United States Department of Agriculture

Office of Inspector General

Federal Crop Insurance Corporation/Risk Management Agency's Financial Statements for Fiscal Years 2014 and 2013

05401-0004-11

December 2014

United States Department of Agriculture

Office of Inspector General

Washington, D.C. 20250

DATE: December 18, 2014

AUDIT NUMBER: 05401-0004-11

TO: Brandon Willis
Administrator
Risk Management Agency

ATTN: Heather Manzano
Deputy Administrator for Compliance

FROM: Gil H. Harden
Assistant Inspector General for Audit

Gil H. Harden

SUBJECT: Federal Crop Insurance Corporation/Risk Management Agency's Financial Statements for Fiscal Years 2014 and 2013

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, 2014, and 2013. The report contains an unmodified opinion on the financial statements, as well as an assessment of FCIC/RMA's internal controls over financial reporting and compliance with laws and regulations.

KPMG LLP, an independent certified public accounting firm, conducted the audit. In connection with the contract, we reviewed KPMG LLP's report and related documentation and inquired of its representatives. Our review, as differentiated from an audit, in accordance with *Government Auditing Standards* (issued by the Comptroller General of the United States), was not intended to enable us to express, and we do not express, opinions on FCIC/RMA's financial statements; internal control; whether FCIC/RMA's financial management systems substantially complied with the Federal Financial Management Improvement Act of 1996 (FFMIA); or conclusions on compliance with laws and regulations. KPMG LLP is responsible for the attached auditor's report, dated December 18, 2014, and the conclusions expressed in the report. However, our review disclosed no instances where KPMG LLP did not comply, in all material respects, with *Government Auditing Standards* and the Office of Management and Budget Bulletin 14-02, *Audit Requirements for Federal Financial Statements*.

It is the opinion of KPMG LLP, that the financial statements present fairly, in all material respects, FCIC/RMA's financial position as of September 30, 2014, and 2013, and its net costs, changes in net position, and budgetary resources for the years then ended in accordance with U.S. generally accepted accounting principles.

The KPMG LLP report on FCIC/RMA's internal control structure identified two deficiencies. Specifically, KPMG LLP identified weaknesses in FCIC/RMA's:

- estimated losses on insurance claims calculation, and
- financial reporting.

KPMG LLP considered the first deficiency to be a material weakness and the last one to be a significant deficiency. No noncompliances with laws and regulations were reported.

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

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

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

Independent Auditors' Report

Inspector General, United States Department of Agriculture
The Board of Directors, Federal Crop Insurance Corporation:

Report on the Financial Statements

We have audited the accompanying financial statements of the Federal Crop Insurance Corporation/Risk Management Agency (FCIC/RMA), which comprise the balance sheets as of September 30, 2014 and 2013, and the related statements of net cost, changes in net position, and combined statements of budgetary resources for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 14-02 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion on the Financial Statements

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Federal Crop Insurance Corporation/Risk Management Agency as of September 30, 2014 and 2013, and its net costs, changes in net position, and budgetary resources for the years then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

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

Other Matters

Required Supplementary Information

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

Other Information

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

Other Reporting Required by *Government Auditing Standards*

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements as of and for the year ended September 30, 2014, we considered the FCIC/RMA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the FCIC/RMA's internal control. Accordingly, we do not express an opinion on the effectiveness of the FCIC/RMA's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying Exhibits I and II, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies. We have reported the status of the prior year material weakness in Exhibit III.

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. We consider the deficiencies described in the accompanying Exhibit I to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described the accompanying Exhibit II to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the FCIC/RMA's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 14-02. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests of compliance disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 14-02.

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

FCIC/RMA's Responses to Findings

The FCIC/RMA's responses to the findings identified in our audit are described in the accompanying Exhibits I and II. The FCIC/RMA's responses were not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on the responses.

Purpose of the Other Reporting Required by Government Auditing Standards

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

KPMG LLP

Washington, DC
December 18, 2014

EXHIBIT I

U.S. Department of Agriculture
Federal Crop Insurance Corporation/Risk Management Agency
Material Weakness

The material weakness identified for the year ended September 30, 2014 is summarized below:

Estimated Losses on Insurance Claims Calculation

During the audit of FCIC/RMA for fiscal year 2014, management changed the estimation insurance claims methodology. The proposed new estimation methodologies for fiscal year 2014 posed certain challenges to management with respect to adherence to generally accepted accounting principles (GAAP) and availability of adequate support and documentation for the significant assumptions. In addition, we also noted that management did not maintain sufficient and appropriate audit evidence in its accounting records for the estimation methodology for earned and unearned premiums, premium deficiency reserve, and underwriting gain. As a result of our audit procedures performed, management abandoned the proposed methodologies for fiscal year 2014 and reverted to the methodology used in fiscal year 2013 for estimated insurance claims and related earned and unearned premiums, premium deficiency reserve, and underwriting gain. The cumulative differences between the initial and final methodologies were material to the financial statements.

Per discussions with FCIC/RMA management, the cause of the above deficiencies was attributed to lack of adequate internal controls to determine if new estimation methodologies over significant financial statement line items were in accordance with GAAP. Moreover, management processes over the calculations, assumptions, and financial reporting was not adequately supported, tested, and documented.

We recommend that FCIC/RMA management design and implement policies and procedures to include the following:

1. When evaluating the need to change estimation methodologies, particularly as it relates to significant financial statement balances, management should consider:
    - availability of support for assumptions
    - comparability with prior years methods and computations
    - potential effect on balances and the effect on the consistency of financial statements
    - changes or enhancements to estimation methodologies that are in accordance with US GAAP.

In addition to the aforementioned recommendations, the following were identified in the prior year audit and should be considered when developing the corrective action plan.

2. Implement actions to ensure that changes to the indemnity projection methodology are performed and subsequently reviewed by independent individuals within FCIC/RMA management to ensure that the changes to the calculation are appropriate and verifiable to limit the risk of material misstatements in the liability for estimated losses on insurance claims at year-end.

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

4. Consider the need to save supporting documentation to provide an audit trail of all relevant estimate computations.

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

Management Response

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

With respect to the recommendations in this report, FCIC/RMA will, when evaluating the need to change estimate methodologies, base the evaluation on the advised criteria identified in recommendation 1. If the estimate methodology is to be revised, we will follow the implementation guidelines as outlined in recommendations 2 and 3. In addition, we will implement the supporting documentation and sensitivity analysis tasks described in recommendations 4 and 5.

U.S. Department of Agriculture
Federal Crop Insurance Corporation/Risk Management Agency
Significant Deficiency

The significant deficiency identified for the year ended September 30, 2014 is summarized below:

Financial Reporting

FCIC/RMA does not have adequate internal controls over financial reporting. The initial draft of the financial statements did not contain appropriate disclosures and/or narratives to describe significant events that transpired in the crop insurance programs that resulted in significant variances between fiscal years 2014 and 2013 financial statement line items. In addition, some documentation provided by management to support reported balances and notes contained differences.

FCIC/RMA management relies heavily on manually prepared spreadsheets that summarize and reconcile data from the accounting system and other RMA management systems. FCIC/RMA management is impacted by the fact that information on crop insurance programs obtained from three distinct annual reporting cycles – fiscal year, crop year, and reinsurance year. For instance, FCIC/RMA is required to maintain information for the crop insurance programs as follows: (1) on a crop year basis (i.e. calendar year for most crops); (2) on a reinsurance year basis (i.e. July 1 to June 30); and (3) fiscal year basis (i.e. October 1 to September 30). It should be noted that FCIC/RMA management uses reports with the aforementioned annual reporting cycles to prepare the financial statements note disclosures and other financial reporting process reconciliations. Relevant data from crop and reinsurance annual reports, used to prepare financial statements on a fiscal year, does not always match the time frame of the financial information that is needed, leading to the significant differences between the information reported in the notes. During our audit, we noted that some of these differences were not adequately supported or documented.

We recommend that FCIC/RMA management design and implement policies and procedures to include the following:

1. Implement actions to ensure that the financial statement note disclosures contain sufficient detail to discuss the material and significant changes to the financial statement balances/line items and that the information is reconciled to the appropriate support. Consider utilizing a detailed financial statement disclosure checklist that considers generally accepted accounting principles. Incorporate within the checklist management's research and documentation of variances that are not clearly supported and in line with management expectations based on the business events affecting the programs during the fiscal year.

2. Implement policies and procedures to ensure that data that is not fiscal year based is utilized appropriately in the financial statement preparation process and that data differences are researched, documented, and explained in sufficient detail. The business reasons for significant variances between fiscal year should be properly explained in the notes disclosures to enable readers of the financial

statement to understand what transpired in the agency programs during the fiscal year as the changes pertain to the major influences of the activity (commodity prices, premium volume, and crop yield).

Management Response

The crop insurance program is complex and frequently has significant variances from year to year due to changes in weather and commodity prices. As a result, there are challenges in determining the level of information to include in the financial statements. Although management researched and understood the differences, it may not have always been communicated sufficiently in the financial statement disclosures.

FCIC/RMA will revise procedures to ensure sufficient detail is included for material and significant changes to the financial statements as described in recommendation 1. In addition, FCIC/RMA will implement procedures to ensure the data in the financial statements is properly documented and linked to supporting documentation as described in recommendation 2.

EXHIBIT III

U.S. Department of Agriculture
Federal Crop Insurance Corporation/Risk Management Agency
Status of Prior Year Findings

The status of the prior year material weakness as of the year ended September 30, 2014 is summarized below:

Fiscal Year 2013 Finding	**Fiscal Year 2014 Status of Finding**
1. Estimated losses on insurance claims	During our review of FCIC/RMA's estimation of losses on insurance claims, we noted improvements in the implementation of the manual procedures and subsequent review process over the calculation. However, we identified continued improvement opportunities for FCIC/RMA to improve its internal controls. The control deficiencies that continue to exist are in the following areas: the evaluation of changes made to the estimate, independent verification of changes, retention of supporting documentation, and risk assessment of the calculation. Therefore, in fiscal year 2014, the presentation of the issue was modified to reflect current year operations, and we continue to report a material weakness in internal controls as it relates to the estimation of insurance losses. See Exhibit I for additional information.

FEDERAL CROP INSURANCE CORPORATION/ RISK MANAGEMENT AGENCY'S FINANCIAL STATEMENTS FOR FISCAL YEARS 2014 AND 2013

Management's Discussion and Analysis

SEPTEMBER 30, 2014

USDA RISK MANAGEMENT AGENCY

Message from Brandon Willis, Administrator, Risk Management Agency

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

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

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

RMA oversees the operation of the Federal Crop Insurance Corporation (FCIC). RMA assesses internal control over FCIC's programs, operations, financial systems, and financial reporting. This assessment is in accordance with the provisions of the *Federal Managers ' Financial Integrity Act* and the *Federal Financial Management Improvement Act.* RMA's continuous monitoring and remediation efforts allow us to provide taxpayers with reasonable assurance that this report is based on sound, accurate data. FCIC's financial statements, included herein, report both 2013 and 2014 fiscal years' financial positions, net costs of operation, changes in net position, and status of budgetary resources. These statements are in compliance with the format prescribed by OMB in the form and content of Federal financial statements (Circular A-136) and are in accordance with Generally Accepted Accounting Principles for Federal entities. Financial management performance measures also accompany the financial results. These performance measures include yearly results and goals.

The Agricultural Act of 2014 (The Farm Bill) was signed into law in February 2014, providing more risk management options for farmers and ranchers and making crop insurance the linchpin of the modern farm safety net. The Farm Bill continues the growth of the crop insurance program while providing for increased funding for program integrity and maintenance, guaranteeing that tax dollars are used effectively and efficiently as we expand the farm safety net. RMA has taken the necessary steps to implement the provisions of the Farm Bill in FY 2014 and will continue to deliver progress on implementation as outlined by the law.

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

Sincerely,

Brandon Willis

Brandon Willis
Administrator
Risk Management Agency

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Management's Discussion and Analysis (Unaudited)

Mission

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

History & Enabling Legislation

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

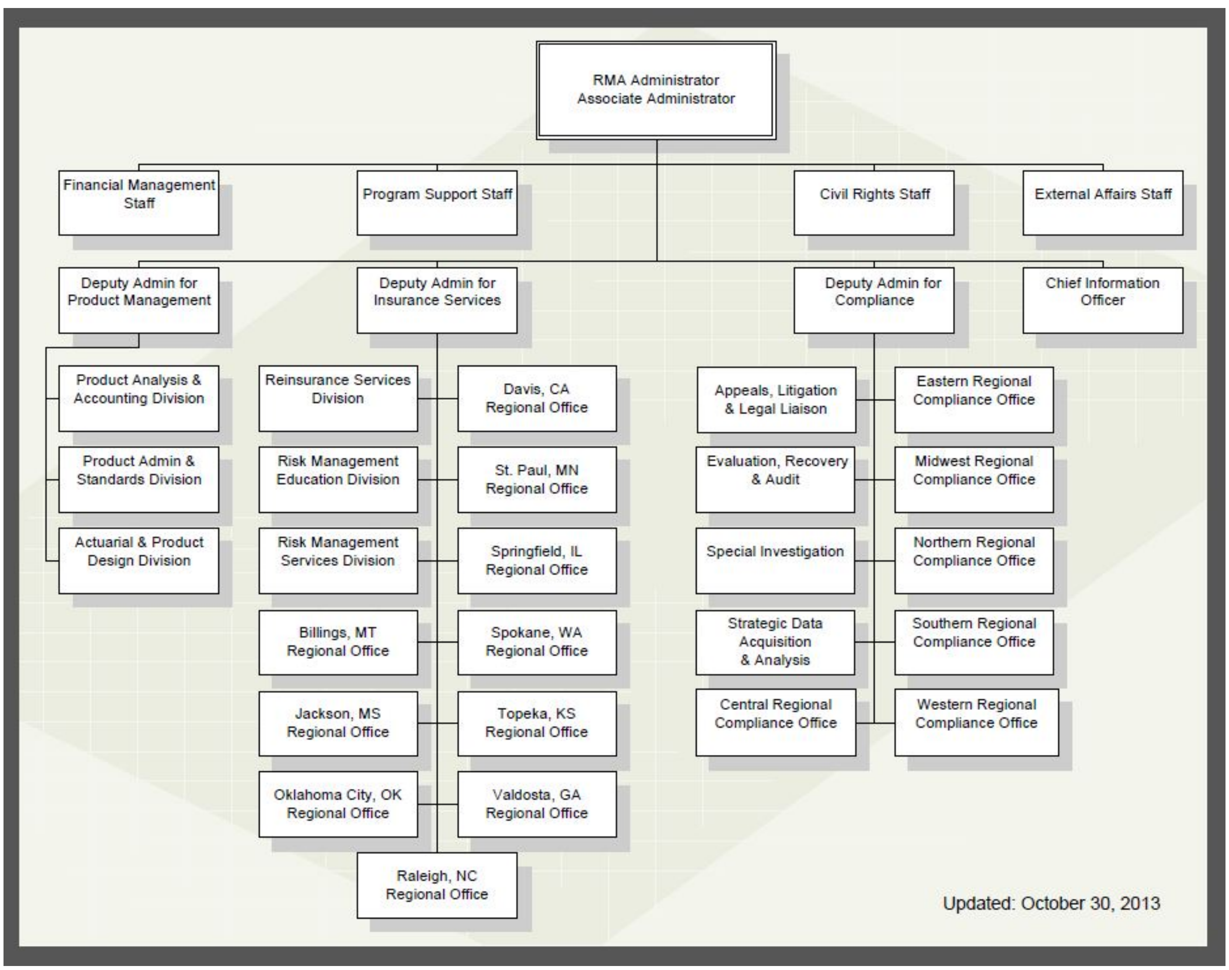
- Federal Crop Insurance Act of 1980
- Federal Crop Insurance Reform and Department of Agriculture Reauthorization Act of 1994
- Federal Agriculture Improvement and Reform Act of 1996
- Agriculture Research, Extension & Education Reform Act of 1998
- Agriculture, Rural Development, Food & Drug Administration,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

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

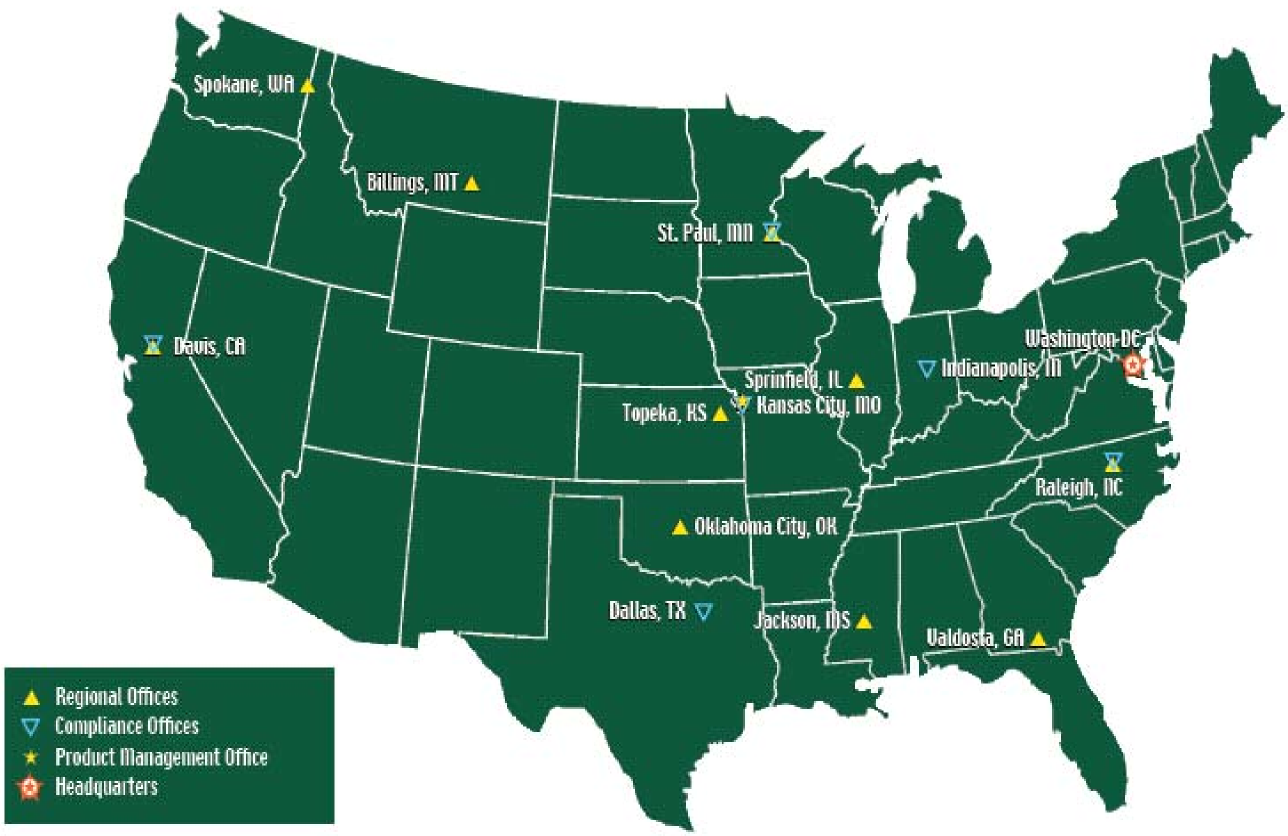
Organizational Structure

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

Organizational Chart:



Map of RMA Office Locations:



Organizational Functions:

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

Program Administration

The Board of Directors is the decision making body for FCIC. The FCIC Board of Directors is subject to the general supervision of the Secretary of Agriculture.

The Board consists of:

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

Office of the Administrator

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

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

- Civil Rights:
  The Office of Civil Rights (OCR) focus is:
  - Title VII (employment discrimination), and
  - Title VI (programs receiving federal financial assistance from RMA) of the Civil Rights Act of 1964.

One of OCR's responsibilities is to ensure that customers, such as farmers and ranchers, including small, limited resource, and other socially disadvantaged groups, have the opportunity to participate and have equal access to all USDA/RMA programs and services. In addition, RMA ensures that all employees and applicants for employment are treated equally in regards to employment opportunities, recognition, promotions, and other employee benefits.

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

- Chief Information Office (CIO):
  Located organizationally in the Program Support Staff, the CIO is made up of 3 primary functional areas: Information Security-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, software, and IT contractor management.

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

Product Management (PM)

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

- Establishment of crop insurance rates, crop insurance price elections, actuarial data, plans of insurance, crop insurance procedures, and handbooks;
- Management of privately submitted insurance products submitted under section 508(h) of the Act, including concept proposals;
- Development of strategies for increasing participation in the crop insurance program;
- Evaluation and oversight of pilot risk management commodity programs;

- Financial and operational oversight of Approved Insurance Providers (AIPs);
- Program accounting of receipts and expenditures (e.g., AIP reimbursement and escrow funding);
- Tracking ineligible producers; and
- Debt management and cross servicing.

Insurance Services

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

- Develops and manages contractual arrangements to deliver risk management programs to agricultural commodity producers through private insurance providers, cooperatives, and other financial service organizations;
- Ensures that delivery partners meet published regulatory financial standards and operating guidelines as well as administers corrective actions for non-compliance with contractual requirements;
- Delivers risk management education to producers and producer groups through private and public education partners; and
- Engages in outreach to ensure that farmers and ranchers, including small, limited resource, and other socially disadvantaged groups, have the opportunity to participate and have equal access to all RMA/USDA programs and services.

Compliance

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

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

Programs

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

Funding

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

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

The Insurance Fund is used to pay for the crop and livestock insurance programs. The funding for the insurance fund is mandatory funding with "such sums as necessary" to carry out the program.

The financial statements presented include both funds.

Operational Agreements

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

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

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

Insurance Plans:

Livestock Policies

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

Group Policies

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

Actual Production History & Yield Protection Policies

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

Revenue Policies

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

Other Policies

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

Insurance Plans

Livestock Plans

Livestock Risk Protection

Livestock Gross Margin

Group Plans

Group Risk Plan

Rainfall Index

Vegetation Index

APH Plans

Actual Production History

Yield Protection

Revenue Plans

Actual Revenue History

Group Risk Income Protection

Group Income Protection-Harvest

Revenue Option

Pecan Revenue Assurance

Revenue Protection

Revenue Protection with Harvest Exclusion

Other Plans

Adjusted Gross Revenue

Adjusted Gross Revenue Lite

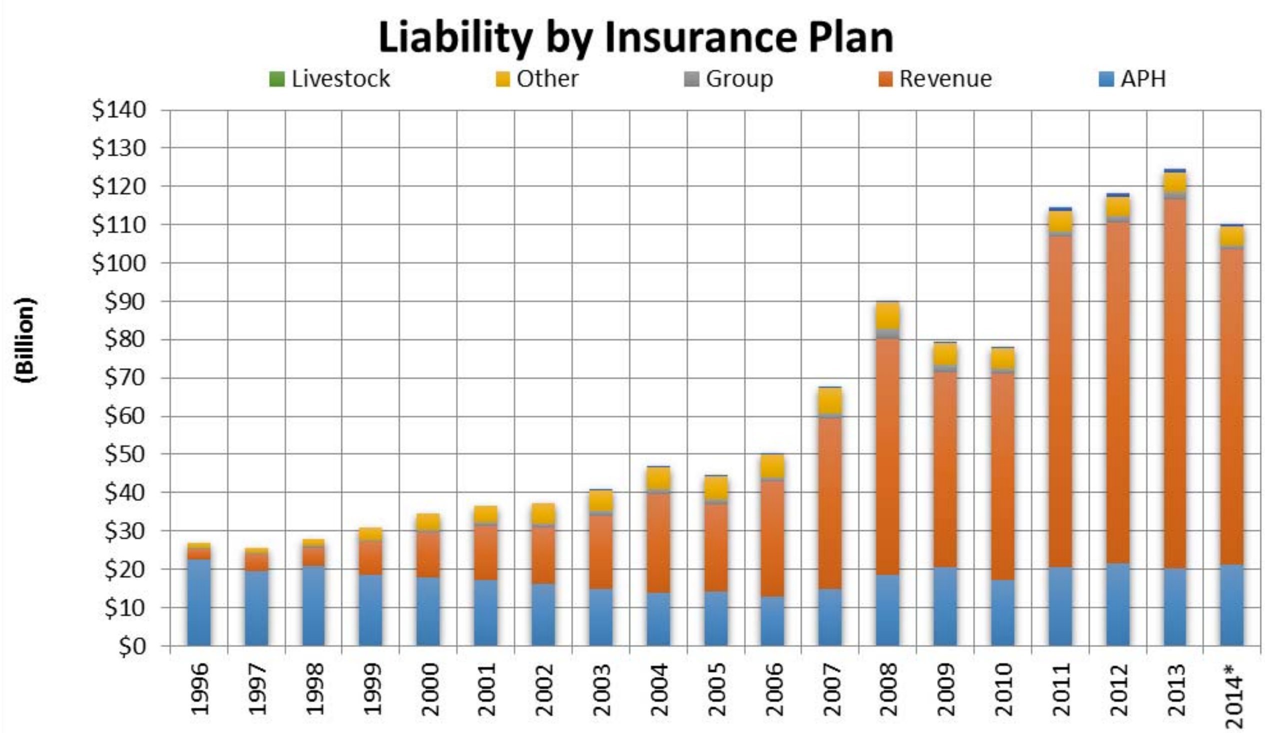
Aquaculture Dollar Amount of Insurance

Dollar Amount of Insurance

Fixed Dollar Amount of Insurance

Tree Based Dollar Amount of Insurance

Yield Based Dollar Amount of Insurance



*2014 Estimate

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

Reimbursement Rates:

Reimbursement Rates (as a percent of premium) to AIPs for administrative and operating expenses by type of insurance plan are shown below. The reimbursement rates are the same for 2014 and 2013 reinsurance years.

Insurance Plans	Reimbursement Rates (depending on coverage level)
Group Risk	12%
Pasture Rangeland and Forage	20.1%
Revenue (Harvest Price Option)	18.5%
Other Additional Coverage	21.9%
Catastrophic Coverage	6%

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

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

FCIC Published Regulations:

RMA periodically updates its regulations by publishing proposed, interim and final rules in the *Federal Register*. RMA seeks public comment on all proposed revisions. Revisions made to regulations improve risk management products available for producers and/or clarify such regulations. During the 2014 fiscal year, RMA had 7 regulations in the proposed, interim or final rule stage and 4 notices published that announced funding opportunities and requests for applications for specific programs and Paperwork Reduction Act notices. Published regulations can be found on the *Federal Register's* home page at: http://www.gpoaccess.gov/fr/index.html

Specialty Crops:

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

Pilot Programs:

The Act defines the process by which RMA develops and maintains pilot programs, and allows privately developed products to be submitted to the FCIC under section 508(h). Private submitters may submit a Concept Proposal for Board approval. A portion of expected research and development funds may be advanced to create the new insurance product. Private submitters may also develop new policies at their own expense and submit these products to FCIC. For Board approved products, the private submitters may request reimbursement of research and development from FCIC. Listed here are pilot programs operating in 2014:

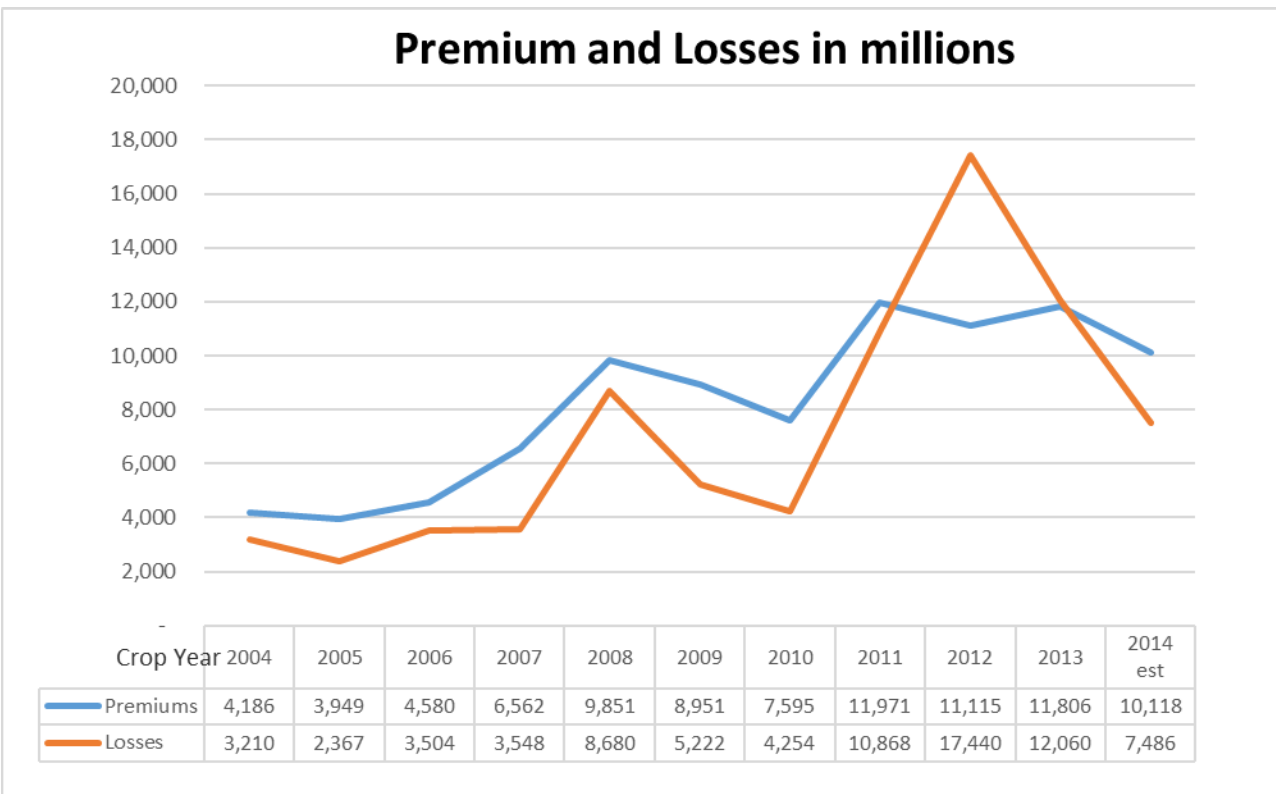
Pilot Programs
Actual Revenue History-Strawberry 2012
Pistachios (APH) 2012
Actual Revenue History-Tart Cherries 2014
508(h) Pilot Programs
High-Risk Alternative Coverage 2012
Camelina 2012
Olive 2012
Specialty Canola Revenue 2012
Specialty Corn 2012
Specialty Trait Soybeans 2012
Sweet Potatoes 2013
Texas Citrus Trees 2012
HR-ACE 2013
Pulse Crop Revenue 2013
Downed Rice Endorsement 2013
Machine Harvested Cucumbers 2014
Peanut Revenue 2014
High Amylose Corn 2014
Area Risk Protection Insurance for Popcorn 2014

Crop Statistics:

Program Information Comparison	Crop Year 2014 (Estimated)	Crop Year 2013 (Actual)
Policies	1.20 million	1.22 million
Farmer Paid Premium	$3.88 billion	$4.51 billion
Premium Subsidies	$6.24 billion	$7.30 billion
Total Premium	$10.12 billion	$11.81 billion
Indemnities	$7.49 billion	$12.06 billion
Loss Ratio	74%	102%
Insurance Protection	$109.46 billion	$123.77 billion

Premiums and Losses

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

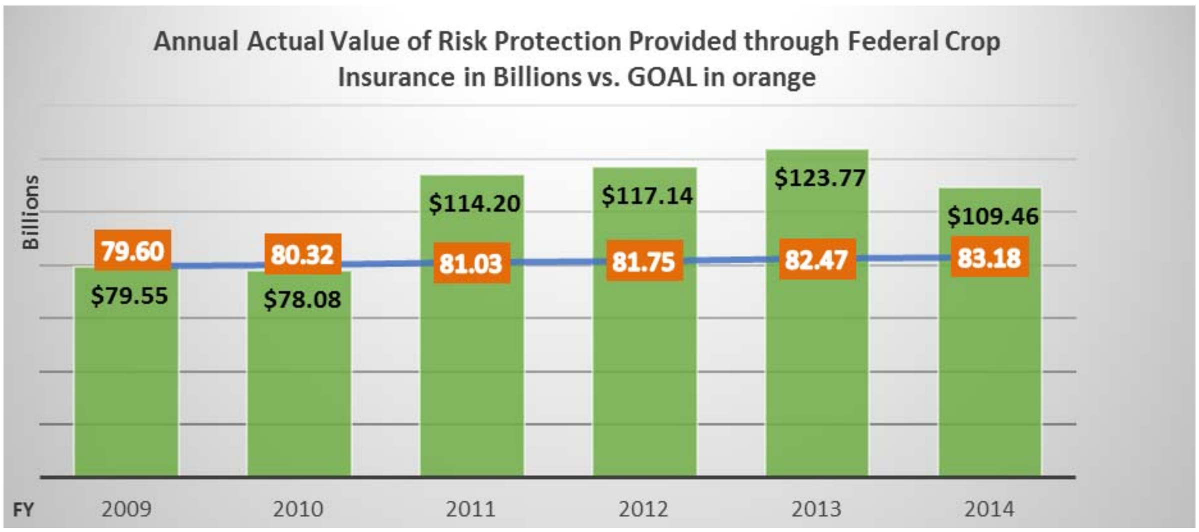


Performance Goals, Objectives and Results

Overall Availability and Use of Federal Crop Insurance:

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

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



2014 Farm Bill Provisions - Expansion & Innovation:

The Farm Bill strengthens crop insurance by providing more risk management options for farmers and ranchers and by making crop insurance more affordable for beginning farmers. It continues the growth of the crop insurance program, and provides avenues to expand farm safety net options for organic producers and specialty crop producers. It provides for increased program integrity, guaranteeing that tax dollars are used effectively and efficiently as we expand the farm safety net. Additional information about the 2014 Farm Bill provisions can be found at the USDA and RMA Farm Bill websites at USDA Farm Bill Website and RMA Farm Bill Website.

Supplemental Coverage Option (SCO)

SCO is a county-level revenue or yield based optional endorsement that covers a portion of losses not covered by the same crop's underlying crop insurance policy.

Indemnities will be payable once a 14 percent loss has occurred in the county, and individual payments will depend upon coverage levels selected by producers. Producers may not enroll a crop in a county for both SCO and Agricultural Risk Coverage (ARC), which is offered by the Farm Service Agency (FSA). However, producers may participate in both SCO and Price Loss Coverage (PLC), another program administered by FSA. An online decision support tool to help producers and agents find policy options that work best for them is available on the website Crop Insurance Decision Tool.

Stacked Income Protection Program (STAX)

STAX is a standalone supplemental insurance policy for cotton only. STAX protects against county-wide revenue losses and can supplement a producer's underlying cotton policy, or be purchased as a standalone policy. Producers can elect coverage of up to 20 percent of expected county revenue, depending on the coverage level of their individual cotton insurance policy. STAX payments begin when county revenue falls below 90 percent of its expected level. The premium subsidy for this coverage is 80 percent. The Stacked Income Protection Plan is available to upland cotton producers through the federal crop insurance program. Crops enrolled in ARC (as well as acreage when enrolled in STAX) will not be eligible for SCO coverage.

Whole Farm Policy

RMA's Whole Farm Revenue Protection (WFRP) insurance product combines Adjusted Gross Revenue (AGR) and AGR-Lite with improvements to target both (1) highly diversified farms and (2) farms selling 2-5 commodities to wholesale markets. The new product takes into consideration direction provided in the Farm Bill. WFRP is available for the 2015 crop year and covers all commodities on the farm including specialty crops.

Beginning Farmer Provisions

Beginning farmers receive increased assistance, which gives them access to risk management tools that are vitally important for them. Beginning farmers are exempt from paying the $300 administrative fee for catastrophic policies. In certain instances, beginning farmers have the ability to use the production history of entities where they were previously employed or helped to manage. The premium subsidy rates for beginning farmers are increased by ten percentage points during their first five years of farming. If covered beginning farmers experience a poor yielding crop, they may replace the poor yield in their yield history for determining next year's guarantee with 80 percent of the county Transitional or T-Yield, which is 20 percentage points higher than they previously would have received.

Coverage Level by Practice

A producer that produces an agricultural commodity on both dry land and irrigated land has the option to elect a different coverage level for each production practice.

Change in T-Yield

When a crop in a county suffers over a 50 percent yield loss, producers in that county and adjacent counties may omit their yield for that year's production. For this provision, FCIC may make a separate determination for irrigated and non-irrigated acreage.

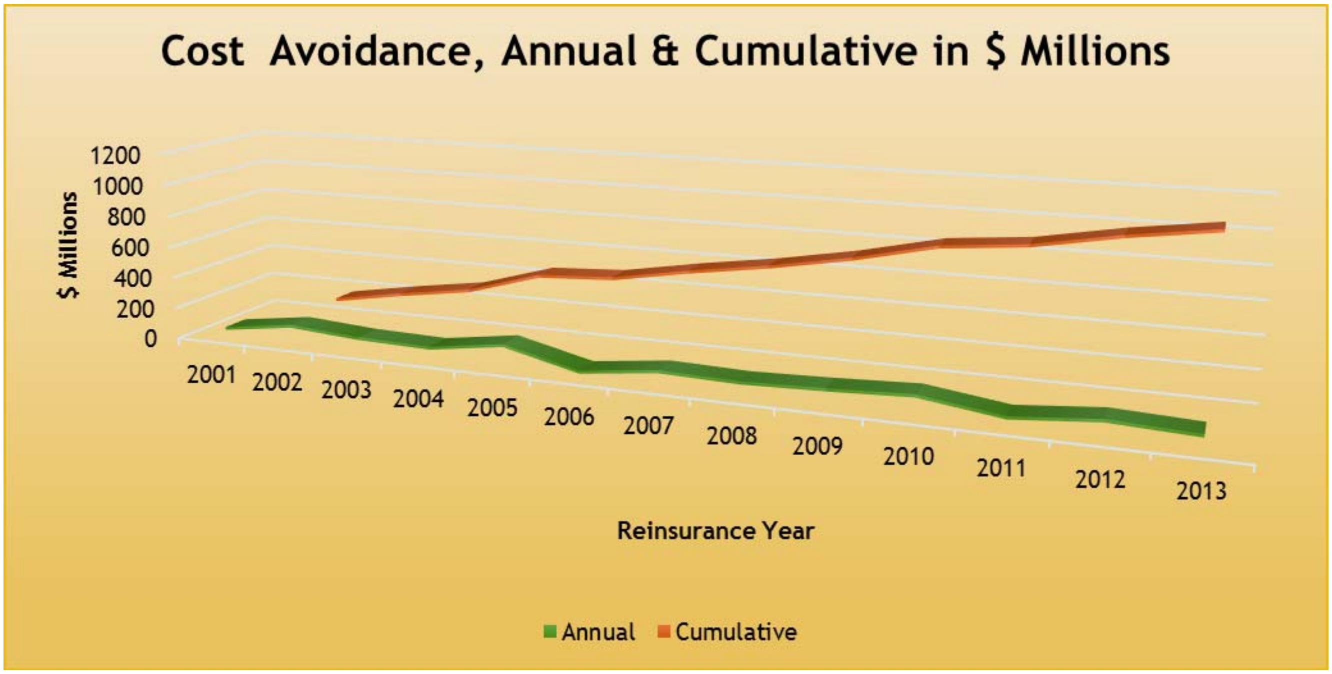
Organic Expansion

Previous to the passage of the Farm Bill, RMA had taken steps to improve coverage for organic producers. These steps continue to be strengthened by the bill. The 5 percent surcharge for organic price options was removed. Policies have been extended for organic price coverage. Organic price elections have been added for crop year 2014 for eight additional crops (oats, peppermint, apricots, apples, blueberries, almonds, pears, and grapes for juice), bringing the total number of crops with organic price elections to sixteen. This allows producers the option to choose to insure their crops at an organic or conventional policy coverage price set by RMA. The Contract Price Addendum has been issued that allows an organic producer who has a written contract from a buyer by the acreage reporting date, the ability to insure an organic crop at the contract price. Producers can now buy a Federal crop insurance guarantee that is more reflective of the actual value of their organic crop.

Peanut Revenue Policy

A Peanut Revenue program is available beginning in the 2015 crop year. The new program replaces the prior APH peanut insurance program with a "Combo-like" (Yield Protection & Revenue Protection) program design.

Cost Avoidance Using Data Mining and the Spot Check List:

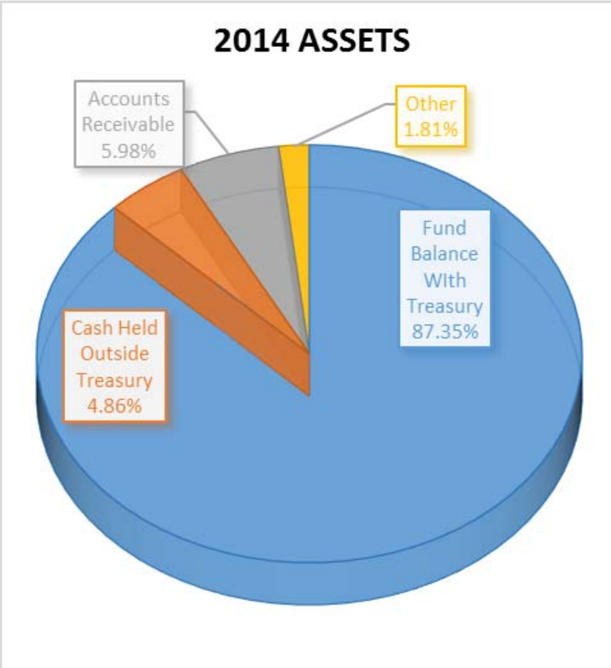


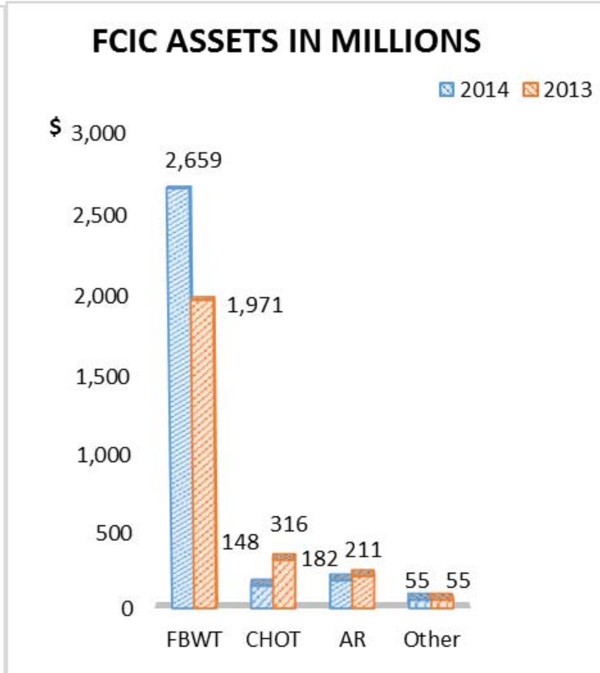
RMA uses data mining to detect and deter fraud, waste, and abuse in the crop insurance program by identifying policies that exhibit anomalous outcomes as compared to comparable policies in the geographic region. The product most associated with the data mining program is the annual "Spot-Check List," which is a list of approximately 3,000 of the policies found to be most anomalous. The policies placed on the Spot-Check List tend to exhibit particular loss patterns and/or have more frequent and larger losses relative to similar policies in the area. With input from AIPs, RMA develops scenarios that detect loss patterns and behaviors often associated with known instances of fraud, waste, and abuse. Policies placed on the Spot-Check List are provided to either the FSA or to AIPs for further evaluation. FSA county offices conduct two growing season inspections of anomalous insured fields. AIPs began participating in the Spot-Check List process in 2012.

The cost avoidance that results from data mining and the Spot-Check List process is measured by the reduction in the amount of indemnities claimed after the spot check inspections are conducted. The data mining and Spot-Check List efforts have been highly successful. The cumulative direct cost avoidance from the Spot-Check List process from 2001 through 2013 is estimated to be approximately $1.05 billion.

Financial Statement Highlights and Analysis

Assets:



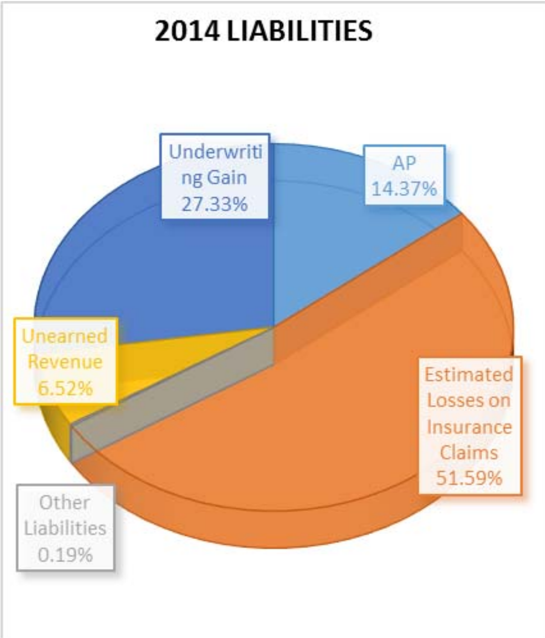


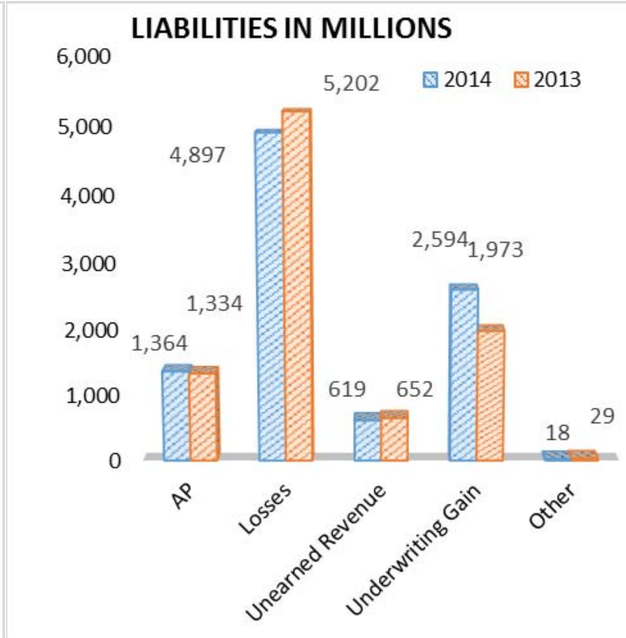
The vast majority of the assets are Fund Balance with Treasury (FBWT), Cash Held Outside of Treasury (CHOT), and Accounts Receivable (AR). FBWT is a cash-like account which represents funds available which have not been disbursed. RMA returns unobligated funds excluding the balances for Capital Stock, Paid-in Capital, and Contingency Fund to the U.S Treasury. At the end of fiscal year 2014, for the Insurance and S&E Funds, RMA returned $4.7 billion compared to the $3.8 billion returned in 2013. Large returns to Treasury are due to collections received in the final days of the fiscal year.

CHOT consists of amounts funded into escrow accounts for which the AIP's indemnity payments have not yet cleared.

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

Liabilities:





Liabilities

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

Estimated Losses on Insurance Claims

The Estimated Losses on Insurance Claims make up the majority of liabilities. Estimated losses are calculated based on Statement of Federal Financial Accounting Standards (SFFAS) No. 5, *Accounting for Liabilities of the Federal Government*, which states "the liability at the end of any period should be the expected unpaid net loss inherent in insured events that have occurred, including any claims --both claims reported and when appropriate, claims incurred but not reported (IBNR)." The IBNR, Premium Deficiency Reserve (PDR), and change in CHOT make up the estimated loss on insurance claims balance sheet line item. PDR is a liability for premium subsidy deferred to next fiscal year where it will be used to pay out not yet incurred indemnities. PDR is estimated at the same rate as unearned premium. CHOT is funds paid into separate escrow bank accounts to cover disbursements made by AIPs to producers.

Estimating Losses

FCIC establishes premium to attain an expected long-term loss ratio of 1.0. The premium cost for policies is determined by evaluating the loss experience in the program by county, by crop and pricing the premium to equal to the projected indemnity losses over the long term. Losses are divided into the premium to arrive at a loss ratio. A loss ratio less than 1.0 indicates that indemnity claims are less than total premium. A loss ratio greater than 1.0 means that the losses are greater than the premium. For FCIC programs the loss ratios are measured periodically in relation to the crop year. The eventual total loss ratio depends on many variables including weather patterns and commodity prices. A projection of total indemnities is made at the end of each fiscal year based on the current conditions. The total indemnities will not be known for several months after the end of the fiscal year; therefore, the financial statements are based on the projection.

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

Uncertainty in Estimating Losses

The estimated losses are calculated as of September 30, 2014. 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. FCIC is exposed to severe weather events impacting various regions of the country. These include late season freeze, lack of moisture, excess precipitation and hurricanes. A commodity price spike or decline would impact the losses. Many revenue products are based on prices, which are not known at the time of the financial statements. The reliance on preliminary yield estimates to project indemnity increases the uncertainty. As a result of these factors, the projected losses may differ significantly from the actual losses.

Although FCIC uses an actuarial model to project overall losses, it is created before the end of the reinsurance year and is subject to a high level of uncertainty. In the last 10 years, the difference between the actual and the estimated loss ratios has exceeded 10 points 80% of the time (8 of 10 years). The relatively high variance of this estimate reflects the large degree of uncertainty that is inherent in predicting losses before the end of the reinsurance year. The actual loss ratios in the last 10 years have varied from a low of 54% to a high of 157%. The average loss ratio for the past ten years was 82%.

The Summary of Premium and Losses table below demonstrates the variability between the projected and actual losses. The high variance of this estimate reflects the large degree of uncertainty that is inherent in predicting losses before the growing season is over.

Summary of Premium and Losses						
Actual (in millions)				Loss Ratio		
Crop Year	Premiums ($)	Losses ($)		Actual	Projected	Difference
2004	4,186	3,210		77%	85%	8%
2005	3,949	2,367		60%	78%	18%
2006	4,580	3,504		77%	99%	22%
2007	6,562	3,548		54%	67%	13%
2008	9,851	8,680		88%	63%	(25%)
2009	8,951	5,222		58%	66%	8%
2010	7,595	4,254		56%	41%	(15%)
2011	11,971	10,868		91%	112%	21%
2012	11,115	17,440		157%	185%	28%
2013	11,806	12,060		102%	76%	(26%)
2014 EST	**10,118**	**7,486**			**74%**	

Lower commodity prices caused a decrease in the overall program for 2014 resulting in lower liabilities.

Underwriting Gain

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

Accounts Payable

Accounts Payable includes amounts due to AIPs for reimbursement of administrative and operating expenses associated with delivering the crop insurance program. The program's administrative and operating reimbursement has averaged $1.4 billion over the past 10 years.

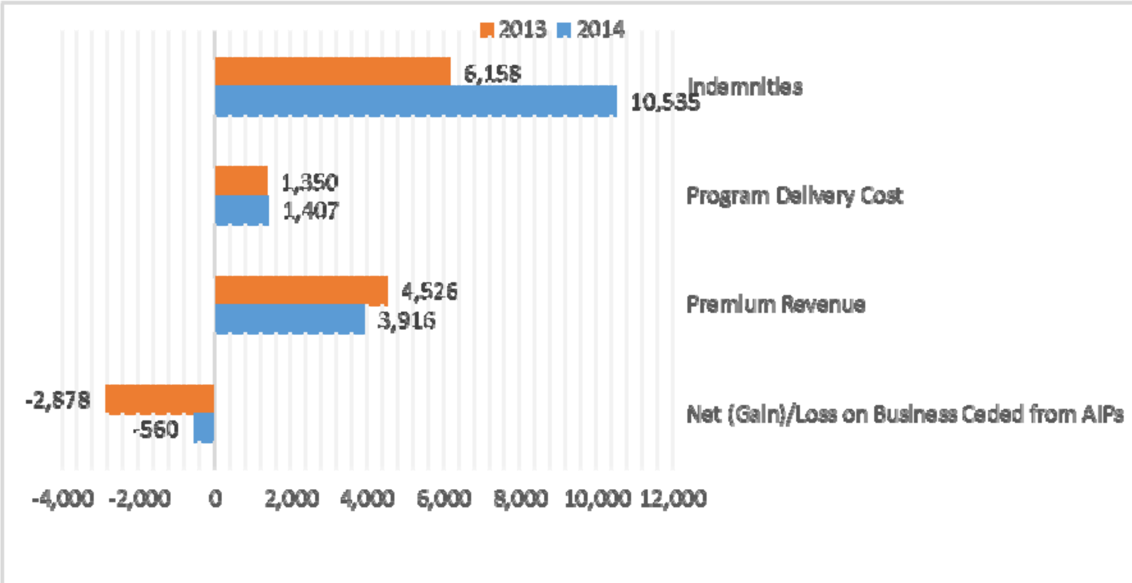
Unearned Revenue

Premium revenue is comprised of producer paid premium. Producer paid premium is recognized as earned proportionately over each crop's growing season. The portion of producer paid premium not recognized at the conclusion of the fiscal year is classified as Unearned Revenue in the consolidated balance sheets.

Other Liabilities

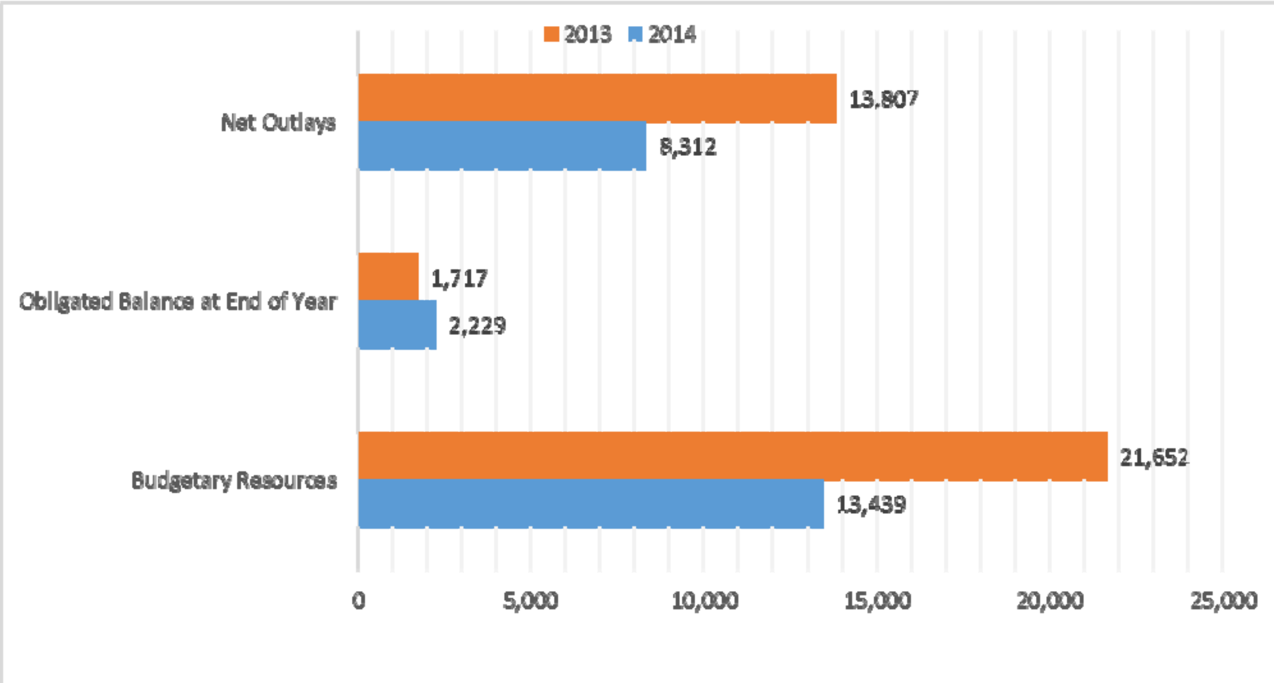
In fiscal year 2014, Other Liabilities include Intergovernmental of $1 million (Note 7), Federal Employee Benefits of $2 million, and Other Liabilities with the Public of $15 million (Note 7).

Analysis of Statement of Net Cost in millions:



FCIC's net cost of operations increased $2.7 billion from fiscal year 2013 to 2014. The net cost of operations for fiscal years 2013 and 2014 were $5,951 million and $8,659 million, respectively. The primary factor in the change in net cost is indemnity costs. The indemnity costs were $4.4 billion higher in fiscal year 2014. The differences in costs relate to a downward adjustment on prior fiscal year for an over estimate of the loss ratio of the 2012 reinsurance year and an upward adjustment on current fiscal year for an underestimate of the 2013 reinsurance year loss ratio. Reinsurance year 2012 had an estimated loss ratio of 1.85 and an actual loss ratio of 1.57. Reinsurance year 2013 had an estimated loss ratio of .76 and an actual loss ratio of 1.02, which resulted in a $4.3 billion expense recorded in fiscal year 2014 related to reinsurance year 2013.

Analysis of Statement of Budgetary Resources in millions:



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

Budgetary resources are mainly comprised of balances remaining from prior fiscal years, new appropriations, and collections.

Each year, RMA requests appropriations as needed to fully fund the insurance program. The appropriations were $3.4 billion less in fiscal year 2014 than fiscal year 2013. FCIC collected $4.8 billion less in fiscal year 2014 compared to fiscal year 2013. This was due to the payment for reinsurance year 2012 underwriting losses by the AIPs in fiscal year 2013. Also, some fiscal year 2012 premium payments were deferred to fiscal year 2013 due to an administrative waiver granted by the Secretary of Agriculture to provide drought-stricken farmers a grace period for paying premiums. Overall, FCIC had $8.2 billion less in budgetary resources at the end of fiscal year 2014.

The end of year obligated balance increased by $512 million in fiscal year 2014 compared to fiscal year 2013. In fiscal year 2014, FCIC had obligations to pay the reinsurance year 2014 delivery costs, and reinsurance year 2013 underwriting gain. In fiscal year 2013, FCIC only had obligations for reinsurance year 2013 delivery costs. There was not an underwriting gain for reinsurance year 2012 to be obligated in fiscal year 2013 due to the large losses in 2012.

Net Outlays are total cash disbursements less collections. Total cash disbursements are $10.3 billion less in fiscal year 2014. This is the result of higher fiscal year 2013 indemnity payments to producers caused by the reinsurance year 2012 severe drought in the corn-belt. Collections were $4.8 billion higher in fiscal year 2013. The net outlays were $5.5 billion less in fiscal year 2014.

Financial Reporting Requirements

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

Required Supplementary Stewardship Information:

Risk Management Education

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

For 2014, the RFA was a combination of the Commodity Partnership for Small Agricultural Risk Management Education Sessions and the Community Outreach Assistance Partnership Program. RMA partners with qualified applicants to provide education, outreach assistance and related tools and information on crop insurance programs and risk management strategies. Awards are given on a competitive basis and awarded for a one year term.

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

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

Systems, Controls, and Legal Compliance

Federal Manager's Financial Integrity Act (FMFIA) Assurance

FCIC management is responsible for establishing and maintaining effective internal controls to ensure the effectiveness of operations, reliability of reporting, compliance with applicable laws and regulations, and safeguarding of assets. FCIC has conducted its assessment of internal controls and financial systems pursuant to FMFIA. Based on the results of this evaluation, FCIC can provide reasonable assurance that its internal control over the effectiveness and efficiency of operations and compliance with laws and regulations, as of September 30, 2014 and 2013, was operating effectively with the exception of one material weakness found in the internal controls over financial reporting, as it relates to the estimated losses on insurance claims calculation in fiscal year 2013. That material weakness carried over to 2014. In addition, see the information about IPERA non-compliance below.

Federal Financial Management Improvement Act (FFMIA) Assurance

FCIC has evaluated its financial management systems under FFMIA for the period ended September 30, 2014. Based on the result of our evaluation, the Agency is in substantial compliance with the FFMIA for the following sections:

1. Federal Financial Management System Requirements;
2. Applicable Federal Accounting Standards; and
3. United States Standard General Ledger at the Transaction Level.

Assurance for Internal Control over Financial Reporting

In addition, FCIC conducted its assessment of the effectiveness of internal control over financial reporting, which includes safeguarding assets and compliance with applicable laws and regulations, in accordance with the requirements of the Office of Management and Budget's (OMB), Circular A-123, Appendix A. Based on the results of this evaluation, FCIC can provide reasonable assurance that its internal control over financial reporting as of June 30, 2014 and 2013 was operating effectively and no material weaknesses were found in the design or operation of the internal control over financial reporting.

Limitations on Financial Statements

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

Improper Payments Elimination and Recovery Improvement Act (IPERIA)

In 2014, FCIC program was non-compliant with IPERIA. RMA did not meet published annual reduction targets for improper payments. In addition, the Office of Inspector General has expressed concerns with the current sampling method and the need for it to be statistically valid as required by IPERIA. RMA is working with OMB on a replacement sampling plan that meets IPERIA requirements. RMA plans to have an approved process that will be implemented for the 2016 reporting period.

Message from Margo E. Erny, Chief Financial Officer,

Risk Management Agency and Federal Crop Insurance Corporation

As Chief Financial Officer of the Risk Management Agency (RMA) and the Federal Crop Insurance Corporation, I am pleased to present the comparative financial statements for fiscal years 2014 and 2013. RMA strives to provide world class agricultural risk management products, tools, education, and outreach. The Agricultural Act of 2014, also known as the 2014 Farm Bill, was signed into law in February 2014. This Farm Bill strengthens crop insurance by providing more risk management options for farmers and ranchers and by making crop insurance more affordable for beginning farmers. It continues the growth of the crop insurance program, and provides avenues to expand farm safety net options for organic producers and specialty crop producers. It provides for increased program integrity, guaranteeing that tax dollars are used effectively and efficiently as we expand the farm safety net. With the growth in the Federal Crop Insurance Program, it is imperative for RMA to continue to improve the transparency, accountability and effectiveness of financial reporting.

RMA has had a great track record of clean audit opinions and will make every effort to continue this trend. In 2013, a material weakness was identified in the Estimated Losses on Insurance Claims calculation. During the last year, although our staff has worked diligently to improve the process for estimating losses, the material weakness remains. We plan to remediate that weakness in 2015.

Another challenge RMA has faced is the reporting for the Improper Payments Elimination and Recovery Improvement Act (IPERIA). In 2014, RMA was non-compliant with IPERIA. RMA did not meet published annual reduction targets. In addition, the Office of Inspector General expressed concerns with the current sampling method and the need for it to be statistically valid as required by IPERIA. RMA has focused resources on developing a replacement sampling plan that meets IPERIA requirements. RMA plans to have an approved process that will be implemented for the 2016 reporting period.

We are proud of the accomplishments of our hard-working employees at RMA. All of us are committed to the sound management of resources under our stewardship. We look forward to continuing to serve all the stakeholders of the Federal Crop Insurance Program.

Sincerely,

Margo E. Erny

Margo E. Erny

Chief Financial Officer

Risk Management Agency/Federal Crop Insurance Corporation

Financial Statements

RISK MANAGEMENT AGENCY
FEDERAL CROP INSURANCE CORPORATION
BALANCE SHEETS
As of September 30, 2014 and 2013
(in millions)

	2014	2013
Assets		
Intragovernmental:		
Fund Balance with Treasury (Note 2)	$ 2,659	$ 1,971
With the Public:		
Cash Held Outside Treasury (Note 3)	148	316
Accounts Receivable, Net (Note 4)	182	211
General Property, Plant, and Equipment	55	55
Total Public Assets	385	582
Total Assets	$ 3,044	$ 2,553
Liabilities		
Intragovernmental:		
Other Liabilities	$ 1	$ 1
With the Public:		
Accounts Payable (Note 5)	1,364	1,334
Federal Employee Benefits	2	2
Other Liabilities		
Estimated Losses on Insurance Claims (Note 6)	4,897	5,202
Unearned Revenue (Note 9)	619	652
Underwriting Gain (Note 8)	2,594	1,973
Other Liabilities (Note 7)	15	26
Total Other Liabilities	8,125	7,853
Total Liabilities	$ 9,492	$ 9,190
Commitments and Contingencies (Note 11)		
Net Position (Notes 2 and 14)		
Capital Stock	$ 500	$ 500
Additional Paid-in Capital	38	38
Contingency Fund	29	26
Unexpended Appropriations	47	55
Cumulative Results of Operations	(7,062)	(7,256)
Total Net Position	(6,448)	(6,637)
Total Liabilities and Net Position	$ 3,044	$ 2,553

See accompanying notes to the financial statements.

RISK MANAGEMENT AGENCY
FEDERAL CROP INSURANCE CORPORATION
STATEMENTS OF NET COST
For the Years Ended September 30, 2014 and 2013
(in millions)

	2014	2013
Program Costs:		
Intragovernmental Gross Costs:		
Benefit Program Costs	$ 10	$ 11
Imputed Costs	18	15
Reimbursable Costs	36	41
Total Intragovernmental Costs	$ 64	$ 67
Gross Costs with the Public (Note 12)		
Indemnities	$ 10,535	$ 6,158
Program Delivery Costs	1,407	1,350
Other Program Costs	69	82
Total Gross Costs with the Public	$ 12,011	$ 7,590
Less: Earned Revenue from the Public (Note 13)		
Premium Revenue	$ 3,916	$ 4,526
Net (Gain)/Loss on Business Ceded from AIPs	(560)	(2,878)
Other Revenue	60	58
Total Earned Revenue with the Public	$ 3,416	$ 1,706
Net Costs with the Public	8,595	5,884
Net Cost of Operations	$ 8,659	$ 5,951

See accompanying notes to the financial statements.

RISK MANAGEMENT AGENCY
FEDERAL CROP INSURANCE CORPORATION
STATEMENTS OF CHANGES IN NET POSITION
For the Years Ended September 30, 2014 and 2013
(in millions)

	2014	2013
Capital Stock	$ 500	$ 500
Additional Paid-in-Capital	$ 38	$ 38
Cumulative Results of Operations		
Beginning Balance	$ (7,256)	$ (13,564)
Budgetary Financing Sources		
Appropriations Used	8,829	12,238
Transfers without Reimbursement	6	6
Other Financing Sources (Non-exchange)		
Imputed Financing Sources	18	15
Total Financing Sources	8,853	12,259
Net Cost of Operations	(8,659)	(5,951)
Net Change	194	6,308
Cumulative Results of Operations (Note 14)	$ (7,062)	$ (7,256)
Unexpended Appropriations:		
Beginning Balance	$ 81	$ 48
Budgetary Financing Sources		
Appropriations Received (Note 16)	13,545	16,074
Appropriations Transferred (Out)	(6)	(5)
Return to Treasury (Note 2)	(4,715)	(3,798)
Appropriations Used	(8,829)	(12,238)
Total Unexpended Appropriations	$ 76	$ 81
Net Position	$ (6,448)	$ (6,637)

See accompanying notes to the financial statements.

RISK MANAGEMENT AGENCY
FEDERAL CROP INSURANCE CORPORATION
COMBINED STATEMENTS OF BUDGETARY RESOURCES
For the Years Ended September 30, 2014 and 2013
(in millions)

	2014	2013
Budgetary Resources		
Unobligated Balance Brought Forward, October 1	$ 568	567
Recoveries of Prior Year Unpaid Obligations	5	2
Other Changes in Unobligated Balance	(1)	(1)
Unobligated Balance from Prior Year Budget Authority	572	568
Appropriations (Note 16)	8,828	12,275
Spending Authority from Offsetting Collections	4,039	8,809
Total Budgetary Resources	$ 13,439	$ 21,652
Status of Budgetary Resources		
Obligations Incurred	$ 12,868	$ 21,084
Unobligated Balance, End of Year		
Apportioned	569	566
Unapportioned	2	2
Total Unobligated Balance	571	568
Total Budgetary Resources	$ 13,439	$ 21,652
Change in Obligated Balances		
Unpaid Obligations Brought Forward Oct 1 (Gross)	$ 1,717	$ 3,251
Obligations Incurred	12,868	21,084
Outlays, Gross	(12,351)	(22,616)
Recoveries of Prior Year Unpaid Obligations	(5)	(2)
Obligated Balance End of Year	$ 2,229	$ 1,717
Budget Authority and Outlays		
Budget Authority, Gross	$ 12,867	$ 21,084
Actual Offsetting Collections	(4,039)	(8,809)
Budget Authority, Net	$ 8,828	$ 12,275
Outlays, Gross	$ 12,351	$ 22,616
Actual Offsetting Collections	(4,039)	(8,809)
Net Outlays	$ 8,312	$ 13,807

See accompanying notes to the financial statements.

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

Basis of Presentation and Accounting

The accompanying financial statements have been prepared to report FCIC's balance sheet, net cost, changes in net position, and budgetary resources. The 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 as the standard-setting body. The financial statements are presented in accordance with the Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements,* which was revised in September 2014. All significant intra-agency transactions and balances have been eliminated. The statement of Budgetary Resources is presented on a combined basis and therefore intra-agency transactions have not been eliminated.

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.

FCIC refers to three types of years in this financial report. The financial statements are presented by fiscal year which runs from October 1 to September 30. FCIC maintains statistics for policies, farmer paid premium, premium subsidy, total premium, indemnities, loss ratio, and insurance protection on a crop year basis. Crop year refers to the year in which a crop is harvested. FCIC also refers to the reinsurance year which is based on the yearly reinsurance agreements with Approved Insurance Providers (AIP). The reinsurance year runs from July 1 to June 30. Multiple reinsurance years are active during each fiscal year.

Fund Balance with Treasury

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

Cash Held Outside Treasury

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

Accounts Receivable

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

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

General Property, Plant, and Equipment

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

FCIC is developing a new system to replace its current reinsurance program systems. In accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 10, *Accounting for Internal Use Software,* contractor and RMA internal staff costs related to the new system will be amortized over a period of 5 years once the software is implemented. As of the end of fiscal year 2014 and fiscal year 2013 approximately $55 million was classified as internal use software in development.

Accounts Payable

Accounts Payable includes amounts due to AIPs for reimbursement of administrative and operating expenses associated with delivering the crop insurance program. The SRA provides for reimbursement to the insured companies for program delivery costs. Delivery costs are the costs RMA pays the AIPs to sell and service insurance policies. The payments for program delivery costs are due the first month of the following fiscal year.

Retirement Plans

SFFAS No. 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 United States Office of Personnel Management (OPM).

Net Position

Net position is the residual difference between assets and liabilities and is composed of capital stock, additional paid-in capital, contingency fund, unexpended appropriations, temporary reduction (due to sequestration), and cumulative results of operations. Unexpended appropriations represent the amount of unobligated and unexpended budget authority. Unobligated balances are the amount of appropriations or other authority remaining after deducting the cumulative amount of obligations. Cumulative results of operations are the net result of FCIC's operations since inception.

Unearned Revenue

Premium revenue is comprised of producer paid premium. Producer paid premium is recognized as earned proportionately over each crop's growing season. The portion of producer paid premium not recognized at the conclusion of the fiscal year is classified as Unearned Revenue in the balance sheets.

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

Loss Recognition

Estimated losses are calculated based on SFFAS No. 5. The Standard states "the liability at the end of any period should be the expected unpaid net loss inherent in insured events that have occurred, including any claims —both claims reported and when appropriate, claims incurred but not reported (IBNR)." Claims incurred during the period are recognized as losses. The liability for estimated losses on insurance claims represents those claims that have been incurred but not reported to FCIC as of the Balance Sheet date. 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 substantial uncertainties associated with assumptions used to estimate the losses on insurance claims since numerous crops are harvested near fiscal year end and losses are not known until harvest is completed. As a result, the ultimate liability may differ significantly from the recorded estimate. These uncertainties may include: actual yields which may be different than those provided by the NASS estimates; changes in weather patterns close to harvesting dates, which could affect yields but not be reflected in the NASS estimates; commodity prices which may change from those in the market because of many factors (such as weather, yields, and economic conditions); and significant catastrophic weather events (i.e. hurricanes and freezes) occurring near the balance sheet date which could affect estimated crop yields and crop prices. Indemnity costs are paid from premium proceeds, including producer paid premium and premium subsidies. If indemnity costs exceed total premium, additional funds will be apportioned to FCIC.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

Contingencies

Various lawsuits, claims and proceedings are pending against FCIC. In accordance with Statements of Federal Financial Accounting Standards (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.

Apportionment Categories of Obligations Incurred

The Insurance Fund receives a direct apportionment. The fiscal years 2014 and 2013 insurance fund obligations incurred were $12.8 billion and $21.0 billion, respectively. The fiscal year 2013 obligations were significantly greater than 2014 due to the high volume losses in reinsurance year 2012 that were appropriated by Congress and paid in fiscal year 2013. Salaries and expenses (S&E) fund obligations incurred were $70.6 million and $69.0 million, for fiscal years 2014 and 2013.

Reclassifications

Certain fiscal year 2013 balances have been reclassified to conform to fiscal year 2014 financial statement presentations.

Premium Deficiency Reserve

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

Underwriting Gain/Loss

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

2. FUND BALANCE WITH TREASURY

Fund balance with treasury at September 30, 2014 and 2013 consists of:

2014	S&E Fund (millions)	Insurance Fund (millions)	Total (millions)
Obligated not yet disbursed	$ 15	$ 2,066	$ 2,081
Unobligated available	-	569	569
Unobligated unavailable	2	7	9
Total Fund Balance with Treasury	$ 17	$ 2,642	$ 2,659
2013	**S&E Fund (millions)**	**Insurance Fund (millions)**	**Total (millions)**
Obligated not yet disbursed	$ 12	$ 1,389	$ 1,401
Unobligated available	-	566	566
Unobligated unavailable	2	2	4
Total Fund Balance with Treasury	$ 14	$ 1,957	$ 1,971

FCIC maintains separate accounts for the S&E (appropriated) and Insurance (revolving) Funds. The S&E Fund is used to pay administrative and operating expenses of RMA. The Insurance Fund is used to pay losses, administrative & operating (A&O) subsidies, and costs authorized in the Farm Bill. FCIC does not earn interest on funds maintained in U.S. Treasury accounts. All funds are currently available to FCIC except for the prior year unobligated balances in the S&E Fund and temporarily sequestered amounts in the Insurance Fund. FCIC has permanent indefinite appropriations available to fund premium subsidy, delivery expenses, losses in excess of premiums and other risk management initiatives as authorized in the Act. 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. The unobligated unavailable amount in fiscal year 2014 includes sequestered funds.

3. CASH HELD OUTSIDE TREASURY

Cash held outside of treasury as of September 30, 2014 and 2013 is:

CASH HELD OUTSIDE TREASURY	2014 (millions)	2013 (millions)
Balance	$ 148	$ 316

Cash Held Outside of Treasury consist of funds in the FCIC escrow accounts. These accounts are used by AIPs to pay farmer losses. The fluctuation in these accounts are due to normal seasonal variation.

4. ACCOUNTS RECEIVABLE

Accounts receivable and allowance for doubtful accounts as of September 30 2014, and 2013 are:

Fiscal Year	Gross Accounts Receivable (millions)	Allowance for Uncollectible Accounts (millions)	Net Accounts Receivable (millions)
2014	$ 196	$ (14)	$ 182
2013	$ 230	$ (19)	$ 211

Accounts receivable includes premiums from AIPs due to FCIC. AIPs are responsible for collecting premiums and paying FCIC whether or not they have received premiums from the producer. Also included are amounts due from individual producers for interest, overpaid indemnities, and debts which are payable directly to FCIC. The allowance for uncollectable accounts is based on historical experience.

5. ACCOUNTS PAYABLE

The 2008 Farm Bill mandated delay of payment of delivery cost until October of the next fiscal year following the reinsurance year. Therefore, delivery costs for reinsurance year 2014 are included in the accounts payable line in fiscal year 2014.

Total accounts payable, including delivery costs, as of September 30, 2014 and 2013 are:

Accounts Payable	2014 (millions)	2013 (millions)
Delivery Costs	$ 1,362	$ 1,330
Other	2	4
Total	$ 1,364	$ 1,334

6. ESTIMATED LOSSES ON INSURANCE CLAIMS

The following table summarizes the activity in the accrual for estimated losses on insurance claims and net balance as of September 30, 2014 and 2013:

Estimated Losses on Insurance Claims	2014 (millions)	2013 (millions)
Balance as of October 1	$ 5,202	$ 18,376
Incurred Related to:		
Current Year	6,282	7,748
Prior Years	4,316	(1,504)
Total Incurred	$ 10,598	$ 6,244
Paid related to:		
Current Year	(2,528)	(3,928)
Prior Years	(8,312)	(15,404)
Total Paid	$ (10,840)	$ (19,332)
Change in Premium Deficiency Reserve	(63)	(86)
Net Balance as of September 30	$ 4,897	$ 5,202

Certain reclassifications were made to 2013 current and prior years incurred balances to be consistent with 2014 reporting. The reclassification did not result in any changes to the total incurred for 2013.

Estimated losses on Insurance Claims is based on two major factors: losses due to a shortfall in yield and changes in commodity prices impacting revenue plans. The principal data source for yield projections is the National Agricultural Statistics Service's (NASS) Crop Production report. The Crop Production report provides USDA's official perspective on the current state of agricultural production. It is based on a survey of growers along with inspections of randomly selected sections of farm fields. Although the Crop Production report is scrutinized by multiple sources, it is still an estimate and is subject to uncertainty.

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

Differences in losses between the two fiscal years were attributed to a combination of changes in crop yield, commodity prices, and premium volume. The fiscal year 2014 current year incurred losses of $6.3 billion include losses that have been reported in fiscal year 2014 for the amount of $2.5 billion and IBNR of $3.8 billion. Lower commodity prices in the fall of 2013 triggered higher losses than estimated, therefore the prior year losses reported in fiscal year 2014 were higher than expected as of the end of fiscal year 2013. The fiscal year 2013 current year incurred losses of $7.7 billion includes losses that have been reported in fiscal year 2013 for the amount of $3.9 billion and IBNR of $3.8 billion. The reported higher than expected yield for the drought of 2012 triggered lower losses than estimated, therefore the prior year losses reported in fiscal year 2013 were lower than expected as of the end of fiscal year 2012.

The difference in PDR is due to normal program variation from year to year.

7. OTHER LIABILITIES

Other liabilities as of September 30, 2014 and 2013 consist of:

Other Liabilities, Federal and Non-Federal	2014 (millions)	2013 (millions)
Intragovernmental:		
Other Accrued Liabilities, Federal	$ 1	$ 1
With the Public:		
Estimated Delivery Costs	7	11
Annual Leave Liability	4	4
Accrued Payroll and Benefits	1	1
Other Accrued Liabilities	3	10
Total Other Liabilities, with the Public	$ 15	$ 26

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

8. UNDERWRITING GAIN

The liability for underwriting gain as of September 30, 2014 and 2013 is:

Underwriting Gain	2014 (millions)	2013 (millions)
Current Year Estimated Gains	$ 1,955	$ 1,973
Actual Gains	639	-
Total Underwriting Gain Liability	$ 2,594	$ 1,973

The fiscal year 2013 estimated Underwriting Gain was based on an expected overall loss ratio of .76. The actual reinsurance year 2013 underwriting gain was $639 million based on a loss ratio of 1.02. There was no actual gain liability in fiscal year 2013 due to the drought in reinsurance year 2012.

9. UNEARNED REVENUE

Unearned revenue at September 30, 2014 and 2013 is:

Unearned Revenue	2014 (millions)	2013 (millions)
Total Unearned Revenue	$ 619	$ 652

Premium revenue is comprised of producer paid premium. Producer paid premium is recognized as earned proportionately over each crop's growing season. The portion of producer paid premium not recognized at the conclusion of the fiscal year is classified as Unearned Revenue in the balance sheets.

10. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

Liabilities not covered by budgetary resources at September 30, 2014 and 2013 are:

Liabilities	2014 (millions)	2013 (millions)
Estimated Losses on Insurance Claims	$ 4,749	$ 4,886
Underwriting Gain	1,955	1,973
Estimated Delivery Costs	0	11
Unfunded Leave	4	4
FECA	2	3
Total Liabilities Not Covered by Budgetary Resources	$ 6,710	$ 6,877
Total Liabilities Covered by Budgetary Resources	$ 2,782	$ 2,313
Total Liabilities	$ 9,492	$ 9,190

Liabilities not covered by budgetary resources are not funded by current apportionments from OMB. Estimated losses on insurance claims liabilities not covered by budgetary resources were $4.7 billion as of September 30, 2014, and $4.9

billion as of September 30, 2013. Excluded from this footnote are reported unpaid claims that are funded by budgetary resources.

In fiscal year 2014, a portion of underwriting gain is covered by budgetary resources. Due to the drought in 2012, reinsurance year 2012 was an overall underwriting loss. As a result, there were no underwriting gains covered by budgetary resources and immediately payable to the AIPs in fiscal year 2013. Reinsurance year 2012 underwriting loss resulted in a payment to FCIC.

The fiscal year 2014 Federal Employees Compensation Act (FECA) liability of $2 million includes Intragovernmental Other Liabilities of approximately $.4 million for an unfunded FECA liability. The fiscal year 2013 FECA liability of $3 million includes Intragovernmental Other Liabilities of approximately $.4 million for an unfunded FECA liability. Unfunded annual leave is also a liability not covered by budgetary resources. Annual leave is accrued as it is incurred and the accrual is reduced as it is taken. The balances in the accrued annual leave account were adjusted to reflect current pay rates and annual leave balances

11. COMMITMENTS AND CONTINGENCIES

FCIC is a defendant in various litigation cases arising in the normal course of business. To defend its policies and procedures, FCIC may, in some instances, pay litigation expenses and judgments over and above indemnities found in the SRA for AIPs. For this reason, FCIC is consulted and approves significant decisions in the litigation process. After consultation with legal counsel, management believes that none of these items, other than those noted herein, are expected to have a materially adverse effect on FCIC's 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 cases in which legal counsel believes the chances of unfavorable outcomes are more than remote - Chapter 11 Estate of Michael Hat (John Van Curen Trustee) v. Risk Management Agency (Case No.2011W0004 90 NAD).

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

The case of Jagers, et al v. Federal Crop Insurance Co., 10th Circuit Case No. 12-1342 was resolved in favor of the government during fiscal year 2014.

12. GROSS COSTS

Insurance indemnity costs for the year ending September 30, 2014 and 2013 consist of:

Insurance Indemnity Costs	2014 (millions)	2013 (millions)
Current Year		
Incurred	$ 6,282	$ 7,748
Premium Deficiency Reserve	977	1,040
Total Current Year	$ 7,259	$ 8,788
Prior Years		
Incurred	$ 4,316	$(1,504)
Premium Deficiency Reserve(Reversal)	(1,040)	(1,126)
Total Prior Year	$ 3,276	$(2,630)
Insurance Claims and Indemnities	$ 10,535	$ 6,158

The majority of variance in Gross Costs between fiscal years is associated with the estimated versus actual indemnities which is primarily accounted for by difference in crop yield and commodity prices and premium volume. The current years have a variance of $1.5 billion due to a reduction in total premium because of the drop in commodity prices. The prior years are effected by the reversal of an over estimate in fiscal year 2012 of $1.5 billion and incurred costs of $4.3 billion in addition to the estimate at the end of fiscal year 2013. Drought losses were less than expected in reinsurance year 2012. Actual losses for reinsurance year 2013 were greater than initially estimated. This was due to a fluctuation in commodity prices during harvest which substantially occurred after fiscal year end.

Other Program Costs With the Public	2014 (millions)	2013 (millions)
Appropriated salaries and expenses	$ 44	$ 44
Other program costs	25	38
Total Other Program Costs	$ 69	$ 82

Other program costs consist of bad debt expense, initiatives, and insurance program technology projects. In fiscal year 2014 the decrease in costs is associated with a reduction in bad debt expense.

13. EARNED REVENUE WITH THE PUBLIC

Earned revenue with the public as of September 30, 2014 and 2013 is:

Comparative Premium Revenue	2014 (millions)	2013 (millions)
Premium Revenue	$ 3,916	$ 4,526

Premium rates are set based upon underlying commodity prices. In 2014 lower commodity prices caused a $610 million decrease in premium revenue.

Net (Gain)/Loss on Business Ceded from AIPs	2014 (millions)	2013 (millions)
Net Prior Years Activity (Gain)/Losses	$ 1,395	$ (905)
Current Year Estimated (Gains)/Losses	(1,955)	(1,973)
Total	$ (560)	$ (2,878)

Premiums and losses are reported monthly by the AIPs to the FCIC. A periodic settlement, as stipulated in the SRA, is calculated where the results of the business written by the AIPs are determined and an experience-rated gain, or loss on business ceded from AIPs is computed. Payments to the AIPs for the net gain is paid in October in the second fiscal year following the reinsurance year. In fiscal year 2014, the underwriting gain for reinsurance year 2013 was determined to be $639 million, which is $1.33 billion less than estimated at the end of fiscal year 2013. This is due to a higher actual loss ratio (1.02) for reinsurance year 2013 than estimated (.76). 2014 Net Prior Years Activity includes an additional $61 million loss for other prior reinsurance years.

In case of underwriting loss, RMA collects periodically from the AIP's. In fiscal year 2013, RMA collected $1.3 billion, which was $870 million less than estimated in fiscal year 2012. The estimate for gain in the current reinsurance year was $1.96 billion in fiscal year 2014 compared to $1.97 billion in fiscal year 2013.

14. NET POSITION - Statement of Changes in Net Position

The beginning balance of Cumulative Result of Operations in fiscal year 2014 was $194 million higher than fiscal year 2013 due to normal program variability. The Cumulative Results of Operations at the end of fiscal year 2014 was ($7.1) billion.

In fiscal year 2014, FCIC requested $2.5 billion less in appropriations to cover the losses than what was requested in 2013. Higher appropriations were needed in fiscal year 2013 to cover losses caused by the severe drought of 2012. The majority of the losses are paid in the next fiscal year after the losses have been incurred. The amount of appropriations used was $3.4 billion less in fiscal year 2014 than fiscal year 2013. FCIC returned $4.7 billion to Treasury in fiscal year 2014, compared to $3.8 billion in fiscal year 2013.

Capital Stock

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

Contingency Fund

The contingency fund, which is part of the insurance fund authorized under section 516(c) of the Act (7 U.S.C. 1516(c)), contains amounts paid to FCIC by AIPs according to the terms of the SRA. These funds are set aside to be used to offset expenses incurred by FCIC to administer an AIP's book of business in the event of supervision, rehabilitation, insolvency or operational deficiency, or an equivalent event, as determined by FCIC, or the SRA is terminated for cause. The contingency fund had a balance of $29 million at the end of September 2014 and a balance of $26 million at the end of September 2013.

15. BUDGETARY FINANCING SOURCES

In fiscal years 2014 and 2013, FCIC received an Insurance Fund appropriation of $13.5 billion and $16.1 billion respectively, for premium subsidy, reinsurance administrative and operating reimbursement expense, and other programs specified in the Farm Bill. In fiscal year 2014, $4.7 billion was returned to Treasury compared to $3.8 billion in 2013.

The RMA S&E Fund appropriation received was $71.5 million in fiscal year 2014 and $69.0 million in fiscal year 2013.

16. Explanation of Differences between the SBR and Budget of the U.S. Government

Fiscal Year 2013 Statement of Budgetary Resources v. President's Budget (in millions)				
	Account	**Budgetary Resources**	**Obligations Incurred**	**Net Outlays**
Statement of Budgetary Resources:				
	Insurance Fund	$ 21,581	$ 21,016	$ 13,734
	S&E	71	68	73
Total		$ 21,652	$ 21,084	$ 13,807
Reconciling items:				
Expired Accounts	S&E	(2)	-	-
Rounding Difference		(1)	-	-
Total		$ (3)	-	-
Budget of the United States Government		$ 21,649	$ 21,084	$ 13,807

FCIC's Statement of Budgetary Resources serves as a tool to link budget execution data to information reported in the "actual" column of the Program and Financing Schedules in the Appendix of the Budget of the United States Government (referred to as the "President's Budget") as well as information reported in the Reports of Budget Execution and Budgetary Resources (SF-133). The permanent indefinite appropriation for the crop insurance program is used to cover premium subsidy, delivery expenses, losses in excess of premiums, and initiatives. Some reporting differences do exist between comparable amounts in the Statement of Budgetary Resources (SBR), the President's Budget, and the SF-133. The table above is a comparison of the fiscal year 2013 Statement of Budgetary Resources, and the President's Budget. The fiscal year 2014 President's Budget data is not available until February 2015.

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

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

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

Reconciliation of Net Cost of Operations (Proprietary) to Budget	2014 (millions)	2013 (millions)
Resources Used to Finance Activities		
Budgetary Resources Obligated		
Obligations incurred	$ 12,868	$ 21,084
Less: Spending authority from offsetting collections and recoveries	(4,044)	(8,811)
Obligations net of offsetting collections and recoveries	8,824	12,273
Imputed financing from costs absorbed by others	18	15
Total resources used to finance activities	$ 8,842	$ 12,288
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	(11)	1
Resources that fund expenses recognized in prior periods (Decrease in Unfunded Insurance Estimates)	(167)	(11,422)
Total resources used to finance items not part of the cost of operations	(178)	(11,421)
Total resources used to finance the net cost of operations	$ 8,664	$ 867
Components of the Net Cost of Operations that will Require or Generate Resources in the Current Period		
Components requiring or generating resources in future periods		
Increase (Decrease) in exchange revenue receivable from the public	(5)	5,096
Other (Increase in Unfunded Insurance Estimates)	(9)	(35)
Total components of Net Cost of Operations that will require or generate resources in the future period	$ (14)	$ 5,061
Components not Requiring or Generating Resources:		
Bad Debt Expense	9	23
Total Components of Net Cost of Operations that will not require or generate resources	9	23
Total components of Net Cost of Operations that will not require or generate resources in the current period	$ (5)	$ 5,084
Net Cost of Operations	$ 8,659	$ 5,951

Fiscal year 2013 obligations incurred were significantly higher due to the large disbursements for 2012 reinsurance year losses that occurred during fiscal year 2013. Offsetting collections were higher in fiscal year 2013 due to a deferment of reinsurance year 2012 premium and the 2012 reinsurance year underwriting loss collected in fiscal year 2013.

The decrease in accounts receivable from the public (proprietary versus budgetary) is related to the 2012 reinsurance year underwriting loss and deferred 2012 reinsurance premium collected in fiscal year 2013.

The Resources that fund expenses recognized in prior periods are the changes in unfunded insurance estimates. The estimates decreased from fiscal year 2012 to fiscal year 2013 due to the drought in reinsurance year 2012. Estimates also decreased from fiscal year 2013 to fiscal year 2014 however the difference is small and is related to program variability.

REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION (UNAUDITED)

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

Summary of RME Initiatives Since Fiscal Year 2008	2014	2013	2012	2011	2010	2009	2008
RME Obligations (millions)	$ 9	$ 10	$ 13	$ 10	$ 6	$ 6	$ 10
Number of producers attending RME sessions	*92,453	89,100	81,000	79,500	47,100	35,000	20,000

*2014 Estimate

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

Risk Management Education Partnerships

For fiscal year 2014, RMA awarded 43 cooperative agreements for $3.6 million in 48 States for the delivery of training to U.S. farmers and ranchers in managing production, marketing, financial, legal, and human risk. The program gives priority to educating producers of crops currently not insured under Federal crop insurance, specialty crops, and underserved commodities, including livestock and forage.

Crop Insurance in Targeted States

For fiscal year 2014, RMA awarded 17 cooperative agreements for $5 million in 16 States for crop insurance education to underserved producers under the "Crop Insurance in Targeted States Program". The Act directs FCIC to increase crop insurance education in certain areas of the country that have been historically underserved by the Federal Crop Insurance Program. The Secretary determined that sixteen States met the underserved criteria. These States are Maine, Massachusetts, Connecticut, Wyoming, New Jersey, New York, Delaware, Nevada, Pennsylvania, Vermont, Maryland, Utah, Rhode Island, New Hampshire, Hawaii, and West Virginia. Total crop insurance education and risk management training obligations incurred in fiscal year 2014 by FCIC for cooperative agreements are approximately $8.6 million.

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

2014 Risk Assumed:

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

Risk Assumed is $10,168 million, less the actual losses recorded of $2,528 million resulting in an Estimate of Unpaid Losses of $7,640 million.

Risk Assumed	**(millions)**
Estimate of Losses	$7,640
Risk Assumed	$10,168

OTHER INFORMATION (UNAUDITED)

Schedule of Spending:

Schedule of Spending	2014 (millions)	2013 (millions)
What Money is Available to Spend?		
Total Resources	$ 13,439	$ 21,652
Less Amount Available but Not Agreed to be Spent	(569)	(566)
Less Amount Not Available to be Spent	(2)	(2)
Total Amount Agreed to be Spent	$ 12,868	$ 21,084
How was the Money Spent?		
Assist Rural Communities to Create Prosperity so They Are Self-Sustaining, Repopulating, and Economically Thriving:		
10-Personnel Compensation and Benefits	$ 52	$ 53
20-Contractual Services and Supplies	2,134	1,533
40-Insurance Claims and Indemnities	10,682	19,498
Total Spending	$ 12,868	$ 21,084
Where did the Money go to?		
Federal	$ 62	$ 53
Non-Federal	12,806	21,031
Total Amount Agreed to be Spent	$ 12,868	$ 21,084

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

Improper Payments Elimination and Recovery Improvement Act:

Since fiscal year 2000, agencies have reported efforts to reduce improper payments. Under the Improper Payments Information Act of 2002 (IPIA), as amended by the Improper Payments Elimination and Recovery Act of 2010 (IPERA) and the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA), executive agencies must identify programs that may be susceptible to significant improper payments, estimate the annual amount of improper payments, and submit those estimates to Congress. A program with significant improper payments (a high-risk program) has both a 1.5 percent improper payment rate of the total program outlays, and at least $10 million in improper payments, or exceeds $100 million dollars in improper payments. Implementing guidance for IPERIA is located in OMB Circular No. A-123, "Management's Responsibility for Internal Control," Appendix C, "Requirements for Effective Measurement and Remediation of Improper Payments."

In 2014, FCIC program was non-compliant with IPERIA. RMA did not meet published annual reduction targets for improper payments. For the current cycle containing reviews of 2010, 2011, and 2012 crop year policies, the FY 2014 error rate was determined to be 5.58% and is less than half a percent outside of the Agency's reduction target error rate of 5.15%. The FY 2014 error rate is the indemnity weighted average of the error rates for the insurance providers reviewed during the above three crop years that comprise the reporting cycle.

The agency's failure to meet its reduction target can be attributed to one large dollar policy being in error which resulted in the subject company having a 27% error rate. Corrective actions to address this matter were completed in fiscal year 2013. However, because of the structure of the RMA sampling plan, the bad experience from this company will continue to impact the agency's compliance with its reduction target error rate through the FY 2015 AFR. If the one policy is removed the error rate for the 2014 fiscal year would be 4.11%, which is within the target.

The Federal crop insurance program is a self-certification program where participants certify as to the correctness of information (acres, share, production, etc.) as a basis for program participation. This information may be subject to further review and verification to determine its accuracy. For this type of program, the primary root causes of errors and improper payments are due to individual program participants' (producers, companies, agents, and/or loss adjusters) failure to correctly interpret, provide and/or process information in accordance with policy and/or procedure requirements for determining eligibility and program payment amounts.

The strategy for identifying and controlling these routine errors includes taking actions to address and correct each one in the appropriate manner, utilizing data mining techniques and identifying error trends and policy concerns, and correcting them; however, as with the previously reviewed policies, there are still no new trends in the set of policies completed in 2012. No underlying policy or underwriting issues have become apparent aside from those related to the inherent complexity of the current Actual Production History program.

The Office of Inspector General (OIG) issued a report in September 2009 noting important limitations of the methodology, among them not accounting for all categories of potential improper payments (e.g., premium subsidy), providing disproportionate weight to smaller AIPs, and drawing too small of a sample to be statistically valid. In January 2014, citing concerns raised by OIG, OMB rescinded its approval of the current methodology and instructed RMA to develop a new methodology for measuring the amount of improper payments in the federal crop insurance program. In response, beginning with the Fiscal Year 2016, RMA proposes a significantly modified methodology that will provide a more credible estimate of the amount of improper payments in the federal crop insurance program.

The following tables show percentages of improper payments per sample year and future targets for improvement. The outlays listed are indemnities as of June 2013 for Crop Year 2010, 2011 and 2012:

	Reported in FY 2012	Reported in FY 2013	To be Reported in FY 2014
Outlays (millions)	$4,249	$10,828	$17,430
Improper Payment Rate (%)	4.08%	5.23%	5.58%
Improper Payments (millions)	$173	$566	$973
Year/Period of Data Sampled	2010	2011	2012

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

Future Targets for Improvement	FY 2015	FY 2016	FY 2017
Estimated Outlays (millions)	$8,733	$7,653	$7,611
Reduction Target (%)	5.75%	5.70%	5.65%
Estimated IPs (millions)	$502	$436	$430

Freeze the Footprint

RMA does not own buildings or real property but leases all of its office space. RMA's management plans to utilize the Freeze the Footprint Initiative by consolidating regional and compliance offices at existing locations into USDA offices, if space is available, but currently there are no immediate RMA office moves planned. RMA continues to evaluate offices as leases come to term with the goal of saving space and co-locating wherever possible. In fiscal year 2013, the Oklahoma City, OK Regional Office was moved to a smaller square footage office since their staff was reduced.

RMA maintains a real-estate inventory database. The following summarizes the total annual costs for RMA leases:

Lease Costs	2014 (in thousands)	2014 (Sq. footage in thousands)
RMA GSA Lease Assignments	$2,804	119
RMA Leases	250	16
Total	$3,054	135

Summary of Financial Statement Audit and Management Assurances

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

Table1:

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

Table 2:

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

Table 3:

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

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

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