Farm Credit Administration

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

Performance and Accountability Report

Fiscal Year 2017

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 Board Chairman and CEO

November 8, 2017

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) 2017. I am pleased to report that we achieved the goals outlined in our Strategic Plan and achieved or exceeded almost all targets for which there are data to measure performance.

I am also pleased to report that our FY 2017 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. In FY 2018, our examiners will focus on two major risk topics.

The first topic is portfolio risk. Production agriculture has experienced volatility in recent years, and prices for key commodities continue to be low. While producers have been weathering this storm, their working capital and debt repayment capacity have eroded.

Fortunately, higher than normal crop production and lower input costs helped slow the working capital erosion on many grain farms in 2016, leading to lower than expected credit risk. Nevertheless, net farm income still declined over 24 percent. We expect some continued deterioration in credit quality on grain and soybean farms in 2017 and 2018 despite a projected 3.1 percent increase in 2017 net farm income. The expected improvement in 2017 net farm income is largely driven by higher cash receipts from livestock products.

Both farmers and farm lenders face many risks in today's economy, including higher interest rates, volatile energy prices, and possible changes to trade agreements, and these risks require continuous vigilance. We encourage institutions to be proactive and responsive by counseling customers, restructuring debt, establishing stronger credit controls, and, as always, fulfilling all FCA borrower rights requirements.

The second risk topic is internal controls over financial reporting. Effective internal controls over financial reporting are paramount to safeguarding the integrity and accuracy of institution financial reports, as well as financial reports compiled at the bank and System levels. System investors, shareholders, FCA, and external auditors rely on these controls. We support System institutions' efforts to strengthen internal controls and encourage them to continue to dedicate staff and audit resources to ensuring effective controls.

In addition, we will continue to focus on earnings trends and operating expenses, as well as stress testing. Although the System's earnings performance remains strong, the return on assets is declining at some associations. We expect institutions to maintain a strong corporate culture in managing expenses. Also, stress testing continues to be an important loan portfolio management and planning tool. We expect institutions to continue to assess and, if needed, strengthen stress testing processes.

For more than 100 years, the Farm Credit System has helped meet the credit needs of our nation's farmers and ranchers. As regulator of the System, we are proud to do our part to ensure that this important source of credit is available to farmers and ranchers for the next 100 years.

Dallas P. Tonsager

Dallas P. Tonsager
Board Chairman and CEO

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 Farm Credit System (its banks, associations, and related entities) and the Federal Agricultural Mortgage Corporation (Farmer Mac).

The System 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.

FCA 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 Farm Credit System.

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 System 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 examine 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 bring about appropriate corrective action.

- We issue policies and regulations governing how System institutions conduct their business and interact with borrowers. These policies and regulations focus 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 issuances, and other financial and operational matters.

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

FCA does not receive a federal appropriation. We maintain a revolving fund financed primarily by assessments from the institutions we regulate. Other sources of income for the revolving fund are interest earned on investments with the U.S. Treasury and reimbursements for services we provide to federal agencies and others.

FCA 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 remain on the board until a successor is appointed. 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 the board of directors for the Farm Credit System Insurance Corporation.

Mission

The Farm Credit Administration ensures that System institutions and Farmer Mac are safe, sound, and dependable sources of credit and related services for all creditworthy and eligible persons in agriculture and rural America.

FCA OFFICES

As of Sept. 30, 2017, FCA had 307 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 has broad responsibility for planning, directing, and controlling the operations of the Offices of Agency 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 Office of Agency Services, which was created in April 2016, manages human capital and administrative services for the agency. This includes providing the following services to the agency: staffing and placement, job evaluation, compensation and benefits, payroll administration, performance management and awards, employee relations, employee training and development, contracting, acquisitions, records and property management, supply services, agency purchase cards, design, publication, and mail service.

The Office of the Chief Financial Officer, which was created in April 2016, manages and delivers timely, accurate, and reliable financial services to the agency. The office establishes financial policies and procedures and oversees the formulation and execution of the agency's budget. The office reports periodically on the status of the agency's financial position, results of operations, and budgetary resources. It also oversees the agency's travel management, internal controls, and personnel security programs.

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 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.

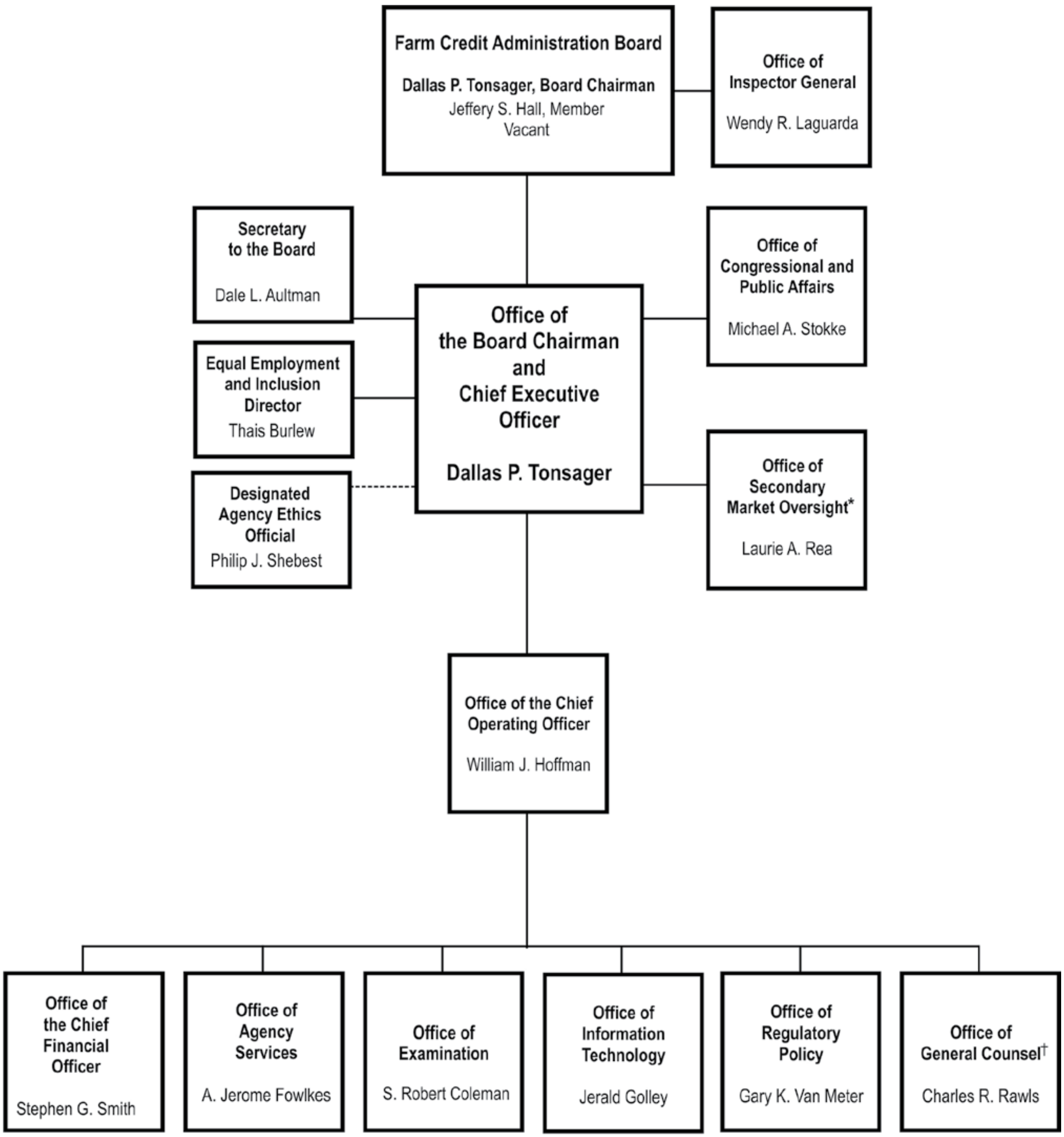
The Secretary to the Board serves as the parliamentarian for the board and keeps permanent and complete records of the acts and proceedings of the board. He or she ensures that the board complies with statutory, regulatory, and internal operation reporting requirements. The secretary to the board also 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 Equal Employment Opportunity and Inclusion manages and directs the diversity, inclusion, and equal employment opportunity (EEO) program for FCA and FCSIC. The office serves as the chief liaison with the Equal Employment Opportunity Commission and the Office of Personnel Management on all EEO, diversity, and inclusion issues. The office provides counsel and leadership to agency management to carry out its continuing policy and program of nondiscrimination, affirmative action, and diversity.

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

Figure 1. Organization of the Farm Credit Administration

As of September 30, 2017



*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 2016 – 2021 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 three 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 most of the 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 providing products and services that serve creditworthy and eligible persons and perform outreach to enhance diversity and inclusion. (Target: 100 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 YBS regulations. (Target: ≥90 percent)

5. Whether the majority of objectives listed in the preamble of each final rule were met on the two-year anniversary of the rule's effective or implementation date. (Target: Yes)

6. Percentage of pre-rulemaking projects and proposed rules on which FCA requested input from persons outside of FCA. (Target: 100%)

The agency achieved or exceeded its targets for five of the six measures associated with goal 1. We did not achieve our target for performance measure 6 because there was one rulemaking project out of nine on which we did not request input from persons outside of FCA. In that one instance, we completed our research on the project well before the FCA board had adopted this performance measure.

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 six 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. (Target: 100 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. Whether five or more reports and dashboards were created that use data collected from the Farm Credit System to assess risk in the System. (Target: Yes)

We achieved or exceeded the targets for four of the six measures associated with goal 2. We have no results to report for performance measure 2 because no supervisory agreements were in place at the end of the reporting period. For performance measure 5, we missed our target of 100 percent by 1 percentage point because one institution did not have an acceptable corrective action plan in place at the end of the reporting period. This one exception was identified shortly before the end of the reporting period, and we do expect the institution to submit an acceptable corrective action plan soon.

Goal 3 Highlights—Workforce Management: Cultivate an environment that fosters a well-trained, motivated, and diverse staff while providing an effective plan for leadership succession.

There are four strategies and two performance measures for goal 3 (see table 5c). The performance measures are as follows:

1. Whether, as part of its recruiting efforts for entry-level examiners, FCA has ensured that 25 percent of its outreach efforts target disabled or minority potential applicants. For the purpose of this measure, outreach consists of participating in career fairs, attending recruiting events, or placing employment listings or advertisements on websites targeting these audiences. (Target: Yes)

2. Whether we have maintained or improved our score from last year in the Annual Employee Satisfaction Survey. (Target: ≥72 percent)

We achieved or exceeded the targets for both measures associated with goal 3. In fact, for the second measure, our employee engagement index score on the Annual Employee Satisfaction Survey increased by 3 percentage points to 75 percent.

For more information about our performance results, see the Performance Results tables on pages 31 to 33.

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 40, this section highlights key points about FCA's financial condition for fiscal years 2017 and 2016.

FCA's assets, liabilities, and net position

The balance sheets on page 41 presents our financial condition as of fiscal year-end 2017 and 2016. 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 2017 are composed of the following:

- Our fund balance with Treasury (4.0 percent)
- Investments (90.3 percent)
- Accounts receivable and prepayments (1.4 percent)
- Property and equipment (4.3 percent)

During FY 2017, total assets increased by $4,399,362, or 13.7 percent, from amounts reported in FY 2016.

Our investment portfolio, which accounts for the largest portion of our total assets, increased by $3,136,919 in FY 2017. This increase occurred because of increases in both prepaid assessments (assessments due Oct. 1 but received on or by Sept. 30) and in carryover from prior years. Higher prepaid assessments and carryover amounts translate into increased investment holdings because there is more cash available to invest in Treasuries.

Table 1. Composition of Assets

Fiscal Year	Fund Balance With Treasury	Investments	Accounts Receivable and Prepayments	Property and Equipment	Total
2017	$1,457,378	$32,893,400	$499,409	$1,590,298	**$36,440,485**
2016	$546,292	$29,756,481	$461,249	$1,277,101	**$32,041,123**

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
2017	$578,143	$6,771,200	$942,048	$1,499,584	$5,733,890	**$15,524,865**
2016	$349,342	$6,232,550	$512,346	$1,293,434	$4,676,787	**$13,064,459**

We purchased $17,739,245 in U.S. Treasuries during fiscal year 2017, 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 Sept. 30, 2017, the agency held $1,457,378 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 Sept. 30 — after the cutoff time for investing.

Like total assets, our total liabilities increased from 2016 to 2017. Driven primarily by the increase in deferred revenue, overall liabilities increased by 18.8 percent.

Deferred revenue represents October assessments received from FCS institutions that are not yet due. In FY 2017, it increased by 22.6 percent from 2016 to $5,733,890. Deferred revenue increased for two reasons: FY 2018 assessments were higher, and some of the System's larger institutions prepaid their 2018 assessments. At the beginning of each fiscal year, we reclassify any prepaid assessments as revenue earned in October of the new year.

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

- Accounts payable (3.7 percent)
- Payroll and benefits (43.6 percent)
- Employer contributions and taxes payable (6.1 percent)
- Workers' compensation (9.7 percent)
- Deferred revenue (36.9 percent)

The net position, which represents the cumulative results of operations since the agency began, increased by $1,938,956, or 10.2 percent, during FY 2017. The net position increased in part because of the decrease in the net cost of operations (see the Program Costs and Revenues section) but also because of a decrease 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 43.

FCA's status of funds

Our budget represents our plan for achieving our mission and strategic goals while operating as effectively and efficiently as possible. Table 3 shows our board-approved budget amounts for FYs 2017 and 2016. The overall FY 2017 budget increased by 6.3 percent over the 2016 budget.

Table 3. Agency Budget

	2017	2016
Assessments (current year)	$69,800,000	$58,300,000
Assessments (carryover from prior years)	0	4,400,000
Reserve	0	2,900,000
Reimbursable activity	600,000	600,000
Total	**$70,400,000**	**$66,200,000**

* FY 2017 assessments were reduced by $3 million during FY 2017.

In FY 2017, we continued to carry out our mission, program goals, and objectives within the available budget. While our board-approved budget for FY 2017 was $70.4 million, the congressional limitation on our spending was $68.6 million. The FY 2016 limitation was $65.6 million.

As table 4 shows, we used $67,628,714 of the funds available in 2017, compared with $64,051,582 of the funds available in 2016. The funds we used in 2017 amounted to 97.9 percent of our congressional limitation in 2017, while the funds used in 2016 amounted to 96.9 percent in 2016. The increase in personnel compensation, driven by salary and benefit increases, accounts for the largest increase in funds used from 2016 to 2017. Personnel compensation and benefits continue to account for the most significant use of funds at FCA, representing 83.9 percent of total funds used in 2017.

Travel and transportation costs represented the largest decrease in funds used this year. The 21.3 percent decrease was the result of continued increases in efficiencies in technology which translates to reduced travel costs.

PROGRAM COSTS AND REVENUES

This section describes our program costs and revenues for the fiscal years ended Sept. 30, 2017, and Sept. 30, 2016. 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, information resource, and program 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 $3,705,568 for the 12 months ended Sept. 30, 2017, compared with $8,878,366 for the same period the previous year. Because gross revenue increased more than gross cost, net costs decreased in FY 2017.

The total cost of FCA's programs for FY 2017 is $71,366,166, compared with $68,124,668 for FY 2016. This represents an increase of $3,241,498, or 4.8 percent, from 2016. Figure 2 shows the breakdown of FY 2017 gross costs for each of the agency's goals. Virtually all costs support our mission and program goals. The increase in total costs is primarily due to increases in staff, employee compensation, and information technology.

Employee salaries and benefits represent our greatest overall cost. For 2017, employee compensation totaled $56,605,021, or 79.3 percent of total cost. This cost increased by $3,179,091, or 6.0 percent, from 2016 because of staff growth, pay-for-performance and employee benefit increases, career ladder promotions, and funded leave. We periodically perform compensation studies to comply with the Financial Institution Reform, Recovery, and Enforcement Act of 1989, which requires us to keep FCA salaries and benefits comparable with the salaries and benefits of other federal financial institution regulators. Keeping

Table 4. Funds Used by Major Budget Category

Budget Category	FY 2017	Percentage of Total	FY 2016	Percentage of Total
Personnel compensation and benefits	$56,719,365	83.9%	$53,610,277	83.8%
Travel and transportation	2,441,070	3.6%	3,103,579	4.8%
Contractual services	5,919,695	8.8%	4,574,559	7.1%
Property and equipment	1,032,465	1.5%	1,387,830	2.2%
Other	$1,516,119	2.2%	$1,375,337	2.1%
Total	**$67,628,714**	**100%**	**$64,051,582**	**100%**

Figure 2. Gross Costs by Agency Goal

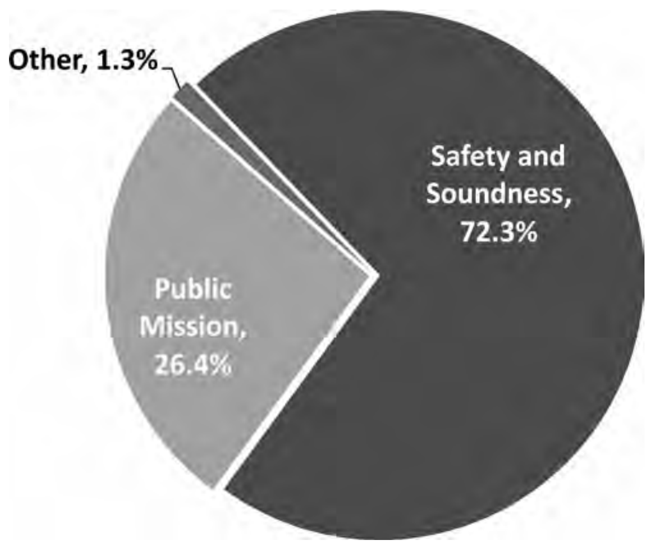
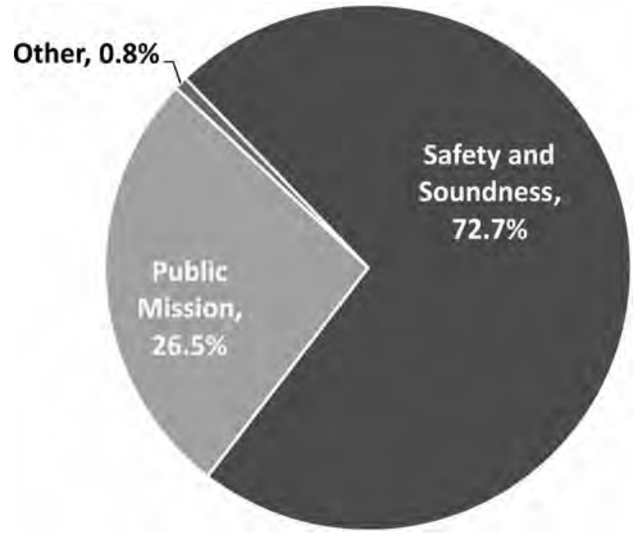


Figure 3. Gross Revenue by Agency Goal



compensation competitive helps us continue to fulfill our mission to provide the FCS, including Farmer Mac, with effective regulation and oversight.

Figure 3 shows the breakdown of FY 2017 gross revenue for each of our goals. Earned revenue for 2017 totaled $67,660,598, up $8,414,296, or 14.2 percent, from 2016. Earned revenue went up because of increases in assessments of the FCS and interest earned on investments.

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 2017, 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 assessed the programs of FCS institutions and Farmer Mac to ensure that credit and services are extended to all eligible and creditworthy persons, including young, beginning, and small farmers and ranchers.

Our costs for the Public Mission program include the review of borrower complaints. In accordance with the Farm Credit Act, we also review and approve FCS institutions' mergers to enable institutions to structure themselves to best serve their customers.

For the fiscal year ended Sept. 30, 2017, program cost for public mission was $18,863,584, representing an increase of $1,955,282, or 11.6 percent, from the same period the previous year. The cost for the public mission program represents 26.4 percent of our total costs for 2017.

Safety and Soundness Program

The examination and supervision of the FCS account for the largest portion of our costs at the program level. In 2017, cost of the safety and soundness program increased because of increases in staff and higher costs for employee compensation. The examination staff increased to meet human capital demands for institution examination and oversight to address growth in the FCS and rising risk in the U.S. agricultural and rural economies.

We met oversight and supervisory challenges in 2017 by leveraging technologies and providing guidance to institutions on rising risks.

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 unplanned employee attrition and the large number of retirements expected within the next few years.

During FY 2017, we met our goals and performance targets to ensure the safety and soundness of FCS institutions and Farmer Mac. Program cost for the examination and supervision of the FCS increased $1,208,724 to $51,584,478, which represents 72.3 percent of our total costs in 2017.

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. Although slightly fewer resources were used for other activity in 2017, actual costs incurred for this category increased by $77,492 to $918,104. The costs for providing reimbursable services represented approximately 1.3 percent of our total costs in 2017, an increase from 1.2 percent of total costs in 2016.

Program costs for other activity increased because of higher employee compensation costs and the composition of staff assigned to perform this work. Earned revenue for other activity totaled $541,833 for 2017, compared with $652,420 for 2016. The level of revenue is based on the level of reimbursable work completed.

LIMITATIONS OF 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. Reports used to monitor and control budgetary resources 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.

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
- Digital Accountability and Transparency 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 and accountability. The partnership has also improved our data reliability, which helps us comply with OMB M-15-12, Increasing Transparency of Federal Spending by Making Federal Spending Data Accessible, Searchable, and Reliable.

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 OMB Financial Management Line of Business initiative, which encourages agencies to improve the cost, quality, and performance of financial management systems by using shared services as required by two OMB Memorandums:

- M-13-08, Improving Financial Systems Through Shared Services
- M-10-26, Immediate Review of Financial Systems IT Projects

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 Inspector General Empowerment Act of 2016, which was passed in December 2016 and became effective in June 2017, amended the Inspector General Act. It confirms the Office of Inspector General's (OIG's) access to agency records, clarifies existing authorities, and requires new reporting and posting obligations. The semiannual reports prepared by the FCA OIG describe its audits, inspections, evaluations, and related activities, as well as the agency's follow-up to its recommendations.

The OIG's two semiannual reports covering FY 2017 are available on the FCA OIG's 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 FCA OIG posts all public reports on its website within three days of final submission to the agency.

The OIG continues to report recommendations to correct audit, inspection, or evaluation findings as "agreed-upon actions" whenever we reach agreement with the OIG on an acceptable way to resolve a recommendation.

Summary of OIG audit, inspection, and evaluation activities

The OIG issued seven audit, inspection, or evaluation reports during FY 2017, resulting in 20 new agreed-upon actions. Twenty-five agreed-upon actions have been closed (including 13 of 18 from the prior fiscal year). Therefore, 13 actions remain open this fiscal year. The reports are available on the FCA OIG's website at www.fca.gov/home/inspector.html.

- On Nov. 14, 2016, the OIG issued a report on the audit of FCA's financial statements, internal controls over financial reporting, and compliance with certain provisions of laws and regulations for FY 2016. The auditors issued an unmodified opinion on our financial statements. In the auditors' opinion, the principal financial statements presented fairly, in all material respects, our financial position as of the fiscal year ended Sept. 30, 2016, in conformity with generally accepted accounting principles. Although the auditors did not express an opinion on the effectiveness of internal controls, they did not identify any deficiency considered to be a material weakness. The auditors 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.

- On Nov. 10, 2016, the OIG issued a final report on an evaluation of our compliance with the Federal Information Security Modernization Act for FY 2016. This evaluation indicated that our information security program continues to mature. The report contained no recommendations.

- On Jan. 31, 2017, the OIG issued the final inspection report, "The Farm Credit Administration's Travel Card Program." The inspection resulted in two agreed-upon actions, including a recommendation for education to cardholders on misuse of the travel card, proper cash advances, delinquencies, potential disciplinary actions, reviewing statements, and the dispute process.

- On Feb. 23, 2017, the OIG issued the final audit report, "The Farm Credit Administration's Awards Program." The audit resulted in four agreed-upon actions, including education for supervisors on awards criteria, and revisions to policies and procedures.

- On March 7, 2017, the OIG issued the final inspection report, "Farm Credit Administration's Purchase Card Program." The inspection resulted in two agreed-upon actions, including an update of an agency directive on charge card operating procedures.

- On May 22, 2017, the OIG issued the final audit report, "The Farm Credit Administration's Contracting Activities." The audit resulted in seven agreed-upon actions, including developing a plan to ensure contract file documentation is complete, developing a handbook for the contracting officer's representatives, and updating policies and procedures.

- On Sept. 29, 2017, the OIG issued the final inspection report, "Physical Security in FCA's Denver Field Office." The inspection resulted in five agreed-upon actions. For security purposes, this report was not made public.

Summary of OIG audit, inspection, and evaluation recommendations

Recommendations or agreed-upon actions uncorrected as of Oct. 1, 2016:	18
New agreed-upon actions during FY 2017:	20
Agreed-upon actions closed during FY 2017:	25
Open agreed-upon actions as of Sept. 30, 2017:	13
Recommendations or agreed-upon actions open more than one year:	5

OIG survey of FCS institutions regarding the agency's examination function

The OIG conducts a quarterly survey of FCS institutions on our examination function and examiners. The OIG issues quarterly reports and a fiscal year summary report to the FCA chief examiner and the FCA board. Average numerical ratings remained high for FY 2017, and anonymous comments provided by institutions generally reflected favorably on the examination process and examiners. 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 2016, 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 2017.

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 2017, we paid on time 99.9 percent of the 3,025 invoices subject to the Prompt Payment Act. 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. This act was amended by the Digital Accountability and Transparency Act of 2014 to require that debts outstanding for more than 120 days be transferred to the Treasury Department for collection under the Treasury Offset Program. If we have any debt that exceeds the 120-day threshold, we will transfer the debt accordingly.

Improper Payments Elimination and Recovery Improvement Act

The Improper Payments Elimination and Recovery Improvement Act of 2012 requires agencies to review their programs and activities to identify those susceptible to significant improper payments. Improper payments do not present a significant risk to FCA and therefore we are not subject to all the reporting requirements of this act. However, in partnership with our service provider, we do have internal control procedures to ensure that payments are made properly. Please see page 68 for additional information on our efforts to comply with this regulation.

Digital Accountability and Transparency Act

The Digital Accountability and Transparency Act was enacted to increase accountability and transparency in federal spending and expand the requirements of the Federal Funding Accountability and Transparency Act of 2006. The act requires that agencies post expenditure information, including contracts, loans, and grants, on the USASpending.gov website for each appropriations account. Our Office of General Counsel, with the Office of Management and Budget's concurrence, has determined that the requirements of Digital Accountability and Transparency Act do not apply to FCA because we are not funded by taxpayer dollars.

Statement of Assurance

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

We conducted an assessment of the effectiveness of our internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations in accordance with the Office of Management and Budget Circular A-123, Management's Responsibility for Enterprise Risk Management and 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 Sept. 30, 2017, 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 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, 2017, was operating effectively, and no material weaknesses were found in the design or operation of the internal control over financial reporting.

In accordance with the requirements of the Federal Managers' Financial Integrity Act, our financial management systems are substantially in compliance with the requirements for federal financial management systems as presented in A-127, Financial Management Systems, as of Sept. 30, 2017. Our financial management systems also comply with applicable federal accounting standards and the U.S. Standard General Ledger at the transaction level.

Dallas P. Tonsager

Dallas P. Tonsager
Chairman and Chief Executive Officer
FARM CREDIT ADMINISTRATION

September 30, 2017

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 that System institutions and Farmer Mac are safe, sound, and dependable sources 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 three 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.
- Cultivate an environment that fosters a well-trained, motivated, and diverse staff while providing an effective plan for leadership succession.

Our Strategic Plan for Fiscal Years 2016 – 2021 contains a desired outcome for each goal, as well as 19 strategies we will use to meet these goals. In addition, we have 14 performance measures with associated targets to measure our success in meeting 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 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 the three 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: Ensure that the capital rules for the FCS and Farmer Mac are consistent with standards for the financial service industry and preserve their financial strength and stability so they can meet the credit needs of eligible borrowers.

The FCA board adopted a final rule in March 2016 that revised our capital rules for FCS banks and associations and provides clearly defined capital standards that are both consistent with Basel III and appropriate for the farmer-owned cooperative Farm Credit System. In FY 2017, we updated our Financial Institution Rating System benchmarks for capital and our examination guidance and examiner training to ensure that FCS institutions implement the capital rules properly. We also issued an informational memorandum to the System titled "Implementation of the Tier 1/Tier 2 Capital Framework."

In FY 2016, we issued a final rule related to Farmer Mac's corporate governance. The final rule covers essential safety and soundness matters, including regulation, examination and enforcement authorities, required board committees, risk management, internal controls and reporting, and disclosure requirements. Also in FY 2016 we issued a proposed rule for Farmer Mac governing the eligibility of nonprogram investments.

Strategy #2: Within the framework of the Farm Credit Act, develop and update policies and regulations as appropriate so that the System, including Farmer Mac, can continue to effectively serve its members as conditions in agriculture and rural America change.

The following actions are examples of ways we have used this strategy in FY 2017:

- Issued a final rule on flood insurance
- Continued to study the loan syndication market

- Issued a final rule on Farmer Mac's corporate governance and standards of conduct
- Provided guidance to the System on implementing the tier 1/tier 2 regulatory capital framework
- Issued guidance to the System on evaluating personal and intangible property taken as loan security

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 May 2017. We plan to address the comments from this solicitation in FY 2018.

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. We also provide guidance related to internal controls and information technology. Ultimately, our guidance helps institutions manage loan and funding programs more efficiently.

Farmer Mac continues to enhance its relationships with its loan sellers and servicers by holding informational forums, providing updates to its formal servicing guidelines, and performing internal credit reviews. And our Office of Secondary Market Oversight evaluates Farmer Mac's efforts to enhance these relationships.

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 possible risks associated with 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.

In addition, we continue to advance regulatory rulemaking projects related to investment eligibility and creditworthiness and to update other areas of supervision.

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

FCA examiners evaluate the operating and strategic plans and the credit delivery programs of System institutions. We also evaluate System outreach efforts and best practices for serving the credit and related service needs of all creditworthy eligible customers.

In addition, our examiners evaluate each institution's YBS farmer and rancher program relative to the demographics of its chartered territory. These evaluations help examiners identify trends in lending to YBS farmers and ranchers and to assess the System's efforts to provide financial and business management assistance and outreach to YBS farmers and ranchers.

When evaluating 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.

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 review these reports and evaluate the System's progress in meeting this requirement. As part of our examination activities, we also review institution annual reports and encourage institutions to include a discussion of how they are meeting their mission.

We evaluate Farmer Mac's mission accomplishment as well. 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 guarantee programs, the geographic distribution of Farmer Mac's program business, the proportion of fixed-versus variable- rate loan volume, and activity related to rural utilities. In addition, the report highlights activity related to small and family farms, which Farmer Mac is required by statute to promote and encourage. These reporting requirements encourage Farmer Mac to motivate its business development staff to focus on the credit needs of small and family farms when working with its lender-customers.

Strategy #4: Encourage the System to provide products and services to all creditworthy and eligible potential borrowers and to promote outreach to enhance diversity and inclusion.

Our examinations assess the System's efforts to provide financial or business management assistance and outreach to all creditworthy eligible customers, including YBS farmers and ranchers. The System continues to implement programs to meet the needs of YBS producers and other borrowers.

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. We have updated our examination guidance and communications with the System to clearly convey our minimum expectations regarding business plans, including our expectations regarding diversity and inclusion requirements.

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, 2016, through June 30, 2017, we responded to 34 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.

We are also concerned about the needs of disabled farmers and farmer veterans. In previous years, we have held presentations on these topics to raise awareness among our staff about the challenges they face. In 2016, members of our staff met with the USDA under secretary to discuss ways to better meet the credit needs of farmer veterans.

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 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 would for any secondary market entity.

During examinations, we review loans presented to Farmer Mac to ensure that their underwriting and loan-approval standards are appropriate and consistent. Further, Farmer Mac's annual mission report includes a section covering its financing of rural utility cooperatives and small and family farmers.

The FCA bookletter "Providing Credit to Farmers and Ranchers Operating in Local/Regional Food Systems" (BL066) 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 under prior FCA guidance. 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 diversity on the boards and in the workforce of System institutions.

Our oversight and examination programs include risk-based evaluation of each institution's human capital planning, director elections, and nominating committees. Examination guidance and procedures consider any significant changes in bylaws, policies, control systems, staffing, board membership, board involvement, election processes, or issues related to standards of conduct. As part of our review of the nominating committee's processes and practices, we evaluate the committee's outreach efforts to expand diversity on the board. And we are in the process of updating examination guidance on this topic.

As part of the review of human capital management, we evaluate conditions such as staff turnover levels or changes in key personnel (actual or upcoming), depth of management, changes in compensation and benefit programs or levels, involvement of the compensation committee, and extent of operational weaknesses cited in audit, review, and examination reports that could be connected to human capital issues.

Strategy #6: Consistent with the Farm Credit Act, enable the agricultural GSEs to structure themselves to best serve their members and rural America.

FCA analyzes and approves periodic requests by institutions to restructure or offer new programs designed to better serve their customers. During the year, FCA approved three mergers:

- On Jan. 1, 2017, two associations affiliated with CoBank, ACB, merged to become one association.
- On July 1, 2017, three associations affiliated with AgriBank, FCB, merged to became one association.
- On July 1, 2017, two associations affiliated with AgriBank merged to become one.

As a result, at fiscal year-end 2017, the System had 70 institutions (68 agricultural credit associations and 2 federal land credit associations), compared with 74 associations a year earlier. Another merger was in progress at fiscal year-end. This merger became effective on Oct. 1, 2017.

Strategy #7: Encourage System institutions to be conscious of the reputation risk associated with their lending and investments decisions.

We issue guidance on business planning, capital management, portfolio risk management, debt issuance, secondary liquidity sources, and related topics. We also work with FCS-wide committees and groups to discuss challenges, opportunities, and best practices in these areas. Further, we assess System institutions' use of programs undertaken jointly with other financial service providers. Through our supervisory and enforcement activities, we require institutions to develop plans to address any potential reputation risks associated with their lending and investment decisions.

Strategy #8: 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 4 above for more information about borrower inquiries and complaints.

Farmer Mac, too, has increased its focus on its public mission. Its year-end annual report and Form 10-K filing now include numerous references to its public mission, including a discussion of how pursuing its mission may contribute to lower returns to stockholders. 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 #9: Encourage full participation of stakeholders in the development and review of regulatory and policy 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 six strategies to accomplish this goal and six performance measures to evaluate our success.

Strategy #1: Seek early FCA board input on policy and regulatory issues. Ensure that the board has timely and comprehensive information to be fully informed and able to respond appropriately.

The FCA board provides early input on regulatory and policy projects. For regulatory projects, the board provides input before and during the development and approval of the semiannual Regulatory Projects Plan, which outlines our regulatory agenda. For policy projects, the board also provides early input; a policy project may produce a guidance document, or it may eventually become a regulatory project.

After we've started a regulatory or policy project, board involvement continues to be crucial. We obtain board input regarding the initial issues paper, and we provide board briefings and monthly progress reports throughout the project.

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: Maintain strong and frequent two-way communication with stakeholders on issues of risk and safety and soundness.

FCA management and staff participate regularly in FCS meetings and conferences to answer questions related to regulatory and FCS operational issues. We also use these opportunities to reinforce our expectations regarding these issues and to discuss new regulatory direction. FCA staff also participates in agency-wide workgroups and FCS-wide committees and groups to discuss challenges, opportunities, and best practices.

Our approach to oversight and examination involves meeting with institution boards and audit committees on risk issues, interim examination activities, and corrective actions. Through direct interaction with System institutions, we hear about emerging issues and acquire a systemic view of issues warranting regulatory attention. Our oversight and examination approach also involves timely written communication through interim activity letters and examination reports. We also regularly communicate with FCS management on upcoming examination practices that may affect their institutions.

Annually, we issue an informational memorandum on our National Oversight Plan in which we identify risk topics that we will emphasize in our examination and oversight activities. This informational memorandum provides perspective on our concerns and priorities. When needed, we use the supervisory and enforcement process to require institutions to take certain action. In addition, we review borrower inquiries and complaints about the lending process and investigate any allegations.

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

We proactively identify and evaluate emerging issues that create Systemwide risk and allocate oversight and examination resources based on that risk in accordance with board policy statement 53. FCA continues to prioritize oversight activities according to risk, and we develop individualized oversight and examination plans for each institution. A key element to this approach is the national oversight planning process, which guides our efforts to ensure the safety and soundness of the System. We manage and update this process on a regular basis. We strive to provide timely guidance related to how examinations are conducted and emerging 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 internal control 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 risk exposures in their portfolios. With only one exception in FY 2017, all institutions have adequate internal control programs or adequate corrective actions in place. We are currently evaluating one institution for needed improvements.

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 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

We also evaluate Farmer Mac's risk management practices through examinations and oversight reviews. During 2016, 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. Farmer Mac has adopted the same 14-point loan risk rating scale applied by the FCS. Its use of the scale helps it monitor risk, as well as to market its products and services to System institutions.

Strategy #4: Effectively 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, 2017, there were no formal enforcement actions in place.

Strategy #5: Ensure that technology, information management, and cybersecurity awareness are priorities at FCA and in the FCS.

Through the FCS Loans Database Project, we built an enterprise system for the dependable collection and storage of data for examination activities and systemic risk analysis. In addition, we established uniform instructions for the timely and reliable reporting of accounts and exposures. In 2014, the System improved its ability to identify shared assets by implementing the System shared-asset and customer numbers.

Then, in December 2015, the System began reporting exposures caused by "systemically significant customers." And we continue to work with the System to improve data completeness and reliability. In FY 2016, we continued to support the tools and workpapers that our examiners use to analyze loan data and evaluate loan assets. In addition, we worked with the FCA Risk Project to explore business intelligence tools that our examiners can use in analyzing risk and reviewing loans.

In 2017, the Office of Examination, the FCA Risk Project, and the Office of Information Technology continued to work together to obtain analysis and reporting tools and to incorporate them into examination processes. For example, we further refined the following:

- the FCA Data Mart,
- our analyses of data in the FCS Loans Database and the Consolidated Reporting System,
- our management reporting (which is phase 2 of the EDGe project), and
- examination-related tools and applications, including the new FIRS report and loan workpaper application.

We also continue to evaluate whether institutions are maintaining ystems to analyze their portfolio risk and borrower profiles. We review their processes and tools for analyzing sensitivity and stress. In June 2017, we issued an informational memorandum on cybersecurity risks titled "Reporting Security Incidents and Business Continuity Events to FCA."

Strategy #6: Ensure that strong governance, standards of conduct, and ethical behavior are part of the organizational culture of the FCS.

We evaluate the compliance of System institutions with governance regulations and their adherence to cooperative principles. We evaluate each institution's standards of conduct, ethics, and organizational culture. We share our conclusions and recommendations with System boards of directors. As discussed under goal 2, strategy 4, we use a three-tiered supervision program to ensure that institutions take appropriate measures to mitigate any risks our examiners identify.

Goal 3 — Cultivate an environment that fosters a well-trained, motivated, and diverse staff while providing an effective plan for leadership succession.

The purpose of goal 3 is to ensure that FCA maintains a workforce that can carry out its mission. We have four strategies to accomplish this goal and two performance measures to evaluate our success.

Strategy #1: Maintain a highly skilled and diverse workforce to meet FCA's current and future regulatory development, risk analysis, examination, and supervision 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 are taking the following measures:

- Identifying positions in which risk of key-person dependency exists and developing plans to build bench strength and manage succession for these positions
- Hiring to meet projected staffing needs
- Offering training programs and developing strategies to increase technical competencies of employees

- Creating opportunities for employees to become more engaged with their work

- 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 #2: Facilitate the development of the skills our workforce needs to evaluate FCS risk and provide timely and proactive oversight.

In 2017, FCA continued to devote significant resources toward developing new employees through our examiner commissioning program. In addition, we increased our focus on helping mid-career staff develop their skills. For example, we took the following measures:

- Trained and developed examination staff with the necessary technical and soft skill sets.

- Completed revisions to the commissioning program's training curriculum and tested certifications based on the 2015 updated job analysis.

- Supported post-commission career path and related specialist programs (for credit, finance, and operations) to ensure that our staff has the expertise and credibility to carry out our mission. We also provided training in the necessary soft skills. And we revised an operations directive related to our career path development program.

- Helped our staff maintain its readiness to administer elevated supervision when necessary.

- Ensured that all our examiners understand our risk supervision approaches and how to implement them.

Strategy #3: Ensure adequate succession planning and knowledge transfer to ensure that future FCA leadership and staff possess the knowledge and skills required to be an effective arm's length regulator.

We have updated our career path program to help us replace retiring managers and supervisors by developing the leadership, management, and supervisory skills of our examiners. Our strategy is to develop a pool of candidates who could become successful supervisors and managers, including director of the Office of Examination. We recognize that retirements also create opportunity for diversity and inclusion in management. We use the following methods to develop our next group of program managers and leaders:

- Creating leadership positions for program and portfolio managers

- Providing selected candidates with formal leadership training, on-the-job training, and opportunities to participate in other projects

- Helping staff build skill sets by providing developmental assignments such as serving as examiners-in-charge of complex institutions, completing special projects, and participating in Office of Examination specialist programs

- Providing internal rotational assignments between divisions in our Office of Examination

- Offering opportunities for Office of Examination employees to work in other FCA offices

To transfer knowledge from more tenured examiners to the new generation of examination staff, we use developmental initiatives. Our ongoing project to update the FCA Examination Manual also provides opportunities for knowledge transfer.

Strategy #4: Encourage a workplace culture that motivates staff to be engaged, embraces diversity in all its forms, and promotes strong ethical behavior.

According to the Federal Employee Viewpoint Survey, FCA's employee engagement index went up by 3 percentage points in 2017, from 72 percent to 75 percent. We promote engagement in various ways, such as providing training and development opportunities for employees to build their skills and advance their careers.

We also strengthen engagement by having an inclusive workplace. For example, our Special Emphasis Programs, such as the Federal Women's Program, Blacks in Government, and HOLA FCA, sponsor regular presentations on issues affecting women and minority groups. And each year we have a Diversity Day on which we celebrate the diverse cultures represented in our workplace.

We also strive to increase workforce diversity. We target at least 25 percent of our recruiting efforts toward disabled and minority potential applicants. For example, during each recruiting season, we attend career fairs at historically black colleges and universities and high minority enrollment schools.

And as a financial banking regulator, we emphasize ethical conduct among all employees. In 2011, our board adopted a policy statement on ethics, independence, and our role as an arm's length regulator. This document states the following:

- 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.
- FCA board members and employees must remain mindful of their duty to make independent determinations on matters being considered by the agency.
- 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 performs the following functions:

- Oversees financial disclosure reporting (that is, the completion of public, confidential, and certification forms) of covered FCA and FCSIC employees
- Provides ethics counseling to FCA and FCSIC employees
- Provides ethics training to all covered FCA and FCSIC employees annually, as well as to new employees during their orientation
- Provides a liaison to coordinate with other government agencies regarding ethics issues
- Helps develop regulations and policies related to ethics

Table 5a. Goal 1 — Performance Measures and Results for Public Mission

July 1, 2016, to June 30, 2017

Measure	Results	2016 Target	2016 Results	2017 Target	2017 Results	Results vs. Target
1. Percentage of FCS institutions providing products and services that serve creditworthy and eligible persons and perform outreach to enhance diversity and inclusion.	All FCS institutions had satisfactory operating and strategic plans for providing products and services to all creditworthy and eligible persons.	≥90%	100%	≥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-nine percent of direct-lender institutions have satisfactory consumer and borrower-rights compliance.	≥90%	95%	≥90%	100%	▲
4. Percentage of direct-lender institutions with YBS programs that are in compliance with YBS regulations.	All direct-lender institutions with YBS programs are in compliance with YBS regulations.	≥90%	100%	≥90%	100%	▲
5. Whether the majority of objectives listed in the preamble of each final rule were met on the two-year anniversary of the rule's effective or implementation date.	A majority of the objectives listed in the preambles of the final rules were met on the two-year anniversary of the implementation dates.	N/A	N/A	Yes	Yes	✓
6. Percentage of pre-rulemaking projects and proposed rules on which FCA requested input from persons outside of FCA.	There was one project out of nine on which we did not request input from persons outside of FCA. In that one instance, we completed our research on the project well before the FCA board had adopted this performance measure.	100%	N/A	100%	89%	▼

Table 5b. Goal 2 — Performance Measures and Results for Safety and Soundness

July 1, 2016, to June 30, 2017

Measure	Results	2016 Target	2016 Results	2017 Target	2017 Results	Results vs. Target
1. Percentage of System assets in institutions with composite CAMELS ratings of 1 or 2.	99 percent of System assets have composite CAMELS ratings of 1 or 2.	≥90%	99.7%	≥90%	99.6%	▲
2. Percentage of requirements in supervisory agreements with which FCS institutions have at least substantially complied within 18 months of execution of the agreements.	The agency does not have any supervisory agreements in place with FCS institutions.	≥80%	91%	≥80%	NA	NA
3. Percentage of institutions complying with regulatory capital ratio requirements.	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 but one have satisfactory audit and review programs, including institutions with acceptable corrective action plans. The one exception was identified recently, and we expect that institution to submit an acceptable corrective action plan soon.	100%	100%	100%	99%	▼
6. Whether five or more reports and dashboards were created that use data collected from the Farm Credit System to assess risk in the System.	We created at least five reports and dashboards that use System data to assess risk.	N/A	N/A	Yes	Yes	✓

Table 5c. Goal 3 — Performance Measures and Results for Workforce Management

July 1, 2016, to June 30, 2017

Measure	Results	2016 Target	2016 Results	2017 Target	2017 Results	Results vs. Target
1. Whether, as part of its recruiting efforts for entry-level examiners, FCA has ensured that 25 percent of its outreach efforts target disabled or minority potential applicants. For the purpose of this measure, outreach consists of participating in career fairs, attending recruiting events, or placing employment listings or advertisements on websites targeting these audiences.	At least 25 percent of our outreach efforts targeted disabled or minority potential applicants.	N/A	N/A	Yes	Yes	✓
2. Whether we have maintained or improved our score from last year in the Annual Employee Satisfaction Survey.	We achieved a 3-percentage-point increase in our Employee Engagement Index score	N/A	N/A	≥72%	75%	✓

Notes: In April 2016, the FCA board adopted the FCA Strategic Plan for FYs 2016 – 2021. The plan contains the performance measures listed in tables 5a, 5b, and 5c.

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 we exceeded the FY 2017 target; ✓ indicates we achieved the FY 2017 target; ▼ indicates we did not meet the FY 2017 target.

Financial Section

Statement of Chief Financial Officer

November 8, 2017

I am honored to join Chairman Tonsager in presenting the 2017 financial statements for the Farm Credit Administration. We hope this report provides a meaningful picture of FCA's financial condition, operating performance, and internal controls.

Our independent auditor has issued an unmodified opinion on our financial statements for FY 2017. In addition, the auditor did not identify any significant deficiencies or material weaknesses over internal control over financial reporting and there were no reportable instances of noncompliance with laws, regulations, and contracts. This marks the 24^{th} consecutive year FCA has received a "clean" opinion and underscores our commitment to fiscal stewardship.

As the arm's length regulator of the Farm Credit System, we are fully funded by the institutions we regulate. Our employees understand the importance of strong financial management and conduct FCA's operations with transparency and accountability.

Through the commitment of FCA leaders and the dedication of staff from across the agency, FCA has maintained strong internal controls. Our internal controls allow us to efficiently provide sound financial management and reliable financial data, and to identify and respond to potential financial risks that may emerge.

While we are pleased with our results, we remain committed to making further improvements to our internal controls environment. One of our key priorities is to build out our in-house internal controls program so that we can better identity and resolve any internal control issues. We will continue to refine our enterprise risk management program to mitigate risk throughout the organization and effectively allocate resources to achieve our mission.

As always, we remain committed to providing strong financial management, effective internal controls, and meaningful budget and performance integration. And we continue to look for creative opportunities to reduce costs by improving our processes and programs.

Sincerely,

Stephen G. Smith
Chief Financial Officer

Transmittal Letter of Auditor's Report

Farm Credit Administration

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

November 8, 2017

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

Dear Chairman Tonsager and Board Member 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, 2017. 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, 2017, in conformity with generally accepted accounting principles.

Harper, Rains, Knight & Company considered FCA's internal control over financial reporting to determine the audit procedures to express 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. 17-03, *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. 17-03. 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 for 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,

Wendy R LAguarda

Wendy R. Laguarda
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, 2017 and 2016, and the related statements of net cost and changes in net position, and 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 general accepted accounting principles in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 17-03, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 17-03 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.

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

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, 2017 and 2016, 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

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

Other Information

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

Other Reporting Required by *Government Auditing Standards*

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements as of and for the year ended September 30, 2017, 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*.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether FCA's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. 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. 17-03.

***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. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

November 8, 2017

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 2017 and FY 2016. 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, 2017.
- **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, and a Statement of Changes in Social Insurance Amounts.

BALANCE SHEETS

As of September 30, 2017 and 2016
(In Dollars)

		2017	2016
Assets	**Intragovernmental**		
	Fund balance with Treasury (Note 2)	$1,457,378	$546,292
	Investments (Note 3)	32,893,400	29,756,481
	Accounts receivable (Note 4)	10,994	45,567
	Total intragovernmental	**$34,361,772**	**$30,348,340**
	Accounts receivable (Note 4)	154,726	190,264
	General property, equipment, and software, net (Note 5)	1,590,298	1,277,101
	Prepaid expenses	333,689	225,418
	Total assets	**$36,440,485**	**$32,041,123**
Liabilities	**Intragovernmental**		
	Accounts payable	$27,806	$18,444
	Accrued post-employment compensation	36,536	35,282
	Employer contributions and payroll taxes payable	455,088	404,578
	Other	0	33
	Total intragovernmental	**519,430**	**458,337**
	Accounts payable	550,337	330,865
	Actuarial workers' compensation liability (Note 6)	1,463,048	1,258,152
	Accrued payroll and benefits	6,771,200	6,232,550
	Employer contributions and payroll taxes payable	486,960	107,768
	Deferred revenue	5,733,890	4,676,787
	Total liabilities	**$15,524,865**	**$13,064,459**
Net position	**Cumulative results of operations – Other funds**	**$20,915,620**	**$18,976,664**
	Total net position	**20,915,620**	**18,976,664**
	Total liabilities and net position	**$36,440,485**	**$32,041,123**

STATEMENTS OF NET COST

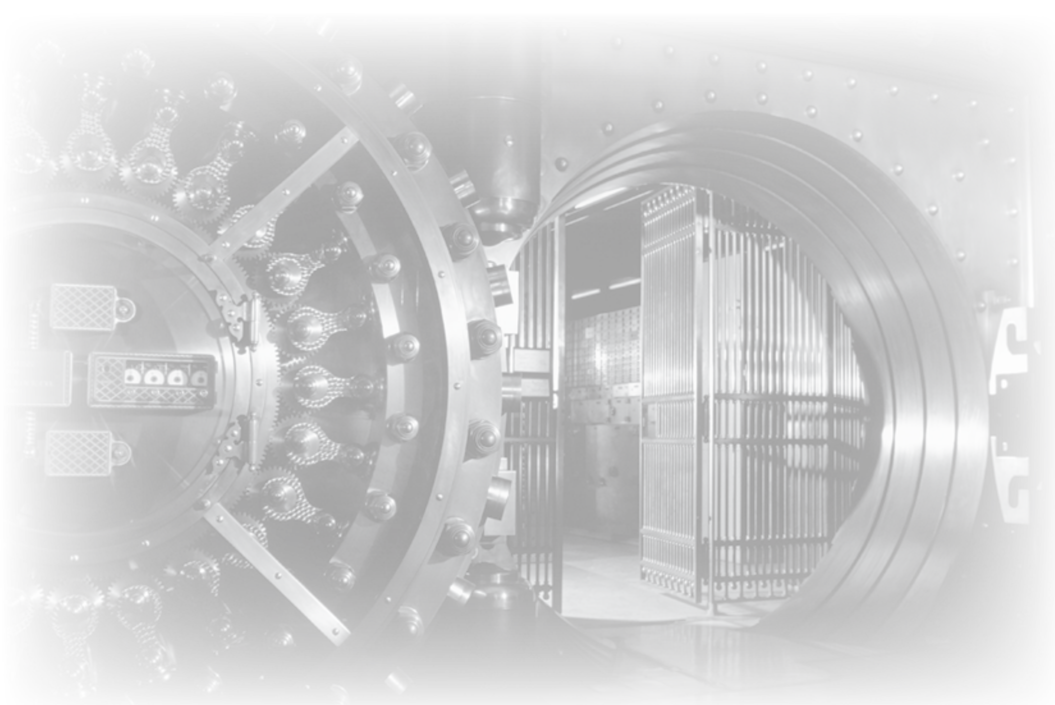
For the Years Ended September 30, 2017 and 2016
(In Dollars)

	Program Costs	2017	2016
Public Mission	Gross costs	$18,863,584	$16,908,302
	Less: Earned revenue	(17,954,870)	(14,727,123)
	Net program cost	$908,714	$2,181,179
Safety and Soundness	Gross costs	$51,584,478	$50,375,754
	Less: Earned revenue	(49,163,895)	(43,866,759)
	Net program cost	$2,420,583	$6,508,995
Other Activity	Gross costs	$918,104	$840,612
	Less: Earned revenue	(541,833)	(652,420)
	Net program cost	$376,271	$188,192
Net Cost of Operations (Notes 7 and 8)		**$3,705,568**	**$8,878,366**

STATEMENTS OF CHANGES IN NET POSITION

For the Years Ended September 30, 2017 and 2016
(In Dollars)

		2017	2016
Cumulative results of operations			
Beginning balances		$18,976,664	$21,843,206
Other financing sources (Non-exchange)	**Imputed financing sources**		
	Federal employee benefits (Note 9)	2,044,524	2,611,824
	Rent (Note 10)	3,600,000	3,400,000
	Total financing sources	5,644,524	6,011,824
Net cost of operations		(3,705,568)	(8,878,366)
Net change		1,938,956	(2,866,542)
Cumulative results of operations		$20,915,620	$18,976,664
Net position		**$20,915,620**	**$18,976,664**



STATEMENT OF BUDGETARY RESOURCES

For the Years Ended September 30, 2017 and 2016
(In Dollars)

		2017	2016
Budgetary resources	**Unobligated balance brought forward, Oct. 1**	**$19,207,882**	**$20,746,358**
	Spending authority from offsetting collections	69,042,437	61,678,681
	Total budgetary resources (Note 12)	$88,250,319	$82,425,039
Status of budgetary resources	New obligations and upward adjustments (total)	$66,843,478	$63,217,157
	Unobligated balance, end of year		
	Exempt from apportionment, unexpired accounts	**15,672,951**	**14,531,095**
	Not available	5,733,890	4,676,787
	Total unobligated balance, end of year	21,406,841	19,207,882
	Total budgetary resources (Note 12)	$88,250,319	$82,425,039
Change in obligated balance	Unpaid obligations		
	Unpaid obligations, brought forward, Oct. 1	$11,498,656	$10,890,646
	New obligations and upward adjustments	66,843,478	63,217,157
	Outlays (gross)	(64,699,671)	(62,609,147)
	Unpaid obligations, end of year	13,642,463	11,498,656
	Uncollected payments		
	Uncollected customer payments, federal sources, brought forward, Oct. 1	(653,849)	(690,666)
	Change in uncollected customer payments, Federal sources	(219,414)	36,817
	Uncollected customer payments, federal sources, end of year	(873,263)	(653,849)
	Memorandum entries		
	Obligated balance, start of year	$10,844,807	$10,199,980
	Obligated balance, end of year	$12,769,200	$10,844,807
Budget authority and outlays, net	**Budget authority, gross**	**$69,042,437**	**$61,678,681**
	Actual offsetting collections	(68,823,023)	(61,715,498)
	Change in uncollected customer payments, federal sources	**(219,414)**	**36,817**
	Budget authority, net	$0	$0
	Outlays, gross	**$64,699,671**	**$62,609,147**
	Actual offsetting collections	(68,823,023)	(61,715,498)
	Agency outlays, net	**$(4,123,352)**	**$893,649**

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. 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 the Chief Financial Officer (OCFO), 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. We have determined that all accounts receivable as of Sept. 30, 2017, 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 and equipment 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 capitalize software when its costs exceed $250,000 and it has a useful life of two years 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.

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 nonvested leave are expensed as the leave is taken. During FY 2017, we updated our methodology for calculating the leave liability to account for the cost of benefits associated with the compensation. This change ensures that our estimated liability for leave reflects the current composition of our staff; most of our employees are under the Federal Employees Retirement System instead of the Civil Service Retirement System.

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.

P. **Financial Data** — All amounts presented in this report are in whole dollars.

Note 2. Fund Balance With Treasury

	2017	2016
Fund balance with Treasury		
Revolving fund	$1,457,378	$546,292
Total fund balance with Treasury	$1,457,378	$546,292
Status of fund balance with Treasury		
Unobligated balance available	$15,672,951	$14,531,095
Unobligated balance unavailable	5,733,890	4,676,787
Obligated balance not yet disbursed	12,769,200	10,844,807
Subtotal — Status of fund balance	34,176,041	30,052,689
Funds invested with Treasury net of unamortized discount	(32,718,663)	(29,506,397)
Total fund balance with Treasury	**$1,457,378**	**$546,292**

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 Oct. 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 and 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 2017 Balance Sheet Reporting

	Cost	Amortized (Premium) Discount	Investments Net	Interest Receivable	9/30/17 Investment Balance	Market Value Disclosure
Nonmarketable market-based	$32,928,707	$(89,972)	$32,838,735	$54,665	$32,893,400	$32,767,237

Amounts for 2016 Balance Sheet Reporting

	Cost	Amortized (Premium) Discount	Investments Net	Interest Receivable	9/30/16 Investment Balance	Market Value Disclosure
Nonmarketable market-based	$29,821,788	$(129,301)	$29,692,487	$63,994	29,756,481	$29,743,397

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 $317,990 and $248,331 for FYs 2017 and 2016, respectively.

Note 4. Accounts Receivable

	2017	2016
Intragovernmental		
Reimbursements for services provided	$10,994	$45,567
Subtotal	10,994	45,567
With the public		
Reimbursements for services provided	145,890	140,798
Expenditure refunds	8,836	49,466
Subtotal	154,726	190,264
Total accounts receivable	**$165,720**	**$235,831**

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

Note 5. General Property, Equipment, and Software

As of September 30, 2017

	Estimated Useful Life	Depreciation Method	Acquisition Value	Accumulated/ Amortized Depreciation	Book Value
Equipment	3 years	Straight line	723,580	(361,790)	361,790
Equipment	5 years	Straight line	347,055	(68,246)	278,809
Equipment	10 years	Straight line	305,304	(75,849)	229,455
Internal use software	5 years	Straight line	718,049	(71,805)	646,244
Software in development			74,000	0	74,000
Total			**$2,167,988**	**$(577,690)**	**$1,590,298**

As of September 30, 2016

	Estimated Useful Life	Depreciation Method	Acquisition Value	Accumulated/ Amortized Depreciation	Book Value
Equipment	3 years	Straight line	723,580	(120,597)	602,983
Equipment	5 years	Straight line	167,703	(16,770)	150,933
Equipment	10 years	Straight line	305,304	(45,319)	259,985
Software in development			263,200	0	263,200
Total			**$1,459,787**	**$(182,686)**	**$1,277,101**

During FY 2017, we increased the capitalization threshold for internal use software to $250,000. Capitalization thresholds for property and equipment remains unchanged at $50,000 per individual asset and $500,000 for bulk purchase of equipment.

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 FECA actuarial liability amount by using the Labor Department's FY 2017 model to estimate FECA actuarial liability.

	2017	2016
Actuarial FECA liability	$1,463,048	$1,258,152
Total liabilities not covered by budgetary resources	1,463,048	1,258,152
Total liabilities covered by budgetary resources	14,061,817	11,806,307
Total liabilities	**$15,524,865**	**$13,064,459**

Note 7. Costs and Exchange Revenue
For the Years Ended September 30, 2017 and 2016

		2017	2016
Public Mission	Intragovernmental costs	$3,747,773	$3,249,440
	Public costs	15,115,811	13,658,862
	Total costs	18,863,584	16,908,302
	Intragovernmental earned revenue	(85,147)	(62,405)
	Public earned revenue	(17,869,723)	(14,664,718)
	Total revenue	(17,954,870)	(14,727,123)
	Net program costs	908,714	2,181,179
Safety and Soundness	Intragovernmental costs	11,481,392	10,707,624
	Public costs	40,103,086	39,658,130
	Total costs	51,584,478	50,375,754
	Intragovernmental earned revenue	(232,843)	(185,926)
	Public earned revenue	(48,931,052)	(43,680,833)
	Total revenue	(49,163,895)	(43,866,759)
	Net program costs	2,420,583	6,508,995
Other Activity	Intragovernmental costs	169,197	119,158
	Public costs	748,907	721,454
	Total costs	918,104	840,612
	Intragovernmental earned revenue	(396,437)	(511,622)
	Public earned revenue	(145,396)	(140,798)
	Total revenue	(541,833)	(652,420)
	Net program costs	376,271	188,192
Net cost of operations (+/−)		**$3,705,568**	**$8,878,366**

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 2017 and 2016. We display our cost and earned revenue amounts by office within each program.

For the Year Ended September 30, 2017

		Office of Examination	Office of Regulatory Policy	Office of Secondary Market Oversight	Other Offices	Total
Public mission	Gross costs	$531,629	$5,374,750	$726,926	$12,230,279	$18,863,584
	Less: Earned revenue	(507,308)	(5,128,844)	(649,992)	(11,668,726)	(17,954,870)
	Net program cost	24,321	245,906	76,934	561,553	908,714
Safety and soundness	Gross costs	34,589,419	1,197,363	728,794	15,068,902	51,584,478
	Less: Earned revenue	(32,986,710)	(1,142,555)	(624,897)	(14,409,733)	(49,163,895)
	Net program cost	1,602,709	54,808	103,897	659,169	2,420,583
Other activity	Gross costs	315,070	31,674	860	570,500	918,104
	Less: Earned revenue	(185,943)	(18,693)	(508)	(336,689)	(541,833)
	Net program cost	129,127	12,981	352	233,811	376,271
Net cost of operations		**$1,756,157**	**$313,695**	**$181,183**	**$1,454,533**	**$3,705,568**

For the Year Ended September 30, 2016

		Office of Examination	Office of Regulatory Policy	Office of Secondary Market Oversight	Other Offices	Total
Public mission	Gross costs	$459,242	$4,863,675	$391,997	$11,193,388	$16,908,302
	Less: Earned revenue	(397,223)	(4,207,183)	(387,359)	(9,735,358)	(14,727,123)
	Net program cost	62,019	656,492	4,638	1,458,030	2,181,179
Safety and soundness	Gross costs	34,451,776	1,546,784	1,059,045	13,318,149	50,375,754
	Less: Earned revenue	(29,886,288)	(1,337,895)	(1,041,844)	(11,600,732)	(43,866,759)
	Net program cost	4,565,488	208,889	17,201	1,717,417	6,508,995
Other activity	Gross costs	306,583	88,458	926	444,645	840,612
	Less: Earned revenue	(237,947)	(68,654)	(719)	(345,100)	(652,420)
	Net program cost	68,636	19,804	207	99,545	188,192
Net cost of operations		**$4,696,143**	**$885,185**	**$22,046**	**$3,274,992**	**$8,878,366**

Note 9. Federal Employee Benefits

	2017	2016
Imputed pension costs	$564,494	$787,888
Other imputed retirement benefits	1,480,030	1,823,936
Total	**$2,044,524**	**$2,611,824**

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 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 recognize for FYs 2017 and 2016. Corresponding amounts of imputed revenue are recorded to offset the imputed cost.

Other Retirement Benefit Expenses — SFFAS No. 5 requires employing federal agencies to recognize an expense for the cost of providing health benefits and life insurance to its employees after they retire. 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

	2017	2016
Leased field offices	$1,232,874	$1,226,614
FCA headquarters	2,367,126	2,173,386
Total	**$3,600,000**	**$3,400,000**

In accordance with the Farm Credit Act, we occupy buildings owned and leased by the FCSBA. Our administrative headquarters building and land are located in McLean, Virginia. In addition, the FCSBA 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 2017. 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. 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 Sept. 30, 2017 and 2016, undelivered orders that were unpaid amounted to $5,314,536 and $4,369,169 respectively.

Note 12. Explanation of Differences Between the SBR and the Budget of the U.S. Government

SFFAS 7 requires the reporting of material differences between amounts reported in the SBR and the actual amounts reported in the Budget of the United States Government.

There are no material differences between the amounts reported in the FY 2016 Statement of Budgetary Resources and the FY 2016 actual amounts reported in the FY 2018 Budget of the United States Government. The FY 2019 Budget of the United States is not yet available to compare the FY 2017 actual amounts to the FY 2017 Statement of Budgetary Resources. The budget is expected to be available in February 2018.

Note 13. Incidental Custodial Collections

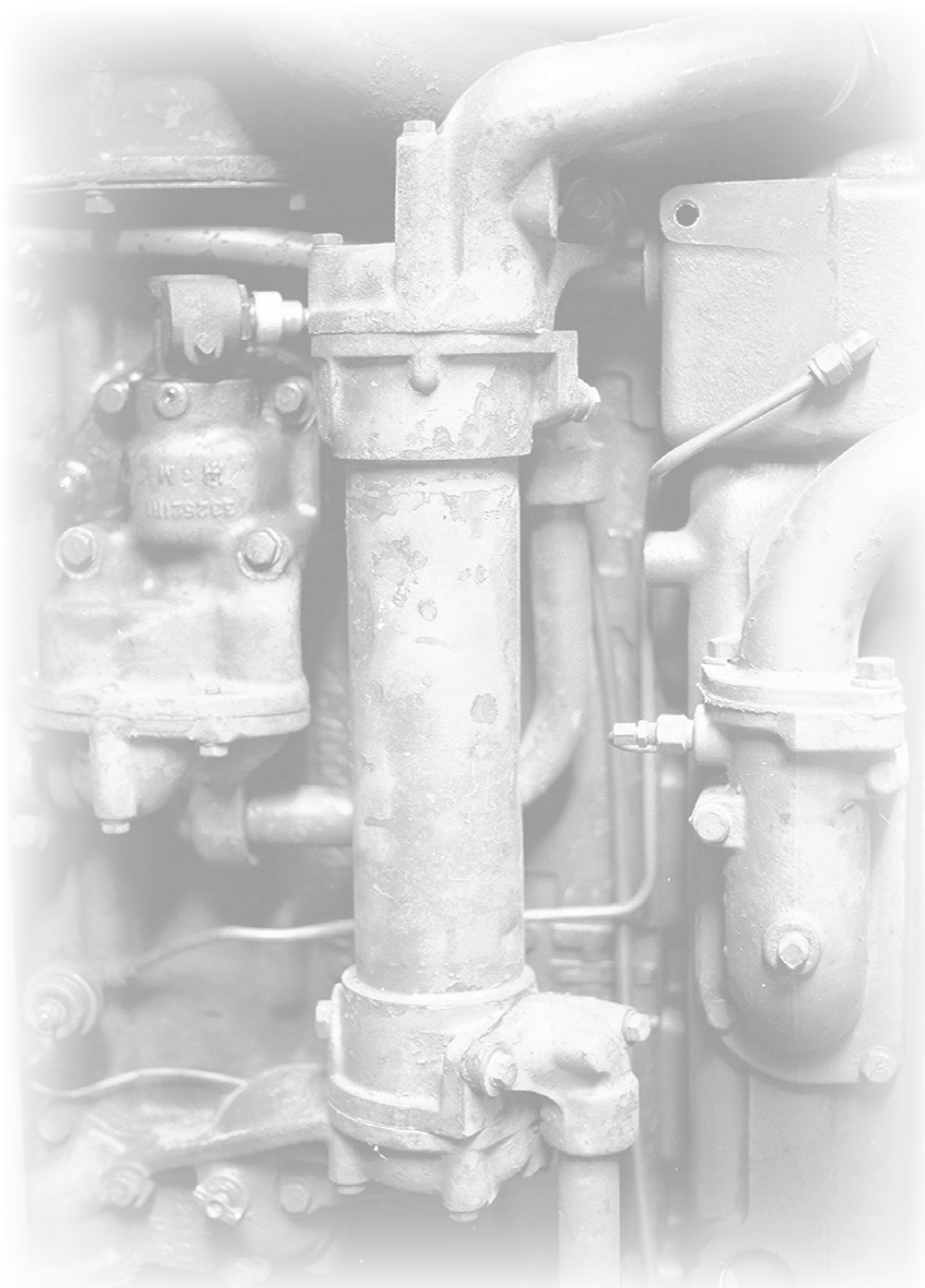
Our custodial collections include receipts to cover the costs of fulfilling Freedom of Information Act requests; they also include other receipts, such as interest and penalties. During the fiscal year, we include these collections in the Fund Balance with Treasury. However, these collections are immaterial to the financial statements and incidental to our mission, we do not provide a Statement of Custodial Activity. Custodial collections totaled $272 for the period ended Sept. 30, 2017, and $299 for Sept. 30, 2016. The funds collected in FY 2017 were transferred to the Department of the Treasury at the end of FY 2017.

Note 14. Reconciliation of Net Cost of Operations to 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.

		2017	2016
Resources Used to Finance Activities	**Budgetary resources obligated**		
	Obligations incurred	$66,843,478	$63,217,157
	Spending authority from offsetting collections and recoveries	(69,042,437)	(61,678,681)
	Net obligations	(2,198,959)	1,538,476
	Other resources		
	Imputed financing from costs absorbed by others	5,644,524	6,011,824
	Other resources	1,057,103	2,535,327
	Net other resources used to finance activities	6,701,627	8,547,151
	Total resources used to finance activities	4,502,668	10,085,627
Resources used to finance items not part of net cost of operations		(1,188,279)	(1,089,260)
Total resources used to finance net cost of operations		3,314,389	8,996,367
Components of the net cost of operations that will not require or generate resources in current period		391,179	(118,001)
Net cost of operations		**$3,705,568**	**$8,878,366**

Other Information



Letter from Inspector General on FCA's Management Challenges

Farm Credit Administration

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

October 11, 2017

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

Dear Board Chairman Tonsager and Board Member Hall:

As part of the Agency's annual Performance and Accountability Report, the Reports Consolidation Act of 2000 requires Inspectors General to provide a summary perspective on the most serious management and performance challenges facing the Agency. We solicited the FCA Board and Management for thoughts on this issue and identified the following top four management challenges:

1. Examination and Supervision Program,
2. Information Technology,
3. Human Capital, and
4. Organizational Structure and Governance.

We attached a summary of these challenges and the Office of Inspector General's assessment of the Agency's progress in addressing them.

We appreciate the continued, ongoing support of Agency leadership. We will continue to work with you in addressing these and other challenges faced by the Agency in achieving FCA's mission.

If you have any questions, please call me at 703-883-4234.

Sincerely,

Wendy R. LAguarda

Wendy R. Laguarda
Inspector General

Enclosure

MANAGEMENT CHALLENGES

As part of the Agency's annual Performance and Accountability Report, the *Reports Consolidation Act of 2000* requires Inspectors General to provide a summary perspective on the most serious management and performance challenges facing the Agency. These challenges reflect ongoing vulnerabilities identified by the OIG over recent years as well as new and emerging issues that the Farm Credit Administration (FCA) faces. The chart below summarizes the top management challenges. The pages following the chart provide more depth regarding the challenge and the Agency's progress in addressing the challenge.

Examination and Supervision Program

- Identifying and addressing risks in the Farm Credit System (System) through effective examination and supervision to ensure the System remains safe and sound.

Information Technology

- The ability to leverage investments in information technology while maintaining a secure environment.

Human Capital

- Maintaining a well-trained, sustainable workforce while facing challenges in retirement eligibiltiies, workforce retention, and diversity.

Organizational Structure and Governance

- Aligning FCA's organizational structure to the goals and priorities of the FCA Board and the Executive Branch reform initiatives while remaining a strong safety and soundness regulator.

CHALLENGE ONE: *EXAMINATION AND SUPERVISION PROGRAM*

A significant challenge for FCA lies in identifying and addressing risks in the Farm Credit System (FCS or System) through effective examination and supervision to ensure the System remains safe and sound.

The System continues to be impacted by changing risk conditions. Over the last number of years, net farm income has declined and price levels for key commodities have been low. Macroeconomic factors, such as changing interest rates and energy prices, will likely also impact risk in the System. FCS institutions must continue to be proactive and responsive to these risks. Working with borrowers and adapting to increasing risks while maintaining financial capacity will further increase the complexity of the System.

FCA's examination and supervision program must align with evolving threats, risks, and conditions. FCA uses a risk-based approach for oversight of the System. The Agency will require more sophisticated risk evaluation techniques to align with existing and emerging risk factors and identify and deter consequences with the greatest potential impact. Effective oversight will require using new technologies and developing new skillsets within the Agency. The control environment must also evolve to address increasing expectations associated with internal controls.

From time to time, more serious or persistent weaknesses require additional oversight activities. FCA must respond and intervene, when necessary, to protect the System. Effective examination and supervision requires prompt identification of unacceptable risks. Both internal and external factors can cause significant changes in condition in a short period of time. Corrective actions and follow-up are critical to preventing the escalation of issues that impact safety and soundness. The Agency must be agile to monitor and prevent such conditions to protect the System.

Agency Progress

FCA continuously works to address the challenges of the examination and supervision roles and responsibilities. The Office of Examination (OE) has issued Informational Memoranda with guidance for institutions. An Informational Memorandum titled *Servicing Loans to Borrowers in Distressed Industries* (January 21, 2016), highlights risk conditions and encourages System institutions to ready themselves and their customers for less favorable conditions. Another Informational Memorandum titled *Reporting Security Incidents and Business Continuity Events to FCA* (June 27, 2017), addresses reporting such events to FCA. The Agency also conducts systemic risk analyses to identify and monitor emerging risks.

Each year, OE identifies National Oversight Plan risk topics that are emphasized in ongoing examinations and oversight activities. For Fiscal Year 2017, OE identified two risk topics*: Intensifying Credit Risk – Deeper into the Commodities Cycle and Implementing the New Capital Regulations*. For Fiscal Year 2018, two risk topics were identified: *Portfolio Risk – Weathering the Storm and Internal Controls Over Financial Reporting*. Other areas of emphasis in the 2018 plan include stress testing and earnings trends/operating expenses.

The OIG plans to review OE programs during Fiscal Years 2018-2019 to address challenges faced by the examination and supervision program. Our plan includes a review of the Agency's oversight of internal controls and a benchmarking study on the organizational structure of OE. We completed an audit on the Examination of Business Continuity at FCS Institutions in June 2016.

CHALLENGE TWO: *INFORMATION TECHNOLOGY*

A significant management challenge for FCA is the ability to leverage investments in information technology (IT) while maintaining a secure environment.

Cybersecurity threats and vulnerabilities require an IT security program that is both realistic and forward-looking. The continuous challenge created by cybersecurity threats is highlighted by security incidents and data breaches involving both the public and private sector. Cybersecurity threats could have a direct impact on FCA and other government agencies' abilities to perform their missions. As such, it is imperative to prevent and respond to these types of attacks to ensure that the Agency can continue to perform its mission.

While cybersecurity threats are increasing, FCA is increasingly reliant on IT software to identify and analyze potential risks from the sensitive financial data that the Agency receives from the System. Hence, it is imperative that FCA has the necessary IT tools and staff to stave off cybersecurity threats and to operate more efficiently and effectively. At the same time, the Agency must be prudent and responsible with its spending. Finally, to be effective, FCA needs a well-trained staff that can successfully integrate new tools into its operations.

The successful implementation of IT provides FCA staff with the tools and skills that enable the Agency to continue to:

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

Agency Progress

Over the past few years, FCA has invested in various IT tools to increase efficiency and effectiveness. Recently, FCA invested in analytical tools with the goal of improving risk identification in the System by analyzing System loan data. The Office of Information Technology (OIT) provided training for the new analytical tools.

FCA's risk-based information security program continues to mature as it continuously identifies areas to strengthen and improve security. The OIT supplemented its staff with an information security contractor to assist with further development of its security program.

The OIG performs an annual evaluation of FCA's compliance with the Federal Information Security Modernization Act of 2014. Additionally, the OIG will conduct a benchmarking study of the OIT and its use of contractors.

CHALLENGE THREE: *HUMAN CAPITAL*

A significant management challenge for FCA is maintaining a well-trained, sustainable workforce while facing challenges in retirement eligibilities, workforce retention, and diversity. Employees are FCA's most valuable asset. The Agency must continue to invest in its employees and their development.

FCA's success depends on its workforce. When the workforce changes, the disruption can affect the Agency. FCA continues to have a significant amount of retirement eligibilities. This presents a challenge for the Agency because of key person dependencies and a loss of institutional knowledge when these individuals retire. It is important for the Agency to have succession plans in place to pass down the knowledge and experience gained throughout employees' careers and to reduce dependencies.

The Agency also faces a challenge in retaining its workforce. Workforce training and developing takes a significant investment of resources. Specifically, the Commissioning Program at FCA is a four-year program with an extensive amount of training and other resources devoted to its success. Retaining staff should remain a focus for FCA. Using tools, such as data analytics and trending data through collection efforts, can help the Agency identify gaps or areas for improvement.

Increasing diversity also remains a human capital challenge for FCA. As noted in some of our previous work, the Agency must assess and deploy strategies to reach its goals for diversity and inclusion. It can do this by using various tools that: identify and reduce potential barriers to diversity and inclusion; enhance outreach; evaluate the Agency's recruitment data; and heighten awareness through programs that support diversity and inclusion.

Agency Progress

The Agency maintains a Human Capital Plan and has identified specific strategies and goals relating to human capital in its Strategic Plan with two related performance measures. FCA continues to evaluate employees' opinions on surveys and identifies retirement eligibilities. The Agency also has implemented several employee benefits to attract and retain well-qualified employees, including a new Student Loan Repayment Program. The FCA's Special Emphasis Programs, including new ones added over the last few years, increase awareness of, and appreciation for, diversity within the Agency.

The OIG has completed numerous audit and inspections relating to human capital over the last two years. The OIG will conduct an audit of the separating employee process and a benchmarking study on the organizational structure of the OE.

CHALLENGE FOUR: *ORGANIZATIONAL STRUCTURE AND GOVERNANCE*

A significant management challenge for FCA is to align its organizational structure to the goals and priorities of the FCA Board and the Executive Branch reform initiatives while remaining a strong safety and soundness regulator.

Although the Agency's statutory mission has remained constant, many factors affect the Agency's operations and organization. One factor is the periodic turnover of the FCA Board as reflected by Chairman Tonsager's appointment as Chairman in November of 2016, Board Member Hall's term expiration in October 2018, and the September 2017 Presidential nomination of a new board member. The FCA has the ongoing challenge of responding to the goals and priorities of the rotating Chairman and board members. Another factor affecting the Agency's operations and organization is the Executive Branch reform initiatives, which task agencies with looking for ways to operate more efficiently.

As an arm's length regulator, FCA is uniquely challenged to ensure that it remains independent, equitable, and transparent. 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 a quality staff, dedicated to understanding, addressing, and communicating these issues.

Agency Progress

The Agency plans for the changes in the FCA Board's composition by preparing briefing material for newly-entering board members and ensuring that their on-boarding runs as smoothly as possible. The Agency's senior leaders are led by a Chief Operating Officer (COO) who liaisons day-to-day with the Chairman and board members. This leadership structure has proven to be an effective and efficient way of responding to the goals and priorities of the Chairman and board members and ensuring that all Agency staff is aware of, and responsive to, such priorities.

The Agency actively reviews and develops its Agency Reform Plan in response to the Administration's government-wide reorganization efforts. The Agency continues to focus on identifying key positions and on recruiting, selecting, and developing a diverse and well-trained workforce.

The OIG has audits and evaluations planned to consider the impact of FCA governance and organization on Agency operations and will continue to identify potential audit work in this area.

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

Farm Credit Administration

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

November 8, 2017

Ms. Wendy Laguarda
Inspector General
Farm Credit Administration
1501 Farm Credit Drive
McLean, Virginia 22102-5090

Dear Ms. Laguarda:

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 ensuring the safety and soundness of the Farm Credit System and improving the agency's performance. We look forward to working with you to address the challenges we face.

Sincerely,

Dallas P. Tonsager

Dallas P. Tonsager
Board Chairman and CEO

Challenge 1: Examination and Supervision Program

FCA management agrees with the IG's assessment of this challenge and provides the following additional thoughts for consideration.

FCA assigns resources for examination and supervision according to the risks at each institution. In addition, we develop a National Oversight Plan for each new fiscal year. This plan identifies risk topics that affect institutions across the System. Our examiners focus on these topics during their examinations of System institutions in the coming fiscal year.

In our National Oversight Plan for FY 2018, we outlined the following risk topics:

- Portfolio Risk – Weathering the Storm
- Internal Controls Over Financial Reporting

In FY 2018, we are also emphasizing stress testing, and earnings trends and operating expenses. We discussed all of these topics in an informational memorandum we sent to System institutions in September 2017.

Also during FY 2018, we are implementing guidance regarding how institutions are to manage intensified credit risk, and we are evaluating compliance with the new capital regulations.

Challenge 2: Information Technology

FCA management agrees with the IG's assessment of this challenge and provides the following additional thoughts for consideration.

The agency's Information Resources Management planning process supports timely and cost-effective IT services and identifies new application development needs. FCA will continue to improve and automate tasks to optimize business processes and gain efficiencies. By partnering with agency business units on IT initiatives from inception, our Office of Information Technology ensures that final products are effective in meeting the agency's mission.

The Office of Information Technology works with the business units to identify and implement validation rules to improve data quality. The agency will expand its suite of business intelligence tools and create additional reports to model and analyze Farm Credit System loan data to better identify and address risks in the System. We will also use these tools in the future for internal operational analysis.

In addition, we have developed new examination applications, including EDGe, the EDGe loan workpaper, and the FIRS application, to address examiner technology needs. We have also purchased IT resources to increase our use of videoconferencing so that we can reduce travel costs.

We will continue to mature our security program and position FCA to better identify and address risks in our IT environment. We will continue to invest in contract support to improve our security and address new government-wide mandates. We are working to provide services in the cloud so that we can benefit from cloud security. And we will continue to work with the director of national intelligence and the Department of Homeland Security to enhance our network monitoring.

Through training and communication, we will develop a corporate culture in which employees are aware that security is everyone's responsibility. For example, we conduct periodic phishing exercises to help employees recognize possible cyberattacks. Increasing the vigilance of our employees further strengthens our security.

Challenge 3: Human Capital

FCA management agrees with the IG's assessment of this challenge and provides 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 attract and retain well-qualified staff. We continue hiring a large number of associate examiners and summer interns for the Office of Examination.

By participating in recruiting events at various career fairs and universities, including several with high minority enrollment, we have been able to hire a diverse group of new associate examiners.

In FY 2017, we were subject to the federal hiring freeze during the major portion of the college recruiting season, and this kept us from hiring as many new associate examiners as we had planned. We have a well-reasoned recruitment plan for FY 2018 to address our continuing need for new associate examiners. We have also evaluated and modified several internal procedures in the Human Resources Division to ensure that we consider veterans and disabled applicants as part of our applicant pool for open positions.

We will need to continue to provide a full range of training to ensure that 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 2017 we offered numerous training opportunities to employees. Most of these opportunities were based on an extensive survey conducted to determine both the learning culture of the agency, as well as the skills most needed. We also conducted an in-person management training program for all supervisors and managers to maximize employee development and potential.

Through the leadership of our learning officer, we strive to have 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 also formed a Human Capital Steering Committee to help implement the human capital factors in the Strategic Plan and in our Human Capital Plan. This committee meets periodically to discuss factors related to succession planning and knowledge transfer in each office.

Challenge 4: Organizational Structure and Governance

FCA management agrees with the IG's assessment: Managing and governing the agency is a dynamic challenge. The leadership and organizational changes may create challenges, but they also provide great opportunities for the agency. We provide the following additional thoughts for consideration.

FCA has had strong, consistent leadership for the past several years. We have a smooth transition process to guide board members when they join the board or take on new roles. As noted in the human capital section above, 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. Congress designed the FCA board to change on a regular basis. This change is an opportunity to bring new insight and perspective to the agency. FCA has turned what might be a challenge into a strength by using the new outlooks, experience, and knowledge of new members.

As shown by the revisions to the Strategic Plan and the organizational changes made last year, the board has been proactive in seeking the optimal organizational structure for the agency. The Strategic Plan recognizes and addresses the risks associated with changes inside the agency, among our stakeholders, and in the agriculture industry. In addition to refining and refocusing the Strategic Plan, the agency has defined those risks and is working to address them.

FCA will manage performance and risk from an organizational perspective. In addition to existing processes, FCA's executive leadership will implement enterprise risk management, the integrated management of risk at the strategic, program, and operational levels.

Summary of Financial Statement Audit and Management Assurances

Table 6. Summary of Financial Statement Audit

Audit opinion: Unmodified
Reinstatement: 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)						

Compliance With Federal Financial Management System Requirements (FMFIA § 4)

Statement of Assurance: Federal systems comply

Noncompliance	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
(Not applicable)						

Compliance With Section 803(a) of the Federal Financial Management Improvement Act

	Agency	Auditor
1. Federal financial management system requirements	No lack of compliance noted	No lack of compliance noted
2. Applicable federal accounting standards	No lack of compliance noted	No lack of compliance noted
3. U.S. Standard General Ledger at transaction level	No lack of compliance noted	No lack of compliance noted

Payment Integrity

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. OMB Circular A-123, Appendix C, Requirements for Effective Estimation and Remediation of Improper Payments outlines the requirements for complying with IPERIA. OMB Circular A-136 provides the guidance for reporting on payment integrity in the Performance and Accountability Report.

Payment reporting

All agencies are required to assess the improper payment risk level at least once every three years. Our last IPERIA assessment was completed for FY 2014. We reviewed five payment processes: contract payments, purchase card, travel card, claims and vouchers, and payroll. Each payment process has its own set of internal control processes. Our risk assessment did not find any programs or activities that were susceptible to significant improper payments. We have assessed our risk as low for all of these processes.

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, the Office of Management and Budget 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 2017 was $70.4 million, which was well under this threshold; therefore, we do not have any high-priority programs according to this measure.

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 for the period ended Sept. 30, 2017.

Recapture of improper payments reporting

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

Our service provider, Bureau of the Fiscal Service, has internal control procedures to ensure that payments are made properly. One such procedure is the post-payment audit in which BFS reviews a random sample of 10 percent of all invoices processed each month.

In addition to the internal control procedures of BFS, our agency invoice approvers also provide an additional layer of review and approval 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.

We also perform routine operational reviews and oversight to help identify improper payments. For FY 2017, we identified three improper payments amounting to $30,819, or 0.05 percent of total outlays for the year. In all instances, the amounts were fully recovered.

Agency improvement of payment accuracy with the Do Not Pay Initiative

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 the various Do Not Pay databases. This process serves both the prepayment and the pre-award review requirement to ensure only eligible recipients are paid. To date, we have not had any vendors with a match to these Do Not Pay databases.

Detailed information on improper payments for the U.S. government is available online at paymentaccuracy.gov. FCA data are not included on this website as we do not have any programs that OMB considers susceptible to significant improper payments.

Fraud Reduction Report

The Fraud Reduction and Data Analytics Act of 2015 requires agencies to report on fraud reduction efforts undertaken.
Our agency maintains effective processes and systems to prevent and detect fraud. This includes a leadership culture that fosters integrity, ongoing training for all employees to identify and report fraud, an independent inspector general, strong internal controls, segregation of duties, risk assessments, quality assurance, and quality control programs.

Our internal controls are designed to prevent and detect fraud by identifying any deficiencies in programs and reporting. Our strong controls over programs and processes reduce the risk of fraud in operational activities. We place the highest value on our people and expect them to act with a high degree of integrity. No instances of fraud in our programs have surfaced through management's internal identification and reporting mechanisms or from internal and external auditors.

Civil Monetary Penalty Adjustment for Inflation

Under the Federal Civil Penalties Inflation Adjustment Act Improvements Act of 2015, agencies must make annual inflation adjustments to civil monetary penalties and report on these adjustments. Table 8 below shows the adjustments FCA has made this year.

Grants Oversight and New Efficiency Act

The Grants Oversight and New Efficiency Act requires agencies to report on federal grant awards and the status of these awards. We do not award any grants or have any grant-related activity. Therefore, the reporting requirements under this act do not apply to FCA.

Table 8. Civil Monetary Penalties Annual Inflation Adjustments

Statutory Authority	Penalty	Year Enacted	Latest year of adjustment (via statute or regulation)	Current Penalty Level ($ Amount or Range)	Sub-agency/ Bureau/ Unit	Location for Penalty Update Details
Section 5.32(a) of the Farm Credit Act of 1971, as amended	Violation of a final order	1985	2017	$2,224		82 FR 8807
Section 5.32(a) of the Farm Credit Act of 1971, as amended	Violation of the act or regulation	1985	2017	$1,005		82 FR 8807
Section 102(f) of the Flood Disaster Protection Act of 1973	Pattern or practice of committing violations of the National Flood Insurance Program	1994	2017	$2,090		82 FR 8807

Additional Information

The Farm Credit Administration Performance and Accountability Report Fiscal Year 2017 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
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