# Farm Credit Administration

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

# Performance and Accountability Report
# Fiscal Year 2007

# 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 |
| EPDD | Examination Policy and Development Division |
| 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 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 2007

As Chairman and Chief Executive Officer (CEO) of the Farm Credit Administration (FCA or Agency), 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) 2007.

I am pleased to report that FCA achieved each of the goals outlined in its Strategic Plan and achieved or exceeded all of the measurable performance areas targeted for FY 2007. FCA's first goal is to ensure that the Farm Credit System (System) and the Federal Agricultural Mortgage Corporation (Farmer Mac) fulfill their public missions for agriculture and rural areas. FCA's second goal is to evaluate risk and provide timely and proactive oversight to ensure the System's and Farmer Mac's safety and soundness. The Agency's third goal, implementation of the President's Management Agenda, requires the periodic reassessment of FCA's structure in order to keep the Agency efficient and effective.

While the results achieved over the past fiscal year demonstrate FCA's achievement of its strategic goals, we recognize that the ultimate measure of the Agency's performance is the ability of regulated institutions to fulfill their mission and to stay fundamentally sound in all material respects. FCA remains vigilant in its efforts to ensure that the System and Farmer Mac fulfill their respective missions. Further, FCA continues to make significant process improvements.

FCA is accountable for financial results in addition to programmatic results. I am happy to report that FCA's FY 2007 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. One of my goals as CEO is to administer the programs of the Agency as efficiently and effectively as possible. I rely on the Agency's systems of management controls to adhere to sound financial management practices, to comply with Federal law, and to protect the Agency's assets.

As another successful year draws to a close, 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. The Agency has made, and will continue to make, a positive difference, thanks to its highly experienced, hard-working, and dedicated staff. Together, we will strive to do what is best for agriculture, rural America, and the American people, whom we serve.

Nancy C. Pellett

Nancy C. Pellett
Chairman and CEO
Farm Credit Administration

# Management's Discussion and Analysis

# FCA at a Glance

The Farm Credit Administration (FCA or Agency) is an independent agency within the executive branch of the U.S. Government responsible for regulating and supervising the banks, associations, and related entities in the Farm Credit System (FCS or System), including the Federal Agricultural Mortgage Corporation (Farmer Mac). The FCS is a nationwide network of borrower-owned financial institutions that provide credit to farmers, ranchers, producers and harvesters of aquatic products, rural homeowners, agricultural cooperatives, rural utility systems, and agribusinesses.

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 (Farm Credit Act). 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 a dependable source of credit for agriculture and rural America. It does this in two specific ways. One, the Agency conducts on-site examinations of FCS institutions to monitor and oversee the safety and soundness of their ongoing activities. These examinations also focus on whether System institutions are meeting their public mandate to serve all eligible borrowers. Two, FCA approves corporate charter changes and researches, develops, and adopts rules, regulations, and other guidelines that govern how System institutions conduct their business and interact with their customers.

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

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

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

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

## 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 262 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** approves the policies, regulations, charters, 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** ensures that the FCA Board complies with statutory, regulatory, and internal operation procedures and requirements. The Secretary to the FCA Board also serves as Secretary to the Farm Credit System Insurance Corporation Board (FCSIC). In addition, the Secretary serves as the Parliamentarian and the Sunshine Act Official for the FCA Board.

The **Office of the Chief Executive Officer** enforces the rules, regulations, and orders of the FCA Board. The CEO directs the implementation of policies and regulations adopted by the FCA Board. The office plans, organizes, directs, coordinates, and controls FCA 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, informational brochures and fact sheets, the annual *FCA Performance and Accountability Report*, 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 (OE)** is responsible for programs of examination and supervision of each FCS institution, in accordance with the Farm Credit Act of 1971, as amended, and applicable regulations. The office develops oversight plans; conducts examinations; monitors the System's condition, risks, and emerging risks; and develops supervisory strategies to ensure that the System operates in a safe and sound manner and fulfills its public policy purpose. The FCA Board further defines OE's role in Board Policy Statement 53, available at *www.fca.gov.*

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 Register*, creates and maintains the Agency's public rulemaking files, and handles the Agency's submission of the Unified Agenda of Federal Regulatory and Deregulatory Actions. OGC also handles Freedom of Information Act requests and matters pertaining to the Privacy Act.

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

The **Office of Regulatory Policy (ORP)** manages all policy and regulation development activities that ensure the safety and soundness of the FCS and support the System's mission as a dependable source of credit and related services for agriculture and rural America. Policy and regulation development activities include the analysis of policy and strategic risks to the System 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.

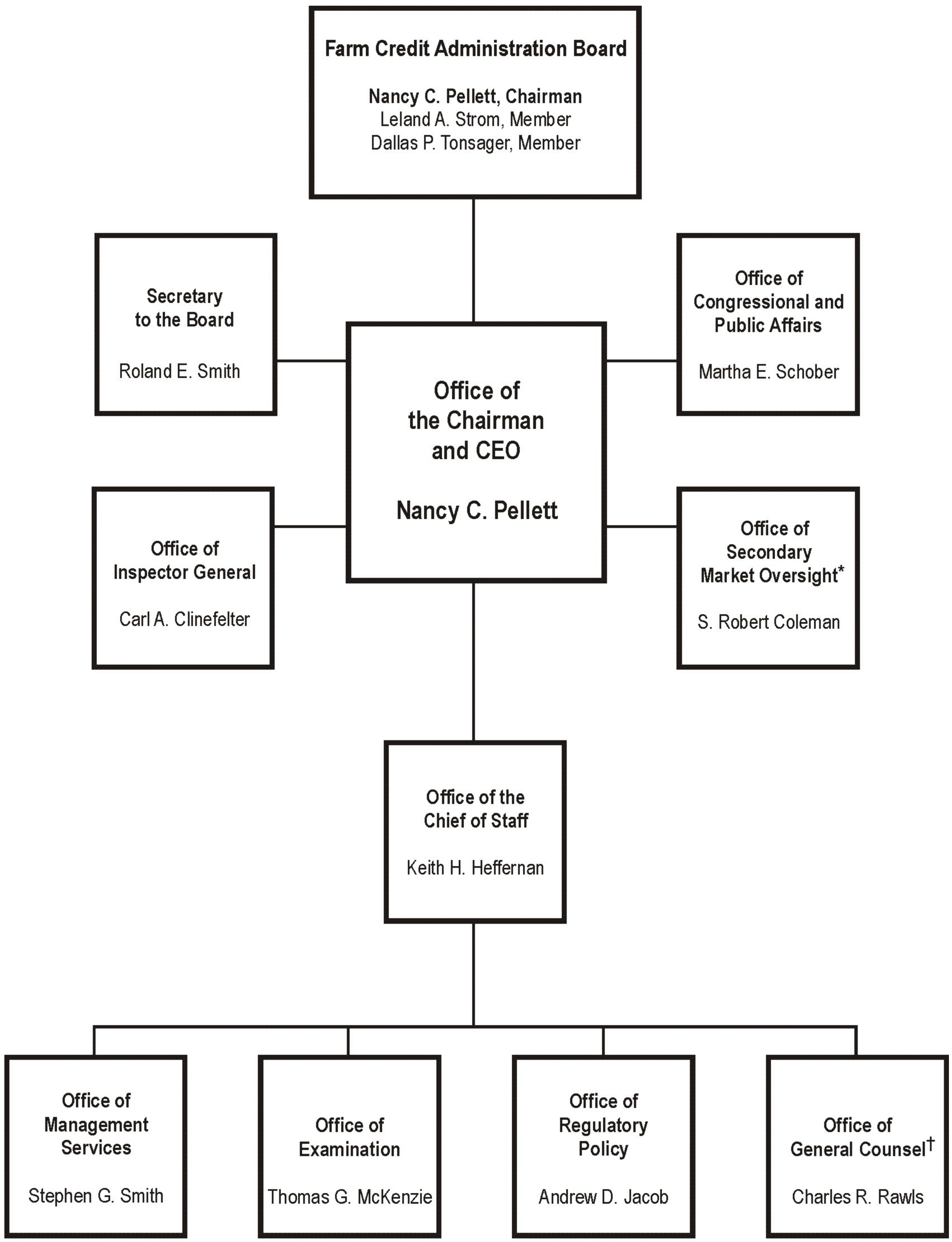
The **Office of Management Services (OMS)** manages and delivers the Agency's information technology, financial, human capital, and administrative services. The office coordinates planning efforts, including information resources management, security, human capital, and financial plans for the Agency. 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 the activities 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 achieve and manage a diverse workforce and encourages awareness of, and respect for, diversity in the workplace. The office works to prevent employment discrimination, handles employee discrimination complaints, and sponsors training and seminars on EEO 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 post-employment conflicts of interest, and assisting managers and supervisors in understanding and implementing Agency ethics programs.

## Organization
## Farm Credit Administration
As of September 30, 2007




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

# Highlights of FCA's Performance Goals and Results

The primary goal of the 2004–2009 Strategic Plan of FCA is to achieve the objectives for which Congress established the FCS. As provided in the Farm Credit Act, the purpose of the FCS is to enhance the farmer-owned cooperative system by making credit available to farmers and ranchers and their cooperatives, to rural residents for their homes, and to associations and other entities that farming operations depend on. Another purpose is to provide an adequate and flexible flow of money into rural areas.

The Farm Credit Act states that a prosperous, productive agriculture sector is essential to a free nation. Because Congress recognized the growing need for credit in rural areas, it established the farmer-owned cooperative FCS and mandated the System to improve the income and well-being of American farmers and ranchers. The FCS achieves this goal by furnishing sound, adequate, and constructive credit and closely related services for farmers and ranchers, their cooperatives, and selected farm-related businesses necessary for efficient farm operations. Therefore, the mission of the Agency is to ensure that those who engage in agriculture, live in rural areas, or operate farm-related businesses are provided access to the FCS for their credit and financially related needs.

FCA's regulatory supervision and oversight of the FCS ensure that System institutions operate in a safe and sound manner and provide dependable sources of constructive credit and financially related services to agriculture and rural areas, as Congress intended. The ultimate measures of FCA's performance are whether the intended recipients are afforded access to the credit and services of the FCS and whether the FCS is fundamentally sound in all material respects. The results achieved in the reporting period ended June 30, 2007, indicate that the Agency met these objectives, as the services of the FCS continued uninterrupted in a safe and sound manner throughout the United States and Puerto Rico.

The FCA Strategic Plan for 2004–2009 continues to include three goals, each of which has a "desired outcome" and itemized descriptions of the "means and strategies" by which the Agency carries out its mission. There are also 18 performance measures that contain "targeted results" to determine whether the Agency effectively carried out its mission and achieved the desired outcomes of the Strategic Plan. The results of operations for the 12-month period ended June 30, 2007, showed that FCA achieved each of the three goals in the Strategic Plan, and it achieved or exceeded all the performance measures except one for which the information was not available. The following is a summary analysis of FCA's goal performance in its mission to serve the public's interest.

## Goal 1 Highlights—Public Mission

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

Twelve means and strategies and six performance measures are established for Goal 1 in the Strategic Plan (see table 6a). The six performance measures evaluated the following:

1. The percentage of FCS institutions with effective business and marketing plans

2. Whether Farmer Mac has maintained an effective marketing program to grow program assets consistent with its mission

3. The percentage of direct-lender institutions with effective internal controls over consumer and borrower-rights compliance

4. The percentage of instances in which the Agency used supplemental approaches to solicit public input on regulatory initiatives

5. The percentage of institutions with effective young, beginning, and small (YBS) farmer and rancher programs

6. The percent change in System use of Federal and State loan guarantee programs

For five of the six measures associated with Goal 1, the Agency achieved or exceeded its targets. The sixth measure could not be calculated because the program activity information was not available. FCA examiners reviewed business plans of 99 FCS institutions and found that all of them had satisfactory plans. Agency examiners performed compliance reviews of 20 direct-lender institutions and determined that all of them had satisfactory internal controls over consumer and borrower-rights compliance. In addition, FCA examiners reviewed 80 direct-lender institutions to determine whether they had effective programs to meet YBS farmer and rancher needs, and all of them did.

## Goal 2 Highlights—Safety and Soundness

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

Seven means and strategies and seven measures exist for Goal 2 (see table 6b). The seven performance measures considered the following:

1. The number of institutions that FCA placed in receivership

2. The total FCS assets that FCA determined were fundamentally sound

3. The percentage of institutions with composite Financial Institution Rating System (FIRS) ratings of 3, 4, or 5 that had acceptable corrective action plans

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

5. The percentage of institutions complying with all regulatory capital ratio requirements

6. The percentage of FCS institutions with acceptable action plans to correct violations identified by FCA examiners

7. The percentage of FCA-regulated institutions with satisfactory audit and review programs

The target for at least 90 percent of FCS institutions to achieve composite FIRS ratings of 1 or 2 was exceeded, and other safety and soundness targets were achieved or exceeded. These favorable ratings occurred because all direct-lender institutions were well capitalized and maintained sound levels of risk-bearing capacity. No institutions were placed in receivership during the year, nor were any operating under enforcement actions.

Furthermore, all FCS institutions and Farmer Mac complied with FCA capital adequacy regulations. In addition, the targets that measure institution compliance with laws and regulations and the objective to maintain effective audit and review programs were achieved.

One of the Agency's targets is to ensure that all FCS institutions with FIRS ratings of 3, 4, or 5 have satisfactory corrective action plans. The two institutions that had ratings of 3 (none had ratings of 4 or 5) have acceptable plans in place.

## Goal 3 Highlights—President's Management Agenda

### Implement the President's Management Agenda.

Goal 3 has five means and strategies and five performance measures (see table 6c). The five measures evaluated the following:

1. Whether the structure of the Agency was being assessed every five years to maintain an efficient and effective organization

2. Whether the Agency had received an unqualified audit opinion on its financial and accounting records

3. The number of material internal control weaknesses reported by the Agency's auditors

4. The percentage of the Agency's Web pages and electronic devices that were section 508 accessibility compliant

5. The extent to which the Agency's information and technology services were continuously available

The targets for all of the performance measures for Goal 3 were achieved or exceeded during FY 2007. To address the issue of its aging workforce, the Agency began implementation of its five-year Human Capital Plan (HCP), which was approved by the FCA Board on September 15, 2006. This effort included the establishment of the HCP Steering Committee and five workgroups—Recruiting, Visiting Scholar, EEO/Diversity, Long-Term Rotational Assignments, and Continuous Learning—that will guide the implementation. Managers review the HCP annually to maintain its relevancy and effectiveness in addressing Agency human capital needs.

With respect to the Agency's financial and accounting records, an unqualified opinion on its financial statements was received for FY 2006, and external auditors identified no material internal control weaknesses. Also, most of FCA's Web pages and electronic devices remained in compliance with section 508 accessibility rules throughout the year.

FY 2007 performance measures validate that FCA exceeded its target of 98.5 percent availability in regard to the Agency's information and technology services. While a significant outage on FCA's primary file server reduced the third-quarter availability percentage to 97.36 percent, or 1.24 percent below the quarter's target, availability averages over the remaining quarters were sufficient to measure 98.8 percent availability, which exceeded the overall goal.

# Management Challenges

FCA is the Federal regulator for the Farm Credit System. Its primary mission is to ensure that FCS institutions operate safely and soundly and in compliance with all applicable laws and regulations. FCA continues to face external and internal management challenges that reflect changes both in agriculture and in the financial services industry. As producers and lenders must adapt to change, the Agency must also both anticipate and react to change in order to provide a regulatory framework within which the System can fulfill its congressional mandate to provide dependable and constructive credit and related services to agriculture and rural America.

As rapid change occurs in rural America, FCA faces the challenge of adjusting its regulatory and policy guidance based on the dynamic nature of farming, the agricultural marketplace, and agricultural finance generally. FCA must balance its responsibility as an arm's length regulator—that is, ensuring that the System is fundamentally sound and secure—with its recognition of the need for regulatory flexibility so that the FCS is able to fulfill its Government-sponsored enterprise (GSE) mandate to serve those in agriculture and rural areas.

These are exciting and challenging times for agriculture and for the FCS. Agricultural producers have new capital-intensive opportunities such as the increased demand for alternative energy sources, including ethanol, biodiesel, and wind energy. These positive developments will likely create a significant demand for agricultural commodities and land. On the other hand, external challenges include possible cuts in agricultural subsidies, natural disasters such as hurricanes, and high energy prices.

The changing needs of rural communities are becoming a priority for policymakers, and the System's response to these needs raises other issues for FCA. There is a growing recognition that the nation must stimulate and provide capital to rural areas or suffer the negative social and economic consequences. Rural America is now attracting retirees with business experience and liquidity who want to return to their roots, as well as younger people with enthusiasm and ambition who want a better quality of life.

Changes in agriculture and rural America will continue to affect the American farmer and rancher and the FCS. In response to these changes in rural America, the Agency will consider new guidance concerning the System's service to farmers and ranchers and concerning the determination of "moderately priced" rural housing limits. The Agency will also continue to review how System partnerships and investments can help increase the availability of funds to agriculture and rural America.

FCA is also mindful of its responsibility to maintain the integrity of the System as a GSE. In 2008, the Agency plans to propose rules on disclosure and accounting requirements and on appropriate changes to capital adequacy requirements.

As the System adapts to a changing environment, FCA must continue to internally modify its workforce to make certain that the System's safety and soundness remains its first priority and that the Agency retains the expertise and resources to carry out its mission-related responsibilities. Clearly, FCA's most valuable resource is its employees, and FCA's human capital strategies rightly focus on ensuring that the Agency continues to employ a highly skilled and competent workforce in spite of projected retirements. To achieve this, the Agency must

- provide targeted education and technical training for existing staff,
- identify qualified candidates for career development and leadership training opportunities, and
- seek to attract new employees with well-defined skill sets to lessen the impact of anticipated retirements.

It is important to note that, with the retirement of seasoned staff members, the average tenure of FCA employees will decrease—a development that will challenge the Agency to secure the stability and skill level of its workforce through effective succession planning and cross-training. FCA continues to heavily invest in strategic workforce planning. Knowledge management and knowledge-sharing strategies are critical tools that the Agency will use to mitigate the loss of institutional knowledge that accompanies retirements. FCA will embark on an electronic knowledge management initiative that begins in early FY 2008.

Knowledge management strategies are also included in the Human Capital Plan, FY 2007–2011, which was developed to ensure that FCA will continue to employ well-trained, dedicated employees to accomplish the Agency's strategic goals and objectives. The HCP is reviewed on an annual basis to

- assess the Agency's human capital goals;
- validate the HCP in terms of FCA's alignment with performance plans and the budget;
- assess workforce planning and development as well as leadership and knowledge management; and
- maintain a results-oriented performance culture, staff expertise, and accountability.

Finally, FCA has continued to place special emphasis on a client-focused structure and approach to better meet the Agency's mission and customer needs. Analyzing FCA's workforce trends and future staffing needs will also help identify the Agency's human capital challenges and ensure that FCA's investments in staff development are strategic and comprehensive.

FCA management is committed to meeting challenges and improving the Agency's efficiency and effectiveness. Its response to these challenges will ultimately ensure a safe and sound System that serves the changing face of agriculture and rural America as Congress intended.

# 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. Based on 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 United States Department of the Treasury. The Agency's reimbursable service work mainly includes services performed for the Farm Credit System Insurance Corporation, the United States Department of Agriculture, and the Small Business Administration. Beginning with FY 2007, interest earned on investments will be used to build and maintain an Agency reserve. The reserve will ensure 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 FYs 2007 and 2006 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 58 of this report presents the financial condition of FCA as of the 2007 and 2006 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. With an increase in the total assets of $4,210,022 and a decrease in the total liabilities of $505,699, the net position increased by $4,715,721, or 27.8 percent. The significant increase in FCA's assets of 16.6 percent can be attributed to the 21.8 percent increase in the value of the Agency's investments. This was offset by the 85.3 percent decrease in the property and equipment value, which mainly resulted from the depreciation of property on hand. Also, there were no capitalized property and equipment purchases for which the delivery and/or payments were made by the end of the fiscal year. Although the other liability categories increased by 6.4 percent, deferred revenue and advances from others decreased by $880,465, or 36.0 percent. Deferred revenue, which accounts for the major portion of the decrease, represents assessments received from the FCS institutions for the subsequent fiscal year. The increase in the net position of 27.8 percent can be attributed to the 672.7 percent increase in the net cost of operations. The net cost of operations increased from a credit balance of $146,434 in FY 2006 to a credit balance of $1,131,567 in FY 2007. This means that the amount of revenue received was higher than the costs incurred. For additional information on the net cost of operations, see the Performance and Financial Results section located on page 17. More detailed information about the Agency's assets, liabilities, net position, and funding for FY 2007 is included in the following paragraphs.

## Composition of Assets

As depicted in Table 1, FCA's assets include its Fund Balance with Treasury, investment balance, accounts receivable and prepayments, and property and equipment. The $4,908,645 increase in the investments and the $318,830 net increase in the accounts receivable and prepayments from FY 2006 represent a total net increase of $4,210,022 over the asset decreases of $687,681 and $329,772 in the fund balance with Treasury and the property and equipment asset categories, respectively. The 21.8 percent increase in investments and the 53.0 percent net increase in accounts receivable and prepayments far exceed the dollar value decreases in the other asset categories, although the percentage decreases of 38.6 percent for the fund balance and 85.3 percent for the property and equipment are higher. For the 2007 fiscal year-end, investments represented 93.0 percent of the total assets available. Of the $27,427,532 investment balance, $27,400,000 represents the amount invested at year-end. There were two investments in long-term nonmarketable, market-based securities that totaled $2,503,000. The remaining balance of $24,897,000 comprised one-day investments in which interest was earned overnight. During the fiscal year, the largest portion of FCA's investments was in overnight securities since they yielded the highest amount of interest. Decisions regarding the investment of funds are based on market conditions and the amount of immediate cash needed to cover current liabilities and obligations.

The net increase in accounts receivable and prepayments include an increase in accounts receivable of $341,006 and a decrease in prepayments of $22,176. The major portion of the increase in accounts receivable resulted from the 2007 billing of approximately $659,570 in reimbursable services and $206,140 in additional assessments to service corporations that were not collected by year-end, compared with approximately $300,061 in reimbursable services and $226,277 in service corporation assessments that were billed in FY 2006 and not collected. The decrease in prepayments from $74,176 to $52,000 can be attributed to a change in FCA's operating procedures in which dollar thresholds were established in the recognition of advances and prepaid expenses. Prepaid expenses that were less than the established dollar threshold were expensed at the time of payment.

**Table 1. Composition of Assets**

| Fiscal Year | Fund Balance with Treasury | Investments | Accounts Receivable and Prepayments | Property and Equipment | Total |
|---|---|---|---|---|---|
| 2007 | $1,095,238 | $27,427,532 | $920,764 | $ 56,609 | $29,500,143 |
| 2006 | $1,782,919 | $22,518,887 | $601,934 | $386,381 | $25,290,121 |

The total increase in the fund balance, investments, and accounts receivable improves the Agency's ability to meet financial obligations without having to rely on other sources of funds that are available under the statutory authority of the Agency during times of possible adversity. The fund balance, investments, and accounts receivable totaled 376.7 percent of the Agency's total liabilities as of September 30, 2007. The Agency continues to review and develop strategies to meet FCA's liquidity demands and ensure an adequate reserve for use through possible adversity.

## Composition of Liabilities

As depicted in Table 2, the total liabilities for FY 2007 decreased from the amount reported in FY 2006 by 6.1 percent, from $8,309,054 to $7,803,355. The $880,465 decrease in deferred revenue and advances from others accounts for the decrease. As stated earlier, this liability component includes moneys received from public and Federal sources for which services have not yet been provided. At the end of the fiscal year, FCA received $1,568,300 from financial institutions within the FCS for assessments that are not yet due. The amount of moneys received represents a decrease of $877,102, or 35.9 percent, from the amount that was received in FY 2006 for FY 2007 services. The amount of the advance balance for reimbursable services provided to other Government agencies was $3,363. With the close of the related agreement, the advance balance was returned to the reimbursing agency. The remaining liability categories increased by 6.4 percent, from $5,860,289 to $6,235,055. Although the total amount of the increase was only 6.4 percent, the amount of the accounts payable increased 26.7 percent. The increase can be attributed to the Agency's effort to capture the actual costs incurred during the year by accruing for goods and services that have been received but not yet paid. During the year, FCA worked with its accounting service provider to implement operating procedures in the establishment of accrued expenditures. The liabilities for accrued payroll and benefits, employer contributions and taxes payable, and workers' compensation increased only slightly: 5.7 percent, 1.6 percent, and 1.7 percent, respectively.

**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 and Advances | Total |
|---|---|---|---|---|---|---|
| 2007 | $600,164 | $4,134,365 | $273,550 | $1,226,976 | $1,568,300 | $7,803,355 |
| 2006 | $473,739 | $3,911,313 | $269,345 | $1,205,892 | $2,448,765 | $8,309,054 |

## Composition of Net Position

During FY 2007, FCA's net position continued to increase, as shown in Table 3. The net position balance increased by $3,543,288, or 26.4 percent, during FY 2006, which increased the beginning net position balance to $16,981,067. In FY 2007, the net position increased by 27.8 percent to $21,696,788.

The increases in the net position resulted from significant increases in FCA's revenue. Revenues from FCA's assessment of the FCS, reimbursable activity, and investments increased $2,532,552 in 2007 and $3,097,160 in 2006. The net cost of operations improved by $985,133 in 2007 and by $2,969,385 in 2006, which contributed to the increase in FCA's investment balance since there were more available funds to invest. Additional information related to FCA's revenue and cost is provided in the Performance and Financial Results subsection on page 17.

The composition of the Agency's net position supports the continuance of operations. The net position is primarily composed of cash and investments in U.S. Treasury securities that can be used during unforeseen emergencies without the need for FCA to rely on other sources of cash allowed under the Farm Credit Act of 1971, as amended. As of September 30, 2007, the net position was 76.0 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 278.0 percent of the Agency's total liabilities.

## FCA's Funding and Fund Sources

FCA maintains a revolving fund from moneys obtained primarily from assessment fees paid by FCS institutions, including Farmer Mac, and from reimbursable services to other Government agencies and the National Cooperative Bank, which the U.S. Congress has commissioned the Agency to annually examine. 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 16 of this financial report depicts the funding that was available or collected by FCA for FYs 2007 and 2006. As shown, the Agency's available funding for 2007 increased slightly from the previous year. For 2007, funding and fund sources totaled $47,694,163, compared with $47,095,465 for 2006. The 1.3 percent growth ($598,698) in the 2007 funding primarily results from increases of $107,382, or 5.9 percent, in reimbursable service

**Table 3. Composition of Net Position**

| Fiscal Year | Beginning Balance | Imputed Costs | Net Cost of Operations | Ending Balance |
|---|---|---|---|---|
| 2007 | $ 16,981,067 | $ 3,584,154 | $1,131,567 | $21,696,788 |
| 2006 | $ 13,437,779 | $ 3,396,854 | $ 146,434 | $16,981,067 |

activities and $491,316, or 48.0 percent, in interest from investments. Although the total funding from assessments remained at $44,250,000, there was a $1,000,000 increase in the amount of funds received from the FCS institutions and a $1,000,000 decrease in the amount of funds that were available from the prior years' carryover of unobligated funds.

In FY 2007, FCA continued to carry out the Agency's program goals and objectives within the available funding amount. As depicted in Table 5 on page 17, FCA used $41,599,656, or approximately 87.2 percent, of the amount of funds available in 2007, compared with $39,352,996, or approximately 83.6 percent, of the amount of funds available in 2006. The amount of available funds remaining in 2007 totaled $6,094,507, compared with $7,742,469 in 2006. In FY 2007, the Agency was better able to use its funds in accordance with established plans. Personnel compensation and benefits represent the most significant use of funds. Although personnel compensation and benefits increased from 2006 to 2007 by $1,410,347, or 4.3 percent, the percentage of the total funds used was 1.1 percent less than the percentage used in 2006. The 4.3 percent increase in personnel compensation and benefits is the result of new hires and pay adjustments associated with employees' annual pay-for-performance appraisals, with a small offset for several staff attritions that took place during the year. The largest growth in funds used was for property and equipment, which increased by $1,006,699, or 547.2 percent. The majority of the property and equipment increase was for obligations related to the Agency's information technology infrastructure enhancement project and the replacement of the Agency's laptops.

The remaining balance of funds for the year is used as a funding source for the Agency. The remaining balance of funds from FCS assessments increases the Agency's assessment carryover, which is used as a source of funding for the Agency's budget and to reduce the annual assessment of FCS institutions. According to the FCA Board Interest Reserve Strategy, interest revenues from FCA investments fund the Agency's reserve prescribed under FCA regulations. The fund reserve is used to cover unbudgeted expenses from material, unexpected issues related to the public mission or safety and soundness. Unused funds for reimbursable activity terminate with the expiration of the agreements for services with the respective Government agencies.

**Table 4. Available Funding**

| Funding and Funding Sources | 2007 | 2006 |
|---|---|---|
| Assessments (current year) | $41,500,000 | $40,500,000 |
| Assessments (carryover from prior years) | 2,750,000 | 3,750,000 |
| Reimbursable activity | 1,928,950 | 1,821,568 |
| Interest from investments | 1,515,213 | 1,023,897 |
| **Total** | **$47,694,163** | **$47,095,465** |

## Performance and Financial Results

The following is a description of FCA's financial condition and the results of its efforts to meet its performance goals and objectives for the fiscal years ended September 30, 2007, and September 30, 2006. 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 mainly focuses on the cost of operations, some of the data provided may differ from data provided in sections of the report dealing with budgetary obligations.

FCA continues to perform its mission to ensure that the institutions of the FCS remain a sound and dependable source of credit and related financial services to U.S. agriculture and rural areas. Furthermore, we provide reimbursable services to other Government agencies and nongovernmental entities. The Agency's accomplishment of its strategic goals and objectives, coupled with the business growth and sound condition of FCS institutions, attests to the quality of FCA products, services, and operations.

The FCA Board and management annually review the Agency's five-year strategic plan to update expectations for FCA's operations with the challenges faced by the FCS to remain competitive in a changing agricultural and rural economy. As part of our strategic planning, we have developed human capital and information resource plans to address FCA staffing and technological needs to gain efficiency and remain effective. Costs have been maintained through sound business planning and effective resource management. The annual assessment of FCS institutions, which is the primary source of funding for FCA, increased $1.0 million, or 2.5 percent, in 2007. This follows increases of $1.1 million, or 2.8 percent, in 2006 and $1.0 million, or 2.6 percent, in 2005.

FCA program costs increased as a result of the Agency's reorganization and its decision to hire additional employees to offset expected staff attrition. The total cost of FCA's programs for fiscal year 2007 is $44,496,102, compared with $42,948,683 for fiscal year 2006. Employee salaries and benefits represent the Agency's most significant cost. For 2007, employee compensation totals $34,238,655, or 76.9 percent of total cost. Employee compensation increased $2,606,665 from 2006 due to an increase in the number of employees and the reorganization of FCA examination and regulation and policy development functions. Management's delay in the purchase of some contract services and a decrease in Agency

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

| Budget Category | FY 2007 | Percent of Total | FY 2006 | Percent of Total |
|---|---|---|---|---|
| Personnel compensation and benefits | $34,264,422 | 82.4% | $32,854,075 | 83.5% |
| Travel and transportation of persons | 2,590,914 | 6.2% | 2,183,176 | 5.6% |
| Contractual services | 2,629,472 | 6.3% | 3,089,645 | 7.8% |
| Property and equipment | 1,190,686 | 2.9% | 183,987 | 0.5% |
| Other | 924,162 | 2.2% | 1,042,113 | 2.6% |
| **Total** | **$41,599,656** | **100.0%** | **$39,352,996** | **100.0%** |

depreciation expenses partially offset the increases from employee salaries and benefits, travel, and other items.

FCA's ability to maintain effective operations will require our staff to obtain new skill sets appropriate for meeting regulatory demands from an evolving FCS. FCA's ongoing strategic study concludes that the FCS, including Farmer Mac, will continue to evolve to have fewer—but much larger and more complex—institutions. With the number of its institutions expected to decrease by one-third, the FCS is expected to maintain a healthy loan growth. Greater pressure will be placed on FCA examiners and analysts to have new skill sets appropriate for addressing 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 FCA staff: by 2012, approximately 50 percent of the staff is expected to retire or resign. In 2007, 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. Further, FCA updated its comprehensive Human Capital Plan to address staff resource needs through the recruitment, mentoring, training, and promotion of staff; the plan also incorporates career intern programs to attract promising new employees. We have maintained competitive employee compensation by periodically performing compensation studies in accordance with the Financial Institution Reform, Recovery, and Enforcement Act of 1989 to keep FCA salaries comparable with salaries of other Federal financial institution regulators. We believe our plans for staff resources and compensation should provide adequate means for the Agency to continue to perform its mission to provide FCS with effective regulation and oversight.

Earned revenues increased in 2007 and mitigated the increase in the Agency's program costs. For 2007, earned revenues totaled $45,627,669, up $2,532,552 from the previous year. 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. Treasuries. The growth in earned revenue resulted from the increased assessment of FCS institutions, the performance of more reimbursable work for other Government agencies, and a higher rate of return from the Agency's investment of funds in U.S. Treasuries. The increased revenue improved the net cost of FCA programs for the 12 months ended September 30, 2007. The net cost of FCA programs improved $985,133 from the same period ended September 30, 2006, to a negative $1,131,567.

The Agency draws almost all of its cash from FCS assessments, reimbursable activity, and interest earned on invested funds. FCA earned revenue exceeded its obligations and increased its cash and investments from 2006 to 2007. As of September 30, 2007, cash and investments totaled $28,522,770, compared with $24,301,806 for September 30, 2006. Cash received from assessments and reimbursable activity in any given year is based on FCA Board-approved budgets that are expected to be adequate to fund operations for that year.

FCA utilizes the cash carryover from prior years to partially fund the Agency's annual budget and 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. There is a limitation imposed by Congress on the amount of administrative expenses that can be obligated from FCS assessments in the FCA Board-approved budgets.

### Public Mission Program

FCA invests significant resources in its policymaking and regulatory functions to ensure that the FCS fulfills its public mission as mandated by the U.S. Congress. Just as it did in FY 2006, the Agency met its goal for FY 2007. For fiscal year ended September 30, 2007, program cost for public mission was $11,230,036, representing a 35.7 percent increase (or an increase of $2,955,349) from the same period the previous year. Program cost for the public mission increased to 25.2 percent of FCA's total cost because of changes in the Agency's identification of program cost and allocation of resources to regulation and policy development. FCA emphasized the development of regulations and policy initiatives for the FCS, including Farmer Mac, to develop credit and financial products to better serve the public. FCA strived through its regulation and policy guidance to facilitate the flow of funds to agriculture and rural areas in accordance with the intent of the U.S. Congress as expressed in the Farm Credit Act. The Agency maintained its focus in 2007 on improving FCS institution lending to young, beginning, and small (YBS) farmers and ranchers.

The Agency met or exceeded all but one of its performance measures for completing rulemaking and corporate activity projects. The one exception is a result of insufficient information to adequately determine performance.

FCA continued to develop new products and services for identifying and monitoring FCS risk. The Agency also continued its efforts to promote public participation in the rule-making process and to reduce the regulatory burden on the FCS. The Agency used a supplemental approach for the purpose of gathering a broad range of public comment on numerous regulatory actions. As a result of public input, the Board provided guidance on sound and constructive credit to YBS farmers, ranchers, and producers or harvesters of aquatic products and issued clarification on the definition of a "moderately priced" dwelling that is eligible for financing under FCA regulations. In addition, FCA approved several mission-related investment pilot programs that enable FCS institutions to form partnerships and investments that could increase the availability of funds to agriculture and rural America. FCA's corporate activity continued to remain low: the FCS has a relatively small number of institutions remaining after the significant number of mergers since 2000.

### Safety and Soundness Program

The examination and supervision of the safety and soundness of the FCS represents the most significant part of FCA program costs. We have maintained an effective examination and oversight program. FCA has exceeded its goals and measures to ensure the safety and soundness of FCS institutions, including Farmer Mac. Program cost for the examination and supervision of the FCS decreased $2,130,060 to $29,557,670, or 66.4 percent of FCA's total costs in 2007. All FCS institutions, including Farmer Mac, remain fundamentally sound, with no institution under any FCA supervisory or enforcement action.

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 also by meeting directly 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.

### Other Activity

Other activity represents the examination and oversight of the National Cooperative Bank (NCB) and the performance of reimbursable services for the Small Business Administration (SBA), USDA, and the Farm Credit System Insurance Corporation. Program cost for other activity increased $722,130 to $3,708,396 in 2007. However, an increase in earned revenue mitigated the increase in program cost and improved the net costs of other activities. Earned revenue for other activity totaled $2,616,130 for 2007, compared with $1,518,981 for 2006.

Reimbursable services provided by FCA primarily include examining the NCB and institutions affiliated with the SBA and USDA and providing resources to the USDA's Foreign Agriculture Service (FAS) program. FCA performs an annual examination of the NCB as directed by Congress. FCA has performed examinations under interagency agreements of affiliated institutions for the SBA since 1999 and for USDA since 2001.

In 2007, FCA provided training, advice, and other services to the Ministry of Agriculture of the Government of Armenia and the Center for Agribusiness and Rural Development of Yerevan, Armenia, under an interagency agreement with the USDA FAS program. The costs for providing reimbursable services represented approximately 8.3 percent of FCA's total costs in 2007, compared with 7.0 and 5.0 percent for 2006 and 2005, respectively.

## 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 that are prepared from the same books and records.

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

# President's Management Agenda

The President's Management Agenda represents the President's goal to reform the Federal Government and make it more citizen centered, results oriented, and market based. The Agenda calls for the implementation of five Government-wide initiatives:

1. Strategic management of human capital
2. Improved financial performance
3. Expanded electronic Government
4. Budget and performance integration
5. Competitive sourcing

FCA has responded to these initiatives by incorporating them into a goal within the Agency's Strategic Plan. As part of the FCA Strategic Plan, the Agency has adopted the following approaches to implement the President's Management Agenda.

## Strategic Management of Human Capital

FCA will link its human capital needs and strategies to its organizational mission, vision, core values, goals, and objectives. As part of its Human Capital Plan, the Agency will use strategic workforce planning and flexible tools to recruit, retain, and reward employees and to continue to develop a high-performing workforce. This planning and these tools will give the Agency more flexibility to accomplish its mission efficiently.

## Improved Financial Performance

The Agency has partnered with the Bureau of the Public Debt's Administrative Resource Center for accounting and other financial-related services. This partnership is in alignment with FCA's goal of maintaining a financial management system that can produce accurate, reliable, and timely information to support policy, budget, and operating decisions. The system will facilitate consistent and comparable trend analysis over time and produce better performance measurements. For the past 14 years, FCA has received unqualified opinions on its annual financial statements, and that continues to be the Agency's goal.

## Expanded Electronic Government

FCA continues to support e-regulation, e-signatures, and e-procurement. The Agency will continue to expand its ability to collect information electronically from the FCS over the Internet, as well as to expand the information that is available to the FCS and the public in general on FCA's Web site. FCA will focus on compliance with section 508 of the Rehabilitation Act of 1973, as amended, to ensure that its electronic and information technology is accessible to people with disabilities. These and other initiatives will enable the public to have greater access to and participate more fully in the Agency's decision-making process.

## Budget and Performance Integration

The Agency will continue to include high-quality outcome measures, to monitor the performance of programs, and to integrate the presentation of the budget with associated costs. This information allows program costs and benefits to be clearly identified and enables the Agency to enhance its control over resources used and to better establish accountability for results.

## Competitive Sourcing

FCA recognizes that competition promotes innovation, efficiency, and greater effectiveness. The Agency will continue to determine its "core competencies" and then decide whether to build internal capacity or to contract for services from the private sector. This process will encourage the Agency to focus on continual improvement and to remove roadblocks to greater efficiency.

FCA is striving to become more results oriented through efficiency and accountability. The Agency has set clear goals and has implemented action plans, and it is following through on those plans. For more detailed information on FCA's accomplishments under each of the President's Management Agenda initiatives, please review Goal 3 in the FCA Performance Report on page 39.

# 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 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 its shared service provider for procurement system services. The system is fully integrated with Oracle Federal Financials, which allows for real-time funds checking and the commitment and obligation of funds as transactions are approved. FCA's transition of its financial services to BPD 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, related activities, and agency follow-up. OIG's two semiannual reports covering FY 2007 are available at www.fca.gov/home/inspector.html. Information about recommendations made in audits and inspections by OIG, as well as management's progress in taking corrective action, is summarized below. OIG continues to report recommendations to correct audit or inspection findings as "agreed-upon actions" whenever OIG and management have agreed on an acceptable way to resolve a problem identified during reviews. OIG's objective is to recognize management's preferred method of correcting problems whenever the approach is reasonable.

## Summary of Audit and Inspection Recommendations

**October 1, 2006, to September 30, 2007**

| | |
|---|---|
| Recommendations uncorrected as of October 1, 2006 | 6 |
| Recommendations made during FY 2007 | 8 |
| Recommendations corrected during FY 2007 | 7 |
| Open recommendations as of September 30, 2007 | 7 |
| Recommendations open more than one year | 0 |

## Summary of Audit Activities for FY 2007

At the beginning of FY 2007, there were six open recommendations or agreed-upon actions. Two recommendations were from the audit of Performance Measures and Internal Controls issued July 1, 2005. Four agreed-upon actions were from the audit on Records Management and Preservation of Institutional Knowledge issued on February 21, 2006. All six of these items were closed during FY 2007.

During this fiscal year, OIG issued the audit of the Agency's financial statements for 2006 and the results of the 2006 and 2007 reviews under the Federal Information Security Management Act.

Additionally, OIG issued an audit of Committees Established by the FCA Board on January 26, 2007, which resulted in two agreed-upon actions. Also, an inspection of FCA's Enforcement Program, which was issued July 31, 2007, resulted in six agreed-upon actions.

These six items, along with one of the agreed-upon actions from the audit of Committees Established by the FCA Board, remained open at the end of FY 2007.

## 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. As reported in the Chairman's Statement of Assurance for FY 2007, the Agency has identified no material weakness or financial system nonconformance that places the overall control system at risk.

## Federal Financial Management Improvement Act

The Federal Financial Management Improvement Act (FFMIA) requires certain executive branch departments and agencies to report on their substantial compliance with Federal financial management system requirements, Federal accounting standards, and the U.S. Government Standard General Ledger. Although FCA is not one of the agencies required to report under the FFMIA, FCA was in substantial compliance with these system requirements for FY 2007.

## 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 2007, FCA and BPD paid valid invoices within the time requirement, and no interest penalty payments were made. Payments are made by electronic funds transfer through the use of the Secure Payment System.

## Debt Collection Improvement Act

The Debt Collection Improvement Act (DCIA) prescribes standards for the administrative collection, compromise, suspension, and termination of Federal agency collection actions. It also prescribes policy for referral of agency uncollectible debts to the proper Federal agency for follow-up collection and litigation. Although the DCIA has no material effect on FCA because the Agency operates with virtually no delinquent debt, FCA sometimes does 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, 2007, 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, 2007, was operating effectively, and no material weaknesses were found in the design or operation of the internal control over financial reporting.

Nancy C. Pellett

Nancy C. Pellett
Chairman and Chief Executive Officer
FARM CREDIT ADMINISTRATION

September 30, 2007

# PROGRAM PERFORMANCE

# FCA Performance Report

FCA is an independent Federal agency responsible for regulating and examining the FCS and Farmer Mac. Both of these organizations are 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 through the FCS institutions. Its vision is to maintain a flexible regulatory environment that will ensure the System meets current and future rural credit needs in a safe and sound manner.

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 three strategic goals for fiscal years 2004–2009. These goals, which remain the primary focus of the Agency's activities, are as follows:

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

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

3. Implement the President's Management Agenda.

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 24 in-depth descriptions of the "means and strategies" that FCA uses to accomplish the goals and achieve the desired outcomes and results. In addition, 18 performance measures with associated "targets" show the extent of the Agency's success in accomplishing each aspect of its mission to regulate the System and ensure safety and soundness.

FCA's Strategic Plan provides that it be reviewed annually to keep it updated to reflect expectations for the ensuing short- and long-term operating environments. Consequently, the FCA Board updated the means and strategies and several performance measures in January 2005 to better reflect current expectations for Agency operations. Expectations set when the plan was adopted in 2003 have changed as a result of recent changes in the operating environment. However, the substance and direction of the plan remain focused on improving effectiveness and efficiency; minimizing the cost burden on FCS borrowers; and helping ensure a safe, sound, and dependable source of credit and financially related services for agriculture and rural America. On the basis of the results, FCA believes that its two program activities and means and strategies were effective in helping to meet each of the three strategic goals described below.

## Strategic Goals and Outcomes

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

The primary purpose of Goal 1 is to maximize the 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 six 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, and encourage cooperation among System and non-System lenders to facilitate the flow of funds to agriculture and rural areas.

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

FCA recognizes that for agriculture to flourish, it is equally important to ensure that our Nation's cooperatives and farm-related businesses have access to a dependable source of credit and financially related services so that they may successfully process and market the products of agriculture. The Agency believes that its regulatory supervision of the FCS must be flexible while ensuring, in accordance with the Act, that the benefits Congress intended the System to provide to America's agricultural and rural areas continue without disruption. The means and strategies embodied in FCA's Strategic Plan embrace these concepts so that the public can benefit as Congress intended when it established the FCS and Farmer Mac.

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

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

FCA examinations continue to evaluate whether System lenders are fulfilling their public mission by reaching out to all potential customers. The examinations in FY 2007 disclosed that FCS institutions have maintained effective business and marketing plans and effective credit delivery programs. System lending continues to reflect overall quality loan growth.

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 the Office of Secondary Market Oversight, FCA evaluates Farmer Mac's mission accomplishments. Farmer Mac's customer base includes financial institutions and other lenders that seek a secondary market for their agriculture loan portfolios. The evaluation of Farmer Mac's performance in reaching out to all potential customers and creating easy access to its services is a component of OSMO's oversight activities. 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 and the geographic distribution of Farmer Mac's book of business. In addition, the report has been expanded to include data on small and family farms, which Farmer Mac is required by statute to promote and encourage.

As a part of the Federal Government, FCA has a principal responsibility to ensure that the System it regulates serves the public good. To fulfill this responsibility, FCA maintains a program of responding to and investigating, as needed, issues raised by applicants and borrowers of the System and other members of the public regarding the activities of FCS institutions and Farmer Mac. During the reporting period from July 1, 2006, through June 30, 2007, the Agency responded to 19 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 to resolve the issues raised. 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 all eligible customers have access and are treated equitably.**

In addition to the regulations that govern the rights of applicants and borrowers, FCA's program activities include processes that review borrower inquiries and complaints about the loan-granting process and provide for investigations on any allegations of discrimination. Although FCA examinations have periodically identified issues concerning compliance with borrower-rights regulations, the examiners have not discovered any discriminatory 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 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 all secondary market entities, 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 small farmers.

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

To the extent permitted by the Farm Credit Act, the Agency explores all avenues to be flexible in its interpretive guidance to System institutions. While examining compliance with borrower-eligibility and scope-of-lending rules, examiners work closely with the Office of General Counsel 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. FCA circulated an Informational Memorandum to System institutions that provided clarification to the definition of "moderately priced" housing for rural home financing that is contained in § 613.3030(a)(4) of FCA's regulation.

2. The FCA Board approved revisions to an existing Bookletter (BL-040) to provide guidance on the meaning of sound and constructive credit to young, beginning, and small farmers and ranchers and producers or harvesters of aquatic products.

3. The Agency circulated an Informational Memorandum to System institutions that provided clarification on when a loan guarantee by a Government agency is "unconditional" for purposes of risk-weighting assets under FCA's capital regulation § 615.5211(a)(3).

4. FCA approved a proposed rule that would amend the processing and marketing regulations to change the ownership requirement for the eligibility of processing and marketing entities for FCS funding.

5. FCA approved several mission-related investment pilot programs to evaluate how System partnerships and investments could help increase the availability of funds to agriculture and rural America.

6. The FCA Board approved a Bookletter (BL-053) that authorized System institutions to assign lower risk-weights to certain assets of electric cooperatives, thereby providing equitable capital treatment of these assets within this industry.

7. 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.

8. OSMO, with assistance from the Office of Examination and the Office of General Counsel, provided Farmer Mac with guidance on various regulatory compliance issues and policy direction. OSMO responded to a request by Farmer Mac to purchase a preferred stock investment. OSMO staff continued management of a regulatory project related to the Risk-Based Capital Stress Test (RBCST).

**Means and Strategy #4—Emphasize regulatory activities related to young, beginning, and small 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: YBS loan volume and loan numbers have risen over the past five years. YBS initiatives remain a priority of the Agency, and the FCA Board recently approved revisions to a Bookletter (BL-040) to provide guidance on the meaning of sound and constructive credit to YBS farmers and ranchers and producers or harvesters of aquatic products. This interpretation is important to ensure that all System institutions are fully engaged and use all available authorities to assist YBS farmers to begin, grow, or 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. New reporting requirements developed by OSMO for Farmer Mac monitor the statutory requirements for nondiscrimination against small borrowers and lenders and support Farmer Mac's work with lenders to meet the credit needs of small and family farms. OSMO encouraged Farmer Mac to work with lenders to meet these needs by providing 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 and work with Federal and State agencies that offer such programs to streamline processes.**

As a part of the evaluation of YBS programs, the Agency continues to assess the extent to which FCS institutions use loan guarantee programs. When needed, FCA encourages FCS institutions to work with Federal and State agencies that offer such programs, including qualifying for the U.S. Department of Agriculture's Farm Service Agency's "preferred lender" status. The System's use of Government guarantees for YBS borrowers increased. Agency staff members are mindful of how institutions can and should use guarantees as an effective risk management tool that helps borrowers who need this assistance. Loan guarantees are also encouraged for YBS borrowers with limited financial capacity and existing borrowers who are temporarily experiencing financial difficulties. In addition, Farmer Mac provides secondary market liquidity to Federal and State guarantee programs through its Farmer Mac II program. During FY 2007, OSMO reviewed the 2006 Mission Report for Farmer Mac in which it reports its participation in the Federal and State programs. This report includes Farmer Mac's initiative targeting State guarantee programs, known as Farmer Mac III, which has had a slow start since its introduction a year ago.

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

FCA's routine examinations of institution business plans and shareholder and public disclosures include a review of how the institutions meet and discuss their public mission as GSEs. The manner in which each institution is meeting and discussing its public mission is evaluated and, as needed, addressed with institution officials in the examination oversight process.

Farmer Mac's year-end 2006 Annual Report and Form 10-K filing includes 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.**

While the pace of institution mergers and restructures remained slow, Agency staff continue to analyze and approve periodic requests by institutions to restructure to more effectively and efficiently serve their chartered territories in rural America. During the year, the FCA Board approved the request from two institutions to merge their operations.

Farmer Mac opened its first underwriting field office in Ames, Iowa, in 2005. This field office is providing greater responsiveness to customers.

**Means and Strategy #9—Ensure 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 republished 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 consistent guidance on various regulatory and statutory compliance issues. During FY 2007, these issues focused especially on product development proposals that keep pace with the emerging needs for risk stratification in structured products such as synthetic securitizations. In addition, OSMO provided guidance and placed conditions on Farmer Mac's potential purchase of such products issued by System institutions.

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

In support of section 212(b) of the Farm Credit System Reform Act of 1996 and FCA's policy statement on regulatory philosophy, the Agency solicited comments for the removal or revision of outdated, unnecessary, or burdensome regulations during spring 2003. On the basis of the comments received, in November 2006 the FCA

Board approved a final rule to eliminate specific regulations that were identified as outdated and unnecessary. During spring 2008, the Agency will again be soliciting public comments on regulations that are unnecessary, unduly burdensome, or not based on law.

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

FCA encourages prudent use of loan participations and similar-entity lending authorities to manage risk in FCS institutions and better serve rural America. These authorities allow lenders to diversify risk and enable the FCS to continue funding agriculture and related businesses. Participations purchased from outside sources by FCS institutions have increased considerably as a percentage of the System's portfolio in recent years. FCA examiners also reported a number of alliances with commercial banks and investment managers who provide deposit and investment products to System customers.

OSMO encourages ongoing 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. Further, Farmer Mac continues to guarantee notes that are collateralized by an obligation of a major insurance company. That collateral is, in turn, secured by Farmer Mac-eligible agricultural real estate mortgage loans. This transaction continues Farmer Mac's initiative to diversify its marketing focus by tailoring its pricing based on asset quality. While Farmer Mac receives lower compensation for securing higher-quality assets, the quality of the assets provides greater protection against adverse credit performance.

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

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

Farmer Mac's recent growth in the off-balance-sheet AgVantage product with a major insurance company provides a good example of the Agency's responsiveness to this strategy. The Agency is working to accommodate the structure of this $2.5 billion in volume through efforts on the proposed rule for the RBCST (Version 3.0). OSMO also approved a pilot program for Farmer Mac to invest in securities backed by rural electric distribution loans that meet certain criteria. Generally, Farmer Mac continues to enhance its relationships with its loan sellers and servicers in response to FCA supervision activities. These entities perform a critical function in Farmer Mac's business pipeline. OSMO evaluated Farmer Mac's efforts to strengthen its relationship with its services 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 improves 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 Farm Credit System and Farmer Mac.

The primary purpose of Goal 2 is to maintain the safety and soundness of the Farm Credit System and Farmer Mac and to ensure compliance with laws and regulations. FCA's examination and regulatory supervision of each 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 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 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 FCA examiner workforce is seasoned; however, the Agency will be facing the retirement of a significant number of workers in the near future. To replenish the aging workforce with skilled staff, the Agency continues to maintain a comprehensive Precommission Training Program. To ensure focus on and consistency in this program, the Staff Development and Training Team was established in 2005. This team dedicates significant resources to recruiting and quality training for FCA's newest examiners. The Precommission Training Program is being further redesigned to focus on skills development in FCA's primary areas of oversight—credit, finance, and operations. FCA's strategy is designed to develop and maintain a competent core of commissioned examiners.

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

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

Agency staff 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 while keeping pace with its changing needs. Examples of Agency regulatory and reporting activity include the following:

1. Approving a final rule to update regulations to reflect current disclosure and reporting practices used within the financial services industry, especially those prescribed by Sarbanes-Oxley and the amended Securities and Exchange Commission regulations.

2. Approving a final rule to amend the existing Privacy Act and security information regulations to conform to the latest Executive orders.

3. Approving a final rule to revise the Farmer Mac RBCST regulations. The rule responds to the changing financial markets, new business practices, and the evolution of the loan portfolio at Farmer Mac, as well as continued development of industry best practices among leading financial institutions. The rule also clarifies certain Farmer Mac reporting requirements.

4. Proposing a rule to amend the regulations to provide priority of claims rights for payments made under an agreement among FCS banks to reallocate the banks' joint and several liability on consolidated and System-wide obligations and to clarify the payment of claims provision.

5. Proposing a rule to amend the eligibility and scope of lending regulations for processing and marketing operations to be more responsive to changing ownership structures of processing and marketing operations.

6. Approving an Advance Notice of Proposed Rulemaking requesting public input on possible regulatory changes to its capital rules to enhance the capital framework and more closely align minimum capital requirements to risks taken by System institutions.

7. Conducting a review of current regulatory requirements governing eligibility and scope of lending to determine if the current regulatory requirements are reasonable in light of the changing needs of customers in agriculture and rural America.

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, which provides oversight of the FCS as a whole. The Examination Policy and Development Division (EPDD) provides proactive guidance to System institutions through Informational Memorandums, such as "Significant Asset Growth and Its Implications." EPDD 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 the System institutions and to encourage the use of a risk-based supervisory approach.

The Office of Examination approach has enabled the Agency to increase its national focus and to have greater flexibility in assigning examiners to risks. As a result, OE now provides a more robust training development program and a more consistent approach to risk management. OE conducted national examination activities that identified and highlighted best practices, as well as potential weaknesses for management to address proactively. The following national examination activities were completed:

- *Call Reporting*—evaluated processes and controls across the System and a sample of institutions to ensure accurate call reporting to FCA
- *Information Technology*—evaluated business continuity and security practices across the System and at a sample of institutions
- *Shared Assets*—identified large shared assets in the System and reviewed a sample of assets at several institutions to ensure accurate risk identification and management practices
- *Derivatives and Investments*—evaluated policies and processes across the districts and banks
- *Asset Growth*—assessed trends, sources, and locations of growth across the System and the controls in place to manage the growth

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 offsite monitoring of Farmer Mac provide timely guidance to management on the risk implications of new products.

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

Risk management, which involves developing risk parameters, stress testing, and loan underwriting standards, is 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 the FCS institutions have proactive risk management practices commensurate with their respective risk-bearing capacities. In addition, one of OE's national strategic oversight areas is risk management systems that emphasize counterparty and collateral risk.

OSMO conducted ongoing monitoring and oversight reviews that focused on Farmer Mac's risk management practices. Additionally, OSMO provided clarification on its expectations regarding the underwriting of securities backed by rural electric utility loans.

**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 in their portfolios for risks. Although the timeliness and accuracy of data maintained by some FCS institutions could be improved, FCS institutions have adequate risk management systems in place and continue to make progress in positioning their balance sheets and management systems for the future. In addition, the FCS implemented a 14-point risk-rating system, which is being tested and validated. This system will allow the development and maintenance of a dynamic loan portfolio information database. Improved technology and databases provide more capabilities to run queries and conduct stress testing of loan portfolios.

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

FCA examinations evaluate whether management and board governance of FCA-regulated institutions is keeping pace with the increasing size and complexity of institution operations. 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 are actively discussing the governance rule with FCS boards and management and are assessing their compliance. A list of frequently asked questions related to this rule is available to the FCS on FCA's Web site.

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. FCA is actively engaged in the oversight of Farmer Mac's implementation of the Sarbanes-Oxley Act's provisions on board governance, as well as industry self-regulatory standards established by the New York Stock Exchange.

**Means and Strategy #6—Maintain early warning systems that allow timely identification of emerging risks and related issues in FCS institutions.**

The Agency maintains systems that provide for timely identification of emerging risks and related issues in FCS institutions. First, OE maintains a dynamic Financial Institution Rating System and benchmark ratio program that evaluates changes in the financial condition of FCS institutions each quarter. Second, a detailed quarterly risk analysis report is prepared for the FCA Board that identifies emerging risks within the FCS as a whole, within each Farm Credit district, and within each OE team's portfolio. The report also provides supporting background information from the Federal Farm Credit Banks Funding Corporation. Third, OE maintains an ongoing 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.

FCA has instituted several periodic reporting requirements of Farmer Mac that collectively serve as an early warning system across all Farmer Mac 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.

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

OE routinely researches and analyzes emerging risks and related issues and incorporates the findings into examination and oversight programs and guidance to System institutions. The Risk Supervision Division directs the National Oversight Program and recently established a Risk Council, which provides input into the development of the program. The council also recommends the strategies or level of monitoring or analysis for each identified risk issue and corresponding staff assignments. The group also raises and analyzes emerging issues on an ongoing basis and considers them for addition to the National Oversight Program. For example, during the reporting period, staff researched and analyzed the significant asset growth trends in the FCS and communicated guidance to the FCS through the Informational Memorandum, "Significant Asset Growth and Its Implications." The Agency has also conducted research and developed studies on the ethanol industry, drought issues, the general economy, and FCS institutions.

OSMO staff continues to make significant progress on enhancements to the RBCST, which have required extensive research and analysis of risks and other issues. Several projects incorporating research and analysis of emerging risk were in process during FY 2007. These projects include the impact of Farmer Mac on the agricultural real estate lending market, investments in securities issued by System institutions, and planning for potential expansion of legislative authorities.

## Goal 3—Implement the President's Management Agenda.

The primary purpose of Goal 3 is to implement the President's Management Agenda effectively and efficiently. This internally focused goal supports the five Government-wide initiatives to make the Government more results oriented and focused on achievement and accountability. These initiatives are the following:

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

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

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

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

5. *Competitive Sourcing*—to encourage continuous improvement and remove roadblocks to enhance the Agency's ability to achieve increased efficiency

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

**Means and Strategy #1—Strategically manage human capital.**

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

FCA's key human capital challenge is the large number of experienced, knowledgeable employees who are eligible to retire over the next five years. To address this issue, FCA developed a five-year Human Capital Plan that was approved by FCA's Board on September 15, 2006. The HCP contains numerous initiatives to help the Agency integrate workforce planning and deployment, employee development, and recruitment and retention strategies within its strategic planning process to ensure that FCA will continue to meet its statutory mandates.

To support these initiatives, a Steering Committee established five workgroups during the past year to implement HCP goals:

1. Recruiting
2. Visiting Scholar
3. EEO/Diversity
4. Long-Term Rotational Assignments
5. Continuous Learning, which includes Succession Planning, Knowledge Management, Job Function Competencies, Supervisory/Management Development, and Executive Development

HCP programs being developed by these workgroups include identifying job competencies and developing career tracks within the Agency, which will then be placed into an Individual Development Plan database that assists employees and managers in enhancing knowledge, skills, and abilities; identifying and developing e-learning training opportunities as a cost-effective means to expand staff competencies; and maintaining a variety of policies and practices to help retain employees and assist them in balancing work and family needs.

Several HCP strategies were implemented over the past year, such as

- paying for student loans as a recruiting tool to attract highly qualified employees;

- creating a two-year career internship program to assist with succession planning needs;

- linking strategic FCA goals to individual development plans and to the budget process to help prepare Agency staff for future endeavors; and
- expanding telework opportunities and reimbursing essential employees for broadband costs.

These strategies help ensure the continuity of operations in cases of natural disasters or emergencies.

The Agency's HCP programs and policies enable it to maintain a cohesive group of employees with the skills needed to accomplish current responsibilities, as well as to expand their levels of expertise to address future issues.

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

FCA continues to emphasize strong fiscal management. The Agency's management system produces accurate, reliable, and timely information to support policy, budget, and operating decisions. Since 2006, FCA has maintained a shared-services agreement with the Bureau of the Public Debt's Administrative Service Center to ensure that its financial management system remains secure, effective, and dependable. As a result of partnering with BPD, FCA began maintaining its financial records on Oracle Financials, which is the system of record used by BPD. It includes several module applications developed by the Oracle Corporation, each of which is separately licensed as a part of Oracle's E-Business Suite. This allows users to better manage their cost and maintain a system that is fully integrated. FCA's partnership with BPD and its use of the Oracle Financial System have enabled the Agency to track and manage expenditures, to compile scheduled and on-demand reports for management, and to produce the required reports for the Department of Treasury, the Office of Management and Budget, and Congress.

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

FCA is constantly striving to improve its e-Government operations by adding more content to its Web site, enhancing its usability, and making it easier for FCS institutions to electronically submit more types of reports and other information to the Agency. E-Government initiatives completed during FY 2007

- provided FCA staff with access to e-mail through the Internet;
- enhanced FCA's Web site through redesign to make information easier to identify and access;
- implemented encrypted e-mail to facilitate the exchange of sensitive information with external parties securely over the Internet; and
- expanded FCA's partnership program with System institutions to safely exchange information over the Internet using secured accounts.

In addition, ongoing e-Government projects include (1) improving the ability of Agency employees to work from remote sites through enhanced broadband virtual-private-network and wireless technology, and (2) partnering with other agencies to participate in the Government-wide Enterprise Human Resources Integration program, which provides electronic official personnel files and analytical tools.

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

FCA continues the evolution of its performance budgeting program by aligning resource requirements for continuing programs and new initiatives with outputs and performance goals identified in the Strategic Plan. The Agency continues to refine, through the automation of its budget formulation system, the integration of budget resources with both Agency-wide and individual office performance goals.

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

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

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

## Table 6a
## Goal 1—Public Mission
## Performance Measures and Results

| Measure | Results | FY 2004 Target[2] | FY 2004 Results | FY 2005 Target | FY 2005 Results | FY 2006 Target | FY 2006 Results | FY 2007[1] Target | FY 2007[1] Results | FY 2007 Results vs. Target |
|---|---|---|---|---|---|---|---|---|---|---|
| 1. Percentage of FCS institutions[3] with satisfactory strategic business plans as rated by FCA examiners for providing constructive credit and related services to all potential customers, including those operating under corrective action plans acceptable to FCA.[4] | FCA examiners reviewed the strategic business plans of 99 FCS institutions. All were found to be satisfactory or were operating under acceptable corrective action plans. | 100% | 98% | >90% | 99% | >90% | 100% | >90% | 100% | ▲ |
| 2. Farmer Mac has developed and implemented a marketing program to appropriately grow program assets consistent with its mission and received a satisfactory rating from the Office of Secondary Market Oversight (OSMO) or is operating under a corrective action plan acceptable to OSMO. | Farmer Mac has a marketing program that accomplishes this measure and has received a satisfactory rating from OSMO or is operating under a corrective action plan acceptable to OSMO. | NA | NA | NA | NA | Yes | Yes | Yes | Yes | ✓ |
| 3. Percentage of direct-lender institutions with satisfactory internal controls over consumer compliance and borrower rights compliance, including those operating under corrective action plans acceptable to FCA. FCA examiner reviews of consumer compliance and borrower rights are absent any material deficiencies or weaknesses in internal controls.[4] | FCA examiners performed compliance reviews at 20 direct-lender institutions. All were absent any material deficiencies or weaknesses in internal controls or were operating under acceptable corrective action plans. | 100% | 97% | ≥90% | 100% | ≥90% | 100% | ≥90% | 100% | ▲ |

1. Because of the accelerated due date for the Performance and Accountability Report, the reportable performance period runs from July 1, 2006, to June 30, 2007.
2. 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; NA indicates either that the measure is not applicable or that FCA's performance could not be measured; ▲ indicates FCA's performance exceeded the FY 2007 target; and ✓ indicates FCA achieved the FY 2007 target.
3. For purposes of performance measurement, the term "institutions" does not include the FCS service corporations, the National 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.
4. Performance measure has been restated for clarity.

## Table 6a
## Goal 1—Public Mission
## Performance Measures and Results

| Measure | Results | FY 2004 | | FY 2005 | | FY 2006 | | FY 2007[1] | | FY 2007 |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Target[2] | Results | Target | Results | Target | Results | Target | Results | Results vs. Target |
| 4. Percentage of instances in which FCA solicits public comment and input on applicable regulatory initiatives using supplemental approaches[5] to the notice and comment rulemaking process. | Supplemental approaches were used on four of six regulatory initiatives. | ≥40% | 72% | ≥40% | 30% | ≥40% | 70% | ≥40% | 67% | ▲ |
| 5. Percentage of direct-lender institutions that have satisfactory programs as rated by FCA examiners to furnish sound and constructive credit and related services to young, beginning, and small (YBS) farmers, ranchers, and producers and harvesters of aquatic products, or that have acceptable corrective action plans in place.[4] | FCA examiners reviewed the YBS programs at 80 direct-lender institutions. All were found to be satisfactory or were operating under an acceptable corrective action plan. | 100% | 100% | ≥90% | 99% | ≥90% | 100% | ≥90% | 100% | ▲ |
| 6. The aggregate annual change in the level of System participation in Federal and State guarantee programs in relation to the aggregate annual change in total Federal and State guarantee programs to further accomplish the System's public mission.[6] | This performance measure could not be calculated because program activity information in the Federal and State programs was not available. | ≥1.00 | NA | ≥1.00 | 1.12 | ≥1.00 | 1.00 | ≥1.00 | NA | NA |

5. Supplemental approaches include advance notice of proposed rulemaking, comment period reopenings and extensions, constituent/congressional committee meetings, public meetings, focus groups, town meetings, and other unique 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.
6. Because of the accelerated due date for the Performance and Accountability Report, the Federal guarantee program results are based on data from September 30 of the previous year.

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

| Measure | Results | FY 2004 Target[2] | FY 2004 Results | FY 2005 Target | FY 2005 Results | FY 2006 Target | FY 2006 Results | FY 2007[1] Target | FY 2007[1] Results | FY 2007 Results vs. Target |
|---|---|---|---|---|---|---|---|---|---|---|
| 7. Number of institutions that FCA placed in receivership due to financial failure during the previous 12 months.[4] | During the past 12 months, no FCS institutions were placed in receivership. | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | ✓ |
| 8. The total assets of FCS institutions that FCA has determined are fundamentally sound in all material respects.[4] | Most FCS institutions were fundamentally sound in all material respects, as reflected by their composite FIRS ratings of 1 and 2. However, two institutions were rated 3. | ≥90% | 100% | ≥90% | 100% | ≥90% | 100% | ≥90% | 99.5% | ▲ |
| 9. Percentage of FCS institutions with composite FIRS ratings of 3, 4, or 5 with acceptable corrective action plans in place to address the underlying problems as determined by FCA examiners.[4] | Two FCS institutions had composite FIRS ratings of 3 and have acceptable corrective action plans in place. | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | ✓ |
| 10. Percentage of System assets in institutions with ratios of adverse assets to risk funds of less than 100 percent.[4] | All FCS institutions maintained adversely classified assets at levels that were within their risk-bearing capacity, as their ratios of adverse assets to risk funds were less than 100 percent. | 100% | 100% | ≥90% | 100% | ≥90% | 100% | ≥90% | 100% | ▲ |
| 11. Percentage of institutions complying with all regulatory capital ratio requirements (permanent capital ratio, total capital ratio, core surplus ratio, net collateral, risk-based capital), including those operating under corrective action plans acceptable to FCA.[4] | All FCS institutions complied with the regulatory capital requirements. | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | ✓ |

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

| Measure | Results | FY 2004 | | FY 2005 | | FY 2006 | | FY 2007[1] | | FY 2007 Results vs. Target |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Target[2] | Results | Target | Results | Target | Results | Target | Results | |
| 12. Percentage of FCS institutions with acceptable action plans to correct violations of laws and regulations identified by FCA examinations.[4] | FCA examiners identified 63 FCS institutions that had violations of laws and regulations. All had acceptable corrective action plans. | 100% | 93% | 100% | 100% | 100% | 100% | 100% | 100% | ✓ |
| 13. Percentage of FCA-regulated institutions that have satisfactory audit and review programs as determined by FCA examiners, including those with corrective action plans acceptable to FCA.[4] | FCA examiners reviewed the audit and review programs of 83 FCA-regulated institutions. All were found to be satisfactory or were operating under acceptable corrective action plans. | 100% | 97% | 100% | 100% | 100% | 100% | 100% | 100% | ✓ |

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

| Measure | Results | FY 2004 | | FY 2005 | | FY 2006 | | FY 2007[1] | | FY 2007 |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Target[2] | Results | Target | Results | Target | Results | Target | Results | Results vs. Target |
| 14. Structure of Agency is assessed at least once every five years[7] to determine whether changes are needed to better meet mission goals. | As many in FCA's workforce draw closer to retirement age, managers continue to evaluate human capital needs. On September 15, 2006, the FCA Board approved the 2007–2011 Human Capital Plan. An HCP Steering Committee established five workgroups during 2007 to implement HCP goals: Recruiting, Visiting Scholar, EEO/Diversity, Long-Term Rotational Assignments, and Continuous Learning (which includes Succession Planning, Knowledge Management, Job Function Competencies, Supervisory/Management Development, and Executive Development). | Yes | Not Available | Yes | Yes | Yes | Yes | Yes | Yes | ✓ |
| 15. Audit opinion on the Agency's annual financial statements, as reported by the Agency's external auditors. | Performance measure goal was achieved for FY 2007. On November 3, 2006, FCA achieved an unqualified audit opinion from its external auditors on the FY 2006 annual financial statements. The FY 2007 external audit opinion is not yet available and will be reported in FY 2008. | Unqualified | Unqualified | Unqualified | Unqualified | Unqualified | Unqualified | Unqualified | Unqualified | ✓ |
| 16. Number of material internal control weaknesses reported by the Agency's financial auditors. | Performance measure target was achieved for FY 2007. No material internal control weaknesses were identified by FCA's external auditors during the 2006 year-end audit. The FY 2007 external audit opinion is not yet available and will be reported in FY 2008. | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | ✓ |

7. The frequency for the assessment of the Agency's structure was revised from once every three years to once every five years to better reflect when staffing studies are actually conducted.

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

| Measure | Results | FY 2004 | | FY 2005 | | FY 2006 | | FY 2007[1] | | FY 2007 Results vs. Target |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Target[2] | Results | Target | Results | Target | Results | Target | Results | |
| 17. Percentage of the Agency's Web pages and electronic devices that are section 508 accessibility compliant.[8] | Performance measure target was again exceeded for FY 2007. As of June 30, 2007, 96.8% of FCA's Web pages and electronic devices were section 508 accessibility compliant. | ≥95% | 95.5% | ≥95% | 95.4% | ≥95% | 97.9% | ≥95% | 96.8% | ▲ |
| 18. FCA information and technology services are available on a continuous 24-hour basis to provide appropriate users access to Agency information, communications, and data collection services.[9] | FCA information and technology services are available on a 24-hour basis to provide appropriate users access to Agency information, communications, and data collection services within a secure, reliable environment. | ≥97% | 98.2% | ≥97% | 98.3% | ≥97% | 99.5% | ≥98.5%[10] | 98.8%[11] | ▲ |

8. The goal of section 508 of the Rehabilitation Act of 1973, as amended by the Workforce Investment Act of 1998, is to provide Federal employees with disabilities access to office systems and information equal to that of their nondisabled colleagues. It also ensures that people in the general public who have disabilities have equal access to Government information.
9. In calculating the availability of information resources, FCA does not include the minutes of scheduled downtime for routine network maintenance.
10. The target for FY 2007 was increased from ≥97.0% to ≥98.5%.
11. While a significant outage on FCA's primary file server reduced the third-quarter availability percentage to 97.36%, or 1.24% below the quarter's target, availability averages over the remaining quarters were sufficient to measure 98.80% availability, which exceeded the year's target.

# Auditor's Reports and Financial Statements

## Letter from the Chief Financial Officer

Initiatives in the administration of programs, financial operations, and technology have made FY 2007 an exciting, transformative year for the Farm Credit Administration. Recent changes in the areas of examination and regulatory development—and an overall realignment of FCA's organizational structure—have enabled FCA to effectively position itself to meet the needs of the Farm Credit System over the next five to seven years. In FY 2007 FCA continued its strategic transformation.

Sound human resource management is a critical element of FCA's overall planning strategy, and the initiatives contained in the Agency's five-year Human Capital Plan are instrumental to the achievement of its mission. Since the HCP's implementation in September 2006, FCA has moved to integrate workforce planning and deployment, employee development, and recruitment and retention strategies within its planning processes. Underlying and supporting these initiatives is the creation of a continuous learning environment designed to attract and maintain a highly skilled workforce, as well as knowledge management strategies that capture, transfer, and preserve critical operational and institutional knowledge. The Office of Personnel Management recognized FCA's HCP as a best practice during FY 2007.

Leveraging technological resources was another important initiative during FY 2007. Improvements to FCA's Web site include a user-friendly portal that collects information from FCS institutions in a reliable, secure environment. The Agency's ability to disseminate information to the System and public was also enhanced. In addition, a new electronic subscription feature eliminates the need for FCA examiners to continually monitor the Web site for incoming System information. This application of push technology allows examiners to focus their attention fully on risk-related issues and other examination activities.

Several multiyear projects gained momentum in FY 2007. The Workflow Integration initiative has identified, documented, and evaluated FCA's business processes—that is, examination, regulatory development, and services—in terms of procedure, relevancy, efficiency, and cost-effectiveness. This information will be used to automate or enhance business processes through the Agency's information technology (IT) infrastructure; for example, FCA plans to develop a "dashboard" application that will provide access to vital information in areas such as budget, staffing, and security. The Infrastructure Review initiative evaluated FCA's IT infrastructure and, using the data collected as its guide, will direct the transition of the Agency's IT architecture to a framework that provides a more efficient tool for information delivery and communication.

With regard to financial management, I share the Financial Management Line of Business's overall vision to improve the cost, quality, and performance of financial management systems by leveraging shared-service solutions. FCA continually monitors and evaluates its shared-service partnership with the Bureau of the Public Debt to gauge its efficiency and effectiveness in meeting the Agency's needs. FCA's intent is to ensure that it obtains the best value through the grouping of services while maintaining a high standard of financial management practices.

In summary, I am pleased with FCA's FY 2007 program initiatives and improvements. As FCA embarks on a new fiscal year, I am fully committed to fostering the Agency's overarching goal of continual improvement. With the help of FCA's dedicated, skilled staff and financial management partner, I am confident that this goal can be achieved.

Stephen G. Smith
Director and Chief Financial Officer
Office of Management Services

**Farm Credit Administration**

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

November 7, 2007

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

Dear Chairman Pellett:

This letter transmits the report 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 ended September 30, 2007. The Office of Inspector General (OIG) contracted with the U.S. Department of the Treasury's Bureau of the Public Debt (BPD) to hire the independent accounting firm Brown & Company CPAs, PLLC, (Brown & Co.) 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 September 30, 2007 and 2006, in conformity with generally accepted accounting principles. Brown & Co. issued two other reports. Its report on internal control noted no material weaknesses. Brown & Co.'s report on compliance with laws and regulations relating to the Agency's determination of financial statement amounts does not note any instances of noncompliance. In OIG's opinion, Brown & Co.'s work provides a reasonable basis on which to render its opinion, and we concur with its reports.

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, 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.

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 mission of ensuring a safe, sound, and dependable Farm Credit System (FCS or System) as a source of credit and related services to agriculture. Some of these challenges may be influenced by events outside the control of the Agency. Second, but no less important, are the challenges related to Agency operations.

## MANAGEMENT AND PERFORMANCE CHALLENGES

***Farm Credit System***

The System is a lender to a single industry, agriculture, and is therefore vulnerable to economic swings in that industry. Nevertheless, the FCS remains sound in all material respects. Earnings and capital levels have continued to strengthen, and asset quality remains high. The Agency's challenge is to continue to ensure the System's ability to withstand this vulnerability through effective examination and regulatory activities. The Agency's regulatory attention must also address other vulnerabilities in the System. Among these are scope of lending excesses and risks associated with exposure to new enterprises, such as alternative fuel production.

There continue to be many issues facing agriculture and rural America today that raise the question of whether there should be modifications to the Farm Credit Act of 1971, as amended, (Act) to enable the System to better serve agricultural and rural economies of the future. On the basis of FCS studies of agriculture's future financial needs and the System's ability to meet those needs, the FCS proposed to Congress in early 2007 legislative changes to the Act. FCA also met with Congress to discuss potential amendments to the Act.

***Farm Credit Administration***

Despite whether there are modifications to the Act, the Agency should anticipate that the System will seek broad regulatory interpretations. However, as a financial regulator, FCA must continue to maintain an independent and objective, yet flexible and responsive, regulatory environment for the System, geared to continually ensuring the FCS fulfills its public policy purpose. Key to this for FCA is effective examination and regulation of System institutions by maintaining a properly staffed and resourced Agency.

**Agency Governance—**The Act provides for a full-time, three-member FCA Board to govern the Agency. FCA Board members are appointed by the President and confirmed by the Senate. The FCA Board's rules of operation are a foundation for trust and shared expectations among its members. They are intended to enable the FCA Board to engage in professional policy debate and to set a sound course for the Agency.

However, a small, full-time FCA Board presents a challenge in defining the roles and responsibilities of its members. Periodic changes in the chairmanship and composition of the FCA Board also present both challenges and opportunities. The Chairman has addressed these challenges and taken advantage of these opportunities by creating an environment that promotes a constructive working relationship among FCA Board members.

**Strategic Planning—**In December 2003, the FCA Board adopted the Strategic Plan for Fiscal Years 2004–2009. Since the adoption of this plan, the FCA Board has acquired a new Chairman and two new members. These changes in leadership have provided an opportunity to revise the plan to ensure it incorporates the current FCA Board's vision. In 2005, the FCA Board established a Strategic Planning Committee (SPC) composed of Agency staff to facilitate FCA Board input into the plan and the planning process.

While the SPC has initiated strategic planning discussions between the FCA Board and management, this has not culminated in a revised strategic plan. The Agency is required to revise its strategic plan at least every three years. The FCA Board should adopt an updated strategic plan.

**Human Capital—**In March 2001, OIG recommended that FCA develop a human capital plan, and FCA management agreed. Chairman Pellett assumed the chairmanship in May 2004. In 2006, a five-year strategic human capital plan was completed.

FCA's challenge is to continue to implement the human capital plan to ensure that FCA has the staff it needs to effectively regulate a constantly evolving FCS. In meeting this challenge, the Agency should continue to address the attrition of seasoned staff by

- recruiting new employees;
- training staff;
- implementing succession planning; and
- capturing, preserving, and transferring knowledge from departing employees.

To ensure the viability of the examination staff, a critical component of the Agency's regulatory capability, the Agency should

- carefully recruit and train examiners,
- maintain a rigorous commissioning program, and
- organize examiners to promote effective work processes and efficient use of the examiner workforce.

These measures should ensure that FCA examiners have the skills they need to do their jobs and maintain ongoing credibility with System institutions, and that there is continuity in the examination workforce.

**Financial Management—**Timely, accurate, and useful financial information is essential for

- making day-to-day decisions,
- managing the Agency's operations more effectively,
- supporting results-oriented management approaches, and
- ensuring accountability.

In April 2006, FCA outsourced the accounting, financial reporting, and procurement functions to the BPD. Subsequent to that outsourcing, management determined it was not getting timely and efficient service in procurement and therefore brought the procurement function back into the Agency. To ensure the ongoing effectiveness of the outsourcing of the other functions, the Agency will need to continually assess both cost-effectiveness and BPD's performance in providing timely service, useful financial reporting, and improved efficiencies to the Agency.

**Leveraging Technology—**Information technology (IT) is a key element in management's efforts to continually improve Agency performance. The Agency is in the early stages of a major infrastructure transition designed to promote efficient work processes and to provide staff with enhanced communication and collaboration tools. The challenge is to stay abreast of emerging technologies and to establish an IT infrastructure that provides FCA staff with IT tools and skills to operate in an efficient, effective, and secure manner. In addition, the Agency must ensure that its technical staff has the skills and knowledge to implement and maintain its infrastructure, and initiatives in this regard are underway.

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 as of September 30, 2007, and the related statements of net cost, changes in net position, and budgetary resources for the year then ended. The balance sheet as of September 30, 2006, and the related statements of net cost, changes in net position and financing, and the combined statement of budgetary resources for the year then ended were audited by other auditors, whose report dated November 3, 2006, expressed an unqualified opinion on those statements. These financial statements are the responsibility of the Farm Credit Administration's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Farm Credit Administration as of September 30, 2007 and 2006, 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 a report dated November 5, 2007 on our consideration of the Farm Credit Administration's 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 information in "Management's Discussion & Analysis" is presented for the purpose of additional analysis and is required by OMB Circular No. A-136, revised *Financial Reporting Requirements*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and, accordingly, express no opinion on it.

Brown & Company

Largo, Maryland
November 5, 2007

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

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL**

Farm Credit Administration
The Board and Office of Inspector General

We have audited the financial statements of the Farm Credit Administration as of and for the year ended September 30, 2007, and have issued our report thereon dated November 5, 2007. We conducted our audit 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.*

In planning and performing our audit, we considered the Farm Credit Administration's internal control over financial reporting by obtaining an understanding of the Farm Credit Administration'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. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982, such as those controls relevant to ensuring efficient operations. The objective of our 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 significant deficiencies. Under standards issued by the American Institute of Certified Public Accountants and OMB Bulletin No. 07-04, a significant deficiency is a deficiency in internal control, or a combination of deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected. 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. A material weakness is a significant deficiency, or combination of significant deficiencies, that result in a more than remote likelihood that a material misstatement of the financial statements will not be prevented or detected. 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 significant deficiencies or material weaknesses as defined above.

In addition, with respect to internal control objective related to the performance measures included in the "Management's Discussion & Analysis," we obtained an understanding of the design of internal controls relating to the existence and completeness assertions, and determined whether they have been placed in operation as required by OMB Bulletin No. 07-04. Our procedures were not designed to provide opinion on internal control over reported performance measures, and, accordingly, we do not express an opinion on such controls.

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

Bean & Company

Largo, Maryland
November 5, 2007

BROWN & COMPANY CPAs, PLLC

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 as of and for the year ended September 30, 2007, and have issued our report thereon dated November 5, 2007. We conducted our audit 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.*

The management of the Farm Credit Administration is responsible for complying with laws and regulations applicable to the Farm Credit Administration. As part of obtaining reasonable assurance about whether the Farm Credit Administration'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 Farm Credit Administration.

The results of our tests of compliance disclosed no reportable instances of noncompliance with other 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 Farm Credit Administration, OMB, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

Brown & Company

Largo, Maryland
November 5, 2007

## FINANCIAL STATEMENTS AND RELATED NOTES

### FARM CREDIT ADMINISTRATION
### BALANCE SHEET
**As of September 30, 2007 and 2006**

| | 2007 | 2006 |
|---|---|---|
| **ASSETS** | | |
| Intragovernmental | | |
| Fund balance with Treasury (Note 2) | $ 1,095,238 | $ 1,782,919 |
| Investments (Note 3) | 27,427,532 | 22,518,887 |
| Accounts receivable (Note 4) | 661,990 | 301,481 |
| Prepaid expenses | 7,830 | 7,830 |
| Total intragovernmental | 29,192,590 | 24,611,117 |
| Accounts receivable (Note 4) | 206,774 | 226,277 |
| General property, equipment, and software, net (Note 5) | 56,609 | 386,381 |
| Prepaid expenses | 44,170 | 66,346 |
| **Total assets** | **$ 29,500,143** | **$ 25,290,121** |
| **LIABILITIES** | | |
| Intragovernmental | | |
| Accounts payable | $ 1,820 | $ - |
| Accrued post-employment compensation | 31,743 | 34,041 |
| Advances from others | - | 3,363 |
| Accrued taxes payable | 10,166 | 19,825 |
| Employer contributions and payroll taxes payable | 212,612 | 205,262 |
| Total intragovernmental | 256,341 | 262,491 |
| Accounts payable | 598,344 | 473,739 |
| Actuarial workers' compensation liability (Note 6) | 1,195,233 | 1,171,851 |
| Accrued payroll and benefits | 4,134,365 | 3,911,313 |
| Accrued taxes payable | 1,987 | 1,987 |
| Employer contributions and payroll taxes payable | 48,785 | 42,271 |
| Deferred revenue | 1,568,300 | 2,445,402 |
| **Total liabilities** | **7,803,355** | **8,309,054** |
| **NET POSITION** | | |
| Cumulative results of operations | 21,696,788 | 16,981,067 |
| **Total net position** | **21,696,788** | **16,981,067** |
| **Total liabilities and net position** | **$ 29,500,143** | **$ 25,290,121** |

The accompanying notes are an integral part of these statements.

**FARM CREDIT ADMINISTRATION**
**STATEMENT OF NET COST**
**For the Years Ended September 30, 2007 and 2006**

| | 2007 | 2006 |
|---|---|---|
| **PROGRAM COSTS** | | |
| **Safety and Soundness** | | |
| Gross costs | $ 29,557,670 | $ 31,687,731 |
| Less: Earned revenues | (31,160,964) | (32,970,873) |
| Total net costs—Safety and soundness | (1,603,294) | (1,283,142) |
| **Public Mission** | | |
| Gross costs | 11,230,036 | 8,274,686 |
| Less: Earned revenues | (11,850,575) | (8,605,263) |
| Total net costs—Public mission | (620,539) | (330,577) |
| **Other Activities** | | |
| Gross costs | 3,708,396 | 2,986,266 |
| Less: Earned revenues | (2,616,130) | (1,518,981) |
| Total net costs—Other activities | 1,092,266 | 1,467,285 |
| **Net cost of operations (+/-) (Notes 7 and 8)** | **$ (1,131,567)** | **$ (146,434)** |

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, 2007 and 2006**

| | 2007 | 2006 |
|---|---|---|
| **CUMULATIVE RESULTS OF OPERATIONS** | | |
| Beginning balances | $ 16,981,067 | $ 13,437,779 |
| Beginning balances, as adjusted | 16,981,067 | 13,437,779 |
| Other financing sources | | |
| Imputed financing from costs absorbed by others | | |
| Federal employee benefits (Note 9) | 2,184,154 | 2,101,259 |
| Rent (Note 10) | 1,400,000 | 1,295,595 |
| Total financing sources | 3,584,154 | 3,396,854 |
| Net cost of operations (+/-) | (1,131,567) | (146,434) |
| **Net position—Ending balances** | **$ 21,696,788** | **$ 16,981,067** |

The accompanying notes are an integral part of these statements.

**FARM CREDIT ADMINISTRATION**
**STATEMENT OF BUDGETARY RESOURCES**
**For the Years Ended September 30, 2007 and 2006**

| | 2007 | 2006 |
|---|---|---|
| **BUDGETARY RESOURCES** | | |
| Unobligated balances—Beginning of period | $ 18,706,063 | $ 13,994,718 |
| Spending authority from offsetting collections | | |
| Earned | | |
| Collected | $ 44,541,132 | $ 42,997,075 |
| Receivable from Federal sources | 307,879 | 142,664 |
| Change in unfilled customer orders | | |
| Advance received | (3,363) | - |
| Without advance from Federal sources | (491,447) | 485,680 |
| Subtotal—Spending authority from offsetting collections | 44,354,201 | 43,625,419 |
| **Total budgetary resources (Note 11)** | **$ 63,060,264** | **$ 57,620,137** |
| **STATUS OF BUDGETARY RESOURCES** | | |
| Obligations incurred—Exempt from apportionment | $ 40,995,459 | $ 38,914,074 |
| Unobligated balance available—Exempt from apportionment | 20,496,505 | 16,260,661 |
| Unobligated balance not available | 1,568,300 | 2,445,402 |
| **Total status of budgetary resources** | **$ 63,060,264** | **$ 57,620,137** |
| **CHANGE IN OBLIGATED BALANCE** | | |
| Obligated balance, net | | |
| Unpaid obligations, brought forward, October 1 | $ 6,628,611 | $ 6,596,801 |
| Less: Uncollected customer payments from Federal sources, brought forward, October 1 | (1,167,820) | (539,475) |
| Total unpaid obligated balance, net | 5,460,791 | 6,057,326 |
| Obligations incurred, net | 40,995,459 | 38,914,075 |
| Gross outlays | (40,214,795) | (38,882,266) |
| Change in uncollected customer payments from Federal sources | 183,568 | (628,344) |
| Obligated balance, net, end of period | | |
| Unpaid obligations (Note 12) | 7,409,274 | 6,628,611 |
| Less: Uncollected customer payments from Federal sources | (984,251) | (1,167,820) |
| **Total unpaid obligated balance, net, end of period** | **$ 6,425,023** | **$ 5,460,791** |
| **NET OUTLAYS** | | |
| Gross outlays | $ 40,214,795 | $ 38,882,266 |
| Less: Offsetting collections | (44,537,769) | (42,997,075) |
| **Net outlays** | **$ (4,322,974)** | **$ (4,114,809)** |

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*—As required by Public Law 107-289, the Accountability of Tax Dollars Act of 2002, the accompanying financial statements have been prepared in accordance with the Office of Management and Budget's (OMB'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 contained in OMB Circular No. A-136 is not applicable to FCA and is 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, 2007.

*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 will be more cost effective to expense the advance or prepayment at the time of payment. Therefore, in FY 2007, FCA revised its operating procedures to recognize dollar thresholds in the recording of advances and prepayments. The established thresholds are published in OMS Standard Operating Procedure 5.8.

*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.

*P. Reclassification*—The presentation used for Note 7, Intragovernmental Costs and Exchange Revenue, has been revised to reflect the new format required by OMB Circular A-136. The circular requires agencies to present both FYs 2007 and 2006 notes in the same format. Accordingly, certain reclassifications were made to the previously issued FY 2006 note to conform to the format presented for FY 2007. Also, certain FY 2006 balances have been reclassified, retitled, or combined with other financial statement or note line items for consistency with current-year presentation.

## Note 2. Fund Balance with Treasury

| | 2007 | 2006 |
|---|---|---|
| **Fund balance with Treasury** | | |
| Revolving fund | $ 1,095,238 | $ 1,782,919 |
| Total fund balance with Treasury | $ 1,095,238 | $ 1,782,919 |
| | | |
| **Status of fund balance with Treasury** | | |
| Unobligated balance | | |
| Available | $ 20,496,505 | $ 16,260,661 |
| Unavailable | 1,568,300 | 2,445,402 |
| Obligated balance not yet disbursed | 6,425,022 | 5,460,791 |
| Subtotal—Status of fund balance | 28,489,827 | 24,166,854 |
| | | |
| Funds invested with Treasury | | |
| Net of unamortized discount | (27,394,589) | (22,383,935) |
| | | |
| **Total Fund Balance with Treasury** | **$ 1,095,238** | **$ 1,782,919** |

## Note 3. Investments

**Intragovernmental Securities**

**Amounts for 2007 Balance Sheet Reporting**

| | Cost | Unamortized (Premium) Discount | Investments Net | Interest Receivable | 09/30/07 Investment Balance | Market Value Disclosure |
|---|---|---|---|---|---|---|
| Nonmarketable Market based | $27,394,589 | $4,374 | $27,398,963 | $28,569 | $27,427,532 | $27,382,164 |

**Amounts for 2006 Balance Sheet Reporting**

| | Cost | Unamortized (Premium) Discount | Investments Net | Interest Receivable | 09/30/06 Investment Balance | Market Value Disclosure |
|---|---|---|---|---|---|---|
| Nonmarketable Market based | $22,383,935 | $53,752 | $22,437,687 | $81,200 | $22,518,887 | $22,349,622 |

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 $1,515,213 and $1,023,897 for FYs 2007 and 2006, respectively.

## Note 4. Accounts Receivable

| | 2007 | 2006 |
|---|---|---|
| **Intragovernmental** | | |
| Reimbursements for services provided | $659,570 | $300,061 |
| Expenditure refunds | 2,420 | 1,420 |
| Subtotal | 661,990 | 301,481 |
| | | |
| **With the Public** | | |
| Assessments | 206,140 | 226,277 |
| Vendor overpayments | 634 | - |
| Subtotal | 206,774 | 226,277 |
| | | |
| **Total Accounts Receivable** | **$868,764** | **$527,758** |

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

**As of September 30, 2007**

| | Estimated Useful Life | Depreciation Method | Acquisition Value | Accumulated/ Amortized Depreciation | Book Value |
|---|---|---|---|---|---|
| Equipment | 3 years | Straight line | $ 1,488,085 | ($ 1,436,831) | $ 51,254 |
| Software | 3 years | Straight line | 128,019 | (126,030) | 1,989 |
| Vehicles | 5 years | Straight line | 33,656 | (30,290) | 3,366 |
| **Total** | | | **$ 1,649,760** | **($ 1,593,151)** | **$ 56,609** |

**As of September 30, 2006**

| | Estimated Useful Life | Depreciation Method | Acquisition Value | Accumulated/ Amortized Depreciation | Book Value |
|---|---|---|---|---|---|
| Equipment | 3 years | Straight line | $ 1,490,766 | ($ 1,139,796) | $ 350,970 |
| Software | 3 years | Straight line | 128,019 | (102,704) | 25,315 |
| Vehicles | 5 years | Straight line | 33,656 | (23,560) | 10,096 |
| **Total** | | | **$ 1,652,441** | **($ 1,266,060)** | **$ 386,381** |

### 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 2007 and 2006 are $1,195,233 and $1,171,851, respectively. The increase in the actuarial liability amount may be attributed to the increase in the average compensation payments covered during fiscal year 2007.

## Note 7. Intragovernmental Costs and Exchange Revenue

| | Farm Credit Administration for the Years Ended September 30, 2007 and 2006 | |
|---|---|---|
| | 2007 | 2006 |
| **Safety and Soundness** | | |
| Intragovernmental costs | $ 6,817,350 | $ 5,022,275 |
| Public costs | 22,740,320 | 26,665,456 |
| Total costs—safety and soundness | 29,557,670 | 31,687,731 |
| Intragovernmental earned revenue | (1,098,031) | (754,855) |
| Public earned revenue | (30,062,933) | (32,216,018) |
| Total revenue—safety and soundness | (31,160,964) | (32,970,873) |
| Net program costs—safety and soundness | (1,603,294) | (1,283,142) |
| **Public Mission** | | |
| Intragovernmental costs | 2,631,139 | 1,397,210 |
| Public costs | 8,598,897 | 6,877,476 |
| Total costs—public mission | 11,230,036 | 8,274,686 |
| Intragovernmental earned revenue | (421,270) | (199,037) |
| Public earned revenue | (11,429,305) | (8,406,226) |
| Total revenue—public mission | (11,850,575) | (8,605,263) |
| Net program costs—public mission | (620,539) | (330,577) |
| **Other Activity** | | |
| Intragovernmental costs | 277,354 | 361,697 |
| Public costs | 3,431,042 | 2,624,569 |
| Total costs—other activity | 3,708,396 | 2,986,266 |
| Intragovernmental earned revenue | (2,423,710) | (1,323,777) |
| Public earned revenue | (192,420) | (195,204) |
| Total revenue—other activity | (2,616,130) | (1,518,981) |
| Net program costs—other activity | 1,092,266 | 1,467,285 |
| **Net cost of operations (+/-)** | **$ (1,131,567)** | **$ (146,434)** |

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, 2007**

| | Office | | | | |
|---|---|---|---|---|---|
| | **Examination** | **Regulatory Policy** | **Secondary Market Oversight** | **Other Organizations** | **Total** |
| **Safety and Soundness** | | | | | |
| Gross costs | $ 18,972,481 | $ 992,124 | $ 543,260 | $ 9,049,805 | $29,557,670 |
| Less: Earned revenue | (19,986,784) | (1,044,810) | (589,081) | (9,540,289) | (31,160,964) |
| Net program cost | (1,014,303) | (52,686) | (45,821) | (490,484) | (1,603,294) |
| **Public Mission** | | | | | |
| Gross costs | 808,955 | 3,608,865 | 395,217 | 6,416,999 | 11,230,036 |
| Less: Earned revenue | (851,735) | (3,800,016) | (428,696) | (6,770,128) | (11,850,575) |
| Net program cost | (42,780) | (191,151) | (33,479) | (353,129) | (620,539) |
| **Other Activity** | | | | | |
| Gross costs | 2,572,427 | 806 | - | 1,135,163 | 3,708,396 |
| Less: Earned revenue | (1,814,747) | (569) | - | (800,814) | (2,616,130) |
| Net program cost | 757,680 | 237 | - | 334,349 | 1,092,266 |
| **Net Cost of Operations** | **$ (299,403)** | **$ (243,600)** | **$ (79,300)** | **$ (509,264)** | **$ (1,131,567)** |

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

**Farm Credit Administration**
**for the Year Ended September 30, 2006**

| | Office | | | | |
|---|---|---|---|---|---|
| | **Examination** | **Regulatory Policy** | **Secondary Market Oversight** | **Other Organizations** | **Total** |
| **Safety and Soundness** | | | | | |
| Gross costs | $ 18,291,134 | $ 939,550 | $ 565,669 | $11,891,378 | $31,687,731 |
| Less: Earned revenue | (19,148,730) | (973,107) | (474,997) | (12,374,039) | (32,970,873) |
| Net program cost | (857,596) | (33,557) | 90,672 | (482,661) | (1,283,142) |
| **Public Mission** | | | | | |
| Gross costs | 527,075 | 3,275,745 | 326,316 | 4,145,550 | 8,274,686 |
| Less: Earned revenue | (555,805) | (3,455,677) | (274,086) | (4,319,695) | (8,605,263) |
| Net program cost | (28,730) | (179,932) | 52,230 | (174,145) | (330,577) |
| **Other Activity** | | | | | |
| Gross costs | 2,096,525 | 10,341 | 1,053 | 878,347 | 2,986,266 |
| Less: Earned revenue | (1,066,410) | (5,260) | (536) | (446,775) | (1,518,981) |
| Net program cost | 1,030,115 | 5,081 | 517 | 431,572 | 1,467,285 |
| **Net Cost of Operations** | **$ 143,789** | **$ (208,408)** | **$ 143,419** | **$ (225,234)** | **$ (146,434)** |

## Note 9. Federal Employee Benefits

| | 2007 | 2006 |
|---|---|---|
| Imputed pension cost | $ 847,068 | $ 885,762 |
| Other imputed retirement benefits | 1,337,086 | 1,215,497 |
| Total | $ 2,184,154 | $ 2,101,259 |

*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 2007 and 2006. 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

| | 2007 | 2006 |
|---|---|---|
| Leased field offices | $ 768,422 | $ 658,928 |
| FCA headquarters | 631,578 | 636,667 |
| Total | $ 1,400,000 | $ 1,295,595 |

In accordance with the Act, FCA occupies buildings owned and leased by the FCSBA. The FCA administrative headquarters building and land are located in McLean, Virginia. In addition, the FCSBA leases office space for field offices on behalf of FCA at various locations throughout the United States. Rent is provided at no cost to FCA. The above imputed rent expense is an estimate based on the FCSBA actual results of operations for the 12 months ended December 31, 2006. 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 2007**

The 2009 Budget of the United States Government, with the Actual Column completed for FY 2007, 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 2008. It will be available on FCA's Web site at www.fca.gov/reports/publications.html.

**FY 2006**

The 2008 Budget of the United States Government, with the Actual Column completed for 2006, 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, 2007 and 2006, undelivered orders amounted to $2,369,450 and $1,940,172, 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.

In previous years this reconciliation was accomplished by presenting the Statement of Financing as a basic financial statement. Effective for FY 2007, OMB and the Chief Financial Officers Council decided that this reconciliation would be better placed and understood as a note rather than as a basic statement. 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, 2007 and 2006 | |
|---|---|---|
| | 2007 | 2006 |
| **Resources Used to Finance Activities** | | |
| Budgetary resources obligated | | |
| Obligations incurred | $ 40,995,459 | $ 38,914,075 |
| Less: Spending authority from offsetting collections | (44,354,201) | (43,625,420) |
| Net obligations | (3,358,742) | (4,711,345) |
| Other resources | | |
| Imputed financing from costs absorbed by others | 3,584,154 | 3,396,854 |
| Deferred revenue not in the budget | (877,102) | 159,705 |
| Net other resources used to finance activities | 2,707,052 | 3,556,559 |
| Total resources used to finance activities | (651,690) | (1,154,786) |
| **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 | (901,912) | 475,391 |
| Resources that fund expenses recognized in prior periods | - | 2,759 |
| Actuarial FECA liability increase/(decrease) | 23,382 | 19,292 |
| Resources that finance the acquisition of assets | 410 | (77,065) |
| Total resources used to finance items not part of the net cost of operations | (878,120) | 420,377 |
| Total resources used to finance the net cost of operations | (1,529,810) | (734,409) |
| **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 | 19,503 | (24,012) |
| Total components of net cost of operations that will require or generate resources in future periods | 19,503 | (24,012) |
| Components not requiring or generating resources: | | |
| Depreciation and amortization | 378,740 | 611,987 |
| Total components of net cost of operations that will not require or generate resources | 378,740 | 611,987 |
| Total components of net cost of operations that will not require or generate resources in the current period | 398,243 | 587,975 |
| **Net Cost of Operations (+/-)** | **$ (1,131,567)** | **$ (146,434)** |

## REQUIRED SUPPLEMENTAL INFORMATION

### Intragovernmental Assets

**As of September 30, 2007**

| Agency | Fund Balance with Treasury | Investments | Accounts Receivable | Prepaid Expenses |
|---|---|---|---|---|
| U.S. Department of the Treasury | $ 1,095,238 | $ 27,427,532 | $ - | $ - |
| Farm Credit System Insurance Corporation | - | - | 27,732 | - |
| Library of Congress | - | - | - | 7,830 |
| Small Business Administration | - | - | 317,861 | - |
| U.S. Department of Agriculture | - | - | 316,397 | - |
| **Total** | **$ 1,095,238** | **$27,427,532** | **$ 661,990** | **$7,830** |

**REQUIRED SUPPLEMENTAL INFORMATION (continued)**

**Intragovernmental Assets**

**As of September 30, 2006**

| Agency | Fund Balance with Treasury | Investments | Accounts Receivable | Prepaid Expenses |
|---|---|---|---|---|
| U.S. Department of the Treasury | $ 1,782,919 | $ 22,518,887 | $ - | $ - |
| Consumer Product Safety Commission | - | - | 17 | - |
| Farm Credit System Insurance Corporation | - | - | 7,560 | - |
| Federal Trade Commission | - | - | 35 | - |
| Library of Congress | - | - | - | 7,830 |
| National Archives and Records Administration | - | - | 121 | - |
| National Credit Union Administration | - | - | 69 | - |
| National Endowment for the Arts | - | - | 35 | - |
| Small Business Administration | - | - | 98,870 | - |
| U.S. Department of Agriculture | - | - | 194,191 | - |
| U.S. Government Printing Office | - | - | 17 | - |
| U.S. International Trade Commission | - | - | 35 | - |
| U.S. Postal Service | - | - | 531 | - |
| **Total** | **$ 1,782,919** | **$ 22,518,887** | **$ 301,481** | **$ 7,830** |

**REQUIRED SUPPLEMENTAL INFORMATION (continued)**

**Intragovernmental Liabilities**

**As of September 30, 2007**

| Agency | Accounts Payable | Accrued Post-Employment Compensation | Advances from Others | Accrued Taxes Payable | Employer Contributions and Payroll Taxes Payable |
|---|---|---|---|---|---|
| U.S. Department of Agriculture | $1,820 | $ - | $ - | $ - | $ - |
| Office of Personnel Management | - | - | - | - | 162,080 |
| Social Security Administration (Treasury General Fund) | - | - | - | - | 50,532 |
| U.S. Department of Labor | - | 31,743 | - | - | - |
| Treasury-Internal Revenue Service | - | - | - | 10,166 | - |
| **Total** | **$1,820** | **$ 31,743** | **$ -** | **$ 10,166** | **$ 212,612** |

**As of September 30, 2006**

| Agency | Accounts Payable | Accrued Post-Employment Compensation | Advances from Others | Accrued Taxes Payable | Employer Contributions and Payroll Taxes Payable |
|---|---|---|---|---|---|
| U.S. Department of Agriculture | $ - | $ - | $ 3,363 | $ - | $ - |
| Office of Personnel Management | - | - | - | - | 154,887 |
| Social Security Administration (Treasury General Fund) | - | - | - | - | 50,375 |
| U.S. Department of Labor | - | 34,041 | - | - | - |
| Treasury-Internal Revenue Service | - | - | - | 19,825 | - |
| **Total** | **$ -** | **$ 34,041** | **$ 3,363** | **$ 19,825** | **$ 205,262** |

# 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 2007 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
1501 Farm Credit Drive
McLean, VA 22102-5090
703-883-4056
www.fca.gov
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