USDA

U.S. Department of Agriculture

Office of Inspector General
Financial & IT Operations

Audit Report

Fiscal Year 2008
Federal Crop Insurance Corporation
Financial Statements

Report No. 05401-17-FM
November 2008

UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington D.C. 20250

November 6, 2008

REPLY TO
ATTN OF: 05401-17-FM

TO: Eldon Gould
Administrator
Risk Management Agency

ATTN: Michael Hand
Deputy Administrator
Risk Compliance
Risk Management Agency

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

SUBJECT: Federal Crop Insurance Corporation/Risk Management Agency's Financial Statements for Fiscal Years 2008 and 2007

This report presents the auditors' opinion on the Federal Crop Insurance Corporation/Risk Management Agency's (FCIC/RMA) consolidated financial statements for the fiscal years ending September 30, 2008, and 2007. Reports on FCIC/RMA's internal control structure and compliance with laws and regulations are also provided.

Deloitte & Touche LLP (Deloitte) an independent certified public accounting firm, conducted the audits. In connection with the contract, we reviewed Deloitte's report and related documentation and inquired of its representatives. Our review, as differentiated from an audit in accordance with *Government Auditing Standards* (issued by the Comptroller General of the United States), was not intended to enable us to express, and we do not express, opinions on FCIC/RMA's financial statements, internal control or on whether FCIC/RMA's financial management systems substantially complied with the Federal Financial Management Improvement Act (FFMIA); or conclusions on compliance with laws and regulations. Deloitte is responsible for the attached auditor's report, dated October 31, 2008, and the conclusions expressed in the report. However, our review disclosed no instances where the Deloitte firm did not comply, in all material respects, with generally accepted *Government Auditing Standards*, and the Office of Management and Budget Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended.

It is the opinion of Deloitte, that the financial statements present fairly, in all material respects, FCIC/RMA's financial position as of September 30, 2008, and 2007; and its net costs, changes in net position, and budgetary resources for the years then ended, in conformity with generally accepted accounting principles. No weaknesses related to internal controls or noncompliances with laws and regulations are reported.

Deloitte.

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of Federal Crop Insurance Corporation/Risk Management Agency ("FCIC") as of September 30, 2008 and 2007, and the related consolidated statements of net cost, changes in net position, and the combined statements of budgetary resources (collectively referred to as the "consolidated financial statements") for the years then ended. These consolidated financial statements are the responsibility of FCIC's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget ("OMB") Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of FCIC's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of FCIC as of September 30, 2008 and 2007, and its net cost of operations and changes in net position, and budgetary resources for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 5 to the consolidated financial statements, FCIC's ultimate losses on insurance claims may differ significantly from the recorded estimate due to differences between expected and actual yields, weather patterns, and economic conditions.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2008, on our consideration of FCIC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audits.

Deloitte & Touche LLP

October 31, 2008

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

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

We have audited the consolidated financial statements of Federal Crop Insurance Corporation/Risk Management Agency ("FCIC") as of and for the year ended September 30, 2008, and have issued our report thereon dated October 31, 2008 (which report expresses an unqualified opinion, with an emphasis of a matter paragraph concerning FCIC's estimate of losses on insurance claims). We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget ("OMB") Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered FCIC's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be significant deficiencies. Under standards issued by the American Institute of Certified Public Accountants, significant deficiencies are deficiencies in internal control, or a combination of deficiencies, that adversely affect FCIC's ability to initiate, authorize, record, process, or report financial data reliably and in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the financial statements being audited that is more than inconsequential will not be prevented or detected. Material weaknesses are significant deficiencies, or a combination of significant deficiencies, that result in a more than remote likelihood that material misstatements in relation to the financial statements being audited will not be prevented or detected. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether FCIC's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts and certain other laws and regulations specified in OMB Bulletin No. 07-04, including the requirements referred to in the Federal Financial Management Improvement Act of 1996 ("FFMIA"). However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 07-04. Additionally, the results of our tests disclosed no instances in which FCIC's financial management systems did not substantially comply with FFMIA.

DISTRIBUTION

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

Deloitte & Touche LLP

October 31, 2008

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MANAGEMENT'S DISCUSSION AND ANALYSIS

(Unaudited)

MISSION, ORGANIZATIONAL STRUCTURE AND PROGRAMS

The role of the United States Department of Agriculture's Risk Management Agency (RMA) is to help agricultural producers manage their business risks through effective, market-based risk management solutions. RMA's mission is to promote, support, and regulate sound risk management solutions to preserve and strengthen the economic stability of America's agricultural producers. As part of this mission, RMA operates and manages the Federal Crop Insurance Corporation (FCIC).

The FCIC is a wholly-owned government corporation created February 16, 1938 (7 U.S.C. 1501) and amended by the following:

- Public Law (P.L.) 96-365, dated September 26, 1980
- P.L. 105-185, dated June 23, 1998
- P.L.105-277, dated October 21, 1998
- P.L. 110-246, dated May 22, 2008

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

RMA was established under provisions of the Federal Agriculture Improvement and Reform Act of 1996 (1996 Act), P.L. 104-127, signed April 4, 1996. The 1996 Act amended the Department of Agriculture Reorganization Act of 1994 (1994 Act), P.L. 103-354, Title II, by requiring the Secretary of Agriculture (the Secretary) to establish within the United States Department of Agriculture (USDA) an independent office responsible for the administration and oversight of programs authorized under the Act, as well as the supervision of FCIC.

2008 Farm Bill Financial Summary

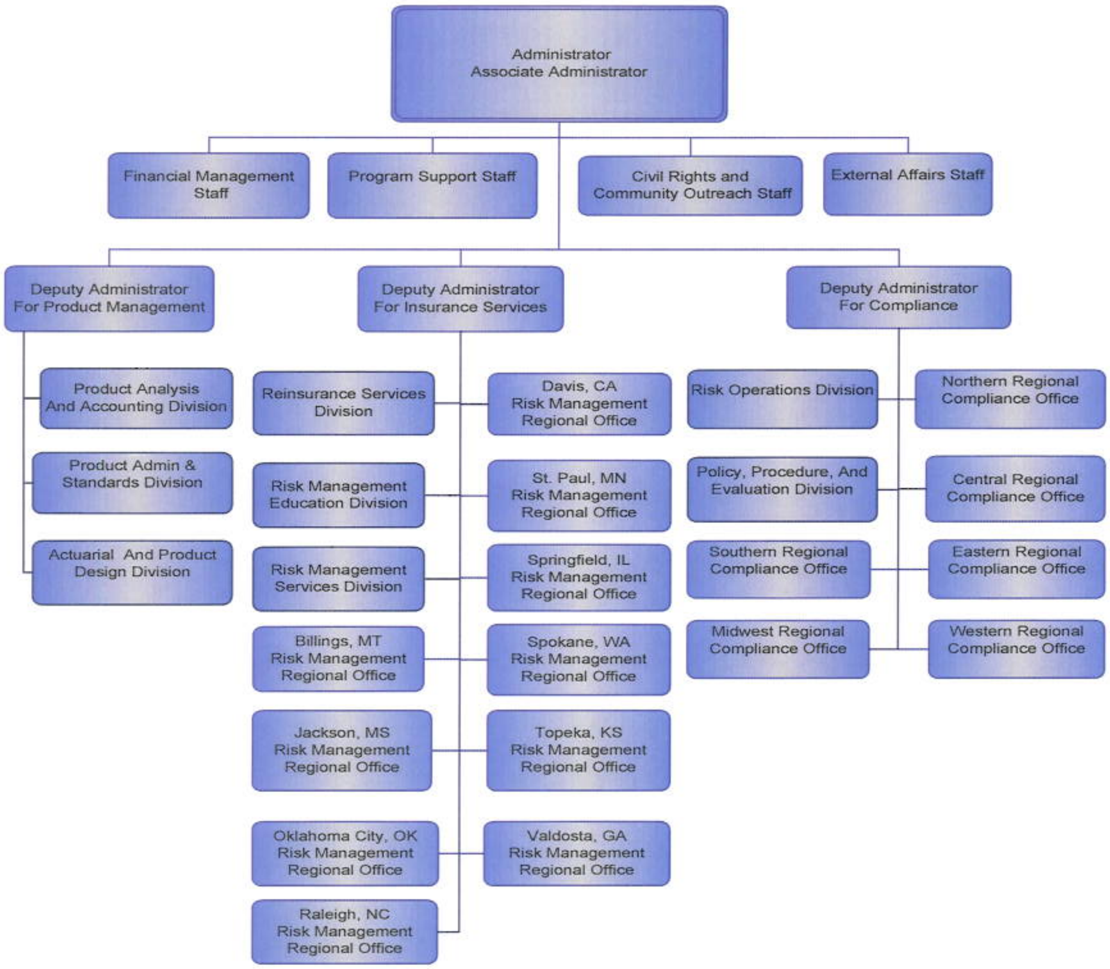
The Food, Conservation, and Energy Act of 2008, P.L. 110-234, enacted on May 22, 2008; hereafter referred to as the 2008 Farm Bill; included several changes that financially impact the FCIC. Some of the most notable changes to the program are a reduction of the budgeted loss ratio, a reduction to the Administrative and Operating (A&O) subsidy rate, and an increase in Catastrophic (CAT) fees. Research and development funding, and partnership funding was cut in half by a total of $20 million. In addition, the board must establish procedures for reimbursement of concept proposals under section 508(h) and conduct 10 mandated studies and 3 pilot programs.

In 2012, the premium billing date will be moved from October 1st to August 15th to accelerate premium income, and A&O reimbursement payments to companies will be delayed until after October 1st of the applicable reinsurance year. For the 2011 reinsurance year, underwriting gains will be paid after October 1, 2012 pushing these payments to the subsequent fiscal year.

List of significant changes in the 2008 Farm Bill

- The budgeted loss ratio was reduced from 1.075 to 1.0
- The Administrative and Operating (A&O) reimbursement rate was lowered 2.3% to an average of 18.5% with an automatic increase of 1.15% when a state has a loss ratio above 1.2
- The administrative fee for catastrophic (CAT) policies was increased from $100 to $300
- Beginning with the 2012 reinsurance year, the premium billing date will be August 15th
- The CAT coverage A&O rate is reduced from 7% to 6%
- Beginning with the 2012 reinsurance year, the A&O reimbursement will be paid to companies and agents between October 1st and October 31st
- Beginning with the 2011 reinsurance year, underwriting gains will be paid to companies on October 1, 2012 and will continue to be paid on October 1st for each subsequent reinsurance year
- Funding for research and development was cut from an aggregate total of $40 million to $20 million
- Additional funding of $15 million a year from 2008-2011 (except that 2009 fiscal year funding is limited to $9 million) was made available from the insurance fund to perform necessary IT updates
- Additional funding of $4 million a year from the insurance fund for fiscal year 2009 and each subsequent year to perform data mining operations
- The Board must develop a procedure to approve advanced payment for concept proposals associated with potential 508(h) submissions
- FCIC is required to conduct 10 unfunded studies on poultry, various crops, bees, aquatic species, applicable storage pack factors, and Adjusted Gross Revenue (AGR) policies for beginning farmers
- FCIC is also required to conduct pilot programs for insuring camelina, sesame, and grass seed

RMA Organizational Structure



The Risk Management Agency is comprised of the following major activities:

Program Administration includes the FCIC Board of Directors and the RMA Office of the Administrator. The FCIC Board of Directors is subject to the general supervision of the Secretary of Agriculture. The Board consists of:

- The USDA Chief Economist (Chairman)
- The USDA Undersecretary for Farm and Foreign Agricultural Services
- The FCIC Manager (non-voting)
- Four producers, one of whom grows specialty crops
- An individual involved in insurance
- An individual knowledgeable about reinsurance or regulation

The **Office of the Administrator** consists of the following staff offices:

- External Affairs
- Civil Rights and Outreach
- Program Support
- Chief Information Office
- Chief Financial Office
- Strategic Data Acquisition and Analysis

These staff offices perform administrative functions to support RMA and FCIC.

The Office of Product Management involves the design and development of crop insurance programs, policies and standards, and the establishment and maintenance of rates and coverage for crops in each county. This activity also includes:

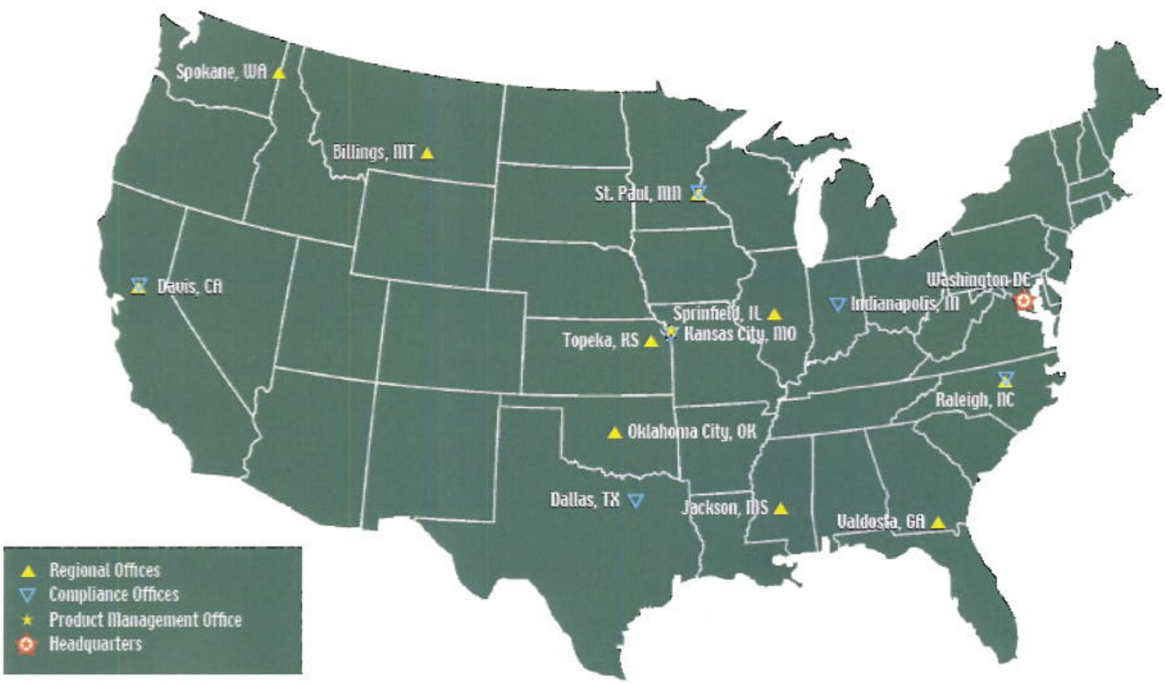
- Analysis of insurance experience and risk
- Evaluation and establishment of crop insurance price elections
- Production and dissemination of actuarial data
- Evaluation of current crop insurance plans and policies
- Development of strategies for increasing participation in the crop insurance program
- Evaluation and oversight of pilot risk management commodity programs
- Financial and operational oversight of Approved Insurance Providers (AIPs)
- Program receipts and expenditures (e.g., AIP reimbursement and escrow funding), tracking ineligible producers
- Debt management and cross servicing

The Office of Insurance Services has the responsibility of administering FCIC programs through a system of ten Regional Offices and various reinsured companies. It is responsible for developing and managing contractual arrangements to deliver risk management programs to agricultural commodity producers through private insurance providers, cooperatives and other financial service organizations. It is responsible for ensuring that delivery partners meet published regulatory financial standards and operating guidelines as well as administering corrective actions for non-compliance with contractual requirements. It provides support, information, and advice to the Office of the Administrator; and delivers risk management education and outreach programs to producers and producer groups through private and public education partners.

The Office of Compliance provides program oversight and quality control of the reinsured companies. It ensures the integrity of the crop insurance program through reviews of reinsured companies' operations and that the delivery of crop insurance is in accordance with applicable laws, regulations, and procedures. There are six Regional Compliance Offices that provide assurance of program integrity by conducting program reviews and investigations to assure mandates, policies, and procedures are effective and are followed by persons involved in delivering crop and livestock insurance. The Compliance offices also assist USDA and the Office of Inspector General in conducting investigations into allegations of fraud, waste, or abuse within the crop insurance program.

RMA offices are located throughout the United States. The map below shows the location of the offices.

RMA Office Locations



Program Overview

FCIC, through the RMA, provides crop insurance and risk management strategies to American producers. FCIC-approved, private sector insurance providers (AIPs) sell and service the policies. RMA develops and/or approves premium rates, administers the premium and expense subsidies, approves and supports products, and reinsures the AIPs. In addition, RMA sponsors educational and outreach programs and seminars on risk management.

FCIC maintains two separate funds, one for RMA's administrative and operating purposes (A&O Fund), and one for the crop and livestock insurance program (Insurance Fund).

The A&O Fund is used to pay RMA's salaries and administrative expenses. The funding for the A&O Fund is an annual appropriation set by Congress.

The Insurance Fund is used to pay for the crop and livestock insurance programs. The funding for the insurance fund is mandatory funding with "such sums as necessary" to carry out the program. FCIC enters into reinsurance agreements with AIPs to market and service policies. The conditions of reinsurance are defined in the Standard Reinsurance Agreement (SRA) between the companies and FCIC. Under these agreements, AIPs agree to deliver risk management insurance products to eligible entities under certain terms and conditions. AIPs are responsible for all aspects of customer service and guarantee premium payment to FCIC. In return, FCIC reinsures the policies and provides a subsidy on behalf of producers for administrative and operating expenses associated with delivering the insurance products and/or programs. FCIC also provides a subsidy for producers' premiums. FCIC funds the indemnity payments to the producers. FCIC and the AIPs share in the underwriting gains or losses at annual settlement. This constitutes a joint effort between the U.S. Government and the private insurance industry for program delivery.

Federal Crop Insurance Program- Insurance Plans

Income Protection
Indexed Income Protection
Livestock Gross Margin
Livestock Risk Protection
Pecan Revenue
Revenue Assurance
Tobacco
Apiculture
Tree Based Dollar Amount of Insurance
Yield Based Dollar Amount of Insurance

Individual crop insurance plan details can be found on the FCIC public web site located at http://www.rma.usda.gov/

FCIC Published Regulations

RMA periodically updates its regulations by publishing proposed and final rules in the *Federal Register*. RMA seeks public comment on all proposed revisions. Revisions made to regulations improve the risk management products available for producers and/or clarify such regulations as needed. During the 2008 fiscal year, RMA had 13 regulations in the proposed or final rule stage.

The CAT Risk Protection Endorsement and the GRP Regulations were changed, based on the 2008 Farm Bill, requiring each producer to pay an administrative fee of $300 per crop, per county. This final rule was published in the *Federal Register* on June 27, 2008.

Other published notices include funding opportunities, requests for applications, and amendments to the Common Crop Insurance Regulations. The published regulations can be found on the *Federal Register's* home page at:

http://www.gpoaccess.gov/fr/index.html

Pilot Programs

The FCIC Act, as amended, defines the process by which RMA develops and maintains pilot programs. The FCIC Act prohibits the FCIC from conducting research and development for new policies and requires that new product development be accomplished through contracts. Grower organizations and other groups may develop new policies at their own expense and request reimbursement from FCIC after products are approved by the FCIC Board of Directors.

Pilot Programs	Crop	Crop Year Pilot Began
Pilot programs that are slated for conversion to a permanent regulatory program.	Florida Avocado	1999
	Cabbage	1999
	Forage Seed	2002
	Mustard	1999
	Chile Peppers	2000
Pilot programs that will terminate when Income Protection (IP)/Indexed Income Protection (IIP) is subsumed Into the Combo[1] policy	IP Winter Wheat	1996
	IP Barley	1996
	IP Cotton	1996
	IP Corn	1996
	IP Grain Sorghum	1996
	IP Soybeans	1996
	IP Spring Wheat	1996
	IP Barley Malting Price & Quality Endorsement	1999
	IIP Corn	1996
	IIP Soybeans	1996
Pilot programs with an indefinite crop year authorization date.	AGR	1999
	Cherry Actual Revenue History	2009
	California Avocado	1998
	California Citrus Dollar	2001
	Florida Fruit Tree	1996/2007
	Nursery Price Endorsement	2006
	Onion Stage Removal	2000
	Personal T-Yield[2]	2006
	Sweet Potatoes	1998/2005

[1] The "Combo" Policy amends the Common Crop Insurance Regulations, Basic Provisions, to combine the Crop Revenue Coverage (CRC), Income Protection (IP), Indexed Income Protection (IIP), and the Revenue Assurance (RA) plans of insurance. Implementation of the Combo policy is tentatively scheduled for Reinsurance Year 2011 – July 1, 2010.

[2] Personal Transitional Yield - The "personal T-yield," which is simply an average of the three available years of production, is proposed in the event a producer has fewer than four years of production history.

Pilot Programs with a Definite Crop Year	Crop	Crop Year Pilot Began
Crop year 2008	Silage Sorghum	2005
Crop year 2009	Sugar Beet Stage Removal Option	2004
Crop year 2010	Hawaii Tropical Fruit	2007
	Hawaii Tropical Tree	2007
Crop year 2011	Cultivated Clams	2000
	Pasture, Rangeland, Forage (Rainfall)	2007
	Pasture, Rangeland, Forage (Vegetation)	2007

Status of 508 (h) Pilot Programs	Crop	Crop Year Pilot Began
*These are private 508 (h) submissions that have been approved indefinitely.	AGR-Lite	2003*
	Hybrid Seed/Corn Price Endorsement	2001*
	Livestock Gross Margin	2001*
	Livestock Risk Protection	2001*
	Livestock Risk Protection- Lamb	2008
	Biotech Yield Endorsement	2008

PERFORMANCE GOALS, OBJECTIVES, AND RESULTS

Strategic planning is essential to effective and efficient administration of Federal assistance, education, and cooperative partnership agreements. The 2006 to 2011 RMA Strategic plan reflects USDA goals and priorities. RMA's Strategic Plan is directly linked to USDA's Strategic Plan.

RMA supports USDA's Strategic Goal 2

USDA-RMA Goal & Objective	RMA Strategic Objectives
USDA Strategic Goal 2: Enhance the Competitiveness and Sustainability of Rural and Farm Economies USDA Objective 2.3: Provide Risk Management and Financial Tools to Farmers and Ranchers	1.1 Increase the availability and effectiveness of risk management solutions 2.1 Improve and protect the soundness, safety, efficiency, and effectiveness of the risk management delivery system 3.1 Ensure that customers and stakeholders have knowledge and awareness of risk management tools and products 4.1 Ensure effective oversight of the crop insurance industry and enhance deterrence and prosecution of fraud, waste, and abuse

The complete strategic plan is available on RMA's Web site at:
http://www.rma.usda.gov/aboutrma/what/2006-11strategicplan.pdf

Performance Measurements

The strategic plan and Annual Performance Plans also list performance measures. Agencies are evaluated on their ability to meet these measures.

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

FCIC has met this measure by increasing the insurance protection provided to producers.

Summary of Actual and Targeted Amounts of Insurance Protection (billions)

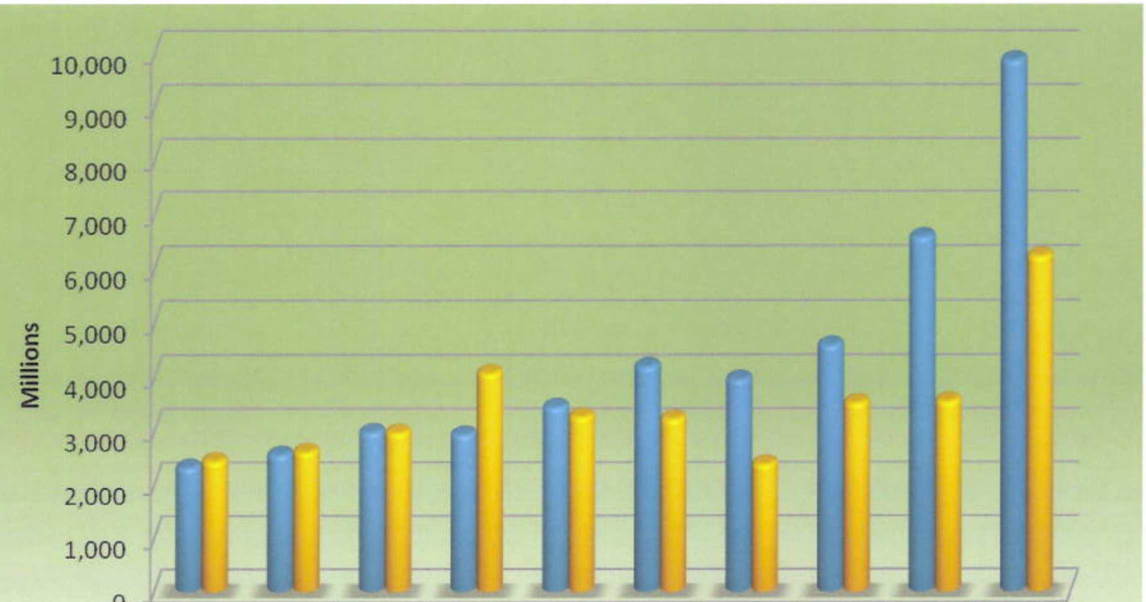
FY 2004 Actual	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2008 Est.*	FY 2009 Target	FY 2010 Target	FY 2011 Target
$46.60	$44.25	$49.91	$67.35	$89.34	$85.72	$82.44	$79.83

* Increase in the targeted amount of insurance protection is directly related to the significant increase in commodity prices which increased premiums in the 2008 crop year.

Premiums and Losses

The following chart demonstrates the growth in the Federal Crop Insurance Program over the last several years.

SUMMARY OF CROP YEAR PREMIUMS AND LOSSES



	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
PREMIUMS	2,304	2,540	2,961	2,916	3,431	4,186	3,949	4,579	6,563	9,859
LOSSES	2,420	2,591	2,949	4,058	3,247	3,209	2,367	3,509	3,538	6,206

Note: 2008 premium and losses are projected; all other years are final premium and loss numbers.

Much of the premium increase during the 2008 crop year is due to higher prices for several of the major insured commodities, and the continued movement of policies to revenue coverage. The revenue price elections have increased significantly for corn, soybeans, sorghum, wheat, rice, and barley. A secondary reason for the premium increase is that price volatility increases the premium rates charged for revenue coverage. Even though the 2008 crop year expected loss ratio is only slightly higher than the 2007 crop year actual loss ratio, overall losses were proportionally higher.

Crop Statistics

Program Information Comparison for Crop Years 2008 and 2007

	Crop Year 2008 (Estimated)	Crop Year 2007 (Actual)
Policies	1.1 million	1.1 million
Farmer Paid Premium	$4.16 billion	$2.74 billion
Premium Subsidies	$5.70 billion	$3.82 billion
Indemnities	$6.21 billion	$3.54 billion
Loss Ratio	63%	54%
Insurance Protection	$89.34 billion	$67.35 billion
Commodities	121	121
Counties	**3,100**	3,100

Estimating Losses

According to the Act, FCIC establishes premium to attain an expected long-term loss ratio of 1.0 or less. The eventual total depends on many variables including weather patterns and commodity prices. A projection of total indemnities is made at the end of each fiscal year based on the current conditions. The total indemnities will not be known for several months after the end of the fiscal year; therefore, the financial statements are based on the projection. In fiscal year 2008, Risk Management Agency engaged an independent actuary to provide an actuarial review of its model to project fiscal year-end indemnity liabilities of FCIC and the associated underwriting gain accruals. The independent actuary's analysis confirmed RMA's estimated loss ratio of 63% was within a reasonable range of expected indemnities.

Ten Year Summary of Premiums and Losses ($ in millions)

Crop Year	Premiums ($)	Losses ($)		Actual	Projected	Difference
1999	2,304	2,420		105%	93%	(12%)
2000	2,540	2,591		102%	88%	(14%)
2001	2,961	2,949		100%	108%	8%
2002	2,916	4,058		139%	142%	3%
2003	3,431	3,247		95%	112%	17%
2004	4,186	3,209		77%	85%	8%
2005	3,949	2,367		60%	78%	18%
2006	4,579	3,509		77%	99%	22%
2007	6,563	3,538		54%	67%	13%
1999-2007 Total	33,428	27,870	1999-2007 Average	90%	97%	7%
	Projected				Projected	
2008	9,859	6,206			63%	

Uncertainty in 2008 Estimated Losses

The actuarial estimates of premium and losses are calculated as of September 30, 2008. There are a variety of risk factors that expose the FCIC's liability estimates to uncertainty. The uncertainty inherent in these risk factors can result in actual indemnities being either greater or less than estimated. The risk factors include:

- Severe weather events late in the growing season
- Potential for a spike or decline in commodity prices
- Reliance on preliminary yield estimates as a means to project indemnities

FCIC is exposed to late season severe weather events that may occur after the indemnity projections are made. These include late season freeze, lack of moisture and excess precipitation. Hurricane season extends into November, and a late season hurricane causing significant crop damage would materially impact the estimates.

A commodity price spike or decline would impact the estimates. Revenue products pay out based on October and November prices, which are not known at the time of the estimation.

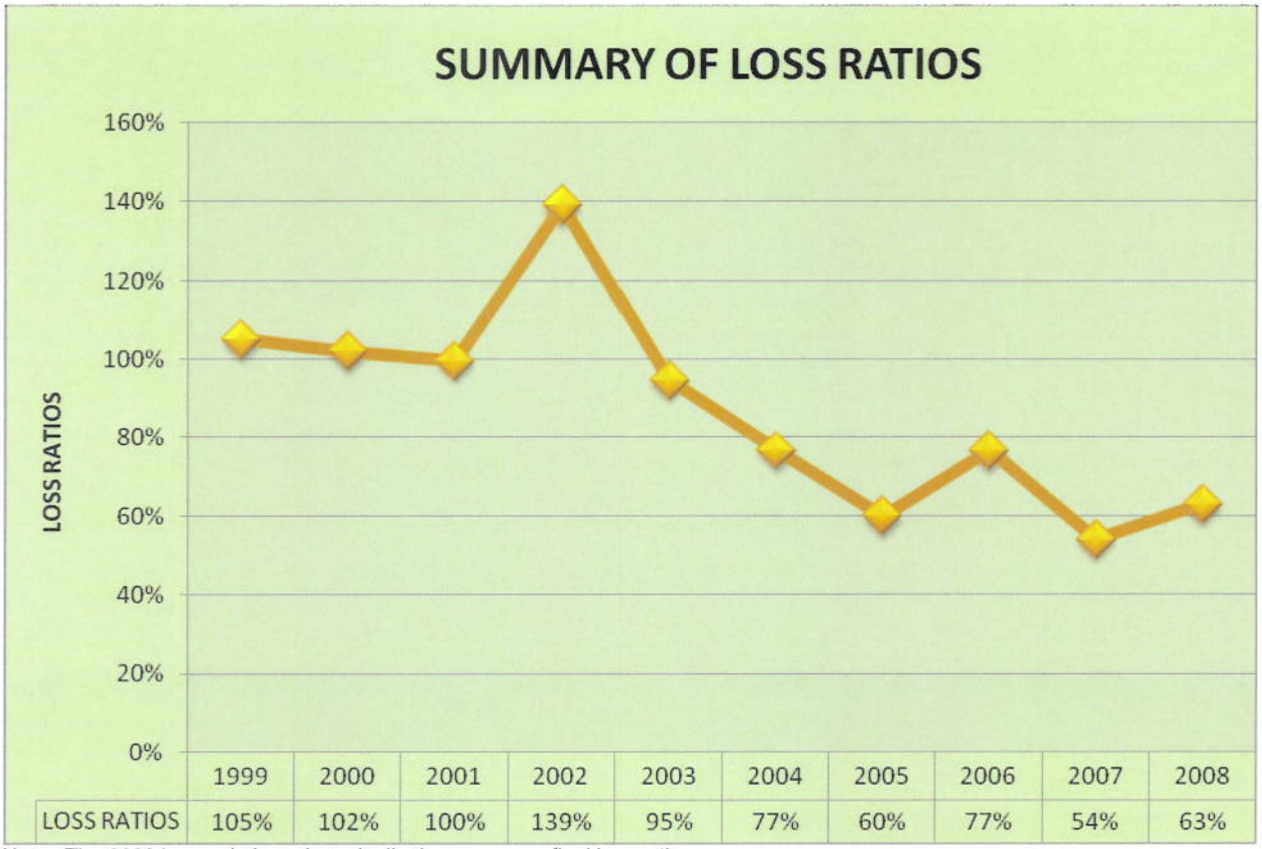
The reliance on preliminary yield estimates to project indemnity increases the uncertainty. Approximately 80% of the estimated indemnities are calculated using preliminary National Agricultural Statistics Service (NASS) yield forecasts.

In the last 10 years, the difference between the actual and the estimated loss ratios has exceeded 10 points 60 percent of the time (6 of 10 years). The relatively high variance of this estimate reflects the large degree of uncertainty that is inherent in predicting losses before the growing season is over. The actual loss ratios in the last 10 years have varied from a low of 54 percent to a high of 139 percent. The average difference between the estimates and the actual loss ratio for the years 1999 to 2007 is 7 percent.

The summary table reveals the dramatic growth in premium for the last 10 years. The projected premium for the 2008 crop year increased significantly due to the drastic increase in commodity prices and higher price volatility.

For crop years 1999 through 2007, the program has paid out an average of $.90 for every dollar of premium. In addition to the cost of the excess losses, the program's administrative and operating reimbursement and premium subsidy have averaged $909.31 million and $2.45 billion respectively over each of the past 10 years.

The following line graph shows a summary of the loss ratios over the past 10 years:



Note: The 2008 loss ratio is projected; all other years are final loss ratios.

FINANCIAL STATEMENT HIGHLIGHTS AND ANALYSIS

The comparison of fiscal years 2008 and 2007 financial statements demonstrates the variability in the agriculture community. The 2008 and 2007 growing seasons have been generally favorable for the major crops. However, the trend of higher commodity prices and higher price volatility significantly increased the FCIC premium revenue, the amount of overall insurance protection and overall costs.

	2008 Dollars in millions	2008 Percent	2007 Dollars in millions	2007 Percent	FY Dollar Variance
Fund Balance with Treasury	$ 2,382	39%	$ 2,364	49%	$ 18
Advances	8	-	-	-	8
Cash Held Outside Treasury	130	2%	79	2%	51
Accounts Receivable	3,606	59%	2,379	49%	1,227
Other	8	-	8	-	-
Total Assets	$ 6,134	100%	$ 4,830	100%	$ 1,304
Intragovernmental Liabilities	$ 1	-	$ 2	-	$ (1)
Accounts Payable	244	4%	17	-	227
Federal Employee Benefits	3	-	3	-	-
Estimated Losses on Insurance Claims	4,013	65%	2,688	56%	1,325
Unearned Revenue	645	11%	404	8%	241
Other Liabilities	3,422	56%	2,092	44%	1,330
Total Liabilities	$ 8,328	136%	$ 5,206	108%	$ 3,122
Capital Stock	$ 500	8%	$ 500	10%	-
Additional Paid-in Capital	38	1%	38	1%	-
Unexpended Appropriations	959	15%	658	14%	301
Cumulative Results of Operations	(3,691)	(60%)	(1,572)	(33%)	(2,119)
Total Net Position	$ (2,194)	(36%)	$ (376)	(8%)	$ (1,818)
Total Liabilities and Net Position	$ 6,134	100%	$ 4,830	100%	$ 1,304

The balance-sheet proportional composition remains relatively unchanged from fiscal year 2007 to fiscal year 2008.

The vast majority of the assets are Fund Balance with Treasury (FBWT) and Accounts Receivable. FBWT is a cash-like account which represents funds available which have not been disbursed.

Cash Held Outside Treasury consists of amounts funded into escrow accounts for which the companies' indemnity payments have not yet cleared.

Accounts receivable with the public represent premiums from AIPs due to FCIC for crop insurance written by the AIP and reinsured by FCIC. The AIPs are responsible for collecting the premium from the producer and paying FCIC, whether or not the premium has been collected from the producer. Premiums are collected at the end of the growing season. As a result, significant amounts of premium are due in the fall, after the end of the fiscal year.

The $227 million increase in Accounts Payable is a timing difference. In fiscal year 2007, the majority of the payments due to AIPs occurred before the end of the fiscal year. In fiscal year 2008, the payments were made after the end of the fiscal year.

The Estimated Losses on Insurance Claims and Other Liabilities make up the majority of liabilities. The estimated losses on insurance claims is a projection of losses that is made at the end of each fiscal year based on the current conditions. In fiscal year 2008, FCIC expects to have $4.0 billion in losses compared to $2.7 billion in fiscal year 2007. The increase in estimated indemnities is in proportion to the increase in premiums.

Producer-paid premium is recognized as earned proportionately over each crop's growing season. The portion of producer premium not recognized at the conclusion of the fiscal year is shown in the Unearned Revenue line item.

The Other Liabilities line item is comprised of estimated underwriting gains due to the AIPs, estimated delivery costs due to the AIP on behalf of producers and premium deficiency reserve. The underwriting gain is the AIPs share of the insurance program. Generally in years with a low loss ratio, the underwriting gain will be high. In years with a high loss ratio, the underwriting gain will be lower.

	2008 Dollars in millions	2008 Percent	2007 Dollars in millions	2007 Percent	FY Dollar Variance
Expense					
Intragovernmental Net Costs	$ 53	1%	$ 53	1%	$ -
Indemnities	5,024	70%	3,493	71%	1,531
Program Delivery Costs	2,016	28%	1,341	27%	675
Other Program Costs	84	1%	70	1%	14
Total Costs with the Public	$ 7,124	100%	$ 4,904	100%	$ 2,220
Revenue					
Premium Revenue	$ 3,932	273%	$ 2,662	262%	$ 1,270
Net Loss on Business Assumed from Reinsured Companies	(2,541)	(176%)	(1,691)	(166%)	(850)
Other Revenue	49	3%	46	4%	3
Total Earned Revenue	$ 1,440	100%	$ 1,017	100%	$ 423
Net Costs					
Net Costs With the Public	$ 5,684		$ 3,887		$ 1,797
Net Cost of Operations	$ 5,737		$ 3,940		$ 1,797

FCIC's net cost of operations for fiscal year 2008 has increased by $1.797 billion. This is a direct result of the dramatic increase in insurance coverage due to higher commodity prices. The projected loss ratio for fiscal year 2008 was 63 percent compared to a projected 67 percent in fiscal year 2007. Even though the projected fiscal year 2008 loss ratio was less than the fiscal year 2007 projected loss ratio, the overall estimated indemnities were higher again due to the higher premiums.

Program Delivery Costs are the administrative and operating costs due to the AIPs, which increased in direct proportion to premiums. The Net Loss on Business Assumed from Reinsured Companies is a contra-revenue for the underwriting gain due to the AIPs. As a result of the increase in premiums and the decrease in the loss ratio, there has been a 55 percent increase in the estimated underwriting gain.

	2008 Dollars in millions	2008 Percent	2007 Dollars in millions	2007 Percent	FY Dollar Variance
Capital Stock	$ 500		$ 500		$ -
Additional Paid In Capital	38		38		-
Cumulative Results of Operations					
Beginning Balance	$ (1,572)		$ (1,836)		$ 264
Appropriations Used	3,593	99%	4,187	99%	(594)
Transfers without Reimbursement	6	-	-	-	6
Imputed Financing Sources	19	1%	17	1%	2
Other	-	-	-	-	-
Total Financing Sources	$ 3,618	100%	$ 4,204	100%	(586)
Less: Net Cost of Operations	(5,737)		(3,940)		(1,797)
Ending Balance	$ (3,691)		$ (1,572)		(2,119)
Unexpended Appropriations					
Beginning Balance	$ 658	69%	$ 531	81%	$ 127
Appropriations Received	4,222	440%	4,456	677%	(234)
Appropriations Transferred In/Out	(5)	-	(6)	(1%)	1
Other Adjustments	(323)	(34%)	(136)	(21%)	(187)
Appropriations Used	(3,593)	(375%)	(4,187)	(636%)	594
Ending Balance	$ 959	100%	$ 658	100%	$ 301
Net Position	$ (2,194)		$ (376)		$ (1,818)

The Statement of Changes in Net Position explains the changes in the Cumulative Results of Operations and the Unexpended Appropriations components of Net Position of the Balance Sheet from year to year. The major factor impacting the fiscal year 2008 change in FCIC's net position is the increase in the net cost of operations resulting from the significant increases in premium revenue, indemnities, delivery costs, and net loss on business assumed from reinsured companies.

	2008 Dollars in millions	Percent	2007 Dollars in millions	Percent	FY Dollar variance
Budgetary Resources					
Beginning Unobligated Balance	$ 2,262	27%	$ 1,269	18%	$ 993
Recoveries	1	-	2	-	(1)
Appropriations Received	4,222	49%	4,456	63%	(234)
Collections	2,068	24%	1,364	19%	704
Non-expenditure Transfers, Net	1	-	(6)	-	7
Less: Permanently Not Available	(2)	-	(2)	-	-
Total Budgetary Resources	$ 8,552	100%	$ 7,083	100%	$ 1,469
Status of Budgetary Resources					
Direct Obligations	$ 6,496	76%	$ 4,820	68%	$ 1,676
Reimbursable Obligations	-	-	1	-	(1)
Apportioned-Unobligated	2,053	24%	2,260	32%	(207)
Unobligated Balance Not Available	3	-	2	-	1
Total Status of Budgetary Resources	$ 8,552	100%	$ 7,083	100%	$ 1,469
Net Outlays	$ 4,151		$ 3,550		$ 601

The Statement of Budgetary Resources is comprised of three sections. The first section lists the source of the budgetary resources for the fiscal year. The second section shows the status of the resources. The Budgetary Resources must equal the Status of Budgetary Resources. The third section lists the Net Outlays for the fiscal year.

The budgetary resources are mainly comprised of balances left over from prior fiscal years, new appropriations, and collections. FCIC started fiscal year 2008 with $993 million more in budgetary resources compared to fiscal year 2007. As a result, the fiscal year 2008 appropriation was reduced by $234 million. FCIC collected $704 million more in fiscal year 2008 compared to fiscal year 2007. Overall, FCIC had $1.469 billion more in budgetary resources available for fiscal year 2008.

The Status of Budgetary Resources is divided into two main categories – Obligated and Unobligated. Obligated resources are funds which have been paid or will be paid in the future based on a binding agreement with a particular party. At the end of fiscal year 2008, FCIC had $1.676 billion more in paid and unpaid obligations. The Unobligated balance is the cumulative amount of budget authority that is not obligated and that remains available for obligation under law. At the end of fiscal year 2008, FCIC had $207 million less in unobligated resources available.

Net Outlays are generally the total cash disbursements less collections. In 2008, FCIC disbursed $601 million more than in fiscal year 2007.

Financial Reporting Requirements

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

Risk Management Education (Required Supplementary Stewardship Information)

RMA continues to partner with the Cooperative State Research, Education, and Extension Service, the Commodity Futures Trading Commission, and the USDA National Office of Outreach to provide Risk Management Education (RME) to U.S. farmers and ranchers. RME provides farmers with information and with educational opportunities to become more aware of risk, know the tools available to manage risk, and learn strategies for making sound risk management decisions.

RME reached approximately 49,000 producers and incurred approximately $10 million in obligations in both fiscal years 2008 and 2007.

SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

Federal Manager's Financial Integrity Act (FMFIA) Assurance

FCIC management is responsible for establishing and maintaining effective internal controls to ensure the effectiveness of operations, reliability of reporting, compliance with applicable laws and regulations, and safeguarding of assets. FCIC has conducted its assessment of internal controls and financial systems pursuant to FMFIA. Based on the results of this evaluation, FCIC can provide reasonable assurance that its internal control over the effectiveness and efficiency of operations and compliance with laws and regulations, as of September 30, 2008 and 2007, was operating effectively and no material weaknesses were found in the design or operation of the internal controls.

Federal Financial Management Improvement Act (FFMIA) Assurance

FCIC has evaluated its financial management systems under FFMIA for the period ended September 30, 2008. Based on the result of our evaluation, the Agency is in substantial compliance with the FFMIA for the following sections:

1. Federal Financial Management System Requirements;
2. Applicable Federal Accounting Standards;
3. Standard General Ledger at the Transaction Level; and
4. Information Security, Policies, Procedures, and Practices.

Assurance for Internal Control over Financial Reporting

In addition, FCIC conducted its assessment of the effectiveness of internal control over financial reporting, which includes safeguarding assets and compliance with applicable laws and regulations, in accordance with the requirements of the Office of Management and Budget's (OMB), Circular A-123, Appendix A. Based on the results of this evaluation, FCIC can provide reasonable assurance that its internal control over financial reporting as of June 30, 2008 and 2007 was operating effectively and no material weaknesses were found in the design or operation of the internal control over financial reporting.

Limitations on Financial Statements

Financial statements have been prepared to report the financial position and results of the entity's operations, pursuant to the requirements of Financial Statements of Agencies, Title 31 United States Code 3515 (b). While the statements have been prepared from the books and records of the entity in accordance with the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records. The statements should be read with the understanding that they are for a component of the United States Government, a sovereign entity.

RISK MANAGEMENT AGENCY
FEDERAL CROP INSURANCE CORPORATION
CONSOLIDATED BALANCE SHEETS
As of September 30, 2008 and 2007
(in millions)

	2008	2007
Assets		
Intragovernmental:		
Fund Balance with Treasury	$ 2,382	$ 2,364
Advances	8	-
With the Public:		
Cash Held Outside Treasury	130	79
Accounts Receivable, Net	3,606	2,379
General Property, Plant, and Equipment, Net	8	8
Total Public Assets	3,744	2,466
Total Assets	$ 6,134	$ 4,830
Liabilities		
Intragovernmental:		
Other Liabilities	$ 1	$ 2
With the Public:		
Accounts Payable	244	17
Federal Employee Benefits	3	3
Other Liabilities:		
Estimated Losses on Insurance Claims	4,013	2,688
Unearned Revenue	645	404
Other Liabilities	3,422	2,092
Total Other Liabilities	8,080	5,184
Total Liabilities	8,328	5,206
Commitments and Contingencies (Note 7)		
Net Position		
Capital Stock	500	500
Additional Paid-in Capital	38	38
Unexpended Appropriations - Earmarked Funds	943	642
Unexpended Appropriations - Other Funds	16	16
Cumulative Results of Operations - Earmarked Funds	(3,691)	(1,573)
Cumulative Results of Operations - Other Funds	-	1
Total Net Position	(2,194)	(376)
Total Liabilities and Net Position	$ 6,134	$ 4,830

See accompanying notes to consolidated financial statements

RISK MANAGEMENT AGENCY
FEDERAL CROP INSURANCE CORPORATION
CONSOLIDATED STATEMENTS OF NET COST
For the Years Ended September 30, 2008 and 2007
(in millions)

	2008	2007
Program Costs		
Intragovernmental Gross Costs:		
Benefit Program Costs	$ 9	$ 7
Imputed Costs	19	17
Reimbursable Costs	25	30
Total Intragovernmental Costs	53	54
Less: Intragovernmental Earned Revenue	-	1
Intragovernmental Net Costs	53	53
Gross Costs With the Public		
Indemnities	5,024	3,493
Other Program Costs:		
Program Delivery Costs	2,016	1,341
Other Program Costs	84	70
Total Other Program Costs	2,100	1,411
Total Costs with the Public	7,124	4,904
Less: Earned Revenue from the Public:		
Premium Revenue	3,932	2,662
Net Loss on Business Assumed from Reinsured Companies	(2,541)	(1,691)
Other Revenue	49	46
Total Earned Revenue with the Public	1,440	1,017
Net Costs With the Public	5,684	3,887
Net Cost of Operations	$ 5,737	$ 3,940

See accompanying notes to consolidated financial statements

RISK MANAGEMENT AGENCY
FEDERAL CROP INSURANCE CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION
For the Years Ended September 30, 2008 and 2007
(in millions)

	2008 Earmarked Funds	2008 Other Funds	2008 Total All Funds	2007 Earmarked Funds	2007 Other Funds	2007 Total All Funds
Capital Stock	$ 500	-	$ 500	$ 500	-	$ 500
Additional Paid-in Capital	$ 38	-	$ 38	$ 38	-	$ 38
Cumulative Results of Operations						
Beginning Balance	$ (1,573)	1	$ (1,572)	$ (1,830)	(6)	$ (1,836)
Budgetary Financing Sources:						
Appropriations Used	3,517	76	3,593	4,108	79	4,187
Transfers without Reimbursement	6	-	6	-	-	-
Other Financing Sources:						
Imputed Financing Sources	-	19	19	-	17	17
Other	-	-	-	-	-	-
Total Financing Sources	3,523	95	3,618	4,108	96	4,204
Net Cost of Operations	(5,641)	(96)	(5,737)	(3,851)	(89)	(3,940)
Net Change	(2,118)	(1)	(2,119)	257	7	264
Cumulative Results of Operations	$ (3,691)	-	$ (3,691)	$ (1,573)	1	$ (1,572)
Unexpended Appropriations						
Beginning Balance	$ 642	16	$ 658	$ 510	21	$ 531
Budgetary Financing Sources:						
Appropriations Received	4,145	77	4,222	4,379	77	4,456
Appropriations Transferred In/Out	(5)	-	(5)	(5)	(1)	(6)
Other Adjustments	(322)	(1)	(323)	(134)	(2)	(136)
Appropriations Used	(3,517)	(76)	(3,593)	(4,108)	(79)	(4,187)
Total Unexpended Appropriations	$ 943	16	$ 959	$ 642	16	$ 658
Net Position	$ (2,210)	16	$ (2,194)	$ (393)	17	$ (376)

See accompanying notes to consolidated financial statements.

RISK MANAGEMENT AGENCY
FEDERAL CROP INSURANCE CORPORATION
COMBINED STATEMENTS OF BUDGETARY RESOURCES
For the Years Ended September 30, 2008 and 2007
(in millions)

	2008	2007
Budgetary Resources		
Unobligated Balance Brought Forward, October 1	$ 2,262	$ 1,269
Recoveries of Prior Year Unpaid Obligations	1	2
Budget Authority		
Appropriations Received	4,222	4,456
Spending Authority from Offsetting Collections Earned and Collected	2,068	1,364
Nonexpenditure Transfers, Net	1	(6)
Permanently not Available	(2)	(2)
Total Budgetary Resources	$ 8,552	$ 7,083
Status of Budgetary Resources		
Obligations Incurred		
Direct	$ 6,496	$ 4,820
Reimbursable	-	1
Unobligated Balance		
Apportioned	2,053	2,260
Unobligated Balance Not Available	3	2
Total Status of Budgetary Resources	$ 8,552	$ 7,083
Change in Obligated Balances		
Unpaid Obligations Brought Forward, October 1	$ 181	$ 276
Obligations Incurred	6,496	4,821
Gross Outlays	(6,219)	(4,914)
Recoveries of Prior Year Unpaid Obligations	(1)	(2)
Obligated Balance, Net, End of Period		
Undelivered Orders	(71)	(78)
Accounts Payable	(386)	(103)
	(457)	(181)
Outlays Detail:		
Disbursements	6,219	4,914
Less: Collections	(2,068)	(1,364)
Less: Distributed Offsetting Receipts	-	-
Net Outlays	$ 4,151	$ 3,550

See accompanying notes to consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Federal Crop Insurance Corporation (FCIC) is a wholly-owned government corporation within USDA. FCIC is under the direction and control of a board of directors, which is appointed by the Secretary of Agriculture (the Secretary). These consolidated financial statements include the Risk Management Agency (RMA) and FCIC; hereafter the combined entity will be referred to as FCIC.

Basis of Presentation and Accounting

The accompanying consolidated financial statements have been prepared to report FCIC's balance sheet, net cost, changes in net position, and budgetary resources. The consolidated financial statements have been prepared from FCIC's books and records in accordance with Generally Accepted Accounting Principles (GAAP). GAAP for Federal financial reporting entities recognizes the Federal Accounting Standards Advisory Board (FASAB) as the standard-setting body. The financial statements are presented in accordance with the OMB Circular A-136, *Financial Reporting Requirements,* which was revised in June 2008. All significant intra-agency transactions and balances have been eliminated in consolidation. These consolidated financial statements are different from the financial reports, prepared by FCIC pursuant to OMB directives, which are used to monitor and control the FCIC's use of budgetary resources.

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

Fund Balance with Treasury

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

Accounts Receivable

Accounts receivable with the public represents premiums from Approved Insurance Providers (AIPs) due to FCIC for crop insurance written by the AIPs and reinsured by FCIC. The AIPs are responsible for collecting the premium from the producer and paying FCIC, whether or not the premium has been collected from the producer. Producers' accounts receivable represents amounts due from individual producers for interest, overpaid indemnities, and premiums which are payable directly to FCIC. It also includes estimated buy-up and catastrophic fees turned over by reinsured companies to FCIC for collection. FCIC provides an allowance for uncollectible accounts based upon historical experience.

In accordance with OMB Circular A-129, *Policies for Federal Credit Programs and Non-Tax Receivables,* FCIC reclassifies all debt delinquent for more than 2 years as currently not collectible (CNC) or closed-out. The CNC policy allows Federal agencies to write off delinquent accounts receivable balances from their general ledgers while still pursuing collection. As a result of this guidance, in fiscal year 2007, FCIC re-classified $22 million of its delinquent debt as CNC. In prior years, these balances were maintained in the general ledger; however, they were reserved at 100%.

Cash Held Outside Treasury

Cash Held Outside Treasury consists of amounts funded into escrow accounts for which the companies' indemnity checks have not yet cleared.

General Property, Plant, and Equipment

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

FCIC is developing a new system to replace its current reinsurance program systems. In accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 10, *Accounting for Internal Use Software,* contractor and RMA internal staff costs related to the new system will be amortized over a period of 5 years once the software is implemented. As of the end of fiscal years 2008 and 2007, approximately $8 million and $7 million, respectively, were classified as internal use software in development.

Accounts Payable

Accounts Payable are amounts due to AIPs for reimbursement of administrative and operating expenses associated with delivering the crop insurance program.

The Standard Reinsurance Agreement (SRA) provides for reimbursement to the insured companies for administrative and operating expenses. The reimbursement rates (as a percent of premium) for the 2008 and 2007 reinsurance years are summarized in the following table:

Reimbursement Rates

Insurance Plan	Range of Reimbursement Rates (depending on coverage level)
Group risk plan	19.4% - 22.4%
Revenue plans (harvest price option)	18.1% - 20.8%
All other additional coverage plans	21.0% - 24.2%
Catastrophic coverage	7%

Note: The 2008 Farm Bill reduced rates by approximately 2.3 percent. Rate reductions will be implemented beginning October 2008.

In addition to reimbursement of administrative and operating expenses, FCIC and AIPs enter into agreements on sharing of losses and gains. Under these agreements, FCIC assumes the majority of the loss risk on Federal crop insurance policies written by the AIP.

These agreements provide for both proportional and non-proportional allocations by which the loss risk may be ceded to FCIC. The AIPs elect the method to transfer risk to FCIC through their operation plans. The operation plan becomes a part of the SRA for each reinsurance year (July 1 through June 30).

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

Retirement Plans

Statement of Federal Financial Accounting Standards No. 5, *Accounting for Liabilities of the Federal Government,* requires Federal entities to recognize an expense for pensions and other retirement benefits at the time the employee's services are rendered. The purpose of recognizing this expense is to record and report the full cost of each entity's operation. A corresponding revenue, Imputed Financing Sources, is recognized to the extent pension and other retirement benefit expenses exceed the amount paid to the OPM. The OPM imputed costs were $5.2 million and $5.4 million in fiscal years 2008 and 2007 respectively.

Fair Value of Financial Instruments

The carrying amount of FCIC's financial instruments approximate fair value because of their short-term maturity.

Net Position

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

Unearned Revenue

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

The sum of producer-paid premium and premium subsidy has been calculated using generally accepted actuarial methods to attain a forecasted break-even loss ratio of 1.0. Premium subsidy is not considered written to the extent a portion remains unexpended and no unearned revenue is recorded in the consolidated balance sheets. As a result, the expected claim costs and claims-adjustment expenses exceed the related unearned revenue. A premium deficiency is therefore recognized in the consolidated balance sheets by accruing a liability recorded as an Other Liability for the excess amount.

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

Loss Recognition

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

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

Indemnity costs are paid from premium proceeds, including premium subsidies and premium discounts, which are also a part of FCIC's Insurance Fund. The table below lists the projections for Crop Year 2008 in which the year-end estimates were based. The table also reflects the actual figures for Crop Year 2007.

	Crop Year 2008 (Estimated)	Crop Year 2007 (Actual)
Loss Ratio	63%	54%
Total Premium	$9.86 billion	$6.56 billion
Premium Subsidy	$5.70 billion	$3.82 billion
Ratio of Premium Subsidy to Total Premium	58%	58%
Farmer Premium Paid	$4.16 billion	$2.74 billion
Ratio of Farmer Premium to Total Premium	42%	42%

Use of Estimates

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

Contingencies

Various lawsuits, claims and proceedings are pending against FCIC. In accordance with SFFAS No. 5, *Accounting for Contingencies*, FCIC records accruals for such contingencies when it is probable that a liability will be incurred and the amount of the loss can be reasonably estimated. If there is a reasonable possibility that a loss will occur, FCIC discloses the nature of the contingency and an estimate of the possible liability, an estimate of the range of the possible liability, or a statement that such an estimate cannot be made. See Note 7, Commitments and Contingencies, to the consolidated financial statements for related disclosures.

2. FUND BALANCE WITH TREASURY

2008

		Appropriated Funds (millions)	Revolving Funds (millions)	Total
Obligated not yet disbursed	$	13	312	325
Unobligated available		4	2,052	2,056
Unobligated unavailable		1	-	1
Total	$	18	2,364	2,382

2007

		Appropriated Funds (millions)	Revolving Funds (millions)	Total
Obligated not yet disbursed	$	16	85	101
Unobligated available		1	2,260	2,261
Unobligated unavailable		2	-	2
Total	$	19	2,345	2,364

FCIC maintains separate accounts for the A&O (appropriated) and Insurance (revolving) Funds. The A&O Fund is used to pay administrative and operating expenses. The Insurance Fund is used to pay losses, and can also be used to pay claim-adjustment expenses, reinsured company expenses, and costs referenced in ARPA. FCIC does not earn interest on funds maintained in U.S. Treasury accounts. All funds are currently available to FCIC except for the unobligated appropriated (i.e., A&O) funds that were available for obligations through September 30, 2008.

FCIC has permanent indefinite appropriations available to fund premium subsidy, delivery expenses, losses in excess of premiums and research and development costs.

3. CASH HELD OUTSIDE TREASURY

Cash Held Outside Treasury consists of the following:

		2008	2007
		(millions)	
Cash Held Outside Treasury for:			
FCIC escrow accounts	$	130	79
Total Cash Held Outside Treasury	$	130	79

4. ACCOUNTS RECEIVABLE

Net accounts receivable is as follows:

2008 (millions)		Gross Accounts Receivable	Allowance for Uncollectible Accounts	Net Accounts Receivable
With the Public	$	3,608	(2)	3,606
Total	$	3,608	(2)	3,606

2007 (millions)		Gross Accounts Receivable	Allowance for Uncollectible Accounts	Net Accounts Receivable
With the Public	$	2,380	(1)	2,379
Total	$	2,380	(1)	2,379

The allowance for uncollectible accounts represents approximately $2 million and $1 million for reinsurance receivables in fiscal years 2008 and 2007, respectively. In order to be in compliance with OMB Circular A-129, *Policies for Federal Credit Programs and Non-Tax Receivables,* the USDA Office of the Chief Financial Officer determined that USDA agencies should reclassify all delinquent debt older than two years as currently not collectible (CNC) or closed-out. As a result of this guidance, in fiscal year 2007 FCIC reclassified $22 million of its delinquent debt as CNC. The CNC policy allows Federal agencies to write-off delinquent accounts receivable balances from their general ledgers while still pursuing collection. In prior years, these balances were maintained in the general ledger; however, they were reserved at 100%.

5. ESTIMATED LOSSES ON INSURANCE CLAIMS

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

		2008	2007
		(millions)	
Balance as of October 1	$	2,688	2,427
Incurred related to:			
Current year		5,254	3,692
Prior year		(230)	(199)
Total incurred		5,024	3,493
Paid related to:			
Current year		(1,380)	(1,120)
Prior year		(2,319)	(2,112)
Total paid		(3,699)	(3,232)
Net balance as of September 30	$	4,013	2,688

As a result of developments in losses from insured events in prior years, the estimated losses on insurance claims decreased by $230 million and $199 million for the years ended September 30, 2008 and 2007 respectively.

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

The 2008 Estimated Loss projections are based on conditions as of September 30, 2008. There are a variety of risk factors that expose the FCIC's liability estimates to uncertainty, including severe weather events late in the growing season, potential spikes or declines in commodity prices, and reliance on preliminary yield estimates. The uncertainty inherent in these risk factors can result in actual indemnities being either greater or less than estimated. The total indemnities will not be known for several months after the end of the fiscal year; therefore, the financial statements are based on the projection.

Estimated losses on insurance claims liabilities not covered by budgetary resources were $2.1 billion as of September 30, 2008. There were no estimated losses on insurance claims not covered by budgetary resources as of September 30, 2007.

6. OTHER LIABILITIES

Other Liabilities, Federal and Non-Federal, are as follows:

		2008	2007
		(millions)	
Intragovernmental:			
Other Accrued Liabilities	$	1	2
Total Other Liabilities, Federal	$	1	2
With the Public:			
Underwriting Loss/Gain Payable to reinsured companies	$	2,490	1,508
Reserve for Premium Deficiency		887	565
Estimated Delivery Costs		31	9
Annual Leave Liability		4	4
Other Accrued liabilities		10	6
Total Other Liabilities, with the Public	$	3,422	2,092

Premiums and losses are reported monthly by the AIPs to the FCIC. A periodic settlement, as stipulated in the SRA, is calculated whereby the results of the business written by the reinsured companies are determined and an experience-rated underwriting gain or loss is computed. Underwriting gains are paid to the reinsured companies while the reinsured companies pay underwriting losses to FCIC.

Liabilities not covered by budgetary resources are not funded by current appropriations from Congress. In Intragovernmental Other Accrued Liabilities, there are liabilities that are not covered by budgetary resources that amount to approximately $0.4 million and $0.5 million for unfunded Federal Employees Compensation Act (FECA) liability as of September 30, 2008 and 2007, respectively. Unfunded annual leave is also a liability not covered by budgetary resources. Annual leave is accrued as it is incurred and the accrual is reduced as it is taken. The balances in the accrued annual leave account were adjusted to reflect current pay rates and annual leave balances.

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

7. COMMITMENTS AND CONTINGENCIES

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

Peanut farmers from seven states brought class action suits claiming that the Government unlawfully and unilaterally modified and impaired Federal crop insurance policyholders when the 2002 Farm Bill eliminated the marketing peanut quota program. Plaintiffs allege that this changed the price guarantee of their insurance protection by reducing it from $.31 to $.1775 per pound. In the North Carolina case, the Government filed an answer and plaintiffs filed a motion for partial summary judgment. On May 20, 2004, a hearing was held, after joint motions for summary were received. On July 22, 2004, the Court entered an order finding in favor of the plaintiff's motion for summary judgment on the issue of liability. The plaintiffs then filed with the Judicial Panel for Multidistrict Litigation (JPML) a request for transfer of the other six related cases to the Eastern District of North Carolina, where the original case is located, to consolidate pre-trial proceedings. On October 26, 2004, the JPML transferred the other litigations to North Carolina for pre-trial proceedings. Since the summary judgment motions are part of pre-trial proceedings, summary judgment rulings identical to the first have been entered by the court in the other six cases. On December 20, 2006, the court entered judgment for the plaintiff classes of approximately $30.1 million. In fiscal year 2007, FCIC recorded a $30.1 million contingent liability for this case. The case was appealed in the Fourth Circuit Court of Appeals. Briefs were filed and oral arguments held. On May 8, 2008, the Fourth Circuit vacated the district court's decision and ruled in favor of FCIC. As a result, the contingent liability of $30.1 million was removed from the books in fiscal year 2008.

An appeal to the USDA National Appeals Division (NAD) was made by a group of producers in reference to Good Farming Practices on non-irrigated Group Risk Income Plan (GRIP) corn policies. FCIC is working with NAD and the producers to determine the amount of indemnities. FCIC believes the likelihood of an unfavorable outcome is probable. As a result, FCIC has recorded a contingent liability for approximately $2.2 million.

Fireman's Fund Insurance Company is appealing FCIC's final administrative determination that the Fireman's Fund Insurance Company improperly paid an insured farmer on a prevented planting claim because the farmer's acreage was ineligible due to conditions that existed before the policy was in effect. The company filed an appeal with the Agriculture Board of Contract Appeals. An answer was filed and discovery is now being conducted in this case. Although approximately $2.2 million is claimed in this case, FCIC has not recognized a liability in the financial statements since FCIC will continue to vigorously contest this case and does not believe the possibility of an unfavorable outcome is probable.

In fiscal year 2003, American Growers Insurance Company (AGIC) was placed under an order of supervision by the Nebraska Department of Insurance. On December 10, 2002, FCIC signed a Memorandum of Understanding with the Nebraska Department of Insurance that establishes the responsibilities and understandings between FCIC and the Nebraska Department of Insurance with respect to AGIC. In a suit filed against FCIC, plaintiffs seek to enforce two arbitration awards against FCIC, even though FCIC did not participate in the arbitrations. The plaintiff farmers filed in arbitration against AGIC, because AGIC denied certain indemnity claims and requested repayment of some amounts already paid to the farmers. Prior to the arbitration hearing, AGIC was ordered into liquidation by a Nebraska state court. Therefore FCIC took over servicing of the Federal policies and advised the plaintiffs of the proper administrative appeals process. Rather than follow the administrative appeals process, plaintiffs continued the arbitration cases and scheduled a hearing. Without FCIC present, the arbitrators awarded the plaintiffs damages of approximately $8 million. Although FCIC did not consent to arbitration proceedings, plaintiffs have filed an action in district court to try to enforce the arbitration awards. FCIC has not recognized a liability in the financial statements since FCIC will continue to vigorously contest this case and does not believe the possibility of an unfavorable outcome is probable.

Nine class action suits were brought by insureds against reinsured companies after the companies refused to pay indemnities to producers on sugar beets where damage was discovered after delivery and piling. The nine defendant companies filed a third-party claim to include FCIC as a third-party defendant. An arbitration panel issued its "Final Findings of Facts" on August 9, 2004. The panel's findings stated that the producers were, for the most part, entitled to the full insurance indemnity for almost all of the damaged beets. The defendant companies then settled their cases with the producers by paying the indemnity amounts as found by the arbitrators, as well as a portion of the interest claimed by the producers. FCIC reinsured these indemnity payments through the normal reinsurance process and paid its portion in accordance with the reinsurance agreement. The defendant companies then filed an amended third-party complaint against FCIC seeking indemnification for the full amounts that the companies paid as a result of their settlement with producers, including attorney's fees and costs. FCIC had accrued a liability in fiscal year 2006 for \$9.9 million. During fiscal year 2007, FCIC paid \$9.3 million of the \$9.9 million final settlement with the remaining \$.6 million due to American Growers which is currently in liquidation.

8. EARMARKED FUNDS

SFFAS 27, *Identifying and Reporting Earmarked Funds*, generally defines earmarked funds as those which are financed by specifically identified revenues, often supplemented by other financing sources that remain available over time. By statute, these are used for designated activities, benefits or purposes, and must be accounted for separately from the Government's general revenues. FCIC identifies the Federal Crop Insurance Corporation Fund (TAFS-12x4085) as an earmarked fund under the criteria outlined in SFFAS 27. This fund is a capital stock, public enterprise fund established under the Federal Crop Insurance Act (7 USC 1501-1519). Budgetary resources for the FCIC Revolving Fund include funds collected from the public for insurance premiums and other insurance related fees that are used along with appropriations from Congress and unobligated balances from previous years to fund the Federal Crop Insurance Program.

Earmarked Funds for Fiscal Years 2008 and 2007:

Federal Crop Insurance Fund		2008	2007
		(millions)	
Balance Sheet as of September 30			
ASSETS			
Fund Balance with Treasury	$	2,364	2,344
Other Assets		3,744	2,459
Total Assets		6,108	4,803
LIABILITIES			
Liabilities		8,318	5,196
Total Liabilities		8,318	5,196
NET POSITION			
Capital Stock		500	500
Additional Paid-in Capital		38	38
Unexpended Appropriation		943	642
Cumulative Results Operations		(3,691)	(1,573)
Total Net Position		(2,210)	(393)
Total Liabilities and Net Position	$	6,108	4,803
Statement of Net Cost For the Period Ended of September 30			
Gross Program Costs	$	7,081	4,869
Less: Earned Revenues		1,440	1,018
Net Cost of Operations	$	5,641	3,851
Statement of Changes in Net Position for the Period Ended September 30			
Net Position Beginning of Period	$	(393)	(782)
Other Financing Sources		3,824	4,240
Net Cost of Operations		(5,641)	(3,851)
Change in Net Position		(1,817)	389
Net Position End of Period	$	(2,210)	(393)

9. INDEMNITY COSTS

Insurance Indemnity Costs are as follows:

		2008	2007
		(millions)	
Catastrophic coverage	$	41	40
Additional coverage		4,983	3,453
Insurance claims and indemnities	$	5,024	3,493

10. PROGRAM DELIVERY AND OTHER PROGRAM COSTS

Intragovernmental Costs are as follows:

		2008	2007
		(millions)	
Reimbursable costs	$	25	30
Other retirement benefit, other post-employment benefit, FECA, and other costs		9	7
Imputed costs		19	17
Less: earned revenue		-	(1)
Total Intragovernmental Costs	$	53	53

Program Delivery Costs are as follows:

		2008	2007
		(millions)	
Reinsurance administrative reimbursement	$	2,016	1,341

Other Program Costs With the Public are as follows:

		2008	2007
		(millions)	
Other program costs	$	35	26
Administrative and other cost		49	44
Total Other Program Costs	$	84	70

11. NET POSITION

Net Position

2008 (millions)		Earmarked Funds	Other Funds		Total
Capital stock	$	500	-	$	500
Additional paid-in capital		38	-		38
Unexpended Appropriations:					
Unliquidated obligations		-	13		13
Unobligated, not available		-	3		3
Unobligated, available		943	-		943
Subtotal, unexpended Appropriations		943	16		959
Cumulative Results of Operations:					
Donated capital (Transfers from CCC)		3,958	-		3,958
Results of operations		(7,649)	-		(7,649)
Subtotal, cumulative results of operations		(3,691)	-		(3,691)
Total net position	$	(2,210)	16	$	(2,194)

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

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

Capital Stock
Section 1504 (a) of the Federal Crop Insurance Act authorizes capital stock of $500 million subscribed by the United States, and issued to the Secretary of the Treasury. There has been no change in the capital stock issued since August 15, 1985.

12. FINANCING SOURCES

In fiscal years 2008 and 2007, FCIC received an Insurance Fund appropriation of $4.1 billion and $4.4 billion, respectively, for premium subsidy, reinsurance administrative expenses other program expenses and research and development. In both fiscal years 2008 and 2007, the RMA A&O Fund appropriation was $77 million.

ARPA provisions place a major emphasis on contracting and partnering for development of risk management products. ARPA provides incentives for private parties to develop and submit new risk management products to the FCIC Board of Directors. In 2007, $74.5 million was appropriated for ARPA expenses of which $5 million was transferred to the Cooperative State Resource, Education, and Extension Service (CSREES.) The 2008 Farm Bill reduced the 2008 appropriation to $69.5 million of which $5 million was transferred to CSREES.

Summary of Appropriations Used:

		2008 (millions)	2007
A&O appropriation used	$	76	79
Insurance fund appropriations:			
Appropriation for premium subsidy		1,474	2,961
Appropriation for ARPA costs		41	40
Appropriation for delivery costs		2,002	1,107
Insurance fund appropriations used		3,517	4,108
Total appropriations used	$	3,593	4,187

13. STATEMENT OF BUDGETARY RESOURCES RECONCILIATION OF STATEMENT OF BUDGETARY RESOURCES TO PRESIDENT'S BUDGET

FCIC's Statement of Budgetary Resources serves as a tool to link budget execution data to information reported in the "actual" column of the Program and Financing Schedules in the Appendix of the Budget of the United States Government (referred to as the "President's Budget") as well as information reported in the Reports of Budget Execution and Budgetary Resources (SF-133). The permanent indefinite appropriation for the crop insurance program is used to cover premium subsidy, delivery expenses, losses in excess of premiums, and research and delivery costs. Some reporting differences do exist between comparable amounts in the Statement of Budgetary Resources (SBR), the President's Budget, and the SF-133. The following table is a comparison of the fiscal year 2007 Statement of Budgetary Resources and the President's Budget. The fiscal year 2008 President's Budget data is not available until February 2009.

Fiscal Year 2007 Statement of Budgetary Resources v. President's Budget
(millions)

	Account	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
Statement of Budgetary Resources:					
	Insurance Fund	$7,003	4,743	-	$3,471
	A&O	80	77	-	79
	Total	$7,083	4,820	-	$3,550
Reconciling items:					
Expired Accounts	A&O	$ (3)	(1)	-	$ -
	Total	(3)	(1)	-	-
Budget of the United States Government		$7,080	4,819	-	$3,550

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

Budgetary and proprietary accounting information are inherently different because of the types of information and the timing of their recognition. The reconciliation of budgetary resources obligated and the net cost of operations provides a link between budgetary and proprietary accounting information. It serves not only to explain how information on net obligations relates to the net cost of operations but also to assure integrity between budgetary and proprietary accounting.

Net obligations and the net cost of operations are different because (1) the net cost of operation may be financed by non-budgetary resources (e.g. imputed financing); (2) the budgetary and non-budgetary resources used may finance activities which are not components of the net cost of operations; and (3) the net cost of operations may contain components which do not use or generate resources in the current period.

Reconciliation of Net Cost of Operations (Proprietary) to Budget

		2008	2007
Resources used to Finance Activities			
Budgetary resources obligated			
Obligations incurred	$	6,496	4,821
Less: spending authority from offsetting collections and recoveries		(2,069)	(1,366)
Obligations net of offsetting collections and recoveries		4,427	3,455
Less: offsetting receipts		-	-
Net obligations		4,427	3,455
Other resources			
Imputed financing from costs absorbed by others		19	17
Net other resources used to finance activities		19	17
Total resources used to finance activities	$	4,446	3,472
Resources Used to Finance Items Not part of Net Cost of Operations			
Change in budgetary resources obligated for goods, services, and benefits ordered but not yet provided	$	(1)	2
Resources that fund expenses not recognized in prior periods		(2)	118
Other resources or adjustments to net obligated resources that do not affect the net cost of operations		-	-
Total resources used to finance items not part of the cost of operations		(3)	120
Total resources used to finance the net cost of operations	$	4,443	3,592
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	$	(1,226)	(779)
Other		2,518	1,134
Components not requiring or generating resources			
Other		2	(7)
Total components of net cost of operations that will not require general resources in the current period		1,294	348
Net Cost of Operations	$	5,737	3,940

REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION (UNAUDITED)

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

During fiscal years 2008 and 2007, the RME program worked toward its goals by funding risk management sessions, most of which directly targeted producers. The number of producers reached through these sessions is approximately 49,000 in both fiscal years 2008 and 2007. In addition to reaching producers, some training sessions helped those who work with producers (such as lenders, agricultural educators, and crop insurance agents) to better understand those areas of risk management with which they may be unfamiliar. Total RME obligations incurred by FCIC were approximately $10 million for both fiscal years 2008 and 2007.

Summary of RME Initiatives Since Fiscal Year 2004.

		2008	2007	2006	2005	2004
RME Obligations (dollars in millions)	$	10	10	10	10	10
Number of producers attending RME sessions		49,000	49,000	48,000	47,000	46,000

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

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

2008 Risk Assumed:

	(millions)
Estimate of Unpaid Losses	$3,874
Risk Assumed	$9,859

According to the FCIC Act, the premium rates are set to receive a long-term expected loss ratio equal to or less than 1.0. Therefore the risk assumed by FCIC would be equal to the total premium of $9.859 billion.