



United States Department of Agriculture
Office of Inspector General





Federal Crop Insurance Corporation/Risk Management Agency's Financial Statements for Fiscal Years 2015 and 2014

Audit Report 05401-0005-11

What Were OIG's

Objectives

Our objectives were to determine whether (1) the financial statements present information fairly, in all material respects, and in accordance with generally accepted accounting principles; (2) internal control objectives over financial reporting were met; (3) FCIC/RMA complies with applicable laws and regulations; and (4) information was materially consistent with other sources.

What OIG Reviewed

We conducted our audit at RMA offices in Washington, D.C. and Kansas City, Missouri.

What OIG Recommends

We recommend that FCIC/RMA develop control procedures over the program code used to estimate insurance losses, to ensure that all variables are input correctly and calculating properly.

OIG audited FCIC/RMA's financial statements for fiscal year 2015, and also assessed internal controls over financial reporting and compliance with laws and regulations.

What OIG Found

The Office of Inspector General (OIG) determined that the Federal Crop Insurance Corporation/Risk Management Agency's financial statements fairly present, in all material respects, FCIC/RMA's financial position as of September 30, 2015, and were prepared in accordance with accounting principles generally accepted in the United States of America. This includes the agency's net costs, changes in net position, and statement of budgetary resources, and related notes to the financial statements. The accompanying financial statements as of September 30, 2014, were audited by other auditors whose report on those statements was unmodified.

Our review of FCIC/RMA's internal control over financial reporting identified one deficiency, which is a material weakness. Specifically, FCIC/RMA needs to improve its controls over the review of estimated loss calculations, as our review identified an error in the program code used in the calculations, which resulted in a material misstatement in the financial statements and required adjustments.

Our testing of FCIC/RMA's compliance with applicable laws and regulations did not identify exceptions.

FCIC/RMA concurred with our finding and recommendation and states that it will develop corrective action plans with milestones to address the finding within 60 days.



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



DATE: November 10, 2015

AUDIT
NUMBER: 05401-0005-11

TO: Brandon Willis
Administrator
Risk Management Agency

ATTN: Heather Manzano
Deputy Administrator for Compliance

FROM: Gil H. Harden
Assistant Inspector General for Audit

SUBJECT: Federal Crop Insurance Corporation/Risk Management Agency's Financial
Statements for Fiscal Years 2015 and 2014

This report presents the results of our audit of the Federal Crop Insurance Corporation/Risk Management Agency's (FCIC/RMA) financial statements for the fiscal year ending September 30, 2015. The financial statements of FCIC/RMA, as of September 30, 2014, were audited by other auditors whose report on those statements was unmodified. Our report contains an unmodified opinion on the financial statements, as well as the results of our assessment of FCIC/RMA's internal control over financial reporting and compliance with laws and regulations. Your response is included in its entirety in Exhibit B.

In accordance with Departmental Regulation 1720-1, please furnish a reply within 60 days describing the corrective actions taken or planned, and timeframes for implementing the recommendation for which management decision has not been reached. Please note that the regulation requires management decision to be reached on all recommendations within 6 months from report issuance, and final action to be taken within 1 year of each management decision to prevent being listed in the Department's annual Agency Financial Report. Please follow your internal agency procedures in forwarding final action correspondence to the Office of the Chief Financial Officer.

We appreciate the courtesies and cooperation extended to us by members of your staff during our audit. This report contains publicly available information and will be posted in its entirety to our website <http://www.usda.gov/oig> in the near future.

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Independent Auditor's Report

The Board of Directors, Federal Crop Insurance Corporation:

The Department of Agriculture's Office of Inspector General audited the financial statements of the Federal Crop Insurance Corporation/Risk Management Agency (FCIC/RMA) for fiscal year 2015. We also considered FCIC/RMA's internal control over financial reporting and tested FCIC/RMA's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements that could have a direct and material effect on these financial statements.

Exhibit A of this report provides a status of prior year internal control weaknesses and Exhibit B presents FCIC/RMA's response in its entirety.

Report on the Financial Statements

We have audited the accompanying financial statements of FCIC/RMA, which comprise the balance sheet as of September 30, 2015, and the related statement of net cost; changes in net position; and the combined statement of budgetary resources for the fiscal year then ended, and the related notes to the financial statements (hereinafter referred to as the "financial statements"). The accompanying financial statements of FCIC/RMA as of September 30, 2014, were audited by other auditors whose report, dated December 18, 2014, on those statements was unmodified and included an emphasis of matter paragraph that described uncertainty relating to ultimate losses on insurance claims. The objective of our audit was to express an opinion on the fair presentation of these financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on the fiscal year 2015 financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the U.S.; the standards applicable to financial audits contained in government auditing standards, issued by the Comptroller General of the U.S.; and the Office of Management and Budget (OMB) Bulletin 15-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin 15-02 require that we plan and perform audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion on the Financial Statements

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of FCIC/RMA, as of September 30, 2015, and its net costs, changes in net position, and budgetary resources for the year then ended, in accordance with accounting principles generally accepted in the U.S.

Emphasis of Matter

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the U.S., issued by the Federal Accounting Standards Advisory Board (FASAB), require that the information in the Management's Discussion and Analysis (MD&A), Required Supplementary Stewardship Information (RSSI), and Required Supplementary Information (RSI) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by FASAB, which 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 MD&A, RSSI, and RSI, in accordance with auditing standards generally accepted in the U.S., 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The “Message from the Administrator” and the “Other Information” sections are presented for purposes of additional analysis, and are not a required part of the basic financial statements or the required supplementary information. This information has not been subjected to the auditing procedures applied in the audits of the financial statements and, accordingly, we express no opinion on it and provide no assurance.

Other Reporting Required by Government Auditing Standards

Report on Internal Control Over Financial Reporting

In planning and performing our fiscal year 2015 audit of the financial statements, we considered FCIC/RMA’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of FCIC/RMA’s internal control or on management’s assertion on the internal control included in the MD&A. Accordingly, we do not express an opinion on the effectiveness of FCIC/RMA’s internal control or on management’s assertion on internal control included in the MD&A. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers’ Financial Integrity Act of 1982 (FMFIA).

Our consideration of internal control was for the limited purposes described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and therefore, material weaknesses or significant deficiencies may exist that were not identified.

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 FCIC/RMA’s financial statements will not be prevented, or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

In our fiscal year 2015 audit, we noted a certain matter involving internal control that we consider to be a significant deficiency. Specifically, we identified a weakness in FCIC/RMA’s controls over estimating losses on insurance claims.

We determined this deficiency to be a material weakness. This deficiency is discussed in the “Finding and Recommendation,” Section 1, of this report.

Also, as required by OMB Bulletin 15-02, we compared the material weaknesses identified in the audit with those material weaknesses included in FCIC/RMA's *FMFIA Report on Management Control* that relate to financial reporting. We noted no exceptions.

We noted certain additional matters involving internal control over financial reporting that we will report to FCIC/RMA's management in a separate letter.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether FCIC/RMA's fiscal year 2015 financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and Governmentwide policy requirements, noncompliance which could have a direct and material effect on the determination of the financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

We also performed tests of FCIC/RMA's compliance with certain provisions referred to in Section 803(a) of the Federal Financial Management Improvement Act of 1996 (FFMIA). Providing an opinion on compliance with FFMIA was not an objective of our engagement and, accordingly, we do not express such an opinion. The results of our tests of FFMIA disclosed no instances in which FCIC/RMA's financial management systems did not substantially comply with FFMIA.

Management's Responsibility for Internal Control and Compliance

FCIC/RMA's management is responsible for (1) evaluating the effectiveness of internal control over financial reporting based on criteria established under FMFIA, (2) providing a statement of assurance on the overall effectiveness of internal control over financial reporting, (3) ensuring FCIC/RMA's financial management systems are in substantial compliance with FFMIA requirements, and (4) ensuring compliance with other applicable laws, regulations, contracts, and grant agreements.

Auditor's Responsibilities

We are responsible for: (1) obtaining a sufficient understanding of internal control over financial reporting and compliance to plan the audit, (2) testing whether FCIC/RMA's financial management systems substantially comply with FFMIA requirements referred to above, and (3) testing compliance with certain provisions of laws, regulations, contracts, and grant agreements that have a direct and material effect on the financial statements and applicable laws.

We did not evaluate all internal controls relevant to operating objectives as broadly established by FMFIA, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to testing controls over financial reporting and compliance. Because of inherent limitations in internal control, misstatements due to error or fraud, losses, or noncompliance may nevertheless occur and not be detected. We also caution

that projecting our audit results to future periods is subject to a risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate. In addition, we caution that our internal control testing may not be sufficient for other purposes.

We did not test compliance with all laws, regulations, contracts, and grant agreements applicable to FCIC/RMA. We limited our tests of compliance to certain provisions of laws, regulations, contracts, and grant agreements that have a direct and material effect on the financial statements that we deemed applicable to FCIC/RMA's financial statements for the fiscal year ended September 30, 2015. We caution that noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes. Also, our work on FFMIA would not necessarily disclose all instances of noncompliance with FFMIA requirements.

Management's Response

Management's response to the report is presented in Exhibit B. We did not audit FCIC/RMA's response and, accordingly, we express no opinion on it.

Status of Prior Year Material Weakness and Significant Deficiency

We reviewed the status of FCIC/RMA's internal control deficiencies with respect to the prior year's Independent Auditor's Report, dated December 18, 2014. The status is presented in Exhibit A.

Purpose of the Report on Internal Control Over Financial Reporting and the Report on Compliance and Other Matters

The purpose of the "Report on Internal Control Over Financial Reporting" and the "Report on Compliance and Other Matters" sections of this report, is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of FCIC/RMA's internal control or on compliance. These reports are an integral part of an audit performed in accordance with government auditing standards in considering FCIC/RMA's internal control and compliance. Accordingly, these reports are not suitable for any other purpose.

Gil H. Harden
Assistant Inspector General for Audit

Washington, D.C.
November 6, 2015

Finding and Recommendation

Section 1: Material Weakness in Internal Controls Over Estimating Losses on Insurance Claims

Finding 1: Improvements Are Needed in the Review of the Estimated Loss Calculations

Although management conducted detailed reviews of the projected loss calculations for estimating losses on insurance claims, the reviews did not detect certain errors in the program code used to calculate the projection. We identified an error in the program code whereby the moving average loss ratio for one data set reflected all null values. Based on our inquiries, management re-examined the program code, and determined that two errors had occurred.¹ As a result, FCIC/RMA's financial statements were materially misstated and required adjustments.

The Estimated Losses on Insurance Claims make up the majority of FCIC/RMA's liabilities. Estimated Losses are calculated based on *Statement of Federal Financial Accounting Standards No. 5, Accounting for Liabilities of the Federal Government*. There are a variety of risk factors that expose FCIC/RMA's liability estimates to uncertainty. Therefore an actuarial projection of total indemnities is made at the end of each fiscal year based on current conditions.

After we brought the error to management's attention, management promptly reviewed the projected loss calculation code, made corrections, and then adjusted the financial statements. Management identified the following in its review:

- Indemnities (expenses) and estimated losses on insurance claims were understated by \$742 million.
- Premium Revenue was understated and unearned revenue was overstated by \$2 million.
- Net Loss on Business Ceded from Approved Insurance Providers (expenses) and underwriting gain were overstated by \$219 million.

Recommendation 1

Develop control procedures over the program code to ensure that all variables are input correctly and calculating properly.

¹ Statistical Analysis System code errors were two-fold: (1) the macro variable "&Year" was overwritten with "&ForecastYear," and (2) the program code excluded yield plans, which should have been included when the data were pulled in from the database.

Abbreviations

FASAB.....	Federal Accounting Standards Advisory Board
FCIC.....	Federal Crop Insurance Corporation
FFMIA	Federal Financial Management Improvement Act of 1996
FMFIA	Federal Managers' Financial Integrity Act of 1982
MD&A	Management's Discussion and Analysis
OMB	Office of Management and Budget
RMA	Risk Management Agency
RSI	Required Supplementary Information
RSSI	Required Supplementary Stewardship Information
U.S.	United States of America

Exhibit A: Status of Prior Year Material Weakness and Significant Deficiency

The status of the prior year material weakness and significant deficiency as of the year ended September 30, 2015, is summarized below:

Fiscal Year 2014 Finding	2014 Status	2015 Status
1. Estimated losses on insurance claims	Material Weakness	Open - Modified Repeat Finding- Reported as a Material Weakness
2. Financial Reporting Controls	Significant Deficiency	Closed ²

² In fiscal year 2014, the audit report disclosed that FCIC/RMA did not have adequate controls over financial reporting, and noted deficiencies with the initial draft financial statements. The Office of Inspector General did not identify similar deficiencies in our review of the fiscal year 2015 draft financial statements.

**FCIC/RMA'S
RESPONSE TO AUDIT REPORT**



**United States
Department of
Agriculture**

Farm and Foreign
Agricultural
Services

11/6/2015

Risk
Management
Agency

1400 Independence
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Stop 0801
Washington, DC
20250-0801

TO: Mr. Gil H. Harden
Assistant Inspector General
Office of Inspector General

FROM: Margo E. Erny /s/
Chief Financial Officer
Risk Management Agency

SUBJECT: FCIC/RMA's Financial Statements for Fiscal Years 2015 and 2014, Audit
Report No. 05401-0005-11

RMA is pleased to respond to your audit report on the Financial Statements for fiscal years 2015 and 2014.

We concur with the findings in the report. We agree with the recommendation in the report and will develop a corrective action plan with milestones to address the finding within 60 days.

I would like to express my appreciation for the cooperation and professionalism displayed by your staff and your contract auditors during the course of the audit.

Please contact me at 202-720-4877 if you have any questions or would like to discuss.

**Federal Crop Insurance Corporation/
Risk Management Agency's**

**FISCAL YEARS 2015 AND 2014
FINANCIAL STATEMENTS**

Prepared By FCIC/RMA

THE FEDERAL CROP INSURANCE
CORPORATION/RISK MANAGEMENT
AGENCY'S FINANCIAL STATEMENTS FOR
FISCAL YEARS 2015 AND 2014

Management's Discussion and Analysis

**FEDERAL CROP INSURANCE CORPORATION/ RISK MANAGEMENT AGENCY'S FINANCIAL STATEMENTS
FOR FISCAL YEARS 2015 AND 2014**

Message from Brandon Willis, Administrator, Risk Management Agency

Mission of The Risk Management Agency

Serving America's agricultural producers through effective, market-based risk management tools to strengthen the economic stability of agricultural producers and rural communities.



On behalf of the Risk Management Agency (RMA), it is my pleasure to present this comprehensive financial report detailing the exceptional work of the agency and its employees for the past two years. The above-stated mission of the agency is further enhanced by the following strategic goals:

- Increasing the availability and effectiveness of Federal crop insurance as a risk management tool while enhancing and protecting the soundness of the program;
- Ensuring a fair and effective risk management product delivery system;
- Providing education and outreach to stakeholders to ensure knowledge of and access to risk management tools and products;
- Safeguarding the integrity of the Federal crop insurance program; and
- Creating an RMA for the 21st century that is high performing, efficient, and adaptable.

RMA continues its work in 2015 on implementation and maintenance of various initiatives outlined in the Agricultural Act of 2014. These initiatives include numerous updates and expansion of existing crops and addition of new crops to the Federal crop insurance program. Beginning in the 2016 crop year (July 2015), the Whole Farm Revenue Protection insurance will be available in every county in the United States. In addition, RMA has expanded program availability and assistance to organic producers and rangeland operations. RMA added requirements for conservation certifications to ensure that all producers are in compliance with efforts to conserve highly erodible land and wetlands.

RMA significantly reduced its improper payment rate to 2.2% as required by the Improper Payments Elimination and Recovery Improvement Act (IPERIA). This is less than both the fiscal year 2015 target of 5.75% and the 5.58% reported in fiscal year 2014. In 2015, RMA had a recurring material weakness related to Estimated Losses on Insurance Claims first identified in 2013. RMA is working to improve this process and improve internal controls to mediate this weakness in 2016.

The Federal Crop Insurance Corporation's (FCIC) financial statements report the financial positions for both 2014 and 2015 fiscal years, net costs of operation, changes in net position, and status of budgetary resources. Financial management performance measures also accompany the financial results. These performance measures include the annual results and the strategic targets.

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

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FOR FISCAL YEARS 2015 AND 2014**

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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

MISSION

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

FCIC provides crop insurance and risk management strategies to American producers. Private sector insurance providers, 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 Approved Insurance Providers (AIPs). In addition, RMA sponsors educational programs and seminars on risk management.

History & Enabling Legislation

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

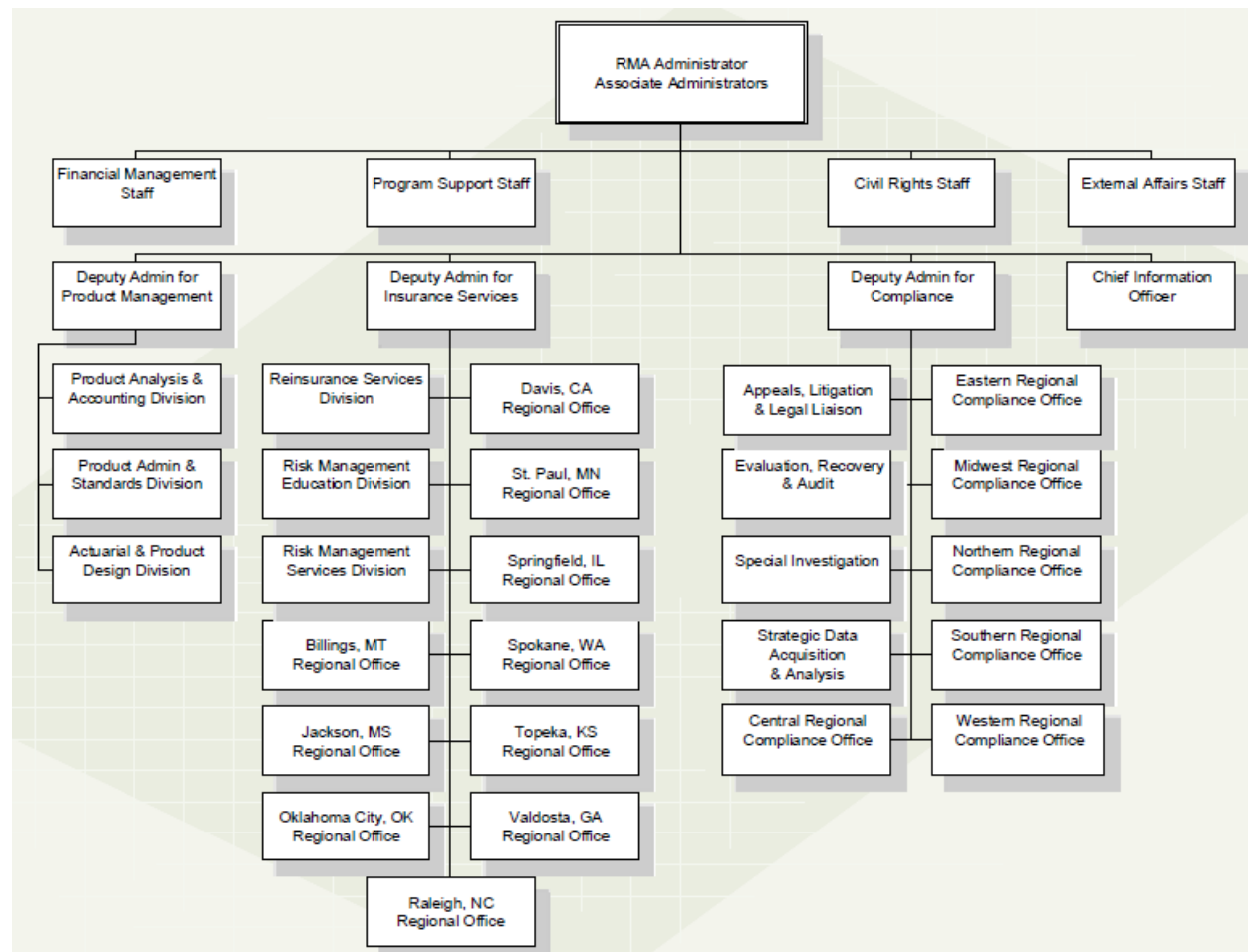
- Federal Crop Insurance Act of 1980
- Federal Crop Insurance Reform and Department of Agriculture Reauthorization Act of 1994
- Federal Agriculture Improvement and Reform Act of 1996
- Agriculture Research, Extension & Education Reform Act of 1998
- Agriculture, Rural Development, Food & Drug Administration, & Related Agencies Appropriations Act of 1999
- Agriculture Risk Protection Act of 2000
- Food, Conservation, and Energy Act of 2008
- Agricultural Act of 2014

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

ORGANIZATIONAL STRUCTURE

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

ORGANIZATIONAL CHART



RMA OFFICE LOCATIONS

RMA is headquartered in Washington, DC. There is a national operations office located in Kansas City, MO which includes Product Management, Office of Chief Information Officer, External Affairs, Office of the Chief Financial Officer, and the Central Regional Compliance Office. In addition, there are ten regional offices and six compliance offices located throughout the country, as shown in the table below.

Regional Offices			
Billings, MT	Davis, CA	Jackson, MS	Oklahoma City, OK
Raleigh, NC	Spokane, WA	Springfield, IL	St. Paul, MN
Topeka, KS	Valdosta, GA		
Compliance Offices			
Dallas, TX	Davis, CA	Eagan, MN	Indianapolis, IN
Kansas City, MO	Raleigh, NC		

ORGANIZATIONAL FUNCTIONS



Board members left to right: Ellen Linderman, Iris Saenz, Kenneth Ray Sneed, Dr. Robert Johansson, Margaret Goode, and James Bardenhagen. Not pictured: Brandon Willis and John Finston.

Program Administration

The Board of Directors is the decision making body for FCIC. FCIC Board of Directors is subject to the general supervision of the Secretary of Agriculture. The Board consists of the United States Department of Agriculture (USDA) Chief Economist (Chairman); the USDA Under Secretary for Farm and Foreign Agricultural Services plus one additional Under Secretary; FCIC Manager (non-voting); four producers who are policyholders, one of whom grows specialty crops; an individual involved in the insurance industry; and an individual knowledgeable about reinsurance or regulation.

Office of the Administrator

Business activities are carried out by the following staff offices:

- **External Affairs:**
External Affairs communicates with and provides information to the public and Congress about the Federal crop insurance program. External Affairs also provides guidance and training on communications, strategies, and issues to the Agency's leadership.
- **Civil Rights:**
The Office of Civil Rights (OCR) focus is to ensure that customers, such as farmers and ranchers, including small, limited resource, and other socially disadvantaged groups, have the opportunity to participate and have equal access to all USDA/RMA programs and services. In addition, RMA ensures that all employees and applicants for employment are treated equally in regards to employment opportunities, recognition, promotions, and other employee benefits.
- **Program Support:**
The Executive Planning & Administrative Support Branch provides services to the Agency ranging from regulatory administration, Freedom of Information Act and Privacy Act administration, strategic planning and performance management as well as continuity of operations and homeland security planning and execution.
- **Chief Information Office (CIO):**
Located organizationally in the Program Support Staff, the CIO is made up of 3 primary functional areas: Information Security, Capital Planning and Investment Control, and the System Administration.
- **Chief Financial Office (CFO):**
Known as the Financial Management Staff in the organization, the CFO staff is responsible for establishing and maintaining effective internal controls and policies over financial reporting and operations. The Budget Branch formulates and executes the RMA/FCIC budget. The Accounting Branch processes and monitors financial transactions, and prepares the financial statements.

Product Management

Product Management designs, develops, and maintains the crop insurance programs, policies and standards, and the establishment and maintenance of rates, prices, and actuarial documents for coverage of crops in each county. Product Management is responsible for the financial and operational oversight of AIPs as well as processing the program receipts and expenditures including AIP reimbursement and escrow funding.

Insurance Services

Insurance Services develops and manages contractual arrangements through AIPs, cooperatives, and other financial service organizations. Insurance Services ensures delivery partners meet published regulatory financial standards, administers corrective actions, and educates producers through private and public education partners. Insurance Services also engages outreach to ensure that all farmers and ranchers have the opportunity to participate and have equal access to all RMA/USDA programs and services.

Compliance

Compliance safeguards the integrity of the Federal crop insurance program through reviews of crop insurance programs. Compliance is also responsible for oversight of the data-mining processes used to monitor program compliance. Compliance assists in the prosecution of criminal, civil, and administrative actions and refers cases of fraud to the Office of Inspector General as required.

PROGRAMS

FCIC enters into reinsurance agreements with AIPs to market and service policies. The conditions of reinsurance are defined in the Standard Reinsurance Agreements (SRA) 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 customer service and guarantee premium payment to FCIC. FCIC reinsures the policies and provides an administrative and operating expense reimbursement to AIPs for delivery of insurance products.

FCIC provides a subsidy for producers' premiums and funds the indemnity payments to the producers through escrow accounts funded daily. FCIC and AIPs share in the underwriting gains or losses.

INSURANCE PLANS AND TYPES

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.

- Actual Revenue History
- Area Risk Protection
- Pecan Revenue Assurance
- Revenue Protection
- Revenue Protection with Harvest Exclusion

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.

- Actual Production History
- Yield Protection

Livestock Policies

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

- Livestock Risk Protection
- Livestock Gross Margin

Group Policies

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

- Area Risk Protection
- Rainfall Index
- Vegetation Index

Other Policies

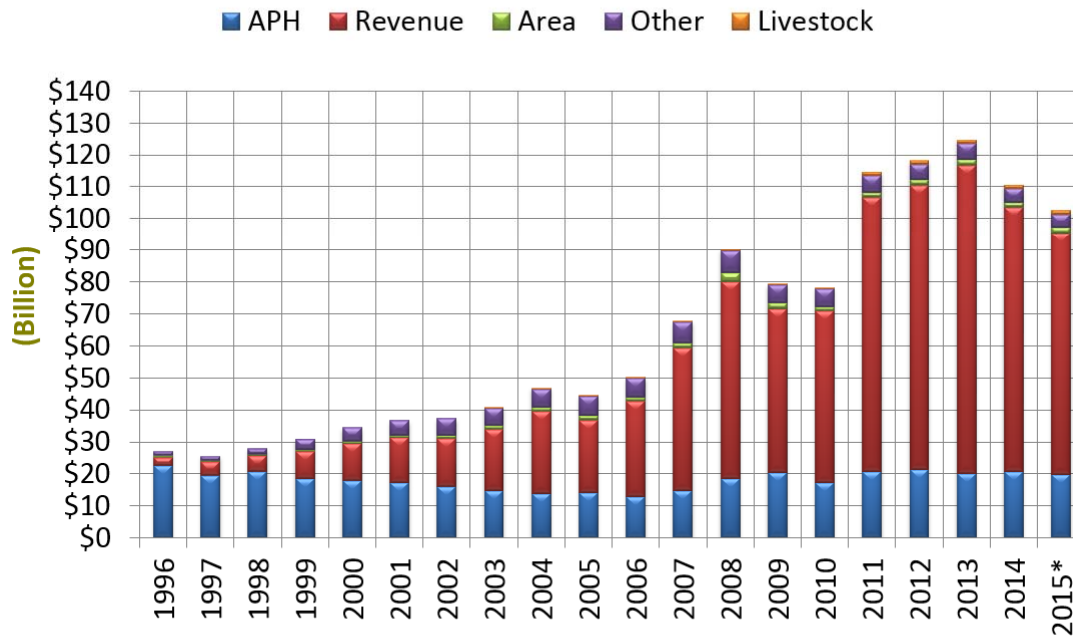
Examples of policies that fall under this category may be dollar amount products that are based on the cost of growing a crop or they may be based on producer's historical gross revenue to determine loss. Policies that do not fall under other groups listed here are combined into this grouping.

- Whole Farm Revenue Protection
- Aquaculture Dollar Amount of Insurance
- Dollar Amount of Insurance
- Fixed Dollar Amount of Insurance
- Tree Based Dollar Amount of Insurance
- Yield Based Dollar Amount of Insurance

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

Program Summary

Liability by Insurance Plan



REIMBURSEMENT RATES

FCIC receives an appropriation to reimburse AIPs for their administrative and operating costs. The reimbursement rates are a percentage of premium by insurance plan and coverage level. The current SRA contains a cap which is indexed for inflation for specific insurance plans and coverage levels. The 2015 reimbursement amount is approximately \$1.4 billion. The reimbursement rates are the same for 2015 and 2014 reinsurance years. The table below lists the reimbursement rates under the current SRA:

Insurance Plans	Reimbursement Rates (depending on coverage level)
Area Risk	12.0%
Pasture Rangeland and Forage	20.1%
Revenue (Harvest Price Option)	18.5%
Other Additional Coverage	21.9%
Catastrophic Coverage	6.0%

UNDERWRITING GAIN/LOSS

In addition to reimbursement of administrative and operating expenses, FCIC and AIPs enter into agreements on sharing of gains and losses. Under these agreements, FCIC assumes a portion of the loss risk on Federal crop insurance policies. The agreements are adjusted annually as part of the AIPs plan of operation. The plan of operation is submitted to RMA and approved prior to the beginning of the reinsurance year. In the plan of operations, AIPs elect methodologies to share risk with FCIC. The plan of operation becomes an appendix to the SRA for each reinsurance year (July 1 through June 30).

SPECIALTY CROPS

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

PILOT PROGRAMS

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

FCIC PUBLISHED REGULATIONS

RMA periodically updates its regulations by publishing proposed, interim, and final rules in the Federal Register. RMA seeks public comment on all proposed revisions. Revisions made to regulations improve risk management products available for producers and/or clarify such regulations. During fiscal year 2015, RMA had 3 regulations in the proposed, interim, or final rule stage and 4 notices published that announced funding opportunities and requests for applications for specific programs and Paperwork Reduction Act notices. Published regulations can be found on the Federal Register's home page at <https://www.federalregister.gov>.

PERFORMANCE GOALS, OBJECTIVES AND RESULTS

PERFORMANCE GOALS OF RMA

In 2015 RMA published its Strategic Plan aligning it with the USDA Strategic Plan. The Strategic Plan has five goals with accompanying strategies and performance measures. During 2015 RMA accomplished the following performance goals.

- **Increase the availability and effectiveness of Federal Crop Insurance as a risk management tool while enhancing and protecting the soundness of the program.**

The RMA goal to increase the availability and effectiveness of the program is achieved by: First, ensuring that American agricultural producers are better protected against the inherent risks of weather and price fluctuations. Second, rural communities' income is enhanced through indemnity payments to local producers who suffer insured losses. Third, American taxpayers are confident of an actuarially sound insurance program.

RMA's primary performance measure under this goal is the annual normalized value of risk protection provided to agricultural producers through the Federal crop insurance program. By "normalizing" or adjusting the actual value of risk by parameters that smooth out the volatility of crop prices you are able to see the steady climb in the value risk protection provided to producers through the years.

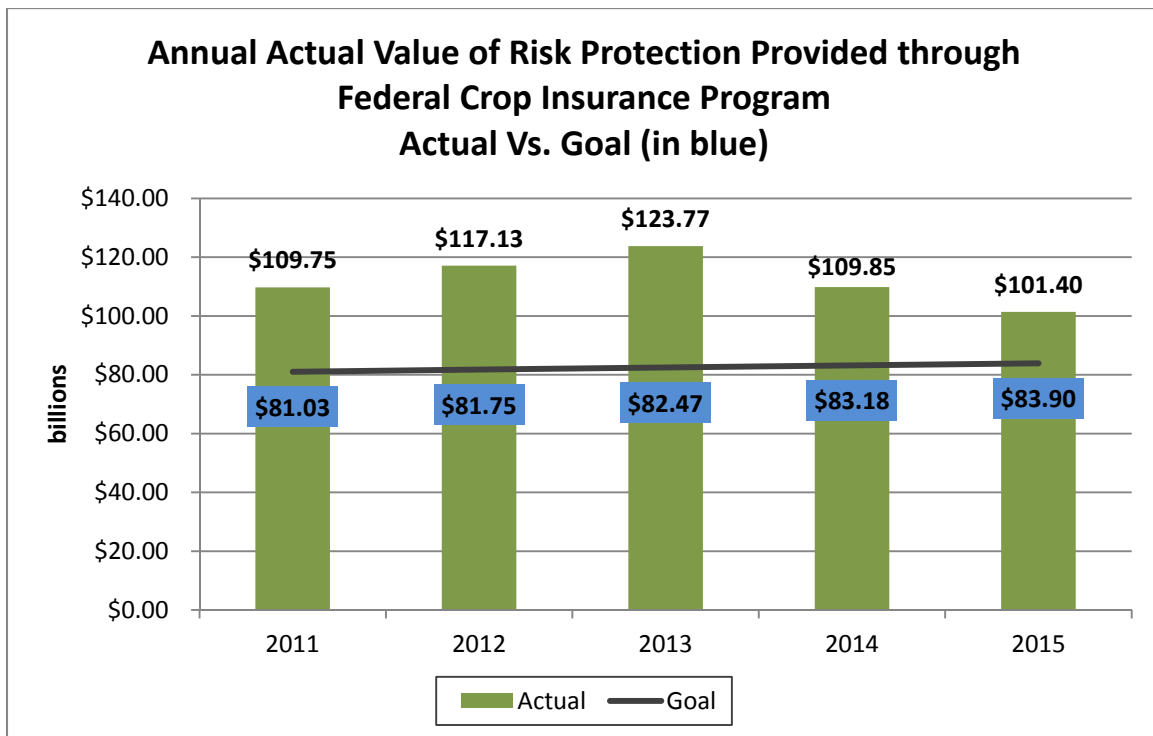
	Baseline 2012	2014 Actual	2015 Actual	2018 Target
Annual normalized value of risk protection	\$62.1 billion	\$67.9 billion	\$68.7 billion	\$64.0 billion

Beginning in 2016 crop year (July 2015), Whole Farm Revenue Protection is available in every county in the United States – a first for the crop insurance program. In addition, eligibility for Whole Farm Revenue Protection was expanded to include beginning farmers and farms that are exclusively livestock or greenhouse. Whole Farm program was enhanced to require more accurate record keeping, development of record keeping tools, and to allow for expanding farm operations.

Pasture, Rangeland, and Forage, an area-based insurance plan that covers perennial pasture, rangeland, or forage used to feed livestock, has been expanded to an additional 19 states, which makes it available in all 48 contiguous states. In addition, updates to pricing better reflect the replacement costs of feed and the producers' loss experience.

Price changes allow organic producers to receive a price guarantee that better reflects the value of their crop. These additions will bring the total number of crops with organic prices from 4, which were first offered in 2011, to 47.

**FEDERAL CROP INSURANCE CORPORATION/ RISK MANAGEMENT AGENCY'S FINANCIAL STATEMENTS
FOR FISCAL YEARS 2015 AND 2014**



➤ **Ensure a fair and effective risk management product delivery system**

RMA accomplishes fair and effective delivery of the program by ensuring that all producers have access to risk management products and information, compliance with Federal Civil Rights statutes is ensured, and Approved Insurance Providers, their agents and adjusters treat all producers fairly. The table below lists value of risk protection in underserved states.

	Baseline 2013	2014 Actual	2015 Estimate	2018 Target
Actual Value of Risk Protection in Underserved States	\$1.6 billion	\$2.2 billion	\$1.9 billion	\$2.2 billion

➤ **Educate stakeholders to ensure knowledge of and access to risk management tools and products**

FCIC educates stakeholders by ensuring producers are knowledgeable about risk management tools and products, educational resources are leveraged through partnerships with other governmental and nongovernmental entities, and producers have access to regionalized risk management education and information through RMA regional offices.

During the current year, RMA awarded 35 risk management education partnership agreements in the amount of \$2.6 million and 16 Targeted States agreements in the amount of \$4.9 million.

	Baseline 2013	2014 Actual	2015 Estimate	2018 Target
Number of Producers Attending Risk Management Education	48,403	155,027	49,000	50,000
Number of Producers Provided Education through Regional Offices	104,373	156,581	68,000	115,000

➤ **Safeguard the integrity of the Federal crop insurance program**

RMA safeguards the integrity of the program by ensuring that tax dollars are used appropriately. RMA addresses insurance fraud, waste, and abuse. RMA ensures that AIPs fully comply with FCIC regulations. RMA safeguards the integrity of the Federal crop insurance program through multiple layers of compliance activity. Examples of recent progress in this area include redesign of selected compliance processes.

RMA contracted with a third party to analyze RMA's current compliance processes and to develop a new auditing program for the future. The goal is to redesign the current National Program Operations Review process as part of an overall quality management program and to execute changes that ensure program integrity through sustained improvements.

RMA implemented a new review process for improper payments in 2015. The new process changed and expanded the sample size which produced more accurate results for 2015. RMA continues to work with Office of Inspector General and Office of Management and Budget to perfect our sampling methodology.

	Baseline 2013	2014 Actual	2015 Estimate	2018 Target
Improper Payment Rate	5.23%	5.58%	2.20%	4.90%

➤ **Create an RMA for the 21st century that is high performing, efficient, and adaptable**

RMA achieved the goal of being high performing, efficient, and adaptable by being recognized as an Equal Employment Opportunity Commission “Model Employer,” and by ranking in top ten of best places to work in USDA. RMA continues to modernize its information technology (IT) infrastructure, allowing the organization to accomplish its mission more efficiently.

In addition, RMA sponsored internal process improvement projects included changes to manual processes using Lean Six Sigma methodology, contests, and formal contracts for assistance that improved efficiency in 2015.



CROP AND INSURANCE STATISTICS

FCIC insurance statistics are shown below. The indemnities and loss ratios for 2015 are estimated as they are not known at the time the financial statements are prepared.

Program Information Comparison	Reinsurance Year 2015 (Estimated)	Reinsurance Year 2014 (Actual)
Number of Policies	1.20 million	1.21 million
Farmer Paid Premium	\$3.67 billion	\$3.86 billion
Premium Subsidies	\$6.05 billion	\$6.21 billion
Total Premium	\$9.72 billion	\$10.07 billion
Indemnities	\$8.14 billion	\$9.08 billion
Loss Ratio	84%	90%
Insurance Protection	\$101.40 billion	\$109.85 billion

FCIC insures 121 types of crops for reinsurance year 2015, the top five crops in volume are listed below, with the remaining crops (pasture, rangeland, forage; apples; almonds; potatoes; beans, etc...) grouped together as All Other. The five crops below represent 82% of total premiums. Reinsurance years run from July 1st to June 30th of the following year.

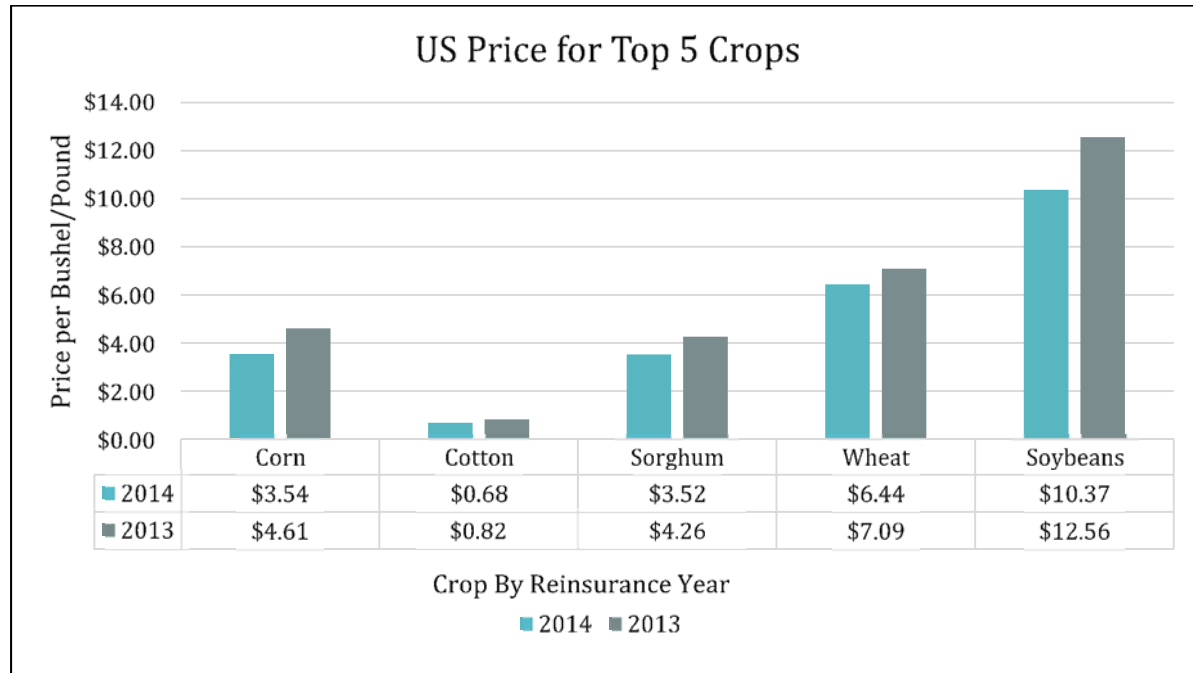
Crop	Reinsurance Year 2015* (billions)	Reinsurance Year 2014 (billions)
Corn	\$ 3,655	\$ 3,649
Soybean	\$ 2,081	\$ 2,260
Wheat	\$ 1,273	\$ 1,453
Cotton	\$ 680	\$ 757
Sorghum	\$ 258	\$ 216
All Other	\$ 1,734	\$ 1,760
Total	\$ 9,681	\$ 10,095

*Approximately 99% of all Premium is known at Sept. 30th, but the total premium will not be known until the next fiscal year.

As noted on the chart above total premiums have decreased. This is primarily due to the decrease in crop prices. Below is the United States (US) National Pricing data by bushel, except for cotton which is by pound, as compiled by USDA Economic Research Service. As shown in

**FEDERAL CROP INSURANCE CORPORATION/ RISK MANAGEMENT AGENCY'S FINANCIAL STATEMENTS
FOR FISCAL YEARS 2015 AND 2014**

the chart below, prices decreased from 2013 to 2014. Lower prices generally result in lower premiums.



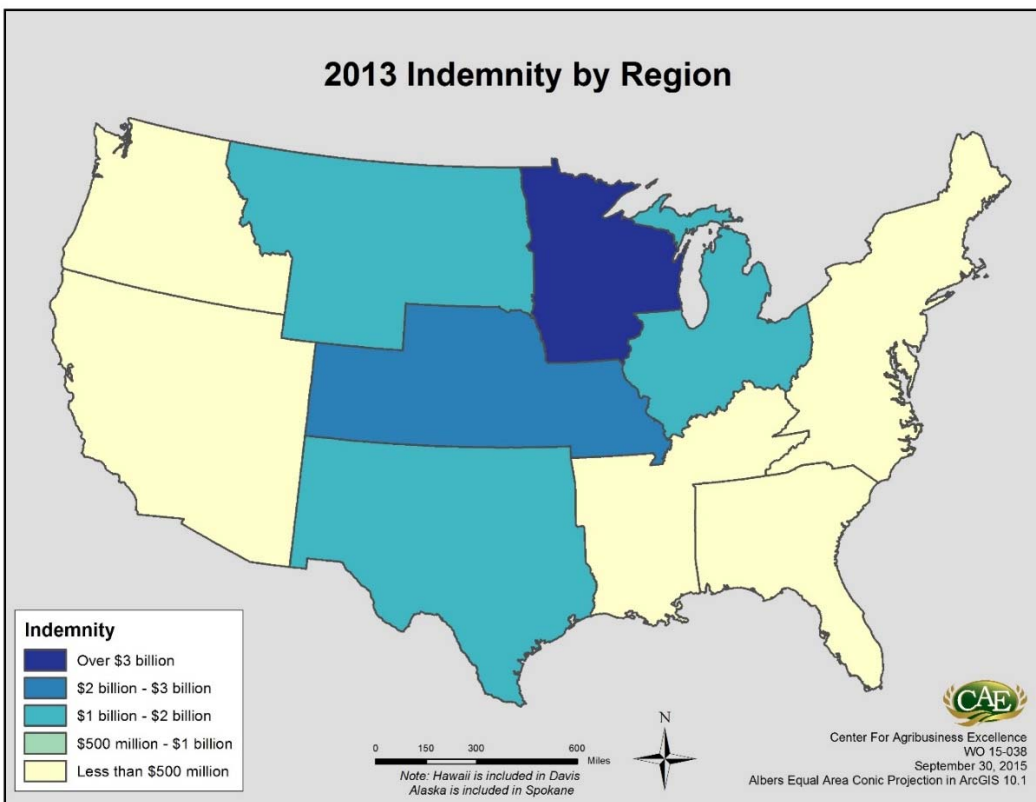
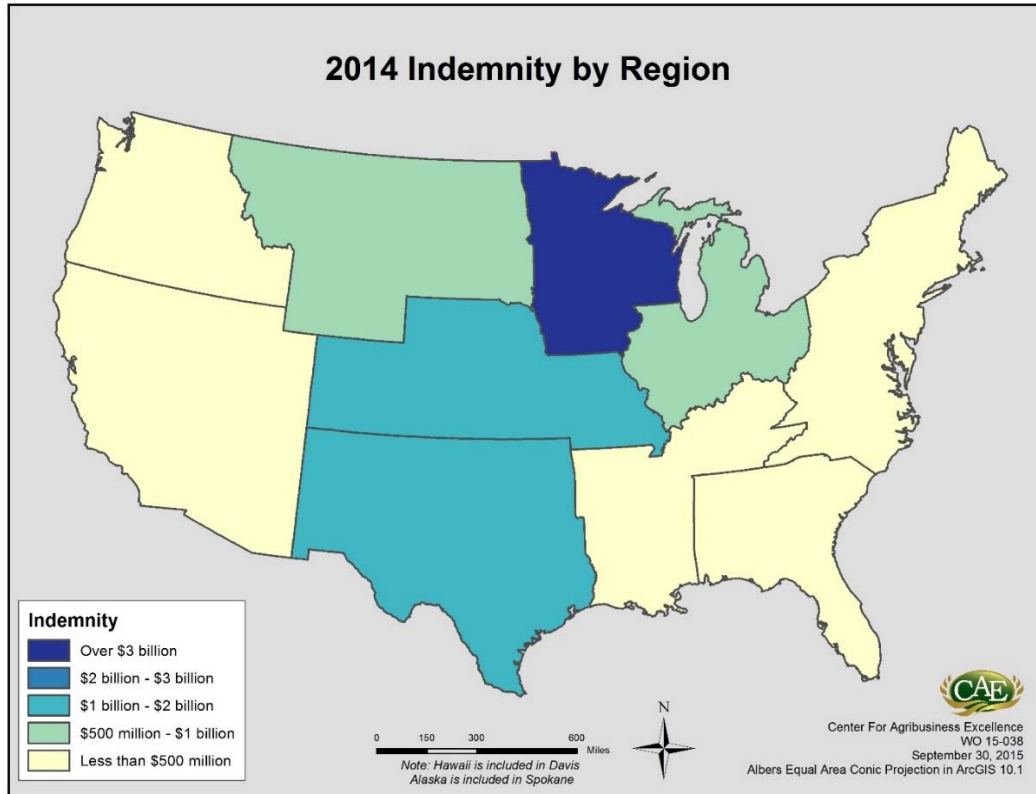
Losses (2013 and 2014 Cause of Loss, Indemnity by Region)

FCIC issues the annual financial report based on a fiscal year ending September 30. However, the growing season for the crops that constitute most of FCIC's book of business does not end until October or November. As a result, the majority of losses for a given reinsurance year are paid out in the following Fiscal Year. Below are the total indemnities for reinsurance year 2014 and 2013 (primarily paid in fiscal years 2015 and 2014, respectively) and a map of indemnities showing what level of losses occurred based upon RMA Regional Offices.

In reinsurance year 2014, the overall loss ratio was .90 compared to a loss ratio of 1.02 in reinsurance year 2013. In both 2014 and 2013, the top factors for losses were drought, excess moisture, and decline in prices.

- In 2014 the top causes of loss were: excess moisture, primarily in the Northern Plains; decline in price; and drought in the Central and Southern Plains.
- In 2013 the top causes of loss were: widespread drought in the Northern, Central, and Southern Plains; excess moisture in Iowa, Minnesota, and North Dakota.

**FEDERAL CROP INSURANCE CORPORATION/ RISK MANAGEMENT AGENCY'S FINANCIAL STATEMENTS
FOR FISCAL YEARS 2015 AND 2014**



FINANCIAL STATEMENT HIGHLIGHTS AND ANALYSIS

ASSETS

Funding

RMA maintains two separate funds: the Insurance Fund and the Salaries and Expenses (S&E) Fund. 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 S&E Fund is used to pay RMA’s salaries and administrative expenses. The funding for the S&E Fund is an annual appropriation set by Congress. The financial statements present both funds.

Assets

Fiscal Year 2015 – Assets (millions)	
Fund Balance with Treasury	\$ 3,118
Cash Held Outside of Treasury	\$ 192
Accounts Receivable, Net	\$ 422
Other	\$ 21

The majority of the assets are Fund Balance with Treasury (FBWT), Cash Held Outside of Treasury (CHOT), and Accounts Receivable (AR). RMA returns unobligated funds excluding the balances for Capital Stock, Paid-in Capital, and the Contingency Fund to the U.S Treasury. At the end of fiscal year 2015, RMA returned \$4.5 billion compared to the \$4.7 billion returned in 2014. Large returns to Treasury are caused by the normal collection of revenue due to FCIC on the last day of the fiscal year.

FBWT (Note 2) is a cash-like account which represents funds available which have not been disbursed and CHOT (Note 3) consists of amounts funded into escrow accounts for which AIP’s indemnity payments have not yet cleared. Together, these two accounts make up the cash held by FCIC.

AR (Note 4) with the public represents premiums from AIPs due to FCIC for crop insurance written by AIP and reinsured by FCIC. AIPs are responsible for collecting the premium from the producer and paying FCIC, whether or not the premium has been collected from the producer. Premiums are collected at the end of the growing season. As a result, significant amounts of premium are due in the fall, around the end of the fiscal year.

LIABILITIES

Liabilities

Liabilities on the Balance Sheet are classified into Estimated Losses on Insurance Claims (Note 6), Underwriting Gain (Note 8), Accounts Payable (Note 5), Unearned Revenue (Note 9), and Other Liabilities (Note 7) as shown in the table below.

Fiscal Year 2015 – Liabilities (millions)	
Estimated Losses on Insurance Claims	\$ 5,891
Underwriting Gain	\$ 2,563
Accounts Payable	\$ 1,424
Unearned Revenue	\$ 611
Federal Employee Benefits	\$ 2
Other Liabilities	\$ 20

Estimated Losses on Insurance Claims

The Estimated Losses on Insurance Claims make up the majority of liabilities. Estimated losses were calculated based on Statement of Federal Financial Accounting Standards (SFFAS) No. 5, *Accounting for Liabilities of the Federal Government*. The claims incurred but not reported (IBNR), Premium Deficiency Reserve (PDR), and change in CHOT make up the estimated loss on insurance claims balance sheet line item. PDR is a liability for premium subsidy deferred to next fiscal year where it will be used to pay out not yet incurred indemnities. PDR is estimated at the same rate as unearned premium.

Estimating Losses

FCIC establishes premium to attain an expected long-term loss ratio of 1.0. The premium cost for policies is determined by evaluating the loss experience in the program by county, by crop and pricing the premium to equal to the projected indemnity losses over the long term. Losses are divided into the premium to arrive at a loss ratio. A loss ratio of less than 1.0 means that there are less indemnity losses than premium. A loss ratio greater than 1.0 means that the losses are greater than the premium. For FCIC programs the loss ratios are measured periodically in relation to the reinsurance year which runs from July 1 through June 30. The eventual total loss ratio 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.

Actual losses are reported and recorded prior to the end of the fiscal year. The IBNR is the difference between the total losses expected to have occurred in the current year and losses that have been reported in the current year. PDR and unearned premium are reserves set aside for the portion of the insurance period that falls into the next fiscal year. PDR is the government subsidized portion of the reserves and unearned premium is related to the producer paid premium.

Uncertainty in Estimating Losses

Estimated losses are calculated as of September 30, 2015. There are a variety of risk factors that expose FCIC's liability estimates to uncertainty. The growing season for the crops that constitute most of FCIC's book of business does not end until October or November. As of September 30, most of the crop insurance claims that will eventually be attributed to the current reinsurance year have not yet occurred. A projection of total indemnities is made at the end of each fiscal year based on current conditions. Late season weather conditions and price changes in commodities can significantly impact the actual amount of losses. When actual losses are realized, upward or downward adjustments are made and reflected in the financial statements in subsequent years.

The table below shows that most losses for a given reinsurance year are realized in future fiscal years. For example the majority of the losses attributed to reinsurance year 2014 were reported and paid in fiscal year 2015. In fiscal year 2015, only \$2,129 of the total estimated losses of \$8,158 for reinsurance year 2015 have been realized through September 30.

Reinsurance Year	2015 (est.) (millions)	2014 (millions)
Losses Claimed and Paid in Current Fiscal Year	\$ 2,129	\$ 2,528
Losses Paid in Subsequent Fiscal Years	6,029	6,514
Total Losses	\$ 8,158	\$ 9,042

Although FCIC uses an actuarial model to project overall losses, it is subject to a high level of uncertainty. In the last 10 years, the difference between the actual and the estimated loss ratios has exceeded 10 points 90% of the time (9 of 10 years). The relatively high variance of this estimate reflects the large degree of uncertainty that is inherent in predicting losses before the end of the reinsurance year. The actual loss ratios in the last 10 years have varied from a low of 54% to a high of 157%. The average actual loss ratio for the past ten years was 83%.

**FEDERAL CROP INSURANCE CORPORATION/ RISK MANAGEMENT AGENCY'S FINANCIAL STATEMENTS
FOR FISCAL YEARS 2015 AND 2014**

Summary of Premium and Losses					
Actual (millions)			Loss Ratio		
Crop Year	Premiums (\$)	Losses (\$)	Actual	Projected	Difference
2005	3,949	2,367	60%	78%	18%
2006	4,580	3,504	77%	99%	22%
2007	6,562	3,548	54%	67%	13%
2008	9,851	8,680	88%	63%	(25%)
2009	8,951	5,222	58%	66%	8%
2010	7,595	4,254	56%	41%	(15%)
2011	11,843	10,814	91%	112%	21%
2012	11,113	17,442	157%	185%	28%
2013	11,805	12,072	102%	76%	(26%)
2014	10,066	9,083	90%	74%	(16%)
2015 EST	9,719	8,136		84%	

Underwriting Gain

Underwriting gain is the AIPs portion of the earnings on the insurance book of business. A periodic settlement, as stipulated in the SRA, is calculated where the results of the business written by AIPs are determined and an experience-rated gain or loss on business ceded from AIPs is computed. The timing of payment to AIPs for reinsurance gains is stipulated by the SRA. Payments to AIPs for net gain is paid in the second fiscal year following the reinsurance year.

Accounts Payable

Accounts Payable includes amounts due to AIPs for reimbursement of administrative and operating expenses associated with delivering the crop insurance program. The program's administrative and operating reimbursement has averaged \$1.4 billion over the past 10 years. There is a cap stipulated in the SRA that limits administrative and operating reimbursement.

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 in the balance sheet.

Other Liabilities

In fiscal year 2015, Other Liabilities include Intragovernmental of \$1 million (Note 7), and Other Liabilities with the Public of \$19 million (Note 7).

ANALYSIS OF STATEMENT OF NET COST

Statement of Net Costs		
Cost	Fiscal Year 2015 (millions)	Fiscal Year 2014 (millions)
Total Intragovernmental Costs	\$ 79	\$ 64
Indemnities	9,640	10,535
Program Delivery Cost	1,428	1,407
Other Program Costs	98	69
Premium Revenue	(3,670)	(3,916)
Net (Gain)/Loss on Business Ceded from AIP	659	560
Other Revenue	(55)	(60)
Net Cost of Operations	\$ 8,179	\$ 8,659

FCIC's net cost of operations decreased \$480 million from fiscal year 2014 to fiscal year 2015. The primary factor in the change in net cost is indemnity costs. The indemnity costs were \$895 million lower in fiscal year 2015. Underwriting gain and loss is reconciled every year from the estimates to the actual values. In 2014, there was a larger downward adjustment to underwriting gain than 2015 as illustrated in Note 13.



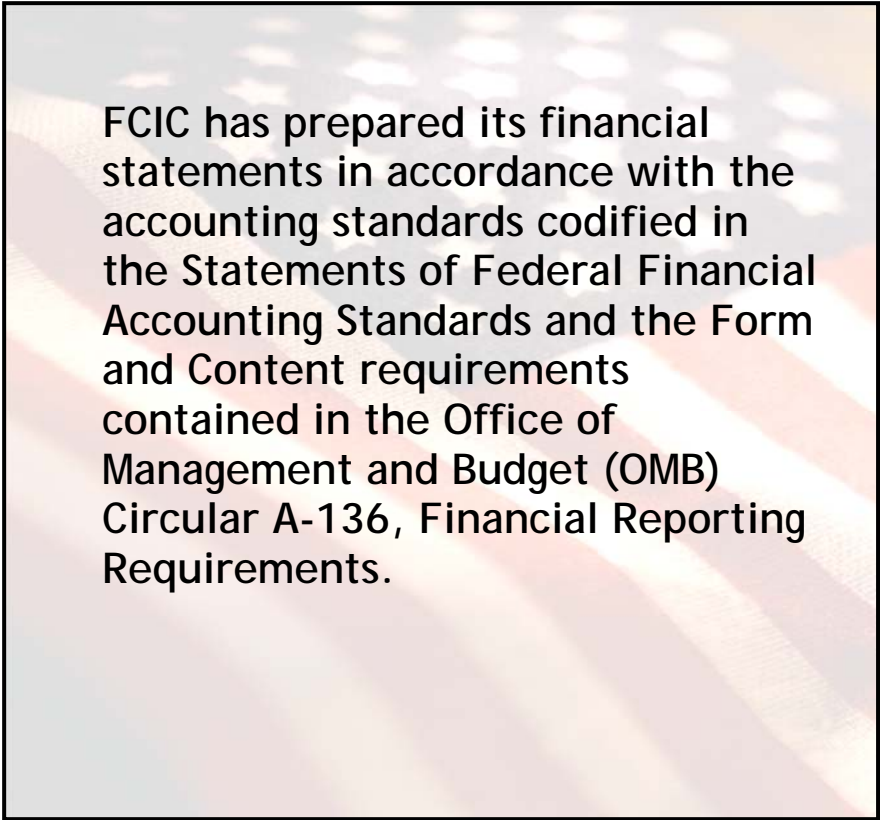
ANALYSIS OF STATEMENT OF BUDGETARY RESOURCES

Statement of Budgetary Resources		
Resource	Fiscal Year 2015 (millions)	Fiscal Year 2014 (millions)
Budgetary Resources	\$ 11,909	\$ 13,439
Obligated Balance at End of Year	\$ 2,725	\$ 2,229
Net Outlays	\$ 7,350	\$ 8,312

Overall, FCIC had \$1.5 billion less in budgetary resources at the end of fiscal year 2015. The end of year obligated balance increased by \$496 million in fiscal year 2015 compared to fiscal year 2014. Net Outlays are total cash disbursements less collections. Net outlays were \$962 million less in fiscal year 2015. This is primarily due to lower losses in reinsurance year 2014 which were paid in fiscal year 2015, compared to reinsurance year 2013 losses which were paid in fiscal year 2014.



FINANCIAL REPORTING REQUIREMENTS

A rectangular box with a black border containing text. The background of the box is a faded, stylized American flag with red and white stripes and a blue field with white stars.

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

SYSTEMS, CONTROLS AND LEGAL COMPLIANCE

MANAGEMENT ASSURANCES

Federal Manager's Financial Integrity Act (FMFIA) Assurance

RMA 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. RMA has conducted its assessment of internal controls and financial systems pursuant to Sections 2 and 4 of FMFIA. Based on the results of this evaluation, RMA 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, 2015 and 2014, was operating effectively with the exception of one material weakness found in the internal controls over financial reporting, as it relates to the estimated losses on insurance claims calculation for fiscal year 2014. The material weakness continued in fiscal year 2015.

Federal Financial Management Improvement Act (FFMIA) Assurance

RMA has evaluated its financial management systems under FFMIA for the period ended September 30, 2015. 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; and
3. United States Standard General Ledger at the Transaction Level.

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, 2015 and 2014 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 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 FCIC in accordance with Generally Accepted Accounting Principles (GAAP) for Federal entities and 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.

Improper Payments Elimination and Recovery Improvement Act (IPERIA)

In 2014, FCIC program was non-compliant with IPERIA. RMA did not meet published annual reduction targets for improper payments. Beginning in 2015, RMA used an OMB approved statistical sampling methodology that provided a more accurate estimate of the amount of improper payments in the federal crop insurance program. FCIC had an improper payment rate of 2.2% in 2015 which far surpassed the reduction target of 5.75%.



MESSAGE FROM MARGO E. ERNY, CHIEF FINANCIAL OFFICER

Risk Management Agency and Federal Crop Insurance Corporation

As Chief Financial Officer of the Risk Management Agency (RMA) and the Federal Crop Insurance Corporation, I am pleased to present the comparative financial statements for fiscal years 2015 and 2014. RMA has an excellent track record of clean audit opinions on its financial statements and expects that it will continue into the future. RMA continues to improve the transparency, accountability, and effectiveness of its' financial reporting.



Our most important 2015 accomplishments were significantly reducing our improper payments rate and improving financial statement readability.

RMA reduced its improper payment rate to 2.2%, far surpassing the reduction target rate of 5.75%. This is a significant improvement as RMA was in non-compliance with reporting for the Improper Payments Elimination and Recovery Improvement Act (IPERIA) in 2014. Beginning in 2015, RMA used an Office of Management and Budget (OMB) approved statistical sampling methodology that provided a more credible estimate of the amount of improper payments in the Federal Crop Insurance Program. Going forward, RMA is looking to expand the size of the sample to allow for more accurate determinations of the root causes of improper payments.

Financial Statement readability has been improved by implementing procedures to ensure that sufficient explanations are included in the financial statement note disclosures. These procedures include documented checklists and templates to guide financial statement note disclosures. This was in response to a significant deficiency noted in 2014 related to adequate internal controls over financial reporting.

RMA had a recurring material weakness related to Estimated Losses on Insurance Claims first identified in 2013. Although much progress has been made over the last two year since this weakness was first identified, the process still needs to be improved. RMA plans to improve internal controls over the estimate calculation in 2016.

We are proud of all the accomplishments of our hard-working employees at RMA. We are committed to being responsible stewards of taxpayer dollars and promoting stewardship of resources. We look forward to continuing to serve all the stakeholders of the Federal Crop Insurance Program.

FINANCIAL STATEMENTS

**FEDERAL CROP INSURANCE CORPORATION/ RISK MANAGEMENT AGENCY'S FINANCIAL STATEMENTS
FOR FISCAL YEARS 2015 AND 2014**

**RISK MANAGEMENT AGENCY
FEDERAL CROP INSURANCE CORPORATION
BALANCE SHEETS**

**As of September 30, 2015 and 2014
(in millions)**

	2015	2014
Assets		
Intragovernmental:		
Fund Balance with Treasury (Note 2)	\$ 3,118	\$ 2,659
With the Public:		
Cash Held Outside Treasury (Note 3)	192	148
Accounts Receivable, Net (Note 4)	422	182
General Property, Plant and Equipment	21	55
Total Public Assets	635	385
Total Assets	<u>\$ 3,753</u>	<u>\$ 3,044</u>
Liabilities		
Intragovernmental:		
Other Liabilities	\$ 1	\$ 1
With the Public:		
Accounts Payable (Note 5)	1,424	1,364
Federal Employee Benefits	2	2
Other Liabilities		
Estimated Losses on Insurance Claims (Note 6)	5,891	4,897
Unearned Revenue (Note 9)	611	619
Underwriting Gain (Note 8)	2,563	2,594
Other Liabilities (Note 7)	19	15
Total Other Liabilities	9,084	8,125
Total Liabilities	<u>\$ 10,511</u>	<u>\$ 9,492</u>
Commitments and Contingencies (Note 11)		
Net Position (Note 14)		
Capital Stock	\$ 500	\$ 500
Additional Paid-in Capital	38	38
Unexpended Appropriations	89	76
Cumulative Results of Operations	(7,385)	(7,062)
Total Net Position	<u>\$ (6,758)</u>	<u>\$ (6,448)</u>
Total Liabilities and Net Position	<u>\$ 3,753</u>	<u>\$ 3,044</u>

See accompanying notes to the financial statements.

**FEDERAL CROP INSURANCE CORPORATION/ RISK MANAGEMENT AGENCY'S FINANCIAL STATEMENTS
FOR FISCAL YEARS 2015 AND 2014**

**RISK MANAGEMENT AGENCY
FEDERAL CROP INSURANCE CORPORATION
STATEMENTS OF NET COST
For the Years Ended September 30, 2015 and 2014
(in millions)**

	2015	2014
Program Costs:		
Intragovernmental Gross Costs:		
Benefit Program Costs	\$ 11	\$ 10
Imputed Costs	16	18
Reimbursable Costs	51	36
Total Intragovernmental Costs	<u>\$ 78</u>	<u>\$ 64</u>
Gross Costs with the Public (Note 12)		
Indemnities	\$ 9,640	\$ 10,535
Program Delivery Costs	1,428	1,407
Other Program Costs	98	69
Total Gross Costs with the Public	<u>\$ 11,166</u>	<u>\$ 12,011</u>
Less: Earned Revenue from the Public (Note 13)		
Premium Revenue	\$ 3,669	\$ 3,916
Net (Gain)/Loss on Business Ceded from AIPs	(659)	(560)
Other Revenue	55	60
Total Earned Revenue with the Public	<u>\$ 3,065</u>	<u>\$ 3,416</u>
Net Costs with the Public	<u>8,101</u>	<u>8,595</u>
Net Cost of Operations	<u>\$ 8,179</u>	<u>\$ 8,659</u>

See accompanying notes to the financial statements.

**FEDERAL CROP INSURANCE CORPORATION/ RISK MANAGEMENT AGENCY'S FINANCIAL STATEMENTS
FOR FISCAL YEARS 2015 AND 2014**

**RISK MANAGEMENT AGENCY
FEDERAL CROP INSURANCE CORPORATION
STATEMENTS OF CHANGES IN NET POSITION
For the Years Ended September 30, 2015 and 2014
(in millions)**

	2015	2014
Capital Stock	\$ 500	\$ 500
Additional Paid-in-Capital	\$ 38	\$ 38
Cumulative Results of Operations		
Beginning Balance	\$ (7,062)	\$ (7,256)
Budgetary Financing Sources		
Appropriations Used	7,836	8,829
Transfers without Reimbursement	4	6
Other Financing Sources (Non-exchange)		
Imputed Financing Sources	16	18
Total Financing Sources	7,856	8,853
Net Cost of Operations	(8,179)	(8,659)
Net Change	(323)	194
Cumulative Results of Operations (Note 14)	\$ (7,385)	\$ (7,062)
Unexpended Appropriations:		
Beginning Balance	\$ 76	\$ 81
Budgetary Financing Sources		
Appropriations Received (Note 15)	12,393	13,545
Appropriations Transferred (Out)	(5)	(6)
Return to Treasury (Note 15)	(4,539)	(4,715)
Appropriations Used	(7,836)	(8,829)
Total Unexpended Appropriations	\$ 89	\$ 76
Net Position	\$ (6,758)	\$ (6,448)

See accompanying notes to the financial statements.

**FEDERAL CROP INSURANCE CORPORATION/ RISK MANAGEMENT AGENCY'S FINANCIAL STATEMENTS
FOR FISCAL YEARS 2015 AND 2014**

**RISK MANAGEMENT AGENCY
FEDERAL CROP INSURANCE CORPORATION
COMBINED STATEMENTS OF BUDGETARY RESOURCES
For the Years Ended September 30, 2015 and 2014
(in millions)**

	2015	2014
Budgetary Resources		
Unobligated Balance Brought Forward, October 1	\$ 571	\$ 568
Recoveries of Prior Year Unpaid Obligations	1	5
Other Changes in Unobligated Balance	0	(1)
Unobligated Balance from Prior Year Budget Authority	572	572
Appropriations (Note 15)	7,849	8,828
Spending Authority from Offsetting Collections	3,488	4,039
Total Budgetary Resources	<u>\$ 11,909</u>	<u>\$ 13,439</u>
Status of Budgetary Resources		
Obligations Incurred	\$ 11,336	\$ 12,868
Unobligated Balance, End of Year		
Apportioned	571	569
Unapportioned	2	2
Total Unobligated Balance	573	571
Total Budgetary Resources	<u>\$ 11,909</u>	<u>\$ 13,439</u>
Change in Obligated Balances		
Unpaid Obligations Brought Forward October 1 (Gross)	\$ 2,229	\$ 1,717
Obligations Incurred	11,336	12,868
Outlays, Gross	(10,839)	(12,351)
Recoveries of Prior Year Unpaid Obligations	(1)	(5)
Obligated Balance End of Year	<u>\$ 2,725</u>	<u>\$ 2,229</u>
Budget Authority and Outlays		
Budget Authority, Gross	\$ 11,337	\$ 12,867
Actual Offsetting Collections	(3,489)	(4,039)
Budget Authority, Net	<u>\$ 7,848</u>	<u>\$ 8,828</u>
Outlays, Gross	\$ 10,839	\$ 12,351
Actual Offsetting Collections	(3,489)	(4,039)
Net Outlays	<u>\$ 7,350</u>	<u>\$ 8,312</u>

See accompanying notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The 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. These financial statements include Risk Management Agency (RMA) and FCIC; hereafter the combined entity will be referred to as FCIC.

Basis of Presentation and Accounting

The accompanying financial statements have been prepared to report balance sheet, net cost, changes in net position, and budgetary resources. The financial statements have been prepared from books and records in accordance with Generally Accepted Accounting Principles (GAAP). GAAP for Federal financial reporting entities recognizes the Federal Accounting Standards Advisory Board 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 2015.

Accounting transactions are recorded 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.

Three types of years are referred to in this financial report. The financial statements are for fiscal years which run from October 1 to September 30. Statistics are maintained for policies, farmer paid premium, premium subsidy, total premium, indemnities, loss ratio, and insurance protection on a crop year basis. Crop year refers to the year in which a crop is harvested. Reinsurance year is based on the yearly reinsurance agreements with Approved Insurance Providers (AIPs) and runs from July 1 to June 30. General ledger transactions are based on reinsurance years. Multiple reinsurance years are active during each fiscal year.

Fund Balance with Treasury

Fund Balance with Treasury (FBWT) 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 FBWT consists of appropriated funds and receipts collected from non-Federal entities.

Cash Held Outside Treasury

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

Accounts Receivable

Accounts receivable with the public represents premiums from AIPs due to FCIC for crop insurance written by AIPs and reinsured by FCIC. AIPs are responsible for collecting premium from the producer and paying FCIC, whether or not premium has been collected from the producer. Accounts receivable also includes producers' accounts receivable that represents amounts due from individual producers for interest, overpaid indemnities, and debts which are payable directly to FCIC.

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

General Property, Plant, and Equipment

General Property, Plant, and Equipment consist of office furniture, computer equipment, and computer software. Property, plant, and equipment with an acquisition cost of \$25,000 or more; 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 continuing to develop a new system to replace its current reinsurance program systems. In accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 10, *Accounting for Internal Use Software*, contractor and RMA internal staff costs related to the new system will be amortized over a period of 5 years once the software is implemented.

Accounts Payable

Accounts Payable includes 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 program delivery costs. The payments for program delivery costs are due the first month of the following fiscal year.

Retirement Plans

SFFAS No. 5, *Accounting for Liabilities of the Federal Government*, requires Federal entities to recognize an expense for pensions and other retirement benefits at the time the employee's

services are rendered. The purpose of recognizing this expense is to record and report the full cost of each entity's operation. A corresponding revenue, Imputed Financing Sources, is recognized to the extent pension and other retirement benefit expenses exceed the amount paid to the United States Office of Personnel Management.

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, temporary reduction (due to sequestration), 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. 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 in the balance sheet. Just as a liability is established for the unearned portion of producer paid premium, a liability is also established for the premium subsidy deferred to next fiscal year where it will be used to pay out not yet incurred indemnities. The Premium Deficiency Reserve (PDR) is estimated at the same rate as unearned premium and is included in the Estimated Loss on Insurance Claims Liability in the balance sheet.

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

Loss Recognition

Estimated losses are calculated based on SFFAS No. 5. Claims incurred during the period are recognized as losses. The liability for estimated losses on insurance claims represents those claims that have been incurred but not reported to FCIC as of the Balance Sheet date and reported unpaid claims. 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 producer paid premium and premium subsidies. If indemnity costs exceed total premium, additional funds will be apportioned to FCIC.

Use of Estimates

The preparation of 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

FCIC financial statements show estimates on the Balance Sheet and Statement of Net Cost on the following line items: Balance Sheet - Estimated Losses on Insurance Claims, Unearned Revenue, and Underwriting Gain; Statement of Net Cost – Indemnities, Program Delivery Costs, Premium Revenue, Net (Gain)/Loss on Business Ceded from AIP's, and Other Revenue.

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

Apportionment Categories of Obligations Incurred

The Insurance Fund receives a direct apportionment. The fiscal years 2015 and 2014 insurance fund obligations incurred were \$11.3 billion and \$12.8 billion, respectively. In fiscal years 2015 and 2014, the S&E fund obligations incurred were \$79.7 million and \$70.6 million, respectively.

Premium Deficiency Reserve

Premium Deficiency Reserve is a liability for premium subsidy deferred to next fiscal year where it will be used to pay out not yet incurred indemnities in excess of producer premiums. PDR is estimated at the same rate as unearned premium. The premium subsidy represents the subsidized portion, covered by appropriations, of total premiums on the crop insurance program.

Underwriting Gain/Loss

Underwriting gain/loss is the Approved Insurance Providers (AIPs) portion of the earnings or losses on the insurance book of business due from or to FCIC. A periodic settlement, as stipulated in the SRA, is calculated where the results of the business written by AIPs are determined and an experience-rated gain or loss on business ceded from AIPs is computed. Payments due to AIPs for a net gain are paid in the second fiscal year following the reinsurance year. Losses are paid to FCIC periodically.

Reclassifications

FCIC reclassified the Contingency Fund amount reported in the Net Position section of the Balance Sheet. The Unexpended Appropriations amount now includes the amount previously reported as Contingency Fund to better align with the sections of the Statement of Changes in Net Position.

NOTE 2 – FUND BALANCE WITH TREASURY

Fund balance with treasury at September 30, 2015 and 2014 consists of:

2015	S&E Fund (millions)	Insurance Fund (millions)	Total (millions)
Obligated not yet disbursed	\$ 17	\$ 2,515	\$ 2,532
Unobligated available	1	570	571
Unobligated unavailable	2	13	15
Total Fund Balance with Treasury	\$ 20	\$ 3,098	\$ 3,118
2014	S&E Fund (millions)	Insurance Fund (millions)	Total (millions)
Obligated not yet disbursed	\$ 15	\$ 2,066	\$ 2,081
Unobligated available	0	569	569
Unobligated unavailable	2	7	9
Total Fund Balance with Treasury	\$ 17	\$ 2,642	\$ 2,659

FCIC maintains separate accounts for the S&E (appropriated) and Insurance (revolving) Funds. The S&E Fund is used to pay administrative and operating expenses of RMA. The Insurance Fund is used to pay losses, administrative & operating (A&O) subsidies, and other costs authorized in the Farm Bill. In fiscal year 2015, \$5.5 million was transferred from Insurance Fund to the S&E Fund in accordance with Section 516 of the Act. All funds are currently available to FCIC except for the prior year unobligated balances in the S&E fund and temporarily sequestered amounts in the insurance fund. The unobligated unavailable amount includes sequestered funds.

NOTE 3 – CASH HELD OUTSIDE TREASURY

Cash held outside of treasury as of September 30, 2015 and 2014 is:

CASH HELD OUTSIDE TREASURY	2015 (millions)	2014 (millions)
Balance	\$ 192	\$ 148

Cash held outside of treasury consist of funds in FCIC escrow accounts. These accounts are used by AIPs to pay farmer losses. The fluctuation in these accounts are due to normal seasonal variation.

NOTE 4 – ACCOUNTS RECEIVABLE

Accounts receivable and allowance for uncollectible accounts as of September 30, 2015 and 2014 are:

Fiscal Year	Gross Accounts Receivable (millions)	Allowance for Uncollectible Accounts (millions)	Net Accounts Receivable (millions)
2015	\$ 427	\$ (5)	\$ 422
2014	\$ 196	\$ (14)	\$ 182

Accounts receivable includes premiums from AIPs due to FCIC. AIPs are responsible for collecting premiums and paying FCIC whether or not they have received premiums from the producer. Also included are amounts due from individual producers for interest, overpaid indemnities, and debts which are payable directly to FCIC. The allowance for uncollectible accounts is based on historical experience. The increase from 2014 to 2015 is mostly due to AIPs that failed to pay their obligations by September 30th.

NOTE 5 – ACCOUNTS PAYABLE

The payment of delivery cost is made in October of each fiscal year following the reinsurance year. Therefore, delivery costs are included in the accounts payable line in each fiscal year.

Total accounts payable, including delivery costs, as of September 30, 2015 and 2014 are:

Accounts Payable	2015 (millions)	2014 (millions)
Delivery Costs	\$ 1,407	\$ 1,362
Other	17	2
Total	\$ 1,424	\$ 1,364

NOTE 6 – ESTIMATED LOSSES ON INSURANCE CLAIMS

The following table summarizes the activity in the accrual for estimated losses on insurance claims and net balance as of September 30, 2015 and 2014:

Estimated Losses on Insurance Claims	2015 (millions)	2014 (millions)
Balance as of October 1	\$ 4,897	\$ 5,202
Incurring Related to:		
Current Year	6,833	6,282
Prior Years	2,790	4,316
Total Incurred	\$ 9,623	\$ 10,598
Paid Related to:		
Current Year	(2,129)	(2,528)
Prior Years	(6,517)	(8,312)
Total Paid	\$ (8,646)	\$ (10,840)
Change in Premium Deficiency Reserve	17	(63)
Net Balance as of September 30	\$ 5,891	\$ 4,897

This note breaks out Losses Incurred and Paid by the reinsurance year the loss is related to.

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 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 farms. 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.

The change in liability is represented by expenses recognized for both current and prior reinsurance years' policies, and the claims paid for both current and prior insurance years' policies.

Fiscal Year 2014

The beginning balance in fiscal year 2014 represents the liability from fiscal year 2013. At the end of fiscal year 2013, estimated losses for reinsurance year 2013 were associated with a loss ratio of .76. Lower commodity prices in the fall of 2013 triggered higher losses than estimated

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FOR FISCAL YEARS 2015 AND 2014**

resulting in an actual loss ratio of 1.02. In fiscal year 2014, reinsurance year 2013 losses paid were \$8.3 billion of which only \$5.2 billion had been estimated.

Fiscal Year 2015

The beginning balance in fiscal year 2015 represents the estimated losses for reinsurance year 2014 which was associated with a loss ratio of .74. The actual loss ratio for reinsurance year 2014 was .90 resulting in \$1.6 billion losses beyond those that were estimated.

Comparing 2015 and 2014

The estimated losses were higher in fiscal year 2015 compared to 2014. The increase in the estimated losses is due to the slight difference in yield and revenue associated with program variability. Fiscal year 2014 had higher incurred and paid losses of approximately \$2 billion which were caused by higher losses for reinsurance year 2013.

The difference in Paid for Current Year is due to normal seasonal fluctuation of loss reporting by AIPs and producers.

The difference in PDR is due to a decline in premium from reinsurance year 2013 to reinsurance year 2014. The total premium for reinsurance years 2015, 2014, 2013 were \$9.7 billion, \$10.1 billion, and \$11.8 billion respectively.

NOTE 7 – OTHER LIABILITIES

Other Liabilities as of September 30, 2015 and 2014 consist of:

Other Liabilities, Federal and Non-Federal	2015 (millions)	2014 (millions)
Intragovernmental:		
Other Accrued Liabilities, Federal	\$ 1	\$ 1
With the Public:		
Estimated Delivery Costs	9	7
Annual Leave Liability	4	4
Accrued Payroll and Benefits	2	1
Other Accrued Liabilities	4	3
Total Other Liabilities, with the Public	\$ 19	\$ 15

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

NOTE 8 – UNDERWRITING GAIN

The liability for underwriting gain as of September 30, 2015 and 2014 is:

Underwriting Gain	2015 (millions)	2014 (millions)
Current Year Estimated Gains	\$ 1,530	\$ 1,955
Actual Gains	1,033	639
Total Underwriting Gain Liability	\$ 2,563	\$ 2,594

At the end of fiscal year 2014, the Underwriting Gain Liability includes amounts for reinsurance years 2013 and 2014. The reinsurance year 2013 Underwriting Gain \$639 million was based on an actual overall loss ratio of 1.02 and was paid in fiscal year 2015. The estimated reinsurance year 2014 underwriting gain was \$1,955 million and was based on a loss ratio of .74.

The Underwriting Gain liability for fiscal year 2015 includes amounts for reinsurance year 2014 and 2015. The reinsurance year 2014 actual Underwriting Gain \$1,033 million was based on an actual overall loss ratio of .90 and will be paid in fiscal year 2016. The estimated reinsurance year 2015 underwriting gain was \$1,530 million and was based on an estimated loss ratio of .84.

NOTE 9 – UNEARNED REVENUE

Unearned revenue at September 30, 2015 and 2014 is:

Unearned Revenue	2015 (millions)	2014 (millions)
Total Unearned Revenue	\$ 611	\$ 619

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 in the balance sheet.

NOTE 10 – LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

Liabilities not covered by budgetary resources at September 30, 2015 and 2014 are:

Liabilities	2015 (millions)	2014 (millions)
Estimated Losses on Insurance Claims	\$ 5,699	\$ 4,749
Underwriting Gain	1,530	1,955
Unfunded Leave	4	4
FECA	2	2
Total Liabilities Not Covered by Budgetary Resources	\$ 7,235	\$ 6,710
Total Liabilities Covered by Budgetary Resources	\$ 3,276	\$ 2,782
Total Liabilities	\$ 10,511	\$ 9,492

Liabilities not covered by budgetary resources are not funded by current apportionments. Estimated losses on insurance claims liabilities not covered by budgetary resources were \$5.7 billion as of September 30, 2015, and \$4.7 billion as of September 30, 2014. Excluded from this footnote are reported unpaid claims that are funded by budgetary resources.

In fiscal year 2015, a portion of underwriting gain is covered by budgetary resources. The loss ratio for reinsurance year 2014 was .90 and the loss ratio for reinsurance year 2013 was 1.02. Due to a decreased loss ratio for reinsurance year 2014, more underwriting gain was due to the AIPs increasing total liabilities covered by budgetary resources.

For both fiscal years 2015 and 2014, Federal Employees Compensation Act (FECA) liability is \$2 million that includes Intragovernmental Other Liabilities of approximately \$.4 million for an unfunded FECA liability. 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.

NOTE 11 – COMMITMENTS AND CONTINGENCIES

FCIC is a defendant in litigation cases arising during the normal course of business. To defend its policies and procedures, FCIC may pay litigation expenses and judgments over and above the 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 financial statements.

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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 one ongoing case in which legal counsel believes the chances of unfavorable outcome is more than remote.

Payment for this case have been deemed reasonably possible for an estimated amount of \$6 million. FCIC has not recognized a liability in the financial statements since we will continue to vigorously contest this case and do not believe the possibility of an unfavorable outcome is probable.

NOTE 12 – GROSS COSTS

Insurance indemnity costs for the year ending September 30, 2015 and 2014 consist of:

Insurance Indemnity Costs	2015 (millions)	2014 (millions)
Current Year		
Incurred	\$ 6,833	\$ 6,282
Premium Deficiency Reserve	994	977
Total Current Year	7,827	\$ 7,259
Prior Years		
Incurred	\$ 2,790	\$ 4,316
Premium Deficiency Reserve	(977)	(1,040)
Total Prior Year	\$ 1,813	\$ 3,276
Insurance Claims and Indemnities	\$ 9,640	\$ 10,535

The majority of variance in Gross Costs between fiscal years is associated with the estimated versus actual indemnities. Estimated indemnities are based on estimated premium with the addition of current information on prices and yield to determine estimated loss ratio. Total premium fluctuates based upon commodity prices.

The indemnity costs were \$895 million lower in fiscal year 2015. This was due to a fluctuation in commodity prices during harvest which substantially occurred after each fiscal year end. The variance relates to the higher loss ratio of 1.02 for reinsurance year 2013 losses paid in fiscal year 2014 than the reinsurance year 2014 loss ratio of .90 paid in fiscal year 2015. The original estimated loss ratios for reinsurance year 2013 and 2014 were .76 and .74, respectively.

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Other Program Costs with the Public	2015 (millions)	2014 (millions)
Salaries and Expenses	\$ 59	\$ 44
Other Program Costs	39	25
Total Other Program Costs	\$ 98	\$ 69

Other program costs consist of bad debt expense, initiatives, insurance program technology projects, and amortization on insurance program technology projects. The majority of the increase in Total Other Program Costs is associated with amortization and write-offs of capitalized work in progress on information technology projects.

NOTE 13 – EARNED REVENUE WITH THE PUBLIC

Earned revenue with the public as of September 30, 2015 and 2014 is:

Comparative Premium Revenue	2015 (millions)	2014 (millions)
Premium Revenue	\$ 3,669	\$ 3,916

Premium rates are set based upon underlying commodity prices. In 2015, lower commodity prices caused a \$246 million variance in premium revenue.

Net (Gain)/Loss on Business Ceded from AIPs	2015 (millions)	2014 (millions)	Variance (millions)
Downward Revision of Prior Year Estimates	\$ 922	\$ 1,333	\$ (411)
Other Prior Year Gains	(71)	(7)	(64)
Adjustment to Underwriting Losses	20	69	(49)
Net Prior Years Activity Losses	\$ 871	\$ 1,395	\$ (524)
Current Year Estimated Gains	(1,530)	(1,955)	425
Total	\$ (659)	\$ (560)	\$ (99)

Premiums and losses are reported monthly by AIPs to FCIC. A periodic settlement, as stipulated in the SRA, is calculated where the results of the business written by AIPs are determined and an experience-rated gain or loss on business ceded from AIPs is computed. Payments to AIPs for the net gain are paid in the second fiscal year following the reinsurance year.

The variance in Net Prior Years Activity is due to the differences in downward revisions of the reinsurance years 2013 and 2014 underwriting gains. These revisions are due to the loss ratios

increasing from year to year. At September 30, 2014, the downward adjustment to the reinsurance year 2013 underwriting gain was \$1.33 billion. At September 30, 2015 the downward adjustment of the reinsurance year 2014 underwriting gain was \$922 million, accounting for \$411 million of the difference in Net Prior Years Activity between fiscal years 2014 and 2015. Adjustment to other previous years underwriting gains were \$64 million higher in fiscal year 2015 than fiscal year 2014. Additional adjustments to underwriting losses were higher in fiscal year 2014 than fiscal year 2015 accounting for an additional \$49 million of difference in Net Prior Year Activity for 2014 and 2015. The variance in Net Prior Years Activity Losses was \$524 million, the combined total of Downward Revision of Prior Year, Other Previous Years Gains, and Adjustment to Underwriting Losses.

In addition, a lower reinsurance year 2015 underwriting gain estimate due to decrease in market prices for the major agricultural crops resulting in a difference in Current Year Estimated of \$425 million.

NOTE 14 – NET POSITION – STATEMENT OF CHANGES IN NET POSITION

The beginning balance of Cumulative Result of Operations in fiscal year 2015 was \$194 million higher than fiscal year 2014 due to normal program variability. The Cumulative Results of Operations at the end of fiscal year 2015 was (\$7.4) billion.

In fiscal year 2015, FCIC requested \$1.2 billion less in appropriations to cover the losses than what was requested in 2014. The appropriation requested in 2015 was based on lower premium caused by lower commodity prices. The amount of appropriations used was \$993 million less in fiscal year 2015 than fiscal year 2014. FCIC returned \$4.5 billion to Treasury in fiscal year 2015, compared to \$4.7 billion in fiscal year 2014.

Capital Stock

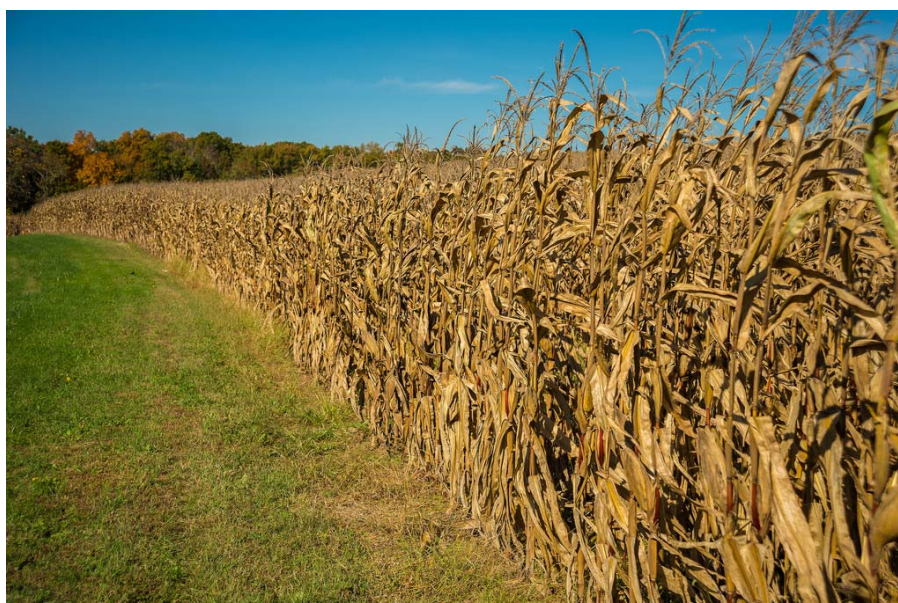
Section 1504 (a) of the Act authorizes capital stock of \$500 million subscribed by the United States, and issued to the Secretary of the Treasury. There has been no change in the capital stock issued since August 15, 1985.

NOTE 15 – BUDGETARY FINANCING SOURCES

Budgetary Financing Sources	2015 (millions)	2014 (millions)
Appropriations Received Program Fund	\$ 12,317	\$ 13,472
Return to Treasury	(4,539)	(4,715)
Appropriations Received S&E Fund	75	72
Appropriations Transferred	(5)	(6)
Recoveries from Prior Year Unpaid Obligations	1	5
Appropriations	\$ 7,849	\$ 8,828

In fiscal years 2015 and 2014, FCIC received an Insurance Fund appropriation of \$12.3 billion and \$13.5 billion respectively, for premium subsidy, reinsurance administrative and operating reimbursement expense, and other programs specified in the Act. FCIC has permanent indefinite appropriations available to fund premium subsidy, delivery expenses, losses in excess of premiums and other risk management initiatives. At the end of each fiscal year, FCIC returns to the U.S. Treasury all unobligated balances in the indefinite appropriation in excess of the amount FCIC is authorized by statute to retain which includes the capital stock, paid-in capital, and the contingency fund. In fiscal year 2015, \$4.5 billion was returned to Treasury compared to \$4.7 billion in 2014.

The S&E Fund appropriation received was \$74.8 million in fiscal year 2015 and \$71.5 million in fiscal year 2014. In fiscal year 2015, \$5.5 million was transferred from Insurance Fund to the S&E Fund in accordance with Section 516 of the Act.



NOTE 16 – EXPLANATION OF DIFFERENCES BETWEEN THE SBR AND BUDGET OF THE U.S. GOVERNMENT

Fiscal Year 2014 Statement of Budgetary Resources v. President's Budget (in millions)				
	Account	Budgetary Resources	Obligations Incurred	Net Outlays
<u>Statement of Budgetary Resources:</u>				
	Insurance Fund	\$ 13,366	\$ 12,798	\$ 8,245
	S&E	73	70	67
	Total	\$ 13,439	\$ 12,868	\$ 8,312
<u>Reconciling Items:</u>				
Expired Accounts		2	0	0
Rounding Difference		0	0	(1)
	Total	\$ 2	\$ 0	\$ (1)
Budget of the United States Government		\$ 13,437	\$ 12,868	\$ 8,311

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 Report on Budget Execution and Budgetary Resources (SF-133). The permanent indefinite appropriation for the crop insurance program is used to cover premium subsidy, delivery expenses, losses in excess of premiums, and initiatives. Some reporting differences do exist between comparable amounts in the Statement of Budgetary Resources (SBR), the President's Budget, and the SF-133. The table above is a comparison of the fiscal year 2014 Statement of Budgetary Resources, and the President's Budget. The comparison between the fiscal year 2015 Statement of Budgetary Resources and the fiscal year 2015 actual numbers presented in the fiscal year 2017 Budget cannot be performed as the fiscal year 2017 Budget is not yet available. The fiscal year 2017 Budget is expected to be published in February 2016 and will be available from the Government Printing Office.

NOTE 17 – 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.



**FEDERAL CROP INSURANCE CORPORATION/ RISK MANAGEMENT AGENCY'S FINANCIAL STATEMENTS
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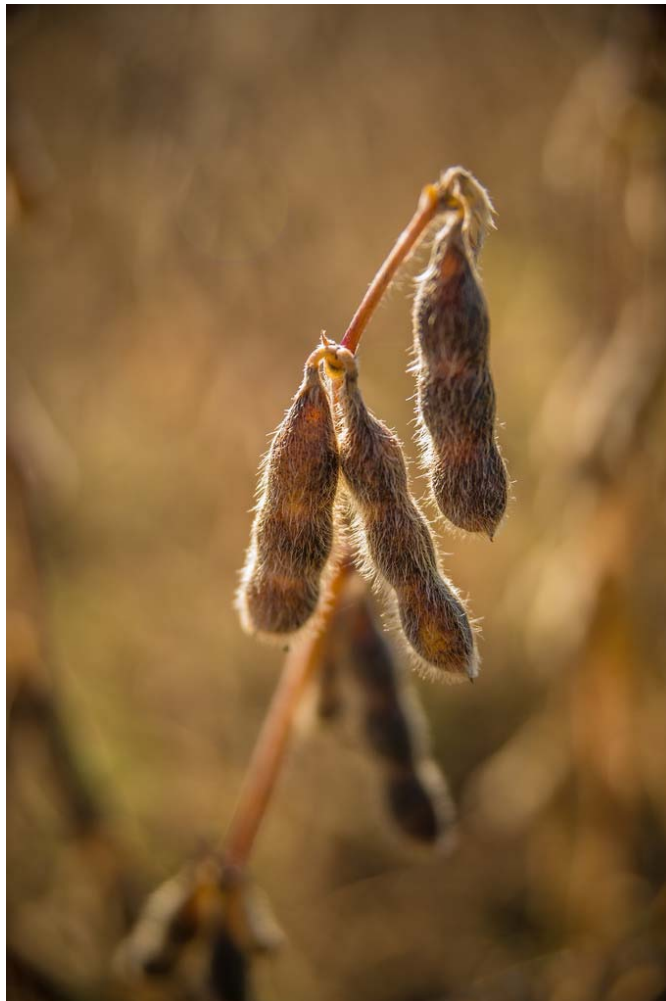
Reconciliation of Net Cost of Operations (Proprietary) to Budget	2015 (millions)	2014 (millions)
Resources Used to Finance Activities		
Budgetary Resources Obligated		
Obligations incurred	\$ 11,336	\$ 12,868
Less: Spending authority from offsetting collections and recoveries	(3,490)	(4,044)
Obligations net of offsetting collections and recoveries	\$ 7,846	\$ 8,824
Imputed financing from costs absorbed by others	16	18
Total resources used to finance activities	\$ 7,862	\$ 8,842
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	5	(11)
Resources that fund expenses recognized in prior periods (Decrease in Unfunded Insurance Estimates)	0	(167)
Resources that finance the acquisition of assets	15	0
Total resources used to finance items not part of the cost of operations	20	(178)
Total resources used to finance the net cost of operations	\$ 7,882	\$ 8,664
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	(256)	(5)
Other (Increase in Unfunded Insurance Estimates, program delivery costs)	536	(9)
Total components of net cost of operations that will require or generate resources in the future period	\$ 280	\$ (14)
Components Not Requiring or Generating Resources		
Depreciation and amortization	19	0
Bad debt expense	(2)	9
Total components of net cost of operations that will not require or generate resources	17	9
Total components of net cost of operations that will not require or generate resources in the current period	\$ 297	\$ (5)
Net Cost of Operations	\$ 8,179	\$ 8,659

The decrease in spending authority from offsetting collections and recoveries is due to premiums declining between fiscal years 2014 and 2015.

The resources that fund expenses recognized in prior periods are the changes in unfunded insurance estimates. The change in estimates shown in 2014 as the Decrease in Unfunded Insurance Estimates compares to the change in estimates in 2015 shown as the Increase in Unfunded Insurance Estimates. The difference is due to an increase in the loss estimate and decrease in underwriting gain related to different loss ratio estimates between 2014 and 2015.

The difference in Resources that Finance the Acquisition of Assets from 2014 to 2015 reflects the capitalization of work in progress. The increase in Depreciation and Amortization is associated with amortization and write-offs of capitalized work in progress on information technology projects.

The change in exchange revenue receivable from the public is due to AIPs delaying payment of their monthly settlement report balances.



REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION (UNAUDITED)

Risk Management Education Partnerships

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

RFAs were announced in 2015 for Crop Insurance in Targeted States Program and the Risk Management Education Partnership Program. Partnerships with qualified applicants provide education, outreach assistance and related tools and information on crop insurance programs and risk management strategies. Awards are given on a competitive basis and awarded for a one year term. Awardees must demonstrate non-financial benefits and agree to substantial involvement by FCIC in the project. Funding for this work is authorized in section 522 and 524 of the Act.

Partnerships were established with National Institute of Food and Agriculture (NIFA), the Commodity Futures Trading Commission, the USDA National Office of Outreach, the Economic Research Service, and private industry. These organizations work with Women, Hispanics, African Americans, Asian Americans, Native Americans, Immigrants, Military Veterans, Organic Crops, Beginning Producers, Specialty Crop Producers & Ranchers, New Markets, Livestock Farmers, Limited Resource, Retiring-Transitioning, Strikeforce, Socially Disadvantaged, Sustainable Producers, Traditional, Value-Added and Small Farms & Ranches.

Education efforts are improved by expanding State and Regional education partnerships; encouraging the development of information and technology-based decision aids; facilitating local crop insurance education and risk management training workshops throughout the nation through Cooperative Agreements with educational institutions and community-based outreach organizations.

Summary of RME Initiatives Since Fiscal Year 2011	2015 Estimate	2014	2013	2012	2011
RME obligations (millions)	\$ 8	\$ 9	\$ 10	\$ 13	\$ 10
Number of producers attending RME sessions	49,000	155,027*	89,100	81,000	79,500

*2014 number was higher due to increased outreach associated with the rollout of the Farm Bill.

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

Cooperative agreements were awarded to 35 partners for \$2.6 million in 48 States for the delivery of training to U.S. farmers and ranchers in managing production, marketing, financial, legal, and human risk. The program gives priority to educating producers of crops currently not insured under Federal crop insurance, specialty crops, and underserved commodities, including livestock and forage.

Targeted States

Cooperative agreements were awarded to 16 partners for \$4.9 million in 16 States for crop insurance education to underserved producers under the Crop Insurance in Targeted States Program. The Act directs FCIC to increase crop insurance education in certain areas of the country that have been historically underserved by the Federal crop insurance program. The Secretary determined that sixteen states met the underserved criteria. These states are Connecticut, Delaware, Hawaii, Maine, Maryland, Massachusetts, Nevada, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, Utah, Vermont, West Virginia, and Wyoming.



REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

2015 Risk Assumed

FCIC identifies the risk assumed as the total amount of premium for the already commenced reinsurance year. The total premium has been calculated using generally accepted actuarial methods to attain a forecasted break-even loss ratio of 1.0. As a result, the risk assumed is equal to the total premium.

Risk Assumed is \$9,771 million, less the actual losses recorded of \$2,129 million resulting in an Estimate of Unpaid Losses of \$7,642 million.

Risk Assumed	(millions)
Estimate of Losses	\$ 7,642
Risk Assumed	\$ 9,771



OTHER INFORMATION (UNAUDITED)

SCHEDULE OF SPENDING

Schedule of Spending	2015 (millions)	2014 (millions)
What Money is Available to Spend?		
Total resources	\$ 11,909	\$ 13,439
Less Amount available but not agreed to be spent	(571)	(569)
Less Amount not available to be spent	(2)	(2)
Total Amount agreed to be spent	\$ 11,336	\$ 12,868
How was the Money Spent?		
Assists rural communities to create prosperity so they are self-sustaining, repopulating and economically thriving:		
10-Personnel compensation and benefits	\$ 54	\$ 52
20-Contractual services and supplies	2,603	2,134
30-Equipment, land, and structures	1	0
40-Insurance claims and indemnities	8,678	10,682
Total Spending	\$ 11,336	\$ 12,868
Where did the Money go to?		
Federal	\$ 59	\$ 62
Non-Federal	11,277	12,806
Total amount agreed to be spent	\$ 11,336	\$ 12,868

The Schedule of Spending (SOS) presents an overview of how and where FCIC has spent (i.e. obligated) money comparatively in the past two fiscal years. The data used to populate this schedule is the same underlying data used to populate the SBR. The "Total Amounts Agreed to be Spent" line item of the schedule should reconcile to the "Obligations Incurred" line in the SBR. These amounts may not reconcile to USAspending.gov because the SOS and the website have different reporting requirements.

Total resources were lower in fiscal year 2015 due to lower appropriations and offsetting collections. The appropriation requested in fiscal year 2015 was lower due to a decrease in premium volume caused by a drop in commodity prices. Offsetting collections was lower in fiscal year 2015 due to lower premium volume caused by lower commodity prices and a delayed payment by AIPs.

Amount spent in fiscal year 2015 for contractual services was higher due to a larger obligation of underwriting gain. For insurance claims and indemnities, the lower loss ratio in reinsurance year 2014 vs reinsurance year 2013 (.90 vs 1.02) attributes to lower loss payments in fiscal year 2015 than fiscal year 2014. Lower losses are due to better weather and a decrease variability in prices between the beginning and ending of the growing season.

IMPROPER PAYMENTS ELIMINATION AND RECOVERY IMPROVEMENT ACT

Since fiscal year 2000, agencies have reported efforts to reduce improper payments. Under the Improper Payments Information Act of 2002 (IPIA), as amended by the Improper Payments Elimination and Recovery Act of 2010 (IPERA) and the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA), executive agencies must identify programs that may be susceptible to significant improper payments, estimate the annual amount of improper payments, and submit those estimates to Congress. A program with significant improper payments (a high-risk program) has both a 1.5 percent improper payment rate of the total program outlays, and at least \$10 million in improper payments, or exceeds \$100 million dollars in improper payments. Implementing guidance for IPERIA is located in OMB Circular A-123, Management's Responsibility for Internal Control, Appendix C, Requirements for Effective Measurement and Remediation of Improper Payments.

Beginning with fiscal year 2015, RMA used an OMB approved statistical sampling methodology that provided a more refined estimate of the amount of improper payments in the Federal crop insurance program. In fiscal year 2015, FCIC had an improper payment rate of 2.2% which far surpassed the reduction target of 5.75%. This was a change from fiscal year 2014, when the FCIC program did not comply with IPERIA because it did not use a statistically valid sampling plan and did not meet the error rate reduction target for improper payments. Specifically, the fiscal year 2014 error rate of 5.58% was greater than the 5.15% published annual reduction target.

The Federal crop insurance program is a self-certification program where participants certify as to the correctness of information (acres, share, production, etc.) as a basis for program participation. This information may be subject to further review and verification to determine its accuracy. For this type of program, the primary root causes of errors and improper payments are due to individual program participants' (producers, companies, agents, and/or loss adjusters) failure to correctly interpret, provide and/or process information in accordance with policy and/or procedure requirements for determining eligibility and program payment amounts. The strategy for identifying and controlling these routine errors includes taking actions to address and correct each one in the appropriate manner, utilizing data mining techniques, and identifying error trends and policy concerns.

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The following tables show percentages of improper payments per sample year and future targets for improvement. The outlays listed are indemnities as of June 2014 for crop years 2011, 2012, and 2013:

	Reported in Fiscal Year 2013	Reported in Fiscal Year 2014	To be Reported in Fiscal Year 2015
Outlays (millions)	\$ 10,828	\$ 17,430	\$ 13,734
Improper Payment Rate (%)	5.23%	5.58%	2.20%
Improper Payments (millions)	\$ 566	\$ 973	\$ 301
Year/Period of Data Sampled	2011	2012	2013

Future total program outlays are indemnities, underwriting gains, administrative and operating (delivery) expense, etc. net of collections for producer premium as reported in the President's Budget estimates. They are an estimate of the expenses of the program based on a 1.0 loss ratio.

Future Targets for Improvement	Fiscal Year 2016	Fiscal Year 2017	Fiscal Year 2018
Estimated Outlays (millions)	\$ 7,903	\$ 7,910	\$ 8,709
Reduction Target (%)	2.19%	2.18%	2.17%
Estimated IPs (millions)	\$ 173	\$ 172	\$ 189

FREEZE THE FOOTPRINT

RMA does not own buildings or real property but leases all of its office space. RMA's management utilizes the Freeze the Footprint Initiative by consolidating regional and compliance offices at existing locations into USDA offices, if space is available. In fiscal year 2015, no consolidation of office space occurred. However, there are plans in 2016 to consolidate the following into USDA offices:

- Spokane, WA Regional Office into a Spokane area Federal lease that would combine several USDA and other government agencies into one location; and
- St. Paul, MN Regional Office and Eagan, MN Compliance Office into one co-located RMA Minneapolis/St. Paul area office.

RMA maintains a real estate inventory database. RMA continues to evaluate offices as leases expire with the goal of saving space and co-locating wherever possible.

The following summarizes the square footage and total annual costs for RMA leases. All RMA leases are full service leases with no operation and maintenance costs.

Square Footage (in thousands)	Fiscal Year 2012 Baseline	Fiscal Year 2015	Change in Square Footage
RMA GSA Lease Assignments	119	119	0
RMA Leases	18	16	(2)
Total	137	135	(2)

Lease Costs (in thousands)	Fiscal Year 2012 Baseline	Fiscal Year 2015	Change in Lease Costs
RMA GSA Lease Assignments	\$ 2,723	\$ 2,848	\$ 125
RMA Leases	289	250	(39)
Total	\$ 3,012	\$ 3,098	\$ 86

SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

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

Table 1:

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

Table 2:

SUMMARY OF MANAGEMENT ASSURANCES					
Effectiveness of Internal Control over Financial Reporting (FMFIA Section 2)					
Statement of Assurance	Unqualified				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Estimated Losses on Insurance Claims	1	0	0	0	1
Total Material Weaknesses	1	0	0	0	1

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Effectiveness of Internal Control over Operations (FMFIA Section 2)					
Statement of Assurance	Unqualified				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
N/A	0	0	0	0	0
Total Material Weaknesses	0	0	0	0	0

Table 3:

Conformance with Financial Management System Requirements (FMFIA Section 4)					
Statement of Assurance	Systems conform				
Non-conformances	Beginning Balance	New	Resolved	Consolidated	Ending Balance
N/A	0	0	0	0	0
Total Non-conformances	0	0	0	0	0
Compliance with Section 803(a) of the Federal Financial Management Improvement Act (FFMIA Section 4)					
	Agency		Auditor		
Overall Substantial Compliance	No noncompliance noted		No noncompliance noted		
1. System requirements	No noncompliance noted		No noncompliance noted		
2. Accounting Standards	No noncompliance noted		No noncompliance noted		
3. USSGL at Transaction Level	No noncompliance noted		No noncompliance noted		

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