



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 2007 and 2006

Report No. 05401-16-FM  
November 2007

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UNITED STATES DEPARTMENT OF AGRICULTURE  
OFFICE OF INSPECTOR GENERAL



Washington D.C. 20250

November 9, 2007

REPLY TO

ATTN OF: 05401-16-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 2007 and 2006

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, 2007, and 2006. 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. In connection with the contract, we reviewed Deloitte's report and related documentation and inquired of its representatives. Our review, as differentiated from an audit in accordance with *Government Auditing Standards* (issued by the Comptroller General of the United States), was not intended to enable us to express, and we do not express, opinions on FCIC/RMA's financial statements or internal control or on whether FCIC/RMA's financial management systems substantially complied with the Federal Financial Management Improvement Act (FFMIA); or conclusions on compliance with laws and regulations. Deloitte is responsible for the attached auditor's report, dated November 1, 2007, and the conclusions expressed in the report. However, our review disclosed no instances where the Deloitte firm did not comply, in all material respects, with generally accepted *Government Auditing Standards*, and the Office of Management and Budget Bulletin No. 07-04, *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, 2007, and 2006; and its net costs, changes in net position, and budgetary resources 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.

## 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, 2007 and 2006, and the related consolidated statements of net cost and changes in net position, 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. 07-04, *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.

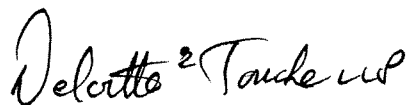
In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of FCIC as of September 30, 2007 and 2006, and its net cost of operations and changes in net position, and budgetary resources for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 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 Note 1 to the consolidated financial statements, FCIC changed its method of reporting the reconciliation of budgetary resources obligated to the net cost of operations in 2007 to adopt the provisions of OMB Circular No. A-136, *Financial Reporting Requirements*.

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 1, 2007, 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.

A handwritten signature in black ink that reads "Deloitte & Touche LLP". The signature is written in a cursive, flowing style.

November 1, 2007

## **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, 2007, and have issued our report thereon dated November 1, 2007 (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. 07-04, *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 significant deficiencies. Under standards issued by the American Institute of Certified Public Accountants, significant deficiencies are deficiencies in internal control, or a combination of deficiencies, that adversely affects FCIC's ability to initiate, authorize, record, process, or report financial data reliably and in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the financial statements being audited that is more than inconsequential will not be prevented or detected. Material weaknesses are significant deficiencies, or a combination of significant deficiencies, that result in a more than remote likelihood that material misstatements in relation to the financial statements being audited will not be prevented or detected. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

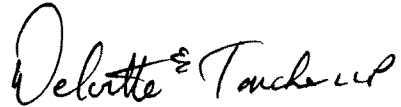
### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether FCIC's consolidated 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. 07-04, 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. 07-04. 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.

A handwritten signature in black ink that reads "Deloitte & Touche LLP". The signature is written in a cursive, flowing style.

November 1, 2007

FEDERAL CROP INSURANCE CORPORATION  
RISK MANAGEMENT AGENCY  
CONSOLIDATED FINANCIAL STATEMENTS  
AS OF SEPTEMBER 30, 2007



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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **Mission and Organizational Structure**

#### **Overview**

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:

- pilot insurance plans or other programs involving revenue insurance
- risk management education
- risk management savings accounts
- 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
- other programs the Secretary considers appropriate.

The Federal Crop Insurance Act, as amended, is hereafter referred to as the Act.

#### **Mission Statement**

Serving America's agricultural producers through effective, market-based risk management solutions.

#### **Vision Statement**

Promote, support, and regulate sound risk management solutions to strengthen and preserve the economic stability of American agricultural producers.

#### **Regulatory Acts Impacting FCIC**

On July 14, 2006, RMA published a proposed rule in the Federal Register revising the Common Crop Insurance Policy Basic Provisions, and the Small Grains, Cotton, Coarse Grains, Rice, and Canola Crop Provisions and Malting Barley Price and Quality Endorsement to include both revenue and yield protection. The proposed rule discontinues the separate Basic Provisions and Crop Provisions for the Actual Production History (APH), Crop Revenue Coverage (CRC), and Revenue Assurance (RA) plans of insurance, and eliminates the Income Protection and the Indexed Income Protection plans of insurance. This combination of policies will reduce administrative burden and remove redundancies and excess documentation that currently adds unnecessary complexity to the program. Lastly, the proposed rule authorizes another

method of price discovery for yield protection that eliminates the need to release established price elections for the crops included in this proposed rule. This change will simplify the pricing methodology for revenue protection by creating a similar price discovery method for yield and revenue protection. The final rule is targeted for the 2010 crop year.

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.

### **Organizational Structure**

The Federal crop insurance program is comprised of the following major activities:

- (1) Program Management includes the FCIC Board of Directors, the RMA Administrator's office and staff offices that report directly to the RMA Administrator. Staff officers perform administrative functions including information technology, program support, external affairs, civil rights, and financial management.
- (2) Product Management involves the design and development of crop insurance programs, policies and standards, and the establishment and maintenance of rates and coverages 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 or contracts.
- (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.

- (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 also assist the USDA and the Office of Inspector General in conducting investigations into allegations of fraud or abuse of the crop insurance program. This ensures fair and equitable treatment of the farmer, taxpayer, and FCIC.

### **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 producers' premium. This constitutes a joint effort between the Government and the private insurance industry for program delivery.

Much of the increase in premiums for 2007 crop year is due to higher prices for several of the major insured commodities. The revenue price elections have increased significantly for corn, soybeans, sorghum, wheat, rice, and barley. A secondary reason for the increase in premiums is that price volatility increases the premium rates charged for revenue coverage. Even though the expected loss ratio is significantly less in 2007 crop year, the overall losses were proportionally higher also.

The following table compares program information for crop years 2007 and 2006:

	Crop Year 2007 (Estimated)	Crop Year 2006 (Actual)
Policies	1.1 million	1.1 million
Farmer Paid Premium	\$2.74 billion	\$1.90 billion
Premium Subsidies	\$3.82 billion	\$2.68 billion
Indemnities	\$4.39 billion	\$3.50 billion
Loss Ratio	67.00%	76.44%
Insurance Protection	\$67.30 billion	\$49.91 billion
Commodities	121	121
Counties	3,100	3,100

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 the 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- 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.
- **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 the edge-of field value of all commodities on the farm. AGR's coverage includes a 35% livestock limitation.

- **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.

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

- **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 with no livestock percentage limitation. It also has different liability limits than AGR.
- **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.
- **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. LGM for cattle was available for sale to producers in early 2006.

## 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.
- **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.
- **Pilot Programs-** FCIC currently has 29 pilot programs underway that implement legislation or test new and innovative crop insurance concepts. Currently the following commodities are covered by pilot programs: cultivated wild rice, cabbage, mint, chile pepper dollar, APH regulatory program, forage seed, oranges, grapefruit trees, cultivated clams, a variety of citrus trees, bananas, papaya, coffee, wheat, corn, cotton, grain sorghum, soybeans, nursery trees, shrubs and plants, pasture and rangeland, silage sorghum, strawberries, sugar beets and sweet potatoes.

## **Performance Goals, Objectives, and Results**

The key strategic goals and results that follow were selected from RMA's Strategic Plan for fiscal years 2006-2011. RMA's Strategic Plan is directly linked to the USDA Strategic Plan.

### **USDA Strategic Goal 2:**

Enhance the competitiveness and sustainability of rural and farm economies.

### **USDA Objective 2.3:**

Provide risk management and financial tools to farmers and ranchers.

The RMA Strategic Plan augments the USDA Strategic Plan by providing additional information for internal and external decision makers. The RMA Strategic Plan contains one goal and four objectives with associated performance measurements that are directly linked to the USDA Strategic Plan.

Following is a list of FY 2006-2011 RMA 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.

### **RMA Objective 1.1: 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. To immediately increase the availability of risk management solutions, RMA uses written agreements to cover existing commodities grown by producers in areas without established county crop programs until it is appropriate to expand into those areas. RMA oversees the development of the USDA crop insurance policies and underwriting terms and provides policies for numerous commodities and revenue protection. RMA awards contracts for studies to determine the feasibility of insuring many other commodities and conducts pilot programs for some new commodity policies in selected states and counties.

### **RMA Objective 2.1: Improve and protect the soundness of risk management solutions and the safety, efficiency, and effectiveness of the risk management delivery systems.**



A method of enhancing the economic stability of agricultural producers through crop insurance is to ensure a fair and effective delivery system. One avenue of ensuring this equity and effectiveness is to facilitate producer and agent use by simplifying and consolidating existing products wherever feasible. RMA seeks to consolidate some existing products with the aim to make them more user-friendly and reduce costs to all stakeholders involved.

Higher participation rates illustrate the enhanced position of crop insurance as the main risk management tool for American producers and illustrate the acceptability of the products offered. In order to ensure a fair and effective delivery system, it is important for RMA to ensure the level of participation remains high while simultaneously, the level of participation in the underserved states continue to grow. RMA will continue to advocate enhanced delivery of products by insurance companies through additional agent training and focusing attention on the need for insurance agents in the states and/or areas determined to be underserved.

**RMA Objective 3.1: 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.

The Farm Bill and the Agricultural Risk Protection Act 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. These segments of the agricultural community traditionally have not had access or information concerning available risk management tools. The RMA education and outreach programs address these concerns. They also address the RMA commitment to make crop insurance more affordable and encourage smaller specialty crop producers to try insurance products.

Regional Offices are independently involved in producer and approve insurance provider education, which is critical to ensure proper program participation and integrity. Offices sponsor numerous meetings annually with grower/commodity associations, Extension Service, other State and Federal agencies, universities, agricultural lending institutions, and other stakeholders. This ongoing communication between the RMA Regional Offices, partners, and agricultural community ensures that underserved areas are identified and assisted, and that RMA program objectives are met by tailoring risk management tools to local areas.

**RMA Objective 4.1: Ensure effective oversight of crop insurance industry and enhance deterrence and prosecution of fraud, waste, and abuse.**

RMA has instituted new procedures 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, technology, additional requirements, traditional investigations, and criminal, civil, and administrative processes have combined to improve 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.

RMA utilizes data mining, large claim reviews, operational reviews of approved insurance providers, remote sensing, and other oversight methods to provide program oversight and quality control of the reinsured companies.

### **RMA Management Initiatives**

USDA is working to strengthen its performance and financial management through vigorous execution of the President's Management Agenda (PMA). Better management will result in more efficient operations for RMA that offer improved customer service and more effective stewardship of taxpayer funds. Following is a list of PMA initiatives that RMA is focusing on:

- Improve Human Capital Management
- Improve Financial Management
- Expand Electronic Government
- Establish Budget and Performance Integration
- Implement Competitive Sourcing
- Eliminate Improper Payments
- Improve Real Property Management
- Support Faith-Based and Community Initiatives

### **Performance Measurements**

**USDA's Performance Measure 2.3.1: Increase the normalized value of risk protection (i.e., insurance protection) provided to agricultural producers through FCIC sponsored insurance.**

The following table summarizes the actual and targeted amount of insurance protection in billions:

FY 2004 Actual	FY 2005 Actual	FY 2006 Actual	FY 2007 Estimate*	FY 2008 Target	FY 2009 Target	FY 2010 Target	FY 2011 Target
\$46.60	\$44.25	\$49.91	\$67.30	\$53.74	\$54.81	\$55.70	\$56.42

\* Increase in the targeted amount of insurance protection is directly related to the significant increase in premiums in the 2007 crop year.

## Estimating Losses

An overall review of the 1997 crop year through 2006 crop year reveals a substantial change in delivery of the Federal Crop Insurance 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 1997 through 2006, the program has paid out an average of \$.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 \$753.6 million and \$1.977 billion 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			Loss Ratio		
	Premiums (\$)	Losses (\$)		Actual	Projected	Difference
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	4,186	3,209		77%	85%	8%
2005	3,949	2,367		60%	78%	18%
2006	4,578	3,500		76%	99%	(23)%
<b>1997-2006 Total</b>	<b>30,519</b>	<b>27,005</b>	<b>1997-2006 Average</b>	<b>90%</b>	<b>97%</b>	<b>(7%)</b>
	<b>Projected</b>			<b>Projected</b>		
2007	6,561	4,391			67%	

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 1997 to 2006 is -7%. The projected premium for 2007 crop year increased significantly due to the drastic increase in commodity prices and higher price volatility.

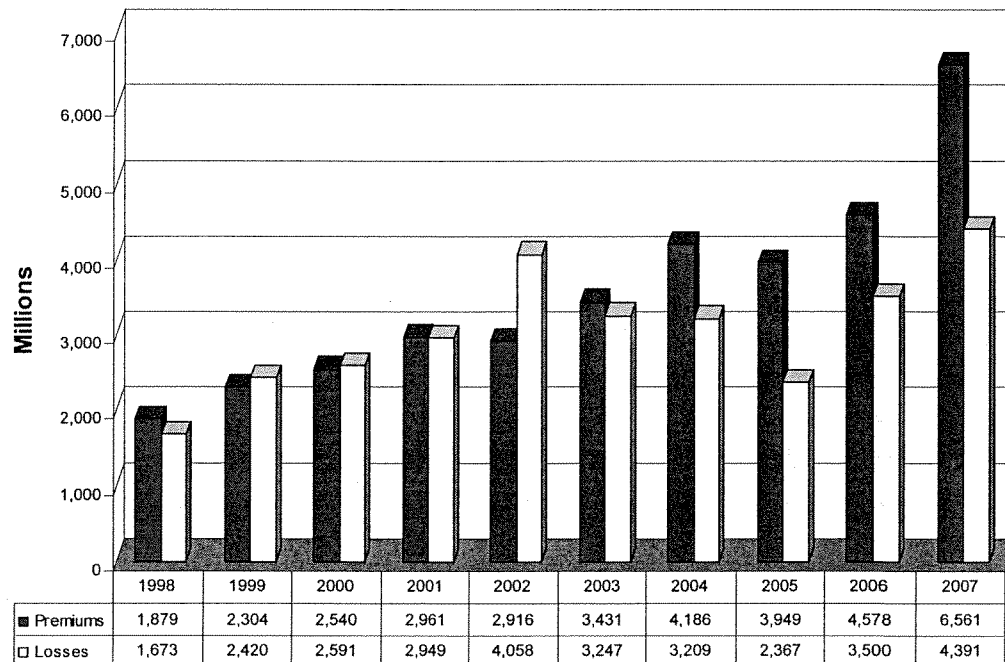
There are several sources of uncertainty when estimating losses based on data from early in the period of harvest. One source of uncertainty is in the projected crop yields during the early part of the harvesting for many insured crops. Changes in fall weather can have a major impact on final crop yields, such as from freezes, hurricanes, or excessive moisture that may affect the harvest or may damage the mature crop.

### Uncertainty in 2007 Estimated Losses

The 2007 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.

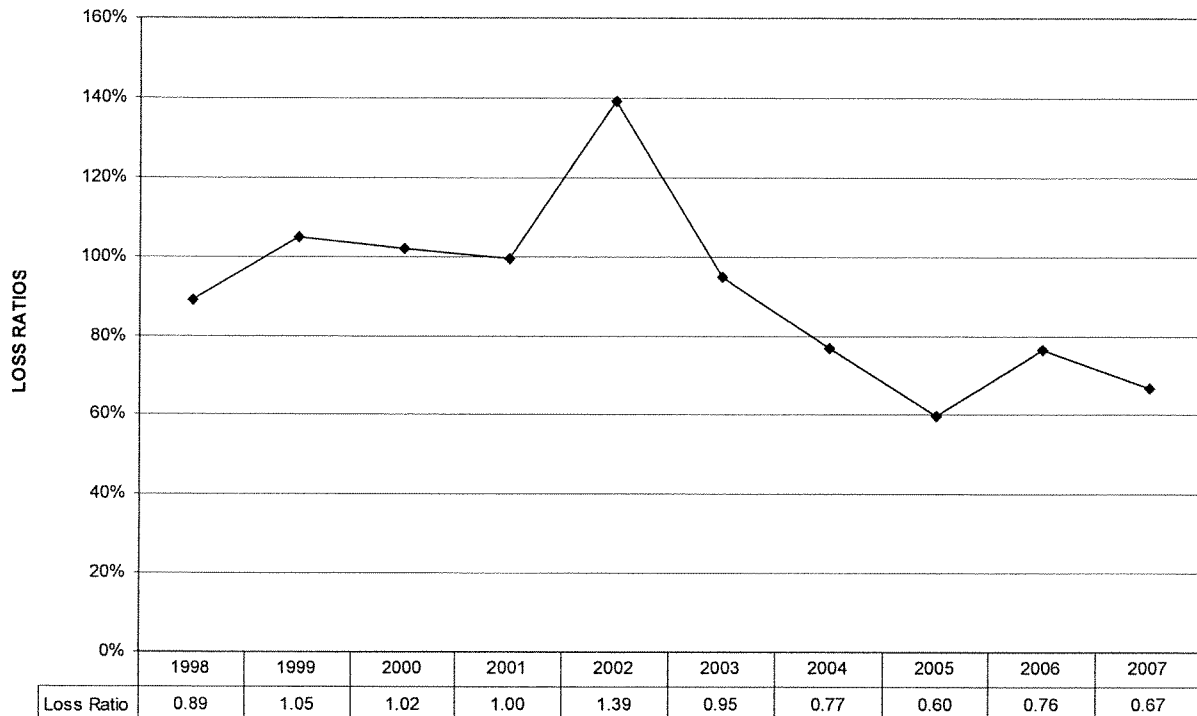
The uncertainty of the 2007 projection is also increased by the fact that it appears to be an unusually good year for several major commodities. The fluctuation in yields is more likely to be outside of the range that has been observed historically. This results in the estimation model making 'out-of-sample predictions' which may be less reliable.

### SUMMARY OF PREMIUMS AND LOSSES



Note: 2007 premium and losses are projected, all other years are actual.

### SUMMARY OF LOSS RATIOS



Note: 2007 loss ratio is projected, all other years are actual.

### 2007 and 2006 Fiscal Year Financial Statement Analysis

Total premium 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 to be premium, and is recorded as an appropriation used when a policy is written. 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 in other liabilities for the excess amount.

The following are measures of FCIC's financial performance:

**Net Operating Cost**  
(in millions)

	<u>2007</u>	<u>2006</u>
Total Program Costs	\$ 4,957	4,671
Less Earned Revenues	(1,017)	(1,100)
Net Cost of Operations	\$ 3,940	3,571

The previous measure indicates FCIC's net operating cost.

**Operating Results**  
(in millions)

	<u>2007</u>	<u>2006</u>
Beginning Balance	\$ (1,836)	(1,538)
Appropriations and other financing sources used	4,204	3,273
Less net cost of operations	(3,940)	(3,571)
Cumulative Results of Operations	\$ (1,572)	(1,836)

The previous measure indicates FCIC's operating results.

**Financial Obligations**  
(in millions)

	<u>2007</u>	<u>2006</u>
Entity Assets	\$ 4,830	3,170
Liabilities covered by budgetary resources	\$ 5,169	3,624
Ratio of entity assets to liabilities covered by budgetary resources	.93	.87

**Net Position**  
(in millions)

	<u>2007</u>	<u>2006</u>
Total Assets	\$ 4,830	3,170
Total Liabilities	(5,206)	(3,937)
Net Position	\$ (376)	(767)

The previous measure provides an indication of the net position of FCIC as of September 30, 2007 and 2006.

**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) Circular A-136, Financial Reporting Requirements.

The trend of higher commodity prices and higher price volatility significantly increased the FCIC premium revenue and the amount of overall insurance protection. The higher premiums result in increased program delivery costs, and the net loss on business assumed from reinsured companies. The significantly lower estimated loss ratio in fiscal year 2007 resulted in a decrease in indemnity costs.

**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 understanding 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, 2007 were approximately \$4.8 billion and as of September 30, 2006 were approximately \$3.2 billion. In total, Fund Balance with Treasury, Cash Held Outside of Treasury, and Net Accounts Receivable account for approximately 99.8 percent of the \$4.8 billion in total assets as of September 30, 2007. The Liability for Estimated Losses on Insurance Claims, approximately \$2.7 billion and \$2.4 billion as of September 30, 2007 and 2006, respectively, is approximately 52 percent of total liabilities in fiscal year 2007 and 62 percent in total liabilities in fiscal year 2006.

### Statement of Net Cost

FCIC's net cost of operations for fiscal year 2007 was approximately \$3.9 billion, a 9 percent increase over the fiscal year 2006 net cost of operations of \$3.6 billion. The indemnity costs and program delivery costs are 97.5 percent of FCIC's cost of operations in fiscal year 2007 and 97.3 percent in fiscal year 2006. The indemnity costs decreased \$92 million due to a lower loss ratio estimate in fiscal year 2007 and the delivery costs increased \$381 million due to an increase in the estimated premium.

### Statement of Net Position

Major factors impacting the fiscal year 2007 change in FCIC's net position are an increase in appropriations received and appropriations used, along with a higher net cost of operations related to the significant increase in delivery costs, and net loss on business assumed from reinsured companies.

### Statement of Budgetary Resources

Appropriations, combined with other budgetary resources made available and adjustments totaled \$7.1 billion in fiscal year 2007 and \$5.9 billion in fiscal year 2006, while total outlays were \$4.9 billion in fiscal year 2007 and \$4.7 billion in 2006.

#### Budgetary Resources

(in millions)

	<u>2007</u>	<u>2006</u>
Net Appropriations	\$ 4,456	3,372
Unobligated balance brought forward	1,269	1,357
Offsetting Collections and Adjustments	1,358	1,206
Total	\$ 7,083	5,935

### 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. 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 49,000 producers during fiscal year 2007 and 48,000 producers in fiscal year 2006. Total RME obligations incurred by FCIC were approximately \$10 million in both fiscal year 2007 and fiscal year 2006.



## **Systems, Controls, and Legal Compliance**

FCIC management is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA). FCIC conducted its assessment of the effectiveness of internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations in accordance with OMB Circular A-123, *Management's Responsibility for Internal Control*. Based on the results of this evaluation, FCIC can provide reasonable assurance that its internal control over the effectiveness and efficiency of operations and compliance with laws and regulations as of September 30, 2007 and 2006 was operating effectively and no material weaknesses were found in the design or operation of the internal controls.

In addition, FCIC conducted its assessment of the effectiveness of internal control over financial reporting, which includes safeguarding assets and compliance with applicable laws and regulations, in accordance with the requirements of Appendix A of OMB Circular A-123. Based on the results of this evaluation, FCIC can provide reasonable assurance that its internal control over financial reporting as of June 30, 2007 and 2006 was operating effectively and no material weaknesses were found in the design or operation of the internal control over financial reporting.

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. FCIC performs an annual review of its financial management systems to ensure compliance with Federal financial systems requirements. If the systems do not comply, then a plan is required to bring the systems into compliance.

**RISK MANAGEMENT AGENCY  
FEDERAL CROP INSURANCE CORPORATION  
CONSOLIDATED BALANCE SHEETS  
As of September 30, 2007 and 2006  
(in millions)**

	<u>2007</u>	<u>2006</u>
<b>Assets:</b>		
Intragovernmental		
Fund Balance with Treasury	\$ 2,364	\$ 1,455
With the Public		
Cash Held Outside Treasury	79	90
Accounts Receivable, Net	2,379	1,624
General Property, Plant, and Equipment	8	1
Total Public Assets	<u>2,466</u>	<u>1,715</u>
Total Assets	<u>\$ 4,830</u>	<u>\$ 3,170</u>
<b>Liabilities:</b>		
Intragovernmental		
Other Liabilities	\$ 2	\$ 3
With the Public		
Accounts Payable	17	10
Federal Employee Benefits	3	3
Other Liabilities		
Estimated Losses on Insurance Claims	2,688	2,427
Unearned Revenue	404	309
Other Liabilities	2,092	1,185
Total Other Liabilities	<u>5,184</u>	<u>3,921</u>
Total Liabilities	<u>5,206</u>	<u>3,937</u>
<b>Commitments and Contingencies (Note 7)</b>		
<b>Net Position:</b>		
Capital Stock	500	500
Additional Paid-in Capital	38	38
Unexpended Appropriations - Earmarked Funds	642	510
Unexpended Appropriations - Other Funds	16	21
Cumulative Results of Operations - Earmarked Funds	(1,573)	(1,830)
Cumulative Results of Operations - Other Funds	1	(6)
Total Net Position	<u>(376)</u>	<u>(767)</u>
Total Liabilities and Net Position	<u>\$ 4,830</u>	<u>\$ 3,170</u>

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, 2007 and 2006  
(in millions)**

	<u>2007</u>	<u>2006</u>
<b>Program Costs:</b>		
Intragovernmental Gross Costs		
Benefit Program Costs	\$ 7	\$ 6
Imputed Costs	17	14
Reimbursable Costs	30	25
Total Intragovernmental Costs	54	45
Less: Intragovernmental Earned Revenue	1	-
Intragovernmental Net Costs	53	45
Gross Costs With the Public		
Indemnities	3,493	3,585
Other Program Costs		
Program Delivery Costs	1,341	960
Other Program Costs	70	81
Total Other Program Costs	1,411	1,041
Total Costs with the Public	4,904	4,626
Less: Earned Revenue from the Public		
Premium Revenue	2,662	1,889
Net Loss on Business Assumed from Reinsured Companies	(1,691)	(836)
Other Revenue	46	47
Total Earned Revenue with the Public	1,017	1,100
Net Costs With the Public	3,887	3,526
<b>Net Cost of Operations</b>	<b>\$ 3,940</b>	<b>\$ 3,571</b>

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, 2007 and 2006  
(in millions)**

	<u>2007</u>			<u>2006</u>		
	Earmarked Funds	Other Funds	Total All Funds	Earmarked Funds	Other Funds	Total All Funds
<b>Capital Stock</b>	\$ 500	-	\$ 500	\$ 500	-	\$ 500
<b>Additional Paid-in Capital</b>	\$ 38	-	\$ 38	\$ 38	-	\$ 38
<b><u>Cumulative Results of Operations</u></b>						
Beginning Balance	\$ (1,830)	(6)	\$ (1,836)	\$ (1,532)	(6)	\$ (1,538)
<b>Budgetary Financing Sources:</b>						
Appropriations Used	4,108	79	4,187	3,186	73	3,259
Transfers without Reimbursement	-	-	-	-	-	-
<b>Other Financing Sources:</b>						
Imputed Financing Sources	-	17	17	-	14	14
Other	-	-	-	-	-	-
<b>Total Financing Sources</b>	4,108	96	4,204	3,186	87	3,273
Net Cost of Operations	(3,851)	(89)	(3,940)	(3,484)	(87)	(3,571)
Net Change	257	7	264	(298)	-	(298)
<b>Cumulative Results of Operations</b>	\$ (1,573)	1	\$ (1,572)	\$ (1,830)	(6)	\$ (1,836)
<b><u>Unexpended Appropriations:</u></b>						
Beginning Balances	\$ 510	21	\$ 531	\$ 465	20	\$ 485
<b>Budgetary Financing Sources:</b>						
Appropriations Received	4,379	77	4,456	3,295	77	3,372
Appropriations Transferred in/out	(5)	(1)	(6)	(5)	-	(5)
Other Adjustments	(134)	(2)	(136)	(59)	(3)	(62)
Appropriations Used	(4,108)	(79)	(4,187)	(3,186)	(73)	(3,259)
<b>Total Unexpended Appropriations</b>	\$ 642	16	\$ 658	\$ 510	21	\$ 531
<b>Net Position</b>	\$ (393)	17	\$ (376)	\$ (782)	15	\$ (767)

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, 2007 and 2006  
(in millions)**

	<u>2007</u>	<u>2006</u>
<b>Budgetary Resources:</b>		
Unobligated Balance Brought Forward, October 1	\$ 1,269	\$ 1,357
Recoveries of Prior Year Unpaid Obligations	2	5
<b>Budget Authority</b>		
Appropriations Received	4,456	3,372
Spending Authority from Offsetting Collections Earned and Collected	1,364	1,208
Nonexpenditure Transfers, Net	(6)	(5)
Permanently not Available	(2)	(2)
<b>Total Budgetary Resources</b>	<u>\$ 7,083</u>	<u>\$ 5,935</u>
<b>Status of Budgetary Resources:</b>		
Obligations Incurred		
Direct	\$ 4,820	\$ 4,666
Reimbursable	1	-
Unobligated Balance		
Apportioned	2,260	1,266
Unobligated Balance Not Available	2	3
<b>Total Status of Budgetary Resources</b>	<u>\$ 7,083</u>	<u>\$ 5,935</u>
<b>Change in Obligated Balances:</b>		
Unpaid Obligations Brought Forward, October 1	\$ 276	\$ 268
Obligations Incurred	4,821	4,666
Gross Outlays	(4,914)	(4,653)
Recoveries of Prior Year Unpaid Obligations	(2)	(5)
<b><u>Obligated Balance, Net, End of Period</u></b>		
Undelivered Orders	(78)	(79)
Accounts Payable	(103)	(197)
	<u>(181)</u>	<u>(276)</u>
<b><u>Outlays Detail:</u></b>		
Disbursements	4,914	4,653
Less: Collections	(1,364)	(1,208)
Less: Distributed Offsetting Receipts	-	(3)
<b>Net Outlays</b>	<u>\$ 3,550</u>	<u>\$ 3,442</u>

See accompanying notes to consolidated financial statements.

**RISK MANAGEMENT AGENCY  
FEDERAL CROP INSURANCE CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2007 and 2006**

## **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

### **Reporting Entity**

Federal Crop Insurance Corporation is a wholly-owned government corporation within the United States Department of Agriculture (USDA). FCIC is under the direction and control of a board of directors, which is appointed by the Secretary of Agriculture (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 the Federal Crop Insurance 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. FCIC is not subject to federal, state, or local income taxes and, accordingly, no provision for income taxes is reported.

RMA was established under provision of the Federal Agricultural Improvement and Reform Act of 1996 (the 1996 Act), P.L. 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 (ARPA) of 2000 into law effective beginning in fiscal year 2001.

The objectives of ARPA 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.

Major provisions of this 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 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 Federal crop insurance program. The reinsurance business permits private insurance companies to write Federal crop insurance program that is reinsured by FCIC. These companies are compensated by FCIC for expenses associated with marketing and fully servicing (including claims adjustment, claims processing, billings, and premium collections) the Federal crop insurance policies reinsured by FCIC. The reinsurance business has been FCIC's sole delivery system for the Federal crop insurance program since 1998. Federal crop insurance 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, and budgetary resources 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*, which was revised in June 2007. All significant intra-agency transactions and balances 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.

In order to be in compliance with OMB Circular A-129, *Policies for Federal Credit Programs and Non-Tax Receivables*, the USDA Office of the Chief Financial Officer determined that USDA agencies should reclassify all delinquent debt older than two years as currently not collectible (CNC) or closed-out. As a result of this guidance, in fiscal year 2007 FCIC re-classified \$22 million of its delinquent debt as CNC. The CNC policy allows Federal agencies to write-off delinquent accounts receivable balances from their general ledgers while still pursuing collection. In prior years, these balances were maintained in the general ledger; however, they were reserved at 100%.

### **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.

FCIC is developing the Electronic Written Agreement (eWA) system to replace its current program systems. In accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 10, *Accounting for Internal Use Software*, contractor and RMA internal staff costs related to eWA will be capitalized over a period of five years once the software is implemented. In fiscal year 2007, approximately \$7 million of eWA costs were classified as internal use software in development.

### **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 Federal crop insurance policies written by the reinsured companies.

The 2005 Standard Reinsurance Agreement (SRA) was renewed through the 2007 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 2007 and 2006 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 for the 2007 and 2006 reinsurance years are summarized in the following table:

SRA Reimbursement Rates	
Insurance Plan	Range of Reimbursement Rates (depending on coverage level)
Group Risk Plan	19.4% - 22.4%
Revenue Plans (harvest price option)	18.1% - 20.8%
All Other Additional Coverage Plans	21.0% - 24.2%
Catastrophic Coverage	7%

### 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 \$15,500 in 2007 and \$15,000 in 2006. 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 \$15,500 in 2007 and \$15,000 in 2006. 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 \$5.4 million and \$4.7 million in fiscal years 2007 and 2006 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 2007 and 2006, 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 table below lists the actuarial estimates for Crop Year 2007 in which the year-end estimates were based. The table also reflects the actual figures for Crop Year 2006.

	Crop Year 2007 (Estimated)	Crop Year 2006 (Actual)
Loss Ratio	67.00%	76.44%
Total Premium	\$6.56 billion	\$4.58 billion
Premium Subsidy	\$3.82 billion	\$2.68 billion
Ratio of Premium Subsidy to Total Premium	58%	58%
Farmer Premium Paid	\$2.74 billion	\$1.90 billion
Ratio of Farmer Premium to Total Premium	42%	42%

### 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. If there is a reasonable possibility that a loss will occur, FCIC discloses the nature of the contingency and an estimate of the possible liability, an estimate of the range of the possible liability, or a statement that such an estimate cannot be made. See Note 7, Commitments and Contingencies, to the consolidated financial statements for related disclosures.

## New Accounting Pronouncements

In October 2006, the Federal Accounting Standards Advisory Board ("FASAB") issued SFFAS No. 31, *Accounting for Fiduciary Activities*. This Statement is effective for the year ending September 30, 2009. FCIC does not expect that the adoption of this Statement will have a material impact on its consolidated financial statements.

An updated OMB Circular A-136, *Financial Reporting Requirements* (the "Circular"), was issued on June 29, 2007. The Circular required the replacement of the Statement of Financing with a footnote disclosure entitled Reconciliation of Net Cost to Budget which is presented in Note 14 to the consolidated financial statements.

## 2. FUND BALANCE WITH U.S. TREASURY:

2007  
(in millions)

	Appropriated Funds	Revolving Funds	Total
Obligated not yet disbursed	\$ 16	85	101
Unobligated available	1	2,260	2,261
Unobligated unavailable	2	-	2
<b>Total</b>	<b>\$ 19</b>	<b>2,345</b>	<b>2,364</b>

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
<b>Total</b>	<b>\$ 24</b>	<b>1,431</b>	<b>1,455</b>

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, 2007.

### 3. CASH HELD OUTSIDE TREASURY:

Cash Held Outside Treasury consists of the following:

	2007	2006
	(in millions)	
Cash Held Outside Treasury for:		
FCIC escrow accounts	\$ 79	90
<b>Total Cash Held Outside Treasury</b>	<b>\$ 79</b>	<b>90</b>

### 4. ACCOUNTS RECEIVABLE:

Net accounts receivable is as follows:

<b>2007</b> (in millions)	Gross Accounts Receivable	Allowance for Uncollectible Accounts	Net Accounts Receivable
With the Public	\$ 2,380	(1)	2,379
<b>Total</b>	<b>\$ 2,380</b>	<b>(1)</b>	<b>2,379</b>

<b>2006</b> (in millions)	Gross Accounts Receivable	Allowance for Uncollectible Accounts	Net Accounts Receivable
With the Public	\$ 1,648	(24)	1,624
<b>Total</b>	<b>\$ 1,648</b>	<b>(24)</b>	<b>1,624</b>

The allowance for uncollectible accounts represents approximately \$1.0 million and \$23.5 million for reinsurance receivables in fiscal years 2007 and 2006, respectively.

In order to be in compliance with OMB Circular A-129, *Policies for Federal Credit Programs and Non-Tax Receivables*, the USDA Office of the Chief Financial Officer determined that USDA agencies should reclassify all delinquent debt older than two years as currently not collectible (CNC) or closed-out. As a result of this guidance, in fiscal year 2007 FCIC re-classified \$22 million of its delinquent debt as CNC. The CNC policy allows Federal agencies to write-off delinquent accounts receivable balances from their general ledgers while still pursuing collection. In prior years, these balances were maintained in the general ledger; however, they were reserved at 100%.

## 5. ESTIMATED LOSSES ON INSURANCE CLAIMS:

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

	2007	2006
	(in millions)	
Balance as of October 1	\$ 2,427	2,001
Incurred related to:		
Current year	3,692	3,765
Prior year	(199)	(180)
Total incurred	3,493	3,585
Paid related to:		
Current year	(1,120)	(1,445)
Prior year	(2,112)	(1,714)
Total paid	(3,232)	(3,159)
Net balance as of September 30	\$ 2,688	2,427

As a result of developments in losses from insured events in prior years, the estimated losses on insurance claims decreased by \$199 million and \$180 million for the years ended September 30, 2007 and 2006, respectively.

The 2007 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 2007 projection is also increased by the fact that it appears to be an unusually good year for several major commodities. The fluctuation in yields is more likely to be outside of the range of yields that has been observed historically. This results in the estimation model making 'out-of-sample predictions' which may be less reliable.

The 2006 Estimated Loss projections were based on conditions at the time and were subject to significant uncertainty. Most of the difference between actual and predicted losses is due to increases in commodity prices and, to a small extent, expected yields that occurred subsequent to the time the estimates were made in mid-September 2006. Drought conditions contributed to significant losses in wheat, corn, soybeans, or cotton in Texas, Oklahoma, Colorado, Kansas, Wyoming, and South Dakota. Dry conditions also contributed to losses in Alabama, Georgia, and North Carolina. Significant citrus tree and nursery crop losses also occurred in Florida.

Estimated losses on insurance claims liabilities not covered by budgetary resources are \$30.1 million for contingent liabilities as of September 30, 2007, and \$296 million for future funded indemnity costs and \$9.9 million for contingent liabilities as of September 30, 2006. There were no future funded indemnity costs as of September 30, 2007.

## 6. OTHER LIABILITIES:

Other liabilities, federal and non-federal, are as follows:

	2007	2006
	(in millions)	
Federal:		
Other Accrued Liabilities	\$ 2	3
Total Other Liabilities, Federal	\$ 2	3
With the Public:		
Underwriting Loss/Gain Payable to reinsured companies	\$ 1,508	741
Reserve for Premium Deficiency	565	431
Estimated Delivery Costs	9	3
Annual Leave Liability	4	4
Other Accrued liabilities	6	6
Total Other Liabilities, with the Public	\$ 2,092	1,185

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.



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 \$0.5 and \$0.6 million for unfunded Federal Employees Compensation Act (FECA) liability as of September 30, 2007 and 2006, respectively. Unfunded annual leave is also a liability not covered by budgetary resources. Annual leave is accrued as it is incurred and the accrual is reduced as it is taken. The balances in the accrued annual leave account were 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. 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 then 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. FCIC had accrued a liability in fiscal year 2006 for \$9.9 million. During fiscal year 2007, FCIC paid \$9.3 million of the \$9.9 million final settlement with the remaining \$.6 million due to American Growers which is currently in liquidation.

Peanut farmers from seven states brought class action suits claiming that the government unlawfully and unilaterally modified and impaired the policyholders of Federal crop insurance 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 were received. On July 22, 2004, the Court entered an Order finding in favor of the plaintiff's motion for summary judgment on the issue of liability. The plaintiffs then filed with the Judicial Panel for Multidistrict Litigation (JPML) a request for transfer of the other six related cases to the Eastern District of North Carolina, where the original case is located, 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. On December 20, 2006, the court entered judgment for the plaintiff classes in the amount of approximately \$30.1 million. The case is in the process of being appealed to the Fourth Circuit Court of Appeals. In fiscal year 2007, FCIC recorded a \$30.1 million contingent liability for this case.

Ace Property and Casualty Company is seeking judicial review for a case decided by the Agriculture Board of Contract Appeals (BCA). In the BCA case, the companies claimed that FCIC violated the SRA when it issued mandatory amendments prior to the July 1 start of the reinsurance year to implement certain provisions of the Agricultural Research, Education, and Extension Act of 1998, and ARPA; that required that all administrative fees be remitted to FCIC and reduced the amount the companies are reimbursed for loss adjustment expenses for catastrophic risk protection policies. The case is still pending and the likelihood of an unfavorable outcome is reasonably possible. It is impossible to determine the amount of possible damages at this time.

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. Although approximately \$2.2 million is claimed in this case, FCIC has not recognized a liability in the financial statements since FCIC will continue to vigorously contest this case and does not believe the possibility of an unfavorable outcome is probable.

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. In a suit filed against FCIC, 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. Although FCIC did not consent to arbitration proceedings, plaintiffs have filed an action in district court to try to enforce the arbitration awards. FCIC has not recognized a liability in the financial statements since FCIC will continue to vigorously contest this case and does not believe the possibility of an unfavorable outcome is probable.

## **8. EARMARKED FUNDS:**

In 2006, FCIC adopted SFFAS 27, *Identifying and Reporting Earmarked Funds*, 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.

**Earmarked Funds for Fiscal Years 2007 and 2006 are as follows:**

<b>Federal Crop Insurance Fund</b>	<u>2007</u>	<u>2006</u>
<u>Balance Sheet as of September 30</u>	<u>(in millions)</u>	
<b>ASSETS</b>		
Fund Balance with Treasury	\$ 2,344	1,431
Other Assets	2,459	1,714
<b>Total Assets</b>	<u>4,803</u>	<u>3,145</u>
<b>LIABILITIES</b>		
Liabilities	5,196	3,927
<b>Total Liabilities</b>	<u>5,196</u>	<u>3,927</u>
<b>NET POSITION</b>		
Unexpended Appropriation	642	510
Cumulative Results Operations	(1,035)	(1,292)
<b>Total Net Position</b>	<u>(393)</u>	<u>(782)</u>
<b>Total Liabilities and Net Position</b>	\$ <u>4,803</u>	\$ <u>3,145</u>

Statement of Net Cost For the Period Ended of September 30

Gross Program Costs	\$ 4,869	4,584
Less: Earned Revenues	1,018	1,100
<b>Net Cost of Operations</b>	\$ <u>3,851</u>	<u>3,484</u>

Statement of Changes in Net Position for the Period Ended September 30

Net Position Beginning of Period	\$ (782)	(529)
Other Financing Sources	4,240	3,231
Net Cost of Operations	(3,851)	(3,484)
<b>Change in Net Position</b>	<u>389</u>	<u>(253)</u>
<b>Net Position End of Period</b>	\$ <u>(393)</u>	\$ <u>(782)</u>

**9. INDEMNITY COSTS:**

Insurance indemnity costs are as follows:

		<u>2007</u>	<u>2006</u>
		(in millions)	
Catastrophic coverage	\$	40	74
Additional coverage		3,453	3,511
Insurance claims and indemnities	\$	3,493	3,585

**10. PROGRAM DELIVERY AND OTHER PROGRAM COSTS:**

Program delivery costs are as follows:

		<u>2007</u>	<u>2006</u>
		(in millions)	
Reinsurance administrative expenses	\$	1,341	960

Federal other program costs are as follows:

		<u>2007</u>	<u>2006</u>
		(in millions)	
Reimbursable costs	\$	30	25
Other retirement benefit, other post-employment benefit, FECA, and other costs		7	6
Imputed costs		17	14
Less: earned revenue		(1)	-
Total federal other program costs	\$	53	45

Non-federal program costs are as follows:

		<u>2007</u>	<u>2006</u>
		(in millions)	
Other program costs	\$	26	32
Administrative and other cost		44	49
Total non-federal other program costs	\$	70	81

**11. NET POSITION:**

<b>2007</b> (in millions)	<u>Earmarked Funds</u>	<u>Other Funds</u>	<u>Total</u>
Capital stock	\$ 500	-	\$ 500
Additional paid-in capital	38	-	38
Unexpended Appropriations:			
Unliquidated obligations	-	14	14
Unobligated, not available	-	2	2
Unobligated, available	642	-	642
Subtotal, unexpended Appropriations	642	16	658
Cumulative Results of Operations:			
Donated capital (Transfers from CCC)	3,958	-	3,958
Results of operations	(5,531)	1	(5,530)
Subtotal, cumulative results of operations	(1,573)	1	(1,572)
Total net position	\$ (393)	17	\$ (376)

<b>2006</b> (in millions)	<u>Earmarked Funds</u>	<u>Other Funds</u>	<u>Total</u>
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)

### 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 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 FCIC 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.

## 12. FINANCING SOURCES:

In fiscal years 2007 and 2006, FCIC received an Insurance Fund appropriation of \$4.4 billion and \$3.3 billion, respectively, for premium subsidy, reinsurance administrative expenses and other program expenses and for research and development. In both fiscal years 2007 and 2006, the RMA A&O Fund appropriation was \$77.0 million due to a full year continuing resolution.

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 both 2007 and 2006, \$74.5 million was appropriated for ARPA expenses with \$5 million being transferred to Cooperative State Resource, Education, and Extension Service (CSREES.)

The following table summarizes appropriations used:

	2007	2006
	(in millions)	
A&O appropriation used	\$ 79	73
Insurance fund appropriations:		
Appropriation for premium subsidy	2,961	2,284
Appropriation for ARPA costs	40	40
Appropriation for delivery costs	1,107	862
Insurance fund appropriations used	4,108	3,186
Total appropriations used	\$ 4,187	3,259

### 13. STATEMENT OF BUDGETARY RESOURCES: EXPLANATION OF DIFFERENCES BETWEEN THE SBR AND THE BUDGET OF THE U.S. GOVERNMENT

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). The permanent indefinite appropriation for the crop insurance program is used to cover premium subsidy, delivery expenses, losses in excess of premiums, and research and delivery costs. Some reporting differences do exist between comparable amounts in the Statement of Budgetary Resources (SBR), the President's Budget, and the SF-133. The following table is a comparison of the fiscal year 2006 Statement of Budgetary Resources and the President's Budget. The fiscal year 2007 President's Budget data is not available until February 2008.

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#### Fiscal Year 2006 Statement of Budgetary Resources v. President's Budget (in millions)

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	Account	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
<u>Statement of Budgetary Resources:</u>					
	Insurance Fund	\$5,854	4,588	-	\$3,372
	A&O	81	78	3	74
	Total	\$5,935	4,666	3	\$3,446
<u>Reconciling items:</u>					
Expired Accounts	A&O	\$ (5)	(2)	-	\$ -
	Total	(5)	(2)	-	-
Budget of the United States Government		\$5,930	4,664	3	\$3,446

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### 14. RECONCILIATION OF NET COST OF OPERATIONS (PROPRIETARY) TO BUDGET:

The total budgetary and non-budgetary resources used to finance operations totaled \$3.5 billion in fiscal year 2007 and in fiscal year 2006. The fiscal year change in undelivered orders was not part of the net cost of operations, and totaled \$2 million in fiscal year 2007 and \$1 million in fiscal year 2006. 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 following Reconciliation of Net Cost of Operations (Proprietary) to Budget 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.

### Reconciliation of Net Cost of Operations (Proprietary) to Budget

	2007	2006
<b>Resources used to Finance Activities</b>		
Budgetary resources obligated		
Obligations incurred	\$ 4,821	4,666
Less: spending authority from offsetting collections and recoveries	(1,366)	(1,213)
Obligations net of offsetting collections and recoveries	3,455	3,453
Less: offsetting receipts	-	(3)
Net obligations	3,455	3,450
Other resources		
Imputed financing from costs absorbed by others	17	14
Net other resources used to finance activities	17	14
Total resources used to finance activities	\$ 3,472	3,464
<b>Resources Used to Finance Items Not part of Net Cost of Operations</b>		
Change in budgetary resources obligated for goods, services, and benefits ordered but not yet provided	\$ 2	1
Resources that fund expenses not recognized in prior periods	118	41
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	120	45
Total resources used to finance the net cost of operations	\$ 3,592	3,509
<b>Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period</b>		
Components requiring or generating resources in future periods		
Increase in exchange revenue receivable from the public	\$ (779)	(254)
Other	1,134	312
Components not requiring or generating resources		
Other	(7)	4
Total components of net cost of operations that will not require general resources in the current period	348	62
<b>Net Cost of Operations</b>	<b>\$ 3,940</b>	<b>3,571</b>

## REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION (UNAUDITED):

In response to the Secretary's 1996 Risk Management Education (RME) initiative, and as mandated by the 1996 Act, FCIC has formed 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 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 2007 and 2006, 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 49,000 in fiscal year 2007 and 48,000 in fiscal year 2006. 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 2007 and 2006. The following table summarizes the RME initiatives since fiscal year 2003.

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
	(dollars in millions)				
RME Obligations	\$ 10	10	10	10	9
Number of producers attending RME sessions	49,000	48,000	47,000	46,000	62,000

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.