United States Department of Agriculture

Office of Inspector General

Federal Crop Insurance Corporation/Risk Management Agency's Financial Statements for Fiscal Years 2013 and 2012

05401-0003-11

December 2013

United States Department of Agriculture
Office of Inspector General
Washington, D.C. 20250

DATE: December 12, 2013

AUDIT
NUMBER: 05401-0003-11

TO: Brandon Willis
Administrator
Risk Management Agency

ATTN: Michael Hand
Deputy Administrator for Compliance

FROM: Gil H. Harden
Assistant Inspector General for Audit

Gil H. Harden

SUBJECT: Federal Crop Insurance Corporation/Risk Management Agency's
Financial Statements for Fiscal Years 2013 and 2012

This report presents the results of the audit of Federal Crop Insurance Corporation/Risk Management Agency's (FCIC/RMA) consolidated financial statements for the fiscal years ending September 30, 2013 and 2012. The report contains an unmodified opinion on the financial statements, as well as an assessment of FCIC/RMA's internal controls over financial reporting and compliance with laws and regulations.

KPMG LLP, an independent certified public accounting firm, conducted the audit. In connection with the contract, we reviewed KPMG LLP'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; or conclusions on compliance with laws and regulations. KPMG LLP is responsible for the attached auditor's report, dated December 11, 2013, and the conclusions expressed in the report. However, our review disclosed no instances where KPMG LLP did not comply, in all material respects, with *Government Auditing Standards*, and the Office of Management and Budget Bulletin 14-02, *Audit Requirements for Federal Financial Statements*.

It is the opinion of KPMG LLP that the financial statements present fairly, in all material respects, FCIC/RMA's financial position as of September 30, 2013, and 2012, and its net costs, changes in net position, and budgetary resources for the years then ended, in conformity with generally accepted accounting principles.

The KPMG LLP report on FCIC/RMA's internal control structure over financial reporting identified one significant deficiency. Specifically, KPMG LLP identified a weakness in controls over FCIC/RMA's estimated losses on insurance claims calculation.

KPMG LLP considers this significant deficiency to be a material weakness. No noncompliances with laws and regulations were reported.

In accordance with Departmental Regulation 1720-1, please furnish a reply within 60 days describing the corrective actions taken or planned, and timeframes for implementing the recommendations. Please note that the regulation requires management decision to be reached on all recommendations within 6 months from report issuance, and final action to be taken within 1 year of each management decision to prevent being listed in the Department's annual Agency Financial Report. Please follow your internal agency procedures in forwarding final action correspondence to the Office of Chief Financial Officer.

We appreciate the courtesies and cooperation extended during this audit. This report contains publicly available information and will be posted in its entirety to our website http://www.usda.gov/oig in the near future.

KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

Independent Auditors' Report

Inspector General, U.S. Department of Agriculture and
The Board of Directors, Federal Crop Insurance Corporation

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the Federal Crop Insurance Corporation/Risk Management Agency (FCIC/RMA), which comprise the consolidated balance sheets as of September 30, 2013 and 2012, and the related consolidated statements of net cost and changes in net position, and combined statements of budgetary resources for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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. 14-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 14-02 require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the Financial Statements

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Federal Crop Insurance Corporation/Risk Management Agency as of September 30, 2013 and 2012, and its net costs, changes in net position, and budgetary resources for the years then ended, in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

FCIC/RMA's ultimate losses on insurance claims are subject to uncertainty. As a result, losses on insurance claims may differ significantly from the recorded estimate due to differences between expected and actual yields, weather patterns, commodity prices, and economic conditions. Note 6 to the financial statements, Estimate Losses on Insurance Claims, provides specific details concerning this liability. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the information in the Management's Discussion and Analysis, Required Supplementary Information, and Required Supplementary Stewardship Information sections be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated financial statements, is required by the Federal Accounting Standards Advisory Board, who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audits of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements as a whole. The Other Information section is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the FCIC/RMA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the FCIC/RMA's internal control. Accordingly, we do not express an opinion on the effectiveness of the FCIC/RMA's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying Exhibit I, *Internal Controls over the Estimate Losses on Insurance Claims Calculation*, we identified a deficiency in internal control that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Exhibit I to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the FCIC/RMA's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 14-02. 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 of compliance disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 14-02.

We also performed tests of its compliance with certain provisions referred to in Section 803(a) of the Federal Financial Management Improvement Act of 1996 (FFMIA). Providing an opinion on compliance with FFMIA was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests of FFMIA disclosed no instances in which the FCIC/RMA's financial management systems did not substantially comply with the (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level.

FCIC/RMA's Response to Finding

The FCIC/RMA's response to the findings identified in our audit is described in the accompanying Exhibit I. The FCIC/RMA's response was not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on the response.

***Purpose of the Other Reporting Required by* Government Auditing Standards**

The purpose of the communication described in the Other Reporting Required by *Government Auditing Standards* section is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the FCIC/RMA's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, DC
December 11, 2013

EXHIBIT I

U.S. Department of Agriculture

Federal Crop Insurance Corporation/Risk Management Agency

Material Weakness

The material weakness identified for the year ended September 30, 2013 is summarized below:

Estimated Losses on Insurance Claims Calculation

During our audit of the Estimated Losses on Insurance Claims calculation, we presented a series of questions to FCIC/RMA management to assess whether the resulting liability balance on losses on insurance claims was properly stated as of September 30, 2013. While reviewing our questions and formulating respective responses, management noted an error in the calculation leading to the liability balance on the September 30, 2013 financial statements. It should be noted that management implemented newly enhanced indemnity projection models in 2013. Further, management has several control procedures in place to ensure that the liability with respect to estimated losses on insurance claims reported on the financial statements is free of material misstatements. However, in this particular situation, management's control procedures were not able to prevent this error from occurring and impacting the draft financial statements issued to the auditors. The error impacted multiple financial statement line items, most notably the Estimated Losses on Insurance Claims line in the liability section of the balance sheet.[1] The absolute value of the cumulative differences as a result of this error on the balance sheet was $626 million; the net effect of the error in the balance sheet was $366 million. Subsequent to the discovery of the error, management recalculated the liability on estimated losses on insurance claims and produced revised and corrected financial statements.

Per discussions with FCIC/RMA, the root cause of the material misstatement on the financial statement was manual coding error in the indemnity projection model that was not detected through FCIC/RMA's internal control procedures.

We recommend that FCIC/RMA management:

1 Implement procedures to ensure that manual processes of the indemnity projection model are performed and subsequently reviewed by independent individuals within FCIC/RMA management to ensure that the review process over the calculation is adequate and limits the risk of material misstatements in the liability for estimated losses on insurance claims at year-end.

2 Consider performing an Independent Verification and Validation (IV&V) review of the indemnity projection model every year in which a new model is implemented, or when a model has been substantially enhanced.

3 Consider the need to save documentation to provide an audit trail of all relevant computations.

4 Consider performing additional risk assessments on the indemnity calculation aimed at the processes that have the greater risks of errors in the calculations. The magnitude of potential errors should be viewed in terms of financial statement line items and the financial statements as whole, in order to ensure that management limits the risk of material misstatements on the financial statements.

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[1] The other proprietary statements, statement of net costs and statement of changes in net position, were affected by this error. The statement of budgetary resources was not affected because the error was related to a projection of estimated losses on insurance which is considered a future funded expense as of September 30.

EXHIBIT I

U.S. Department of Agriculture

Federal Crop Insurance Corporation/Risk Management Agency

Material Weakness

Management Response

FCIC/RMA, being a government entity, is required to complete its annual financial statements at the end of the Federal fiscal year on September 30. This obligates FCIC/RMA to project indemnities at an early point in the growing season when data are limited, and, in many situations, crop losses have not even occurred or are still in the stage of occurring.

The inherent challenges of projecting losses are recognized in the disclosure on FCIC/RMA's financial statement:

"FCIC/RMA's ultimate losses on insurance claims are subject to uncertainty. As result, losses on insurance claims may differ significantly from the recorded estimate due to differences between expected and actual yields, weather patterns, commodity prices, and economic conditions."

In one of the eight programming modules that constitute the overall indemnity projection, a valid projection from August was used in place of one from September. While the substitution was not detected – due to its relatively small impact -- the overall result was checked for reasonableness given general growing conditions and crop damage known at the time and found to be within a reasonable range. From FCIC/RMA's perspective, the current process produced a reasonable actuarial estimate of projected indemnities.

With respect to recommendation 1 on this report, FCIC/RMA will revise its procedures to assure that programming changes ('manual processes') are specifically reviewed. FCIC/RMA will consider recommendations number 2 through 4.

2013

Federal Crop Insurance Corporation
Risk Management Agency
Financial Statements
2013 and 2012

Message from Brandon Willis, Administrator, Risk Management Agency

Providing World-Class Agricultural Risk Management Products, Tools, Education, and Outreach

On behalf of the Risk Management Agency (RMA), it is my pleasure to present this comprehensive financial report detailing the exceptional work of the agency and its employees for the past two years. RMA has a mission and vision, each of which is furthered by:

- Increasing the availability and effectiveness of Federal crop insurance as a risk management tool while enhancing and protecting the soundness of the program;
- Ensuring a fair and effective risk management product delivery system;
- Providing education and outreach to stakeholders to ensure access to risk management tools and products; and
- Safeguarding the integrity of the Federal crop insurance program.

RMA oversees the operation of the Federal Crop Insurance Corporation (FCIC). RMA assesses internal control over FCIC's programs, operations, financial systems, and financial reporting. This assessment is in accordance with the provisions of the *Federal Managers' Financial Integrity Act* and the *Federal Financial Management Improvement Act*. RMA's continuous monitoring and remediation efforts allow us to provide taxpayers with reasonable assurance that this report is based on sound, accurate data. FCIC's financial statements, included herein, report both 2012 and 2013 fiscal years' financial positions, net costs of operation, changes in net position, and status of budgetary resources. These statements are in compliance with the format prescribed by OMB in the form and content of Federal financial statements (Circular A-136) and are in accordance with Generally Accepted Accounting Principles for Federal entities.

Financial management performance measures also accompany the financial results. These performance measures include yearly results and goals.

Thank you for your interest in RMA and FCIC. I commend the employees of the Risk Management Agency for their outstanding work and am proud to share this information with our stakeholders.

Sincerely,

Brandon Willis

Brandon Willis
Administrator, Risk Management Agency

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*Note the cover picture is RMA's Administrator, Brandon Willis

Management's Discussion and Analysis (Unaudited)

Mission

Risk Management Agency's (RMA) mission is serving America's agricultural producers through effective, market-based risk management tools and solutions to strengthen the economic stability of agricultural producers and rural communities. To carry out this mission, RMA operates and manages the Federal Crop Insurance Corporation (FCIC).

History & Enabling Legislation

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

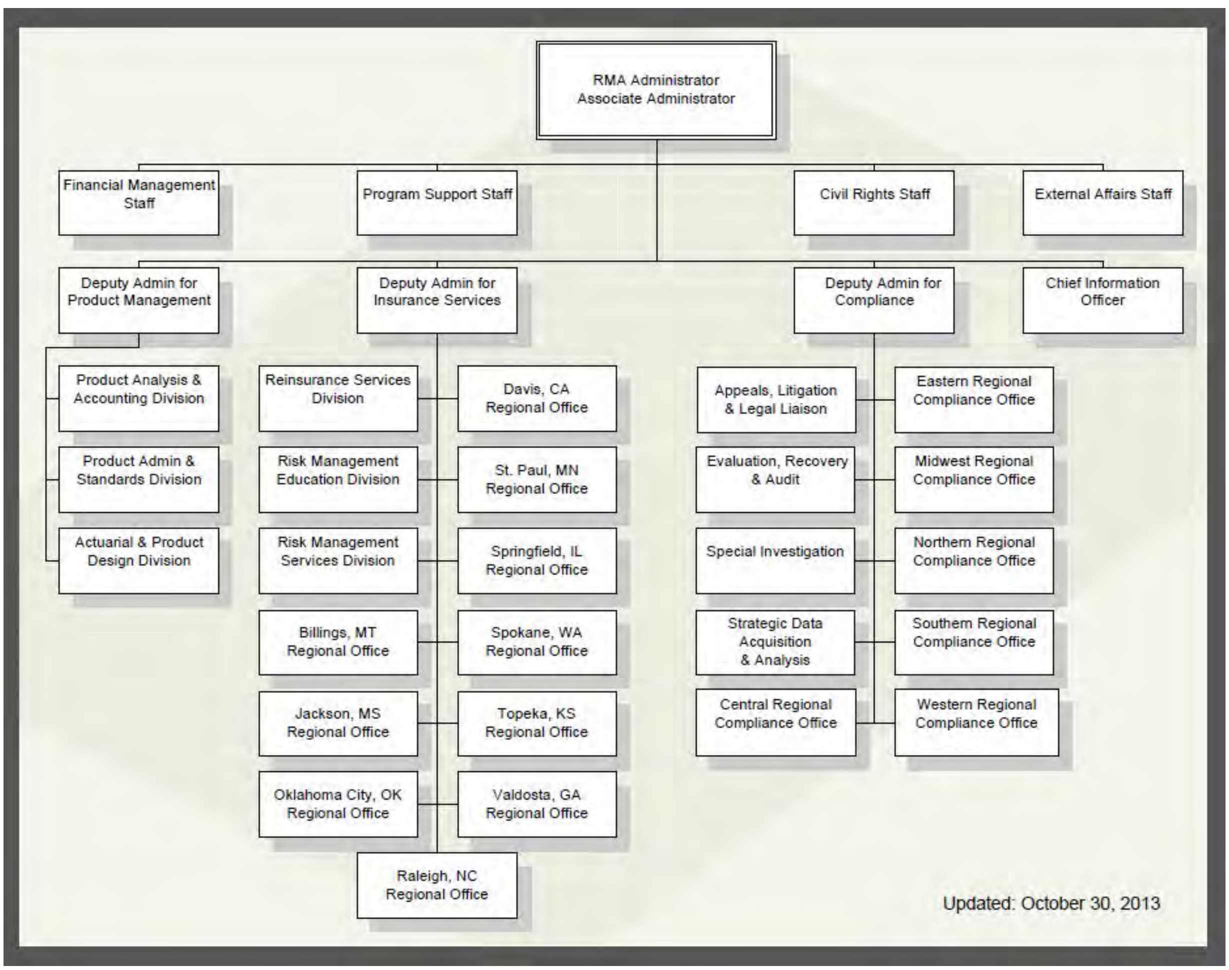
- Federal Crop Insurance Act of 1980
- Federal Crop Insurance Reform and Department of Agriculture Reauthorization Act of 1994
- Federal Agriculture Improvement and Reform Act of 1996
- Agriculture Research, Extension & Education Reform Act of 1998
- Agriculture, Rural Development, Food & Drug Administration, & Related Agencies Appropriations Act of 1999
- Agriculture Risk Protection Act of 2000
- Food, Conservation, and Energy Act of 2008

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

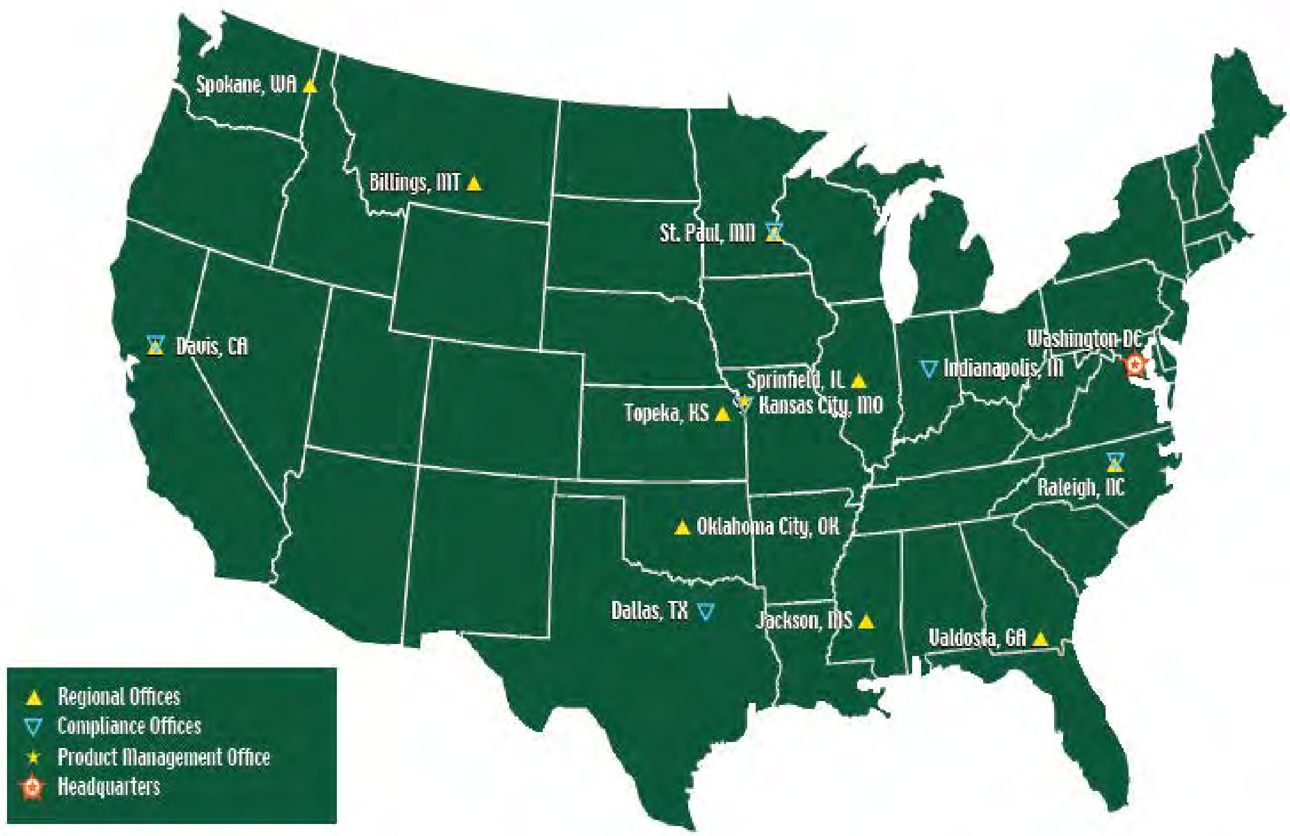
Organizational Structure

RMA employs approximately 450 people in offices around the country. RMA Administrator Brandon Willis was appointed in January 2013. He also serves as the manager of the FCIC. Located within the Office of the Administrator are the Director of External Affairs, the Director of Civil Rights and Outreach, the Director of Program Support, the Chief Information Officer, the Chief Financial Officer, and the Secretary to the FCIC Board of Directors. The Agency has three divisions: Insurance Services, Product Management, and Compliance. Insurance Services is responsible for program delivery (for example, managing contracts with the companies that sell and service policies), and local program administration and support. Product Management is responsible for overseeing product development. Compliance monitors program integrity and adherence to program provisions by both producers and private insurance companies that participate in the program.

Organizational Chart:



Map of RMA Office Locations



Organizational Functions:

Pictured here are board members: Kenneth Ray Sneed, Brandon Willis, Ellen Linderman, Margaret Goode, John Finston, Iris Saenz, James Bardenhagen, Dr. Joseph Glauber

Program Administration

The Board of Directors is the decision making body for FCIC. 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 Under Secretary for Farm and Foreign Agricultural Services plus one additional Under Secretary
- The FCIC Manager (non-voting)
- Four producers who are policyholders, one of whom grows specialty crops
- An individual involved in insurance
- An individual knowledgeable about reinsurance or regulation

Office of the Administrator

The day to day business activities are carried out by the following staff offices:

- External Affairs:
  External Affairs communicates with and provides information about the Federal crop insurance program. External Affairs also provides guidance and training on communications, strategies and issues to the Agency's leadership.

- Civil Rights and Outreach:
  The Office of Civil Rights and Community Outreach (OCRCO) focus is:
  - Title VII (employment discrimination), and
  - Title VI (programs receiving federal financial assistance from RMA) of the Federal Civil Rights Act.

  OCRCO actively engages in outreach to ensure that farmers and ranchers, including small, limited resource, and other socially disadvantaged have the opportunity to participate and have equal access to all RMA/USDA programs and services.

- Program Support:
  The Executive Planning & Administrative Support Branch provides services to the Agency ranging from regulatory administration, Freedom of Information Act and Privacy Act administration, strategic planning and performance management as well as continuity of operations and homeland security planning and execution.

- Chief Information Office (CIO):
  Located organizationally in the Program Support Staff, the CIO is made up of 3 primary functional areas: Information Security-responsible for RMA information and hardware security; Capital Planning and Investment Control-responsible for RMA Infrastructure Information Technology (IT); and the System Administration Branch-responsible for RMA IT hardware and software and IT contractor management.

- Chief Financial Office (CFO):
  Known as the Financial Management Staff in the organization, the CFO staff is responsible for establishing and maintaining effective internal controls and policies over financial reporting and operations. The Budget Branch formulates and executes the RMA/FCIC budget. The Accounting Branch coordinates travel policy and systems, manages purchasing and goods receipts, processes agreements, monitors expenditures and disbursements, manages the general ledger, and prepares the corporate financial statements.

Product Management (PM)

PM involves the design, development, and maintenance of crop insurance programs, policies and standards, and the establishment and maintenance of rates, prices, and actuarial documents for coverage of crops in each county. This activity also includes:

- Establishment of crop insurance rates, crop insurance price elections, actuarial data, plans of insurance, crop insurance procedures, and handbooks;
- Management of privately submitted insurance products submitted under section 508(h) of the Act, including concept proposals;
- 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 accounting of receipts and expenditures (e.g., AIP reimbursement and escrow funding);
- Tracking ineligible producers; and
- Debt management and cross servicing.

Insurance Services

Insurance Services administers FCIC programs through a system of ten Regional Offices.

- Develops and manages contractual arrangements to deliver risk management programs to agricultural commodity producers through private insurance providers, cooperatives and other financial service organizations;
- Ensures that delivery partners meet published regulatory financial standards and operating guidelines as well as administers corrective actions for non-compliance with contractual requirements; and
- Delivers risk management education and outreach programs to producers and producer groups through private and public education partners.

Compliance

Compliance monitors FCIC programs through a system of six Compliance Offices.

- Safeguards the integrity of the Federal crop insurance program through reviews of crop insurance programs and participants in order to provide reasonable assurance that program payments are based upon true and accurate information and are in accordance with program requirements;
- Makes extensive use of data mining and other investigation techniques to ensure program integrity;
- Assists in the prosecution of criminal, civil, and administrative actions;
- Refers cases of fraud to the Office of Inspector General as required by the Inspector General Act; and
- Determines the appropriate penalty for acts of program noncompliance and ensures actions are completed.

Programs

The FCIC, through RMA, provides crop insurance and risk management strategies to American producers. Private sector insurance providers (AIPs), approved by FCIC, 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.

Funding

FCIC maintains two separate funds, one for RMA's salaries and expenses (S&E Fund), and one for the crop and livestock insurance program (Insurance Fund).

The S&E Fund is used to pay RMA's salaries and administrative expenses. The funding for the S&E 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.

The financial statements present the consolidated view of both funds.

Operational Agreements

FCIC enters into reinsurance agreements with AIPs to market and service policies. The conditions of reinsurance are defined in the Standard Reinsurance Agreement (SRA) and Livestock Agreement between the companies and FCIC. Under these agreements, AIPs agree to deliver 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.

FCIC also provides a subsidy for producers' premiums. FCIC funds the indemnity payments to the producers though escrow accounts funded daily. FCIC and the AIPs share in the underwriting gains or losses. Crop insurance is a joint effort between the U.S. Government and the private insurance industry for program delivery.

Insurance Plans:

Livestock Policies

Livestock policies are designed to insure against declining market prices or declining margins. Coverage is determined using futures and options prices from commodity exchange markets.

Group Policies

Policies in this category are based on the experience of the county rather than individual farms, these policies use estimated: (1) County yields for insured crops as determined by National Agricultural Statistics Service (NASS); (2) Weather data collected and maintained by the National Oceanic and Atmospheric Administration's Climate Prediction Center (NOAA); or (3) The U.S. Geological Survey's Earth Resources Observation and Science (EROS).

Actual Production History & Yield Protection Policies

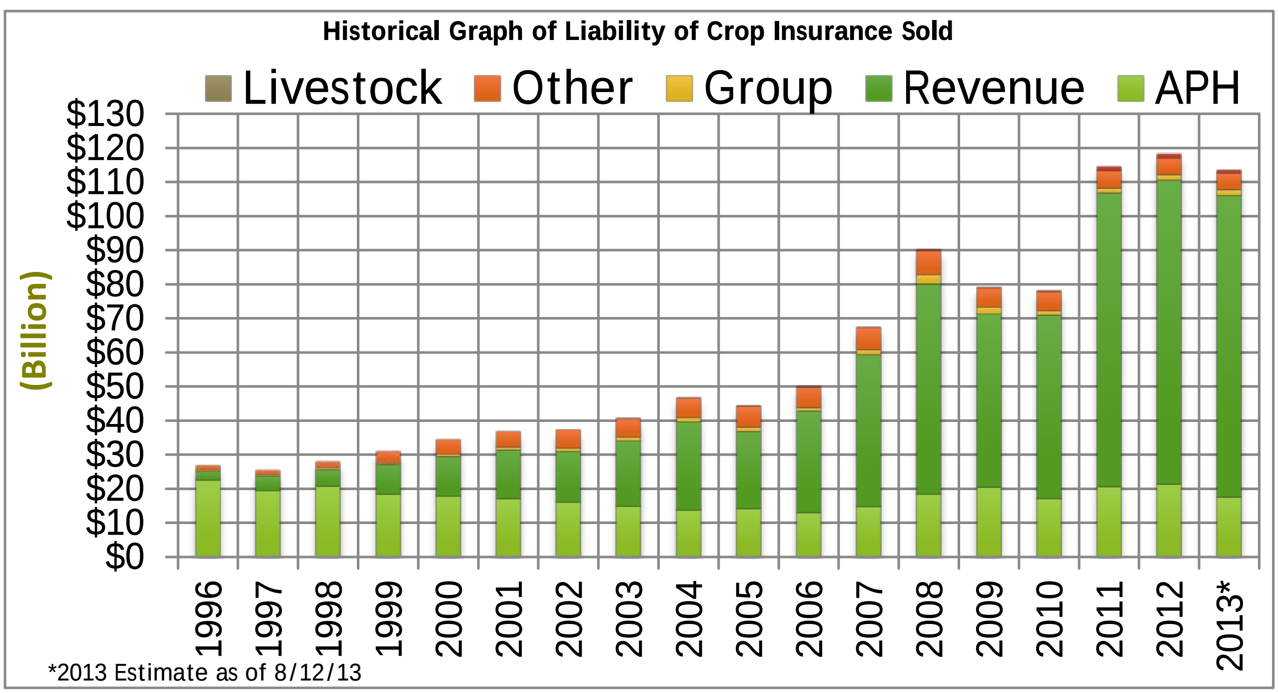
Actual Production History and Yield Protection Policies insure producers against yield losses due to natural causes such as drought, excessive moisture, hail, wind, frost, insects, and disease. If the harvested plus any appraised production is less than the yield insured, the producer is paid an indemnity based on the difference.

Revenue Policies

Revenue based products protect the producers against loss of revenue due to price fluctuations and yield loss due to natural causes such as drought, excessive moisture, hail, wind, frost, insects, and disease.

Other Policies

Examples of policies that fall under this category may be dollar amount products that are based on the cost of growing a crop or they may be based on producer's historical gross revenue to determine loss. Policies that do not fall under other groups listed here are combined into this grouping.



For more information on insurance plans visit: http://www.rma.usda.gov/policies/

Reimbursement Rates

The reimbursement rates (as a percent of premium) for both 2013 and 2012 reinsurance years are in the following table:

Insurance Plans	Reimbursement Rates (depending on coverage level)
Group risk plan	12%
Pasture Rangeland Forage Plans	20.1%
Revenue plans (harvest price option)	18.5%
All other additional coverage plans	21.9%
Catastrophic coverage	6%

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 a portion of the loss risk on Federal crop insurance policies written by the AIP.

These agreements provide for both proportional and non-proportional reinsurance by which the loss risk is shared with FCIC. The AIPs elect the method to transfer risk to FCIC through their plan of operation. The plan of operation becomes an appendix to 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. FCIC uses non-proportional 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.

FCIC Published Regulations

RMA periodically updates its regulations by publishing proposed, interim and final rules in the *Federal Register*. RMA seeks public comment on all proposed revisions. Revisions made to regulations improve risk management products available for producers and/or clarify such regulations. During the 2013 fiscal year, RMA had 9 regulations in the proposed, interim or final rule stage and 3 notices published that announced funding opportunities and requests for applications for specific programs and Paperwork Reduction Act notices. Published regulations can be found on the *Federal Register's* home page at: http://www.gpoaccess.gov/fr/index.html

Specialty Crops

The Act requires that the FCIC report to Congress on the progress and expected timetable for expanding crop insurance coverage to new and specialty crops. The report serves as a useful way to obtain a quick overview of processes and timelines RMA must follow to make new and specialty crop insurance products available to producers. The latest report (available at http://www.rma.usda.gov/pubs/) highlights several pilot programs and privately developed products developed under section 508(h) of the Act.

Pilot Programs

The Act defines the process by which RMA develops and maintains pilot programs. The Act allows privately developed products to be submitted to the FCIC under section 508(h). Private submitters may begin the proposal process by submitting a Concept Proposal for Board approval. A portion of expected research and development funds may be advanced to use in creating the new insurance product. Or, private submitters may simply develop new policies at their own expense and submit these products to the FCIC. In both cases, for Board approved products, the private submitters may request reimbursement of research and development from FCIC.

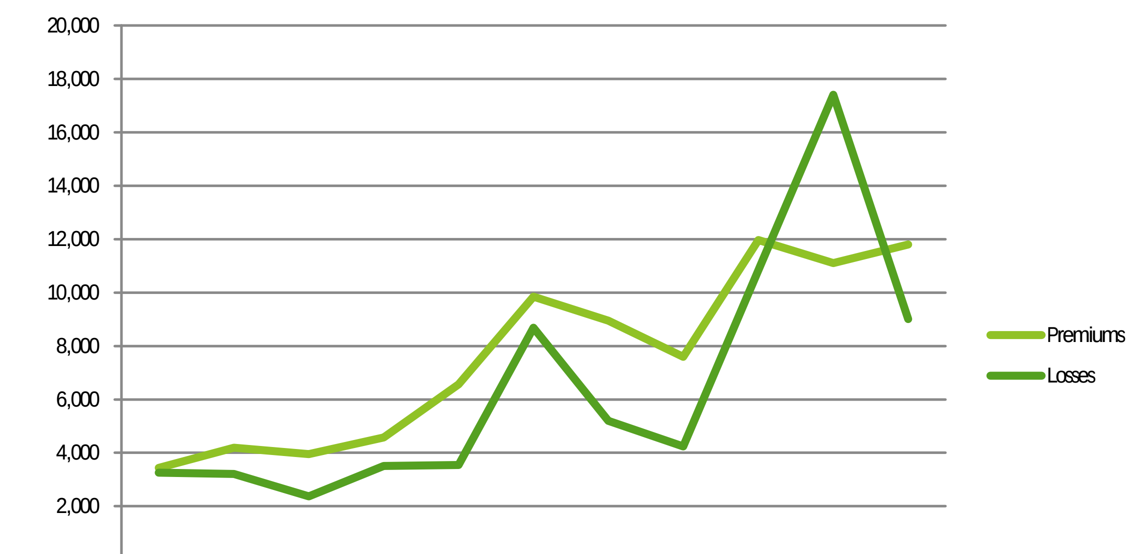
Pilot Programs 2013	508(h) Pilot Programs as of 2013
Actual Revenue History-Strawberry 2012	Camelina 2012
Pistachios (APH) 2012	Olive 2012
Actual Revenue History-Tart Cherries 2014	Specialty Canola Revenue 2012
Hybrid Sweet Corn Seed 2014	Specialty Corn 2012
	Specialty Trait Soybeans 2012
	Sweet Potatoes 2013
	Texas Citrus Trees 2012
	HR-ACE 2013
	Pulse Crop Revenue 2013

Crop Statistics

Program Information Comparison for Crop Years 2013 and 2012	Crop Year 2013 (Estimated)	Crop Year 2012 (Actual)
Policies	1.21 million	1.17 million
Farmer Paid Premium	$4.51 billion	$4.13 billion
Premium Subsidies	$7.29 billion	$6.98 billion
Total Premium	$11.80 billion	$11.11 billion
Indemnities	$9.00 billion	$17.41 billion
Loss Ratio	76%	157%
Insurance Protection	$122.61 billion	$117.13 billion

Premiums and Losses

The following chart demonstrates the range of premium and losses in the Federal Crop Insurance Program over the last several years in millions of dollars.



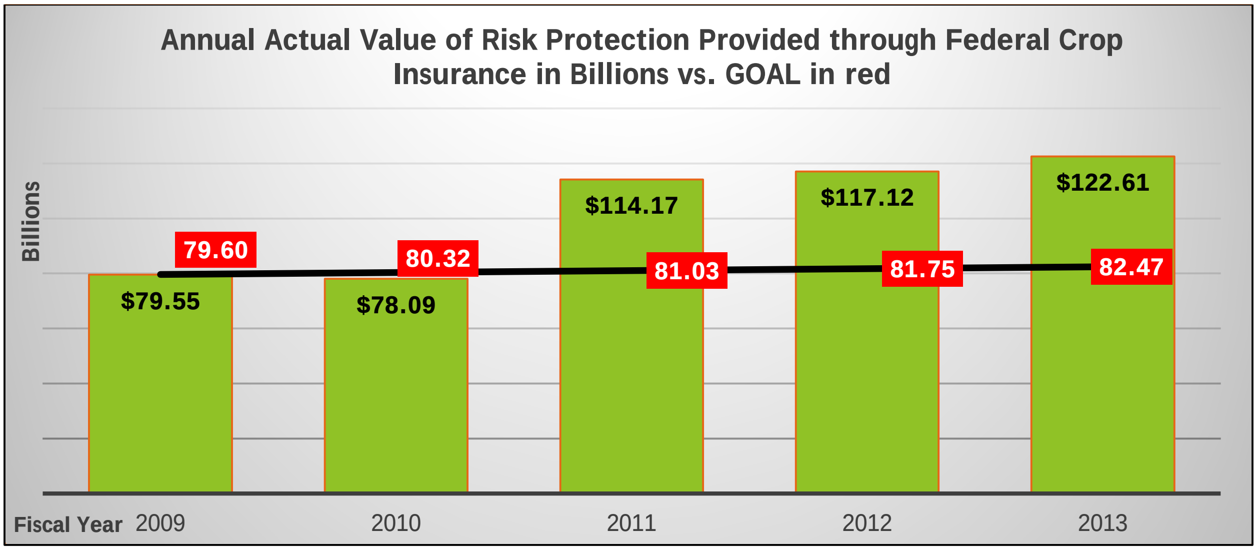
Crop Year	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013 Est
Premiums	3,431	4,186	3,949	4,580	6,562	9,852	8,950	7,590	11,964	11,110	11,798
Losses	3,261	3,210	2,367	3,504	3,547	8,681	5,197	4,235	10,845	17,411	9,003

Performance Goals, Objectives and Results

Overall Availability and Use of Federal Crop Insurance

RMA, under direction of the FCIC continues to make existing insurance products available, as well as expanding products to cover new crops and locations. Federal crop insurance program participants choose the level of coverage needed to manage risks for their particular situation. This program mitigates production and revenue losses from yield or price fluctuations and provides timely indemnity payments. The economic stability from crop insurance can provide producers with the collateral needed to obtain commercial loans.

RMA uses the annual actual value of risk protection provided to agricultural producers through FCIC insurance to measure the results of this effort. Performance is measured by a baseline goal of $79.6 billion for 2009 and a target goal of $83.9 billion for 2015.

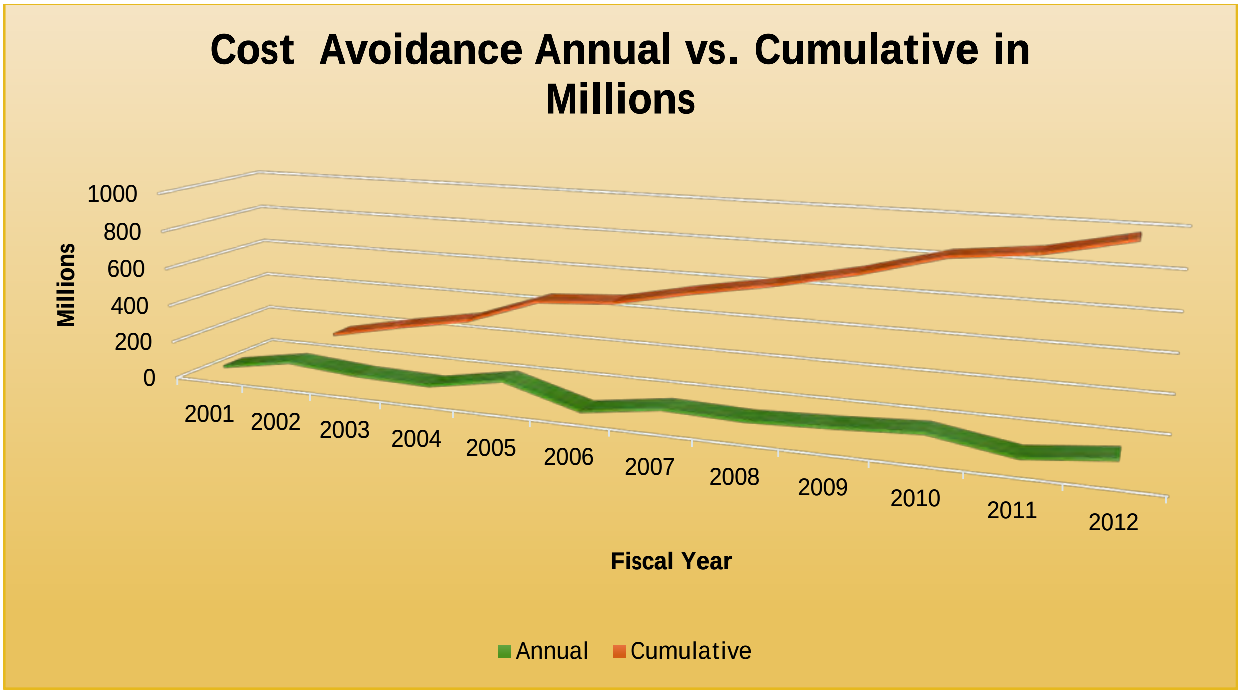


Improved Risk Management Options for Organic Growers:

Organic agriculture is one of the fastest growing segments of American agriculture and helps farmers receive a higher price for their product as they strive to meet growing consumer demand. RMA worked during 2013 to develop and provide new options which extend the safety net provided by crop insurance and provide fair and flexible solutions to organic producers. In 2013 RMA doubled the number of crops with organic price elections.

RMA has made concerted efforts to expand organic crop insurance to as many producers as possible. In 2013, RMA provided insurance to 5,338 certified organic policies on 657,893 acres and a liability of $416.5 million. (Source: RMA Summary of Business for Organic Production October 2013).

Cost Avoidance Using Data Mining and the Spot Check List



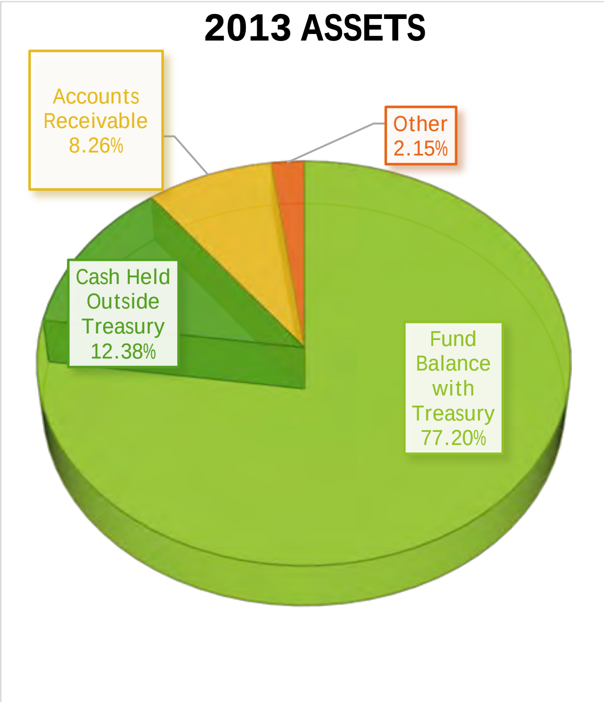
RMA uses data mining to detect and deter fraud, waste and abuse in the crop insurance program by identifying policies that are unusual compared to other policies. The data mining program that identifies these statistical anomalies is the "Spot-Check List," which is a list of approximately 2,000 of the most anomalous policies. Anomalous policies have losses more frequently and with greater severity than similar policies in the same area. With input from Compliance investigators, other RMA staff and AIPs, RMA develops scenarios that identify anomalies often associated with fraud, waste and abuse. The Spot-Check List of these policies is provided to Farm Service Agency (FSA) and AIPs for further evaluation. FSA county offices conduct two growing season inspections of anomalous insured fields. AIPs began participating in the Spot-Check List inspection process in 2012, providing more extensive inspections than the FSA was requested to perform.

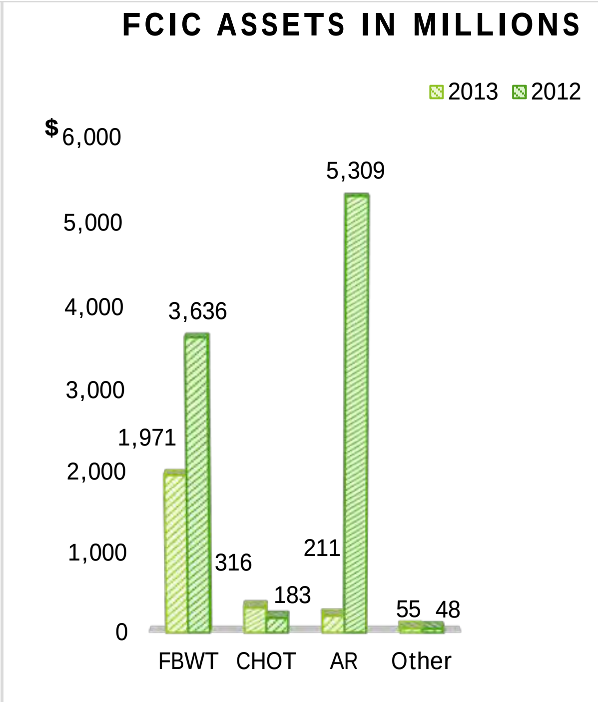
The cost avoidance that resulted from data mining and the Spot-Check List process is measured by reduced indemnities after the growing season inspections. The data mining and Spot-Check List efforts have been highly successful. The cumulative direct cost avoidance from data mining from 2001 through 2012 is approximately $975 million, estimated from changes in patterns of policy indemnification for insured fields.

Financial Statement Highlights and Analysis

The comparison of fiscal years 2013 and 2012 financial statements demonstrates the variability in the agriculture community. The 2013 growing season has been more favorable compared to the previous year; however, the majority of reinsurance year 2012 losses were claimed in fiscal year 2013. As a result RMA requested additional appropriations to fund the losses.

Assets



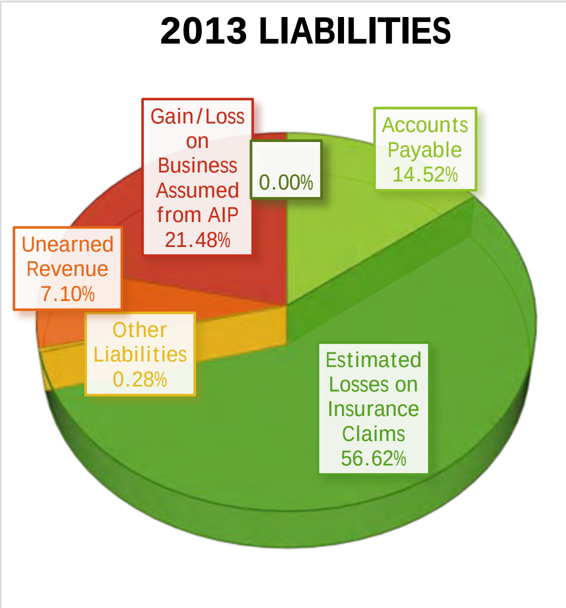


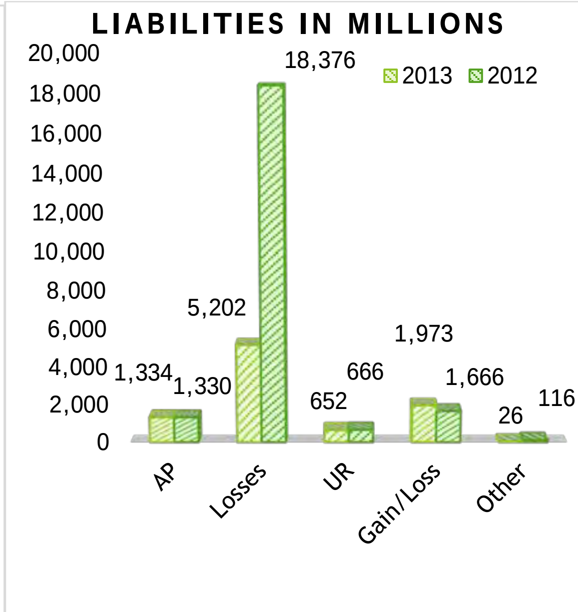
The vast majority of the assets are Fund Balance with Treasury (FBWT) and Accounts Receivable. FBWT is a cash-like account which represents funds available which have not been disbursed. RMA returns the unobligated funds excluding the balances for Capital Stock, Paid-in Capital and Contingency Fund to the U.S Treasury. At the end of fiscal year 2013, for the Insurance and S&E Funds, RMA returned $3.8 billion compared to the $5.6 billion returned in 2012. Large returns to Treasury in 2013 are due to collections received in the final days of the fiscal year.

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

Accounts Receivable (AR) 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, around the end of the fiscal year.

Liabilities





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 made at the end of each fiscal year based on current conditions. In fiscal year 2013, FCIC expects to have $5.2 billion in losses compared to $18.4 billion in fiscal year 2012. The $13.2 billion decrease in losses is mainly due to the improved growing season in 2013. As of September 9, 2013, Kansas and Texas accounted for the states with the highest dollar amount of losses due to drought. Prevented Planting indemnities were mostly due to excess moisture/precipitation/rain. The 2013 projected loss ratio is 76 percent compared to the 2012 actual loss ratio of 157 percent.

Estimating Losses

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 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.

Unearned Revenue (UR)

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.

Uncertainty in 2013 Estimated Losses

The actuarial estimates of premium and losses are calculated as of September 30, 2013. 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. Many revenue products are 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 percent of the estimated indemnities are calculated using preliminary National Agricultural Statistics Service (NASS) yield forecasts. NASS crop production forecasts have two components; acres to be harvested and expected yield per acre. Expected yields are obtained by NASS monthly, August through November, from two different types of yield surveys.

In the last 10 years, the difference between the actual and the estimated loss ratios has exceeded 10 points 80 percent of the time (8 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 157 percent. The average loss ratio for the past ten years was 81 percent.

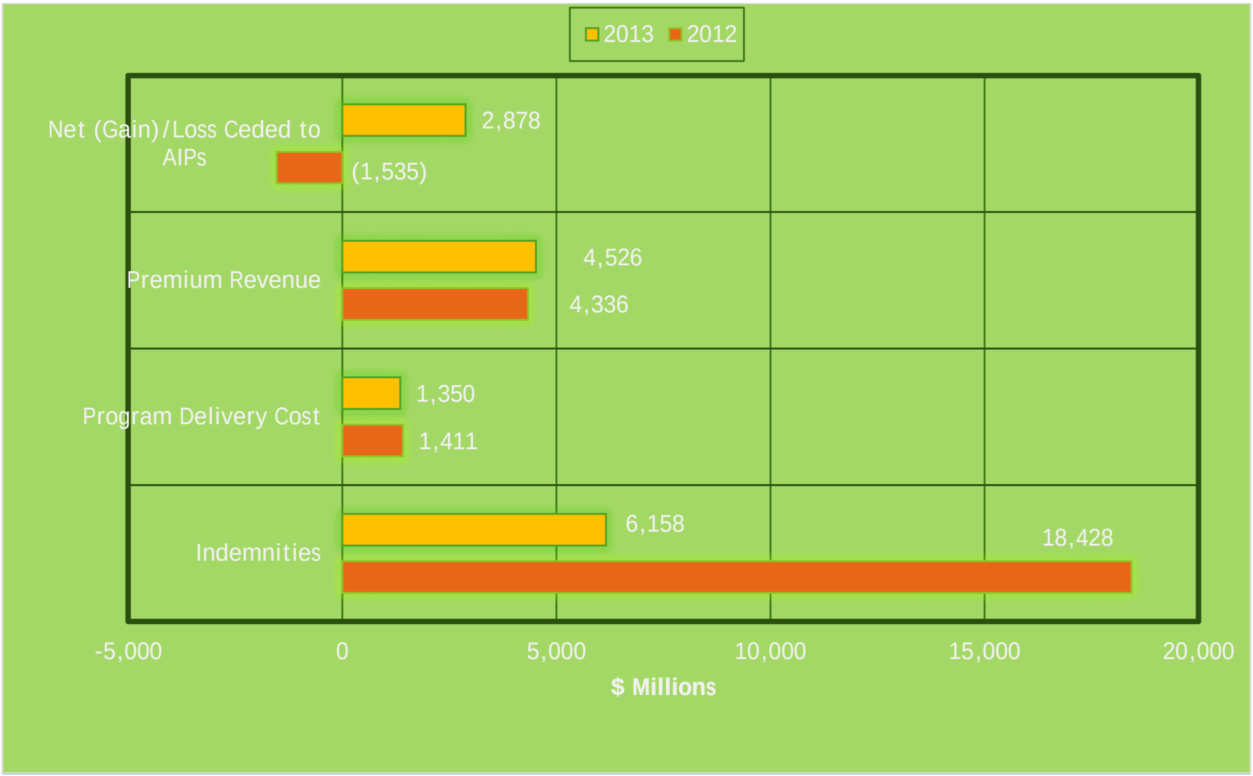
Summary of Premium and Losses						
Actual				Loss Ratio		
Crop Year	Premiums ($)	Losses ($)		Actual	Projected	Difference
2003	3,431	3,261		95%	112%	17%
2004	4,186	3,210		77%	85%	8%
2005	3,949	2,367		60%	78%	18%
2006	4,580	3,504		77%	99%	22%
2007	6,562	3,548		54%	67%	13%
2008	9,851	8,680		88%	63%	(25%)
2009	8,951	5,222		58%	66%	8%
2010	7,595	4,251		56%	41%	(15%)
2011	11,966	10,856		91%	112%	21%
2012	11,110	17,412		157%	185%	28%
2013 Projected	**11,798**	**9,003**			**76%**	

The summary table reveals an overall increase in premium over the last 10 years. The total premium for the crop insurance program has generally increased due to the increase in commodity prices, volatilities, higher coverage levels, greater participation, and the expansion of coverage to new commodities.

The program's administrative and operating reimbursement has averaged $1.4 billion over the past 10 years. Premium subsidy has averaged $4.4 billion during the same time period.

The contingency fund, which is part of the insurance fund authorized under section 516(c) of the Act (7 U.S.C. 1516(c), contains amounts paid to FCIC by an AIP according to the terms of the Standard Reinsurance Agreement (SRA) and is set aside to be used to offset expenses incurred by FCIC to administer an AIP's book of business in the event of AIP supervision, rehabilitation, insolvency or operational deficiency, or an equivalent event, as determined by FCIC, or the SRA is terminated for cause.

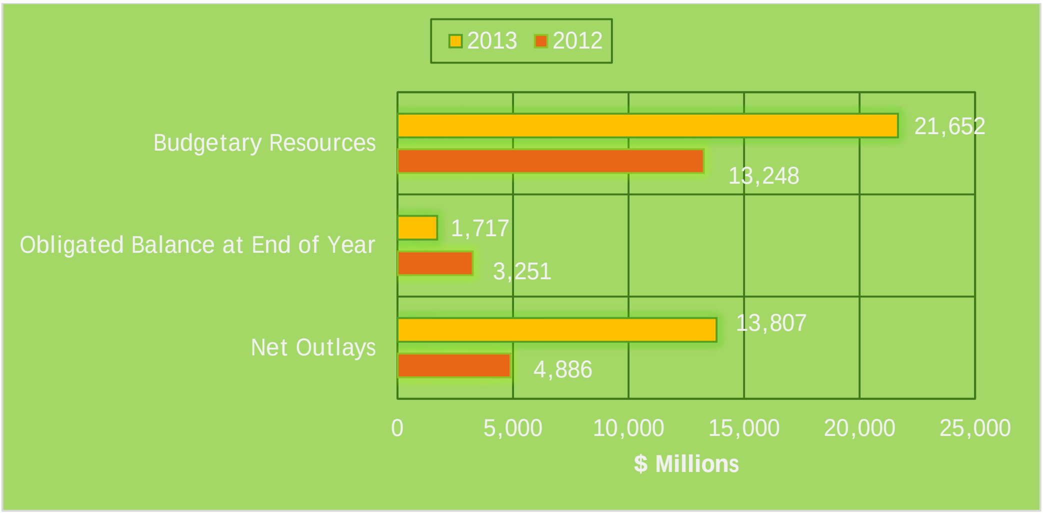
Analysis of Statement of Net Cost



FCIC's net cost of operations decreased $8.1 billion from fiscal year 2012 to 2013. The net cost of operations for fiscal years 2012 and 2013 were $14,071 million and $5,951 million, respectively. This decrease is a direct result of higher indemnities for reinsurance year 2012. Crop year 2012 had an estimated loss ratio of 185 percent and an actual loss ratio of 157 percent. Crop year 2013 is projected to have a loss ratio of 76 percent.

For reinsurance year 2013, the program delivery costs were capped for most insurance plans as specified in the SRA. For states in which the loss ratio exceeded 120 percent of the total net book premium written in the state, FCIC paid an additional program delivery amount equal to 1.15 percent times the net book premium for eligible crop insurance contracts.

Analysis of Statement of Budgetary Resources



Statement of Budgetary Resources is comprised of four sections. The first section lists the source of the budgetary resources for the fiscal year. The second section shows the status of the resources. Budgetary Resources must equal Status of Budgetary Resources. The third section shows the changes in the obligated balances for the fiscal year. The fourth section reports on the budget authority, offsetting collections and the gross and net outlays.

The budgetary resources are mainly comprised of balances left over from prior fiscal years, new appropriations and collections.

Each year, RMA requests appropriations needed to fully fund the insurance program. The requested appropriations were $2.8 billion more in fiscal year 2013 than fiscal year 2012. FCIC collected $3.8 billion more in fiscal year 2013 compared to fiscal year 2012. This was due to the payment for reinsurance year 2012 underwriting losses by the approved insurance providers in fiscal year 2013. Also some premium payments were deferred to fiscal year 2013 due to an administrative waiver granted by the Secretary of Agriculture to provide drought-stricken farmers a grace period for paying premiums.

In fiscal year 2013, RMA returned $3.8 billion of excess funding to the U.S. Treasury compared to $5.6 billion in fiscal year 2012. Overall, FCIC had $8.4 billion more in budgetary resources available for fiscal year 2013.

The end of year obligated balance decreased by $1.5 billion in fiscal year 2013 compared to fiscal year 2012. In fiscal year 2012, FCIC had obligations to pay the reinsurance year 2012 delivery costs and reinsurance year 2011 underwriting gain. In fiscal year 2013, FCIC only had obligations for reinsurance year 2013 delivery costs. There was not an underwriting gain for reinsurance year 2012 to be obligated in fiscal year 2013 due to the large losses in 2012.

Net Outlays are the total cash disbursements less collections. Total cash disbursements are $12.7 billion higher as the result of (1) higher indemnity payments to producers caused by the severe drought in the corn-belt and (2) legislative changes deferring the payment for the fiscal year 2012 program delivery costs and reinsurance year 2011 underwriting gains to fiscal year 2013. Offsetting the higher disbursements with the higher collections, the net outlays were $8.9 billion more in fiscal year 2013

Financial Reporting Requirements

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

(Required Supplementary Stewardship Information)

Risk Management Education

RMA provides education and training on crop insurance programs and risk management strategies to agricultural producers and ranchers. Requests for Applications (RFAs) are prepared each year and announce solicitations for partners in that effort in the *Federal Register.*

For 2013, the RFA was a combination of the Commodity Partnership for Small Agricultural Risk Management Education Sessions and the Community Outreach Assistance Partnership Program. RMA partners with qualified applicants to provide education, outreach assistance and related tools and information on crop insurance programs and risk management strategies. Awards are given on a competitive basis and awarded for a one year term.

Awardees must demonstrate non-financial benefits and agree to substantial involvement by RMA in the project. Regional Offices of RMA provide substantial involvement. Funding for this work is authorized in section 522 and 524 of the Act.

RMA partners with organizations working with Women, Hispanics, African Americans, Asian Americans, Native Americans, Immigrants, Military Veterans, Organic Crops, Beginning Producers, Specialty Crop Producers & Ranchers, New Markets, Livestock Farmers, Limited Resource, Retiring-Transitioning, Strikeforce, Socially Disadvantaged, Sustainable Producers, Traditional, Value-Added and Small Farms & Ranches.



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, 2013 and 2012, was operating effectively with the exception of one material weakness found in the internal controls over financial reporting, as it relates to the estimated losses on insurance claims calculation.

Federal Financial Management Improvement Act (FFMIA) Assurance

FCIC has evaluated its financial management systems under FFMIA for the period ended September 30, 2013. 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, 2013 and 2012 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 FCIC'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 FCIC 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, 2013 and 2012
(in millions)

	2013	2012
Assets		
Intragovernmental:		
Fund Balance with Treasury (Note 2)	$ 1,971	$ 3,636
With the Public:		
Cash Held Outside Treasury (Note 3)	316	183
Accounts Receivable, Net (Note 4)	211	5,309
General Property, Plant, and Equipment	55	48
Total Public Assets	582	5,540
Total Assets	$ 2,553	$ 9,176
Liabilities		
Intragovernmental:		
Other Liabilities	$ 1	$ 1
With the Public:		
Accounts Payable (Note 5)	1,334	1,330
Federal Employee Benefits	2	2
Other Liabilities		
Estimated Losses on Insurance Claims (Note 6)	5,202	18,376
Unearned Revenue	652	666
Underwriting Gain	1,973	1,666
Other Liabilities (Note 7)	26	113
Total Other Liabilities	7,853	20,821
Total Liabilities	$ 9,190	$ 22,154
Commitments and Contingencies (Note 9)		
Net Position (Note 12)		
Capital Stock	$ 500	$ 500
Additional Paid-in Capital	38	38
Contingency Fund	26	26
Unexpended Appropriations	55	22
Cumulative Results of Operations	(7,256)	(13,564)
Total Net Position	(6,637)	(12,978)
Total Liabilities and Net Position	$ 2,553	$ 9,176

*See accompanying notes to the consolidated financial statements.

RISK MANAGEMENT AGENCY
FEDERAL CROP INSURANCE CORPORATION
CONSOLIDATED STATEMENTS OF NET COST
For the Years Ended September 30, 2013 and 2012
(in millions)

	2013	2012
Program Costs:		
Intragovernmental Gross Costs:		
Benefit Program Costs	$ 11	$ 11
Imputed Costs	15	16
Reimbursable Costs	41	47
Total Intragovernmental Costs	$ 67	$ 74
Gross Costs with the Public (Note 10)		
Indemnities	$ 6,158	$ 18,428
Other Program Costs		
Program Delivery Costs	1,350	1,411
Other Program Costs	82	67
Total Other Program Costs	1,432	1,478
Total Costs with the Public	$ 7,590	$ 19,906
Less: Earned Revenue from the Public		
Premium Revenue	$ 4,526	$ 4,336
Net (Gain)/Loss on Business Ceded from AIPs (Note 11)	(2,878)	1,535
Other Revenue	58	38
Total Earned Revenue with the Public	$ 1,706	$ 5,909
Net Costs with the Public	5,884	13,997
Net Cost of Operations	$ 5,951	$ 14,071

*See accompanying notes to the consolidated financial statements.

RISK MANAGEMENT AGENCY
FEDERAL CROP INSURANCE CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION
For the Years Ended September 30, 2013 and 2012
(in millions)

	2013	2012
Capital Stock	$ 500	$ 500
Additional Paid-in-Capital	$ 38	$ 38
Cumulative Results of Operations		
Beginning Balance	$ (13,564)	$ (7,230)
Budgetary Financing Sources		
Appropriations Used	12,238	7,716
Transfers without Reimbursement	6	6
Other Financing Sources (Non-exchange)		
Imputed Financing Sources	15	15
Total Financing Sources	12,259	7,737
Net Cost of Operations	(5,951)	(14,071)
Net Change	6,308	(6,334)
Cumulative Results of Operations (Note 12)	$ (7,256)	$ (13,564)
Unexpended Appropriations:		
Beginning Balance	$ 48	$ 89
Budgetary Financing Sources		
Appropriations Received (Note 13)	16,074	13,232
Appropriations Transferred In/(Out)	(5)	(5)
Return to Treasury	(3,798)	(5,552)
Appropriations Used	(12,238)	(7,716)
Total Unexpended Appropriations	$ 81	$ 48
Net Position	$ (6,637)	$ (12,978)

*See accompanying notes to the consolidated financial statements.

RISK MANAGEMENT AGENCY
FEDERAL CROP INSURANCE CORPORATION
COMBINED STATEMENTS OF BUDGETARY RESOURCES
For the Years Ended September 30, 2013 and 2012
(in millions)

	2013	2012
Budgetary Resources		
Unobligated Balance Brought Forward, October 1	$ 567	$ 564
Recoveries of Prior Year Unpaid Obligations	2	3
Other Changes in Unobligated Balance	(1)	(1)
Unobligated Balance from Prior Year Budget Authority	568	566
Appropriations	12,275	7,681
Spending Authority from Offsetting Collections	8,809	5,001
Total Budgetary Resources	$ 21,652	$ 13,248
Status of Budgetary Resources		
Obligations Incurred	$ 21,084	$ 12,681
Unobligated Balance, End of Year		
Apportioned	566	564
Unapportioned	2	3
Total Unobligated Balance	568	567
Total Budgetary Resources	$ 21,652	$ 13,248
Change in Obligated Balances		
Unpaid Obligations Brought Forward Oct 1 (Gross)	$ 3,251	$ 460
Obligations Incurred	21,084	12,681
Outlays, Gross	(22,616)	(9,887)
Recoveries of Prior Year Unpaid Obligations	(2)	(3)
Obligated Balance End of Year	$ 1,717	$ 3,251
Budget Authority and Outlays		
Budget Authority, Gross	$ 21,084	$ 12,682
Actual Offsetting Collections	(8,809)	(5,001)
Budget Authority, Net	$ 12,275	$ 7,681
Outlays, Gross	$ 22,616	$ 9,887
Actual Offsetting Collections	(8,809)	(5,001)
Net Outlays	$ 13,807	$ 4,886

*See accompanying notes to the 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 October 2013. All significant intra-agency transactions and balances have been eliminated in consolidation.

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.

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.

Cash Held Outside Treasury

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

Accounts Receivable

Accounts receivable with the public represents premiums from 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 AIPs to FCIC for collection.

In accordance with OMB Circular A-129, *Policies for Federal Credit Programs and Non-Tax Receivables,* FCIC reclassifies all debt delinquent for more than two 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.

The Accounts Receivable due from the AIPs and the Account Payable due the AIPs on the monthly settlement are listed as gross amounts on the balance sheet.

General Property, Plant, and Equipment

General Property, Plant, and Equipment consist 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 year 2013 approximately $55 million was classified as internal use software in development compared to $48 million at the end of fiscal year 2012.

Accounts Payable

Accounts Payable is 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 payments for administrative and operating expenses are due the first month of the following fiscal year. The administrative and operating expenses were $1.3 billion in fiscal years 2013 and 2012.

Retirement Plans

Statement of Federal Financial Accounting Standards No. 5, *Accounting for Liabilities of the Federal Government (SFFAS 5),* 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 $5.0 million and $5.4 million in fiscal years 2013 and 2012, respectively.

Net Position

Net position is the residual difference between assets and liabilities and is composed of capital stock, additional paid-in capital, contingency fund, 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 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. To the extent premium subsidy is not expended, 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 Estimated Loss on Insurance Claims Liability for the excess amount.

Insurance Fund appropriations, S&E 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 collected producer premium.

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, 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 9, Commitments and Contingencies, to the consolidated financial statements for related disclosures.

Apportionment Categories of Obligations Incurred

The Insurance Fund receives a direct apportionment. The fiscal years 2013 and 2012 obligations incurred were $21.0 billion and $12.7 billion, respectively. S&E fund obligations incurred were $69.0 million and $74.7 million, for fiscal years 2013 and 2012.

2. FUND BALANCE WITH TREASURY

2013	Appropriated Funds (millions)	Revolving Funds (millions)	Total
Obligated not yet disbursed	12	1,389	1,401
Unobligated available	-	566	566
Unobligated unavailable	2	2	4
Total $	14	1,957	1,971
2012	**Appropriated Funds (millions)**	**Revolving Funds (millions**	**Total**
Obligated not yet disbursed	17	3,052	3,069
Unobligated available	-	564	564
Unobligated unavailable	3	-	3
Total $	20	3,616	3,636

FCIC maintains separate accounts for the S&E (appropriated) and Insurance (revolving) Funds. The S&E Fund is used to pay administrative and operating expenses of RMA. The Insurance Fund is used to pay losses, administrative & operating subsidies, and costs authorized in the Farm Bill. FCIC does not earn interest on funds maintained in U.S. Treasury accounts. All funds are currently available to FCIC except for the prior year unobligated balances in the S&E fund and temporarily sequestered amounts in the insurance fund. FCIC has permanent indefinite appropriations available to fund premium subsidy, delivery expenses, losses in excess of premiums and research and development costs. At the end of each fiscal year, FCIC returns to the U.S. Treasury all unobligated balances in the indefinite appropriation in excess of the amount FCIC is authorized by statute to retain which includes the capital stock, paid-in capital, and the contingency fund.

3. CASH HELD OUTSIDE TREASURY

Cash Held Outside of Treasury consist of funds in the FCIC escrow accounts. These accounts are used by AIPs to pay farmer losses.

4. ACCOUNTS RECEIVABLE

Fiscal Year		Gross Accounts Receivable	Allowance for Uncollectible Accounts	Net Accounts Receivable
2013	$	230	(19)	211
2012	$	5,321	(12)	5,309

The $5.1 billion decrease in accounts receivable is due to an underwriting loss of $2.2 billion being recorded in fiscal year 2012. The severe drought in fiscal year 2012 prompted the Secretary of Agriculture to waive penalties for late payment of producer premium. As a result, many of the collections that were due at September 30, 2012 were received in the following fiscal year.

The allowance is based upon the historic rate of collection.

5. ACCOUNTS PAYABLE

The Farm Bill mandated delay of payment of delivery cost until the next fiscal year. Therefore, delivery costs are included in the accounts payable line in fiscal year 2013.

Accounts Payable	2013 (millions)	2012 (millions)
Delivery Costs	1,330	1,320
Other	4	10
Total	1,334	1,330

6. ESTIMATED LOSSES ON INSURANCE CLAIMS

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

Estimated Losses in millions	2013	2012
Balance as of October 1	$ 18,376	$ 9,531
Incurred related to:		
Current Year	8,874	20,172
Prior Year	(2,630)	(1,619)
Total Incurred	6,244	18,553
Paid related to:		
Current Year	(3,928)	(1,885)
Prior Year	(15,404)	(7,698)
Total Paid	(19,332)	(9,583)
Reserve for Premium Deficiency	(86)	(125)
Net balance as of September 30	$ 5,202	$ 18,376

The current year indemnities incurred have decreased by $11.3 billion due to more favorable weather conditions for the majority of the nation. The projected loss ratio is 76 percent for reinsurance year 2013 compared to the actual loss ratio of reinsurance year 2012, 157 percent.

The indemnity projection is based on two major factors: losses due to a shortfall in yield and changes in commodity prices impacting revenue plans. The principal data source for yield projections is the

September edition of the National Agricultural Statistics Services' (NASS) Crop Production report. The Crop Production report is considered to represent USDA's official perspective on the current state of agricultural production. It is based on a survey of growers along with inspections of randomly selected sections of farm fields. Although the Crop Production report is scrutinized by multiple sources, it is still an estimate and is subject to some uncertainty.

The revenue plans of insurance base their indemnities on the futures prices for specific contracts and exchanges. The best prediction of the final price for the futures contract is the most current price of the relevant commodities exchange. At the time the indemnity projection is made, up-to-date futures prices are taken from multiple exchanges' web site. Again, this is subject to uncertainty due to fluctuations in the markets.

7. OTHER LIABILITIES

Other Liabilities, Federal and Non-Federal		2013 (millions)	2012 (millions)
Intragovernmental:			
Other Accrued Liabilities, Federal	$	1	1
With the Public:			
Estimated Delivery Costs		11	92
Annual Leave Liability		4	4
Accrued Payroll and Benefits		1	3
FCIC Initiatives		0	3
Other Accrued Liabilities		10	11
Total Other Liabilities, with the Public	$	26	113

The other accrued liabilities include amounts due AIPs once pending transactions issues are resolved.

8. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

	2013 (millions)	2012 (millions)
Estimated Losses on Insurance Claims	4,886	18,193
Underwriting Gain	1,973	-
Estimated Delivery Costs	11	92
Unfunded Leave	4	4
FECA	3	3
Total Liabilities Not Covered by Budgetary Resources	6,877	18,292
Total Liabilities Covered by Budgetary Resources	2,313	3,862
Total Liabilities	9,190	22,154

Liabilities not covered by budgetary resources are not funded by current apportionments from OMB. Estimated losses on insurance claims liabilities not covered by budgetary resources were $4.9 billion as of September 30, 2013, and $18.2 billion as of September 30, 2012. Included in estimated losses on insurance claims is a premium deficiency which has been recorded because expected claim costs and claim adjustment expenses exceed the related unearned revenue. Excluded from this footnote are indemnities payments held in Cash Held Outside Treasury accounts because they are covered by budgetary resources.

For reinsurance year 2013, FCIC projects an underwriting gain rather than an underwriting loss. Therefore, a liability was established in fiscal year 2013.

The Federal Employees Compensation Act (FECA) liability includes Intragovernmental Other Accrued Liabilities of approximately $0.4 million for an unfunded FECA liability as of September 30, for both fiscal years 2013 and 2012, 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.

9. 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 AIPs. 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.

A contingency is considered reasonably possible when the chance of the future confirming event or events occurring is more than remote but less than probable. FCIC has two ongoing cases in which legal counsel believes the chances of unfavorable outcomes are more than remote:

Jagers, et al v. Federal Crop Insurance Co., 10th Circuit Case No. 12-1342

Chapter 11 Estate of Michael Hat (John Van Curren Trustee) v. Risk Management Agency (Case No.2011 W0004 90 NAD)

Payments for these cases have been deemed reasonably possible for estimated amounts of $5 and $7.5 million. FCIC has not recognized a liability in the financial statements since FCIC will continue to vigorously contest these cases and does not believe the possibility of an unfavorable outcome is probable.

The case of Hanson Colorado Farms v. Vilsack et al (U.S. District Court for the District of Columbia Case No. 11-cv-00675) was resolved in fiscal year 2013.

10. GROSS COSTS

Insurance Indemnity Costs in millions		2013	2012
Catastrophic coverage	$	34	92
Additional coverage		6,124	18,336
Insurance claims and indemnities	$	6,158	18,428

Indemnity costs have decreased by $12.3 billion due to milder weather conditions for the majority of the nation. The projected loss ratio is 76 percent for reinsurance year 2013 compared to the actual loss ratio of 157 percent for reinsurance year 2012.

Other Program Costs With the Public in millions		2013	2012
Appropriated salaries and expenses	$	44	47
Other program costs	$	38	20
Total Other Program Costs	$	82	67

Appropriated salaries and expenses were lower in fiscal year due to the sequestration of funds in the federal government. Other program costs consist of bad debt expense, initiatives, and insurance program technology projects. In fiscal year 2013 the increase costs is associated with higher bad debt expense.

11. EARNED REVENUE WITH THE PUBLIC

Net (Gain)/Loss on Business Ceded from AIPs in millions		2013	2012
Net Gain	$	(2,008)	(661)
Net Loss (Reduction)		(870)	2,196
Total	$	(2,878)	1,535

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 AIPs are determined and an experience-rated gain, or loss on business ceded from AIPs is computed. Payments to the AIPs for the net gain is paid in October in the fiscal year following the reinsurance year. Therefore, at the end of fiscal year 2013, a receivable was recorded for the reinsurance year

2012 net loss and a payable was recorded for the reinsurance year 2013 net gain. The net loss recorded in fiscal year 2013 was less than the reversal of the net loss estimate from fiscal year 2012 results in a reduced net loss. Note this reduction in net loss is not a net gain.

12. NET POSITION - Statement of Changes in Net Position

The beginning balance of Cumulative Result of Operations in fiscal year 2013 was $6.3 billion lower than fiscal year 2012 due to the losses in 2012 caused by the severe drought in the corn-belt. In 2013, the return of a more normal growing season contributed another $6.3 billion increase on the cumulative result of operations. The Cumulative Results of Operations at the end of fiscal year 2013 was ($7.3) billion.

In fiscal year 2013, FCIC requested an additional $2.8 billion in appropriations to cover the losses caused by the severe drought in 2012. The majority of the losses are paid in the next fiscal year after the losses have been incurred. The amount of appropriations used was $4.6 billion more in fiscal year 2013 than fiscal year 2012. FCIC returned $3.8 billion to Treasury in fiscal year 2013, compared to $5.6 billion in fiscal year 2012.

Capital Stock

Section 1504 (a) of the 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.

Contingency Fund

FCIC has a contingency fund, which is part of the insurance fund authorized under section 516(c) of the Act (7 U.S.C. 1516(c)). The contingency fund is to be used to offset expenses incurred by FCIC to administer an AIP's book of business in the event of AIP supervision, rehabilitation, insolvency or operational deficiency, or an equivalent event, as determined by FCIC. The contingency fund had a balance of $26 million at the end of September 2013 and a balance of $26 million at the end of September 2012.

13. FINANCING SOURCES

In fiscal years 2013 and 2012, FCIC received an Insurance Fund appropriation of $16.1 billion and $13.2 billion respectively, for premium subsidy, reinsurance administrative and operating reimbursement expense, and other programs specified in the Farm Bill. In fiscal year 2013, $3.8 billion was returned to Treasury compared to $5.6 billion in 2012.

For FCIC initiative expenses, RMA received $31 million in fiscal year 2013 and $32 million in fiscal year 2012. FCIC initiatives include:

- contracting and partnering for development of risk management products;
- private party development of risk management products;
- risk management education; and
- improvements to program compliance and integrity.

The RMA S&E Fund appropriation received was $69.0 million in fiscal year 2013 and $74.9 million in fiscal year 2012.

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

Fiscal Year 2012 Statement of Budgetary Resources v. President's Budget (in millions)					
	Account	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
Statement of Budgetary Resources:					
	Insurance Fund	13,170	12,606	-	4,810
	S&E	78	75	-	76
Total $		13,248	12,681	-	4,886
Reconciling items:					
Expired Accounts	S&E	(3)	-	-	-
Rounding Difference					1
Total $		(3)	-	-	1
Budget of the United States Government $		13,245	12,681	-	4,887

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 initiatives. Some reporting differences do exist between comparable amounts in the Statement of Budgetary Resources (SBR), the President's Budget, and the SF-133. The table above is a comparison of the fiscal year 2012 Statement of Budgetary Resources and the President's Budget. The fiscal year 2013 President's Budget data is not available until February 2014.

15. 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		2013	2012
Resources Used to Finance Activities			
Budgetary Resources Obligated			
Obligations incurred	$	21,084	12,681
Less: Spending authority from offsetting collections and recoveries		(8,811)	(5,004)
Obligations net of offsetting collections and recoveries		12,273	7,677
Imputed financing from costs absorbed by others		15	15
Total resources used to finance activities	$	12,288	7,692
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	6
Resources that fund expenses recognized in prior periods		(11,422)	(5)
Total resources used to finance items not part of the cost of operations		(11,421)	1
Total resources used to finance the net cost of operations	$	867	7,693
Components of the Net Cost of Operations that will Require or Generate Resources in the Current Period			
Components requiring or generating resources in future periods			
Increase in exchange revenue receivable from the public	$	5,096	(1,570)
Other (Insurance Claims, Program Delivery Costs)		(35)	7,948
Total components of Net Cost of Operations that will require or generate resources in the future period	$	5,061	6,378
Components not Requiring or Generating Resources:			
Bad Debt Expense	$	23	-
Other		-	-
Total Components of Net Cost of Operations that will not require or generate resources		23	-
Total components of Net Cost of Operations that will not require or generate resources in the current period		5,084	6,378
Net Cost of Operations	$	5,951	14,071

REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION (UNAUDITED)

FCIC has partnerships with National Institute of Food and Agriculture (NIFA), the Commodity Futures Trading Commission, the USDA National Office of Outreach, the Economic Research Service, and private industry. RMA continues to improve its education efforts by expanding State and Regional education partnerships; encouraging the development of information and technology-based decision aids; facilitating local crop insurance education and risk management training workshops throughout the nation through Cooperative Agreements with educational institutions and community-based outreach organizations.

RMA awarded agreements under two distinct programs: (1) Risk Management Education Partnerships Program, Catalog of Federal Domestic Assistance (CFDA) 10.460; and, (2) Crop Insurance in Targeted States Program, CFDA 10.458.

Summary of RME Initiatives Since Fiscal Year 2008	**2013**	**2012**	**2011**	**2010**	**2009**	**2008**
RME Obligations ($ dollars in millions)	10	13	10	6	6	10
Number of producers attending RME sessions	89,100	81,000	79,500	47,100	35,000	20,000

For fiscal year 2013, RMA awarded 60 cooperative agreements for $5 million in 45 States for crop insurance education and risk management training under the "Risk Management Education Partnership Program".

For fiscal year 2013, RMA awarded 17 cooperative agreements for $5 million in 16 States for crop insurance education to underserved producers under the "Crop Insurance in Targeted States Program". One of the Farm Bill's directives is to increase FCIC's crop insurance education in certain areas of the country that have been historically underserved by the Federal Crop Insurance Program. The Secretary determined that sixteen 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, Hawaii and West Virginia.

Total crop insurance education and risk management training obligations incurred in fiscal year 2013 by FCIC for cooperative agreements are approximately $10 million.

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

2013 Risk Assumed:

The 2013 projected loss ratio is 76 percent; therefore the risk assumed by FCIC would be equal to the total fiscal year estimated premium of $11.892 billion multiplied by the loss ratio. This estimate includes multiple crop years and all lines of insurance.

	(millions)
Estimate of Unpaid Losses	$4,946
Risk Assumed	$9,038

OTHER INFORMATION (UNAUDITED)

The following Schedule of Spending (SOS) presents an overview of how and where FCIC has spent money in the past fiscal year.

Schedule of Spending	2013 millions
What Money is Available to Spend?	
Total Resources	$ 21,652
Less Amount Available but Not Agreed to be Spent	(566)
Less Amount Not Available to be Spent	(2)
Total Amount Agreed to be Spent	$ 21,084
How was the Money Spent?	
Assist Rural Communities to Create Prosperity so They Are Self-Sustaining, Repopulating, and Economically Thriving:	
10-Personnel Compensation and Benefits	$ 53
20-Contractual Services and Supplies	1,533
40-Insurance Claims and Indemnities	19,498
Total Spending	$ 21,084
Where did the Money go to?	
Federal	$ 53
Non-Federal	21,031
Total Amount Agreed to be Spent	$ 21,084

IPERA Information:

The Improper Payments Elimination and Recovery Act of 2010 (IPERA) requires that agencies annually review programs to identify those that may be susceptible to improper payments. For each program identified, the agency is required to estimate the amount of improper payments and, if over $10 million, report to Congress including the actions the agency is taking to reduce improper payments.

RMA has now completed the eighth year of review to determine error rates. The 2011 crop year sample yielded a 9.1 percent error rate, and combined with the rates from prior years yielded an average of 5.2 percent. The three-year combined error rate of 5.2 percent remains within range of the original estimate of 5.0 percent. For the current cycle containing reviews of 2009, 2010, and 2011 crop year policies, the observed error rate was 3.1 percent, 4.3 percent, and 9.1 percent respectively. The addition of the 2011 crop year resulted in higher projected dollar errors due to one AIP with significant errors (27.3 percent) for the year and an increase of program indemnities from $4.2 billion to nearly $11 billion. Liability for the 2011 crop year was about $36 billion more than in 2010 at $114.1 billion. The 2012 crop year losses exceeded $17 billion. As with the 2011 crop year, even if the program error rate were to decline for 2012, the dollar error for the program will likely see another significant increase due to the increase in program indemnities.

The strategy for identifying and controlling routine errors that comprise the error rate includes identifying error trends and policy concerns and correcting them. However, as with the previously reviewed policies, there are still no new trends in the policies reviewed in 2011. No underlying policy or underwriting issues have become apparent aside from those related to the inherent complexity of the current Actual Production History (APH) program. In addition, RMA continues to expand its strategic data acquisition and analysis efforts to identify anomalous situations where further review by the AIPs may be appropriate.

As stated above, one of the AIPs sampled in 2012 had grossly underestimated the resources it needed to address the much larger crop insurance claim load for the 2011 crop year and RMA found excessive errors in a high percentage of this company's sample. As a result the company's error rate was 27.3 percent. This also caused a significant increase in the reported error rate for all of 2011, which subsequently increased the average program error rate to 5.2 percent. Although this is in line with RMA's historical error rates of around 5 percent, it is much higher than the 4.0 percent target. This AIP is currently under close monitoring for the 2013 crop year and has been conditionally approved for 2014 pending additional corrective actions and improvements. Because of the structure of the RMA sampling plan, the bad experience from this AIP will adversely impact the program error rate through the fiscal year 2015.

Additionally, RMA has established additional monitoring procedures for new AIPs in the first 18 months of participation in the Federal crop insurance program. These controls and requirements are in place to ensure new applicants can demonstrate the capacity to address selling and servicing the business they write in accordance with the obligations of the SRA.

The following tables show percentages of improper payments per sample year and future targets for improvement. The outlays listed are indemnities as of June 2013 for Crop Year 2009, 2010 and 2011:

	Reported in FY 2011	Reported in FY 2012	To be Reported in FY 2013
Outlays	$5,225M	$4,249M	$10,828M
Improper Payment Rate (%)	4.72%	4.08%	5.23%
Improper Payments ($)	$246.6M	$173.4M	$566.3M
Year/Period of Data Sampled	2009	2010	2011

Future Targets for Improvement	FY 2013	FY 2014	FY 2015
Estimated Outlays	$8,000M	$8,000M	$8,000M
Improper Payment Rates	4.00%	3.90%	3.80%

Summary of Financial Statement Audit and Management Assurances

FCIC is required to undergo an annual independent audit of its financial statements. In addition, FCIC is required to conduct annual assessments of internal controls over financial reporting and compliance with laws and regulations. The following tables list the results of the audit and assessments.

Table 1:

Summary of Financial Statement Audit					
Audit Opinion	Unmodified				
Restatement	No				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Estimated Losses on Insurance Claims	0	1	0	0	1
Total Material Weaknesses	0	1	0	0	1

Table 2:

Effectiveness of Internal Control over Financial Reporting (FMFIA section 2)					
Statement of Assurance	Unqualified				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Estimated Losses on Insurance Claims	0	1	0	0	1
Total Material Weaknesses	0	1	0	0	1
Effectiveness of Internal Control over Operations (FMFIA section 2)					
Statement of Assurance	Unqualified				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
N/A	0	0	0	0	0
Total Material Weaknesses	0	0	0	0	0

Conformance with Financial Management System Requirements (FMFIA section 4)					
Statement of Assurance	Systems conform				
Non-conformances	Beginning Balance	New	Resolved	Consolidated	Ending Balance
N/A	0	0	0	0	0
Total Non-conformances	0	0	0	0	0

Compliance with Federal Financial Management Improvement Act (FMFIA section 4)		
	Agency	Auditor
Overall Substantial Compliance	No noncompliance noted	No noncompliance noted
1.System Requirements	No noncompliance noted	No noncompliance noted
2.Accounting Standards	No noncompliance noted	No noncompliance noted
3.USSGL at Transaction Level	No noncompliance noted	No noncompliance noted

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