Farm Credit Administration

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

Performance and Accountability Report Fiscal Year 2010

Contents

List of Acronyms Appearing in Report

BPD	Bureau of the Public Debt
CEO	chief executive officer
DAEO	designated agency ethics official
DCIA	Debt Collection Improvement Act
DOL	Department of Labor
EEO	equal employment opportunity
Farmer Mac	Federal Agricultural Mortgage Corporation
FCA	Farm Credit Administration
FCS	Farm Credit System
FCSIC	Farm Credit System Insurance Corporation
FECA	Federal Employees Compensation Act
FFMIA	Federal Financial Management Improvement Act
FIRS	Financial Institution Rating System
FY	fiscal year
GAAP	generally accepted accounting principles
GSE	Government-sponsored enterprise
HCP	Human Capital Plan
IT	information technology
NCB	National Consumer Cooperative Bank
OCPA	Office of Congressional and Public Affairs
OE	Office of Examination
OGC	Office of General Counsel
OIG	Office of Inspector General
OMB	Office of Management and Budget
OMS	Office of Management Services
OPM	Office of Personnel Management
ORP	Office of Regulatory Policy
OSMO	Office of Secondary Market Oversight
RBCST	Risk-Based Capital Stress Test
SBA	Small Business Administration
USDA	United States Department of Agriculture
YBS	young, beginning, and small (farmers and ranchers)

Statement of the Chairman and CEO

November 2010

As Chairman and Chief Executive Officer of the Farm Credit Administration, and on behalf of the FCA Board, I invite you to review this Performance and Accountability Report. It details the Agency's accomplishments and program and financial performance for fiscal year (FY) 2010.

I am pleased to report that FCA achieved each of the goals outlined in its Strategic Plan and substantially achieved or exceeded all of the measurable performance areas targeted for FY 2010. As the arm's length regulator of the Farm Credit System (System) and the Federal Agricultural Mortgage Corporation (Farmer Mac), we have two primary goals: (1) to ensure that the System and Farmer Mac fulfill their public missions for the good of agriculture and rural areas and (2) to examine and oversee them to ensure that they remain safe and sound.

During this period of high volatility and increased risk, FCA is especially vigilant in examining and overseeing System institutions and Farmer Mac. We are closely monitoring emerging risks that affect the System as a whole, and we are increasing on-site examination time and conducting sensitivity stress tests. We have also stepped up communication and policy development efforts to ensure that the institutions' directors and managers have the guidance they need to guard against and control the risks that threaten their institutions or the System as a whole. In particular, we have enhanced the guidance for stress testing by System institutions. Our goal is to make sure that the lending programs and internal controls of the institutions we regulate remain sound so that they can continue providing the credit that farmers, ranchers, and other rural Americans rely upon.

FCA is accountable for financial results in addition to programmatic results. I am happy to report that FCA's FY 2010 financial statements have received an unqualified opinion from an independent auditor. These financial statements provide a fair representation of FCA's accounting practices and demonstrate its commitment to sound fiscal management. Effective and efficient internal operations are critical to the Agency's ability to meet its goals, and FCA's management is committed to the continual improvement of its internal operations. I am proud that FCA continues its tradition of strong financial controls and disciplines.

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

Leland A. Strom
Chairman and CEO
Farm Credit Administration

Management's Discussion and Analysis

FCA at a Glance

The Farm Credit Administration (FCA or Agency) is an independent agency in the Executive branch of the U.S. Government. FCA is responsible for regulating and supervising the banks, associations, and related entities in the Farm Credit System (FCS or System) and the Federal Agricultural Mortgage Corporation (Farmer Mac).[1]

The FCS is a nationwide network of borrower-owned financial institutions that provide credit to farmers, ranchers, residents of rural communities, agricultural and rural utility cooperatives, and other eligible borrowers. Farmer Mac, which Congress established in 1987, supports the System's mission by providing a secondary market for agricultural real estate loans, rural housing mortgage loans, and certain rural utility loans; in doing this, Farmer Mac increases the liquidity and lending capacity of agricultural and rural utility lenders.

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

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

1. It ensures that FCS institutions, including Farmer Mac, operate safely and soundly and comply with applicable laws and regulations. FCA's examinations and oversight strategies focus on an institution's financial condition and any material existing or potential risk, as well as on the ability of its board of directors and management to direct its operations. The Agency also evaluates each institution's compliance with laws and regulations to serve eligible borrowers, including young, beginning, and small farmers and ranchers. If a System institution violates a law or regulation or operates in an unsafe or unsound manner, FCA uses its supervisory and enforcement authorities to ensure appropriate corrective action.

2. It develops policies and regulations that govern how System institutions conduct their business and interact with customers. FCA's policy and regulation development focuses on protecting System safety and soundness; implementing the Farm Credit Act; providing minimum requirements for lending, related services, investments, capital, and mission; and ensuring adequate financial disclosure and governance. FCA also approves corporate charter changes, System debt issuance, and other financial and operational matters.

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

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

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

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

1. Although Farmer Mac is a chartered institution of the FCS, we are distinguishing Farmer Mac because of its unique and separate mission.

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

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

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

The **Office of Congressional and Public Affairs (OCPA)** serves as the Agency's principal point of contact for Congress, the media, other Government agencies, FCS institutions, employees, System borrowers, and the public. OCPA develops and monitors legislation pertinent to FCA and the FCS, serves as the Agency's congressional liaison, and prepares testimony for the Chairman and other staff members. The office also provides information to external audiences through news releases, fact sheets, reports, and other publications. It manages media relations regarding Agency activities and is responsible for the content of the FCA Web site. OCPA also coordinates special meetings, briefings for international visitors, and field hearings.

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

(FCA-PS-53).

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

OGC also handles Freedom of Information Act requests and matters pertaining to the Privacy Act.

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

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

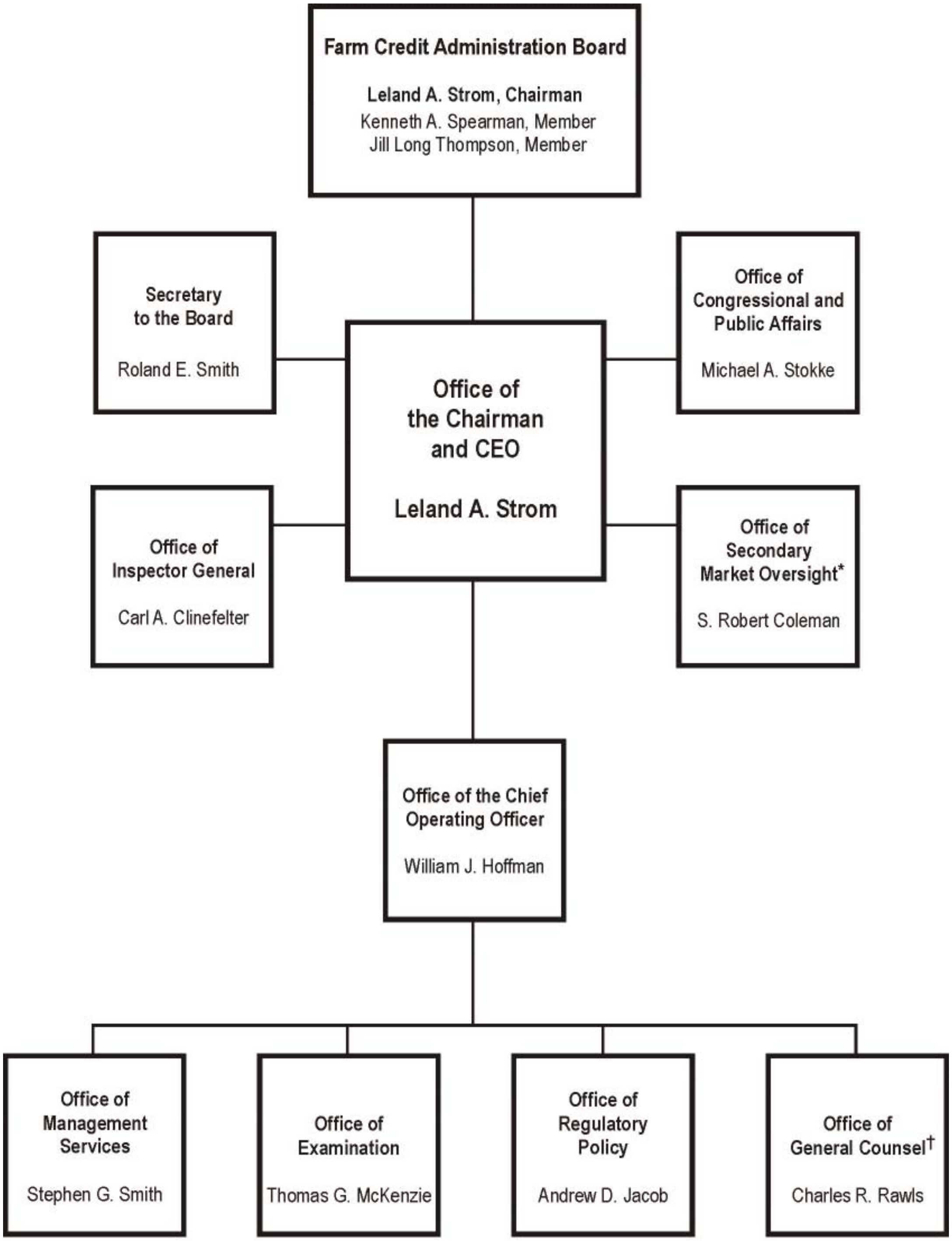
The **Office of Management Services (OMS)** manages and delivers the Agency's information technology, financial, human capital, and administrative services. The office coordinates planning efforts, including information resources management, security, human capital, and financial plans for the Agency.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

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

The **Equal Employment Opportunity (EEO)** Program directs the Agency's efforts to eliminate employment discrimination from its workplace with the goal of creating and maintaining a diverse and talented workforce. The EEO Program coordinates the Agency's development and implementation of human capital plan strategies for EEO and diversity, increases workplace awareness of and respect for EEO and diversity through educational programs, assesses the Agency's progress in achieving workplace diversity, and processes employee discrimination complaints to reach a timely resolution of employment issues.

The **Designated Agency Ethics Official (DAEO)** administers the provisions of the Ethics in Government Act of 1978, as modified by the Ethics Reform Act of 1989, for FCA. The DAEO coordinates and manages FCA's ethics program and serves as liaison to the U.S. Office of Government Ethics. The responsibilities of the position include reviewing financial disclosure reports of FCA staff and prospective presidential appointees to the FCA Board, conducting FCA's ethics training, counseling staff on ethics standards and postemployment conflicts of interest, and assisting managers and supervisors in understanding and implementing Agency ethics programs.

Organization
Farm Credit Administration
As of September 30, 2010



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

Note: On October 1, 2010, S. Robert Coleman became Director of the Office of Examination, and Daniel J. Fennewald became Acting Director of the Office of Secondary Market Oversight.

Highlights of FCA's Performance Goals and Results

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

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

Goal 1 Highlights—Public Mission

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

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

1. The percentage of FCS institutions with satisfactory business plans and management systems for providing constructive credit and related services to all potential customers, including institutions with acceptable corrective action plans

2. Whether Farmer Mac has developed and implemented a marketing program to appropriately grow program assets consistent with its mission and whether it has received a satisfactory rating from the Office of Secondary Market Oversight (OSMO) or is operating under a corrective action plan acceptable to OSMO

3. The percentage of direct-lender institutions with satisfactory internal controls over consumer compliance and borrower-rights compliance, including institutions with acceptable corrective action plans

4. The percentage of instances in which the Agency solicits public comment and input on applicable regulatory initiatives using supplemental approaches to the notice and comment rulemaking process

5. The percentage of direct-lender institutions that have satisfactory programs to furnish sound and constructive credit and related services to young, beginning, and small (YBS) farmers, ranchers, and producers or harvesters of aquatic products, including institutions with acceptable corrective action plans

The Agency achieved or exceeded its targets for all five measures associated with Goal 1. FCA examiners reviewed the business plans and management systems of 93 FCS institutions and found that all had satisfactory plans and systems or had acceptable corrective action plans in place. Farmer Mac has a marketing program to grow its program assets consistent with its mission and has received a satisfactory rating from OSMO or is operating under a corrective action plan acceptable to OSMO. Agency examiners performed compliance reviews at 69 direct-lender institutions and determined that all had satisfactory internal controls over consumer compliance and borrower-rights compliance. FCA used supplemental approaches in three of its six regulatory initiatives to gather a broad range of public input during the rulemaking process. In addition, FCA examiners reviewed the young, beginning, and small farmer programs at 69 direct-lender institutions and determined that all of the programs were satisfactory or the institutions were operating under acceptable corrective action plans.

Goal 2 Highlights—Safety and Soundness

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

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

1. The number of institutions that FCA placed in receivership because of financial failure during the previous 12 months

2. The total assets of FCS institutions that FCA has determined are fundamentally sound in all material respects

3. The percentage of FCS institutions with composite Financial Institution Rating System (FIRS) ratings of 3, 4, or 5 with acceptable corrective action plans in place to address the problems identified by FCA examiners

4. The percentage of System assets in institutions with ratios of adverse assets to risk funds of less than 100 percent

5. The percentage of institutions complying with regulatory capital ratio requirements (permanent capital ratio, total surplus ratio, core surplus ratio, net collateral ratio, risk-based capital), including institutions with acceptable corrective action plans

6. The percentage of FCS institutions with acceptable action plans to correct violations of laws and regulations identified by FCA examinations

7. The percentage of institutions that have satisfactory audit and review programs, including institutions with acceptable corrective action plans

FCA achieved or exceeded all but one of its targets associated with Goal 2. No institutions were placed in receivership during the reporting period, and 96.0 percent of the System's total assets were fundamentally sound in all material respects. All but 1 of the 18 institutions (94.4 percent) with FIRS ratings of 3 or higher had acceptable corrective action plans in place or were in the process of developing corrective action plans as of the reporting date of June 30, 2010. However, this institution submitted additional information on July 21, 2010, which corrected the weaknesses in its corrective action plan. As a result, this performance measure, which requires 100 percent compliance, is now met.

Of the System's assets, 99.6 percent were in institutions with ratios of adverse assets to risk funds of less than 100 percent. In addition, all institutions complied with regulatory capital ratio requirements. All of the institutions in which FCA examiners had identified violations of laws or regulations had acceptable corrective action plans or were in the process of developing such plans. Also, FCA examiners reviewed the audit and review programs of 65 institutions and found either that the programs were satisfactory or that the institutions were operating under acceptable corrective action plans.

Management Challenges

FCA is the Federal regulator for the Farm Credit System. Its mission is to ensure that FCS institutions operate safely and soundly and in compliance with applicable laws and regulations. FCA faces external and internal management challenges that reflect changes in agriculture and in the financial services industry. The Agency must anticipate and react to such changes in order to provide a regulatory framework within which the System can fulfill its mission to provide dependable and constructive credit and related services to agriculture and rural America in a safe and sound manner.

Economic Environment

At present, prolonged economic weakness, potential financial market changes, and volatile margins in the agricultural economy pose significant management challenges for borrowers, FCS institutions, and FCA.

We are emerging from a recession that is global in scope and the longest since the Great Depression of the 1930s. The pace of recovery has been slow, with continued high levels of unemployment and a depressed housing sector. These factors have added economic uncertainty for consumers and businesses, including the agricultural sector.

The severe stress in the financial markets of 2008 has dissipated, with conditions improved from the significant illiquidity seen at the height of the economic downturn. Investor demand for System securities is now favorable across all products. While capital markets remain volatile, the System's ability to issue debt across the yield curve has stabilized.

Nevertheless, overall global financial markets remain volatile and uncertain. Contributing to this uncertainty is the fundamental restructuring now occurring because of recent financial reform legislation, including reforms recommended by the Basel Committee (Basel III). Potential Government-sponsored enterprise (GSE) reform legislation has also increased uncertainty in the current financial market environment. Although the System remains fundamentally safe and sound and may not be a direct target of change, financial market and GSE reforms could indirectly affect the cost and flexibility of the System's traditional GSE funding sources.

This 18-month recession, which ended in mid-2009, was a key factor in the drop in demand for U.S. farm products and the significant reduction in farm income in 2009, especially for livestock producers. However, recent USDA estimates for farm income in 2010 show significant improvement because of rising livestock and crop prices. Strong export markets have helped push commodity prices higher.

While conditions have improved for some segments of the livestock industry, especially for hog producers and cow-calf operators, margins for dairy producers continue to be weak and may turn weaker in 2011. Recent rising crop prices, while beneficial for crop producers, are expected to push livestock margins lower in 2011 and, in some industries, to negative levels. The forestry and nursery sectors remain under stress from the weak economy and the depressed housing market. The declining housing market has reduced values for agricultural land in transition, such as recreational land and land on urban fringes. Loans dependent on capital gains for repayment capacity are stressed as a result. While prime agricultural land prices are maintaining their values and in some markets have increased compared with a year earlier, we continue to closely monitor collateral risk associated with mortgage loans. With the continued weak nonagricultural economy, the large number of the System's farm customers who depend on nonfarm incomes to service their loans continue to be vulnerable. Many rural areas are likely to experience lingering high unemployment relative to urban areas, further weakening off-farm sources of income and increasing System credit risk.

Agricultural producers are experiencing a more volatile and risky operating environment leading to more volatile repayment capacity and increased lender credit risk, including collateral risk. The rise in price volatility affects not only the prices farmers receive for their products but the prices they pay for their inputs and the value of collateral used to support lending activities. To reduce their own risk, traditional agricultural intermediaries, such as grain elevators, are less willing to provide options to producers to lock in prices for the commodities they produce. The result is that price risk is effectively pushed down the production chain to the producer level.

Because of budgetary pressures, Government programs may not offset agricultural risk as much as in the past. Furthermore, today's low interest rates are expected to eventually rise, bringing additional credit and collateral risk. Lenders are challenged in the current risk environment. As a result, they are becoming more cautious in reviewing and pricing for risks inherent in loan applications and in developing improved risk management practices for their loan portfolios. Also, as System institution managers work through their credit problems from 2009 and 2010, lending and portfolio management practices are changing. These changes, together with weak credit demand, are leading to flat-to-declining loan volume, a significant departure from the double-digit growth of recent years.

Important new trends in agriculture, such as local sourcing of food, sustainable production practices, organic farming, and changes in animal confinement, are being driven in part by consumer interests. It is unclear how traditional agriculture or lending might be affected by these trends or what management challenges may arise as a result.

Credit Risk

While the System remains strong, safe, and secure overall, its performance measures are weakening as a result of the difficult economic environment. As of June 30, 2010, approximately 81 percent of System institutions by number and 96 percent of System institutions by total assets received satisfactory risk ratings of 1 or 2, showing the strength of the System overall in a time of difficulty.

However, the risk profile for many System institutions has weakened over the past two years, when a number of institutions slipped from ratings of 1 to 2, and the number with unsatisfactory ratings of 3 or 4 increased to 18.[1] No institution has the lowest rating of 5. These trends are expected to continue in the year ahead.

The increase in unsatisfactory ratings has led to a larger number of System institutions being placed under supervisory actions to address identified weaknesses and unacceptable conditions. Deteriorating conditions at institutions in certain geographic areas or with large loan concentrations in weak industries contributed to the rise in supervisory actions.

After growing rapidly for a few years, System asset growth has slowed appreciably since 2009. Capital levels relative to risk are adequate at most institutions, and overall capital levels have steadily increased because of the System's profitability. Asset quality remains satisfactory overall, although the significant increase in adverse assets and nonaccrual loans from the extremely low levels seen in 2008 remains. System earnings, which declined in 2009, are once again strong and even

1. The number of institutions rated 3 or 4 decreased to 17 on July 1, 2010, because of a merger.

higher than the record-setting levels achieved in 2008. The System has maintained fluid access to short-term funding and has reestablished adequate term funding flexibility. However, isolated segments of the marketable investment portfolio continued to be hampered by downgraded securities.

Safety and Soundness

During this period of increased volatility and risk, extra caution and vigilance are required to protect the safety and soundness of institutions. FCA's management continues to focus on marshaling the resources necessary to intensify oversight, take proactive measures to safeguard institutions, and identify emerging risks across institutions.

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

The Agency's Office of Examination (OE) continues to focus its workforce on examination and oversight activities at System institutions. OE has implemented detailed strategies, including increased on-site examination time, to identify and address emerging risks at System institutions. The result has been that examination time and resources are concentrated on those System institutions at greatest risk. In addition, OE has developed a National Oversight Plan to ensure that all examinations have consistent priorities and focus on material and emerging risks. For fiscal year 2011, the plan identifies and prioritizes seven risk topics that will be addressed in each institution's oversight plan. Among other areas, examiners will give added attention to loan portfolio management; large, complex, and shared assets; and collateral risk management.

With increased risks and financial stress, System institutions must exercise caution at all levels, from making individual loans to ensuring that portfolio risk management policies are adequate. Recognizing this challenge, FCA continues to focus communication, meetings, and regulatory requirements on safety and soundness issues. For example, a March 2010 Informational Memorandum detailed FCA's stress testing expectations for all FCS Institutions. In addition, FCA obtained and analyzed information on the System's stress testing capabilities. The results of this analysis were communicated to the System in August 2010 and addressed OE's observations, common concerns, and best practices. The Agency also continues its own internal sensitivity stress testing analysis to evaluate and monitor the System's financial strength and capital adequacy.

The current environment poses challenges to institutions that participate in large, complex, and shared loans. FCA has caused System institutions to heighten their vigilance on such loans, ensuring that they maintain appropriate information and fully report risk exposures. The Agency continues to work with the System to enhance the information and analysis capabilities for large, complex, and shared loans.

The Agency conducted studies on distressed agricultural and related industries to assess emerging risks that may impact the System. The studies identified trends and recent structural changes in these industries. They also provided an update on the current industry economic conditions, credit situation, and outlook. The Agency also initiated a series of conference calls with certain System institutions that have large loan concentrations in these industries.

FCA also continued to foster communication with other Federal agencies on a variety of issues impacting System funding, liquidity, and investment risks.

Human Capital

FCA faces a long-term human capital challenge as more staff reach retirement age. FCA's Human Capital Plan focuses on ensuring that the Agency continues to employ a highly skilled and competent workforce. To do so, it must

- invest in education and technical training for existing staff,
- identify qualified candidates for career development and leadership training,
- attract new employees using a broad recruiting strategy consistent with our Human Capital Plan to attract veterans, minorities, and individuals with disabilities as job applicants,
- leverage outside experts through contracts to augment permanent staff, and
- undertake succession planning and cross training.

Replacing commissioned examiners is especially challenging because of the time required to recruit, train, and develop experienced examiners. The Agency anticipated this challenge by requesting and receiving the needed budget resources, beginning in 2004, to increase recruitment, training, and retention. FCA will continue to expand its examiner resources in fiscal years 2011 and 2012. The Agency is also hiring mid-career professionals to acquire additional expertise across FCA and to fill vacancies created by the retirement of tenured staff.

Regulatory Environment

FCA focused its regulatory program on providing guidance on key safety, soundness, and mission service issues. For example, FCA has initiated rulemaking projects to further enhance regulatory capital consistent with Basel III concepts, to improve liquidity investment requirements, and to strengthen loan portfolio and investment asset management practices. FCA will continue to focus its regulatory program on key System risk and mission issues.

In addition, FCA is carefully following the national debate on GSE reform because what is ultimately decided may affect FCA, the System, and System borrowers. Another focus area that FCA will monitor is the implementation of the Dodd-Frank Wall Street Reform and Consumer Protection Act regulations to ensure that there are no unintended consequences for the System or FCA. The implementing regulations may also require FCA to make changes to its regulations to ensure that they remain consistent and appropriate. Finally, FCA will need to monitor the 2012 Farm Bill negotiations for significant issues that could affect the System and FCA.

Upgrading Information Technology

Information technology remains a key element in management's efforts to continually improve Agency performance. FCA is in the process of developing new sources of data and new applications to proactively manage the challenges of the changing financial environment and to streamline workflow processes.

Over the coming year, FCA is committed to being an efficient and effective arm's length regulator. FCA is also committed to meeting these management challenges so that the System can continue to fulfill its mission in a safe and sound manner. Finally, FCA will remain vigilant and take proactive measures to ensure that risks impacting the System are effectively addressed.

Analyses and Highlights of FCA's Financial Statements

FINANCIAL HIGHLIGHTS

Financial Operation of FCA

FCA operates under the authority of the Farm Credit Act of 1971, as amended. FCA maintains a revolving fund in which moneys needed to cover FCA's planned administrative expenses are obtained primarily from assessments received from the Farm Credit System institutions, including the Federal Agricultural Mortgage Corporation (Farmer Mac) and service corporations. 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. For the past few years, FCA has opted to use the excess funds or carryover funds to determine the assessment amount to bill the System institutions for the subsequent fiscal year. On the basis of the approved assessment collections, Congress usually imposes a limitation on the amount of obligations that may be incurred in a given fiscal year.

In addition to assessments, FCA also obtains funds for reimbursable services provided to other Government agencies and from interest earned on investments with the U.S. Department of the Treasury. The Agency's reimbursable service work mainly includes services performed for the Farm Credit System Insurance Corporation and the U.S. Department of Agriculture (USDA).

Interest earned on investments is used to build and maintain an Agency reserve. The reserve ensures that FCA can effectively and efficiently respond to unanticipated, one-time, mission-related issues without increasing assessments. Additional information about FCA's financial condition for fiscal years (FY) 2010 and 2009 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 52 of this report presents the financial condition of FCA as of the 2010 and 2009 fiscal year-ends. It presents the value of FCA's assets, as well as the amounts FCA owes to the public and other Government agencies. The difference between the assets and liabilities represents FCA's net position. As reflected on the balance sheet and in tables 1 and 2, FCA's total assets and liabilities increased in FY 2010. The total assets increased $826,002, or 2.4 percent, and the total liabilities increased $573,567, or 5.8 percent. As a result of the high percentage increase in total liabilities compared to the low increase in total assets, the net position increase was only $252,435, or 1.0 percent.

As in previous years, investments represent the largest asset category, which is 95.8 percent of the total assets for FY 2010. In FY 2009, it was 95.1 percent. The 0.7 percent difference represents the net percentage change between FYs 2010 and 2009 in the other categories. For example, property and equipment decreased from 0.8 percent of the total assets in FY 2009 to 0.2 percent in FY 2010, a decrease of 0.6 percent; and accounts receivable and prepayments decreased from 1.7 percent of the total assets in FY 2009 to 1.6 percent in FY 2010, a decrease of 0.1 percent. The Fund Balance with Treasury remained at 2.4 percent of the total assets for both years. The accrued liabilities for payroll and benefits continue to be the largest liability category. It represents 55.6 percent of the total liabilities for FY 2010 and was 52.3 percent of the liabilities for FY 2009. The 3.3 percent difference is mainly due to the increase in the number of employees and the pay-for-performance adjustments normally provided to employees at the beginning of each calendar year. The 1.0 percent change in the net position represents the changes in the net cost of operations and the imputed costs that are paid by entities other than FCA. In FY 2009, the net position increased by 0.5 percent.

More detailed information about the Agency's assets, liabilities, net position, and funding for FY 2010 is included in the following paragraphs. For additional information on the net cost of operations, see the Performance and Financial Results section located on page 17.

Composition of Assets

As depicted in table 1, FCA's assets include its fund balance with Treasury, investments, accounts receivable and prepayments, and property and equipment. These items totaled $35,131,135 in FY 2010 as compared with $34,305,133 in FY 2009, an increase of $826,002, or 2.4 percent. This increase in assets, though smaller than the increase in FY 2009, is primarily the result of the $1,018,105 net increase in investments, which represents a 3.1 percent increase over the FY 2009 investment balance. At fiscal year-end, investments represented 95.8 percent of the total assets available. Of the $33,642,535 investment balance, $32,542,308 represents the par value of the investments in U.S. Treasury securities at year-end.

As part of the Agency's investment strategy and because the rate of return from long-term, nonmarketable, market-based securities was higher than the rate of return from investment funds in overnight securities, FCA purchased a total of $10,294,226 in long-term securities throughout the year. These purchases increased the long-term investment holdings to $30,994,308 compared with the $29,128,065 in long-term securities at the end of FY 2009. A balance of $1,548,000 remained in one-day investments on which interest was earned overnight. The fund balance with Treasury of $846,045 represents 2.4 percent of FCA's total assets. It is generally more advantageous for this amount to be lower since all excess cash is invested in U.S. Treasury securities, but funds were received from FCS institutions on September 30, after the investment cutoff period.

While FCA's investment holdings represent the largest dollar increase in assets, property and equipment represent the largest dollar decrease in assets. The net book value of capitalized property and equipment decreased from $273,742 to $91,248, or 66.7 percent. During the year, there were no new purchases of capitalized property, and the property on hand depreciated. Like the property and equipment amounts, accounts receivable and prepayments also decreased during the year by 7.5 percent. Accounts receivable decreased at a smaller rate than last year, 5.5 per-

Table 1. Composition of Assets

Fiscal Year	Fund Balance with Treasury	Investments	Accounts Receivable and Prepayments	Property and Equipment	Total
2010	$846,045	$33,642,535	$551,307	$ 91,248	$35,131,135
2009	$810,954	$32,624,430	$596,007	$273,742	$34,305,133

cent in FY 2010 as compared with 26.6 percent in FY 2009. Accounts receivable decreased because there were timelier collections of the year-end billings in FY 2010 than in FY 2009.

Composition of Liabilities

Table 2 shows that the Agency's total liabilities for FY 2010 increased from the amount reported in FY 2009 by 5.8 percent despite a decrease in accounts payable of 23.1 percent. The accounts payable decrease is attributable primarily to a decrease in the number of vendor invoices payable at the end of FY 2010 versus FY 2009. The Agency had a higher number of fully disbursed vendor payments at the end of FY 2010, which reduced the ending liability balance for payables as compared with 2009. The increases in the other liability categories ranged from 1.9 percent to 16.4 percent. The highest increase of 16.4 percent was in employer contributions and taxes payable, which increased by $66,090. The second highest increase was in accrued liabilities for payroll and benefits payable, which increased by $650,463, or 12.6 percent. Both increases were caused by an increase in the number of FCA employees and the pay-for-performance adjustments made at the beginning of the calendar year. In addition, the increase includes amounts for special bonus awards and special acts of performance. The slight increase in deferred revenue, which consists of moneys received from non-Federal sources for which services have not yet been provided, was $39,549, or 1.9 percent. During FY 2010, FCA received $2,132,270 in assessments from financial institutions in the FCS that are not yet due. At the beginning of FY 2011, this amount becomes due and payable to FCA and will be reclassified as revenue received in October.

Composition of Net Position

During FY 2010, FCA's net position continued to increase at a slightly higher rate than the previous year. The net position balance increased by $252,435, or 1.0 percent, during FY 2010, approximately double the FY 2009 increase of $112,037, or 0.5 percent. As shown in table 3, the significant change in the net position from FY 2009 to FY 2010 is the $1,039,460 increase in imputed costs. This represents an increase of 26.0 percent over the previous year. Most of this increase can be attributed to the increase in Federal employee benefits, which accounted for $739,460, or 71.1 percent of the total increase in imputed costs. The increased benefits are the direct result of additional employees on board during FY 2010. The Agency's imputed rent increased in FY 2010 by $300,000 as compared with FY 2009 in which there was no increase in imputed rent over the prior year.

The composition of the Agency's net position supports the continuance of operations. The net

Table 2. Composition of Liabilities

Fiscal Year	Accounts Payable	Accrued Liabilities (Payroll and Benefits)	Employer Contributions and Taxes Payable	Workers' Compensation (Funded and Unfunded)	Deferred Revenue	Total
2010	$ 813,278	$5,800,761	$468,668	$1,212,282	$2,132,270	$10,427,259
2009	$1,057,850	$5,150,298	$402,578	$1,150,245	$2,092,721	$ 9,853,692

position is primarily composed of cash and investments in U.S. Treasury securities that can be used during unforeseen emergencies so that FCA does not have to rely on other sources of cash. The Farm Credit Act of 1971, as amended, permits the Agency to use these assets in this way. As of September 30, 2010, the net position was 71.6 percent of the Agency's cash and investment balances. In addition, the net position is adequate to cover the Agency's liabilities. The net position is 236.9 percent of the Agency's total liabilities.

FCA's Funding and Fund Sources

FCA maintains a revolving fund with moneys obtained primarily from assessment fees paid by FCS institutions, including Farmer Mac, and from reimbursable services to other Government agencies and from the National Consumer Cooperative Bank, which the U.S. Congress has commissioned the Agency to examine annually. In addition, FCA earns interest revenue on investments with the U.S. Department of the Treasury, which the Agency makes with available cash. Table 4 on page 17 of this financial report depicts the funding that was available or collected by FCA for FYs 2010 and 2009. As shown, the Agency's available funding for 2010 increased from the previous year. For 2010, funding and fund sources increased from $51,580,441 for 2009 to $55,906,929 for 2010. The increase of $4,326,488, or 8.4 percent, in 2010 funding was mainly the result of an increase of $4,000,000, or 8.9 percent, in 2010 assessments and an increase of $500,000, or 10.2 percent, in assessment carryover from prior years. Funding from reimbursable activity decreased in FY 2010, whereas interest from investments increased in FY 2010 as compared with 2009. As a result of the slightly improved market and economic conditions that characterized FY 2010, the Agency earned 11.2 percent more interest than it did in FY 2009. Reimbursable funding decreased by 21.2 percent because the Agency cut back its reimbursable services to other Government agencies. This cutback allows FCA to focus additional resources on examining FCS operations and addressing material risks in line with the Agency's mission.

In FY 2010, FCA continued to carry out the Agency's mission, program goals and objectives within the available funding amount. As depicted in table 5 on page 18, FCA used $50,910,019, or approximately 91.1 percent, of the amount of funds available in 2010, compared with $45,687,367, or approximately 88.6 percent, of the amount of funds available in 2009. The amount of available funds remaining in 2010 totaled $4,996,910, compared with $5,893,074 in 2009. In FY 2010, the Agency continued to use its funds in accordance with established plans. Personnel compensation and benefits represent the most significant use of funds at FCA, representing 82.6

Table 3. Composition of Net Position

Fiscal Year	Adjusted Beginning Balance	Imputed Costs	Net Cost of Operations	Ending Balance
2010	$24,451,441	$5,044,417	($4,791,982)	$24,703,876
2009	$24,339,404	$4,004,957	($3,892,920)	$24,451,441

percent of total funds used. Despite several retirements and resignations, personnel compensation and benefits increased by $4,221,172, or 11.2 percent, because of an increase in the number of new hires in 2010 over 2009, as well as pay adjustments associated with employees' annual pay-for-performance appraisals.

The amount of funds used for property and equipment decreased by $265,620, or 52.0 percent, the only decrease among all of the budget categories. This decrease occurred because FCA, which replaces its hardware and software on a normal life-cycle basis, made no major purchases in FY 2010. The largest percentage increase was related to travel and transportation, which increased by $676,474, or 22.4 percent. The higher travel costs during FY 2010 are the result of an increased presence of FCA examiners at FCS institutions and the training of new examiners.

PERFORMANCE AND FINANCIAL RESULTS

This section describes FCA's financial condition and the results of its efforts to meet its performance goals and objectives for the fiscal years ended September 30, 2010, and September 30, 2009. 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. Since this section focuses mainly on the cost of operations, some of the data provided may differ from data provided in other sections of the report that cover budgetary obligations.

FCA continues to ensure that the FCS, including Farmer Mac, remains a sound and dependable source of credit and related financial services to U.S. agriculture and rural areas. Furthermore, the Agency provides reimbursable services to other Government agencies and nongovernmental entities. The Agency's accomplishment of its strategic goals and objectives, coupled with the continued business growth and sound condition of the FCS despite the troubled economy, attests to the quality of FCA products, services, and operations.

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

Table 4. Available Funding

Funding and Funding Sources	2010	2009
Assessments (current year)	$49,100,000	$45,100,000
Assessments (carryover from prior years)	5,400,000	4,900,000
Reimbursable activity	852,516	1,081,770
Interest from investments	554,413	498,671
Total	$55,906,929	$51,580,441

ning and effective resource management. The primary source of funding for FCA is the annual assessment of FCS institutions, which increased $4,000,000, or 8.9 percent, in 2010. This follows increases of $2,550,000, or 6.0 percent, in 2009 and $1,050,000, or 2.5 percent, in 2008.

FCA program costs increased as a result of hiring additional staff and adjusting the compensation of Agency employees. FCA salary and benefits increased $4,338,320, or 11.5 percent, from 2009. The agency increased its staff by 16 full-time equivalents in 2010 to address demands for more onsite presence in FCS institutions and to fulfill the human capital plan for resource needs. The Agency adjusted its employee compensation by $1,040,293 to remain competitive to attract and retain the talented employees it needs. FCA based the adjustment of its pay-for-performance compensation and employee benefits programs on a comparison of the compensation rates and benefits of other Federal financial regulators.

The total cost of FCA's programs for FY 2010 is $55,364,576, compared with $50,130,713 for FY 2009. Employee salaries and benefits represent the Agency's most significant cost. For 2010, employee compensation totals $42,045,793, or 75.9 percent of total cost. FCA's ability to maintain effective operations will require FCA staff to acquire new skill sets appropriate for meeting regulatory demands of an evolving FCS. FCA's ongoing strategic study concludes that the FCS will continue to evolve to have fewer—but much larger and more complex—institutions. Greater pressure will be placed on FCA examiners and analysts to have the appropriate skills to address demands and risks associated with evolving agricultural and rural economies.

In addition to the demands of an evolving FCS, another challenge FCA faces is the attrition of its staff: by 2014, approximately 46 percent of the staff is expected to retire or resign. In 2010, FCA continued to make organizational changes, as well as changes associated with its examination activities, to accommodate anticipated FCS changes and to better utilize staff skill sets for meeting demands to examine and regulate FCS institutions. Furthermore, FCA updated its comprehensive Human Capital Plan to address staff resource needs through the recruitment, mentoring, training, and promotion of staff, and through the use of career internship programs to attract promising new employees. The Agency has maintained competitive employee compensation by

Table 5. Funds Used by Major Budget Category

Budget Category	FY 2010	Percent of Total	FY 2009	Percent of Total
Personnel compensation and benefits	$42,074,511	82.6%	$37,853,339	82.9%
Travel and transportation	3,701,185	7.3%	3,024,711	6.6%
Contractual services	3,388,696	6.7%	3,040,745	6.6%
Property and equipment	244,829	0.5%	510,449	1.1%
Other	1,500,798	2.9%	1,258,123	2.8%
Total	$50,910,019	100.0%	$45,687,367	100.0%

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

Although they increased from the previous year, earned revenues remain below the Agency's program costs. Earned revenues for 2010 totaled $50,572,594, up $4,334,801 from 2009. Earnings are generated by the assessment fees paid by FCS institutions, including Farmer Mac; by earnings from reimbursable services provided to non-FCS entities; and by interest income from the investment of Agency cash in U.S. Treasury securities. The rise in earned revenue results from increases in earnings from the assessment of FCS institutions, reimbursable work for other Government agencies, and the Agency's investment of funds in U.S. Treasury securities. The increase in total earned revenue partially offsets the rise in program cost for the 12 months ended September 30, 2010. The net cost of FCA programs increased $899,062 from the same period ended September 30, 2009, to $4,791,982.

The Agency draws almost all of its cash from FCS assessments, reimbursable activity, and interest payments received from invested funds. FCA cash received during 2010 exceeded its obligations and increased its cash and investments from 2009 to 2010. As of September 30, 2010, cash and investments totaled $34,488,580, compared with $33,435,384 for September 30, 2009. Cash received from assessments and reimbursable activity in any given year is based on FCA Board-approved budgets, which are expected to be adequate to fund operations for that year. FCA utilizes the excess cash carryover from prior years to partially fund the Agency's annual budget and to reduce the assessment of FCS banks and associations. In addition, FCA maintains a reserve from interest earned from investments for unbudgeted expenses arising from material, unexpected issues related to FCS policy or safety and soundness. Congress imposes a limitation on the amount of administrative expenses that can be obligated from FCS assessments in the FCA Board-approved budgets.

Safety and Soundness Program

The examination and supervision of the FCS represents the most significant part of FCA program costs. FCA continued to add resources in 2010 to ensure that its examination and oversight program can meet the challenges of today's troubled financial environment and fluctuations in agriculture. The increased risk to the FCS is reflected in the number of institutions under FCA supervisory action, which increased by 6 to a total of 18 institutions in 2010. FCA met its goals and measures to ensure the safety and soundness of the FCS institutions, including Farmer Mac, with one exception. Measure 8 in table 6b requires all FCS institutions with composite Financial Institution Rating System (FIRS) ratings of 3, 4, or 5 to have acceptable corrective action plans in place to address the problems identified by FCA examiners. One institution did not meet this requirement by the reporting due date. However, the institution did submit an acceptable corrective action plan after the reporting due date. Program cost for the examination and supervision of the FCS increased $5,431,434 to $43,185,184, or 78.0 percent, of FCA's total costs in 2010. The FCS, including Farmer Mac, remains fundamentally sound, with 99.6 percent of FCS assets in institutions with ratios of adverse assets to risk funds of less than 100 percent. FCA continues to monitor progress on the issues of concern.

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

To maintain its quality of products, services, and operations, FCA continues to incur significant costs in the recruitment and training of staff through its Precommissioned Examiner Program; these recruiting and training efforts are necessary to meet human resource needs because a significant number of FCA employees are expected to retire over the next four or five years. FCA maintains effective early-warning and risk identification systems and oversight programs to identify and address emerging risks and related issues in FCS institutions.

Public Mission Program

FCA invests significant resources in its policymaking and regulatory functions to ensure that the FCS, including Farmer Mac, fulfills its public mission as mandated by the U.S. Congress. The Agency maintained its prior-year performance by meeting or exceeding all of its 2010 goals for rulemaking and corporate activity projects. For the fiscal year ended September 30, 2010, program cost for public mission was $11,096,605, representing a 2.9 percent decrease, or a decrease of $331,598, from the same period the previous year. Program cost for the public mission is 20.0 percent of FCA's total costs for 2010. FCA continued to provide regulation, policy, and guidance for the FCS, including Farmer Mac, to fully utilize its authorities to increase the safe and sound flow of funds to U.S. agriculture and rural areas. The Agency maintained its focus in 2010 on increasing FCS lending to young, beginning, and small farmers and ranchers. FCA continued to focus on the development of new products and services to encourage FCS outreach to potential customers, and to serve the public good. The Agency focused on ensuring that the outreach programs of the FCS institutions, including Farmer Mac, provided credit and related financial services to eligible customers, including young, beginning, and small farmers and ranchers. In addition, to protect the rights of loan applicants and borrowers, FCA reviewed and investigated inquiries and complaints regarding the FCS loan process and acts of alleged discrimination.

During FY 2010, through the issuance of Bookletters and Informational Memorandums, FCA provided interpretive guidance to System institutions to enable them to better understand their lending authorities and therefore to more appropriately market their products and services. In addition, FCA encouraged FCS institutions to form partnerships with non-System lenders to bring funds back into rural communities for needed facilities and for the support of agriculture production and employment. The Agency promoted public participation in the rulemaking process and sought to reduce the regulatory burden on the FCS.
As a result of public input, the Board amended the regulations in 2010 to eliminate unnecessary, redundant, or outdated regulations; correct cross-reference errors; and clarify the intent of a regulatory provision. FCA's corporate activity continued to remain low; the FCS has a relatively small number of institutions remaining because of the significant number of mergers since 2000.

Other Activity

Other activity represents the examination and oversight of the National Consumer Cooperative Bank (NCB) and the performance of reimbursable services for USDA and the Farm Credit System Insurance Corporation. Program cost for other activity increased $134,027 to $1,082,787 in 2010 because of increases in salaries and benefits. The costs for providing reimbursable services represented approximately 2.0 percent of FCA's total costs in 2010, compared with 1.9 and 6.9 percent for 2009 and 2008, respectively. Earned revenue for other activity totaled $896,322 for 2010, compared with $727,356 for 2009.

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

LIMITATIONS OF THE FINANCIAL STATEMENTS

The principal financial statements have been prepared to report the financial position and results of operations of FCA, pursuant to the requirements of 31 U.S.C. 3515(b). While the statements have been prepared from the books and records of FCA 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, which are prepared from the same books and records.

The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

Systems, Controls, and Legal Compliance

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

- The Inspector General Act
- The Federal Managers' Financial Integrity Act
- The Federal Financial Management Improvement Act
- The Prompt Payment Act
- The Debt Collection Improvement Act

FCA's Financial Management System

In compliance with the Financial Management Line of Business initiative to improve the cost, quality, and performance of financial management systems by using shared services, FCA partnered with the Bureau of the Public Debt's Administrative Resource Center (ARC) to provide the Agency with several financial management services. As a result of this partnership, FCA uses Oracle Federal Financials as its financial management system of record.

Oracle Federal Financials is a commercial, off-the-shelf software package, which is certified by the Chief Financial Officers Council to meet Federal Government accounting needs. It is Web based and interfaces with other systems to integrate other key activities performed by FCA, such as e-payroll, purchase cards, e-travel, and Federal investments.

Although FCA maintains its procurement services in house, the Agency partners with ARC for procurement system services. The system is fully integrated with Oracle Federal Financials, which allows for the checking of funds in real time and the commitment and obligation of funds as transactions are approved. FCA's transition of its financial services to ARC helps to ensure that FCA obtains the best value while maintaining its high standard of financial management practices.

Inspector General Act

The Inspector General Act of 1978, as amended, requires semiannual reporting on Office of Inspector General (OIG) audits, inspections, evaluations, and related activities, and Agency follow-up. OIG's two semiannual reports covering FY 2010 are available at www.fca.gov/home/inspector.html. Information about recommendations are made in audits, inspecions, and evaluations by OIG, as well as management's progress in taking corrective action, is summarized below.

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

Summary of OIG Audit, Inspection, and Evaluation Recommendations

Recommendations or agreed-upon actions uncorrected as of October 1, 2009:	0
Agreed-upon actions made during FY 2010:	11
Agreed-upon actions corrected during FY 2010:	0
Open agreed-upon actions as of September 30, 2010:	11
Recommendations or agreed-upon actions open more than one year:	0

Summary of OIG Audit, Inspection, and Evaluation Activities

At the beginning of FY 2010, there were no open agreed-upon actions carried over from FY 2009. The OIG issued five audit, inspection, and evaluation reports during FY 2010 that resulted in 11 agreed-upon actions.

During this fiscal year, OIG issued the audit report of the Agency's financial statements, internal control over financial reporting, and compliance with certain laws and regulations for FY 2009. The auditor opined that FCA's principal financial statements presented fairly, in all material respects, the financial position of the Agency as of September 30, 2009. The audit also showed no material weaknesses in internal control and no instances of noncompliance with certain laws or regulations. There were no recommendations.

OIG issued a final report on November 18, 2009, of an evaluation of the Agency's compliance with Federal Information Security Management Act for FY 2009. The report revealed no significant deficiencies and did not contain any recommendations or agreed-upon actions.

OIG issued a final inspection report on July 26, 2010, of an inspection of FCA's compliance with the Government in the Sunshine Act. While the inspection found that the Agency adheres to the Sunshine Act, there was one agreed-upon action that resulted.

OIG issued a final audit report on August 30, 2010, of an audit of the Agency's and the Office of Secondary Market Oversight's (OSMO's) regulation and policy development processes. It was determined that the Agency and OSMO are in compliance. There were no action items as a result of this audit.

OIG issued a final inspection report on September 16, 2010, of an inspection of FCA's process for reviewing, tracking, and responding to FCS borrowers' complaints. While the borrower-complaint handling process was determined to be functioning satisfactorily, ten agreed-upon actions resulted from the inspection.

At September 30, 2010, OIG was still evaluating the Agency's compliance with the Federal Information Security Management Act for FY 2010.

Federal Managers' Financial Integrity Act

The Federal Managers' Financial Integrity Act requires agencies to establish management controls over their programs and financial systems to provide reasonable assurance that the integrity of Federal programs and operations is protected. As a result, FCA 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 Government Accountability Office. The results of these management control evaluations are used to determine whether there are any problems to be reported as material weaknesses.

During FY 2010, the Senior Assessment Team (SAT), which was established to provide oversight and accountability for internal controls, completed its biennial assessment of the Agency's internal control programs, policies, and processes. To conduct the assessment, the SAT used the Government Accountability Office's internal control management and evaluation tool. Sections of the tool were used as a guide to assess the effectiveness of FCA's internal control and to identify important aspects of control that may need improvement. The assessment was presented in five sections corresponding to the five standards for internal control: control environment, risk assessment, control activities, information and communications, and monitoring. The team concluded that FCA's system of internal control is effective.

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

Federal Financial Management Improvement Act

The Federal Financial Management Improvement Act (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 2010.

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 2010, FCA and its shared-service provider paid most bills within the time requirement. However, because of system and timing problems, FCA paid $85 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 carrying out 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 FCA because the Agency operates with virtually no delinquent debt, if necessary, FCA will transfer debts that are older than 180 days to the Treasury Department for cross-servicing.

Statement of Assurance

The Farm Credit Administration's management is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act. FCA conducted its assessment of the effectiveness of internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations in accordance with Office of Management and Budget (OMB) Circular A-123, Management's Responsibility for Internal Control. On the basis of the results of this assessment, the Agency can provide reasonable assurance that its internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of September 30, 2010, was operating effectively, and no material weaknesses were found in the design or operation of the internal control.

In addition, FCA conducted its assessment of the effectiveness of internal control over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations, in accordance with the requirements of Appendix A of OMB Circular A-123. On the basis of the results of this assessment, the Agency can provide reasonable assurance that its internal control over financial reporting as of June 30, 2010, was operating effectively, and no material weaknesses were found in the design or operation of the internal control over financial reporting.

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

September 30, 2010

Program Performance

FCA Performance Report

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

FCA's mission is to ensure a safe, sound, and dependable source of credit and related services for agriculture and rural America. Its vision is to enable the FCS, in partnership with others, to meet the changing needs of agriculture and rural America.

The Agency fulfills its mission by performing two principal program activities: (1) issuing regulations and implementing public policy, and (2) identifying risk and taking corrective action. Consistent with FCA's mission and program activities, the FCA Board adopted two strategic goals for fiscal years 2008–2013. These goals, which remain the primary focus of the Agency's activities, are as follows:

1. Ensure the FCS 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 FCS and Farmer Mac.

To further clarify what FCA expects to accomplish for the public good, the Agency's Strategic Plan also contains "desired outcomes" for each goal, as well as 19 in-depth descriptions of the "means and strategies" that the Agency uses to accomplish these goals and to achieve the desired outcomes and results. In addition, the 12 performance measures with associated "targets" show the extent of the Agency's success in accomplishing each aspect of its mission to regulate, and ensure the safety and soundness of, the FCS and Farmer Mac.

FCA revised its five-year Strategic Plan in May 2008 and this Performance Report reflects the goals and performance measures of the revised plan. The changes FCA made to its Strategic Plan in spring 2008 clarified expectations and added one means and strategy to its goal of ensuring the safety and soundness of the System and Farmer Mac.

However, the substance and direction of FCA's Strategic Plan remain focused on improving effectiveness and efficiency; minimizing the cost burden on FCS borrowers and Farmer Mac customers; and helping ensure a safe, sound, and dependable source of credit and financially related services for agriculture and rural America. On the basis of the results, FCA believes that its two program activities and their respective means and strategies were effective in helping to meet both strategic goals described below.

Strategic Goals and Outcomes

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

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

The means and strategies refer to initiatives that

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

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

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

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

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

FCA examinations conducted by its Office of Examination (OE) disclosed that FCS institutions have maintained effective business and marketing plans and effective credit delivery programs for all potential eligible customers during 2010. YBS farmer and rancher programs are also routinely evaluated, relative to the demographics of chartered territories, to assess trends in lending to YBS farmers and ranchers and to assess the System's efforts to provide financial or business management assistance and outreach to YBS farmers and ranchers. The results achieved through these initiatives have been fruitful. The System continues to effectively implement programs to meet the needs of YBS farmers and ranchers, as well as of other borrowers.

Through its 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, rural housing, and rural utility cooperative loan portfolios. As part of its oversight activities, OSMO evaluates Farmer Mac's performance in reaching out to all potential customers and in creating easy access to its services. Farmer Mac's annual mission report is submitted to OSMO as of the end of each calendar year. The report includes data on Farmer Mac's participation in Federal and State guarantee programs, the geographic distribution of Farmer Mac's program business, and data on activity related to rural utilities. In addition, the report includes data on activity related to small and family farms, which Farmer Mac is required by statute to promote and encourage.

FCA has a principal responsibility to ensure that the System and Farmer Mac serve the public good. To fulfill this responsibility, FCA maintains a program of responding to and investigating, as needed, issues raised by the System's loan applicants and borrowers and other members of the public regarding the activities of FCS institutions and Farmer Mac. During the reporting period from July 1, 2009, through June 30, 2010, the Agency responded to 44 borrower inquiries. FCA's investigations found one instance in which there was a violation of law or regulation. FCA concluded the investigations by providing additional information to the inquirers and encouraging FCS institutions to follow up with the inquirers. Overall, FCA's investigation of these inquiries did not reveal any information or evidence to suggest that the System's direct-lender institutions were not adequately fulfilling their mission.

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

In addition to the regulations that govern the rights of System loan applicants and borrowers, FCA's program activities include processes that review borrower inquiries and complaints about the loan-granting process and provide for investigations of any allegations of discrimination. Examiners have not discovered any discriminatory pattern or practice, any overt or deliberate discrimination against any eligible customers, or an unwillingness of FCS institutions to serve their chartered territories. On the basis of examinations and investigations conducted, FCA concluded that eligible and creditworthy customers have access to the System and are treated fairly and equitably. FCA also noted continued compliance with equal credit opportunity and equal housing laws. Although the Agency did not find discriminatory patterns or practices or any overt discrimination against any eligible customers, its examinations found some technical violations of applicants' rights. Those violations were promptly corrected or addressed in follow-up plans by System institutions, as required by FCA examiners.

OSMO continues to observe constructive initiatives within Farmer Mac to enhance the accessibility of its programs for all market participants, including those involved in rural utilities and Federal and State agricultural loan guarantee programs. These initiatives focus, in part, on efforts to ensure equitable treatment of all potential borrowers and the lenders who serve them. As with any secondary market entity, it can be a challenge for Farmer Mac to ensure equitable treatment of borrowers within the operations of its primary lenders. During examinations, OSMO reviews the consistent and appropriate application of loan underwriting standards on loans presented to Farmer Mac for purchase or guarantee. Further, Farmer Mac's annual mission report now includes a section of data specifically on its financing of rural utilities and small farmers.

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

To the extent permitted by the Farm Credit Act, the Agency explores all avenues to be flexible in its interpretive guidance to System institutions and Farmer Mac. While examining compliance with borrower-eligibility and scope-of-lending rules, examiners work closely with the Office of General Counsel and the Office of Regulatory Policy to ensure an appropriate and consistent interpretation of statutes and regulations. The interpretations derived are communicated to System institutions to enable them to better understand their lending authorities and therefore to more appropriately market their products and services to prospective eligible customers. FCA also publishes its semiannual Regulatory Performance Plan on its Web site so that the public is notified of upcoming regulatory actions and is provided the opportunity to participate in the regulatory process. In addition, the Agency's e-Government program allows the public to make comments in electronic format and review comments from others on the FCA Web site.

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

1. The FCA Board approved a proposed rule that would amend FCA's regulations to permit System institutions with direct-lending authority to purchase certain agricultural and cooperative loans from the Federal Deposit Insurance Corporation.
2. FCA circulated an Informational Memorandum that provided guidance to FCS on improving collateral risk management practices in System real estate lending activities.
3. FCA continued evaluating several mission-related investment pilot programs that it had previously approved to determine to what extent these System partnerships and investments are helping to increase the availability of funds to agriculture and rural America.
4. The Agency continued to conduct a comprehensive study of the loan syndication market to determine what changes, if any, are needed in FCA's approach toward syndications and assignments.
5. OSMO, with assistance from OE and the Office of General Counsel, provided Farmer Mac with guidance on various regulatory compliance issues, policy direction, and questions regarding new products. OSMO evaluated and responded to requests by Farmer Mac to manage various investments in its liquidity reserve whose risk significantly changed during the recent period of instability in the capital markets. OSMO staff continued management of regulatory projects related to the Risk-Based Capital Stress Test.

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

Since 1998, the Agency has focused considerable resources on improving the implementation and controls of YBS programs and the reporting of YBS lending results. Using a risk-based approach, FCA continues to evaluate YBS programs and related trends in System lending activities based on the demographics of chartered territories and FCS efforts to provide financial or business management assistance and outreach to YBS farmers. All programs evaluated by examiners for the reporting period were considered satisfactory. As a result of the examination and regulatory attention FCA has placed on YBS lending, the System has substantially increased its focus on, and improved its administration of, YBS programs, the quality of board reporting, and public disclosure. Borrowers have directly benefited: Total YBS loan volume has risen over the past five years. YBS initiatives remain a priority of the Agency, and FCS institutions continue to implement the guidance provided in the revised 2007 Bookletter, "Providing Sound and Constructive Credit to YBS Farmers, Ranchers, and Producers or Harvesters of Aquatic Products" (BL- 040). The guidance provided in this Bookletter is important to ensure that all System institutions are fully engaged and use all available authorities to assist YBS farmers to begin, expand, and remain in agricultural or aquacultural production.

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

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

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

As a part of its evaluation of YBS programs, the Agency continues to assess the extent to which FCS institutions use loan guarantee programs. FCA encourages FCS institutions to work with Federal and State agencies that offer such programs. For example, the Agency encourages FCS institutions to meet the requirements to qualify for the USDA Farm Service Agency's "preferred lender" status. Agency staff members encourage institutions to use guarantees as a risk management tool. These guarantees also help borrowers. Loan guarantees are encouraged for YBS borrowers with limited financial capacity and existing borrowers who are temporarily experiencing financial difficulties. During the reporting period from July 1, 2009, to June 30, 2010, the System's use of Government guarantees increased.

Farmer Mac provides secondary market liquidity to Federal and State guarantee programs through its Farmer Mac II program. Growth in Farmer Mac II program volume exceeded 15 percent in each of the last two performance reporting periods. During FY 2010, OSMO reviewed the 2009 Mission Report for Farmer Mac in which it reports its participation in the USDA programs.

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

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

Farmer Mac's year-end 2009 Annual Report and Form 10-K filing include several references to its public mission. OSMO's ongoing monitoring and annual examination of Farmer Mac include a review of how Farmer Mac intends to achieve its public mission in the coming year. The review evaluates Farmer Mac's business and marketing plans, marketing and public policy committee meeting minutes, and ongoing marketing efforts. Guidance provided by FCA through these monitoring efforts has had a positive impact on Farmer Mac's public disclosures related to mission. OSMO will continue to encourage regular disclosure of Farmer Mac's mission accomplishments.

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

The pace of institution mergers and restructures was steady. Agency staff continued to analyze and approve periodic requests by institutions to restructure to more effectively and efficiently serve their chartered territories in rural America. During the year, the FCA Board approved two requests to merge operations, each involving two institutions. The Board also approved the request from four institutions to convert to agricultural credit associations with subsidiaries. Effective January 1, 2010, the Farm Credit Act of 1971, as amended, was amended to include new section 7.7—Equalization of Loan-Making Powers of Certain District Associations. As a result of new section 7.7, FCA amended the charters of two Farm Credit Banks and two agricultural credit associations to authorize them to lend in accordance with the provisions of section 7.7.

Farmer Mac relocated its underwriting field office from Ames, Iowa, to Ankeny, Iowa, in 2007. This field office is providing greater responsiveness to customers.

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

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

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

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 FCA Board approved a notice and request for comment in June 2008 soliciting public comments on regulations that are unnecessary, unduly burdensome, or not based on law. In October 2009, the FCA Board approved a final notice of intent that reported on the status of the concerns raised in the comments that were provided in response to the June 2008 public solicitation. In a follow-up action, in June 2010, the FCA Board approved a rule amending its regulations to eliminate unnecessary, redundant, or outdated regulations, to correct cross-reference errors, and to clarify the intent of a regulatory provision.

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

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

OSMO encourages partnerships between Farmer Mac and System and non-System lenders. Farmer Mac has partnership initiatives with various System lenders and with community bankers through the American Bankers Association and the Independent Community Bankers of America. Further, Farmer Mac continues to provide significant levels of financing to non-System lenders through its cash window, AgVantage, and rural utility financing programs. These transactions continue Farmer Mac's initiative to diversify its marketing focus and increase the flow of funds to rural areas.

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

The Agency routinely communicates matters to System institutions that are intended to protect 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.

The Agency is preparing to publish a final rule for version 4.0 of the Risk-Based Capital Stress Test (RBCST). This version was designed to accommodate Farmer Mac's rural utility financing activity, which has become significant since the 2008 Farm Bill granted Farmer Mac permanent authority to finance rural utilities. Version 4.0 of the RBCST, which is scheduled for publication as a final rule in 2010, is intended to provide guidance to Farmer Mac as it manages risk associated with rural utility financing.

Farmer Mac continues to enhance its relationships with its loan sellers and servicers in response to FCA recommendations. These entities perform a critical function in Farmer Mac's business pipeline. OSMO evaluates Farmer Mac's efforts to strengthen its relationship with its servicers through informational forums and independent credit reviews. These efforts have enhanced sellers' and servicers' understanding of Farmer Mac's underwriting criteria and loan servicing expectations, which OSMO believes strengthens Farmer Mac's relationship with originating sellers and servicers.

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

The primary purpose of Goal 2 is to maintain the safety and soundness of the FCS and Farmer Mac and to ensure compliance with laws and regulations. FCA's examination and regulatory supervision of each institution, as well as Farmer Mac, is the principal avenue by which this goal is achieved. The Agency established seven means and strategies to accomplish this goal and defined seven performance measures to evaluate the progress and success of its oversight of the System. The means and strategies address the critical components of effective supervision and require FCA to maintain an effective training program for examiners, to coordinate regulatory guidance and examination procedures, to focus on risk management and risk-bearing capabilities of institutions, and to identify risk and 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 Farmer Mac, and FCA's performance in keeping System institutions fundamentally sound in all material respects and in compliance with laws and regulations. The following discussion provides additional details on the activities that contributed to FCA's overall achievement of Goal 2.

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

The wave of Agency retirements and the growing complexity and sophistication of the institutions examined have created the need to rapidly attract examination staff and to build staff skill levels and competencies. FCA has established a recruiting and training program to ensure that this need is met. The objective of the Precommission Training Program is to develop the next generation of diverse and highly motivated examiners with the knowledge, skills, and talents necessary to accomplish the Agency's mission. The Precommission Training Program is the primary focus and responsibility of the Staff Development Division, which was formed in 2005. The program has been redesigned to focus on skills development in FCA's primary areas of oversight—credit, finance, and operations.

FCA also makes a considerable investment in the development of commissioned examiners. This is accomplished through human capital planning, career path development, and specialty programs. The specialty programs were expanded into the areas of credit, finance, and operations and are designed to enable examiners to gain technical expertise and to encourage their professional development and certification.

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

Agency staff continues to develop regulations to provide timely and proactive oversight of System risk. The goal is to maintain the safety and soundness of the FCS and Farmer Mac while keeping pace with their changing needs. FCA developed and issued various forms of guidance during the reporting period from July 1, 2009, through June 30, 2010. For example, the Agency performed the following:

1. Approved a rule to amend the regulations to revise Farm Credit bank and association director election and voting rules, enhance election disclosure rules, and consolidate the director election rules.

2. Approved a rule to amend two sections of FCA's borrower rights regulations governing what initial and subsequent disclosures a qualified lender must make to a borrower when the borrower's interest rate is directly tied to a widely publicized external index.

3. Approved an advance notice of proposed rulemaking that solicited public input regarding amending FCA's regulations to replace the current core and total surplus capital standards with a "Tier 1/Tier 2" capital framework that is more consistent with the Basel Accord and more closely aligned with that of the Federal Financial Regulating Authorities.

4. Approved an advance notice of proposed rulemaking that solicited public input regarding possible changes to regulations governing Farmer Mac's liquidity and investment management.

5. Issued a Bookletter to provide guidance to FCS institutions on frequently asked questions about eligibility and scope of financing for limited liability companies.

6. Issued a Bookletter to provide guidance to FCS banks on holding rural housing mortgage-backed securities as mission-related investments.

7. Issued a Bookletter to FCS institutions to convey FCA's expectations for the compensation committee's fulfillment of its obligations to the institution and its shareholders.

8. Issued a Bookletter to provide guidance to FCS institutions on the pricing and structure of loans to ensure appropriate earnings performance.

9. Circulated an Informational Memorandum that provided guidance to FCS institutions related to compliance with consumer and borrower rights regulations.

10. Circulated an Informational Memorandum that provided guidance to FCS institutions on confronting the increased risk environment in the agriculture industry.

Examination teams are aligned according to the types of institutions that are examined, and institution "types" are defined by certain common characteristics and potential risks. The examination teams coordinate closely with the Risk Supervision Division on enforcement and special supervision activities. The Risk Supervision Division also provides systemic risk analysis and develops and coordinates OE's National Oversight Plan. The Examination Policy Division provides proactive guidance to System institutions through Informational Memorandums and also maintains and develops new guidance for examiners through Examination Bulletins, the Examination Manual, and ongoing communications. These communications are designed to keep pace with evolving business models used by System institutions and to support the Agency's risk-based supervisory approach.

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

1. Loan Portfolio Management
2. Large, Complex, and Shared Assets
3. Collateral Risk Management
4. Compensation Programs and Corporate Governance
5. Borrower Rights and Compliance
6. Liquidity Risk and Balance Sheet Management
7. Counterparty Risk

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

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

Risk management practices are evaluated as a normal and routine aspect of FCA's examinations, with conclusions and recommendations shared with System boards of directors. An integral part of those evaluations is determining whether FCS institutions have proactive risk management practices commensurate with their respective risk-bearing capacities. Examiners encourage and evaluate the use of risk parameters, stress testing, and loan underwriting standards. In addition, proactive risk management guidance was issued to the System through two Informational Memorandums: "FCA's Stress Testing Expectations for All FCS Institutions" and "Collateral Risk Management in Farm Credit System Institutions."

OSMO conducted examination activities and monitoring and oversight reviews that focused on Farmer Mac's risk management practices. During 2009, Farmer Mac focused on rebuilding its capital position while continuing to broaden its customer base. Risk management practices continued to improve both in Farmer Mac's program book of business and its liquidity investment portfolio. Additional capital securities issued through a consolidated trust in early 2010 helped shore up its capital position, though OSMO continues to monitor asset growth in response to the addition of these hybrid capital securities.

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

FCA examiners evaluate whether direct-lender institutions maintain systems that allow them to properly assess the loans and resulting risk exposures in their portfolios. Overall, FCS institutions have adequate risk identification and management systems in place and continue to enhance related capabilities. The System has implemented a two-dimensional risk rating system, including a 14-point borrower "probability of default" scale augmented by "loss given default" ratings to better measure risk exposures in individual loans and the overall portfolio. These systems continue to be enhanced through periodic refinements. The resulting information provides for more granular risk identification and more differential and sophisticated risk management, including database querying and stress testing.

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

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

The Agency finalized a rule in early 2006 to strengthen the governance of FCS institutions. The intent was to enhance board oversight; improve disclosure of compensation arrangements; provide guidance on director qualifications; and strengthen requirements for audit, nominating, and compensation committees. FCA examiners concluded that the FCS institutions' overall compliance with the governance rule is satisfactory. FCA's chairman and chief executive officer issued a Bookletter to the FCS that provided additional guidance on prudent compensation committee practices in July 2009.

Board governance practices at Farmer Mac remain a central focus of the annual FCA examination because of the extent to which these practices resonate throughout Farmer Mac's operations. Recent recommendations by FCA have been implemented by the Farmer Mac board. 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. During the second quarter of 2009, the Farmer Mac board of directors appointed Michael A. Gerber as president and chief executive officer and Timothy L. Buzby as senior vice president and chief financial officer and treasurer.

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

The Agency maintains systems that provide for timely identification of emerging risks and related issues in FCS institutions. First, the OE maintains a dynamic Financial Institution Rating System that evaluates changes in the financial condition of FCS institutions each quarter. Second, a detailed quarterly risk analysis is presented to the FCA Board that identifies emerging risks within the System. The presentation also provides supporting background information from the Federal Farm Credit Banks Funding Corporation. Third, OE maintains an oversight program of each institution, which includes a risk-assessment process that allows for a more proactive and forward-looking perspective of risk. The areas of risk assessed are credit, interest rate, liquidity, operations, compliance, strategic, reputation, and internal controls.

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

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

OSMO has instituted several periodic reporting requirements for Farmer Mac that collectively serve as an early warning system across all of Farmer Mac's functional areas. This ongoing monitoring provides significant detail on debt spreads and term structure, derivative contracts, liquidity, and nonprogram investments. It also provides information about the legal structure of Farmer Mac's new products, which is critical to the Agency's oversight of Farmer Mac activities.

OSMO staff continues to make significant progress on enhancements to the RBCST; these enhancements have required extensive research and analysis of risks and other issues. Several projects incorporating research and analysis of emerging risk were underway during FY 2009. These projects include the analysis of investments in securities downgraded by the credit rating agencies, and credit and operations risk associated with expansion of Farmer Mac's legislative authorities.

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

OE's Oversight and Examination Plan contains strategies for increasing FCA's on-site presence and for examining assets to test the reliability of internal credit review programs at FCS institutions. The plan includes activities to be conducted in the following areas:

- Large, complex, and shared assets
- Internal audit/internal credit risk programs
- Loan portfolio management
- General financing agreements

Table 6a
Goal 1—Public Mission
Performance Measures and Results
July 1, 2009, to June 30, 2010

Measure	Results	2007 Target	2007 Results	2008 Target	2008 Results	2009 Target	2009 Results	2010 Target	2010 Results	2010 Results vs. Target
1. Percentage of FCS institutions[1] with satisfactory business plans and management systems for providing constructive credit and related services to all potential customers, including institutions with acceptable corrective action plans[2]	FCA examiners reviewed the strategic business plans and management systems of 93 FCS institutions. All plans and systems were found to be satisfactory, or the institutions had acceptable corrective action plans.	>90%	100%	>90%	100%	≥90%	100%	≥90%	100%	▲
2. Whether Farmer Mac has developed and implemented a marketing program to appropriately grow program assets consistent with its mission and whether it has received a satisfactory rating from the Office of Secondary Market Oversight (OSMO) or is operating under a corrective action plan acceptable to OSMO	Farmer Mac has a marketing program that accomplishes this measure and has received a satisfactory rating from OSMO or is operating under a corrective action plan acceptable to OSMO.	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	✓
3. Percentage of direct-lender institutions with satisfactory internal controls over consumer compliance and borrower-rights compliance, including institutions with acceptable corrective action plans	FCA examiners performed compliance reviews at 69 direct-lender institutions. All had satisfactory internal controls over consumer compliance and borrower-rights compliance.	≥90%	100%	≥90%	100%	≥90%	100%	≥90%	100%	▲

Note: The following defines the symbols and abbreviations used to describe targets in the Performance Measures and Results table: > is greater than; ≥ is greater than or equal to; N/A indicates either that the measure is not applicable or that FCA's performance could not be measured; ▲ indicates FCA's performance exceeded the FY 2010 target; ✓ indicates FCA achieved the 2010 target.

1. For purposes of performance measurement, the term "institutions" does not include the FCS service corporations, the National Consumer Cooperative Bank, Farmer Mac (unless specifically noted), or institutions that FCA examines on behalf of the Small Business Administration and the U.S. Department of Agriculture on a contract basis.
2. This measure was updated in 2008 to be consistent with the Agency's most recent Strategic Plan, which was published in May 2008. Before 2008, the measure was as follows: "Percentage of FCS institutions 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 FCA." The new measure requires FCA examiners to review an institution's management system, as well as its strategic business plan.

Table 6a
Goal 1—Public Mission
Performance Measures and Results
July 1, 2009, to June 30, 2010

Measure	Results	2007 Target	2007 Results	2008 Target	2008 Results	2009 Target	2009 Results	2010 Target	2010 Results	2010 Results vs. Target
4. Percentage of instances in which the Agency solicits public comment and input on applicable regulatory initiatives using supplemental approaches[3] to the notice and comment rulemaking process	Supplemental approaches were used on three of six regulatory initiatives.	≥40%	67%	≥40%	89%	≥40%	50%	≥40%	50%	▲
5. Percentage of direct-lender institutions that have satisfactory programs to furnish sound and constructive credit and related services to young, beginning, and small (YBS) farmers, ranchers, and producers or harvesters of aquatic products, including institutions with acceptable corrective action plans	FCA examiners reviewed the YBS programs at 69 direct-lender institutions. All of the programs were found to be satisfactory, or the institutions were operating under acceptable corrective action plans.	≥90%	100%	≥90%	100%	≥90%	100%	≥90%	100%	▲

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

Table 6b
Goal 2—Safety and Soundness
Performance Measures and Results
July 1, 2009, to June 30, 2010

Measure	Results	2007 Target	2007 Results	2008 Target	2008 Results	2009 Target	2009 Results	2010 Target	2010 Results	2010 Results vs. Target
6. Number of institutions that FCA placed in receivership because of financial failure during the previous 12 months	During the past 12 months, no FCS institutions were placed in receivership.	0	0	0	0	0	0	0	0	✓
7. The total assets of FCS institutions that FCA has determined are fundamentally sound in all material respects	Of the System's total assets, 96.0 percent were determined to be fundamentally sound in all material respects.	≥90%	99.5%	≥90%	99%	≥90%	98.7%	≥90%	96%	▲
8. Percentage of FCS institutions with composite Financial Institution Rating System (FIRS) ratings of 3, 4, or 5 with acceptable corrective action plans in place to address the problems identified by FCA examiners	Eighteen FCS institutions had composite FIRS ratings of 3 or worse. All but one institution had acceptable corrective action plans in place or were in the process of developing such plans.	100%	100%	100%	100%	100%	100%	100%	94.4%	▼[4]
9. Percentage of System assets in institutions with ratios of adverse assets to risk funds of less than 100 percent	Of the System's assets, 99.6 percent were in institutions with ratios of adverse assets to risk funds of less than 100 percent.	≥90%	100%	≥90%	100%	≥90%	99.7%	≥90%	99.6%	▲
10. Percentage of institutions complying with regulatory capital ratio requirements (permanent capital ratio, total surplus ratio, core surplus ratio, net collateral ratio, risk-based capital), including institutions with acceptable corrective action plans	All FCS institutions complied with the regulatory capital requirements.	100%	100%	100%	100%	100%	100%	100%	100%	✓

4. One institution did not have an acceptable corrective action plan in place as of the reporting date of June 30, 2010. However, the institution submitted additional information on July 21, 2010, which corrected the weaknesses in its corrective action plan. As a result, this performance measure, which requires 100 percent compliance, is now met.

Table 6b
Goal 2—Safety and Soundness
Performance Measures and Results
July 1, 2009, to June 30, 2010

Measure	Results	2007 Target	2007 Results	2008 Target	2008 Results	2009 Target	2009 Results	2010 Target	2010 Results	2010 Results vs. Target
11. Percentage of FCS institutions with acceptable action plans to correct violations of laws and regulations identified by FCA examinations	FCA examiners identified 60 FCS institutions with violations of laws and regulations. All had acceptable corrective action plans in place or were in the process of developing such plans.	100%	100%	100%	100%	100%	100%	100%	100%	✓
12. Percentage of institutions that have satisfactory audit and review programs, including institutions with acceptable corrective action plans	FCA examiners reviewed the audit and review programs of 65 FCS institutions. All of the programs were found to be satisfactory, or the institutions were operating under acceptable corrective action plans.	100%	100%	100%	100%	100%	100%	100%	100%	✓

Auditor’s Reports and Financial Statements

Letter from the Chief Financial Officer

I am pleased to report that FCA has received an unqualified audit opinion on its fiscal year (FY) 2010 financial statements. In addition, the auditor identified no material weaknesses in the Agency's internal controls or instances of noncompliance with laws and regulations. These opinions validate FCA's uncompromising commitment to excellence in financial reporting. FY 2010 marks the 17th year that FCA has achieved a clean audit opinion. This record of accomplishment reflects the strong internal control environment that the FCA Board and senior managers have established within the organization.

The Agency's record of accomplishment extended to other areas of external review as well. The annual independent Federal Information Security Management Act (FISMA) review of the Agency's information systems security program revealed no significant or material weaknesses. FCA also participated in the annual national exercise, Eagle Horizon (EH-10), coordinated and evaluated by the Department of Homeland Security/Federal Emergency Management Agency. EH-10 validated FCA's emergency preparedness capabilities and gave the Agency a "green" rating in all 14 categories, with 85 percent of the elements evaluated receiving the highest rating of 10.

In support of human capital and staff development, the Agency continued to pursue initiatives in continuous learning, recruiting, knowledge management, and retention. The Agency improved its IT security and communications capabilities, redesigned and streamlined FCA's official Web site, and improved its ability to distribute and receive FCS examination and loan data in a secure and user-friendly electronic environment.

A senior assessment team (SAT) for internal controls oversees FCA's internal controls program. The SAT met regularly in FY 2010 and performed the biennial assessment of FCA's internal control program using an assessment tool recommended by the General Accounting Office. SAT members were selected from all major programs at FCA to ensure that the Agency maintained and reinforced a cohesive, robust internal control environment.

Strong performance budgeting and financial controls will remain a priority at FCA during FY 2011; however, to build upon its tradition of accountability and transparency, the Agency is committed to moving beyond the achievement of clean audit opinions and reliable reporting. Accurate, timely financial data are critical to efficient and effective business processes, and significant progress was made over the past year in giving FCA managers ready access to financial information to assist them in making daily decisions. Agency offices will continue to collaborate throughout FY 2011 and beyond as we work toward the seamless integration of FCA's operational and mission-related programs.

In closing, all successful organizations recognize that their most important resource is a dedicated, talented staff. FCA benefits immensely from its innovative, skilled team, whose members work diligently to fulfill the Agency's mission by establishing and adhering to its policies and controls.

Sincerely,

Stephen G. Smith
Chief Financial Officer
Farm Credit Administration

Farm Credit Administration

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

November 8, 2010

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

Dear Chairman Strom and Board Members Spearman and Long Thompson:

This letter transmits the reports on the audit of the Farm Credit Administration's (FCA's or Agency's) financial statements, internal control over financial reporting, and compliance with certain laws and regulations for the fiscal year (FY) ended September 30, 2010. The Office of Inspector General (OIG) contracted with the U.S. Department of Treasury's Bureau of the Public Debt (BPD) for Brown & Company CPAs, PLLC (Brown & Co.), an independent accounting firm, to perform the audit.

Brown & Co. issued an unqualified opinion on the Agency's financial statements. It opined that FCA's principal financial statements present fairly, in all material respects, the financial position of the Agency as of the fiscal years ended September 30, 2010 and 2009, in conformity with generally accepted accounting principles. Brown & Co. issued two other reports. Its report on internal control noted no matters considered to be material weaknesses. Brown & Co.'s report on compliance with laws and regulations relating to the Agency's determination of financial statement amounts cited no instances of noncompliance. In the OIG's opinion, Brown & Co.'s work provides a reasonable basis on which to render its opinion and we concur with its reports. All three reports from Brown & Co. are dated November 8, 2010.

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

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

Management and Performance Challenges

As part of the Agency's annual Performance and Accountability Report, the Inspector General is required by law to provide a summary statement on the most serious management and performance challenges facing the Agency. These challenges fall into two general categories. First are the challenges related to FCA's mandate of ensuring a safe, sound, and dependable Farm Credit System (FCS or System) as a source of credit and related services to agriculture and rural America. 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 Agency operations.

Farm Credit System

Safety and Soundness
The System is a lender to a single industry, agriculture, and is therefore vulnerable to the economic volatility and risks in that industry. While the FCS remains generally safe and sound, recent adversity in several major commodity groups has caused deterioration in a number of FCS institutions, although very recently this deterioration seems to have stabilized. The Agency's **challenge** is to continue to ensure the System's ability to withstand such vulnerabilities in the long term and to remain safe and sound.

Mission
Further, the environment facing agriculture, rural America, and the institutions of the FCS is ever-changing, presenting new opportunities and altering historical perspectives on System operations. FCA's **challenge** is to continue to maintain an independent and objective, yet flexible and responsive, regulatory environment for the System, geared to continually ensuring that the FCS fulfills its public policy purpose.

Farm Credit Administration

Agricultural Economic Downturn
Several factors have caused deterioration in a number of FCS institutions in recent years. This deterioration and the effect these factors have on the ongoing condition of the FCS continue to warrant the careful attention of FCA. Some of these factors are

- inadequate oversight and management by institution boards and management teams, respectively;
- price volatility in several major commodity groups, such as feed grains;
- volatility in livestock operations as a result of swings in feed prices;
- continued risk concentrations in large shared assets among many FCS institutions; and
- escalated land values that may not be sustainable.

Thus, a **challenge** for the Agency is to continue to assess in a timely manner economic and operational conditions affecting the welfare of System institutions, and to take prompt preemptive or remedial actions to ensure their ongoing safety and soundness.

Strategic Planning

In accordance with the Government Performance and Results Act, the FCA Board issued in May 2008 a revised six-year strategic plan for FYs 2008–2013. Since that issuance, the FCA Board has acquired a new Chairman and two new FCA Board Members. The Agency's Strategic Planning Committee is currently working with the FCA Board and senior staff to ensure the issuance by the FCA Board of a revised six-year strategic plan covering FYs 2011–2016. The **challenge** for the Agency is to ensure that the current FCA Board's vision and leadership are incorporated into the revised strategic plan and that the plan is issued in a timely manner.

Leveraging Technology

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

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

Respectfully,

Carl A. Clinefelter

Carl A. Clinefelter
Inspector General

BROWN & COMPANY CPAs, PLLC

CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT CONSULTANTS

INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

Farm Credit Administration
The Board and Office of Inspector General

We have audited the accompanying balance sheet of the Farm Credit Administration (FCA) as of September 30, 2010 and 2009, and the related statements of net cost, changes in net position, and budgetary resources, for the years then ended (collectively referred to as the financial statements). These financial statements are the responsibility of FCA's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *U.S. Government Auditing Standards*, issued by the Comptroller General of the United States; and, Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the FCA as of September 30, 2010 and 2009 and its net costs, changes in net position, and budgetary resources for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *U.S. Government Auditing Standards* and OMB Bulletin No. 07-04, we have also issued reports dated November 8, 2010 on our consideration of the FCA internal control over financial reporting and its compliance with provisions of laws and regulations. Those reports are an integral part of an audit performed in accordance with *U.S. Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The FCA's Management's Discussion & Analysis contains a wide range of information, some of which is not directly related to the financial statements. We do not express an opinion on this information. However, we compared this information for consistency with the financial statements and discussed the methods of measurement and presentation with FCA officials. Based on this limited work, we found no material inconsistencies with the financial statements, U.S. generally accepted accounting principles, or OMB guidance.

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

Brown & Company

Largo, Maryland
November 8, 2010

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

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Farm Credit Administration
The Board and Office of Inspector General

We have audited the financial statements of the Farm Credit Administration (FCA) as of and for the year ended September 30, 2010 and have issued our report thereon dated November 8, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *U.S. Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements.*

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

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

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

Brown & Company

Largo, Maryland
November 8, 2010

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CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT CONSULTANTS

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

Farm Credit Administration
The Board and Office of Inspector General

We have audited the financial statements of the Farm Credit Administration (FCA) as of and for the year ended September 30, 2010, and have issued our report thereon dated November 8, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *U.S. Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements.*

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

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

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

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

Brown & Company

Largo, Maryland
November 8, 2010

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FINANCIAL STATEMENTS AND RELATED NOTES

FARM CREDIT ADMINISTRATION
BALANCE SHEET
As of September 30, 2010 and 2009

	2010	2009
ASSETS		
Intragovernmental		
Fund balance with Treasury (Note 2)	$ 846,045	$ 810,954
Investments (Note 3)	33,642,535	32,624,430
Accounts receivable (Note 4)	165,041	280,885
Prepaid expenses	-	7,830
Total intragovernmental	34,653,621	33,724,099
Accounts receivable (Note 4)	216,592	123,013
General property, equipment, and software, net (Note 5)	91,248	273,742
Prepaid expenses	169,674	184,279
Total assets	**$ 35,131,135**	**$34,305,133**
LIABILITIES		
Intragovernmental		
Accounts payable	$57,164	$ 84,995
Accrued post-employment compensation	51,721	37,687
Employer contributions and payroll taxes payable	399,087	333,173
Total intragovernmental	507,972	455,855
Accounts payable	756,114	972,855
Actuarial workers' compensation liability (Note 6)	1,160,561	1,112,558
Accrued payroll and benefits	5,800,761	5,150,298
Accrued taxes payable	236	-
Employer contributions and payroll taxes payable	69,345	69,405
Deferred revenue	2,132,270	2,092,721
Total liabilities	**10,427,259**	**9,853,692**
NET POSITION		
Cumulative results of operations	24,703,876	24,451,441
Total net position	**$ 24,703,876**	**$24,451,441**
Total liabilities and net position	**$ 35,131,135**	**$34,305,133**

The accompanying notes are an integral part of these statements.

FARM CREDIT ADMINISTRATION
STATEMENT OF NET COST
For the Years Ended September 30, 2010 and 2009

	2010	2009
PROGRAM COSTS		
Safety and Soundness		
Gross costs	$ 43,185,184	$ 37,753,750
Less: Earned revenues	(39,498,639)	(34,923,520)
Total net costs—Safety and soundness	3,686,545	2,830,230
Public Mission		
Gross costs	11,096,605	11,428,203
Less: Earned revenues	(10,177,633)	(10,586,917)
Total net costs—Public mission	918,972	841,286
Other Activities		
Gross costs	1,082,787	948,760
Less: Earned revenues	(896,322)	(727,356)
Total net costs—Other activities	186,465	221,404
Net cost of operations (Notes 7 and 8)	**$ 4,791,982**	**$ 3,892,920**

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, 2010 and 2009

	2010	2009
CUMULATIVE RESULTS OF OPERATIONS		
Beginning balances	$24,451,441	$24,339,404
Beginning balances, as adjusted	24,451,441	24,339,404
Other financing sources		
Imputed financing from costs absorbed by others		
Federal employee benefits (Note 9)	3,044,417	2,304,957
Rent (Note 10)	2,000,000	1,700,000
Total financing sources	5,044,417	4,004,957
Less: Net cost of operations	4,791,982	3,892,920
Net position—Ending balances	**$24,703,876**	**$24,451,441**

The accompanying notes are an integral part of these statements.

FARM CREDIT ADMINISTRATION
STATEMENT OF BUDGETARY RESOURCES
For the Years Ended September 30, 2010 and 2009

	2010	2009
BUDGETARY RESOURCES		
Unobligated balances—Beginning of period	$ 25,161,982	$ 23,694,034
Spending authority from offsetting collections		
Earned		
Collected	$ 50,795,446	$ 46,169,610
Change in receivables from Federal sources	(120,471)	(1,387)
Change in unfilled customer orders		
Without advance from Federal sources	115,455	480,403
Subtotal—Spending authority from offsetting collections	50,790,430	46,648,626
Total budgetary resources (Note 11)	**$ 75,952,412**	**$ 70,342,660**
STATUS OF BUDGETARY RESOURCES		
Obligations incurred—Reimbursable	$ 50,340,268	$ 45,180,678
Unobligated balance available—Exempt from apportionment	23,479,874	23,069,261
Unobligated balance not available	2,132,270	2,092,721
Total status of budgetary resources	**$ 75,952,412**	**$ 70,342,660**
CHANGE IN OBLIGATED BALANCE		
Obligated balance, net		
Unpaid obligations, brought forward, October 1	$ 8,198,078	$ 8,411,390
Less: Uncollected customer payments from		
Federal sources, brought forward, October 1	(1,268,041)	(789,025)
Total unpaid obligated balance, net	6,930,037	7,622,365
Obligations incurred, net	50,340,268	45,180,678
Gross outlays	(49,504,562)	(45,393,990)
Change in uncollected customer payments from		
Federal sources	5,015	(479,016)
Obligated balance, net, end of period		
Unpaid obligations	9,033,784	8,198,078
Less: Uncollected customer payments from		
Federal sources	(1,263,026)	(1,268,041)
Total unpaid obligated balance, net, end of period	**$ 7,770,758**	**$ 6,930,037**
NET OUTLAYS		
Gross outlays	$ 49,504,562	$ 45,393,990
Less: Offsetting collections	(50,795,446)	(46,169,610)
Net outlays	**$ (1,290,884)**	**$ (775,620)**

The accompanying notes are an integral part of these statements.

NOTES TO THE FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies

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

B. Basis of Accounting and Presentation—The accompanying financial statements have been prepared in accordance with the Office of Management and Budget's (OMB's) Circular No. A-136, Financial Reporting Requirements. Also, the financial statements have been prepared from and are fully supported by the books and records of FCA in accordance with generally accepted accounting principles in the United States and the Statements of Federal Financial Accounting Standards (SFFAS) prescribed by the Federal Accounting Standards Advisory Board, which has been designated the official body for setting standards for the Federal Government. 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. FCA is not subject to apportionment. Budgetary accounting has been applied to facilitate compliance with legal constraints and control over the use of funds.

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

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

D. Investments—The Act gives FCA the authority to invest in public debt securities with maturities suitable to FCA's needs. FCA invests solely in U.S. Treasury securities, which are normally held to maturity and carried at cost. Investments are adjusted for unamortized premiums or discounts. Premiums and discounts are amortized and interest is accrued using the level-yield, scientific method of effective interest amortization over the term of the respective issues.

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

Amounts due from Federal agencies are considered fully collectible. An allowance for uncollectible amounts receivable from the public is established when either (1) on the basis of a review of outstanding accounts and the failure of all collection efforts, management determines that collection is unlikely to occur after considering the debtor's ability to pay, or (2) an account for which no allowance has been established is submitted to the Department of the Treasury for collection, which takes place when it becomes 180 days delinquent. The Office of Management Services (OMS), in conjunction with the Agency's accounting service provider, the Bureau of the Public Debt, reviews the Agency's accounts receivable on an ongoing basis. OMS has determined that all accounts receivable are fully collectible as of September 30, 2010.

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

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

H. Accounts Payable—Accounts payable consist of amounts owed to other Federal agencies and the public.

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

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

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

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

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

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

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

Note 2. Fund Balance with Treasury

	2010	2009
Fund balance with Treasury		
Revolving fund	$ 846,045	$ 810,954
Total fund balance with Treasury	$ 846,045	$ 810,954
Status of fund balance with Treasury		
Unobligated balance		
Available	$ 23,479,874	$ 23,069,261
Unavailable	2,132,270	2,092,721
Obligated balance not yet disbursed	7,770,758	6,930,037
Subtotal—Status of fund balance	33,382,902	32,092,019
Funds invested with Treasury		
Net of unamortized discount	(32,536,857)	(31,281,065)
Total fund balance with Treasury	**$ 846,045**	**$ 810,954**

Note 3. Investments

Intragovernmental Securities

Amounts for 2010 Balance Sheet Reporting

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

Amounts for 2009 Balance Sheet Reporting

	Cost	Unamortized (Premium) Discount	Investments Net	Interest Receivable	09/30/09 Investment Balance	Market Value Disclosure
Nonmarketable						
Market-based	$32,766,341	($415,492)	$32,350,849	$273,581	$32,624,430	$32,722,436

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 $554,413 and $498,671 for FYs 2010 and 2009, respectively.

Note 4. Accounts Receivable

	2010	2009
Intragovernmental		
Reimbursements for services provided	$165,041	$177,328
Expenditure refunds	-	103,557
Subtotal	165,041	280,885
With the public		
Assessments	181,050	122,489
Expenditure refunds	35,542	524
Subtotal	216,592	123,013
Total accounts receivable	**$381,633**	**$403,898**

Note 5. General Property, Equipment, and Software

As of September 30, 2010

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

As of September 30, 2009

	Estimated Useful Life	Depreciation Method	Acquisition Value	Accumulated/ Amortized Depreciation	Book Value
Equipment	3 years	Straight line	$547,485	($273,743)	$273,742
Total			**$547,485**	**($273,743)**	**$273,742**

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

The Department of Labor (DOL) estimates future workers' compensation liability for specified entities that are preparing statements under the Chief Financial Officers Act and the Government Management Reform Act. The actuarial liability estimates for 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 DOL provides individual agency estimates on a routine basis, FCA calculated its actuarial liability amount by using the DOL model to estimate FECA actuarial liability.

The FECA actuarial liability amounts for fiscal years 2010 and 2009 are $1,160,561 and $1,112,558, respectively. The increase in the amount may be attributed to the changes in the FECA medical and compensation liability-to-benefits-paid (LBP) ratios that DOL provided in its model for estimating the actuarial liability amount. The medical LBP ratio applicable to FCA increased from 8.4 to 8.9, and the compensation LBP ratio increased from 10.1 to 10.3.

Note 7. Intragovernmental Costs and Exchange Revenue

	Farm Credit Administration for the Years Ended September 30, 2010 and 2009	
	2010	**2009**
Safety and Soundness		
Intragovernmental costs	$ 10,692,049	$ 8,615,871
Public costs	32,493,135	29,137,879
Total costs—Safety and soundness	43,185,184	37,753,750
Intragovernmental earned revenue	(441,076)	(404,873)
Public earned revenue	(39,057,563)	(34,518,647)
Total revenue—Safety and soundness	(39,498,639)	(34,923,520)
Net program costs—Safety and soundness	3,686,545	2,830,230
Public Mission		
Intragovernmental costs	2,640,548	2,586,441
Public costs	8,456,057	8,841,762
Total costs—Public mission	11,096,605	11,428,203
Intragovernmental earned revenue	(113,336)	(122,557)
Public earned revenue	(10,064,297)	(10,464,360)
Total revenue—Public mission	(10,177,633)	(10,586,917)
Net program costs—Public mission	918,972	841,286
Other Activity		
Intragovernmental costs	229,732	63,446
Public costs	853,055	885,314
Total costs—Other activity	1,082,787	948,760
Intragovernmental earned revenue	(737,061)	(604,867)
Public earned revenue	(159,261)	(122,489)
Total revenue—Other activity	(896,322)	(727,356)
Net program costs—Other activity	186,465	221,404
Net cost of operations (+/-)	**$ 4,791,982**	**$ 3,892,920**

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

Note 8. Suborganization Program Costs/Program Costs by Segment

Farm Credit Administration
for the Year Ended September 30, 2010

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

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

Farm Credit Administration
for the Year Ended September 30, 2009

	Office				
	Examination	**Regulatory Policy**	**Secondary Market Oversight**	**Other Organizations**	**Total**
Safety and Soundness					
Gross costs	$24,884,372	$ 963,010	$ 735,269	$11,171,099	$37,753,750
Less: Earned revenue	(22,955,366)	(887,413)	(745,675)	(10,335,066)	(34,923,520)
Net program cost	1,929,006	75,597	(10,406)	836,033	2,830,230
Public Mission					
Gross costs	528,661	3,741,894	304,696	6,852,952	11,428,203
Less: Earned revenue	(487,161)	(3,448,154)	(309,008)	(6,342,594)	(10,586,917)
Net program cost	41,500	293,740	(4,312)	510,358	841,286
Other Activity					
Gross costs	674,693	19	-	274,048	948,760
Less: Earned revenue	(517,246)	(14)	-	(210,096)	(727,356)
Net program cost	157,447	5	-	63,952	221,404
Net Cost of Operations	**$ 2,127,953**	**$ 369,342**	**$ (14,718)**	**$ 1,410,343**	**$ 3,892,920**

Note 9. Federal Employee Benefits

	2010	2009
Imputed pension cost	$1,514,913	$ 876,415
Other imputed retirement benefits	1,529,504	1,428,542
Total	**$ 3,044,417**	**$2,304,957**

Retirement—FCA employees are covered under the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS) to which FCA makes contributions according to plan requirements. CSRS and FERS are multiemployer plans. FCA does not maintain or report information about the assets of the plan, nor does it report actuarial data for accumulated plan benefits. The reporting of such amounts is the responsibility of OPM. FCA reports the amount of its pension expense for employees in accordance with SFFAS No. 5. When the amount of the payment expense remitted to OPM is less than the full cost to the Government, an imputed cost is recognized. The above imputed costs represent the amounts recognized by FCA for FYs 2010 and 2009. Corresponding amounts of imputed revenue are recorded to offset the imputed cost.

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

Note 10. Rent

	2010	2009
Leased field offices	$ 994,552	$ 957,172
FCA headquarters	1,005,448	742,828
Total	**$ 2,000,000**	**$ 1,700,000**

In accordance with the Act, FCA occupies buildings owned and leased by the FCSBA. The FCA administrative headquarters building and land are located in McLean, Virginia. In addition, the FCSBA leases office space for field offices on behalf of FCA at various locations throughout the United States. Rent is provided at no cost to FCA. The above imputed rent expense amounts are estimates based on the FCSBA estimated budget for 2010 and 2009. In accordance with SFFAS No. 4, the rent expense and the associated imputed revenue are recorded as a nonmonetary transaction.

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

FY 2010
The 2012 Budget of the United States Government, with the Actual Column completed for FY 2010, had not been published as of the date of these financial statements. The budget is expected to be published and delivered to Congress in early February 2011. It will be available on FCA's Web site at www.fca.gov/reports/publications.html.

FY 2009
The 2011 Budget of the United States Government, with the Actual Column completed for FY 2009, has been reconciled to the amounts reported in the Statement of Budgetary Resources, and there are no significant differences.

Note 12. Undelivered Orders at the End of the Period

SFFAS No. 7, Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting, states that the amount of budgetary resources obligated for undelivered orders at the end of the period should be disclosed. For the years ended September 30, 2010 and 2009, undelivered orders amounted to $1,899,357 and $1,549,665, respectively.

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

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

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

	Farm Credit Administration for the Years Ended September 30, 2010 and 2009	
	2010	**2009**
Resources Used to Finance Activities		
Budgetary resources obligated		
Obligations incurred	$ 50,340,268	$ 45,180,678
Less: Spending authority from offsetting collections	(50,790,430)	(46,648,626)
Net obligations	(450,162)	(1,467,948)
Other resources		
Imputed financing from costs absorbed by others	5,044,417	4,004,957
Deferred revenue not in the budget	39,549	300,082
Net other resources used to finance activities	5,083,966	4,305,039
Total resources used to finance activities	4,633,804	2,837,091
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	(211,802)	1,438,423
Resources that fund expenses recognized in prior periods		-
Actuarial FECA liability increase/(decrease)	48,003	(106,368)
Resources that finance the acquisition of assets	(162,312)	(750,846)
Total resources used to finance items not part of the net cost of operations	(326,111)	581,209
Total resources used to finance the net cost of operations	4,307,693	3,418,300
Components of the Net Cost of Operations That Will Not Require or Generate Resources in the Current Year		
Components requiring or generating resources in future periods		
(Increase)/decrease in exchange revenue receivable from the public	(93,579)	70,793
Total components of net cost of operations that will require or generate resources in future periods	(93,579)	70,793
Components not requiring or generating resources		
Depreciation and amortization	577,868	403,827
Total components of net cost of operations that will not require or generate resources	577,868	403,827
Total components of net cost of operations that will not require or generate resources in the current period	484,289	474,620
Net Cost of Operations (+/-)	**$ 4,791,982**	**$ 3,892,920**

Other Accompanying Information

Table 7. Summary of Financial Statement Audit

Audit Opinion	Unqualified
Restatement	No

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

Additional Information

The Farm Credit Administration Performance and Accountability Report Fiscal Year 2010 is available on FCA's Web site at www.fca.gov. While supplies last, printed copies of this publication and earlier editions may be obtained without charge from

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

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

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

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

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

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

Copies are available from
Office of Congressional and Public Affairs
Farm Credit Administration
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