Farm Credit Administration

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

Performance and Accountability Report
Fiscal Year 2013

Contents

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List of Acronyms Appearing in Report

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

Statement of the Board Chair and CEO

November 15, 2013

As Board Chair and Chief Executive Officer of the Farm Credit Administration, I invite you to review this Performance and Accountability Report. It details our accomplishments and program and financial performance for fiscal year (FY) 2013.

I am pleased to report that FCA achieved the goals outlined in its Strategic Plan and achieved or exceeded all performance targets for which there are data to measure performance.

FCA is the arm's-length regulator of the Farm Credit System (System), including the Federal Agricultural Mortgage Corporation (Farmer Mac). Our mission is to ensure a safe, sound, and dependable source of credit and related services for agriculture and rural America.

An important part of our job is to monitor risk and ensure that the System is recognizing risk. Many of the risks facing the System reflect those risks facing our nation's farmers—commodity price volatility, economic uncertainty, and changes in government programs affecting farmers.

With strong farm income and low interest rates continuing to benefit most of its borrowers, the condition of the System is strong, and its outlook for FY 2014 is good. To ensure the System remains safe and sound and continues to fulfill its mission, our examiners will focus on four major topics over the next 12 months:

- Underwriting in Volatile Times—to ensure that each institution continues to use appropriate underwriting standards for the loans it makes.
- Business Planning and Diversity and Inclusion—to ensure that each System institution reaches out to serve all eligible, creditworthy producers in its territory.
- Board Governance—to ensure that each institution governs itself effectively.
- Standards of Conduct—to ensure that the board members, employees, and agents of each institution understand what is expected of them and always put the interests of the institution first.

In addition to examining institutions, we plan to propose and finalize regulations that ensure the System fulfills its mission in a safe and sound manner. Over the next 12 months, we will focus on the following:

- Enhancing our capital regulatory rules to make them comparable with Basel III where appropriate
- Reviewing our appraisal regulations for possible changes in the future
- Revising investment eligibility criteria where appropriate
- Enhancing loan portfolio data gathered by the Agency
- Strengthening standards of conduct regulations

I am also pleased to report that FCA's FY 2013 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 our commitment to sound fiscal management.

As we face the challenges ahead, we remain committed to our mission, and we are proud to do our part to keep agriculture and rural America strong.

Jill Long Thompson

Jill Long Thompson
Board Chair and CEO
Farm Credit Administration

Management's Discussion and Analysis

FCA at a Glance

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

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

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

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

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

We have our headquarters and a field office in McLean, Virginia. We also have field offices in Bloomington, Minnesota; Dallas, Texas; Denver, Colorado; and Sacramento, California.

We do not receive a Federal appropriation. We are funded through assessments paid by System institutions and by reimbursable activities.

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

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

Mission

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

FCA Offices

As of September 30, 2013, FCA had 293 full- and part-time employees. These employees are divided among the following offices, with the majority serving in the Office of Examination.

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

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

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

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

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

The **Office of Examination** is responsible for examining and supervising each FCS institution in accordance with the Farm Credit Act and applicable regulations. The office develops oversight plans; conducts examinations; monitors the System's condition and current and emerging risks to the System; and develops supervisory strategies to ensure that the FCS operates in a safe and sound manner, complies with the law and regulations, and fulfills its public policy purpose. For more information about the role of the Office of Examination, go to www.fca.gov/law/guidance.html and click View Board Policy Statements to read "Examination Policy" (FCA-PS-53).

The **Office of General Counsel (OGC)** provides the FCA Board and staff with legal counsel as well as guidance on the Farm Credit Act and general corporate, personnel, ethics, and administrative matters. OGC supports the Agency's development and promulgation of regulations, enforcement of applicable laws and regulations, and implementation of conservatorships and receiverships. The office represents and advises the Agency on civil litigation. It also serves as the liaison to the Federal Register, administers the Agency's ethics program, and handles Freedom of Information Act requests.

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

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

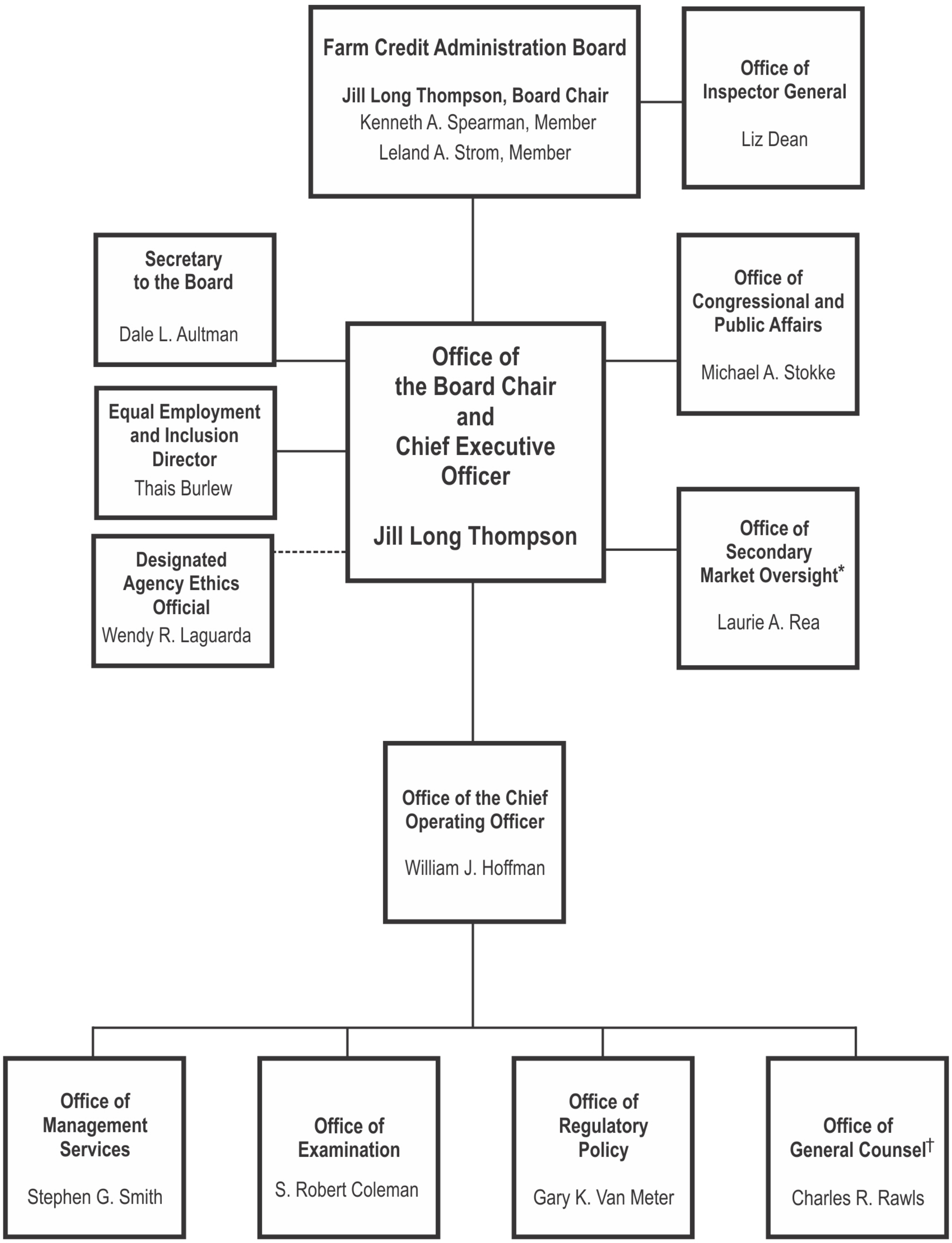
The **Office of Management Services (OMS)** manages and delivers the Agency's information technology, financial, human capital, and administrative services. The office coordinates planning efforts, including information resources management, security, human capital, and financial plans for the Agency.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

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

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

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

Figure 1
Organization
Farm Credit Administration
As of September 30, 2013



***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

FCA's mission as stated in the FCA Strategic Plan for Fiscal Years 2013–2018 is to ensure a safe, sound, and dependable source of credit and related services for all creditworthy and eligible persons in agriculture and rural America. In the Strategic Plan, we identify two goals we must meet to fulfill our mission. For each goal, we have identified strategies and actions to achieve the goal, as well as a set of performance measures to measure our success in meeting the goal.

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

Goal 1 Highlights—Public Mission: Ensure that the FCS and Farmer Mac fulfill their public missions for agriculture and rural areas.

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

1. Percentage of FCS institutions with satisfactory operating and strategic plans for providing products and services to all creditworthy and eligible persons. (Target: ≥90 percent)
2. Whether Farmer Mac's business plan contains strategies to promote and encourage the inclusion of all qualified loans, including loans to small farms and family farmers, in its secondary market programs, and whether its business activities further its mission to provide a source of long-term credit and liquidity for qualifying loans. (Target: Yes)
3. Percentage of direct-lender institutions with satisfactory consumer and borrower-rights compliance. (Target: ≥90 percent)
4. Percentage of direct-lender institutions with YBS programs that are in compliance with the YBS regulations. (Target: ≥90 percent)
5. Whether institutions meet the objectives of our mission-related regulations and whether institutions have made observable progress in meeting the objectives of any new mission-related regulations that have been in effect for at least one year. (Target: Yes)
6. Whether FCA reached out to nontraditional commenters to request input on GSE mission-related rulemaking actions. (Target: Yes)

The Agency achieved or exceeded its targets for five of the six measures associated with goal 1. We have no results to report for performance measure 6 because we did not approve any proposed rules during the reporting period that were related to the GSE mission.

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

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

1. Percentage of System assets in institutions with composite CAMELS ratings of 1 or 2. (Target: ≥90 percent)
2. Percentage of requirements in supervisory agreements with which FCS institutions have at least substantially complied within 18 months of execution of the agreements. (Target: ≥80 percent)

3. Percentage of institutions complying with regulatory capital ratio requirements (permanent capital ratio, total surplus ratio, core surplus ratio, net collateral ratio). (Target: ≥90 percent)
4. Whether the Office of Secondary Market Oversight's examination and oversight plan and activities effectively identify emerging risks, and whether appropriate supervisory and corrective actions have been taken to effect change when needed. (Target: Yes)
5. Percentage of institutions with satisfactory audit and review programs, including institutions with acceptable corrective action plans. (Target: 100 percent)
6. Percentage of FCS institutions providing FCA with consolidated loan data. (Target for 2012: ≥80 percent; target for 2013: ≥90 percent; target for 2014: 100 percent)

We achieved or exceeded all of the targets associated with goal 2.

For more information about our performance results, see the Performance Results tables on pages 36 and 37.

In 2012, FCA was recognized as one of the 10 best places to work of all small agencies in the Federal Government. Issued annually by the Partnership for Public Service, the Best Places to Work rankings are the most comprehensive and authoritative rating of employee satisfaction and commitment in the Federal Government.

Management Challenges

FCA faces several management challenges. Some of these challenges are internal, and some are external, stemming from changes in agriculture and in the financial services industry. Following is a discussion of our challenges and the ways we plan to overcome them.

ECONOMIC ENVIRONMENT

Sluggish economic activity, both at home and abroad; volatility in energy and currency markets; and disturbances in the Middle East pose significant risks to the financial and agricultural sectors in the near term. Euro zone economies continue to struggle to move out of recession and Chinese economic growth slowed in 2013. Slower growth in China and other Asian economies could lower imports of U.S. agricultural products in 2014.

The U.S. economic outlook remains clouded by uncertainty over the funding of the federal budget and the debate over adding to the national debt, which is expected to top $17 trillion by the end of 2013. Out of concern that higher interest rates might extinguish economic growth, the Federal Reserve chose to continue to infuse $85 billion a month into the national economy through its bond-buying program. In making this decision, the Federal Reserve cited weakness in labor markets, tepid business activity, and expectations for low inflation rates. As a result, significant increases in interest rates appear less likely until at least 2015.

Outlook for U.S. Economy

The outlook for the U.S. economy continues to point to modest growth and low inflation. At its September 2013 meeting, the Federal Reserve forecasted economic growth of between 2.0 percent and 2.3 percent in 2013, with somewhat stronger growth anticipated for 2014.

The U.S. job market continued to improve in 2013, albeit at a slow pace. Unemployment remains above 7 percent as we go into FY 2014, well above the average of 5.1 percent from January 2000 to mid-2007. Despite the steady improvement in job growth, improvement in disposable incomes remains weak due to slow wage growth.

Except for auto sales and housing, consumer spending has been subdued. By the end of 2013, retail sales may turn out to be negative for the year. Consumer spending is being restrained by relatively low consumer confidence, volatile energy costs, and consumer debt burdens. On a positive note, the housing sector continued to recover despite a nearly 100 basis-point rise in longer-term borrowing rates in the latter half of 2013.

Industrial production and other business indicators, while mixed, generally suggest modest growth in business activity in the months ahead. Implementation of heath care legislation and other regulatory and tax concerns have made some employers cautious when making business and hiring decisions.

Farm Income and Wealth

More favorable weather and large plantings led to a rebound in the production of corn, soybeans, and other key crops in 2013. Lower grain and oilseed prices for the 2013 crop should reduce incomes for these producers. However, for livestock producers, who have endured an extended period of high feed costs, a drop in grain prices should improve their profits. An unfavorable trend for all producers is the continued rise in farm expenses. The 2013 total cash farm expenses are expected to be 4 percent higher than in 2012.

USDA is forecasting that net cash farm income for 2013 will decline 10 percent from last year's record. Despite this expected decline, USDA is forecasting that net farm income will set another record at $121 billion in 2013. The expected rise in net farm income is largely due to the higher value of farm inventories.

Farm asset growth is expected to rise 7 percent in 2013 and top $3 trillion for the first time. The increase will be driven by higher values for farm real estate, farm machinery, and stored crops. The rise in asset values is expected to more than offset an anticipated 3 percent rise in farm debt, which is expected to rise to $308 billion. Farm equity is expected to reach another all-time high of nearly $2.7 trillion in 2013, while debt relative to income is forecast to remain historically low, which is a favorable indicator of credit conditions in the farm sector.

Agricultural Exports

USDA projects the value of FY 2014 agricultural exports to fall $5 billion from the record $140 billion estimated for FY 2013. The decline is mostly the result of lower export prices of oilseed products, grains, and feeds. Little change is expected in the export values of livestock, poultry, and dairy products in FY 2014. Exports of horticultural products are forecast to reach a new record.

Although low interest rates should reduce the cost of financing exports, several factors pose risks to U.S. exports:

- A continuation of the recent slowdown in economic growth in China and other Asian economies. (For FY 2013, China is expected to be the largest export market for U.S. farm commodities, but for FY 2014 agricultural exports to China are projected to fall about 10 percent, in part because of lower exports of cotton.)
- An increase in the value of the dollar.
- An increase in the production capacity of major export competitors, particularly producers of key grains and oilseeds.

Farmland Values

Farm real estate is the primary source of collateral for farm lenders. Midwest farmland values continued to rise in the first part of 2013. However, because of lower prices for key commodities and a rise in long-term interest rates, prices across much of the Midwest leveled off as the year progressed. A further rise in interest rates or a drop in farm income could lead to lower farmland values in the coming year.

Farmers have been the primary purchasers of farmland and have used record farm income to expand their operations. Investors have been purchasing farmland because it has offered higher returns in recent years than other investments, such as stocks and bonds. Record low interest rates have also contributed to the rise in farmland values because they make it less costly for farmers and investors to borrow.

We are closely monitoring farmland markets, and we are working with System institutions to ensure that they continue to use sound lending standards. Farm real estate debt levels have risen modestly within the System over the past year. And while prime agricultural land prices have soared, prices for agricultural land in transition, such as recreational land and land on urban fringes, have been softer because of continued weakness in many housing and commercial development markets.

Farm Bill

The Farm Bill, the legislation that Congress negotiates every five years to set policy for U.S. agriculture, food, nutrition, conservation, and forestry, expired at the end of September 2012. Congress did not enact a new law to replace the expiring 2008 Farm Bill, but instead extended most of its provisions for one year. Whether Congress extends current law again or adopts replacing legislation remains uncertain. Consequently, there is still uncertainty surrounding the provisions of the new Farm Bill and how much support they will provide to Farm Credit System borrowers.

Demand for System Securities

Demand for System securities continues to be strong across the debt yield curve for two reasons:

- Because of continuing global economic concerns, investors have sought safety in U.S. Treasury securities and in securities issued by U.S. Government-sponsored enterprises like the System.
- The GSEs under conservatorship have issued less debt in recent months. As a result, some investors who would have invested in Fannie Mae or Freddie Mac have turned to the System.

At the end of the second quarter of 2013, medium- and long-term debt yields rose sharply because investors expected the Federal Reserve to curtail its bond-buying program. However, the Federal Reserve announced in mid-September that it would continue the program for an unspecified period. This decision may reduce the risk that debt yields will rise further over the next few months and potentially even into 2014.

SYSTEM CONDITION

The System remains fundamentally safe and sound, and credit quality in the System's loan portfolio improved. While uncertain economic conditions, declining commodity prices, and lingering drought in the Southwest present challenges, most institutions are well-positioned to handle them.

FCA evaluates institution risk using the Financial Institution Rating System in which component ratings for capital, assets, management, earnings, liquidity, and sensitivity factor into an overall composite rating. Component and composite ratings are based on a scale of 1 (the best) to 5 (the worst). The risk profile has remained steady over the past year. As of June 30, 2013, 87 percent of institutions by number, and 98 percent of institutions by total assets, had a composite risk rating of 1 or 2; no institution had the lowest rating of 5.

Another indicator of strength in the System's risk profile is the low percentage of System assets associated with institutions under supervisory actions. An institution is placed under supervisory action when examiners find weaknesses and unacceptable conditions at the institution.

We expect the System's risk profile to remain stable in the near term because the outlook for agriculture continues to be positive. However, System borrowers continue to face the following challenges:

- Commodity price volatility
- Economic uncertainty in the U.S. and global economies
- Possible changes to farm programs, energy policies, and foreign trade agreements

Overall, the System's financial condition is strong. As a result of strong earnings, total capital has steadily increased. Capital levels relative to risk are appropriate at most institutions, and asset quality remains very good overall. The level of nonaccrual loans is well within the System's risk-bearing capacity, and the trend continues to be positive.

SAFETY AND SOUNDNESS

FCA employs an institution-specific, risk-based oversight and examination approach, placing greater emphasis on institutions with higher risk. This approach includes three basic components:

- Timely and effective communication with institutions
- Interim examination activities
- If necessary, corrective actions

Our national oversight and examination program gives us the flexibility to reassign staff as conditions change and risks arise.

In addition, we identify and address risks that could have System-wide implications. For our National Oversight Plan for Fiscal Year 2014, we identified four National Risk Topics, which we will address in our oversight of each institution:

- Business Planning and Diversity and Inclusion
- Underwriting in Volatile Times
- Board Governance
- Standards of Conduct

While the System continues to be fundamentally safe and sound, risks are constantly shifting, requiring us to continually reassess our efforts to manage risk. To protect the safety and soundness of the System, we have taken the following measures:

- We continue to expand and enhance our guidance related to loan portfolio management examination.

- We are working with the System to enhance the quality of loan data. An improved and more consistent loan database will enable us to access key loan information for examination and systemic risk analyses.

- We continue to discuss with institutions the potential collateral risk associated with farmland because lower grain prices and a recent jump in long-term interest rates will likely put downward pressure on land values.

- We exchange information with other Federal agencies on emerging risks to agricultural lending, funding, liquidity, and investment.

- We continue to leverage technology to improve the effectiveness and efficiency of our examinations.

REGULATORY ENVIRONMENT

Our regulatory program provides guidance to System institutions on maintaining safety and soundness and serving their mission. We plan to take the following regulatory actions in FY 2014:

- Further enhance our regulatory capital rules to make them consistent with Basel III concepts where appropriate.

- Consider changes in our appraisal regulations in light of changing credit and economic conditions.

- Address association investments and investment eligibility requirements. As required by the Dodd-Frank Wall Street Reform and Consumer Protection Act, we will also replace references to credit ratings in our regulations with an appropriate standard of creditworthiness.

- Enhance data for evaluating risk in System loan portfolios through a common loan iden-tifier (or another alternative) for shared assets.

- Strengthen guidance on standards of conduct.

- Enhance stockholder voting procedures.

We will also continue to work with the U.S. Department of Agriculture to support the development of the Rural Business Investment Company program to provide rural America with more access to capital. In addition, we will focus on several national issues:

- We are carefully following the national debate on Government-sponsored enterprise re-form because the outcome could affect the System, System borrowers, and FCA.

- We are implementing the applicable provisions of the Dodd-Frank Act. Also, we are consulting with other financial regulators as they implement the Dodd-Frank Act. We want to ensure that the regulations created by other agencies have no unintended consequences for the System or FCA. We also want to be aware if we need to make changes to our own regulations to keep them consistent with the regulations of other agencies.

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

HUMAN CAPITAL

Achieving our strategic goals depends largely on our people and their talent. We will continue to invest in hiring, developing, and retaining a talented, diverse workforce and to provide employees with the tools they need to be highly effective.

By continually assessing human capital needs, we have established appropriate human capital requirements, and we have used our human capital assessments to create, enhance, and redirect training and development programs.

Because of unusually high retirement rates, maintaining our skills, experience, talent, and institutional memory is a challenge. Currently, 23 percent of employees are eligible to retire, and 37 percent will be eligible to retire within the next five years. The following are the major human capital challenges that we face:

- Maintaining the skills, experience, talent, institutional memory, and leadership will be an increasing challenge, particularly in mission-critical positions.

- Succession planning is becoming critical to help mitigate risks created by key-person dependency.

- As complexity increases in FCS institutions and in the regulatory and policy environment, our examiners' core skills in credit, finance, and operations must become evermore sophisticated.

- Technology continues to change rapidly and become more complex. As a result, our staff members continually need more advanced technology skills to effectively develop and use our technology infrastructure. For example, advanced skills are needed in database analysis and financial modeling.

Our Human Capital Plan contains strategies to help us overcome these challenges.

INFORMATION TECHNOLOGY

Information technology is key to improving Agency performance. We plan our technology investments carefully, seeking to understand how we can use technology to support business processes. Our investments in technology have enabled us to

- develop applications to meet staff needs while preserving corporate knowledge for the future workforce;
- improve the quality and availability of data, particularly loan and commodity data, without making unreasonable requests of regulated institutions;
- improve the ways employees communicate, collaborate, and work; and
- provide a reliable, secure technology environment.

Over the next five years, technology will be important to achieving our mission cost-effectively. We will continually adopt new technology; however, we will choose our IT investments carefully—through a disciplined process that weighs the risks against expected returns or results. In particular, we plan to invest in information technology to help us better identify and address systemic risks and to help us improve the effectiveness of our examinations.

Analyses and Highlights of FCA's Financial Statements

FINANCIAL HIGHLIGHTS

Financial Operation of FCA

At FCA, we pay for planned administrative expenses from a revolving fund, which is funded primarily by assessments received from Farm Credit System institutions, including the Federal Agricultural Mortgage Corporation (Farmer Mac), and the System's service corporations.

We calculate the assessments in accordance with a formula established by FCA regulation. The FCA Board approves our budget, and Congress usually imposes a limitation on the amount of obligations that we may incur in a given fiscal year.

In addition to assessments, we receive funds from two other sources:

- Reimbursable services: We are reimbursed for examining the National Consumer Cooperative Bank and for performing services for the Farm Credit System Insurance Corporation and the U.S. Department of Agriculture (USDA).
- Interest earned: We earn interest on investments with the U.S. Department of the Treasury. We use interest earned on investments to build and maintain an Agency reserve. The reserve ensures that we can effectively and efficiently respond to unanticipated, one-time, mission-related issues without the need for increased assessments.

The following sections provide additional information about FCA's financial condition for fiscal years 2013 and 2012.

FCA's Assets, Liabilities, and Net Position

The balance sheet on page 47 presents our financial condition as of fiscal year-end 2013 and 2012. It presents the value of our assets, which represent resources we own, as well as our liabilities, which represent what we owe to the public and other Government agencies. The difference between the total assets and total liabilities represents our net position.

As shown in table 1, our total assets for FY 2013 include our fund balance with Treasury (2.1 percent), investments (96.3 percent), accounts receivable and prepayments (1.3 percent), and property and equipment (.3 percent). During FY 2013, total assets decreased by $1,482,083, or 3.6 percent, from amounts reported for FY 2012.

Our investment portfolio accounts for the largest portion of our total assets. The decrease in investment holdings of $1,472,273 represented 99.3 percent of the overall decrease in total assets. Our investment holdings declined in 2013 be-

Table 1. Composition of Assets

Fiscal Year	Fund Balance with Treasury	Investments	Accounts Receivable and Prepayments	Property and Equipment	Total
2013	$ 837,120	$ 38,352,286	$ 501,623	$ 134,301	**$ 39,825,330**
2012	$ 717,196	$ 39,824,559	$ 362,755	$ 402,903	**$ 41,307,413**

Table 2. Composition of Liabilities

Fiscal Year	Accounts Payable	Accrued Liabilities (Payroll and Benefits)	Employer Contributions and Taxes Payable	Workers' Compensation (Funded and Unfunded)	Deferred Revenue	**Total**
2013	$ 457,767	$ 4,578,402	$ 225,904	$ 1,350,210	$ 3,212,730	**$ 9,825,013**
2012	$ 614,214	$ 5,974,658	$ 553,100	$ 1,281,534	$ 3,363,965	**$ 11,787,471**

cause we used more of our assessment carryover funds to fund our operations, leaving less cash to invest in Treasuries.

We purchased $10,240,462 in U.S. Treasuries during fiscal year 2013 using an investment strategy that enables us to both maintain a steady cash flow for Agency operations and to earn interest to build the Agency reserve. We hold the reserve funds in contingency to address specific, one-time, unforeseen events. We also invest Agency carryover funds until needed. We use carryover funds for such purposes as offsetting assessment increases to System institutions. We used $11 million of carryover to fund the FY 2013 budget, which helped us reduce assessments from FY 2012 by more than $4 million.

As of September 30, 2013, the Agency held $837,120 in cash. We generally prefer to keep a lower cash balance and to invest all excess cash in U.S. Treasury securities; however, funds were received from FCS institutions on September 30, after the cutoff period for investing.

Our liabilities, as shown in table 2, consist of accounts payable (4.7 percent), payroll and benefit accruals (46.6 percent), employer contributions and taxes payable (2.3 percent), workers' compensation (13.7 percent), and deferred revenue (32.7 percent). Like total assets, our total liabilities decreased from 2012 to 2013. As a result of cost-saving measures and operational efficiencies, liabilities decreased by $1,962,458, or 16.6 percent.

The decrease in payroll and benefit accruals accounts for 71.1 percent of the decrease in total liabilities. The costs for payroll and benefits went down in FY 2013 because our full-time-equivalent staff levels were lower than in FY 2012.

At the end of FY 2013, FCA received $3,212,730 in assessments from FCS institutions that were not yet due and were classified as deferred revenue, which is the second largest category of liabilities. At the beginning of FY 2014, this amount becomes due and payable to FCA and will be reclassified as revenue earned in October.

The net position, which represents the cumulative results of operations since our inception, increased by $480,375, or 1.63 percent, during FY 2013. This was a much smaller increase than in 2012 (10.2 percent) and 2011 (8.4 percent). The net position increased by so little in 2013 primarily because of an increase in the net cost of operations (see the Program Costs and Revenues section). For a breakdown of the net position, see the Statement of Changes in Net Position on page 49.

FCA's Status of Funds

Table 3 shows our Board-approved budget amounts for FYs 2013 and 2012. The overall FY 2013 budget increased by 1.8 percent over the 2012 budget. The 2013 assessments, however, decreased by $4,100,000, or 7.6 percent. This follows increases of $1,600,000, or 3.0 percent, in 2012 and $3,400,000, or 6.9 percent, in 2011. Assessments decreased in FY 2013 primarily because we used more of the carryover from previous years to fund the 2013 budget, and we will do this again in FY 2014. Assessments also decreased because of several cost-saving measures:

- Not granting pay raises to employees holding senior-executive-equivalent positions
- Reducing employee relocation
- Leveraging technology for efficient use of resources

Table 3. Agency Budget

	2013	2012
Assessments (current year)	$50,000,000	$54,100,000
Assessments (carryover from prior years)	11,000,000	5,900,000
Reimbursable activity	900,000	812,899
Total	**$61,900,000**	**$60,812,899**

In FY 2013, we continued to carry out our mission, program goals, and objectives within the available budget. As table 4 shows, we used $51,812,669, or 83.7 percent, of the funds available in 2013, compared with $53,188,195, or 87.5 percent, of the funds available in 2012. The 2.6 percent decrease in funds used from 2012 to 2013 demonstrates our continued commitment to cost savings and efficiencies.

Personnel compensation and benefits continue to account for the most significant use of funds at FCA, representing 85.2 percent of total funds used in 2013. Funds used for property and equipment decreased by $215,517, or 22.8 percent, the largest percentage decrease among all of the budget categories. This decrease occurred because we made no major purchases in FY 2013 and continued to depreciate existing capitalized equipment. We replace hardware and software on a normal life-cycle basis.

PROGRAM COSTS AND REVENUES

This section describes our program costs and revenues for the fiscal years ended September 30, 2013, and September 30, 2012. Please read this section in conjunction with the financial statements, notes to the financial statements, and other sections of the Performance and Accountability Report. Because this section focuses on the cost of operations, some of the data provided here may differ from data provided in sections of this report that cover budgetary obligations.

Our Board and management regularly review and update the Agency's five-year strategic plan to ensure that we can address challenges as they arise. As part of our strategic planning, we have developed human capital and information resource plans to promote efficiency and effectiveness. We have also managed costs through sound business planning and effective resource management.

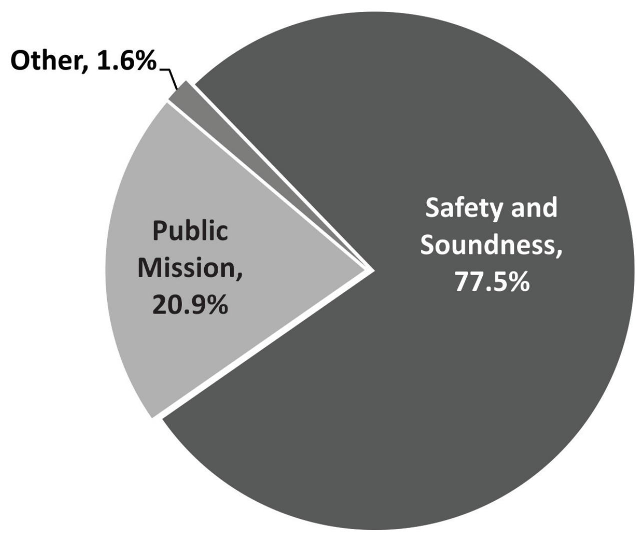
The net cost of FCA programs totaled $4,747,353 for the 12 months ended September 30, 2013, compared with $2,887,921 for the same period the previous year. Costs and earned revenues both decreased during FY 2013. Because revenues accounted for the larger decrease, our overall net costs increased by $1,859,432 from FY 2012.

The total cost of FCA's programs for FY 2013 is $56,006,982 compared with $58,453,167 for FY 2012. This represents a decrease of $2,446,185,

Table 4. Funds Used by Major Budget Category

Budget Category	FY 2013	Percent of Total	FY 2012	Percent of Total
Personnel compensation and benefits	$44,159,267	85.2%	$44,897,271	84.4%
Travel and transportation	2,735,725	5.3%	3,076,753	5.8%
Contractual services	2,662,125	5.1%	2,693,640	5.1%
Property and equipment	731,344	1.4%	946,861	1.8%
Other	1,524,208	2.9%	1,573,670	3.0%
Total	**$51,812,669**	**100%**	**$53,188,195**	**100%**

Figure 2. FY 2013 Gross Costs by Agency Goals



or 4.2 percent from 2012. Figure 2 shows the breakdown of FY 2013 gross costs for each of the Agency's goals. Virtually all costs support our mission and program goals. Overall, the decrease in costs can be attributed to cost efficiencies and to the leveraging of technology in Agency operations.

Employee salaries and benefits represent our greatest cost. For 2013, employee compensation totaled $44,058,045, or 78.7 percent of total cost. This cost decreased by $872,512, or 1.9 percent, from 2012 because our full-time-equivalent staff levels were lower in 2013. The decrease in salary and benefits was partially offset by the pay-for-performance increases for non-executive employees and the compensation adjustment related to the advancement of employees in the career ladder employment programs. We kept the pay adjustment for non-executive employees consistent with the spirit and intent of the President's general pay freeze for Federal employees. Salaries for executive positions were frozen.

We plan to maintain competitive employee compensation after the pay freeze by periodically performing compensation studies. To comply with the Financial Institution Reform, Recovery, and Enforcement Act of 1989, we must keep FCA salaries and benefits comparable with the salaries and benefits of other Federal financial institution regulators. Keeping compensation competitive will help us continue to fulfill our mission to provide the FCS with effective regulation and oversight.

Earned revenues for 2013 totaled $51,259,629, down $4,305,617 from 2012. The decrease in earned revenues resulted from decreases in the following:

- Assessments to FCS institutions, including Farmer Mac
- Income received from performing work for other government agencies
- Interest earned from investments

The decrease in earned revenues contributed to the increase in our net cost.

Public Mission Program

FCA invests significant resources in its policy-making, regulatory, and corporate activity functions to ensure that the FCS, including Farmer Mac, fulfills its public mission as mandated by Congress. During FY 2013, we continued to ensure the safe and sound flow of funds to U.S. ag-riculture and rural areas by providing regulation, policy, and guidance for the FCS and Farmer Mac. We also continued to encourage the FCS to increase its service to young, beginning, and small farmers and ranchers.

For the fiscal year ended September 30, 2013, program cost for public mission was $11,695,922, representing an increase of $275,228, or 2.4 percent, from the same period the previous year. The cost for the public mission program is 20.9 percent of our total costs for 2013.

Safety and Soundness Program

The examination and supervision of the FCS represents our greatest program costs. Because of higher attrition, we had lower full-time-equivalent levels in FY 2013 than in FY 2012; the decrease in staffing levels reduced the cost of the safety and soundness program. FCA met oversight and supervisory challenges in 2013 with the leveraging of technologies coupled with the improvement of the financial condition of FCS institutions. The number of institutions under FCA supervisory action improved by two institutions, resulting in a total of eight institutions under formal supervisory action as of September 30, 2013.

To maintain the quality of our service, we incur significant costs in the recruitment and training of staff through our Examiner Commissioning Program. These recruiting and training efforts are necessary to meet human resource needs because a large number of our employees are expected to retire within the next five years.

During FY 2013, we met our goals and performance targets to ensure the safety and soundness of FCS institutions, including Farmer Mac. Program cost for the examination and supervision of the FCS decreased $2,672,690 to $43,424,434, which represents 77.5 percent of our total costs in 2013.

Other Activity

Other activity represents the examination and oversight of the NCB and the performance of reimbursable services for USDA and the Farm Credit System Insurance Corporation. Actual costs incurred for these activities decreased by $48,723 to $886,626 in 2013 because of a decrease in the amount of reimbursable work completed this past year. The disparity between the funding and the actual costs is primarily a function of the timing of the receipt of funding agreements versus the actual completion of the work.

The costs for providing reimbursable services represented approximately 1.6 percent of our total costs in 2013, the same relative amount of total costs as in 2012. Earned revenue for other activity totaled $845,697 for 2013, compared with $955,836 for 2012.

LIMITATIONS OF THE FINANCIAL STATEMENTS

The principal financial statements have been prepared to report the financial position and results of FCA operations, pursuant to the requirements of 31 U.S.C. 3515(b). We have prepared our statements from our books and records in accordance with U.S. generally accepted accounting principles (GAAP) for Federal entities and the formats prescribed by the Office of Management and Budget; however, the statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records.

As you read these statements, please keep in mind that they are for a component of the U.S. Government, a sovereign entity.

Systems, Controls, and Legal Compliance

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

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

FCA's Financial Management System

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

Through our partnership with ARC, we use Oracle Federal Financials as our financial management system of record. Oracle Federal Financials is a commercial, off-the-shelf software package, which is certified under the Joint Financial Management Improvement Program to meet Federal Government accounting requirements. This web-based software integrates our key activities, such as e-payroll, e-travel, purchase card activity, and Federal investments.

Although we perform all procurement activities in-house, we partner with ARC for procurement system services and support. The procurement system is fully integrated with Oracle Federal Financials. This integration enables us to check our funds in real time and to commit and obligate funds as transactions are approved.

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

Inspector General Act

The Inspector General Act of 1978, as amended, requires semiannual reporting to the agency head and Congress. These reports describe Office of Inspector General (OIG) audits, inspections, evaluations, and related activities, and Agency follow-up.

The OIG's two semiannual reports covering FY 2013 are available at www.fca.gov/home/inspector.html. Below is a summary of the recommendations or agreed-upon actions in these reports, as well as management's progress in taking corrective action. The FCA OIG continues to report recommendations to correct audit, inspection, or evaluation findings as "agreed-upon actions" whenever the OIG and management have agreed on an acceptable way to resolve a recommendation. The OIG's objective is to recognize management's preferred method of correcting problems whenever the approach is reasonable.

Summary of OIG Audit, Inspection, and Evaluation Activities

The OIG issued four audit, inspection, or evaluation reports during FY 2013, resulting in six agreed-upon actions. Five agreed-upon actions have been closed and one action remains open this fiscal year.

- On November 5, 2012, the OIG issued the audit report on our financial statements, internal control over financial reporting, and compliance with certain laws and regulations for FY 2012. The auditors opined that our principal financial statements presented fairly, in all material respects, our financial position as of September 30, 2012. The audit also showed no material weaknesses in internal control and no instances of noncompliance with certain laws or regulations. It produced no recommendations or agreed-upon actions.

- The OIG issued a final report on November 9, 2012, of an evaluation of our compliance with the Federal Information Security Management Act for FY 2012. It produced no recommendations or agreed-upon actions.

- The OIG issued a final audit report on June 28, 2013, "FCA's Telework Program." The audit resulted in three agreed-upon actions; management closed all actions before the final audit report was issued.

- The OIG issued a final audit report on September 23, 2013, "FCA's Student Loan and Repayment Program." The audit resulted in three agreed-upon actions; management closed two actions before the final report was issued. For the open action, we agreed to improve internal controls and documentation for outstanding loan repayment commitments.

Summary of OIG Audit, Inspection, and Evaluation Recommendations

Recommendations or agreed-upon actions uncorrected as of October 1, 2012	0
New agreed-upon actions during FY 2013	6
Agreed-upon actions corrected during FY 2013	5
Open agreed-upon actions as of September 30, 2013	1
Recommendations or agreed-upon actions open more than one year	0

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

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

Federal Managers' Financial Integrity Act

In accordance with the Federal Managers' Financial Integrity Act, we have established management controls to protect our programs and financial systems. We use management controls to hold managers accountable for the performance of their programs. Managers evaluate management controls annually to make sure the controls conform to the principles and standards established by the Office of Management and Budget and the Government Accountability Office. We use the results of these evaluations to determine whether we have any material weaknesses.

The FCA Senior Assessment Team assesses our internal controls every two years. To conduct the assessment, the team uses the internal control management and evaluation tool of the Government Accountability Office. At its last assessment in late FY 2012, the team concluded that our system of internal control is effective.

As a result of this biennial assessment and management's annual internal control reviews, the FCA Board Chair and CEO can provide reasonable assurance that we have no material weakness or financial system nonconformance that would place our overall control system at risk.

Federal Financial Management Improvement Act

The Federal Financial Management Improvement Act requires certain Executive branch departments and agencies to report on their compliance with Federal financial management system requirements, Federal accounting standards, and the U.S. Standard General Ledger. Although we are not required to report under this act, we were in compliance with these system requirements for FY 2013.

Prompt Payment Act

FCA follows the Prompt Payment Act guidelines where vendors are generally paid 30 days after receipt of a valid invoice for goods and services ordered and delivered. During FY 2013, we and our shared-service provider paid most bills within the time requirement. However, because of system and timing issues, we paid $21 in interest penalties. Payments are made by electronic funds transfer through the Secure Payment System.

Debt Collection Improvement Act

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

Improper Payments Elimination and Recovery Act

The requirements of the Improper Payments Elimination and Recovery Act of 2010 and OMB Circular A-123, Appendix C, do not apply to our Agency because improper payments do not present a high risk to FCA. However, we do have internal control procedures to ensure that payments are made properly.

Statement of Assurance

The Farm Credit Administration's management is responsible for establishing and maintaining effective internal controls and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act.

We conducted an assessment of the effectiveness of our internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations in accordance with OMB Circular A-123, Management's Responsibility for Internal Control. Based on the results of this evaluation, we can provide reasonable assurance that our internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations, as of September 30, 2013, was operating effectively, and no material weaknesses were found in the design or operation of the internal controls.

In addition, in accordance with M-13-21, Implementation of the Government Charge Card Abuse Prevention Act of 2012, appropriate policies and controls are in place to mitigate the risk of fraud and inappropriate charge card practices.

We also conducted our assessment of the effectiveness of internal control over financial reporting, which includes safeguarding assets and complying with applicable laws and regulations, in accordance with the requirements of Appendix A of OMB Circular A-123. Based on the results of this evaluation, we can provide reasonable assurance that our internal control over financial reporting as of June 30, 2013, was operating effectively, and no material weaknesses were found in the design or operation of the internal control over financial reporting.

In accordance with the requirements of the Federal Managers' Financial Integrity Act, our financial management systems are substantially in compliance with the requirements for Federal financial management systems as presented in A-127, Financial Management Systems, as of September 30, 2013. Our financial managment systems also comply with applicable Federal accounting standards and the U.S. Standard General Ledger at the transaction level.

Jill Long Thompson

Jill Long Thompson
Chair and Chief Executive Officer
FARM CREDIT ADMINISTRATION

September 30, 2013

Program Performance

FCA Performance Report

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

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

We fulfill our mission (1) by issuing regulations and implementing public policy, and (2) by identifying risk and taking corrective action. The FCA Board has adopted two strategic goals:

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

Our Strategic Plan for Fiscal Years (FYs) 2013–2018 contains a "desired outcome" for each goal, as well as 17 strategies we will use to accomplish these goals. In addition, we have 12 performance measures with associated "targets" to measure our success in accomplishing our goals.

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

The 2013–2018 Strategic Plan remains focused on helping the Agency operate effectively and efficiently; minimizing costs for FCS borrowers and Farmer Mac customers; and helping ensure a safe, sound, and dependable source of credit and financially related services for agriculture and rural America.

As our performance results show, we succeeded in meeting both strategic goals described below.

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

The purpose of goal 1 is to maximize the ability of the FCS and Farmer Mac to fulfill their purposes and meet their public missions as defined by Congress in the Farm Credit Act of 1971, as amended. We established nine strategies to accomplish this goal, and we defined six performance measures to evaluate our progress and success.

Strategy #1: Develop regulatory capital rules within FCA's regulatory framework for the System and Farmer Mac that are clearly defined, easily understood, and consistent with industry standards.

We are developing a proposed rule to revise our capital rules to provide clearly defined and easily understandable capital standards that are both consistent with Basel III and appropriate for the farmer-owned cooperative Farm Credit System.

The FCA Board adopted a final rule on September 10, 2013, to revise FCA regulations governing capital planning at Farmer Mac. The purpose of the rule is to increase our regulatory focus on the quality and level of Farmer Mac's capital base and to promote best practices for capital adequacy planning and stress testing.

Strategy #2: Within the framework of the Farm Credit Act, continuously update policies and regulations to provide an operating environment for the System and Farmer Mac that meets the changing needs of agriculture and rural America.

The following actions are examples of ways we have used this strategy in FY 2013:

- Issued a proposed rule and later a final rule to establish a regulatory framework to govern FCS institutions' use of unincorporated business entities for certain business purposes.
- Issued guidance on how System associations can serve the credit and related service needs of local food farmers under existing eligibility and creditworthiness guidelines.
- Continued to evaluate mission-related investment pilot programs.
- Continued to study the loan syndication market.
- Issued a final rule on liquidity requirements for Farm Credit banks.
- Issued a proposed rule and later a final rule on Farmer Mac's capital planning requirements.
- Issued a final rule on investment management and interest rate risk management.
- Issued a final rule on Farmer Mac's liquidity and investment management.
- Issued a final rule on disclosures related to System institution senior officer compensation and a nonbinding advisory vote on certain increases in senior officer compensation.
- Issued a final rule to expand the authorities of the System Audit Committee.
- Issued a proposed rule to establish a regulatory framework for reporting System accounts and exposures to FCA for examination activities and risk evaluation.
- Issued guidance to the System on establishing and implementing an automated mechanism to consistently identify shared-asset exposures.
- Issued our National Oversight Plan for 2013, which described strategies for addressing critical risks and other areas of focus in the System.

As part of every rulemaking project, we consider ways to reduce the burden of existing rules and to minimize the regulatory burden of the rule being proposed. Also, we regularly solicit public comments on regulations that are unnecessary, unduly burdensome, or not based on law; our most recent solicitation was in July 2013.

We routinely provide guidance to System institutions to protect their safety and soundness and to help them manage risk. This guidance facilitates the flow of funds to agriculture and rural areas by providing System institutions with sound practices to follow in developing and implementing lending programs and in using information technology. Ultimately, this guidance helps institutions manage loan and funding programs more efficiently.

Farmer Mac continues to enhance its relationships with its loan sellers and servicers. Our Office of Secondary Market Oversight evaluates Farmer Mac's efforts to strengthen its relationship with its servicers through Farmer Mac's informational forums, its updates to its formal servicing guidelines, and its independent credit reviews.

We encourage innovations in Farmer Mac's product development within the bounds of safety and soundness and the provisions of the Farm Credit Act. Our communication, examination reports, and off-site monitoring of Farmer Mac provide timely guidance to management on the risk implications of new products and policies. Over the reporting period, we provided Farmer Mac with guidance on regulatory compliance issues, policy direction, and questions regarding new products.

We continue to manage regulatory rulemaking projects related to investment eligibility and creditworthiness and to update other areas of supervision, including implementation of final rules governing capital planning and liquidity management, as well as continued work on the Risk-Based Capital Stress Test.

Strategy #3: Emphasize the public purpose and mission-related responsibilities of the agricultural GSEs to serve all of agriculture and rural America, including the use of innovative programs for serving the credit and related service needs of young, beginning, and small (YBS) farmers, ranchers, and producers or harvesters of aquatic products.

FCA examiners evaluated the operating and strategic plans and credit delivery programs of System institutions. Our examiners also evaluated YBS farmer and rancher programs relative to the demographics of chartered territories to identify trends in lending to YBS farmers and ranchers and to assess the System's efforts to provide financial or business management assistance and outreach to YBS farmers and ranchers. All of the YBS programs we evaluated during the reporting period were in compliance with YBS regulations.

Each year, we survey FCS associations regarding their YBS programs. With the information received, we prepare an annual report that we publish in our Annual Report on the Farm Credit System. See www.fca.gov/reports/annual_reports.html.

FCA regulations require each direct-lender System institution to include in its operational and strategic business plan a marketing plan with strategies for providing the institution's products and services to all creditworthy and eligible persons. In addition, each institution must report annually to its board of directors on the progress it has made. We are now reviewing these reports and evaluating the System's progress in meeting this requirement.

We also evaluate Farmer Mac's mission accomplishment. Farmer Mac's customer base includes financial institutions and other lenders who seek a secondary market for their agricultural, rural housing, and rural utility cooperative loans. We evaluate Farmer Mac's performance in reaching out to all potential customers and in creating easy access to its services.

Farmer Mac submits an annual mission report to FCA. This report includes data on Farmer Mac's participation in Federal and State guarantee programs, the geographic distribution of Farmer Mac's program business, and data on activity related to rural utilities. In addition, the report includes data on activity related to small and family farms, which Farmer Mac is required by statute to promote and encourage.

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

Strategy #4: Encourage System institutions to evaluate their YBS programs to ensure that the programs also meet the credit and financial service needs of producers seeking to enter urban agriculture, to produce local foods, or to use direct-to-consumer marketing channels.

We recently issued FCA Bookletter (BL-066), "Providing Credit to Farmers and Ranchers Operating in Local/Regional Food Systems." This bookletter encourages System associations to meet the credit and related service needs of farmers who market their agricultural products through local and regional food systems. It explains that System associations have authority to finance local food farmers and certain farm-related businesses under existing statutes and regulations and prior guidance issued by FCA. The bookletter also provides guidance on how the regulations on System strategic business planning and senior officer compensation apply to financing local food farmers (including those operating in urban areas).

Strategy #5: Encourage the System and Farmer Mac to find and develop both public and private partnerships and alliances with other financial service providers to address the changes in agriculture through new and existing programs.

We encourage FCS institutions that have adequate capital resources to prudently use participations and similar-entity lending authorities to help them manage risk. These authorities allow lenders to diversify risk and to more fully meet agricultural credit needs.

In our evaluation of YBS programs, we continue to assess the extent to which FCS institutions use loan guarantee programs. We encourage System institutions to work with Federal and State agencies that offer such programs. For example, we encourage institutions to meet the requirements to qualify for the USDA Farm Service Agency's "preferred lender" status.

Not only can loan guarantees help institutions manage risk, they also help borrowers obtain the funding they need. We encourage System institutions to use loan guarantees to make loans to YBS borrowers with limited financial capacity and to existing borrowers with temporary financial difficulties.

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

Further, Farmer Mac continues to provide financing to non-System lenders by purchasing or guaranteeing obligations through its "cash window," AgVantage. It also provides non-System financing through its rural utility financing programs. Both AgVantage and rural utility transactions help Farmer Mac diversify its marketing focus and increase the flow of funds to rural areas. Farmer Mac provides secondary market liquidity to Federal and State guarantee programs through its Farmer Mac II program.

Also, as noted under strategy 2, Farmer Mac continues to enhance its relationships with its loan sellers and servicers, and FCA evaluates Farmer Mac's efforts to increase and strengthen these relationships.

Strategy #6: Promote System business practices, including outreach activities to all creditworthy eligible potential customers, emphasizing minority and socially disadvantaged farmers and ranchers and minority-owned entities.

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

As discussed in strategy 3, the business plan of each direct-lender institution must include strategies and actions to market the institution's products and services to all eligible and creditworthy persons, with specific outreach toward diversity and inclusion within each market segment. We are evaluating the System's progress in meeting this requirement.

In addition, we review borrower inquiries and complaints about the lending process and investigate any allegations of discrimination. During the reporting period from July 1, 2012, through June 30, 2013, we responded to 51 borrower inquiries.

Our investigations found no material violations of law or regulation. We did not discover any discriminatory pattern or practice, any overt or deliberate discrimination against any eligible customers, or an unwillingness of FCS institutions to serve their chartered territories. However, our examinations did find some technical violations of applicants' rights. Those violations were promptly corrected or addressed in follow-up plans by System institutions. We also found that System institutions continue to comply with equal credit opportunity and equal housing laws.

To increase awareness of the needs of disabled farmers, we coordinate and host presentations to our staff from various organizations. These presentations discuss the challenges faced by disabled farmers and the ways these challenges may affect their ability to obtain credit.

To ensure that Farmer Mac meets its responsibility to promote and encourage the inclusion of small and family farms in its programs, we have developed certain reporting requirements. We also provide Farmer Mac with feedback on various issues, including loan eligibility on prospective new lines of business.

Farmer Mac continues to work to make its programs accessible to all market participants, including those involved in rural utilities and Federal and State agricultural loan guarantee programs. It seeks to ensure equitable treatment of all potential borrowers and the lenders who serve them. However, ensuring equitable treatment of borrowers within the operations of its primary lenders presents a challenge for Farmer Mac, as it does for any secondary market entity.

During examinations, we review loans presented to Farmer Mac to ensure that their underwriting standards are appropriate and consistent. Further, Farmer Mac's annual mission report now includes a section addressing its financing of rural utilities and small farmers.

Strategy #7: Promote public trust in FCA's regulatory framework for the System and Farmer Mac by developing policy guidance that supports mission achievement, financial stability, and transparency.

We promote public trust and investor confidence by helping ensure that the System and Farmer Mac meet their missions to serve agriculture and rural America. See strategies 2 and 3 for a discussion of some of the ways we have helped them achieve their missions.

We provide guidance 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. We also publish our semiannual Regulatory Projects Plan on our website to notify the public of upcoming regulatory actions so that the public may participate in the regulatory process. Our e-Government program allows the public to make comments in electronic format and to review comments from others on our website.

We further support public trust and investor confidence by reviewing borrower inquiries and complaints about the loan-granting process and by investigating any allegations of discrimination. See strategy 6 above for more information about borrower inquiries.

Farmer Mac, too, has increased its focus on its public mission. Its year-end Annual Report and Form 10-K filing now include several references to its public mission. Farmer Mac actively oversees its sellers/servicers, ensuring that loans sold into the secondary market meet its underwriting standards and that processes are in place to detect fraud and operational errors.

The guidance we have provided has had a positive impact on Farmer Mac's public disclosures related to mission, and we will continue to encourage Farmer Mac to regularly disclose its mission accomplishments.

Strategy #8: Consistent with cooperative principles and the Farm Credit Act, enable the agricultural GSEs to structure themselves to best serve their customers and rural America.

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

The other corporate activities included three name changes, one headquarters relocation, and the charter cancellation of a service corporation.

Several mergers are in progress that will take effect on January 1, 2014.

Strategy #9: Encourage full participation of stakeholders in the development and review of regulatory proposals as appropriate.

We reach out to stakeholders to encourage their input on regulatory proposals before we issue rules. We publish our semiannual Regulatory Projects Plan on our website to notify the public of upcoming regulatory actions. In addition, our e-Government program allows the public to make comments in electronic format and to review comments from others on our website.

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

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

We accomplish goal 2 by examining and supervising each System institution and Farmer Mac. We have eight strategies to accomplish this goal and six performance measures to evaluate our success.

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

The Office of Examination and the Office of Secondary Market Oversight report important issues at least monthly or as needed to the FCA Board, and they deliver a report to the Board each quarter on the condition of the System and Farmer Mac.

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

Our success as an agency depends largely on our people, talent, and technology. We will continue to invest in hiring, developing, and retaining a talented, diverse workforce and to provide employees with the tools they need to be effective. We strive to keep our work environment positive, innovative, diverse, and family-friendly, and we encourage teamwork and high productivity.

The Office of Personnel Management has formally recognized our agency for fostering accountability in diversity and inclusion. We have emphasized diversity in our recruiting, training, policies and procedures, and management/employee performance standards. As a result, the diversity of our workforce is growing.

By continually assessing human capital needs, we have established appropriate human capital requirements, and we have used our human capital assessments to develop, enhance, and redirect training and development programs. We have upgraded our information technology infrastructure to improve our ability to work, collaborate, gather information, review, approve, and store work products. As a result, our workforce has become more effective and efficient.
To address workforce gaps and challenges, we have established the following initiatives:

- Identify positions in which risk of key-person dependency exists and ensure that plans are sufficient to build bench strength and manage succession for these positions.
- Meet projected staffing needs through aggressive hiring.
- Continue training programs and strategies to increase technical competencies of employees, with greater emphasis on technology skills.
- Continue to create opportunities for employees to become more engaged with their work.
- Continue increasing workplace diversity and promoting inclusion.

Through our Examiner Commissioning Program, we are building the next generation of diverse and highly motivated examiners, ensuring they have the knowledge, skills, and talents necessary to accomplish the Agency's mission. The program helps examiners develop their skills in FCA's primary areas of oversight—credit, finance, and operations.

We also invest in the development of our commissioned examiners through human capital planning, career path development, and specialty programs. The specialty programs enable examiners to gain technical expertise and encourage them to pursue professional development and certification.

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

Through examinations, we routinely evaluate the risk management practices of System institutions, and we share our conclusions and recommendations with System boards of directors. We determine whether FCS institutions have systems and processes to manage their loan portfolios and whether direct-lender institutions maintain systems that allow them to properly assess the loans and resulting risk exposures in their portfolios. We consider the following elements in our examinations:

- Management of risk concentrations
- Loan underwriting
- Collateral risk management
- Portfolio planning and analysis
- Credit administration
- Risk identification

Overall, we have found that FCS institutions have adequate systems in place and that they continue to enhance these systems. The FCS uses a two-dimensional risk rating system, consisting of a 14-point scale to measure each borrower's probability of default and a set of ratings to measure loss if the borrower defaults, or "loss given default." The FCS enhances this system through periodic refinements, and we closely evaluate those refinements. The System also performs database querying and stress testing.

We also evaluated Farmer Mac's risk management practices through examinations and oversight reviews. During 2011 and 2012, Farmer Mac continued to focus on strengthening its capital position and broadening its customer base. Additional high-quality equity capital securities issued in early 2013 helped build its capital position. We continue to monitor asset growth supported by other hybrid capital securities.

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

We use the following systems to help identify emerging risks in a timely manner.

- Financial Institution Rating System to evaluate changes in the financial condition of FCS institutions each quarter.
- Quarterly presentations on System risk to the FCA Board. The presentation also provides supporting information from the Federal Farm Credit Banks Funding Corporation.
- Presentation of emerging risk issues to the Agency's Risk Committee.
- An oversight program for each institution, which includes a risk-assessment process that allows for a more proactive and forward-looking perspective of risk.

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

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

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

We also review information about the legal and financial structure of Farmer Mac's new products; this review is critical to our oversight of Farmer Mac activities. In addition, we continue to enhance the Risk-Based Capital Stress Test, and we are exploring the development of a simulation-based economic capital model as an additional tool in our oversight of capital adequacy.

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

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

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

For those institutions displaying more serious or protracted weaknesses, we shift from normal to special supervision, and our examination oversight increases accordingly. Under special supervision, we give an institution clear and firm regulatory guidance to address weaknesses, and we allow the institution time to correct the problems.

If informal supervisory approaches have not been or are not likely to be successful, we will use our formal enforcement authorities. We may take an enforcement action for a number of reasons:

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

Our enforcement authorities include the following powers:

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

If we take an enforcement action, the FCS institution must operate under, and report back to, our Agency. Our examiners oversee the institution's performance to ensure compliance with the enforcement action.

As of June 30, 2013, we had formal written agreements with seven associations, whose assets totaled $3.9 billion, or 1.1 percent of all System assets. The written agreements require the associations to take corrective actions for certain areas of their operations, including financial condition and performance, portfolio management, and asset quality. We are using our supervisory and enforcement authorities effectively to remediate weakened institutions.

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

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

In FY 2012, we began receiving datasets in a new, standard format. We developed a tool for the System institutions to use to validate the data before they submit their files to us. The System has been making steady progress on this project; as of June 30, 2013, all System submissions were deemed adequate.

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

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

Our staff continues to develop regulations and examination guidance to provide timely and proactive oversight of the System. The goal is to maintain the safety and soundness of the FCS and Farmer Mac while keeping pace with their changing needs. See strategy 2 under goal 1 for examples of guidance we issued during the current reporting period to strengthen safety and soundness.

We form our examination teams according to the types of System institutions, and we define these types by certain common characteristics and potential risks. The examination teams coordinate closely with the Risk Supervision Division on enforcement and special supervision activities. The Risk Supervision Division also provides risk analysis and develops and coordinates the Office of Examination's National Oversight Plan.

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

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

Our rulemakings pertaining to Farmer Mac's capital planning and liquidity management refer directly to evolving international regulatory standards and strategies for measuring the quality and quantity of capital and liquidity reserves.

Strategy #8: Continue to integrate standards of conduct rules and codes of ethical behavior into the organizational culture that are consistent with Government ethics guidelines, universally understood, and consistently applied.

FCA Board Policy 81 reinforces our commitment to our ethics program by stating the following:

- FCA is committed to fulfilling its mission faithfully and ensuring that its employees conduct themselves with integrity.
- The FCA Board will continue to hold itself to the highest standards of ethical conduct in recognition that its commitment and adherence to the Agency ethics program sets the standard for the commitment and conduct of Agency staff.
- As the arm's-length regulator of the Farm Credit System, FCA is committed to carrying out its work without any undue influence, favoritism, or special access.

Our ethics program contains the following elements:

- Financial disclosure reporting (public, confidential, and certification forms)
- Ethics counseling to FCA and FCSIC personnel
- Orientation and annual and ongoing training of FCA and FCSIC personnel
- lntragovernmental liaison
- Regulation and policy development

In addition to the body of ethics laws and regulations, FCA and FCSIC have supplemental ethics regulations related to prohibited holdings and outside employment. (See 5 C.F.R. Parts 4101 and 4001.)

We continually look for ways to further streamline the ethics program to reduce costs without sacrificing the program's quality. We will also continue striving to present interesting and timely ethics updates and training, as well as instruction on troublesome or confusing areas of the ethics rules.

Table 5a
Goal 1—Public Mission
Performance Measures and Results
July 1, 2012, to June 30, 2013

	Measure	Results	2012 Target	2012 Results	2013 Target	2013 Results	Results vs. Target
1.	Percentage of FCS institutions with satisfactory operating and strategic plans for providing products and services to all creditworthy and eligible persons.	Ninety-nine percent of FCS institutions had satisfactory operating and strategic plans for providing products and services to all creditworthy and eligible persons.	≥90%	100%	≥90%	99%	▲
2.	Whether Farmer Mac's business plan contains strategies to promote and encourage the inclusion of all qualified loans, including loans to small farms and family farmers, in its secondary market programs, and whether its business activities further its mission to provide a source of long-term credit and liquidity for qualifying loans.	Farmer Mac's business plan contains adequate strategies to promote and encourage the inclusion of all qualified loans, including small and family farm loans, in its secondary market programs. Its business activities further its mission to provide a source of long-term credit and liquidity.	Yes	Yes	Yes	Yes	✓
3.	Percentage of direct-lender institutions with satisfactory consumer and borrower-rights compliance.	Ninety-nine percent of direct-lender institutions have satisfactory consumer and borrower-rights compliance.	≥90%	98%	≥90%	99%	▲
4.	Percentage of direct-lender institutions with YBS programs that are in compliance with the YBS regulations.	All direct-lender institutions with YBS programs are in compliance with the YBS regulations.	≥90%	100%	≥90%	100%	▲
5.	Whether institutions meet the objectives of our mission-related regulations and whether institutions have made observable progress in meeting the objectives of any new mission-related regulations that have been in effect for at least one year.	System institutions are meeting the objectives of mission-related regulations, including the amended "planning" regulation, which requires operational and strategic business plans to include strategies and actions for outreach toward diversity and inclusion.	N/A	N/A	Yes	Yes	✓
6.	Whether FCA reached out to nontraditional commenters to request input on GSE mission-related rulemaking actions.	The agency did not approve any proposed rules during the reporting period that were related to the GSE mission.	Yes	N/A	Yes	N/A	

* Baseline will not be established until 2013.

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

Table 5b
Goal 2—Safety and Soundness
Performance Measures and Results
July 1, 2012, to June 30, 2013

Measure	2012 Results	2012 Target	2012 Results	2013 Target	2013 Results	Results vs. Target
1. Percentage of System assets in institutions with composite CAMELS ratings of 1 or 2.	Ninety-eight percent of System assets have composite CAMELS ratings of 1 or 2.	≥90%	98%	≥90%	98%	▲
2. Percentage of requirements in supervisory agreements with which FCS institutions have at least substantially complied within 18 months of execution of the agreements.	FCS institutions complied at least substantially with 98 percent of the requirements in supervisory agreements within 18 months of the execution of the agreements.	≥80%	99%	≥80%	98%	▲
3. Percentage of institutions complying with regulatory capital ratio requirements (permanent capital ratio, total surplus ratio, core surplus ratio, net collateral ratio).	All institutions complied with regulatory capital ratio requirements.	≥90%	100%	≥90%	100%	▲
4. Whether the Office of Secondary Market Oversight's examination and oversight plan and activities effectively identify emerging risks, and whether appropriate supervisory and corrective actions have been taken to effect change when needed.	OSMO activities effectively identify emerging risks, and appropriate supervisory and corrective actions have been taken.	Yes	Yes	Yes	Yes	✓
5. Percentage of institutions with satisfactory audit and review programs, including institutions with acceptable corrective action plans.	All institutions have satisfactory audit and review programs, including institutions with acceptable corrective action plans.	100%	100%	100%	100%	▲
6. Percentage of FCS institutions providing FCA with consolidated loan data.	All FCS institutions provided FCA with consolidated loan data.	≥80%*	100%	≥90%	100%	▲

* Target for 2012 was at least 80 percent, target for 2013 was at least 90 percent, and target for 2014 will be 100 percent.

Note: The measures in tables 5a and 5b were adopted in May 2011 when FCA published its Strategic Plan for FYs 2011–2016. The measures were revised in early 2013 for clarity. The revised measures were published in the Strategic Plan for FYs 2013–2018. One performance measure was removed from Goal 2 because it did not materially evaluate the Agency's effectiveness in meeting its strategic goals.

The following defines the symbols and abbreviations used to describe targets in the Performance Measures and Results tables: > is greater than; ≥ is greater than or equal to; N/A indicates either that the measure is not applicable or that FCA's performance could not be measured; ▲ indicates FCA's performance exceeded the FY 2013 target; ✓ indicates FCA achieved the FY 2013 target.

Auditor’s Report and Agency Financial Statements

Letter from the Chief Financial Officer

I am pleased to present the Farm Credit Administration's fiscal year 2013 financial statements. FCA received an unqualified audit opinion on these financial statements. In addition, the auditor identified no material weaknesses in our internal controls and no instances of noncompliance with laws and regulations. These opinions reflect our uncompromising commitment to excellence in financial reporting. FY 2013 marks the 20th year that FCA has achieved a clean audit opinion.

This record of accomplishment reflects the strong internal control environment that the FCA Board and senior managers have established within the organization. A senior assessment team for internal control oversees FCA's internal control program. The team's members were selected from all major programs at FCA to ensure that we have cohesive, robust internal controls. The team updates and validates FCA's internal assessment tool and FCA's internal control program biennially.

Taken together, the auditors' reports and accompanying financial statements reflect our commitment to promoting efficient spending and accountability. They also reflect the Agency's commitment to compliance with all applicable laws, such as the Federal Managers' Financial Integrity Act, the Prompt Payment Act, the Debt Collection and Improvement Act, and the Federal Information Security Management Act. We have reduced, and will continue to reduce, administrative costs as part of our continued efforts to operate in a more efficient, cost-effective manner.

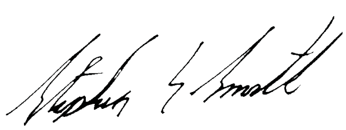
Part of our strategy for strong controls over expenditures is effective communication with FCA employees who request, approve, and process contracts. Another part of our strategy includes strong internal and external reviews.

The annual independent Federal Information Security Management Act review of our information systems security program revealed no significant or material weaknesses. We also participated in an evaluation by the Department of Homeland Security and the Federal Emergency Management Agency of the completeness and effectiveness of the FCA Continuity of Operations Plan. Finally, as required by the Improper Payments Elimination and Recovery Act of 2010, we have determined that our programs are not at high risk of significant improper payments.

Strong performance budgeting and financial controls will remain a priority at FCA during FY 2014. To build upon our tradition of accountability and transparency, we are committed to moving beyond the achievement of clean audit opinions and reliable reporting. We will continue to provide our managers with metrics to improve accountability and transparency and to empower them to make sound and effective decisions. Our offices continue to collaborate to integrate our mission-support activities with our two basic functions—issuing regulations and implementing public policy, and identifying risk and taking corrective action.

Because of our talented and committed staff, we are well positioned to face another year of challenges. My sincere thank you to the FCA Board, staff, and my colleagues; I also appreciate the cooperation of staff members in the Office of Inspector General for their work during this audit period.

Regards,



Stephen G. Smith
Chief Financial Officer
Farm Credit Administration

Farm Credit Administration

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

November 20, 2013

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

Dear Board Chair Long Thompson and FCA Board Members Spearman and Strom:

This letter transmits the report on the audit of the Farm Credit Administration's financial statements for the fiscal year (FY) ended September 30, 2013. The Office of Inspector General (OIG) contracted with the U.S. Department of the Treasury's Bureau of the Fiscal Service for Brown & Company CPAs, PLLC, an independent public accounting firm, to perform the audit.

Brown & Co. issued an unmodified opinion on the Agency's financial statements. It opined that FCA's principal financial statements present fairly, in all material respects, the financial position of the Agency as of the FYs ended September 30, 2013 and 2012, in conformity with generally accepted accounting principles.

Brown & Co. considered FCA's internal control over financial reporting to determine the audit procedures that were appropriate for the limited purpose of expressing an opinion on the financial statements. Although Brown & Co. did not express an opinion on the effectiveness of FCA's internal controls, it did not identify any deficiencies in internal controls considered to be a material weakness.

Additionally, Brown & Co. performed tests of FCA's compliance with certain provisions of laws, regulations, contracts, and grant agreements that could have a direct and material effect on the financial statements. Although Brown & Co. did not express an opinion on compliance with those provisions, it did not identify any instances of noncompliance or other matters required to be reported under *Government Auditing Standards* or OMB Bulletin No. 07-04, as amended.

In the OIG's opinion, Brown & Co.'s audit provides a reasonable basis on which to render its opinion, and we concur with the report dated November 6, 2013.

The OIG's contract with the Bureau of the Fiscal Service required that Brown & Co. perform the audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and Office of Management and Budget Bulletin No. 07-04, *Audit*

Requirements for Federal Financial Statements, as amended. To ensure the quality of the work performed, the OIG

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

Management and Performance Challenges

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

Farm Credit System

Safety and Soundness

The System is a lender to a single industry—agriculture—and is therefore vulnerable to continuing market volatility and uncertain economic conditions. Although the System's overall condition and performance is sound, there are many highly correlated uncontrollable or macroeconomic forces directly affecting agriculture. While the FCS remains generally safe and sound, the current risk environment is a challenge in some FCS institutions, requiring heightened oversight and supervision. System institutions continue to grow in both size and complexity, requiring greater risk management skills and oversight responsibilities both in examination and regulation.

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

Mission

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

Farm Credit Administration

Agency Governance

The Farm Credit Act of 1971, as amended, provides for a full-time three-member Board to govern the Agency. Board members are appointed by the President and confirmed by the Senate, and the President designates the Chairman. Board Chair Long Thompson, an FCA Board member since March 2010, replaced Board Member Strom as Chair in November 2012. Board Chair Long Thompson's term expires in May 2014. Board Member Spearman was appointed in October 2009, and his term expires in May 2016. Board Member Strom's term expired October 2012. In accordance with law, he may continue to serve until the President appoints a successor.

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

Agency Organization

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

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

Agency Staffing

The Agency has a comprehensive five-year Human Capital Plan covering FYs 2014 to 2018. Recent recruitment initiatives for all levels within the Agency have broad search criteria and have focused on obtaining the best skill sets and achieving diversity in FCA's workforce.

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

- Projections indicate that a substantial portion of the Agency's workforce is eligible to retire during the next several years.

- The loss of employees during this period will challenge the Agency to retain historical knowledge and perspectives on the programs, practices, and mission of the FCS as well as that of FCA.

- The evolution of FCA, agriculture and rural America, the FCS, and the financial services industry means FCA will need to continue to attract and maintain an experienced and qualified professional staff to meet the anticipated growth and complexity of the FCS and its environment.

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

Leveraging Technology

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

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

Respectfully,

Elizabeth M. Dean
Inspector General

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

INDEPENDENT AUDITOR'S REPORT

Farm Credit Administration
The Board and Office of Inspector General

Report on the Financial Statements

We have audited the accompanying balance sheets of the Farm Credit Administration (FCA) as of September 30, 2013 and 2012, and the related statements of net cost, changes in net position, and budgetary resources, for the years then ended (collectively referred to as the financial statements), and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and OMB Bulletin No. 07-04, as amended, require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of FCA as of September 30, 2013 and 2012, 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.

Other Matters

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

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the FCA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of FCA's internal control. Accordingly, we do not express an opinion on the effectiveness of FCA's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. In our fiscal year 2013 audit, we did not identify any deficiencies in internal control that we consider to be a material weakness. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether FCA's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. Our fiscal year 2013 audit, disclosed no instances of noncompliance or other matters that are required to the reported under *Government Auditing Standards* or OMB Bulletin No. 07-04, as amended.

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

Brown & Company

Largo, Maryland
November 6, 2013

FINANCIAL STATEMENTS

FARM CREDIT ADMINISTRATION
BALANCE SHEET
As of September 30, 2013 and 2012

	2013	2012
ASSETS		
Intragovernmental		
Fund balance with Treasury (Note 2)	$ 837,120	$ 717,196
Investments (Note 3)	38,352,286	39,824,559
Accounts receivable (Note 4)	-	102,388
Total intragovernmental	39,189,406	40,644,143
Accounts receivable (Note 4)	315,436	133,556
General property, plant and equipment, net (Note 5)	134,301	402,903
Prepaid expense	186,187	126,811
Total assets	$ 39,825,330	$ 41,307,413
LIABILITIES		
Intragovernmental		
Accounts payable	$ 46,700	$ 128,674
Accrued post-employment compensation	34,000	34,488
Employer contributions and payroll taxes payable	190,897	472,579
Total intragovernmental	271,597	635,741
Accounts payable	411,067	485,540
Actuarial workers' compensation liability (Note 6)	1,316,210	1,247,046
Accrued payroll and benefits	4,578,402	5,974,658
Employer contributions and payroll taxes payable	33,499	80,521
Deferred revenue	3,212,730	3,363,965
Accrued taxes payable	1,508	-
Total liabilities	$ 9,825,013	$ 11,787,471
NET POSITION		
Cumulative results of operations	$ 30,000,317	$ 29,519,942
Total net position	30,000,317	29,519,942
Total liabilities and net position	$ 39,825,330	$ 41,307,413

The accompanying notes are an integral part of these statements.

FARM CREDIT ADMINISTRATION
STATEMENT OF NET COST
For the Years Ended September 30, 2013 and 2012

	2013	2012
PROGRAM COSTS		
Public Mission		
Gross costs	$ 11,695,922	$ 11,420,694
Less: earned revenue	(10,863,530)	(10,835,149)
Net costs	$ 832,392	$585,545
Safety and Soundness		
Gross costs	$ 43,424,434	$ 46,097,124
Less: earned revenue	(39,550,402)	(43,774,261)
Net costs	$ 3,874,032	$ 2,322,863
Other Activity		
Gross costs	$ 886,626	$ 935,349
Less: earned revenue	(845,697)	(955,836)
Net costs	$ 40,929	$ (20,487)
Net cost of operations (Notes 7 and 8)	$ 4,747,353	$ 2,887,921

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, 2013 and 2012

	2013	2012
CUMULATIVE RESULTS OF OPERATIONS		
Beginning balances	$ 29,519,942	$ 26,782,937
Other Financing Sources (Non-Exchange)		
Imputed financing sources		
Federal employee benefits (Note 9)	2,527,728	2,674,926
Rent (Note 10)	2,700,000	2,950,000
Total financing sources	5,227,728	5,624,926
Net cost of operations	(4,747,353)	(2,887,921)
Net change	480,375	2,737,005
Cumulative results of operations	$ 30,000,317	$ 29,519,942
Net position	$ 30,000,317	$ 29,519,942

The accompanying notes are an integral part of these statements.

FARM CREDIT ADMINISTRATION
STATEMENT OF BUDGETARY RESOURCES
For the Years Ended September 30, 2013 and 2012

	2013	2012
Budgetary Resources:		
Unobligated balance brought forward, October 1	$ 31,866,640	$ 29,052,387
Spending authority from offsetting collections	51,031,084	54,897,944
Total budgetary resources (Note 11)	$ 82,897,724	$ 83,950,331
Status of Budgetary Resources:		
Obligations incurred	$ 51,047,305	$ 52,083,691
Unobligated balance, end of year:		
Exempt from apportionment	28,637,689	28,502,675
Not available	3,212,730	3,363,965
Total unobligated balance, end of year	31,850,419	31,866,640
Total budgetary resources (Note 11)	$82,897,724	$83,950,331
Change in Obligated Balance		
Unpaid Obligations		
Unpaid obligations, brought forward, October 1	$ 8,682,824	$ 9,220,951
Obligations incurred	51,047,305	52,083,691
Outlays (gross)	(52,372,131)	(52,621,819)
Unpaid obligations, end of year	7,357,998	8,682,824
Uncollected payments		
Uncollected customer payments from Federal sources, brought forward, October 1	(765,236)	(794,611)
Change in uncollected customer payments from Federal sources	132,292	29,375
Uncollected customer payments from Federal sources, end of year	(632,944)	(765,236)
Memorandum Entries		
Obligated balance, start of year	$ 7,917,588	$ 8,426,340
Obligated balance, end of year	$ 6,725,054	$ 7,917,588
Budget Authority and Outlays, Net		
Budget authority, gross	$ 51,031,084	$ 54,897,943
Actual offsetting collections	(51,163,376)	(54,927,318)
Change in uncollected customer payments from Federal sources	132,292	29,375
Budget authority, net	$ 0	$ (0)
Outlays, gross	52,372,131	52,621,819
Actual offsetting collections	(51,163,376)	(54,927,318)
Agency outlays, net	$ 1,208,755	$ (2,305,499)

The accompanying notes are an integral part of these statements.

NOTES TO THE FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies

A. Reporting Entity—FCA 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 FCS, including Farmer Mac. Specifically, FCA is empowered to ensure safe and sound operations of all System institutions. Initially created by an Executive order of the President in 1933, FCA now derives its power and authority from the Farm Credit Act of 1971, as amended (Act). The Act requires System institutions to be examined periodically by FCA. Policymaking for FCA is vested in a full-time, three-person Board whose members are appointed by the President with the advice and consent of the Senate.

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

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

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

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

E. Accounts Receivable—Accounts receivable are composed of

1. reimbursements for administrative expenses incurred by FCA according to agreements with other Federal entities,

2. assessments from institutions in accordance with the Act and FCA regulations, and

3. amounts owed FCA that are generated through the normal course of business with employees and vendors.

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

1. on the basis of a review of outstanding accounts and the failure of all collection efforts, manage ment 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 Fiscal Service, reviews the Agency's accounts receivable on a regular basis. OMS has determined that all accounts receivable as of September 30, 2013 are fully collectible.

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

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

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

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

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

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

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

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

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

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

Note 2. Fund Balance with Treasury

	2013	2012
Fund balance with Treasury		
Revolving fund	$ 837,120	$ 717,196
Total fund balance with Treasury	$ 837,120	$ 717,196
Status of fund balance with Treasury		
Unobligated balance		
Available	$ 28,637,689	$ 28,502,675
Unavailable	3,212,730	3,363,965
Obligated balance not yet disbursed	6,725,054	7,917,588
Subtotal—Status of fund balance	38,575,473	39,784,228
Funds invested with Treasury		
Net of unamortized discount	(37,738,353)	(39,067,032)
Total fund balance with Treasury	**$ 837,120**	**$ 717,196**

FCA has one revolving fund under which it operates and reports fund balance with Treasury.

The status of fund balance with Treasury may be classified as unobligated available, unobligated unavailable, or obligated. Unobligated available amounts represent funds available for incurring new obligations. The unobligated unavailable amounts include funds not yet available for use and represent the amount of new fiscal year assessments received prior to October 1. These unavailable amounts are also classified as deferred revenue on the Balance Sheet. Amounts noted as obligated balance not yet disbursed represent amounts designated for payment of goods and services either ordered and received, or received and not yet paid.

Obligated and unobligated balances on the status of fund balance with Treasury agree with obligated and unobligated balances reported on the Statement of Budgetary Resources.

Funds invested with Treasury represent Agency funds invested in U.S. Treasury securities.

Note 3. Investments

Intragovernmental Securities

Amounts for 2013 Balance Sheet Reporting

	Cost	Amortized (Premium) Discount	Investments Net	Interest Receivable	09/30/13 Investment Balance	Market Value Disclosure
Nonmarketable Market-based	$38,613,729	$(402,219)	$38,211,510	$140,776	$38,352,286	$38,479,599

Amounts for 2012 Balance Sheet Reporting

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

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 $377,344 and $464,685 for FYs 2013 and 2012, respectively.

Note 4. Accounts Receivable

	2013	2012
Intragovernmental		
Reimbursements for services provided	$ -	$97,525
Expenditure refunds	-	4,863
Subtotal	-	102,388
With the public		
Reimbursements for services provided	287,090	105,847
Expenditure refunds	28,346	27,709
Subtotal	315,436	133,556
Total accounts receivable	**$315,436**	**$235,944**

There were no intragovernmental receivables for FY 2013 because all reimbursable services provided to USDA and FCSIC were both billed and collected prior to September 30, 2013. Receivables increased primarily because of the increase in nongovernmental reimbursements for services provided.

Note 5. General Property, Equipment, and Software

As of September 30, 2013

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

As of September 30, 2012

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

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

The Department of Labor (DOL) estimates future workers' compensation liability for specified entities that are preparing statements under the Chief Financial Officers Act and the Government Management Reform Act. The actuarial liability estimates for benefits under the Federal Employees' Compensation Act (FECA) include the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases, plus a component for incurred but unreported claims. Because FCA is not one of the 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.

FECA Actuarial Liability	**2013**	**2012**
Liability amount	$1,316,210	$1,247,046
Medical LBP	10.2	9.6
Compensation LBP	10.7	10.3

The increase in the FECA actuarial liability amount for fiscal year 2013 may be attributed to the changes in the FECA medical and compensation liability to benefits paid (LBP) ratios provided by DOL in its model for estimating the actuarial liability amount.

Note 7. Intragovernmental Costs and Exchange Revenue

	Farm Credit Administration for the Years Ended September 30, 2013 and 2012	
	2013	2012
Public Mission		
Intragovernmental costs	$ 2,893,719	$ 2,885,266
Public costs	8,802,203	8,535,428
Total costs—Public mission	11,695,922	11,420,694
Intragovernmental earned revenue	(80,068)	(92,268)
Public earned revenue	(10,783,462)	(10,742,881)
Total revenue—Public mission	(10,863,530)	(10,835,149)
Net program costs—Public mission	832,392	585,545
Safety and Soundness		
Intragovernmental costs	11,286,740	11,855,937
Public costs	32,137,694	34,241,187
Total costs—Safety and soundness	43,424,434	46,097,124
Intragovernmental earned revenue	(297,276)	(372,418)
Public earned revenue	(39,253,126)	(43,401,843)
Total revenue—Safety and soundness	(39,550,402)	(43,774,261)
Net program costs—Safety and soundness	3,874,032	2,322,863
Other Activity		
Intragovernmental costs	207,104	203,874
Public costs	679,522	731,475
Total costs—Other activity	886,626	935,349
Intragovernmental earned revenue	(558,610)	(854,885)
Public earned revenue	(287,087)	(100,951)
Total revenue—Other activity	(845,697)	(955,836)
Net program costs—Other activity	40,929	(20,487)
Net cost of operations (+/-)	**$ 4,747,353**	**$ 2,887,921**

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

The following tables provide a detailed breakout of the Statement of Net Cost for each of the fiscal years ended 2013 and 2012. Cost and earned revenue amounts are displayed by office within each program.

Farm Credit Administration
for the Year Ended September 30, 2013

	Office				
	Examination	**Regulatory Policy**	**Secondary Market Oversight**	**Other Organizations**	**Total**
Public Mission					
Gross costs	$ 463,051	$ 3,726,072	$ 546,782	$ 6,960,017	$11,695,922
Less: Earned revenue	(417,921)	(3,368,029)	(599,176)	(6,478,404)	(10,863,530)
Net program cost	45,130	358,043	(52,394)	481,613	832,392
Safety and Soundness					
Gross costs	29,158,012	1,202,389	579,633	12,484,400	43,424,434
Less: Earned revenue	(26,431,487)	(1,089,643)	(634,737)	(11,394,535)	(39,550,402)
Net program cost	2,726,525	112,746	(55,104)	1,089,865	3,874,032
Other Activity					
Gross costs	511,377	35,893	4,581	334,775	886,626
Less: Earned revenue	(487,770)	(34,236)	(4,369)	(319,322)	(845,697)
Net program cost	23,607	1,657	212	15,453	40,929
Net cost of operations	**$ 2,795,262**	**$ 472,446**	**($107,286)**	**$ 1,586,931**	**$ 4,747,353**

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

Farm Credit Administration
for the Year Ended September 30, 2012

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

Note 9. Federal Employee Benefits

	2013	2012
Imputed pension cost	$ 1,233,451	$ 1,140,528
Other imputed retirement benefits	1,294,277	1,534,398
Total	**$ 2,527,728**	**$ 2,674,926**

Retirement—FCA employees are covered under the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS) to which FCA makes contributions according to plan requirements. CSRS and FERS are multiemployer plans. FCA does not maintain or report information about the assets of the plan, nor does it report actuarial data for accumulated plan benefits. The reporting of such amounts is the responsibility of OPM. FCA reports the amount of its pension expense for employees in accordance with SFFAS No. 5, Accounting for Liabilities of the Federal Government. When the amount of the payment expense remitted to OPM is less than the full cost to the Government, an imputed cost is recognized. The above imputed costs represent the amounts recognized by FCA for FYs 2013 and 2012. Corresponding amounts of imputed revenue are recorded to offset the imputed cost.

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

Note 10. Rent

	2013	2012
Leased field offices	$ 1,181,452	$ 1,167,457
FCA headquarters	1,518,548	1,782,543
Total	**$ 2,700,00**	**$ 2,950,000**

In accordance with the Act, FCA occupies buildings owned and leased by the FCSBA. The FCA administrative headquarters building and land are located in McLean, Virginia. In addition, the FCSBA leases office space for field offices on behalf of FCA at various locations throughout the United States. Rent is provided at no cost to FCA. The above imputed rent expense is an estimate based on the FCSBA estimated budget for 2013. In accordance with SFFAS No. 4, Managerial Cost Accounting Concepts and Standards for the Federal Government, the rent expense and the associated imputed revenue are recorded as a nonmonetary transaction.

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

FY 2013

The 2015 Budget of the United States Government, with the Actual Column completed for FY 2013, 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 2014. It will be available on FCA's website at www.fca.gov/reports/publications.html.

FY 2012

The 2014 Budget of the United States Government, with the Actual Column completed for 2012, has been reconciled to the amounts reported in the Statement of Budgetary Resources, and there are no significant differences.

Note 12. Undelivered Orders at the End of the Period

SFFAS No. 7, Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting, states that the amount of budgetary resources obligated for undelivered orders at the end of the period should be disclosed. For the periods ended September 30, 2013 and 2012, undelivered orders, unpaid, amounted to $2,061,925 and $1,506,365, respectively.

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

As prescribed by SFFAS No. 7, the Reconciliation of the Net Cost of Operations to Budget reconciles the Agency's Resources Used to Finance Activities (budgetary basis of accounting) to the Net Cost of Operations (proprietary basis of accounting). The reconciling items are added in or reversed out based on whether the item has a budgetary or proprietary impact on the statements.

Comparative displays of this reconciliation are provided below for fiscal years 2013 and 2012.

Reconciliation of Net Cost of Operations to Budget
for the Years Ended September 30, 2013 and 2012

	2013	2012
Resources Used to Finance Activities		
Budgetary resources obligated		
Obligations incurred	$ 51,047,305	$ 52,083,691
Spending authority from offsetting collections and recoveries	(51,031,084)	(54,897,944)
Net obligations	16,221	(2,814,253)
Other resources		
Imputed financing from costs absorbed by others	5,227,728	5,624,926
Other resources	(151,235)	(831,666)
Net other resources used to finance activities	5,076,493	4,793,260
Total resources used to finance activities	5,092,714	1,979,007
Resources used to finance items not part of the net cost of operations	(253,587)	623,345
Total resources used to finance the net cost of operations	4,839,127	2,602,352
Components of the net cost of operations that will not require or generate resources in the current period	(91,774)	285,569
Net cost of operations	$ 4,747,353	$ 2,887,921

Other Information

Table 6. Summary of Financial Statement Audit

Audit Opinion	Unqualified
Restatement	No

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

Table 7. Summary of Management Assurances

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

Statement of Assurance: Unqualified

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

Effectiveness of Internal Control over Operations (FMFIA § 2)

Statement of Assurance: Unqualified

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

Conformance with Financial Management System Requirements (FMFIA § 4)

Statement of Assurance: Systems conform

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

Compliance with Federal Financial Management Improvement Act (FMFIA)

1. System Requirements	No Noncompliance Noted
2. Accounting Standards	No Noncompliance Noted
3. USSGL at Transaction Level	No Noncompliance Noted

Additional Information

The Farm Credit Administration Performance and Accountability Report Fiscal Year 2013 is available on FCA's website 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 website 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 website 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
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