Farm Credit Administration

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

Performance and Accountability Report Fiscal Year 2008

Contents

List of Acronyms Appearing in Report

BPD	Bureau of the Public Debt
CEO	chief executive officer
DAEO	designated agency ethics official
DCIA	Debt Collection Improvement Act
DOL	Department of Labor
EEO	equal employment opportunity
EPDD	Examination Policy and Development Division
Farmer Mac	Federal Agricultural Mortgage Corporation
FCA	Farm Credit Administration
FCS	Farm Credit System
FCSIC	Farm Credit System Insurance Corporation
FECA	Federal Employees Compensation Act
FFMIA	Federal Financial Management Improvement Act
FIRS	Financial Institution Rating System
FY	fiscal year
GAAP	generally accepted accounting principles
GSE	Government-sponsored enterprise
HCP	Human Capital Plan
IT	information technology
NCB	National Cooperative Bank
OCPA	Office of Congressional and Public Affairs
OE	Office of Examination
OGC	Office of General Counsel
OIG	Office of Inspector General
OMB	Office of Management and Budget
OMS	Office of Management Services
OPM	Office of Personnel Management
ORP	Office of Regulatory Policy
OSMO	Office of Secondary Market Oversight
RBCST	Risk-Based Capital Stress Test
SBA	Small Business Administration
USDA	United States Department of Agriculture
YBS	young, beginning, and small (farmers and ranchers)

Statement of the Chairman and CEO

November 2008

As Chairman and Chief Executive Officer (CEO) of the Farm Credit Administration (FCA or Agency), and on behalf of the FCA Board, I invite you to review this Performance and Accountability Report. It details the Agency's accomplishments and program and financial performance for fiscal year (FY) 2008.

I am pleased to report that FCA achieved each of the goals outlined in its Strategic Plan and achieved or exceeded all of the measurable performance areas targeted for FY 2008. As the arm's length regulator of the Farm Credit System (FCS or System) and the Federal Agricultural Mortgage Corporation (Farmer Mac), we have two primary goals: (1) to ensure that the System and Farmer Mac fulfill their public missions for the good of agriculture and rural areas and (2) to examine and oversee them to ensure that they remain safe and sound.

During this period of unprecedented volatility and increasing risk, FCA is especially vigilant in examining and overseeing System institutions and Farmer Mac. We have recruited additional examiners so that we can increase the amount of time FCA examiners are spending on site at the institutions they are responsible for. We have also stepped up communication with institution leaders to ensure they have the guidance they need to guard against and manage the risks that threaten their institutions. Our goal is to make sure that the lending programs and internal controls of the institutions we regulate remain sound so that they can continue providing the credit that farmers, ranchers, and other rural Americans rely upon.

FCA is accountable for financial results in addition to programmatic results. I am happy to report that FCA's FY 2008 financial statements have received an unqualified opinion from an independent auditor. These financial statements provide a fair representation of FCA's accounting practices and demonstrate its commitment to sound fiscal management. Effective and efficient internal operations are critical to the Agency's ability to meet its goals, and FCA's management is committed to the continual improvement of its internal operations.

As we face the challenges ahead, FCA renews its commitment to its mission: to ensure a safe, sound, and dependable source of credit and related services for agriculture and rural America. Thanks to its experienced, hard-working staff, the Agency has made, and will continue to make, a positive difference. Together, we will strive to do what is best for agriculture, rural America, and the American people, whom we serve.

Leland A. Strom
Chairman and CEO
Farm Credit Administration

Management's Discussion and Analysis

FCA at a Glance

The Farm Credit Administration (FCA or Agency) is an independent agency in the executive branch of the U.S. Government. FCA is responsible for regulating and supervising the banks, associations, and related entities in the Farm Credit System (FCS or System), including the Federal Agricultural Mortgage Corporation (Farmer Mac). The FCS is a nationwide network of borrower-owned financial institutions that provide credit to farmers, ranchers, residents of rural communities, agricultural and rural utility cooperatives, and other eligible borrowers.

FCA was created by a 1933 Executive order of President Franklin D. Roosevelt; the Agency now derives its powers and authorities from the Farm Credit Act of 1971, as amended (Farm Credit Act or the Act). The Senate Committee on Agriculture, Nutrition, and Forestry and the House of Representatives Committee on Agriculture oversee FCA and the FCS.

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

1. It conducts examinations of FCS institutions to monitor and oversee the safety and soundness of their activities. Examiners also evaluate compliance with applicable laws and regulations.

2. It approves corporate charter changes and researches, develops, and adopts regulations and other guidelines that govern how System institutions conduct their business and interact with their customers.

If a System institution violates a law or regulation or if its operations are unsafe or unsound, FCA can use its enforcement authority to ensure that the problem is corrected. FCA also protects the rights of borrowers, reports to Congress on the financial condition and performance of the FCS, and approves the issuance of System debt obligations.

The Agency maintains its headquarters and a field office in McLean, Virginia. FCA also has field offices in Bloomington, Minnesota; Dallas, Texas; Denver, Colorado; and Sacramento, California.

FCA policy, its regulatory agenda, and supervisory activities are established by a full-time, three-person Board, whose members are appointed by the President of the United States, with the advice and consent of the Senate. They serve a six-year term and may not be reappointed after serving a full term or more than three years of a previous member's term. The President designates one member as Chairman of the Board, who serves until the end of his or her own term. The Chairman also serves as FCA's Chief Executive Officer (CEO).

FCA does not receive a Federal appropriation. The Agency is funded through assessments paid by System institutions and by reimbursable activities.

Mission

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

FCA Offices

The 264 full- and part-time employees of FCA work together to ensure that the FCS remains a dependable source of credit for agriculture and rural America. The following paragraphs explain the functions of each of the Agency's offices.

The **FCA Board** approves the policies, regulations, charters, and enforcement activities that ensure a strong FCS. The Board also provides for the examination and supervision of the FCS, including Farmer Mac, and oversees the activities of the FCS Building Association, which acquires, manages, and maintains FCA headquarters and field office facilities.

The **Secretary to the Board** ensures that the FCA Board complies with statutory, regulatory, and internal operation procedures and requirements. The Secretary to the FCA Board also serves as Secretary to the Farm Credit System Insurance Corporation Board. In addition, the Secretary serves as the Parliamentarian and the Sunshine Act Official for the FCA Board.

The **Office of the Chief Executive Officer** enforces the rules, regulations, and orders of the FCA Board. The CEO directs the implementation of policies and regulations adopted by the FCA Board. The office plans, organizes, directs, coordinates, and controls FCA operations and leads the Agency's efforts to achieve and manage a diverse workforce.

The **Office of Congressional and Public Affairs (OCPA)** serves as the Agency's principal point of contact for Congress, the media, other Government agencies, FCS institutions, employees, System borrowers, and the public. OCPA develops and monitors legislation pertinent to FCA and the FCS, serves as the Agency's congressional liaison, and prepares testimony for the Chairman and other staff members. The office also provides information to external audiences through news releases, informational brochures and fact sheets, the annual FCA Performance and Accountability Report, and other publications. It manages media relations regarding Agency activities and is responsible for the content of the FCA Web site. OCPA also coordinates special meetings, briefings for international visitors, and field hearings.

The **Office of Examination** is responsible for examining and supervising each FCS institution in accordance with the Farm Credit Act and applicable regulations. The office develops oversight plans; conducts examinations; monitors the System's condition, risks, and emerging risks; and develops supervisory strategies to ensure that the System operates in a safe and sound manner, complies with the law and regulations, and fulfills its public policy purpose. The FCA Board further defines the Office of Examination's role in Policy Statement 53, available at www.fca.gov.

The Office of General Counsel (OGC) provides the FCA Board and staff with legal counsel as well as guidance on general corporate, personnel, ethics, and administrative matters. OGC supports the Agency's development and promulgation of regulations, civil litigation, enforcement of applicable laws and regulations, and implementation of conservatorships and receiverships. The office serves as the liaison to the Federal Register, creates and maintains the Agency's public rulemaking files, and handles the Agency's submission of the Unified Agenda of Federal Regulatory and Deregulatory Actions. OGC also handles Freedom of Information Act requests and matters pertaining to the Privacy Act.

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

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

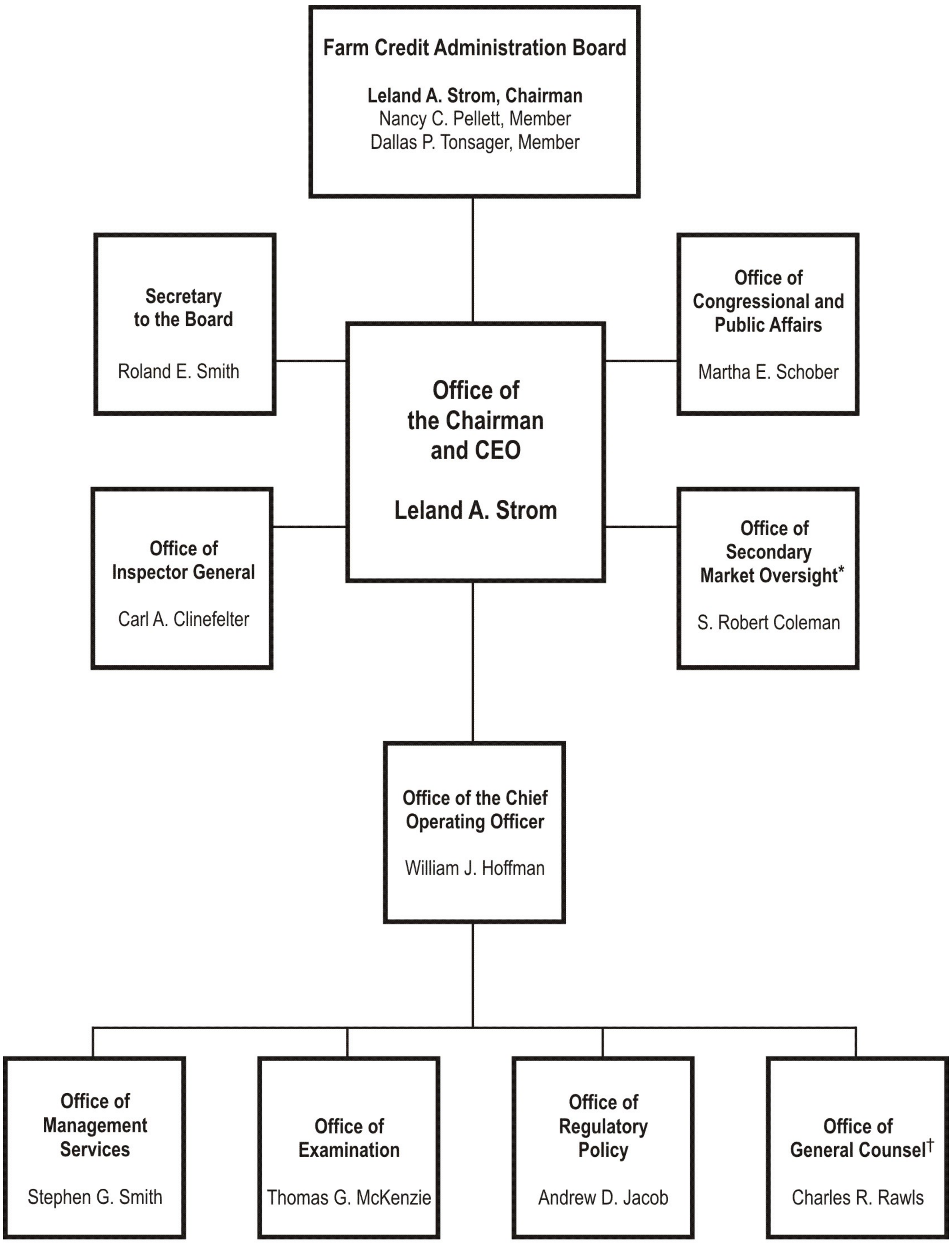
The **Office of Management Services (OMS)** manages and delivers the Agency's information technology, financial, human capital, and administrative services. The office coordinates planning efforts, including information resources management, security, human capital, and financial plans for the Agency. By centrally planning, managing, and delivering resource services, OMS enables the Agency's program offices to fully focus their time and attention on their respective mission-related responsibilities.

The **Office of Secondary Market Oversight (OSMO)** provides for the examination, regulation, and supervision of the activities of Farmer Mac to ensure its safety and soundness and the accomplishment of its public policy purpose as authorized by Congress. OSMO also ensures that Farmer Mac complies with applicable laws and regulations, and it manages FCA's enforcement activities with respect to Farmer Mac.

The **Equal Employment Opportunity (EEO)** Program directs the Agency's efforts to eliminate employment discrimination from its workplace with the goal of creating and maintaining a diverse and talented workforce. The EEO program coordinates the Agency's development and implementation of human capital plan strategies for EEO and diversity, increases workplace awareness of and respect for EEO and diversity through educational programs, assesses the Agency's progress in achieving workplace diversity, and processes employee discrimination complaints to reach a timely resolution of employment issues.

The **Designated Agency Ethics Official (DAEO)** administers the provisions of the Ethics in Government Act of 1978, as modified by the Ethics Reform Act of 1989, for FCA. The DAEO coordinates and manages FCA's ethics program and serves as liaison to the U.S. Office of Government Ethics. The responsibilities of the position include reviewing financial disclosure reports of FCA staff and prospective presidential appointees to the FCA Board, conducting FCA's ethics training, counseling staff on ethics standards and post-employment conflicts of interest, and assisting managers and supervisors in understanding and implementing Agency ethics programs.

Organization
Farm Credit Administration
As of September 30, 2008



***Reports to the Board for policy and to the CEO for administration.**
†Maintains a confidential advisory relationship with each of the Board members.

Highlights of FCA's Performance Goals and Results

The primary goal of the 2008–2013 Strategic Plan of FCA is to achieve the objectives for which Congress established the Farm Credit System (FCS or System). As provided in the Farm Credit Act, the purpose of the FCS is to enhance the farmer-owned cooperative system by making credit available to farmers and ranchers and their cooperatives, to rural residents for their homes, and to associations and other entities that farming operations depend on. Another purpose is to provide an adequate and flexible flow of money into rural areas.

The Farm Credit Act states that a prosperous, productive agriculture sector is essential to a free Nation. Because Congress recognized the growing need for credit in rural areas, it established the farmer-owned cooperative FCS and mandated that the System improve the income and well-being of American farmers and ranchers. The FCS achieves this goal by furnishing sound, adequate, and constructive credit and closely related services for farmers and ranchers, their cooperatives, and selected farm-related businesses necessary for efficient farm operations. Therefore, the mission of the Agency is to ensure that those who engage in agriculture, live in rural areas, or operate farm-related businesses are provided access to the FCS for their credit and financially related needs.

FCA's regulatory supervision and oversight of the FCS ensure that System institutions operate in a safe and sound manner and provide dependable sources of constructive credit and financially related services to agriculture and rural areas, as Congress intended. The ultimate measures of FCA's performance are whether the intended recipients are afforded access to the credit and services of the FCS and whether the FCS is fundamentally sound in all material respects. The results achieved in the reporting period ended June 30, 2008, indicate that the Agency met these objectives, as the services of the FCS continued uninterrupted in a safe and sound manner throughout the United States and Puerto Rico.

The FCA Strategic Plan for 2008–2013 identifies two goals,[1] each of which has a "desired outcome" and itemized descriptions of the "means and strategies" by which the Agency carries out its mission. In addition, twelve performance measures define "targeted results" to determine whether the Agency effectively carried out its mission and achieved the desired outcomes of the Strategic Plan. The results of operations for the 12-month period ended June 30, 2008, showed that FCA achieved the goals identified in the Strategic Plan, and achieved or exceeded all the performance measures. The following is a summary analysis of FCA's performance in reaching its goals.

Goal 1 Highlights—Public Mission

Ensure the FCS and the Federal Agricultural Mortgage Corporation (Farmer Mac) fulfill their public mission for agriculture and rural areas.

Twelve means and strategies and five performance measures are established for Goal 1 in the Strategic Plan (see table 6a). The five performance measures evaluated the following:

1. The percentage of FCS institutions with satisfactory business plans and management systems for providing constructive credit and related services to all potential customers, including institutions with acceptable corrective action plans

1. Information on the President's Management Agenda, previously identified as Goal 3, is addressed elsewhere in the Performance and Accountability Report because of the indirect relationship of its operational elements to FCA's mission.

2. Whether Farmer Mac has developed and implemented a marketing program to appropriately grow program assets consistent with its mission and whether it has received a satisfactory rating from the Office of Secondary Market Oversight (OSMO) or is operating under a corrective action plan acceptable to OSMO

3. The percentage of direct-lender institutions with satisfactory internal controls over consumer compliance and borrower-rights compliance, including institutions with acceptable corrective action plans

4. The percentage of instances in which the Agency solicits public comment and input on applicable regulatory initiatives using supplemental approaches to the notice and comment rulemaking process

5. The percentage of direct-lender institutions that have satisfactory programs to furnish sound and constructive credit and related services to young, beginning, and small (YBS) farmers, ranchers, and producers or harvesters of aquatic products, including institutions with acceptable corrective action plans

The Agency achieved or exceeded its targets for all five measures associated with Goal 1. FCA examiners reviewed business plans of 98 FCS institutions and found that all had satisfactory plans. Farmer Mac has a marketing program to grow its program assets consistent with its mission, and it received a satisfactory rating from OSMO. Agency examiners performed compliance reviews of 92 direct-lender institutions and determined that all had satisfactory internal controls over consumer and borrower-rights compliance. FCA used supplemental approaches in seven of its eight regulatory initiatives to gather a broad range of public input during the rulemaking process. In addition, FCA examiners reviewed 93 direct-lender institutions and determined they had effective programs to meet YBS farmer and rancher needs.

Goal 2 Highlights—Safety and Soundness

Evaluate risk and provide timely and proactive oversight to ensure the safety and soundness of the FCS and Farmer Mac.

Seven means and strategies and seven measures exist for Goal 2 (see table 6b). The seven performance measures considered the following:

1. The number of institutions that FCA placed in receivership because of financial failure during the previous 12 months

2. The total assets of FCS institutions that FCA has determined are fundamentally sound in all material respects

3. The percentage of FCS institutions with composite Financial Institution Rating System (FIRS) ratings of 3, 4, or 5 with acceptable corrective action plans in place to address the problems identified by FCA examiners

4. The percentage of System assets in institutions with ratios of adverse assets to risk funds of less than 100 percent

5. The percentage of institutions complying with regulatory capital ratio requirements (permanent capital ratio, total surplus ratio, core surplus ratio, net collateral ratio, risk-based capital), including institutions with acceptable corrective action plans

6. The percentage of FCS institutions with acceptable action plans to correct violations of laws and regulations identified by FCA examinations

7. The percentage of institutions that have satisfactory audit and review programs, including institutions with acceptable corrective action plans

FCA achieved or exceeded its targets for all seven measures associated with Goal 2. No institutions were placed in receivership during the reporting period, and 99 percent of the System's total assets were fundamentally sound in all material respects. All five of the institutions with FIRS ratings of 3 (none had ratings of 4 or 5) had acceptable corrective action plans in place. In addition, all direct-lender institutions were well capitalized and maintained sound levels of risk-bearing capacity. All of the institutions in which FCA examiners had identified violations of law or regulation had acceptable corrective action plans. Also, FCA examiners reviewed the audit and review programs of 98 institutions and found them all satisfactory.

Management Challenges

FCA is the Federal regulator for the Farm Credit System. Its primary mission is to ensure that FCS institutions operate safely and soundly and in compliance with all applicable laws and regulations. FCA continues to face external and internal management challenges that reflect changes both in agriculture and in the financial services industry. As producers and lenders must adapt to change, the Agency must also both anticipate and react to change in order to provide a regulatory framework within which the System can fulfill its congressional mandate to provide dependable and constructive credit and related services to agriculture and rural America.

As rapid change occurs in rural America, FCA faces the challenge of adjusting its regulatory and policy guidance based on the dynamic nature of farming, the agricultural marketplace, and agricultural finance generally. FCA must balance its responsibility as an arm's length regulator—that is, ensuring that the System is fundamentally sound and secure—with its recognition of the need for regulatory flexibility so that the FCS is able to fulfill its mandate as a Government-sponsored enterprise (GSE) to serve those in agriculture and rural areas.

U.S. farmers, having experienced five years of very strong farm income, including record net cash incomes for the last two years, are now facing greater risks and the prospect of lower incomes for next year. Commodity prices have fallen significantly from their peaks earlier this year, while high costs for land and production inputs will likely squeeze cash flows and significantly slow or even reverse growth in farm land prices. However, tight world grain stocks and increasing demand for corn to meet Federal ethanol mandates will likely continue to create a significant demand for agricultural commodities and for land. The System has been the leader in helping fund the earlier stages of growth in the ethanol industry and will be watching these loans carefully as the industry matures and margins decline.

While natural disasters and significant commodity price declines will continue to be a risk for agricultural producers, the 2008 Farm Bill continues to provide a safety net for the farm sector, and USDA crop insurance programs are being increasingly used as a key risk management tool by farmers. Very recently, significant declines in energy costs are a positive development that will eventually help in maintaining farm profitability as these lower costs are passed along to the farmer.

In addition, this year we have seen unprecedented events unfold in the U.S. financial and banking sector. We have seen actions by the Federal Reserve, the Treasury, and the Federal Deposit Insurance Corporation to aggressively address the financial difficulties of Fannie Mae, Freddie Mac, AIG, and other financial institutions. Perhaps most significant during these challenging times is the broad loss of confidence in many U.S. financial institutions.

Fortunately, confidence in the Farm Credit System remains high at this time. The FCS institutions are safe and sound and the System has not encountered any significant problems. The System's focus on building capital and strengthening lending and business operations during the past two decades has given it the ability to continue to serve agriculture during these challenging times.

Now, during this period of unprecedented volatility and in an environment of increasing risk, we believe even more caution and vigilance are needed. The Farm Credit System will need to continue its efforts to ensure its lending programs and internal controls are sound so that it can continue its mission of providing credit to agriculture and rural areas in good times and bad.

And at the Agency, we will continue to follow closely the developments in the financial markets and remain vigilant as we monitor emerging issues that could affect the institutions we regulate.

As the System adapts to a changing environment, FCA must continue to internally modify its workforce to make certain that the System's safety and soundness remains its first priority and that the Agency retains the expertise and resources to carry out its mission-related responsibilities. FCA's human capital strategies focus on ensuring that the Agency continues to employ a highly skilled and competent workforce. To achieve this, the Agency must

- invest in education and technical training for existing staff,
- identify qualified candidates for career development and leadership training opportunities,
- attract new employees with well-defined skill sets, and
- leverage outside experts through contracts to augment our permanent staff.

It is important to note that the retirement of seasoned staff will challenge the Agency to secure the stability and skill level of its workforce through effective succession planning and cross-training. FCA continues to heavily invest in strategic workforce planning.

The Human Capital Plan, FYs 2008–2013, contains strategies to ensure that FCA continues to employ well-trained, dedicated employees to accomplish the Agency's strategic goals and objectives. The HCP is reviewed on an annual basis to

- assess the Agency's human capital goals;
- validate the HCP in terms of FCA's alignment with performance plans and the budget;
- assess workforce planning and development, as well as leadership and knowledge management; and
- maintain a results-oriented performance culture, staff expertise, and accountability.

FCA is proud of its record in producing financial statements with clean audit opinions. Timely, accurate, and useful financial information is essential for

- making day-to-day decisions,
- managing the Agency's operations more effectively,
- supporting results-oriented management approaches, and
- ensuring continual accountability.

In April 2006, FCA outsourced the travel, financial management, and procurement functions to the Department of the Treasury's Bureau of the Public Debt (BPD). Management later determined that timely and efficient service in procurement was not occurring and, therefore, brought procurement back into the Agency. FCA will continue to monitor the effectiveness of its service provider and at the same time leverage the system to deliver timely financial information critical for making well-informed management decisions. The unqualified financial statement audit indicates the success of the Agency's financial management, but we are also taking steps to improve management further still. We are delivering financial information that managers can use for day-to-day operations and providing management reports that capture the full cost of programs and projects. Taking these measures will help FCA ensure that underlying financial management processes, procedures, and information are in place for effective program management.

Information technology (IT) is a key element in management's efforts to continually improve Agency performance. In this regard, the Agency is in the process of a major infrastructure transition designed to promote efficient work processes and provide staff with enhanced communication and collaboration tools. The ongoing challenge is to stay abreast of emerging technologies and maintain an effective IT infrastructure that provides FCA staff with IT tools and skills to operate in an efficient, effective, and secure manner. In addition, the Agency must ensure that it maintains technical staff with the current skills and knowledge to implement and maintain its infrastructure, and initiatives in this regard are underway.

FCA's management is committed to meeting challenges and improving the Agency's efficiency and effectiveness. Its response to these challenges will ultimately ensure a safe and sound System that serves the changing face of agriculture and rural America as Congress intended.

Analyses and Highlights of FCA's Financial Statements

FINANCIAL HIGHLIGHTS

Financial Operation of FCA

FCA operates under the authority of the Farm Credit Act of 1971, as amended. FCA maintains a revolving fund in which moneys needed to cover FCA's planned administrative expenses are obtained primarily from assessments received from the Farm Credit System institutions, including the Federal Agricultural Mortgage Corporation (Farmer Mac) and service corporations. FCS institutions, including Farmer Mac, are assessed and charged directly or billed in accordance with a formula established by FCA regulations. Assessments and other income earned in excess of obligations are either refunded or considered in determining the amount to assess System institutions in the subsequent fiscal year. For the past few years, FCA has opted to use the excess funds or carryover funds to determine the assessment amount to bill the System institutions for the subsequent fiscal year. Based on the approved assessment collections, Congress usually imposes a limitation on the amount of obligations that may be incurred in a given fiscal year.

In addition to assessments, FCA also obtains funds for reimbursable services provided to other Government agencies and from interest earned on investments with the U.S. Department of the Treasury. The Agency's reimbursable service work mainly includes services performed for the Farm Credit System Insurance Corporation, the U.S. Department of Agriculture (USDA), and the Small Business Administration (SBA). Since FY 2007, interest earned on investments has been used to build and maintain an Agency reserve. The reserve ensures that FCA can effectively and efficiently respond to unanticipated, one-time, mission-related issues without increasing assessments.

Additional information about FCA's financial condition for FYs 2008 and 2007 is included in the following subsections. Fiscal year data summaries of the various asset, liability, and net position accounts are also provided for comparative purposes.

FCA's Assets, Liabilities, and Net Position

The Balance Sheet displayed on page 55 of this report presents the financial condition of FCA as of the 2008 and 2007 fiscal year-ends. It presents the value of FCA's assets, as well as the amounts FCA owes to the public and other Government agencies. The difference between the assets and liabilities represents FCA's net position. With an increase in the total assets of $3,620,249 and an increase in the total liabilities of $977,633, the net position increased by $2,642,616, or 12.2 percent. The 12.2 percent increase in the net position for FY 2008 is 56.1 percent less than the increase of 27.8 percent in the net position in FY 2007. This reduced increase in the net position is largely attributed to the reduced increase in assets, the increase in liabilities, and the increase in the net cost of operations for FY 2008. Although the value of the Agency's assets in FY 2008 increased by $3,620,249, or 12.3 percent, over the assets in 2007, assets in 2007 increased by $4,210,022, or 16.6 percent, over the assets in 2006. In 2008, the total liabilities increased 12.5 percent, while in 2007 the liabilities decreased by 6.1 percent. The net cost of operations increased from a credit balance of $1,131,567 in FY 2007 to a debit balance of $1,105,779 in FY 2008. This means that the amount of revenue received was less than the costs incurred. With the significant increase of 197.7 percent in the net cost of operations, the Agency's net position did not increase by its normal margin as in years past. For additional information on the net cost of operations, see the Performance and Financial Results section located on page 18. More detailed information about the Agency's assets, liabilities, net position, and funding for FY 2008 is included in the following paragraphs.

Composition of Assets

As depicted in table 1, FCA's assets include its Fund Balance with Treasury, investment balance, accounts receivable and prepayments, and property and equipment. The $3,966,941 increase in the investments and the $399,628 increase in the property and equipment from FY 2007 represent a total net increase of $4,366,569 over the asset decreases of $433,426 and $312,894 in the Fund Balance with Treasury and the accounts receivable and prepayments asset categories, respectively. The 14.5 percent increase in investments and the 705.9 percent increase in property and equipment far exceed the dollar value decreases in the other asset categories, although the percentage decreases of 39.6 percent for the fund balance and 34.0 percent for the net accounts receivable and prepayments are significant. For the 2008 fiscal year-end, investments represented 94.8 percent of the total assets available. Of the $31,394,473 investment balance, $30,654,822 represents the value of the investments in U.S. Treasury Securities at year-end. Because the long-term market rates increased in 2008, FCA purchased several long-term nonmarketable, market-based securities. The purchases increased the long-term investments to $22,080,822 compared with the $2,503,000 in long-term securities at the end of FY 2007. A balance of $8,574,000 remained in one-day investments in which interest was earned overnight. The 705.9 percent increase in the book value of the property and equipment is due to the bulk purchase of laptops for FCA employees. All other property and equipment items were fully depreciated. Since FY 2006, the value of the Agency's property that was on the books has steadily decreased due to depreciation. FY 2008 is the first year that capitalized property has been purchased under the new capitalization policy, which provides for the capitalization of property items with an acquisition cost of $50,000 or more and bulk purchases of $500,000. These dollar thresholds conform to the industry's best practices and are in line with the policy of FCA's financial service provider, the Bureau of the Public Debt.

The net decrease in accounts receivable and prepayments includes a decrease in accounts receivable of $318,720 and an increase in prepayments of $5,826. The accounts receivable include moneys due from other Government agencies for reimbursable services performed and additional assessments due from service corporations that

Table 1. Composition of Assets

Fiscal Year	Fund Balance with Treasury	Investments	Accounts Receivable and Prepayments	Property and Equipment	Total
2008	$ 661,812	$ 31,394,473	$ 607,870	$ 456,237	$ 33,120,392
2007	$ 1,095,238	$ 27,427,532	$ 920,764	$ 56,609	$ 29,500,143

were not collected by year-end. This year, as the Agency began a cutback on some of its reimbursable service activities, the accounts receivable for reimbursable services decreased 46.2 percent from that of last year, from $661,990 to $356,237. The accounts receivable due from the service corporations and the National Consumer Cooperative Bank decreased 6.0 percent, from $206,140 to $193,765. This is because, for FY 2008, there were more funds returned to the service corporations than additional moneys billed. Although the prepayments increased by 11.2 percent, from $52,000 to $57,826, the impact on the total net receivables and prepayments was negligible. As shown, the Fund Balance with Treasury decreased from $1,095,238 to $661,812. For cash management purposes, the reduction in the fund balance is preferred since FCA's goal is to invest funds in excess of the immediate cash needed to cover current liabilities and obligations. A review of the available funds, which includes the Fund Balance with Treasury, investments, and accounts receivable and prepayments, shows that there were enough funds on hand. Available funds of $32,664,155 totaled 331.9 percent of the Agency's total liabilities, excluding the unfunded actuarial workers' compensation of $1,218,926.

Composition of Liabilities

The total liabilities for FY 2008 increased from the amount reported in FY 2007 by 12.5 percent, from $7,803,355 to $8,780,988. As depicted in table 2, the liabilities increased in each category, with the largest percentage increase of 46.1 occurring under the employer contributions and taxes payable category. This large increase can be attributable to recruitment bonus awards that were issued in FY 2008. The accounts payable increase of 31.2 percent reflects the Agency's continuous effort to capture the actual costs incurred during the year by accruing for goods and services that have been received but not yet paid. Also, FCA returned $158,220 in assessment refunds to several service corporations as compared with $19,098 in assessment refunds that were returned in FY 2007. This represents an increase of 728.5 percent. Deferred revenue increased from $1,568,300 to $1,792,639, or 14.3 percent. This liability component includes moneys received from public sources for which services have not yet been provided. At the end of the fiscal year, FCA received $1,792,639 from financial institutions within the FCS for assessments that are not yet due. The liabilities for accrued payroll and benefits and workers' compensation increased only slightly: 10.1 percent and 1.8 percent, respectively.

Table 2. Composition of Liabilities

Fiscal Year	Accounts Payable	Accrued Liabilities (Payroll and Benefits)	Employer Contributions and Taxes Payable	Workers' Compensation (Funded and Unfunded)	Deferred Revenue and Advances	Total
2008	$ 787,516	$ 4,552,282	$ 399,549	$ 1,249,002	$ 1,792,639	$ 8,780,988
2007	$ 600,164	$ 4,134,365	$ 273,550	$ 1,226,976	$ 1,568,300	$ 7,803,355

Composition of Net Position

During FY 2008, FCA's net position continued to increase, though at a lesser rate than the previous year. The net position balance increased by $2,642,616, or 12.2 percent during FY 2008. In FY 2007, the net position increase was $4,715,721, or 27.8 percent. As shown in table 3, the significant change in the net position from FY 2007 to FY 2008 is the $2,237,346 increase in the net cost of operations. This represents an increase of 197.7 percent. According to the Statement of Net Cost provided on page 56, the total cost for FY 2008 exceeded the total cost for FY 2007 by $1,840,917, or 4.1 percent. The total revenue for FY 2008 is less than the total revenue for FY 2007 by $396,429, or 0.9 percent. The large increase in cost and the slight decrease in total revenue account for the increase in the net cost of operations.

The composition of the Agency's net position supports the continuance of operations. The net position is primarily composed of cash and investments in U.S. Treasury securities that can be used during unforeseen emergencies without the need for FCA to rely on other sources of cash allowed under the Farm Credit Act of 1971, as amended. As of September 30, 2008, the net position was 75.9 percent of the Agency's cash and investment balances. In addition, the net position is adequate to cover the Agency's liabilities. The net position is 277.2 percent of the Agency's total liabilities.

FCA's Funding and Fund Sources

FCA maintains a revolving fund from moneys obtained primarily from assessment fees paid by FCS institutions, including Farmer Mac, and from reimbursable services to other Government agencies and the National Consumer Cooperative Bank, which the U.S. Congress has commissioned the Agency to annually examine. In addition, FCA earns interest revenue on investments with the U.S. Department of the Treasury, which the Agency makes with available cash. Table 4 on page 17 of this financial report depicts the funding that was available or collected by FCA for FYs 2008 and 2007. As shown, the Agency's available funding for 2008 increased slightly from the previous year. For 2008, funding and fund sources totaled $48,532,308, compared with $47,694,163 for 2007. The 1.8 percent growth of $838,145 in the 2008 funding primarily results from increases of $1,050,000, or 2.5 percent, in 2008 assessments and $700,000, or 25.5 percent, in assessments carryover from prior years. As shown, the increase in the funding availability was the result of as-

Table 3. Composition of Net Position

Fiscal Year	Beginning Balance	Imputed Costs	Net Cost of Operations	Ending Balance
2008	$ 21,696,788	$ 3,748,395	($ 1,105,779)	$24,339,404
2007	$ 16,981,067	$ 3,584,154	$ 1,131,567	$21,696,788

sessments received and prior year assessments used. Both funding from the reimbursable service activities and interest from investments decreased in FY 2008. The 36.0 percent decrease in the interest earned can be attributable to the market conditions in which the Agency experienced a lower rate of return on its investment securities. The 9.4 percent decrease in reimbursable services relate to the cutback in activity with several of the Agency's Government trading partners. This cutback allows FCA to focus additional resources on examining FCS operations and addressing material risks in line with the Agency's mission. In FY 2008, FCA continued to carry out the Agency's program goals and objectives within the available funding amount. As depicted in table 5 on page 18, FCA used $43,875,404, or approximately 90.4 percent, of the amount of funds available in 2008, compared with $41,599,656, or approximately 87.2 percent, of the amount of funds available in 2007. The amount of available funds remaining in 2008 totaled $4,656,904, compared with $6,094,507 in 2007. In FY 2008, the Agency continued to use its funds in accordance with established plans. Personnel compensation and benefits represent the most significant use of funds. Although personnel compensation and benefits increased from 2007 to 2008 by $1,131,857, or 3.3 percent, the percentage of the total funds used was 1.7 percent less than the percentage used in 2007. The 3.3 percent increase in personnel compensation and benefits is the result of new hires and pay adjustments associated with employees' annual pay-for-performance appraisals, with offsets for several staff attritions that took place during the year. This change in personnel compensation and benefits also represents a change in the composition of staff. The composition will continue to change as tenured experienced staff retire and are replaced with new staff. The largest growth in funds used was for contractual services, which increased by $990,453, or 37.7 percent. The contractual services category includes the Agency's shared-services agreement with the Bureau of the Public Debt, which began in FY 2006. It represents one of the Agency's outsourcing-of-services initiatives. Through this agreement, the Bureau of the Public Debt provides travel, accounting, credit card, and procurement and financial system services. The contractual services category also includes other outsourcing services, single-source contracts, and consulting-service contracts, which allow the Agency to better leverage and manage its resources. For the other budget categories listed in the table, the amounts varied between the fiscal years, with funds used for property and equipment representing the only decrease in the

Table 4. Available Funding

Funding and Funding Sources	2008	2007
Assessments (current year)	$42,550,000	$41,500,000
Assessments (carryover from prior years)	3,450,000	2,750,000
Reimbursable activity	1,746,959	1,928,950
Interest from investments	970,340	1,515,213
Total	$48,532,308	$47,694,163

amount of funds used. However, the percentage of funds used by category is basically the same for fiscal years 2008 and 2007.

PERFORMANCE AND FINANCIAL RESULTS

The following is a description of FCA's financial condition and the results of its efforts to meet its performance goals and objectives for the fiscal years ended September 30, 2008, and September 30, 2007. This information should be read in conjunction with the financial statements, notes to the financial statements, and other sections of the Performance and Accountability Report. Since this section mainly focuses on the cost of operations, some of the data provided may differ from data provided in sections of the report dealing with budgetary obligations.

FCA continues to ensure that the institutions of the FCS remain a sound and dependable source of credit and related financial services to U.S. agriculture and rural areas. Furthermore, the Agency provides reimbursable services to other Government agencies and nongovernmental entities. The Agency's accomplishment of its strategic goals and objectives, coupled with the business growth and sound condition of FCS institutions, attests to the quality of FCA products, services, and operations.

The FCA Board and management annually review the Agency's five-year strategic plan to update expectations for FCA's operations according to the challenges faced by the FCS to remain a dependable and competitive source of credit and related services for U.S. agriculture and rural areas. As part of the Agency's strategic planning, FCA has developed human capital and information resource plans to address staffing and technological needs in order to promote efficiency and effectiveness. Costs have been maintained through sound business planning and effective resource management. The primary source of funding for FCA is the annual assessment of FCS institutions, which increased $1.0 million, or 2.2 percent, in 2008. This follows increases of $1.0 million, or 2.5 percent, in 2007 and $1.1 million, or 2.8 percent, in 2006.

FCA program costs increased primarily as a result of the Agency's adjustment in employee compensation, which went up by $931,885 from 2007. This adjustment was made to keep the Agency's compensation competitive so that it can attract and retain the talented employees it needs. This competitive edge is particularly important now because the Agency is recruiting to support an increase in its on-site presence in

Table 5. Funds Used by Major Budget Category

Budget Category	FY 2008	Percent of Total	FY 2007	Percent of Total
Personnel compensation and benefits	$35,396,279	80.7%	$34,264,422	82.4%
Travel and transportation of persons	2,842,116	6.5%	2,590,914	6.2%
Contractual services	3,619,925	8.2%	2,629,472	6.3%
Property and equipment	838,173	1.9%	1,190,686	2.9%
Other	1,178,911	2.7%	924,162	2.2%
Total	$43,875,404	100.0%	$41,599,656	100.0%

FCS institutions. FCA based the adjustment of its pay-for-performance compensation program on a comparison of the compensation rates of other Federal financial regulators.

The total cost of FCA's programs for fiscal year 2008 is $46,337,019, compared with $44,496,102 for fiscal year 2007. Employee salaries and benefits represent the Agency's most significant cost. For 2008, employee compensation totals $37,354,694, or 80.6 percent of total cost. A decrease in Agency depreciation, contract services, and imputed employee retirement benefit expenses partially offset the increases from employee salaries and benefits, travel, and other items. FCA's ability to maintain effective operations will require our staff to obtain new skill sets appropriate for meeting regulatory demands from an evolving FCS. FCA's ongoing strategic study concludes that the FCS, including Farmer Mac, will continue to evolve to have fewer—but much larger and more complex—institutions. With the number of its institutions expected to decrease by one-third, the FCS is expected to maintain a healthy loan growth. Greater pressure will be placed on FCA examiners and analysts to have new skill sets appropriate for addressing demands and risks associated with evolving agricultural and rural economies.

In addition to the demands of an evolving FCS, another challenge FCA faces is the attrition of FCA staff: by 2013, approximately 50 percent of the staff is expected to retire or resign. In 2008, FCA continued to make organizational changes, as well as changes associated with its examination activities, to accommodate anticipated FCS changes and to better utilize staff skill sets for meeting demands to examine and regulate FCS institutions. Further, FCA updated its comprehensive Human Capital Plan to address staff resource needs through the recruitment, mentoring, training, and promotion of staff, and by incorporating career intern programs to attract promising new employees. The Agency has maintained competitive employee compensation by periodically performing compensation studies in accordance with the Financial Institution Reform, Recovery, and Enforcement Act of 1989 to keep FCA salaries comparable with salaries of other Federal financial institution regulators. FCA believes the plans for staff resources and compensation should provide adequate means for the Agency to continue to perform its mission to provide the FCS with effective regulation and oversight.

Earned revenues decreased in 2008 and fell below the Agency's program costs. For 2008, earned revenues totaled $45,231,239, down $396,430 from the previous year. Earnings are generated by the assessment fees paid by FCS institutions, including Farmer Mac; by earnings from reimbursable services provided to non-FCS entities; and by interest income from the investment of Agency cash in U.S. Treasuries. The decrease in earned revenue from the performance of reimbursable work for other Government agencies and a lower rate of return from the Agency's investment of funds in U.S. Treasuries offset the increase in the 2008 assessment of FCS institutions. The decline in total revenue, coupled with a rise in the cost of operations, increased the net cost of FCA programs for the 12 months ended September 30, 2008. The net cost of FCA programs increased $2,237,346 from the same period ended September 30, 2007, to a positive $1,105,779.

The Agency draws almost all of its cash from FCS assessments, reimbursable activity, and received interest payments from invested funds. FCA cash received during 2008 exceeded its obligations and increased its cash and investments from 2007 to 2008. As of September 30, 2008, cash and investments totaled $32,056,285, compared with $28,522,770 for September 30, 2007. Cash received from assessments and reimbursable activity in any given year is based on FCA Board-approved budgets, which are expected to be adequate to fund operations for that year.

FCA utilizes the cash carryover from prior years to partially fund the Agency's annual budget and reduce the assessment of FCS banks and associations. In addition, FCA maintains a reserve from interest earned from investments for unbudgeted expenses arising from material, unexpected issues related to FCS policy or safety and soundness. Congress imposes a limitation on the amount of administrative expenses that can be obligated from FCS assessments in the FCA Board-approved budgets.

Public Mission Program

FCA invests significant resources in its policymaking and regulatory functions to ensure that the FCS fulfills its public mission as mandated by the U.S. Congress. The Agency surpassed its prior year performance by meeting or exceeding all of its 2008 goals for rulemaking and corporate activity projects. For fiscal year ended September 30, 2008, program cost for public mission was $11,513,150, representing a 2.52 percent increase (or an increase of $283,114) from the same period the previous year. Program cost for the public mission is 24.8 percent of FCA's total cost for 2008. FCA emphasized the development of regulations and policy initiatives for the FCS, including Farmer Mac, to develop credit and financial products to better serve the public. FCA strived through its regulation and policy guidance to facilitate the flow of funds to agriculture and rural areas in accordance with the Farm Credit Act. The Agency maintained its focus in 2008 on improving FCS institution lending to young, beginning, and small farmers and ranchers.

FCA continued to develop new products and services for identifying and monitoring FCS risk. The Agency promotes public participation in the rulemaking process and seeks to reduce the regulatory burden on the FCS. The Agency used a supplemental approach for the purpose of gathering a broad range of public comment on numerous regulatory actions. As a result of public input, the Board provided guidance on the understanding of the rules affecting collateral evaluations of real property for business loans and for System institutions to determine regulatory capital treatment of certain off-balance-sheet items. In addition, FCA evaluated mission-related investment pilot programs that it had approved to enable FCS institutions to form partnerships and investments to increase the availability of funds to agriculture and rural America. FCA's corporate activity continued to remain low: the FCS has a relatively small number of institutions remaining after the significant number of mergers since 2000.

Safety and Soundness Program

The examination and supervision of the FCS represents the most significant part of FCA program costs. FCA allocated additional resources in 2008 to ensure that its examination and oversight program can meet the challenges of today's troubled financial environment. FCA has exceeded its goals and measures to ensure the safety and soundness of FCS institutions, including Farmer Mac. Program cost for the examination and supervision of the FCS increased $2,074,904 to $31,632,575, or 68.3 percent of FCA's total costs in 2008. All FCS institutions, including Farmer

Mac, remain fundamentally sound, although five institutions have been placed under an FCA supervisory action since 2007. These institutions have implemented corrective action plans, and FCA continues to monitor progress on the issues of concern.

The Office of Examination continued its reorganization plans to better utilize its available resources and employee skill sets and to enhance risk oversight programs. FCA provides conclusions and makes recommendations where appropriate to institution boards of directors on their institutions' risks and regulatory compliance. Agency examiners provide feedback through written communication and also by meeting directly with senior management and boards of FCS institutions.

To maintain its quality of products, services, and operations, FCA continues to incur significant costs in the recruitment and training of staff through its Precommissioned Examiner Program; these recruiting and training efforts are necessary to meet human resource needs because a significant number of FCA employees are expected to retire over the next four or five years. FCA maintains effective early warning and risk identification systems and oversight programs to identify and address emerging risks and related issues in FCS institutions.

Other Activity

Other activity represents the examination and oversight of the National Consumer Cooperative Bank (NCB) and the performance of reimbursable services for the Small Business Administration, USDA, and the Farm Credit System Insurance Corporation. Program cost for other activity decreased $517,102 to $3,191,294 in 2008 because of the Agency's decision to reduce its performance of some reimbursable services and to focus more on its mission to examine the FCS. The costs for providing reimbursable services represented approximately 6.9 percent of FCA's total costs in 2008, compared with 8.3 and 6.0 percent for 2007 and 2006, respectively. Earned revenue for other activity totaled $1,815,673 for 2008, compared with $2,616,130 for 2007.

Reimbursable services provided by FCA primarily include examining the NCB and institutions affiliated with the SBA and USDA and providing resources to the USDA's Foreign Agriculture Service (FAS) program. Reimbursable work with the USDA FAS program was discontinued during the 2008 fiscal year. FCA performs an annual examination of the NCB as directed by Congress. FCA has performed examinations under interagency agreements of affiliated institutions for the SBA since 1999 and for USDA since 2001.

LIMITATIONS OF THE FINANCIAL STATEMENTS

The principal financial statements have been prepared to report the financial position and results of operations of FCA, pursuant to the requirements of 31 U.S.C. 3515(b). While the statements have been prepared from the books and records of FCA in accordance with U.S. generally accepted accounting principles (GAAP) for Federal entities and the formats prescribed by the Office of Management and Budget, the statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records.

The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

President's Management Agenda

The President's Management Agenda (PMA) represents the President's goal to reform the Federal Government and make it more citizen centered, results oriented, and market based. The PMA calls for the implementation of five Government-wide initiatives:

- Strategic management of human capital
- Improved financial performance
- Expanded electronic Government
- Budget and performance integration
- Competitive sourcing

FCA strongly supports the goals of the PMA and monitors the successful implementation of these initiatives through internal controls and performance measures, which are built into FCA's day-to-day operations and reported on annually.

Strategic Management of Human Capital

The Agency continues to invest significant resources in human capital initiatives. Through implementation of its Human Capital Plan (HCP), the Agency continually works to maintain a high-performing, motivated workforce by using a flexible approach to recruiting, retaining, and rewarding employees. HCP programs also work to sustain a results-oriented culture that emphasizes the importance of learning, expertise, and professional growth. HCP performance measures ensure that FCA maintains a highly trained workforce in 2008 with the skill sets required to fulfill its public mission. The Agency continues to place special emphasis on knowledge management by providing targeted training programs and capturing the expertise of retiring or separating employees.

Improved Financial Performance

A shared-services agreement with the Bureau of the Public Debt's Administrative Resource Center (ARC) ensures that FCA's financial management records and system remain secure, effective, and dependable. As a result of this partnership, FCA maintains its financial records in Oracle Financials, ARC's system of record. The system includes several module applications developed by the Oracle Corporation that are separately licensed as a part of its E-Business Suite. The technology improves cost management and enables FCA to maintain a fully integrated system. The Agency continues to emphasize strong fiscal management and the need for accurate, reliable, and timely information. This year FCA achieved an unqualified independent audit opinion for its fiscal year 2007 financial statements, with no material internal control weaknesses identified.

Expanded Electronic Government

FCA constantly strives to improve its e-Government operations, consistent with the PMA e-Government initiative that supports e-regulation, e-signatures, and e-communication. Several projects that leverage FCA's technological resources were completed in 2008. Using data collected through the Infrastructure Review Project, FCA directed the transition of its information technology architecture to a framework that permits more efficient information delivery, collaboration, and communication. The Workflow Integration Project identified, documented, and evaluated FCA business processes according to procedure, relevance, efficiency, and cost effectiveness.

Performance measures for information technology and service delivery were successfully achieved. Reliable access to data and information was maintained throughout the year. Continuous 24-hour information and technology services were available 99.4 percent of the time, exceeding the target goal of 98.5 percent. FCA's Web pages and Section 508-compliant electronic devices also surpassed their 95.0 percent goal, achieving a 99.6 percent success rate.

Budget and Performance Integration

FCA continues to enhance its performance budgeting program to ensure that the Agency has the resources it needs to meet performance goals for both existing programs, as well as new ones. The Agency continues to refine, through the automation of its budget formulation system, the integration of budget resources with Agency-wide and individual office performance goals.

Competitive Sourcing

FCA recognizes that competition promotes innovation, efficiency, and greater effectiveness. By continuing to evaluate its core competencies through efficiency and effectiveness measures, the Agency continues to build internal capabilities or pursue contracting services from the private sector, as appropriate. An inventory of commercial activities that are not inherently governmental but are performed by Federal employees is conducted annually, in compliance with the Federal Activities Inventory Reform Act of 1998 and OMB Circular A-76, "Performance of Commercial Activities." Through self-examination, FCA continually evaluates areas for potential improvement and identifies ways to enhance its products and services.

As directed in the PMA, FCA implements programs and activities that support a results-oriented work environment. Through action plans that incorporate clearly defined internal controls and performance measures, FCA will continue to streamline its operations and achieve its goals for efficiency and accountability during the coming fiscal year.

Systems, Controls, and Legal Compliance

Federal agencies are required to comply with a wide range of laws and regulations, to develop and maintain effective internal controls, and to maintain systems that generate timely, accurate, and useful information with which to make informed decisions. This section provides information on FCA's financial management system and its compliance with the following acts:

- The Inspector General Act
- The Federal Managers' Financial Integrity Act
- The Federal Financial Management Improvement Act
- The Prompt Payment Act
- The Debt Collection Improvement Act

FCA's Financial Management System

In compliance with the Financial Management Line of Business initiative to improve the cost, quality, and performance of financial management systems by using shared services, FCA partnered with the Bureau of the Public Debt's Administrative Resource Center to provide the Agency with several financial management services. As a result of this partnership, FCA uses Oracle Federal Financials as its financial management system of record. Oracle Federal Financials is a commercial, off-the-shelf software package, which is certified by the Chief Financial Officers Council to meet Federal Government accounting needs. It is Web based and interfaces with other systems to integrate other key activities performed by FCA, such as e-payroll, purchase cards, e-travel, and Federal investments.

Although FCA maintains its procurement services in house, the Agency partners with the Bureau of the Public Debt for procurement system services. The system is fully integrated with Oracle Federal Financials, which allows for the checking of funds in real time and the commitment and obligation of funds as transactions are approved. FCA's transition of its financial services to BPD helps to ensure that FCA obtains the best value while maintaining its high standard of financial management practices.

Inspector General Act

The Inspector General Act of 1978, as amended, requires semiannual reporting on Office of Inspector General (OIG) audits, inspections, evaluations, and related activities, and agency follow-up. OIG's two semiannual reports covering FY 2008 are available at www.fca.gov/home/inspector.html. Information about recommendations made in audits, inspections, and evaluations by OIG, as well as management's progress in taking corrective action, is summarized below. OIG continues to report recommendations to correct audit, inspection, or evaluation findings as "agreed-upon actions" whenever OIG and management have agreed on an acceptable way to resolve a recommendation. OIG's objective is to recognize management's preferred method of correcting problems whenever the approach is reasonable.

Summary of OIG Audit, Inspection, and Evaluation Recommendations for FY 2008

Recommendations uncorrected as of October 1, 2007:	7
Recommendations made during FY 2008:	4
Recommendations corrected during FY 2008:	8
Open recommendations as of September 30, 2008:	3
Recommendations open more than one year:	0

Summary of Audit, Inspection Activities for FY 2008

At the beginning of FY 2008, there were seven open agreed-upon actions. One agreed-upon action was from the audit of Committees Established by the FCA Board, for which a report was issued on January 26, 2007. Six agreed-upon actions were from the inspection of FCA's Enforcement Program, for which a report was issued on July 31, 2007. All seven of these action items were closed during FY 2008.

During this fiscal year, OIG issued the audit report of the Agency's financial statements, internal control over financial reporting, and compliance with certain laws and regulations for FY 2007. The auditor opined that FCA's principal financial statements presented fairly, in all material respects, the financial position of the Agency as of September 30, 2007. The audit also showed no material weaknesses in internal control and no instances of noncompliance with certain laws or regulations.

OIG issued a final report of an audit of Efficiencies Realized through Outsourcing on May 20, 2008, and a final report of an audit of Information Technology Infrastructure Project Management on June 18, 2008. The former was issued with the recommendation resolved. The latter was issued with one agreed-upon action, which was closed during FY 2008.

OIG issued a final report on September 29, 2008, of an evaluation of the Agency's compliance with the Federal Information Security Management Act for FY 2008. The results of our evaluation revealed that FCA has an effective information security program and did not identify any significant weaknesses. However, three agreed-upon actions did result from the evaluation.

Federal Managers' Financial Integrity Act

The Federal Managers' Financial Integrity Act requires agencies to establish management controls over their programs and financial systems to provide reasonable assurance that the integrity of Federal programs and operations is protected. As a result, FCA holds managers accountable for the performance of their programs through the use of management controls. Annually, managers evaluate the adequacy of the management controls surrounding their activities to determine whether they conform to the principles and standards established by the Office of Management and Budget and the Government Accountability Office. The results of these management control evaluations are used to determine whether there are any problems to be reported as material weaknesses. As reported in the Chairman's Statement of Assurance for FY 2008, the Agency has identified no material weakness or financial system nonconformance that places the overall control system at risk.

Federal Financial Management Improvement Act

The Federal Financial Management Improvement Act (FFMIA) requires certain executive branch departments and agencies to report on their substantial compliance with Federal financial management system requirements, Federal accounting standards, and the U.S. Government Standard General Ledger. Although FCA is not one of the agencies required to report under the FFMIA, FCA was in substantial compliance with these system requirements for FY 2008.

Prompt Payment Act

The Prompt Payment Act generally requires agencies to pay vendors 30 days after receipt of a valid invoice for goods and services ordered and delivered. During FY 2008, FCA and its shared-service provider paid most of its bills within the time requirement. However, because of some invoice approval delays, FCA paid $60 in interest penalties. Payments are made by electronic funds transfer through the use of the Secure Payment System.

Debt Collection Improvement Act

The Debt Collection Improvement Act (DCIA) prescribes standards for carrying out Federal agency collection actions. It also prescribes policy for referral of agency uncollectible debts to the proper Federal agency for follow-up collection and litigation. Although the DCIA has no material effect on FCA because the Agency operates with virtually no delinquent debt, FCA sometimes does transfer debts that are older than 180 days to the Treasury Department for cross-servicing.

Statement of Assurance

The Farm Credit Administration's 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. FCA 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 Office of Management and Budget (OMB) Circular A-123, Management's Responsibility for Internal Control. On the basis of the results of this assessment, the Agency can provide reasonable assurance that its internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of September 30, 2008, was operating effectively, and no material weaknesses were found in the design or operation of the internal control.

In addition, FCA conducted its assessment of the effectiveness of internal control over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations, in accordance with the requirements of Appendix A of OMB Circular A-123. On the basis of the results of this assessment, the Agency can provide reasonable assurance that its internal control over financial reporting as of June 30, 2008, was operating effectively, and no material weaknesses were found in the design or operation of the internal control over financial reporting.

Leland A. Strom
Chairman and Chief Executive Officer
FARM CREDIT ADMINISTRATION

September 30, 2008

Program Performance

FCA Performance Report

FCA is an independent Federal agency responsible for regulating and examining the FCS and Farmer Mac. Both of these organizations are GSEs that serve agriculture and rural America.

FCA's mission is to ensure a safe, sound, and dependable source of credit and related services for agriculture and rural America through the FCS institutions. Its vision is to maintain a flexible regulatory environment that will ensure the System meets current and future rural credit needs in a safe and sound manner.

The Agency fulfills its mission by performing two principal program activities: (1) issuing regulations and implementing public policy, and (2) identifying risk and taking corrective action. Consistent with FCA's mission and program activities, the FCA Board adopted two strategic goals for fiscal years 2008–2013. These goals, which remain the primary focus of the Agency's activities, are as follows:

1. Ensure the FCS and Farmer Mac fulfill their public mission for agriculture and rural areas.
2. Evaluate risk and provide timely and proactive oversight to ensure the safety and soundness of the FCS and Farmer Mac.

To further clarify what FCA expects to accomplish for the public good, the Agency's Strategic Plan also contains "desired outcomes" for each goal, as well as 19 in-depth descriptions of the "means and strategies" that FCA uses to accomplish the goals and achieve the desired outcomes and results. In addition, 12 performance measures with associated "targets" show the extent of the Agency's success in accomplishing each aspect of its mission to regulate, and ensure the safety and soundness of, the FCS and Farmer Mac.

FCA revised its five-year Strategic Plan in May 2008, and this performance report reflects the goals and performance measures of the revised plan. The changes FCA made to its Strategic Plan in spring 2008 clarified expectations and added one means and strategy to its goal of ensuring the safety and soundness of the System and Farmer Mac.

However, the substance and direction of the Strategic Plan remain focused on improving effectiveness and efficiency; minimizing the cost burden on FCS borrowers; and helping ensure a safe, sound, and dependable source of credit and financially related services for agriculture and rural America. On the basis of the results, FCA believes that its two program activities and their respective means and strategies were effective in helping to meet both strategic goals described below.

Strategic Goals and Outcomes

Goal 1—Ensure the FCS and Farmer Mac fulfill their public mission for agriculture and rural areas.

The primary purpose of Goal 1 is to maximize the ability of the FCS and Farmer Mac to fulfill their purposes and meet their public mission as defined by Congress in the Farm Credit Act. The Agency established 12 means and strategies to accomplish this goal, and it defined five performance measures to evaluate the Agency's progress and success.

The means and strategies refer to initiatives that encourage the FCS to establish outreach programs, as well as credit and other financially related products, to better serve chartered territories; ensure equitable treatment of borrowers and applicants; and encourage cooperation among System and non-System lenders to facilitate the flow of funds to agriculture and rural areas.

The Agency also maintains its focus on activities that it believes will help improve funding to new entrants into agriculture, defined as young, beginning, and small (YBS) farmers and ranchers. The importance of this initiative has its roots in the need for the FCS to help cultivate the next generation of farmers and ranchers who will produce food and fiber and provide the processing and marketing services needed for the Nation's agriculture in the 21st century.

FCA recognizes that for agriculture to flourish, it is equally important to ensure that our Nation's cooperatives and farm-related businesses have access to a dependable source of credit and financially related services so that they may successfully process and market the products of agriculture. The Agency believes that its regulatory supervision of the FCS must be flexible to ensure that the benefits Congress intended the System to provide to America's agricultural and rural areas continue without disruption. The means and strategies contained in FCA's Strategic Plan are designed to help ensure that the FCS and Farmer Mac fulfill their public mission.

The following discussion provides additional information on the activities the Agency undertook to accomplish Goal 1.

Means and Strategy #1—Ensure that FCS lenders and Farmer Mac fulfill their public mission by reaching out to all potential eligible customers.

FCA examinations in 2008 disclosed that FCS institutions have maintained effective business and marketing plans and effective credit delivery programs for all potential eligible customers. System lending continues to reflect growth in the number and dollar volume of high-quality loans.

YBS farmer and rancher programs are also routinely evaluated, relative to the demographics of chartered territories, to assess trends in lending to YBS farmers and ranchers and to assess the System's efforts to provide financial or business management assistance and outreach to YBS farmers and ranchers. The results achieved through these initiatives have been fruitful. The System continues to effectively implement programs to meet the needs of YBS farmers and ranchers, as well as of other borrowers.

Through the Office of Secondary Market Oversight (OSMO), FCA evaluates Farmer Mac's mission accomplishments. Farmer Mac's customer base includes financial institutions and other lenders that seek a secondary market for their agriculture loan portfolios. As part of its oversight activities, OSMO evaluates Farmer Mac's performance in reaching out to all potential customers and in creating easy access to its services. Farmer Mac's annual mission report is submitted to OSMO as of the end of each calendar year. The report includes data on Farmer Mac's participation in Federal and State guarantee programs and the geographic distribution of Farmer Mac's book of business. In addition, the report has been expanded to include data on small and family farms, which Farmer Mac is required by statute to promote and encourage.

As a part of the Federal Government, FCA has a principal responsibility to ensure that the System it regulates serves the public good. To fulfill this responsibility, FCA maintains a program of responding to and investigating, as needed, issues raised by applicants and borrowers of the System and other members of the public regarding the activities of FCS institutions and Farmer Mac. During the reporting period from July 1, 2007, through June 30, 2008, the Agency responded to 15 borrower inquiries. FCA's investigations found one instance in which there was a violation of law or regulation. FCA concluded the investigations by providing additional information to the inquirers and encouraging FCS institutions to follow up with the inquirers to resolve the issues raised. FCA's investigation of these inquiries did not reveal any information or evidence to suggest that the System's direct-lender institutions were not adequately fulfilling their mission.

Means and Strategy #2—Ensure that all eligible customers have access to sound credit and related financial services and encourage outreach activities for all eligible customers, including minority and socially disadvantaged farmers and ranchers and minority-owned cooperatives.

In addition to the regulations that govern the rights of applicants and borrowers, FCA's program activities include processes that review borrower inquiries and complaints about the loan-granting process and provide for investigations of any allegations of discrimination. Although FCA examinations have periodically identified issues concerning compliance with borrower-rights regulations, the examiners have not discovered any discriminatory pattern or practice, any overt or deliberate discrimination against any eligible customers, or an unwillingness of FCS institutions to serve their chartered territories. On the basis of examinations and investigations conducted, FCA concluded that eligible and creditworthy customers have access to the System and are treated fairly and equitably. FCA also noted continued compliance with equal credit opportunity and equal housing laws. Although the Agency did not find discriminatory patterns or practices or any overt discrimination against any eligible customers, its examinations found some technical violations of applicants' rights. Those violations were promptly corrected or addressed in follow-up plans by System institutions, as required by FCA examiners.

OSMO continues to observe constructive initiatives within Farmer Mac to enhance the accessibility of its programs for all market participants, including those involved in Federal and State agricultural loan guarantee programs. These initiatives focus, in part, on efforts to ensure equitable treatment of all potential borrowers and the lenders who serve them. As with all secondary market entities, it can be a challenge for Farmer Mac to ensure equitable treatment of borrowers within the operations of its primary lenders. During examinations, OSMO reviews the consistent and appropriate application of loan underwriting standards on loans presented to Farmer Mac for purchase or guarantee. Further, Farmer Mac's annual mission report now includes a section of data specifically on its financing of small farmers.

Means and Strategy #3—Enable the System and Farmer Mac to serve evolving customer needs by maintaining a regulatory environment responsive to the changing needs of agriculture and rural America.

To the extent permitted by the Farm Credit Act, the Agency explores all avenues to be flexible in its interpretive guidance to System institutions. While examining compliance with borrower-eligibility and scope-of-lending rules, examiners work closely with the Office of General Counsel and the Office of Regulatory Policy to ensure an appropriate and consistent interpretation of statutes and regulations. The interpretations derived are communicated to System institutions to enable them to better understand their lending authorities and therefore to more appropriately market their products and services to prospective eligible customers. FCA also publishes its semiannual Regulatory Performance Plan on its Web site so that the public is notified of upcoming regulatory actions and is provided the opportunity to participate in the regulatory process. In addition, the Agency's e-Government program allows the public to make comments in electronic format and review comments from others on the FCA Web site.

The following are examples of FCA activities that helped the FCS serve its evolving needs and those of its borrowers within the provisions of the Farm Credit Act:

1. FCA approved a final rule that amended the processing and marketing regulations to change the ownership requirement for the eligibility of processing and marketing entities for FCS funding.

2. FCA circulated an Informational Memorandum to System institutions and published Frequently Asked Questions on FCA's Web site to ensure that institutions have a clear understanding of the rules affecting collateral evaluations for real property used for securing "business loans" and that institutions apply the appropriate method of evaluating collateral.

3. FCA circulated an Informational Memorandum that provided guidance to System institutions for determining regulatory capital treatment of certain off-balance-sheet exposures.

4. FCA continued evaluating several mission-related investment pilot programs that it had previously approved to see how System partnerships and investments could help increase the availability of funds to agriculture and rural America.

5. The Agency continued to conduct a comprehensive study of the loan syndication market to determine what changes, if any, are needed in FCA's approach toward syndications and assignments.

6. OSMO, with assistance from the Office of Examination and the Office of General Counsel, provided Farmer Mac with guidance on various regulatory compliance issues, policy direction, and new product development. OSMO evaluated and responded to requests by Farmer Mac to retain various investments in its liquidity reserve whose liquidity risk has increased during the recent period of instability in the capital markets. OSMO staff continued management of regulatory projects related to the Risk-Based Capital Stress Test.

Means and Strategy #4—Emphasize regulatory activities related to young, beginning, and small (YBS) farmers, ranchers, and producers or harvesters of aquatic products.

Since 1998, the Agency has focused considerable resources on improving the implementation and controls of YBS programs and the reporting of YBS lending results. Using a risk-based approach, FCA continues to evaluate YBS programs and related trends in System lending activities based on the demographics of chartered territories and FCS efforts to provide financial or business management assistance and outreach to YBS farmers. All programs evaluated by examiners for the reporting period were considered satisfactory. As a result of the examination and regulatory attention FCA has placed on YBS lending, the System has substantially increased its focus on, and improved its administration of, YBS programs, the quality of board reporting, and public disclosure. Borrowers have directly benefited: YBS loan volume and loan numbers have risen over the past five years. YBS initiatives remain a priority of the Agency, and the FCS institutions are beginning to implement the guidance provided in the revised 2007 Bookletter, "Providing Sound and Constructive Credit to YBS Farmers, Ranchers, and Producers or Harvesters of Aquatic Products" (BL-040). The guidance provided in this Bookletter is important to ensure that all System institutions are fully engaged and use all available authorities to assist YBS farmers to begin, expand, and remain in agricultural or aquacultural production.

Means and Strategy #5—Emphasize Farmer Mac's obligation to promote and encourage the inclusion of qualified loans for small farms and family farmers in the agricultural mortgage secondary market.

The statute requires Farmer Mac to promote and encourage the inclusion of small and family farms in its programs. Reporting requirements developed by OSMO for Farmer Mac monitor the statutory requirements for nondiscrimination against small borrowers and lenders. These reporting requirements also serve to encourage Farmer Mac's efforts to pass on its objectives in meeting the credit needs of small and family farms to the lenders with which it works. To further support Farmer Mac in these efforts, OSMO provides timely feedback on various issues, including loan eligibility on prospective new lines of business.

Means and Strategy #6—Encourage the System and Farmer Mac to use guarantee programs including, but not limited to, USDA programs and to work with Federal and State agencies that offer such programs in order to streamline processes.

As a part of the evaluation of YBS programs, the Agency continues to assess the extent to which FCS institutions use loan guarantee programs. FCA encourages FCS institutions to work with Federal and State agencies that offer such programs. For example, the Agency encourages FCS institutions to meet the requirements to qualify for the USDA Farm Service Agency's "preferred lender" status. During the reporting period from July 1, 2007, to June 30, 2008, the System's use of Government guarantees for YBS borrowers increased.

Agency staff members encourage institutions to use guarantees as an effective risk management tool that helps borrowers who need this assistance. Loan guarantees are also encouraged for YBS borrowers with limited financial capacity and existing borrowers who are temporarily experiencing financial difficulties.

Farmer Mac provides secondary market liquidity to Federal and State guarantee programs through its Farmer Mac II and Farmer Mac III programs, respectively. During FY 2008, OSMO reviewed the 2007 Mission Report for Farmer Mac in which it reports its participation in the Federal and State programs. Farmer Mac's initiative targeting State guarantee programs, known as Farmer Mac III, has had a slow start since its introduction two years ago.

Means and Strategy #7—Encourage all System institutions and Farmer Mac to continue to include a discussion in annual reports of how they are meeting their public mission.

FCA's routine examinations of institution business plans and shareholder and public disclosures include a review of how the institutions meet and discuss their public mission as GSEs. When examiners identify reasons for concern that institutions are not meeting their public missions or discussing these missions appropriately in their annual reports, they address the issue with institution officials in the examination oversight process.

Farmer Mac's year-end 2007 Annual Report and Form 10-K filing include several references to its public mission. OSMO's ongoing monitoring and annual examination of Farmer Mac include a review of how Farmer Mac intends to achieve its public mission in the coming year. The review evaluates Farmer Mac's business and marketing plans, marketing and public policy committee meeting minutes, and ongoing marketing efforts. Guidance provided by FCA through these monitoring efforts has had a positive impact on Farmer Mac's public disclosures related to mission. OSMO will continue to encourage regular disclosure of Farmer Mac's mission accomplishments.

Means and Strategy #8—Enable the agricultural GSEs to restructure themselves to best serve their customers and rural America.

While the pace of institution mergers and restructures remained slow, Agency staff continue to analyze and approve periodic requests by institutions to restructure to more effectively and efficiently serve their chartered territories in rural America. During the year, the FCA Board approved the request from two institutions to merge their operations and the request from two other institutions to consolidate their operations. The Board also approved the request from an institution to consolidate its two Production Credit Association (PCA) subsidiaries into one PCA subsidiary and its two Federal Land Credit Association (FLCA) subsidiaries into one FLCA subsidiary. In addition, the FCA Board approved the request from one institution to move its headquarters and the request from another for a name change.

Farmer Mac moved its underwriting field office from Ames, Iowa, to Ankeny, Iowa, in 2007. This field office is providing greater responsiveness to customers.

Means and Strategy #9—Ensure that regulatory definitions reflect the changes in agriculture, rural areas, and the financial marketplace.

FCA monitors changes in the regulatory community and periodically reviews and updates its regulations to ensure that definitions of terms are relevant. When rules are republished as final rules, these definitions are again reviewed for completeness and accuracy with respect to industry and market parlance. FCA also issues Informational Memorandums to FCS institutions to provide them with technical clarification or examination guidance.

Farmer Mac received guidance from OSMO on various regulatory and statutory compliance issues. During FY 2008, these issues have focused especially on liquidity reserve investments and product development proposals that keep pace with the emerging needs for risk stratification in structured products such as subordinated long-term standby commitments and convertible long-term standby commitments. In addition, OSMO provided guidance and placed conditions on Farmer Mac's potential purchase of certain investment products issued by System institutions.

Means and Strategy #10—Identify and eliminate, consistent with law and safety and soundness, all regulations that are unnecessary, unduly burdensome, or not based on law.

In support of section 212(b) of the Farm Credit System Reform Act of 1996 and FCA's policy statement on regulatory philosophy, the FCA Board approved a Notice and Request for Comment in June 2008 soliciting public comments on regulations that are unnecessary, unduly burdensome, or not based on law. The Agency will be reviewing and considering all comments and determining what actions are warranted. In addition, the FCA Board approved the rescinding of 24 obsolete Bookletters, which had provided supplemental regulatory guidance to the System.

Means and Strategy #11—Encourage partnerships between System and non-System lenders and Farmer Mac that facilitate the flow of funds to agriculture and rural areas.

FCA encourages FCS institutions that have adequate capital resources to prudently use participations and similar-entity lending authorities to manage risk in FCS institutions and better serve rural America. These authorities allow lenders to diversify risk and to more fully meet the credit needs of agriculture and related businesses. Participations purchased from outside sources by FCS institutions have increased considerably as a percentage of the System's portfolio in recent years. FCA examiners also reported a number of relationships with commercial banks and investment management firms that provide additional products to System customers.

OSMO encourages partnerships between Farmer Mac and System and non-System lenders. Farmer Mac has partnership initiatives with various System lenders and with community bankers through the American Bankers Association. Further, Farmer Mac continues to guarantee notes that are collateralized by obligations of non-System lenders. That collateral is, in turn, secured by Farmer Mac-eligible agricultural real estate mortgage loans. These transactions continue Farmer Mac's initiative to diversify its marketing focus by tailoring its pricing based on asset quality. While Farmer Mac receives lower compensation for securing higher-quality assets, the quality of the assets provides greater protection against adverse credit performance.

Means and Strategy #12—Communicate best practices or establish guidelines when appropriate on FCA-regulated institutions' efficient and effective use of partnerships and other relationships with non-FCA-regulated entities to facilitate the flow of funds to agriculture and rural areas.

The Agency routinely communicates matters to System institutions that are intended to protect each institution's safety and soundness and facilitate proper management of risk. This guidance facilitates the flow of funds to agriculture and rural areas by providing System institutions with sound practices to follow in developing and implementing lending programs and information technology. Ultimately, this guidance can assist management to originate, close, and manage loan and funding programs more efficiently.

The growth in Farmer Mac's off-balance-sheet AgVantage product with major insurance and banking companies provides a good example of the Agency's application of this strategy. The Agency is working to accommodate the structure of this $2.5 billion in volume through efforts on the proposed rule for the Risk-Based Capital Stress Test (Version 3.0). OSMO's 2005 decision to approve a pilot program for Farmer Mac to invest in securities backed by rural utility loans was borne out in 2008 as Congress granted permanent authority for financing of such loans to Farmer Mac in the 2008 Farm Bill.

Farmer Mac continues to enhance its relationships with its loan sellers and servicers in response to FCA supervision activities. These entities perform a critical function in Farmer Mac's business pipeline. OSMO evaluated Farmer Mac's efforts to strengthen its relationship with its servicers through informational forums and independent credit reviews. These efforts have enhanced sellers' and servicers' understanding of Farmer Mac's underwriting criteria and loan servicing expectations, which OSMO believes strengthens Farmer Mac's ongoing relationship with originating sellers and servicers.

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

The primary purpose of Goal 2 is to maintain the safety and soundness of the FCS and Farmer Mac and to ensure compliance with laws and regulations. FCA's examination and regulatory supervision of each institution, as well as Farmer Mac, is the principal avenue by which this goal is achieved. The Agency established seven means and strategies to accomplish this goal and defined seven performance measures to evaluate the progress and success of its oversight of the System. The means and strategies address the critical components of effective supervision and require FCA to maintain an effective training program for examiners, to coordinate regulatory guidance and examination procedures, to focus on risk management and risk-bearing capabilities of institutions, and to identify risk and take corrective actions in a timely manner. The seven performance measures in the FCA Strategic Plan are designed to measure the overall safety and soundness of the System and FCA's performance in keeping System institutions fundamentally sound in all material respects and in compliance with laws and regulations. The following discussion provides additional details on the activities that contributed to FCA's achievement of Goal 2.

Means and Strategy #1—Maintain an effective examination and oversight program through maintenance of the Precommission Training Program and ongoing training of commissioned examiners.

The pending wave of Agency retirements and the growing complexity and sophistication of the institutions examined have created the need to rapidly attract examination staff and to build staff skill levels and competencies. FCA has established a recruiting and training program to ensure that this need is met. The objective of the Precommission Training Program is to develop the next generation of diverse and highly motivated examiners with the knowledge, skills, and talents necessary to accomplish the Agency's mission and ensure the safety and soundness of the FCS. The Precommission Training Program is the primary focus and responsibility of the Staff Development Division, which was formed in 2005. The Program has been redesigned to focus on skills development in FCA's primary areas of oversight—credit, finance, and operations.

FCA also makes a considerable investment in the development of commissioned examiners. This is accomplished through human capital planning, career path development, and specialty programs. The specialty programs are being expanded into the areas of credit, finance, and operations and are designed to enable examiners to gain technical expertise and to encourage their professional development and certification.

Means and Strategy #2—Develop regulatory guidance and examination procedures that keep pace with evolving strategies used by the FCS and Farmer Mac in addressing the changing needs of their customers in rural areas.

Agency staff continues to develop regulations to provide timely and proactive oversight of System risk. The goal is to maintain the safety and soundness of the FCS while keeping pace with its changing needs. Examples of Agency regulatory and reporting activity include the following:

1. Approving a rule to amend the regulations to provide priority-of-claims rights for payments made under an agreement among Farm Credit banks to reallocate the banks' joint and several liability on consolidated and System-wide obligations and to clarify the payment-of-claims provision.

2. Approving a rule to amend the regulations regarding the priority of claims for payments by System institutions to holders of subordinated debt on behalf of a defaulting System institution.

3. Approving a rule to amend the eligibility and scope-of-lending regulations for processing and marketing operations to be more responsive to changing ownership structures of processing and marketing operations.

4. Approving a rule that amends the regulations to allow System institutions 90 calendar days to prepare and distribute annual reports to shareholders but retains the 75-day requirement for electronic reporting and distribution to the Agency.

5. Proposing a rule to amend the regulations to allow System institutions to make investments in rural community essential facilities and infrastructure projects in collaboration with Federal and State agencies and other rural lenders.

6. Extending the comment period on the Advance Notice of Proposed Rulemaking requesting public input on possible regulatory changes to its capital rules to enhance the capital framework and more closely align minimum capital requirements to risks taken by System institutions.

Examination teams are aligned according to the types of institutions that are examined, and institution "types" are defined by certain common characteristics and potential risks. The examination teams coordinate closely with the Risk Supervision Division, which provides oversight of the FCS as a whole. The Examination Policy Division (EPD) provides proactive guidance to System institutions through Informational Memorandums, such as "Asset Growth, Market Volatility, and Best Practices for Fast Growing Institutions." EPD also maintains and develops new guidance for examiners through Examination Bulletins, the Examination Manual, and ongoing communications. These communications are designed to keep pace with evolving business models used by the System institutions and to encourage the use of a risk-based supervisory approach.

The Office of Examination's (OE's) National Oversight Program has enabled the Agency to increase its national focus and to have greater flexibility in assigning examiners to material risk and emerging issues. It also allows for a coordinated, System-wide oversight and examination approach. OE's National Oversight Plan included some of the following focus areas:

- Asset growth
- Capital management
- Capital market activities
- Implementation of governance regulations
- Internal audit/internal credit review programs
- Ethanol effects
- Compliance with laws and regulations

With respect to Farmer Mac, FCA encourages innovations in its product development within the bounds of safety and soundness considerations and provisions of the Farm Credit Act. OSMO's ongoing communication, examination reports, and off-site monitoring of Farmer Mac provide timely guidance to management on the risk implications of new products.

Means and Strategy #3—Evaluate whether each FCS institution and Farmer Mac have established and are maintaining proactive risk management practices commensurate with their respective risk-bearing capacities.

Risk management practices are evaluated as a normal and routine aspect of FCA's examinations, with conclusions and recommendations shared with System boards of directors. An integral part of those evaluations is determining whether the FCS institutions have proactive risk management practices commensurate with their respective risk-bearing capacities. Examiners encourage and evaluate the use of risk parameters, stress testing, and loan underwriting standards. In addition, one of OE's National Oversight Plan focus areas is risk management and controls that emphasize loan underwriting and portfolio management areas.

OSMO conducted monitoring and oversight reviews that focused on Farmer Mac's risk management practices. Additionally, OSMO provided clarification on its expectations regarding the underwriting of securities backed by rural electric utility loans.

Means and Strategy #4—Evaluate whether each direct-lender institution maintains systems that allow it to analyze the characteristics of risk and borrower profiles in its loan portfolio.

FCA examiners evaluate whether direct-lender institutions maintain systems that allow them to properly assess the loans in their portfolios for risks. Overall, FCS institutions have adequate risk management systems in place and continue to make progress in positioning their balance sheets and management systems for the future. In addition, the FCS implemented a 14-point risk-rating system, which is being validated and refined. This information will be included in a dynamic loan portfolio information database that will provide more capabilities to run queries and conduct stress testing of loan portfolios.

Means and Strategy #5—Evaluate whether management and board governance of FCA-regulated institutions are keeping pace with the increasing size and complexity of institutions' operations.

Examiners continue to make recommendations, where appropriate, to further strengthen institution governance. In particular, examiners are focusing on the effectiveness of audit and review programs and the scope and depth of activities performed by audit committees.

The Agency finalized a rule in early 2006 to strengthen the governance of FCS institutions. The intent was to enhance board oversight; improve disclosure of compensation arrangements; provide guidance on director qualifications; and strengthen requirements for audit, nominating, and compensation committees. FCA examiners concluded that the FCS institutions' overall compliance with the governance rule is satisfactory.

Board governance practices at Farmer Mac remain a central focus of the annual FCA examination because of the extent to which these practices resonate throughout Farmer Mac's operations. FCA is actively engaged in the oversight of Farmer Mac's implementation of the Sarbanes-Oxley Act's provisions on board governance, as well as industry self-regulatory standards established by the New York Stock Exchange.

Means and Strategy #6—Maintain early warning systems, research, and analysis that allow timely identification of emerging risks in FCS institutions and incorporate the findings into examination and oversight programs.

The Agency maintains systems that provide for timely identification of emerging risks and related issues in FCS institutions. First, OE maintains a dynamic Financial Institution Rating System and benchmark ratio program that evaluates changes in the financial condition of FCS institutions each quarter. Second, a detailed quarterly risk analysis report is prepared for the FCA Board that identifies emerging risks within the FCS as a whole, within each Farm Credit district, and within each OE team's portfolio. The report also provides supporting background information from the Federal Farm Credit Banks Funding Corporation. Third, OE maintains an oversight program of each institution, which includes a risk-assessment process that allows for a more proactive and forward-looking perspective of risk. The areas of risk assessed are credit, interest rate, liquidity, operations, compliance, strategic, reputation, and internal controls.

In addition to examination-related activities, the Agency maintains commodity price databases, farm income and trade data, lending data, and other economic databases that are available to examiners and others in the Agency. These databases, as well as periodic presentations on assessing economic risks and industry trends, enable examiners and others in FCA to stay current on the changing agricultural and financial sectors.

OE routinely researches and analyzes emerging risks and related issues and incorporates the findings into examination and oversight programs and guidance to System institutions. The Risk Supervision Division directs the National Oversight Program, and the Risk Council provides input into the development of the program. The council also recommends the strategies or level of monitoring or analysis for each identified risk issue and corresponding staff assignments.

The group also raises and analyzes emerging issues and considers them for addition to the National Oversight Program. For example, during the reporting period, staff researched and analyzed the significant asset growth trends in the FCS and communicated guidance to the FCS through the Informational Memorandum, "Asset Growth, Market Volatility, and Best Practices for Fast Growing Institutions." The Agency has also conducted research and developed studies on the ethanol industry, commodities, the general economy, and FCS institutions.

FCA has instituted several periodic reporting requirements for Farmer Mac that collectively serve as an early warning system across all Farmer Mac's functional areas. This ongoing monitoring provides significant detail on debt spreads and term structure, derivative contracts, liquidity, and nonprogram investments. It also provides information about the legal structure of Farmer Mac's new products, which is critical to the Agency's oversight of Farmer Mac activities.

OSMO staff continues to make significant progress on enhancements to the RBCST, which have required extensive research and analysis of risks and other issues. Several projects incorporating research and analysis of emerging risk were in process during FY 2008. These projects include the analysis of investments in securities downgraded by the credit rating agencies, and credit and operations risk associated with expansion of Farmer Mac's legislative authorities.

Means and Strategy #7— Ensure that examinations include sufficient samples of assets to ensure that material risks to the FCS are appropriately identified and managed.

OE's Oversight and Examination Plan contains an objective for increasing FCA's on-site presence and for examining assets to test the reliability of internal credit review programs at FCS institutions. The plan reviews the following:

- Asset growth
- Shared assets program
- Internal audit/internal credit risk programs
- Portfolio risk/stress analysis
- General financing agreements

Table 6a
Goal 1—Public Mission
Performance Measures and Results
July 1, 2007, to June 30, 2008

Measure	Results	2005 Target	2005 Results	2006 Target	2006 Results	2007 Target	2007 Results	2008 Target	2008 Results	2008 Results vs. Target
1. Percentage of FCS institutions[1] with satisfactory business plans and management systems for providing constructive credit and related services to all potential customers, including institutions with acceptable corrective action plans[2]	FCA examiners reviewed the strategic business plans of 98 FCS institutions. All plans were found to be satisfactory, or the institutions were operating under acceptable corrective action plans.	>90%	99%	>90%	100%	>90%	100%	≥90%	100%	▲
2. Whether Farmer Mac has developed and implemented a marketing program to appropriately grow program assets consistent with its mission and whether it has received a satisfactory rating from the Office of Secondary Market Oversight (OSMO) or is operating under a corrective action plan acceptable to OSMO	Farmer Mac has a marketing program that accomplishes this measure and has received a satisfactory rating from OSMO or is operating under a corrective action plan acceptable to OSMO.	N/A	N/A	Yes	Yes	Yes	Yes	Yes	Yes	✓
3. Percentage of direct-lender institutions with satisfactory internal controls over consumer compliance and borrower-rights compliance, including institutions with acceptable corrective action plans	FCA examiners performed compliance reviews at 92 direct-lender institutions. All were absent any material deficiencies or weaknesses in internal controls or were operating under acceptable corrective action plans.	≥90%	100%	≥90%	100%	≥90%	100%	≥90%	100%	▲

Note: The following defines the symbols and abbreviations used to describe targets in the Performance Measures and Results table: > is greater than; ≥ is greater than or equal to; NA indicates either that the measure is not applicable or that FCA's performance could not be measured; ▲ indicates FCA's performance exceeded the FY 2008 target; ✓ indicates FCA achieved the 2008 target.

1. For purposes of performance measurement, the term "institutions" does not include the FCS service corporations, the National Consumer Cooperative Bank, Farmer Mac (unless specifically noted), or institutions that FCA examines on behalf of the Small Business Administration and the U.S. Department of Agriculture on a contract basis.
2. This measure was updated this year to be consistent with the Agency's most recent Strategic Plan, which was published in May 2008. Before 2008, the measure was as follows: "Percentage of FCS institutions with satisfactory strategic business plans as rated by FCA examiners for providing constructive credit and related services to all potential customers, including those operating under corrective action plans acceptable to FCA." The new measure requires FCA examiners to review an institution's management system, as well as its strategic business plan.

Table 6a
Goal 1—Public Mission
Performance Measures and Results
July 1, 2007, to June 30, 2008

Measure	Results	2005 Target	2005 Results	2006 Target	2006 Results	2007 Target	2007 Results	2008 Target	2008 Results	2008 Results vs. Target
4. Percentage of instances in which the Agency solicits public comment and input on applicable regulatory initiatives using supplemental approaches[3] to the notice and comment rulemaking process	Supplemental approaches were used on seven of eight regulatory initiatives.	≥40%	30%	≥40%	70%	≥40%	67%	≥40%	89%	▲
5. Percentage of direct-lender institutions that have satisfactory programs to furnish sound and constructive credit and related services to young, beginning, and small (YBS) farmers, ranchers, and producers or harvesters of aquatic products, including institutions with acceptable corrective action plans	FCA examiners reviewed the YBS programs at 93 direct-lender institutions. All were found to be satisfactory or were operating under an acceptable corrective action plan.	≥90%	99%	≥90%	100%	≥90%	100%	≥90%	100%	▲
6. The aggregate annual change in the level of System participation in Federal and State guarantee programs in relation to the aggregate annual change in total Federal and State guarantee programs to further accomplish the System's public mission.	Because Federal and State programs do not collect the necessary data to calculate this change, this performance measure was eliminated in 2008.	≥ 1.00	1.12	≥ 1.00	1.00	≥ 1.00	N/A	N/A	N/A	N/A

3. Supplemental approaches include advance notices of proposed rulemaking, comment period reopenings and extensions, constituent/congressional committee meetings, public meetings, focus groups, town meetings, and other approaches to gathering a broad range of public input. To ensure technical accuracy, the results reported were calculated by dividing the number of regulatory initiatives that used supplemental approaches by the total number of regulatory projects published in the Regulatory Performance Plan. The process for reporting performance results for supplemental approaches was addressed in a recent report by the Office of Inspector General (IG). The results reported herein are in accordance with the IG's recommendations.

Table 6b
Goal 2—Safety and Soundness
Performance Measures and Results
July 1, 2007, to June 30, 2008

Measure	Results	2005 Target	2005 Results	2006 Target	2006 Results	2007 Target	2007 Results	2008 Target	2008 Results	2008 Results vs. Target
7. Number of institutions that FCA placed in receivership because of financial failure during the previous 12 months	During the past 12 months, no FCS institutions were placed in receivership.	0	0	0	0	0	0	0	0	✓
8. The total assets of FCS institutions that FCA has determined are fundamentally sound in all material respects	Ninety-nine percent of the total assets of FCS institutions were fundamentally sound in all material respects.	≥90%	100%	≥90%	100%	≥90%	99.5%	≥90%	99%	▲
9. Percentage of FCS institutions with composite Financial Institution Rating System (FIRS) ratings of 3, 4, or 5 with acceptable corrective action plans in place to address the problems identified by FCA examiners	Five FCS institutions had composite FIRS ratings of 3 and have acceptable corrective action plans in place.	100%	100%	100%	100%	100%	100%	100%	100%	✓
10. Percentage of System assets in institutions with ratios of adverse assets to risk funds of less than 100 percent	All FCS institutions maintained adversely classified assets at levels that were within their risk-bearing capacity, as their ratios of adverse assets to risk funds were less than 100 percent.	≥90%	100%	≥90%	100%	≥90%	100%	≥90%	100%	✓
11. Percentage of institutions complying with regulatory capital ratio requirements (permanent capital ratio, total surplus ratio, core surplus ratio, net collateral ratio, risk-based capital), including institutions with acceptable corrective action plans	All FCS institutions complied with the regulatory capital requirements.	100%	100%	100%	100%	100%	100%	100%	100%	✓

Table 6b
Goal 2—Safety and Soundness
Performance Measures and Results
July 1, 2007, to June 30, 2008

Measure	Results	2005		2006		2007		2008		2008
		Target	Results	Target	Results	Target	Results	Target	Results	Results vs. Target
12. Percentage of FCS institutions with acceptable action plans to correct violations of laws and regulations identified by FCA examinations	FCA examiners identified 52 FCS institutions that had violations of laws and regulations. All had acceptable corrective action plans.	100%	100%	100%	100%	100%	100%	100%	100%	✓
13. Percentage of institutions that have satisfactory audit and review programs, including institutions with acceptable corrective action plans	FCA examiners reviewed the audit and review programs of 98 FCA-regulated institutions. All were found to be satisfactory or were operating under acceptable corrective action plans.	100%	100%	100%	100%	100%	100%	100%	100%	✓

Table 6c
Goal 3—President's Management Agenda[4]
Performance Measures and Results

Measure	Results	2005 Target	2005 Results	2006 Target	2006 Results	2007 Target	2007 Results	2008 Target	2008 Results	2008 Results vs. Target
14. Structure of Agency is assessed at least once every five years to determine whether changes are needed to better meet mission goals.	This measure was discontinued this year.	Yes	Yes	Yes	Yes	Yes	Yes	N/A	N/A	N/A
15. Audit opinion on the Agency's annual financial statements, as reported by the Agency's external auditors.	This measure was discontinued this year.	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified	N/A	N/A	N/A
16. Number of material internal control weaknesses reported by the Agency's financial auditors.	This measure was discontinued this year.	0	0	0	0	0	0	N/A	N/A	N/A
17. Percentage of the Agency's Web pages and electronic devices that are section 508 accessibility compliant.	This measure was discontinued this year.	≥95%	95.4%	≥95%	97.9%	≥95%	96.8%	N/A	N/A	N/A
18. FCA information and technology services are available on a continuous 24-hour basis to provide appropriate users access to Agency information, communications, and data collection services.	This measure was discontinued this year.	≥97%	98.3%	≥97%	99.5%	≥98.5%	98.8%	N/A	N/A	N/A

4. This goal and all of the measures associated with it were eliminated from the Performance Plan in 2008 because the operational elements of the President's Management Agenda are indirectly related to FCA's mission. However, the Performance and Accountability Report retains a section that discusses the Agency's continued implementation of the President's Management Agenda.

Auditor’s Reports and Financial Statements

Letter from the Chief Financial Officer

I am pleased to report that FCA has received an unqualified audit opinion on its fiscal year (FY) 2008 financial statements. FY 2008 marks the 15th year that FCA has achieved a clean audit opinion since 1994, when the Agency's financial statements were first audited by the Inspector General and external auditors. With no identified material weaknesses in internal controls or instances of noncompliance with laws and regulations, these opinions validate FCA's uncompromising commitment to excellence in financial reporting.

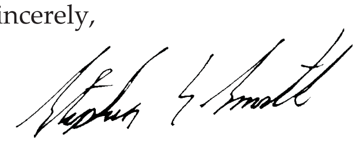
This record of accomplishment reflects the strong internal control environment that the FCA Board and senior managers have established within the organization. No material internal control weaknesses were identified in any operational or mission-related programs during FY 2008. A senior assessment team (SAT) for internal controls, established to oversee internal controls throughout the Agency, met regularly over the fiscal year and concurred with management's assurances on the effectiveness of FCA's internal controls. SAT members were selected from all major programs at FCA to ensure that the Agency maintained and reinforced a cohesive, robust internal control environment.

The Agency's record of accomplishment extended to other areas of external review as well. The annual, independent Federal Information Security Management Act (FISMA) review of the Agency's information systems security program revealed no significant or material weaknesses.

Strong performance budgeting and financial controls will remain a priority at FCA during FY 2009; however, to build upon its tradition of accountability and transparency, the Agency is committed to moving beyond the achievement of clean audit opinions and reliable reporting. Accurate, timely financial data are critical to efficient and effective business processes, and significant progress was made over the past year to integrate access to financial information into management's daily decision-making processes. Agency offices will continue to collaborate throughout FY 2009 as we work toward the seamless integration of FCA's operational and mission-related programs.

In closing, all successful organizations recognize that their most important resource is a dedicated, talented staff. FCA benefits immensely from a host of innovative, skilled staff members who work diligently to fulfill the Agency's mission by establishing and adhering to its policies and controls.

Sincerely,



Stephen G. Smith
Chief Financial Officer
Farm Credit Administration

Farm Credit Administration

Office of Inspector General
1501 Farm Credit Drive
McLean, Virginia 22102-5090
(703) 883-4000

FCA
FARM CREDIT ADMINISTRATION

November 7, 2008

The Honorable Leland A. Strom
Chairman of the Board
Farm Credit Administration
1501 Farm Credit Drive
McLean, Virginia 22102-5090

Dear Chairman Strom:

This letter transmits the report on the audit of the Farm Credit Administration's (FCA's or Agency's) financial statements, internal control over financial reporting, and compliance with certain laws and regulations for the fiscal year ended September 30, 2008. The Office of Inspector General (OIG) contracted with the U.S. Department of Treasury's Bureau of the Public Debt (BPD) to hire the independent auditing firm Brown & Company CPAs, PLLC, (Brown & Co.) to perform the audit.

Brown & Co. issued an unqualified opinion on the Agency's financial statements. It opined that FCA's principal financial statements present fairly, in all material respects, the financial position of the Agency as of September 30, 2008 and 2007, in conformity with generally accepted accounting principles. Brown & Co. issued two other reports. Its report on internal control noted no matters considered to be material weaknesses. Brown & Co.'s report on compliance with laws and regulations relating to the Agency's determination of financial statement amounts does not note any instances of noncompliance. In OIG's opinion, Brown & Co.'s work provides a reasonable basis on which to render its opinion and we concur with their reports.

OIG's contract with BPD required that Brown & Co. perform the audit in accordance with "Government Auditing Standards" issued by the Comptroller General of the United States and Office of Management and Budget Bulletin No. 07-04, "Audit Requirements for Federal Financial Statements, as Amended." To ensure the quality of the work performed, OIG

- reviewed Brown & Co.'s approach to, and planning of, the audit;
- evaluated the qualifications and independence of the auditors;
- monitored the progress of the audit;
- examined work papers; and
- reviewed the audit reports.

As part of the Agency's annual Performance and Accountability Report, the Inspector General is required by law to provide a summary statement on the most serious management and performance challenges facing the Agency. These challenges fall into two general categories. First are the challenges related to FCA's mission of ensuring a safe, sound, and dependable Farm Credit System (FCS or System) as a source of credit and related services to agriculture and rural America. Some of these challenges may be influenced by events that are outside the control of the Agency. Second, but no less important, are the challenges related to Agency operations.

MANAGEMENT AND PERFORMANCE CHALLENGES

Farm Credit System
The System is a lender to a single industry, agriculture, and is therefore vulnerable to economic swings in that industry. Nevertheless, the FCS remains sound in all material respects. Earnings and capital levels have continued to strengthen, and asset quality remains high. The Agency's challenge is to continue to ensure the System's ability to withstand this vulnerability through effective examination and regulatory activities. The Agency's regulatory attention must also address other vulnerabilities in the System. Among these are scope-of-lending excesses and risks associated with exposure to new enterprises, such as alternative fuel production and System institutions' "investments in rural America."

Farm Credit Administration
There continue to be many issues facing agriculture and rural America today that raise the question of whether there should be modifications to the Farm Credit Act to enable the System to better serve agricultural and rural economies of the future. Despite whether the Act is modified, the Agency should anticipate that the System will continue to seek broad regulatory interpretations. However, as a financial regulator, FCA's **challenge** is to continue to maintain an independent and objective, yet flexible and responsive, regulatory environment for the System, geared to continually ensuring that the FCS fulfills its public policy purpose. Key to this for FCA is effective examination and regulation of System institutions by maintaining a properly staffed and resourced Agency.

The Next Possible Agricultural Economic Downturn
There are many factors in agriculture today that may indicate future serious difficulties for agriculture and the FCS. Following are some examples:

- The System's rapid growth over the past several years has eroded its capital-to-assets ratio.
- The current high agricultural land values may not be sustainable.
- The livestock sector is experiencing stress.
- There is volatility in commodity prices.
- Input costs, including fuel, are high.

While some sectors of agriculture are prospering and the Agency's Office of Examination (OE) reports that System institutions remain safe and sound, these factors have also led the OE to state that credit deterioration is likely and risks are rising.

Thus, a major **challenge** for the Agency is to ensure its ongoing ability to timely assess economic and operational conditions affecting the welfare of the System's borrowers and thus System institutions, and to take preemptive or remedial actions to ensure the ongoing safety and soundness of the System. The first line of preparedness for the Agency in accomplishing this is an effective risk assessment and examination program, including the continual assessment of the reliability of risk evaluation and examination findings, and the sufficiency of the Agency's supervision and enforcement processes.

Human Capital

In 2006, a five-year strategic human capital plan was completed. FCA's **challenge** is to continue to implement the human capital plan to ensure that FCA has the staff it needs to effectively regulate a constantly evolving FCS. In meeting this challenge, the Agency should continue to address the attrition of seasoned staff and ensure the viability of the examination staff, a critical component of the Agency's regulatory capability.

As the Agency moves further into the human capital plan's five-year cycle, the Agency must critically assess the implementation of the current plan and, as the current plan nears completion, establish a new five-year human capital plan based on current human capital experience and perceived future human resource needs.

Strategic Planning

In December 2003, the FCA Board adopted the Strategic Plan for Fiscal Years 2004–2009. The next Agency strategic plan was not adopted by the FCA Board until May 2008. In accordance with the Government Performance and Results Act of 1993 and Office of Management and Budget Circular A-11, an updated and revised strategic plan is required within three years of submitting a prior strategic plan.

Since adoption of the 2008–2013 strategic plan, the FCA Board has a new Chairman, and FCA is likely to acquire two new Board members before it updates the strategic plan again. The Agency has both the opportunity and the **challenge** to ensure that it updates the next strategic plan in a timely manner so that the plan will reflect the vision of the new Board.

In 2005, the FCA Board established a Strategic Planning Committee (SPC) composed of Agency staff to facilitate FCA Board input into the plan and the planning process. The SPC should ensure the updating and issuance by the FCA Board of the next strategic plan, presumably dated FY 2011–2016.

Leveraging Technology

Information technology (IT) is a key element in management's efforts to continually improve Agency performance. The Agency is in the process of a major infrastructure transition designed to promote efficient work processes and to provide staff with enhanced communication and collaboration tools. The **challenge** is to stay abreast of emerging technologies and to establish an IT infrastructure that provides FCA staff with IT tools and skills to operate in an efficient, effective, and secure manner. In addition, the Agency must ensure that its technical staff has the skills and knowledge to implement and maintain its infrastructure, and initiatives in this regard are underway.

Respectfully,

Carl A. Clinefelter

Carl A. Clinefelter
Inspector General

BROWN & COMPANY CPAs, PLLC
CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT CONSULTANTS

INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

Farm Credit Administration
The Board and Office of Inspector General

We have audited the accompanying balance sheet of the Farm Credit Administration (FCA) as of September 30, 2008 and 2007, and the related statements of net cost, changes in net position, and budgetary resources, for the years then ended (collectively referred to as the financial statements). These financial statements are the responsibility of FCA's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in U.S. Government Auditing Standards, issued by the Comptroller General of the United States; and, Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirement for Federal Financial Statements.* Those standards and OMB Bulletin No. 07-04 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the FCA as of September 30, 2008 and 2007 and its net costs, 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.

In accordance with U.S. Government Auditing Standards and OMB Bulletin No. 07-04, we have also issued a report dated November 7, 2008 on our consideration of the FCA internal control over financial reporting and its compliance with provisions of laws and regulations. Those reports are an integral part of an audit performed in accordance with U.S. Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The information in "Management's Discussion & Analysis" is presented for the purpose of additional analysis and is required by OMB Circular No. A-136, revised *Financial Reporting Requirements*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and, accordingly, express no opinion on it.

This report is intended solely for the information and use of the management of the FCA, the Office of Inspector General of FCA, OMB and Congress, and is not intended to be and should not be used by anyone other than these specific parties.

Brown & Company

Largo, Maryland
November 7, 2008

BROWN & COMPANY CPAs, PLLC
CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT CONSULTANTS

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

Farm Credit Administration
The Board and Office of Inspector General

We have audited the financial statements of the Farm Credit Administration (FCA) as of and for the year ended September 30, 2008 and have issued our report thereon dated November 7, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; and the standards applicable to financial audits contained in U.S 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.*

In planning and performing our audit, we considered the FCA's internal control over financial reporting by obtaining an understanding of the FCA's internal control, determined whether internal controls had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 07-04. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982, such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide an opinion on internal control and therefore, we do not express an opinion on internal control.

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 and OMB Bulletin No. 07-04, a significant deficiency is a deficiency in internal control, or a combination of deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected. 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 a material weakness. A material weakness is a significant deficiency, or combination of significant deficiencies, that result in a more than remote likelihood that a material misstatement of the financial statements will not be prevented or detected. Because of inherent limitations in internal controls, misstatements, losses, or non-compliance may nevertheless occur and not be detected. However, we noted no matters involving the internal control and its operation that we considered to be significant deficiencies or material weaknesses as defined above.

In addition, with respect to internal control objective related to the performance measures included in the "Management's Discussion & Analysis," we obtained an understanding of the design of internal controls relating to the existence and completeness assertions, and determined whether they have been placed in operation as required by OMB Bulletin No. 07-04. Our procedures were not designed to provide opinion on internal control over reported performance measures, and, accordingly, we do not express an opinion on such controls.

This report is intended solely for the information and use of the management of the FCA, the Office of Inspector General of FCA, OMB and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

Brown & Company

Largo, Maryland
November 7, 2008

BROWN & COMPANY CPAs, PLLC

CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT CONSULTANTS

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

Farm Credit Administration
The Board and Office of Inspector General

We have audited the financial statements of the Farm Credit Administration (FCA) as of and for the year ended September 30, 2008, and have issued our report thereon dated November 7, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in U.S. 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.*

The management of the FCA is responsible for complying with laws and regulations applicable to the FCA. As part of obtaining reasonable assurance about whether the FCA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain other laws and regulations specified in OMB Bulletin No. 07-04. We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to the FCA.

The results of our tests of compliance disclosed no reportable instances of noncompliance with other laws and regulations discussed in the preceding paragraph that are required to be reported under U.S. Government Auditing Standards or OMB Bulletin No. 07-04.

Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit, and, accordingly, we do not express such an opinion. However, we noted no noncompliance with laws and regulations, which could have a direct and material effect on the determination of financial statement amounts.

This report is intended solely for the information and use of the management of the FCA, the Office of Inspector General of FCA, OMB and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

Brown & Company

Largo, Maryland
November 7, 2008

FINANCIAL STATEMENTS AND RELATED NOTES

FARM CREDIT ADMINISTRATION
BALANCE SHEET
As of September 30, 2008 and 2007

	2008	2007
ASSETS		
Intragovernmental		
Fund balance with Treasury (Note 2)	$ 661,812	$ 1,095,238
Investments (Note 3)	31,394,473	27,427,532
Accounts receivable (Note 4)	356,237	661,990
Prepaid expenses	7,830	7,830
Total intragovernmental	32,420,352	29,192,590
Accounts receivable (Note 4)	193,807	206,774
General property, equipment, and software, net (Note 5)	456,237	56,609
Prepaid expenses	49,996	44,170
Total assets	**$ 33,120,392**	**$ 29,500,143**
LIABILITIES		
Intragovernmental		
Accounts payable	$ 12,435	$ 1,820
Accrued post-employment compensation	30,076	31,743
Accrued taxes payable	9,716	10,166
Employer contributions and payroll taxes payable	267,455	212,612
Total intragovernmental	319,682	256,341
Accounts payable	775,081	598,344
Actuarial workers' compensation liability (Note 6)	1,218,926	1,195,233
Accrued payroll and benefits	4,552,282	4,134,365
Accrued taxes payable	1,987	1,987
Employer contributions and payroll taxes payable	120,391	48,785
Deferred revenue	1,792,639	1,568,300
Total liabilities	**8,780,988**	**7,803,355**
NET POSITION		
Cumulative results of operations	24,339,404	21,696,788
Total net position	**$ 24,339,404**	**21,696,788**
Total liabilities and net position	**$ 33,120,392**	**$ 29,500,143**

The accompanying notes are an integral part of these statements.

FARM CREDIT ADMINISTRATION
STATEMENT OF NET COST
For the Years Ended September 30, 2008 and 2007

	2008	2007
PROGRAM COSTS		
Safety and Soundness		
Gross costs	$ 31,632,575	$ 29,557,670
Less: Earned revenues	(31,832,819)	(31,160,964)
Total net costs—Safety and soundness	(200,244)	(1,603,294)
Public Mission		
Gross costs	11,513,150	11,230,036
Less: Earned revenues	(11,582,748)	(11,850,575)
Total net costs—Public mission	(69,598)	(620,539)
Other Activities		
Gross costs	3,191,294	3,708,396
Less: Earned revenues	(1,815,673)	(2,616,130)
Total net costs—Other activities	1,375,621	1,092,266
Net cost of operations (+/-) (Notes 7 and 8)	**$ 1,105,779**	**$ (1,131,567)**

The accompanying notes are an integral part of these statements.

FARM CREDIT ADMINISTRATION
STATEMENT OF CHANGES IN NET POSITION
For the Years Ended September 30, 2008 and 2007

	2008	2007
CUMULATIVE RESULTS OF OPERATIONS		
Beginning balances	$ 21,696,788	$ 16,981,067
Beginning balances, as adjusted	21,696,788	16,981,067
Other financing sources		
Imputed financing from costs absorbed by others		
Federal employee benefits (Note 9)	2,048,395	2,184,154
Rent (Note 10)	1,700,000	1,400,000
Total financing sources	3,748,395	3,584,154
Less: Net cost of operations	1,105,779	(1,131,567)
Net position—Ending balances	**24,339,404**	**$ 21,696,788**

The accompanying notes are an integral part of these statements.

FARM CREDIT ADMINISTRATION
STATEMENT OF BUDGETARY RESOURCES
For the Years Ended September 30, 2008 and 2007

	2008	2007
BUDGETARY RESOURCES		
Unobligated balances—Beginning of period	$ 22,064,805	$ 18,706,063
Spending authority from offsetting collections		
Earned		
Collected	$ 45,298,799	$ 44,541,132
Receivable from Federal sources	(134,707)	307,879
Change in unfilled customer orders		
Advance received	-	(3,363)
Without advance from Federal sources	(60,519)	(491,447)
Subtotal—Spending authority from offsetting collections	45,103,573	44,354,201
Total budgetary resources (Note 11)	**67,168,378**	**$ 63,060,264**
STATUS OF BUDGETARY RESOURCES		
Obligations incurred—Exempt from apportionment	$ 43,474,344	$ 40,995,459
Unobligated balance available—Exempt from apportionment	21,901,395	20,496,505
Unobligated balance not available	1,792,639	1,568,300
Total status of budgetary resources	**$ 67,168,378**	**$ 63,060,264**
CHANGE IN OBLIGATED BALANCE		
Obligated balance, net		
Unpaid obligations, brought forward, October 1	$ 7,409,274	$ 6,628,611
Less: Uncollected customer payments from Federal sources, brought forward, October 1	(984,251)	(1,167,820)
Total unpaid obligated balance, net	6,425,023	5,460,791
Obligations incurred, net	43,474,344	40,995,459
Gross outlays	(42,472,228)	(40,214,795)
Change in uncollected customer payments from Federal sources	195,226	183,569
Obligated balance, net, end of period		
Unpaid obligations (Note 12)	8,411,390	7,409,274
Less: Uncollected customer payments from Federal sources	(789,025)	(984,251)
Total unpaid obligated balance, net, end of period	**$ 7,622,365**	**$ 6,425,023**
NET OUTLAYS		
Gross outlays	$42,472,228	$ 40,214,795
Less: Offsetting collections	(45,298,799)	(44,537,769)
Net outlays	**$ (2,826,571)**	**$ (4,322,974)**

The accompanying notes are an integral part of these statements.

NOTES TO THE FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies

A. Reporting Entity—The Farm Credit Administration (FCA or Agency) is an independent agency in the executive branch of the U.S. Government. FCA is responsible for the regulation and examination of the banks, associations, and related entities that compose the Farm Credit System (FCS or System), including the Federal Agricultural Mortgage Corporation (Farmer Mac). Specifically, FCA is empowered to ensure safe and sound operations of all System institutions. Initially created by an Executive order of the President in 1933, FCA now derives its power and authority from the Farm Credit Act of 1971, as amended (Act). The Act requires System institutions to be examined periodically by FCA. Policymaking for FCA is vested in a full-time, three-person Board whose members are appointed by the President with the advice and consent of the Senate.

B. Basis of Accounting and Presentation—The accompanying financial statements have been prepared in accordance with the Office of Management and Budget's (OMB's) Circular No. A-136, Financial Reporting Requirements. Also, the financial statements have been prepared from and are fully supported by the books and records of FCA in accordance with generally accepted accounting principles in the United States and the Statements of Federal Financial Accounting Standards (SFFAS) prescribed by the Federal Accounting Standards Advisory Board, which has been designated the official body for setting standards for the Federal Government. FCA's transactions are recorded on the accrual basis of accounting. Under this method, revenues are recognized when earned, and expenses are recognized when goods or services are received, without regard to receipt of funds or payment of cash. FCA is not subject to apportionment. Budgetary accounting has been applied to facilitate compliance with legal constraints and control over the use of funds.

The statements consist of the Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, and Statement of Budgetary Resources. Please note that the Statement of Custodial Activity contained in OMB Circular No. A-136 is not applicable to FCA and is not included as a part of the financial statements. The financial statements and associated notes are presented on a comparative basis, and all amounts are presented in dollars.

C. Fund Balance with Treasury—FCA maintains a revolving, no-year account with the U.S. Treasury through which cash receipts and disbursements are processed. The funds that are available are obtained from assessments and reimbursable activities. FCA does not receive appropriated funds.

D. Investments—The Act gives FCA the authority to invest in public debt securities with maturities suitable to FCA's needs. FCA invests solely in U.S. Treasury securities, which are normally held to maturity and carried at cost. Investments are adjusted for unamortized premiums or discounts. Premiums and discounts are amortized and interest is accrued using the level-yield, scientific method of effective interest amortization over the term of the respective issues.

E. Accounts Receivable—Accounts receivable are composed of (1) reimbursements for administrative expenses incurred by FCA according to agreements with other Federal entities, (2) assessments from institutions in accordance with the Act and FCA regulations, and (3) amounts owed FCA that are generated through the normal course of business with employees and vendors.

Amounts due from Federal agencies are considered fully collectible. An allowance for uncollectible amounts receivable from the public is established when either (1) on the basis of a review of outstanding accounts and the failure of all collection efforts, management determines that collection is unlikely to occur after considering the debtor's ability to pay, or (2) an account for which no allowance has been established is submitted to the Department of the Treasury for collection, which takes place when it becomes 180 days delinquent. The Office of Management Services (OMS), in conjunction with the Agency's accounting service provider, the Bureau of the Public Debt, reviews the Agency's accounts receivable on an ongoing basis. OMS has determined that all accounts receivable are fully collectible as of September 30, 2008.

F. Advances and Prepaid Charges—Advance payments are generally prohibited by law. There are some exceptions, such as reimbursable agreements, subscriptions, and payments to contractors and employees. Payments made before the receipt of goods and services are recorded as advances or prepaid charges at the time of prepayment and are recognized as expenses when the related goods and services are received. This process helps to minimize large dollar fluctuations in cost and provides for the recognition of cost based on use. When the prepayment amount has minimal impact on cost, it is more cost effective to expense the advance or prepayment at the time of payment. Therefore, FCA recognizes dollar thresholds in the recording of advances and prepayments.

G. General Property, Equipment, and Software—Property (including vehicles), equipment, and software are recorded at cost, net of an allowance for accumulated depreciation. Repairs and maintenance costs are expensed as incurred. FCA operates under a policy that property, equipment, and software with itemized costs of $50,000 or more and a useful life of two years or more are capitalized. Individual items that are less than $50,000 but meet the bulk purchase criteria of $500,000 or more are also capitalized. The straight-line method of depreciation with half-year convention is used to allocate the cost of capitalized property, equipment, and software over their estimated useful lives.

H. Accounts Payable—Accounts payable consist of amounts owed to other Federal agencies and the public.

I. Liabilities—Liabilities may be covered or not covered by budgetary or other resources. Liabilities covered by budgetary resources are those liabilities for which funding is available to pay amounts due. Liabilities for which funding is not available to pay amounts due are classified as liabilities not covered by budgetary resources. Except for the Actuarial Workers' Compensation Liability, all of FCA's liabilities are covered by budgetary resources. Intragovernmental liabilities are claims against FCA by other Federal agencies.

J. Rent—The Act provides for FCA to occupy buildings and to use land owned and leased by the FCS Building Association (FCSBA), an entity owned by the System banks. The FCA Board oversees the FCSBA activities on behalf of its owners. FCA is not charged for the use of the buildings or land, nor does it pay for maintenance and repair of buildings and land improvements. Rent is reflected on FCA's books as an imputed cost and an imputed financing source.

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

L. Annual, Sick, and Other Leave—Annual leave, compensatory leave, credit hours, and some other types of leave are accrued as a funded liability when earned, with an offsetting reduction for leave taken. The accrued leave liability for each of these types of leave is calculated using current pay rates. Sick leave and other types of nonvested leave are expensed as the leave is taken.

M. Assessments—A substantial portion of FCA's revenues is based on direct assessments billed to System institutions that are regulated or examined by FCA. FCA also recognizes revenues based on examination services provided by the Office of Examination. Direct assessments are derived using a formula established in FCA regulations and are based, in part, on the average risk-adjusted assets and the overall financial health of the institution being assessed.

N. Deferred Revenue—Prior to the beginning of each fiscal year, in accordance with the Act, FCA determines the amount of funding required from assessments for the subsequent fiscal year and the amount of the assessment to be apportioned to each System institution, including Farmer Mac. Each year, these estimates are provided to the System institutions during September. The unearned funds received prior to the beginning of the new fiscal year are established as deferred revenue and are reported as such on the Balance Sheet. These amounts are also reported as Unobligated Funds—Not Available (for commitment/obligation)—on the Statement of Budgetary Resources.

O. Use of Estimates—Management has made certain estimates and assumptions when reporting assets, liabilities, revenue, and expenses; it has also made estimates and assumptions in the note disclosures. Actual results could differ from these estimates. Some estimates include year-end accruals of accounts and accrued workers' compensation.

Note 2. Fund Balance with Treasury

	2008	2007
Fund balance with Treasury		
Revolving fund	$ 661,812	$ 1,095,238
Total fund balance with Treasury	$ 661,812	$ 1,095,238
Status of fund balance with Treasury		
Unobligated balance		
Available	$ 21,901,395	$ 20,496,505
Unavailable	1,792,639	1,568,300
Obligated balance not yet disbursed	7,622,365	6,425,022
Subtotal—Status of fund balance	31,316,399	28,489,827
Funds invested with Treasury		
Net of unamortized discount	(30,654,587)	(27,394,589)
Total fund balance with treasury	**$ 661,812**	**$ 1,095,238**

Note 3. Investments

Intragovernmental Securities

Amounts for 2008 Balance Sheet Reporting

	Cost	Unamortized (Premium) Discount	Investments Net	Interest Receivable	09/30/08 Investment Balance	Market Value Disclosure
Nonmarketable						
Market based	$31,389,017	($194,159)	$31,194,858	$199,615	$31,394,473	$31,371,087

Amounts for 2007 Balance Sheet Reporting

	Cost	Unamortized (Premium) Discount	Investments Net	Interest Receivable	09/30/07 Investment Balance	Market Value Disclosure
Nonmarketable						
Market based	$27,394,589	$4,374	$27,398,963	$28,569	$27,427,532	$27,382,164

Premiums and discounts are amortized and interest is accrued using the level-yield, scientific method of effective interest amortization over the term of the respective issues. Interest earned on investments was $970,340 and $1,515,213 for FYs 2008 and 2007, respectively.

Note 4. Accounts Receivable

	2008	2007
Intragovernmental		
Reimbursements for services provided	$346,366	$659,570
Expenditure refunds	9,871	2,420
Subtotal	356,237	661,990
With the Public		
Assessments	193,765	206,140
Vendor overpayments	42	634
Subtotal	193,807	206,774
Total Accounts Receivable	**$550,044**	**$868,764**

Note 5. General Property, Equipment, and Software

	As of September 30, 2008				
	Estimated Useful Life	**Depreciation Method**	**Acquisition Value**	**Accumulated/ Amortized Depreciation**	**Book Value**
Equipment	3 years	Straight line	$855,011	($398,774)	$456,237
Software	3 years	Straight line	11,935	(11,935)	-
Vehicles	5 years	Straight line	33,656	(33,656)	-
Total			**$900,602**	**($444,365)**	**$456,237**

	As of September 30, 2007				
	Estimated Useful Life	**Depreciation Method**	**Acquisition Value**	**Accumulated/ Amortized Depreciation**	**Book Value**
Equipment	3 years	Straight line	$ 1,488,085	($ 1,436,831)	$ 51,254
Software	3 years	Straight line	128,019	(126,030)	1,989
Vehicles	5 years	Straight line	33,656	(30,290)	3,366
Total			**$ 1,649,760**	**($ 1,593,151)**	**$ 56,609**

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

The Department of Labor (DOL) estimates future workers' compensation liability for specified entities that are preparing statements under the Chief Financial Officers Act and the Government Management Reform Act. The actuarial liability estimates for FECA benefits include the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases, plus a component for incurred but unreported claims. Because FCA is not one of the specified entities for which DOL provides individual agency estimates on a routine basis, FCA calculated its actuarial liability amount by using the DOL model to estimate FECA actuarial liability.

The FECA actuarial liability amounts for fiscal years 2008 and 2007 are $1,218,926 and $1,195,233, respectively. The increase in the actuarial liability amount may be attributed to the increase in the average compensation payments covered during fiscal year 2008.

Note 7. Intragovernmental Costs and Exchange Revenue

	Farm Credit Administration for the Years Ended September 30, 2008 and 2007	
	2008	**2007**
Safety and Soundness		
Intragovernmental costs	$ 6,907,121	$ 6,817,350
Public costs	24,725,454	22,740,320
Total costs—safety and soundness	31,632,575	29,557,670
Intragovernmental earned revenue	(719,612)	(1,098,031)
Public earned revenue	(31,113,207)	(30,062,933)
Total revenue—safety and soundness	(31,832,819)	(31,160,964)
Net program costs—safety and soundness	(200,244)	(1,603,294)
Public Mission		
Intragovernmental costs	2,609,467	2,631,139
Public costs	8,903,683	8,598,897
Total costs—public mission	11,513,150	11,230,036
Intragovernmental earned revenue	(261,914)	(421,270)
Public earned revenue	(11,320,834)	(11,429,305)
Total revenue—public mission	(11,582,748)	(11,850,575)
Net program costs—public mission	(69,598)	(620,539)
Other Activity		
Intragovernmental costs	216,835	277,354
Public costs	2,974,459	3,431,042
Total costs—other activity	3,191,294	3,708,396
Intragovernmental earned revenue	(1,621,908)	(2,423,710)
Public earned revenue	(193,765)	(192,420)
Total revenue—other activity	(1,815,673)	(2,616,130)
Net program costs—other activity	1,375,621	1,092,266
Net cost of operations (+/-)	**$ 1,105,779**	**$ (1,131,567)**

The purpose of this classification of FCA's revenue and cost is to enable the Federal Government to provide consolidated financial statements and not to match public and intragovernmental revenue with costs that are incurred to produce public and intragovernmental revenue. The intragovernmental costs relate to the source of goods and services purchased by FCA and not to the classification of related revenue.

Note 8. Suborganization Program Costs/Program Costs by Segment

Farm Credit Administration
for the Year Ended September 30, 2008

	Office				
	Examination	Regulatory Policy	Secondary Market Oversight	Other Organizations	Total
Safety and Soundness					
Gross costs	$ 19,680,670	$ 1,019,042	$ 684,901	$ 10,247,962	$ 31,632,575
Less: Earned revenue	(19,843,675)	(1,028,778)	(647,555)	(10,312,811)	(31,832,819)
Net program cost	(163,005)	(9,736)	37,346	(64,849)	(200,244)
Public Mission					
Gross costs	736,018	3,692,737	302,750	6,781,645	11,513,150
Less: Earned revenue	(743,016)	(3,728,017)	(286,242)	(6,825,473)	(11,582,748)
Net program cost	(6,998)	(35,280)	16,508	(43,828)	(69,598)
Other Activity					
Gross costs	2,331,018	440	-	859,836	3,191,294
Less: Earned revenue	(1,326,223)	(250)	-	(489,200)	(1,815,673)
Net program cost	1,004,795	190	-	370,636	1,375,621
Net Cost of Operations	**$ 834,792**	**$ (44,826)**	**$ 53,854**	**$ 261,959**	**$ 1,105,779**

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

Farm Credit Administration
for the Year Ended September 30, 2007

	Office				
	Examination	**Regulatory Policy**	**Secondary Market Oversight**	**Other Organizations**	**Total**
Safety and Soundness					
Gross costs	$ 18,972,481	$ 992,124	$ 543,260	$ 9,049,805	$29,557,670
Less: Earned revenue	(19,986,784)	(1,044,810)	(589,081)	(9,540,289)	(31,160,964)
Net program cost	(1,014,303)	(52,686)	(45,821)	(490,484)	(1,603,294)
Public Mission					
Gross costs	808,955	3,608,865	395,217	6,416,999	11,230,036
Less: Earned revenue	(851,735)	(3,800,016)	(428,696)	(6,770,128)	(11,850,575)
Net program cost	(42,780)	(191,151)	(33,479)	(353,129)	(620,539)
Other Activity					
Gross costs	2,572,427	806	-	1,135,163	3,708,396
Less: Earned revenue	(1,814,747)	(569)	-	(800,814)	(2,616,130)
Net program cost	757,680	237	-	334,349	1,092,266
Net Cost of Operations	**$ (299,403)**	**$ (243,600)**	**$ (79,300)**	**$ (509,264)**	**$ (1,131,567)**

Note 9. Federal Employee Benefits

	2008	2007
Imputed pension cost	$ 785,432	$ 847,068
Other imputed retirement benefits	1,262,963	1,337,086
Total	**$ 2,048,395**	**$ 2,184,154**

Retirement—FCA employees are covered under the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS) to which FCA makes contributions according to plan requirements. CSRS and FERS are multiemployer plans. FCA does not maintain or report information about the assets of the plan, nor does it report actuarial data for accumulated plan benefits. The reporting of such amounts is the responsibility of OPM. FCA reports the amount of its pension expense for employees in accordance with SFFAS No. 5. When the amount of the payment expense remitted to OPM is less than the full cost to the Government, an imputed cost is recognized. The above imputed costs represent the amounts recognized by FCA for FYs 2008 and 2007. Corresponding amounts of imputed revenue are recorded to offset the imputed cost.

Other Retirement Benefit Expenses—SFFAS No. 5 requires employing Federal agencies to recognize an expense for the cost of providing health benefits and life insurance to its employees after they retire. Factors used to calculate these costs were provided by OPM to meet this requirement. As with pension payments, imputed costs are recognized when amounts remitted for health benefits and life insurance are less than the full cost to the Government. Corresponding amounts of imputed revenue are recorded to offset the imputed cost.

Note 10. Rent

	2008	2007
Leased field offices	$ 950,292	$ 768,422
FCA headquarters	749,708	631,578
Total	**$ 1,700,000**	**$ 1,400,000**

In accordance with the Act, FCA occupies buildings owned and leased by the FCSBA. The FCA administrative headquarters building and land are located in McLean, Virginia. In addition, the FCSBA leases office space for field offices on behalf of FCA at various locations throughout the United States. Rent is provided at no cost to FCA. The above imputed rent expense is an estimate based on the FCSBA estimated budget for 2008. In accordance with SFFAS No. 4, the rent expense and the associated imputed revenue are recorded as a nonmonetary transaction.

Note 11. Explanation of Differences Between the Statement of Budgetary Resources and the Budget of the United States Government

FY 2008

The 2010 Budget of the United States Government, with the Actual Column completed for FY 2008, had not been published as of the date of these financial statements. The budget is expected to be published and delivered to Congress in early February 2009. It will be available on FCA's Web site at www.fca.gov/reports/publications.html.

FY 2007

The 2009 Budget of the United States Government, with the Actual Column completed for 2007, has been reconciled to the amounts reported in the Statement of Budgetary Resources, and there are no significant differences.

Note 12. Undelivered Orders at the End of the Period

SFFAS No. 7, Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting, states that the amount of budgetary resources obligated for undelivered orders at the end of the period should be disclosed. For the years ended September 30, 2008 and 2007, undelivered orders amounted to $2,641,967 and $2,369,450, respectively.

Note 13. Reconciliation of the Net Cost of Operations to the Budget

SFFAS No. 7 requires a reconciliation of proprietary and budgetary information in a way that helps users relate the two. Standard Federal Financial Accounting Concepts No. 2, Entity and Display, provides concepts for reconciling budgetary and financial accounting by adding a category of financial information to further satisfy users' need to understand "how information on the use of budgetary resources relates to information on the cost of program operations." The objective of this information is to provide an explanation of the differences between budgetary and financial (proprietary) accounting. This is accomplished by a reconciliation of budgetary obligations and nonbudgetary resources to the reporting entity with its net cost of operations. Comparative displays of this reconciliation for the current year and prior year follow.

Note 13. Reconciliation of the Net Cost of Operations to the Budget (continued)

	Farm Credit Administration for the Years Ended September 30, 2008 and 2007	
	2008	**2007**
Resources Used to Finance Activities		
Budgetary resources obligated		
Obligations incurred	$ 43,474,344	$ 40,995,459
Less: Spending authority from offsetting collections	(45,103,573)	(44,354,201)
Net obligations	(1,629,229)	(3,358,742)
Other resources		
Imputed financing from costs absorbed by others	3,748,395	3,584,154
Deferred revenue not in the budget	224,339	(877,102)
Net other resources used to finance activities	3,972,734	2,707,052
Total resources used to finance activities	2,343,505	(651,690)
Resources Used to Finance Items Not Part of the Net Cost of Operations		
Change in budgetary resources obligated for goods, services, and benefits ordered but not yet provided	(338,862)	(901,912)
Resources that fund expenses recognized in prior periods		-
Actuarial FECA liability increase/(decrease)	23,693	23,382
Resources that finance the acquisition of assets	(1,281,915)	410
Total resources used to finance items not part of the net cost of operations	(1,597,084)	(878,120)
Total resources used to finance the net cost of operations	746,421	(1,529,810)
Components of the Net Cost of Operations That Will Not Require or Generate Resources in the Current Year		
Components requiring or generating resources in future periods:		
(Increase)/decrease in exchange revenue receivable from the public	12,968	19,503
Total components of net cost of operations that will require or generate resources in future periods	12,968	19,503
Components not requiring or generating resources:		
Depreciation and amortization	346,390	378,740
Total components of net cost of operations that will not require or generate resources	346,390	378,740
Total components of net cost of operations that will not require or generate resources in the current period	359,358	398,243
Net Cost of Operations (+/-)	**$ 1,105,779**	**$ (1,131,567)**

REQUIRED SUPPLEMENTAL INFORMATION

Intragovernmental Assets

As of September 30, 2008

Agency	Fund Balance with Treasury	Investments	Accounts Receivable	Prepaid Expenses
U.S. Department of the Treasury	$ 661,812	$ 31,394,473	$ -	$ -
Farm Credit System Insurance Corporation	-	-	35,559	-
Library of Congress	-	-	-	7,830
Small Business Administration	-	-	147,705	-
U.S. Department of Agriculture	-	-	172,973	-
Total	**$ 661,812**	**$ 31,394,473**	**$ 356,237**	**$ 7,830**

REQUIRED SUPPLEMENTAL INFORMATION

Intragovernmental Assets

As of September 30, 2007

Agency	Fund Balance with Treasury	Investments	Accounts Receivable	Prepaid Expenses
U.S. Department of the Treasury	$ 1,095,238	$ 27,427,532	$ -	$ -
Farm Credit System Insurance Corporation	-	-	27,732	-
Library of Congress	-	-	-	7,830
Small Business Administration	-	-	317,861	-
U.S. Department of Agriculture	-	-	316,397	-
Total	**$ 1,095,238**	**$ 27,427,532**	**$ 661,990**	**$ 7,830**

REQUIRED SUPPLEMENTAL INFORMATION (continued)

Intragovernmental Liabilities

As of September 30, 2008

Agency	Accounts Payable	Accrued Post-Employment Compensation	Accrued Taxes Payable	Employer Contributions and Payroll Taxes Payable
Office of the Comptroller of the Currency	$ 3,749	$ -	$ -	$ -
Office of Personnel Management	-	-	-	199,443
Social Security Administration (Treasury General Fund)	-	-	-	68,012
U.S. Department of Labor	-	30,076	-	-
Treasury-Internal Revenue Service	-	-	9,716	-
Government Printing Office	936	-	-	-
Farm Credit System Insurance Corporation	7,750	-	-	-
Total	**$ 12,435**	**$30,076**	**$ 9,716**	**$ 267,455**

As of September 30, 2007

Agency	Accounts Payable	Accrued Post-Employment Compensation	Accrued Taxes Payable	Employer Contributions and Payroll Taxes Payable
U.S. Department of Agriculture	$ 1,820	$ -	$ -	$ -
Office of Personnel Management	-	-	-	162,080
Social Security Administration (Treasury General Fund)	-	-	-	50,532
U.S. Department of Labor	-	31,743	-	-
Treasury-Internal Revenue Service	-	-	10,166	-
Total	**$ 1,820**	**$ 31,743**	**$ 10,166**	**$ 212,612**

Other Accompanying Information

Table 7. Summary of Financial Statement Audit

Audit Opinion	Unqualified
Restatement	No

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
(Not applicable)					
[Name of weakness]					
[Name of weakness]					
Total material weaknesses					

Additional Information

The Farm Credit Administration Performance and Accountability Report Fiscal Year 2007 is available on FCA's Web site at www.fca.gov. While supplies last, printed copies of this publication and earlier editions may be obtained without charge from

Office of Congressional and Public Affairs
Farm Credit Administration
1501 Farm Credit Drive
McLean, VA 22102-5090
Telephone: 703-883-4056
Fax: 703-790-3260
E-mail: info-line@fca.gov

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

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

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

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

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

Copies are available from
Office of Congressional and Public Affairs
Farm Credit Administration
1501 Farm Credit Drive
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1104/100