# Farm Credit Administration

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

# Performance and Accountability Report
# Fiscal Year 2015

# 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 Chairman and CEO

November 10, 2015

As Board Chairman 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) 2015.

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 2015 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. This is particularly important now, as the agriculture industry enters a more challenging period. The U.S. Department of Agriculture projects net farm income to drop by 36 percent in 2015. Low prices and high production costs continue to squeeze profit margins for corn and soybean producers.

In addition, farmland values show signs of slipping, particularly in the Midwest, as lower profits for crop producers and an expected rise in interest rates put downward pressure on prices. Margins for dairy and poultry producers are also expected to decline because higher production is reducing prices.

Fortunately, the FCS remains financially sound and is well-positioned to withstand a downturn in the farm economy. For the first six months of 2015, it reported solid earnings and higher capital levels. Loan quality in the System's portfolio continues to be very good; however, credit quality may be adversely affected as certain agricultural sectors come under increasing stress.

To ensure the System remains safe and sound during this period of lower farm income and other economic stressors, our examiners will focus on the following major risk topics over the next 12 months:

- Internal controls and operations risk
- Intensifying credit risk

Also, to ensure that the System has the most effective, up-to-date set of capital regulations, our staff continues to work diligently to prepare a final capital rule. If adopted, this rule will modernize our capital requirements while ensuring that System institutions continue to hold sufficient regulatory capital. We are reviewing the comments we have received from the public on the proposed rule, and we are making adjustments where appropriate. My goal is to issue a final capital rule during my chairmanship on the FCA Board.

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.

Kenneth A. Spearman
Board Chairman 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.

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

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

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

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

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

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

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

## Mission

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

## FCA Offices

As of September 30, 2015, FCA had 298 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 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 agencywide 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 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 Office of Congressional and Public Affairs (OCPA)** serves as the agency's principal point of contact for Congress, the media, other Government agencies, FCS institutions, employees, System borrowers, and the public. OCPA develops and monitors legislation pertinent to FCA and the FCS, serves as the agency's congressional liaison, facilitates intergovernmental relations, and prepares testimony for the Chairman and other Board members. The office also provides information to external audiences through news releases, fact sheets, reports, and other publications. It cultivates relationships with media representatives who report on matters related to agriculture and rural credit, and it manages the content of the FCA website. OCPA also organizes special meetings, briefings for international visitors, and field hearings.

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

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

**The Office of Information Technology (OIT),** which was created in June 2015, manages and delivers the agency's information technology, data analysis infrastructure, and the security supporting agency technology resources. The office is responsible for the planning and control of information technology investments and leading change to improve the efficiency and effectiveness of agency operations. OIT is responsible for continuing to leverage FCA's investment in technology by collaborating across agency offices to identify and re-engineer business processes. OIT provides strategies to collaborate across offices on business intelligence tools to develop analysis models to meet the strategic needs of the agency.

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

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

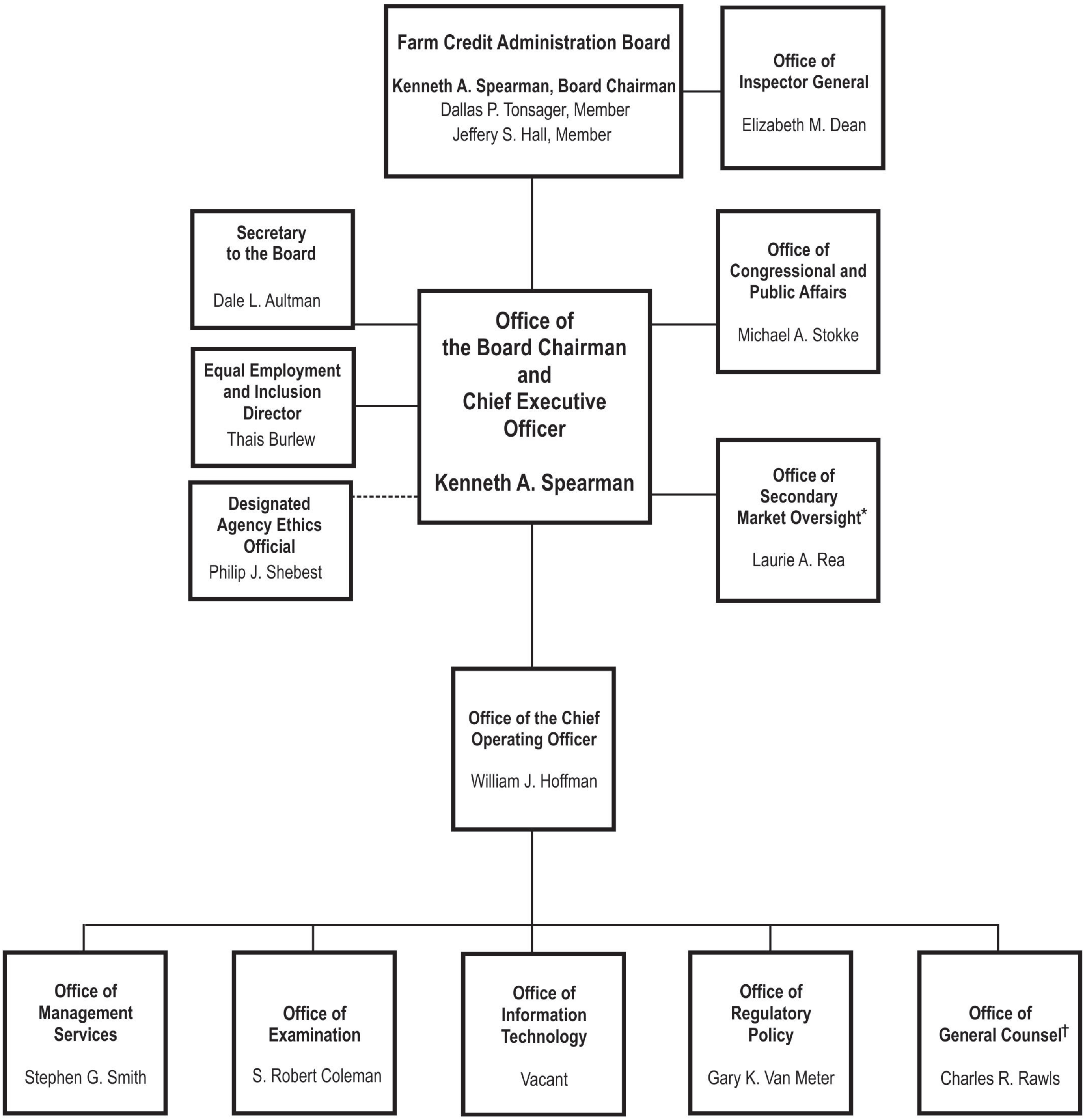
**The Office of Management Services (OMS)** manages and delivers the agency's financial, human capital, and administrative services. The office coordinates planning efforts, including information resources management, security, human capital, and financial plans for the agency. By centrally planning, 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 the Farm Credit System Insurance Corporation. The office serves as the chief liaison with the Equal Employment Opportunity Commission and the Office of Personnel Management on all equal employment opportunity, 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, 2015




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

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

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

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

1. Percentage of System assets in institutions with composite CAMELS ratings of 1 or 2. (Target: ≥90 percent)
2. Percentage of requirements in supervisory agreements with which FCS institutions have at least substantially complied within 18 months of execution of the agreements. (Target: ≥80 percent)
3. Percentage of institutions complying with regulatory capital ratio requirements (permanent capital ratio, total surplus ratio, core surplus ratio, net collateral ratio). (Target: ≥90 percent)

4. Whether the Office of Secondary Market Oversight's examination and oversight plan and activities effectively identify emerging risks, and whether appropriate supervisory and corrective actions have been taken to effect change when needed. (Target: Yes)
5. Percentage of institutions with satisfactory audit and review programs, including institutions with acceptable corrective action plans (Target: 100 percent)
6. Percentage of FCS institutions providing FCA with consolidated loan data. (Target: 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 32 and 33.

In 2015, 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:

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

Using information from the financial statements beginning on page 41, this section highlights key points about FCA's financial condition for fiscal years 2015 and 2014.

### FCA's Assets, Liabilities, and Net Position

The balance sheet on page 42 presents our financial condition as of fiscal year-end 2015 and 2014. 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 2015 are composed of our fund balance with Treasury (2.5 percent), investments (95.2 percent), accounts receivable and prepayments (1.0 percent), and property and equipment (1.2 percent). During FY 2015, total assets decreased by $5,881,914, or 15.6 percent, from amounts reported in FY 2014. Capitalized property and equipment balances increased in FY 2015 because we purchased and capitalized new assets.

Our investment portfolio, which accounts for the largest portion of our total assets, decreased by $6,212,858 in FY 2015. The overall decrease in total assets is attributed to the decrease in investment holdings. A portion of our investment portfolio includes assessment carryover funds that are invested until needed. As in prior years, we have worked to reduce our assessment carryover balances by offsetting assessment increases to

**Table 1. Composition of Assets**

| Fiscal Year | Fund Balance with Treasury | Investments | Accounts Receivable and Prepayments | Property and Equipment | Total |
|---|---|---|---|---|---|
| 2015 | $ 798,165 | $ 30,409,961 | $ 334,754 | $ 390,163 | **$ 31,933,043** |
| 2014 | $ 732,014 | $ 36,622,819 | $ 460,124 | $ - | **$ 37,814,957** |

**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 |
|---|---|---|---|---|---|---|
| 2015 | $ 678,967 | $ 5,534,975 | $ 441,269 | $ 1,293,166 | $ 2,141,460 | **$ 10,089,837** |
| 2014 | $ 669,398 | $ 5,012,525 | $ 285,002 | $ 1,365,309 | $ 3,752,477 | **$ 11,084,711** |

System institutions and funding portions of our budget each year with the assessment carryover. A reduced assessment carryover balance translates into reduced investment holdings because there is less cash available to invest in Treasuries.

We purchased $14,745,083 in U.S. Treasuries during fiscal year 2015, 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.

As of September 30, 2015, the agency held $798,165 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 (6.7 percent)
- Payroll and benefits (54.9 percent)
- Employer contributions and taxes payable (4.4 percent)
- Workers' compensation (12.8 percent)
- Deferred revenue (21.2 percent)

Like total assets, our total liabilities decreased from 2014 to 2015. Driven primarily by the decrease in deferred revenue, overall liabilities decreased by 9.0 percent.

Deferred revenue decreased by 42.9 percent from 2014 to $2,141,460. It declined in 2015 because fewer institutions prepaid their assessments for 2016. Deferred revenue represents assessments received from FCS institutions that are not yet due. At the beginning of each fiscal year, we reclassify any prepaid assessments as revenue earned in October of the new year.

The net position, which represents the cumulative results of operations since the agency began, decreased by $4,887,040, or 18.3 percent, during FY 2015. The net position declined in part because of the increase in the net cost of operations (see the Program Costs and Revenues section) but also because of an increase in imputed financing sources (that is, rent and federal employee benefits). For a breakdown of the net position, see the Statement of Changes in Net Position on page 44.

### 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 2015 and 2014. The overall FY 2015 budget increased by 2.7 percent over the 2014 budget.

**Table 3. Agency Budget**

| | 2015 | 2014 |
|---|---|---|
| Assessments (current year)* | $54,500,000 | $50,000,000 |
| Assesments (carryover from prior years) | 10,600,000 | 13,300,000 |
| Reimbursable activity | 500,000 | 600,000 |
| **Total** | **$65,600,000** | **$ 63,900,000** |

* FY 2015 assessments were reduced by $3 million during FY 2015.

We originally budgeted FY 2015 assessments at $54.5 million; however, during the year, we reduced assessments by $3 million. As a result, we only assessed System institutions for $51.5 million in FY 2015.

In FY 2015, we continued to carry out our mission, program goals, and objectives within the available budget. While our board-approved budget for FY 2015 was $65.6 million, the congressional limitation on our spending was only $60.5 million. The FY 2014 limitation was $62.6 million.

As table 4 shows, we used $59,521,518 of the funds available in 2015, compared with $55,821,376 of the funds available in 2014. If you compare the funds used each year to the congressional limitation for that year, we used 98.4 percent of FY 2015 funding and 89.2 percent of FY 2014 funding. The increase in personnel compensation, driven by salary and benefit increases, accounts for the largest increase in funds used from 2014 to 2015.

Personnel compensation and benefits continue to account for the most significant use of funds at FCA, representing 82.9 percent of total funds used in 2015. Funds used for property and equipment increased by 81.4 percent, the largest percentage increase. During FY 2015, we expended funds for 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, 2015, and September 30, 2014. Please read this section in conjunction with the Statement of 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.

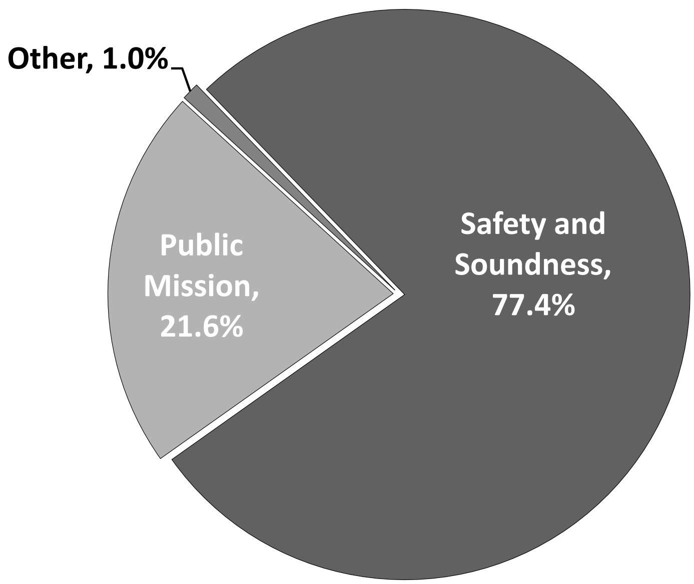
Our board and management regularly review and update the agency's five-year strategic plan to ensure that we can address challenges as they arise. As part of our strategic planning, we have developed human capital and information resource plans to promote efficiency and effectiveness. We have also managed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

The net cost of our programs totaled $10,225,756 for the 12 months ended September 30, 2015, compared with $8,568,143 for the same period

**Table 4. Funds Used by Major Budget Category**

| Budget Category | FY 2015 | Percentage of Total | FY 2014 | Percentage of Total |
|---|---|---|---|---|
| Personnel compensation and benefits | $49,371,359 | 82.9% | $ 47,025,345 | 84.1% |
| Travel and transportation | 3,069,502 | 5.2% | 2,992,947 | 5.4% |
| Contractual services | 3,759,942 | 6.3% | 3,324,188 | 6.0% |
| Property and equipment | 1,800,058 | 3.0% | 992,438 | 1.8% |
| Other | 1,520,657 | 2.6% | 1,486,458 | 2.7% |
| **Total** | **$59,521,518** | **100%** | **$55,821,376** | **100%** |

**Figure 2. FY 2015 Gross Costs by Agency Goal**




the previous year. Because gross costs increased more than gross revenue, net costs increased in FY 2015.

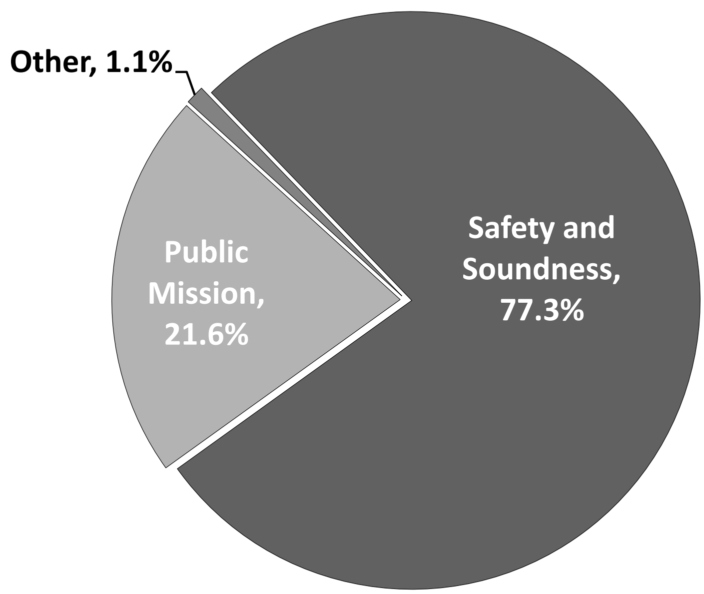
The total cost of FCA's programs for FY 2015 is $62,554,232, compared with $59,691,990 for FY 2014. This represents an increase of $2,862,242, or 4.8 percent from 2014. Figure 2 shows the breakdown of FY 2015 gross costs for each of the agency's goals. Virtually all costs support our mission and program goals. The increase in total cost is primarily due to increases in employee compensation. Increases in costs for information technology and employee benefit programs also contributed to the total cost increase.

Employee salaries and benefits represent our greatest overall cost. For 2015, employee compensation totaled $49,465,291, or 79.1 percent of total cost. This cost increased by $2,660,869, or 5.7 percent, from 2014 because of pay-for-performance and employee benefit increases, career ladder promotions, and funded leave.

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 2015 gross revenue for each of our goals. Earned revenue for 2015 totaled $52,328,476, up $1,204,629 from 2014. Overall earned revenue increased because of the increase in assessments of the FCS. The assessment increase mitigated decreases in revenue from reimbursable services and interest earned from investments.

**Figure 3. FY 2015 Gross Revenue 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 2015, 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, 2015, program cost for public mission was $13,507,464, representing an increase of $1,282,833, or 10.5 percent, from the same period the previous year. The cost for the public mission program represents 21.6 percent of our total costs for 2015.

**Safety and Soundness Program**

The examination and supervision of the FCS account for the largest portion of our costs at the program level. In 2015, cost of the safety and soundness program increased primarily because of higher costs for employee compensation. We met oversight and supervisory challenges in 2015 by leveraging technologies and helping institutions improve their financial condition. The number of institutions under FCA supervisory action dropped by three institutions, resulting in a total of three institutions under formal supervisory action as of September 30, 2015.

To maintain the quality of our service, we invest heavily in the recruitment and training of staff through our Examiner Commissioning Program. These recruiting and training efforts are necessary to meet human resource needs and to offset the impact of the large number of retirements that are expected to occur within the next five years.

During FY 2015, 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 $1,860,190 to $48,420,648, which represents 77.4 percent of our total costs in 2015.

### 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 decreased by $280,781 to $626,120 in 2015. A reduction in reimbursable services for USDA and NCB mitigated the increase in employee compensation costs.

The costs for providing reimbursable services represented approximately 1.0 percent of our total costs in 2015, a decline from 1.5 percent of total costs in 2014. Earned revenue for other activity totaled $551,276 for 2015, compared with $794,477 for 2014. Since the level of revenue is based on the level of reimbursable work completed, revenue decreased by about the same rate that expenses decreased.

## LIMITATIONS OF THE FINANCIAL STATEMENTS

We have prepared the principal financial statements to report the financial position and results of our 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 our financial management system strategy and our compliance with the following acts:

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

Financial Management System Strategy
We partner 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 the FCA Office of Inspector General (OIG) describe its audits, inspections, evaluations, and related activities, and the agency's follow-up to its recommendations.

The OIG's two semiannual reports covering FY 2015 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.

The 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

The OIG issued six audit, inspection, or evaluation reports during FY 2015, resulting in 20 agreed-upon actions. Nine agreed-upon actions have been closed (including three from the prior fiscal year); therefore, 14 actions remain open this fiscal year. The reports are available on FCA's OIG website, http://www.fca.gov/home/inspector.html.

- On November 13, 2014, the OIG issued the audit report on FCA's financial statements, internal controls over financial reporting, and compliance with certain provisions of laws and regulations for FY 2014. The auditors issued an unmodified opinion on our financial statements. In the auditor's opinion, our principal financial statements presented fairly, in all material respects, our financial position as of the fiscal year ended September 30, 2014, in conformity with generally accepted accounting principles. Although the auditor did not express an opinion on the effectiveness of our internal controls, it did not identify any deficiencies considered to be a material weakness. The auditor also did not identify any instances of noncompliance with selected laws or regulations that could have a direct and material effect on the financial statements. Finally, the audit produced no recommendations or agreed-upon actions.

- On November 14, 2014, the OIG issued a final report on an evaluation of FCA's compliance with the Federal Information Security Management Act for FY 2014, which resulted in one agreed-upon action. This evaluation found some weaknesses in our information security program. To address these weaknesses, we developed an Information Security Continuous Monitoring Program.

- On March 31, 2015, the OIG issued the final audit report "FCA's Special Supervision and Enforcement Processes." The audit resulted in three agreed-upon actions. We conducted training on the criminal referral process and are in the process of updating and issuing new directives. One recommendation has been closed, and two remain open as of September 30, 2015.

- On March 31, 2015, the OIG issued the final audit report "FCA's Commissioning Program." The audit resulted in nine agreed-upon actions. These actions require us to track specific commissioning costs and to evaluate service agreements and current contractor services to ensure the agency receives the best value. One action has been closed, leaving eight recommendations open as of September 30, 2015.

- On July 31, 2015, the OIG issued the final audit report "FCA's Mobile Device Cost Controls." The audit resulted in three agreed-upon actions. To comply with the recommendations, we reviewed wireless communications voice usage and made adjustments to the wireless communications plan, resulting in approximately $15,000 per year in savings to the agency. In addition, we provided more detailed guidance to all FCA employees on the acceptable use of mobile devices and other government property. All of these actions have been closed.

- On September 29, 2015, the OIG issued the final audit report "FCA's Personnel Security and Suitability Program." The audit recognized areas for improvement previously recommended after OIG, Office of Personnel Management, and FCA internal control reviews. The audit also recognized significant progress in the program over the past year. Additional opportunities for improvement were identified through four agreed-upon actions; these will improve monitoring and the dynamic process for appropriately designating job positions. These four agreed-upon actions are open as of September 30, 2015.

The OIG also issued the following management advisories:

On December 18, 2014, the OIG issued a management advisory recognizing the growing significance of suspension and debarment actions in the federal government. The advisory recommended that we evaluate the need to implement a suspension and debarment program for the agency. We responded to this recommendation by revising our contracting procedures to add policies and procedures on suspension and debarment.

On April 16, 2015, the OIG issued a management advisory addressing amendments to the Federal Records Act. The advisory suggested we change our policy and notifications to reflect new federal requirements for preserving personal emails and text messages that constitute federal records. We responded by issuing revised guidance to employees on record retention requirements for personal emails and text messages.

**Summary of OIG Audit, Inspection, and Evaluation Recommendations**

| | |
|---|---|
| Recommendations or agreed-upon actions uncorrected as of October 1, 2014: | 3 |
| New agreed-upon actions during FY 2015: | 20 |
| Agreed-upon actions corrected during FY 2015: | 9 |
| Open agreed-upon actions as of September 30, 2015: | 14 |
| 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. The OIG issues quarterly reports and a fiscal year summary report to the Chief Examiner and the FCA Board. Average numerical ratings remained high for FY 2015, and anonymous comments provided by institutions generally reflected favorably on the examination process and examiners. However, the comments of survey respondents often provide constructive 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 Chairman 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 2015.

**Prompt Payment Act**

We follow 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 2015, we paid 99.99 percent of the 3,272 invoices subject to the Prompt Payment Act on time. Payments are made by electronic funds transfer through the Secure Payment System.

**Debt Collection Improvement Act**

The Debt Collection Improvement Act of 1996 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 120 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 Payment 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. Please see page 69 for additional information on our efforts to comply with this regulation.

# 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, 2015, 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, 2015, 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, 2015. Our financial management systems also comply with applicable federal accounting standards and the U.S. Standard General Ledger at the transaction level.

Kenneth A. Spearman
Chairman and Chief Executive Officer
FARM CREDIT ADMINISTRATION

September 30, 2015

# Program Performance

# FCA Performance Report

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

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

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

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

Our Strategic Plan for Fiscal Years 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 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 2016.

Also in FY 2015, we issued a notice of proposed rulemaking related to Farmer Mac's corporate governance. The proposed rule will address director independence, risk governance, and the director nomination process. The board is scheduled to act on the proposed rule in FY 2016.

**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 2015:

- Issued a proposed and final rule on institution stockholder voting procedures.
- Issued a proposed and final rule on flood insurance.
- Issued a proposed and final rule on mergers, consolidations and charter amendments of banks or associations.
- Issued a proposed rule on margin and capital requirements for covered swap entities.
- Continued to study the loan syndication market.
- Issued a proposed rule on Farmer Mac's corporate governance and standards of conduct.
- Provided information to the System on lending, training, and outreach opportunities available through the Farm Service Agency.
- Issued guidance to the System to ensure it is aware of best practices and recent guidance for managing cybersecurity risk.
- Issued guidance to the System on the importance of having effective whistleblower programs.

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

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

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

We 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.**

Three 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, 2014, through June 30, 2015, we responded to 23 borrower inquiries.

Our investigations did not discover any pattern or practice of deliberate discrimination, or an unwillingness of FCS institutions to serve eligible customers within 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 that 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 October 1, 2014, two associations affiliated with CoBank, ACB, merged and became one association. On January 1, 2015, two associations affiliated with the Farm Credit Bank of Texas merged to become one association, bringing the total number of System associations to 76 (74 Agricultural Credit Associations and 2 Federal Land Credit Associations), compared with 78 associations a year earlier. The other corporate activities included an association name change.

Two mergers are in progress, which are scheduled to take effect on or before January 1, 2016.

**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 comment periods of at least 60 days. For regulatory proposals that relate to the System's GSE mission, we also reach out to nontraditional commenters for their input.

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

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

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

The Office of Examination and the Office of Secondary Market Oversight report important issues at least monthly or as needed to the FCA Board, and they deliver 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:

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

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

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

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

Through examinations, we routinely evaluate the operations and 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 operations and 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 when we examine loan portfolios:

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

Overall, we have found that FCS institutions have adequate lending 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 2014 and 2015, Farmer Mac continued to focus on strengthening its capital position and broadening its customer base. Farmer Mac issued Tier 1-eligible preferred stock to strengthen its capital position and retired $242 million in capital that was 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.

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

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

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

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

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

Our enforcement authorities include the following powers:

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

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

As of June 30, 2015, we had formal written agreements with three associations, whose assets totaled $1.2 billion, or 0.3 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 of, 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 fall 2014, the System used the FCS Loan Database warehouse for the first time to submit data to FCA. Through June 30, 2015, we continued to work with the System to improve the reliability of this data.

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 2015, we continued 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 continue to update 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:

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

Our ethics program contains the following elements:

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

# Table 5a
# Goal 1—Public Mission
# Performance Measures and Results
### July 1, 2014, to June 30, 2015

| Measure | Results | 2014 Target | 2014 Results | 2015 Target | 2015 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. | All FCS institutions had satisfactory operating and strategic plans for providing products and services to all creditworthy and eligible persons. | ≥90% | 99% | ≥90% | 100% | ▲ |
| 2. Whether Farmer Mac's business plan contains strategies to promote and encourage the inclusion of all qualified loans, including loans to small farms and family farmers, in its secondary market programs, and whether its business activities further its mission to provide a source of long-term credit and liquidity for qualifying loans. | Farmer Mac's business plan contains adequate strategies to promote and encourage the inclusion of all qualified loans, including small and family farm loans, in its secondary market programs. Its business activities further its mission to provide a source of long-term credit and liquidity. | Yes | Yes | Yes | Yes | ✓ |
| 3. Percentage of direct-lender institutions with satisfactory consumer and borrower-rights compliance. | Ninety-five percent of direct-lender institutions have satisfactory consumer and borrower-rights compliance. | ≥90% | 99% | ≥90% | 95% | ▲ |
| 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, 2014, to June 30, 2015

| Measure | Results | 2014 Target | 2014 Results | 2015 Target | 2015 Results | Results vs. Target |
|---|---|---|---|---|---|---|
| 1. Percentage of System assets in institutions with composite CAMELS ratings of 1 or 2. | 99.7 percent of System assets have composite CAMELS ratings of 1 or 2. | ≥90% | 99% | ≥90% | 99.7% | ▲ |
| 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 91 percent of the requirements in supervisory agreements within 18 months of the execution of the agreements. | ≥80% | 92% | ≥80% | 91% | ▲ |
| 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. | 100% | 100% | 100% | 100% | ✓ |

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 2015 target; ✓ indicates FCA achieved the FY 2015 target.

# Financial Section

## Statement of the Chief Financial Officer

November 10, 2015

I am pleased to present the Farm Credit Administration's fiscal year 2015 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 2015 marks the 22nd 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 Modernization 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.

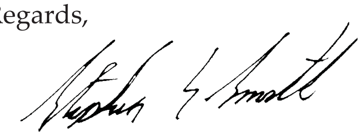
Part of our strategy for strong controls over expenditures is effective communication with FCA employees who request, approve, and process contracts. Another part of our strategy includes strong internal and external reviews.

The annual independent Federal Information Security Modernization Act review of our information systems security program is in process but has not disclosed significant or material weaknesses. We also participated in external and internal testing of security by a third-party contractor and expanded our continuous monitoring capabilities with the Director of National Intelligence and the Department of Homeland Security. 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 internal controls will remain our priority during FY 2016. 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.

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 9, 2015

The Honorable Kenneth A. Spearman, Board Chairman
The Honorable Dallas P. Tonsager, Board Member
The Honorable Jeffery S. Hall, Board Member
Farm Credit Administration
1501 Farm Credit Drive
McLean, Virginia 22102-5090

Dear Board Chairman Spearman and FCA Board Members Tonsager and Hall:

The attached report is the audit of the Farm Credit Administration's (FCA's or Agency's) financial statements for the fiscal year (FY) ended September 30, 2015. 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 auditors' 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, 2015, 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. 15-02, *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. 15-02. To ensure the quality of the work performed, the OIG:

- reviewed Harper, Rains, Knight & Company's approach to and planning of the audit,
- evaluated the qualifications and independence of the auditors,

- attended key meetings with auditors and Agency officials,
- monitored the progress of the audit,
- examined workpapers, and
- reviewed the audit report.

Harper, Rains, Knight & Company is responsible for the attached auditors' 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

**Independent Auditors' Report**

The Board and Inspector General
Farm Credit Administration

**Report on the Financial Statements**

We have audited the accompanying balance sheets of the Farm Credit Administration (FCA), as of September 30, 2015 and 2014, and the related statements of net cost and changes in net position, and combined statements of budgetary resources, for the fiscal years 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 accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; 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. 15-02, Audit Requirements for Federal Financial Statements. Those standards and OMB Bulletin No. 15-02 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.

*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

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

***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, 2015 and 2014, and its net cost of operations, changes in net position, and budgetary resources for the fiscal years then ended, in conformity with accounting principles generally accepted in the United States of America.

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted 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 and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. 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. 15-02.

***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 6, 2015

# 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 2015 and FY 2014. All amounts are in whole dollars. The financial statements include the following:

- **Balance Sheet,** which shows our assets, our liabilities, and our net position (assets minus liabilities).
- **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.
- **Statement of Changes in Net Position,** which shows the change in our net position over the two-year period ending September 30, 2015.
- **Statement of Budgetary Resources,** which shows our resources, the status of our resources, and the outlay of resources during the fiscal year.
- **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 SHEETS
**As of September 30, 2015 and 2014**
**(In Dollars)**

| | 2015 | 2014 |
|---|---|---|
| **Assets** | | |
| Intragovernmental | | |
| Fund balance with Treasury (Note 2) | $ 798,165 | $ 732,014 |
| Investments (Note 3) | 30,409,961 | 36,622,819 |
| Accounts receivable (Note 4) | 3,335 | 27,263 |
| **Total intragovernmental** | **31,211,461** | **37,382,096** |
| Accounts receivable (Note 4) | 121,674 | 311,361 |
| General property, equipment, and software, net (Note 5) | 390,163 | - |
| Prepaid expenses | 209,745 | 121,500 |
| **Total assets** | **$ 31,933,043** | **$ 37,814,957** |
| **Liabilities** | | |
| Intragovernmental | | |
| Accounts payable | $ 22,732 | $ 33,941 |
| Accrued post-employment compensation | 32,469 | 34,300 |
| Employer contributions and payroll taxes payable | 293,205 | 233,398 |
| Other | 4 | 48 |
| **Total intragovernmental** | **348,410** | **301,687** |
| Accounts payable | 656,231 | 635,409 |
| Actuarial workers' compensation liability (Note 6) | 1,260,697 | 1,331,009 |
| Accrued payroll and benefits | 5,534,975 | 5,012,525 |
| Employer contributions and payroll taxes payable | 148,064 | 51,318 |
| Deferred revenue | 2,141,460 | 3,752,477 |
| Accrued taxes payable | - | 286 |
| **Total liabilities** | **$ 10,089,837** | **$ 11,084,711** |
| **Net Position** | | |
| Cumulative results of operations | $ 21,843,206 | $ 26,730,246 |
| Total net position | $ 21,843,206 | $ 26,730,246 |
| **Total liabilities and net position** | **$ 31,933,043** | **$ 37,814,957** |

The accompanying notes are an integral part of these statements.

## STATEMENTS OF NET COST
**For the Years Ended September 30, 2015 and 2014**
**(In Dollars)**

| | 2015 | 2014 |
|---|---|---|
| **Program Costs** | | |
| **Public Mission** | | |
| Gross costs | $ 13,507,464 | $ 12,224,631 |
| Less: Earned revenue | (11,315,984) | (10,517,839) |
| Net costs | $ 2,191,480 | $ 1,706,792 |
| **Safety and Soundness** | | |
| Gross costs | $ 48,420,648 | $ 46,560,458 |
| Less: Earned revenue | (40,461,216) | (39,811,531) |
| Net costs | $ 7,959,432 | $ 6,748,927 |
| **Other Activity** | | |
| Gross costs | $ 626,120 | $ 906,901 |
| Less: Earned revenue | (551,276) | (794,477) |
| Net costs | $ 74,844 | $ 112,424 |
| **Net cost of operations (Notes 7 and 8)** | **$ 10,225,756** | **$ 8,568,143** |

The accompanying notes are an integral part of these statements.

## STATEMENTS OF CHANGES IN NET POSITION
**For the Years Ended September 30, 2015 and 2014**
**(In Dollars)**

| | 2015 | 2014 |
|---|---|---|
| **Cumulative Results of Operations** | | |
| Beginning balances | $ 26,730,246 | $ 30,000,317 |
| **Other Financing Sources (Non-Exchange)** | | |
| Imputed financing sources | | |
| Federal employee benefits (Note 9) | 2,388,716 | 2,798,072 |
| Rent (Note 10) | 2,950,000 | 2,500,000 |
| Total financing sources | 5,338,716 | 5,298,072 |
| Net cost of operations | (10,225,756) | (8,568,143) |
| Net change | (4,887,040) | (3,270,071) |
| Cumulative results of operations | $ 21,843,206 | $ 26,730,246 |
| **Net position** | **$ 21,843,206** | **$ 26,730,246** |

The accompanying notes are an integral part of these statements.

## STATEMENTS OF BUDGETARY RESOURCES
**For the Years Ended September 30, 2015 and 2014**
**(In Dollars)**

| | 2015 | 2014 |
|---|---|---|
| **Budgetary Resources** | | |
| Unobligated balance brought forward, October 1 | $ 28,344,042 | $ 31,850,419 |
| Spending authority from offsetting collections | 51,422,219 | 51,547,259 |
| **Total budgetary resources (Note 11)** | **$ 79,766,261** | **$ 83,397,678** |
| **Status of Budgetary Resources** | | |
| Obligations incurred | $ 59,019,903 | $ 55,053,636 |
| Unobligated balance, end of year: | | |
| Exempt from apportionment | 18,604,898 | 24,591,565 |
| Not available | 2,141,460 | 3,752,477 |
| Total unobligated balance, end of year | 20,746,358 | 28,344,042 |
| **Total budgetary resources (Note 11)** | **$ 79,766,261** | **$ 83,397,678** |
| **Change in Obligated Balance** | | |
| **Unpaid obligations** | | |
| Unpaid obligations, brought forward, October 1 | $ 8,949,235 | $ 7,357,998 |
| Obligations incurred | 59,019,903 | 55,053,636 |
| Outlays (gross) | (57,078,492) | (53,462,399) |
| Unpaid obligations, end of year | 10,890,646 | 8,949,235 |
| **Uncollected payments** | | |
| Uncollected customer payments from federal sources, brought forward, October 1 | (347,882) | (632,944) |
| Change in uncollected customer payments from federal sources | (342,784) | 285,062 |
| Uncollected customer payments from federal sources, end of year | (690,666) | (347,882) |
| **Memorandum Entries** | | |
| Obligated balance, start of year | $ 8,601,353 | $ 6,725,054 |
| Obligated balance, end of year | $ 10,199,980 | $ 8,601,353 |
| **Budget Authority and Outlays, Net** | | |
| Budget authority, gross | $ 51,422,219 | $ 51,547,259 |
| Actual offsetting collections | (51,079,435) | (51,832,321) |
| Change in uncollected customer payments from federal sources | (342,784) | 285,062 |
| **Budget authority, net** | **$ -** | **$ -** |
| Outlays, gross | $ 57,078,492 | $ 53,462,399 |
| Actual offsetting collections | (51,079,435) | (51,832,321) |
| **Agency outlays, net** | **$ 5,999,057** | **$ 1,630,078** |

The accompanying notes are an integral part of these statements.

# NOTES TO THE FINANCIAL STATEMENTS

## Note 1. Significant Accounting Policies

**A. Reporting Entity—**The Farm Credit Administration 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 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 120 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, 2015, 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 2015, 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, revenue, and expenses; we have also made estimates and assumptions in the note disclosures. Actual results could differ from these estimates. Some estimates include year-end accruals and accrued workers' compensation.

## Note 2. Fund Balance with Treasury

| | 2015 | 2014 |
|---|---|---|
| **Fund balance with Treasury** | | |
| Revolving fund | $ 798,165 | $ 732,014 |
| Total fund balance with Treasury | $ 798,165 | $ 732,014 |
| | | |
| **Status of fund balance with Treasury** | | |
| Unobligated balance | | |
| Available | $ 18,604,898 | $ 24,591,565 |
| Unavailable | 2,141,460 | 3,752,477 |
| Obligated balance not yet disbursed | 10,199,980 | 8,601,353 |
| Subtotal—Status of fund balance | 30,946,338 | 36,945,395 |
| | | |
| Funds invested with Treasury | | |
| Net of unamortized discount | (30,148,173) | (36,213,381) |
| | | |
| **Total fund balance with Treasury** | **$ 798,165** | **$ 732,014** |

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 2015 Balance Sheet Reporting**

| | Cost | Amortized (Premium) Discount | Investments Net | Interest Receivable | 09/30/15 Investment Balance | Market Value Disclosure |
|---|---|---|---|---|---|---|
| Nonmarketable Market-based | $30,677,452 | $(346,639) | $30,330,813 | $79,148 | $30,409,961 | $30,411,034 |

**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 |

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 $231,498 and $283,835 for FYs 2015 and 2014, respectively.

## Note 4. Accounts Receivable

| | 2015 | 2014 |
|---|---|---|
| **Intragovernmental** | | |
| Reimbursements for services provided | $ 3,335 | $ 27,263 |
| Subtotal | 3,335 | 27,263 |
| **With the public** | | |
| Reimbursements for services provided | 105,396 | 296,260 |
| Expenditure refunds | 16,278 | 15,101 |
| Subtotal | 121,674 | 311,361 |
| **Total accounts receivable** | **$125,009** | **$338,624** |

The intragovernmental receivables represent reimbursable services provided to USDA and FCSIC but unbilled as of September 30.

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

**As of September 30, 2015**

| | Estimated Useful Life | Depreciation Method | Acquisition Value | Accumulated/ Amortized Depreciation | Book Value |
|---|---|---|---|---|---|
| Equipment | 3 years | Straight line | $805,805 | $(805,805) | $0 |
| Equipment | 10 years | Straight line | 295,770 | (14,789) | 280,981 |
| Construction in Progress | | | 109,182 | 0 | 109,182 |
| **Total** | | | **$1,210,757** | **$(820,594)** | **$390,163** |

**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** |

## 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 2015 model to estimate FECA actuarial liability.

**FECA Actuarial Liability**

| | 2015 | 2014 |
|---|---|---|
| Actuarial FECA Liability | $1,260,697 | $1,331,009 |
| Total liabilities not covered by budgetary resources | 1,260,697 | 1,331,009 |
| Total liabilities covered by budgetary resources | 8,829,140 | 9,753,702 |
| Total liabilities | $10,089,837 | $11,084,711 |

## Note 7. Intragovernmental Costs and Exchange Revenue

| | For the Years Ended September 30, 2015 and 2014 | |
|---|---|---|
| | 2015 | 2014 |
| **Public Mission** | | |
| Intragovernmental costs | $ 3,001,370 | $ 2,654,011 |
| Public costs | 10,506,094 | 9,570,620 |
| Total costs—Public mission | 13,507,464 | 12,224,631 |
| Intragovernmental earned revenue | (50,493) | (59,025) |
| Public earned revenue | (11,265,491) | (10,458,814) |
| Total revenue—Public mission | (11,315,984) | (10,517,839) |
| Net program costs—Public mission | 2,191,480 | 1,706,792 |
| **Safety and Soundness** | | |
| Intragovernmental costs | 10,534,299 | 10,083,080 |
| Public costs | 37,886,349 | 36,477,378 |
| Total costs—Safety and soundness | 48,420,648 | 46,560,458 |
| Intragovernmental earned revenue | (181,005) | (224,811) |
| Public earned revenue | (40,280,211) | (39,586,720) |
| Total revenue—Safety and soundness | (40,461,216) | (39,811,531) |
| Net program costs—Safety and soundness | 7,959,432 | 6,748,927 |
| **Other Activity** | | |
| Intragovernmental costs | 76,165 | 149,135 |
| Public costs | 549,955 | 757,766 |
| Total costs—Other activity | 626,120 | 906,901 |
| Intragovernmental earned revenue | (446,081) | (498,885) |
| Public earned revenue | (105,195) | (295,592) |
| Total revenue—Other activity | (551,276) | (794,477) |
| Net program costs—Other activity | 74,844 | 112,424 |
| **Net cost of operations (+/-)** | **$ 10,225,756** | **$ 8,568,143** |

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 2015 and 2014. We display our cost and earned revenue amounts by office within each program.

### For the Year Ended September 30, 2015

| | Office | | | | |
|---|---|---|---|---|---|
| | Examination | Regulatory Policy | Secondary Market Oversight | Other Organizations | Total |
| **Public Mission** | | | | | |
| Gross costs | $ 427,788 | $ 4,315,001 | $ 445,341 | $ 8,319,334 | $13,507,464 |
| Less: Earned revenue | (355,822) | (3,589,174) | (401,462) | (6,969,526) | (11,315,984) |
| Net program cost | 71,966 | 725,827 | 43,879 | 1,349,808 | 2,191,480 |
| **Safety and Soundness** | | | | | |
| Gross costs | 31,968,071 | 1,247,552 | 969,577 | 14,235,448 | 48,420,648 |
| Less: Earned revenue | (26,642,203) | (1,037,677) | (852,801) | (11,928,535) | (40,461,216) |
| Net program cost | 5,325,868 | 209,875 | 116,776 | 2,306,913 | 7,959,432 |
| **Other Activity** | | | | | |
| Gross costs | 290,291 | 49,044 | 814 | 285,971 | 626,120 |
| Less: Earned revenue | (255,591) | (43,181) | (717) | (251,787) | (551,276) |
| Net program cost | 34,700 | 5,863 | 97 | 34,184 | 74,844 |
| **Net cost of operations** | **$ 5,432,534** | **$ 941,565** | **$ 160,752** | **$ 3,690,905** | **$ 10,225,756** |

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

### 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 9. Federal Employee Benefits

| | 2015 | 2014 |
|---|---|---|
| Imputed pension cost | $ 915,417 | $ 1,466,882 |
| Other imputed retirement benefits | 1,473,299 | 1,351,190 |
| **Total** | **$ 2,388,716** | **$ 2,798,072** |

**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 2015 and 2014. 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

| | 2015 | 2014 |
|---|---|---|
| Leased field offices | $ 1,221,193 | $ 1,212,990 |
| FCA headquarters | 1,728,807 | 1,287,010 |
| **Total** | **$ 2,950,000** | **$ 2,500,000** |

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 2015. 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 2015**

The 2017 Budget of the United States Government, with the Actual Column completed for FY 2015, 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 2016. It will be available on our website at www.fca.gov/rpts/publications.html.

**FY 2014**

The 2016 Budget of the United States Government, with the Actual Column completed for 2014, 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, 2015 and 2014, undelivered orders that were unpaid amounted to $4,202,970 and $2,948,057, 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 $88 for the year ended September 30, 2015, and $1,548 for September 30, 2014. The funds were transferred to the Department of the Treasury at the end of FY 2015.

## 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, 2015 and 2014**
**(In Dollars)**

| | 2015 | 2014 |
|---|---|---|
| **Resources Used to Finance Activities** | | |
| Budgetary resources obligated | | |
| Obligations incurred | $ 59,019,903 | $ 55,053,636 |
| Spending authority from offsetting collections and recoveries | (51,422,219) | (51,547,259) |
| Net obligations | 7,597,684 | 3,506,377 |
| Other resources | | |
| Imputed financing from costs absorbed by others | 5,338,716 | 5,298,072 |
| Other resources | (1,611,017) | 539,747 |
| Net other resources used to finance activities | 3,727,699 | 5,837,819 |
| Total resources used to finance activities | 11,325,383 | 9,344,196 |
| Resources used to finance items not part of net cost of operations | (1,186,364) | (976,590) |
| Total resources used to finance net cost of operations | 10,139,019 | 8,367,606 |
| Components of the net cost of operations that will not require or generate resources in current period | 86,737 | 200,537 |
| **Net cost of operations** | **$ 10,225,756** | **$ 8,568,143** |

# 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 14, 2015

The Honorable Kenneth A. Spearman, Board Chairman
The Honorable Dallas P. Tonsager, Board Member
The Honorable Jeffery S. Hall, Board Member
Farm Credit Administration
1501 Farm Credit Drive
McLean, VA 22102-5090

Dear Board Chairman Spearman and FCA Board Members Tonsager and Hall:

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.

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
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. As the Farm Credit System's regulator, FCA must adapt to evolving risks and threats that face System institutions and affect oversight. |
| **Information Technology** | Cyber threats, information security, and vulnerabilities require vigilance and a proactive approach to protecting the Agency's information technology resources. The rapidly-changing nature of technology makes this challenge especially complex. FCA invests in technologies that align with strategic goals. With investments comes more vigilance. |
| **Human Capital** | FCA faces numerous challenges with human capital. Personnel of retirement eligible tenure account for a significant percentage of FCA's workforce. Strategies for recruitment and hiring must be prioritized and combined with increased emphasis on achieving a more diverse and inclusive workforce to carry out the Agency's mission. |
| **Organizational Structure** | FCA's organizational structure continues to pose challenges. Board members and leadership change as do priorities under the current leadership. The Agency must balance its unique position as an arm's-length regulator with appropriate communication to continue making an optimal contribution to rural America and stakeholders. Business processes and structure must keep pace with increasingly complex banking, business, agricultural, trade, and regulatory environments, both in the U.S. and overseas. |

## Challenge 1: Examination and Supervision Program

Overall, the Farm Credit System (FCS or System) is fundamentally safe and sound. However, the agriculture industry is susceptible to market volatility and uncertain economic conditions that may significantly impact the System. Changing geopolitical, environmental, and macroeconomic risk factors demand that FCA remains flexible by adapting its examination and supervision program as needed. Continued readiness and responsiveness require planning and preparation.

As the System expands in market share, and mergers continue, there is continuous complexity. The Agency will face unique challenges in assessing and addressing its risk environment. Furthermore, an appropriate control environment must align with existing and emerging risk factors. Control systems can detect and deter consequences with the greatest potential impact. As business practices of the various FCS institutions continue to get more sophisticated, so does FCA's oversight of the FCS. Part of FCA's role as a regulator is to ensure institutions identify and evaluate risks and maintain an effective control environment. FCA's examination and supervision program must align with evolving threats and risks facing institutions. Achieving this oversight effectively requires monetary, human capital, and information technology resources. These resource requirements and challenges will likely continue to increase over time.

From time to time, a few FCS institutions do not exhibit the risk management and other measures needed to be considered a safe and sound operation. In these cases, FCA must respond accordingly and intervene, when necessary, to ensure the health of the System is protected. FCS institutions require special supervision and enforcement actions as a result of weaknesses in their managerial acumen, the economy, the credit markets, and the changing agricultural industry. FCA must provide prompt, preemptive actions, when needed, to prevent escalation of issues that may impact the safety and soundness of the System.

**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 2015 these included: portfolio management in volatile times; allowance for loan loss in volatile times; large, complex, and shared assets; and board governance and nominating committees. For Fiscal Year 2016, the risks identified are: internal controls and operations risks and intensifying credit risk.

To this end, informational memoranda were issued in July 2015 addressing internal controls in System institutions. One memorandum emphasizes the importance of establishing preventative and detective internal control mechanisms to maintain safety and soundness. Another memorandum describes guidelines for designing and implementing an effective whistleblower program. Internal controls are highlighted due to the significance of the consequences that may result when controls are not sufficiently robust or functioning effectively.

FCA's progress is addressed in facing the challenges of its oversight role by emphasizing high-risk priorities. The Office of Inspector General (OIG) plans to review OE programs over Fiscal Years 2016 and 2017 to ensure the challenges of the examination and supervision program continue to be adequately addressed.

## Challenge 2: Information Technology

FCA utilizes technology for nearly every aspect of its operations. Information technology resources are a critical component in maintaining and improving the efficiency and effectiveness of the Agency. Notably, as technology changes and evolves, so do the associated risks and vulnerabilities. Cybersecurity and data security are continuous challenges for FCA, the FCS, throughout government, and worldwide. This year, the importance of cybersecurity was underscored by the expansive data breach within the Office of Personnel Management that impacted nearly every FCA employee. Personal information that should have been secured was disclosed to an extent that is still being evaluated. The importance of preventing these types of attacks and ensuring that the Agency has the necessary tools to respond appropriately cannot be stressed enough.

FCA will be challenged to stay ahead of cyber threats, which are becoming more nuanced and difficult to prevent. The Agency must continue its proactive approach to information technology security. Skilled personnel and a dynamic planning and assessment process will ensure the Agency is appropriately equipped to protect its information technology resources. The Agency should also continue to seek out best practices to stay ahead of potential weaknesses. The other key factor in minimizing disruptions from a cyber-attack or security event is preparation. The Agency must evaluate strategies and systems that will protect computer systems and allow the most efficient continuity of operations.

The Agency has made significant investments in information technology. These purchases are aligned with strategic goals to facilitate information gathering, retrieval, and sharing. Technology needs were identified for data analysis and modeling. Understanding and implementing technologies and innovative solutions will improve business processes through increased efficiency and effectiveness.

**Agency Progress**

The Agency has an active information resource management planning process that identifies, reviews, and prioritizes information technology initiatives to improve Agency operations. Related policy and planning is administered by the Chief Information Officer. This year, the Agency confirmed the importance of this area by forming a separate Office of Information Technology, standing apart from the Office of Management Services. A new Chief Information Officer will join the FCA in November 2015.

This year, new laptops were procured for the Agency. The collaborative evaluation process was based on each machine's capabilities and user needs. The Agency also acquired a tool to process data into actionable information through dashboards and reports.

The OIG plans to review FCA's implementation of the Risk Project, controls over personal use of the internet, and controls over the Electronic Official Personnel Folder in FY 2016. A review of the Enterprise Documentation Guidance (EDGe) System is also planned for FY 2017. The OIG continues to conduct an annual evaluation of FCA's compliance with the Federal Information Security Modernization Act.

## Challenge 3: Human Capital

As of September 30, 2015, FCA had 298 employees. FCA's employees are its most valuable asset, and the Agency must continue to invest in a qualified, experienced workforce. FCA faces numerous human capital challenges, including:

- Retirement Eligibilities,
- Recruitment Initiatives, and
- Diversity and Inclusion

A significant portion of FCA's current workforce is eligible to retire. This situation presents a challenge because of the loss of historical knowledge and the potential experience gaps between newer hires and retirement eligible employees. It will be challenging for the Agency to replace key individuals without experiencing disruptions to Agency operations. Proactive knowledge sharing and cross-training will reduce the impact of this significant transition.

FCA's mission requires hiring and retaining skilled personnel. Staff must possess the necessary skill sets and qualifications to meet the challenges facing the System and FCA. Recruiting will continue to be a challenge due to the specialized knowledge targeted for many Agency positions and the competitive hiring environment. Furthermore, recruiting the right individuals can alleviate costly personnel challenges associated with turnover and training.

Increased workplace diversity and inclusion remain a challenge. Recruitment initiatives present an opportunity to attract veterans, minorities, and individuals with disabilities to apply for FCA positions. The Agency must continue to develop and assess strategies in this area and implement plans to achieve its goals. Emphasis and awareness programs can support hiring and retention and convey the importance of diversity and inclusion at FCA.

### Agency Progress

The Agency is working on a new Human Capital Plan to address these challenges. The Agency tracks retirement projections five years out and assesses human capital needs. Recruitment remains a priority for the Agency, and several recruiting initiatives are underway to fill needed skill sets. The Agency's Director of Equal Employment Opportunity and Inclusion reports directly to the Board Chairman and reports on diversity and inclusion within the Agency. In addition, changes have been made to employee benefits to further attract and retain the best talent. These include changes to health benefits and 401k contributions.

The OIG plans to review several programs related to this area of challenge. An audit is ongoing to assess the adequacy of FCA's human capital planning and the effectiveness of its implementation.

## Challenge 4: 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 statutory requirements of 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.

Members of the FCA board changed in March 2015. Board Member Spearman was designated Chairman and Board Member Tonsager and Board Member Hall were appointed. Chairman Spearman was first appointed to the FCA board in 2009, and his term will expire in May 2016. Board Member Tonsager's term will expire in May 2020, and Board Member Hall's term will expire in October 2018. Board changes present new challenges with varying leadership goals and styles. Collaboration and coordination are critical components in achieving mission responsibilities effectively. These challenges will continue over time due to term limits and the broad range of institutional knowledge contributed with each leadership change.

FCA's structure as an arm's-length regulator also presents unique challenges. The Agency must be independent and equitable while sustaining open communication. This dynamic is especially important for the Board and employees with decision-making authorities. FCA must also be cognizant of how outside forces can affect, or be perceived to affect, regulations and policy. To achieve its mission, the organizational structure must align in a way that ensures quality staffs are dedicated to understanding, communicating, and addressing these issues.

Merging institutions, geographic territory changes, and the increasing complexity of institution products also impact the System's structure. This evolution requires a dynamic approach to oversight and regulation. FCA's organizational structure plays an important role in ensuring responsiveness to this ever-changing environment. The Board and senior management must continually assess System complexities to optimize Agency operations. Retaining and recruiting individuals with the necessary skills and expertise to support these structural changes also presents a challenge.

**Agency Progress**

The Agency has adapted to changes in its organizational structure. The new Board is composed of experienced leaders who support continuity and stability. The newly appointed Chairman was an active Board Member, and another newly appointed Board Member served on the FCA Board from 2004 to 2009. The Agency has also positioned its workforce to respond to changes in the System. Specialized staff are aligned with important facets of agricultural credit and the strategic needs of the examination function. Personnel with cross-cutting knowledge also share information across offices and with the Board to facilitate informed decision-making and transparency. FCA also continues to prioritize investments in its mobile workforce so that employees can respond effectively to Agency needs. This knowledge sharing and mobility enhance the Agency's organizational structure.

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

**Farm Credit Administration**

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

November 10, 2015

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 controls and improving the agency's performance. We look forward to working with you to further address these challenges.

Sincerely,

Kenneth A. Spearman
Board Chairman 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 this challenge and provide the following additional thoughts for consideration.

The Office of Examination (OE) will continue to focus resources for examination and supervision based on institution risks. To address specific risks and concerns in FY 2016, our examiners will emphasize certain "focus areas" in their examinations. We have outlined two risk topics in our National Oversight Plan for FY 2016:

- Internal controls and operations risks
- Intensifying credit risk

We reinforced these topics in OE's FY 2016 Operating Plan and at a recent strategic planning meeting.

OE supplemented its internal control examination program this year, adding five new areas, and the office is preparing credit risk guidance for these areas. If we identify deficiencies in risk management practices at System institutions, we will require the institutions to address these deficiencies.

### Challenge 2: Information Technology

We agree with the IG's assessment of this challenge 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. In our planning, we stress the importance of input and ideas from our business units.

We have invested in business intelligence tools to model and analyze Farm Credit System loan data to better identify and address risks in the System. We will use these tools in the future for internal operations analysis.

To further protect FCA information against ever-evolving threats from malware and viruses, we will continue to update our security toolset. We are working with the Director of National Intelligence and the Department of Homeland Security to enhance our network monitoring. We will also continue to consider risk in our IT-related decisions and to establish security controls to help protect us from those risks. We will also continuously train our employees to guard against cybersecurity threats.

Because information technology and the security over information are now considered more of a line operation than a support structure, FCA's senior management recommended, and the board approved, elevating the IT functions and responsibilities to a separate office. The new CIO will be actively involved in our leadership meetings to better understand our needs and educate others about the risks and benefits of our IT program.

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

### Challenge 3: Human Capital

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

Because a large percentage of the agency's workforce will be eligible to retire in the next few years, we will need to continue to attract and retain well-qualified staff. In FY 2015, we hired a large number of associate examiners and summer interns for the Office of Examination. We also significantly increased our participation in FY 2016 recruitment events to market and attract a diverse and inclusive workforce, including qualified veterans, minorities, and individuals with disabilities.

We will need to continue to provide a full range of training to ensure employees not only have fundamental skills and knowledge but also the specialized skills to perform complex analyses and oversight, including more in-depth data analysis.

In FY 2015 we offered numerous training opportunities to employees. Most of these opportunities were based on an extensive survey conducted this year to determine both the learning culture of the agency, as well as the skills most needed.

We are working closely with our learning officer to support a continuous learning environment that values and rewards employees who work hard to enhance their skills. In addition, we are working to provide a clear training path for our future leaders. To retain highly qualified staff members, we must provide them with challenging work and strong job incentives.

We are currently updating the Human Capital Plan. In FY 2015, we took many steps to address our human capital challenges and will continue to do so in FY 2016 while incorporating new strategies and plans that build on the previous Human Capital Plan.

### Challenge 4: Organizational Structure

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

FCA has had a full board and strong, consistent leadership for the past several years. We have a smooth transition process as new board members come to FCA or take on new roles. As noted in the Human Capital section, we continue to focus on preparing our staff to step into leadership roles as current leaders retire.

The FCA Board regularly updates the Strategic Plan and oversees processes to ensure the continuity of its operations. 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 translate a possible challenge into a strength, using the new outlooks, experience, and knowledge of new members. The CEO, in consultation with the FCA Board, ensures that the organization of the agency carries out the goals and objectives of the Board.

# 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 Balance |
|---|---|---|---|---|---|
| (Not applicable) | | | | | |

**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) | | | | | | |

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

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

**Conformance with Federal Financial Management System Requirements (FMFIA § 4)**
**Statement of Assurance: Systems conform**

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

**Compliance with Section 803(a) of the Federal Financial Management Improvement Act (FFMIA)**

| | 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 |

# Improper Payments Elimination and Recovery Improvement Act

### Background

The Improper Payments Information Act of 2002, as amended by the Improper Payments Elimination and Recovery Act of 2010 and the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA), requires agencies to annually report information on improper payments to the President and Congress. As required by the Office of Management and Budget Circular A-123, Appendix C, this section describes our efforts to comply with IPERIA requirements.

### Assessment

Our latest IPERIA assessment, which was completed in FY 2014, did not find any programs or activities that were susceptible to significant improper payments. We have assessed our risk as low for all of our programs or activities.

IPERIA defines significant improper payments as gross annual improper payments in a given program. Payments are considered improper and significant if they meet one of two criteria:

- They exceed both 1.5 percent of program outlays and $10 million of all program or activity payments made during the fiscal year reported, or
- they exceed $100 million (regardless of the improper payment percentage of total program outlays).

In addition, OMB has designated the threshold for high-priority programs as programs with $750 million in estimated improper payments as reported in the Annual Financial Report or in the Performance and Accountability Report. FCA's entire budget for FY 2014 was $63.9 million, which was well under this threshold; therefore, we do not have any high-priority programs.

Since our risk of improper payments is considered low, we are not required to perform any statistically valid estimates of improper payments or to report on any corrective actions or root causes. We are, however, required to reassess our risk for improper payments every three years. Our next assessment will be in FY 2017.

### Payment Recapture Audit

Given the low risk for all of our programs, we have determined that a payment recapture audit would not be cost-effective at this time. The benefits of any recaptured amounts would not exceed the cost of a payment recapture audit program.

BFS has internal control procedures to ensure that payments are made properly. For example, BFS conducts post-payment audits in which it reviews a random sample of 25 percent of invoices processed each month.

In addition to the BFS post-payment audit, we perform routine operational reviews and oversight to help identify improper payments. For FY 2014, we identified five improper payments amounting to $32,672, or .06 percent of total outlays for the year. In all instances, the amounts were fully recovered.

In addition to the internal control procedures of BFS, our invoice approvers also provide an additional layer of review and approvals to the payment process to ensure that approved payments are appropriate before they are made. Generally, BFS reviews invoices before our own invoice approvers review them. We also work with BFS to ensure that payroll and charge card payments are reviewed and monitored to ensure proper payments are being made.

As required by OMB A-123, Appendix C, we have notified both OMB and our Inspector General of our determination that a payment recapture audit is not cost-effective for FCA. OMB concurred with our assessment.

**Do Not Pay**

We work closely with our service provider to ensure that all payments are proper and paid to valid vendors. Our service provider continually monitors the vendor file in the financial system and cross-checks it against various Do Not Pay databases. To date, we have not had any vendors with a match to these databases.

# 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
Farm Credit Administration
1501 Farm Credit Drive
McLean, VA 22102-5090
Telephone: 703-883-4056
Fax: 703-790-3260
E-mail: info-line@fca.gov

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

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

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

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

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

Copies are available from
Office of Congressional and Public Affairs
Farm Credit Administration
1501 Farm Credit Drive
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703-883-4056
www.fca.gov
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