Farm Credit Administration

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

Performance and Accountability Report Fiscal Year 2014

Contents

List of Tables Appearing in Report

List of Figures Appearing in Report

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
FMFIA	Federal Managers’ Financial Integrity Act
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
SFFAS	Statements of Federal Financial Accounting Standards
USDA	United States Department of Agriculture
YBS	young, beginning, and small (farmers and ranchers)

Statement of the Board Chair and CEO

November 17, 2014

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) 2014.

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

I am also pleased to report that our FY 2014 financial statements have received an unmodified opinion from an independent auditor. These financial statements provide a fair representation of our accounting practices and demonstrate our commitment to sound fiscal management.

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 risks and ensure that the System recognizes those risks. Currently, one of the greatest risks facing the System is volatility in the agricultural industry. Anticipation of record corn and soybean production has driven grain prices down sharply. While the protein, dairy, and ethanol sectors are benefiting from these lower prices, corn and soybean producers are watching their profits decline. Also, lower crop prices are cooling the market for farmland.

With its solid earnings and strong capital levels, the FCS is well-positioned to withstand this volatility. Loan portfolio quality continues to be strong, and credit indicators are favorable. To help the System stay on this positive path, our examiners will focus on four major topics over the next 12 months:

- Portfolio management in volatile times
- Allowance for loan loss in volatile times
- Large, complex, and shared assets
- Board governance and nominating committees

Another important part of our job is developing policies and regulations to govern System institutions. Earlier this year, we issued a major proposed rule to improve and update our capital regulations.

Our next step will be to consider a final rule, taking into account the comments we receive from the public on the proposed rule. If adopted, this rule will modernize our capital requirements while ensuring that System institutions continue to hold sufficient regulatory capital to fulfill their mission as a Government-sponsored enterprise.

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

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:

- 1 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.
- 1 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, 2014, FCA had 280 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, see "Examination Philosophy" (FCA-PS-53) on the FCA website.

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.

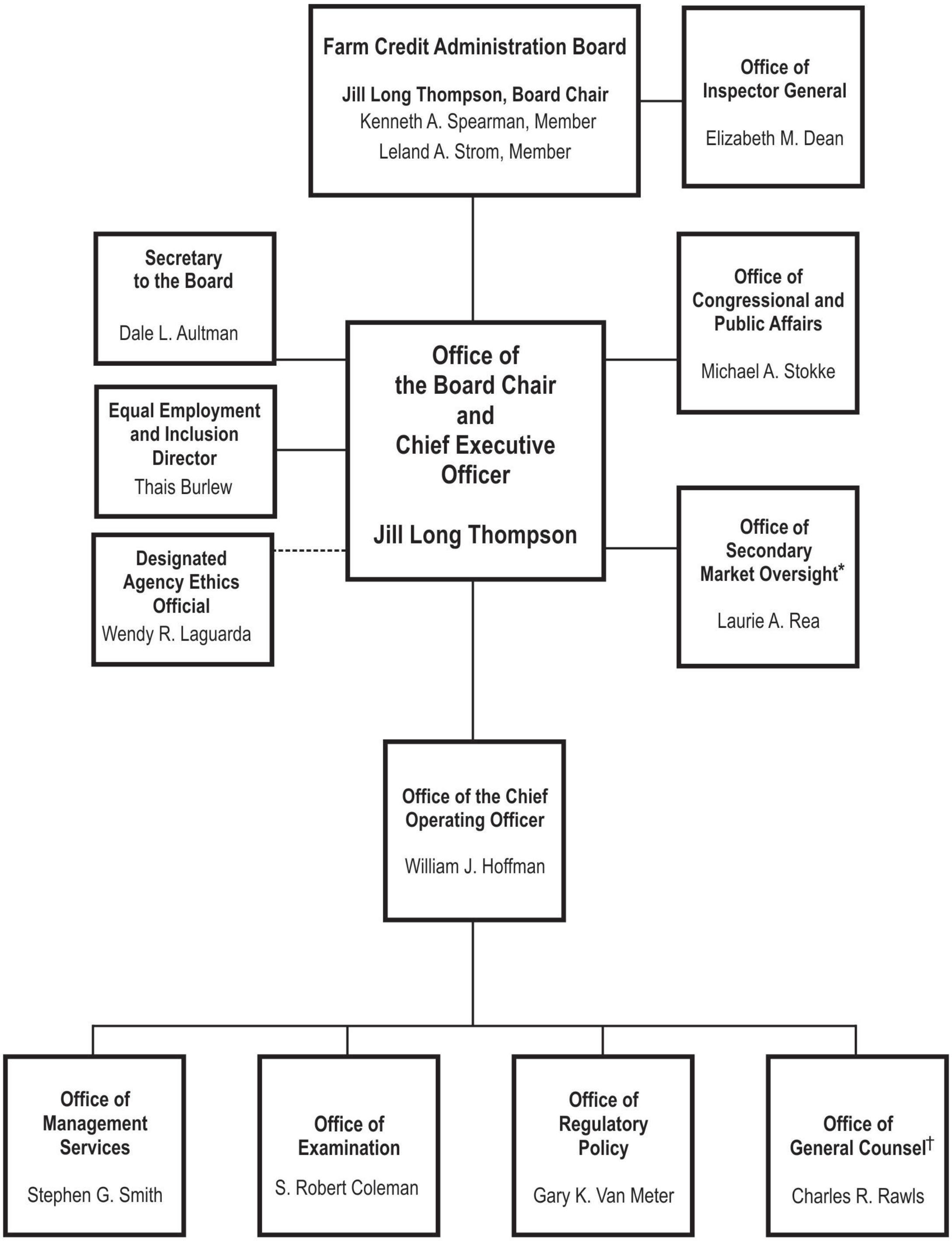
The **Office of Management Services (OMS)** manages and delivers the Agency's information technology, financial, human capital, and administrative services. The office coordinates planning efforts, including information resources management, security, human capital, and financial plans for the Agency. 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, 2014



***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 our performance in reaching our 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. 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. 1 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. 1 Percentage of direct-lender institutions with satisfactory consumer and borrower-rights compliance. (Target: ≥90 percent)
4. 1 Percentage of direct-lender institutions with YBS programs that are in compliance with the YBS regulations. (Target: ≥90 percent)
5. 1 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. 1 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. 1 Percentage of System assets in institutions with composite CAMELS ratings of 1 or 2. (Target: ≥90 percent)
2. 1 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. 1 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. 1 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. 1 Percentage of institutions with satisfactory audit and review programs, including institutions with acceptable corrective action plans. (Target: 100 percent)
6. 1 Percentage of FCS institutions providing FCA with consolidated loan data. (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 31 and 32.

In 2013, FCA was recognized as one of the 10 best places to work of 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.

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 using 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:

- 1 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).
- 1 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 needing to increase assessments.

Using information from the financial statements beginning on page 40, this section highlights key points about FCA's financial condition for fiscal years 2014 and 2013.

FCA's Assets, Liabilities, and Net Position

The balance sheet on page 41 presents our financial condition as of fiscal year-end 2014 and 2013. It shows the value of our assets (the resources we own) and the amount of our liabilities (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 2014 are composed of our Fund balance with Treasury (1.9 percent), investments (96.8 percent), and accounts receivable and prepayments (1.2 percent). During FY 2014, total assets decreased by $2,010,373, or 5.0 percent, from amounts reported in FY 2013. Capitalized property and equipment balances were zero at the end of FY 2014 because capitalized equipment was fully depreciated during the year.

Our investment portfolio, which accounts for the largest portion of our total assets, decreased by $1,729,467 in FY 2014. This amount represented 86.0 percent of the overall decrease in total assets. As in 2013, our investment holdings declined in 2014 because we continued to use more of our assessment carryover funds to fund our operations, leaving less cash to invest in Treasuries.

Table 1. Composition of Assets

Fiscal Year	Fund Balance with Treasury	Investments	Accounts Receivable and Prepayments	Property and Equipment	**Total**
2014	$ 732,014	$ 36,622,819	$ 460,124	$ -	**$ 37,814,957**
2013	$ 837,120	$ 38,352,286	$ 501,623	$ 134,301	**$ 39,825,330**

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
2014	$ 669,398	$ 5,012,525	$ 285,002	$ 1,365,309	$ 3,752,477	**$ 11,084,711**
2013	$ 457,767	$ 4,578,402	$ 225,904	$ 1,350,210	$ 3,212,730	**$ 9,825,013**

We purchased $9,381,839 in U.S. Treasuries during fiscal year 2014, 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. For example, we used $13.3 million of carryover to fund the FY 2014 budget, which helped us keep 2014 assessments at the same level as FY 2013.

As of September 30, 2014, the Agency held $732,014 in cash. We prefer to keep our cash balances lower than this by investing all excess cash in U.S. Treasury securities; however, we received funds from a number of FCS institutions on September 30—after the cutoff period for investing.

Our liabilities, as shown in table 2, consist of the following:

- Accounts payable (6.0 percent)
- Payroll and benefits (45.2 percent)
- Employer contributions and taxes payable (2.6 percent)
- Workers' compensation (12.3 percent)
- Deferred revenue (33.9 percent)

Unlike total assets, our total liabilities increased from 2013 to 2014. Driven primarily by increases in payroll and benefit accruals and in deferred revenue, overall liabilities increased by 12.8 percent. Payroll and benefits increased because the pay freeze was lifted in 2014, leading to salary increases for many employees.

Deferred revenue, our second-largest liability category, increased by 16.8 percent from 2013 to $3,752,477. It went up because, at the end of FY 2014, we received a larger number of assessments not yet due from the FCS institutions than we did in 2013. At the beginning of FY 2015, when this amount becomes due and payable, we will reclassify it as revenue earned in October.

The net position, which represents the cumulative results of operations since the Agency began, decreased by $3,270,071, or 10.9 percent, during FY 2014. The net position declined because of the 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 43.

FCA's Status of Funds

Our budget represents our plan for achieving our mission and strategic goals while operating as effectively and efficiently as possible. Table 3 shows our Board-approved budget amounts for FYs 2014 and 2013. The overall FY 2014 budget increased by 3.2 percent over the 2013 budget.

Table 3. Agency Budget

	2014	2013
Assessments (current year)	$50,000,000	$50,000,000
Assessments (carryover from prior years)	13,300,000	11,000,000
Reimbursable activity	600,000	900,000
Total	**$63,900,000**	**$61,900,000**

The 2014 assessments, however, remained at $50 million, the same as the FY 2013 assessments. Assessments did not increase primarily because we used more of the carryover to fund the 2014 budget than we used for the 2013 budget. For FY 2015, we will also use a large portion of the remaining assessment carryover to fund the budget.

In FY 2014, we continued to carry out our mission, program goals, and objectives within the available budget. As table 4 shows, we used $55,821,376, or 87.4 percent, of the funds available in 2014, compared with $51,812,669, or 83.7 percent, of the funds available in 2013. The increase in personnel compensation, driven by salary increases and higher FTE usage, primarily accounts for the 7.7 percent increase in funds used from 2013 to 2014.

Personnel compensation and benefits continue to account for the most significant use of funds at FCA, representing 84.1 percent of total funds used in 2014. Funds used for property and equipment increased by 35.7 percent, the largest percentage increase. During FY 2014, we obligated funds for new or updated technology to enhance communication, increase efficiency, and better identify and respond to emerging risks.

PROGRAM COSTS AND REVENUES

This section describes our program costs and revenues for the fiscal years ended September 30, 2014, and September 30, 2013. Please read this section in conjunction with the Statement on Net Cost. 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.

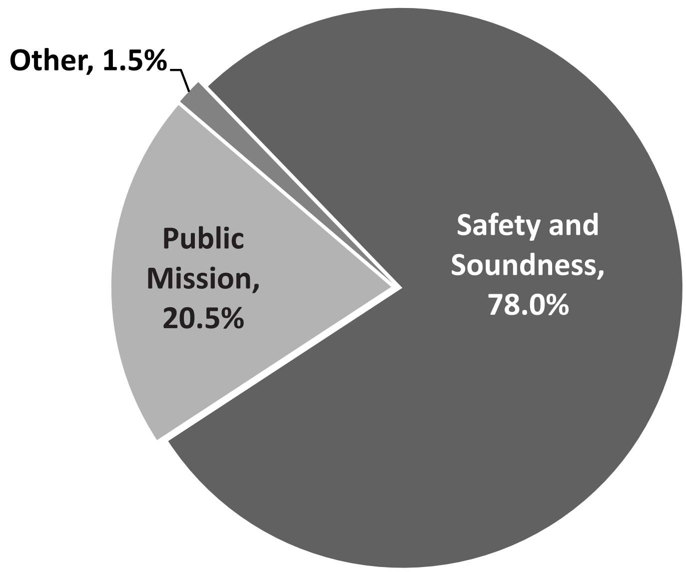
Our Board and management regularly review and update the Agency's five-year strategic plan to ensure that we can address challenges as they arise. As part of our strategic planning, we have developed human capital and information resource plans to promote efficiency and effectiveness. We have also managed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

The net cost of FCA programs totaled $8,568,143 for the 12 months ended September 30, 2014, compared with $4,747,353 for the same period

Table 4. Funds Used by Major Budget Category

Budget Category	FY 2014	Percentage of Total	FY 2013	Percentage of Total
Personnel compensation and benefits	47,025,345	84.1%	$44,173,082	85.3%
Travel and transportation	2,992,947	5.4%	2,735,725	5.3%
Contractual services	3,324,188	6.0%	2,662,125	5.1%
Property and equipment	992,438	1.8%	731,344	1.4%
Other	1,486,458	2.7%	1,510,393	2.9%
Total	**$55,821,376**	**100%**	**$51,812,669**	**100%** 1

Figure 2. FY 2014 Gross Costs by Agency Goal



the previous year. The increase in overall net cost resulted from an increase in total program costs and a small decline in revenue.

The total cost of FCA's programs for FY 2014 is $59,691,990, compared with $56,006,982 for FY 2013. This represents an increase of $3,685,008, or 6.6 percent from 2013. Figure 2 shows the breakdown of FY 2014 gross costs for each of the Agency's goals. Virtually all costs support our mission and program goals. The increase in total cost is primarily due to increases in employee compensation, but increases in examination travel and training also contributed to the total cost increase.

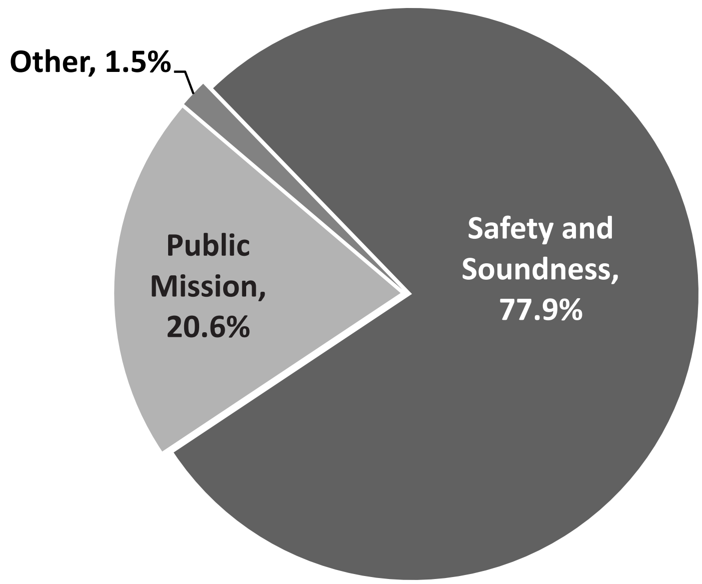
Employee salaries and benefits represent our greatest overall cost. For 2014, employee compensation totaled $46,804,422, or 78.4 percent of total cost. This cost increased by $2,746,377, or 6.2 percent, from 2013 because of pay-for-performance increases and a change in locality pay after the pay freeze was lifted. We kept the pay adjustment for employees consistent with the intent of the President's general direction for pay increases for Federal employees.

We plan to maintain competitive employee compensation 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.

Figure 3 shows the breakdown of FY 2014 gross revenues for each of our goals. Earned revenues for 2014 totaled $51,123,847, down $135,782 from 2013. The decrease in overall earned revenues is attributed to decreases in two revenue sources:

- 1 Income received from performing work for other Government agencies
- 1 Interest earned from investments

Figure 3. FY 2014 Gross Revenues by Agency Goal



Public Mission Program

We invest significant resources in our policymaking, regulatory, and corporate activity functions to ensure that the FCS, including Farmer Mac, fulfills its public mission as mandated by Congress. During FY 2014, we continued to ensure the safe and sound flow of funds to U.S. agriculture and rural areas by providing regulation, policy, and guidance for the FCS and Farmer Mac. We also continued to encourage System banks and associations to increase their service to young, beginning, and small farmers and ranchers.

For the fiscal year ended September 30, 2014, program cost for public mission was $12,224,631, representing an increase of $528,709, or 4.5 percent, from the same period the previous year. The cost for the public mission program is 20.5 percent of our total costs for 2014.

Safety and Soundness Program

The examination and supervision of the FCS account for the largest portion of our costs at the program level. In 2014, cost of the safety and soundness program increased because of higher costs for employee compensation, travel, and employee training. We met oversight and supervisory challenges in 2014 by leveraging technologies and helping institutions improve their financial condition. The number of institutions under FCA supervisory action dropped by two institutions, resulting in a total of six institutions under formal supervisory action as of September 30, 2014.

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 2014, 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 increased $3,136,024 to $46,560,458, which represents 78.0 percent of our total costs in 2014.

Other Activity

Other activity includes examining and overseeing the National Consumer Cooperative Bank and performing reimbursable services for USDA and the Farm Credit System Insurance Corporation. Actual costs incurred for these activities increased by $20,275 to $906,901 in 2014. A drop in demand for reimbursable services (primarily for USDA) offset most of the increased cost of higher employee compensation.

The costs for providing reimbursable services represented approximately 1.5 percent of our total costs in 2014, a decline from 1.6 percent of total costs in 2013. Earned revenue for other activity totaled $794,477 for 2014, compared with $845,697 for 2013.

LIMITATIONS OF THE FINANCIAL STATEMENTS

We have prepared the principal financial statements to report the financial position and results of FCA operations, pursuant to the requirements of 31 U.S.C. 3515(b). We have prepared these statements from our books and records in accordance with U.S. generally accepted accounting principles 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:

- 1 Inspector General Act
- 1 Federal Managers' Financial Integrity Act
- 1 Federal Financial Management Improvement Act
- 1 Prompt Payment Act
- 1 Debt Collection Improvement Act
- 1 Improper Payments Elimination and Recovery Improvement 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 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. In addition, our financial management system complies with the guidance outlined in OMB Circular A-123, Appendix D, Compliance with the Federal Financial Management Improvement Act of 1996.

Inspector General Act

The Inspector General Act of 1978, as amended, requires Inspectors General to report semiannually to their agency heads and to Congress. The semiannual reports prepared by our Office of Inspector General (OIG) describe its audits, inspections, evaluations, and related activities, and our follow-up to its recommendations.

The OIG's two semiannual reports covering FY 2014 are available on FCA's OIG website. Below is a summary of the recommendations or agreed-upon actions in these reports, as well as our progress in taking corrective action.

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

Summary of OIG Audit, Inspection, and Evaluation Activities

Our OIG issued five audit, inspection, or evaluation reports during FY 2014, resulting in 15 agreed-upon actions. Twelve agreed-upon actions have been closed, and three actions remain open this fiscal year. The reports are available on FCA's OIG website.

- 1 On November 20, 2013, the OIG issued the audit report on our financial statements, internal control over financial reporting, and compliance with certain provisions of laws and regulations for FY 2013. The auditors opined that our principal financial statements presented fairly, in all material respects, our financial position as of September 30, 2013. 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.

- 1 On November 19, 2013, the OIG issued a final report on an evaluation of our compliance with the Federal Information Security Management Act for FY 2013. Although this evaluation revealed no significant deficiencies, we agreed to make improvements in two areas.

- 1 On August 19, 2014, the OIG issued a final audit report on our travel card program. The audit resulted in eight agreed-upon actions; we closed all actions as of September 30, 2014.

- 1 On September 5, 2014, the OIG issued a final audit report on our purchase card program. The audit resulted in four agreed-upon actions; we closed all actions as of September 30, 2014.

- 1 On September 22, 2014, the OIG issued a final audit report on our travel and conference expenses. The audit resulted in three agreed-upon actions, which remain open as of September 30, 2014.

The OIG also issued two management advisories.

- 1 On May 7, 2014, the OIG issued a management advisory addressing the need for independent, objective oversight of the Farm Credit System Insurance Corporation (FCSIC). Currently, FCSIC is not overseen by any Inspector General.

- 1 On May 29, 2014, the OIG issued a management advisory on FCA's Interest Reserve. The OIG advised the Board of the need to review the Interest Reserve Strategy to decide whether changes would be appropriate. In response, we revised our policy on budget formulation to include annual reserve approvals by the FCA Board.

Summary of OIG Audit, Inspection, and Evaluation Recommendations

Recommendations or agreed-upon actions uncorrected as of October 1, 2013:	1
New agreed-upon actions during FY 2014:	15
Agreed-upon actions corrected during FY 2014:	13
Open agreed-upon actions as of September 30, 2014:	3
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 anonymous comments provided by institutions 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 FY 2014, 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 2014.

Prompt Payment Act

FCA follows the Prompt Payment Act guidelines, which call for vendors generally to be paid 30 days after receipt of a valid invoice for goods and services ordered and delivered. During FY 2014, we paid all bills within the time requirement, thus resulting in $0 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 us 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 collection under the Treasury Offset Program.

Improper Payments Elimination and Recovery Improvement Act

The requirements of the Improper Payments Elimination and Recovery Improvement Act of 2012 do not apply to us because improper payments do not present a significant risk to FCA. However, in partnership with our service provider, 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 (FMFIA).

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, 2014, 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, 2014, 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 FMFIA, 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, 2014. Our financial management systems also comply with applicable Federal accounting standards and the U.S. Standard General Ledger at the transaction level.

Jill Long Thompson
Chair and Chief Executive Officer
FARM CREDIT ADMINISTRATION

September 30, 2014

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:

- 1 Ensure that the FCS and Farmer Mac fulfill their public missions for agriculture and rural areas.
- 1 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 Farm Bill.

The 2013–2018 Strategic Plan focuses 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.

The FCA Board recently adopted a proposed rule to revise our capital rules for FCS banks and associations to provide clearly defined capital standards that are both consistent with Basel III and appropriate for the farmer-owned cooperative Farm Credit System. The Board plans to act on a final rule in FY 2015.

Also in FY 2014, we implemented a final rule governing Farmer Mac's capital planning, and we issued our first annual capital plan assessment to Farmer Mac. The capital planning final rule increases regulatory focus on the quality and level of Farmer Mac's capital base and promotes 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 2014:

- 1 Issued a proposed rule on institution stockholder voting procedures.
- 1 Issued a proposed rule on investment eligibility.
- 1 Issued a proposed rule on standards of conduct.
- 1 Issued a proposed rule on flood insurance.
- 1 Repealed the regulations governing the registration of mortgage loan originators.
- 1 Concluded the evaluation of the mission-related investment pilot programs and withdrew the proposed rule on rural community investments.
- 1 Continued to study the loan syndication market.
- 1 Issued an advance notice of proposed rulemaking on Farmer Mac's corporate governance and standards of conduct.
- 1 Continued crafting proposed regulations on investment eligibility.
- 1 Issued a final rule to remove the requirement for a nonbinding, advisory vote on certain increases in senior officer compensation.
- 1 Issued a final rule to establish a regulatory framework for reporting System accounts and exposures to FCA.
- 1 Issued guidance to help the System understand our requirements and supervisory expectations for its use of social media.

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. In July 2014, we published a final notice of intent that addressed the comments we received from the solicitation.

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 support advances in Farmer Mac's product offerings 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 advance regulatory rulemaking projects related to investment eligibility and creditworthiness and to update other areas of supervision. For example, we provide guidance on the implementation of the capital planning and liquidity management rules, and we continue to improve and update 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 the credit delivery programs of System institutions. Our examiners also evaluated YBS farmer and rancher programs relative to the demographics of chartered territories. These evaluations help examiners 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 a YBS annual report that we publish in our Annual Report on the Farm Credit System.

FCA regulations require each direct-lender System institution to include in its operating 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 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 that 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 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 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.

Two years ago we 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," the AgVantage program. 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 through its USDA guarantee 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 System continues to implement programs to meet the needs of YBS producers and 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 evaluate 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, 2013, through June 30, 2014, we responded to 33 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 utility cooperatives and small and family 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 help them 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 several mergers and other corporate activities. On January 1, 2014, eight associations—four affiliated with the Farm Credit Bank of Texas and four affiliated with CoBank, ACB—merged into four separate associations, bringing the total number of System associations to 78 (76 Agricultural Credit Associations and 2 Federal Land Credit Associations), compared with 82 associations a year earlier. The other corporate activities included two name changes.

Several mergers are in progress that will take effect on or before January 1, 2015.

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.

In FY 2014, when seeking comment on rules governing Farmer Mac, we reached out to stakeholders from whom we have not traditionally received input, including members of academia and private organizations focused on governance issues.

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 reports 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:

- 1 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.
- 1 Meet projected staffing needs through aggressive hiring.
- 1 Continue training programs and strategies to increase technical competencies of employees, with greater emphasis on technology skills.
- 1 Continue to create opportunities for employees to become more engaged with their work.
- 1 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:

• 1 Management of risk concentrations
• 1 Loan underwriting
• 1 Collateral risk management
• 1 Portfolio planning and analysis
• 1 Credit administration
• 1 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 the borrower's 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 evaluate Farmer Mac's risk management practices through examinations and oversight reviews. During 2013 and 2014, Farmer Mac continued to focus on strengthening its capital position and broadening its customer base. In 2014, Farmer Mac issued Tier 1-eligible preferred stock to strengthen its capital position and disclosed plans to retire capital that is not Tier 1-eligible.

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.

• 1 Financial Institution Rating System to evaluate changes in the financial condition of FCS institutions each quarter.
• 1 Quarterly presentations on System risk to the FCA Board. These presentations also provide supporting information from the Federal Farm Credit Banks Funding Corporation.
• 1 Presentation of emerging risk issues to the Agency's Risk Committee.
• 1 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, nonprogram investments, and capital planning with stress scenario analysis.

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 to strengthen 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:

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

Our enforcement authorities include the following powers:

• 1 To enter into formal agreements
• 1 To issue cease-and-desist orders
• 1 To levy civil money penalties
• 1 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, 2014, we had formal written agreements with six associations, whose assets totaled $3.9 billion, or 1.0 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 and systemic risk analysis. 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 2014, we continued working with the System to establish a data warehouse in which shared asset numbers and System customer numbers could be used. The System has been making steady progress on this project. In fall 2014, the System used the warehouse for the first time to submit data, including shared asset numbers, to FCA. By fall 2015, the System will be able to submit customer numbers, as well. We also began discussions with the System on changes to the loan database data dictionary.

In addition, we are developing tools to support systemic risk analyses, loan portfolio analysis, and loan reviews. We purchased a business intelligence tool in 2013 to support this effort. In FY 2014, we worked to identify the best ways to feed the loan data into the tool, and we continued to support the existing tools and workpapers that our examiners use to analyze loan data and evaluate loan assets.

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, which describes strategies for addressing critical risk topics and other areas of focus for the System.

We provide proactive guidance to System institutions through Informational Memorandums, and we provide guidance for our examiners through the Examination Manual and ongoing communications. We recently issued an updated version of the Examination Manual with new and improved content. These forms of guidance are designed to keep pace with evolving business models used by System institutions and to support the Agency's risk-based supervisory approach.

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 regulations pertaining to Farmer Mac's capital planning and liquidity management refer directly to evolving international regulatory standards and benchmarks for measuring the quality and quantity of capital and liquidity reserves. We are currently working closely with Farmer Mac to develop a database for analysis and monitoring of enterprise-wide operations. The database will enhance our ability to ensure timely and multidimensional analysis of Farmer Mac; it will also enable Farmer Mac to fulfill its reporting obligations more efficiently.

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:

- 1 FCA is committed to fulfilling its mission faithfully and ensuring that its employees conduct themselves with integrity.
- 1 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.
- 1 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:

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

Table 5a
Goal 1—Public Mission
Performance Measures and Results
July 1, 2013, to June 30, 2014

Measure	Results	2013 Target	2013 Results	2014 Target	2014 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%	99%	≥90%	99%	▲
2. 1 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%	99%	≥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.	Yes	Yes	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	

Table 5b
Goal 2—Safety and Soundness
Performance Measures and Results
July 1, 2013, to June 30, 2014

Measure	Results	2013 Target	2013 Results	2014 Target	2014 Results	Results vs. Target
1. Percentage of System assets in institutions with composite CAMELS ratings of 1 or 2.	Ninety-nine percent of System assets have composite CAMELS ratings of 1 or 2.	≥90%	98%	≥90%	99%	▲
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 92 percent of the requirements in supervisory agreements within 18 months of the execution of the agreements.	≥80%	98%	≥80%	92%	▲
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.	≥90%*	100%	≥100%	100%	✓

* Target for 2013 was at least 90 percent and target for 2014 was 100 percent.

Notes: 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 2014 target; ✓ indicates FCA achieved the FY 2014 target.

Financial Section

Statement of the Chief Financial Officer

November 17, 2014

I am pleased to present the Farm Credit Administration's fiscal year 2014 financial statements. FCA received an unmodified 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 2014 marks the 21st 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 our commitment to comply 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 of our Continuity of Operations Plan conducted by the Department of Homeland Security and the Federal Emergency Management Agency. Finally, as required by the Improper Payments Elimination and Recovery Improvement Act of 2012, we have determined that our programs are not at high risk of significant improper payments.

Strong performance budgeting and financial controls will remain our priority during FY 2015. 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. I offer my sincere thanks 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 13, 2014

The Honorable Jill Long Thompson, Board Chair
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:

The report on the audit of the Farm Credit Administration's (FCA's or Agency's) financial statements for the fiscal year (FY) ended September 30, 2014 is attached. The Office of Inspector General (OIG) contracted with Harper, Rains, Knight & Company, P.A., an independent public accounting firm, to perform the audit.

Harper, Rains, Knight & Company issued an unmodified opinion on the Agency's financial statements. In the auditor's opinion, FCA's principal financial statements present fairly, in all material respects, the financial position of the Agency as of the FY ended September 30, 2014, in conformity with generally accepted accounting principles.

Harper, Rains, Knight & Company considered FCA's internal control over financial reporting to determine the audit procedures for the purpose of expressing an opinion on the financial statements. Although they did not express an opinion on the effectiveness of FCA's internal controls, they did not identify any deficiencies considered to be a material weakness.

Additionally, Harper, Rains, Knight & Company performed tests of FCA's compliance with selected provisions of laws and regulations that could have a direct and material effect on the financial statements. Although they did not express an opinion on compliance with those provisions, they did not identify any instances of noncompliance or other matters required to be reported under *Government Auditing Standards* issued by the Comptroller General of the United States or the Office of Management and Budget (OMB) Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*.

Harper, Rains, Knight & Company was required to perform the audit in accordance with *Government Auditing Standards* and OMB Bulletin No. 14-02. To ensure the quality of the work performed, the OIG:

- reviewed Harper, Rains, Knight & Company approach to and planning of the audit,
- evaluated the qualifications and independence of the auditors,
- attended key meeting with auditors and Agency officials,
- monitored the progress of the audit,
- examined workpapers, and
- reviewed the audit reports.

Harper, Rains, Knight & Company is responsible for the attached auditor's report and the conclusions expressed in the report. The OIG is responsible for technical and administrative oversight regarding the audit firm's performance under the terms of the contract. Our review was not intended to enable us to express, and accordingly we do not express an opinion on the Agency's financial statements or conclusions on internal control over financial reporting and compliance with laws and regulations, including whether the Agency's financial management systems substantially complied with the Federal Financial Management Improvement Act. However, our monitoring review disclosed no instances in which Harper, Rains, Knight & Company did not comply, in all material respects, with the auditing standards.

Respectfully,

Elizabeth M. Dean

Elizabeth M. Dean
Inspector General

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

Independent Auditors' Report

The Board and Inspector General
Farm Credit Administration

Report on the Financial Statements

We have audited the accompanying balance sheet of the Farm Credit Administration (FCA), as of September 30, 2014, and the related statements of net cost and changes in net position, and combined statements of budgetary resources, for the fiscal year then ended 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 general accepted accounting principles 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.

Auditors' 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; the standards applicable to financial audit contained in Government Auditing Standards issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 14-02, Audit Requirements for Federal Financial Statements. Those standards and OMB Bulletin No. 14-02 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 auditors consider 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.

Harper, Rains, Knight & Company, P.A. • Certified Public Accountants • Consultants
700 12th Street, NW, Suite 700 • Washington, DC 20005
Telephone 202.558.5167 • Facsimile 601.605.0733 • www.hrkcpa.com

The Board and Inspector General
Farm Credit Administration – Continued

Opinion on the Financial Statements

In our opinion, the financial statements including the accompanying notes, present fairly, in all material respects, the financial position of FCA as of September 30, 2014, and its net cost of operations, changes in net position, and budgetary resources for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

Other Matters

The financial statements of FCA as of September 30, 2013, were audited by other auditors whose report, dated November 6, 2013, expressed an unmodified opinion on those statements.

Required Supplementary Information

Generally accepted accounting principles in the United States of America require that the information in the Management's Discussion and Analysis, and Required Supplementary 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The information in the Statement of the Board Chair and Chief Executive Officer (CEO), Letter from the Chief Financial Officer, and Other Information section is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered 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. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

The Board and Inspector General
Farm Credit Administration – Continued

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 a 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 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 that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

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, and certain provisions of other laws and regulations specified in OMB Bulletin No. 14-02. 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. The results of our tests of compliance disclosed no instances of noncompliance or other matters that are required to be reported herein under Government Auditing Standards or OMB Bulletin No. 14-02.

***Purpose of the Other Reporting Required by* Government Auditing Standards**

The purpose of the communication described in the Other Reporting Required by *Government Auditing Standards* section is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of FCA's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

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

November 13, 2014

Financial Statements

We have prepared the accompanying financial statements in accordance with U.S. generally accepted accounting principles and with the Office of Management and Budget Circular No. A-136, as amended. For comparison purposes, we present our financial statements and notes for FY 2014 and FY 2013. All amounts are in whole dollars. The financial statements include the following:

- 1 **Balance Sheet**, which shows our assets, our liabilities, and our net position (assets minus liabilities).

- 1 **Statement of Net Cost**, which shows our net cost of operations. We calculate our net costs by subtracting from our gross costs any revenue we earn. We break the Statement of Net Cost into three program components: Public Mission, Safety and Soundness, and Other Activity.

- 1 **Statement of Changes in Net Position**, which shows the change in our net position over the two-year period ending September 30, 2014.

- 1 **Statement of Budgetary Resources**, which shows our resources, the status of our resources, and the outlay of resources during the fiscal year.

- 1 **Notes to the Financial Statements**, which clarify and provide additional detail regarding the amounts in the financial statements.

Not all of the statements mentioned in Circular A-136 apply to our agency. For this reason, we do not include a Statement of Custodial Activity, a Statement of Social Insurance, a Statement of Changes in Social Insurance Amounts, and a Schedule of Spending.

BALANCE SHEET

As of September 30, 2014 and 2013
(In Dollars)

	2014	2013
Assets		
Intragovernmental		
Fund balance with Treasury (Note 2)	$ 732,014	$ 837,120
Investments (Note 3)	36,622,819	38,352,286
Accounts receivable (Note 4)	27,263	-
Total intragovernmental	37,382,096	39,189,406
Accounts receivable (Note 4)	311,361	315,436
General property, equipment, and software net (Note 5)	-	134,301
Prepaid expenses	121,500	186,187
Total assets	$ 37,814,957	$ 39,825,330
Liabilities		
Intragovernmental		
Accounts payable	$ 33,941	$ 46,700
Accrued post-employment compensation	34,300	34,000
Employer contributions and payroll taxes payable	233,398	190,897
Other	48	-
Total intragovernmental	301,687	271,597
Accounts payable	635,409	411,067
Actuarial workers' compensation liability (Note 6)	1,331,009	1,316,210
Accrued payroll and benefits	5,012,525	4,578,402
Employer contributions and payroll taxes payable	51,318	33,499
Deferred revenue	3,752,477	3,212,730
Accrued taxes payable	286	1,508 1
Total liabilities	$ 11,084,711	$ 9,825,013
Net Position		
Cumulative results of operations	$ 26,730,246	$ 30,000,317
Total net position	$ 26,730,246	30,000,317
Total liabilities and net position	$ 37,814,957	$ 39,825,330

The accompanying notes are an integral part of these statements. 1

STATEMENT OF NET COST
For the Years Ended September 30, 2014 and 2013
(In Dollars)

	2014	2013
Program Costs		
Public Mission		
Gross costs	$ 12,224,631	$ 11,695,922
Less: earned revenue	(10,517,839)	(10,863,530)
Net costs	$ 1,706,792	$ 832,392
Safety and Soundness		
Gross costs	$ 46,560,458	$ 43,424,434
Less: earned revenue	(39,811,531)	(39,550,402)
Net costs	$ 6,748,927	$ 3,874,032
Other Activity		
Gross costs	$ 906,901	$ 886,626
Less: earned revenue	(794,477)	(845,697)
Net costs	$ 112,424	$ 40,929
Net cost of operations (Notes 7 and 8)	$ 8,568,143	$ 4,747,353

The accompanying notes are an integral part of these statements. 1

STATEMENT OF CHANGES IN NET POSITION
For the Years Ended September 30, 2014 and 2013
(In Dollars)

	2014	2013
Cumulative Results of Operations		
Beginning balances	$ 30,000,317	$ 29,519,942
Other Financing Sources (Non-Exchange)		
Imputed financing sources		
Federal employee benefits (Note 9)	2,798,072	2,527,728
Rent (Note 10)	2,500,000	2,700,000
Total financing sources	5,298,072	5,227,728
Net cost of operations	(8,568,143)	(4,747,353)
Net change	(3,270,071)	480,375
Cumulative results of operations	$ 26,730,246	$ 30,000,317
Net position	$ 26,730,246	$ 30,000,317

The accompanying notes are an integral part of these statements. 1

STATEMENT OF BUDGETARY RESOURCES

For the Years Ended September 30, 2014 and 2013
(In Dollars)

	2014	2013
Budgetary Resources		
Unobligated balance brought forward, October 1	$ 31,850,419	$ 31,866,640
Spending authority from offsetting collections	51,547,259	51,031,084
Total budgetary resources (Note 11)	$ 83,397,678	$ 82,897,724
Status of Budgetary Resources		
Obligations incurred	$ 55,053,636	$ 51,047,305
Unobligated balance, end of year:		
Exempt from apportionment	24,591,565	28,637,689
Not available	3,752,477	3,212,730
Total unobligated balance, end of year	28,344,042	31,850,419
Total budgetary resources (Note 11)	$ 83,397,678	$ 82,897,724
Change in Obligated Balance		
Unpaid Obligations:		
Unpaid obligations, brought forward, October 1	$ 7,357,998	$ 8,682,824
Obligations incurred	55,053,636	51,047,305
Outlays (gross)	(53,462,399)	(52,372,131)
Unpaid obligations, end of year	8,949,235	7,357,998
Uncollected payments:		
Uncollected customer payments from Federal sources, brought forward, October 1	(632,944)	(765,236)
Change in uncollected customer payments from Federal sources	285,062	132,292
Uncollected customer payments from Federal sources, end of year	(347,882)	(632,944)
Memorandum Entries:		
Obligated balance, start of year	$ 6,725,054	$ 7,917,588
Obligated balance, end of year	$ 8,601,353	$ 6,725,054
Budget Authority and Outlays, Net		
Budget authority, gross	$ 51,547,259	$ 51,031,084
Actual offsetting collections	(51,832,321)	(51,163,376)
Change in uncollected customer payments from Federal sources	285,062	132,292
Budget authority, net	$ -	$ -
Outlays, gross	$ 53,462,399	$ 52,372,131
Actual offsetting collections	(51,832,321)	(51,163,376)
Agency outlays, net	$ 1,630,078	$ 1,208,755

The accompanying notes are an integral part of these statements. 1

NOTES TO THE FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies

A. Reporting Entity—The Farm Credit Administration is an independent agency in the executive branch of the U.S. Government. We are responsible for the regulation and examination of the banks, associations, and related entities that compose the Farm Credit System (FCS or System), including the Federal Agricultural Mortgage Corporation (Farmer Mac). Specifically, we are 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. The act requires us to periodically examine System institutions. 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 financial statements have been prepared in accordance with the OMB Circular No. A-136, as amended. In addition, the financial statements have been prepared on an accrual basis from our books and records in accordance with GAAP and the Statements of Federal Financial Accounting Standards prescribed by the Federal Accounting Standards Advisory Board, the official body for setting accounting standards for the Federal Government. Under the accrual 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.

C. Fund Balance with Treasury—We maintain 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 primarily from assessments and reimbursable activities. We do not receive appropriated funds. See Note 2.

D. Investments—The Farm Credit Act gives us the authority to invest in public debt securities with maturities suitable to our needs. We invest 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. We use 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. Our investments include carryover funds that are invested until needed for purposes such as offsetting assessment increases to FCS institutions. See Note 3.

E. Accounts Receivable—Accounts receivable are composed of

1. reimbursements for FCA administrative expenses according to agreements with other Federal entities,
2. assessments from institutions in accordance with the Farm Credit Act and FCA regulations, and
3. amounts owed FCA that are generated through the normal course of business with employees and vendors.

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

1. on the basis of a review of outstanding accounts and the failure of all collection efforts, management determines that collection is unlikely to occur after considering the debtor's ability to pay, or
2. an account for which no allowance has been established is submitted to the Department of the Treasury for collection, which takes place when it becomes 180 days delinquent.

The Office of Management Services (OMS), in conjunction with the Agency's accounting service provider, the Bureau of the Fiscal Service, reviews the Agency's accounts receivable on a regular basis. OMS has determined that all accounts receivable as of September 30, 2014 are fully collectible. See Note 4.

F. Advances and Prepaid Expenses—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 expenses 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. We capitalize all property, equipment, and software with itemized costs of $50,000 or more and a useful life of two years or more. We also capitalize groups of items that individually are under $50,000 but together meet the bulk purchase criteria of $500,000 or more. We use the straight-line method of depreciation with half-year convention to allocate the cost of capitalized property, equipment, and software over their estimated useful lives. See Note 5.

H. Accounts Payable—Accounts payable consist of amounts owed to other Federal agencies and the public. We strive to make payments in a timely manner in accordance with the Prompt Payment Act. If payments are late, we pay interest penalties. For FY 2014, we paid no interest penalties.

I. Liabilities—Liabilities may or may not be covered by budgetary or other resources. All of our liabilities are covered by budgetary resources with the exception of the Actuarial Workers' Compensation Liability (see Note 6). Intragovernmental liabilities are claims against us by other Federal agencies.

J. Federal Employee Benefits—Federal employee benefits include benefits earned by employees for pension, post-retirement health insurance, and life insurance. For reporting purposes, each employing Federal agency is required to recognize its share of the Federal government's cost and imputed financing for these benefits. To meet this requirement, the Office of Personnel Management (OPM) provides to each agency the cost factors used in the calculation of these Federal employee benefit expenses. See Note 9.

K. Rent—The Farm Credit Act allows us to occupy buildings and to use land owned and leased by the FCS Building Association, an entity owned by the System banks. The FCA Board oversees the Building Association activities on behalf of its owners. We are not charged for the use of the buildings or land, nor do we pay for maintenance and repair of buildings and land improvements. Rent is reflected on our books as an imputed cost and an imputed financing source. See Note 10.

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 our revenues is based on direct assessments billed to the System institutions we regulate or examine. We also recognize revenues based on examination services provided by the Office of Examination. We use a formula established in our regulations to calculate assessments. We base each institution's assessment, in part, on its average risk-adjusted assets and its overall financial health.

N. Deferred Revenue—Before each new fiscal year begins, we determine 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. According to the Farm Credit Act, these estimates are provided to the System institutions during September. Any funds received before the beginning of the new fiscal year are considered unearned revenue and are reported as deferred revenue on the Balance Sheet. These amounts are also reported as Unobligated Balance Not Available on the Statement of Budgetary Resources.

O. Use of Estimates—We have made certain estimates and assumptions when reporting assets, liabilities, revenues, and expenses; we have also made estimates and assumptions in the note disclosures. Actual results could differ from these estimates.

Note 2. Fund Balance with Treasury

	2014	2013
Fund balance with Treasury		
Revolving fund	$ 732,014	$ 837,120
Total fund balance with Treasury	$ 732,014	$ 837,120
Status of fund balance with Treasury		
Unobligated balance		
Available	$ 24,591,565	$ 28,637,689
Unavailable	3,752,477	3,212,730
Obligated balance not yet disbursed	8,601,353	6,725,054
Subtotal—Status of fund balance	36,945,395	38,575,473
Funds invested with Treasury		
Net of unamortized discount	(36,213,381)	(37,738,353)
Total fund balance with Treasury	**$ 732,014**	**$ 837,120**

The status of our 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 received but not yet paid.

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

All of our funds invested with Treasury are in U.S. Treasury securities.

Note 3. Investments

Intragovernmental Securities

Amounts for 2014 Balance Sheet Reporting

	Cost	Amortized (Premium) Discount	Investments Net	Interest Receivable	09/30/14 Investment Balance	Market Value Disclosure
Nonmarketable Market-based	$36,966,568	$(464,334)	$36,502,234	$120,585	$36,622,819	$36,631,024

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

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 revenue on investments was $283,835 and $377,344 for FYs 2014 and 2013, respectively.

Note 4. Accounts Receivable

	2014	2013
Intragovernmental		
Reimbursements for services provided	$ 27,263	$ -
Subtotal	27,263	-
With the public		
Reimbursements for services provided	296,260	287,090
Expenditure refunds	15,101	28,346
Subtotal	311,361	315,436
Total accounts receivable	**$338,624**	**$315,436**

The intragovernmental receivables for FY 2014 represent reimbursable services provided to USDA and FCSIC but unbilled as of September 30, 2014. All reimbursable services were billed for FY 2013.

Note 5. General Property, Equipment, and Software

As of September 30, 2014

	Estimated Useful Life	Depreciation Method	Acquisition Value	Accumulated/ Amortized Depreciation	Book Value
Equipment	3 years	Straight line	$805,805	$(805,805)	$0
Total			**$805,805**	**$(805,805)**	**$0**

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**

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

We record an unfunded liability for the actuarial liability under the Federal Employees' Compensation Act (FECA). The Department of Labor 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 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 we are not one of the entities for which the Labor Department provides individual estimates on a routine basis, we calculated our estimated actuarial liability amount by using the Labor Department's FY 2013 model to estimate FECA actuarial liability.

FECA Actuarial Liability

	2014	**2013**
Actuarial FECA Liability	$1,331,009	$1,316,210
Total liabilities not covered by budgetary resources	1,331,009	1,316,210
Total liabilities covered by budgetary resources	9,753,702	8,508,803
Total liabilities	$11,084,711	$9,825,013

Note 7. Intragovernmental Costs and Exchange Revenue

	For the Years Ended September 30, 2014 and 2013	
	2014	2013
Public Mission		
Intragovernmental costs	$ 2,654,011	$ 2,893,719
Public costs	9,570,620	8,802,203
Total costs—Public mission	12,224,631	11,695,922
Intragovernmental earned revenue	(59,025)	(80,068)
Public earned revenue	(10,458,814)	(10,783,462)
Total revenue—Public mission	(10,517,839)	(10,863,530)
Net program costs—Public mission	1,706,792	832,392
Safety and Soundness		
Intragovernmental costs	10,083,080	11,286,740
Public costs	36,477,378	32,137,694
Total costs—Safety and soundness	46,560,458	43,424,434
Intragovernmental earned revenue	(224,811)	(297,276)
Public earned revenue	(39,586,720)	(39,253,126)
Total revenue—Safety and soundness	(39,811,531)	(39,550,402)
Net program costs—Safety and soundness	6,748,927	3,874,032
Other Activity		
Intragovernmental costs	149,135	207,104
Public costs	757,766	679,522
Total costs—Other activity	906,901	886,626
Intragovernmental earned revenue	(498,885)	(558,610)
Public earned revenue	(295,592)	(287,087)
Total revenue—Other activity	(794,477)	(845,697)
Net program costs—Other activity	112,424	40,929
Net cost of operations (+/-)	**$ 8,568,143**	**$ 4,747,353**

We have classified our costs and revenues in this way to enable the Federal Government to provide consolidated financial statements. The intragovernmental costs relate to the source of goods and services we purchased 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 2014 and 2013. We display our cost and earned revenue amounts by office within each program.

For the Year Ended September 30, 2014

	Office				
	Examination	**Regulatory Policy**	**Secondary Market Oversight**	**Other Organizations**	**Total**
Public Mission					
Gross costs	$ 586,503	$ 3,657,465	$ 424,496	$ 7,556,167	$12,224,631
Less: Earned revenue	(497,723)	(3,105,642)	(427,848)	(6,486,626)	(10,517,839)
Net program cost	88,780	551,823	(3,352)	1,069,541	1,706,792
Safety and Soundness					
Gross costs	31,352,359	1,329,891	876,423	13,001,785	46,560,458
Less: Earned revenue	(26,684,166)	(1,128,792)	(857,502)	(11,141,071)	(39,811,531)
Net program cost	4,668,193	201,099	18,921	1,860,714	6,748,927
Other Activity					
Gross costs	461,268	94,874	1,140	349,619	906,901
Less: Earned revenue	(404,087)	(83,113)	(998)	(306,279)	(794,477)
Net program cost	57,181	11,761	142	43,340	112,424
Net cost of operations	**$ 4,814,154**	**$ 764,683**	**$ 15,711**	**$ 2,973,595**	**$ 8,568,143**

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

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 9. Federal Employee Benefits

	2014	2013
Imputed pension cost	$ 1,466,882	$ 1,233,451
Other imputed retirement benefits	1,351,190	1,294,277
Total	**$ 2,798,072**	**$ 2,527,728**

Retirement—Our employees are covered under the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS) to which we make contributions according to plan requirements. CSRS and FERS are multiemployer plans. We do not maintain or report information about the assets of the plan, nor do we report actuarial data for accumulated plan benefits. The reporting of such amounts is the responsibility of OPM. We report the amount of our pension expense for employees in accordance with Statements of Federal Financial Accounting Standards (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 we recognized for FYs 2014 and 2013. Corresponding amounts of imputed revenue are recorded to offset the imputed cost.

Other Retirement Benefit Expenses—SFFAS No. 5 requires employing Federal agencies to recognize an expense for the cost of providing health benefits and life insurance to their employees after they retire. OPM provided the factors used to calculate these costs. 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. We record corresponding amounts of imputed revenue to offset the imputed cost.

Note 10. Rent

	2014	2013
Leased field offices	$ 1,212,990	$ 1,181,452
FCA headquarters	1,287,010	1,518,548
Total	**$ 2,500,000**	**$ 2,700,000**

In accordance with the Farm Credit Act, we occupy buildings owned and leased by the FCS Building Association. Our administrative headquarters building and land are located in McLean, Virginia. In addition, the Building Association leases office space for field offices on our behalf at various locations throughout the United States. Rent is provided at no cost to us. The above imputed rent expense is an estimate based on the Building Association's estimated budget for 2014. 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 2014

The 2016 Budget of the United States Government, with the Actual Column completed for FY 2014, 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 2015. It will be available on our website at www.fca.gov/rpts/publications.html.

FY 2013

The 2015 Budget of the United States Government, with the Actual Column completed for 2013, 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, 2014 and 2013, undelivered orders that were unpaid amounted to $2,948,057 and $2,061,925, respectively.

Note 13. Incidental Custodial Collections

Our custodial collections include receipts to cover the costs of fulfilling Freedom of Information Act requests; they also include other receipts, such as interest and penalties. During the fiscal year, we include these collections in the Fund Balance with Treasury. However, since these collections are immaterial to the financial statements and incidental to our mission, we do not provide a Statement of Custodial Activity. Custodial collections totaled $1,548 for the year ended September, 30, 2014. There were no custodial collections in FY 2013. The funds were transferred to the Department of the Treasury at the end of FY 2014.

Note 14. Reconciliation of the Net Cost of Operations to the Budget

As prescribed by SFFAS No. 7, this note reconciles our 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.

Reconciliation of Net Cost of Operations to Budget
for the Years Ended September 30, 2014 and 2013

	2014	2013
Resources Used to Finance Activities		
Budgetary resources obligated		
Obligations incurred	$ 55,053,636	$ 51,047,305
Spending authority from offsetting collections and recoveries	(51,547,259)	(51,031,084)
Net obligations	3,506,377	16,221
Other resources		
Imputed financing from costs absorbed by others	5,298,072	5,227,728
Other resources	539,747	(151,235)
Net other resources used to finance activities	5,837,819	5,076,493
Total resources used to finance activities	9,344,196	5,092,714
Resources used to finance items not part of the net cost of operations	(976,590)	(253,587)
Total resources used to finance the net cost of operations	8,367,606	4,839,127
Components of the net cost of operations that will not require or generate resources in the current period	200,537	(91,774)
Net cost of operations	$ 8,568,143	$ 4,747,353

OTHER INFORMATION

Letter from the Inspector General on FCA's Management Challenges

Farm Credit Administration

Office of Inspector General
1501 Farm Credit Drive
McLean, Virginia 22102-5090

October 15, 2014

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

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

As part of the Agency's annual Performance and Accountability Report, the Inspector General is required by law, the Reports Consolidation Act of 2000, to provide a summary perspective on management and performance challenges facing the Agency. I have identified four challenge areas. Please see the attached summary and paragraphs expanding on the challenges and the Agency's progress on meeting these challenges.

This year marks the Office of Inspector General's (OIG) 25th anniversary (1989-2014). We appreciate the continued, ongoing support the OIG receives from Agency leadership. We will continue to work with you in addressing these and other challenges that you face in achieving FCA's mission.

If you have any questions, please call me at 703-883-4036 or 4030.

Respectfully,

Elizabeth M. Dean

Elizabeth M. Dean
Inspector General

Enclosure

Summary of the Inspector General's Identification of Major Challenges	
Examination and Supervision Program	Given the complex, volatile nature of the agricultural environment, the Farm Credit Administration (FCA or Agency) faces challenges in the examination and supervision program. FCA examination and supervision must adapt and evolve in oversight methodologies to keep pace with the ever-changing structure of the System, financial growth, the evolution of shared assets, and complex financial products.
Organizational Structure	FCA's organizational structure continues to be a challenge. Due to statutorily imposed term limits, it is likely several changes to the FCA Board will occur. It is an important dynamic for senior management to continue evaluating FCA's organizational structure to ensure it is optimal and adapts to the changes in the Farm Credit System (FCS or System), the law, and technology.
Human Capital	FCA faces numerous challenges with human capital. Personnel that are retirement eligible account for an increased percentage of FCA's workforce. The recruitment and hiring processes must be more streamlined and continue to emphasize diversity and inclusion within the workforce.
Information Technology	Leveraging and securing information technology is a difficult task. FCA currently invests in information technology and must ensure technology is leveraged. With the increased use of technology, it is also important for FCA to secure information and systems in an ever-changing environment.

Challenge 1: Examination and Supervision Program

Overall, the System's condition and performance is sound. However, the System primarily revolves around the agriculture industry, which creates vulnerability to market volatility and uncertain economic conditions. The heightened risk level of the industry, geopolitical, and macroeconomic factors affecting the industry demand that FCA, as an effective regulator, remain a fluid Agency, adapting the examination and supervision program as needed.

The challenge to the Agency is the ability to be an independent, objective, effective arms-length regulator in an ever-changing environment. FCS institutions continue to grow in asset size and complexity, for example, in the agribusiness sector. This requires more sophisticated skills and oversight responsibility. FCA's examination program must keep pace with the current and future states of the System. The examination program is designed to ensure the System is providing constructive credit to farmers, ranchers, rural residents, agricultural and rural utility cooperatives, and other eligible borrowers. Assessing the System's economic and operational conditions takes monetary, human capital, and technological resources.

Further, some FCS institutions have not kept pace with the risk management needed in order to be considered a safe and sound operation. In these cases, the FCA must intervene to ensure ongoing health of the System. Although the number of FCA supervised institutions has declined this year, there are remaining enforcement and special supervision actions currently in process. FCA must provide prompt preemptive actions, when needed, to prevent escalation of issues or remedial actions, if necessary.

Agency Progress

FCA continuously works to address the challenges of the examination and supervision roles and responsibilities. Each year, the Office of Examination (OE) identifies National Oversight Plan risks that are emphasized in ongoing examinations and oversight activities. For Fiscal Year 2014 these included: business planning and diversity and inclusion; underwriting in volatile times; board governance; and standards of conduct. For Fiscal Year 2015, the risks identified include: portfolio management in volatile times; allowances for loan loss in volatile times; large, complex, and shared assets; and board governance and nominating committees.

In addition, OE issued an informational memorandum in July 2014 regarding System operating expenses. The memorandum warned institutions that the rate of growth for operating expenses has significantly outpaced growth in net interest income during the past two years. The Chief Examiner noted that while these were not currently a widespread problem, a continuation of these trends could have significant adverse impact at the institution and System level.

These areas show FCA's continual progress in addressing the challenges facing the oversight role by emphasizing high-risk priorities. The Office of Inspector General (OIG) plans to review several OE programs over Fiscal Years 2015-2016 to ensure the challenges of the examination and supervision program continue to be adequately addressed.

Challenge 2: Organizational Structure

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 FCA Board's composition and chairmanship. The Farm Credit Act of 1971, as amended, provides for a full-time, three-member board to govern the Agency. Board members, which are subject to statutory term limits, 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 expired in May 2014. Board Member Spearman was appointed in October 2009, with a term expiration of May 2016. Board Member Strom's term expired October 2012. In accordance with law, board members may continue to serve until the President appoints a successor. Given the terms of the board members, it is likely new members will join the FCA Board in the near future. With that change, FCA has an ongoing challenge of coordination and cooperation between the Chairman and Board members in defining roles and responsibilities. Each board member brings institutional knowledge and experience to FCA; leadership goals and styles vary.

FCA has a further challenge concerning the overall structure of the organization. It is imperative for FCA to be cognizant of outside forces affecting regulations and policy. With awareness, also comes the responsibility to maintain open communication with banking and agricultural industries to align and distinguish appropriately. This is especially important in relation to the regulatory agenda. The organizational structure must align in a way that ensures quality staff are dedicated to understanding, communicating, and addressing policy and regulatory issues.

The merging of institutions, geographic territory changes, and increasing levels of institution product complexity have changed the System's structure. Therefore, the oversight and regulatory role has also increased in complexity. These and other factors affect FCA's organizational structure. With these ongoing changes, FCA should ensure optimal structure is in place to fulfill its role as regulator and examiner. The Board and senior management should periodically reassess the organizational structure to ensure it remains optimal.

Agency Progress

The Agency has made progress with regard to organizational structure. The Board documents the rules and processes followed by Board members. These documented policies allow for continuity and stability during times of transition. Further, the current organizational structure is established and effective. FCA has allocated staff in specialized areas such as capital markets, risk-based modeling, and governance. The Agency has field offices and examination divisions focused on specialized facets of agricultural credit to align with the needs of the examination function. Likewise, the Agency has a mature regulatory development staff composed of professionals germane to the mission. FCA has also invested heavily in becoming a mobile workforce. With this advantage, employees can respond quickly to Agency needs. It is also important to note that because FCA is a small agency, employees have been trained with the "do more with less" mentality. This is beneficial to the organizational structure. Personnel are cross-trained to perform various duties, and take on multiple roles and responsibilities.

The OIG plans to review the challenges to the organizational structure through various audits and inspections in the future.

Challenge 3: Human Capital

As of September 30, 2014, FCA had 286 employees. In order to be an effective regulator, FCA must utilize the experience and qualifications of its employees, which are FCA's most valuable asset. However, in regard to human capital, FCA faces numerous challenges. There are multiple factors contributing to these challenges including:

- Retirement Eligibilities
- Recruitment Initiatives
- Diversity and Inclusion

About 20 percent of FCA's current workforce is eligible to retire. Retirement eligibilities present a challenge to the Agency because with the retirement of these individuals comes the loss of historical knowledge of the System and FCA. In addition, some of these individuals are in key roles critical to the mission of the Agency. The Agency is challenged to replace these individuals with as little disruption to the Agency's objectives as possible. Transitioning new staff and ensuring efficient and effective continuity through the management of these retirements can reduce the impact to the Agency.

Given FCA's mission, it is imperative the Agency attracts, hires, and retains experienced, qualified, and professional personnel to meet the challenges of the agricultural industry, the System, and FCA. Staff must adapt to the complexity of the mission. Recruiting top-notch talent is a challenge for the Agency. Many of FCA's positions require a unique skill set and qualifications. As the need for specialized talent grows, recruiting and streamlined hiring processes will continue to be a challenge in upcoming years.

An area of emphasis for FCA has been diversity and inclusion; however, it remains a challenge for FCA. In order to increase workplace diversity and promote inclusion, FCA must continue to emphasize programs relating to these issues and implement plans addressing diversity and inclusion. For example, many of the veterans at FCA are or will be retirement eligible in the upcoming years. This presents an area of opportunity for FCA to create more diversity and support a positive culture for all.

Agency Progress

The FCA Board and senior management recognize the importance of human capital challenges. The Agency has a comprehensive five-year Human Capital Plan. The Agency tracks retirement projections for five years out and continually assesses human capital needs. The Agency's Office of Management Services reports that general attrition has remained stable when the impact of increasing retirement rates is factored out. Recruiting remains a priority for the Agency. Several recruiting initiatives are underway. In addition, FCA offers a competitive pay plan and comparable benefit packages to attract and retain personnel. The Agency has also been recognized for fostering accountability in diversity and inclusion. The Agency has a Director of Equal Employment Opportunity and Inclusion that reports directly to the Board Chair. The Agency incorporates diversity and inclusion in its recruiting strategies and has moved even closer to civilian labor force and Federal labor force percentages of the workforce diversity and inclusion.

The OIG plans to review several programs related to this area of challenge. We plan to review FCA's human capital program and OE's promotion and selection process in Fiscal Year 2015. The OIG also currently has an ongoing audit of the commissioning program, the training program leading to commissioned bank and institution examiners.

Challenge 4: Information Technology

Technology potentially improves the Agency's performance by increasing efficiency and effectiveness of operations. FCA currently utilizes technology for every aspect of its operations and must continue to maximize the use of information technology investments. FCA also plans to continue to invest and leverage technology in future years. However, with information technology investments, there are also challenges. FCA must ensure technology is leveraged in ways that enhance the overall mission of the Agency and security is properly addressed and implemented.

FCA has invested in different technologies that will change the way the Agency conducts its work to meet mission requirements. For example, OE is phasing in a new system, which was designed to establish a more centralized information repository for all examination and supervisory activities. Another project is the management dashboard that aims to provide key information to allow effective management of programs and activities through timely, easily accessible information. FCA also replaces laptops on a three-year replacement cycle that allows for faster and more convenient technological capabilities. It is imperative that with these investments, the Agency leverages technologies to increase efficiency and effectiveness to meet the Agency's goals.

In addition, security is at the forefront of importance with information technology. Given the current data breaches and security problems in the technological environment, FCA must protect vital information and computer systems. There must also be controls, security, and safeguards to ensure the information is protected. FCA encounters challenges when trying to provide security in a fast-paced, ever-changing environment. There is a vast array of complex technologies. When those complexities are coupled with the changes in attacks that evolve in both sophistication and maliciousness, this area becomes difficult and demanding.

Agency Progress

The Agency has an active information resource management planning process that identifies, reviews, and prioritizes information technology initiatives to improve Agency operations. The Agency continues to make technology a priority and plans to make additional, significant investments to improve communication, collaboration, and efficiency of operations.

This year, a management decision was made to extend the three-year replacement cycle of laptops by a year. The laptops remain well-suited to operational needs, and the decision has a positive economic impact. FCA also takes information security seriously. The Agency has an effective information security program with an experienced team that is proactive.

The OIG plans to review this area of challenge. Specifically, the OIG plans to review the use of mobile devices at FCA and laptop procurement in Fiscal Year 2015. We also plan to review controls over the Electronic Official Personnel Folder and the EDGe System in Fiscal Year 2016. The OIG also conducts an annual evaluation of FCA's compliance with the Federal Information Security Management Act.

Farm Credit Administration

1501 Farm Credit Drive
McLean, Virginia 22102-5090
(703) 883-4000

November 17, 2014

Ms. Elizabeth Dean
Inspector General
Farm Credit Administration
1501 Farm Credit Drive
McLean, Virginia 22102-5090

Dear Ms. Dean:

Thank you for your statement on the management and performance challenges facing FCA. We are committed to financial efficiency and operational effectiveness at FCA, and we appreciate your role in this effort. The attached table contains our response to each of the challenges you identified in your statement.

The actions outlined in our response demonstrate our commitment to strengthening internal control and improving the Agency's performance. We look forward to working with you to further address these challenges.

Sincerely,

Jill Long Thompson

Jill Long Thompson
Board Chair and CEO

Management's Response to Challenges Identified by FCA's Inspector General

Challenge 1: Examination and Supervision Program

We agree with the IG's assessment of the challenges and provide the following additional thoughts for consideration.

The Agency's oversight role will become more complex as System institutions grow in size, scope, and structure. It will also become more complex as institutions implement more sophisticated business practices. We must be capable of examining all material risks that could lead to unsafe or unsound conditions, and we must ensure that we have the expertise to understand and review these practices as the System evolves.

The Office of Examination will continue to focus resources for examination and supervision based on institution risks. To address specific risks and concerns in FY 2015, our examiners will emphasize certain "focus areas" in their examinations. We have outlined these areas in our National Oversight Plan for FY 2015. If we identify deficiencies in risk management practices at System institutions, we will make sure the institutions address these deficiencies.

Challenge 2: Organizational Structure

We agree with the IG's assessment of the challenges and provide the following additional thoughts for consideration.

The FCA Board regularly updates the Strategic Plan and has policies and procedures that provide for the continuity of its operations. The CEO, in consultation with the FCA Board, ensures that the organization of the Agency carries out the goals and objectives of the Board.

The changing nature of the Board can be a challenge for the Agency, but it's also an opportunity. By leveraging the diversity that these changes bring to the Board, we can turn this challenge into a strength.

Changes in the System can also present challenges for the organizational structure of the Agency. The number of System institutions is declining as more and more institutions merge; in addition, institutions are beginning to establish strategic alliances with each other. We are working to develop a framework for evaluating and reviewing policies and regulations that anticipates mergers and takes strategic alliances into account. Our organizational structure must include individuals who have the needed expertise to consider the effects of merger transactions and alliances on the System as a whole—not just the institutions directly involved.

Our staff may have to reach out to a variety of stakeholders, including System personnel, outside third parties, and members of academia. By ensuring that our organizational structure includes individuals with the skills to evaluate policies in a forward-thinking framework, we can enhance our accountability as a safety and soundness regulator and ensure that the System will be better-positioned to meet its mission.

Management's Response to Challenges Identified by FCA's Inspector General

Challenge 3: Human Capital

We agree with the IG's assessment of the challenges and provide the following additional thoughts for consideration.

To be successful in the future, the Agency will need to continue to attract and retain well-qualified staff. We will also need to provide training to ensure employees have the specialized skills they need to perform complex analyses and oversight. We have recently issued numerous job announcements to attract staff with technical expertise; these job openings include positions for specialists in credit, capital markets, and information technology and security.

These openings are for both leadership and technical positions. To plan the direction of the Agency and to build "bench strength" for the future, we must have both leaders and technical experts in the areas of examination, policy development, financial analysis, and information technology. To retain highly qualified staff members, we must provide them with challenging work and strong job incentives. We plan to work closely with our Chief Learning Officer to support a continuous learning environment that values and rewards employees who work hard to enhance their skills.

Our five-year Human Capital Plan recognizes our human capital challenges and establishes strategies to address those challenges. The plan encompasses the five areas established in the OPM Human Capital Assessment and Accountability Framework: key-person dependency, employee turnover, competencies, employee engagement, and diversity and inclusion. Under each of these areas, we have established strategic objectives and action plans. In FY 2014, we took steps to address our human capital challenges and will continue to do so in FY 2015.

Challenge 4: Information Technology

We agree with the IG's assessment of the challenges and provide the following additional thoughts for consideration.

Through our information resources management planning, we ensure that FCA business needs drive our IT program and expenditures. The planning process supports timely and cost-effective IT services and identifies new application development needs. Staff members from our business units are actively involved in making decisions regarding IT investments.

To enhance our IT infrastructure, we will improve the usability of our smartphones and tablet devices by making it easier to access documents and applications. We will also continue to use business intelligence tools and Farm Credit System loan data to better identify and address risks in the System.

To further protect FCA information against ever-evolving threats from malware and viruses, we will continue to update our security toolset. We will also continue to consider risk in our IT-related decisions and to establish security controls to help protect us from those risks.

Summary of Financial Statement Audit and Management Assurances

Table 6. Summary of Financial Statement Audit

Audit Opinion: **Unmodified**
Restatement: **No**

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending 1 Balance 1
(Not applicable) 1					

Table 7. Summary of Management Assurances

Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)
Statement of Assurance: Unmodified

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
(Not applicable) 1						

Effectiveness of Internal Control over Operations (FMFIA § 2)
Statement of Assurance: Unmodified

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
(Not applicable) 1						

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) 1						

Compliance with Section 803(a) Federal Financial Management Improvement Act 1

	Agency	Auditor
1. System Requirements	No lack of substantial compliance noted	No lack of substantial compliance noted
2. Accounting Standards	No lack of substantial compliance noted	No lack of substantial compliance noted
3. USSGL at Transaction Level	No lack of substantial compliance noted	No lack of substantial compliance noted

Additional Information

The Farm Credit Administration Performance and Accountability Report Fiscal Year 2014 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 1
Farm Credit Administration 1
1501 Farm Credit Drive 1
McLean, VA 22102-5090 1
Telephone: 703-883-4056 1
Fax: 703-790-3260 1
E-mail: info-line@fca.gov 1

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 1
10 Exchange Place 1
Suite 1401 1
Jersey City, NJ 07302 1
Telephone: 201-200-8000 1

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 1
1501 Farm Credit Drive 1
McLean, VA 22102 1
Telephone: 703-883-4380 1

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

Copies are available from
Office of Congressional and Public Affairs
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