Farm Credit Administration

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

Performance and Accountability Report Fiscal Year 2003

Contents

Statement of the Chairman and CEO

November, 2003

I am pleased to present the Farm Credit Administration's "Performance and Accountability Report" for Fiscal Year 2003. The financial and performance data in the report is timely and fundamentally complete and reliable. Based on internal management evaluations, and in conjunction with the results of independent financial statement audits, the agency can provide reasonable assurance that the objectives of Section 2 (internal controls) of the Federal Managers' Financial Integrity Act (FMFIA) have been achieved. The agency can also provide reasonable assurance that the objectives of Section 4 (financial management systems) of FMFIA have been achieved as the agency's financial systems conform with government-wide standards.

Sincerely,

Michael M. Reyna
Chairman and CEO
Farm Credit Administration

Part I
Management's Discussion and Analysis

Organization and Mission

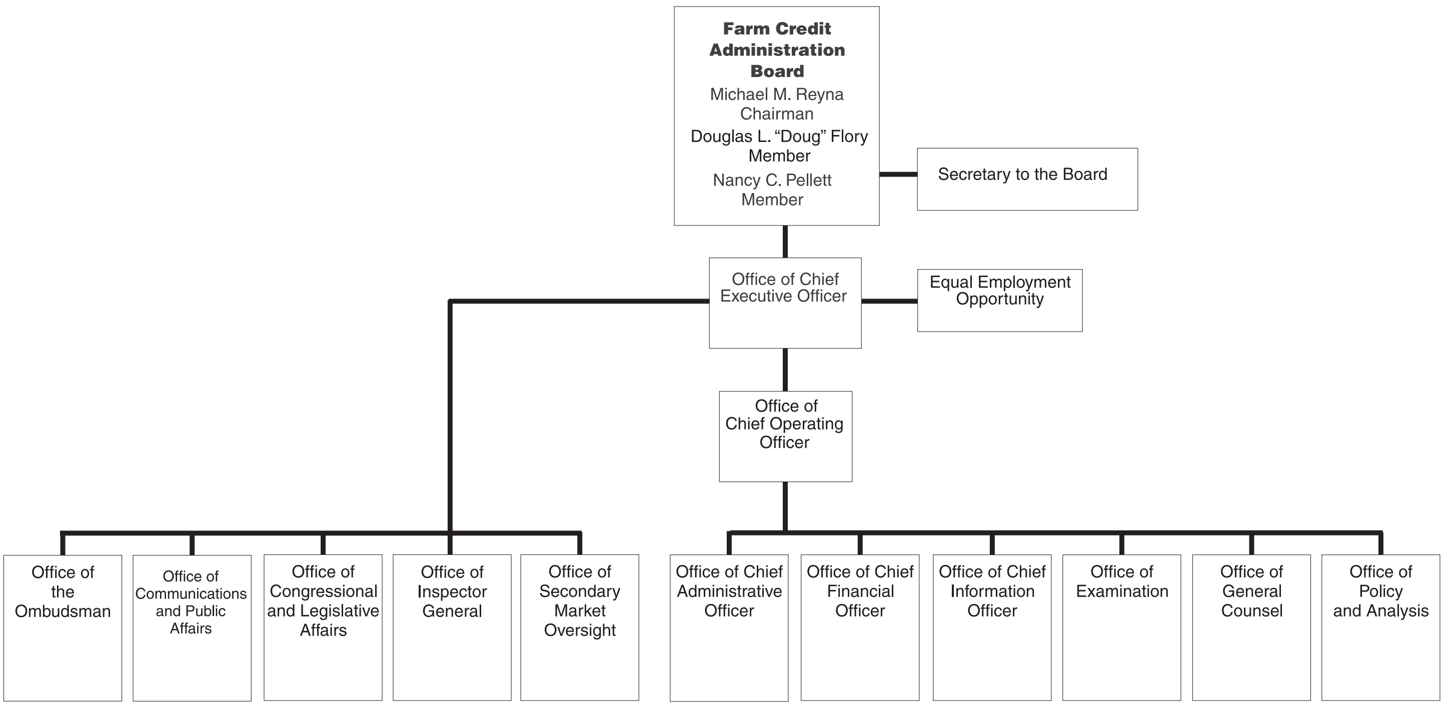
The Farm Credit Administration (FCA or Agency) is an independent agency within the executive branch of the U.S. government responsible for regulating and supervising the banks, associations, and related entities in the Farm Credit System (FCS or System), including the Federal Agricultural Mortgage Corporation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

FCA policy and its regulatory agenda 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 six-year terms and may not be reappointed after serving full terms or more than three years of previous members' terms. The President designates one member as Chairman of the Board, who serves until the end of his own term. The Chairman also serves as FCA's Chief Executive Officer (CEO).

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

The FCA Mission
The Farm Credit Administration will promote a safe and sound, competitive Farm Credit System to finance agriculture and rural America as authorized by Congress.

Figure 1
Farm Credit Administration Organizational Structure
As of September 30, 2003



Highlights of FCA's Performance Goals and Results

This section provides an overview of FCA's performance results for FY 2003 in its efforts to promote a safe and sound, competitive Farm Credit System to finance agriculture and rural America. For a discussion of FCA's performance goals and results, see the "FCA Performance Report" located in Part II of this report.

In the development of its strategic plan for fiscal years 2000–2005, FCA conducted an assessment of the internal and external environment affecting the agency and the FCS. As a result of this assessment, the following two goals were adopted, reflecting the agency's focus for future action.

1. *Ensure the Farm Credit System fulfills its public mission to provide constructive, competitive, and dependable credit and related services for agriculture and rural America.*

2. *Supervise risk to ensure the safety and soundness of the Farm Credit System for the benefit of stakeholders.*

The agency developed objectives for each goal to provide additional direction and guidance, and established 12 performance measures to determine the agency's success in accomplishing the objectives. The results of the performance measures are identified in Table 1.

Three performance measures were used to evaluate FCA's performance in maximizing the FCS's ability to provide constructive, competitive, and dependable credit and related services for agriculture and rural America (Goal 1). Of the three performance measures used, only one was not measurable in FY 2003. This measure was designed to determine customers' acceptance of FCA's recently adopted regulations and policies. It was to be based on the Office of Inspector General's annual survey to obtain feedback on the success in meeting the objectives outlined in the regulations issued, which was not conducted in FY 2003. The performance measure that exceeded its target for Goal 1 related to the number of regulatory projects completed compared to the number of projects scheduled in the Regulatory Performance Plan approved by the FCA Board. Out of 20 projects scheduled, 16, or 80 percent, were completed.

For Goal 2, FCA used nine performance measures to evaluate the effectiveness of its examinations and supervision of the safety and soundness of the FCS. Under this goal, FCA was quite successful in meeting or exceeding the established targets of measurement. Only one performance measure did not meet the expected target. This was a new measure that was added to determine FCA's performance in ensuring that FCS institutions maintain adequate programs for providing service to young, beginning, and small farmers and ranchers. Although all the System institutions had programs or were in the process of initiating programs that would meet the regulatory and statutory requirements for servicing young, beginning, and small farmers and ranchers, 13 percent of the institutions had not fully implemented supplemental agency bookletter guidance for this area. Therefore, this performance measure was not considered fully achieved. The two performance measures under this goal that were categorized as not applicable were so classified because corrective plans or enforcement actions were not required.

During FY 2003, FCA focused on implementing initiatives to accomplish its strategic goals and on measuring its performance. Based on present results and future expectations, we will continue to commit ourselves to improving efficiency, minimizing the cost burden on FCS borrowers, and helping customers meet the challenges and opportunities of the future.

Table 1 Performance Measures

Goal	Number of Measures	Results of Measures			
		Exceeded Target	Achieved Target	Below Target	Target Not Measurable
1	3	1	1		1
2	9	2	4	1	2*

* One of the measures is divided into three parts with only one of the parts measurable. The measurable part exceeded the target level established for the goal.

Analyses and Highlights of FCA's Financial Statements

Financial Highlights

Financial Operation of the FCA

FCA operates under the authority of the Farm Credit Act of 1971, as amended. FCA maintains a revolving fund in which moneys are obtained primarily from assessments received from the Farm Credit System institutions, including the Federal Agriculture Mortgage Corporation and service corporations, and moneys received for reimbursable services provided to other government agencies. 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. Congress usually imposes a limitation on the amount of obligations that may be incurred in a given fiscal year from assessments collected from FCS institutions and from Farmer Mac.

FCA's Assets, Liabilities, and Net Position

As reflected on the balance sheet, FCA's assets, liabilities, and net position for fiscal years 2003 and 2002 are comparatively equal. There is, however, a small net increase of $400,000 in the total liabilities for FY 2003 as compared to FY 2002, and a corresponding net decrease in the FY 2003 net position for a similar amount. The proportion of current assets to current liabilities for both years is significantly more than a 2:1 ratio. This indicates that FCA's current assets are more than sufficient to cover current liabilities.

Although 92 percent of the assets in FY 2003 were investments in non-marketable, market-based securities, $10,984,000 represents investments in long-term securities with $5,977,000 becoming redeemable within the next fiscal year. In FY 2002, the investments in securities represented 93 percent of total assets, $7,000,000 of which were long-term investments. The remaining investment balances for both fiscal years 2003 and 2002 are one-day investments in which interest is earned overnight. Decisions regarding the investment of funds are based on market conditions and the amount of immediate cash needed to cover current liabilities and obligations.

Tables 2, 3, and 4 provide a summary of FCA's financial condition for fiscal years 2003 and 2002. While the composition of the assets, liabilities and net position fluctuate between the years, the totals of each component are basically the same.

Composition of Assets

As depicted in Table 2, funds invested with the Department of the Treasury in FY 2003 decreased by 1.1 percent from the amount invested in FY 2002. This decrease in fund investments resulted in a significant increase in the Fund Balance with Treasury for FY 2003 that was more than double the fund balance in FY 2002. Also, while the accounts receivable and prepayments increased in FY 2003 by approximately 67.8 percent, the net book value of capitalized property and equipment decreased by 40.3 percent. The decrease in the value of property is because the depreciation of the property exceeded property acquisitions during the year by more than 270 percent.

Table 2 Composition of Assets

Fiscal Year	Fund Balance With Treasury	Investments	Accounts Receivable and Prepayments	Property and Equipment	Total
2003	477,787	20,744,440	821,380	514,705	22,558,312
2002	229,383	20,980,860	489,533	861,597	22,561,373

Composition of Liabilities

As depicted in Table 3, the major changes in the composition of the liabilities for fiscal years 2002 and 2003 are the differences for the actuarial liability for workers' compensation, the liability for Federal Employees' Compensation Act (FECA) charges (classified as workers' compensation), and the monies received from both federal and public sources for which services have not yet been provided (classified as Deferred Revenue and Advances). The actuarial liability for FY 2003 decreased by 9.1 percent. This may be partially attributed to one employee being eliminated from the program. There was a decrease in the FECA liability of approximately 87.8 percent from FY 2002 to FY 2003. Unlike for many other federal government agencies, the FECA liability for FCA is covered by budgetary resources, and payment is made upon receipt of the invoice from the Department of Labor. During FY 2003, FCA was able to process the invoices submitted by the Department of Labor for the periods July 1, 2001, through June 30, 2002, and for July 1, 2002, through June 30, 2003. The FECA liability currently on the books for FCA is for the fourth quarter of FY 2003, the period of July 1, 2003, through September 30, 2003. During FY 2003, FCA received $1,838,686 in assessments from financial institutions within the FCS that are not yet due. The amount of

Table 3 Composition of Liabilities

Fiscal Year	Accounts Payable	Accrued Payroll and Benefits	Employer Contributions and Taxes Payable	Workers' Compensation (Funded and Unfunded)	Deferred Revenue and Advances	Total
2003	751,653	3,520,323	158,214	1,868,227	2,134,090	8,432,507
2002	716,680	3,327,173	127,248	2,218,614	1,631,808	8,021,523

moneys received represents an increase of 14.1 percent of the moneys received in FY 2002 for FY 2003 services. The agency also received an advance of funds for reimbursable services being provided to other government agencies. The advance balance is more than 13 times the advance balance remaining at the end of FY 2002. As services are completed, the remaining balance will be liquidated.

Composition of Net Position

As shown in Table 4, the significant change in the net position from FY 2002 is the $3.1 million increase in the net cost of operations. The increase in the net cost of operations is due to a decrease in revenue of $2,228,419 combined with an increase in cost of $912,890 or 2.3 percent. This 2.3 percent increase in total cost is mainly due to the increase in employees' salaries and benefits. In FY 2003, employees' compensation rose by $1.7 million from that of FY 2002 due to an increase in staff and a 4.1 percent minimum pay adjustment provided to employees receiving a fully successful or higher performance rating. The increase in employee compensation was largely offset by a decrease in the agency's actuarial liability for future benefits of workers' compensation under the Federal Employees' Compensation Act. Earned revenues decreased in FY 2003 because of the $2.5 million that was refunded to the FCS institutions from the prior years' carryover.

FCA's Funding and Fund Sources

As previously stated, FCA maintains a revolving fund in which moneys are obtained primarily from assessments to System institutions, including Farmer Mac and service corporations. In addition, FCA provides reimbursable services to other government agencies and earns interest from investments with the Department of the Treasury. Table 5 depicts the funding that was available and/or collected by FCA for fiscal years 2003 and 2002.

As reflected in Table 5, there was an increase in the total available funding for FY 2003, as compared to FY 2002, of approximately $1.6 million. Although the increase is attributed to the assessment carryover that was made available from prior years, the slight decreases in the funding from that of FY 2002 for reimbursable activity and interest from investments netted the available funding down by approximately $100,000 based on regular sources of funding. By making funds available through the use of assessment carryover, FCA was able to

Table 4 Composition of Net Position

Fiscal Year	Beginning Balance	Imputed Costs	Net Cost of Operations	Ending Balance
2003	14,542,262	4,677,936	(5,094,393)	14,125,805
2002	12,357,032	4,135,902	(1,953,084)	14,539,850

Table 5 Available Funding

Funding and Funding Sources	2003	2002
Assessments (Current Year)	$36,700,000	$36,700,000
Assessments (Carryover from Prior Years)	1,700,000	-0-
Reimbursable Activity	1,241,940	1,311,744*
Interest from Investments	453,890	485,301
Totals	$40,095,830	$38,497,044

* Funding for Reimbursable Activity Restated Due to Computation Adjustment

ease the burden on the System institutions for funds for administrative expenses required in the execution of its functions. As in FY 2002, the amount of the assessment for FY 2003 was only $36,700,000.

During FY 2003, total obligations as reported on the Statement of Budgetary Resources equaled $38,441,500, compared to total obligations for FY 2002 of $32,372,518. This represents a net increase in obligations of approximately $6.1 million. The obligation increase reported in the Statement of Budgetary Resources can be attributed to an increase in payroll and benefit charges of $1.8 million, equipment purchases of $1.2 million, and funding for migration to a new financial management system of $0.4 million. The remaining difference of $2.7 million is due to the FY 2002 deobligation of undelivered orders for prior years and the offset of FY 2002 assessment refund disbursements against FY 2001 accounts payable obligations.[1]

For Budget Fiscal Year (BFY) 2003, FCA used 98.3 percent of the funds available from assessments (from both current year assessments and carryover funds). This means that, of the $38.4 million available, almost $37.8 million were obligated. The largest percentage of funds used was for personnel compensation and benefits. In fact, personnel compensation and benefits represented approximately 82 percent of the total obligations. Table 6 illustrates the funds used by major budget category. When compared to the obligations incurred for BFY 2002, the obligation

1. At the end of FY 2001, $2.1 million in accounts payable were established to process refunds to the FCS institutions. In FY 2002, when the funds were actually disbursed, the accounts payable were reduced and funds were disbursed against monies collected vs. obligations paid. Also in FY 2002, there was a net deobligation of undelivered orders for $0.6 million. Because of the decreases in obligations for FY 2002, comparative increases in the obligations for FY 2003 over that of FY 2002 resulted.

Table 6 Funds Used by Major Budget Category

Budget Category	FY 2003	Percent of Total	FY 2002	Percent of Total
Personnel Compensation and Benefits	30,794,195	81.5%	28,997,199	85.1%
Travel and Transportation of Persons	1,681,327	4.5%	1,568,629	4.6%
Contractual Services	2,628,316	7.0%	2,097,234	6.2%
Property and Equipment	1,525,663	4.0%	315,922	0.9%
Other	1,129,564	3.0%	1,108,125	3.2%
Total	37,759,065	100.0%	34,087,109	100.0%

amounts are basically the same, except for obligations incurred for personnel compensation and benefits and property and equipment. As previously explained, the increase in personnel compensation and benefits is the result of new hires and salary adjustments. The increase in obligations for property and equipment is the result of computer equipment replacements.

Limitations of the Financial Statements

The financial statements have been prepared to report the financial position and results of operations of the FCA, pursuant to the requirements listed in 31 U.S.C. 3515(b).

While the statements have been prepared from the books and records of FCA in accordance with accounting principles generally accepted in the United States (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. One implication of this is that liabilities cannot be liquidated without legislation that provides resources to do so.

President's Management Agenda

In order for FCA to meet its responsibility in the regulation and supervision of the banks, associations, and related entities in the Farm Credit System, including Farmer Mac, the agency must continuously work to improve its own management, performance and accountability in managing programs that serve agriculture and rural America.

During FY 2003, FCA made major strides to improve efficiency and effectiveness throughout the agency, concentrating on several of its operational areas. The following represent the accomplishments and progress that have been achieved by FCA in several initiatives that are being promoted government-wide.

Strategic Management of Human Capital

Good human resources management is crucial to FCA's mission and goals. As such, the FCA developed various programs and policies to help recruit, retain, and reward employees:

- Increased its recruiting efforts at historically black universities and colleges and schools with proportionately large enrollments of Hispanic students in order to create a more diverse workforce.

- Offered a two-year career internship program that provides training and development to improve necessary skills.

- Paid student loans as a recruiting or retention policy, as necessary.

- Changed its performance appraisal system to identify agency core competencies for the following groups of employees: administrative and technicians; examiners, attorneys, and other specialists; supervisors; and senior managers.

- Recognized the importance of Individual Development Plans (IDPs) by linking them to the budget.

- Provided training to all employees on FCA's core values.

- Established a Supervisory Development Program to prepare employees to assume future leadership positions.

- Developed a Mentoring Program to capitalize on the experience, knowledge, and expertise of employees who volunteer to serve as mentors to help their protégés develop professionally and personally.

- Established a Human Development and Investment Group to recommend human capital initiatives.

- Developed programs to help employees balance their work and family needs, including:

  - Flexible work schedules,
  - Transit subsidy,
  - Childcare subsidy,
  - 401(k),
  - Flexible Spending Accounts to which the agency contributes $750 per employee,
  - Reimbursement up to $150 for annual physical exams and preventive testing,

- Opportunities for employees to give sick and annual leave to other employees in case of family or personal medical emergencies, and
- Business casual dress daily.

These initiatives reflect core values important to FCA. These values are: communications, teamwork, diversity, caring, initiative, honesty, trust, responsibility, respect, fairness, integrity, and excellence.

Competitive Sourcing

The FCA outsources several functions:

- The National Finance Center (NFC) in the Department of Agriculture provides payroll services.
- The National Business Center in the Department of the Interior manages and supports the FCA Financial Management System.
- Comsys, a private firm, provides Employee Assistance Program services to employees throughout the country.
- Various private firms provide preventive health services throughout the year to employees throughout the country.
- Private firms manage certain benefits such as the FCA 401(k) Plan, flexible spending account, FCA life insurance, long-term disability, and relocation services.
- A private company provides fleet vehicle maintenance.

It is the agency's goal to provide the best products and services to customers. FCA continually reevaluates the effective use of agency human capital to best carry out its mission within the budget.

Improved Financial Performance

Providing timely, useful, and reliable financial information to its managers is a goal of FCA. Each year, new initiatives are implemented and FCA moves toward an integrated financial management and reporting process. The following represent some of the initiatives that are ongoing at FCA to improve its financial performance.

Travel Manager Streamlining Initiative. In FY 2003, more than 70 percent of FCA employees began using Travel Manager, a fully integrated travel management system. Travel Manager boosts savings and efficiency by streamlining the travel authorization, reservation, vouchering, and payment process. FCA is the first federal agency to implement a seamless, electronic, and complete travel management process.

Financial Management System Upgrade. FCA is taking steps to migrate to Momentum Financials, the new version of the Federal Financial System (FFS), which was developed in the 1980s by the American Management System (AMS), Inc. and is now being phased out.

This is the tenth consecutive year the FCA has achieved an unqualified opinion on its annual financial statements. This exemplifies FCA's effort to be accountable to the FCS and the American people.

Expanded Electronic Government

FCA is constantly striving to improve its e-government operations. We have added more content to our Web site, enhanced the usability of our Web site, and made it easier for the FCS to submit reports and data to us. The following are some of our initiatives in e-government during FY 2003:

- We now collect surveys from FCS institutions about our performance on examinations via our Web site. Previously, these surveys were collected in paper form.

- We expanded the types of reports and data accepted from the FCS institutions via our Web site. These reports include the "Summary Report of Condition and Performance of the FCS (Grey Book)," "CIPA Graphs and Score Calculations," and "Interim Funding Corporation Board Reports." This initiative centralizes the data collection point for the FCS.

- Selected employees have access to their e-mail via our Web site, which enables them to access e-mail anytime and anywhere there is an Internet connection. This initiative enhances employee productivity.

- We initiated a pilot project to exchange encrypted Internet e-mail with the FCS institutions. Encrypted Internet e-mail enables us to exchange sensitive information with the FCS while ensuring the information is kept private in the exchange.

- We began a program to enable our employees to connect to our computer resources over high-speed virtual-private-networks (VPN). This program supports our work-life initiatives to ensure employees enjoy a flexible and well-balanced work life.

Budget and Performance Integration

The agency implemented performance budgeting with its FY 2003 budget submissions. Since that time, a hierarchy of relationships was developed to accumulate the cost of the various functions performed by the offices within FCA that relates the functions performed by the offices to the agency's strategic goals.

In FY 2002, the costs incurred to achieve Effective Regulation and Public Policy declined by 12.5 percent with one performance measure target goal unmet. The costs incurred to achieve Effective Risk Identification and Corrective Action increased by 2.5 percent with all performance measure target goals being met or exceeded.

Management Systems, Controls, and Legal Compliance

This section provides information on FCA's financial management system and its compliance with the

- Inspector General Act,
- Federal Financial Management Improvement Act (FFMIA),
- Prompt Payment Act,
- Civil Monetary Penalty Act, and
- Debt Collection Improvement Act.

FCA's Financial Managment System

The American Managment System, Inc. (AMS) is the developer of the Federal Financial System (FFS), the current financial management system at FCA. FCA is cross-serviced by the National Business Center (NBC), Department of Interior, and utilizes a shared mainframe with NBC, which is more efficient than maintaining an in-house mainframe for one user the size of FCA.

Through the use of cross servicing, FCA is able to obtain expertise from an organization that has over ten years of experience with the mainframe (nightly) operations and functional support of FFS. There are also vehicles in place to easily acquire specialzed expertise for a one-time project or for an ongoing basis. Since other government agencies are also cross-serviced by NBC, FCA benefits from NBC's ability to spread costs over many agencies to maximize efficiency and keep costs lower.

Inspector General Act

The Inspector General Act of 1978, as amended, requires semiannual reporting on Inspector General audits and related activities as well as agency follow-up. The Inspector General's two semiannual reports covering FY 2003 are available at www.fca.gov. Information about recommendations made in audits and inspections by the Office of Inspector General (OIG) and management's progress in taking corrective action is summarized below.

OIG continues to report actions required to correct audit or inspection findings as agreed-upon actions whenever OIG and management have agreed on a mutually acceptable way to resolve a problem identified during reviews. OIG's objective is to recognize management's preferred method of correcting problems whenever the approach is reasonable. A recommendation often includes these agreed-upon actions.

Summary of Audit and Inspection Recommendations
October 1, 2002, to September 30, 2003

Recommendations uncorrected as of October 1, 2002	10
Recommendations made during FY 2003	12
Recommendations corrected during FY 2003	6
Open recommendations at September 30, 2003	16
Recommendations open more than one year	4

Summary of Audit Activities for FY 2003

At the beginning of FY 2003, there were 10 unimplemented recommendations. Four were from the audit report of Performance Budgeting, issued on March 23, 2001; three were from the audit report of the Office of Chief Financial Officer, issued on January 24, 2002; two were from the audit report of FCA Contracting Activity, issued on August 27, 2002; and one was from the inspection report of the Purchase Card Program, issued on September 9, 2002.

OIG issued one more audit report and one more inspection report, as well as one review under the Federal Information Security Management Act. These reports contained a total of 12 recommendations.

During this reporting period, management worked with OIG to close six recommendations.

At the end of the FY 2003 reporting period, there were 13 agreed-upon actions remaining open. Two agreed-upon actions are from the audit of Performance Budgeting issued on March 23, 2001. Two agreed-upon actions are from the audit report on the Office of Chief Financial Officer issued on January 24, 2002. Nine agreed-upon actions are from the audit report on Loan Account Reporting System issued on August 28, 2003. Management decisions have been made on the 13 agreed-upon actions. Three recommendations await management decision from the inspection of FCA Board Policies issued on September 15, 2003.

Federal Financial Management Improvement Act

FFMIA requires agencies to report on their substantial compliance with federal financial management system requirements, federal accounting standards, and the U.S. Government Standard General Ledger. The agency is in substantial compliance with Federal Accounting Standards, the U.S. Government Standard General Ledger, and the federal financial management system requirements for FY 2003.

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 2003, FCA paid most of its bills within the time requirement. In some instances invoices were received without complete or accurate information, which delayed payment while the invoices were returned to the vendor. FCA paid $869 in interest penalties for the payments that were not processed on time. Payments are made by electronic funds transfer.

Civil Monetary Penalty Act

The Civil Monetary Penalty Act allows FCA to assess civil penalties against FCS institutions, including their officers, directors, employees, and agents, for violation of a valid order, law, or regulation. FCA did not assess any civil money penalties in FY 2003.

Debt Collection Improvement Act

The Debt Collection Improvement Act prescribes standards for the administrative collection, compromise, suspension, and termination of federal agency collection actions, and referral to the proper federal agency for litigation. Although the Act has no material effect on the FCA since it operates with virtually no delinquent debt, the agency does transfer debts more than 180 days old to Treasury for cross-servicing.

Part II
Program Performance

Farm Credit Administration Performance Report

As the independent regulator of the Farm Credit System (FCS or System), the Farm Credit Administration (FCA or agency) is responsible for protecting the public interest by ensuring the safety and soundness of the institutions it regulates. In so doing, the agency is committed to providing a flexible regulatory environment that recognizes market forces and enables the System to meet agriculture's and rural America's changing demands for credit and other related services within the authorities established by Congress.

This commitment is captured in the agency's mission statement:

The Farm Credit Administration will promote a safe and sound, competitive Farm Credit System to finance agriculture and rural America as authorized by Congress.

In the fulfillment of its mission, the agency performs the following two program activities:

- Issuing regulations and implementing public policy; and
- Identifying risk and taking corrective action.

To measure how effectively the agency is fulfilling its mission, the FCA Board and senior management identified the following two key outcomes:

- Effective regulation and public policy; and
- Effective risk identification and corrective action.

Finally, consistent with our desired outcomes, the Board adopted the following two strategic goals for fiscal years 2000–2005.

1. Ensure the Farm Credit System fulfills its public mission to provide constructive, competitive, and dependable credit and related services for agriculture and rural America.
2. Supervise risk to ensure the safety and soundness of the Farm Credit System for the benefit of stakeholders.

Based on the following, we believe the agency's two program activities were effective in facilitating the achievement of the desired key outcomes in fiscal year 2003. Regarding effective regulation and public policy, in fiscal year 2003, we completed 16 of the 20 rulemaking projects (80 percent) scheduled, which exceeded our performance measure target of 78 percent. We did not complete four of the scheduled projects because they proved more complex than initially envisioned and required additional time for development. Work on these projects continues, and they are projected for FCA Board action during fiscal year 2004.

While we are proud of all the rulemaking projects completed in fiscal year 2003, one rulemaking action in particular, a proposed rule regarding YBS farmers and ranchers, highlights our efforts to enable the System to fully serve all potential customers. With this proposed rule, we intend to ensure the System provides sound and constructive credit and services[1] to YBS farmers and ranchers.[2]

Regarding effective risk identification and corrective action, we successfully completed the board approved schedule of examinations for fiscal year 2003. We continued to use a three-tiered supervision and enforcement program (normal, special, and enforcement) to distinguish the risks and special oversight needs of

1. The term "services" includes leases and related services to YBS farmers and ranchers.
2. The Farm Credit Act of 1971 (Act) gave the production credit associations and the banks for cooperatives the authority to finance "producers or harvesters of aquatic products" in addition to financing "farmers and ranchers." The 1980 amendments to the Act gave the Federal land banks expanded authority to finance "producers or harvesters of aquatic products" and put such producers and harvesters on the same footing as "farmers and ranchers." Thus, in accordance with the amendments to the Act, whenever we refer to "YBS farmers and ranchers" we are including "producers or harvesters of aquatic products."

institutions. Throughout fiscal year 2003, with one exception, all System institutions were under normal supervision. As a result of several regulatory compliance and management weaknesses identified during a fiscal year 2002 examination, one institution was under special supervision for several months. By fiscal yearend 2003, this institution had taken necessary corrective actions and was returned to normal supervision. Therefore, at fiscal yearend 2003, all System institutions were operating under normal supervision, which reflects the sound conditions and positive board and management responses to examination concerns.

The agency implemented 12 performance measures in support of the two strategic goals. The two-part table that follows describes the performance measures for each goal, the targets that reflect the agency's desired performance for fiscal year 2003, and the agency's actual results. As reflected in the table, we were successful in meeting or exceeding all but one of FCA's performance measures. For fiscal year 2003, a new measure was added to measure the agency's performance in ensuring System institutions maintain adequate programs for providing service to young, beginning, and small (YBS) farmers and ranchers. While all System institutions had programs that complied with regulatory and statutory requirements, our examinations found some (13 percent of System institutions) that had not fully implemented supplemental agency bookletter guidance. Several of these institutions responded that they were waiting for more definitive regulatory direction from the agency before acting on recommendations made in our Reports of Examination. Therefore, we did not consider this full achievement of this performance measure in fiscal year 2003. Accordingly, FCA will continue to focus attention on service by System institutions to YBS farmers and ranchers in fiscal year 2004, and as previously mentioned, has proposed additional regulatory requirements in this area.

The two-part table that follows contains the following symbols in the far right column to provide a quick, at-a-glance indicator of performance. For example:

▲	FCA's performance exceeded the fiscal year 2003 target.
✓	FCA achieved the target.
▼	FCA did not achieve its target.
N/A	FCA's performance could not be measured.

Table 7a
Goal 1
Performance Measures and Results

Measure	Results	FY 2000		FY 2001		FY 2002		FY 2003		FY 2003
		Target[1]	Results	Target	Results	Target	Results	Target	Results	Results vs. Target
1. Customer acceptance of recently adopted FCA regulations and policies through the average of ratings received on the following three survey questions (on a scale of 1 to 5, with 1 being the highest rating): • Did our rulemaking and policy activities recognize market forces and encourage innovation for System institutions? • Did we adequately involve the public to seek its perspective regarding our rulemaking activities? • Did our rulemaking and policy activities implement the Farm Credit Act without imposing unnecessary burden?	This performance measure is based on an Office of the Inspector General (OIG) annual survey of commenters on proposed regulations and policies. The OIG is modifying its survey approach and, consequently, did not conduct a survey for fiscal year 2003.	NA	NA	≤ 2.50	2.31	≤ 2.50	3.05	≤ 2.50	NA	NA
2. Percentage of regulations completed that use "special" customer service focus or features.[2]	Special customer service focus or features were used on all completed regulations in fiscal year 2003.	≥ 40%	87%	≥ 40%	100%	≥ 40%	100%	100%	100%	✓
3. The total number of regulation projects completed compared to the number of regulation projects in the Board-approved annual Regulatory Performance Plan.	Sixteen of the twenty (80%) regulation projects planned according to the Fiscal Year 2003 Regulatory Performance Plan were completed.	> 90%	69%	≥ 90%	78%	≥ 90%	78%	≥ 78%	80%	▲

[1] The following defines the symbols and abbreviations used to describe targets in the Performance Measures and Results table: < is less than; > is greater than; ≤ is less than or equal to; ≥ is greater than or equal to; and NA is not applicable.
[2] "Special" customer service focus or features are designed to enhance the public's ability to participate in regulatory projects or to expedite completion of projects when appropriate. These include: Advanced Notice of Proposed Rulemaking; Fast-Track or Streamlined Regulation Development Procedures; Direct Final Rulemaking; Reproposal or Resolicitation of Public Comments; Comment Period Extension; Question and Answer Format; Response to Petitions; and Information Meetings with Constituents and/or Congressional Committees.

Table 7b
Goal 2
Performance Measures and Results

Measure	Results	FY 2000		FY 2001		FY 2002		FY 2003		FY 2003
		Target	Results	Target	Results	Target	Results	Target	Results	Results vs. Target
4. The number of direct-lender institutions with adversely classified assets to risk funds less than 100 percent divided by the total number of direct-lender institutions.[1]	All FCS institutions maintained adversely classified assets at levels that were well within their risk-bearing capacity. The amount of risk funds substantially exceeded the amount of adversely classified assets in all FCS institutions.	> 90%	100%	> 90%	100%	100%	100%	100%	100%	✓
5. The total assets of direct-lender institutions with adversely classified assets to risk funds less than 100 percent divided by the total assets of direct-lender institutions.	All FCS institutions maintained adversely classified assets at levels that were well within their risk-bearing capacity. The amount of risk funds substantially exceeded the amount of adversely classified assets in all FCS institutions.	> 85%	100%	> 85%	100%	100%	100%	100%	100%	✓
6. The number of direct-lender institutions with adversely classified assets to risk funds greater than 100 percent with corrective action plans that mitigate the excessive risk.	This measure is not applicable because none of the FCS institutions had adversely classified assets to risk funds greater than 100 percent. Therefore, corrective action plans were not needed at any institutions.	100%	100%	100%	NA	100%	NA	100%	NA	NA

[1] Adverse Assets/Risk Funds: The sum of all assets classified Substandard, Doubtful, or Loss plus other property owned, divided by risk funds. Risk funds are defined as permanent capital plus the allowance for losses on loans and other property owned. Measures risk exposure of assets with well -defined credit factor weaknesses relative to risk-bearing ability; the lower the ratio the better.

Measure	Results	FY 2000		FY 2001		FY 2002		FY 2003		FY 2003
		Target	Results	Target	Results	Target	Results	Target	Results	Results vs. Target
7. The total assets of direct-lender institutions complying with all capital ratio requirements divided by the total assets of direct-lender institutions.	FCA has established several regulatory minimum capital requirements for FCS institutions. All FCS institutions remained well capitalized and were in full compliance with all regulatory minimum capital requirements.	100%	100%	100%	100%	100%	100%	100%	100%	✓
8. The 3-year average return on average assets (ROAA) of FCS institutions.	ROAA measures total net income relative to the size of the FCS's asset base. The FCS's profitability remained satisfactory and the ROAA exceeded our target level.	≥ 1.25%	1.58%	≥ 1.25%	1.55%	≥ 1.25%	1.68%	≥ 1.25%	1.71%	▲
9. The 3-year average return on equity (ROE) of FCS institutions.	ROE measures total net income relative to the size of the FCS's capital base. The combined income of the FCS provided a satisfactory return on owners' equity. The ROE exceeded the level of return shareholders would have received from investing in 10-year Treasury bonds plus a 200 basis point risk premium.	NA	NA	7.55%	10.18%	> 7.34%	10.84%	> 6.65%[2]	10.93%	▲
10. The percentage of examinations of FCS institutions meeting the statutory examination frequency requirement.	The agency is required by statute to examine each FCS institution at least once every 18 months. All examinations were completed in compliance with the statute.	100%	100%	100%	100%	100%	100%	100%	100%	✓

[2] 3-year average of the 10-year Treasury bond rate (4.65% as of 9/30/2003) plus 2% = 6.65%.

Measure	Results	FY 2000		FY 2001		FY 2002		FY 2003		FY 2003
		Target	Results	Target	Results	Target	Results	Target	Results	Results vs. Target
11. Customer acceptance of FCA's examination and supervisory programs through the average of the ratings (1 to 5, with 1 being the highest rating) received on the following survey questions:	FCA's Inspector General conducts a semi-annual survey of FCS institutions that were examined during the previous 6-month period. The survey provides us feedback on whether the board and management believe our examination provided them useful information.									
· The board and management believe the findings of the examination will assist (or have assisted) the institution in correcting identified weaknesses.	The average of the ratings received was better than our target.	≤ 2.25	1.48	< 2.25	1.66	≤ 2.25	1.70	≤ 2.25	1.90	▲
· The board and management believe the actions required by the enforcement document will assist (or have assisted) the institution in correcting identified weakness.	This performance measure was not applicable for fiscal year 2003 because no FCS institutions were under enforcement action.	≤ 2.5	NA	< 2.5	NA	< 2.5	NA	≤ 2.25	NA	NA

Measure	Results	FY 2000		FY 2001		FY 2002		FY 2003		FY 2003
		Target	Results	Target	Results	Target	Results	Target	Results	Results vs. Target
12. The number of direct-lender institutions that have programs that meet the guidelines of FCA's Bookletter and Board policy guidance that address young, beginning, and small farmers and ranchers.[3]	Beginning in fiscal year 2002 and continuing through fiscal year 2003, a comprehensive examination was completed of each FCS institution's young, beginning, and small farmers and ranchers program. Eighty-seven percent of these institutions had an YBS program (or had initiated a specific corrective action plan) that met the guidelines of FCA's Bookletter and Board policy guidance that address young, beginning, and small farmers and ranchers. The remaining thirteen percent of institutions had programs that met the regulatory and statutory requirements, and some of the guidelines, but needed strengthening in certain areas such as measurable goals, frequency or content of reporting, or controls to ensure data accuracy. The related Reports of Examination provided recommendations for improving the programs.	NA	NA	NA	NA	NA	NA	100%	92%	▼

[3] This performance measure was new for fiscal year 2003; thus, historical results are not available.

Part III
Auditor’s Reports and Financial Statements

Letter from the Chief Financial Officer

This FY 2003 Performance and Accountability Report summarizes the efforts of the Farm Credit Administration (FCA) in fulfilling its mission to ensure a dependable source of credit for agriculture and rural America. Based on the reported performance outcome and the results of the audited financial statements, we believe that the agency has been successful in meeting the high standards established for achieving excellence in mission performance and providing sound financial management and reporting.

Fiscal year 2003 is the first year that FCA is submitting its audited financial statements in accordance with the provisions of the Accountability of Tax Dollars Act of 2002, supplemented by the provisions of the Reports Consolidation Act of 2000, which requires agencies to consolidate their audited financial statements and performance reports into a combined Performance and Accountability Report. For the previous nine years, FCA management voluntarily elected to have financial statements prepared and audited in accordance with the Chief Financial Officers Act of 1990. As a result, FCA has been and continues to be committed to ensuring that its financial data are accurate and of high quality. Our goal is to provide current and reliable information for better decision-making and improved financial performance.

During FY 2003, FCA continued to work for the advancement of e-government. When the current accounting system was implemented in FY 2001, it provided FCA with reasonable assurance that transactions were being properly authorized and recorded, that the financial records were reliable, and that the agency's assets were safeguarded. With that assurance, in FY 2002, FCA focused on fine-tuning the system and expanding its reporting and electronic capabilities. During FY 2002, an electronic travel-booking tool was implemented throughout the agency. The travel-booking tool allowed travelers to make airline, hotel, and car rental reservations online. At that time, more than 98 percent of FCA staff was trained on the use of the travel-booking tool. As FCA continued to focus on fine-tuning the financial system in FY 2003, the travel-booking tool was integrated with an off-the-shelf travel management system and interfaced with the financial management system. During the year, this new travel management solution was implemented in three of FCA's five field offices, which comprise more than 70 percent of the agency. The system is currently being upgraded and will be fully deployed throughout FCA in FY 2004.

Although FCA has been working to improve its current system of record, the Federal Financial System (FFS), FCA realizes that its developer, American Management Systems (AMS), Inc., is phasing out the system. The reason for the phase-out of the system is that AMS has released an upgrade of FFS called Momentum Financials. The Joint Financial Management Improvement Program has certified the Momentum Financials software as compliant with the current core financial management system requirements. After studying the system capabilities of Momentum and other available software products, FCA has decided to migrate to Momentum. The FCA Board authorized the migration in FY 2003, and implementation of the new upgrade will begin in FY 2004.

As work toward the implementation of a new system begins, FCA realizes that it will face many challenges. However, we know that on the other side of the challenges are opportunities that will help us to better fulfill our mission and better serve the American people.

W. B. Erwin
Chief Financial Officer

FINANCIAL STATEMENTS AND RELATED NOTES

FARM CREDIT ADMINISTRATION
BALANCE SHEET
As of September 30, 2003 and 2002

	2003	2002
Assets:		
Intragovernmental:		
Fund Balance with Treasury (Note 2)	$ 477,787	$ 229,383
Investments (Note 3)	20,744,440	20,980,860
Accounts Receivable (Note 4)	133,377	63,334
Prepaid Expenses	25,494	54,293
Total Intragovernmental	21,381,098	21,327,870
Accounts Receivable, Net (Note 4)	588,915	322,713
General Property, Plant and Equipment, Net (Note 5)	514,705	861,597
Prepaid Expenses	73,594	49,193
Total Assets	$22,558,312	$22,561,373
Liabilities:		
Intragovernmental:		
Accounts Payable	$ 175,227	$ 198,619
Accrued Post-Employment Compensation (Note 6)	22,864	187,857
Advances from Others	295,404	20,442
Accrued Taxes Payable	8,561	3,036
Employer Contributions and Payroll Taxes Payable	130,243	108,665
Total Intragovernmental	632,299	518,619
Accounts Payable	576,426	518,061
Actuarial Workers Compensation Liability (Note 7)	1,845,363	2,030,757
Accrued Payroll and Benefits	3,520,323	3,327,173
Employer Contributions and Payroll Taxes Payable	19,410	15,547
Deferred Revenue	1,838,686	1,611,366
Total Liabilities	8,432,507	8,021,523
Net Position:		
Cumulative Results of Operations	14,125,805	14,539,850
Total Net Position	14,125,805	14,539,850
Total Liabilities and Net Position	$22,558,312	$22,561,373

The accompanying notes are an integral part of these statements.

FARM CREDIT ADMINISTRATION
STATEMENT OF NET COST
For the Years Ended September 30, 2003 and 2002

	2003	2002
Program Costs:		
Safety and Soundness:		
Intragovernmental Gross Costs	$ 7,545,507	$ 6,822,396
Less: Intragovernmental Earned Revenues	(367,001)	(364,718)
Intragovernmental Net Costs	7,178,506	6,457,678
Gross Costs with the Public	22,924,765	21,312,772
Less: Earned Revenues from the Public	(26,548,784)	(27,101,985)
Net Costs with the Public	(3,624,019)	(5,789,213)
Total Net Costs – Safety and Soundness	$ 3,554,487	$ 668,465
Policy and Regulation:		
Intragovernmental Gross Costs	$ 1,809,886	$ 2,208,359
Less: Intragovernmental Earned Revenues	(86,087)	(120,583)
Intragovernmental Net Costs	1,723,799	2,087,776
Gross Costs with the Public	5,337,520	7,093,688
Less: Earned Revenues from the Public	(6,227,543)	(8,961,706)
Net Costs with the Public	(890,023)	(1,868,018)
Total Net Costs – Policy and Regulation	$ 833,776	$ 219,758
Other Activity:		
Intragovernmental Gross Costs	$ 824,962	$ 817,977
Less: Intragovernmental Earned Revenue	(1,129,710)	(1,213,379)
Intragovernmental Net Costs	(304,748)	(395,402)
Gross Costs with the Public	2,951,807	2,226,365
Less: Earned Revenues from the Public	(1,940,929)	(766,102)
Net Costs with the Public	1,010,878	1,460,263
Total Net Costs – Other Activities	$ 706,130	$ 1,064,861
Net Cost of Operations (Notes 8 and 9)	$ 5,094,393	$ 1,953,084

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, 2003 and 2002

	2003 Cumulative Results of Operations	2002 Cumulative Results of Operations
Beginning Balances	$14,539,850	$ 12,357,032
Prior Period Adjustments (Note 10)	2,412	-
Beginning Balances, As Adjusted	14,542,262	12,357,032
Other Financing Sources:		
Imputed Financing from Costs Absorbed by Others		
Federal Employee Benefits (Note 11)	2,110,247	1,833,910
Rent (Note 12)	2,567,689	2,301,992
Total Financing Sources	4,677,936	4,135,902
Net Cost of Operations	(5,094,393)	(1,953,084)
Net Position – Ending Balance	$14,125,805	$ 14,539,850

The accompanying notes are an integral part of these statements.

FARM CREDIT ADMINISTRATION
STATEMENT OF BUDGETARY RESOURCES
For the Years Ended September 30, 2003 and 2002

	2003	2002
Budgetary Resources:		
Unobligated Balances – Beginning of Period	$ 15,552,828	$ 11,928,815
Spending Authority from Offsetting Collections:		
Earned		
Collected	36,423,719	36,061,903
Receivable from Federal Sources	98,665	(186,588)
Change in Unfilled Customer Orders		
Advance Received	274,963	20,442
Without Advance from Federal Sources	(40,870)	100,774
Subtotal – Spending Authority from Offsetting Collections	36,756,477	35,996,532
Total Budgetary Resources (Note 13)	$ 52,309,305	$ 47,925,346
Status of Budgetary Resources:		
Obligations Incurred – Exempt from Apportionment	$ 38,441,500	$ 32,372,518
Unobligated Balance-Available – Exempt from Apportionment	12,029,119	13,941,462
Unobligated Balance-Not Available	1,838,686	1,611,366
Total Status of Budgetary Resources	$ 52,309,305	$ 47,925,346
Relationship of Obligations to Outlays:		
Obligated Balance, Net, Beginning of Period	$ 5,077,555	$ 8,793,789
Obligated Balance, Net, End of Period:		
Accounts Receivable	$ (258,383)	$ (159,718)
Unfilled Customer Orders from Federal Sources	$ (59,904)	$ (100,774)
Undelivered Orders	$ 2,849,970	$ 979,089
Accounts Payable	$ 4,453,054	$ 4,358,958
Outlays:		
Disbursements	$ 36,476,524	$ 36,174,565
Collections	(36,698,682)	(36,082,344)
Net Outlays	$ (222,158)	$ 92,221

The accompanying notes are an integral part of these statements.

FARM CREDIT ADMINISTRATION
STATEMENT OF FINANCING
For the Years Ended September 30, 2003 and 2002

	2003	2002
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	$38,441,500	$32,372,518
Less: Spending Authority from Offsetting Collections	(36,756,477)	(35,996,531)
Net Obligations	1,685,023	(3,624,013)
Other Resources		
Imputed Financing from Costs Absorbed by Others (Notes 11 And 12)	4,677,936	4,135,902
Exchange Revenue Not in the Budget	227,320	122,205
Net Other Resources Used to Finance Activities	4,905,256	4,258,107
Total Resources Used to Finance Activities	6,590,279	634,094
Resources Used to Finance Items Not Part of the Net Cost of Operations		
Change in Budgetary Resources Obligated for Goods, Services, and Benefits Ordered but Not Yet Provided	(1,632,391)	965,201
Resources that Finance the Acquisition of Assets	(210,739)	(1,019,247)
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	(1,843,130)	(54,046)
Total Resources Used to Finance the Net Cost of Operations	4,747,149	580,048
Components of the Net Cost of Operations that Will Not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Periods:		
Increase in Exchange Revenue Receivable from the Public	(273,704)	(125,279)
Actuarial FECA Liability (Note 14)	(185,394)	920,601
Total Components of Net Cost of Operations that Will Require or Generate Resources in Future Periods	(459,098)	795,322
Components Not Requiring or Generating Resources:		
Depreciation and Amortization	796,326	580,235
Bad Debt Expense, Refunds Receivable from the Public, and Gain on Asset Disposition	10,016	(2,521)
Total Components of Net Cost of Operations that Will Not Require or Generate Resources	806,342	577,714
Total Components of Net Cost of Operations that Will Not Require or Generate Resources in the Current Period	347,244	1,373,036
Net Cost of Operations	$ 5,094,393	$ 1,953,084

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). 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. Policy making 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 U.S. generally accepted accounting principles (GAAP) and the Statements of Federal Financial Accounting Standards (SFFAS). SFFAS are prescribed by the Federal Accounting Standards Advisory Board, which has been designated the official body for setting standards for the federal government. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. 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. Budgetary accounting has also been applied to facilitate compliance with legal constraints and control over the use of funds.

On November 7, 2002, the President signed Public Law 107-289, the Accountability of Tax Dollars Act of 2002. This Act requires all agencies subject to it to prepare and submit to the Congress and the Office of Management and Budget (OMB) audited financial statements, and to produce integrated Performance and Accountability Reports in accordance with OMB Bulletin No. 01-09, Form and Content of Agency Financial Statements. Although FCA is one of the agencies covered by the Accountability of Tax Dollars Act of 2002 and is now required to develop financial statements, FCA has been preparing audited financial statements in compliance with the Chief Financial Officers Act of 1990 on a voluntary basis since its enactment. As a result, FCA is able to present its statements with prior year comparative information. Please note that the Statement of Custodial Activity contained in OMB Bulletin No. 01-09 is not applicable to FCA and is not included as a part of the financial statements.

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, reimbursable activities, and amounts owed by employees and vendors. 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. All investments are normally held to maturity and carried at cost. They 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 comprised 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. The Office of Chief Financial Officer (OCFO) reviews the agency's accounts receivable on an ongoing basis. The OCFO has determined that all accounts receivable are fully collectible as of September 30, 2003.

F. Property, Equipment, and Software – Property, 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 $5,000 or more and a useful life of two years or more are capitalized. Items that are less than $5,000 but meet certain bulk purchase criteria 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.

G. Rent – The Act provides for FCA to occupy buildings and use land owned and leased by the Farm Credit System Building Association (FCSBA), an entity owned by the System banks. 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.

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

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

J. Assessments – A substantial portion of FCA's revenues is based upon 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, upon the average risk adjusted assets and the overall financial health of the institution being assessed.

K. Deferred Credits – Prior to the beginning of each fiscal year, in accordance with the Act, the 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 the month of September. The unearned revenue received prior to the beginning of the new fiscal year is established as a deferred credit, and is 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.

Note 2. Fund Balance with Treasury

	2003	2002
Fund Balance with Treasury		
Revolving Fund	$ 477,787	$ 229,383
Total Fund Balance with Treasury	$ 477,787	$ 229,383
Status of Fund Balance with Treasury		
Unobligated Balance		
Available	$ 12,029,119	$ 13,941,462
Unavailable	1,838,686	1,611,366
Obligated Balance	6,984,737	5,077,555
Subtotal – Status of Fund Balance	$ 20,852,542	20,630,383
Funds Invested with Treasury		
Net of Unamortized Discount	(20,374,755)	(20,401,000)
Total Fund Balance with Treasury	$ 477,787	$ 229,383

Note 3. Investments

Intragovernmental Securities

Amounts for 2003 Balance Sheet Reporting

	(1) Amortized Cost	(2) Unamortized (Premium) Discount	(3) Investments Net	(4) Required Market Value Disclosure
Non-Marketable:				
Market-Based	$ 20,628,206	($244,206)	$ 20,384,000	$ 20,820,978
Accrued Interest	116,234	-	-	116,234
Total	$ 20,744,440	($244,206)	$ 20,384,000	$ 20,937,212

Amounts for 2002 Balance Sheet Reporting

	(1) Amortized Cost	(2) Unamortized (Premium) Discount	(3) Investments Net	(4) Required Market Value Disclosure
Non-Marketable:				
Market-Based	$20,885,235	$(484,235)	$20,401,000	$ 21,081,000
Accrued Interest	95,625	-	-	95,625
Total	$20,980,860	$(484,235)	$20,401,000	$ 21,176,625

Premiums and discounts are amortized and interest is accrued using the effective interest method over the term of the respective issues. Interest earned on investments was $453,890 and $485,301 for fiscal years 2003 and 2002, respectively.

Note 4. Accounts Receivable

	2003	2002
Intragovernmental:		
Reimbursements	$127,863	$63,334
Expenditure Refunds	5,514	-
Subtotal	133,377	63,334
With the Public:		
Assessments	586,128	310,828
Vendor Overpayments	1,580	10,591
Other	1,207	1,294
Subtotal	588,915	322,713
Total	$722,292	$386,047

Note 5. General Property, Plant, and Equipment

As of September 30, 2003

	Estimated Useful Life	Depreciation Method	Acquisition Value	Accumulated Amortization/ Depreciation	Book Value
IT Equipment	3 years	Straight Line	$2,115,645	($1,672,018)	$443,627
Software	3 years	Straight Line	91,994	(65,151)	26,843
Vehicles	5 years	Straight Line	50,389	(6,154)	44,235
Total			$2,258,028	($1,743,323)	$514,705

As of September 30, 2002

	Estimated Useful Life	Depreciation Method	Acquisition Value	Accumulated Amortization/ Depreciation	Book Value
IT Equipment	3 years	Straight Line	$1,986,305	($1,155,361)	$830,944
Software	3 years	Straight Line	72,044	(41,391)	30,653
Total			$2,058,349	($1,196,752)	$861,597

Note 6. Accrued Post-Employment Compensation

Intragovernmental – Covered by Budgetary Resources

	Current Liabilities	Non-Current Liabilities	Total
FECA Accrual – 2003	$ 22,864	$ 0	$ 22,864
FECA Accrual – 2002	$ 157,968	$ 29,889	$ 187,857

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to cover federal civilian employees injured on the job, employees who have contracted work-related occupational disease, and beneficiaries of employees whose deaths are attributable to job-related injury or occupational disease. Claims for benefits under the FECA for eligible FCA employees are administered by the Department of Labor (DOL) and ultimately paid by the FCA. In FY 1999, FCA elected to annually reimburse the DOL for the actual benefit payments paid to its employees upon receiving notification of claims incurred. As of September 30, 2003, FCA has an outstanding claim of $22,864, all which will be paid with the July 2003 through June 2004 billing.

Note 7. Actuarial Workers Compensation Liability

The DOL estimates future workers compensation liability for specified entities 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 the DOL provides individual agency estimates on a routine basis, FCA calculated its actuarial liability amount using the DOL model for the estimation of FECA actuarial liability.

The FECA Actuarial Liability amounts for FY 2003 and FY 2002 are $1,845,363 and $2,030,757, respectively. The decrease in the actuarial liability amount may be attributed in part to one employee being eliminated from the program. The FCA records the FECA Actuarial Liability as a liability that is "Not Covered by Budgetary Resources."

Note 8. Gross Cost and Earned Revenue by Budget Functional Classification

Functional Classification	Gross Cost (*)	Earned Revenue	Net Cost
Agriculture			
2003	$41,394,447	$36,300,054	$5,094,393
2002	$40,481,557	$38,528,473	$1,953,084

(*) Intragovernmental costs were in the amounts of $10,180,355 and $9,848,732 for fiscal years 2003 and 2002, respectively, and the intragovernmental revenue amounts were $1,582,798 and $1,698,680, respectively.

Note 9. Sub-Organization Program Costs/Program Costs by Segment

Farm Credit Administration
Supporting Schedule by Sub-Organization
For the Year Ending September 30, 2003

	Office				
	Examination $	Policy & Analysis $	Secondary Market Oversight $	Support Organizations $	Total $
Safety & Soundness					
Intragovernmental				7,545,507	7,545,507
With the Public	15,970,959	643,832	-	6,309,974	22,924,765
Total	15,970,959	643,832	-	13,855,481	30,470,272
Less: Earned Revenue	(14,107,879)	(568,726)	-	(12,239,180)	(26,915,785)
Net Program Cost	1,863,080	75,106	-	1,616,301	3,554,487
Policy & Regulation					
Intragovernmental				1,809,886	1,809,886
With the Public	60,521	3,185,358	-	2,091,641	5,337,520
Total	60,521	3,185,358	-	3,901,527	7,147,406
Less: Earned Revenue	(53,461)	(2,813,772)	-	(3,446,397)	(6,313,630)
Net Program Cost	7,060	371,586	-	455,130	833,776
Other Activity					
Intragovernmental				824,962	824,962
With the Public	1,724,370	34,134	524,758	668,545	2,951,807
Total	1,724,370	34,134	524,758	1,493,507	3,776,769
Less: Earned Revenue	(1,401,970)	(27,752)	(426,645)	(1,214,272)	(3,070,639)
Net Program Cost	322,400	6,382	98,113	279,235	706,130
Net Cost of Operations	2,192,540	453,074	98,113	2,350,666	5,094,393

Note 9. Sub-Organization Program Costs/Program Costs by Segment (cont'd.)

Farm Credit Administration
Supporting Schedule by Sub-Organization
For the Year Ending September 30, 2002

	Office				
	Examination $	Policy & Analysis $	Secondary Market Oversight $	Support Organizations $	Total $
Safety & Soundness					
Intragovernmental				6,822,396	6,822,396
With the Public	15,299,895	466,368	-	5,546,509	21,312,772
Total	15,299,895	466,368	-	12,368,905	28,135,168
Less: Earned Revenue	(14,936,383)	(455,288)	-	(12,075,032)	(27,466,703)
Net Program Cost	363,512	11,080	-	293,873	668,465
Policy & Regulation					
Intragovernmental				2,208,359	2,208,359
With the Public	79,021	3,143,876	83	3,870,708	7,093,688
Total	79,021	3,143,876	83	6,079,067	9,302,047
Less: Earned Revenue	(77,154)	(3,069,603)	(81)	(5,935,451)	(9,082,289)
Net Program Cost	1,867	74,273	2	143,616	219,758
Other Activity					
Intragovernmental				817,977	817,977
With the Public	1,253,838	117,388	337,984	517,155	2,226,365
Total	1,253,838	117,388	337,984	1,335,132	3,044,342
Less: Earned Revenue	(815,266)	(76,327)	(219,763)	(868,125)	(1,979,481)
Net Program Cost	438,572	41,061	118,221	467,007	1,064,861
Net Cost of Operations	803,951	126,414	118,223	904,496	1,953,084

Note 10. Prior Period Adjustment

Effective in FY 2003, the Bureau of Public Debt changed its amortization method for market-based notes and bonds from the straight-line method to the scientific method of effective interest amortization. To provide standardization in processing and in the recording of intragovernmental transactions, agencies were requested to apply this same business rule in their recording of investment related transactions. Agencies were advised that differences that resulted due to the change in methodology should be recorded as a prior period adjustment. FCA incurred an increase in the interest revenue of $2,412.

Note 11. Federal Employee Benefits

	2003	2002
Imputed Pension Cost	$1,142,789	$ 962,587
Other Imputed Retirement Benefits	967,458	871,323
Total	$2,110,247	$1,833,910

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 multi-employer 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 (see Note 1). 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 2003 and 2002. Corresponding amounts of imputed revenue are recorded to offset the imputed cost.

Other Retirement Benefits Expenses – SFFAS No. 5 (see Note 1) 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 12. Rent

	2003	2002
Leased Field Offices	$ 786,844	$ 762,701
FCA Headquarters	1,780,845	1,539,291
Total	$2,567,689	$2,301,992

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 actual results of operations for the 12 months ended December 31, 2002.

In accordance with SFFAS No. 4, the rent expense and the associated imputed revenue are recorded as a non-monetary transaction (see Note 1). The full cost of the rent expense is calculated by subtracting the amount of rental income received from commercial tenants renting office space from the gross operating expenses of the FCSBA. The lease expenses for the field offices are included in FCSBA's gross operating expenses.

Note 13. Budgetary Resources

FY 2003

The Total Budgetary Resources reported in the financial statements for FY 2003 is $52,309,305. The budget authority for the FCA, in the Budget of the United States Government (Budget), is $53,000,000. The difference is $690,695. This difference includes an estimate for investment interest collections of $1 million, which did not fully materialize. Because the line items contained in the Budget are in "millions", the primary difference is due to rounding.

FY 2002

The Total Budgetary Resources reported in the financial statements for FY 2002 is $47,925,346. The budget authority for FCA as reported in the Budget is $53,000,000. The difference is $5,074,654. This difference includes $2 million that was included in the U.S. Budget Report for FCA's actuarial liability, but is reported in the financial statements as "Not Covered by Budgetary Resources." The budget also included an estimate for investment interest collections of $1 million, which did not materialize. In addition, there was a $2.1 million refund to the System institutions that was reflected in the financial statements, but was not included in the budget. These items represent a net difference between the financial statements and the Budget of approximately $5.1 million. The remaining difference is due to rounding.

Note 14. Relationship Between Liabilities Not Covered by Budgetary Resources and the Change in Components Requiring or Generating Resources in Future Periods

Operating as a revolving fund, the FCA funds its liabilities, except for the FECA actuarial liability. The FECA actuarial liability is reported on the balance sheet as unfunded, not covered by budgetary resources. In FY 2003, there was a decrease in the actuarial liability amount of $185,394, and in FY 2002, there was an increase in the actuarial liability amount of $920,601. These amounts are reported on the Statement of Financing as components of the net cost of operations that will generate or require budgetary resources in future periods.

Required Supplemental Information

Intragovernmental Assets

As of September 30, 2003

Agency	Fund Balance with Treasury	Investments	Accounts Receivable	Prepayments
U.S. Department of the Treasury	$ 477,787	$ 20,744,440	$ -	$ -
Small Business Administration	-	-	122,558	-
U.S. Department of Labor	-	-	-	15,476
Library of Congress	-	-	-	10,018
FCS Insurance Corporation	-	-	8,453	-
U.S. Department of the Interior	-	-	664	-
Others–Represents 20 Agencies	-	-	1,702	-
Total	$ 477,787	$ 20,744,440	$133,377	$ 25,494

As of September 30, 2002

Agency	Fund Balance with Treasury	Investments	Accounts Receivable	Prepayments
U.S. Department of the Treasury	$ 229,383	$ 20,980,860	$ -	$ -
Small Business Administration	-	-	50,313	-
FCS Insurance Corporation	-	-	7,501	-
Library of Congress	-	-	-	7,974
U.S. Department of Labor	-	-	5,520	46,319
Total	$ 229,383	$ 20,980,860	$ 63,334	$ 54,293

Required Supplemental Information (cont'd.)

Intragovernmental Liabilities

As of September 30, 2003

Agency	Accounts Payable	Other Liabilities
U.S. Department of Agriculture	$ 1,500	$ 295,404
U.S. Department of the Interior	149,527	-
Office of Personnel Management	-	97,344
Social Security Administration (Treasury General Fund)	-	32,899
U.S. Department of Labor	-	22,864
FCS Insurance Corporation	15,250	-
Board of Governors of the Federal Reserve	8,950	-
Treasury – Internal Revenue Service	-	8,561
Total	$ 175,227	$ 457,072

As of September 30, 2002

Agency	Accounts Payable	Other Liabilities
U.S. Department of Labor	-	$ 187,857
U.S. Department of the Interior	$ 181,215	-
Office of Personnel Management	-	79,840
Social Security Administration	-	28,825
U.S. Department of Agriculture	-	20,442
Board of Governors of the Federal Reserve	14,400	-
Treasury – Internal Revenue Service	-	3,036
Federal Deposit Insurance Corporation	2,700	-
Treasury – Franchise Business Activity	304	-
Total	$ 198,619	$ 320,000

Farm Credit Administration

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

January 6, 2004

The Honorable Michael M. Reyna
Chairman of the Board
Farm Credit Administration
1501 Farm Credit Drive
McLean, Virginia 22102-5090

Dear Mr. Chairman:

This letter transmits the Harper, Rains, Knight, and Company, P.A. (HRK) reports on the audit of the Farm Credit Administration's (FCA) financial statements for the fiscal year ended September 30, 2003. This letter also incorporates a summary of what I believe are the most significant management and performance challenges facing the agency as described in the Office of Inspector General (OIG) Semiannual Report to Congress dated September 30, 2003.

HRK issued an unqualified opinion. HRK opined FCA's principal financial statements present fairly, in all material respects, the financial position of FCA as of September 30, 2003 and 2002, in conformity with generally accepted accounting principles. HRK issued two other reports and a management letter. The report on the internal control noted no matters involving the internal control and its operation that HRK considered to be material weaknesses. The HRK report on compliance with laws and regulations does not note any instances of noncompliance. HRK reported to management other matters involving internal control and its operations in a separate letter.

The OIG tasked HRK, an independent accounting firm, to perform the audit. The task order required HRK to perform the audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States, and the Office of Management and Budget Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements.* To ensure the quality of the work performed, the OIG:

- reviewed HRK's approach and planning of the audit;
- evaluated the qualifications and independence of the auditors;
- monitored progress of the audit;
- examined working papers; and
- reviewed the audit report.

In our opinion, HRK's work provides a reasonable basis on which to render its November 21, 2003 opinion and we concur with the report.

As part of the agency Performance and Accountability Report, the Inspector General is required to provide an opinion on the most serious management and performance challenges facing the agency. In the most recent Semiannual Report to Congress, I outlined major challenges confronting the Farm Credit Administration as it works to fulfill its mission. These challenges fall into two general categories. First are the challenges related to the FCA's core mission of ensuring a dependable supply of credit to agriculture through the institutions it has chartered. These challenges are often shaped and influenced by events that are outside the control of the agency. Second, but no less important, are those challenges related to the agency's operations.

Farm Credit System Risk — The Farm Credit System (FCS) is a single industry lender and therefore is vulnerable to economic swings. The FCA is challenged to balance the often-competing demands of ensuring the FCS fulfills it public purpose, proactively examining risk in the regulated institutions both individually and systemically, and controlling the cost of the regulator. For example, the FCA requested comments from the public on its interpretation of loan syndications. This is a significant issue to the FCS because loan syndications represent a material portion of the loan growth over the past several years. The FCA Board extended the comment period 3 times for a total of 9 months.

Organizational Leadership — The Farm Credit Act provides for a full time three-member Board. The Board members are appointed by the President and confirmed by the Senate. The rapidly changing, complex financial and banking environment makes the Board's task both challenging and important. The Board must be able to engage in professional policy debate and set a sound course for the Agency.

The Board is in an important period of transition. Last year the Board returned to full strength ending a 19-month period with only two Board members. The return to a full strength Board is an important element in setting clear priorities and deliberating fully on the issues. The Board must plan for and anticipate more changes especially in the succession of leadership. A primary responsibility of an organization's board is to ensure that there is a smooth transition in leadership. In addition to anticipating a new Chairman, the Board should prepare for other changes. For example, the Board needs to anticipate and be prepared to replace almost half of the top executives in the Agency over the next few years.

A relatively small full-time Board also presents a challenge in terms of defining the roles and responsibilities of the Board members relative to the governance of the Agency. As the membership on the Board changes, it needs to update its rules of operation to ensure it fulfills its statutory role in the governance of FCA. Each Board member must accept the rules of operation and be comfortable with the degree of oversight and accountability within the FCA. An OIG report pointed out the need to update and revise the Board Policy Statements.

Strategic Planning — The FCA Strategic Plan was updated and revised for FY 2000 to reflect the FCA Board's priorities at that time. The current FCA Strategic Plan reflects an environment that has changed significantly since it was adopted—the composition of the Board, the economy, the structure of the FCS, and the President's Management Agenda. The FCA Board has worked for more than 6 months getting input from a cross section of stakeholders and taking a fresh look at the substance of FCA's mission, goals and objectives. The Board has the opportunity to set a course for FCA that focuses on the results that it wants to achieve through clear and balanced performance measures. The change in the Board's composition has and will allow the new Board to develop a new perspective that is not unduly constrained by past practices but builds on the experience of prior FCA Boards.

Human Capital — The President identified human capital as a critically needed management reform in the Federal government. The OIG recommended FCA develop a 5-year human capital plan in March 2001. FCA still does not have a plan 2½ years later. FCA needs to develop a comprehensive, integrated approach to human capital issues. In light of the changes in the competitive environment, advances in technology, and the tenure of its workforce; the Agency will be challenged to closely evaluate business processes, their associated costs, and alternatives available through competitive sourcing. The General

Accounting Office's (GAO) *High-Risk*[1] report outlined four pervasive human capital challenges that the government faces:

- planning strategic human capital and organizational alignment;
- planning for succession and leadership continuity;
- acquiring and developing staffs whose size, skills, and deployment meet agency needs; and
- creating results-oriented performance cultures.

Financial Management — During FY 2001, FCA successfully implemented a financial management system using the services of the Department of Interior's National Business Center. FCA has received an unqualified audit opinion on its financial statements. However, financial management success goes beyond an unqualified financial statement audit opinion. Management's challenge is to leverage the system to deliver timely financial information that is critical for making well-informed management decisions. This challenge will be compounded by the recent decision to move to a new financial management system. Meeting this challenge requires new measures of success. Measures such as delivering financial information that managers can use for day-to-day operations; and developing reports that capture the full cost of programs and projects can help bring about a transition.

Security and Disaster Preparedness — In the recent report on information security, the OIG found a strong foundation for security practices. However, the speed of change in the security environment will be a challenge for all government organizations. This is especially true for smaller organizations like FCA where an increased emphasis on physical and information security will compete with program areas for tight budget funding. Therefore, security remains a major challenge for the Agency. The Continuity of Operations Plan needs to be updated and practiced. OIG previously provided suggestions to management to facilitate an expedited effort in this regard. Some actions have taken place, although continued planning, finalization and communication of emergency preparedness policies needs to be accomplished.

Leveraging Technology — The Agency has recognized that in order to meet the constraints of its budget, it must be able to maximize its return on investment in technology. FCA will need effective mechanisms to ensure that current and future staff has the technical skills to use technology to operate in an efficient manner.

Respectfully,

Stephen G. Smith

Stephen G. Smith
Inspector General

1. GAO-01-263

HRK

HARPER, RAINS, KNIGHT
& COMPANY

INDEPENDENT AUDITOR'S REPORT
ON THE FINANCIAL STATEMENTS

FARM CREDIT ADMINISTRATION
The Board and Office of Inspector General

We have audited the balance sheets of the Farm Credit Administration (FCA) as of September 30, 2003 and 2002, and the statements of net cost, changes in net position, budgetary resources, and financing for the years then ended. These financial statements are the responsibility of the FCA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial statements contained in Government Auditing Standards, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin 01-02, "Audit Requirements for Federal Financial Statements". These standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatements. 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 assets, liabilities, and net position of the Farm Credit Administration as of September 30, 2003 and 2002, and the net cost, changes in net position, budgetary resources, and reconciliation of net cost to budgetary resources for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the FY 2003 and 2002 principal financial statements of the FCA. The accompanying financial information, discussed below, is not a required part of the principal financial statements.

The Management Discussion and Analysis on pages 2-23; and the Required Supplemental Information on pages 40-41 is supplementary information required by the Federal Accounting Standards Advisory Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the information. However, we did not audit the information and express no opinion on it.

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

November 21, 2003

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HARPER, RAINS, KNIGHT & COMPANY

INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL

FARM CREDIT ADMINISTRATION
The Board and Office of Inspector General

We have audited the Principal Statements (hereinafter referred to as "financial statements") of Farm Credit Administration (FCA) as of and for the year ended September 30, 2003 and 2002, and have issued our report thereon dated November 21, 2003. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and, Office of Management and Budget (OMB) Bulletin No. 01-02, "Audit Requirements for Federal Financial Statements."

In planning and performing our audits, we considered FCA's internal control over financial reporting by obtaining an understanding of the agency'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. 01-02. 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 audits was not to provide assurance on internal control. Consequently, we do not provide 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 reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the agency's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal controls, misstatements, losses, or noncompliance may nevertheless occur and not be detected. However, we noted no matters involving the internal control and its operation that we considered to be material weaknesses as defined above.

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With respect to internal control related to performance measures reported in the Performance report, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions, as required by OMB Bulletin No. 01-02. Our procedures were not designed to provide assurance on internal control over reported performance measures, and, accordingly, we do not provide an opinion on such controls.

We noted other matters involving the internal control and its operations that will be reported to the management of FCA in a separate letter.

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

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

November 21, 2003

HRK

HARPER, RAINS, KNIGHT & COMPANY

INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH LAWS AND REGULATIONS

FARM CREDIT ADMINISTRATION
The Board and Office of Inspector General

We have audited the Principal Statements (hereinafter referred to as "financial statements") of the Farm Credit Administration (FCA) as of and for the year ended September 30, 2003 and 2002, and have issued our report thereon dated November 21, 2003. We conducted our audits in accordance with: auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and, Office of Management and Budget (OMB) Bulletin No. 01-02, "Audit Requirements for Federal Financial Statements."

The management of FCA is responsible for complying with laws and regulations applicable to the agency. As part of obtaining reasonable assurance about whether the agency'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. 01-02, including the requirements referred to in the Federal Financial Management Improvement Act (FFMIA) of 1996. We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to *FCA*.

The results of our tests of compliance with the laws and regulations described in the preceding paragraph exclusive of FFMIA disclosed no instances of noncompliance with laws and regulations that are required to be reported under Government Auditing Standards and OMB Bulletin No. 01-02.

Under FFMIA, we are required to report whether the agency's financial management systems substantially comply with the Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA section 803(a) requirements.

The results of our tests disclosed no instances in which the agency's financial management systems did not substantially comply with the Federal financial management systems requirements, United States Government Standard General Ledger at the transaction level and applicable Federal accounting standards.

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Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audits and, accordingly, we do not express such an opinion.

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

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

November 21, 2003

Additional Information

The *Farm Credit Administration Performance and Accountability Report Fiscal Year 2003* is now 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 Communications 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 prepares the financial press releases, the *Report to Investors of the Farm Credit System,* the System's Annual and Quarterly Information Statements, and the System's combined financial statements contained therein, with the support of the System banks. 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 Communications and Public Affairs
Farm Credit Administration
1501 Farm Credit Drive
McLean, VA 22102-5090
703-883-4056
www.fca.gov

100/0104