U.S. Department of Agriculture

Office of Inspector General
Financial & IT Operations

Audit Report

Federal Crop Insurance Corporation
Risk Management Agency's
Financial Statements for
Fiscal Years 2006 and 2005

Report No. 05401-15-FM
November 2006

UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington D.C. 20250

November 8, 2006

REPLY TO
ATTN OF: 05401-15-FM

TO: Eldon Gould
Administrator
Risk Management Agency

ATTN: Michael Hand
Deputy Administrator
Risk Compliance
Risk Management Agency

FROM: Robert W. Young /s/
Assistant Inspector General
for Audit

SUBJECT: Federal Crop Insurance Corporation/Risk Management Agency's Financial Statements for Fiscal Years 2006 and 2005

This report presents the auditors' opinion on the Federal Crop Insurance Corporation/Risk Management Agency (FCIC/RMA) principal financial statements for the fiscal years ending September 30, 2006 and 2005. Reports on FCIC/RMA's internal control structure and compliance with laws and regulations are also provided.

Deloitte & Touche LLP (Deloitte), an independent certified public accounting firm, conducted the audits. We monitored the progress of the audits at all key points, reviewed the workpapers, and performed other procedures, as we deemed necessary. We determined the audits were conducted in accordance with generally accepted auditing standards, *Government Auditing Standards* (issued by the Comptroller General of the United States), and the Office of Management and Budget Bulletin No. 06-03, "Audit Requirements for Federal Financial Statements."

It is the opinion of Deloitte, that the financial statements present fairly, in all material respects, FCIC/RMA's financial position as of September 30, 2006 and 2005; and its net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations for the years then ended, in conformity with generally accepted accounting principles. No weaknesses related to internal controls or noncompliances with laws and regulations are reported.

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INDEPENDENT AUDITORS' REPORT

To the Inspector General
U.S. Department of Agriculture and the
Board of Directors of the Federal Crop Insurance Corporation:

We have audited the accompanying consolidated balance sheets of the Federal Crop Insurance Corporation/Risk Management Agency ("FCIC") as of September 30, 2006 and 2005, and the related consolidated statements of net cost, changes in net position, financing, and the combined statements of budgetary resources (collectively referred to as the "consolidated financial statements") for the years then ended. These consolidated financial statements are the responsibility of FCIC's management. Our responsibility is to express an opinion on these consolidated 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. 06-03, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of FCIC's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of FCIC as of September 30, 2006 and 2005, and its net cost of operations, changes in net position, financing, and budgetary resources for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Notes 1 and 5 to the consolidated financial statements, FCIC's ultimate losses on insurance claims may differ significantly from the recorded estimate due to differences between expected and actual yields, weather patterns and economic conditions. Additionally, as discussed in Notes 1 and 14 to the consolidated financial statements, in 2006 FCIC adopted Statement of Federal Financial Accounting Standard No. 27, *Identifying and Reporting Earmarked Funds*.

The accompanying required supplementary information included in the sections entitled "Management's Discussion & Analysis", "Required Supplementary Information", and "Supplementary Stewardship Information", is not a required part of the basic consolidated financial statements but is supplementary information required by OMB Circular A-136, *Financial Reporting Requirements*, as amended, and the Federal Accounting Standards Advisory Board. This supplementary information is the responsibility of FCIC's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit such supplementary information and we do not express an opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2006, on our consideration of FCIC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audits.

Deloitte & Touche LLP

November 2, 2006

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED UPON THE AUDIT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Inspector General
U.S. Department of Agriculture and the
Board of Directors of the Federal Crop Insurance Corporation:

We have audited the consolidated financial statements of the Federal Crop Insurance Corporation/Risk Management Agency ("FCIC") as of and for the year ended September 30, 2006, and have issued our report thereon dated November 2, 2006 (which report expresses an unqualified opinion, with an emphasis of a matter paragraph concerning FCIC's estimate of losses on insurance claims and concerning a change in an accounting principle). We conducted our audit 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. 06-03, *Audit Requirements for Federal Financial Statements*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered FCIC's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error, fraud or noncompliance in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether FCIC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts and certain other laws and regulations specified in OMB Bulletin No. 06-03, including the requirements referred to in the Federal Financial Management Improvement Act of 1996 ("FFMIA"). 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 disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 06-03. Additionally, the results of our tests disclosed no instances in which FCIC's financial management systems did not substantially comply with FFMIA.

Distribution

This report is intended solely for the information and use of FCIC's management, the Department of Agriculture's Office of Inspector General, the Office of Management and Budget, the Government Accountability Office, and the United States Congress and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

November 2, 2006

FEDERAL CROP INSURANCE CORPORATION

RISK MANAGEMENT AGENCY

CONSOLIDATED FINANCIAL STATEMENTS

AS OF SEPTEMBER 30, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

Mission and Organizational Structure

Organizational Structure

The Federal Crop Insurance Corporation (FCIC) is a wholly-owned government corporation created February 16, 1938 (7 U.S.C. 1501). The program was amended by Public Law (P.L.) 96-365, dated September 26, 1980, to provide for nationwide expansion of a comprehensive crop insurance program.

The Risk Management Agency (RMA) was established under provisions of the Federal Agriculture Improvement and Reform Act of 1996 (1996 Act), P.L. 104-127, signed April 4, 1996. The 1996 Act amended the Department of Agriculture Reorganization Act of 1994 (1994 Act), P.L. 103-354, Title II, by requiring the Secretary of Agriculture (the Secretary) to establish within the U.S. Department of Agriculture (USDA) an independent office responsible for supervision of FCIC and administration and oversight of programs authorized under the Federal Crop Insurance Act. Those programs include any pilot insurance plans or other programs involving revenue insurance, risk management education, risk management savings accounts, or use of the futures markets to manage risk and support farm income that may be established under the Federal Crop Insurance Act or other law; and any other programs the Secretary considers appropriate. The Federal Crop Insurance Act as amended through 2002 is hereafter referred to as the Act.

Mission

The purpose of FCIC and RMA, (hereafter the combined entities will be referred to as FCIC), is to promote, support, and regulate sound risk management solutions to strengthen and preserve the economic stability of American agricultural producers.

Regulatory Acts Impacting FCIC

On August 9, 2004, FCIC published a Proposed Rule for changes to the Nursery Crop Insurance Provisions followed by a Final Rule in the Federal Register on June 28, 2005, effective for the 2006 crop year. The Final Rule amended the Nursery Crop Insurance Provisions to incorporate major changes. These changes included making container and field grown practices separate crops; providing coverage for plants in containers that are equal to or greater than 1 inch in diameter; providing separate basic units by share for all coverage levels and basic units by plant type when additional coverage is purchased; permitting producer's to select one coverage level for each plant type basic unit when additional coverage is purchased; allowing increases to the Plant Inventory Value Report (PIVR) up to 30 days before the end of the crop year; allowing acceptance of an application for insurance for any current crop year up to 30 days before the end of the crop year; and changing the starting and ending dates for the crop year to June 1st and May 31st, respectively. FCIC also amended the Peak Inventory Endorsement to reflect changes made to the Nursery Crop Insurance Provisions. In addition, a Rehabilitation Endorsement was added to provide insureds a rehabilitation payment for field grown plants to compensate them for rehabilitation costs for plants that will recover from an insured cause of loss.

Section 508(e)(3) of the Federal Crop Insurance Act authorizes an approved insurance provider to reduce the amount of farmer paid premium if the approved insurance provider can demonstrate a "cost efficiency," meaning that it can provide insurance for less than the expense reimbursement amount established by FCIC. For the 2006 reinsurance year, RMA published an interim rule in the Federal Register outlining the administrative requirements for approved insurance providers wishing to implement "Premium Reduction Plans (PRP)." For 2006, eight approved insurance providers were determined by RMA to be eligible for the opportunity to offer PRP under this authority. However, language in the 2006 Agricultural Appropriations Act prohibits RMA from operating PRP for the 2007 reinsurance year. FCIC is not certain whether PRP authority will be reinstated for the 2008 and beyond reinsurance years.

The Farm Security and Rural Investment Act of 2002 (2002 Farm Bill) was signed into law on May 13, 2002. Major provisions of this new legislation included: Authorization for sweet potato insurance to extend beyond the time the crop is in the field (as in the case of tobacco and potatoes) and expansion of the Adjusted Gross Revenue Insurance pilot program into additional counties in California and Pennsylvania.

The President signed the Agricultural Risk Protection Act of 2000 (ARPA) into law on June 20, 2000. Major provisions of this new legislation included: expanded use of contracts and partnerships for the research and development of policies and other risk management tools; revised Catastrophic Risk Protection (CAT) administrative fees and loss adjustment expense reimbursements; significantly revised premium subsidies; livestock coverage authorization; reimbursement of research, development, and maintenance costs for products submitted to FCIC (Section 508(h)); expanded risk management education and assistance; funds to address under-served areas, States, and commodities; an expert review panel and procedures for reviewing policies, plans of insurance, and related material or modifications; improved program compliance and integrity provisions; acceptance of electronic information; limitations of multiple insurance benefits on the same acreage in the same crop year; prevented planting; substitutions of yields in a producer's actual production history; provisions specifying that good farming practices include scientifically sound sustainable and organic farming practices; a reconsideration process regarding good farming practice determinations; and others not included herein.

Business Overview

Federal crop insurance is available to producers through private insurance companies (approved insurance providers) that market and service policies of which those companies also share in the risk. The amount of risk they share is defined by reinsurance agreements with FCIC. Under these agreements, reinsured companies agree to deliver risk management insurance products to eligible entities under certain terms and conditions. Reinsured companies are responsible for all aspects of customer service and guarantee payment of premium to FCIC. In return, FCIC reinsures the policies and provides a subsidy for administrative and operating expenses associated with delivering the insurance products and/or programs. FCIC also provides a subsidy for producer's premium. This constitutes a joint effort between the Government and the private insurance industry for program delivery.

Approximately 1.1 million policies were written in crop year 2006 and 1.2 million policies were written in 2005 with an estimated $1.86 billion and an actual $1.61 billion in farmer paid premium for crop years 2006 and 2005 and an estimated $2.62 billion and an actual $2.34 billion in premium subsidies for crop years 2006 and 2005. For the 2006 and 2005 crop years, an estimated $4.65 billion and an actual $2.36 billion were to be paid in indemnities. For the 2006 crop year, it is estimated that indemnities will slightly exceed premiums. Crop insurance was available for 121 different commodities (approximately 600 commodities as enumerated for disaster assistance purposes) for crop year 2006 and crop year 2005. Crop year 2006 and 2005 coverage was available in over 3,100 counties covering all 50 states and Puerto Rico.

FCIC maintains two separate funds, one for administrative and operating purposes (A&O Fund), and one for the crop and livestock insurance program (Insurance Fund). The A&O Fund is used to pay salaries and other administrative expenses. The Insurance Fund is used to pay crop and livestock insurance losses. The Insurance Fund also pays for the reinsured companies administrative expenses associated with marketing and fully servicing the crop insurance policies written. FCIC pays the reinsured companies an administrative and operating expense subsidy on behalf of the policyholder for eligible crop insurance contracts. The premium costs of insured persons are also subsidized. FCIC encourages future crop insurance participation by offering premium discounts to purchasers of crop insurance.

Federal Crop Insurance Program- Activities

The Federal crop insurance program comprises the following major activities:

(1) <u>Program Management</u> includes the FCIC Board of Directors, the RMA Administrator's office and staff offices that report directly to the RMA Administrator.

(2) <u>Product Management</u> involves the design and development of crop insurance programs, policies and standards, and the establishment and maintenance of rates and coverage's for crops in each county. This activity also includes: 1) analysis of insurance experience and risk; 2) evaluation and establishment of crop insurance price elections; 3) production and dissemination of actuarial data, documents, and files; 4) the evaluation of current crop insurance plans and policies; and 5) development of strategies for increasing participation in the crop insurance program. This function handles products submitted under section 508(h) of the Act that must be reviewed and evaluated and if enacted, must be deployed and maintained like other risk management products. With the

passage of ARPA, the design and development of risk management commodity programs are now done through 508(h) submissions, contracts or partnerships.

(3) Insurance Services has the responsibility for delivering FCIC programs through a system of ten Regional Offices and various reinsured companies. It is responsible for developing and managing contractual arrangements to deliver risk management programs to agricultural commodity producers through private insurance providers, cooperatives and other financial service organizations. It is responsible for ensuring that delivery partners meet published regulatory financial standards and operating guidelines as well as administering corrective actions for non-compliance with contractual requirements. It provides support, information, and advice to the Office of the Administrator; and delivers risk management education and outreach programs to producers and producer groups through private and public education partners. Insurance Services is responsible for FCIC large claims and good farming practice determination; coordinates FCIC responses to emergency situations; maintains existing FCIC products through field underwriting assessments; assists in new product development; assists in actuarial development and maintenance; and supports FCIC civil rights and outreach initiatives. The ten Regional Offices formulate and recommend commodity program changes and policies specific to the needs of the region for which each is responsible. They provide customer service, problem identification, resolution and/or referral, product expansion recommendations, new product development, substantial involvement and monitoring of cooperative agreements, and education outreach, as well as assistance to delivery system partners regarding program issues related to underwriting, actuarial, and claims administration. Headquarters staff complement field activities by ensuring consistent application of actuarially sound insurance principles in field-level underwriting and by monitoring a uniform system of loss adjustment.

(4) Compliance provides program oversight and quality control of the reinsured companies. It ensures the integrity of the crop insurance program through reviews of reinsured companies' operations and ensures the delivery of crop insurance is in accordance with applicable laws, regulations, and procedures. There are six Regional Compliance Offices that provide assurance of program integrity by conducting program reviews and audits to assure mandates, policies and procedures are effective and are followed by persons involved in delivering crop and livestock insurance. The Compliance offices conduct investigations into allegations of fraud or abuse of existing insurance programs. This ensures fair and equitable treatment of the farmer, taxpayer, and FCIC.

Federal Crop Insurance Program- Insurance Plans

Revenue-Based Crop Insurance Plans

Group Risk Income Protection (GRIP) makes indemnity payments only when the average county revenue for the insured crop falls below the revenue chosen by the farmer. GRIP offers producers a guarantee against decline in county revenue, which is based on the applicable Board of Trade futures prices for corn, grain sorghum, soybeans and wheat and the New York Cotton Exchange futures prices for cotton, and National Agricultural Statistics Service (NASS) county yields as adjusted by FCIC. The GRIP policy provides coverage on an enterprise unit basis. The amount of any loss will be finalized when the final county yields and harvest price are known in the spring following the crop year. The GRIP policy contains no replant, late, or prevented planting provisions.

GRIP was originally approved by the Federal Crop Insurance Corporation Board of Directors (Board) for corn and soybeans in all counties in Iowa that currently had Group Risk Plan (GRP) corn and soybean programs, and selected GRP corn and soybean counties in Illinois and Indiana beginning with the 1999 crop year. On October 22, 2002, the Board approved expansion of the GRIP program to all GRP corn and soybean counties in Michigan and Ohio. The expansion added 36 GRIP corn counties and 34 GRIP soybean counties in Michigan, and added 61 GRIP corn countries and 52 GRIP Soybean counties in Ohio. The expansion extended coverage to approximately 210,000 acres of corn in the two states and approximately 200,000 acres of soybeans currently under the GRP plan of insurance. RMA became the owner of the GRIP product effective December 31, 2002. On October 29, 2003, the Board approved expansion of the GRIP program to 39 GRP corn counties in Texas, 53 GRP corn counties in Wisconsin, and 4 GRP soybean counties in Wisconsin beginning with the 2004 crop year. This expansion added 154,060 acres of corn in the two states and 31,623 acres of soybeans in Wisconsin that were currently insured under the GRP plan. On October 28, 2004 the Board approved additional GRIP expansion to all remaining GRP corn, grain sorghum, and soybean counties for the 2005 crop year adding GRIP corn in eleven expansion states with approximately 156,000 GRP acres, GRIP soybeans in 18 expansion states with approximately 598,000 GRP acres, and GRIP grain sorghum in the four expansion states with approximately 16,891 GRP acres. On August 5, 2005, the Board approved expansion of the GRIP plan of insurance to cotton and wheat. This Board action expanded GRIP cotton into 7 GRP states and 105 counties with an estimated 68,800 acres. For GRIP wheat, the expansion included 26 GRP states and 608 counties with an estimated 80,000 acres. In 2006, there were approximately 42,814 GRIP policies earning premium nationwide, covering about 11.3 million of net acreage with a total liability and total premium of approximately $5.5 billion and $416 million, respectively.

Adjusted Gross Revenue (AGR) insures the revenue of the entire farm rather than an individual crop by guaranteeing a percentage of average gross farm revenue, including a small amount of livestock revenue. AGR is a whole-farm revenue pilot program that bases the revenue coverage on five years of farm income tax records (Schedule F) and the current year's expected farm revenue. AGR provides coverage for all commodities on the farm. AGR has a liability limitation of $6.5 million and farms with liability higher than this amount are ineligible for insurance. Also, for eligibility, the farm must have no more than 35 percent of total revenue received from animals and animal enterprises, and from timber, forest or forest products, and animals raised for sport, show, or pets. AGR is currently available in selected counties in 18 states. In 2006, participation data indicates 612 policies earning premium, over $291 million in liability and just over $12 million in total premium.

Crop Revenue Coverage (CRC) provides revenue protection based on price and yield expectations by paying for losses below the guarantee at the higher of an early-season price or the harvest price. CRC was developed by a private insurance company and first submitted to the FCIC Board for approval in 1995 for the 1996 crop year. CRC offers coverage for corn, cotton, grain sorghum, rice soybeans and wheat in selected states.

Income Protection (IP) protects producers against reductions in gross income when either a crop's price or yield declines from early-season expectations. IP was developed in 1997 by FCIC. IP offers coverage in selected states for barley, corn, cotton, grain sorghum, soybeans and wheat.

Revenue Assurance (RA) provides dollar-denominated coverage by the producer selecting a dollar amount of target revenue from a range defined by 65-85 percent of expected revenue. RA was developed by another private insurance company and submitted to the FCIC Board for approval in 1996 for the 1997 crop year. RA plans offer coverage for feed barley, malting barley, canola/rapeseed, corn, cotton, soybeans, sunflowers, rice, spring wheat and winter wheat in selected states.

These plans respond to the directive of the 1994 Act, which directed FCIC to develop a pilot crop insurance program providing coverage against reduced gross income as a result of a reduction in yield or price, and have generally been improved and/or expanded each year.

CRC, IP, and RA have many similar features. These programs guarantee revenue by insuring yield and price variability. Indemnities are due when any combination of yield and price result in revenue that is less than the revenue guarantee. CRC, IP, and RA plans are similar because they use many of the same policy terms and conditions as the Common Crop Insurance Policy Basic Provisions. Actual Production History (APH) plans of insurance provide the yield component and a yield forecast through the insured's records of historic yield providing a documented process to determine the yield for the insurance period.

The price component common to the CRC, IP, RA, and GRIP plans is the use of commodity futures markets for price discovery. Price discovery occurs twice in the CRC, IP, RA, and GRIP plans: first, before the insurance period (Projected, Base or

Expected Price) to establish the revenue guarantee and premium, and second, at harvest time (Fall Harvest Price, Harvest Price). CRC provides increased protection when the Harvest Price is above the Base Price. The GRIP and RA plans of insurance have similar coverage available if the Fall Harvest Price Option is selected by the producer, the options provide increased protection when the Fall Harvest Price is greater than the Projected Harvest Price. All revenue insurance plans pay the insured producer an indemnity when any combination of harvested and appraised yield and Harvest Price (Fall Harvest Price) results in revenue that is less than the revenue guarantee.

Additional Insurance Products submitted under section 508(h) of the Act:

The following crop insurance products were submitted by private companies under the provisions of section 508(h) of ARPA and approved by the FCIC Board of Directors.

AGR Lite is a 508(h) product and was first approved by the Board for the 2003 crop year. AGR-Lite insures the revenue of the entire farm rather than an individual crop by guaranteeing a percentage of average gross farm revenue, including livestock revenue. AGR-Lite is a whole-farm revenue pilot program that bases the revenue coverage on 5-years of farm income tax records (Schedule F) and the current year's expected farm revenue. AGR-Lite provides coverage for all commodities on the farm. AGR-Lite had a liability limitation of $250,000 for 2005 which increased to a liability limitation of $ 1,000,000 for 2006. Farms with liability amount higher than this amount are ineligible for insurance. AGR-Lite covers livestock up to the total liability limit and there is no percentage limitation per farm. AGR-Lite is currently available in selected counties in 17 states. In 2006, participation data indicates 339 policies earning premium, over $56 million in liability and just over $2.6 million in total premium.

Livestock Risk Protection (LRP) insures against a decline in price for cattle and swine. LRP is owned by a private company and was first introduced for swine with sales beginning on July 8, 2002 for all counties in Iowa. LRP expanded to cover Feeder Cattle and Fed Cattle with sales beginning on June 9, 2003. LRP now insures Swine, Feeder Cattle, and Fed Cattle in Colorado, Indiana, Illinois, Iowa, Kansas, Michigan, Minnesota, Missouri, Montana, Nebraska, Nevada, North Dakota, Oklahoma, Ohio, South Dakota, Texas, Utah, West Virginia, Wisconsin, and Wyoming. LRP sales for the 2006 crop year totaled 1,461 policies with 287,330 head of livestock insured at $152 million in liability and $2.3 million in total premium.

Livestock Gross Margin (LGM) is a gross margin index, designed to protect profit margins for swine and cattle producers, and is based on futures contracts at the Chicago Mercantile Exchange and the Chicago Board of Trade. For the 2006 reinsurance year, LGM has provided coverage for 544,217 head of slaughter hogs with a liability of $51.3 million. For the 2006 reinsurance year, LGM has provided coverage for 428,429 head of livestock for a liability of $37.5 million with a premium of $2.6 million. LGM for cattle was available for sale to producers in early 2006.

Nutrient Best Management Practice (N-BMP) provides insurance protection from crop production loss when a producer applies a rate of fertilizer (nitrogen and/or phosphorus) recommended by a Best Management Practice (BMP) standard. Except for fertilizer, producers must use the same farming practices on both the check strip and management unit. Based on an appraisal, if the production per acre on the check strip is greater than adjacent strips within the management unit, less a deductible (5 percent), the producer receives an indemnity. The Board voted August 5, 2005 to withdraw reinsurance, administrative and operating subsidy and risk subsidy for N-BMP beginning with the 2006 crop year. N-BMP is eligible to be sold as a non-reinsured supplemental policy since only one policy for N-BMP has been sold since the 2003 crop year and the Board could no longer determine that the interests of producers were protected.

Yield-based (APH) Insurance Plans

Multiple Peril Crop Insurance- These policies insure producers against yield losses due to natural causes such as drought, excessive moisture, hail, wind, frost, insects, and disease. The farmer selects the amount of average yield he or she wishes to insure; from 50 to 75 percent (in some areas to 85 percent). The farmer also selects the percent of the predicted price he or she wants to insure; between 55 and 100 percent of the crop price established annually by RMA. If the harvest yield is less than the yield insured, the farmer is paid an indemnity based on the difference. Indemnities are calculated by multiplying this difference by the insured's percentage of the established price selected when crop insurance was purchased.

Group Risk Plan of Insurance (GRP) - GRP was created by FCIC as a risk management tool to insure against widespread loss of production of the insured crop in a county. It is primarily intended for use by those producers whose farm yields tend to follow the average county yield. These policies use a county index as the basis for determining a loss. When the county yield for the insured crop, as determined by the National Agricultural Statistics Service (NASS), falls below the trigger level chosen by the farmer, an indemnity is paid. Payments are not based on the individual farmer's loss records. Yield levels are available for up to 90 percent of the expected county yield. GRP protection involves less paperwork and costs less than the farm-level coverage described above. However, individual crop losses may not be covered if the county yield does not suffer a similar level of loss.

Covered crops include corn, cotton, forage, sorghum, soybeans, wheat, and rangeland. All GRP crops are permanent programs, with the exception of rangeland, which remains a pilot program. For the 2006 crop year, one or more GRP crop programs were offered in 29 states. In 2006, there were approximately 18,214 policies earning premium nationwide, covering about 34.1 million net acres with a total liability and total premium of approximately $1.0 billion and $41 million, respectively.

Dollar Plans- The dollar plan provides protection against declining value due to damage that causes a yield shortfall. The amount of insurance is based on the cost of growing a crop in a specific area. A loss occurs when the annual value of the crop is less than the amount of insurance. The maximum dollar amount of insurance is stated on the actuarial document. The insured may select a percent of the maximum dollar amount equal to CAT (catastrophic level of coverage), or additional coverage levels. The dollar plan is available for several crops, including fresh market tomatoes, strawberries, and cherries (on a pilot program basis is limited areas only).

RMA offers three different kinds of dollar plans: dollar revenue, dollar yield, and dollar asset. Typically, these plans set the amount of coverage using county average figures such as costs of production or other indicators. Indemnities are calculated using the actual results of each producer. The dollar revenue plan provides protection against loss of revenue. Crops covered include blackberries, cherries, chili peppers, citrus (California), fresh-market tomatoes, beans, sweet corn, peppers, processing cucumbers, raspberries, strawberries, and winter squash. The dollar yield plan provides protection against a decline in the amount of the crop produced. Crops covered include hybrid seed corn and sorghum. The dollar asset plan provides protection against the loss of a crop producing asset, such as fruit trees, as well as certain other crops. Coverage is provided for citrus trees (Texas), citrus fruit (Florida), clams, forage seeding, fruit trees (Florida), macadamia trees, nursery, raisins, and tropical fruit trees (Florida).

Pilot Programs

FCIC currently has 24 pilot programs underway that implement legislation or test new and innovative crop insurance concepts. In fiscal year 2004, FCIC's Board of Directors approved the conversion of the cultivated wild rice, cabbage and mint pilot programs for conversion to permanent status. These programs will remain pilot programs until the conversion to permanent program status takes place. In August 2005, the FCIC Board of Directors authorized the continuation of Chile Pepper Dollar Pilot Crop Insurance Program beginning with the 2006 crop year until converted to a permanent APH regulatory program. In August of 2006, the FCIC Board of Directors approved the termination of the winter squash and processing cucumber pilot programs beginning with the 2006 crop year. Pilot insurance plans and other risk management tools available for the 2006 crop year include AGR and AGR-Lite, apple pilot quality option, avocado actual production history, avocado revenue, avocado/mango trees, cabbage, cherries, citrus (dollar), coverage enhancement option, cultivated clams, cultivated wild rice, Florida fruit trees, forage seed, fresh market beans, the IP plan of insurance, mint, mustard, onion pilot stage removal option, processing chile peppers rangeland (GRP), raspberry/blackberry, strawberries, and sweet potatoes.

Increase Participation and Program Growth

FCIC continues to encourage producer acceptance and program participation through outreach and educational activities directed at informing the agricultural community of the "new risk environment" and how crop insurance is one component that can be used to mitigate potential losses. FCIC's goals include ensuring that producers have sufficient information to adequately assess their own risk in today's uncertain agribusiness environment. Activities include participation in agricultural related event and expositions around the country and distributing the crop insurance industry's guide entitled, "Managing Risk – Being Prepared." Outreach and education on the crop insurance program and other risk management tools will increase under the mandate found in the 1996 Act.

Risk Management Education

RMA continues to partner with the Cooperative State Research, Education, and Extension Service (CSREES), the Commodity Futures Trading Commission (CFTC), and the USDA National Office of Outreach, to provide Risk Management Education (RME) to U.S. farmers and ranchers, as mandated in Section 192 of the 1996 FAIR Act. In addition, the Agricultural Risk Protection Act of 2000 significantly increased RMA's role in delivering education and outreach programs.

RME provides farmers with information and with educational opportunities to become more aware of risk, know the tools available to manage risk, and learn strategies for making sound risk management decisions.

RME reached approximately 48,000 producers during fiscal year 2006 and 47,000 producers in fiscal year 2005. Total RME obligations incurred by FCIC were approximately $10 million in fiscal year 2006 and $10 million in fiscal year 2005.

RMA seeks to increase the agricultural community's awareness of risk management alternatives through education and information programs, an effort that was bolstered significantly with the passage of ARPA. ARPA provided RMA with the opportunity to expand its educational programs on several fronts.

- *Risk Management Education for Specialty Crops.* ARPA directs RMA to establish partnerships for the purpose of providing producers of specialty crops and under-served commodities with risk management training.

- *Crop Insurance Education for Targeted Region States.* ARPA authorizes and directs RMA to establish crop insurance education and information programs in states that have been historically under-served by the Federal crop insurance program. The 15 states designated by the Secretary that are eligible for this program are Maine, New Hampshire, Vermont, Connecticut, Massachusetts, Rhode Island, New York, New Jersey, Pennsylvania, Delaware, Maryland, West Virginia, Utah, Nevada, and Wyoming.

- *Competitive Grants for Risk Management Education.* This is cross-cutting program administrated by the CSREES using funding from the Federal Crop Insurance Fund.

- *Agricultural Management Assistance (AMA) Program.* This is another cross-cutting program authorized by ARPA and RMA administer jointly with the Natural

Resource Conservation Service and the Agricultural Marketing Service, which allows growers to obtain additional levels of coverage.

Performance Goals, Objectives, and Results
The key strategic goals and results that follow were selected from RMA's Strategic Plan for fiscal years 2004-2008.

Strategic Goal: Preserve and strengthen the economic stability of America's agricultural producers by promoting and supporting the use of sound risk management tools among farmers and ranchers.

This strategic goal will be achieved by accomplishing the tasks necessary to satisfy the objectives stated below. The enabling strategies include: formalizing the use of strategic information and market analysis to improve decision making, improving internal and external communication, focusing and harmonizing products and services to address demonstrated market needs, and developing a comprehensive and coordinated assurance delivery system. The objectives represent a multifaceted approach to improving the stability of the agricultural economy through the expanded use of risk management tools. By promoting additional or improved products, enhancing product delivery, providing educational opportunities, and reducing program and administrative inefficiencies, FCIC will promote and support the use of sound risk management tools among farmers and ranchers.

List of FY 2004-2008 Strategic Plan Objectives

1. Increase the availability and effectiveness of risk management solutions.

2. Improve and protect the soundness, safety, efficiency, and effectiveness of the risk management delivery system.

3. Ensure that customers and stakeholders have knowledge and awareness of risk management tools and products.

4. Ensure effective oversight of the crop insurance industry and enhance deterrence and prosecution of fraud, waste, and abuse.

5. Develop, acquire, and align activities, resources, and skills to efficiently achieve vision, mission, and strategic objectives.

Objective 1. Increase the availability and effectiveness of risk management solutions.

Expanding the number and types of risk management solutions is one method of enhancing the economic stability of agricultural producers. RMA develops the USDA crop insurance policies and underwriting terms and provides policies for numerous commodities and revenue protection. RMA conducts studies to determine the feasibility of insuring many other commodities and conducts pilot programs for some new commodity policies in selected states and counties. While RMA has streamlined the process of developing new policies in recent years, much has to be done prior to a policy becoming available nationwide, especially if it is a new type of policy or a policy on a commodity which is not similar to any crop already insured. The Federal Crop Insurance Act requires that submissions of insurance policies and plans and related materials be developed by third parties and approved by the FCIC Board of Directors. These submissions, including all new and substantial product modifications, are subject to review by no less than five independent expert actuarial and underwriting reviewers. Generally speaking, the process takes several years.

Objective 2. Improve and protect the soundness, safety, efficiency, and effectiveness of the risk management delivery system.

Higher participation rates illustrate the enhanced ability of crop insurance to become the main risk management tool for American producers and illustrate the acceptability of the products offered. As codified by the 2002 Farm Bill, there are 15 states that have been underserved by crop insurance. They are Maine, New Hampshire, Vermont, New York, Connecticut, Massachusetts, Rhode Island, New Jersey, Delaware, Pennsylvania, Maryland, West Virginia, Wyoming, Utah, and Nevada. These states have a disproportionately large share of small farms. The ten staple crops consist of corn for grain, soybeans, wheat, cotton, sorghum, barley, rice, potatoes, tobacco, and peanuts. During its history, RMA has concentrated much of its effort successfully on ensuring that these core agricultural staples have received ample crop insurance coverage. It is important to RMA that this level of participation remains high while RMA develops and implements new products for other crops and pilot programs while also maintaining and enhancing other crops with widespread crop insurance availability that have already moved out of pilot status. Additional participation data for these other categories will be incorporated into annual performance plans as they become available. In addition to providing new and revised products, RMA continues to review its general policy terms and conditions to ensure fair and effective delivery of these products to provide producers access with insurance coverage for their agricultural commodities. RMA renegotiated the Standard Reinsurance Agreement with private insurance companies for the 2005 and subsequent reinsurance years. RMA has increased the soundness of delivery system by requiring additional financial and operational information be reported by reinsured companies for evaluation during the annual plan of operations review and approval cycle. RMA continues to advocate enhanced delivery of products by insurance companies through enhanced agent training and focusing attention on the need for increased insurance agents in the States and/or areas determined to be underserved.

Objective 3. Ensure that customers and stakeholders have knowledge and awareness of risk management tools and products.

Producers face an increasingly complex agricultural environment that is exacerbated by such obstacles as rapidly changing technology, production alternatives, labor supply, and other factors. It has become increasingly important for American producers to understand the risk entailed by their operation and to manage them appropriately.

Changes to the Act in 1996 and 2000 established a strong role for the Federal government in providing farmers and ranchers with risk management education. The purpose of the program is to provide such education in management of the financial risks inherent in the production and marketing of agricultural commodities. RMA partners with the CSREES, the USDA, National Office of Outreach, and other public and private organizations to deliver risk management education programs to U.S. farmers and ranchers. Through partnership and cooperative agreements, RMA focuses its risk management education opportunities in three major areas: specifically underserved States, communities, and commodities. As codified by the 2002 Farm Bill, there are 15 states that have been underserved by crop insurance. These states have a disproportionately large share of small farms. There are other segments of the agricultural community that traditionally have not had access or information concerning available risk management tools. The RMA outreach program addresses these concerns and the RMA commitment to make crop insurance more affordable and encourage smaller specialty crop producers to try new insurance products.

Objective 4. Ensure effective oversight of crop insurance industry and enhance deterrence and prosecution of fraud, waste, and abuse.

As directed by ARPA, RMA has been instituting new provisions to strengthen program integrity and compliance. While RMA believes that most producers use good farming practices and comply with Federal regulations, there are some instances of fraud, waste, and abuse. New prevention efforts, additional requirements, traditional investigation, and criminal, civil, and administrative processes have combined to enhance recoveries in overpaid indemnities. RMA works with numerous stakeholders, including Farm Service Agency (FSA) and insurance providers, to improve program compliance and integrity by enhancing data reconciliation, evaluating and amending procedures, and emphasizing deterrence and prevention. However, RMA needs to continue to strengthen its compliance activities by conducting additional reviews of insurance providers to provide greater assurance in the integrity of all components of the risk management program. To this end, RMA has requested additional resources to conduct additional reviews.

Objective 5. Develop, acquire, and align activities, resources, and skills to efficiently achieve vision, mission, and strategic objectives.

Initiatives in the administrative infrastructure contribute significantly to supporting the Agency's mission and strategic goals and objectives. Attention to these elements will result in RMA usage of valuable resources to improve upon the agency conformity with Departmental guidelines and the President's Management Agenda. To enhance its program delivery systems, decision-making, and performance budgeting capabilities, RMA will need to invest heavily in updating its information technology systems and create a more corporate style database and communication system to provide automated, timely, and complete data for decision-making and information sharing. Simultaneously, RMA also will be integrating human capital management and other President's Management Agenda items into its planning and management cycles in order to ensure that there are not critical skill gaps.

2006 and 2005 Crop Year Performance Measurements

FCIC's total estimated premium level for its reinsured business was $4.7 billion for the 2006 crop year, with insured producers paying $1.9 billion and the remaining $2.8 billion paid in premium subsidies. FCIC provided approximately $50.7 billion of insurance protection on about 1.1 million policies for approximately 764 thousand insureds. These crop policies provide coverage for over 249.6 million acres, which are approximately 86.3% of the insurable acres nationwide. For the 2006 crop year policies, FCIC estimates that approximately $4.5 billion of indemnities will be paid to insureds on approximately 267,000 indemnity claims. For crop year 2005 policies, FCIC paid approximately $2.4 billion to insureds on approximately 200,000 indemnity claims. The loss ratio for 2006 is estimated to be 99% compared to FCIC's actual loss ratio of 59.70% in 2005.

FCIC has pursued several initiatives to improve actuarial soundness and contain costs within the programs administered by FCIC in accordance with the Act. FCIC has steadily followed direction provided by the Act to increase the share of risk to private insurance companies. Also, FCIC has gradually reduced the rate of reinsured company administrative expense reimbursement. FCIC continues to work with the private insurance industry to review issues under contract. The objectives of this effort include:

- To seek changes which will strengthen the program through greater participation,
- To determine more accurately the approximate cost of required activities to effectively deliver crop insurance,
- To identify currently required activities that may be prudently eliminated, and
- To identify activities which can be accomplished more efficiently

FCIC has increased the risk to the private sector in the reinsurance agreement since passage of the Act. Following the major losses of the 1993 crop year, when reinsured companies lost approximately $83 million, FCIC elected to make only minor changes to the reinsurance agreement so FCIC could observe the performance of the reinsurance agreement under less severe conditions. The estimated reinsured companies' net underwriting gain for the 2005 crop year was $739.9 million, and the reinsured companies underwriting gains for the 2006 crop year is estimated to be $652.1 million.

1996-2006 Crop Years in Retrospect

An overall review of the period 1996 crop year through 2006 crop year reveals a substantial change in delivery of the Multi-Peril Crop Insurance (MPCI) product and unusually turbulent weather patterns. FCIC's authorizing legislation was amended prior to the 1990 fiscal year to improve its ability to administer an actuarially sound program.

For the crop years 1996 through 2005, the program has paid out an average of $0.90 for every dollar of premium. In addition to the cost of the excess losses, administrative expenses of the program and premium subsidy have averaged $668 million and $1,588 million respectively over each of the past ten years. Premium subsidies have increased significantly since the 1995 crop year due to the 100% subsidization of catastrophic insurance premiums by the U. S. government.

Ten Year Summary of Premiums and Losses
(in millions)

Crop Year	Actual Premiums ($)	Actual Losses ($)		Loss Ratio Actual	Loss Ratio Projected	Loss Ratio Difference
1996	1,837	1,487		81%	100%	19%
1997	1,775	991		56%	72%	16%
1998	1,879	1,673		89%	95%	6%
1998	2,304	2,420		105%	93%	(12%)
2000	2,540	2,591		102%	88%	(14%)
2001	2,961	2,949		100%	108%	8%
2002	2,916	4,058		139%	142%	3%
2003	3,431	3,247		95%	112%	17%
2004	4,185	3,191		76%	85%	9%
2005	3,949	2,358		60%	78%	18%
1996-2005 Total	27,777	24,965	**1996-2005 Average**	90%	97%	7%
	Projected				**Projected**	
2006	4,580	4,515			99%	

The difference between the actual and the estimated loss ratios has exceeded 10 points 60% of the time (6 of 10 years). The relatively high variance of the estimate reflects the large degree of uncertainty that is inherent in predicting losses before the growing season is over. The average difference between the estimates and the actual loss ratio for the years 1996 to 2005 is +7%.

There are several sources of uncertainty when estimating losses based on data from early in the period of harvest. One source of uncertainty is in the projected crop yields by USDA's National Agricultural Statistics Service (NASS). The NASS projected crop yields are subject to a certain degree of measurement error, particularly during the early part of the harvesting for many insured crops. Also, changes in fall weather can have a major impact on final crop yields, such as from freezes, hurricanes, or excessive moisture that may affect the harvest or may damage the mature crop.

Revenue products introduce another source of uncertainty since the data on crop prices is obtained from the commodity exchanges. Commodity exchange crop values in the late August/early September period are themselves projections of the harvest contract values for some later date. Hence, there is an inherent amount of variability in the future price from early September, when the loss estimates are made, to when the harvest prices for the revenue products are determined.

The amount of the variance between the estimated and actual losses that can be accounted for by each source of uncertainty varies from year to year. However, it is clear that the major input data, projected crop yields issued by NASS, while informative, does not appear to be consistently predictive of aggregate crop insurance losses.

Uncertainty in 2006 Estimated Losses

The 2006 Estimated Loss projections are based on current conditions and are subject to significant uncertainty. Any changes in weather patterns or commodity prices can change these projections significantly. Some crops may still be susceptible to catastrophic weather events such as an early freeze or excess precipitation during critical harvest periods. There is also uncertainty inherent in the indemnity forecast model.

The uncertainty of the 2006 projection is also increased by a significant drought event extending from North Dakota and Montana down to Texas and also in parts of the Southeast. The drought has affected yields for several of the major crops, especially wheat and cotton.

In addition to affecting yields, the drought has resulted in quality losses for several crops, especially corn (aflatoxin). Quality losses do not necessarily affect yields, but are indemnifiable with regard to crop insurance. Therefore, the expected yields from the National Agricultural Statistics Service (NASS), which form the basis for the indemnity projection, do not reflect the potential quality losses. The extent of the quality losses are not currently known.

2006 and 2005 Fiscal Year Financial Performance

Premium revenue is comprised of producer paid premium and premium subsidy appropriated by the federal government. Producer paid premium is recognized as earned ratably over each crop's growing season. The portion of producer premium not recognized at the conclusion of the fiscal year is classified as unearned revenue in the consolidated balance sheet. Premium subsidy is recognized as earned when expended. The unexpended premium subsidy remains an unexpended appropriation in the consolidated balance sheet.

The sum of producer paid premium and premium subsidy has been calculated using generally accepted actuarial methods to attain a break-even loss ratio of 100%. Premium subsidy is not considered written to the extent a portion remains unexpended and no unearned revenue is recorded in the consolidated balance sheets. As a result, the expected claim costs and claim adjustment expenses exceed the related unearned revenue. A premium deficiency is therefore recognized in the consolidated balance sheet by accruing a liability recorded as another liability for the excess amount.

The following are measures of FCIC's financial performance:

Net Operating Cost
(in millions)

		2006	2005
Total Program Costs	$	4,671	3,717
Less Earned Revenues		(1,100)	(1,018)
Net Cost of Operations	$	3,571	2,699

The previous measure indicates FCIC's net operating cost.

Operating Results
(in millions)

		2006	*2005*
Beginning Balance	$	(1,538)	(1,038)
Appropriations and other financing sources used		3,273	2,199
Less net cost of operations		(3,571)	(2,699)
Cumulative Results of Operations	$	(1,836)	(1,538)

The previous measure indicates that future funding will be required for the 2006 fiscal year.

Financial Obligations
(in millions)

		2006	*2005*
Entity Assets	$	3,170	2,992
Liabilities covered by budgetary resources	$	3,624	3,010
Ratio of entity assets to liabilities covered by budgetary resources		.87	.99

Net Position
(in millions)

		2006	2005
Total Assets	$	3,170	2,992
Total Liabilities		(3,937)	(3,507)
Net Position	$	(767)	(515)

The previous measure provides an indication of the net position of FCIC as of September 30, 2006 and 2005.

Financial Highlights
FCIC has prepared its financial statements in accordance with the accounting standards codified in the Statements of Federal Accounting Standards and the Form and Contents requirements contained in the Office of Management and Budget (OMB) Bulletin 01-09, as amended by OMB Circular A-136, Financial Reporting Requirements.

Financial Statement
Limitations on Financial Statements
Financial statements have been prepared to report the financial position and results of operations of the entity, pursuant to the requirements of 31 U.S.C. 3515 (b). While the statements have been prepared from the books and records of the entity in accordance with the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records. The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

Consolidated Balance Sheet
FCIC's total assets as of September 30, 2006 were approximately $3.2 billion and as of September 30, 2005 were approximately $3.0 billion. In total, Fund Balance with Treasury, Cash Held Outside of Treasury, and Net Accounts Receivable account for

approximately 99.9 percent of the $3.2 billion in total assets as of September 30, 2006. The Liability for Estimated Losses on Insurance Claims, approximately $2.4 billion and $2.0 billion as of September 30, 2006 and 2005, respectively, is approximately 62 percent of total liabilities in fiscal year 2006 and 57 percent in total liabilities in fiscal year 2005.

Statement of Net Cost

FCIC's net cost of operations for fiscal year 2006 was approximately $3.6 billion, a 33 percent increase over the fiscal year 2005 net cost of operations that was $2.7 billion. The indemnity costs and program delivery costs are 98.2 percent of FCIC's cost of operations in fiscal year 2006 and 97.3 percent in fiscal year 2005. The indemnity costs increased $789 million due to a higher loss ratio estimate in fiscal year 2006 and the delivery costs increased $177 million due to an increase in the estimated premium.

Statement of Net Position

The net cost of operations of the corporation increased from fiscal year 2005. Our loss ratio was an estimated 78 percent in fiscal year 2005 and an estimated 99 percent in fiscal year 2006.

Statement of Budgetary Resources

Appropriations, combined with other budgetary resources made available and adjustments totaled $5.9 billion in fiscal year 2006 and $5.6 billion in fiscal year 2005, while total outlays were $4.7 billion in fiscal year 2006 and $4.2 billion in 2005.

Budgetary Resources
(in millions)

		2006	*2005*
Net Appropriations	$	3,372	2,314
Unobligated balance brought forward		1,357	2,060
Offsetting Collections and Adjustments		1,206	1,238
Total	$	5,935	5,612

Statement of Financing

The total budgetary and non-budgetary resources used to finance operations totaled approximately $3.5 billion in fiscal year 2006 and $3.0 billion in fiscal year 2005. The fiscal year change in undelivered orders was not part of the net cost of operations, and totaled $1 million in fiscal year 2006 and $5 million in fiscal year 2005.

Systems, Controls, and Legal Compliance

Risk Compliance

The focus of the compliance function continues to ensure the integrity of the crop insurance program and its delivery by increasing effectiveness, efficiency and timeliness of reviews performed on the companies which participate in the delivery of MPCI.

ARPA mandated new requirements in the areas of program compliance and integrity but did not cause a change to Risk Compliance's overall mission, goals, or business objectives. Instead ARPA impacted existing business processes and provided additional management tools.

The role of Risk Compliance is to ensure that laws, policies, and procedures are followed and administered effectively. Risk Compliance seeks to maintain program integrity. This is accomplished through a systematic review process for the detection and prevention of crop insurance program abuse. This requires a proactive approach in which FCIC and the industry work together to increase awareness, develop programs, identify systems and processes, and take other actions to minimize the potential for crop insurance program abuse. Such an approach is ultimately aimed at the proactive prevention of fraud and abuse.

Risk Compliance's goal is to reduce taxpayer and producer burden generated by fraud and abuse, contract noncompliance, and program vulnerabilities. The reinsured companies counter fraud and abuse in program delivery by performing growing season inspections, reviewing reported producer yields, performing on onsite inspections, avoiding conflicts of interest, and initiating and engaging in litigation on issues important to programs administered by FCIC in accordance with the Act. The reinsured companies are also an important source of information concerning program vulnerabilities.

Risk Compliance's efforts are focused on investigation work generated by Office of the Inspector General (OIG) Hotline complaints, a variety of other external sources, and National Operations Reviews (NOR) of companies to determine compliance with the Standard Reinsurance Agreement (SRA) requirements and to determine MPCI program vulnerabilities.

Ultimately, Risk Compliance produces a positive impact on integrity of programs administered by FCIC in accordance with the Act through its findings of noncompliance. Risk Compliance provides information and evidence to FCIC Contracting Officer and other key operating and policy elements of FCIC. This material provides a basis for action against wrong doers and for MPCI program modifications. Risk Compliance works with the Department of Justice (DOJ) through the USDA OIG's criminal division and the Office of General Counsel (OGC) (civil) where matters indicate a need for litigation.

Federal Managers' Financial Integrity Act
FCIC takes measures to conduct self-assessments, identify material weaknesses, and implement timely corrective action through the annual Federal Mangers' Financial Integrity Act (FMFIA) reporting process.

FCIC addresses audit findings and recommendations timely and works closely with the OIG, GAO, OCFO, DOJ, and Assistant US Attorneys (AUSA) to timely implement effective, responsive corrective actions and improvements.

The compilation of these activities has enabled FCIC to identify and reduce program vulnerabilities, which has contributed to improved program integrity and protection of taxpayer's funds. A reduction in program vulnerabilities, improved program integrity, and protection of taxpayer's funds, in turn, enhance the economic safety net for farmers and ranchers.

The Federal Financial Management Improvement Act (FFMIA) requires that agencies implement and maintain financial management systems that comply substantially with federal financial management system requirements, applicable federal accounting standards, and the U.S. government standard general ledger at the transaction level. During its financial statement audit, the OIG and independent auditors report on whether or not financial management systems comply substantially. If the systems do not comply, then a plan is required to bring the systems into compliance.

Through review of its programs and the use of OIG and GAO evaluations, RMA strives to ensure government resources are used efficiently and effectively to achieve the intended program results. The improvement to programs following these reviews are designed to further minimize the potential for waste, fraud, and mismanagement.

Agricultural Risk Protection Act of 2000
ARPA, Section 515, mandated new requirements in the area of program compliance and integrity. These new requirements once fully implemented should enhance management information systems and facilitate the detection and enforcement of program fraud, waste, and abuse.

With resources provided in ARPA for data warehousing, data mining and other information technology capabilities, RMA continues to improve its compliance enforcement capabilities and reduce overall program vulnerabilities. Cooperative agreements and contracts are in place to greatly supplement this already existing effort incremental phases over the next five years. Using the trends, indicators and analyses provided by these systems, we will be more proactive and aggressive in managing and monitoring program integrity issues.

RMA has entered into a contractual agreement to establish a pattern recognition system, enabling the Agency to identify trends signaling poor performance and/or potential/actual fraud, waste, and abuse of resources. The objectives of the contract are to identify trends, patterns, anomalies, and relationships between reinsured organizations, insurance agents, adjusters, and producers in crop insurance data indicative of excess claim adjustment over actual crop loss. The vendor shall incorporate Data Analysis and Data Mining techniques to accomplish this objective. Implementation of this system will enable the Agency to target review efforts in those areas deemed the most vulnerable, thereby enhancing program integrity and protecting taxpayers' funds. To manage both the increased span of control within the internal components of the agency and to ensure unity of authority without compromising the necessity for decentralized operations, RMA reviewed and updated its delegations of authority from the Administrator to the Deputy Administrator for Compliance. The revised delegation provides for the separation of authority at the various levels within Compliance that ensures that the processes for reviews and investigations, adjudication and appeals provides for administrative due process and are conducted fairly and impartially. By tailoring its management functions to meet and exceed the requirements of ARPA, RMA maintains the integrity of the compliance business processes and in doing so, is in a better position to maintain the integrity of crop insurance programs.

RMA conducts reviews designed to evaluate AIPs performance, detect and correct program vulnerabilities, and collect under paid premiums and overpaid indemnities. We also conduct investigations into complaints and allegations received from various sources such as producers, agents, and OIG hotline.

RMA's key partners in maintaining program integrity are the AIPs. We will continue to foster these relationships while emphasizing the need for the companies' quality control programs to improve and assisting the companies in that improvement process. Our objective is to develop within the AIPs the same stewardship of taxpayer's funds as our own values and beliefs.

As RMA implements the many changes specified and implied by ARPA requirements over the next several years, the agency will maintain close liaisons and partnerships with other government agencies and AIPs to keep abreast of technological changes and innovative best practices especially in the areas of combating insurance fraud, investigative tactics and techniques, information management systems, or any other worthwhile venture that may assist the agency in its quest to save the taxpayers' dollars.

Actuarial and Underwriting Performance

The systematic adjustment of premium rates and coverages by FCIC is producing additional cost savings for the federal government by reducing crop losses and placing the programs administered by FCIC in accordance with the Act on a more actuarially sound basis. These annual adjustments were initiated beginning with the 1991 crop year as a result of the Act and have stabilized the financial performance of the crop insurance program. FCIC adjusts premium rates as necessary and appropriate for actuarial soundness. Annual premium rate increases are limited by law to no more than 20%. If rate increases greater than 20% are necessary for actuarial soundness, FCIC will move toward the target rates over the following years, thus adhering to the 20% rules, but still moving toward the actuarially sound target rate.

FCIC continues to review the premium rate making methodologies to increase the integrity and performance of the crop insurance program. In addition, the Economic Research Service (ERS), an agency of the USDA, is reviewing FCIC's crop insurance program rates, financial elements of the standard reinsurance agreement, and yield coverage. Independently, ERS has entered into a cooperative agreement with the actuarial firm of Milliman and Robertson to review FCIC's actuarial processes. Additionally, the ERS provides feasibility studies of crops that represent opportunities for expansion of the crop insurance program. FCIC also uses the resources of the CSREES to provide information about the financial situation of farmers so FCIC can make more informed decisions for program improvement. During fiscal years 2001, 2002, and 2003, FCIC has issued several contracts for completion of actuarial studies that will be evaluated and implemented to modify, update, and enhance actuarial methodology and the ratemaking process.

Actual Production History Underwriting

FCIC's Actual Production History (APH) underwriting procedure of APH based plans of insurance require APH guarantees to be calculated with emphasis on the producer's actual yield records versus proxy yields. Yield guarantees are calculated using 4 years of actual records, building to a 10-year database. For producers who do not provide 4 years of actual yield records, the yield guarantee is a percentage of the proxy yield, which is calculated for each year's missing yield record. The percentage of the proxy yield is 100% when 3 years of records are provided, 90% for 2 years, 80% for 1 year, and 65% when no records are provided. New producers of crops who do not have records of actual yields may use 100 percent of the proxy yield. For APH yield calculation purposes, ARPA allows producers to substitute 60 percent of the applicable proxy yield for actual yields that are less than 60 percent of the applicable proxy yield to mitigate the effect for catastrophic years.

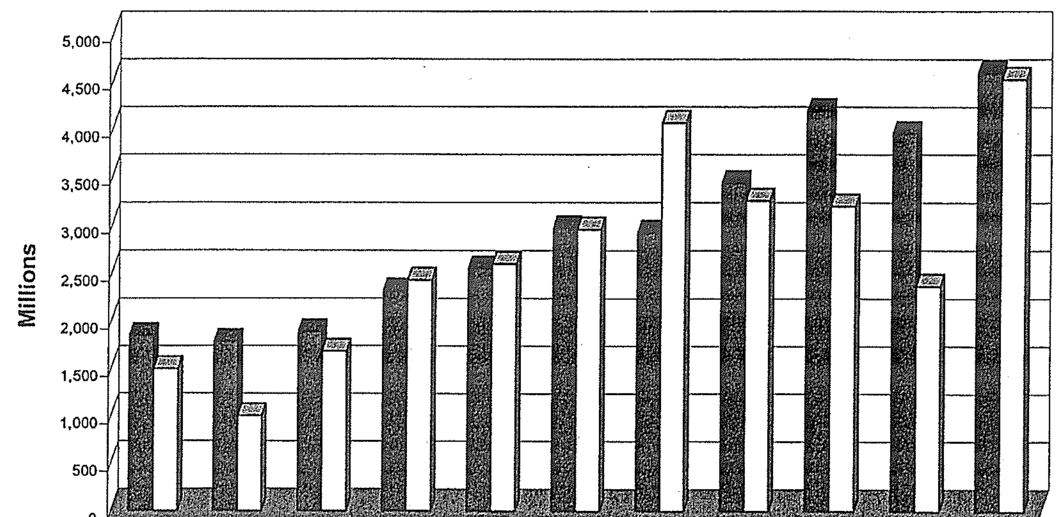
Policyholder Tracking System

FCIC's Policyholder Tracking System (PHTS), a process within the Data Acceptance System (DAS), uses the policyholder's Social Security Number or Employer Identification Number to track the policyholder's insurance history. FCIC utilizes the PHTS to create a nationwide database to track producer participation in crop insurance programs, develop adequate production documentation, identify high-risk producers, assess the performance of insurance providers and other activities to improve the integrity and fiscal responsibility of the federal crop insurance program.

Ineligible Tracking System

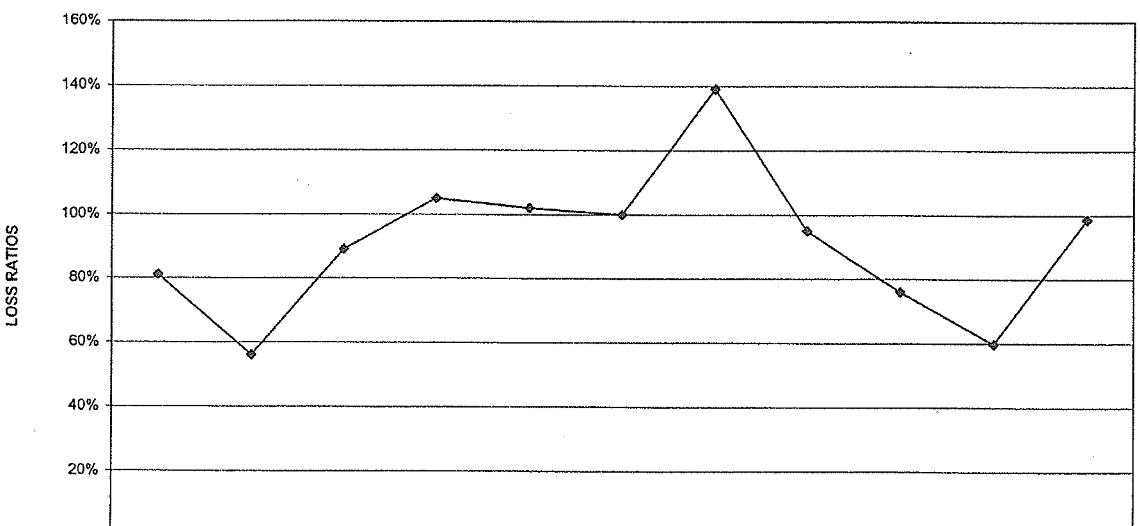
FCIC implemented the Ineligible Tracking System in 1997, for the 1998 crop year. The ITS identifies persons who have rendered themselves ineligible for crop insurance benefits as a result of violations of policy provisions. FCIC will not reinsure a crop insurance policy for a person identified as ineligible.

SUMMARY OF PREMIUMS AND LOSSES



	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006 Est.
PREMIUMS	1,837	1,775	1,879	2,304	2,540	2,961	2,916	3,431	4,185	3,949	4,580
LOSSES	1,487	991	1,673	2,420	2,591	2,949	4,058	3,247	3,191	2,358	4,515

SUMMARY OF LOSS RATIOS



	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006 Est.
Loss Ratio	0.81	0.56	0.89	1.05	1.02	1.00	1.39	0.95	0.76	0.60	0.99

RISK MANAGEMENT AGENCY
FEDERAL CROP INSURANCE CORPORATION
CONSOLIDATED BALANCE SHEETS
As of September 30, 2006 and 2005
(in millions)

	2006	2005
Assets:		
Intragovernmental		
Fund Balance with Treasury	$ 1,455	$ 1,558
With the Public		
Accounts Receivable, Net	1,624	1,368
Cash Held Outside Treasury	90	65
General Property, Plant, and Equipment	1	1
Total Public Assets	1,715	1,434
Total Assets	$ 3,170	$ 2,992
Liabilities:		
Intragovernmental		
Other Liabilities	$ 3	$ -
With the Public		
Accounts Payable	10	13
Federal Employee Benefits	3	3
Other Liabilities		
Estimated Losses on Insurance Claims	2,427	2,001
Unearned Revenue	309	263
Other Liabilities	1,185	1,227
Total Other Liabilties	3,921	3,491
Total Liabilities	3,937	3,507
Commitments and Contingencies (Note 11)		
Net Position:		
Capital Stock	500	500
Paid-in Capital	38	38
Unexpended Appropriations		485
Unexpended Appropriations - Earmarked Funds	510	
Unexpended Appropriations - Other Funds	21	
Cumulative Results of Operations		(1,538)
Cumulative Results of Operations - Earmarked Funds	(1,830)	
Cumulative Results of Operations - Other Funds	(6)	
Total Net Position	(767)	(515)
Total Liabilities and Net Position	$ 3,170	$ 2,992

See accompanying notes to consolidated financial statements.

RISK MANAGEMENT AGENCY
FEDERAL CROP INSURANCE CORPORATION
CONSOLIDATED STATEMENTS OF NET COST
For the Years Ended September 30, 2006 and 2005
(in millions)

	2006	2005
Program Costs:		
Intragovernmental Gross Costs		
Benefit Program Costs	$ 6	$ 6
Imputed Costs	14	12
Reimbursable Costs	25	21
Intragovernmental Net Costs	45	39
Gross Costs With the Public		
Indemnities	3,585	2,796
Other Program Costs		
Program Delivery Costs	960	783
Other Program Costs	81	99
Total Other Program Costs	1,041	882
Total Costs with the Public	4,626	3,678
Less: Earned Revenue from the Public		
Premium Revenue	1,889	1,626
Net Loss on Business Assumed from Reinsured Companies	(836)	(657)
Other Revenue	47	49
Total Earned Revenue with the Public	1,100	1,018
Net Costs With the Public	3,526	2,660
Net Cost of Operations	$ 3,571	$ 2,699

See accompanying notes to consolidated financial statements.

RISK MANAGEMENT AGENCY
FEDERAL CROP INSURANCE CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION
For the Years Ended September 30, 2006 and 2005
(in millions)

	2006 Earmarked Funds	2006 Other Funds	2006 Total All Funds	2005 Total All Funds
Capital Stock	$ 500		$ 500	$ 500
Additional Paid-in Capital	$ 38		$ 38	$ 38
Cumulative Results of Operations				
Beginning Balance	$ (1,532)	$ (6)	$ (1,538)	$ (1,038)
Budgetary Financing Sources:				
Appropriations Used	3,186	73	3,259	2,180
Transfers without Reimbursement	-	-	-	5
Other Financing Sources:				
Imputed Financing Sources	-	14	14	12
Other	-	-	-	2
Total Financing Sources	3,186	87	3,273	2,199
Net Cost of Operations	(3,484)	(87)	(3,571)	(2,699)
Net Change	(298)	-	(298)	(500)
Cumulative Results of Operations	$ (1,830)	$ (6)	$ (1,836)	$ (1,538)
Unexpended Appropriations:				
Beginning Balances	$ 465	$ 20	$ 485	$ 309
Budgetary Financing Sources:				
Appropriations Received	3,295	77	3,372	2,314
Appropriations Transferred in/out	(5)	-	(5)	(6)
Other Adjustments	(59)	(3)	(62)	48
Appropriations Used	(3,186)	(73)	(3,259)	(2,180)
Total Unexpended Appropriations	$ 510	$ 21	$ 531	$ 485
Net Position	$ (782)	$ 15	$ (767)	$ (515)

See accompanying notes to consolidated financial statements.

RISK MANAGEMENT AGENCY
FEDERAL CROP INSURANCE CORPORATION
COMBINED STATEMENTS OF BUDGETARY RESOURCES
For the Years Ended September 30, 2006 and 2005
(in millions)

	2006	2005
Budgetary Resources:		
Unobligated Balance Brought Forward, October 1	$ 1,357	$ 2,060
Recoveries of Prior Year Unpaid Obligations	5	5
Budget Authority		
Appropriations Received	3,372	2,314
Spending Authority from Offsetting Collections Earned and Collected	1,208	1,236
Nonexpenditure Transfers, Net	(5)	(1)
Permanently not Available	(2)	(2)
Total Budgetary Resources	$ 5,935	$ 5,612
Status of Budgetary Resources:		
Obligations Incurred		
Direct	$ 4,666	$ 4,255
Unobligated Balance		
Apportioned	1,266	1,355
Unobligated Balance Not Available	3	2
Total Status of Budgetary Resources	$ 5,935	$ 5,612
Change in Obligated Balances:		
Unpaid Obligations Brought Forward, October 1	$ 268	$ 204
Obligations Incurred	4,666	4,255
Gross Outlays	(4,653)	(4,186)
Recoveries of Prior Year Unpaid Obligations	(5)	(5)
Obligated Balance, Net, End of Period		
Undelivered Orders	(79)	(80)
Accounts Payable	(197)	(188)
	(276)	(268)
Outlays Detail:		
Disbursements	4,653	4,186
Less: Collections	(1,208)	(1,236)
Less: Distributed Offsetting Receipts	(3)	-
Net Outlays	$ 3,442	$ 2,950

See accompanying notes to consolidated financial statements.

RISK MANAGEMENT AGENCY
FEDERAL CROP INSURANCE CORPORATION
CONSOLIDATED STATEMENTS OF FINANCING
For the Years Ended September 30, 2006 and 2005
(in millions)

	2006	2005
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	$ 4,666	$ 4,255
Less: Spending Authority from Offsetting Collections and Recoveries	(1,213)	(1,241)
Obligations net of offsetting collections and recoveries	3,453	3,014
Less: Offsetting Receipts	(3)	-
Net Obligations	3,450	3,014
Other Resources:		
Imputed financing from costs absorbed by others	14	12
Other	-	2
Net Other Resources Used to Finance Activities	14	14
Total Resources Used to Finance Activities	3,464	3,028
Resources Used to Finance Items Not Part of the Net Cost of Operations:		
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided	1	(5)
Resources that fund expenses not recognized in prior periods	41	(444)
Decrease in exchange revenue receivable from the public	-	113
Other resources or adjustments to net obligated resources that do not affect the net cost of operations	3	-
Total resources used to finance items not part of the cost of operations	45	(336)
Total resources used to finance the net cost of operations	3,509	2,692
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Periods		
Increase in exchange revenue receivable from the public	(254)	-
Other	312	-
Components not Requiring or Generating Resources		
Other	4	7
Total components of Net Cost of Operations that will not require or generate resources in the current period	62	7
Net Cost of Operations	$ 3,571	$ 2,699

See accompanying notes to consolidated financial statements.

RISK MANAGEMENT AGENCY
FEDERAL CROP INSURANCE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2006 and 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Reporting Entity

Federal Crop Insurance Corporation (FCIC) is a wholly-owned government corporation within the United States Department of Agriculture (USDA) and is not subject to federal, state, or local income taxes and, accordingly, no provision for income taxes is reported. FCIC is under the direction and control of a board of directors, which is appointed by the Secretary. These consolidated financial statements include the Risk Management Agency (RMA) and FCIC; hereafter the combined entity will be referred to as FCIC. FCIC was established by the Federal Crop Insurance Act, which was enacted as Title V of the Agricultural Adjustment Act of 1938 (52 Statute 72). FCIC manages a Multi-Peril Crop Insurance (MPCI) program to assist in stabilizing and protecting the farming sector of the nation's economy. This program was restricted until the Federal Crop Insurance Act of 1980 (Public Law 96-365) expanded the program nationwide to eventually phase out the disaster payment program that was authorized by the Agriculture Act of 1949, as amended.

RMA was established under provision of the Federal Agricultural Improvement and Reform Act of 1996 (the 1996 Act), Public Law 104-127, signed April 4, 1996. This act amended the Department of Agriculture Reorganization Act of 1994 (the 1994 Act), P.L. 103-354, Title II, to require the Secretary to establish within the USDA an independent office responsible for supervision of FCIC, administration and oversight of programs authorized under the Federal Crop Insurance Act (7 U.S.C. 1501 et seq.), any pilot or other programs involving revenue insurance, risk management education, risk management savings accounts, or the use of the futures market to manage risk and support farm income that may be established under the Federal Crop Insurance Act or other law; and such other programs the Secretary considers appropriate.

On June 20, 2000 the President signed the Agricultural Risk Protection Act of 2000 into law effective beginning in fiscal year 2001. Major provisions of this new legislation include: expanded use of contracts and partnerships for the research and development of policies and other risk management tools; prohibited research and development by FCIC; revisions in Catastrophic Insurance (CAT) administrative fees and loss adjustment expense reimbursement; significant premium subsidy changes; livestock coverage authorization; reimbursement of research, development and maintenance costs for products submitted to FCIC; expanded risk management education and assistance; provisions to address under-served areas, states, and commodities; establishment of an expert review panel and procedures for reviewing policies, plans of insurance, and related material or modifications; improved program compliance and integrity provisions; availability and acceptance of electronic information; good farming practices to include scientifically sound sustainable and organic farming practices; and others not included herein.

The objectives include the following items:

- Increase the number of economically sound risk management tools that are available and utilized by producers to meet their needs;

- Increase the agricultural community's awareness of risk management alternatives; and

- Improve program integrity and protect taxpayers' funds.

The Farm Security and Rural Investment Act of 2002 (2002 Farm Bill) was signed into law on May 13, 2002. Major provisions to this new legislation included authorization for sweet potato insurance to extend beyond the time the crop is in the field (as in the case of tobacco and potatoes) and expansion of the adjusted Gross Revenue Insurance pilot program into additional counties in California and Pennsylvania.

FCIC has one delivery system in place to market the MPCI program. The reinsurance business permits private insurance companies to write MPCI that is reinsured by FCIC. These companies were compensated by FCIC for expenses associated with marketing and fully servicing (including claims adjustment, claims processing, billings, and premium collections) the MPCI policies reinsured by FCIC. The reinsurance business has been FCIC's sole delivery system for MPCI since 1998. MPCI is available for 121 different commodities (approximately 600 commodities as enumerated for disaster assistance purposes) in over 3,100 counties with policies covering all 50 states and Puerto Rico.

FCIC receives all federal appropriations from the U.S. Department of Agriculture budget classification (code 350).

Basis of Presentation and Accounting

The accompanying consolidated financial statements have been prepared to report the balance sheet, net cost, changes in net position, budgetary resources, and financing of FCIC. The consolidated financial statements have been prepared from the books and records of FCIC in accordance with Accounting Principles Generally Accepted in the United States of America (GAAP). GAAP for Federal financial reporting entities recognizes the Federal Accounting Standards Advisory Board (FASAB) as the standard setting body. The financial statements are presented in accordance with the Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*. All significant transactions and balances among FCIC's appropriations have been eliminated in consolidation. These consolidated financial statements are different from the financial reports, prepared by FCIC pursuant to OMB directives, which are used to monitor and control the FCIC's use of budgetary resources.

FCIC records accounting transactions on both an accrual and budgetary basis of accounting. Under the accrual method, revenues are recognized when earned and expenses are recognized when incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of federal funds. All inter-fund balances have been eliminated in the accompanying consolidated financial statements.

Fund Balance With Treasury
Fund Balance with Treasury represents the aggregate amount of funds in FCIC's accounts with Treasury for which FCIC is authorized to make expenditures and pay liabilities. FCIC's Fund Balance with Treasury consists of appropriated funds and receipts collected from non-federal entities.

Accounts Receivable
Accounts receivable with the public represent premiums from reinsured companies due to FCIC for crop insurance written by the reinsured companies and reinsured by FCIC. The reinsured companies are responsible for collecting the premium from the producer and paying FCIC, whether or not the premium has been collected from the producer. Reinsured companies also share a portion of the underwriting gains and losses.

Producers' accounts receivable represent amounts due from individual producers for interest, overpaid indemnities, and premiums which are payable directly to FCIC. It also includes estimated buy-up and catastrophic fees turned over by reinsured companies to FCIC for collection. FCIC provides an allowance for uncollectible accounts based upon historical experience.

Cash Held Outside Treasury
Cash held outside Treasury consists of amounts funded to reinsured companies' escrow accounts for which the companies' loss checks have not yet cleared.

General Property, Plant, and Equipment
General property, plant, and equipment consists of office furniture, computer equipment, and computer software. Property, plant, and equipment with an acquisition cost of $25,000 or more and internal use software with an acquisition cost of $100,000 or more and an estimated useful life of at least two years is capitalized. Property and equipment with an acquisition cost of less than $25,000 is expensed when purchased. Property and equipment is depreciated using the straight-line method over useful lives that range from 6 to 10 years. There are no restrictions on the use or convertibility of FCIC's property and equipment.

Accounts Payable
FCIC accounts for reinsurance administrative expenses as program costs because they vary with, and are directly related to, acquiring new and carry-over business. Due to loss ratios at or in excess of 100% of producer premium (without regard to the premium subsidy appropriation), all reinsurance administrative expenses have been expensed in the period in which they were incurred.

Section 508 (k) of the 1994 Act authorizes FCIC to enter into reinsurance agreements with private insurance companies. Under these agreements, FCIC assumes the majority of the risk of loss on MPCI written by the reinsured companies.

The 1998 Standard Reinsurance Agreement (SRA) was renewed through the 2006 and subsequent reinsurance years, and provides for both proportional and non-proportional allocations by which the risk of loss may be ceded to FCIC. The reinsured companies elect the method to transfer risk to FCIC through their plan of operation. The plan of operation becomes a part of the SRA for each reinsurance year (July 1 through June 30).

Proportional reinsurance provides for an incremental exchange of losses and premiums between the reinsured company and FCIC. A reinsured company may not cede to FCIC, under proportional methods, premiums that exceed 65% of its total book of business for the 2006 and 2005 reinsurance contracts. FCIC uses nonproportional reinsurance programs (stop loss) which limit losses in the reinsured's retained book of business after the cessions made under proportional methods. Stop loss reinsurance is applied by state and by fund, if necessary, based upon the ratio of the reinsured's ultimate net losses to its retained net book premium.

The SRA provides for reimbursement to the insured companies for administrative expenses, including loss adjustment expenses. The SRA's reimbursement rates (as a percent of premium) are as follows for the 2006 and 2005 reinsurance years: Group Risk Plans (GRP), 19.4% - 22.4% (depending on coverage level) and 21.1% - 22.6%, respectively; revenue plans that could increase liability at harvest, 18.1% - 20.8% (depending on coverage level) and 19.6% - 21.0%, respectively; and all other plans, 21.0% - 24.2% (depending on coverage level) and 22.8% - 24.4%, respectively. Reinsured companies were also allowed an expense reimbursement for adjusting catastrophic claims of 7.0% for 2006 and 7.5% for the 2005 reinsurance years.

Retirement Plans

Most employees hired after December 31, 1983 are covered by the Federal Employees Retirement System (FERS). FERS is a three-tiered retirement plan consisting of Social Security benefits, a basic plan benefit, and a thrift savings plan (TSP). FCIC and the employee each contribute 6.2% of the employee's basic pay through payroll taxes for Social Security benefits. Under the FERS basic benefit plan, the employee contributes .8% of basic pay and the FCIC contributes 10.7% of basic pay for FERS employees. The cost of providing the FERS basic benefit is equal to the amounts contributed by FCIC and the employees because the plan is fully funded.

A TSP account is automatically established for employees covered by FERS, and FCIC makes a mandatory contribution of 1% of basic pay to this account. Starting in 2006, employees are not limited in their contributions to their TSP account except for the IRS's maximum overall yearly contribution of $15,000. In fiscal year 2005, there was a contribution limit of 15% of basic pay to their TSP, account subject to a maximum overall yearly contribution of $14,000. FCIC makes matching contributions, ranging from 1% to 4%, for employees who contribute to their TSP accounts.

Most employees hired on or before December 31, 1983, participate in the Civil Service Retirement System (CSRS.) CSRS is a single benefit retirement plan. FCIC and the employee each contribute 8% of the employee's basic pay. Starting in 2006, employees covered under CSRS are not limited in their contributions to their TSP accounts except for the IRS's maximum overall yearly contribution of $15,000. The maximum amount in 2005 was $14,000. FCIC makes no matching contributions to TSP accounts established by employees covered under CSRS.

FCIC does not report FERS or CSRS assets, accumulated plan benefits, or unfunded liabilities on its consolidated financial statements. Reporting such amounts is the responsibility of the Office of Personnel Management (OPM).

Statement of Federal Financial Accounting Standards No. 5, *Accounting for Liabilities of the Federal Government,* requires Federal entities to recognize an expense for pensions and other retirement benefits at the time the employee's services are rendered. The purpose of recognizing this expense is to record and report the full cost of each entity's operation. A corresponding revenue, Imputed Financing Sources, is recognized to the extent pension and other retirement benefit expenses exceed the amount paid to the OPM. The OPM imputed costs were $4.7 million and $3.8 million in fiscal year 2006 and fiscal year 2005 respectively.

Fair Value of Financial Instruments

In the case of FCIC's financial instruments, the carrying values of assets and liabilities approximate fair values because of their short-term maturity.

Net Position

Net position is the residual difference between assets and liabilities and is composed of capital stock, additional paid-in capital, unexpended appropriations, and cumulative results of operations. Unexpended appropriations represent the amount of unobligated and unexpended budget authority. Unobligated balances are the amount of appropriations or other authority remaining after deducting the cumulative obligations from the amount available for obligation and undelivered orders. Cumulative results of operations are the net result of FCIC's operations since inception.

Unearned Revenue

Premium revenue is comprised of producer paid premium. Producer paid premium is recognized as earned ratably over each crop's growing season. The portion of producer paid premium not recognized at the conclusion of the fiscal year is classified as "unearned revenue, with the public" in the consolidated balance sheets. Premium subsidy is recognized as earned when expended. The unexpended premium subsidy remains an unexpended appropriation in the consolidated balance sheets.

The sum of producer paid premium and premium subsidy has been calculated using generally accepted actuarial methods to attain a forecasted break-even loss ratio of 100%. Premium subsidy is not considered written to the extent a portion remains unexpended and no unearned revenue is recorded in the consolidated balance sheets. As a result, the expected claim costs and claims adjustment expenses exceed the related unearned revenue. A premium deficiency is therefore recognized in the consolidated balance sheets by accruing a liability recorded as an other liability for the excess amount.

Insurance Fund appropriations, Administrative and Operation (A&O) Fund appropriations, and other financing sources are recognized when expended, which corresponds to when the expenses are incurred. The amount of appropriations not expended is a component of unexpended appropriations in the net position of the Balance Sheet.

In fiscal years 2006 and 2005, FCIC received appropriations for the Insurance Fund and the RMA received appropriations for the A&O Fund. The Insurance Fund appropriations are available until expended, while the A&O Fund appropriations are available to cover obligations incurred in a given fiscal year. These consolidated financial statements include all activity related to the Insurance Fund and A&O Fund appropriations.

Claims Recognition

The liability for estimated losses on insurance claims represents those claims that have been incurred, but have not been reported to FCIC as of the Balance Sheet date. The estimation of these liabilities relies on calculations using historical yield estimates provided by USDA National Agricultural Statistics Service (NASS) and commodity futures prices.

There are uncertainties associated with assumptions used to estimate the losses on insurance claims. As a result, the ultimate liability may differ significantly from the recorded estimate. These uncertainties may include: actual yields which may be different than those provided by the NASS estimates; changes in weather patterns close to harvesting dates which could affect yields but not be reflected in the NASS estimates; commodity prices which may change from those in the market because of many factors such as: weather, yields and economic conditions; and significant catastrophic weather events (i.e. hurricanes and freezes) occurring near the balance sheet date which could affect estimated crop yields and crop prices.

Indemnity costs are paid from premium proceeds, including premium subsidies and premium discounts, which are also a part of FCIC's Insurance Fund.

The estimated aggregate loss ratio including the premium subsidy appropriation for 2006 crop year was approximately 99% ($0.99 for every $1.00 of premium and premium subsidy) and the actual aggregate loss ratio for 2005 crop year was approximately 60.5 % ($0.61 of claims for every $1.00 of premium and premium subsidy). In the 2006 and 2005 crop years, federal premium subsidy funded approximately 60% of the total premium with approximately 40% being paid by the producer. This translates to an estimated $1.86 billion and $1.59 billion in farmer paid premium in crop years 2006 and 2005 respectively, with an estimated $2.62 billion and $2.32 billion in estimated premium subsidies for crop years 2006 and 2005.

Use of Estimates

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The significant estimates made are in the calculation of the estimated losses on insurance claims liability and indemnity costs with the public.

Contingencies

Various lawsuits, claims and proceedings are pending against FCIC. In accordance with SFFAS No. 5, Accounting for Contingencies, FCIC records accruals for such contingencies when it is probable that a liability will be incurred and the amount of the loss can be reasonably estimated. See Note 11, Commitments and Contingencies, to the consolidated financial statements for related disclosures.

New Accounting Pronouncements

In 2006 FCIC adopted Statement of Federal Financial Accounting Standards (SFFAS) No. 27, *Identifying and Reporting Earmarked Funds*. SFFAS 27 amends SFFAS No. 7, *Accounting for Revenue and Other Financing Sources*, distinguishes between earmarked funds and fiduciary activity, and defines and addresses reporting requirements for earmarked funds. This statement requires that earmarked funds be separately identified and shown separately on the Consolidated Statement of Changes in Net Position and the Consolidated Balance Sheet. SFFAS 27 is effective for fiscal periods beginning after September 30, 2005. Early adoption is prohibited, and entities are not permitted to conform the presentation of prior year balances to those reported under SFFAS 27.

2. FUND BALANCE WITH U.S. TREASURY:

2006
(in millions)

		Appropriated Funds	Revolving Funds	Total
Obligated not yet disbursed	$	21	165	186
Unobligated available		-	1,266	1,266
Unobligated unavailable		3	-	3
Other		-	-	-
Total	$	24	1,431	1,455

2005
(in millions)

		Appropriated Funds	Revolving Funds	Total
Obligated not yet disbursed	$	21	182	203
Unobligated available		-	1,355	1,355
Unobligated unavailable		2	-	2
Other		(2)	-	(2)
Total	$	21	1,537	1,558

FCIC maintains separate accounts for the A&O (appropriated) and Insurance (revolving) Funds. The A&O Fund is used to pay administrative and operating expenses. The Insurance Fund is used to pay losses, and can also be used to pay claim adjustment expenses, reinsured company expenses, and costs referenced in the Agricultural Risk Protection Act. FCIC does not earn interest on funds maintained in U.S. Treasury accounts. All funds are currently available to FCIC except for the unobligated appropriated (i.e., A&O) funds that were only available for obligations through September 30, 2006.

3. ACCOUNTS RECEIVABLE:

Accounts receivable, net, federal and non-federal is as follows:

2006 (in millions)		Gross Accounts Receivable	Allowance for Uncollectible Accounts	Net Accounts Receivable
Intragovernmental	$	-	-	-
With the Public		1,648	(24)	1,624
Total	$	1,648	(24)	1,624

2005 (in millions)		Gross Accounts Receivable	Allowance for Uncollectible Accounts	Net Accounts Receivable
Intragovernmental	$	-	-	-
With the Public		1,388	(20)	1, 368
Total	$	1,388	(20)	1, 368

The allowance for uncollectible accounts also represents approximately $23.5 million and $19.8 million for reinsurance recoverables in fiscal years 2006 and 2005, respectively.

4. CASH HELD OUTSIDE TREASURY:

Cash Held Outside Treasury consists of the following:

		2006	2005
		(in millions)	
Cash Held Outside Treasury for: reinsurance escrow losses	$	90	65
Total Cash Held Outside Treasury	$	90	65

5. ESTIMATED LOSSES ON INSURANCE CLAIMS:

The following table summarizes the activity in the accrual for estimated losses on insurance claims.

		2006	2005
		(in millions)	
Balance as of October 1	$	2,001	2,358
Incurred Related to:			
Current year		3,765	3,021
Prior year		(180)	(225)
Total Incurred		3,585	2,796
Paid Related to:			
Current year		(1,445)	(598)
Prior year		(1,714)	(2,555)
Total Paid		(3,159)	(3,153)
Net Balance as of September 30	$	2,427	2,001

As a result of developments in losses from insured events in prior years, the estimated losses on insurance claims decreased by $180 million and $225 million for the years ended September 30, 2006 and 2005, respectively.

The 2006 Estimated Loss projections are based on current conditions and are subject to significant uncertainty. Any changes in weather patterns or commodity prices can change these projections significantly. Some crops may still be susceptible to catastrophic weather events such as an early freeze or excess precipitation during critical harvest periods. There is also uncertainty inherent in the indemnity forecast model.

In addition to affecting yields, the drought has resulted in quality losses for several crops, especially corn (aflatoxin). Quality losses do not necessarily affect yields, but are indemnifiable with regard to crop insurance. Therefore, the expected yields from the National Agricultural Statistics Service (NASS), which form the basis for the indemnity projection, do not reflect the potential quality losses. The extent of the quality losses is not currently known.

Estimated losses on insurance claims liabilities not covered by budgetary resources are $296 million for future funded indemnity costs, $9.9 million for contingent liabilities as of September 30, 2006, and $479 million for future funded indemnity costs and $12 million for contingent liabilities as of September 30, 2005.

6. OTHER LIABILITIES:

Other liabilities covered by budgetary resources, federal and non-federal, are as follows:

		2006		2005
		(in millions)		
Federal:				
Other Accrued Liabilities	$	3	$	-
Total Other Liabilities, Federal	$	3	$	-
With the Public:				
Underwriting Loss Payable to reinsured companies	$	741	$	841
Reserve for Premium Deficiency		431		371
Estimated Delivery Costs		3		5
Annual Leave Liability		4		4
Other Accrued liabilities		6		6
Total Other Liabilities, with the Public	$	1,185	$	1,227

Premiums and losses are reported monthly under the SRA and a periodic settlement, as stipulated in the agreement, is calculated whereby the results of the business written by the reinsured companies are determined and an experience-rated underwriting gain or loss is computed. Underwriting gains are paid to the reinsured companies while the reinsured companies pay underwriting losses to FCIC. However, a portion of the underwriting gain payable includes amounts being held in reserve from prior years for any future underwriting losses incurred by the reinsured companies.

Liabilities not covered by budgetary resources are not funded by current appropriations from Congress. Included in other intragovernmental liabilities are liabilities that are not covered by budgetary resources that amount to approximately $0.6 and $0.5 million for unfunded Federal Employees Compensation act (FECA) liability as of September 30, 2006 and 2005, respectively. Included in liabilities with the public are liabilities not covered by budgetary resources that amount to approximately $3.9 million for unfunded annual leave for each of the fiscal years 2006 and 2005. Annual leave is accrued as it is incurred and the accrual is reduced as it is taken. As of September 30, 2006 and 2005, the balance in the accrued annual leave account was adjusted to reflect current pay rates and annual leave balances.

A premium deficiency has been recorded as the expected claim costs and claim adjustment expenses exceed the related unearned revenue.

7. NET POSITION:

2006 (in millions)		Earmarked Funds	Other Funds		Total
Capital stock	$	500	-	$	500
Additional paid-in capital		38	-		38
Unexpended Appropriations:					
Unliquidated obligations		-	18		18
Unobligated, not available		-	3		3
Unobligated, available		510	-		510
Subtotal, unexpended Appropriations		510	21		531
Cumulative Results of Operations:					
Donated capital (Transfers from CCC)		3,958	-		3,958
Results of operations		(5,788)	(6)		(5,794)
Subtotal, cumulative results of operations		(1,830)	(6)		(1,836)
Total net position	$	(782)	15	$	(767)

2005 (in millions)		Revolving Funds	Appropriated Funds		Total
Capital stock	$	500	-	$	500
Additional paid-in capital		38	-		38
Unexpended Appropriations:					
Unliquidated obligations		-	18		18
Unobligated, not available		-	2		2
Unobligated, available		465	-		465
Subtotal, unexpended Appropriations		465	20		485
Cumulative Results of Operations:					
Donated Capital (Transfers from CCC)		3,958	-		3,958
Results of operations		(5,490)	(6)		(5,496)
Subtotal cumulative results of Operations		(1,532)	(6)		(1,538)
Total net position	$	(529)	14	$	(515)

Donated Capital:

Prior to the 1994 Act, the Secretary was authorized to use the funds of the Commodity Credit Corporation, (CCC) to pay claims of FCIC if the funds available to FCIC for that purpose were insufficient. The 1994 Act eliminated the need for FCIC to request funds from the CCC. Although the authority to use the CCC funds still exists, FCIC is now authorized to draw necessary funds directly from the U.S. Treasury (with USDA and OMB approval) to cover operating expenses including excess losses.

Capital Stock:

Section 504 (a) of the 1994 Act authorizes capital stock of $500 million subscribed by the United States. There has been no change in the capital stock issued since August 15, 1985.

8. INDEMNITY COSTS:

Insurance indemnity costs are as follows:

		2006	2005
		(in millions)	
Catastrophic coverage	$	74	40
Additional coverage		3,511	2,756
Insurance claims and indemnities	$	3,585	2,796

9. PROGRAM DELIVERY AND OTHER PROGRAM COSTS:

Program delivery costs are as follows:

		2006	2005
		(in millions)	
Reinsurance administrative expenses	$	960	783

Federal other program costs are as follows:

		2006	2005
		(in millions)	
Reimbursable costs	$	25	21
Other retirement benefit, other post-employment benefit, FECA, and other costs		6	6
Imputed costs		14	12
Total federal other program costs	$	45	39

Non-federal program costs are as follows:

		2006	2005
		(in millions)	
Other program costs	$	32	53
Administrative and other cost		49	46
Total non-federal other program costs	$	81	99

10. FINANCING SOURCES:

In fiscal years 2006 and 2005, FCIC received an Insurance Fund appropriation of $3.3 billion and $2.3 billion, respectively, for premium subsidy, reinsurance administrative expenses and other program expenses and for research and development. In fiscal years 2006 and 2005, the RMA A&O Fund appropriation was $77.0 million and $72.0 million, respectively.

Provisions of Agricultural Risk Protection Act (ARPA) place a major emphasis on contracting and partnering for development of risk management products. ARPA provides incentives for private parties to develop and submit new risk management products to FCIC Board of Directors. In fiscal year 2006, $74.5 million was appropriated for ARPA expenses with $5 million being transferred to Cooperative State Resource, Education, and Extension Service (CSREES.) In fiscal year 2005, $77.3 million was appropriated for ARPA expenses with $5 million being transferred to CSREES.

The following table summarizes appropriations used:

		2006	2005
		(in millions)	
Net A&O appropriation used	$	73	67
Appropriation for premium subsidy		2,284	1,291
Appropriation for ARPA costs		40	40
Appropriation for delivery costs		862	782
Insurance fund appropriations, subtotal		3,186	2,113
Total appropriations used	$	3,259	2,180

11. COMMITMENTS AND CONTINGENCIES:

FCIC is a defendant in various litigation cases arising in the normal course of business. Furthermore, in order to defend its policies and procedures, FCIC may, in some instances, pay litigation expenses and judgments over and above indemnities found under the SRA for reinsured companies. For this reason, FCIC is consulted with and approves significant decisions in the litigation process. After consultation with legal counsel, management believes that none of these items, other than those noted herein, are expected to have a materially adverse effect on FCIC's consolidated financial statements.

Nine class action suits were brought by insureds against reinsured companies after the companies refused to pay indemnities to producers on sugar beets where damage was discovered after delivery and piling. The nine defendant companies filed a third-party claim to include FCIC as a third-party defendant. An arbitration panel issued its "Final Findings of Facts" on August 9, 2004. The panel's findings stated that the producers were, for the most part, entitled to the full insurance indemnity for almost all of the damaged beets. The defendant companies then settled their cases with the producers by paying the indemnity amounts as found by the arbitrators, as well as a portion of the interest claimed by the producers. FCIC reinsured these indemnity payments through the normal reinsurance process and paid its portion in accordance with the reinsurance agreement. The defendant companies have now filed an amended third-party complaint against FCIC seeking indemnification for the full amounts that the companies paid as a result of their settlement with producers, including attorney's fees and costs. Since the USDA Office of General Counsel considers that there is a likelihood of an unfavorable outcome for FCIC in the case, FCIC has recorded an estimated loss of $9.9 million for this case.

Peanut farmers from seven states brought class action suits claiming that the government unlawfully and unilaterally modified and impaired the policyholders of MPCI policies when the Farm Security and Rural Investment Act of 2002 eliminated the marketing peanut quota program. In doing so, plaintiffs allege that this changed the price guarantee of their insurance protection by reducing it from $.31 to $.1775 per pound. In the North Carolina case, the government filed an answer and plaintiffs filed a motion for partial summary judgment. On May 20, 2004, a hearing was held, after joint motions for summary finding in favor of the plaintiff's motion for summary judgment. The plaintiffs filed with the Judicial Panel for Multidistrict Litigation (JPML) for the purpose of consolidating pre-trial proceedings. On October 26, 2004, the JPML transferred the other litigations to North Carolina for pre-trial proceedings. Since the summary judgment motions are part of pre-trial proceedings, summary judgment rulings identical to the first have been entered by the court in the other six cases. Although damages could amount to as much as $30 million, the government intends to continue to vigorously contest this case.

Fireman's Fund Insurance Company is appealing FCIC's final administrative determination that the Fireman's Fund Insurance Company improperly paid an insured farmer on a prevented planting claim, because acreage was ineligible due to conditions that existed before the policy was in effect. The company filed an appeal with the Agriculture Board of Contract Appeals (AGBCA). An answer was filed and discovery is now being conducted in this case. Approximately $2.2 million is claimed in this case.

In fiscal year 2003, one of the reinsured companies, American Growers Insurance Company (AGIC), was placed under an order of supervision by the Nebraska Department of Insurance. On December 10, 2002, FCIC signed a Memorandum of Understanding (MOU) with the Nebraska Department of Insurance that establishes the responsibilities and understandings between FCIC and the Nebraska Department of Insurance with respect to AGIC. FCIC is working with the Nebraska Department of Insurance and AGIC management to ensure that all outstanding policy claims will be paid and service to producers will continue. The MOU establishes the framework to ensure that AGIC personnel, loss adjustors, and agents continue servicing policyholders. To achieve these goals, key employees at AGIC have been retained to finish servicing the 2002 crop year book of business. In addition, expenses related to loss adjustment, billing, and agents commissions associated with policies reinsured by FCIC and paid to ensure the timely payment of crop insurance claims, adequate levels of service going forward, and the timely collection and transmission of premiums to FCIC. FCIC incurred no administrative costs for AGIC in fiscal year 2006, and $12.1 million in fiscal year 2005. In another case, plaintiffs seek to enforce two arbitration awards against FCIC, even though FCIC did not participate in the arbitrations. The plaintiff farmers filed in arbitration against AGIC, because AGIC denied certain claims for indemnity and requested repayment of some amounts already paid to farmers. Prior to the arbitration hearing, AGIC was ordered into liquidation by a Nebraska state court. Therefore FCIC took over servicing of the Federal policies and advised the plaintiffs of the proper administrative appeals process. Rather than follow the administrative appeals process, plaintiffs continued the arbitration cases and scheduled a hearing. Without FCIC present, the arbitrators awarded the plaintiffs damages of approximately $8 million. Now, plaintiffs have filed an action in district court to try to enforce the arbitration awards. FCIC will continue to vigorously contest this case.

12. STATEMENT OF BUDGETARY RESOURCES:

FCIC's Statement of Budgetary Resources serves as a tool to link budget execution data to information reported in the "actual" column of the Program and Financing Schedules in the Appendix of the Budget of the United States Government (referred to as the "President's Budget") as well as information reported in the Reports of Budget Execution and Budgetary Resources (SF-133). Some reporting differences do exist between comparable amounts in the Statement of Budgetary Resources, the President's Budget, and the SF-133. The following table is a comparison of the fiscal year 2005 Statement of Budgetary Resources and the President's Budget. The fiscal year 2006 President's Budget data is not available until February 2007.

Statement of Budgetary Resources v. President's Budget
(in millions)

	Account	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
Statement of Budgetary Resources	Insurance Fund	$5,535	4,180	-	$2,883
	A&O	77	75	-	67
	Total	$5,612	4,255	-	$2,950
Reconciling items:					
Expired Accounts	A&O	$ (7)	(5)	-	$ -
	Total	(7)	(5)	-	-
Budget of the United States Government		$5,605	4,250	-	$2,950

13. STATEMENT OF FINANCING:

The total budgetary and non-budgetary resources used to finance operations totaled $3.5 billion in fiscal year 2006 and $3.0 billion in fiscal year 2005. The fiscal year change in undelivered orders was not part of the net cost of operations, and totaled $1 million in fiscal year 2006 and $5 million in fiscal year 2005. FCIC has determined that liabilities are incurred and the appropriation expended at the point in time the appropriations are used to subsidize a paid indemnity.

FCIC records estimates related to revenue from the public, delivery costs, and indemnity costs that are components of the statement of net cost but are not included in the Statement of Budgetary Resources. The fiscal year change in these accruals and estimates is included in the Statement of Financing section for Components of the Net Cost of Operations that will not require or Generate Resources in the Current Period. The revenue estimates and revenue accruals are included in the line entitled Change in Exchange Revenue from the Public. The Other line in this section includes liabilities that will be funded by future budgetary resources. These liabilities include the indemnity and delivery cost estimates and future funded expenses for annual leave and Federal Employees' Compensation Act

14. EARMARKED FUNDS AND DEDICATED COLLECTIONS:

In 2006 FCIC adopted SFFAS 27, which generally defines earmarked funds as those which are financed by specifically identified revenues, often supplemented by other financing sources that remain available over time. By statute, these are used for designated activities, benefits or purposes, and must be accounted for separately from the Government's general revenues. FCIC has identified the Federal Crop Insurance

Corporation Fund (TAFS-12x4085) as an earmarked fund under the criteria outlined in SFFAS 27. This fund is a capital stock, public enterprise fund established under 7 USC 1501-1519. Budgetary resources for the FCIC Revolving Fund include funds collected from the public for insurance premiums and other insurance related fees that are used along with appropriations from Congress and unobligated balances from previous years to fund the Federal Crop Insurance Program.

Early adoption of SFFAS 27 is prohibited, and entities are not permitted to conform the presentation of prior year balances to those reported under SFFAS 27.

Earmarked Funds for Fiscal Year 2006 are as follows:

Federal Crop Insurance Fund		2006
ASSETS:		(in millions)
Intragovernmental		
Fund Balance with Treasury	$	1,431
With the Public		
Accounts Receivable, Net		1,624
Cash Held Outside Treasury and Advances		90
Other Assets		-
Total Assets	$	3,145
LIABILITIES		
Intragovernmental		
Other Liabilities	$	1
With the Public		
Accounts Payable		10
Other Liabilities		3,916
Total Liabilities	$	3,927
NET POSITION:		
Unexpended Appropriation	$	510
Capital Stock		500
Additional Paid-in Capital		38
Cumulative Results Operations		(1,830)
Total Net Position		(782)
Total Liabilities and Net Position	$	(3,145)
CHANGE IN NET POSITION		
Beginning Balances	$	465
Budgetary Financing Sources:		
Appropriations Received		3,295
Appropriation Transfers in/out		(5)
Other Adjustments		(59)
Appropriations used		(3,186)
Total Unexpended Appropriations	$	510

Dedicated Collections for Fiscal Year 2005 are as follows:

Federal Crop Insurance Fund		2005
ASSETS:		(in millions)
Intragovernmental		
Fund Balance with Treasury	$	1,537
With the Public		
Accounts Receivable, Net		1,368
Cash Held Outside Treasury and Advances		65
Other Assets		-
Total Assets	$	2,970
LIABILITIES		
Intragovernmental		
Other Liabilities	$	1
With the Public		
Accounts Payable		13
Other Liabilities		3,485
Total Liabilities	$	3,499
NET POSITION:		
Unexpended Appropriation	$	465
Cumulative Results Operations		(994)
Total Net Position		(529)
Total Liabilities and Net Position	$	2,970
CHANGE IN NET POSITION		
Beginning Balances	$	(205)
Budgetary Financing Sources:		
Appropriations Received		2,242
Appropriation Transfers in/out		(5)
Other Adjustments		49
Other Financing Sources:		
Transfers without reimbursement		5
Other		2
Total Financing Sources		2,293
Net Cost of Operation		(2,617)
Ending Balances	$	(529)

SUPPLEMENTARY STEWARDSHIP INFORMATION (UNAUDITED):

Schedule 1

In response to the Secretary's 1996 Risk Management Education (RME) initiative, and as mandated by the 1996 Act, FCIC has formed new partnerships with the Cooperative State Research, Education, and Extension Service (CSREES), the Commodity Futures Trading Commission, the USDA National Office of Outreach, Economic Research Service, and private industry to leverage the federal government's funding of its RME program by using both public and private organizations to help educate their members in agricultural risk management. The RME effort was launched in 1997 with a Risk Management Education Summit that raised awareness of the tools and resources needed by farmers and ranchers to manage their risks. RMA has built on this foundation during fiscal year 2003 by expanding State and Regional education partnerships; encouraging the development of information and technology decision aids; supporting the National Future Farmers of America (FFA) foundation with an annual essay contest; facilitating local training workshops; and supporting Cooperative Agreements with Educational and outreach organizations.

During fiscal years 2006 and 2005, the RME program worked toward the goals by funding risk management sessions, most of which targeted producers directly. The number of producers reached through these sessions is approximately 48,000 in fiscal year 2006 and 47,000 in fiscal year 2005. In addition to reaching producers, some training sessions helped those who work with producers, such as lenders, agricultural educators, and crop insurance agents, better understand those areas of risk management with which they may be unfamiliar. Total RME obligations incurred by FCIC were approximately $10 million for both fiscal years 2006 and 2005. The following table summarizes the RME initiatives since fiscal year 2002.

		2006	2005	2004	2003	2002
			(dollars in millions)			
RME Obligations	$	10	10	10	9	6
Number of producers attending RME sessions		48,000	47,000	46,000	62,000	50,000

One of the directives of ARPA is to increase FCIC's educational and outreach efforts in certain areas of the country that have been historically underserved by the Federal crop insurance program. The Secretary determined that fifteen states met the underserved criteria. These states are Maine, Massachusetts, Connecticut, Wyoming, New Jersey, New York, Delaware, Nevada, Pennsylvania, Vermont, Maryland, Utah, Rhode Island, New Hampshire, and West Virginia.

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED): Schedule 2

Intra-governmental balances:
FCIC reports the following amounts as intra-governmental assets and liabilities, which are included in the September 30, 2006 and 2005 consolidated balance sheets:

Intra-governmental assets:

2006
(in millions)

Agency		Fund Balance with Treasury
Department of the Treasury	$	1,455
Other Federal Agencies		-
Total intra-governmental assets	$	1,455

2005
(in millions)

Agency		Fund Balance with Treasury
Department of the Treasury	$	1,558
Other Federal Agencies		-
Total intra-governmental assets	$	1,558

Intra-governmental liabilities:

2006
(in millions)

Agency		Other Liabilities
Department of Agriculture	$	3
Other Federal Agencies		-
Total intra-governmental liabilities	$	3

2005
(in millions)

Agency		Other Liabilities
Department of Agriculture	$	-
Other Federal Agencies		-
Total intra-governmental liabilities	$	-