with SFFAS No. 4 (see Note 1), the rent expense and the associated imputed revenue are recorded as a nonmonetary transaction. The full cost of the rent expense is calculated by subtracting the amount of rental income received from commercial tenants renting office space from the gross operating expenses of the FCSBA. The lease expenses for the field offices are included in FCSBA's gross operating expenses.

Note 13. Adjustment to Beginning Balance of Budgetary Resources

The FY 2004 beginning unobligated balance was reduced by $1,290,975 for the amount of the prior-year adjustment for the life insurance coverage provided to retirees formerly covered under FCA's Life Insurance Program.

Note 14. Budgetary Resources

FY 2005

The total budgetary resources reported in the Statement of Budgetary Resources (SBR) for FY 2005 is $52,748,223. The budgetary authority for the FCA, as reported in the Budget of the United States Government (Budget), is $56,000,000. The difference is $3,251,777. The Budget includes an estimated unobligated beginning balance of $12,000,000; however, there was $11,847,551 available at the beginning of fiscal year 2005, which resulted in a difference of $152,449. This reduced the difference between the Budget and the amount of the total budgetary resources reported in the SBR to $3,099,328. The Budget also includes an estimate of $43,000,000 in non-Federal collections, of which only $38,975,516 (includes a reduction for a refund made to the System institutions in the amount of $1,500,004) was realized. This resulted in a difference of $4,024,484. This reduced the difference between the Budget and the amount of the total budgetary resources reported in the SBR to $925,156. The $462,123 difference between the estimated Federal collections of $1,000,000 and the actual Federal collections of $1,462,123 further reduced the difference between the reports to $463,033. Because the line items contained in the Budget are in "millions," the remaining difference is due to rounding.

FY 2004 (Restated)

The total budgetary resources reported in the SBR for fiscal year 2004 is $51,550,102. The budgetary authority for the FCA, as reported in the Budget, is $57,000,000. The difference is $5,449,898. The Budget includes an estimated unobligated beginning balance of $15,000,000; however, only $12,576,830 was available at the beginning of fiscal year 2004, which resulted in a difference of $2,423,170. This reduced the difference between the Budget and the amount of the total budgetary resources reported in the SBR to $3,026,728. The Budget also includes an estimate of $40,000,000 in non-Federal collections, of which only $36,825,949 (includes a reduction for a refund made to the System institutions in the amount of $2,050,999) was realized. This resulted in a difference of $3,174,051. This further reduced the difference between the Budget and the amount of the total budgetary resources reported in the SBR to $147,323. Because the line items contained in the Budget are in "millions," the remaining difference is due to rounding.

Note 15. Restatements

For FY 2004, a prior-year adjustment of $1,290,975 was established to recognize the Agency's liability for life insurance coverage provided to retirees formerly covered under FCA's Life Insurance Program. Because of the adjustment, the following FY 2004 financial statements were restated to reflect the effect of the adjustment on the statements.

Financial Statement	Effect of Adjustment on Financial Statement
Balance Sheet	Increased accrued liabilities and reduced the net position
Statement of Changes in Net Position	Decreased the beginning and ending net position balances
Statement of Budgetary Resources	Decreased the beginning and ending unobligated balances

As a result of the required adjustment, other employee benefits have been reviewed to ensure that a liability for future payments is not required.

REQUIRED SUPPLEMENTAL INFORMATION

Intragovernmental Assets

As of September 30, 2005

Agency	Fund Balance with Treasury	Investments	Accounts Receivable	Prepaid Expenses
U.S. Department of the Treasury	$ 1,195,445	$ 18,980,498	$ 8,470	$ –
Small Business Administration	–	–	72,729	–
U.S. Department of Agriculture	–	–	55,241	–
Library of Congress	–	–	–	14,167
FCS Insurance Corporation	–	–	6,325	–
U.S. Postal Service	–	–	531	–
Total	**$ 1,195,445**	**$ 18,980,498**	**$ 143,296**	**$14,167**

As of September 30, 2004

Agency	Fund Balance with Treasury	Investments	Accounts Receivable	Prepaid Expenses
U.S. Department of the Treasury	$ 1,065,048	$ 18,073,634	$ –	$ –
Small Business Administration	–	–	137,981	–
U.S. Department of Agriculture	–	–	37,187	–
Library of Congress	–	–	–	6,818
FCS Insurance Corporation	–	–	359	–
Total	**$ 1,065,048**	**$ 18,073,634**	**$ 175,527**	**$ 6,818**

REQUIRED SUPPLEMENTAL INFORMATION (cont'd.)

Intragovernmental Liabilities

As of September 30, 2005

Agency	Accounts Payable	Accrued Post-Employment Compensation	Advances from Others	Accrued Taxes Payable	Employer Contributions and Payroll Taxes Payable
U.S. Department of Agriculture	$ 1,500	$ –	$ 3,363	$ –	$ –
Office of Personnel Management	–	–	–	–	151,024
Social Security Administration (Treasury General Fund)	–	–	–	–	45,053
U.S. Department of Labor	–	30,870	–	–	–
U.S. Department of the Interior	126,037	–	–	–	–
Federal Deposit Insurance Corporation	1,320	–	–	–	–
Treasury—Internal Revenue Service	–	–	–	1,490	–
U.S. Department of the Treasury	425	–	–	–	–
Total	**$ 129,282**	**$ 30,870**	**$ 3,363**	**$ 1,490**	**$ 196,077**

REQUIRED SUPPLEMENTAL INFORMATION (cont'd.)

Intragovernmental Liabilities

As of September 30, 2004

Agency	Accounts Payable	Accrued Post-Employment Compensation	Advances from Others	Accrued Taxes Payable	Employer Contributions and Payroll Taxes Payable
U.S. Department of Agriculture	$ 1,500	$ –	$ 3,363	$ –	$ –
Office of Personnel Management	–	–	–	–	134,241
Social Security Administration (Treasury General Fund)	–	–	–	–	43,019
U.S. Department of Labor	–	22,824	–	–	–
FCS Insurance Corporation	8,770	–	–	–	–
Board of Governors of the Federal Reserve	12,425	–	–	–	–
Treasury—Internal Revenue Service	–	–	–	4,708	–
General Services Administration	1,782	–	–	–	–
U.S. Department of Justice	1,037	–	–	–	–
U.S. Department of the Treasury	421	–	–	–	–
Total	**$ 25,935**	**$ 22,824**	**$ 3,363**	**$ 4,708**	**$ 177,260**

Additional Information

The *Farm Credit Administration Performance and Accountability Report Fiscal Year 2005* is now 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 prepares the financial press releases, the System's Annual and Quarterly Information Statements, and the System's combined financial statements contained therein, with the support of the System banks. 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
Farm Credit Administration
1501 Farm Credit Drive
McLean, VA 22102-5090
703-883-4056
www.fca.gov

150/1105