United States Department of Agriculture
Office of Inspector General

FCIC/RMA Financial Statements for Fiscal Years 2012 and 2011



Audit Report 05401-0002-11

November 2012

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

DATE: November 7, 2012

REPLY TO
ATTN OF: 05401-0002-11

TO: William J. Murphy
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 2012 and 2011

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, 2012 and 2011. The report contains an unqualified 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 fiscal year 2012 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 November 5, 2012, 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 07-04, *Audit Requirements for Federal Financial Statements*, as amended.

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, 2012, and its net costs, changes in net position, and budgetary resources for the year then ended, in conformity with generally accepted accounting principles. No weaknesses related to internal controls or noncompliances with laws and regulations were reported by KPMG. The Office of Inspector General identified in a prior fiscal year certain elements of noncompliance with the Improper Payments Elimination and Recovery Act of 2010, with which FCIC/RMA's management has concurred. Remediation options are being considered.

The consolidated financial statements of FCIC/RMA as of and for the year ended September 30, 2011, were audited by Clifton Gunderson LLP whose report, dated November 4, 2011, expressed an unqualified opinion on those financial statements.

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:

We have audited the accompanying consolidated balance sheet of the Federal Crop Insurance Corporation/Risk Management Agency (FCIC/RMA) as of September 30, 2012, and the related statement of net cost, changes in net position, and combined statement of budgetary resources (hereinafter referred to as " consolidated financial statements") for the year then ended. The accompanying consolidated financial statements of the FCIC/RMA as of September, 30, 2011, were audited by other auditors whose report, dated November 4, 2011, on those statements was unqualified and included an explanatory paragraph that described the reclassification of earmarked funds to other general funds in accordance with the Federal Accounting Standards Advisory Board, Statements of Federal Financial Accounting Standard 27, *Identifying and Reporting Earmarked Funds*, as discussed in Note 1 to the fiscal year 2011 consolidated financial statements.

The objective of our audit was to express an opinion on the fair presentation of the consolidated financial statements. In connection with our fiscal year 2012 audit, we also considered the FCIC/RMA's internal control over financial reporting and tested the FCIC/RMA's compliance with certain provisions of applicable laws, regulations, contracts, and agreements that could have a direct and material effect on these financial statements.

Summary

As stated in our opinion on the consolidated financial statements, we concluded that the FCIC/RMA's consolidated financial statements as of and for the year ended September 30, 2012, is presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.

As discussed in our Opinion on the Financial Statements, the FCIC/RMA changed its presentation for reporting the statement of budgetary resources in fiscal year 2012.

As discussed in our Opinion on the Financial Statements, the FCIC/RMA's ultimate 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.

Our consideration of internal control over financial reporting was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined in the Internal Control Over Financial Reporting section of this report.

The results of our tests of compliance with certain provisions of laws, regulations, contracts, and agreements disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended.

The following sections discuss our opinion on the FCIC/RMA's consolidated financial statements; our consideration of the FCIC/RMA's internal control over financial reporting; our tests of the FCIC/RMA's compliance with certain provisions of applicable laws, regulations, contracts, and agreements; and management's and our responsibilities.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of the FCIC/RMA as of September 30, 2012, and the related statement of net cost, changes in net position, and combined statement of budgetary resources (hereinafter referred to as "financial statements") for the year then ended. The accompanying consolidated financial statements of the FCIC/RMA as of September, 30, 2011, were audited by other auditors whose report, dated November 4, 2011, on those statements was unqualified and included an explanatory paragraph that described the reclassification of earmarked funds to other general funds in accordance with the Federal Accounting Standards Advisory Board, Statements of Federal Financial Accounting Standard 27, *Identifying and Reporting Earmarked Funds*, as discussed in Note 1 to the fiscal year 2011 consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the FCIC/RMA as of September 30, 2012, and its net costs, changes in net position, and budgetary resources for the year then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, the FCIC/RMA changed its presentation for reporting the statement of budgetary resources in fiscal year 2012, based on new reporting requirements under OMB Circular No. A-136, *Financial Reporting Requirements*. As a result, certain balances on the FCIC/RMA's statement of budgetary resources for fiscal year 2011 have been reclassified to conform to the current year presentation.

As discussed in Note 6 to the consolidated financial statements, the FCIC/RMA's ultimate 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.

U.S. generally accepted accounting principles require that the information in the Management's Discussion and Analysis, Required Supplementary Stewardship Information, and Required Supplementary Information sections be presented to supplement the basic financial statements. Such information, although not a part of the basic 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 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 financial statements, and other knowledge we obtained during our audit of the basic 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.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The information in the Other Accompanying Information section is presented for additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on it.

Internal Control Over Financial Reporting

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the Responsibilities section of this report and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. In our fiscal year 2012 audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

We noted certain additional matters that we have reported to management of the FCIC/RMA in a separate letter dated November 5, 2012.

Compliance and Other Matters

The results of our tests of compliance described in the Responsibilities section of this report, exclusive of those referred to in the *Federal Financial Management Improvement Act of 1996* (FFMIA), disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 07-04, as amended.

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.

* * * * * * *

Responsibilities

Management's Responsibilities. Management is responsible for the consolidated financial statements; establishing and maintaining effective internal control over financial reporting; and complying with laws, regulations, contracts, and agreements applicable to the FCIC/RMA.

Auditors' Responsibilities. Our responsibility is to express an opinion on the fiscal year 2012 consolidated financial statements of the FCIC/RMA based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin No. 07-04, as amended. Those standards and OMB Bulletin No. 07-04, as amended require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the FCIC/RMA's internal control over financial reporting. Accordingly, we express no such opinion.

An audit also includes:

- Examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements;
- Assessing the accounting principles used and significant estimates made by management; and
- Evaluating the overall consolidated financial statement presentation.

We believe that our audit provides a reasonable basis for our opinion.

In planning and performing our fiscal year 2012 audit, we considered the FCIC/RMA's internal control over financial reporting by obtaining an understanding of the FCIC/RMA's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the FCIC/RMA's internal control over financial reporting. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982* (FMFIA).

As part of obtaining reasonable assurance about whether the FCIC/RMA's fiscal year 2012 consolidated financial statements are free of material misstatement, we performed tests of the FCIC/RMA's compliance with certain provisions of laws, regulations, contracts, and agreements, noncompliance with which could have a direct and material effect on the determination of the consolidated financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04, as amended, including the provisions referred to in Section 803(a) of FFMIA. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, contracts, and agreements applicable to the FCIC/RMA. However, providing an opinion on compliance with laws, regulations, contracts, and agreements was not an objective of our audit and, accordingly, we do not express such an opinion.

This report is intended solely for the information and use of the FCIC Board of Directors, FCIC/RMA's management, the U.S. Department of Agriculture's Office of Inspector General, OMB, the U.S. Government Accountability Office, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 5, 2012

Federal Crop Insurance Corporation
Risk Management Agency
Consolidated Financial Statements
Fiscal Years 2012 and 2011

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MANAGEMENT'S DISCUSSION AND ANALYSIS

(Unaudited) MISSION, ORGANIZATIONAL STRUCTURE AND PROGRAMS

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,1998
- Agriculture, Rural Development, Food & Drug Administration, & Related Agencies Appropriations Act, 1999
- Agriculture Risk Protection Act of 2000
- Food, Conservation, and Energy Act of 2008

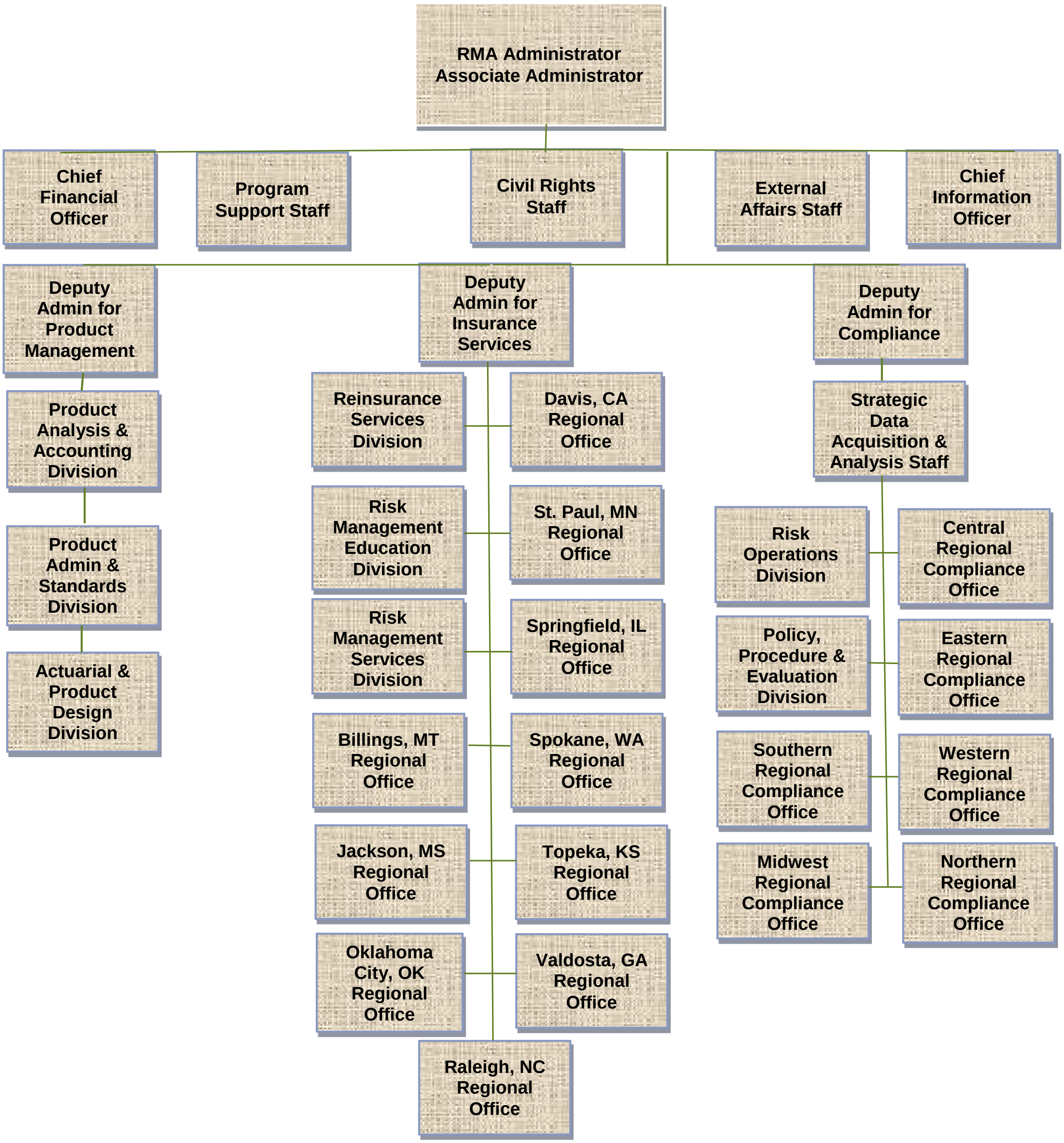
The Federal Crop Insurance Act, as amended, is hereafter referred to as the Act.

2008 Farm Bill Summary

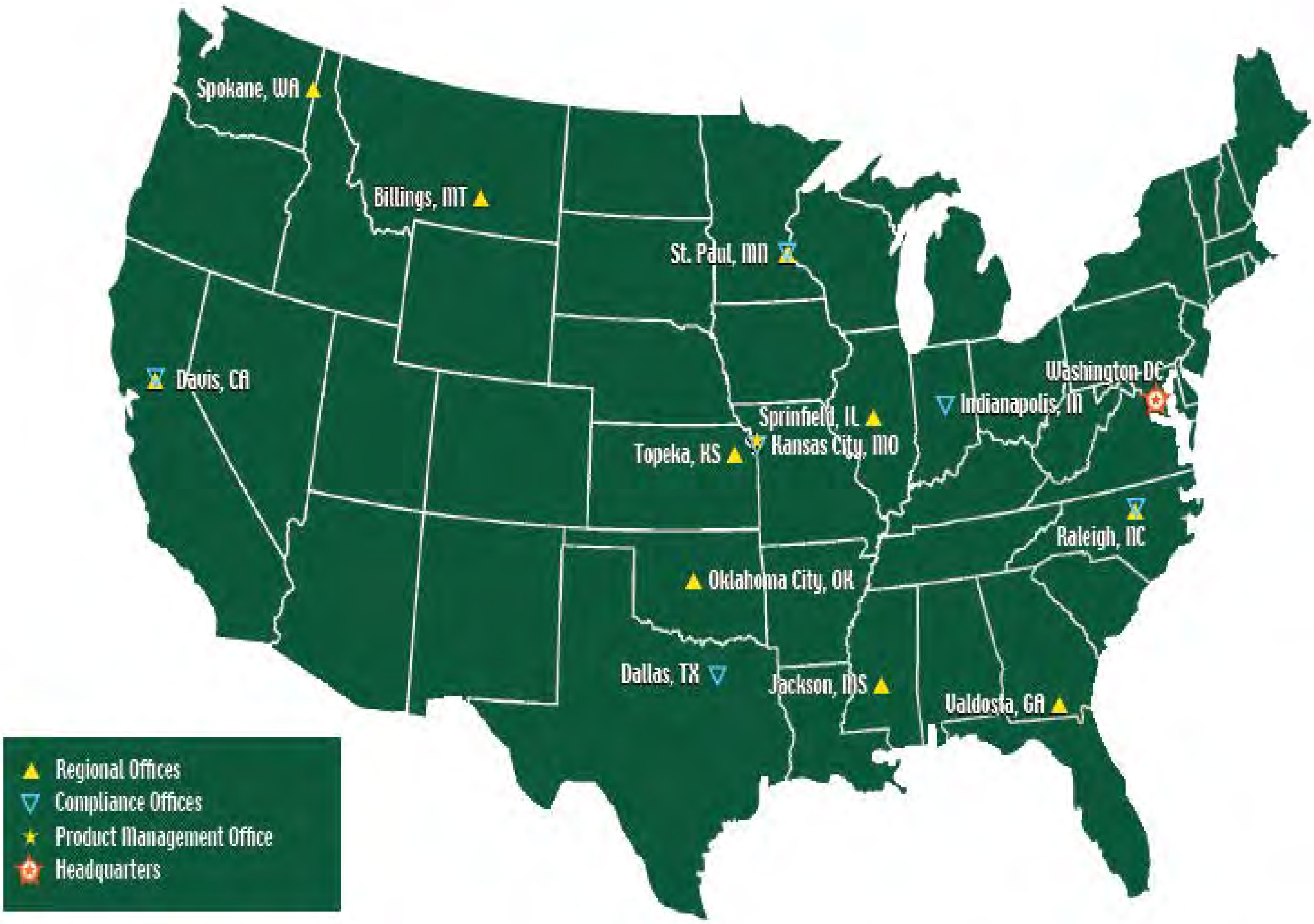
The Food, Conservation, and Energy Act of 2008, P.L. 110-234, enacted on May 22, 2008; hereafter referred to as the 2008 Farm Bill; continuously impacts RMA. The table below illustrates timing changes most of which will go into effect in 2012 and 2013.

Farm Bill Timing Changes
Delay payment of underwriting gains to the Approved Insurance Providers (AIPs) beginning October 1, 2010 for reinsurance year 2011 and for each subsequent reinsurance year
Accelerate the premium billing date beginning with the 2012 reinsurance year to August 15th
Delay payment of the A&O reimbursement to AIPs beginning with the 2012 reinsurance year, to October of each year

ORGANIZATIONAL STRUCTURE



RMA Office Locations



Organizational Functions:

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.

Pictured here are Board Members: Cindy Spoor, Secretary to the Board; Barbara Leach, RMA Associate Administrator; Joe Glauber, Chief Economist, USDA; Ellen Linderman, Producer; William Murphy, RMA Administrator; Maggie Goode, Producer; and Luis Monterde, Producer

The Board consists of:

- The USDA Chief Economist (Chairman)
- The USDA Undersecretary for Farm and Foreign Agricultural Services plus one additional Undersecretary
- 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 to stakeholders, customers, and employees. 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 to administer RMA programs and activities under 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):
  The CIO is made up of 3 primary functional areas: Information Security Branch-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):
  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 receipt, processes agreements, monitors expenditures and disbursements, manages the general ledger, and prepares the corporate financial statements.

The Office of Product Management 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; Crop insurance plans of insurance and policies Crop insurance procedures and handbook
- Management of privately submitted insurance products submitted under section 508h 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
- Debt management and cross servicing

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

The Office of Compliance located in Washington, D.C. and regionally across the country, 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.

Compliance makes extensive use of data mining and other investigation techniques to ensure program integrity.

Compliance efforts can result in criminal, civil, or administrative actions. Compliance refers all cases of fraud to the Office of Inspector General as required by the Inspector General Act. If a case is declined for criminal follow-up, administrative sanctions are considered. Compliance also 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 administrative and operating purposes (A&O Fund), and one for the crop and livestock insurance program (Insurance Fund).

The A&O Fund is used to pay RMA's salaries and administrative expenses. The funding for the A&O Fund is an annual appropriation set by Congress. The Insurance Fund is used to pay for the crop and livestock insurance programs. The funding for the insurance fund is mandatory funding with "such sums as necessary" to carry out the program.

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 and/or programs.

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 at annual settlement. Crop insurance is a joint effort between the U.S. Government and the private insurance industry for program delivery.

Insurance Plans

In 2012 RMA regulated 20 different Insurance Plans to meet the needs of America's producers.

This chart cross-references with colors on page 10 graph.

Livestock Plans:
- **Livestock Risk Protection**
- **Livestock Gross Margin**

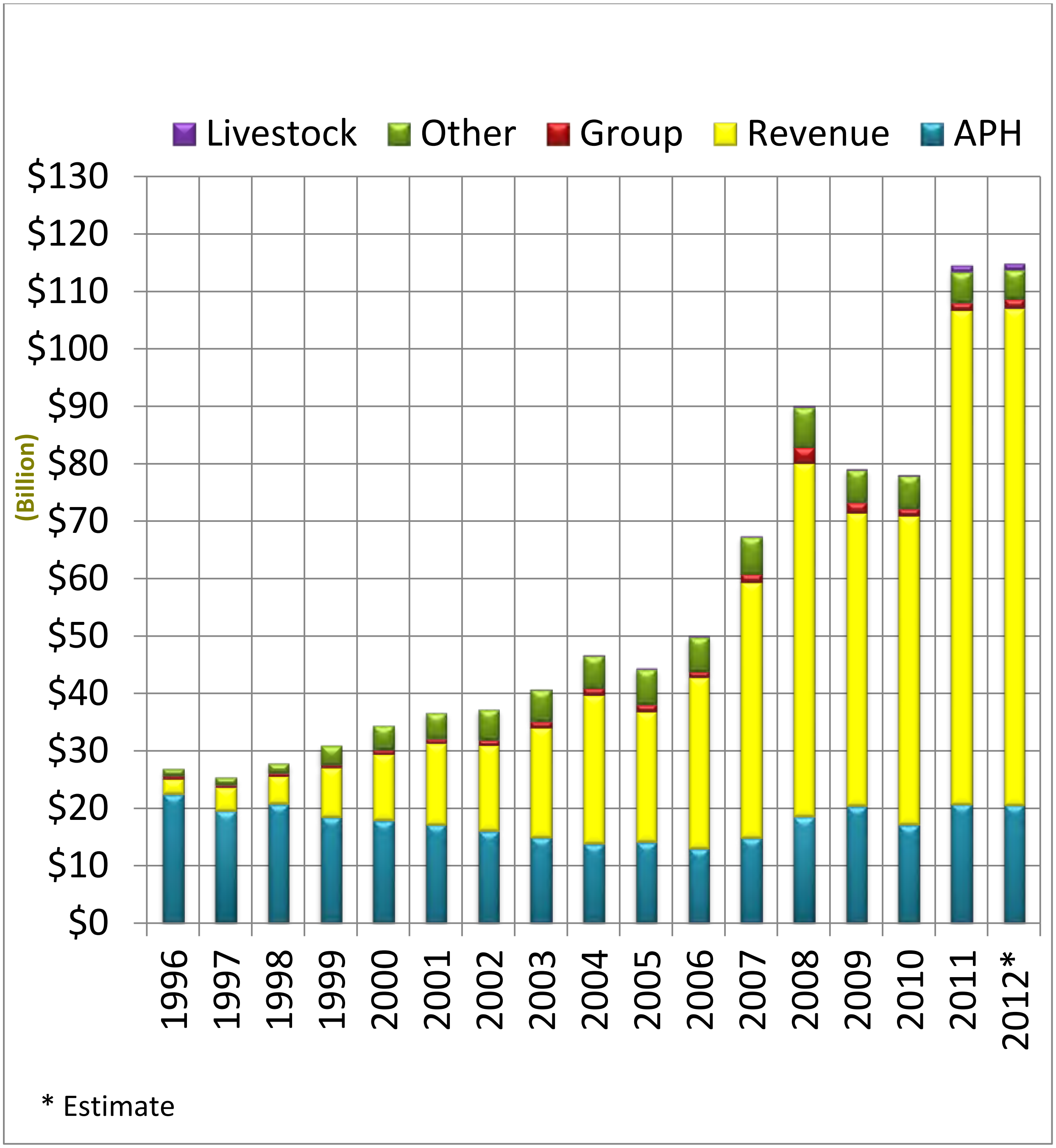
Group Plans:
- **Group Risk Plan**
- **Rainfall Index**
- **Vegatation Index**

APH Plans:
- **Actual Production History**
- **Yield Protection**

Other Plans:
- **Adjusted Gross Revenue**
- **Adjusted Gross Revenue Lite**
- **Aquaculture Dollar Amount of Insurance**
- **Dollar Amount of Insurance**
- **Fixed Dollar Amount of Insurance**
- **Tree Based Dollar Amout of Insurance**
- **Yield Based Dollar Amount of Insurance**

Revenue Plans:
- **Actual Revenue History**
- **Group Risk Income Protection**
- **Group Risk Income Prot-Harv Rev Opt**
- **Pecan Revenue Assurance**
- **Revenue Protection**
- **Revenue Prot w Harvest Exclusion**

Historical Graph of Liability of Crop Insurance Plans Sold



The above chart clearly shows the increased popularity of revenue based policies.

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

Livestock Policies

Livestock policies are designed to insure against declining market prices or declining margins. Coverage is determined using futures and options prices from the commodity exchange markets. There are two types of plans available: Livestock Risk Protection (LRP) provides coverage against market price decline, so if the ending price is less than beginning price an indemnity is due. LRP is available for swine, cattle, and lambs. The second type of insurance is Livestock Gross Margin (LGM). This livestock insurance provides coverage for the difference between the commodity value and major feed costs. If the calculated expected gross margin is greater than the actual gross margin, an indemnity is due. LGM is available for cattle, swine, lamb and dairy (milk).

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 Agriculture 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.

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.

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.

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 the risk management products available for producers and/or clarify such regulations as needed. During the 2012 fiscal year, RMA had 11 regulations in the proposed, interim or final rule stage and 7 notices published that announced funding opportunities and requests for applications for specific programs, Paperwork Reduction Act, and extension of comment period. The published regulations can be found on the *Federal Register's* home page at: http://www.gpoaccess.gov/fr/index.htm

Common Crop Insurance Regulations;
Peach Crop Insurance Provisions

On August 30, 2012, FCIC finalized the Common Crop Insurance Regulations, Peach Crop Insurance Provisions. The intended effect of this action is to provide policy changes, to clarify existing policy provisions to better meet the needs of insured producers, and to reduce vulnerability to program fraud, waste, and abuse. The changes will apply for the 2013 and succeeding crop years. Details on this final rule can be found on this website http://www.rma.usda.gov/regs/

Specialty Crops

The Act requires that the FCIC report to Congress on the progress and expected timetable for expanding crop insurance coverage under the Act to new and specialty crops. The report serves as a useful way to obtain a quick overview of the processes and timelines the RMA must follow in order to make new and specialty crop insurance products available to producers. The most recent report (available here http://www.rma.usda.gov/pubs/2010/specialtycrop.pdf) highlights several new pilot programs and several privately developed products developed under section 508(h) of the Act including products for apiculture, fresh market beans, plantains and bananas, processing pumpkins, and sugarcane. The report also emphasizes prospective developments for bio-fuel crops, pistachio nuts, and additional revenue coverage including the challenges associated with these endeavors.

Pilot Programs

The Act defines the process by which RMA develops and maintains pilot programs. The Act prohibits the FCIC from conducting research and development for new policies. It also requires that new product development be accomplished through contracting. The Act allows privately developed products to be submitted to the FCIC under section 508h. 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 with Crop Year Begin Date

Pilot Programs Slated for Conversion to a Permanent Regulatory Program

- Forage Seed 2002
- Chile Peppers 2002

Pilot Programs with an Indefinite Crop Year end Date

- Florida Fruit Tree 1996/2002
- AGR 1999
- Onion Stage Removal 2000
- Sugar Beet Stage Removal Option 2004
- Silage Sorghum 2005
- Nursery's Grower's Price Endorsement 2006
- Pasture, Rangeland, Forage (Rainfall) 2007
- Pasture, Rangeland, Forage (Vegetation) 2007
- Actual Revenue History-Cherry 2009
- Enterprise Unit Discount 2009
- California Avocada (APH) 2010
- Navel Oranges (APH) 2010
- Sesame 2011
- Citrus Actual Revenue History 2011
- Grass Seed 2011
- Actual Revenue History- Strawberry 2012
- Pistachios (APH) 2012

Pilot Programs with a Definite Crop Year End Date

- Hawaii Tropical Fruit 2007-2011
- Hawaii Tropical Tree 2007-2011
- Personal T-Yield 2007-2011
- Cultivated Clams 2000-2012
- Quarantine Endorsement 2011-2014

508(h) Pilot Programs

- Livestock Risk Protection 2001*
- Livestock Gross Margin 2001*
- Hybrid Seed/Corn Price Endorsement 2002*
- AGR-Lit 2003*
- Livestock Risk Protection-Lamb 2008
- Biotech Yield Endorsement 2008
- GRP Sugarcane 2009
- Apiculture-RI 2009
- Apiculture-VI 2009
- Processing Pumpkins 2009
- GRP Oysters 2009
- Cotton Seed 2011
- Fresh Market Beans 2011
- Sweet Potato 2011
- Camelina 2012
- Olive 2012
- Specialty Canola Revenue 2012
- Specialty Corn 2012
- Specialty Trait Soybeans 2012
- Texas Citrus 2012
- HR-ACE 2013
- Pulse Crop Revenue 2013

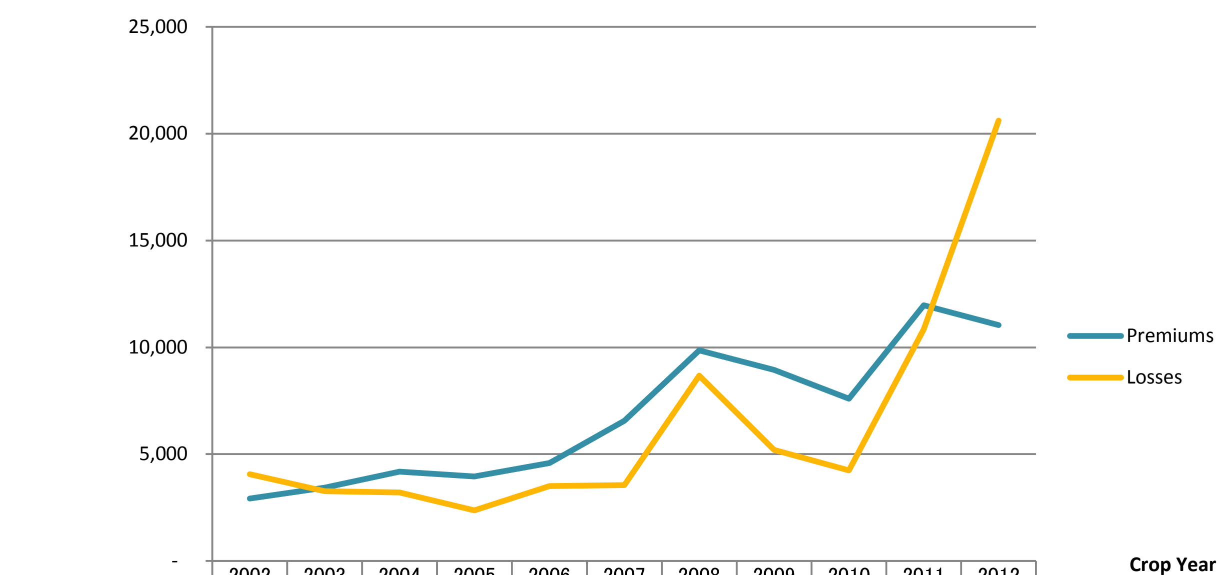
*Having Indefinite Crop Year End Date

Crop Statistics

Program Information Comparison for Crop Years 2012 and 2011	Crop Year 2012 (Estimated)	Crop Year 2011 (Actual)
Policies	1.17 million	1.15 million
Farmer Paid Premium	$4.15 billion	$4.51 billion
Premium Subsidies	$7.00 billion	$7.46 billion
Indemnities	$20.60 billion	$13.17 billion
Loss Ratio	185%	91%
Insurance Protection	$116.45 billion	$114.18 billion
Commodities	118	120

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.



	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Premiums	2,916	3,431	4,186	3,949	4,580	6,562	9,852	8,950	7,590	11,964	11,039
Losses	4,067	3,261	3,210	2,367	3,504	3,547	8,681	5,197	4,235	10,845	20,619

PERFORMANCE GOALS, OBJECTIVES, AND RESULTS

Strategic planning is essential to effective and efficient administration of Federal programs including assistance, education, and cooperative partnership agreements. The RMA Strategic Plan for 2011-2015 is directly linked to USDA 2010-2015 Strategic Plan.

RMA supports USDA's Strategic Goal 1

USDA-RMA Goal & Objective	RMA 2011-2015 Goals
USDA Strategic Goal 1: **Assist rural communities to create prosperity so they are self-sustaining, repopulating, and economically thriving.** **USDA Objective 1.3:** **Support a sustainable and competitive agricultural system** **Ensure a strong farm financial safety net** **The USDA strategic plan is available at: http://www.ocfo.usda.gov/usdasp/sp2010/sp2010.pdf**	1. Increase the availability and effectiveness of risk management tools while enhancing and protecting the soundness of the program. 2. Ensure a fair and effective risk management product delivery system. 3. Education and outreach to stakeholders to ensure access to risk management tools and products. 4. Safeguard the integrity of the Federal Crop Insurance program. The RMA Strategic Plan is available at: http://www.rma.usda.gov/aboutrma/what/2011-15strategicplan.pdf

Performance Measurements

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

RMA's Performance Measure USDA Objective 1.3.5: Increase the normalized value of risk protection (i.e., insurance protection) provided to agricultural producers through FCIC sponsored insurance.

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

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

FY 2007	FY 2008	FY 2009	FY 2010	FY 2011 Actual	FY 2012 Estimate
$50.7	$51.5	$53.9	$55.0	$56.36	$67.20

RMA Strategic Goal (1)

The following sections related to the RMA Strategic Plan are illustrated selected performance measures that align directly with the USDA Strategic Plan.

1. Increase the availability and effectiveness of risk management tools while enhancing and protecting the soundness of the program in 2012 with Pasture, Rangeland, and Forage (PRF) Pilot update.

RMA Performance Measure (PM)

PM 1.3 Overall availability of PRF insurance

Baseline 2011	Performance 2012	Target 2015
92.3%	93.4%	93.4%

This measure shows the counties in the US that have PRF coverage available as a percentage of all counties in the US.

PM 1.4 Market Penetration of PRF insurance

Baseline 2011	Performance 2012	Target 2015
4.8%	6.5%	5.3%

This measure shows the extent of acres covered by PRF Insurance as a percentage of all acres where PRF Insurance is available.

RMA Strategic Goal (2)

2. Ensure a fair and effective risk management product delivery system.

In 2012 advancements have been made with the Acreage Crop Reporting Streamlining Initiative (ACRSI) and the Comprehensive Information Management System (CIMS).

Before the streamlining, RMA had 54 acreage report dates (ARDs) for 122 crops, and Farm Service Agency (FSA) had 17 ARDs for 273 crops. The review team consolidated all of them into the 15 common ARDs.

ACRSI will make self-service solutions available to producers for reporting program data. ACRSI objectives include: providing producers options to report common data; standardizing data requirements across various farm programs; facilitating data sharing between farm programs; publishing relevant data elements, definitions, and schema for government, public, and commercial industry consumption; and consolidating acreage reporting dates across commodities to the extent practical.

RMA and AIPs have access to CIMS which contains 5 years of RMA information, including producer reported data such as acreage reports. Over 65,000 CIMS web sessions have provided efficient and timely information for the administration of crop insurance.

RMA Performance Measure

PM 2.8 Percentage of producer identity discrepancies between RMA and FSA CIMS data

Baseline 2009	Performance 2012	Target 2015
6.6%	3.8%	3%

This measure shows the amount of discrepancies in producer identity data between RMA and FSA in CIMS as a percentage of all producer identity data between the two agencies in CIMS.

PM 2.9 Percentage of producer acreage discrepancies between RMA and FSA for translated crops

Baseline 2009	Performance 2012	Target 2015
29%	19.5%	8%

This measure shows the amount of discrepancies in producer acreage data between RMA and FSA in CIMS as a percentage of all producer acreage data between the two agencies in CIMS.

RMA Strategic Goal (3)

3. Education and outreach to stakeholders to ensure access to risk management tools and products.

For 2012, RMA's Risk Management Education (RME) Division monitored 112 cooperative partnership agreements amounting to $12,608,298 broken down into:

Type of Agreement	Amount
17 Projects in Targeted States: (HI,NV,UT,WY,PA,DE,RI,MA, VT,CT,ME,MD,NH,NJ,NY,&WV)	$4,946,027
95 RME/Outreach projects	$7,662,271

RMA Performance Measure

PM 3.1 Number of producers reached with risk management education information through Targeted States Cooperative Agreements

Baseline 2009	Performance 2012 est.	Target 2015
25,000 Producers	44,000 Producers	50,000 Producers

The measure is of the number of ranchers and farmers who attended in person presentations or accessed information on websites provided by RMA Partner organizations targeted at various commodity groups or producers in the 16 states designated as underserved.

PM 3.4 Number of producers reached through Risk Management Education and Community Outreach Agreements with risk management education information

Baseline 2009	Performance 2012 est.	Target 2015
50,000 Producers	37,000 Producers	55,000 Producers

The measure is the number of ranchers and farmers who attended in person presentations or accessed information on websites provided by RMA Partner organizations related to traditional, minority, socially-disadvantaged, small & limited resource producers, as well as producers additionally designated as new and beginning, women and returning veteran producers. Although 2012 estimate is below the baseline, RMA expects to hit 2013 target.

RMA Strategic Goal (4)

4. Safeguard the integrity of the Federal Crop Insurance program.

In 2012, four of the Regional Compliance Offices (RCOs) initiated reviews of four AIPs crop year 2011 business. Field reviews are being conducted nationwide to include interviews with policyholders, company personnel, agents, and adjusters identified associated with randomly and judgmentally selected policies.

RMA Performance Measure

PM 4.3 The number of National Program Operational Reviews (NPOR) conducted on AIPs to determine their compliance with FCIC Regulations

Baseline 2009	Performance 2012	Target 2015
6 Operational reviews conducted annually	5 Operational reviews conducted annually	6 Operational reviews conducted annually

The Eastern RCO continued their review of the Tobacco crop insurance program to address identified program vulnerabilities associated with shifting production between insured units and entities, and quality adjustment.

The Northern RCO initiated a review of prevented planting in the Prairie Pothole Region of North and South Dakota to determine whether AIPs are following FCIC procedures in identifying eligible prevented planting acres.

PM 4.9 Number of administrative actions taken to disqualify, suspend, debar, or impose a civil fine

Baseline 2009	Performance 2012	Target 2015
24 Actions	10 Actions	20 Actions

The number of administrative actions in 2012 is below average however, there are 53 administrative actions pending final determination by the Department of Justice, the Office of Inspector General or RMA. RMA is confident that the 2015 performance target is achievable.

RCOs and Special Investigator Branches (SIBs) have issued final findings to AIPs for the following amounts:

Finding Type	Amount
Premium Overstatements	$7,885,830
Indemnity Overpayments	$18,321,806
Premium Understatements	$544,134
Indemnity Underpayments	$959,501
Cost Avoidance	$29,180,798
Civil Fines	$10,000

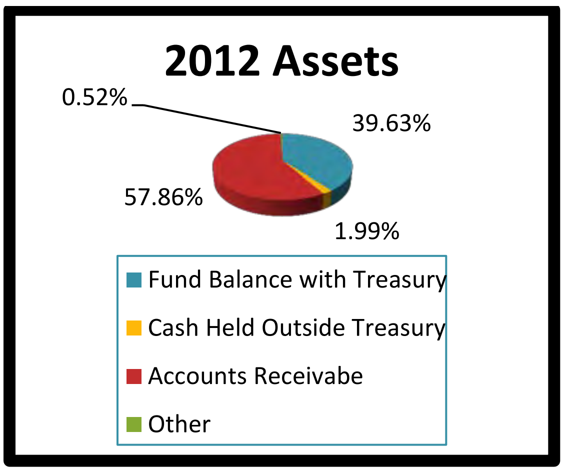
PM 4.10 Improper Payment Rate for the Federal crop insurance program

Baseline 2009	Performance 2012	Target 2015
5.79% of Claims	4.08% of Claims	4.30% of Claims

Financial Statement Highlights and Analysis

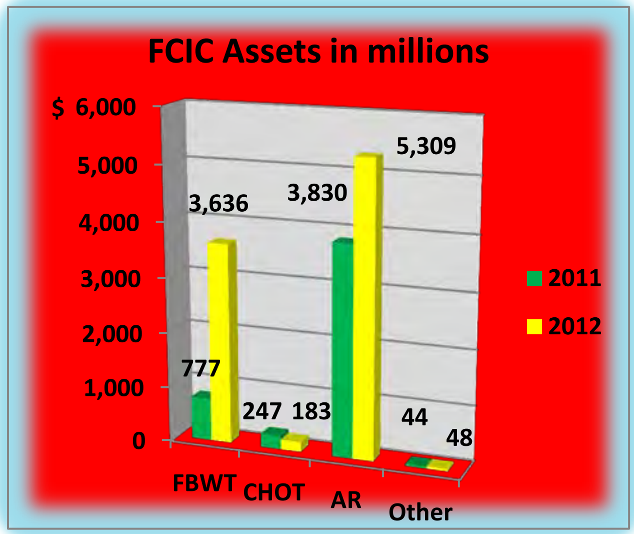
The comparison of fiscal years 2012 and 2011 financial statements demonstrates the variability in the agriculture community. The growing season has experienced back to back difficultly for much of the country. Like 2011, the 2012 crop season has endured extreme drought not seen since the Dust Bowl. In 2012, the commodity prices continued to show increases from previous years which is reflected in the premium increase that has continued from 2011 into 2012.

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 2012, for the Insurance and A&O Funds, RMA returned $5.55 billion compared to the $374 million returned in 2011. RMA returned more money in 2012 because of higher appropriations.

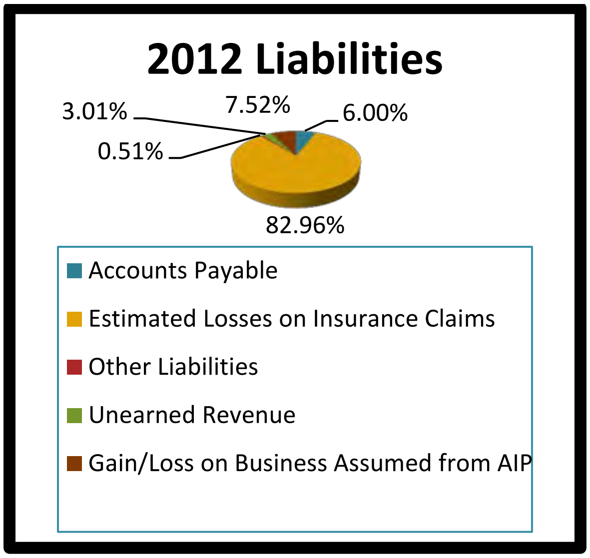
Appropriations were requested in anticipation of the extreme losses experienced in Crop Year 2012. These losses will likely be realized in fiscal year 2013 instead of 2012.



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

Accounts receivable with the public represent premiums from AIPs due to FCIC for crop insurance written by the AIP and reinsured by FCIC. The AIPs are responsible for collecting the premium from the producer and paying FCIC, whether or not the premium has been collected from the producer. Premiums are collected at the end of the growing season. As a result, significant amounts of premium are due in the fall, after the end of the fiscal year. Fiscal year 2012 includes accounts receivable for the AIPs share of the underwriting loss which is due to FCIC in the amount of $2.186 billion. Underwriting gains are reported as a liability payable to the AIPs.

Liabilities



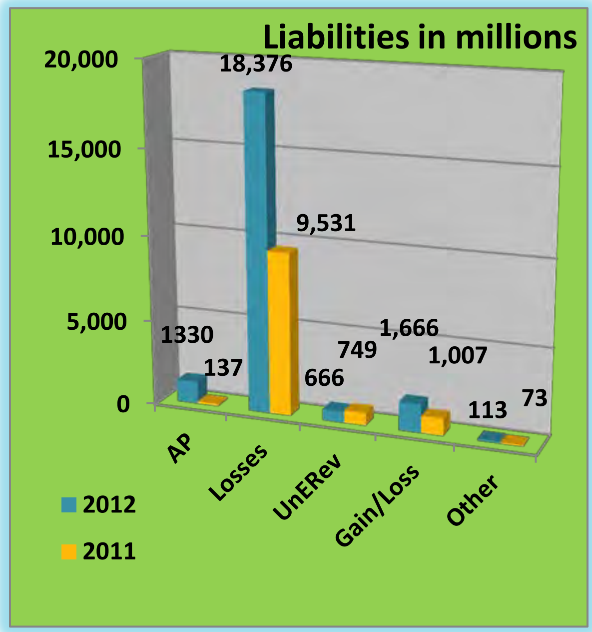
The $1.193 billion increase in Accounts Payable is mainly due to provisions of the 2008 Farm Bill related to AIP's A&O Reimbursement. This provided that payment of these obligations be deferred until fiscal year 2013.

The Estimated Losses on Insurance Claims and Other Liabilities make up the majority of liabilities. The estimated losses on insurance claims is a projection of losses that is made at the end of each fiscal year based on the current conditions.

In fiscal year 2012, FCIC expects to have $18.367 billion in losses compared to $9.531 billion in fiscal year 2011. The 2012 projected loss ratio is 185% compared to the 2011 projected loss ratio of 112%.

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 the current conditions. The total indemnities will not be known for several months after the end of the fiscal year; therefore, the financial statements are based on the projection.



Uncertainty in 2012 Estimated Losses

The actuarial estimates of premium and losses are calculated as of September 30, 2012. 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.

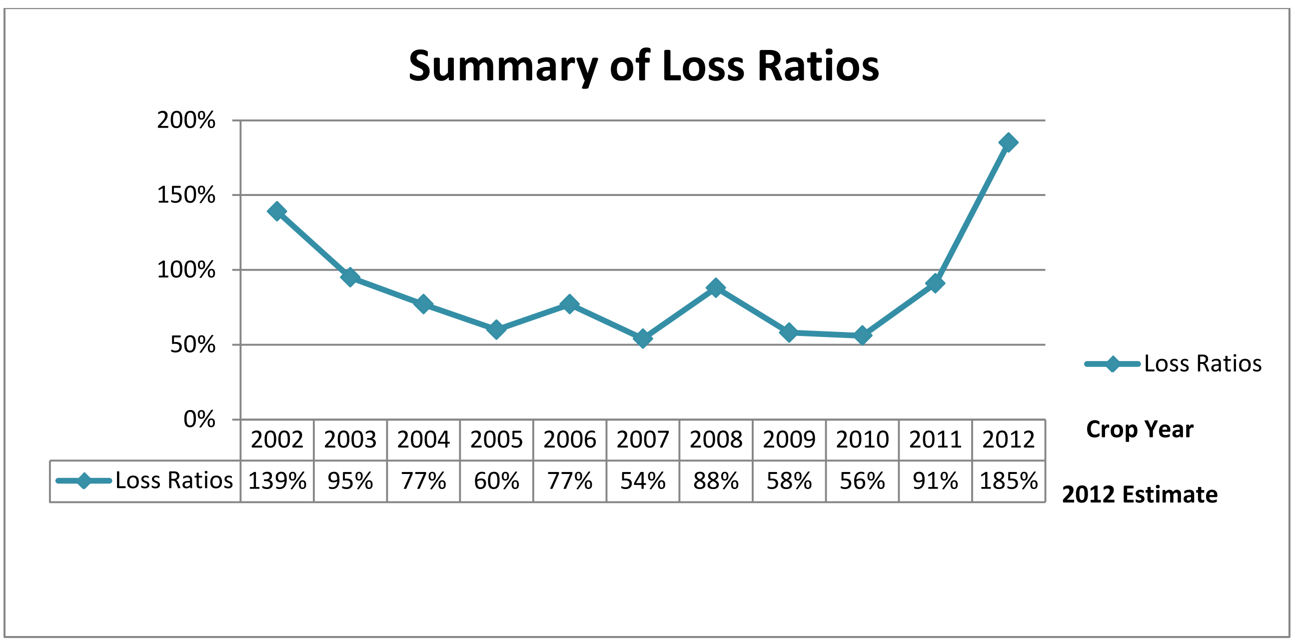
A commodity price spike or decline would impact the estimates. Many revenue products are based on October and November prices, which are not known at the time of the estimation.

The reliance on preliminary yield estimates to project indemnity increases the uncertainty. Approximately 80% 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 70 percent of the time (7 of 10 years). The relatively high variance of this estimate reflects the large degree of uncertainty that is inherent in predicting losses before the growing season is over. The actual loss ratios in the last 10 years have varied from a low of 54 percent to a high of 139 percent. The average loss ratio for the past ten years was 80%.

Summary of Premiums and Losses ($ in millions)

Actual				Loss Ratio		
Crop Year	Premiums ($)	Losses ($)		Actual	Projected	Difference
2002	2,916	4,067		139%	142%	3%
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	3,547		54%	67%	13%
2008	9,851	8,680		88%	63%	(25%)
2009	8,950	5,229		58%	66%	8%
2010	7,595	4,253		56%	41%	(15%)
2011	11,964	10,849		91%	112%	21%
2012 Projected	**11,151**	**20,619**			**185%**	



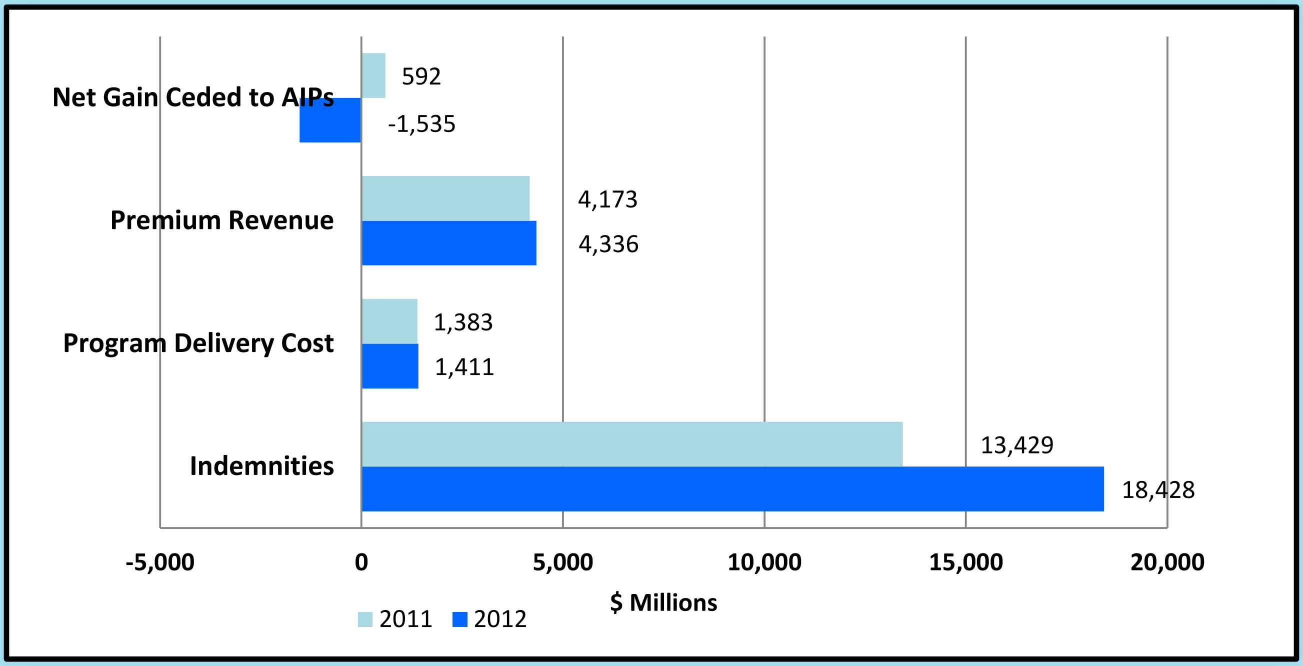
The summary table reveals an overall increase in premium over the last 10 years. The total premium for the crop insurance program has generally increased due to the increase in commodity prices, volatilities, higher coverage levels, greater participation, and the expansion of coverage to new commodities.

The program's administrative and operating reimbursement has averaged $1.3 billion over the past 10 years. The premium subsidy has averaged $4.3 billion during the same time period.

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

The 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



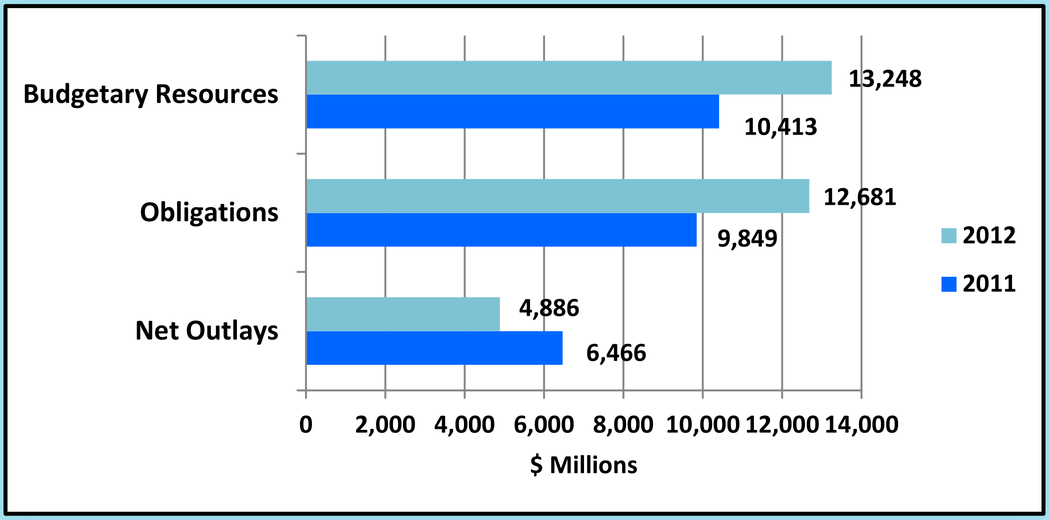
The Statement of Net Cost of Operations

FCIC's net cost of operations for fiscal year 2012 has increased by $2.8 billion. This is a direct result of the estimated higher indemnities for reinsurance year 2012. The projected higher indemnities are due to significant weather conditions in 2012. Crop year 2010, which is mostly paid in fiscal year 2011, had an estimated loss ratio of 41% and an actual loss ratio of 56%. Crop year 2011 had an estimated loss ratio of 112% and an actual loss ratio of 91%. Crop year 2012 is projected to have a loss ratio of 185%.

For reinsurance year 2012, the program delivery costs were capped for most insurance plans as specified in the SRA. In 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.

Due to extreme indemnity losses in 2012, there is a reported net underwriting loss of approximately $1.535 billion. The last nine years were underwriting gains, including fiscal year 2011 where the underwriting gain was approximately $592 million.

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. The Budgetary Resources must equal the 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, collections, and funds returned to Treasury.

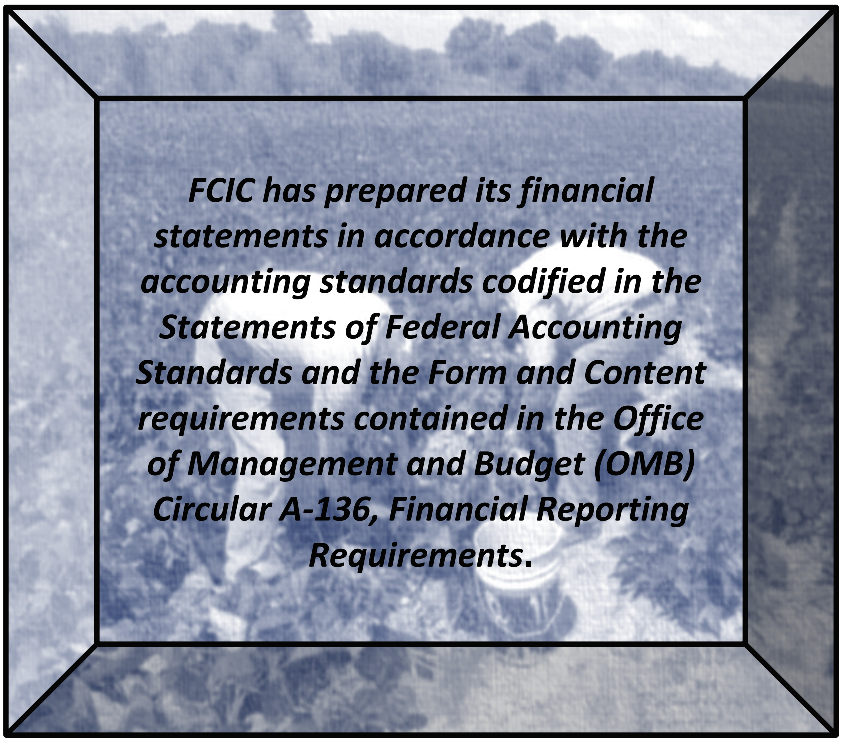
FCIC collected $1.85 billion more in fiscal year 2012 compared to fiscal year 2011. Each year, RMA requests appropriations needed to fully fund the insurance program. In fiscal year 2012, RMA returned $5.5 billion of excess funding to the U.S. Treasury compared to $374 million in fiscal year 2011.

Overall, FCIC had $2.84 billion more in budgetary resources available for fiscal year 2012.

The Status of Budgetary Resources is divided into two main categories – Obligated and Unobligated. Obligated resources are funds which have been paid or will be paid in the future based on a binding agreement with a particular party. For fiscal year 2012, FCIC had $2.83 billion more in paid and unpaid obligations mainly due the deferral of delivery cost and underwriting gain payments to the AIPs.

The Unobligated balance is the cumulative amount of budget authority that is not obligated and that remains available for obligation under law. Net Outlays are the total cash disbursements less collections. In fiscal year 2012, Net Outlays are $1.58 billion less than in fiscal year 2011, because payments to AIPs were deferred to fiscal year 2013 and an acceleration of the premium billing date for reinsurance year 2012.

Financial Reporting Requirements



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

Risk Management Education
(Required Supplementary Stewardship Information)



The mission of the Risk Management Education Division (RMED) is to provide education and training on crop insurance programs and risk management strategies to agricultural producers and ranchers. RMED prepares Requests for Applications (RFAs) each year and announces the solicitations in the *Federal Register.*

For 2012, 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. The awards are given on a competitive basis and awarded for a one (1) year term.

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

RMED, located in Washington, DC, is composed of five (5) staff members: the Director, 3 Grants and Agreements Specialists, and a Program Assistant.

RME partners with organizations working with Beginning Farmers, Women, Limited Resource, Socially Disadvantaged, Minority, and Transitional, Military Veterans and Tribal producers and ranchers.

Outreach Project Highlight:

Project Title:
Farm Management, Marketing Strategies, and Financial Tools for Returning Veteran and Beginning Farmers with Specialty Crop and Livestock Operations in the RMA Jackson Region
Farm Foundations: Planning for Success Risk Management Training for Beginning Farmers
Sustainable Crop and Livestock Workshop

Synopsis:
The workshops for the projects were held on actual farms in Arkansas and Mississippi. Falling Sky Farms in Marshall, Arkansas and Beaverdam Farms in Indianola, MS are small profitable environmentally friendly farms in which the producers raise and market pastured poultry, eggs, pigs, and vegetables. The project attracted participants who were small farmers who currently grow alternative crops.

This is a unique project because NCAT trainers are small farmers who grow alternative crops. Participants were able to gain extensive knowledge from trainers who implement the strategies and skills that were being presented during the training. In addition, there were several veterans that attended the training and were interested in expanding or starting a small farm. There was also a representative from Veteran Affairs Vocational Rehab who attended to get information for training returning veterans.

Terrell Spencer, trainer for NCAT, is an Iraq war veteran and currently raises pastured broilers and laying hens for restaurants and a grocery store. He gave a unique perspective on how he used the idea of his farm to battle Post-Traumatic Stress Disorder.

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, 2012 and 2011, was operating effectively and no material weaknesses were found in the design or operation of the internal controls.

Federal Financial Management Improvement Act (FFMIA) Assurance

FCIC has evaluated its financial management systems under FFMIA for the period ended September 30, 2012. 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, 2012 and 2011 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, 2012 and 2011
(in millions)

	2012	2011
Assets		
Intragovernmental:		
Fund Balance with Treasury (Note 2)	$ 3,636	$ 777
With the Public:		
Cash Held Outside Treasury (Note 3)	183	247
Accounts Receivable, Net (Note 4)	5,309	3,830
General Property, Plant, and Equipment	48	44
Total Public Assets	5,540	4,121
Total Assets	$ 9,176	$ 4,898
Liabilities		
Intragovernmental:		
Other Liabilities	$ 1	$ 2
With the Public:		
Accounts Payable (Note 5)	1,330	137
Federal Employee Benefits	2	2
Other Liabilities		
Estimated Losses on Insurance Claims (Note 6)	18,376	9,531
Unearned Revenue	666	749
Underwriting Gain	1,666	1,007
Other Liabilities (Note 7)	113	73
Total Other Liabilities	20,821	11,360
Total Liabilities	22,154	11,501
Commitments and Contingencies (Note 9)		
Net Position (Note 12)		
Capital Stock	500	500
Additional Paid-in Capital	38	38
Contingency Fund	26	24
Unexpended Appropriations	22	65
Cumulative Results of Operations	(13,564)	(7,230)
Total Net Position	(12,978)	(6,603)
Total Liabilities and Net Position	$ 9,176	$ 4,898

The accompanying notes are an integral part of these consolidated financial statements.

RISK MANAGEMENT AGENCY
FEDERAL CROP INSURANCE CORPORATION
CONSOLIDATED STATEMENTS OF NET COST
For the Years Ended September 30, 2012 and 2011
(in millions)

	2012	2011
Program Costs:		
Intragovernmental Gross Costs		
Benefit Program Costs	$ 11	$ 11
Imputed Costs	16	22
Reimbursable Costs	47	35
Total Intragovernmental Costs	74	68
Gross Costs with the Public (Note 10)		
Indemnities	18,428	13,429
Other Program Costs		
Program Delivery Costs	1,411	1,383
Other Program Costs	67	76
Total Other Program Costs	1,478	1,459
Total Costs with the Public	19,906	14,888
Less: Earned Revenue from the Public		
Premium Revenue	4,336	4,173
Net Loss on Business Assumed from Approved Insurance Providers (Note 11)	1,535	(592)
Other Revenue	38	80
Total Earned Revenue with the Public	5,909	3,661
Net Costs with the Public	13,997	11,227
Net Cost of Operations	$ 14,071	$ 11,295

The accompanying notes are an integral part of these consolidated financial statements.

RISK MANAGEMENT AGENCY
FEDERAL CROP INSURANCE CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION
For the Years Ended September 30, 2012 and 2011
(in millions)

	2012	2011
Capital Stock	$ 500	$ 500
Additional Paid-in Capital	$ 38	$ 38
Cumulative Results of Operations		
Beginning Balance	$ (7,230)	$ (1,907)
Budgetary Financing Sources		
Appropriations Used	7,716	5,944
Transfers without Reimbursement	6	6
Other Financing Sources		
Imputed Financing Sources	15	22
Total Financing Sources	7,737	5,972
Net Cost of Operations	(14,071)	(11,295)
Net Change	(6,334)	(5,323)
Cumulative Results of Operations (Note 12)	$ (13,564)	$ (7,230)
Unexpended Appropriations:		
Beginning Balance	$ 89	$ (660)
Budgetary Financing Sources		
Appropriations Received (Note 13)	13,232	7,072
Appropriations Transferred In/Out	(5)	(5)
Return to Treasury	(5,552)	(374)
Appropriations Used	(7,716)	(5,944)
Total Unexpended Appropriations	$ 48	$ 89
Net Position	$ (12,978)	$ (6,603)

The accompanying notes are an integral part of these consolidated financial statements.

RISK MANAGEMENT AGENCY
FEDERAL CROP INSURANCE CORPORATION
COMBINED STATEMENTS OF BUDGETARY RESOURCES
For the Years Ended September 30, 2012 and 2011
(in millions)

	2012	2011
Budgetary Resources		
Unobligated Balance Brought Forward, October 1	$ 564	$ 560
Recoveries of Prior Year Obligations	3	6
Other Changes in Unobligated Balance	(1)	1
Unobligated Balance from Prior Year Budget Authority	566	567
Appropriations	7,681	6,698
Spending Authority from Offsetting Collections	5,001	3,148
Total Budgetary Resources	13,248	10,413
Status of Budgetary Resources		
Obligations Incurred	12,681	9,849
Unobligated Balance, End of Year		
Apportioned	564	562
Unapportioned	3	2
Total Unobligated Balance	567	564
Total Budgetary Resources	13,248	10,413
Change in Obligated Balances		
Unpaid Obligations Brought Forward, October 1 (Gross)	460	231
Obligations Incurred	12,681	9,849
Outlays, Gross	(9,887)	(9,614)
Recoveries of Prior Year Unpaid Obligations	(3)	(6)
Obligated Balance End of Year	3,251	460
Budget Authority and Outlays		
Budget Authority , Gross	12,682	9,847
Actual Offsetting Collections	(5,001)	(3,148)
Budget Authority, Net	7,681	6,699
Outlays, Gross	9,887	9,614
Actual Offsetting Collections	(5,001)	(3,148)
Net Outlays	$ 4,886	$ 6,466

The accompanying notes are an integral part of these 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 August 2012. 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 companies' indemnity checks have not yet cleared.

Accounts Receivable

Accounts receivable with the public represents premiums from Approved Insurance Providers (AIPs) due to FCIC for crop insurance written by the AIPs and reinsured by FCIC. The AIPs are responsible for collecting the premium from the producer and paying FCIC, whether or not the premium has been collected from the producer. Producers' accounts receivable represents amounts due from individual producers for interest, overpaid indemnities, and premiums which are payable directly to FCIC. It also includes estimated buy-up and catastrophic fees turned over by 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 2 years as currently not collectible (CNC) or closed-out. The CNC policy allows Federal agencies to write off delinquent accounts receivable balances from their general ledgers while still pursuing collection.

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. Accounts Receivables also includes underwriting loss due to FCIC from AIPs.

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 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 system will be amortized over a period of 5 years once the software is implemented. As of the end of fiscal year 2012 approximately $48 million was classified as internal use software in development compared to $43 million at the end of fiscal year 2011.

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 reimbursement rates (as a percent of premium) for both 2012 and 2011 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 nonproportional reinsurance programs (stop-loss) which limit losses in the reinsured's retained book of business after the cessions made under proportional methods. Stop-loss reinsurance is applied by state and by fund, if necessary, based upon the ratio of the reinsured's ultimate net losses to its retained net book premium.

As the result of current legislation, the A&O reimbursement to AIPs was delayed beginning with the 2012 reinsurance year to October of each year. Therefore, $1.32 billion was deferred and recorded as an accounts payable as of the end of fiscal year 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. A corresponding revenue, Imputed Financing Sources, is recognized to the extent pension and other retirement benefit expenses exceed the amount paid to the Office of Personnel Management (OPM). The OPM imputed costs were $5.4 million and $6.3 million in fiscal years 2012 and 2011, 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. Premium subsidy is not considered written to the extent a portion remains unexpended and no unearned revenue is recorded in the consolidated balance sheets. As a result, the expected claim costs and claims-adjustment expenses exceed the related unearned revenue. A premium deficiency is therefore recognized in the consolidated balance sheets by accruing a liability recorded as an Estimated Loss on Insurance Claims Liability for the excess amount.

Insurance Fund appropriations, A&O Fund appropriations, and other financing sources are recognized when expended, which corresponds to when the expenses are incurred.

The amount of appropriations not expended is a component of unexpended appropriations in the net position of the Balance Sheet.

Loss Recognition

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

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

Indemnity costs are paid from premium proceeds, including premium subsidies and premium discounts, which are also a part of FCIC's Insurance Fund.

The table on the right list the projections for Crop Year 2012 on which the year-end estimates were based. The table also reflects the actual figures for Crop Year 2011.

Estimates	Crop Year 2012 (Estimated)	Crop Year 2011 (Actual)
Loss Ratio	185%	91%
Total Premium	$11.15 Billion	$11.97 Billion
Premium Subsidy	$7.00 Billion	$7.46 Billion
Ratio of Premium Subsidy to Total Premium	63%	62%
Farmer Premium Paid	$4.15 Billion	$4.51 Billion
Ratio of Farmer Premium to Total Premium	37%	38%

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 2012 and 2011 obligations incurred were $12.7 billion and $9.8 billion, respectively. A&O fund obligations incurred were $74.7 million and $83.9 million, for fiscal years 2012 and 2011.

Changes in Presentation

FCIC made the following changes to certain line items of the financial statements as described below:

- On the Consolidated Balance sheet, Liabilities section, FCIC added the category - **Underwriting Gain** to further detail other liabilities with the public.
- On the Consolidated Statements of Changes in Net Position, Budget Financial Sources section, FCIC relabeled the line item that previous read **Other Adjustments** to **Return to Treasury**. This change provides a more accurate description of the financial activity.
- Per instructions from the Office of Management and Budget (OMB), the presentation of the Statement of Budgetary Resources was changed in fiscal year 2012 to better align with the new format for Treasury's Standard Form 133 (SF-133) Report on Budget Execution and Budgetary Resources.

Fiscal year 2011 data is presented in the new format for comparison to the fiscal year 2012 data.

2. FUND BALANCE WITH TREASURY

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

2011		Appropriated Funds (millions)	Revolving Funds (millions)	Total
Obligated not yet disbursed	$	16	194	210
Unobligated available		4	561	565
Unobligated unavailable		2	-	2
Total	$	22	755	777

FCIC maintains separate accounts for the A&O (appropriated) and Insurance (revolving) Funds. The A&O Fund is used to pay salaries and 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 unobligated appropriated (i.e., A&O) funds that were available for obligations through September 30, 2012. 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, the contingency fund, and open obligations.

Changes in the Farm Bill impacted the timing of payment of delivery cost and underwriting gain, leaving cash available in 2012 to support open obligations for these costs.

3. CASH HELD OUTSIDE TREASURY

Cash Held Outside of Treasury is funds held in FCIC escrow accounts. These accounts are used by private insurance companies to pay farmer losses.

4. ACCOUNTS RECEIVABLE, NET

Fiscal Year	Gross Accounts Receivable		Allowance for Uncollectible Accounts	Net Accounts Receivable
2012	$	5,321	(12)	5,309
2011	$	3,843	(13)	3,830

The allowance is based upon the historic rate of collection. In reinsurance year 2012 an accounts receivable was established for the estimated underwriting loss of $2.186 billion. An underwriting gain, which was recorded as a liability to the AIPs, was estimated for reinsurance year 2011.

5. ACCOUNTS PAYABLE

The Farm Bill mandated delay of payment of delivery cost until fiscal year 2013. Therefore, delivery costs are included in the accounts payable line in fiscal year 2012. In fiscal year 2011, the delivery costs were paid prior to the end of the fiscal year.

Accounts Payable	2012 (millions)	2011 (millions)
Delivery Costs	1,320	-
Other	10	137
Total	1,330	137

6. ESTIMATED LOSSES ON INSURANCE CLAIMS

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

	2012 millions	2011 millions
Balance as of October 1	$ 9,531	$ 2,422
Incurred related to:		
Current Year	20,172	11,991
Prior Year	(1,619)	911
Total Incurred	18,553	12,902
Paid related to:		
Current Year	(1,885)	(3,234)
Prior Year	(7,698)	(3,086)
Total Paid	(9,583)	(6,320)
Reserve for Premium Deficiency	(125)	527
Net balance as of September 30	$ 18,376	$ 9,531

The current year indemnities incurred have increased by $8.181 billion due to the increase in prices and the severe weather conditions. The projected loss ratio is 185%.

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		2012	2011
		(millions)	
Intragovernmental:			
Other Accrued Liabilities, Federal	$	1	2
With the Public:			
Estimated Delivery Costs		92	54
Annual Leave Liability		4	4
Other Accrued liabilities		17	15
Total Other Liabilities, with the Public	$	113	73

8. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

	2012 (millions)	2011 (millions)
Estimated Losses on Insurance Claims	18,193	9,284
Underwriting Gain	-	1,007
Delivery Costs	92	54
Unfunded Leave	4	4
FECA	3	3
Total	18,292	10,352

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 $18.193 billion as of September 30, 2012, and $9.284 billion as of September 30, 2011. A premium deficiency has been recorded as the expected claim costs and claim adjustment expenses exceed the related unearned revenue.

For reinsurance year 2012, FCIC projects an underwriting loss rather than an underwriting gain. Therefore, a liability was not established in fiscal year 2012.

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 2012 and 2011.

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.

Hanson Colorado Farms Partnership, v. Vilsack et al (U.S. District Court for the District of Columbia Case No. 11-cv-00675)

Chapter 11 Estate of Michael Hat (John Van Curren Trustee) v. Risk Management Agency (Case No. 2011 W000490 NAD)

Payments for these cases have been deemed possible for estimated amounts of $5 and $7 million. FCIC has not recognized a liability in the financial statements since FCIC will continue to vigorously contest this case and does not believe the possibility of an unfavorable outcome is probable.

10. GROSS COSTS

Insurance Indemnity Costs		2012	2011
		(millions)	
Catastrophic coverage	$	92	84
Additional coverage		18,336	13,345
Insurance claims and indemnities	$	18,428	13,429

Other Program Costs With the Public		2012	2011
		(millions)	
Other program costs	$	20	35
Appropriated salaries and expenses		47	41
Total Other Program Costs	$	67	76

11. EARNED REVENUE WITH THE PUBLIC

Net Loss on Business Assumed from AIPs		2012	2011
		(millions)	
Underwriting Gain	$	(661)	(592)
Underwriting Loss		2,196	
Total	$	1,535	(592)

Premiums and losses are reported monthly by the AIPs to the FCIC. According to the SRA a periodic settlement is calculated to determine the results of business. It will be either an underwriting gain or loss. Changes in the Farm Bill impacted the timing of payments to the AIPs. Beginning with reinsurance year 2011, payments to the AIPs for the underwriting gain were delayed until the first annual settlement report for the reinsurance year which is in October after the fiscal year close. Therefore, at the end of fiscal year 2012, a liability was recorded for the reinsurance year 2011 underwriting gain and a receivable was recorded for the reinsurance year 2012 underwriting loss. The net of these is $1,535 million as shown in the table above.

12. Net Position

Statement of Changes in Net Position

The beginning balance of Cumulative Result of Operations in fiscal year 2012 was $5.23 billion lower than fiscal year 2011 due to the losses in 2011 caused by the extreme drought in Texas and Oklahoma and flooding in the upper plains. In 2012, the severe drought in the Corn Belt contributed to another $6.3 billion decrease on the cumulative result of operations. This resulted in the balance of $13,564 million at the end of fiscal year 2012.

In fiscal year 2012, FCIC requested an additional $6.16 billion in appropriations to cover the losses caused by the severe drought. The amount of appropriations used was $1.77 billion more in fiscal year 2012 than fiscal year 2011. FCIC returned $5.5 billion to Treasury in fiscal year 2012, compared to $374 million in fiscal year 2011.

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 2012 and a balance of $24 million at the end of September 2011.

13. FINANCING SOURCES

In fiscal years 2012 and 2011, FCIC received an Insurance Fund appropriation of $13.2 billion and $7.0 billion respectively, for premium subsidy, reinsurance administrative and operating reimbursement expense, and other programs specified in the Farm Bill.
In fiscal year 2012, $32.5 million and in fiscal year 2011, $41.5 million was appropriated for FCIC initiative expenses. 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 A&O Fund appropriation was $75 million in fiscal year 2012 and $79 million in fiscal year 2011.

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

FCIC's Statement of Budgetary Resources serves as a tool to link budget execution data to information reported in the "actual" column of the Program and Financing Schedules in the Appendix of the Budget of the United States Government (referred to as the "President's Budget") as well as information reported in the Reports of Budget Execution and Budgetary Resources (SF-133). The permanent indefinite appropriation for the crop insurance program is used to cover premium subsidy, delivery expenses, losses in excess of premiums, and research and delivery costs. Some reporting differences do exist between comparable amounts in the Statement of Budgetary Resources (SBR), the President's Budget, and the SF-133. The following table is a comparison of the fiscal year 2011 Statement of Budgetary Resources and the President's Budget. The fiscal year 2012 President's Budget data is not available until February 2013.

Fiscal Year 2011 Statement of Budgetary Resources v. President's Budget (millions)					
	Account	**Budgetary Resources**	**Obligations Incurred**	**Distributed Offsetting Receipts**	**Net Outlays**
Statement of Budgetary Resources:					
	Insurance Fund	10,326	9,765	-	6,387
	A&O	87	84	-	79
	Total	$ 10,413	$9,849	-	$6,466
Reconciling items:					
Expired Accounts	A&O	(8)	(6)	-	-
Rounding Error					(2)
	Total	(8)	(6)	-	(2)
Budget of the United States Government		$10,405	$9,843	-	$6,464

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

		2012	2011
Resources Used to Finance Activities			
Budgetary Resources Obligated			
Obligations incurred	$	12,681	9,849
Less: Spending authority from offsetting collections and recoveries		(5,004)	(3,154)
Obligations net of offsetting collections and recoveries		7,677	6,695
Imputed financing from costs absorbed by others		15	22
Total resources used to finance activities	$	7,692	6,717
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	$	6	2
Resources that fund expenses recognized in prior periods		(5)	-
Other resources or adjustments to net obligated resources that do not affect the net cost of operations		-	(10)
Total resources used to finance items not part of the cost of operations		1	(8)
Total resources used to finance the net cost of operations	$	7,693	6,709
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	$	(1,570)	(1,104)
Other (Insurance Claims, Program Delivery Costs)		7,948	5,677
Total components of Net Cost of Operations that will require or generate resources in the future period		6,378	4,573
Components not Requiring or Generating Resources:			
Bad Debt Expense		-	12
Other		-	1
Total Components of Net Cost of Operations that will not require or generate resources		-	13
Total components of Net Cost of Operations that will not require or generate resources in the current period		6,378	4,586
Net Cost of Operations	$	14,071	11,295

REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION (UNAUDITED)

FCIC has formed partnerships with NIFA, the Commodity Futures Trading Commission, the USDA National Office of Outreach, the Economic Research Service, and private industry to leverage the Federal Government's funding of its RME program by using both public and private organizations to help educate their members in agricultural risk management. RME expanded State and Regional education partnerships; encouraged the development of information and technology-based decision aids; facilitated local crop insurance education and risk management training workshops throughout the nation through Cooperative Agreements with educational institutions and community-based outreach organizations.

During fiscal years 2012 and 2011, the RME program worked toward its goals by funding risk management sessions, most of which directly target producers. The number of producers reached through these sessions is approximately 81,000 in fiscal year 2012 and 79,500 in fiscal year 2011. In addition to reaching producers, some training sessions helped those who work with producers (such as lenders, agricultural educators, and other agricultural professionals) to better understand those areas of risk management with which they may be unfamiliar. Total RME obligations incurred by FCIC were approximately $12.6 million and $9.6 million in fiscal years 2012 and 2011, respectively.

Summary of RME Initiatives Since Fiscal Year 2008		2012	2011	2010	2009	2008
RME Obligations (dollars in millions)	$	12.6	9.6	6	6	10
Number of producers attending RME sessions		81,000	79,500	47,100	35,000	20,000

One of the Farm Bill's directives is to increase FCIC's educational and outreach efforts in certain areas of the country that have been historically underserved by the Federal Crop Insurance Program. The Secretary determined that 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.

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

2012 Risk Assumed:

	(millions)
Estimate of Unpaid Losses	$18,287
Risk Assumed	$20,700

The 2012 projected loss ratio is 185%; therefore the risk assumed by FCIC would be equal to the total premium of $11.189 billion multiplied by the loss ratio.

OTHER ACCOMPANYING INFORMATION (UNAUDITED)

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

Schedule of Spending	2012 millions
	Budgetary
What Money is Available to Spend?	
Total Resources	$ 13,248
Less Amount Available but Not Agreed to be Spent	(564)
Less Amount Not Available to be Spent	(3)
*Total Amount Agreed to be Spent	$ 12,681
*This is different from the SBR 12,682 due to rounding	
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	54
20-Contractual Services and Supplies	173
40-Grants and Fixed Charges	9,660
Total Spending	9,887
Unpaid obligations, end of year (gross)	3,251
Unpaid obligations, brought forward, Oct 1 (gross)	(460)
Recoveries of prior year unpaid obligations	3
Amounts Remaining to be Spent	2,794
Total Amount Agreed to be Spent	$ 12,681

IPERA Information

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

RMA has completed the seventh year in the review cycle established to determine the Improper Payment Rate for the Federal Crop Insurance program. The 2010 crop year sample yielded a 4.3% error rate, but combined with the lower rates from prior years still yielded a 4.1% error rate for the average. The three-year combined error rate of 4.08% remains within range of the original estimate of 5.0%. The difference in error rates between the crop years are attributable to normal error distribution expected over time. The addition of the 2010 crop year resulted in significantly lower projected dollar errors due to reduced indemnities attributable to good growing conditions. Additionally, program liability in 2010 was $1.4 billion lower than in 2009.

The strategy for identifying and controlling the error rate includes identifying error trends and policy concerns and correcting them; however, as with the previously reviewed policies, there are still no definitive trends identified in the review completed in 2010. No underlying policy or underwriting issues have become apparent aside from those related to the inherent complexity of the current Actual Production History program. RMA continues to record and review all policies reviewed to identify any meaningful errors in the sample. RMA continues to expand its strategic data acquisition and analysis efforts.

	Reported in FY 2010	Reported in FY 2011	To be Reported in FY 2012
Outlays	$8,680M	$5,225M	$4,249M
Improper Payment Rate (%)	6.05%	4.72%	4.08%
Improper Payments ($)	$525.1M	$246.6M	$173.4M
Year/Period of Data Sampled	2008	2009	2010

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

The Federal Crop insurance Act and the current SRA provides for recovery of actual amounts determined by FCIC to be overpaid and additional penalties can be applied to address improper patterns and practices. This negotiated financial reinsurance arrangement does not have provisions for liquidated damages based on the determination of an error rate for the approved insurance providers.

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	Unqualified				
Restatement	No				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
	0	0	0	0	0

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
	0	0	0	0	0
Effectiveness of Internal Control over Operations (FMFIA section 2)					
Statement of Assurance	Unqualified				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
	0	0	0	0	0
Conformance with Financial Management System Requirements (FMFIA section 4)					
Statement of Assurance	Unqualified				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
	0	0	0	0	0

Compliance with Federal Financial Management Improvement Act (FMFIA section 4)		
	Agency	Auditor
Overall Substantial Compliance	Yes	Yes
1.System Requirements	Yes	Yes
2.Accounting Standards	Yes	Yes
3.USSGL at Transaction Level	Yes	Yes

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How To Report Suspected Wrongdoing in USDA Programs

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