United States Department of Agriculture
Office of Inspector General

Federal Crop Insurance Corporation/ Risk Management Agency's Financial Statements for Fiscal Years 2011 and 2010



Audit Report 05401-0001-11

November 2011

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

DATE: November 8, 2011

REPLY TO
ATTN OF: 05401-0001-11

TO: William J. Murphy
Administrator
Risk Management Agency

ATTN: Michael Hand
Deputy Administrator
for Compliance

FROM: Gil H. Harden /s/
Assistant Inspector General
for Audit

SUBJECT: Federal Crop Insurance Corporation/Risk Management Agency's
Financial Statements for Fiscal Years 2011 and 2010

This report presents the results of the audit of Federal Crop Insurance Corporation/Risk Management Agency's (FCIC/RMA) consolidated financial statements for the fiscal years ending September 30, 2011, and 2010. The report contains an unqualified opinion on the financial statements, as well as an assessment of FCIC/RMA's internal controls over financial reporting and compliance with laws and regulations.

Clifton Gunderson LLP, an independent certified public accounting firm, conducted the audit. In connection with the contract, we reviewed Clifton Gunderson LLP's report and related documentation and inquired of its representatives. Our review, as differentiated from an audit in accordance with *Government Auditing Standards* (issued by the Comptroller General of the United States), was not intended to enable us to express, and we do not express, opinions on FCIC/RMA's financial statements, internal control or on whether FCIC/RMA's financial management systems substantially complied with the Federal Financial Management Improvement Act; or conclusions on compliance with laws and regulations. Clifton Gunderson LLP is responsible for the attached auditor's report, dated November 4, 2011, and the conclusions expressed in the report. However, our review disclosed no instances where Clifton Gunderson LLP did not comply, in all material respects, with *Government Auditing Standards*, and the Office of Management and Budget Bulletin 07-04, *Audit Requirements for Federal Financial Statements*, as amended.

It is the opinion of Clifton Gunderson LLP, that the financial statements present fairly, in all material respects, FCIC/RMA’s financial position as of September 30, 2011, and 2010, and their net costs, changes in net position, and budgetary resources for the years then ended, in conformity with generally accepted accounting principles. No weaknesses related to internal controls or noncompliances with laws and regulations were reported.

Independent Auditor's Report

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

We have audited the accompanying consolidated balance sheets of the Federal Crop Insurance Corporation/Risk Management Agency (FCIC) as of September 30, 2011 and 2010, and the related consolidated statements of net cost, changes in net position, and combined statements of budgetary resources for the years then ended. These consolidated financial statements are the responsibility of FCIC's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and applicable provisions of Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of FCIC as of September 30, 2011 and 2010, and its net cost, changes in net position, and budgetary resources for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, in fiscal year 2011, FCIC reclassified earmarked funds to other general funds to conform to the Federal Accounting Standards Advisory Board, Statements of Federal Financial Accounting Standard 27, *Identifying and Reporting Earmarked Funds*, that is, absent explicit authority to retain revenues and other financing sources not used in the current period for future use. This reclassification is consistent with the change in accounting principle implemented in fiscal year 2010 when FCIC was required to return unobligated balances to the U.S. Treasury. The fiscal year 2010 amounts were also reclassified to conform to the current year presentation.

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

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In accordance with *Government Auditing Standards*, we have also issued our report dated November 4, 2011, on our consideration of FCIC's internal control over financial reporting and compliance and on our tests of its compliance with certain provisions of laws and regulations and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying Management's Discussion and Analysis, Required Supplementary Stewardship Information, and Required Supplementary Information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We reviewed this information for consistency with the financial statements and discussed the methods of measurement and presentation with FCIC officials. Based on this limited work, we found no material inconsistencies with the financial statements, accounting principles generally accepted in the United States, or OMB guidance. However, we do not express an opinion on this information.

The Other Accompanying Information section is presented for additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Clifton Gunderson LLP

Calverton, Maryland
November 4, 2011

Clifton Gunderson LLP
Certified Public Accountants & Consultants

Independent Auditor's Report on Internal Control Over Financial Reporting and Compliance and Compliance with Laws and Regulations and Other Matters

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

We have audited the financial statements of Federal Crop Insurance Corporation/Risk Management Agency (FCIC) as of and for the year ended September 30, 2011, and have issued our report thereon dated November 4, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and applicable provisions of Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended.

INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE

In planning and performing our audit, we considered FCIC's internal control over financial reporting as a basis for designing our auditing procedures, and to comply with OMB audit guidance for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the FCIC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of FCIC's internal control over financial reporting.

A *deficiency* in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis.

A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting and compliance that we consider to be a material weakness or significant deficiency, as defined above.

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COMPLIANCE WITH LAWS AND REGULATIONS AND OTHER MATTERS

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

We noted certain matters that we reported to management of FCIC in a separate letter dated November 4, 2011.

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

Clifton Gunderson LLP

Calverton, Maryland
November 4, 2011

Federal Crop Insurance Corporation
Risk Management Agency
Consolidated Financial Statements
Fiscal Years 2011 and 2010

Contents

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Unaudited) MISSION, ORGANIZATIONAL STRUCTURE AND PROGRAMS

MISSION

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

History & Enabling Legislation

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

- Agriculture Research, Extension & Education Reform Act,1980
- Federal Crop Insurance Act of 1980
- Agriculture, Rural Development, Food & Drug Administration, & Related Agencies Appropriations Act, 1999
- Food, Conservation, and Energy Act of 2008

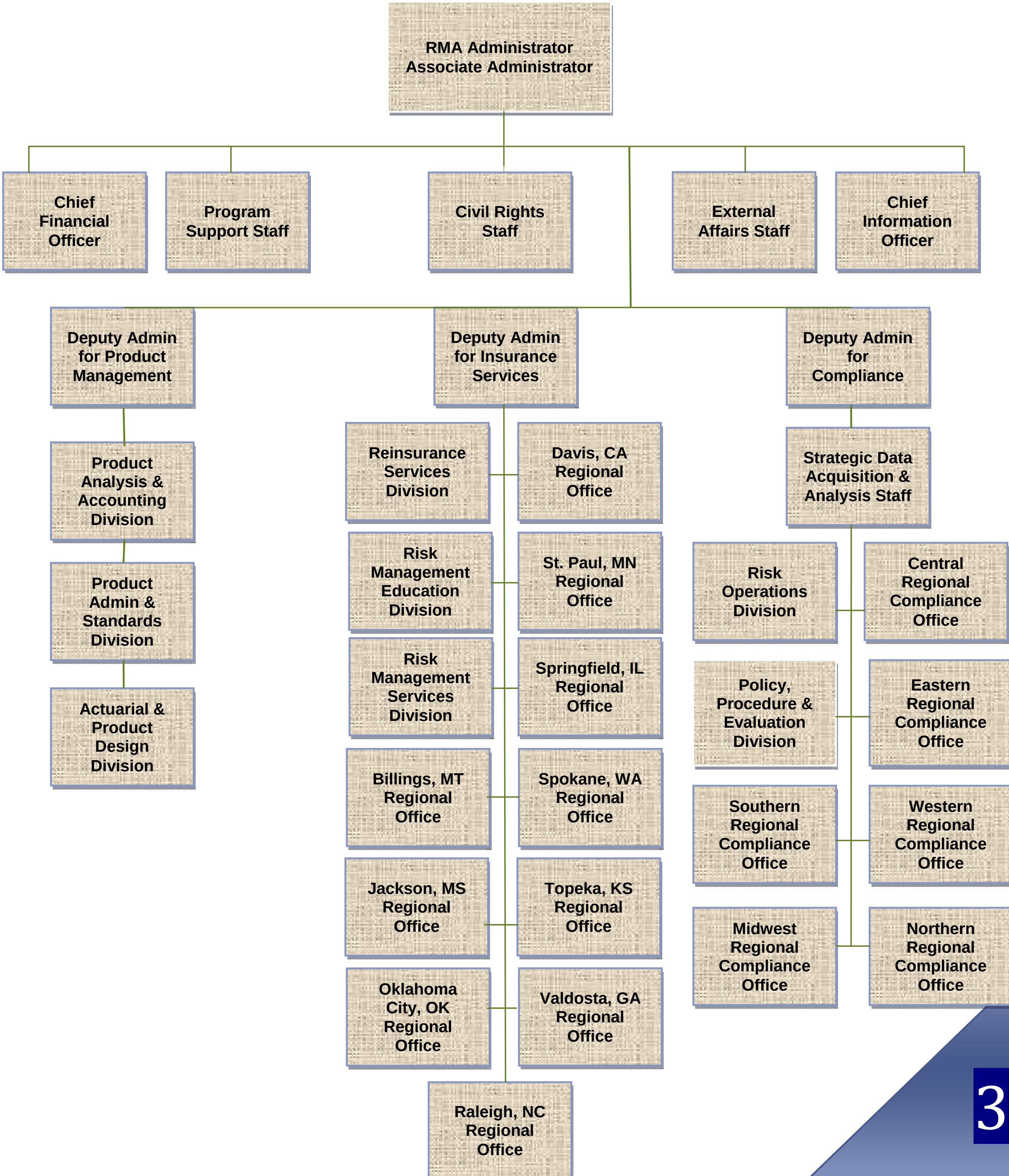
The Federal Crop Insurance Act, as amended, is hereafter referred to as the Act.

2008 Farm Bill Summary

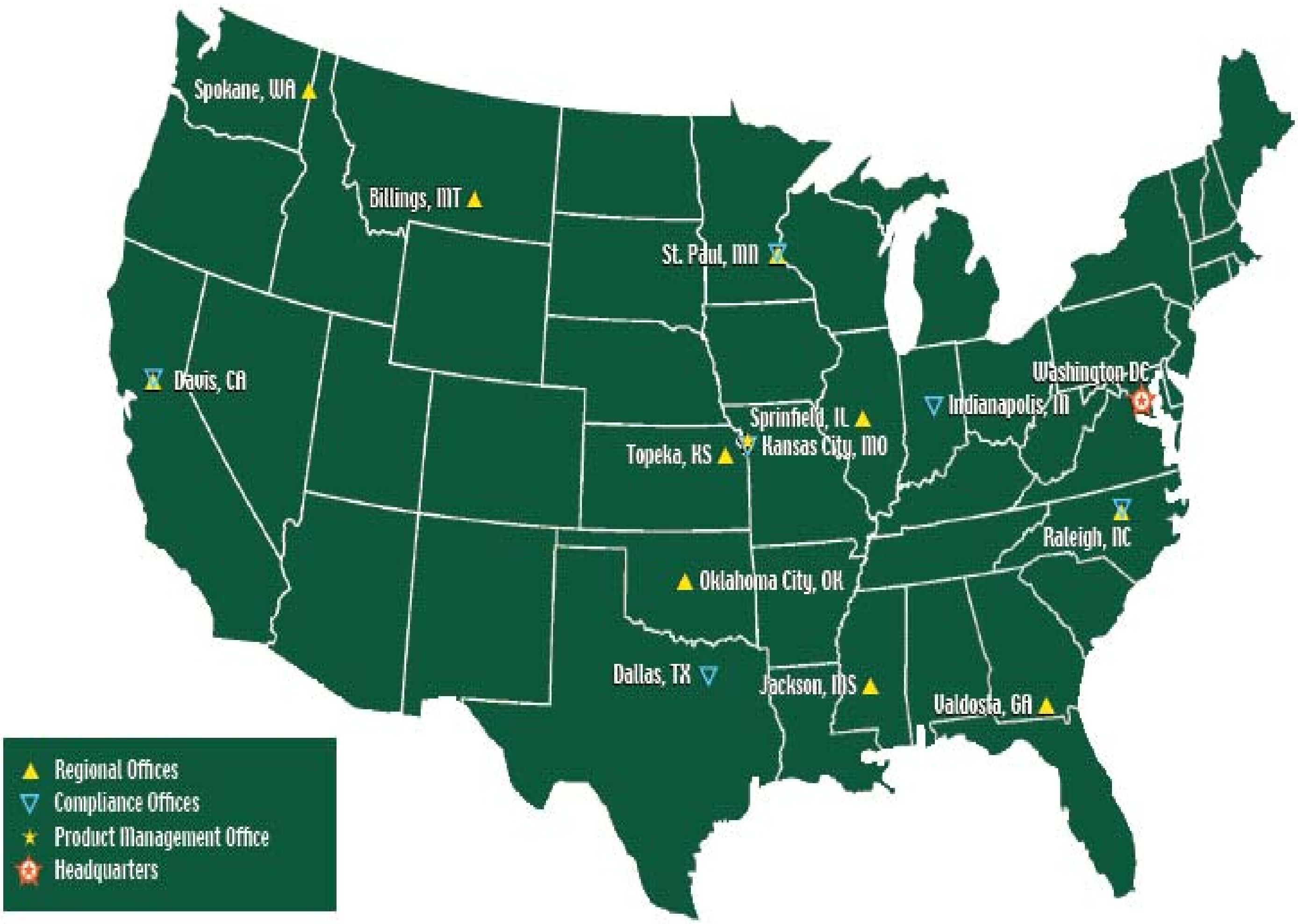
The Food, Conservation, and Energy Act of 2008, P.L. 110-234, enacted on May 22, 2008; hereafter referred to as the 2008 Farm Bill; continuously impacts RMA. The table below illustrates timing changes most of which will go into effect in 2012 and 2013.

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

ORGANIZATIONAL STRUCTURE



RMA Office Locations



Organizational Functions:

Program Administration

The FCIC Board of Directors and the RMA Office of the Administrator is the decision making body. The FCIC Board of Directors is subject to the general supervision of the Secretary of Agriculture.

Pictured here are Board Members: James Nickel, Maggie Goode, Ellen Linderman, Susan Rogers, Luis Monterde, William Murphy, Manager; Joe Glauber, Chief Economist, USDA; and Cindy Spoor, Secretary to the Board.

The Board consists of:

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

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

- External Affairs:
  External Affairs communicates with and provides information about the Federal crop insurance program to stakeholders, customers, and employees. External Affairs also provides guidance and training on communications, strategies and issues to the Agency's leadership.
- Civil Rights and Outreach:
  The Office of Civil Rights and Community Outreach focus is to administer RMA programs and activities under Title VII (employment discrimination) and Title VI (programs receiving federal financial assistance from RMA) of the Federal Civil Rights Act. OCRCO actively engages in outreach to ensure that farmers and ranchers, including small, limited resource, and other socially disadvantaged have the opportunity to participate and have equal access to all RMA/USDA programs and services.
- Program Support:
  The Executive Planning & Administrative Support Branch provides services to the Agency ranging from Regulatory Administration, FOIA and Privacy Act Administration, strategic planning and performance management as well as continuity of operations and homeland security planning and execution.
- Chief Information Office:

The CIO is made up of 3 primary functional areas: Information Security Branch-responsible for RMA information and hardware security; Capital Planning and Investment Control- responsible for RMA Infrastructure Information Technology (IT); and the System Administration Branch- responsible for RMA IT hardware and software and IT contractor management.

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

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

- Establishment of crop insurance rates
- Crop insurance price elections
- Actuarial data
- Crop insurance plans of insurance and policies
- Crop insurance procedures and handbook
- Privately submitted insurance products submitted under section 508h of the Act, including concept proposals
- Strategies for increasing participation in the crop insurance program
- Evaluation and oversight of pilot risk management commodity programs
- Financial and operational oversight of Approved Insurance Providers (AIPs)
- Program receipts and expenditures (e.g., AIP reimbursement and escrow funding), tracking ineligible producers
- Tracking ineligible producers
- Debt management and cross servicing

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

The Office of Compliance located in Washington, D.C. and regionally across the country, safeguards the integrity of the Federal crop insurance program through reviews of crop insurance programs and participants in order to provide reasonable assurance that program payments are based upon true and accurate information and are in accordance with program requirements.

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

Compliance efforts can result in criminal, civil, or administrative actions. Compliance refers all cases of fraud to the OIG as required by the Inspector General Act. If a case is declined for criminal follow-up, administrative sanctions are considered. Compliance also determines the appropriate penalty for acts of program noncompliance and ensures actions are completed.

Programs

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

Funding

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

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

The financial statements present the consolidated view of both funds.

Operational Agreements

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

AIPs are responsible for all aspects of customer service and guarantee premium payment to FCIC. In return, FCIC reinsures the policies and provides a subsidy on behalf of producers for administrative and operating expenses associated with delivering the insurance products and/or programs.

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

As authorized by the 2008 Farm Bill, the SRA was re-negotiated in Fiscal Year 2010. The latest SRA caps certain administrative expenses and dampens the effects of drastic changes in crop prices. It also reduces the rates of return insurance providers are expected to earn from underwriting gains. The resulting agreement is saving billions of taxpayer dollars. This SRA has no adverse impact on farmers' premium costs.

Insurance Plans

In 2011 RMA regulated 20 different Insurance Plans to meet the needs of America's producers.

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

Livestock Plans:

- **Livestock Risk Protection**
- **Livestock Gross Margin**

Group Plans:

- **Group Risk Plan**
- **Rainfall Index**
- **Vegetation Index**

APH Plans:

- **Actual Production History**
- **Yield Protection**

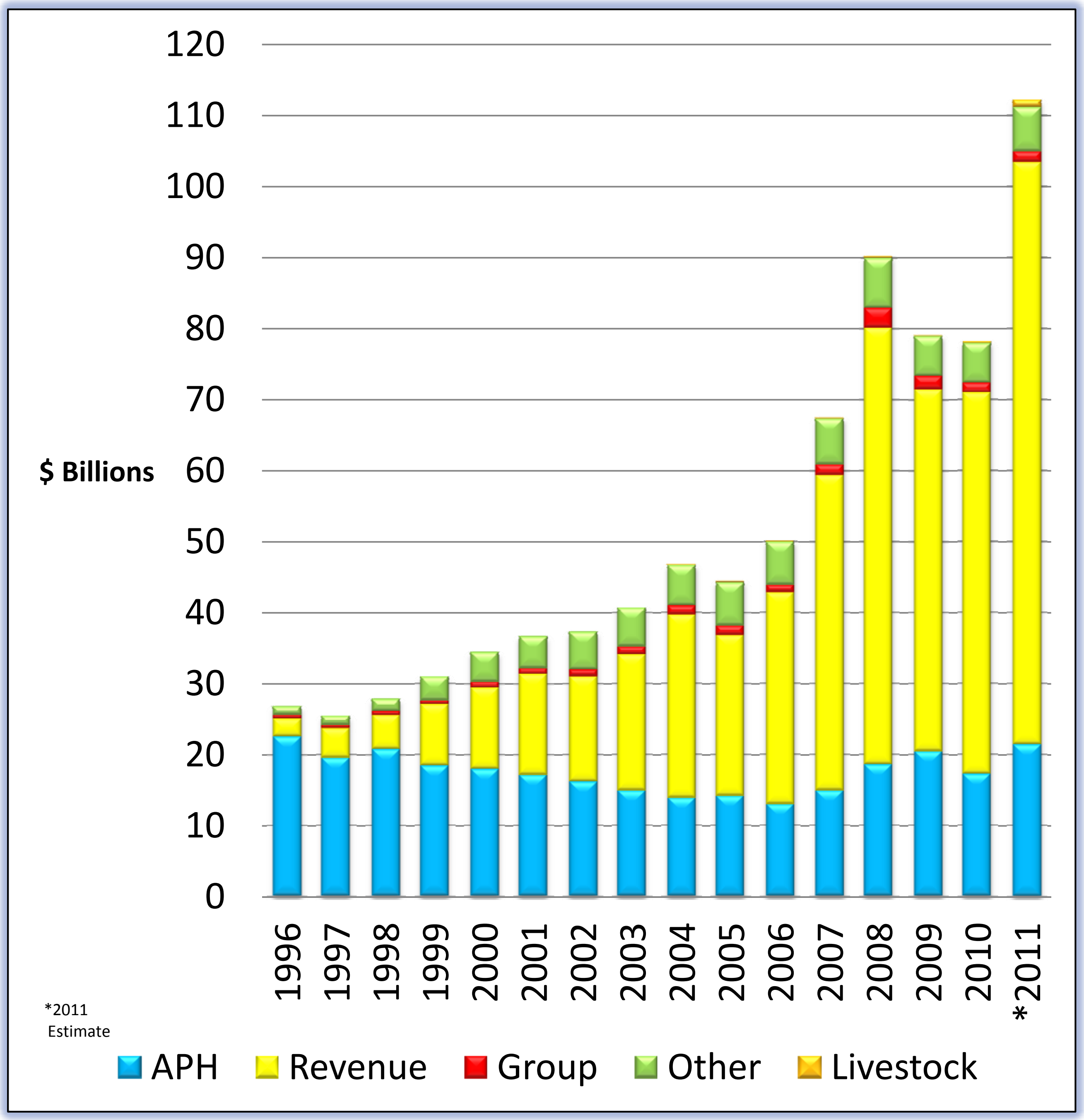
Other Plans:

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

Revenue Plans:

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

Historical Graph of Liability of Crop Insurance Plans Sold



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

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

Livestock Polices

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

Group Polices

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

Actual Production History & Yield Protection Polices

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

Other Policies

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

Revenue Policies

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

FCIC Published Regulations

RMA periodically updates its regulations by publishing proposed, interim and final rules in the *Federal Register*. RMA seeks public comment on all proposed revisions. Revisions made to regulations improve the risk management products available for producers and/or clarify such regulations as needed. During the 2011 fiscal year, RMA had 5 regulations in the proposed, interim or final rule stage and 3 notices published that announced funding opportunities and requests for applications for specific programs, Paperwork Reduction Act and Extension of comment period. The published regulations can be found on the *Federal Register's* home page at: http://www.gpoaccess.gov/fr/index.html

Area Risk Protection Insurance

One specific regulation RMA would like to highlight is the proposed rule published to replace the Group Risk Plan (GRP) provisions, which includes the GRP Basic Provisions; and the associated crop provisions for GRP including Barley, Corn, Cotton, Forage, Peanut, Grain Sorghum, Soybeans, and Wheat, with a new Area Risk Protection Insurance (ARPI) Basic Provisions and Crop Provisions. The new ARPI provisions will also replace the Group Risk Income Protection (GRIP) Basic Provisions and associated crop provisions for GRIP including Corn, Cotton, Grain Sorghum, Soybeans, and Wheat. The new Area Risk Protection Insurance (ARPI) basic provisions will offer producers a choice of three plans of insurance: Area Revenue Protection, Area Revenue Protection with the Harvest Price Exclusion, or Area Yield Protection. Crop Provisions for Corn, Cotton, Forage, Grain Sorghum, Soybeans, and Wheat will also be provided under ARPI. This will reduce the amount of information producers must read to determine the best risk management tool for their operation and will improve the provisions to better meet the needs of insured's. The final rule is targeted to be in effect for the 2013 crop year.

Specialty Crops

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

Pilot Programs

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

Pilot Programs with Crop Year Begin Date

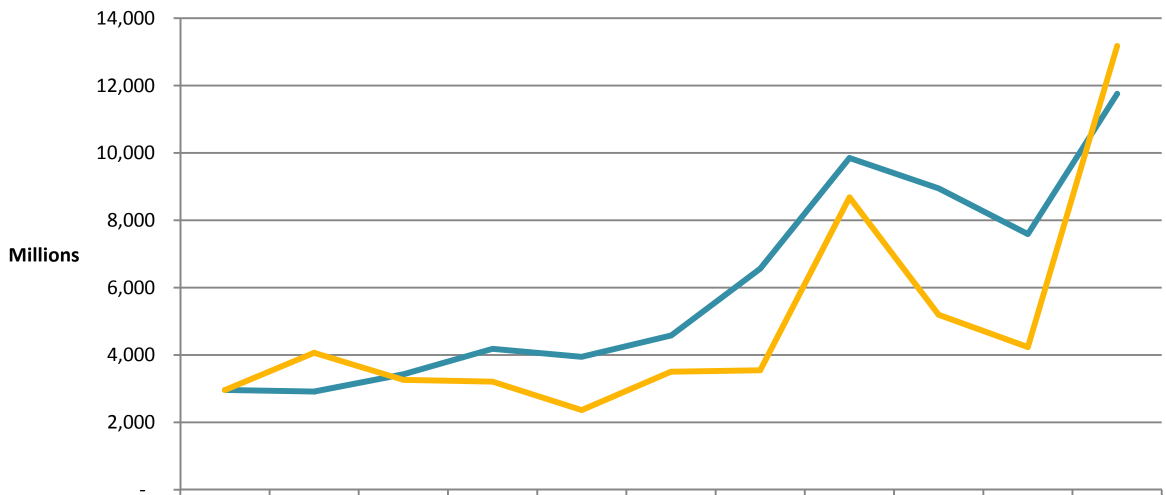
Category	Programs
Pilot Programs Slated for Conversion to a Permanent Regulatory Program	•Forage Seed 2002 •Chile Peppers 2002
Pilot Programs with an Indefinite Crop Year end Date	•Florida Fruit Tree 1996/2002 •AGR 1999 •Onion Stage Removal 2000 •Sugar Beet Stage Removal Option 2004 •Silage Sorghum 2005 •Nursery's Grower's Price Endorsement 2006 •Pasture, Rangeland, Forage (Rainfall) 2007 •Pasture, Rangeland, Forage (Vegetation) 2007 •Actual Revenue History-Cherry 2009 •Enterprise Unit Discount 2009 •California Avocada (APH) 2010 •Sesame 2011 •Citrus Actual Revenue History 2011 •Grass Seed 2011 •Actual Revenue History- Strawberry 2012
Pilot Programs with a Definite Crop Year End Date	•Hawaii Tropical Fruit 2007-2011 •Hawaii Tropical Tree 2007-2011 •Personal T-Yield 2007-2011 •Cultivated Clams 2000-2012 •Quarantine Endorsement 2011-2014
508(h) Pilot Programs	•Livestock Risk Protection 2001* •Livestock Gross Margin 2001* •Hybrid Seed/Corn Price Endorsement 2002* •AGR-Lit 2003* •Livestock Risk Protection-Lamb 2008 •Biotech Yield Endorsement 2008 •GRP Sugarcane 2009 •Apiculture-RI 2009 •Apiculture-VI 2009 •Processing Pumpkins 2009 •GRP Oysters 2009 •Cotton Seed 2011 •Fresh Market Beans 2011 •Sweet Potato 2011 *Having Indefinite Crop Year End Date

Crop Statistics

Program Information Comparison for Crop Years 2011 and 2010	Crop Year 2011 (Estimated)	Crop Year 2010 (Actual)
Policies	1.1 million	1.1 million
Farmer Paid Premium	$4.43 billion	$2.88 billion
Premium Subsidies	$7.33 billion	$4.71 billion
Indemnities	$13.17 billion	$4.24 billion
Loss Ratio	112%	56%
Insurance Protection	$111.23 billion	$78.06 billion
Commodities	120	128

Premiums and Losses

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



Crop Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Premiums	2,961	2,916	3,431	4,186	3,949	4,580	6,562	9,852	8,950	7,590	11,758
Losses	2,960	4,067	3,261	3,210	2,367	3,504	3,547	8,681	5,197	4,235	13,174

The increase in 2011 crop year premium is due to the increase in several of the major insured commodities including wheat, rice, corn, grain sorghum, soybeans and barley.

PERFORMANCE GOALS, OBJECTIVES, AND RESULTS

Strategic planning is essential to effective and efficient administration of Federal programs including assistance, education, and cooperative partnership agreements. RMA has a new Strategic Plan for 2011-2015 awaiting Department approval. This new Plan is directly linked to USDA 2010-2015 Strategic Plan.

RMA supports USDA's Strategic Goal 1

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

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

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

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

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

FY 2007	FY 2008	FY 2009	FY 2010 Actual	FY 2011 Estimate
$50.7	$51.5	$53.9	$55.0	$54.4

*The 2010 insurance protection was an anomaly due to the spike in commodity prices. As prices have stabilized, the related premiums have also decreased.

RMA Strategic Goal (1)

1. Increase the availability and effectiveness of risk management tools while enhancing and protecting the soundness of the program in 2011 with Pasture, Rangeland, and Forage Pilot update.

As of July, 2011, there were 13,756 Rainfall Index- Pasture, Rangeland, and Forage policies sold, covering 27,007,865 acres with $416,409,456 in total liability. There were also 2,015 Vegetation Index-Pasture, Rangeland, and Forage polices sold, insuring 3,147,497 acres with a liability of $33,282,957.

RMA Performance Measure

PM 1.3 Overall availability of Pasture, Rangeland, and Forage insurance

Baseline 2010	Performance 2011	Target 2015
62.3%	92.3%	93.4%

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

PM 1.4 Market Penetration of Pasture, Rangeland, and Forage Insurance

Baseline 2010	Performance 2011	Target 2015
4.5%	4.8%	5.3%

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

RMA Strategic Goal (2)

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

In 2011 advancements have been made with The Acreage Crop Reporting Streamlining Initiative (ACRSI) and the Comprehensive Information Management System (CIMS).

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

RMA and crop insurance companies have access to the Comprehensive Information Management System (CIMS) which contains 5 years of RMA information, including producer reported data such as acreage reports. Over 65,000 web sessions have been hosted by CIMS whose services provide efficient and timely information for the administration of crop insurance.

RMA Performance Measure

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

Baseline 2009	Performance 2011	Target 2015
6.6%	4.8%	3%

This measure shows the amount of discrepancies in producer identity data between RMA and Farm Service Agency (FSA) in the comprehensive information management system (CIMS) as a percentage of all producer identity data between the two agencies in CIMS.

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

Baseline 2009	Performance 2011	Target 2015
29%	17.54%	8%

This measure shows the amount of discrepancies in producer acreage data between RMA and Farm Service Agency (FSA) in the comprehensive information management system (CIMS) as a percentage of all producer acreage data between the two agencies in CIMS.

RMA Strategic Goal (3)

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

For 2011, RMA's Risk Management Education Division monitored 144 cooperative partnership agreements amounting to $7,736,656 broken down into:

Type of Agreement	Amount
16 Target States: (HI,NV,UT,WY,PA,DE,RI,MA, VT,CT,ME,MD,NH,NJ,NY,&WV)	$4,975,908
18 Unsolicited/Special Projects Nationwide	$1,650,000
110 Small Sessions Nationwide	$1,110,748

RMA Performance Measure

PM 3.1 Number of producers reached with risk management education information through Small Session Commodity Partnership and Targeted States Cooperative Agreements

Baseline 2009	Performance 2011	Target 2015
25,000 Producers	79,531 Producers	44,000 Producers

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

PM 3.4 Number of producers reached through Outreach Agreements with risk management education information

Baseline 2009	Performance 2011	Target 2015
50,000 Producers	218,426 Producers	55,000 Producers

The measure is of the total numbers of ranchers and farmers who attended in person presentations or accessed information on websites provided by RMA Partner organizations related to beginning farmers & ranchers, small & limited resource producers and disadvantaged producers.

PM 3.6 Total number of partnership agreements targeted to small and limited-resources farmers and ranchers

Baseline 2009	Performance 2011	Target 2015
76 Agreements	79 Agreement	25 Agreements

This is the number of partnership agreements specifically targeted to small and limited-resources farmers and ranchers.

RMA Strategic Goal (4)

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

In 2011 five of the Regional Compliance Offices (RCOs) initiated reviews of five AIPs crop year 2010 business. Field reviews are being conducted nationwide to include interviews with policyholders, company personnel, agents, and adjusters identified associated with selected random and judgmentally policies.

RMA Performance Measure

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

Baseline 2009	Performance 2011	Target 2015
6 Operational reviews conducted annually	5 Operational reviews conducted annually	6 Operational reviews conducted annually

The Eastern RCO completed a review of selected Nursery policies in Florida to determine whether AIPs correctly performed Pre-Acceptance Inspections. The Eastern RCO initiated a review of the Tobacco crop insurance program to address identified program vulnerabilities associated with shifting production between insured units and entities, and quality adjustment. Appeals, Litigation, and Legal Liaison Staff have imposed 18 sanctions on individuals removing them from participating in the crop insurance program.

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

Baseline 2009	Performance 2011	Target 2015
24 Actions	40 Actions	20 Actions

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

Finding Type	Amount
Premium Overstatements	$3,986,223
Indemnity Overpayments	$10,178,968
Premium Understatements	$455,852
Indemnity Underpayments	$99,191
Cost Avoidance	$1,885,075
Settlements	$166,110
Civil Fines	$5,000

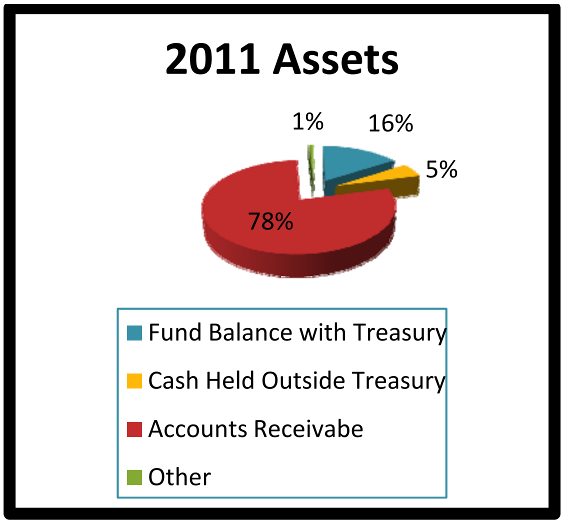
PM 4.10 Improper Payment Rate for the Federal crop insurance program

Baseline 2009	Performance 2011	Target 2015
5.79% of Claims	6.05% of Claims	4.30% of Claims

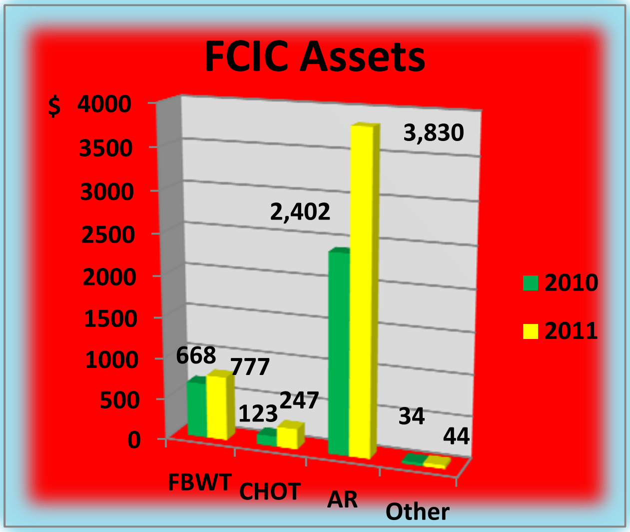
Financial Statement Highlights and Analysis

The comparison of fiscal years 2011 and 2010 financial statements demonstrates the variability in the agriculture community. The 2011 growing season has been difficult for much of the country. The Southwest has endured extreme drought not seen since the Dust Bowl and there has been significant flooding along the Missouri and Mississippi rivers. In comparison, the 2010 growing season was generally favorable for the major crops. In 2011, the commodity prices have increased significantly which is reflected in the increase in premium.

Assets



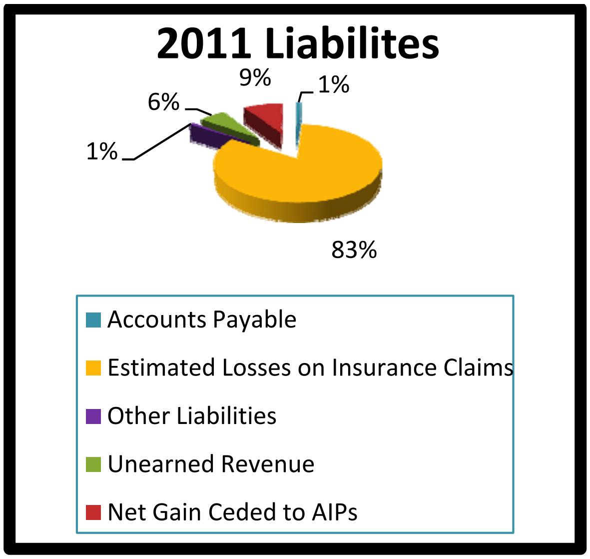
The vast majority of the assets are Fund Balance with Treasury (FBWT) and Accounts Receivable. FBWT is a cash-like account which represents funds available which have not been disbursed. RMA returns the unobligated funds excluding the balances for Capital Stock, Paid-in Capital and Contingency Fund to the U.S Treasury. At the end of fiscal year 2011, for the Insurance and A&O Funds, RMA returned $374 million compared to the $2.353 billion returned in fiscal year 2010.



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

Accounts receivable with the public represent premiums from AIPs due to FCIC for crop insurance written by the AIP and reinsured by FCIC. The AIPs are responsible for collecting the premium from the producer and paying FCIC, whether or not the premium has been collected from the producer. Premiums are collected at the end of the growing season. As a result, significant amounts of premium are due in the fall, after the end of the fiscal year. As noted earlier, the 2011 premiums have increased due to higher commodity prices. As a result, the accounts receivable balance is also higher than in fiscal year 2010.

Liabilities

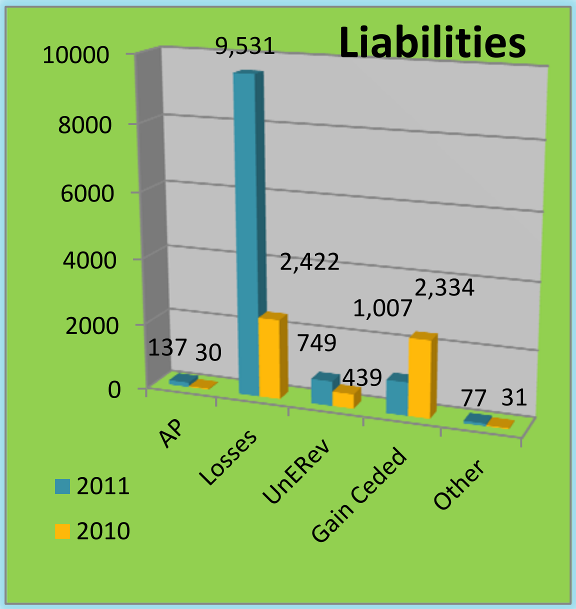


The $107 million increase in Accounts Payable is a timing difference. The majority of the accounts payable at September 30 is the amount due the AIPs on the monthly reinsurance accounting report settlement. The timing of the report certification impacts whether the reports are paid before or after September 30.

The Estimated Losses on Insurance Claims and Other Liabilities make up the majority of liabilities. The estimated losses on insurance claims is a projection of losses that is made at the end of each fiscal year based on the current conditions. In fiscal year 2011, FCIC expects to have $9.53 billion in losses compared to $2.42 billion in fiscal year 2010. The 2011 projected loss ratio is 112% compared to the 2010 projected loss ratio of 41%.

Estimating Losses

FCIC establishes premium to attain an expected long-term loss ratio of 1.0 or less. The eventual total depends on many variables including weather patterns and commodity prices. A projection of total indemnities is made at the end of each fiscal year based on the current conditions. The total indemnities will not be known for several months after the end of the fiscal year; therefore, the financial statements are based on the projection.



Uncertainty in 2011 Estimated Losses

The actuarial estimates of premium and losses are calculated as of September 30, 2011. There are a variety of risk factors that expose the FCIC's liability estimates to uncertainty. The uncertainty inherent in these risk factors can result in actual indemnities being either greater or less than estimated. The risk factors include:

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

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

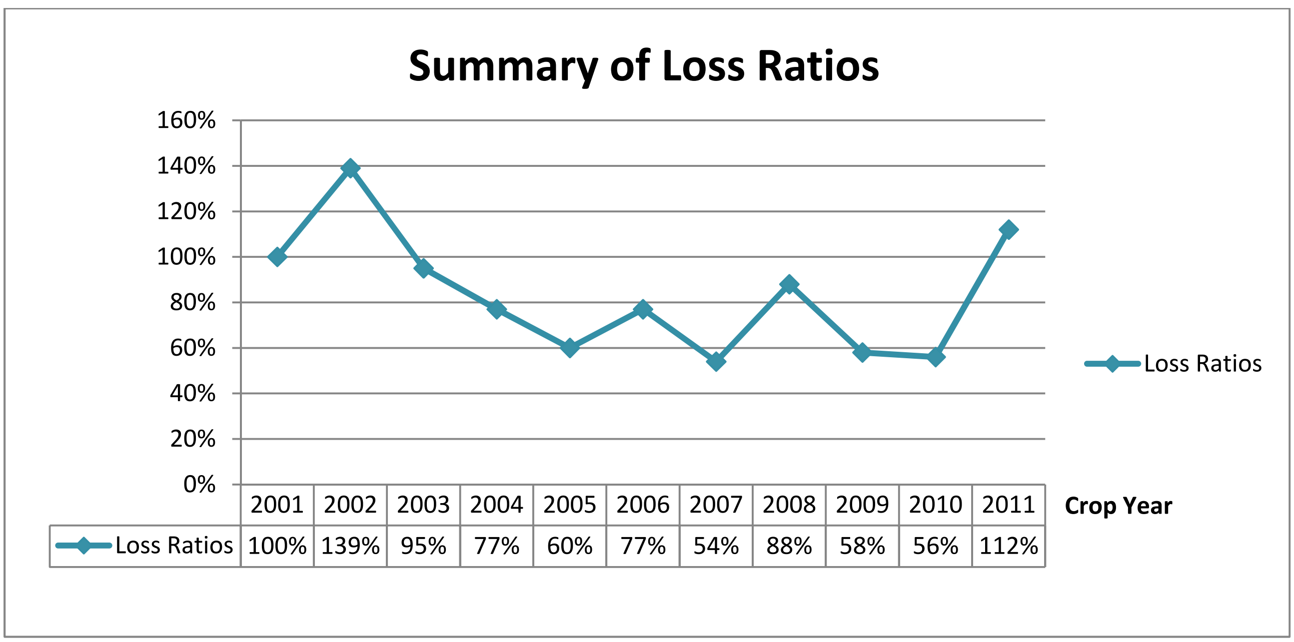
A commodity price spike or decline would impact the estimates. Many revenue products pay out based on October and November prices, which are not known at the time of the estimation.

The reliance on preliminary yield estimates to project indemnity increases the uncertainty. Approximately 80% of the estimated indemnities are calculated using preliminary National Agricultural Statistics Service (NASS) yield forecasts. NASS crop production forecasts have two components--acres to be harvested and expected yield per acre. Expected yields are obtained by NASS monthly, August through November, from two different types of yield surveys.

In the last 10 years, the difference between the actual and the estimated loss ratios has exceeded 10 points 60 percent of the time (6 of 10 years). The relatively high variance of this estimate reflects the large degree of uncertainty that is inherent in predicting losses before the growing season is over. The actual loss ratios in the last 10 years have varied from a low of 54 percent to a high of 139 percent. The average loss ratio for the past ten years was 80%.

Summary of Premiums and Losses ($ in millions)

	Actual			Loss Ratio		
Crop Year	Premiums ($)	Losses ($)		Actual	Projected	Difference
2001	2,962	2,960		100%	108%	8%
2002	2,916	4,067		139%	142%	3%
2003	3,431	3,261		95%	112%	17%
2004	4,186	3,210		77%	85%	8%
2005	3,949	2,367		60%	78%	18%
2006	4,580	3,504		77%	99%	22%
2007	6,562	3,547		54%	67%	13%
2008	9,851	8,678		88%	63%	(25%)
2009	8,947	5,224		58%	66%	8%
2010	7,590	4,235		56%	41%	(15%)
2011 Projected	**11,758**	**13,174**			**112%**	



The summary table reveals an overall increase in premium over the last 10 years. The total premium for the crop insurance program has generally increased due to the increase in commodity prices, volatilities, higher coverage levels, greater participation, and the expansion of coverage to new commodities. The commodity prices spiked sharply in early 2008. In the fall of 2008, the commodity prices dropped and remained lower during 2009 and 2010. The prices increased again in 2011. As a result, there have been significant fluctuations in premium the past few years.

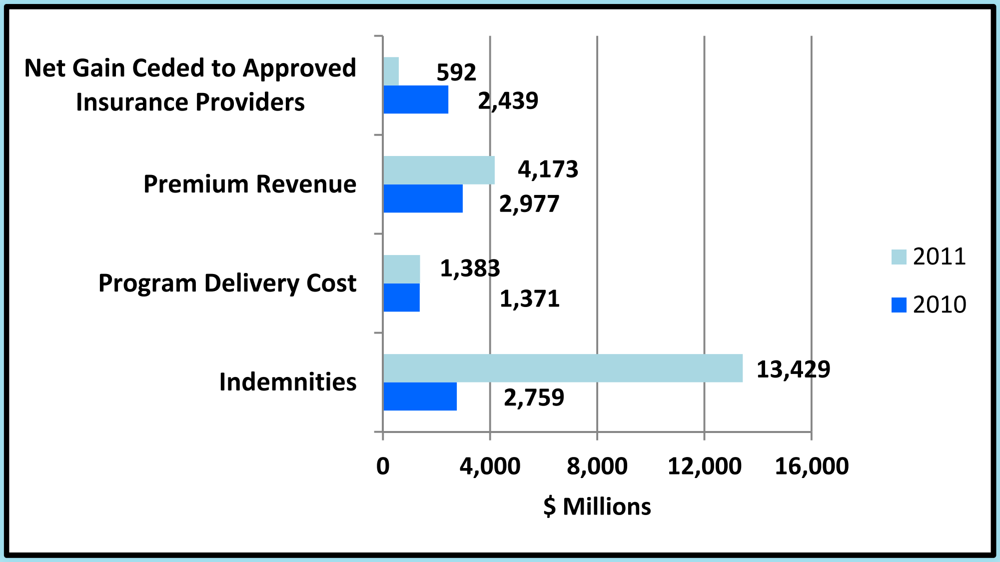
The program's administrative and operating reimbursement has averaged $1.1 billion over the past 10 years. The premium subsidy has averaged $3.2 billion during the same time period.

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

The Other Liabilities line item is comprised of estimated underwriting gains due to the AIPs and the estimated delivery costs due to the AIP on behalf of producers. The underwriting gain is the AIPs share of the insurance program.

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

Analysis of Statement of Net Cost



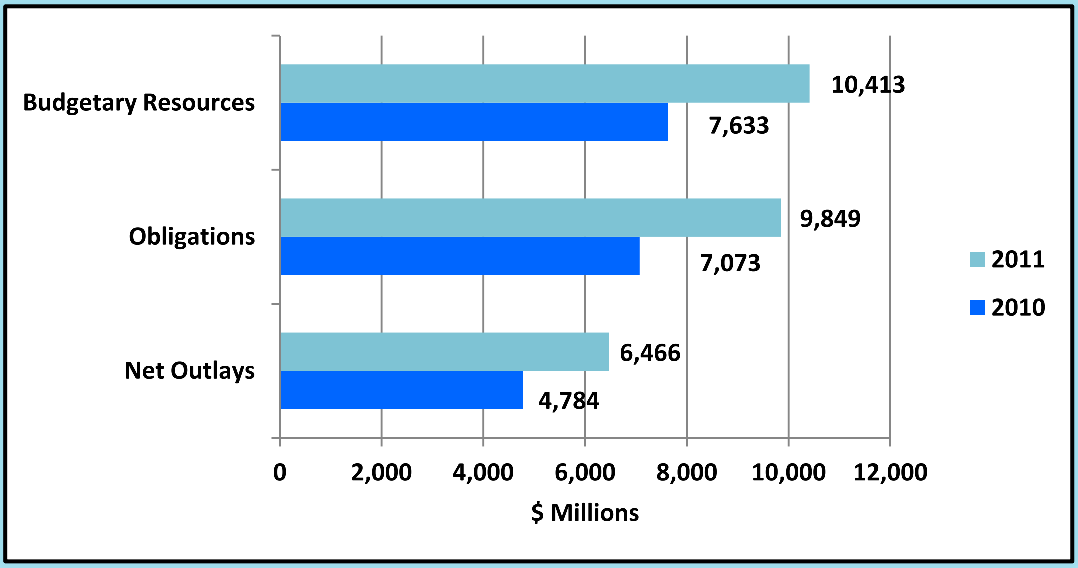
The Statement of Net Cost of Operations

FCIC's net cost of operations for fiscal year 2011 has increased by $7.6 billion. This is a direct result of the estimated higher indemnities for reinsurance year 2011. The projected higher indemnities are due to the combination of increased premium and significant weather conditions in 2011. Crop year 2009, which is mostly paid in fiscal year 2010, had an estimated loss ratio of 66% and an actual loss ratio of 58%. Crop year 2010 had an estimated loss ratio of 41% and an actual loss ratio of 56%. Crop year 2011 is projected to have a loss ratio of 112%.

Program Delivery Costs are the administrative and operating costs due to the AIPs, which is a percentage of premiums. The Net Gain Ceded to Approved Insurance Providers is a contra-revenue for the underwriting gain due to the AIPs. The large variance in this contra-revenue account is due to the high projected indemnities for reinsurance year 2011. Generally, as the indemnities increase, the underwriting gains decrease depending on how much risk the AIPs assumed. The reinsurance year 2011 estimated underwriting gain is $1.3 billion less than the reinsurance year 2010 estimated underwriting gain.

For reinsurance year 2011, the program delivery costs were capped for most insurance plans as specified in the Standard Reinsurance Agreement. In States in which the loss ratio exceeded 120 percent of the total net book premium written in the State, FCIC paid an additional program delivery amount equal to 1.15 percent times the net book premium for eligible crop insurance contracts.

Analysis of Statement of Budgetary Resources



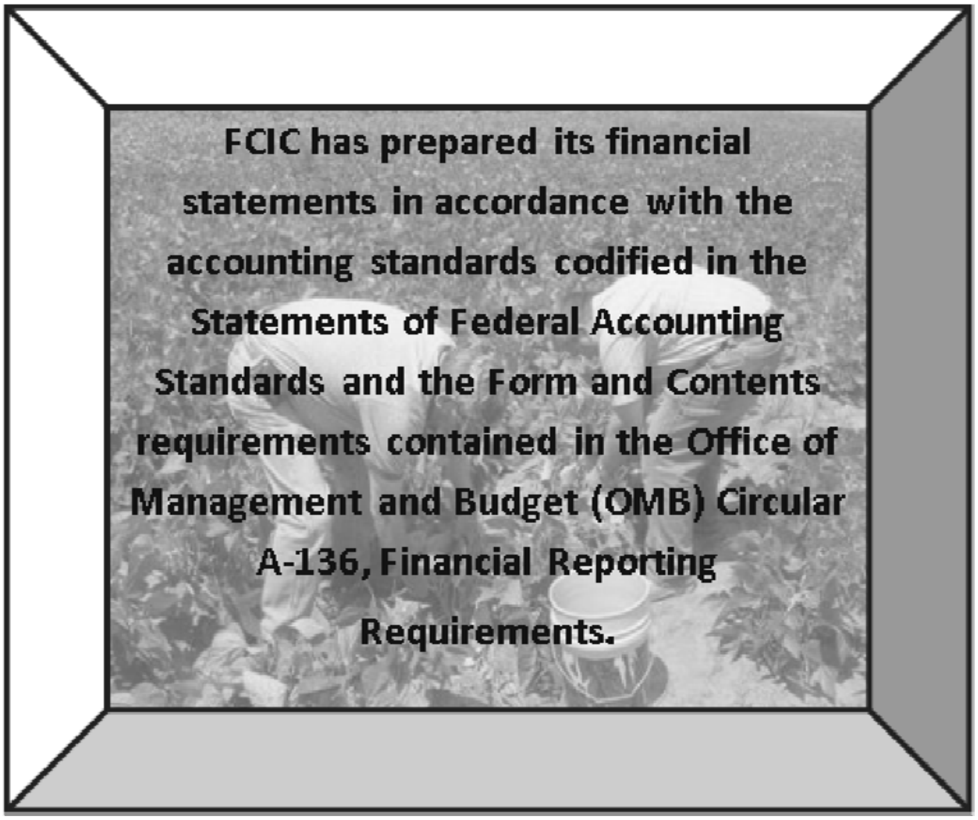
Statement of Budgetary Resources is comprised of three sections. The first section lists the source of the budgetary resources for the fiscal year. The second section shows the status of the resources. The Budgetary Resources must equal the Status of Budgetary Resources. The third section lists the Net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

The budgetary resources are mainly comprised of balances left over from prior fiscal years, new appropriations, collections, and funds returned to Treasury. FCIC started fiscal year 2011 with $5 million more in budgetary resources compared to fiscal year 2010.

FCIC collected $697 million more in fiscal year 2011 compared to fiscal year 2010. Each year, RMA prepares an estimated amount of funds needed to cover the insurance program.
The estimate is based on a presumed loss ratio of 100%. If there is a significantly lower loss ratio, FCIC will not need the full projected amount. In fiscal year 2011, RMA returned $374 million of excess funding to the U.S. Treasury compared to $2.353 billion in fiscal year 2010. Overall, FCIC had $2.780 billion more in budgetary resources available for fiscal year 2011.

The Status of Budgetary Resources is divided into two main categories – Obligated and Unobligated. Obligated resources are funds which have been paid or will be paid in the future based on a binding agreement with a particular party. At the end of fiscal year 2011, FCIC had $2.776 billion more in paid and unpaid obligations mainly due to the increase in indemnities. The Unobligated balance is the cumulative amount of budget authority that is not obligated and that remains available for obligation under law. Net Outlays are generally the total cash disbursements less collections. In fiscal year 2011, Net Outlays are $1.682 billion more than in fiscal year 2010.

Financial Reporting Requirements



Risk Management Education

(Required Supplementary Stewardship Information)

The mission of the Risk Management Education Division (RMED) is to provide education on crop insurance programs and risk management strategies to producers and ranchers in the United States. RMED prepares Requests for Applications each fiscal year and announces the solicitations in the *Federal Register.* Through a competitive process, RMA partners with qualified applicants to provide education, outreach assistance and related tools and information on crop insurance programs and risk management strategies to a variety of producers and ranchers within an expansive agricultural communities including but not limited to Beginning Farmers, Women, Limited Resource, Socially Disadvantaged, Minority and Transitional producers and ranchers. Funding for this work is authorized in Sections 522 and 524 of the Federal Crop Insurance Act.

RMED projects focuses not only with our traditional farmers and ranchers but works with youth organizations such as the National FFA (formerly known as the Future Farmers of America.) The Risk Management Essay Contest was developed as part of the Risk Management in American Agriculture Awareness Campaign in cooperation with the National Council for Agricultural Education. By continuing to sponsor this program for twelve years, the RMA has provided special opportunities for students and educators to become familiar with risk management tools and principles.

The objective of the writing contest is to encourage young people enrolled in agricultural education in the nation's public schools to become aware of risks in production agriculture and to help

them develop an understanding of the principles and tools of risk management. There were 140 essays received for the 2011 contest. National FFA picked the top 30 essays and RMA picked the top 10 winners who were given a free trip to Washington, DC on May 4-7.
During their visit to Capitol Hill, they were given House and Senate Agriculture Committee briefings and individual visits with their Members of Congress. The winners also visited metro DC landmarks. They were awarded their certificates and honored by USDA.

Outreach Project Highlight:

Managing Marketing Risk through Better Market Planning
RightRisk, LLC

"Managing Marketing Risk through Better Market Planning" focused on providing workshops to Idaho 64 agricultural producers including new and beginning farmers and ranchers. Program delivery was offered in Idaho Falls, Idaho. This project covered personal and business goal setting, basic record keeping, partial budgeting, financial analysis, planning for profitability, market price management, Pasture, Rangeland, Forage (PRF) Insurance, and other RMA livestock Risk Management Policies (Livestock Gross Margin and Livestock Risk Protection). This project focused on delivery of materials in a proven, successful workshop format to agricultural producers in Idaho and interested others. In addition to the hands-on environment of the simulation workshop, participants were informed of the opportunity to access RightRisk simulations and other risk management materials via the World Wide Web.

This project focused on the risks associated with livestock and forage production. A significant portion of the educational training was devoted to ensure younger generation producers are aware of and able to use existing and emerging risk management tools.

The experiential learning environment created by RightRisk programs let participants gain first-hand knowledge of what it is like to implement risk management tools and strategies. Pre and post testing indicated that 91 percent (range of 83 percent to 98 percent) of the participants gained an increased understanding of risk management concepts and learned techniques that will help them grow into sound risk management decision-makers. 86 percent of all participants also indicated they plan to make changes to their operations as a result of the educational programming.

SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

Federal Manager's Financial Integrity Act (FMFIA) Assurance

FCIC management is responsible for establishing and maintaining effective internal controls to ensure the effectiveness of operations, reliability of reporting, compliance with applicable laws and regulations, and safeguarding of assets. FCIC has conducted its assessment of internal controls and financial systems pursuant to FMFIA. Based on the results of this evaluation, FCIC can provide reasonable assurance that its internal control over the effectiveness and efficiency of operations and compliance with laws and regulations, as of September 30, 2011 and 2010, was operating effectively and no material weaknesses were found in the design or operation of the internal controls.

Federal Financial Management Improvement Act (FFMIA) Assurance

FCIC has evaluated its financial management systems under FFMIA for the period ended September 30, 2011. Based on the result of our evaluation, the Agency is in substantial compliance with the FFMIA for the following sections:

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

Assurance for Internal Control over Financial Reporting

In addition, FCIC conducted its assessment of the effectiveness of internal control over financial reporting, which includes safeguarding assets and compliance with applicable laws and regulations, in accordance with the requirements of the Office of Management and Budget's (OMB), Circular A-123, Appendix A. Based on the results of this evaluation, FCIC can provide reasonable assurance that its internal control over financial reporting as of June 30, 2011 and 2010 was operating effectively and no material weaknesses were found in the design or operation of the internal control over financial reporting.

Limitations on Financial Statements

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

RISK MANAGEMENT AGENCY
FEDERAL CROP INSURANCE CORPORATION
CONSOLIDATED BALANCE SHEETS
As of September 30, 2011 and 2010
(in millions)

	2011	2010
Assets		
Intragovernmental		
Fund Balance with Treasury	$ 777	$ 668
With the Public:		
Cash Held Outside Treasury	247	123
Accounts Receivable, Net	3,830	2,402
General Property, Plant, and Equipment	44	34
Total Public Assets	4,121	2,559
Total Assets	$ 4,898	$ 3,227
Liabilities		
Intragovernmental:		
Other Liabilities	$ 2	$ 1
With the Public:		
Accounts Payable	137	30
Federal Employee Benefits	2	2
Other Liabilities		
Estimated Losses on Insurance Claims	9,531	2,422
Unearned Revenue	749	439
Other Liabilities	1,080	2,362
Total Other Liabilities	11,360	5,223
Total Liabilities	11,501	5,256
Commitments and Contingencies (Note 8)		
Net Position		
Capital Stock	500	500
Additional Paid-in Capital	38	38
Contingency Fund	24	20
Unexpended Appropriations	65	(680)
Cumulative Results of Operations	(7,230)	(1,907)
Total Net Position	(6,603)	(2,029)
Total Liabilities and Net Position	$ 4,898	$ 3,227

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

RISK MANAGEMENT AGENCY
FEDERAL CROP INSURANCE CORPORATION
CONSOLIDATED STATEMENTS OF NET COST
For the Years Ended September 30, 2011 and 2010
(in millions)

	2011	2010
Program Costs:		
Intragovernmental Gross Costs		
Benefit Program Costs	$ 11	$ 10
Imputed Costs	22	19
Reimbursable Costs	35	45
Total Intragovernmental Costs	68	74
Gross Costs With the Public		
Indemnities	13,429	2,759
Other Program Costs		
Program Delivery Costs	1,383	1,371
Other Program Costs	76	69
Total Other Program Costs	1,459	1,440
Total Costs with the Public	14,888	4,199
Less: Earned Revenue from the Public		
Premium Revenue	4,173	2,977
Net Gain Ceded to Approved Insurance Providers	(592)	(2,439)
Other Revenue	80	64
Total Earned Revenue with the Public	3,661	602
Net Costs With the Public	11,227	3,597
Net Cost of Operations	$ 11,295	$ 3,671

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

RISK MANAGEMENT AGENCY
FEDERAL CROP INSURANCE CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION
For the Years Ended September 30, 2011 and 2010
(in millions)

	2011	2010
Capital Stock	$ 500	$ 500
Additional Paid-in Capital	$ 38	$ 38
Cumulative Results of Operations		
Beginning Balance	$ (1,907)	$ (4,010)
Budgetary Financing Sources		
Appropriations Used	5,944	5,749
Transfers without Reimbursement	6	6
Other Financing Sources		
Imputed Financing Sources	22	19
Total Financing Sources	5,972	5,774
Net Cost of Operations	(11,295)	(3,671)
Net Change	(5,323)	2,103
Cumulative Results of Operations	$ (7,230)	$ (1,907)
Unexpended Appropriations:		
Beginning Balance	$ (660)	$ 914
Adjustments:		
Changes in Accounting Principles	-	(444)
Beginning Balance, as adjusted	(660)	470
Budgetary Financing Sources		
Appropriations Received	7,072	6,978
Appropriations Transferred In/Out	(5)	(5)
Other Adjustments	(374)	(2,354)
Appropriations Used	(5,944)	(5,749)
Total Unexpended Appropriations	$ 89	$ (660)
Net Position	$ (6,603)	$ (2,029)

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

RISK MANAGEMENT AGENCY
FEDERAL CROP INSURANCE CORPORATION
COMBINED STATEMENTS OF BUDGETARY RESOURCES
For the Years Ended September 30, 2011 and 2010
(in millions)

	2011	2010
Budgetary Resources		
Unobligated Balance Brought Forward, October 1	$ 560	$ 999
Adjustment to unobligated balance brought forward	-	(444)
Recoveries of Prior Year Unpaid Obligations	6	3
Budget Authority		
Appropriations Received	7,072	6,978
Spending Authority from Offsetting Collections		
Earned and Collected	3,148	2,449
Nonexpenditure Transfers, Net	1	1
Permanently not Available	(374)	(2,353)
Total Budgetary Resources	$ 10,413	$ 7,633
Status of Budgetary Resources		
Obligations Incurred		
Direct	$ 9,849	$ 7,073
Unobligated Balance		
Apportioned	562	558
Unobligated Balance Not Available	2	2
Total Status of Budgetary Resources	$ 10,413	$ 7,633
Change in Obligated Balances		
Unpaid Obligations Brought Forward, October 1	$ 231	$ 394
Obligations Incurred	9,849	7,073
Gross Outlays	(9,614)	(7,233)
Recoveries of Prior Year Unpaid Obligations	(6)	(3)
Obligated Balance, Net, End of Period		
Undelivered Orders	60	62
Accounts Payable	400	169
	460	231
Outlays Detail:		
Disbursements	9,614	7,233
Less: Collections	(3,148)	(2,449)
Net Outlays	$ 6,466	$ 4,784

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

Basis of Presentation and Accounting

The accompanying consolidated financial statements have been prepared to report FCIC's balance sheet, net cost, changes in net position, and budgetary resources. The consolidated financial statements have been prepared from FCIC's books and records in accordance with Generally Accepted Accounting Principles (GAAP). GAAP for Federal financial reporting entities recognizes the Federal Accounting Standards Advisory Board (FASAB) as the standard-setting body. The financial statements are presented in accordance with the OMB Circular A-136, *Financial Reporting Requirements,* which was revised in September 2010. All significant intra-agency transactions and balances have been eliminated in consolidation.

FCIC records accounting transactions on both an accrual and budgetary basis of accounting. Accrual accounting recognizes revenues when earned and expenses are recognized when incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of Federal funds.

Fund Balance with Treasury

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

Accounts Receivable

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

In accordance with OMB Circular A-129, *Policies for Federal Credit Programs and Non-Tax Receivables,* FCIC reclassifies all debt delinquent for more than 2 years as currently not collectible (CNC) or closed-out. The CNC policy allows Federal agencies to write off delinquent accounts receivable balances from their general ledgers while still pursuing collection.

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

In prior years, the net amount was recorded on the balance sheet. The 2010 net amounts were immaterial; therefore, the balances were not reclassified in 2011.

Cash Held Outside Treasury

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

General Property, Plant, and Equipment

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

FCIC is developing a new system to replace its current reinsurance program systems. In accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 10, *Accounting for Internal Use Software,* contractor and RMA internal staff costs related to the new system will be amortized over a period of 5 years once the software is implemented. As of the end of each fiscal year 2011 approximately $43 million was classified as internal use software in development compared to $33 million at the end of fiscal year 2010.

Accounts Payable

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

The Standard Reinsurance Agreement (SRA) provides for reimbursement to the insured companies for administrative and operating expenses.

The reimbursement rates (as a percent of premium) for both 2011 and 2010 reinsurance years are in the following tables:

2011 Insurance Plans	Reimbursement Rates (depending on coverage level)
Group risk plan	12%
Pasture/ Rangeland/ Forage plans	20.1%
Revenue plans (harvest price option)	18.5%
All other additional coverage plans	21.9%
Catastrophic coverage	6%

2010 Insurance Plans	Range of Reimbursement Rates (depending on coverage level)
Group risk plan	12%
Revenue plans (harvest price option)	15.8%-18.5%
All other additional coverage plans	18.7%-21.9%
Catastrophic coverage	6%

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

These agreements provide for both proportional and non-proportional reinsurance by which the loss risk is shared with FCIC. The AIPs elect the method to transfer risk to FCIC through their plan of operation. The plan of operation becomes an appendix to the SRA for each reinsurance year (July 1 through June 30). Proportional reinsurance provides for an incremental exchange of losses and premiums between the AIP and FCIC. FCIC uses nonproportional reinsurance programs (stop-loss) which limit losses in the reinsured's retained book of business after the cessions made under proportional methods. Stop-loss reinsurance is applied by state and by fund, if necessary, based upon the ratio of the reinsured's ultimate net losses to its retained net book premium.

Retirement Plans

Statement of Federal Financial Accounting Standards No. 5, *Accounting for Liabilities of the Federal Government (SFFAS 5),* requires Federal entities to recognize an expense for pensions and other retirement benefits at the time the employee's services are rendered. The purpose of recognizing this expense is to record and report the full cost of each entity's operation. A corresponding revenue, Imputed Financing Sources, is recognized to the extent pension and other retirement benefit expenses exceed the amount paid to the OPM. The OPM imputed costs were $6.3 million and $6.4 million in fiscal years 2011 and 2010, respectively.

Fair Value of Financial Instruments

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

Net Position

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

Unearned Revenue

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

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

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

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

Loss Recognition

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

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

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

The table below lists the projections for Crop Year 2011 on which the year-end estimates were based. The table also reflects the actual figures for Crop Year 2010.

Estimates	Crop Year 2011 (Estimated)	Crop Year 2010 (Actual)
Loss Ratio	112%	56%
Total Premium	$11.76 Billion	$7.59 Billion
Premium Subsidy	$7.33 Billion	$4.71 Billion
Ratio of Premium Subsidy to Total Premium	62%	62%
Farmer Premium Paid	$4.43 Billion	$2.88 Billion
Ratio of Farmer Premium to Total Premium	38%	38%

Use of Estimates

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

Contingencies

Various lawsuits, claims and proceedings are pending against FCIC. In accordance with SFFAS No. 5, FCIC records accruals for such contingencies when it is probable that a liability will be incurred and the amount of the loss can be reasonably estimated. If there is a reasonable possibility that a loss will occur, FCIC discloses the nature of the contingency and an estimate of the possible liability, an estimate of the range of the possible liability, or a statement that such an estimate cannot be made. See Note 8, Commitments and Contingencies, to the consolidated financial statements for related disclosures.

Apportionment Categories of Obligations Incurred

The Insurance Fund receives a direct apportionment for special activities. The fiscal years 2011 and 2010 obligations incurred were $9.7 billion and $7.0 billion, respectively. The A&O fund receives a direct apportionment by fiscal quarter. The fiscal years 2011 and 2010 obligations incurred were $83.9 million and $83.0 million, respectively.

Reclassification

The Federal Accounting Standards Advisory Board (FASAB) *Statement of Federal Financial Accounting Standards (SFFAS)27, Identifying and Reporting Earmarked Funds*, generally defines earmarked funds as those which are financed by specifically identified revenues, often supplemented by other financing sources that remain available over time. By statute, these are used for designated activities, benefits or purposes, and must be accounted for separately from the Government's general revenues. In prior years, FCIC identified the FCIC fund (TAFS-12X4085) as an earmarked fund under the criteria outlined in SFFAS 27. Beginning in 2010 fiscal year, FCIC was required to return unobligated balances to the U.S. Treasury. Therefore, FCIC no longer meets the second requirement of authority to retain revenues and other financing sources not used in the current period for future use. FCIC reclassified earmarked funds to other funds, absent explicit authority to retain revenues and other financing sources not used in the current period for future use, consistent with the change in accounting principle made in 2010 fiscal year. The Balance Sheet and Statement of Changes in Net Position reflect this change.

FCIC added Note 7, Liabilities Not Covered by Budgetary Resources, to further detail the disclosure of budgetary resources which are not funded by current apportionments from OMB. Liabilities not covered by budgetary resources for fiscal year 2010 increased by $3.928 billion which includes liabilities for estimated losses, underwriting gains, and delivery costs.

2. FUND BALANCE WITH TREASURY

2011

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

2010

		Appropriated Funds (millions)	Revolving Funds (millions)	Total
Obligated not yet disbursed	$	18	88	106
Unobligated available		-	558	558
Unobligated unavailable		4	-	4
Total	$	22	646	668

FCIC maintains separate accounts for the A&O (appropriated) and Insurance (revolving) Funds. The A&O Fund is used to pay administrative and operating expenses. The Insurance Fund is used to pay losses, administrative & operating subsidies, and costs authorized in the Farm Bill. FCIC does not earn interest on funds maintained in U.S. Treasury accounts. All funds are currently available to FCIC except for the unobligated appropriated (i.e., A&O) funds that were available for obligations through September 30, 2011. FCIC has permanent indefinite appropriations available to fund premium subsidy, delivery expenses, losses in excess of premiums and research and development costs. At the end of each fiscal year, FCIC returns to the U.S. Treasury all unobligated balances in the indefinite appropriation in excess of the amount FCIC is authorized by statute to retain which includes the capital stock, paid-in capital, and the contingency fund.

FCIC recorded a positive and negative warrant for $444 million in the fiscal year 2010. The negative $444 million as recorded at Treasury backdated to fiscal year 2009. A positive amount exactly offsetting this was recorded at Treasury in fiscal year 2010. Based on OMB guidance the net effect of this warrant was zero on financial statements and was recorded in fiscal year 2010. The $444 million is displayed as an adjustment to the beginning unobligated balance on the Statement of Budgetary Resources (SBR).

3. CASH HELD OUTSIDE TREASURY

Cash Held Outside Treasury consists of the following:

		2011	2010
		(millions)	
Cash Held Outside Treasury for: FCIC escrow accounts	$	247	123
Total Cash Held Outside Treasury	$	247	123

4. ACCOUNTS RECEIVABLE

Net accounts receivable is as follows:

2011 **(millions)**		**Gross Accounts Receivable**	**Allowance for Uncollectible Accounts**	**Net Accounts Receivable**
With the Public	$	3,843	(13)	3,830
Total	$	3,843	(13)	3,830

2010 **(millions)**		**Gross Accounts Receivable**	**Allowance for Uncollectible Accounts**	**Net Accounts Receivable**
With the Public	$	2,404	(2)	2,402
Total	$	2,404	(2)	2,402

The allowance for uncollectible accounts represents approximately $13 million and $2 million for reinsurance receivables in fiscal years 2011 and 2010, respectively. In order to be in compliance with OMB Circular A-129, *Policies for Federal Credit Programs and Non-Tax Receivables,* the USDA Office of the Chief Financial Officer determined that USDA agencies should reclassify all delinquent debt older than two years as currently not collectible (CNC) or closed-out. The CNC policy allows Federal agencies to write-off delinquent accounts receivable balances from their general ledgers while still pursuing collection.

5. ESTIMATED LOSSES ON INSURANCE CLAIMS

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

	2011 millions	2010 millions
Balance as of October 1	$ 2,422	$ 3,858
Incurred related to:		
Current Year	11,991	2,610
Prior Year	911	264
Total Incurred	12,902	2,874
Paid related to:		
Current Year	(3,234)	(1,042)
Prior Year	(3,086)	(3,153)
Total Paid	(6,320)	(4,195)
Reserve for Premium Deficiency	527	(115)
Net balance as of September 30	$ 9,531	$ 2,422

The current year indemnities incurred have increased by $9.381 billion due to the increase in prices and the severe weather conditions. The projected loss ratio is 112%.

The estimated loss projections are based on current conditions and are subject to significant uncertainty.

Any changes in weather patterns or commodity prices can change these projections significantly. Some crops may still be susceptible to catastrophic weather events such as an early freeze or excess precipitation during critical harvest periods. There is also uncertainty inherent in the indemnity forecast model.

The 2011 Estimated Loss projections are based on conditions as of September 30, 2011. There are a variety of risk factors that expose the FCIC's liability estimates to uncertainty, including severe weather events late in the growing season, potential spikes or declines in commodity prices, and reliance on preliminary yield estimates. The uncertainty inherent in these risk factors can result in actual indemnities being either greater or less than estimated. The total indemnities will not be known for several months after the end of the fiscal year; therefore, the financial statements are based on the projection.

6. OTHER LIABILITIES

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

		2011	2010
		(millions)	
Intragovernmental:			
Other Accrued Liabilities	$	2	1
Total Other Liabilities, Federal	$	2	1
With the Public:			
Underwriting Loss/Gain Payable to AIPs	$	1,007	2,334
Estimated Delivery Costs		54	11
Annual Leave Liability		4	4
Other Accrued liabilities		15	13
Total Other Liabilities, with the Public	$	1,080	2,362

Premiums and losses are reported monthly by the AIPs to the FCIC. A periodic settlement, as stipulated in the SRA, is calculated whereby the results of the business written by the reinsured companies are determined and an experience-rated underwriting gain or loss is computed. The FY11 estimated underwriting gain is $1.327 billion less than the FY10 estimate due to higher losses.

7. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

	2011 (millions)	2010 (millions)
Estimated Losses on Insurance Claims	9,284	2,299
Underwriting Gain	1,007	2,334
Delivery Costs	54	11
Unfunded Leave	4	4
FECA	3	3
Total	10,352	4,651

Liabilities not covered by budgetary resources are not funded by current apportionments from OMB. Estimated losses on insurance claims liabilities not covered by budgetary resources were $9.284 billion as of September 30, 2011, and $2.299 billion as of September 30, 2010. A premium deficiency has been recorded as the expected claim costs and claim adjustment expenses exceed the related unearned revenue.

The Federal Employees Compensation Act (FECA) liability includes Intragovernmental Other Accrued Liabilities of approximately $0.4 million for an unfunded FECA liability as of September 30, for both fiscal years 2011 and 2010, respectively. Unfunded annual leave is also a liability not covered by budgetary resources. Annual leave is accrued as it is incurred and the accrual is reduced as it is taken. The balances in the accrued annual leave account were adjusted to reflect current pay rates and annual leave balances.

8. COMMITMENTS AND CONTINGENCIES

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

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, Skymont Farms, et al., v. FCIC (CV No. 4:09-CV-65 E.D. TN) in which legal counsel believes the chance of an unfavorable outcome is more than remote. A payment for this case has been deemed possible for an estimated amount of $5 million. FCIC has not recognized a liability in the financial statements since FCIC will continue to vigorously contest this case and does not believe the possibility of an unfavorable outcome is probable.

9. INDEMNITY COSTS

Insurance Indemnity Costs are as follows:

		2011	2010
		(millions)	
Catastrophic coverage	$	84	50
Additional coverage		13,345	2,709
Insurance claims and indemnities	$	13,429	2,759

10. PROGRAM DELIVERY AND OTHER PROGRAM COSTS

Intragovernmental Costs are as follows:

		2011	2010
		(millions)	
Reimbursable costs	$	35	45
Other retirement benefit, other post-employment benefit, FECA, and other costs		11	10
Imputed costs		22	19
Less: earned revenue		-	-
Total Intragovernmental Costs	$	68	74

Program Delivery Costs are as follows:

		2011	2010
		(millions)	
Reinsurance administrative reimbursement	$	1,383	1,371

Other Program Costs With the Public are as follows:

		2011	2010
		(millions)	
Other program costs	$	35	11
Administrative and other cost		41	58
Total Other Program Costs	$	76	69

11. NET POSITION

Statement of Changes in Net Position - Other Adjustments to Budgetary Financing Sources
The unobligated balances returned to Treasury of $374 million and $2.353 billion are included in this line item.

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

Contingency Fund
FCIC has a contingency fund, which is part of the insurance fund authorized under section 516(c) of the Act (7 U.S.C. 1516(c)). The contingency fund is to be used to offset expenses incurred by FCIC to administer an AIP's book of business in the event of AIP supervision, rehabilitation, insolvency or operational deficiency, or an equivalent event, as determined by FCIC. The contingency fund is included in the Statement of Changes in Net Position as unexpended appropriations - unobligated, available. The contingency fund had a balance of $24 million at the end of September 2011 and a balance of $20 million at the end of September 2010.

12. FINANCING SOURCES

In fiscal years 2011 and 2010, FCIC received an Insurance Fund appropriation of $7.0 billion, for premium subsidy, reinsurance administrative and operating reimbursement expense, and other programs specified in the Farm Bill. The RMA A&O Fund appropriation was $79 million in FY 2011 and $80 million in FY 2010.

The Farm Bill provisions place a major emphasis on contracting and partnering for development of risk management products. It provides incentives for private parties to develop and submit new risk management products to the FCIC Board of Directors. In addition to product development, the Farm Bill provides for risk management education and improvements to program compliance and integrity. In FY 2011 $41.5 million and in FY 2010 $47.5 million was appropriated for ARPA expenses.

Summary of Appropriations Used:

		2011	2010
		(millions)	
A&O appropriation used	$	78	78
Insurance fund appropriations:			
Appropriation for premium subsidy		4,444	4,248
Appropriation for ARPA costs		39	51
Appropriation for delivery costs		1,383	1,372
Insurance fund appropriations used		5,866	5,671
Total appropriations used	$	5,944	5,749

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

FCIC's Statement of Budgetary Resources serves as a tool to link budget execution data to information reported in the "actual" column of the Program and Financing Schedules in the Appendix of the Budget of the United States Government (referred to as the "President's Budget") as well as information reported in the Reports of Budget Execution and Budgetary Resources (SF-133).

The permanent indefinite appropriation for the crop insurance program is used to cover premium subsidy, delivery expenses, losses in excess of premiums, and research and delivery costs. Some reporting differences do exist between comparable amounts in the Statement of Budgetary Resources (SBR), the President's Budget, and the SF-133. The following table is a comparison of the fiscal year 2010 Statement of Budgetary Resources and the President's Budget. The fiscal year 2011 President's Budget data is not available until February 2012.

Fiscal Year 2010 Statement of Budgetary Resources v. President's Budget (millions)					
	Account	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
Statement of Budgetary Resources:					
	Insurance Fund	$7,547	$6,990	-	$4,706
	A&O	86	83	-	78
	Total	$7,633	$7,073	-	$4,784
Reconciling items:					
Expired Accounts	A&O	$ (5)	(3)	-	$ -
	Total	(5)	(3)	-	-
Budget of the United States Government		$7,628	$7,070	-	$4,784

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

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

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

Reconciliation of Net Cost of Operations (Proprietary) to Budget

		2011	2010
Resources used to Finance Activities			
Budgetary resources obligated			
Obligations incurred	$	9,849	7,073
Less: spending authority from offsetting collections and recoveries		(3,154)	(2,452)
Obligations net of offsetting collections and recoveries		6,695	4,621
Less: offsetting receipts		-	-
Net obligations		6,695	4,621
Other resources			
Imputed financing from costs absorbed by others		22	19
Net other resources used to finance activities		22	19
Total resources used to finance activities	$	6,717	4,640
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	$	2	5
Resources that fund expenses recognized in prior periods		-	(975)
Other resources or adjustments to net obligated resources that do not affect the net cost of operations		(10)	-
Total resources used to finance items not part of the cost of operations		(8)	(970)
Total resources used to finance the net cost of operations	$	6,709	3,670
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period			
Components requiring or generating resources in future periods			
Increase in exchange revenue receivable from the public	$	(1,104)	-
Other		5,677	-
Components not requiring or generating resources			
Other		13	1
Total components of net cost of operations that will not require general resources in the current period		4,586	1
Net Cost of Operations	$	11,295	3,671

REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION (UNAUDITED)

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

During fiscal years 2011 and 2010, the RME program worked toward its goals by funding risk management sessions, most of which directly targeted producers. The number of producers reached through these sessions is approximately 79,500 in fiscal year 2011 and 47,100 in fiscal year 2010. In addition to reaching producers, some training sessions helped those who work with producers (such as lenders, agricultural educators, and crop insurance agents) to better understand those areas of risk management with which they may be unfamiliar. Total RME obligations incurred by FCIC were approximately $9.6 million and $6 million in fiscal years 2011 and 2010, respectively.

Summary of RME Initiatives Since Fiscal Year 2007		2011	2010	2009	2008	2007
RME Obligations (dollars in millions)	$	9.6	6	6	10	10
Number of producers attending RME sessions		79,500	47,100	20,000	49,000	49,000

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

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

2011 Risk Assumed:

	(millions)
Estimate of Unpaid Losses	$8,757
Risk Assumed	$13,021

The 2011 projected loss ratio is 112%; therefore the risk assumed by FCIC would be equal to the total premium of $11.626 billion multiplied by the loss ratio.

OTHER ACCOMPANYING INFORMATION (UNAUDITED)

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

RMA has completed the sixth year in the review cycle established to determine the Improper Payment Rate for the Federal Crop Insurance program. The 2009 crop year sample yielded a 3.1% error rate, but combined with the higher rates from prior years still yielded a 4.7% error rate for the average. The three-year combined error rate of 4.7% remains within range of the original estimate of 5.0%. The difference in error rates between the crop years are attributable to normal error distribution expected over time. As indicated in the FY 2010 report, the 2009 crop year resulted in lower projected dollar errors due reduced indemnities attributable to good growing conditions. Additionally, program liability in 2009 was $10 billion lower than in 2008.

The strategy for identifying and controlling the error rate includes identifying error trends and policy concerns and correcting them; however, as with the previously reviewed policies, there are still no definitive trends identified in the review completed in 2009. No underlying policy or underwriting issues have become apparent aside from those related to the inherent complexity of the current Actual Production History program. RMA continues to record and review all policies reviewed to identify any meaningful errors in the sample.

	Reported in FY 2009	Reported in FY 2010	To be Reported in FY 2011
Outlays	$3,545M	$8,680M	$5,225M
Improper Payment Rate (%)	5.79%	6.05%	4.72%
Improper Payments ($)	$205.3M	$525.1M	$246.6M
Year/Period of Data Sampled	2007	2008	2009

RMA continues to expand its strategic data acquisition and analysis efforts by incorporating additional remote sensing and geospatial analyses to its data mining initiative. The data warehouse was extended to include the compilation of detailed geospatial NEXRAD radar and rainfall data. The application of these data and analysis tools were then increased to include underwriting and program integrity issues throughout the program. Data mining activities continue to show significant cost avoidance savings each year by identifying and spot checking the crop insurance program most anomalous participants based on their history of filing claims. Additionally, RMA and the Farm Service Agency (FSA) are now using the Comprehensive Information Management System (CIMS) to compare reported data from producers between the programs. This project is designed to identify common and unique producer and crop information reported to both agencies; develop services to access the information; aid in information reconciliation; and reduce the reporting burdens of farmers, ranchers, producers, RMA, FSA, and crop insurance providers. This work will continue throughout FY 2011 and beyond.

RMA executed a new Standard Reinsurance Agreement for the 2011 reinsurance year that includes an increased use of data mining to identify and review anomalous policy results to improve the overall program quality control program. The changes in the new SRA along with an improved program data acceptance system are expected to reduce improper payments over time.

Future Targets for Improvement	FY 2012 PAR	FY 2013 PAR	FY 2014 PAR
Estimated Outlays	$4,750M	$9,000M	$8,000M
Improper Payment Rates	4.40%	4.30%	4.20%

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

Recovery of Improper Payments	FY2010 Actual	FY2011 Actual	FY2012 Target	FY2013 Target	FY2014 Target
Dollars Recovered ($)	**$18.92M**	**$4.27M**	**$10M**	**$10M**	**$10M**

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