U.S. Department of Agriculture

Office of Inspector General

Audit Report

Commodity Credit Corporation Financial Statements for Fiscal Years 2009 and 2008

Audit Report 06401-24-FM
November 2009

U.S. Department of Agriculture
Office of Inspector General
Washington, D.C. 20250

DATE: November 12, 2009

REPLY TO
ATTN OF: 06401-24-FM

TO: Board of Directors
Commodity Credit Corporation

Heidi G. Ware
Acting Director
Office of Budget Finance

ATTN: T. Michael McCann, Director
Operations Review and Analysis Staff
Office of Business and Program Integration
Farm Service Agency

FROM: Robert W. Young /s/
Assistant Inspector General
for Audit

SUBJECT: Commodity Credit Corporation's Financial Statements for Fiscal Years 2009 and 2008

This report presents the results of the audit of Commodity Credit Corporation's (CCC) consolidated financial statements for the fiscal years ending September 30, 2009 and 2008. The report contains an unqualified opinion on the financial statements as well as an assessment of CCC's internal controls over financial reporting and compliance with laws and regulations.

Clifton Gunderson LLP (CG), an independent certified public accounting firm, conducted the fiscal year 2009 audit. In connection with the contract, we reviewed CG'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 CCC's financial statements, internal control or on whether CCC's financial management systems substantially complied with the Federal Financial Management Improvement Act (FFMIA); or conclusions on compliance with laws and regulations. CG is responsible for the attached auditor's report, dated November 6, 2009, and the conclusions expressed in the report. However, our review disclosed no instances where CG did not comply, in all material respects, with

Government Auditing Standards and the Office of Management and Budget Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements,* as amended.

It is the opinion of CG, that the financial statements present fairly, in all material respects, CCC's financial position as of September 30, 2009, and its net costs, changes in net position, and budgetary resources for the year then ended, in conformity with generally accepted accounting principles.

The CG report on CCC's internal control structure over financial reporting identified seven significant deficiencies. Specifically, CG identified weaknesses in CCC's:

- Financial management system functionality;
- controls over farm storage facility loans;
- reconciliation controls over the Statement of Budgetary Resources gross outlays and offsetting collections;
- controls over Intra-governmental Balances;
- controls over accounts receivable and revenue;
- controls over child agency financial reporting; and
- information security controls.

CG considered the first significant deficiency to be a material weakness. The results of CG's tests of compliance with laws and regulations disclosed noncompliance with FFMIA.

CCC's consolidated financial statements as of and for the year ended September 30, 2008 were audited by KPMG LLP whose report dated November 12, 2008, expressed an unqualified opinion on those financial statements.

In accordance with Departmental Regulation 1720-1, please furnish a reply within 60 days describing the corrective actions taken or planned, including the timeframes to address the report's recommendations. Please note the regulation requires a management decision to be reached on all findings and recommendations within a maximum of 6 months from report issuance.

U.S. DEPARTMENT OF AGRICULTURE
COMMODITY CREDIT CORPORATION

September 30, 2009

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INDEPENDENT AUDITOR'S REPORT

To the Inspector General,
U.S. Department of Agriculture:

To the Board of Directors
Commodity Credit Corporation:

In our audit of the Commodity Credit Corporation (CCC) for fiscal year (FY) 2009, we found:

- The consolidated balance sheet of CCC as of September 30, 2009, and the related consolidated statements of net cost and changes in net position, and the combined statement of budgetary resources for the year then ended (hereinafter referred to as "consolidated financial statements"), are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America;
- One material weakness and six significant deficiencies in internal control over financial reporting;
- Substantial noncompliance with the Federal Financial Management Improvement Act (FFMIA) financial management systems requirements; and
- No instance of noncompliance with selected provisions of laws and regulations tested, exclusive of FFMIA.

The following sections discuss in more detail: (1) these conclusions, (2) our conclusions on Management's Discussion and Analysis (MD&A) and other supplementary information, (3) our audit objectives, scope and methodology, and (4) CCC comments and our evaluation.

OPINION ON FINANCIAL STATEMENTS

The accompanying consolidated financial statements including the accompanying notes present fairly, in all material respects, in conformity with accounting principles generally accepted in the United States, CCC's assets, liabilities, and net position as of September 30, 2009, and net costs; changes in net position; and budgetary resources for the year then ended. CCC's consolidated financial statements as of and for the year ended September 30, 2008, were audited by other auditors; whose report dated November 12, 2008, expressed an unqualified opinion on those financial statements.

CONSIDERATION OF INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered CCC's internal control over financial reporting as a basis for designing our auditing procedures and to comply with the Office of Management and Budget (OMB) audit guidance for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of CCC's internal control over financial reporting and compliance or on management's assertion on internal control included in the MD&A. Accordingly, we do not express an opinion on the effectiveness of CCC's internal control over financial reporting or on management's assertion on internal control included in the MD&A.

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Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies. See Exhibit 2.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects CCC's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the CCC's consolidated financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described in Exhibit 1 is a material weakness.

We also noted certain other nonreportable matters involving internal control and its operations that we communicated in a separate letter to CCC management.

Also, as required by OMB Bulletin 07-04, *Audit Requirements for Federal Financial Statements,* as amended, we compared the material weakness disclosed during the audit with those material weaknesses reported in the CCC's FMFIA report that relate to the financial statements. Our audit did not identify any material weaknesses that were not identified by CCC in their FMFIA report.

SYSTEM'S COMPLIANCE WITH FFMIA REQUIREMENTS

Under the Federal Financial Management Improvement Act of 1996 (FFMIA), we are required to report whether the financial management systems used by CCC substantially comply with the Federal financial management systems requirements, applicable Federal accounting standards, and the United States Standard General Ledger (SGL) at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA Section 803(a) requirements.

The objective of our audit was not to provide an opinion on compliance with FFMIA. Accordingly, we do not express such an opinion. However, our work disclosed instances, described in Exhibit 3, in which CCC's financial management systems did not substantially comply with Federal financial management systems requirements. The results of our tests of FFMIA disclosed no instances in which CCC did not substantially comply with the Federal accounting standards or the SGL at the transaction level.

COMPLIANCE WITH LAWS AND REGULATIONS

Our tests of CCC's compliance with selected provisions of laws and regulations for FY 2009 disclosed no instances of noncompliance that would be reportable under United States generally accepted government auditing standards or OMB audit guidance. However, the object of our audit was not to provide an opinion on overall compliance with laws and regulations. Accordingly, we do not express such an opinion.

STATUS OF PRIOR YEAR'S CONTROL DEFICIENCIES AND NONCOMPLIANCE ISSUES

As required by United States generally accepted government auditing standards and OMB Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements,* as amended, we have reviewed the status of CCC's corrective actions with respect to the findings and recommendations included in the prior year's Independent Auditor's Report dated November 12, 2008. Exhibit 4 provides a discussion on the status of prior year findings and recommendations.

CONSISTENCY OF OTHER INFORMATION

CCC's MD&A and other required supplementary information contains a wide range of information, some of which is not directly related to the financial statements. We compared this information for consistency with the financial statements and discussed the methods of measurement and presentation with CCC officials. Based on this limited work, we found no material inconsistencies with the financial statements; accounting principles generally accepted in the United States, or OMB guidance. However, we do not express an opinion on this information.

The introductory information, performance information and other accompanying information are presented for additional analysis and are not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

OBJECTIVES, SCOPE AND METHODOLOGY

CCC management is responsible for (1) preparing the financial statements in conformity with accounting principles generally accepted in the United States, (2) establishing, maintaining, and assessing internal control to provide reasonable assurance that the broad control objectives of the Federal Managers' Financial Integrity Act (FMFIA) are met, (3) ensuring that CCC's financial management systems substantially comply with FFMIA requirements, and (4) complying with other applicable laws and regulations.

We are responsible for obtaining reasonable assurance about whether the financial statements are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States. We are also responsible for: (1) obtaining a sufficient understanding of internal control over financial reporting and compliance to plan the audit, (2) testing whether CCC's financial management systems substantially comply with the three FFMIA requirements, (3) testing compliance with selected provisions of laws and regulations that have a direct and material effect on the financial statements and laws for which OMB audit guidance requires testing, and (4) performing limited procedures with respect to certain other information appearing in the Performance and Accountability Report.

In order to fulfill these responsibilities, we (1) examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements, (2) assessed the accounting principles used and significant estimates made by management, (3) evaluated the overall presentation of the financial statements, (4) obtained an understanding of CCC and its operations, including its internal control related to financial reporting (including safeguarding of assets), and compliance with laws and regulations (including execution of transactions in accordance with budget authority), (5) tested relevant internal controls over financial reporting, and compliance, and evaluated the design and operating effectiveness of internal control, (6) considered the design of the process for evaluating and reporting on internal control and financial management systems under FMFIA, (7) tested whether CCC's financial management systems substantially complied with the three FFMIA requirements, and (8) tested compliance with selected provisions of certain laws and regulations.

We did not evaluate all internal controls relevant to operating objectives as broadly defined by the FMFIA, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to controls over financial reporting and compliance. Because of inherent limitations in internal control, misstatements due to error or fraud, losses, or noncompliance may nevertheless occur and not be detected. We also caution that projecting our evaluation to future periods is subject to risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate. In addition, we caution that our internal control testing may not be sufficient for other purposes.

We did not test compliance with all laws and regulations applicable to CCC. We limited our tests of compliance to selected provisions of laws and regulations that have a direct and material effect on the financial statements and those required by OMB audit guidance that we deemed applicable to CCC's financial statements for the fiscal year ended September 30, 2009. We caution that noncompliance with laws and regulations may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

We performed our audit in accordance with auditing standards generally accepted in the United States; the standards applicable to the financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB guidance.

CCC COMMENTS AND OUR EVALUATION

CCC's response to the findings identified in our report is presented as Exhibit 5. We did not audit CCC's response and, accordingly, we express no opinion on it. CCC did not concur with a few of our findings and recommendations. We disagree with CCC's responses on the non-concurrences and stand by the conclusions reached in our report.

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

Clifton Gunderson LLP

Calverton, Maryland
November 6, 2009

MATERIAL WEAKNESS

I. Financial Management System's Functionality (Modified Repeat Finding)

a. CCC's financial management system is not capable of recording the producer payment obligations (budgetary entries) at the transaction level. The producer payments, which represent two of CCC's major strategic goals, were approximately $15 billion of CCC's $17 billion gross cost in the statement of net cost as of September 30, 2009. This deficiency does not allow CCC to perform an automated and real time fund controls at the time producer payment contracts are initiated (obligated) by county offices.

b. CCC's loan subsidiary system for the Farm Storage Facility Loan (FSFL) program is not fully integrated with the general Ledger. The loan subsidiary system does not comply with the Joint Financial Management Improvement Program's (JFMIP) [(currently known as Financial Systems Integration Office (FSIO)] *Direct Loan System Requirements* dated June 1999. The financial management system lacks critical functionality such as reconciliation and reporting.

The CCC financial management system capture the activities of at least 50 farm programs from over 2,000 county offices throughout the country. The current financial management systems were put in place in the 1980s. Although functionality enhancements and updates are continually made to the system, CCC recognizes that the aging of the financial management and information systems with inherent limitations have posed significant challenges to its financial operations. To address these challenges, CCC has started its Financial Management Modernization Initiative (FMMI) through the agency wide Modernize and Innovate the Delivery of Agricultural Systems (MIDAS) project since 2004. However, the FMMI is not expected to be fully implemented until FY 2012.

Federal Management Financial Improvement Act states that one of the purposes of this Act is to "increase the capability of agencies to monitor execution of budget by more readily permitting reports that compare spending of resources to results of activities."

Also, JFMIP *Direct Loan Systems Requirements* states that: "Of paramount importance is that direct loan systems maintain accurate borrower detail records and record transactions consistent with the loan contract and the United States Standard General Ledger (USSGL) as these records form the subsidiary ledger to the receivable balance in the general ledger." Federal agencies should have systems that support unique activities and operations of agency programs such as loan programs. Moreover, the Office of Management and Budget (OMB) Circular A-127, *Financial Management Systems,* requires the implementation of a unified set of financial systems and financial portions of mixed systems that provide for effective and efficient interrelationships among software, hardware, personnel, procedures, controls, and data contained within the system.

CCC plans to continue its efforts to develop and implement new systems that will substantially comply with the financial management systems requirements; and refine their manual funds control, therefore, we will not repeat the recommendation in this report.

SIGNIFICANT DEFICIENCIES

II. Strengthen Control Over the Farm Storage Facility Loans (New Finding)

Although the CCC (group) reconciles the cash related activities (disbursements and receipts by Cohort) of the FSFL program monthly, the group did not reconcile loan receivable balances in the FSFL subsidiary records (Price Support System) to the general ledger (USSGL 1350) as a routine control activity until June 30, 2009, when the auditor requested a reconciliation. There was no loan receivable balance reconciliation performed after June 30, 2009.

To reconcile the loans receivable subsidiary records to the general ledger at June 30, 2009, CCC had to first manually establish the loan balance of each loan in a cohort. To establish a loan balance at June 30, 2009, the group had to start from the time the loan was disbursed, which could be as far back as 9 years ago. From the disbursed amount, all cash activities (mostly repayments) for the life of the loan were added or subtracted. Then the group had to research non-cash activities such as loans in bankruptcy that were transferred to claims receivable, which is the responsibility of another CCC group. The process to establish an individual loan receivable balance for purposes of reconciling the total of these balances to the general ledger has been complex and time consuming. The components of the loan data are gathered from different sources, reports and spreadsheets.

Also, as mentioned above, the group prepares monthly cash reconciliations. Although this reconciliation process is manually intensive, time consuming and complex, it is not documented in the group's current policies and procedures. Moreover, we did not see evidence of supervisory review control over these cash reconciliations or the loan receivable reconciliations.

Without written policies and procedures, especially for a manually intensive, complex and important process such as the loan receivable reconciliation and cash reconciliation, the risks that the process could not be duplicated by another employee in the event the current employee becomes unavailable is high. Moreover, as the program grows with more cohorts and more transactions, reconciliation of the subsidiary system to the general ledger trial balance will become more difficult.

Also, the Government Accountability Office (GAO) *Standards for Internal Control in the Federal Government* defines the minimum level of quality acceptable for internal control in government and provides the basis against which internal control is to be evaluated. One of the five standards in internal control is control activities. Control activities are the policies, procedures, techniques, and mechanisms that enforce management's directives. They include a wide range of diverse activities such as approvals, authorizations, verifications, reconciliations, performance reviews, maintenance of security, and the creation of related records which provide evidence of execution of these activities as well as appropriate documentation.

Recommendations:

1. We recommend that CCC periodically reconcile the outstanding balances in the FSFL loan subsidiary records to the general ledger. The reconciliation should result in timely recording of the necessary adjustment needed to both or either system(s). At the end of the reconciliation, a summary sheet should be included showing both systems' adjusted balances and any unrecognized difference that should be researched.

2. We recommend that CCC enhance its written policy and procedures to include reconciliation processes for the FSFL program including loan balances, cash activities, and claims receivables. The policy and procedures should also include the approvals, authorizations, and verifications, and the creation and maintenance of related records which provide evidence of execution of these control activities as well as appropriate documentation.

III. Strengthen Reconciliation Control over the Statement of Budgetary Resources' (SBR) Gross Outlays and Offsetting Collections (New Finding)

Per the Accounting Procedures Act of 1950, integration of the administrative accounting of the various departments and agencies and the fiscal accounting of U.S. Treasury (Treasury) is based on cash transactions that are mutually applicable to Treasury and the operating agency accounts. Agencies' administrative accounting is firmly linked to Treasury through the reciprocal relationship of the accounts for cash transactions.

Due to this reciprocal relationship, Treasury has implemented the Governmentwide Accounting and Reporting Modernization (GWA) Project, which addresses the central accounting and reporting functions and processes associated with budget execution, accountability, and cash/other asset management. This includes the collection and dissemination of financial management and accounting information from and to federal agencies. One of GWA's objectives is improve information timeliness and accuracy to support improved financial analysis and decision-making.

During our audit of the Gross Outlays and Offsetting Collections lines in the SBR at June 30 and September 30, 2009, we identified significant differences between amounts reported by CCC in these SBR lines and the GWA report from Treasury. At June 30, 2009, CCC's gross outlays and offsetting collections are both higher than GWA report by approximately $1.555 billion. The differences in gross outlays and offsetting collections netted to zero, therefore, not impacting the net outlays, resulting in passing Treasury system's edit checks when the amounts are reported in Treasury's Federal Agencies' Centralized Trial-Balance System (FACTS) II. CCC prepared reconciliation for the June 30 differences and identified reconciling items with an absolute value of $2.173 billion. CCC was able to account for the propriety of the $1.977 billion of reconciling items, but not the remaining $196 million.

Recommendation:

3. We recommend that CCC reconcile and investigate the differences between the gross outlays and offsetting collections recorded in their books and the balances reported in GWA monthly. CCC should also discuss with Treasury and understand why Treasury's GWA is reporting collections received by CCC from its trading partners as a deduction to its disbursements (outlays).

IV. Strengthen Control Over Intra-governmental Balances (New Finding)

CCC is required to reconcile transactions and balances with other Federal entities in accordance with the U.S. Treasury *Federal Intra-governmental Transactions Accounting and Policies Guide.* In our audit of the Intra-governmental Deposit and Trust Liabilities, we noted the following differences (rounded to the nearest million) between the agency balances reported on the Intradepartmental Transactions Reconciliation (ITRS) Report and the general ledger (CCC-CORE) as of September 30, 2009.

Agency	**CCC-CORE Balance**	**ITRS Balance**	**Difference CCC Over/(under)**	**Absolute Value of Difference**
Agricultural Marketing Service (AMS)	$(274)	$(253)	$21	$21
Food and Agricultural Service (FAS)	$(143)	$(148)	$(5)	$5
Food and Nutrition Service (FNS)	$(441)	$(440)	$0	$0
Natural Resources Conservation Service (NCRS)	$(116)	$(128)	$(12)	$12
Total	**$(974)**	**$(969)**	**$5**	**$39**

The differences between the agency balances fluctuate quarterly. As of June 30, 2009, the net difference and absolute value of the differences was the same at $13 million. Also, we noted a $45.8 million difference in what was recorded in CCC-CORE for the AMS and FNS program categories versus what was on the ITRS report as of June 30, 2009. At year-end the difference was $22.7 million.

Although CCC uses the department ITRS system to perform the reconciliation with other agencies within the Department, CCC had not fully reconciled its intra-governmental transactions and balances with these other Federal entities because CCC did not have an internal control process to ensure that timing differences at period-end were reconciled and differences were fully investigated and corrected; and that CCC records, including CCC-CORE and the trial balance, agreed with what the agencies reported as their balances. As a result, CCC's transactions and balances with other Federal entities may not eliminate on the Department-wide consolidated financial statements.

GAO *Standards for Internal Control in the Federal Government* (the Standard) defines Internal Control as an integral component of an organization's management that provides reasonable assurance that objectives are being achieved. The standard describes control activities and gives examples, such as reconciliations and reviews by management at the functional or activity level.

Recommendation:

4. We recommend that CCC develop an internal control procedure to reconcile the ITRS Report and CCC-CORE and to reconcile the Funds Status Report and CCC's trial balance. The reconciliation should be detailed enough to determine what is a timing difference and what differences are true differences in what was recorded on each agency's general ledger. Identified differences are timely resolved with the trading partner and where necessary adjusting entries are made to clear the differences.

V. Strengthen Control over Accounts Receivable and Revenue (New Finding)

Maritime Administration Receivable and Revenue

CCC does not have an accrual methodology to account for the receivable and revenue related to the Maritime Administration's (MARAD) agreement. Also, CCC does not have documented procedures in place for calculating the accrual and ensuring that the proper information is obtained in a timely manner to determine whether a receivable and revenue has been earned and would need to be recorded.

Statement of Federal Financial Accounting Standard 1, *Accounting for Selected Assets and Liabilities,* states that a receivable should be recognized when a federal entity establishes a claim to cash or other assets against other entities, either based on legal provisions, such as a payment due date, or goods or services provided. If the exact amount is unknown, a reasonable estimate should be made.

Accrual accounting requires the recognition of economic events regardless of when cash transactions occur.

Tobacco Transition Program (TTP) Receivable and Revenue

CCC does not periodically reconcile the balances recorded in USSGL accounts 1310, 1353, 135B, 1319, and 1340 to the subsidiary or supporting records.

In May 2009, CCC brought the TTP assessment invoicing, statements, and debt servicing in-house. After the receivable data was entered into the System 36/AS400 (the system), it was determined that the system could not handle the interest calculations and the demand letter process needed under the guideline of the TTP. As a result, the data entered was transferred out of the general ledger, and journal vouchers were prepared to rebook the balances. During this process, certain errors occurred that resulted in a $31 million overstatement of the receivable as of June 30, 2009. Thirty ($30) million of the $31 million overstatement was due to a duplicate balance of $23 million in USSGL 1310 and 1353, and $7 million of overstated collections in USSGL 1353. Due to lack of a reconciliation process, the discrepancy was not detected until it was brought to the CCC's attention during the audit.

In addition, CCC maintains the TTP receivable subsidiary records in an excel spreadsheet. The spreadsheet has to be continually updated for new receivables billed and collections received that are recorded in the general ledger via a journal voucher. This manually intensive accounting process increases the risks of errors. Moreover, without a TTP receivable subsidiary record that interfaces with the general ledger and could provide automated checks and balances, it is more important to perform the periodic reconciliation.

Recommendations:

5. We recommend that CCC develop and implement policy and procedures related to the MARAD activities. The policy and procedures should include an accrual methodology and the gathering and reviewing of data on a quarterly basis to form an expectation of what year-end accrual should be.

6. We recommend that CCC perform a periodic reconciliation and review that ties out the details substantiating the balance to what is actually recorded in the accounts receivable for TTP in CORE.

VI. Strengthen Control Over Child Agency Financial Reporting (Modified Repeat Finding)

CCC is a party to allocation transfers with the U.S. Agency for International Development (USAID) as the transferring entity (parent). In accordance with OMB Circular A-136, *Financial Reporting Requirements*, "The parent is accountable for and maintains the responsibility for reporting while the child performs on behalf of the parent and controls how the funds are expended. The parent is responsible for the program's overall performance and may decide to reallocate funds if the parent is not satisfied with the child's performance." It further states that "The key to timely and accurate quarterly reporting by the child agency is the communication between the parent and child. It is strongly recommended that issues such as formats, abnormal balances, capitalization thresholds, useful lives, depreciation methodologies, transfer of trading partner information, etc., be discussed and resolutions reached at a date required by the parent to meet its reporting and auditing deadlines."

During fiscal year 2009, CCC allocated funds of approximately $1.5 billion to USAID (the child) to fund P.L. 480 Title II, transportation and other administrative costs in connection with foreign donations.

Reconciliation of Unliquidated Obligation

CCC's unliquidated obligation is approximately $1.4 billion as of September 30, 2009. USAID does not perform periodic reconciliations between unliquidated obligations in the general ledger (GL) and subsidiary records. During the audit, it took USAID over two months to explain the variance between the balances in the subsidiary details provided to us and the GL as of June 30, 2009. During the audit, USAID notified us that the $54 million variance was reduced to $43 million. Also, we were told that the $54 million was due to the fact that the data criteria used in generating the detail records did not include all the elements required to properly match the unliquidated obligation balances in the GL to the subsidiary details. As of September 30, the reconciliation provided to us showed a variance of $1.16 million.

In USAID's response to our finding, it stated that USAID does not complete a full reconciliation of unliquidated obligations on all funds on a regular basis. The periodic reconciliation of unliquidated obligations is completed based on materiality and whether the appropriation is cancelling; therefore, a regular reconciliation of the CCC funds may not be completed if differences are immaterial.

We questioned the implementation or the effectiveness of this reconciliation process.

GAO *Standards for Internal Control in the Federal Government* states that internal control should generally be designed to assure that ongoing monitoring occurs in the course of normal operations. It is performed continually and is ingrained in the agency's operations. It includes regular management and supervisory activities, comparisons, reconciliations, and other actions people take in performing their duties.

Recommendation:

7. We recommend that CCC amend their memorandum of agreement with USAID to require certain control procedures to be implemented.

Single Audit Act Monitoring and Oversight

USAID, as the federal awarding agency of the CCC funds, does not have a system in place to ensure that award recipients subject to single audits have a single audit performed and submit their audit reports in a timely manner. Moreover, the office responsible for monitoring the audit findings could not provide documentation to show how many audit reports were received and reviewed, or whether management decisions were issued on audit findings or follow up to ensure that the recipient takes appropriate and timely corrective actions. The risk that USAID may continue to provide grants to organizations that do not deserve to receive the federal grants increases when there is inadequate monitoring and oversight. Moreover, potential fraud, waste, or abuse may not have been followed up or timely followed up.

OMB A-133, *Audits of States, Local Government, and Non-Profit,* Subpart D, Section .400 (c) states that the Federal awarding agency shall (3) ensure that audits are completed and reports are received in a timely manner and in accordance with the requirements of this part; (5) issue a management decision on audit findings within six months after receipt of the audit report and ensure that the recipient takes appropriate and timely corrective action.

Recommendation:

8. We recommend that CCC amend their memorandum of agreement with USAID to require certain control procedures to be implemented.

VII. Strengthen Information Security Controls (Modified Repeat Finding)

CCC applications are in many cases hosted on systems managed by the United States Department of Agriculture (USDA), the USDA Farm Service Agency (FSA), and the USDA Information Technology Services (ITS).

FSA/CCC relies on extensive information technology (IT) systems to accomplish its mission and in the preparation of its financial statements. Internal controls over these operations are essential to ensure the integrity, confidentiality, and reliability of critical data while reducing the risk of errors, fraud, and other illegal acts. The entity's use of IT may affect the internal controls relevant to the achievement of the entity's financial reporting, operations or compliance objectives, and its operating units or business functions.

Our review of IT controls covered general controls and selected business process application controls. General controls are the structure, policies, and procedures that apply to an entity's overall computer systems. They include entity-wide security management, access controls, configuration management, segregation of duties and contingency planning controls. Business process application controls are those controls over the completeness, accuracy, validity, confidentiality, and availability of transactions and data during application processing. The American Institute of Certified Public Accountants (AICPA) AU Section 314 *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement* states that while general controls do not, by themselves, cause misstatements, they may permit application controls to operate improperly and allow misstatements to occur and not be detected. Furthermore, GAO *Financial Audit Manual* (FAM) states that the effectiveness of general controls is a significant factor in determining the effectiveness of application controls and certain user controls. Without effective general controls, application controls may be rendered ineffective by circumvention or modification.

FSA/CCC has remediated specific IT findings identified in prior year audits. However, continued efforts are needed to implement entity-wide controls for effective security management, certification and accreditation process, and computer operations. Control weaknesses remediated in FY 2009 included the following:

- Implemented periodic Vulnerability Assessments of the servers that support its Financial Applications;
- Applied USDA password settings to the Active Directory for one domain and obtained a waiver for the E-authentication password settings;
- Implemented regular reviews of the technical user profiles for the CCC CORE application to ensure access was appropriately granted.

Security Management Controls:

The security management program establishes a framework and continuous cycle of activity for assessing risk, developing and implementing effective security procedures, and monitoring the effectiveness of these procedures. Through the Federal Information Security Management Act of 2002 (FISMA), Congress requires each federal agency to establish an agency-wide information security program to provide security to the information and information systems that support the operations and assets of the agency, including those managed by a contractor or other agency. OMB Circular No. A-130, Appendix III, *Security of Federal Automated Information Resources*, requires agencies to implement and maintain a program to assure that adequate security is provided for all agency information collected, processed, transmitted, stored, or disseminated in general support systems and major applications.

Without a fully implemented security management program, there is increased risk that security controls are inadequate; responsibilities are unclear, misunderstood, and improperly implemented; and controls are inconsistently applied. Such conditions may lead to insufficient protection of sensitive data and high expenditures for controls over low risk resources.

In FY 2009, we noted the following security management control weaknesses:

- Inconsistencies are noted between FSA/CCC management's current practices and FSA's approved security management policies (i.e. Information Systems Security Program Directive *6-IRM).* Directive *6-IRM* requires State and County Offices to implement contingency plans and test those plans at the state and county level. We found that some State and County Offices conducted tests of their contingency plans, but others did not. In addition, FSA/CCC management's interpretation of Directive 6-IRM is to implement these controls at the Kansas City Central Office.
- FSA's Certification and Accreditation (C&A) process did not have a rigorous review process to review and maintain documentation of the results, and validate the conclusions reached. Test results were not supported. There was a consistent lack of documentation. Certain "Inherited Controls" could not be supported.
- No formalized review and approval process for System Security Plans (SSPs). We noted frequent modifications to SSPs without formal approval.

- Errors were noted in the C&A packages. In some cases, controls noted in the SSPs did not reflect controls that applied to the system. Some controls had no relation to the platform being accredited.
- Management could not provide an approved, current Configuration Plan or a standard baseline configuration for the AS-400/S-36 platforms to measure and document system security features for all FSA AS-400/System 36 systems.

Computer Operations:

Computer operations should be in place so that all critical data, transactions and programs are processed in a timely manner. These include controls over the effective configuration and maintenance of operating system software, system logging and monitoring functions. FSA/CCC's information systems employ aging and unsupported platforms that pose additional risk to the availability of financially significant systems. GAO noted the same weaknesses in its report *Agriculture Needs to Strengthen Management Practices for Stabilizing and Modernizing Its Farm Program Delivery Systems*, dated May 2008.

Additionally, access to resources and records should be limited to authorized individuals, and accountability for the custody and use of resources should be assigned and maintained. Ineffective access controls do not provide FSA/CCC with sufficient assurance that financial information is adequately safeguarded from inadvertent or deliberate misuse, improper disclosure or destruction.

In FY 2009, we noted that FSA/CCC has partially addressed the significant deficiency reported in FY 2008 by identifying an alternate processing site for Web Farm applications. However, FSA/CCC is still in the process of building the functionality of the site for it to serve as the alternate processing site.

We noted additional computer operations control weaknesses in FY 2009, as follows:

- The FSA currently hosts some of its County Office (CO) applications on IBM AS/400 V4-R4 platforms that have been configured to emulate the IBM System 36 System. Both the AS/400 V4-R4 and the System 36 operating systems are no longer supported by the vendor, which may render it difficult for FSA/CCC to have access to security patches and hot fixes to remediate any flaws and vulnerabilities within the operating system.
- Audit and accountability policies and procedures have not been developed. FSA/CCC has not identified auditable triggers or events that need to be captured in financially significant systems. Consequently, audit-logging capability has not been turned on for security events on the AS/400 platform.
- FSA/CCC Human Resources division does not have an exhaustive database of contractor personnel. In addition, they could not determine whether transferred employees have had their former access removed/modified.
- Two (2) out of a sample of 30 (6.67%) new hires did not have their fingerprinting completed prior to their hire date, while revocation of access for 23 out of 42 (54.76%) terminated employees was requested several days after the employees' effective termination date.

Recommendations:

We recommend that FSA/CCC Office of Chief Information Officer (OCIO), in coordination with FSA/CCC system owners and USDA OCIO officials:

9. Review and update FSA/CCC-wide security policies and directives in a timely manner.
10. Formalize the review and approval process for FSA/CCC's Systems Security Plans (SSP) to ensure that updates follow a well-defined structure.
11. Develop, approve and implement a Configuration Management Plan and/or baseline configurations for the AS-400/S-36 platforms.

CCC has started implementing the prior year recommendations related to the alternate processing facility, migration of its application to web-based platforms, and implement mitigation/remedial action; therefore, we will not repeat the recommendations in this report.

COMPLIANCE WITH FFMIA

The result of our test of FFMIA disclosed instances, summarized below where CCC's financial management systems did not substantially comply with the federal financial management systems requirements

- CCC's financial management system's functionality does not record the producer payment's obligations (budgetary entries) at the transaction level.

- CCC's loan subsidiary system for the FSFL program is not fully integrated with the general Ledger. The loan subsidiary system does not comply with the JFMIP/FSIO *Direct Loan System Requirements*.

- CCC's mission critical financial applications are currently supported by aging and outdated technology, and are in need of improvement to address performance, flexibility, and system interface issues. The FSA currently hosts some of its County Office applications on IBM AS/400 platforms that have been configured to emulate the IBM System 36 System. Both the AS/400 V4-R4 and the System 36 operating systems are no longer supported by the vendor, which may render it difficult for FSA to have access to security patches and hot fixes to remediate any flaws and vulnerabilities within the operating system.

U.S. DEPARTMENT OF AGRICULTURE
COMMODITY CREDIT CORPORATION
INDEPENDENT AUDITOR'S REPORT EXHIBIT 4
September 30, 2009

STATUS OF PRIOR YEAR'S FINDINGS AND RECOMMENDATIONS

As required by *Government Auditing Standards* and OMB Bulletin No. 07-04 *Audit Requirements for Federal Financial Statements*, as amended, we have reviewed the status of the CCC corrective actions with respect to the findings and recommendations included in CCC internal control report for FY 2008 dated November 12, 2008. The following analysis provides our assessment of the progress CCC has made through September 30, 2009 in correcting the noted deficiencies.

FY 2008 Findings	Years Reported	FY 2009 Status
Improvement needed in financial system functionality and funds control	2002 – 2008 / Material Weakness	**Open/Modified MW**
Improvement needed in management's review procedures over its cash flow models	2005 – 2006 / Reportable Condition 2007 – 2008 / MW	**Closed**
Improvement needed in management's analysis of obligations and liabilities for the Direct and Countercyclical Payment Programs	2008 / MW	**Closed**
Improvement needed in information security controls	2002 – 2007 / MW 2008 / Significant Deficiency (SD)	**Open/Modified SD**
Improvement needed in Monitoring of Child Agency Financial Information	2008 / Significant Deficiency (SD)	**Open/Modified SD**

EXHIBIT 5

Management's Response to Findings Contained in the Independent Auditor's Report

USDA

United States Department of Agriculture

Farm and Foreign Agricultural Services

Commodity Credit Corporation

1400 Independence Avenue, SW
Stop 0581

Washington, DC 20250-0581

Exhibit V

TO: Lynette Cockrell
Acting Regional Inspector General
Office of the Inspector General

Mia Leswing
Partner-in-Charge
Clifton Gunderson, LLP

NOV 10 2009

FROM: Heidi G. Ware *Heidi G Ware*
Acting Controller
Commodity Credit Corporation

SUBJECT: Response to the Draft Combined Independent Auditor's Report on the Commodity Credit Corporation's (CCC) Fiscal Years 2009 and 2008 Comparative Financial Statements

We have reviewed Clifton Gunderson's Draft Combined Independent Auditor's Report dated November 6, 2009, and do not concur with some of its contents.

Condition b, Page 5 and Federal Financial Management Improvement Act (FFMIA) Compliance on Page 15: CCC's loan subsidiary system for the Farm Storage Facility Loan (FSFL) program is not fully integrated with the general Ledger. The loan subsidiary system does not comply with the Joint Financial Management Improvement Program's (JFMIP) [(currently known as Financial Systems Integration Office (FSIO)] Direct Loan System Requirements dated June 1999. The financial management system lacks critical functionality such as reconciliation and reporting.

CCC Response to Condition b, Page 5 and FFMIA Compliance on Page 15: CCC does not concur with the condition noted. The FSFL subsidiary system processes loan activity that is ultimately recorded in the general ledger in CORE. The activity related to loan disbursements, loan repayments, claims, and loan obligations is systemically generated and fed to the CORE general ledger. While the FSFL application is a separate system, the associated accounting activity is integrated with the general ledger through interfaces.

Management is not aware of any specific audit work that was performed on the FSFL application that would substantiate the claim that the system does not comply with JFMIP/FSIO Direct Loan System Requirements. No specific findings were identified to management.

Repeat Recommendation Addressing Prior Years' Material Weakness (MW): CCC plans to continue its efforts to develop and implement new systems that will substantially comply with the financial management systems requirements; and refine their manual funds control, therefore, we will not repeat the recommendation in this report.

CCC Response to the Repeat Recommendation for Prior Years' MW: CCC concurs with continuing the corrective actions to implement compliant systems, however, CCC does not concur with refining its manual processes since management believes any additional manual controls would be too cumbersome and labor intensive to be cost effective.

Recommendation #1: We recommend that CCC periodically reconcile the outstanding balances in the FSFL subsidiary records to the general ledger (GL). The reconciliation should result in timely recording of the necessary adjustment needed to both or either system(s). At the end of the reconciliation, a summary sheet should be included showing both systems' adjusted balances and any unrecognized difference that should be researched.

CCC Response to Recommendation #1: Management does not concur with the condition, cause, and recommendation. The FSFL subsidiary system processes loan activity that is ultimately recorded in the GL in CORE. One key component in the GL that was in question during the audit related to the loan receivable balance, GL account 1350. The loan receivable balance consists of activity from loan disbursements, loan repayments, and claim activity. This activity feeds the GL from automated transactions processed by the FSFL system.

The loan disbursement and loan repayment activity is fully reconciled on an on-going basis by the Fund and Commodity Management Office (FCMO). Discrepancies in the activity are identified and communicated to the Price Support Division or county offices for correction. The reclassification of a loan receivable to a claim is also generated systemically by the FSFL system. If discrepancies exist, they are identified during the loan repayment reconciliation and forwarded for correction.

Reconciling the activity within the loan receivable account is an efficient and productive reconciliation, compensating for a reconciliation of the ending balance to the general ledger. As long as the activity components are reconciled, management has assurance that the loan receivable balance is reasonably accurate.

For the period ending September 30, 2009, FCMO performed a loan receivable balance reconciliation for cohorts 2009 and 2008 to provide reasonable assurance. The results of this loan balance reconciliation revealed the same discrepancies as those revealed by the September 30, 2009, loan activity reconciliation. Therefore, management concluded that the current reconciliation procedures were adequate to provide reasonable assurance of the ending loan receivable balance. In addition, loan obligation activity systemically feeds to the general ledger from the FSFL system and reconciled in the same manner.

During the 2009 audit, no audit adjustments were recommended. Furthermore, no significant balance errors were brought to the attention of management that would cause reasonable doubt.

Recommendation #2: We recommend that CCC enhance its written policy and procedures to include reconciliation processes for the FSFL program including loan balances, cash activities, and claims receivables. The policy and procedures should also include the approvals, authorizations, and verifications, and the creation and maintenance of related records which provide evidence of execution of these control activities as well as appropriate documentation.

CCC Response to Recommendation #2: Management does not concur with the recommendation to develop additional loan balance reconciliation. Current reconciliations are adequate to validate the GL balances.

Management will concur to take action to have the operating procedures updated. Additionally, management will provide resources to review and identify process improvement opportunities that will reduce the labor intensive and manual workload required to account for the FSFL program.

Recommendation #3: We recommend that CCC reconcile and investigate the differences between the gross outlays and offsetting collections recorded in their books and the balances reported in the Government Wide Accounting and Reporting system (GWA) monthly. CCC should also discuss with the U.S. Treasury (Treasury) and understand why Treasury's GWA is reporting collections received by CCC from its trading partners as a deduction to its disbursements (outlays).

CCC Response to Recommendation #3: CCC does not concur with both the condition and recommendation. Disbursements and collections are reconciled to Treasury as net outlays. The following guidance from the Office of Management and Budget (OMB)

Circular A-136 verifies the requirement currently followed by management and is stated below:

> "**Outlays.** Outlays consist of disbursements net of offsetting collections. The outlays shall agree with, and be reconciled to, the Agency outlay totals reported in the Budget of the United States Government (i.e., with the aggregate of the outlays for accounts within the budget). The outlays shall also agree with, and be reconciled to, the aggregate of outlays reported on the standard form (SF)-133 for the aggregate of all budget accounts, including non-budgetary financing accounts and the disbursements and collections reported to Treasury on a monthly basis (SF- 224, Statement of Transactions; SF-1219, Statement of Accountability; and SF-1220 Statement of Transactions) per OMB Circular No. A-11.
>
> **Net Outlays.** Line 19D is calculated. It is computed as Line 19A (gross outlays) less Line 19B (offsetting collections) less Line 19C (Distributed Offsetting Receipts). This amount shall agree with, and be reconciled to the net outlays as reported in the Budget of the United States Government."

Reconciliations are performed at various stages to ensure that net outlays are reported correctly. Those reconciliations consist of:

1. Cash Reconciliation - to verify the accuracy of cash balances reported at Treasury to the general ledger;

2. Federal Agencies' Centralized Trial-Balance System II (FACTS II) Reconciliation - to verify that net outlays reported in FACTS II agree with Treasury cash balances [FACTS II is a computer program that allows agencies to submit one set of accounting data. This data includes mostly budgetary information that is required for the Report on Budget Execution and Budgetary Resources (SF-133), the Year-End Closing Statement (FMS 2108), and much of the initial data that will appear in the prior year column of the Program and Financing (P&F) Schedule of the President's Budget]; and

3. Statement of Budgetary Resources (SBR) to SF-133 Reconciliation - to verify that net outlays reported on the SBR are in agreement with net outlays reported in FACTS II that generates the SF-133.

For the period ending June 30, 2009, management performed a reconciliation of the differences between GWA gross disbursements and collections to the GL. Management explained how transactions are summarized at GWA and concluded that the posting to the GL was accurate and reliable. Due to timing issues, management did not attempt to reconcile the remaining $196 million, less than one percent of gross disbursements, but has reasonable assurance that the differences could be identified if given more time.

Management has not been made aware of any requirement that requires gross disbursements or collections to agree with GWA or that established GWA as the authoritative source of gross disbursements or collections. Management maintains that the posting of transactions to the GL are accurate and reliable and should be used as the basis for financial reporting, in conjunction with the previous reconciliations mentioned.

Recommendation #4: We recommend that CCC develop an internal control procedure to reconcile the Federal Intra-governmental Transactions Accounting and Reporting System (ITRS) Report and CCC-CORE and to reconcile the Funds Status Report and CCC's trial balance. The reconciliation should be detailed enough to determine what is a timing difference and what differences are true differences in what was recorded on each agency's general ledger. Identified differences are timely resolved with the trading partner and where necessary adjusting entries are made to clear the differences.

CCC Response to Recommendation #4: CCC concurs with the condition and recommendation. CCC will develop a Corrective Action Plan (CAP) to address the conditions and recommendation.

Recommendation #5: We recommend that CCC develop and implement policy and procedures related to the Maritime Administration (MARAD) activities. The policy and procedures should include an accrual methodology and the gathering and reviewing of data on a quarterly basis to form an expectation of what year-end accrual should be.

CCC Response to Recommendation #5: CCC concurs with the recommendation for MARAD. CCC will develop a CAP to mitigate the conditions noted.

Recommendation #6: We recommend that CCC perform a periodic reconciliation and review that ties out the details substantiating the balance to what is actually recorded in the accounts receivable for the Tobacco Transition Program (TTP) in CORE.

<u>CCC Response to Recommendation #6</u>: CCC concurs with the condition and recommendation for TTP. CCC will develop a CAP to address the conditions and recommendation.

<u>Recommendation #7</u>: We recommend that CCC amend their memorandum of agreement with the U.S. Agency for International Development (USAID) to require certain control procedures to be implemented.

<u>CCC Response to Recommendation #7</u>: CCC concurs with the recommendation and will develop a CAP to revise the MOU with USAID.

<u>Recommendation #8</u>: We recommend that CCC amend their memorandum of agreement with USAID to require certain control procedures to be implemented.

<u>CCC Response to Recommendation #8</u>: CCC concurs with the recommendation and will develop a CAP to revise the MOU with USAID.

<u>Recommendation #9</u>: Review and update the Farm Service Agency (FSA)/CCC-wide security policies and directives in a timely manner.

<u>CCC Response to Recommendation #9</u>: CCC concurs with the condition and recommendation; however it must be noted that the conditions noted did not have a significant or material impact on the financial statements.

<u>Recommendation #10</u>: Formalize the review and approval process for FSA/CCC's Systems Security Plans to ensure that updates follow a well-defined structure.

<u>CCC Response to Recommendation #10</u>: CCC concurs with the condition and recommendation; however it must be noted that the conditions noted did not have a significant or material impact on the financial statements.

<u>Recommendation #11</u>: Develop, approve and implement a Configuration Management Plan and/or baseline configurations for the AS-400/S-36 platforms.

<u>CCC Response to Recommendation #11</u>: CCC concurs with the condition and recommendation; however it must be noted that the conditions noted did not have a significant or material impact on the financial statements.

CCC will develop corrective action plans, where necessary, to address the findings and recommendations identified during the audit. As we consider the required corrective actions, we will continue to work with the Office of the Inspector General in ensuring that the specific actions will assist us in successfully addressing the recommendations and reaching management decision.

If you have any questions or require additional information, please contact Elizabeth Russell at (703) 305-1283.

U.S. DEPARTMENT OF AGRICULTURE

COMMODITY CREDIT CORPORATION

A FEDERAL CORPORATE AGENCY BY ACT OF CONGRESS

COMMODITY CREDIT CORPORATION

1948

2009 ANNUAL REPORT

U.S. Department of Agriculture
Commodity Credit Corporation

1400 Independence Avenue, SW
Washington, DC 20250

2009 Annual Report

Preface

This Annual Report shows the results of the Commodity Credit Corporation's (CCC) operations for fiscal year 2009 and meets the requirements of the CCC Charter Act, as amended, and the Government Corporation Control Act, as amended.

CCC worked closely with Clifton Gunderson LLP and the Office of Inspector General (OIG) for the United States Department of Agriculture (USDA) in the development of this report.

The Management's Discussion and Analysis section of the report contains the purpose, authority, mission and goals of the Corporation, financial and program summaries and performance measures. This information is followed by the audit opinion letter, financial statements, and accompanying notes.

Table of Contents

Part I: Management's Discussion and Analysis (Unaudited)

Mission Statement

The Commodity Credit Corporation is a Government-owned and operated entity dedicated to:

- Stabilizing, supporting, and protecting farm income and prices.
- Maintaining balanced and adequate supplies of agricultural commodities and aiding in their orderly distribution.
- Conservation of soil, air, and water resources and protection and improvement of wildlife habitats.
- Developing new domestic and foreign markets and marketing facilities for agricultural commodities.

History of the Commodity Credit Corporation

Established in 1933, the Commodity Credit Corporation (hereinafter CCC, Agency, or Corporation) is a government-owned corporation within the United States Department of Agriculture (USDA), created to stabilize, support, and protect farm income and prices. CCC is also the Federal government's primary financing arm for many domestic and international agricultural programs. CCC helps maintain balanced and adequate supplies of agricultural commodities and aids in their orderly distribution.

CCC helps America's agricultural producers through commodity and farm storage facility loans, purchases, and income support payments. CCC also works to make available materials and facilities required in the production and marketing of agricultural commodities. In addition, CCC provides incentives and payments to landowners to establish conservation practices on their land.

CCC provides agricultural commodities to other Federal agencies and foreign governments. CCC also donates commodities to domestic and international relief agencies as well as foreign countries. CCC assists in the development of new domestic and foreign markets and marketing facilities for American agricultural commodities. CCC operates numerous domestic programs such as income support, disaster, and conservation programs. It also extends direct credit and guarantees commodity sales to foreign countries throughout the world.

CCC has its own disbursing authority and utilizes the Federal Reserve Bank system and United States Treasury to make payments. This disbursing authority allows CCC to make payments quickly and to provide financial support to America's producers and farmers immediately. CCC has multiple funding mechanisms. Most of the domestic programs are operated out of a revolving fund, which has a $30 billion borrowing authority from the Treasury. This fund also receives money from appropriated funding for costs incurred (i.e., realized losses), loan repayments, inventory sales, interest income, and fees. Additionally, CCC receives direct appropriations for specific programs such as its Credit Reform programs, foreign grant and donation programs, and disaster relief.

Certain information contained in this discussion is considered "forward-looking information" as defined by the Federal Accounting Standards Advisory Board's (FASAB) Statement of Federal Financial Accounting Standards (SFFAS) No. 15, *Management's Discussion and Analysis*, and Statement of Federal Financial Accounting Concepts (SFFAC) No. 3, *Management's Discussion and Risk Analysis Concepts.* Such forward-looking information includes estimates and is subject to risks and uncertainties that could cause actual results to differ materially from this discussion.

Structure of the Commodity Credit Corporation

A Board of Directors manages CCC subject to the general supervision and direction of the Secretary of Agriculture who is an *ex officio* director and chairperson of the Board. The Board consists of seven members in addition to the Secretary. The President of the United States, with the advice and consent of the Senate, appoints the board members to office. The members of the Board and the Corporation's officers are officials of USDA. CCC officers, directly or through officials of designated USDA agencies, maintain liaison with numerous other governmental and private trade operations. [1]

CCC has no actual employees; it carries out the majority of its programs through the personnel and facilities of the Farm Service Agency (FSA) as well as other USDA agencies. Most of CCC's programs are delivered through an extensive nationwide network of FSA field offices, including approximately 2,400 USDA Service Centers and 51 state offices (including Puerto Rico). This network enables CCC to maintain a close relationship with customers, successfully addressing their needs and continually improving program delivery.

Though FSA provides the staff for CCC, several CCC funded programs fall under the Foreign Agricultural Service (FAS) or Natural Resources Conservation Service (NRCS). FAS has the primary responsibility for USDA's international activities—market development, trade agreements and negotiations, and the collection and analysis of statistics and market information. It also administers USDA's export credit guarantee and food aid programs and helps increase income and food availability in developing nations by mobilizing expertise for agriculturally led economic growth.

NRCS is the primary conservation agent for the USDA. NRCS provides leadership in a partnership effort to help America's private landowners and managers conserve their soil, water, and other natural resources. NRCS provides financial assistance for many conservation activities. NRCS reaches out to all segments of the agricultural community, including underserved and socially disadvantaged farmers and ranchers to ensure that CCC's programs and services are accessible to everyone.

[1] As required by 5 U.S.C. 552 b (j), by filing this report, CCC is notifying the Congress of the United States that the CCC Board did not hold any open or closed meetings this fiscal year. Additionally, there was no litigation brought against the Board under the Government in the Sunshine Act this year. Similarly, there are no changes in policies or statutes requiring notification under this subsection.

CCC Board of Directors

Chairperson, Thomas James Vilsack, Secretary of Agriculture
Vice Chairperson, Vacant, Deputy Secretary of Agriculture
Member, Vacant, Under Secretary, Farm and Foreign Agricultural Services (FFAS)
Member, Vacant, Under Secretary, Rural Development (RD)
Member, Vacant, Under Secretary, Food, Nutrition, and Consumer Services (FNCS)
Member, Vacant, Chief Financial Officer and Chief Information Officer, USDA
Member, Vacant, Under Secretary, Marketing and Regulatory Programs (MRP)
Member, Vacant, Under Secretary, Natural Resources and Environment (NRE)

CCC Officers

President, James W. Miller, Under Secretary, FFAS
Executive Vice President, Jonathan W. Coppess, Administrator, Farm Service Agency (FSA)
Vice President, Carolyn Cooksie, Acting Associate Administrator, Programs, FSA
Vice President, Vacant, Acting Associate Administrator, Operations and Management, FSA
Vice President, Rayne Pegg, Administrator, Agricultural Marketing Service (AMS)
Vice President, Michael Michener, Administrator, Foreign Agricultural Service (FAS)
Vice President, Patricia R. Sheikh, Acting General Sales Manager, FAS
Vice President, Julie Paradis, Administrator, Food and Nutrition Service (FNS)
Vice President, David White, Chief, Natural Resources Conservation Service (NRCS)
Deputy Vice President, James W. Monahan, Deputy Administrator, Commodity Operations, FSA
Deputy Vice President, Philip G. Short, Deputy Administrator, Management, FSA
Deputy Vice President, Brandon Willis, Deputy Administrator, Farm Programs, FSA
Deputy Vice President, James W. Monahan, Acting Deputy Administrator, Field Operations, FSA
Deputy Vice President, Joy Harwood, Director, Economic & Policy Analysis Staff, FSA
Deputy Vice President, Dana D. York, Associate Chief, NRCS
Deputy Vice President, Thomas W. Christensen, Deputy Chief, Programs, NRCS
Deputy Vice President, Katherine C. Gugulis, Deputy Chief, Management, NRCS
Secretary, Steven N. Mikkelsen, Acting Executive Assistant to the Administrator, FSA
Deputy Secretary, Vacant, Farm Service Agency (FSA)
Assistant Secretary, Monique B. Randolph, Staff Assistant, FSA
Controller, Heidi G. Ware, Acting Director, Office of Budget and Finance, FSA
Treasurer, Monty D. Tranbarger, Acting Director, Financial Management Division, FSA
Chief Accountant, Agnes Leung, Acting Center Director, Policy, Accounting, Reporting, and Loan Center, Financial Management Division, FSA

Advisors

General Counsel, Vacant, Office of the General Counsel
Associate General Counsel, Ralph A. Linden, International Affairs, Commodity Programs and Food Assistance Programs

CCC Program Areas

CCC funds many programs that fall under multiple agencies within the USDA. Each CCC funded program helps achieve parts of both the CCC mission and the strategic plan of the agency under which the program falls. CCC's mission and agency strategic goals are achieved through the successful implementation of the following key programs:

Income Support and Disaster Assistance – Income support and disaster assistance programs provide financial assistance to protect farmers and ranchers from fluctuations in market conditions and unexpected natural or man-made disasters. Assistance is provided through income support programs, disaster assistance programs, and the Noninsured Crop Disaster Assistance Program (NAP). FSA is responsible for administering income support and disaster assistance. The agency is expanding the way it interfaces with farmers and producers in its traditional "safety net" programs by adding on-line options while maintaining more traditional approaches. This has been a monumental challenge for FSA. The performance discussion will cover the progress of the on-line initiatives.

Conservation – Supported by the Food, Conservation, and Energy Act of 2008 (2008 Farm Bill), conservation programs offer farmers and ranchers a variety of financial and economic incentives to conserve natural resources on the nation's privately owned farmlands. Programs focus on reducing erosion, protecting streams and rivers, restoring and establishing fish and wildlife habitats, and improving air quality through several conservation incentive payments, technical assistance, and cost-share programs.

Commodity Operations and Food Aid – Commodity Operations personnel handle the procurement, acquisition, storage, disposition, and distribution of commodities, and the administration of the U.S. Warehouse Act (USWA). These programs help achieve domestic farm program price support objectives, produce a uniform regulatory system for storing agricultural products, and ensure the timely provision of food products for domestic and international food assistance programs and market development programs.

Market Expansion and Trade Building – Expanding markets for agricultural products is critical to the long-term health and prosperity of the U.S. agricultural sector; and with 96 percent of the world's population living outside the United States, future growth in demand for food and agricultural products will occur primarily in overseas markets. FAS market development programs play a critical role in helping to open new markets and in facilitating U.S. competitiveness; and by doing so, help to secure a more prosperous future for American agriculture. Support for economic development and trade capacity building reinforces these efforts by helping developing countries to become economically stable and improve their prospects to participate in and benefit from expanding global trade in agricultural products.

Export Credit – CCC export credit guarantee and direct loan programs, administered by FAS in conjunction with FSA, provide payment guarantees for third party commercial financing and direct financing of U.S. agricultural exports. These programs facilitate exports to buyers in countries where credit is necessary to maintain or increase U.S. sales but where financing may not be available without CCC credit facilities.

Future Effects of Demands, Events, and Conditions

2008 Farm Bill Passage: The "Food, Conservation, and Energy Act of 2008" (2008 Farm Bill) has a variety of new and revised provisions to CCC funded programs that are placing significant strain on the Farm Service Agency. The new farm bill contains over 600 sections/provisions, which is more than a 50 percent increase when compared to the 2002 Farm Bill. Major changes include: the Average Crop Revenue Election program; Planting Transferability Pilot Project for fruit and vegetables grown for processing on base acres in the upper Midwest; direct attribution for payment limitations; new adjusted gross income limitation provisions; the Biomass Crop Assistance Program; Feedstock Flexibility Program for Bio-energy Producers; compensation for dairy producers when domestic milk prices fall below a specified level and payment rate adjustment for feed prices; greater access and portability of Geospatial Information System data; state specific requirements; farm storage loan provisions; and, extension of the Pigford settlement to late filers. Policy development and implementation of these programs require a substantial amount of information technology software development, as well as additional staff time at both headquarters and field offices. The 2008 Farm Bill authorized $50 million for implementation expenses. The actual costs to implement the 2002 Farm Bill were approximately $157 million. The effect of the projected funding shortfall may affect the timing of overall delivery.

Various programs have also been expanded or added that will impact conservation efforts. Authority has been expanded under the Conservation Reserve Program (CRP) for the Farmable Wetlands Program land eligibility which now includes certain: (1) Wetlands; (2) Constructed wetlands designed to provide nitrogen removal and other wetland functions; (3) Land that was devoted to commercial pond-raised aquaculture; and (4) Land that is subject to the natural overflow of a prairie wetland. A new grant program, Voluntary Public Access, has been added for State and Tribal governments to encourage owners and operators of privately-held farm, ranch, and forest land to voluntarily make that land accessible to the public for wildlife-dependent recreation, including hunting or fishing under programs administered by State or Tribal governments. Also added is a new Emergency Forestry Restoration Program which assists owners of non-industrial private forest lands to carry out emergency measures to restore the land after the land is damaged by a natural disaster.

Administrative Resource Constraints and Challenges: Although most CCC program outlays are mandatory, the salaries and administrative expenses (S&E) for the Agencies responsible for administering CCC programs are subject to a continuously constrained discretionary spending environment. The Agencies are under significant pressure to modernize the service delivery environment in order to provide more flexibility in responding to fluctuations in program demand. In addition, there is a risk of knowledge loss as experienced employees retire. USDA agencies are addressing these issues through a series of information technology modernization initiatives coupled with human capital planning.

Succession planning efforts are critical to ensuring the continuity of leadership and workforce in CCC-funded programs. The most immediate and critical human capital issue is the high number of employees in Mission Critical Occupations (MCO) who are, or soon will be retirement eligible. By FY 2012, there is the potential of losing 50% of the mission critical leadership positions and 34% of workforce within the MCO's. To address this challenge, a Human Capital Plan will be implemented at Farm Service Agency. This includes Leadership Training Programs and related funding. Also, recruiting and retaining a skilled IT workforce is among the most critical challenges as customers' requirements and program offerings grow more complex and market conditions change. There is also need to develop a Knowledge Management program that can immediately focus on an effective and efficient knowledge transfer program agency-wide. The Farm Service Agency plans to reorganize several major functional areas beginning with the transformation of the Human Resources Division. In order to accomplish its strategic human capital goals and objectives as well as address and close gaps in the Agency's Human Capital Plan, financial funding must be dedicated.

Economic Fluctuation and Volatility: Global and domestic economic volatility is causing corresponding volatility to the CCC program portfolio. Increased production by foreign producers can lower commodity prices and affect the ability of farmers and ranchers to compete in the global marketplace. Policy changes in foreign countries may create trade barriers that will affect the ability of American producers to market and sell their products in overseas markets. The strength of the U.S. dollar relative to other currencies can also affect the competitiveness of American products in foreign countries. Volatile energy prices affect farmers and ranchers by impacting the prices of inputs required to produce commodities. Increasing energy concerns are projected to have a significant effect on farm economics. These concerns may alter conservation decision making. If commodity prices increase, landowners are less willing to retire cropland for conservation practices.

Natural Disasters and Weather Conditions: Extreme climate and weather events often cause extensive flooding and sustained droughts that profoundly affect our society in general and agriculture in particular. Agriculture is vulnerable to variations and fluctuations in weather and climate because existing agricultural practices were developed for average weather and climate conditions. Furthermore, global climate change is acknowledged as a reality which will affect farming and ranching practices and conservation measures. Agencies are in the process of developing plans to review programs and operations to help mitigate global climate change while ensuring efficient and abundant agricultural production.

Performance Highlights Summary

The CCC met the performance target to maintain or increase the percentage of program benefits delivered through a Web environment. Of the nine farm programs designated to be web-enabled, benefits for three programs are currently available to producers through a Web environment. CCC met the performance target by maintaining the percentage at 33% for Web-enabled programs available to producers.

The Noninsured Crop Disaster Assistance Program (NAP) provides financial assistance to producers of crops for which there is no available crop insurance when low yields, loss of inventory, or prevented planting occur because of a natural disaster. The program did not meet its target for increasing the percentage of eligible crops with NAP coverage due to policy changes that negatively impacted the validity of data, and significant changes in commodity prices. Because the NAP figure depends on proxy data from several program partners, the results are dependent on reconciling operational parameters so that data is comparable. Targets were set based on agency practices that have recently been altered.

In FY 2008, significant commodity price differences resulted in a negative crop value for NAP. NAP participation fees increased by 14 percent and crops covered increased more than 34 percent, after removal of mandated NAP fee increases during FY 2009. To compensate for the anomaly affecting the NAP formula, data inputs were adjusted to compensate for changes in operational parameters, resulting in a NAP eligibility figure of 6.4 percent, similar to previous years. However, with this adjustment, the data is still not representative of actual producer participation in NAP.

The recent passage of the Food, Conservation, and Energy Act of 2008 requires participation in NAP and/or purchase of crop insurance in order to gain eligibility for USDA permanent disaster programs. Permanent disaster programs include: the Supplemental Revenue Assistance Payments Program, Livestock Forage Program, and Emergency Assistance for Livestock, Honey Bees, and Farm-Raised Fish Program, and the Tree Assistance Program. NAP results are based on non-insurable crops that have been affected by natural disasters and weather conditions occurring in FY 2008. Program outcomes depend on the extent and severity of natural disasters, and therefore are difficult to measure or predict from year to year. The measure represents payments made in FY 2009 for disasters that occurred in FY 2008. A total of $ 59.8 million in NAP payments were made in FY 2009, a decrease of $ 3.6 million from the FY 2008 figure of over $ 63.4 million. However, the actual number of crops enrolled in NAP increased from 168,843 crops in FY 2008 to 227,468 crops in FY 2009, an increase of 34.7 percent.

The FSA/CCC performance measure “Reduce the average number of days between warehouse examinations,” achieved its goal to reduce the average time between warehouse examinations. The FY 2009 target was 400 days between warehouse examinations. In FY 2009, examinations were performed more frequently, an average of 363 days. This was due in part to efficient examination practices and time savings through the use of electronic warehouse receipts. The warehouse examination program performs examinations of licensed and contracted warehouse facilities that store or handle commodities for CCC. The more frequently warehouses are examined for compliance with CCC storage agreements and United States Warehouse Act licensing agreements by FSA warehouse examiners, the sooner any potential pest infestation or quality deterioration of commodities in store will be discovered. Factors affecting the time between examinations of these warehouses include the number of warehouses participating in storage programs for the account of CCC, the number of USWA licensed warehouses, the amount or value of commodity in store with CCC interest, the length of time the commodities have been in store, whether the commodities have been forfeited or are simply under loan, staff losses during FY 2009, and funding for the examination program.

CRP surpassed its performance target of 2.01 million acres for the measure “Increase Conservation Reserve Program (CRP) acres of riparian and grass buffers (million acres)” by approximately 20,000 acres. For FY 2009, producers have set aside approximately 2.03 million acres as CRP buffer areas. The Conservation Reserve Program (CRP) is the nation’s largest private-lands conservation financial assistance program with over 33.7 million acres enrolled as of September 30, 2009. The USDA Strategic Plan for FY 2005-2010 set a strategy of helping producers increase the number of riparian and grass buffers on agricultural lands. As one indicator of its performance in achieving this strategy, FSA monitors acreage of agricultural lands to be enrolled as buffer zones in CRP. These buffers intercept sediment and nutrients before they reach surface waters.

CRP exceeded its annual FY 2009 performance target of 50,000 acres enrolled for the measure “Increase wetlands acres restored” by 31,443 acres. The major increase is due to the announcement of increased incentives for certain wetland practices and underestimating the number of general signup acres re-enrolled into wetland practices. Contributing to the total cumulative wetlands enrollment were several initiatives, including the 500,000-acre Bottomland Hardwood Timber Initiative and the 250,000-acre non-floodplain Wetland Restoration Initiative. These wetlands and buffers have increased prime wildlife habitat and water storage capacity and have led to a net increase in wetland acres on agriculture land. The CRP continues to be acknowledged for its environmental benefits generated by long-term conservation contracts protecting air, soil, water, and wildlife resources.

Financial Highlights

As part of its mission to stabilize, support, and protect farm income and prices, CCC is also responsible for providing accurate, timely, and useful financial management information to all Agency stakeholders. The financial statements have been prepared from the accounting records of the Agency as of September 30, 2009 and September 30, 2008 in accordance with generally accepted accounting principles for Federal entities and policies prescribed in the Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*.

Assets: The Balance Sheet shows the Agency had total assets of $12.5 billion as of September 30, 2009, a decrease of $2.1 billion (14 percent) below the previous year's total assets of $14.5 billion. The decrease in Fund Balance with Treasury is due to the fewer loan repayments in upland cotton, corn, refined beet sugar, and rough rice. Upland cotton farmers utilized certificate payments instead of cash payments in fiscal year 2009. This resulted in fewer regular cash loan repayments.

The increase in Commodity Inventory reflects an increase in purchase of surplus nonfat dry milk from dairy manufacturers in order to stabilize domestic dairy prices as required by the Agricultural Act of 1949. The decrease in Other Assets is due to Export Guarantee Program Negative subsidies transferred to Treasury and a decrease in advancements of P.L 480 Title II Grants payments to USAID.

Assets — Dollars in Millions

As of September 30	2009	2008	Variance	Variance %
Fund Balance with Treasury	$ 1,315	$ 3,035	$ (1,720)	-57%
Cash and Other Monetary Assets	92	92	-	0%
Accounts Receivable, Direct Loans and Loans Guarantees, Net	10,726	11,147	(421)	-4%
Commodity Inventories, Net	205	15	190	1267%
General Property and Equipment, Net	44	51	(7)	-14%
Other	83	189	(106)	-56%
Total Assets	$ 12,465	$ 14,529	$ (2,064)	-14%

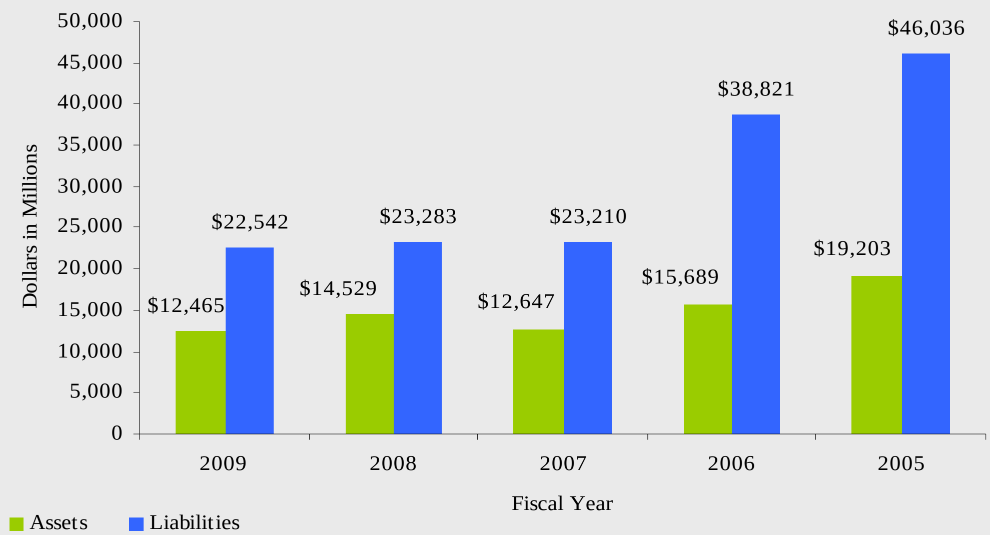
Liabilities: The Balance Sheet shows the Agency had total liabilities of $22.5 billion as of September 30, 2009. This represents a decrease of $741 million below the previous year's total liabilities of $23.3 billion. The decrease in Debt to the Treasury is primarily due to a decrease in the repayment of interest bearing Treasury notes. Total borrowings and repayments on borrowings from Treasury decreased in FY 2009 as a result of these payments.

Liabilities

Dollars in Millions

As of September 30		2009		2008		Variance	Variance %
Accounts Payable	$	302	$	287	$	15	5%
Debt to the Treasury		4,877		5,877		(1,000)	-17%
Loan Guarantee Liabilities		221		161		60	37%
Environmental and Disposal Liabilities		8		8		-	0%
Other		17,134		16,950		184	1%
Total Liabilities	$	22,542	$	23,283	$	(741)	-3%

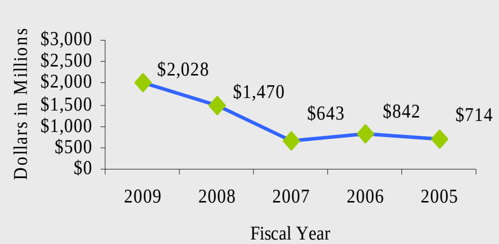
Assets and Liabilities



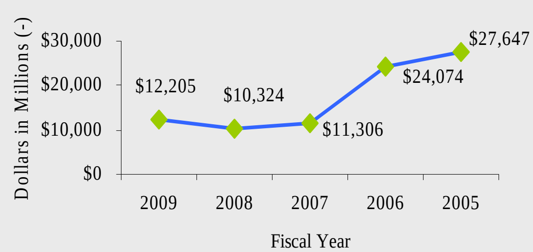
Ending Net Position: As of September 30, 2009 and September 30, 2008, the Agency’s net position was $10.1 billion and $8.8 billion, respectively. Net Position is the sum of the Unexpended Appropriations, Cumulative Results of Operations, and Capital Stock.

Unexpended Appropriations and Cumulative Results of Operations

Unexpended Appropriations



Cumulative Results of Operations



Results of Operations:

The Commodity Credit Corporation categorizes the net cost of operations based on the Agency's strategic goals. Net cost of operations was $14.2 billion and $11.0 billion for the fiscal years ended September 30, 2009 and September 30, 2008, respectively. Overall total net cost of operations increased 29 percent from the prior year. As shown in the table below, Supporting Productive Farms and Ranches expenses underlie a majority of the costs for the fiscal years ended September 30, 2009 and September 30, 2008. The activity that caused the fluctuation in the Statement of Net Cost for the fiscal year ended September 30, 2009 relates to the following strategic goals:

- **Supporting Productive Farms and Ranches –** Two major factors contribute to the increase from the prior year. First, an increase in the Price Support Commodity Certificate program was caused by market prices and the Adjusted World Price for upland cotton being lower than the National Average Loan rate. In addition, a Court Order Payment, initially an unfunded liability of $100 million for the Pigford Claims, increased to $1.25 billion in legal liabilities in anticipation of pending litigation.

- **Supporting Secure and Affordable Food and Fiber –** The increase in net cost is due to a decrease in earned revenue from the sale of wheat for the Bill Emerson Humanitarian Trust (BEHT) in FY 2009. There was an authorized release of wheat from BEHT in FY 2008, which generated higher earned revenue.

- **Conserving Natural Resources and Enhancing the Environment –** The increase in net cost is due to an increase in the Conservation Reserve Program annual payments.

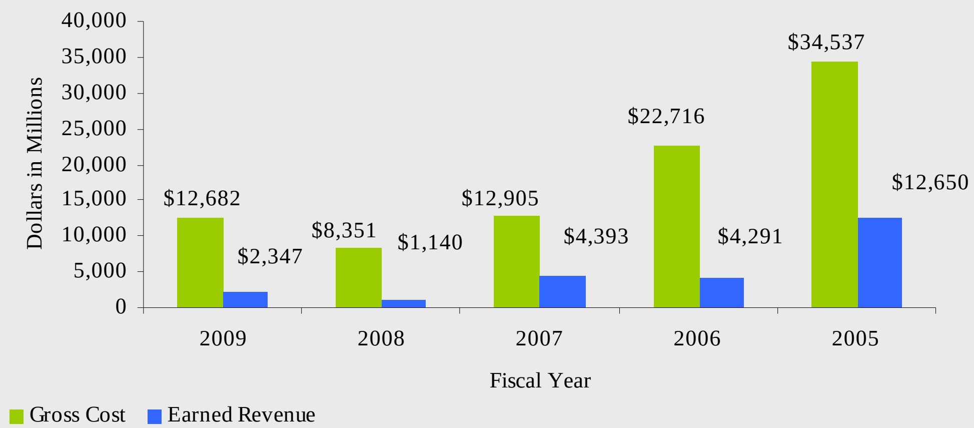
- **Supporting International Economic and Trade Capacity –** The decrease in net cost is a result of the P.L. 480 Title II Export program. In FY 2008, the program purchased additional commodities to meet emergency needs in foreign countries. Thus, the net cost for FY 2009 has decreased due to less commodities being purchased than in the previous year.

Summary of Net Cost of Operations by Strategic Goals

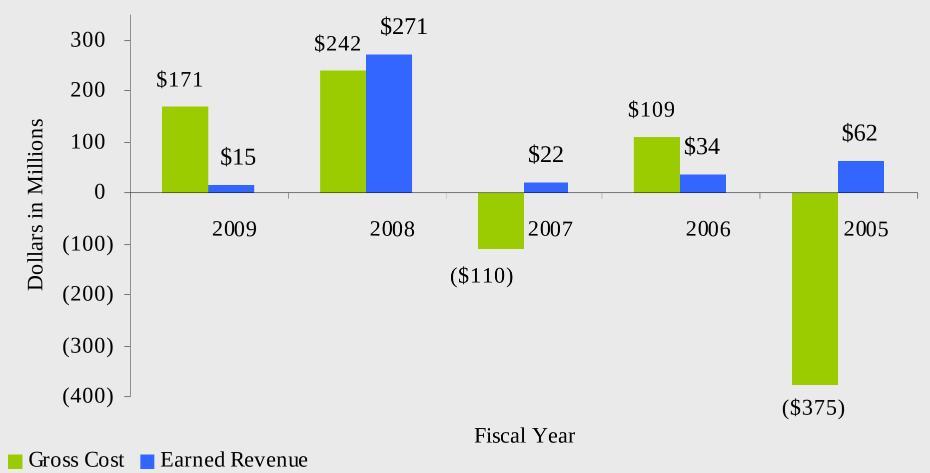
Dollars in Millions

For the Fiscal Years Ended	2009	2008	Variance	Variance %
Supporting Productive Farms and Ranches	$ 10,335	$ 7,211	$ 3,124	43%
Supporting Secure and Affordable Food and Fiber	156	(29)	185	638%
Conserving Natural Resources and Enhancing the Environment	2,222	2,123	99	5%
Supporting International Economic Development and Trade Capacity Building	1,444	1,651	(207)	-13%
Total Net Cost of Operations	$ 14,157	$ 10,956	$ 3,201	29%

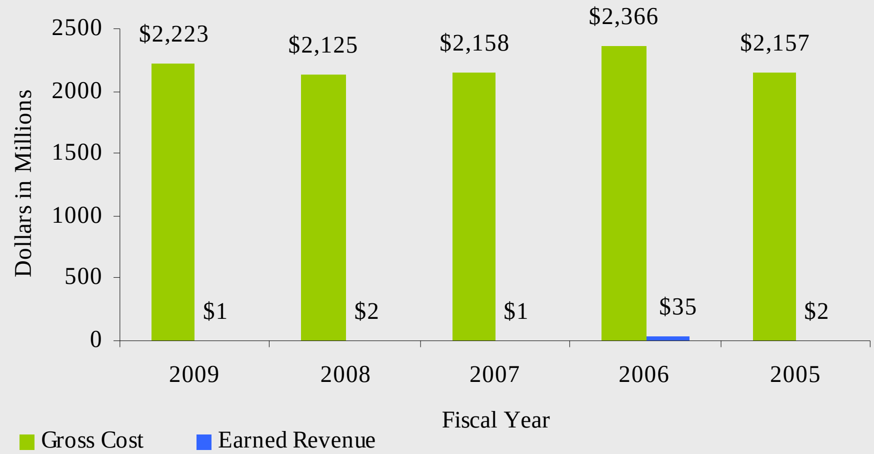
Supporting Productive Farms and Ranches



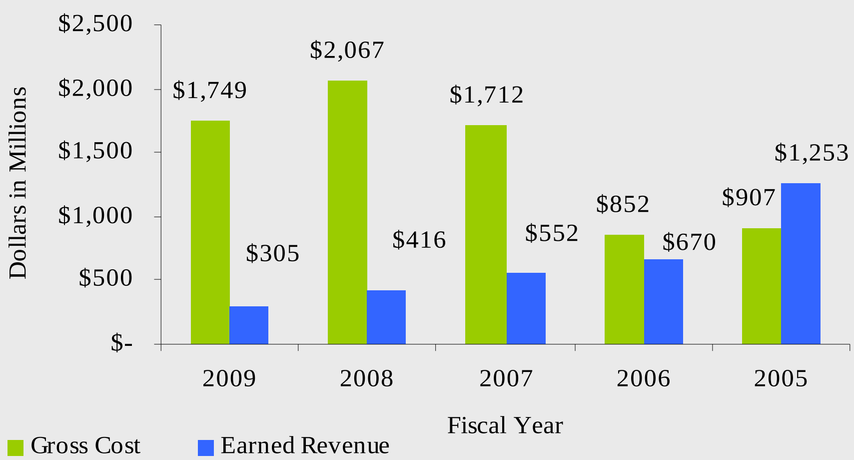
Supporting Secure and Affordable Food and Fiber



Conserving Natural Resources and Enhancing the Environment



Supporting International Economic Development and Trade Capacity Building



Obligations and Outlays: Between September 30, 2009 and September 30, 2008, Obligations Incurred increased by $1.8 billion. For Direct Obligations, the decrease is attributed to a non-expenditure transfer and an increase in funding P.L. 480 Title II Grants for emergency food assistance in FY 2008 with no similar activity in FY 2009. For Reimbursable Obligations, the increase is attributed to the Direct and Counter Cyclical Payment program, which made producer payments available at the end of December 2008.

Summary of Obliglations

Dollars in Millions

For the Fiscal Years Ended	2009	2008	Variance	Variance %
Obligations Incurred:				
Direct	$ 4,420	$ 5,128	$ (708)	-14%
Reimbursable	24,232	21,704	2,528	12%
Total Obligations	$ 28,652	$ 26,832	$ 1,820	7%

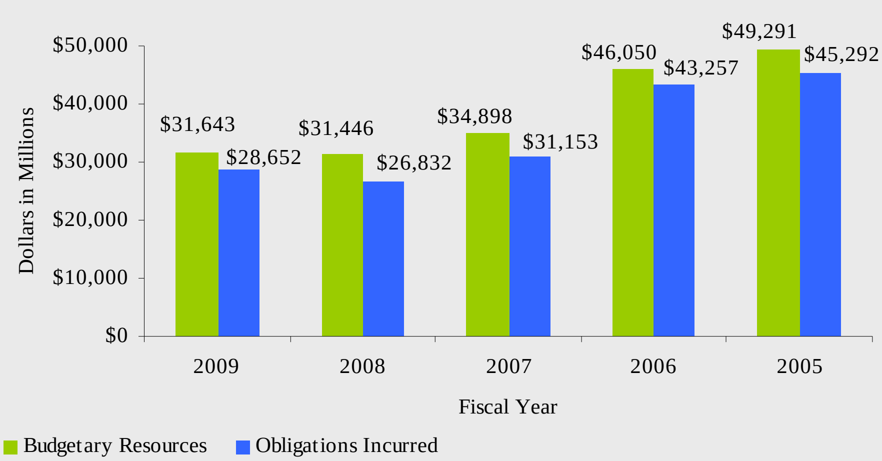
Between FY 2009 and FY 2008, Net Outlays increased by $3.7 billion. The increase reflects a decrease in Offsetting Collections from loans repaid due to market conditions in FY 2008. In FY 2009, market prices were below Adjusted World Prices thus, the producers were able to repay loans at a rate lower than the loan rate. This resulted in fewer repayments and lower Offsetting Collections in FY 2009.

Summary of Net Outlays

Dollars in Millions

For the Fiscal Years Ended	2009	2008	Variance	Variance %
Net Outlays:				
Gross Outlays	$ 26,927	$ 25,563	$ 1,364	5%
Offsetting Collections	(13,559)	(16,022)	$ 2,463	-15%
Less: Distributed Offsetting Receipts	(473)	(353)	$ (120)	34%
Net Outlays	$ 12,895	$ 9,188	$ 3,707	40%

Budgetary Resources



Management Controls, Systems, and Compliance with Laws and Regulations

FMFIA and FFMIA Assurance Statement

USDA

United States Department of Agriculture

Farm and Foreign Agricultural Service

Farm Service Agency

1400 Independence Ave, SW
Stop 0501
Washington, DC 20250-0501

TO: Evan J. Segal
Chief Financial Officer
Office of the Chief Financial Officer

THROUGH: James W. Miller
Under Secretary

FROM: Jonathan W. Coppess
Administrator

Heidi G. Ware
for Acting Chief Financial Officer
Acting Controller, Commodity Credit Corporation

SUBJECT: Fiscal Year (FY) 2009 Federal Managers' Financial Integrity Act; Federal Financial Management Improvement Act, the Office of Management and Budget Circular A-123, Appendix A Certification Statement

This memorandum provides the Farm and Foreign Agricultural Services/Farm Service Agency/Commodity Credit Corporation (FFAS/ FSA/CCC) annual certification statements to support the Secretary's annual assurances for the Federal Managers' Financial Integrity Act (FMFIA), including the assurance statement for Internal Control over Financial Reporting, and the Department's certification for the Federal Financial Management Improvement Act (FFMIA).

Federal Managers' Financial Integrity Act Assertions

1. Management is responsible for developing and maintaining internal control to ensure the efficiency and effectiveness of operations, reliability of financial reporting, compliance with applicable laws and regulations and the safeguarding of assets.

2. Internal control encompasses accounting and administrative controls. Such controls include program, operational and administrative areas as well as accounting and financial management.

3. Management has conducted its annual evaluations of internal control and financial systems pursuant to Section 2 and Section 4 of FMFIA, respectively, for the period ended September 30, 2009.

4. Based on the results of the evaluations, the Farm and Foreign Agricultural Services/Farm Service Agency/Commodity Credit Corporation (FFAS/FSA/CCC) can provide reasonable assurance that internal controls are operating effectively.

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5. No new material weaknesses and no significant deficiencies were identified; one existing material weakness and no significant deficiencies remain; and two material weaknesses and three significant deficiencies were corrected. This is subject to revision based on final Commodity Credit Corporation (CCC) Audit report to be completed in November 2009.

6. Corrective action plan is attached for the existing material weakness; and documentation is provided to support actions taken on material weaknesses and significant deficiencies corrected.

Internal Control over Financial Reporting Assertions

7. Farm and Foreign Agricultural Services/Farm Service Agency/Commodity Credit Corporation (FFAS/FSA/CCC) conducted its assessment of the effectiveness of internal control over financial reporting as of June 30, 2009, in accordance with USDA's Implementation Guide and as required by the Office of Management and Budget Circular A-123, Appendix A.

8. The assessment included an evaluation of entity level controls, risk assessments, process descriptions and flowcharts, documentation of key controls, an assessment of the design of key controls, tests of operating effectiveness of properly designed controls, summary of deficiencies, and the development of corrective action plans for control deficiencies.

9. Management recognizes its responsibility for monitoring and correcting all control deficiencies.

10. Based on the results of the assessment, the Farm and Foreign Agricultural Services/Farm Service Agency/Commodity Credit Corporation FFAS/FSA/CCC can provide reasonable assurance that internal controls over financial reporting are operating effectively.

11. No new material weaknesses, and 3 new significant deficiencies were identified; no existing material weaknesses or significant deficiencies remain. All 41 significant deficiencies were corrected or re-determined as no longer material.

12. Corrective action plans are attached and have been approved to the Department for all new significant deficiencies. Documentation to support actions taken on significant deficiencies corrected or re-determined during the fiscal year is available in the Department's A-123 Document Tracking System (ADTS) application.

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Federal Financial Management Improvement Act Assertions

13. FFAS/FSA/CCC management evaluated its financial management systems under FFMIA for the period ending September 30, 2009.

14. Based on the results of our evaluation, we are in substantial compliance with Sections: 1. Federal Financial Management System Requirements; 2. Applicable Federal Accounting Standards; and 4. Information Security, Policies, Procedures and Practices.

15. Corrective action plans are attached for areas of substantial non-compliance. Documentation has been provided or is attached for all non-compliances corrected during fiscal year 2009.

Attached is a summary of the identified material weaknesses, significant deficiencies, system nonconformances and FFMIA noncompliances.

Please contact Steve Mikkelsen, Director, Strategic Performance and Evaluation Staff and Management Challenges Coordinator, at (202) 720-4019 should you have any questions or require additional information.

Attachments

Note: The Assurance Certification is due to the Department by August 30, 2009, which is almost three months before the final audit report is provided to CCC on November 7, 2009. Therefore, CCC must predict the outcome and results of reportable conditions it will expect to be reported in the audit report at the beginning of August in order to prepare the report and send it through the chain of command for signatures. CCC believes that the credit reform material weakness will be downgraded to a control deficiency, and all outstanding audit recommendations for credit reform will be closed. In addition, CCC is reporting the material weakness in Management's analysis of obligations and liabilities for the Direct and Countercyclical Payment Programs as closed. The significant deficiency reported in the information technology area will be considered downgraded to a control deficiency.

If the FY 2009 final audit report contains any new unexpected reportable conditions, a revised certification will be submitted in December 2009.

Federal Managers' Financial Integrity Act (FMFIA)

Overview

The Federal Managers' Financial Integrity Act of 1982 (FMFIA) requires Federal agencies to submit an annual report to the President and Congress reflecting the status of management controls for program, financial, and administrative operations. The Commodity Credit Corporation's (CCC) FMFIA Annual Report contains CCC's material weaknesses, significant deficiencies, and related corrective action plans including material deficiencies identified through the Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Internal Control*, Appendix A, implementation and assessment process conducted during Fiscal Year (FY) 2009. The CCC Controller provides an annual statement of assurance to the Department of Agriculture's (USDA) Office of the Chief Financial Officer certifying that CCC is compliant with FMFIA and is fulfilling requirements to perform ongoing evaluations of internal control. The assurance statement also includes a certification from the Controller that:

- Obligations and costs comply with applicable laws and regulations;
- Federal assets are safeguarded against fraud, waste, and mismanagement;
- Transactions are accounted for and properly recorded; and
- Financial management systems conform to standards, principles, and other requirements to ensure that Federal managers have timely, relevant, and consistent financial information for decision-making purposes.

Fiscal Year 2009 Results

In compliance with the requirements of FMFIA, CCC evaluated, assessed, and tested its management controls for program, financial, and administrative operations through the OMB Circular A-123, Appendix A, assessment for FY 2009.

In FY 2008, management's assessment of internal controls over financial reporting as of September 30, 2008, identified three material weaknesses (MW): Financial Reporting – "Credit Reform" and "Management's analysis of obligations and liabilities for the Direct and Countercyclical Payment Programs" both reported under FMFIA Section 2, Material Weaknesses in Internal Controls. Funds Control Management is reported in Section 4, Material Non-conformances in Financial Systems. There were two significant deficiencies reported in the 2008 audit report, one in the Information Technology (IT) area, and one in the monitoring of child agency financial information [U.S. Agency for International Development (USAID)].

During FY 2009, CCC took corrective actions to address prior years' credit reform deficiencies by developing two new models and incorporating the Change Control Board (CCB) review and approval of any newly developed models or modifications to the models. Upon fiscal year end, CCC intends to submit all completed documentation of the models as well as the reviews and testwork to the Department and request closure of all audit recommendations stemming back to FY 2005.

For the audit recommendations that gave CCC a material weakness in 2008 for "Management's Analysis of Obligations and Liabilities for the Direct and Countercyclical (DCP) Programs", CCC has mitigated this deficiency and anticipates the 2008 material weakness to be removed in the 2009 report.

Regarding the significant deficiency for the lack of "Monitoring of Child Agency Financial Information", CCC has addressed this deficiency with the implementation of additional financial analytics and improved communication with the U.S. Agency for International Development. However, additional recommendations based on the audit may warrant a modification to the initial recommendations proposed in 2008.

The significant deficiency for IT Security and Contingency Planning is anticipated to remain in the 2009 report.

CCC continues to report a material weakness for a system nonconformance based on the fact that the system cannot record an obligation at the time a contract is executed by the county offices. The Funds Control Management material weaknesses will be mitigated through the Financial Management Modernization Initiative (FMMI) which continues to be on track and fully implemented by FY 2012.

Material Weakness Remaining in Fiscal Year 2009

Material Weakness 1: Improvement Needed in Financial System Functionality and Funds Control

This was a repeat condition under which CCC was collaborating with the Office of the Chief Information Officer to identify and implement additional improvements needed to enhance USDA's general control environment. Weaknesses were identified in information security program management, technical security access controls, software change/configuration management, contingency planning, and end-user computing.

Critical Corrective Action Milestones included the following:

Information security program management

- Identified and implemented controls to better track security training efforts and outstanding risk mitigation plan milestones;
- Formalized and better controlled the process by which employees who no longer need access to systems and applications have their access rights suspended/removed;
- Required periodic management review of AS/400 county office system users' access;
- Updated application risk assessment documentation and then ensured that the documentation is updated at least every three years (or when major system or application changes are made) to support CCC's overall security program; and
- Verified that risk mitigation plans incorporated all the risks identified in the risk assessments.

Technical security access controls

- Performed more consistent vulnerability scans on all workstations, servers, routers, switches, and printers;
- Ensured that remediation controls were timely implemented as security vulnerabilities were identified;
- Implemented additional controls to review access to production libraries, including periodic review of accounts by FSA/CCC security administrators and implemented a software configuration management tool for the various FSA/CCC application platforms;
- Required domain and VPN passwords to comply with policy of three invalid attempts prior to locking the account (or obtained a waiver to this policy);
- Developed a process to verify that systems identified with a high risk vulnerability do not show up on subsequent monthly vulnerability scan reports; and
- Established and enforced a policy that requires physical access authorizations to be completed in their entirety.

Software change/configuration management

- Updated 14-ADM or an equivalent policy guide to reflect the current IT processing environment and CCC's software change management processes and controls; and
- Provided training to applicable staff regarding the CCC software change management process.

Contingency planning

- Updated all application contingency plans with testing results and ensured that the plans continued to be updated based on future testing efforts and any relevant IT environment changes or business process changes.

End user computing

- Encrypted all workstations and computing devices that utilized spreadsheets and localized access databases for processing of financial data.

Federal Financial Management Improvement Act (FFMIA)

The Federal Financial Management Improvement Act (FFMIA) is designed to improve financial and program managers' accountability, provide better information for decision-making, and improve the efficiency and effectiveness of Federal programs. FFMIA requires that financial management systems provide reliable, consistent disclosure of financial data in accordance with generally accepted accounting principles and standards. These systems must also comply substantially with the following 4 sections: (1) Federal financial management system requirements; (2) applicable Federal accounting standards; (3) the Standard General Ledger at the transaction level; and (4) Information security policies, procedures, and practices meet the reporting requirements of the Federal Information Security Management Act (FISMA).

During FY 2009, CCC evaluated its financial management systems to assess substantial compliance with the Act. CCC has demonstrated substantial compliance with Sections 2, 3, and 4. CCC is not substantially compliant with Section 1 - Federal financial management system requirements, which are reported above in the FMFIA section of this report. As part of the financial systems strategy, CCC continues to progress in its corrective actions to meet FFMIA objectives.

Antideficiency Act (ADA)

There are no known violations of this act to be reported in FY 2009.

Management Summary, Initiatives, Information and Issues

INITIATIVE: BUDGET AND PERFORMANCE MANAGEMENT SYSTEM (BPMS)

The Budget and Performance Management System (BPMS) is a management initiative led by the FSA in collaboration with the FAS, FSIS, RD, and ITS. A primary objective of BPMS is to integrate and improve management processes and information systems to enable the Agencies to better respond to administrative resource challenges and constraints (noted in Future Effects of Current Demands, Events, and Conditions). BPMS encompasses the management processes and information systems for CCC planning, budget formulation, budget execution, managerial cost accounting, and elements of financial statement preparation.

BPMS has already delivered a modernized budgeting platform and a more integrated framework for reporting CCC performance results. A CCC managerial cost accounting model that will provide full program costs and other cost management reports and analyses is in progress. Each FSA program area, including non-CCC program areas, is in the process of defining direct unit cost and indirect cost metrics using a standard methodology, activity dictionary, and formulas. Implementation of the CCC managerial cost accounting capability will be enabled by a new labor data collection system, improvements to workload data collection, and a new commercial off-the-shelf (COTS) budgeting and cost accounting tool.

The BPMS is the featured initiative on the USDA Financial Data Integration Improvement Plan (FDIIP) for the Farm and Foreign Agricultural Service (FFAS) business area. Progress is reported on a quarterly basis to USDA through the FDIIP. Implementation of several budget models and a performance data collection model were completed in FY 2009. Efforts to obtain unit counts for managerial cost accounting will continue, as will efforts on new software demonstrating strategic planning measures.

INITIATIVE: MODERNIZE AND INNOVATE THE DELIVERY OF AGRICULTURAL SYSTEMS (MIDAS)

Modernize and Innovate the Delivery of Agricultural Systems (MIDAS) will improve the Farm Service Agency's (FSA) delivery of Farm Program benefits, on behalf of the Commodity Credit Corporation (CCC). This project will provide capability to meet the increasing demand for customer self-service and eliminate FSA's reliance on aging technology. This project will reduce the risk of hardware failure by replacing the outdated AS400/S36 computing platform. This project will reengineer business processes to be common and will centralize data assets to support all farm programs, eliminate program specific duplication of functionality and non-integrated, distributed data that exists between farm program software applications. It will accomplish increased compliance with modern internal control structures and effectively implement improved IT security. MIDAS will install commitment-based accounting practices (e.g., obligations, commitments, outlays, funds control) to upgrade both the program and financial management business practices of the CCC. When finished, FSA's Farm Programs will become compliant with federal financial accounting standards (FISMA/A-123/FMFIA). The project is intended to align with the Office of the Chief Financial Officer's (OCFO) Financial Management Modernization Initiative (FMMI) investment. As of September 30, 2009, MIDAS is in the planning phase and has not procured the services of a system integrator; therefore, no development activities have begun. MIDAS anticipates the system integrator contract being awarded the first quarter of FY 2010.

INITIATIVE: HOMELAND SECURITY INITIATIVES

Homeland Security is a significant, ongoing priority for FSA/CCC. Since 2005, FSA/CCC has been conducting risk assessments for the various sectors with which it is involved. FSA has collaborated with the Department of Homeland Security, the Food and Drug Administration, and the Federal Bureau of Investigation, as well as private industry and State governments in the Strategic Partnership Program Agroterrorism (SPPA) Initiative for the various sectors affected by FSA operations. The SPPA Initiative is designed to identify sector-specific vulnerabilities through critical infrastructure/key resource assessments and to develop sector-specific mitigation strategies to reduce the threat of attack. To date, SPPA Initiative risk assessments have been conducted for the export and country elevator sectors, the processed commodity sector, and the sugar beet sector. FSA will continue to monitor these sectors, as required. Each of the four risk assessments will be reviewed on a biennial basis to access progress in implementing mitigation practices. FSA has used the results of the completed assessments to formulate action plans on food safety and security and establish safeguard requirements for the commodities that it manages, handles, transports, stores, and distributes.

INITIATIVE: FOOD AND HUMANITARIAN AID

The Farm Service Agency has successfully transitioned to the Federal Acquisition Regulation and is reorganizing Commodity Operations to increase efficiency in food aid purchases and dispositions.

The Bill Emerson Humanitarian Trust was established as the Food Security Wheat Reserve in 1980. The Trust is used to meet emergency humanitarian food needs in developing countries. The Trust is not a continuous food aid program, but is a cash and/or a commodity reserve that is maintained to provide food aid for unanticipated emergency needs that cannot otherwise be met through P.L. 480, Title II.

In addition, in FY 2009, Commodity Operations administered the Stocks for Food Initiative, under which government owned stocks were exchanged for processed and bulk commodities that were made available to domestic and international food assistance programs. Through these exchanges, CCC eliminated storage and handling expenses incurred on government owned commodity inventories and increased the quantity of food assistance that was provided.

INITIATIVE: FINANCIAL MANAGEMENT - LINE OF BUSINESS (FM-LOB) AND FINANCIAL MANAGEMENT MODERNIZATION INITIATIVE (FMMI)

FM-LoB: The FM-Lob Initiative, mandated by OMB, identifies Centers of Excellence for various business functions performed in the Government. These Centers of Excellence will become the service providers for other Government Agencies that perform similar lines of business. The goal is to reduce the redundancy of systems development within the Government by consolidating services into those Centers of Excellence. FM-Lob is designed to reduce the costs of managing the government's transactions and statements by sharing accounting systems across agencies to ensure transparency in accounting, improve budget decisions and planning, and share financial data easily.

USDA's FMMI INITIATIVE: FSA/CCC, in partnership with USDA's OCFO modernizing aging financial systems to address challenges and opportunities in the rapidly changing Federal financial management and technology environment. The primary objective of the FMMI is to improve financial management performance by efficiently providing USDA agencies with a modern core financial management system that both complies with Federal accounting and systems standards, (including FM-LoB) while providing maximum support to the Agencies' mission.

FSA/CCC, in partnership with USDA, is undertaking the FMMI program for four main reasons:

- Grants Management Line of Business: USDA continues its development of a strategy to implement the Grants Management Line of Business (GMLoB) approach to managing grant activity as part of the President's Management Agenda. The GMLoB is an Office of Management and Budget initiative that will identify Centers of Excellence for various business functions performed in the Government.

- Support USDA Mission: To support all elements of the departmental mission, USDA officials require high quality financial and performance information to make and implement effective policy, management, stewardship, and program decisions. The implementation, operations, and maintenance of certified, technologically advanced, and reliable financial systems will contribute to USDA's mission, strategic goals, and objectives.

- Meet Legislative and Management Mandates: The FMMI program will enable FSA/CCC to meet its fiduciary responsibilities, including accountability for U.S. tax dollars, and to comply with several legislative and regulatory mandates. These mandates include regulations such as the Chief Financial Officer's (CFO) Act, the Federal Managers' Financial Integrity Act (FMFIA), the Federal Financial Management Improvement Act (FFMIA), the Clinger-Cohen Act, the Government Paperwork Elimination Act (GPEA), Financial System Integration Office (FSIO, formerly the Joint Financial Management

Improvement Program or JFMIP), the Government Performance and Results Act (GPRA), the Federal Information Security Management Act (FISMA), and associated National Institute of Standards and Technology (NIST) guidance in NIST SP 800-53.

- Address Legacy System Support and Material Weaknesses: The USDA has selected Systems Applications Products (SAP) for the replacement of its legacy accounting systems. The CCC legacy accounting systems are no longer supported by the vendor, and CCC must address material weaknesses in agency-specific general ledger systems.

FSA is working to replace legacy financial systems, like CCC and FSA-CORE general ledger systems, while consolidating data and business functions into SAP's Commercial-Off-the-Shelf (COTS) selected for USDA.

To meet this objective, an assessment of all FSA/CCC's financial/ program applications functionality is underway to determine which systems are candidates for:

- Full replacement by FMMI
- Partial replacement of only financial functionality by FMMI
- Interfaces into FMMI.

INITIATIVE: IMPLEMENTATION OF OMB CIRCULAR No. A-123, Appendix A

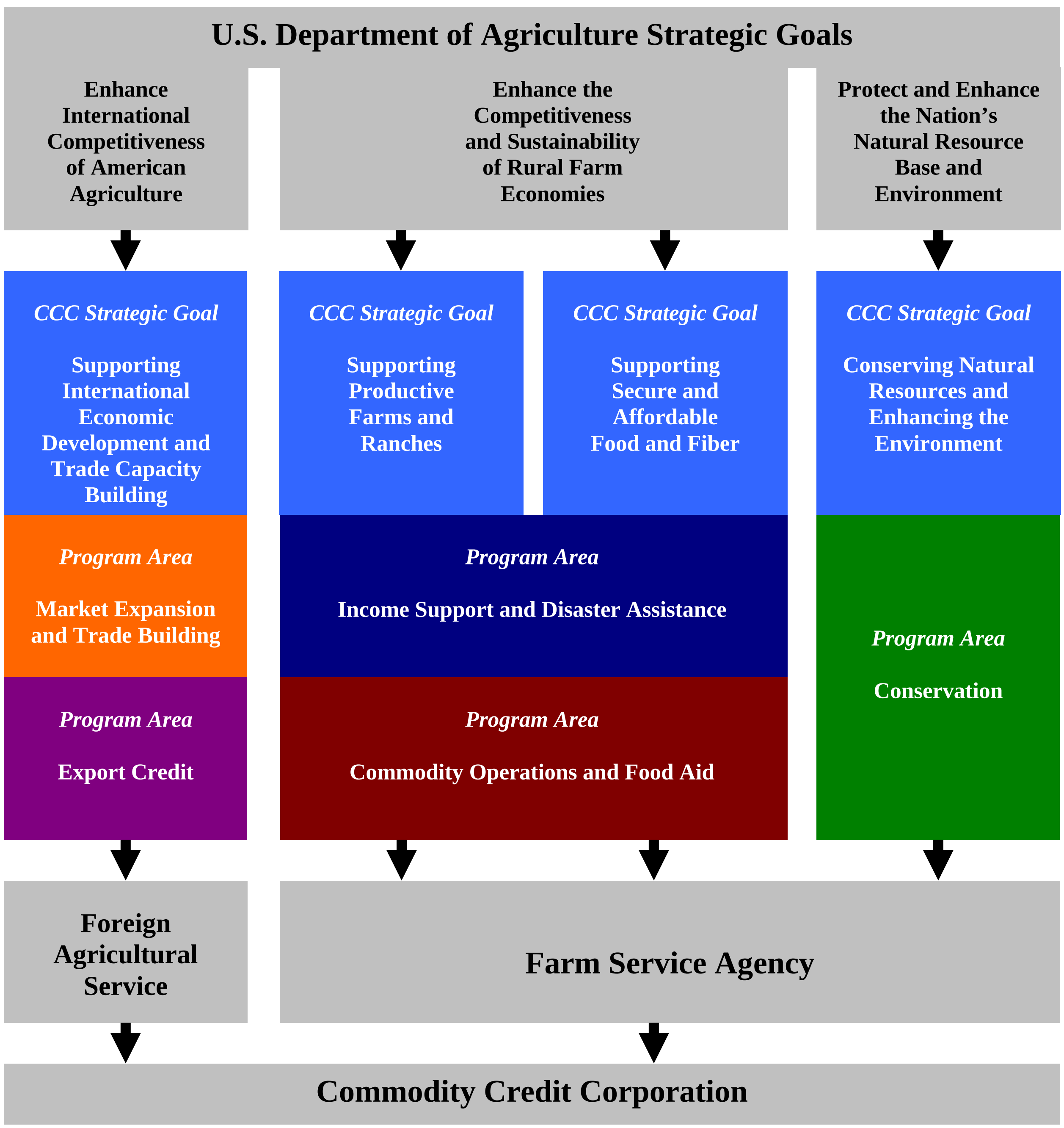
OMB Circular No. A-123 defines management's responsibility for internal control in Federal agencies. OMB A-123 and the statute it implements, the Federal Managers' Financial Integrity Act of 1982 (FMFIA), are at the center of the existing Federal requirements to improve internal controls. Appendix A lays out an assessment process that management should implement in order to properly assess and improve internal control over financial reporting. The assessment process provides management with the information needed to properly support a separate assertion as to the effectiveness of internal controls over financial reporting as a subset of the overall FMFIA.

For FY 2009, FSA utilized the services of a contractor to help with documentation and testing of various CCC business cycles and processes as part of the OMB A-123 internal control assessment. FSA followed the Departmental methodology for completing the assessment using a systematic method for identifying and documenting controls within business processes. From the documented controls, FSA then defined those that are key controls to operations. FSA tested the key controls (both automated and manual) and documented the performance of those controls. Failed control deficiencies that did not perform as intended or were not designed properly were further evaluated and in many cases, remediated with corrective action plans prepared for follow-up resolution.

Limitations of the Financial Statements

The principal financial statements have been prepared to report the financial position and results of operations of the entity pursuant to the requirements of 31 U.S.C. 3515 (b). While the statements have been prepared from the books and records of the entity in accordance with Generally Accepted Accounting Principles (GAAP) for Federal entities and the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records. The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

Part II: Performance Section (Unaudited)



Performance Section

Given that most of CCC services are carried out by the employees of USDA agencies, the mission of CCC aligns towards the strategic goals of the Department as well as to the strategic goals of the Farm Service Agency (FSA) and Foreign Agricultural Service (FAS). Each of these strategic goals, in turn, has objectives that support the results that the Agencies want to achieve. The performance measures allow CCC to tangibly measure how well it is achieving these objectives without creating a duplicate reporting burden. The table on page 33 summarizes the relationship between the USDA strategic goal, and the Agency's strategic goal, CCC program area. The table also displays which USDA agency administers the strategic goal.

Income Support and Disaster Assistance Program Area

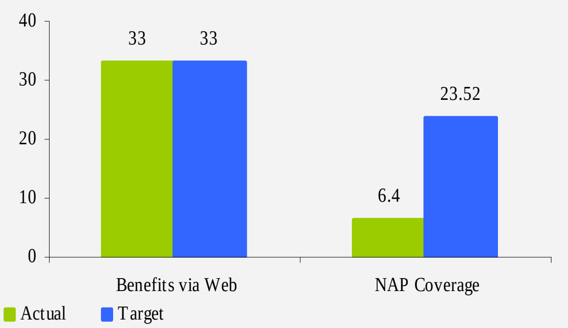
MISSION ELEMENT

Stabilizing, supporting, and protecting farm income and prices.

CCC is the financial instrument for millions of income support and disaster assistance payments each year to agricultural commodity producers. These payments stabilize, support, and protect farm income and prices. CCC payment volume for these programs is driven by commodity market prices, payment eligibility rules established in public policy, and natural or human-caused disasters. CCC payments are best explained in the context of a commodity crop year. Crop years do not directly correspond to financial statement reporting, so this creates some unique challenges for discussing payment trends and performance.

Program Area Performance Summary

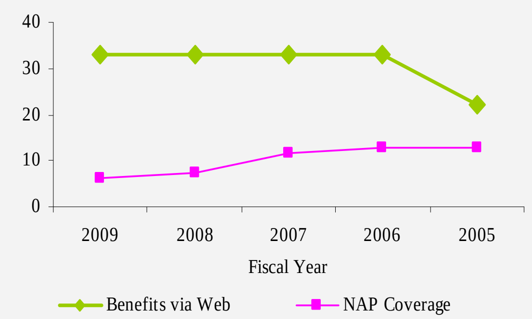
FY 2008 Performance Targets and Actual Results
(In Percentages)



Key Performance Measures	2009	2008	2007	2006	2005
Maintain or increase percentage program benefits delivered through web environment (percentage)	33.0	33.0	33.0	33.0	22.0
Increase percent eligible crops with NAP coverage (percentage)	6.4[1]	7.2	11.8	12.7	12.8

Measure	FY 2009 Target	Actual YTD Performance	Result
Maintain or increase percentage program benefits delivered through web environment (percentage)	33.0	33.0	Met Target
Increase percent eligible crops with NAP coverage (percentage)	23.52%	6.4%	Target[2] Not Met

Key Performance Measures
(In Percentages)



[1] Estimated as of September 30, 2009 and adjusted for data anomaly.
[2] Met range for NAP is 22.52% - 24.52%

CCC met all but one of its performance targets for FY 2009. CCC met the performance target to maintain or increase the percentage of program benefits delivered through a web environment. Of the nine farm programs designated to be web-enabled, benefits for three programs are currently available to producers through a web environment. CCC met the performance target by maintaining the percentage at 33% for web-enabled programs available to producers.

With a FY 2009 goal of 23.52 percent, USDA has not met its FY 2009 target for increasing the percentage of eligible crops with NAP coverage. The unmet goals are due to policy changes that negatively impacted the validity of data and significant changes in commodity prices. Because the NAP figure depends on proxy data from several program partners, the results are dependent on reconciling operational parameters so that data is comparable. Targets were set based on agency practices that have recently been altered.

In FY 2008 significant commodity price differences resulted in a negative crop value for NAP. NAP participation fees increased by 14 percent and crops covered increased more than 34 percent, after removal of mandated NAP fee increases during FY 2009. To compensate for the anomaly affecting the NAP formula, data inputs were adjusted to compensate for changes in operational parameters, resulting in a NAP eligibility figure of 6.4 percent, similar to previous years. However, with this adjustment, the data is still not representative of actual producer participation in NAP.

Due to the changing policies across programs, the current NAP measure does not provide data that accurately reflects NAP progress and cannot be effectively used to set performance targets. A new NAP measure will need to be developed. Due to the eligibility requirement in the 2008 Farm Bill, NAP performance is expected to increase in the next fiscal year. This statute requires NAP participation and/or the purchase of crop insurance to gain eligibility for USDA permanent disaster programs. Permanent disaster programs include: the Supplemental Revenue Assistance Payments Program, Livestock Forage Program, and Emergency Assistance for Livestock, Honey Bees, and Farm-Raised Fish Program, and the Tree Assistance Program. FY 2009 NAP results are based on non-insurable crops that have been affected by natural disasters and weather conditions occurring in FY 2008. Program outcomes depend on the extent and severity of natural disasters, and therefore are difficult to measure or predict from year to year. The measure represents payments made in FY 2009 for disasters that occurred in FY 2008. A total of $ 59.8 million in NAP payments were made in FY 2009, a decrease of $ 3.6 million from the 2008 figure of over $ 63.4 million. However, the actual number of crops enrolled in NAP increased from 168,843 crops in FY 2008 to 227,468 crops in FY 2009, an increase of 34.7 percent.

Program Overview and Performance

Program	**COUNTER-CYCLICAL PAYMENT PROGRAM**	**Income Support and Disaster Assistance Program Area**
Strategic Goal	**Enhance the Competitiveness and Sustainability of Rural and Farm Economies**	
Lead Agency	**Farm Service Agency**	

The Direct Crop and Counter-Cyclical Programs (DCP) are key programs in the Agency's effort to mitigate market losses. The Food, Conservation, and Energy Act of 2008, Pub. L. 110-234, was enacted into law on May 22, 2008. The DCP is authorized for FY 2008 through FY 2012. FSA provides direct payments (cash) to eligible crop producers. The intent is to allow planting flexibility while providing a safety net for producers. Counter-cyclical payments will be issued for each of the 2008 through 2012 crop years of each covered commodity if the effective price for the covered commodity is less than the target price for the covered commodity. Counter-cyclical payments vary as market prices change. The FSA electronic Direct and Counter-Cyclical Payment Program (eDCP) service allows agricultural producers to enroll in DCP online. Producers can choose DCP payment options, assign crop shares, and sign, view, print, and submit their DCP contracts from any computer with Internet access at any time. This service is available to all eligible producers for the FY 2008-2012 DCP program years and helps the Agency maintain participation rates for this program. While producers still have the option to sign up for the program in person at their local USDA Service Center, offering sign-up options through the Internet helps the Agency meet its performance objectives, in accordance with the USDA’s mandate to expand E-Gov options for program participants.

Recommendations for Performance Measures	**Status of Implementing Recommendations**
Establish policy within	Completed: On December 29, 2008, the regulations governing the Direct and Counter-

parameters of new Farm Bill legislation to improve delivery of the program.	Cyclical Program for the 2009-2012 crop years were published in the Federal Register at 7 CFR Part 1412.
Work to achieve its long-term performance goals.	Action taken, but not completed: Data continues to be collected on an annual basis on the percentage of farm income derived from counter-cyclical payments. This data is useful in determining the producers' level of dependence on government assistance, which can serve as an indicator of success.

Program	DIRECT CROP PAYMENT PROGRAM	Income Support and Disaster Assistance Program Area
Strategic Goal	Enhance the Competitiveness and Sustainability of Rural and Farm Economies	
Lead Agency	Farm Service Agency	

FSA/CCC provides Direct Crop Payments (cash) to eligible crop producers. The intent is to allow planting flexibility while providing a safety net for producers. In FY 2008, the Direct Crop Payments Program was assessed by the Office of Management & Budget. The program was found to be strong in Strategic Planning and Program Management. It was also acknowledged that Direct Crop Payments were found to have minimal trade distorting effects. The Food Conservation and Energy Act of 2008 (2008 Farm Bill) reduced the Adjusted Gross Income (AGI) limitation in order to more effectively reach lower income producers who can benefit from the stability and safety net provisions of the program. Although the program has been effective in reducing improper payments, it needs to continue to improve its results. As a partner with the Natural Resources Conservation Service (NRCS), the Direct Crop Payment Program needs to continue to improve information sharing to improve its services.

Recommendations for Performance Measures	Status of Implementing Recommendations
Reviewing and implementing the new Farm Bill including developing rules and regulations.	Completed: On December 29, 2008, the regulations governing the Direct and Counter Cyclical Program for the 2009-2012 crop years were published in the Federal Register at 7 CFR Part 1412.
Continuing to lower improper payments.	Action Taken But Not Completed: Improper Direct Crop Payments continued to decline in FY 2009. The FY 2009 improper payment rate of .42 percent was down .28 percent from the FY 2008 improper payment rate of .7 percent. FSA is in the process of issuing a notice to State and County Offices providing FY 2009 IPIA findings related to Direct Crop Payments and directing follow-up action within each State to ensure that all offices review the discovered errors and take any needed corrective action.
Improving information sharing with other USDA agencies.	Completed: FSA and NRCS managers routinely meet to improve communication and to assure that one agency's actions do not adversely affect the other agency's programs. The tri-Agency Geospatial Data Management Group (comprised of FSA, NRCS, and RMA) will continue to meet once every month to identify and resolve geospatial data issues. This includes development of enterprise-wide geospatial architecture as part of the Geospatial Enterprise Data Center establishment and associated activities. FSA and RMA conduct weekly teleconferences to facilitate information sharing. FSA and RMA provide data updates to the Comprehensive Information Management System (CIMS) weekly for CIMS 2005-2008 data. Additionally, FSA and RMA share data through CIMS and have weekly teleconferences. FSA also shares data with NASS and work closely together to develop National spot check selection processes.

Program	MARKETING ASSISTANCE LOAN PROGRAM	Income Support and Disaster Assistance Program Area
Strategic Goal	Enhance the Competitiveness and Sustainability of Rural and Farm Economies	
Lead Agency	Farm Service Agency	

The Marketing Assistance Loan (MAL) program provides a safety net for farmers producing the major field crops. The MAL program is intended to help alleviate the price risk inherent in selling commodities and provides short-term or interim financing. Instead of selling immediately at harvest, the MAL program allows a producer who grows an eligible crop to store the production and pledge the crop as loan collateral. The loan proceeds help the producer to maintain financial stability without having to sell the harvested crop at the time of year when prices tend to be at their lowest levels. Later, when market conditions may be more favorable, a producer can sell the crop and repay the loan. This program was reviewed by the Office of Management and Budget (OMB) during FY 2007. The MAL program has been proven to successfully provide short-term financing. In order to improve the performance of the program, the MAL program is implementing policies to reduce improper payments, conducting more frequent external audits of program effectiveness, and making the delivery of services to producers consistent across county offices.

Recommendations for Performance Measures	Status of Implementing Recommendations
Implement policies to reduce improper payments.	Action Taken But Not Completed: During the FY 2009 CORP review, it was determined that MAL's IPIA error rates increased slightly from 1.76% in 2008 to 2.56% in 2009 because of the lack of proper supporting documentation before MAL disbursement. The slight increase reflects lien searches and lien waivers being obtained before a MAL request was received in the FSA County Office. Lien search and waiver policy is under review to provide a uniform manner of obtaining and recording lien searches and lien waivers. Additionally, the Agency has requested that State Executor Directors ensure that: 1) additional internal control procedures are developed to avoid findings indicated by program reviews, and 2) applicable State Office program divisions provide additional program training where needed and implement corrective actions to reduce improper payments. The program continues to take action to improve the improper payment percentages in the future.
Conduct more frequent external audits of program effectiveness.	Action Taken But Not Completed: In its FY 2008 Annual Plan, the USDA OIG indicated it plans to audit the MAL and Loan Deficiency Payments to Cooperative Marketing Associations (CMA) and Designated Marketing Associations (DMA). All CMA, DMA and Loan Servicing Agents are subject to reviews by Agency staff which are randomly selected. The reviewer will verify if entities reviewed are in compliance with the regulations when disbursing a loan or payment and document results on the Field Review Plan. The reviewer will then issue a statement of findings to the entity reviewed. If any findings are significant, the reviewed entity must create and submit a Corrective Action Plan to the Agency. Additionally, based on OMB A-123 Appendix A, CCC's external audit firm Price Waterhouse and Coopers (PwC) selected and reviewed three plans during October and December 2008. As a result of PwC's review, the controls were found to be adequate.
Establish policy within parameters of new Farm Bill legislation to improve delivery of the program.	Action Taken But Not Completed**:** Established Farm Bill Task Force to improve program delivery. The task force met during June and August 2008 and was instrumental in the revision of federal regulations 7CFR-1421. Additionally, the Task Force developed and recommended new standards for National training. During January 5-9, 2009, the Task Force met to revise the MAL policy and procedure handbook, 8-LP, and to ensure that MAL policy is consistent with established program regulations. The Task Force held additional teleconference meetings in 2009 to complete its task of revising Handbook, 8-LP. The projected date for issuing the revised Handbook is December 2009. In addition, various program notices have been issued to notify State and County FSA Offices of new Farm Bill policies and procedures.

Program	NONINSURED CROP DISASTER PROGRAM	Income Support and Disaster Assistance Program Area
Strategic Goal	Enhance the Competitiveness and Sustainability of Rural and Farm Economies	
Lead Agency	Farm Service Agency	

The Noninsured Crop Disaster Assistance Program (NAP) is a risk management tool for producers of noninsurable crops—those who are unable to obtain crop insurance through an insurance product. A component of this objective is to increase the percentage of eligible crops with NAP coverage.

Recommendations for Performance Measures	Status of Implementing Recommendations
Develop and implement a performance-based budgeting process that will improve accountability of budget and financial systems.	Action Taken But Not Completed: FSA is developing cost structures for the Budget and Performance Management System (BPMS) that will allow for new management reports that demonstrate cost per service unit and ratios for indirect administrative costs. An activity reporting system pilot has been successfully completed, and agency-wide implementation is scheduled for 2nd quarter of FY 2010.
Investigate options to commission independent evaluations that analyze program performance.	Action Taken But Not Completed: In January 2007, a NAP working group was established, consisting of representatives from the following FSA offices: Deputy Administrator for Farm Programs; Economics, Policies and Analysis Staff; Budget Division; and Production, Emergencies and Compliance Division. The NAP working group met to discuss options to conduct an independent evaluation. However, the NAP survey evaluation has been delayed awaiting an analysis of the impact that the Supplemental Revenue Assistance Payments Program (SURE) will have on NAP. SURE requires producers to obtain NAP coverage to maintain eligibility. It is anticipated that participation rates for NAP will significantly increase. After SURE has been fully implemented, the survey evaluation can be conducted to obtain the most accurate survey assessment for NAP.

Program	MILK INCOME LOSS CONTRACT PROGRAM	Income Support and Disaster Assistance Program Area
Strategic Goal	Enhance the Competitiveness and Sustainability of Rural and Farm Economies	
Lead Agency	Farm Service Agency	

The USDA Farm Service Agency's (FSA) Milk Income Loss Contract (MILC) Program compensates dairy producers when domestic milk prices fall below a specified level. MILC provides direct counter-cyclical style payments to milk producers on a monthly basis when the Boston Federal Milk Marketing Order Class I price for fluid milk falls below the benchmark of $16.94 per hundredweight (cwt.). The 2008 Farm Bill changed the $16.94 per cwt. of milk trigger for MILC payments to a variable trigger that may be adjusted monthly for variations in feed costs above $7.35 per cwt. for a 16-percent protein feed ration. Monthly MILC payment rates will be determined and payments issued to eligible dairy operations when the Boston Class I price falls below the feed-cost-adjusted trigger. MILC signup began January 2009, and over $700 million has been issued to MILC participants as of September 2009.

Eligible dairy producers are those who commercially produce milk in the United States. To receive program approval, producers must enter into a MILC contract with CCC and provide monthly milk marketing data. Dairy producers can apply for MILC at local FSA offices. All payments in the program are subject to limits in the contract, regulations, and to changes in statutory provisions for payment.

Recommendations for Performance Measures	Status of Implementing Recommendations
Establish policy and develop rules and regulations within parameters of the new Farm Bill to improve delivery of the program	Completed: Amended regulations at 7 CFR 1430 were published as a final rule in the Federal Register on December 8, 2008. New handbook policies including revised program procedures for field offices were issued in November 2008. Additionally, the MILC Task Force comprised of National and State Office specialists was brought to the

	National Office to work on aspects of the MILC program and improve efficiency of program delivery. The Task Force also developed and recommended new standards for the 2008 Farm Bill National training.
Eliminate shortcomings identified in financial audits by strengthening the processes and controls in the program's disbursement program.	Action Taken But Not Completed: Following the publishing of new regulations and policies required for the 2008 Farm Bill, the program continues to review and update modify policy and procedure as appropriate. County Offices are required to perform second party reviews for each MILC payment issued. To ensure that FSA is issuing MILC payments on eligible production, MILC participants are required to provide production evidence for commercially marketed production. Additionally, program notices are issued to notify State and County FSA Offices of changes and/or clarifications to MILC policy.

Conservation Program Area

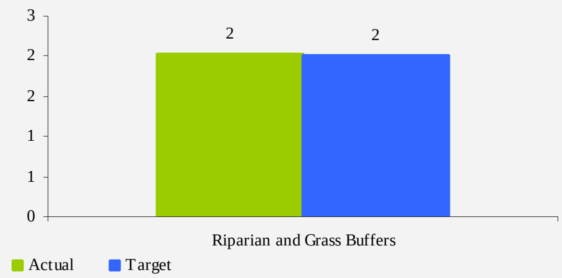
MISSION ELEMENT

Conservation of soil, air, and water resources and protection and improvement of wildlife habitats.

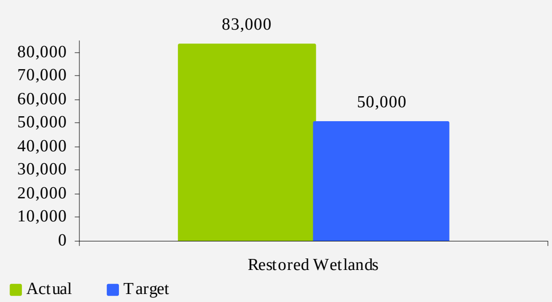
The focus of USDA conservation programs administered by FSA is to use environmentally sound management for agricultural production to meet food and fiber needs of the Nation.

Program Area Performance Summary

FY 2009 Performance Targets and Actual Results
(In Million Acres)



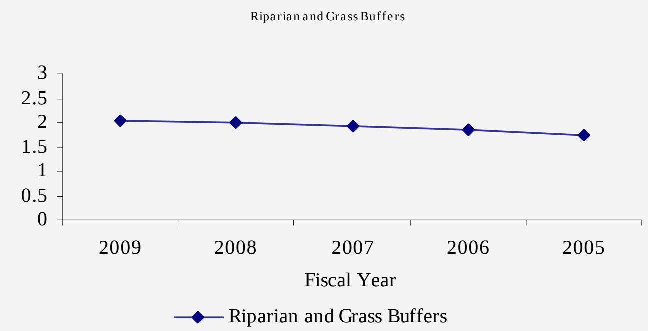
FY 2009 Performance Targets and Actual Results
(Annual)



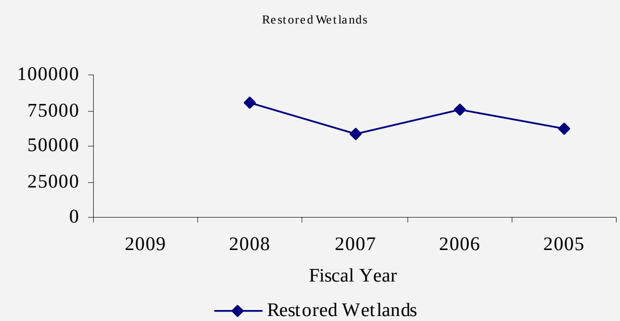
Measure	FY 2009 Target	Actual YTD Performance	Result
Increase Conservation Reserve Program (CRP) acres of riparian and grass buffers (in million acres)	2.01	2.03[3]	Met Target
Increase wetlands acres restored (in million acres)	50,000	81,443[3]	Exceeded Target[1]

Key Performance Measures	2009	2008	2007	2006	2005
Increase Conservation Reserve Program (CRP) acres of riparian and grass buffers (in million acres)	2.03	*2.0	1.92	1.86	1.75
CRP Wetlands acres enrolled (annual):	81,443	80,103	68,834	61,279	50,934

Key Performance Measures
(In Million Acres)



Key Performance Measures
(Annual)



[1] Met range for Riparian buffers is 1.90 - 2.11 m. acres.
[2] Met range for Wetlands is 47,500 – 52,500 acres.
[3] Actual performance as of September 30, 2009
[*] Revised 7/09 due to updated enrollment data

The Conservation Reserve Program (CRP) is the nation's largest private-lands conservation financial assistance program with a cumulative total of over 33.7 million enrolled acres. The USDA Strategic Plan for FY 2005-2010 set a strategy in place to help producers increase the number of riparian and grass buffers on agricultural lands. These buffers intercept sediment and nutrients before they reach surface waters. CRP met its performance target of 2.01 million acres for the measure "Increase Conservation Reserve Program" (CRP) acres of riparian and grass buffers. Through the end of FY 2009, producers had set aside, approximately, a cumulative 2.03 million acres as CRP buffer areas.

Land currently under contract for the 2009 crop year is down 1 million acres from last year's 34.7 million acres. High commodity prices have reduced the attractiveness of retiring cropland from production and enrolling it in CRP. The Food, Conservation, and Energy Act of 2008 (2008 Farm Bill) reduced the maximum CRP enrollment to 32 million acres beginning in FY 2010.

The annual performance target of 50,000 acres enrolled for the measure "Increase wetlands acres restored" has been exceeded by 81,443 acres. The major increase is due to the announcement of increased incentives for certain wetland practices and underestimating the number of general signup acres reenrolled into wetland practices. These restored wetlands are the result of several initiatives, including the 500,000 acre Bottomland Hardwood Timber and the 250,000 acre non-floodplain Wetland Restoration Initiatives. These wetlands and buffers have increased prime wildlife habitat and water storage capacity and have led to a net increase in wetland acres on agriculture land. The CRP continues to be acknowledged for its environmental benefits generated by long-term conservation contracts protecting air, soil, water, and wildlife resources.

Program Overview and Performance

Program	**CONSERVATION RESERVE PROGRAM**	**Conservation Program Area**
Strategic Goal	**Protect and Enhance the Nation's Natural Resource Base and Environment**	
Lead Agency	**Farm Service Agency**	

The Conservation Reserve Program (CRP) is a voluntary program available to agricultural producers to help them safeguard environmentally sensitive land. Producers enrolled in CRP plant long-term, resource-conserving covers to improve the quality of water, control soil erosion and enhance wildlife habitat. In return, FSA provides participants with rental payments and cost-share assistance. Contract duration is between 10 and 15 years. The long-term goal for USDA conservation programs is to protect and enhance the Nation's natural resources and environment to meet the needs of current and future generations.

Recommendations for Performance Measures	Status of Implementing Recommendations
Improving the Farm Service Agency's technical assistance accountability systems	Action Completed: The agency has reengineered CRP technical assistance delivery by utilizing the private sector for technical assistance. In FY 2007, 2008 and 2009, the agency issued contracts for training staff to implement third party technical assistance. In 2007 and 2009 the agency issued contracts and for third party conservation planning. These actions will continue in 2010, subject to the availability of funding.
Performing independent program evaluations to identify recommendations for improving performance and efficiency	Action Taken But Not Completed: The agency has expended the funds available for monitoring, assessing, and evaluating (MAE) CRP. Requests for funds in FY 2009 were not granted, and new MAE activity has not been undertaken on CRP.

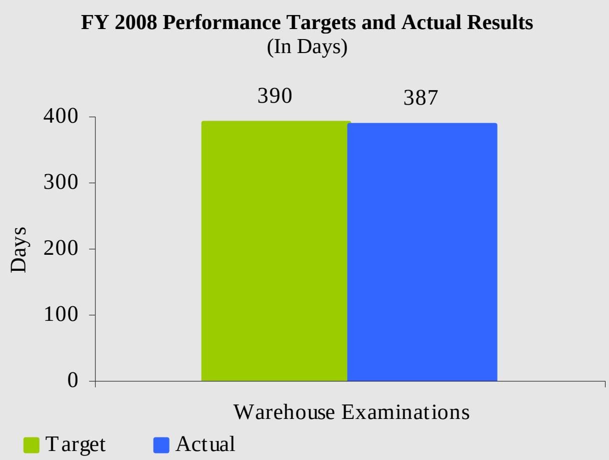
Commodity Operations and Food Aid Program Area

MISSION ELEMENT

Maintaining balanced and adequate supplies of agricultural commodities and aiding in their orderly distribution.

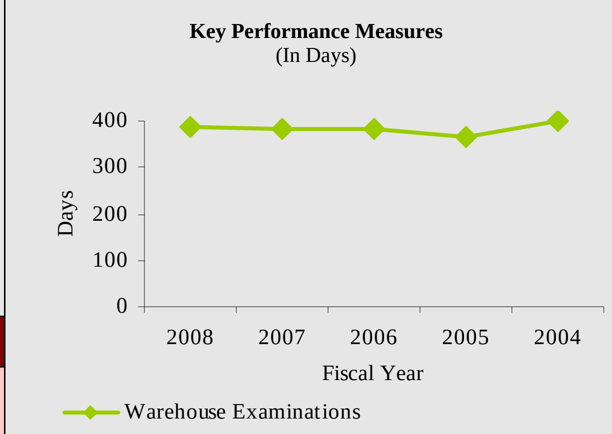
Commodity Operations handles the procurement, acquisition, storage, disposition, and distribution of commodities, and the administration of the U.S. Warehouse Act (USWA). These programs help achieve domestic farm program price support objectives, produce a uniform regulatory system for storing agricultural products, and ensure the timely provision of food products for domestic and international food assistance and market development programs.

Program Area Performance Summary



Measure	FY 2009 Target	Actual YTD Performance	Result
Reduce average time between warehouse examinations (in days)	400	363	Exceeded Target[1]

Key Performance Measures	2009	2008	2007	2006	2005
Reduce average time between warehouse examinations (in days)	363	387	381	384	365



[1] Performance threshold to exceed is >102 percent

The FSA/CCC performance measure "Reduce the average number of days between warehouse examinations," achieved its goal to reduce the average time between warehouse examinations. The FY 2009 target was 400 days between warehouse examinations. In FY 2009, examinations were performed more frequently, an average of 363 days. This was due in part to efficient examination practices and time savings through the use of electronic warehouse receipts. The warehouse examination program performs examinations of warehouse facilities which store or handle commodities for CCC and/or are licensed under the United States Warehouse Act. The more frequently warehouses are examined for compliance by FSA warehouse examiners, the sooner any potential pest infestation or deterioration of quality for commodities in store will be discovered. Factors affecting the time between examinations of these warehouses include: 1) the number of warehouses participating in storage programs for the account of CCC, 2) the amount or value of commodity in store with CCC interest, 3) the length of time the commodities have been in store, 4) whether the commodities are owned by CCC or pledged as collateral for loan, 5) staff losses during FY 2009, and funding for the examination program.

Program Overview and Performance

Program	**DAIRY PRODUCT PRICE SUPPORT PROGRAM**	**Commodity Operations and Food Aid Program Area**
Strategic Goal	**Enhance the Competitiveness and Sustainability of Rural Farm Economies**	
Lead Agency	**Farm Service Agency**	

Dairy Product Price Support Program. Under the authority of the Agricultural Act of 1949, as amended, national policies and procedures are formulated and administered through the Dairy Product Price Support Program (DPSP). The Dairy Product Price Support Program is authorized for FY 2008 through FY 2012 under the Food, Conservation, and Energy Act of 2008, Pub. L. 110-234, which was enacted into law on May 22, 2008. In order to stabilize domestic dairy prices as required by law, dairy products are purchased at announced prices under this program. Commodity Operations arranges for the purchase, warehouse storage, transportation, handling, and inspection of the dairy products until the commodities are used in domestic or international food assistance programs or otherwise disposed of by CCC.

Recommendations for Performance Measures	Status of Implementing Recommendations
Add price variability data for an annual outcome performance measure.	Action Taken But Not Completed: A USDA Working Group has been meeting monthly to review several price variability models to determine appropriate measure for price variability.
Establish policy within parameters of new Farm Bill legislation to improve delivery of the program.	Action Taken But Not Completed: FSA drafted new regulations for price support. Revision is currently in the clearance process

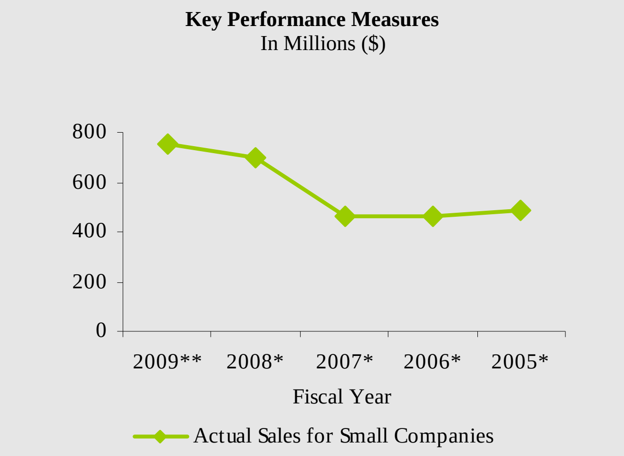
Marketing Expansion and Trade Building Program Area

MISSION ELEMENT

Developing new domestic and foreign markets and marketing facilities for agricultural commodities.

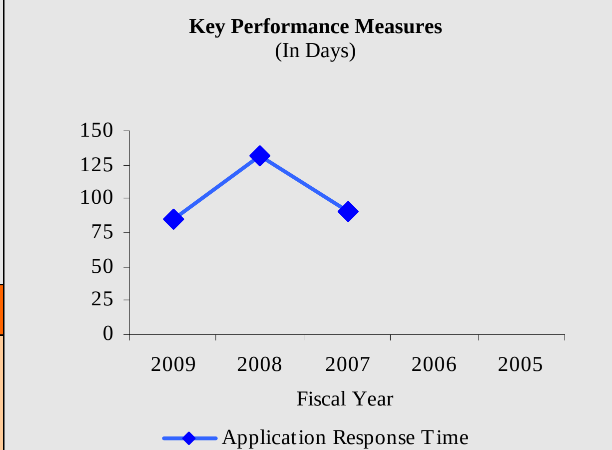
The Foreign Agriculture Service (FAS) promotes market expansion and trade building through cooperative agreements between CCC and nonprofit agricultural trade commodity groups and through grant agreements with private voluntary organizations, foreign governments, and the World Food Program. USDA uses funds or commodities from CCC to encourage development, maintenance, and expansion of commercial export markets for agricultural commodities.

Program Area Performance Summary



Key Performance Measures	2009	2008	2007	2006	2005
Target Dollar value of actual sales for small companies (dollars in millions) * Target exceeded ** Estimate; Final data not yet available	**750	700*	462*	460*	490*

Key Performance Measures	2009	2008	2007	2006	2005
Application Response Time—Food Aid (in days) ** Estimate; Final data not yet available	85	132	90	N/A	N/A



Key performance measures for the Market Expansion and Trade Building program area are noted above, with targets established for FY 2007.

Program Overview and Performance

<table>
<tr><td>Program</td><td>USDA FOOD AID PROGRAMS</td><td rowspan="3">Market Expansion and Trade Building Program Area</td></tr>
<tr><td>Strategic Goal</td><td>Enhance International Competitiveness of American Agriculture</td></tr>
<tr><td>Lead Agency</td><td>Foreign Agricultural Service</td></tr>
<tr><td colspan="3">The USDA food aid programs address non-emergency food needs of developing countries through donation and long-term low interest loans for the purchase of U.S. agricultural commodities.</td></tr>
</table>

Recommendations for Performance Measures	Status of Implementing Recommendations
Develop and implement a new food aid database with user web-interface - the Food Aid Information System	Action taken, but not completed. USDA has selected a firm to build the Food Aid Information System (FAIS).
Improve the timeliness of notifying cooperating sponsors when they are late in submitting required semi-annual reports on logistics and monetization.	Action taken. FAS sends delinquency letters to organizations that fail to report. The letters are sent within 60-90 days of the infraction.
FAS has developed and continues to refine a new food security annual performance measure and baseline.	The USDA food aid programs meet both development and nutrition needs and involve direct distribution of food and monetization of commodities donated. The development aspects of food aid involve the monetization (sale) of the food aid and the implementation of long-term development projects that benefit the people of the recipient country. The Food Aid Targeting Effectiveness Ratio (FATER) examines the degree to which food aid contributes to reducing a country's food distribution gap. The food distribution gap is the amount of food needed to raise consumption of each income group to the minimum nutritional requirement. When the FATER is zero, then this suggests that food aid was given to a country or countries, in which all people were at or above the minimum nutritional requirement. When the FATER is 100, then it is estimated that food aid raised the consumption of all income groups in a recipient country or countries to the minimum nutritional requirement level or above. USDA is also developing frameworks for the food aid programs and will be incorporating results oriented management.
Financial management improvements in the areas of credit reform, budget reporting and reimbursements are on-going.	Completed. MARAD reimbursement process has improved significantly. Improvements in the reconciliation and reporting of unobligated balances have been made and will be strengthened through development of the Food Aid Information System.
FAS has contracted for a review of food aid information and reporting systems that will identify areas for improvement in IT systems that will lead to program efficiencies down the road. This review is on-going.	Completed. Improvements in the food aid information and reporting systems will be achieved through implementation of the Food Aid Information System. Development of the database system began in FY 2006. The second phase of implementation will begin in FY 2009.

<table>
<tr><td>Program</td><td>USDA FOREIGN MARKET DEVELOPMENT PROGRAMS</td><td rowspan="3">Market Expansion and Trade Building Program Area</td></tr>
<tr><td>Strategic Goal</td><td>Enhance International Competitiveness of American Agriculture</td></tr>
<tr><td>Lead Agency</td><td>Foreign Agricultural Service</td></tr>
<tr><td colspan="3">The purpose of these programs is to expand markets for U.S. agricultural commodities. Government funds provided through FAS are used to help producers, exporters, private companies, and other trade organizations promote U.S. agricultural commodities overseas.</td></tr>
</table>

Recommendations for Performance Measures	Status of Implementing Recommendations
Reallocate funding to target funds to those that would benefit the most from the programs.	Completed. Review of the application review process has been completed and program allocation criteria ensure that funds are targeted to those non-profit industry groups with a demonstrated ability to make the most effective use of the funds. Enhancements to the program evaluation process were completed in May 2007.
Include performance measures in the Foreign Agricultural Service's strategic plan.	Completed. Relevant performance measures have been included in FAS' Office of Trade Programs' (OTP) final strategic plan.
Work with cooperators to systematically collect long-term performance information for use in the OTP strategic plan.	Action taken, but not yet completed. Performance information will be collected through the 2010 program application process and direct discussions with program participants.
Complete enhancement of the Unified Export Strategy online system for the 2011 program year.	Action taken, but not yet completed. Assigned contractor is on target to complete the planned software enhancement/upgrade in time for the 2011 application program year.

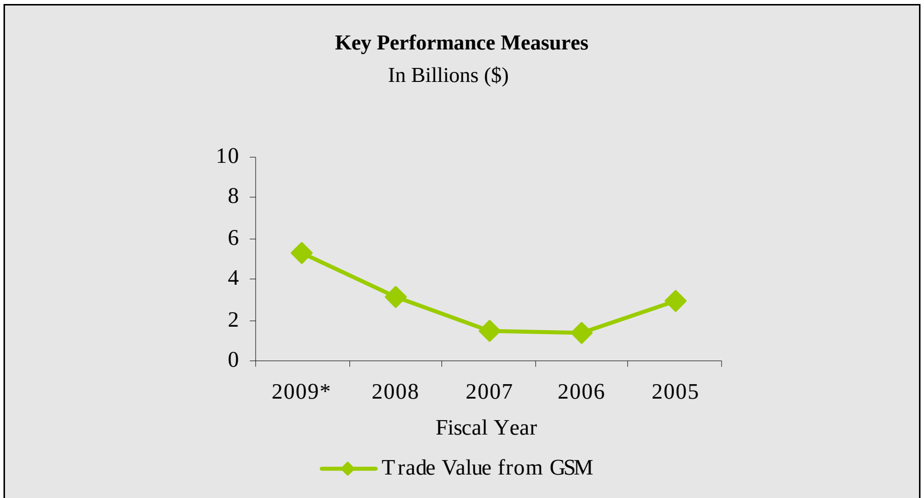
Export Credit Program Area

MISSION ELEMENT

Developing new domestic and foreign markets and marketing facilities for agricultural commodities.

CCC promotes exports of U.S. agricultural commodities through sales, payments, export credits, and other related activities. Currently, CCC makes available export credit guarantees and export bonuses to promote exports. These programs are administered by FSA and FAS on behalf of CCC.

Program Area Performance Summary



Key Performance Measures	2009	2008	2007	2006	2005
Estimated trade value resulting from USDA GSM export credit guarantee programs (dollars in billions)	5.3*	3.11	1.47	1.39	2.91

* Estimate; Final data not yet available

Program Overview and Performance

Program	AGRICULTURAL EXPORT CREDIT GUARANTEE PROGRAMS	Market Expansion and Trade Building Program Area
Strategic Goal	Enhance International Competitiveness of American Agriculture	
Lead Agency	Foreign Agricultural Service	

CCC's Export Credit Guarantee Programs (ECGPs) encourage U.S. agricultural exports by underwriting credit to pay for food and agricultural products sold to foreign buyers.

Recommendations for Performance Measures	Status of Implementing Recommendations
Develop a means of regularly performing independent evaluations to examine program effectiveness.	Completed. In FY 2006, USDA's Office of the Inspector General (OIG) stated in its business plan that it will conduct a review of the Export Credit Guarantee Program. In FY 2008, a subsequent review of the Export Credit Guarantee Program was conducted by OIG. FAS will continue its objective to conduct an independent review of the Export Credit Guarantee Program, using FAS S&E funds, with USDA/ERS, OIG or another independent party.
Provide funding in the Budget to improve claims recoveries.	Completed. SCGP and GSM-103 were repealed in the 2008 Farm Bill. For recoveries of prior claims, FAS has continued to secure funding each fiscal year to contract for legal services and investigators in overseas markets, claims processing and debt recovery. We continue to work with the OIG and the Department of Justice to pursue claims recoveries.
Examine administrative costs in light of changes to the supplier credit guarantee program stemming from the WTO cotton case.	Completed. The WTO Brazil cotton case led to the adoption of higher fees that are country risk-based but do not affect administrative costs. However, all USDA credit programs, including the ECGP, adopted with OMB approval, an efficiency measure comparing program administrative costs to the overall guarantees issued and outstanding. On this basis, the ECGP demonstrated a high degree of efficiency, recording in FY 2005 an efficiency measure of .06% (=.0006 cents/$1 ECG). In FY 2006, the efficiency measure was .10% (=.001 cents/$1 ECG), and .12% in FY 2007. The decrease in the efficiency measure between FY 2005 and FY 2007 is due in part to the significant reduction in registered sales under the program.
Develop meaningful targets for the efficiency measure.	Completed. All USDA credit programs, including the CCC Export Credit Guarantee Program, adopted with OMB approval an efficiency measure comparing program administrative costs to the overall guarantees issued and outstanding. On that basis, the program has demonstrated a high degree of efficiency which is reflected in the targets established for the efficiency performance measure.
Improve claims recoveries and reduce defaults.	Completed. Excluded non-credit worthy countries from program and limited the length of guarantees. Adopted a risk-based fee structure so that transactions involving higher risk are charged higher program fees. Supplier credit guarantee program was not announced for FY 2006 and to date, has not been announced for FY 2007. The agency has contracted for legal services and investigations in overseas markets and continues to work with USDA's OIG & the Dep. of Justice to pursue claims recoveries.
Review and modify underlying assumptions of defaults and recoveries	Action Taken But Not Completed. A contractor has been hired to evaluate the assumptions used to create the existing model for credit reform subsidy cash flow calculations with the objective of determining whether the default and recovery assumptions are appropriate and true. Update: Contractor submitted adjusted credit subsidy rate to OMB for review, based on compilation of 10 years worth of data on registration guarantees, claims, recoveries and rescheduled payments. April Update: The adjusted credit subsidy rate has been accepted by OMB for the fiscal year 2009 President's Budget Submission. This initial phase of the study determined that historical assumptions used to estimate recoveries and restructurings were significantly understated, thereby overstating the program's overall "subsidy" cost. The revised assumptions on recovery and loan restructuring reduced the subsidy to 0.85 percent, a significant reduction over previous years. The above study was applied to changing the assumptions in the current subsidy model. October 2009 update: CCC is now planning Phase III - to create a new credit reform subsidy model.

Part III: Financial Section

Commodity Credit Corporation

CONSOLIDATED BALANCE SHEETS

As of September 30, 2009 and 2008

(Dollars in Millions)

	2009	2008
Assets:		
Intragovernmental:		
Fund Balance with Treasury (Note 2)	$ 1,315	$ 3,035
Accounts Receivable, Net (Note 4)	129	125
Other	2	-
Total Intragovernmental Assets	$ 1,446	$ 3,160
Cash and Other Monetary Assets (Note 3)	92	92
Accounts Receivable, Net (Note 4)	5,057	5,667
Direct Loans and Loans Guarantees, Net:		
Commodity Loans, Net (Note 5)	414	643
Credit Program Receivables, Net (Note 6)	5,126	4,712
Subtotal	$ 5,540	$ 5,355
Commodity Inventories and Related Property, Net (Note 7)	205	15
General Property and Equipment, Net (Note 8)	44	51
Other	81	189
Total Assets	$ 12,465	$ 14,529
Stewardship Land (Note 1)		
Liabilities:		
Intragovernmental:		
Debt to the Treasury (Note 10)	$ 4,877	$ 5,877
Other:		
Resources Payable to Treasury (Note 12)	2,744	3,197
Deposit and Trust Liabilities (Note 11)	974	820
Other (Note 12)	592	663
Subtotal	$ 4,310	$ 4,680
Total Intragovernmental Liabilities	$ 9,187	$ 10,557
Accounts Payable	302	287
Loan Guarantee Liability (Note 6)	221	161
Environmental and Disposal Liabilities (Note 13)	8	8
Other Liabilities:		
Accrued Liabilities (Note 14)	11,560	12,154
Deposit and Trust Liabilities (Note 11)	7	6
Other (Note 12)	1,257	110
Subtotal	$ 12,824	$ 12,270
Total Liabilities (Note 9)	$ 22,542	$ 23,283
Commitments and Contingencies (Note 15)		
Net Position:		
Unexpended Appropriations	$ 2,028	$ 1,470
Capital Stock	100	100
Cumulative Results of Operations	(12,205)	(10,324)
Total Net Position	$ (10,077)	$ (8,754)
Total Liabilities and Net Position	$ 12,465	$ 14,529

The accompanying notes are an integral part of these statements.

Commodity Credit Corporation

CONSOLIDATED STATEMENTS OF NET COST (NOTE 16)

For the Fiscal Years Ended September 30, 2009 and 2008

(Dollars in Millions)

	2009	2008
Strategic Goals:		
Supporting Productive Farms and Ranches:		
Gross Cost	$ 12,682	$ 8,351
Less: Earned Revenue	2,347	1,140
Net Goal Cost	$ 10,335	$ 7,211
Supporting Secure and Affordable Food and Fiber:		
Gross Cost	$ 171	$ 242
Less: Earned Revenue	15	271
Net Goal Cost	$ 156	$ (29)
Conserving Natural Resources and Enhancing the Environment:		
Gross Cost	$ 2,223	$ 2,125
Less: Earned Revenue	1	2
Net Goal Cost	$ 2,222	$ 2,123
Supporting International Economic Development and Trade Capacity Building:		
Gross Cost	$ 1,749	$ 2,067
Less: Earned Revenue	305	416
Net Goal Cost	$ 1,444	$ 1,651
Total Gross Cost	$ 16,825	$ 12,785
Less: Total Earned Revenue	2,668	1,829
Net Cost of Operations	$ 14,157	$ 10,956

The accompanying notes are an integral part of these statements.

Commodity Credit Corporation

CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION

For the Fiscal Years Ended September 30, 2009 and 2008

(Dollars in Millions)

	2009	2008
Capital Stock	$ 100	$ 100
Cumulative Results of Operations:		
Beginning Balance	$ (10,324)	$ (11,306)
Budgetary Financing Sources:		
Appropriations Used	13,929	14,180
Non-exchange Revenue	8	18
Transfers in/out without Reimbursement, Net	(2,445)	(3,215)
Other Financing Sources (Non-Exchange):		
Transfers in/out without Reimbursement, Net	(550)	(379)
Imputed Financing	1,334	1,334
Total Financing Sources	$ 12,276	$ 11,938
Net Cost of Operations	(14,157)	(10,956)
Net Change	$ (1,881)	$ 982
Cumulative Results of Operations	$ (12,205)	$ (10,324)
Unexpended Appropriations:		
Beginning Balance	$ 1,470	$ 643
Budgetary Financing Sources:		
Appropriations Received	14,494	15,015
Other Adjustments	(7)	(8)
Appropriations Used	(13,929)	(14,180)
Total Budgetary Financing Sources	$ 558	$ 827
Total Unexpended Appropriations	$ 2,028	$ 1,470
Net Position	$ (10,077)	$ (8,754)

The accompanying notes are an integral part of these statements.

Commodity Credit Corporation

COMBINED STATEMENTS OF BUDGETARY RESOURCES

For the Fiscal Years Ended September 30, 2009 and 2008

(Dollars in Millions)

	2009 Budgetary	2009 Non-Budgetary Credit Program Financing Accounts	2008 Budgetary	2008 Non-Budgetary Credit Program Financing Accounts
Budgetary Resources:				
Unobligated balance, brought forward, October 1:	$ 2,098	$ 2,516	$ 1,605	$ 2,140
Recoveries of prior year unpaid obligations	182	10	1,246	27
Budget authority:				
Appropriation	15,444	-	16,154	-
Borrowing authority (Note 17)	28,870	340	30,267	302
Spending authority from offsetting collections:				
Earned:				
Collected	11,722	553	13,811	1,249
Change in receivables from Federal sources	(89)	-	10	(177)
Change in unfilled customer orders:				
Advance received	154	-	3	-
Without advance from Federal sources	-	(18)	-	194
Expenditure transfers from trust funds	1,130	-	959	-
Subtotal	$ 57,231	$ 875	$ 61,204	$ 1,568
Nonexpenditure transfers, net, actual	(2,241)	-	(2,620)	-
Permanently not available	(27,445)	(1,583)	(33,374)	(350)
Total Budgetary Resources	$ 29,825	$ 1,818	$ 28,061	$ 3,385
Status of Budgetary Resources:				
Obligations incurred:				
Direct	$ 3,574	$ 846	$ 4,259	$ 869
Reimbursable	24,232	-	21,704	-
Subtotal	$ 27,806	$ 846	$ 25,963	$ 869
Unobligated balance:				
Apportioned	$ 330	$ 363	$ 276	$ 1,662
Exempt from apportionment	841	4	811	5
Subtotal	$ 1,171	$ 367	$ 1,087	$ 1,667
Unobligated balance not available	848	605	1,011	849
Total Status of Budgetary Resources	$ 29,825	$ 1,818	$ 28,061	$ 3,385
Change in Obligated Balance:				
Obligated balance, net				
Unpaid obligations, brought forward, October 1	$ 7,967	$ 201	$ 8,047	$ 125
Less: Uncollected customer payments from Federal sources, brought forward, October 1	(322)	(195)	(312)	(178)
Total unpaid obligated balance, net	$ 7,645	$ 6	$ 7,735	$ (53)
Obligations incurred, net	27,806	846	25,963	869
Less: Gross outlays	(26,049)	(878)	(24,797)	(766)
Less: Recoveries of prior year unpaid obligations, actual	(182)	(10)	(1,246)	(27)
Change in uncollected customer payments from Federal sources	89	18	(10)	(17)
Total Change in Obligated Balance	$ 9,309	$ (18)	$ 7,645	$ 6
Obligated balance, net, end of period:				
Unpaid obligations	$ 9,542	$ 159	$ 7,967	$ 201
Less: Uncollected customer payments from Federal sources	(233)	(177)	(322)	(195)
Total, unpaid obligated balance, net, end of period	$ 9,309	$ (18)	$ 7,645	$ 6
Net Outlays:				
Gross outlays	$ 26,049	$ 878	$ 24,797	$ 766
Offsetting collections	(13,006)	(553)	(14,773)	(1,249)
Less: Distributed Offsetting receipts	-	(473)	-	(353)
Total Net Outlays	$ 13,043	$ (148)	$ 10,024	$ (836)

The accompanying notes are an integral part of these statements.

Notes to the Financial Statements

Note 1 - Significant Accounting Policies

Reporting Entity

The Commodity Credit Corporation (CCC or the Corporation) is a Federal corporation operating within and through the United States Department of Agriculture (USDA). It was established to stabilize, support, and protect farm income and prices; assist in the maintenance of balanced and adequate supplies of agricultural commodities; and facilitate the orderly distribution of those commodities.

CCC's statutory authority for its operations is found in the CCC Charter Act, 15 U.S.C. 714, et seq. The Corporation is managed by a Board of Directors subject to the general supervision and direction of the Secretary of Agriculture who is an *ex-officio* director and chairperson of the Board. The members of the Board and the Corporation's officers are officials of USDA.

CCC operations are financed through appropriated funds as well as an authority to borrow from the U.S. Treasury (Treasury). The Treasury also holds capital stock in the amount of $100 million with no obligation to repay, on which the Corporation pays interest. CCC receives direct appropriations for several of its foreign assistance programs and special activities, such as disaster aid. Permanent indefinite borrowing authority exists for programs subject to the Federal Credit Reform Act of 1990, as amended (Credit Reform). Receipts flowing through CCC's related revolving fund include proceeds from the sale of CCC commodities, loan repayments, interest income, and various program fees.

CCC has no employees or facilities. Its programs are administered through various agencies including USDA's Farm Service Agency (FSA), Agricultural Marketing Service (AMS), Natural Resources Conservation Service (NRCS), Foreign Agricultural Service (FAS), and the United States Agency for International Development (USAID). The accompanying financial statements include an allocation, as appropriate, of salaries and expenses (e.g., facility costs) incurred by these agencies. In other instances, CCC reimburses the other agencies for their administrative costs.

Basis of Presentation

The Corporation's financial statements report the financial position and results of operations of CCC pursuant to the requirements of 31 U.S.C. 3515 (b). These statements have been prepared from the accounting records of the Agency as of September 30, 2009 and September 30, 2008 in accordance with generally accepted accounting principles for Federal entities and policies prescribed in the Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*. OMB financial reporting guidelines require the presentation of comparative financial statements for all principal financial statements. The statements are in addition to the external financial reports used to monitor and control budgetary resources, which are also prepared from CCC's general ledger. These financial statements have been prepared for the Corporation which is a component of the U.S. Government, a sovereign entity.

Basis of Accounting

The accounting structure of Federal agencies is designed to reflect both accrual and budgetary accounting transactions. Under the accrual method, revenues are recognized when earned, and expenses are recognized when a liability is incurred without regard to receipt or payment of cash. The budgetary accounting principles, on the other hand, are designed to recognize the obligation of funds according to legal requirements, which in many cases is prior to the occurrence of an accrual-based transaction. The recognition of budgetary accounting transactions is essential for compliance with legal constraints and controls over the use of Federal funds. The financial statements include all Treasury funds of CCC, which encompass its domestic and foreign activities. CCC consolidates all costs related to its child activities for the allocated funds transfers and shared appropriations. In consolidation, intra-agency activities and balances have been eliminated except for the Statement of Budgetary Resources (SBR), which is presented on a combined basis as required by OMB guidance.

Note 1 - Significant Accounting Policies, continued

Fund Balance with Treasury

CCC disbursements are made by checks or electronic funds transfers that are deducted from CCC's account at Treasury. Generally, receipts and disbursements for CCC are processed by the Federal Reserve Banking system.

Cash

Treasury requires that the Fund Balance with Treasury amounts reported via Federal Agencies' Centralized Trial-Balance System II (FACTS II) be in agreement with Treasury's records. To comply with these requirements, cash timing differences due to deposits in-transit or outstanding checks are reported as "in-transit". The cash balance consists of these timing differences as a result of varying processing times and cut-off dates between CCC, Treasury, and other USDA entities.

CCC does not maintain cash in commercial bank accounts.

Accounts Receivable

Accounts receivable arise from claims to cash or other assets against other entities, either based on legal provisions, such as payment due date or goods or services provided.

Accounts receivable are adjusted by a valuation allowance based on historical collection, write-off information, and other analysis which reduces the receivables to their estimated net realizable value.

Commodity Loans

CCC makes both recourse and nonrecourse loans to producers of designated agricultural commodities. In the case of nonrecourse loans, producers have the option to: (a) repay the principal plus interest; (b) for certain designated commodities repay the loan at the market rate; or (c) at maturity, forfeit the commodity in satisfaction of the loan. These loans are not subject to the accounting and reporting requirements of Credit Reform (Note 6) because these loans are less than 12 months in duration.

Interest is accrued on the unpaid principal balance of commodity loans and is included in the reported net commodity loans receivable balances.

Commodity loans are reported net of an allowance for doubtful accounts which reduces the loans to their estimated net realizable value. The allowance is based on the estimated loss on ultimate disposition when it is more likely than not that the loans will not be fully collected. When CCC disposes of forfeited commodities, depending on the type of disposition, any loss on the disposition is realized as either a cost of sales or donation.

Tobacco Transition Payment Program (TTPP)

The American Jobs Creation Act of 2004, which included the Fair and Equitable Tobacco Reform Act (the Law), effectively ended the tobacco loan program for CCC, which provided recourse loans to tobacco producers or quota holders. The quota holders are the landowners of the farm where a tobacco quota was assigned. Quota was the quantity of tobacco required to meet the national domestic needs during the year. That national amount was allocated among all the prior year quota holders to establish the quantity of tobacco that each individual quota holder could market during the program year.

The Law required CCC to dispose of its outstanding tobacco loan portfolio and establish contracts with and make payments to tobacco producers and quota holders to transition from the previous price support program to a free market. This transition period encompasses ten years and began in fiscal year (FY) 2005. The Law authorized a

Note 1 - Significant Accounting Policies, continued

total maximum of $10.14 billion over the period to cover the realized losses of $292 million related to the disposition of the tobacco loan collateral in FY 2005, making payments to producers and quota holders, and other eligible expenses. CCC estimates that payments made over the 10-year period will be approximately $6.7 billion to quota holders and $2.9 billion to tobacco producers. The total source of revenue or other financing for the program is intended to be derived from assessments levied upon manufacturers and importers of tobacco products and collected quarterly. Manufacturers and importers are expected to pass these costs on to consumers of tobacco products through increased sales prices. All collections from the tobacco industry are deposited into the Tobacco Trust Fund.

Generally, payments are made to quota holders and producers in January, which is prior to the quarterly collection of assessments from the tobacco manufacturers and importers. Because of the difference in timing of the collections and assessments, collections will not match disbursements on an annual basis. The Law allows CCC's revolving fund to make payments to the quota holders and producers, and allows for reimbursement from the Tobacco Trust Fund. The assessments collected from the tobacco industry are subsequently transferred to CCC's revolving fund, reimbursing that fund for the payments made to quota holders and producers based on approved contracts.

In FY 2005, CCC recognized a public receivable for the present value of the expected future collections from the manufacturers and importers over the 10-year period ending in 2014. In addition, CCC recognized an accrued liability for the present value of the remaining pay-out amount to the quota holders and producers. Because the trust fund collections from the tobacco manufacturers and importers are intended to fund the payments to quota holders and producers, the present value of the public receivable and the liability were reported in equal amounts on the balance sheet in FY 2005. As actual activity occurs each fiscal year, the receivable and accrued liability estimates are adjusted to reflect the expected cash flows for the remaining period of the contracts, as well as the historical collection and disbursement activity.

Credit Reform Accounting

Purposes of The Federal Credit Reform Act of 1990 (FCRA) include measuring more accurately the costs of Federal credit programs and placing the cost of credit programs on a budgetary basis equivalent to other Federal spending. The FCRA applies to direct loans and loan guarantees made on or after October 1, 1991.

Direct loans are a disbursement of funds by the Government to non-Federal borrowers under contracts that require the repayment of such funds within a certain time with or without interest. It includes the purchase of, or participation in, a loan made by another lender and financing arrangements that defer payment for more than 90 days. Loan guarantees represent insurance that the payment of all or part of the principal or interest on any debt obligation of a non-Federal borrower to a non-Federal lender will be received by the non-Federal lender. A defaulted loan guarantee occurs if the borrower fails to make a payment pursuant to the terms of the obligation.

The cost of direct loans is accounted for on a net present value basis at the time when the direct loan is disbursed. It includes the cash flows of loan disbursements; repayments of principal; payments of interest; recoveries or proceeds of asset sales; and other payments by or to the Government over the life of the loan. The present value computation also contains effects for estimated defaults, prepayments, fees, penalties, and any expected actions, such as the exercise by the borrower of an option included in the loan contract.

The cost of loan guarantees is also accounted for on a net present value basis at the time when the guaranteed loan is disbursed. The cost includes the estimated cash flows of payments by CCC to cover defaults and delinquencies, interest subsidies, and other requirements, payments to CCC including origination and other fees, penalties, and recoveries, including the effects of any expected actions by CCC and the exercise by the guaranteed lender or the borrower of an option included in the loan guarantee contract.

Note 1 - Significant Accounting Policies, continued

In estimating net present values, the discount rate is the average interest rate on marketable Treasury securities of similar maturity cash flows of the direct loan or loan guarantee for which the estimate is being made. When funds are obligated for a direct loan or loan guarantee, the estimated cost is based on the current assumptions adjusted to incorporate the terms of the loan contract.

The credit program account is the budget account into which an appropriation to cover the cost of a direct loan or loan guarantee program is made and from which such cost is disbursed to the financing account. The financing account is the non-budget account or accounts associated with each credit program account that holds balances, receives the cost payment from the credit program account, and also includes all other cash flows to and from CCC resulting from direct loan obligations or loan guarantee commitments made on or after October 1, 1991. The liquidating account is the budget account that includes all cash flows to and from CCC resulting from direct loan obligations or loan guarantee commitments made prior to October 1, 1991. These accounts are shown in the Federal budget on a cash basis.

Collections resulting from direct loans obligated or loan guarantees committed prior to October 1, 1991, are credited to the liquidating accounts. The amounts credited are available to the same extent that they were available to liquidate obligations arising from such direct loans obligated or loan guarantees committed prior to October 1, 1991, including repayment of any obligations held by the Department of Treasury. The unobligated cash balances of such accounts that are in excess of current needs must be transferred at least annually to the general fund of the Treasury.

Credit Program Receivables

CCC has several credit programs subject to Credit Reform requirements (Refer to Note 6). Credit program receivables consist of:

- direct credits extended under Public Law 83-480 (P.L. 480) programs;
- receivables in the Debt Reduction Fund;
- receivables for the General Sales Manager program in the form of reschedule agreements;
- loans made to grain producers to build or upgrade farm storage and handling facilities;
- loans made to apple producers who incurred losses due to low market prices; and
- a loan made to the Texas Boll Weevil Eradication Foundation.

These receivables (including related interest), for both pre- and post-Credit Reform, are recognized as assets at the present value of their estimated net cash inflows. The difference between the outstanding principal of these receivables and the present value of their net cash inflows is recognized as an allowance. CCC uses the Credit Subsidy Calculator 2 (CSC2) for computing the subsidy re-estimates for its Credit Reform programs. The CSC2 is an OMB tool for performing credit calculations, incorporating both financing account interest and dollar re-estimates functionality. CCC also uses the Treasury Credit Reform Certificate Program guidelines, Statement of Federal Financial Accounting Standards (SFFAS) No. 2, *Accounting for Direct Loans and Loan Guarantees*, SFFAS No. 18, *Amendments to Accounting for Direct Loans and Loan Guarantees*, and SFFAS No. 19, *Technical Amendments to Accounting for Direct Loans and Loan Guarantees* for the accounting and reporting of its loan subsidy cost re-estimation and amortization.

Capitalized Interest

Rescheduling agreements frequently allow CCC to add uncollected interest to the principal balance of foreign credit and other foreign receivables (capitalized interest). In such circumstances, CCC records an allowance to reduce the receivable, including the capitalized interest, to the present value of future cash flows. Interest income is recognized only when, in management's judgment, debtors have demonstrated the ability to repay the debt in the normal course of business.

Note 1 - Significant Accounting Policies, continued

Commodity Inventories

Commodity inventories, referred to as goods held under price support and stabilization programs in the SFFAS No. 3, *Accounting for Inventory and Related Property*, issued by the Federal Accounting Standards Advisory Board, represent commodities acquired by the Corporation for donation or price support purposes. They are eventually sold or otherwise disposed of to help satisfy economic goals.

Inventories are initially recorded at acquisition cost plus processing and packaging costs incurred after acquisition. Acquisition cost is the amount of the loan settlement, excluding interest, or the amount of the purchase settlement price. Since loan rates and income support levels are established by statute, inventory acquisitions are usually recorded at a cost higher than market value.

Generally, disposition costs are based on the average cost of the commodity in inventory at the end of the previous month. In other cases, the cost is computed on the basis of actual (historical) cost of the commodity. Actual cost is used with: (a) simultaneous acquisition and disposition for commodity export programs; and (b) dispositions of commodities previously pledged as price support loan collateral, which are acquired and simultaneously disposed of by CCC during the exchange of commodity certificates. Commodity certificates are issued electronically by CCC and must be immediately exchanged for a commodity owned by the Corporation.

In accordance with SFFAS No. 3, the cost of commodity inventories sold to other Federal entities is classified as an expense with the public since the commodities being sold are originally purchased or otherwise acquired from a public source.

Commodity inventories are valued at net realizable value in accordance with SFFAS No. 3. Ending inventory balances are examined at period end to determine each commodity's market value. A valuation allowance is recorded if the book value of a commodity exceeds its market value.

In FY 2008, CCC entered into an agreement with The Seam, a private company, to facilitate the exchange of CCC-owned commodities for food products to be utilized in domestic and export food programs. CCC receives Barter Delivery Obligations (BDOs) in exchange for CCC-owned commodities. The BDOs represent the net sales proceeds (gross proceeds minus a sales commission percentage) from The Seam's sale of the CCC-owned commodities and; The Seam uses the BDOs to acquire food products on behalf of CCC.

For financial statement purposes, the BDOs are valued at the net sales proceeds and are presented as part of CCC's Commodity Inventories and Related Property. CCC recognizes gain or loss on each exchange transaction determined by the difference between CCC's book value of the commodity and the BDO value received in the exchange.

General Property and Equipment

General property and equipment purchases are recorded at the acquisition cost plus expenditures related to placing the asset into service such as freight, installation, and testing. Purchases of property valued at $25,000 or more and a useful life of 2 years or greater are capitalized. Property and equipment is depreciated on a straight-line basis. Automated Data Processing (ADP) computer equipment has a service life of 5 years. There is no salvage value associated with general property and equipment.

In addition, internal use software valued at $100,000 or more and a useful life of 2 years or greater is capitalized. Internal use software development costs are accumulated and capitalized upon completion. In accordance with SFFAS No. 10, *Accounting for Internal Use Software*, capitalized software development costs include contractor developed software, purchased software, and internally developed software. Capitalized internal use software costs are amortized over a period of 5 years beginning with the first year the software is fully operational. Also included are costs incurred by FSA which are transferred to CCC without reimbursement and are reflected as software-in-development on CCC's financial statements until such time as the software is completed and put into operation. Once the software is put into operation, amortization begins.

Note 1 - Significant Accounting Policies, continued

Producer Assistance Advances

Public Law 107-25 (commonly referred to as the Agricultural Economic Assistance Act) authorized three grant programs whereby the Corporation disbursed funds to State governments for various purposes, such as promoting agriculture and supporting activities for specialty crops. The three grant programs are Specialty Crops - Base State Grant, Specialty Crops - Grants for Value of Production, and Commodity Assistance Program. Disbursements are accounted for as advances on the Other Assets line of the Balance Sheet and are recognized as expenses based on the States' reporting of their use of the funds.

Non-Entity Assets

Non-entity assets are assets held by CCC that are not available for use in its operations. As of September 30, 2009, CCC does not have any non-entity assets.

Liabilities

Depending on the type of transaction, CCC recognizes a liability in one of two ways. If an exchange transaction occurs (i.e., receipt of goods or services in return for a promise to provide money or other resources in the future), a liability is recognized in the period in which the exchange occurred. If a nonexchange transaction occurs (i.e., government programs where there is a one-way flow of resources or promises), a liability is recognized for any unpaid amounts due as of the reporting date. Liabilities not covered by budgetary resources, disclosed in Note 9, result from the accrual of unpaid amounts due for various CCC programs. Budgetary resources for the programs will not be made available until the subsequent fiscal year until congressional action is completed.

Resources Payable to Treasury

Resources payable to Treasury represent the net resources of the pre-Credit Reform programs. These net resources are held as working capital until funds are no longer needed to fund liabilities, at which time they are returned to Treasury.

Loan Guarantee Liabilities

CCC's Export Credit Guarantee program provides guarantees to buyers in countries where credit is necessary to maintain or increase U.S. sales of agricultural products. CCC underwrites credit extended by the private banking sector under the Export Credit Guarantee Program (GSM-102) and Facilities Guarantee Program (FGP). Credit guarantee liabilities represent the estimated net cash outflows of the guarantees on a present value basis. CCC records a liability and an allowance expense to the extent, in management's estimate, CCC will be unable to recover claim payments under the Credit Reform Export Credit Guarantee programs.

Imputed Costs

Imputed costs represent costs incurred from other USDA agencies for the benefit of CCC. The majority of CCC's programs and related expenses are delivered through the personnel and facilities of FSA. The imputed costs consist of the costs of hired labor, opportunity costs of unpaid labor, capital recovery of machinery and equipment, opportunity costs of land, general farm overhead, payroll taxes, and insurance.

Tax Status

CCC, as a Federal agency, is not subject to Federal, State, or local income taxes, and accordingly, no provision for income tax is necessary.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, 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 will invariably differ from those estimates.

Note 1 - Significant Accounting Policies, continued

Allocation Transfers and Shared Appropriations

CCC is a party to allocation transfers with other Federal agencies as both a transferring (parent) entity and a receiving (child) entity. Allocation transfers are legal delegations by one department of its authority to obligate budget authority and outlay funds to another department. A separate fund account (allocation account) is created in the U.S. Treasury as a subset of the parent fund account for tracking and reporting purposes. All allocation transfers of balances are credited to this account, and subsequent obligations and outlays incurred by the child entity are charged to this allocation account as they execute the delegated activity on behalf of the parent entity.

CCC allocates funds, as the parent, to United States Agency for International Development (USAID) to fund P.L. 480 Title II transportation and other administrative costs in connection with foreign donations. CCC receives allocation transfers, as the child, from FSA. CCC reports USAID's budgetary and proprietary transactions for which it is the parent and excludes FSA's budgetary and proprietary transactions, for which it is the child.

SFFAS No. 29 – Heritage Assets and Stewardship Land

Federal Accounting Standards Advisory Board (FASAB) Statement of Federal Financial Accounting Standard (SFFAS) No. 29, Heritage Assets and Stewardship Land, was issued on July 7, 2005. The primary purpose of the standard was to reclassify heritage asset and stewardship land information from the Required Supplementary Stewardship Information (RSSI) to basic financial statement information with the exception of condition reporting, which is considered Required Supplementary Information (RSI). SFFAS No. 29 requires this reclassification through a phased-in approach beginning in reporting periods after September 30, 2005 with full implementation for reporting periods beginning after September 30, 2008.

Easements purchased for the Wetlands Reserve Program (WRP) are considered stewardship land. The WRP provides technical and financial assistance to eligible landowners to restore, enhance, and protect wetlands. This voluntary program offers landowners an opportunity to establish, at minimal cost, long-term conservation and wildlife habitat enhancement practices and protection.

Although the funding source for the purchase of easements has changed over the life of the program, the authority for administering and managing the program has resided with NRCS since the 1994 USDA Reorganization Act. NRCS holds the accountability for the management, monitoring, and enforcement for all easements purchased under the WRP.

Based on agreements, NRCS remains responsible to disclose required information for all WRP easements as stewardship land in FY 2009 and future years as long as NRCS maintains the administration, management responsibilities, and accountability for the WRP easements.

Reclassifications

Certain reclassifications have been made to the prior year amounts to conform to the current year presentation. In the current year, CCC reclassified the P.L. 480 Title II Grant Fund, Treasury symbol (72)12X2278, obligation incurred, as direct.

The Treasury Financial Manual (TFM), Volume 1, Part 2, Chapter 1500 explains that the Financial Management Service (FMS) assigns account symbols to agencies after considering the Government's relationship to the accounts, the sources of receipts, and the availability of the funds for expenditure. FMS classifies receipt or expenditure accounts and assigns them to a fund group based on their characteristics and the nature of the transactions they support. Treasury symbol (72)12X2278 is classified by FMS as a general fund expenditure account. In accordance with OMB guidance, the obligations incurred by (72)12X2278, which are financed by appropriations, are direct obligations.

The reclassification impacted the Statement of Budgetary Resources, Line 8A, Obligations Incurred: Direct, and Line 8B, Obligations Incurred: Reimbursable. The reclassification was applied to the FY 2008 Statement of Budgetary Resources for comparative purposes.

Note 2 – Fund Balance with Treasury

Fund balances with Treasury, by type of fund, as of September 30 are as follows:

	(In Millions)	
	2009	2008
Trust Funds	$ -	$ 180
Special Funds	-	91
Revolving Funds	(696)	939
General Funds	2,011	1,825
Total Fund Balance with Treasury	$ 1,315	$ 3,035

The status of fund balances with Treasury as of September 30 is as follows:

	(In Millions)	
	2009	2008
Unobligated Balance		
Available	$ 1,537	$ 2,754
Unavailable	1,454	1,860
Obligated Balance not yet Disbursed	9,290	7,651
Subtotal	$ 12,281	$ 12,265
Less: Borrowing Authority not yet Converted to Fund Balance	(10,966)	(9,230)
Total Fund Balance with Treasury	$ 1,315	$ 3,035

Unobligated Balance, Unavailable represents resources not yet apportioned by OMB and unobligated appropriations from prior years that are no longer available for new obligations. Borrowing authority not yet converted to fund balance represents unobligated and obligated amounts recorded at September 30, 2009 and 2008, which will be funded by future borrowings.

Note 3 – Cash and Other Monetary Assets

As of September 30, 2009 and 2008, Cash and Other Monetary Assets were $92 million. The balance reflects “in transit” amounts that have not been cleared by Treasury. These timing differences result from varying processing times and cut-off dates between CCC and Treasury.

Note 4 – Accounts Receivable, Net

Accounts receivable as of September 30 are as follows:

	(In Millions)	
	2009	2008
Intragovernmental:		
Due from the Department of Treasury	$ 7	$ 6
Due from the Department of Transportation	89	92
Due from Other Federal Agencies	33	27
Total Intragovernmental Accounts Receivable, Net	$ 129	$ 125
Public:		
Claims Receivable	$ 17	$ 35
Notes Receivable	31	7
Interest Receivable	12	2
TTPP Receivable	4,990	5,603
Other	11	26
Subtotal	$ 5,061	$ 5,673
Less: Allowances for Doubtful Accounts	(4)	(6)
Total Public Accounts Receivable, Net	$ 5,057	$ 5,667

CCC records a receivable due from the Department of Treasury. The receivable is related to the collection of credit subsidy for the Debt Reduction Fund. Since this program is pre-credit reform, it does not have a program fund account, and CCC records a separate receivable to capture the transaction with Treasury.

The Cargo Preference provisions of the Food Security Act of 1985 mandated a gradual increase in the share of particular exports, mostly food aid that must be carried on U.S. flagged vessels. The Food Security Act and Section 901d (b) of the Merchant Marine Act, 1938 (the Act), provide for the reimbursement of certain transportation costs the Corporation incurs. In accordance with these Acts, CCC establishes a receivable from the Department of Transportation for freight costs paid to U.S. flagged vessels exceeding 20 percent of the total cost related to the donated commodities and freight costs if CCC were to use a commercial vessel.

Other public receivables consist of amounts due as a result of program overpayments or dishonored checks. Examples of CCC programs include Crop Disaster Assistance and Conservation Reserve Program.

As of September 30, 2009, the Public Tobacco Transition Payment Program (TTPP) accounts receivable balance consists of $4,990 million and includes $314 million as a short-term receivable; $23 million in Notes Receivable; and, $5 million in Interest Receivable. As of September 30, 2008, the Public TTPP accounts receivable balance of $5,603 million includes $309 million as a short-term receivable. Refer to Note 1, under Tobacco Transition Payment Program, for additional information.

Note 5 – Commodity Loans, Net

Commodity loans receivable, by commodity, as of September 30 are as follows:

	(In Millions)	
	2009	2008
Cotton	$ 56	$ 369
Dry Whole Peas	2	1
Feed Grains:		
Barley	5	4
Corn	148	92
Grain Sorghum	2	2
Oats	1	1
Honey	2	3
Oilseeds	3	-
Peanuts	27	16
Rice	30	37
Soybeans	14	11
Wheat	124	94
Total Commodity Loans	$ 414	$ 630
Accrued Interest Receivable	3	13
Less: Allowances for Losses	(3)	-
Total Commodity Loans, Net	$ 414	$ 643

As of September 30, 2009, Cotton Loans decreased by $313 million. The decrease reflects a reduction in outstanding commodity loans and interest and an increase in loan charge offs in FY 2009. A decrease in the Adjusted World Price for upland cotton enabled eligible producers to repay outstanding loans with a lower rate than the stated rate. Refer to Note 1, under Commodity Loans, for additional information.

Note 6 – Credit Program Receivables, Net

CCC's foreign and domestic aid programs provide economic stimulus to both the U.S. and foreign markets, while also providing humanitarian assistance to the people most in need throughout the world, through both credit guarantee and direct credit programs.

Direct credit and loan obligations and credit guarantee commitments made after FY 1991 and the resulting direct credits and loans or credit guarantees are governed by the Federal Credit Reform Act of 1990, as amended. Credit Reform requires agencies to estimate for the President's Budget the cost of direct credits and loans and credit guarantees at the present value of future cash flows. Additionally, the present value of the subsidy costs (i.e., interest rate differentials, interest subsidies, delinquencies and defaults, fee offsets and other cash flows) associated with direct credits and loans and credit guarantees are recognized as a cost in the year the direct credit and loan or credit guarantee is disbursed. The net present value of direct credits and loans and defaulted guarantee receivables at any point in time is the amount of the gross direct credit and loan receivable and defaulted guarantees receivable less the present value of the subsidy at that time.

Net credit program receivables, or the value of assets related to direct credits and loans, and the defaulted credit guarantees, are not the same as the proceeds that would be expected to be received from selling the credits/loans.

Descriptions of CCC's direct credit and loan programs and credit guarantee programs are presented below.

Credit Guarantee Programs

CCC's Export Credit Guarantee programs encourage exports of U.S. agricultural products to buyers in countries where credit is necessary to maintain or increase U.S. sales, but where financing may not be available without such credit guarantees. The Corporation writes/has underwritten credit extended by the private banking sector in the U.S. (or, less commonly, by the exporter) under the GSM-102 (credit terms up to three years) and GSM-103 (credit terms up to 10 years) programs. CCC does not provide financing, but guarantees payments due from foreign banks. Typically, 98 percent of principal and a portion of interest at an adjustable rate are covered. All guarantees under these programs are denominated in U.S. dollars. There have been no guarantees under the GSM-103 program since FY 2003, and there is very little outstanding liability in this program.

Under the Supplier Credit Guarantee Program (SCGP), CCC guaranteed a portion of payments due under short-term financing arrangements (up to 180 days) that exporters have extended directly to the importers for the purchase of U.S. agricultural products. All guarantees under this program are denominated in U.S. dollars. There have been no guarantees under the SCGP program since FY 2005.

Under Section 3101 of the Food, Conservation, and Energy Act of 2008 (2008 Farm Bill), authority for the GSM 103 and Supplier Credit programs was specifically repealed. Remaining liability under these programs is still subject to annual reestimate.

In the event that CCC pays a claim under the guarantee programs, CCC assumes the debt and treats it as a credit receivable for accounting and collection purposes.

Direct Credit Programs – Foreign

Under the P.L. 480 Title I Program, CCC finances the sales of U.S. agricultural commodities to countries in need of food assistance on favorable credit terms (at low rates of interest for up to 30 years with grace periods of up to 7 years). P.L. 480 Title I provides for government-to-government (and some government-to-private entity) sales of U.S. agricultural commodities to developing countries on credit terms or for local currencies. Priority is given to countries with the greatest need for food that are undertaking economic development to improve food security and agricultural development, alleviate poverty, and promote broad based, equitable and sustainable development. All credits under this program are denominated in U.S. dollars. Although legislative authority for the P.L. 480 Title I Program still exists, there have been no new loans extended under the program since FY 2006.

Note 6 - Credit Program Receivables, Net, continued

Paris Club

CCC permits debtor nations to reschedule debt under the aegis of the Paris Club. The Paris Club is an internationally recognized organization whose sole purpose is to address, on a case-by-case basis, liquidity problems faced by some of the world's most economically disadvantaged countries. While the Paris Club has no charter or formal operating procedures, it has been operating since 1978 under the leadership of the French Ministry of Economics and Finance. The general premise of the Paris Club's activities is to provide disadvantaged countries with short-term liquidity relief to enable them to re-establish their credit worthiness. The Departments of State and Treasury lead the U.S. delegation and negotiations for all U.S. agencies. Only country-to-country debt is considered. For CCC, this includes P.L. 480 direct credits as well as claims paid under the GSM programs for which a sovereign entity is liable.

The Departments of State and Treasury may also negotiate bi-lateral agreements with sovereign debtors for debt not qualifying for treatment by the Paris Club.

The Debt Reduction Fund is used to account for modified debt that is reduced or forgiven. Debt is considered to have been modified if the terms of the original agreement are altered. This includes but is not limited to original debt that has been reduced or for which the interest rate of the agreement has been changed. In contrast, when debt is rescheduled, only the date of payment is changed. Rescheduled debt is carried in the fund of its origination until paid, as are other modifications that do not actually reduce the debt.

Direct Credit Programs – Domestic

The Farm Storage Facility Loan (FSFL) Program was implemented to provide low cost financing for producers to build or upgrade on-farm commodity storage and handling facilities. The loans have a term of 7 years with a requirement of annual repayment installments. Interest on these loans is accrued monthly from the date of disbursement. The borrower's rate is established to be equivalent to the rate of interest charged on the Treasury securities of comparable maturity. In accordance with the 2008 Farm Bill, revised program regulations were promulgated at the end of FY 2009 to expand the program in regard to available loan terms and eligible commodities, as well as to increase the loan limitation. These changes will impact the program in FY 2010.

The Boll Weevil Program made available to the Texas Boll Weevil Eradication Foundation an interest-free $10 million loan to be repaid over 10 years.

The Apple Loan Program provided loans to apple producers who suffered hardships due to low prices following the 1998 - 1999 growing season when apple prices fell to their lowest levels in nearly 10 years. Eligible applicants obtained loans up to $300 per acre of apple trees in production in 1999 or 2000, up to a maximum indebtedness of $500,000. The Apple Loan Program was not funded in FY 2009 or 2008.

Economic Factors and Outlook Affecting Subsidy Reestimates

The credit subsidy reestimates are affected by four basic components:

- cash flow data (disbursements, collections including fees, original subsidy transfers, and scheduled future payments),
- interest rates,
- defaults,
- Inter-Agency Credit Risk Assessment System (ICRAS) country risk evaluation and ratings (for international programs only).

Cash flow data may be modified to reflect pending reschedulings. The interest rates used in the reestimate are developed and published by Treasury for use government-wide. ICRAS ratings are a product of the Inter-Agency Risk Assessment Committee, and their use is required by OMB.

Note 6 - Credit Program Receivables, Net, continued

After analyzing foreign credits government-wide in FY 2007, OMB determined that actual performance on foreign credits was better than had been previously forecasted and, therefore, mandated a change to the default and recovery calculation methodology. This was a contributor to the significant downward subsidy reestimates for CCC's foreign Credit Reform programs at the end of FY 2007. CCC implemented revised recovery rates for the GSM programs in FY 2008 and implemented revised default and recovery calculations for GSM and PL 480 in FY 2009. ICRAS identification for each country is still maintained as the basis for a given country's rating, but a set of program specific default and recovery rates by ICRAS grade has been established for each program. Domestic programs have always developed program-specific default and recovery assumptions.

Changes in Economic Conditions Having Measurable Effects Upon Subsidy Rates and Reestimates

Current world events and government initiatives have a major impact upon CCC's foreign receivables. For example, the U.S. is currently considering forgiveness or reduction of debt to poor countries under the Paris Club's Heavily Indebted Poor Countries (HIPC) Initiative. Discussions are currently in progress with a number of countries which, if successful, may affect CCC. These countries include: Afghanistan, the Republic of Congo, Guinea, the Democratic Republic of the Congo, Liberia, and Cote D'Ivoire.

With passage of the Food, Conservation, and Energy Act of 2008, the 1 percent cap on GSM loan guarantee fees was lifted. A revised fee structure may lead to reduction in future subsidy rates for the GSM 102 program.

Other than as stated above, CCC is unaware of any measurable events or pending legislation at this time that may affect subsidy rates and reestimates in the future.

Interest Income on Direct Credits and Credit Guarantees

Interest is accrued monthly on both performing and non-performing direct credits and credit guarantee receivables as it is earned using simple interest calculations based upon a 365-day year. A non-performing direct credit or credit guarantee receivable is defined as a repayment scheduled under a credit agreement, with an installment payment in arrears more than 90 days. For those non-performing receivables, interest is not recognized as income; rather, it is deferred until the interest is received or the receivable is returned to performing status.

Based on the Federal Credit Reform Act of 1990 and SFFAS No. 2, *Accounting for Direct Loans and Loan Guarantees*, all credit reform loans initiated after September 30, 1991 need to be presented on a present value basis. For loans initiated before FY 1992 (Pre-1992), restatement of loan value on a present value basis is permitted but not required. Since CCC elected to restate the Pre-1992 loan receivables from nominal value to net present value starting in 2001, the accounting treatment, including revenue recognition and subsidy allowance calculation, has been applied consistently to Pre-1992 and Post-1991 Direct Loan and Loan Guarantee programs. For Pre-1992 and Post-1991 loan interest receivable, the portion related to non-performing loans is deferred and presented net of the loan receivable line item in the balance sheet.

Note 6 - Credit Program Receivables, Net, continued

A summary of CCC's net credit program receivables as of September 30, 2009 and 2008 is as follows:

	(In Millions)	
	2009	2008
Direct Credit and Loan Programs:		
Pre-1992:		
P.L. 480 Title I	$ 3,110	$ 2,986
Post-1991:		
P.L. 480 Title I	1,050	781
Debt Reduction Fund	68	99
Farm Storage Facility	421	361
Defaulted Credit Guarantees:		
Pre-1992 Export Credit Guarantees	54	48
Post-1991 Export Credit Guarantees	423	437
Total Credit Program Receivables, Net	$ 5,126	$ 4,712

P.L. 480, Title I direct credits outstanding that were obligated prior to FY 1992 and related interest receivable as of September 30, 2009 and 2008 are as follows:

	(In Millions)			
2009:	Credit Receivable, Gross	Interest Receivable, Gross	Allowances for Uncollectible Accounts	Credit Program Receivables, Net
P.L. 480 Title I	$ 4,470	$ 47	$ (1,407)	$ 3,110

	(In Millions)			
2008:	Credit Receivable, Gross	Interest Receivable, Gross	Allowances for Uncollectible Accounts	Credit Program Receivables, Net
P.L. 480 Title I	$ 4,813	$ 121	$ (1,948)	$ 2,986

Note 6 - Credit Program Receivables, Net, continued

P.L. 480 direct credits and direct loans for FSFL, Boll Weevil, and Apple Loans that were obligated after FY 1991 and related interest receivable outstanding as of September 30, 2009 and 2008 are as follows:

(In Millions)

2009:	Credit Receivable, Gross	Interest Receivable, Gross	Allowance for Subsidy	Credit Program Receivables, Net
P.L. 480 Title I	$ 1,333	$ 19	$ (302)	$ 1,050
Debt Reduction Fund	282	2	(216)	68
Farm Storage Facility	417	35	(31)	421
Boll Weevil Program	10	-	(10)	-
Total	$ 2,042	$ 56	$ (559)	$ 1,539

(In Millions)

2008:	Credit Receivable, Gross	Interest Receivable, Gross	Allowance for Subsidy	Credit Program Receivables, Net
P.L. 480 Title I	$ 1,479	$ 20	$ (718)	$ 781
Debt Reduction Fund	358	58	(317)	99
Farm Storage Facility	363	30	(32)	361
Boll Weevil Program	10	-	(10)	-
Total	$ 2,210	$ 108	$ (1,077)	$ 1,241

Note 6 - Credit Program Receivables, Net, continued

Defaults on credit guarantees made prior to FY 1992 and related interest receivable as of September 30, 2009 and 2008 are as follows:

	(In Millions)			
2009:	Credit Receivable, Gross	Interest Receivable, Gross	Allowance for Uncollectible Accounts	Credit Program Receivables, Net
Export Credit Guarantee Programs	$ 135	$ 1	$ (82)	$ 54

	(In Millions)			
2008:	Credit Receivable, Gross	Interest Receivable, Gross	Allowance for Uncollectible Accounts	Credit Program Receivables, Net
Export Credit Guarantee Programs	$ 137	$ 1	$ (90)	$ 48

Defaults on credit guarantees made after FY 1991 and related interest receivable as of September 30, 2009 and 2008 are as follows:

	(In Millions)			
2009:	Credit Receivable, Gross	Interest Receivable, Gross	Allowance for Subsidy	Credit Program Receivables, Net
Export Credit Guarantee Programs	$ 620	$ 7	$ (204)	$ 423

	(In Millions)			
2008:	Credit Receivable, Gross	Interest Receivable, Gross	Allowance for Subsidy	Credit Program Receivables, Net
Export Credit Guarantee Programs	$ 615	$ 7	$ (185)	$ 437

Note 6 - Credit Program Receivables, Net, continued

The changes in the subsidy allowance for outstanding direct credits and loans that were obligated after FY 1991 as of September 30, 2009 and 2008 are as follows:

	(In Millions)			
	2009		2008	
Subsidy Allowance - Beginning of Fiscal Year	$	1,262	$	1,288
Subsidy Expense for Current Year Disbursements:				
Interest Rate Differential		-		9
Default Costs (Net of Recoveries)		4		9
Other Subsidy Costs		-		(6)
Total Subsidy Expense	$	4	$	12
Adjustments:				
Loan Modifications		19		-
Accruals - Technical Default Reestimates		(510)		(2,275)
Subsidy Allowance Amortization		(52)		159
Loans Written Off / Forgiven		(77)		(68)
PV Adjustment		512		1,018
Other		32		1,531
Balance Before Reestimates	$	1,190	$	1,665
Subsidy Reestimates:				
Interest Rate Reestimate	$	(244)	$	(193)
Technical/Default Reestimates		(183)		(210)
Total Subsidy Reestimates	$	(427)	$	(403)
Subsidy Allowance - End of Fiscal Year	$	763	$	1,262

Subsidy Allowance – End of Fiscal Year 2009 includes subsidy for both direct loans and loans receivable derived from those guaranteed transactions on which CCC was called upon to perform. For comparison purposes, prior year balances have been adjusted to reflect the same.

Note 6 - Credit Program Receivables, Net, continued

For the fiscal years ended September 30, 2009 and 2008 subsidy expenses for the current year disbursements of post-1991 direct credits and loans and subsidy reestimates are as follows:

(In Millions)

2009:	Subsidy Expense for New Direct Loans Disbursed		Reestimates			
	Defaults	Total	Interest Rate	Technical	Total	Grand Total
P.L. 480 Title I	$ -	$ -	$ (245)	$ (171)	$ (416)	$ (416)
Farm Storage Facility	4	4	-	(11)	(11)	(7)
Apple Loan Program	-	-	1	(1)	-	-
Total	$ 4	$ 4	$ (244)	$ (183)	$ (427)	$ (423)

(In Millions)

2008:	Subsidy Expense for New Direct Loans Disbursed				Reestimates			
	Interest Differential	Defaults	Other	Total	Interest Rate	Technical	Total	Grand Total
P.L. 480 Title I	$ 9	$ 2	$ -	$ 11	$ (181)	$ (163)	$ (344)	$ (333)
Farm Storage Facility	-	7	(6)	1	(12)	(47)	(59)	(58)
Total	$ 9	$ 9	$ (6)	$ 12	$ (193)	$ (210)	$ (403)	$ (391)

Subsidy reestimates are calculated on cumulative disbursements for all budget fiscal years and the respective cohorts (direct loan/guarantee origination year) that comprise them.

Note 6 - Credit Program Receivables, Net, continued

For the fiscal years ended September 30, 2009 and 2008, current and prior year disbursements of post-1991 direct credits and loans are as follows:

	(In Millions)		
	2009	2008	Curent Year Over (Under) Prior Year
P.L. 480 Title I	$ -	$ 20	$ (20)
Farm Storage Facility	140	135	5
Total	$ 140	$ 155	$ (15)

As of September 30, 2009 and 2008, post-1991 credit guarantees outstanding are as follows:

	(In Millions)			
	Face Value		Guaranteed*	
2009:	Post-1991 Outstanding Principal	Post-1991 Outstanding Interest	Post-1991 Outstanding Principal	Post-1991 Outstanding Interest
Export Credit Guarantee Programs	$ 7,039	$ 25	$ 6,898	$ 25

	(In Millions)			
	Face Value		Guaranteed*	
2008:	Post-1991 Outstanding Principal	Post-1991 Outstanding Interest	Post-1991 Outstanding Principal	Post-1991 Outstanding Interest
Export Credit Guarantee Programs	$ 3,918	$ 166	$ 3,829	$ 66

* Outstanding principal and interest guaranteed represents a contingent liability for amounts owed by foreign banks to exporters or assignee U.S. financial institutions participating in the program.

Note 6 - Credit Program Receivables, Net, continued

The change in the liability for post-1991 credit guarantees as of September 30, 2009 and 2008 is as follows:

	(In Millions)	
	2009	2008
Credit Guarantee Liability - Beginning of Fiscal Year	$ 161	$ 184
Subsidy Expense for Current Year Disbursements:		
Default Costs (Net of Recoveries)	77	58
Fees and Other Collections	(22)	(10)
Total Subsidy Expense	$ 55	$ 48
Adjustments:		
Loan Modifications	-	(91)
Fees Received	41	22
Claim Payments to Lenders	(25)	1
Other	26	40
Balance Before Reestimates	$ 258	$ 204
Subsidy Reestimates:		
Interest Rate Reestimate	$ (46)	$ (5)
Technical/Default Reestimates	9	(38)
Total Subsidy Reestimates	$ (37)	$ (43)
Credit Guarantee Liability - End of Fiscal Year	$ 221	$ 161

Note 6 - Credit Program Receivables, Net, continued

Subsidy expenses, net of fees and other collections, for current year disbursements related to credit guarantees made after FY 1991, and subsidy reestimates for the fiscal years ended September 30, 2009 and 2008 are as follows:

(In Millions)

2009:	Subsidy Expense for New Direct Loans Disbursed			Reestimates			
	Defaults	Fees and Other Collect.	Total	Interest Rate	Technical	Total	Grand Total
Export Credit Guarantee Programs	$ 77	$ (22)	$ 55	$ (46)	$ 9	$ (37)	$ 18

(In Millions)

2008:	Subsidy Expense for New Direct Loans Disbursed			Reestimates			
	Defaults	Fees and Other Collect.	Total	Interest Rate	Technical	Total	Grand Total
Export Credit Guarantee Programs	$ 58	$ (10)	$ 48	$ (5)	$ (38)	$ (43)	$ 5

Subsidy reestimates are calculated on cumulative disbursements for all cohorts.

For the fiscal years ended September 30, 2009 and 2008, current and prior year credit guarantee disbursements are as follows:

(In Millions)

	2009		2008	
	Outstanding Principal, Face Value	Outstanding Interest, Guaranteed	Outstanding Principal, Face Value	Outstanding Interest, Guaranteed
Export Credit Guarantee Programs	$ 5,250	$ 5,145	$ 1,907	$ 1,909

Administrative expenses on direct credit and loan programs were $3 million for each of the fiscal years ended September 30, 2009 and 2008. Administrative expenses for the credit guarantee programs were $5 million for each of the fiscal years ended September 30, 2009 and 2008.

Note 6 - Credit Program Receivables, Net, continued

FY 2009 and 2008 subsidy rates (percentage) for direct credits and loans are as follows:

2009:	Interest Differential	Defaults	Fees and Other Collections	Total
Farm Storage Facility	(0.82)	7.21	(0.14)	6.25

2008:	Interest Differential	Defaults	Fees and Other Collections	Total
Farm Storage Facility	0.02	1.10	(0.11)	1.01

For the fiscal years ended 2009 and 2008, there were no apportionments for P.L. 480, and thus, no subsidy rate was provided. The Apple Loan Program is a one year program, cohort 2001.

FY 2009 and 2008 subsidy rates (percentage) for credit guarantee programs are as follows:

2009:	Defaults	Fees and Other Collections	Total
Export Credit Guarantee Programs	1.47	(0.60)	0.87

2008:	Defaults	Fees and Other Collections	Total
Export Credit Guarantee Programs	2.96	(0.57)	2.39

Subsidy rates are used to compute each year's subsidy expenses as disclosed above. The subsidy rates disclosed pertain only to the current year's cohort. These rates cannot be applied to the direct credits and loans and credit guarantees disbursed during the current reporting year to yield the subsidy expense. The subsidy expense for new direct credits and loans and credit guarantees reported in the current year could result from disbursements from both current year and prior year(s) cohorts. The subsidy expense reported in the current year also includes modifications and reestimates.

Note 6 - Credit Program Receivables, Net, continued

The principal balance of CCC direct credit and credit guarantee receivables, in a non-performing status, totaled $1.2 billion for the fiscal years ended September 30, 2009 and 2008; compared to a total principal balance (performing and non-performing) of $8 billion and $8 billion at September 30, 2009 and 2008, respectively. If interest had been reported on these non-performing receivables, instead of reported only to the extent of the collections received, direct credit and credit guarantee interest income would have decreased by $14 million from a total of $40 million in FY 2009, and increased by $47 million from a total of $40 million reported in FY 2008. During the entire delinquency period, if interest had been reported on these non-performing receivables, instead of reported only to the extent of the collections received, interest income would have increased to $984 million and $998 million through September 30, 2009 and 2008, respectively.

Direct credit and credit guarantee principal receivables under rescheduling agreements as of September 30, 2009 and 2008, were $2.9 billion and $3.1 billion, respectively.

During FY 2009, there were no new Paris Club agreements to reschedule P.L. 480 debt or GSM debt. Additionally, no claims on refinancing agreements entered into force in FY 2009. An agreement is considered to have "entered into force" when all agreed upon domestic prerequisite conditions have been satisfied by the debtor.

Other Significant Events

In FY 2009, the GSM-102 program registered guarantees of $5.3 billion, which is $2.2 billion higher than FY 2008 and the highest level in several years. Demand for GSM has increased due to the current international economic climate and the associated tightening of credit in the public sector.

For the first time since FY 2006, the GSM 102 program experienced defaults and associated claim payments. The defaults occurred in the Ukraine and Kazakhstan.

P.L. 480 Title I Direct Credit Trend Analysis Reestimates

The P.L. 480 program had a net downward reestimate for FY 2009. The upward reestimate totals $29.2M and the downward reestimate totals $437.6 million, for a net downward reestimate of $416 million. This is comprised of $171.4 million in technical reestimate and $244.6 million in interest on the reestimate.

The largest single factor in the reestimate was the implementation of a new cash flow model which projects defaults and recoveries based upon the program's historical performance as opposed to government wide performance of all programs. For the past three years, PL 480 reestimates have used OMB's gross default rate which does not include any projection of recoveries. The reestimate for FY 2009 projects a reduction in gross defaults, an increase in recoveries and consequently, a downward reestimate. On a nominal basis, projected defaults from FY 2010 through the remainder of the loan program totaled $521million at the end of FY 2008. Based on the FY 2009 default rates, projected defaults for the same period now total $200 million, a reduction of $321 million.

Note 6 - Credit Program Receivables, Net, continued

Components of the FY 2009 P.L. 480 reestimate are as follows:

FY 2009 Reestimate
(In Millions)

Cohort	Reestimate	Interest on Reestimate	FAI adjustment	Total Reestimate
1992	$ (25)	$ (61)	$ -	$ (86)
1993	(19)	(39)	-	(58)
1994	(17)	(35)	-	(52)
1995	(15)	(27)	-	(42)
1996	(17)	(26)	-	(43)
1997	(9)	(11)	-	(20)
1998	(20)	(19)	-	(39)
1999	15	14	(15)	14
2000	(16)	(13)	6	(23)
2001	(17)	(10)	3	(24)
2002	(14)	(6)	(1)	(21)
2003	(6)	(2)	-	(8)
2004	(5)	(1)	-	(6)
2005	(4)	(1)	-	(5)
2006	(3)	(1)	-	(4)
Total	$ (172)	$ (238)	$ (7)	$ (417)

Export Credit Guarantees (GSM) Reestimates Trend Analysis

The GSM-102, GSM-103, and Supplier Credit programs had a combined net downward reestimate for FY 2009. The upward reestimate totals $39.9 million, and the downward reestimate totals $89.5 million, for a net downward reestimate of $49.5 million. This is comprised of $3.8 million in technical reestimate and $45.7 million in interest on the reestimate.

The GSM-102 reestimate accounts for the majority of the total net GSM reestimate. The GSM-102 net reestimate totaled $48.6 million and was comprised of a $5.0 million technical reestimate and $43.6 million interest on the reestimate. For the older cohorts, improvement in expected performance is attributable to better than expected actual performance in FY 2009 as well as an increase in projected recoveries due to overall better performance in the repayment of rescheduled agreements. For the newer cohorts in GSM 102, the 2008 and 2009 cohorts reflect an upward reestimate due to the actual defaults that occurred, accompanied by resulting increases in projected defaults.

For GSM 103, the net FY 2009 reestimate was negligible, totaling $118 thousand. It was comprised of $49 thousand technical reestimate and $69 thousand interest on the reestimate. Most of the GSM 103 cohorts are ready to close effective with the apportionment of the current reestimates.

The Supplier Credit net reestimate was $12.5 million, comprised of a $14.1 million technical reestimate and $1.8 million interest on the reestimate. Unlike GSM 102, repayments on rescheduled agreements in FY 2009 were significantly lower than anticipated, resulting in upward reestimates for the FY 2004 and FY 2005 cohorts.

Note 6 - Credit Program Receivables, Net, continued

Components of the GSM 102 FY 2009 reestimates are as follows:

FY 2009 Reestimate
(In Millions)

Cohort	Reestimate	Interest on Reestimate	FAI Adjustment	Total Reestimate
1996	$ (10)	$ (13)	$ -	$ (23)
1997	(17)	(21)	-	(38)
1998	(1)	(1)	-	(2)
2001	(13)	(7)	-	(20)
2004	-	-	(1)	(1)
2005	(1)	-	1	(0)
2006	(3)	-	(1)	(4)
2007	-	-	(1)	(1)
2008	27	1	-	28
2009	13	-	-	13
Total	$ (5)	$ (41)	$ (2)	$ (48)

Components of the Supplier Credit FY 2009 reestimates are as follows:

FY 2009 Reestimate
(In Millions)

Cohort	Reestimate	Interest on Reestimate	FAI Adjustment	Total Reestimate
2004	$ 11	$ 1	$ (1)	$ 11
2005	3	-	(2)	1
Total	$ 14	$ 1	$ (3)	$ 12

Trend Analysis - Farm Storage Facility Loan Reestimate

For the Farm Storage program, there was an overall downward reestimate of $11.19 million. The largest component of the downward reestimate was for the 2008 cohort at $5.66 million. A new econometric cashflow model was introduced in FY 2009, which has resulted in a better overall projection of future activity. In addition, prepayment data has been more completely identified to include both full and partial prepayment data. Defaults in the program overall are rare, and the downward reestimate is reflective of a continued expectation of low defaults for the current cohorts.

Note 6 - Credit Program Receivables, Net, continued

Components of the Farm Storage FY 2009 reestimate are as follows:

FY 2009 Reestimate
(In Millions)

Cohort	Reestimate	Interest on Reestimate	FAI Adjustment	Total Reestimate
2000	$ 2	$ 1	$ (2)	$ 1
2001	-	-	1	1
2002	-	-	1	1
2004	(1)	-	-	(1)
2005	(1)	-	(1)	(2)
2006	(2)	-	-	(2)
2007	(3)	-	-	(3)
2008	(6)	-	-	(6)
2009	(1)	-	-	(1)
Total	$ (12)	$ 1	$ (1)	$ (12)

Note 7 – Commodity Inventories and Related Property, Net

Inventory and related property as of September 30 are as follows:

	(In Millions)	
	2009	2008
Commodity Inventories - Beginning of Fiscal Year	$ 11	$ 185
Acquisitions	4,101	1,126
Cost of Sales	(2,803)	(126)
Donations	(1,113)	(1,220)
Other Dispositions, Additions and Deductions	6	46
Commodity Inventories - End of Fiscal Year	$ 202	$ 11
Barter Delivery Obligations (BDO)	$ 3	$ 4
Commodity Inventories and Related Property, Net	$ 205	$ 15

Commodity loan forfeitures included in the Acquisitions line item were $47 million and $8 million for the fiscal years ended September 30, 2009 and 2008, respectively. The allowance for losses for the fiscal year ended September 30, 2009 is insignificant.

BDOs were received by CCC in exchange for CCC-owned commodities. The BDOs may only be exchanged for food products to be utilized in domestic and export food programs. Refer to Note 1 for additional information.

Restrictions on Commodity Inventory

In accordance with the Bill Emerson Humanitarian Trust (BEHT) Act of 1998, CCC maintains a reserve of commodities and funds for use when domestic supplies are so limited that quantities cannot meet the availability criteria under P.L. 480. The Secretary of Agriculture may authorize the release of commodities from the BEHT. Commodities are to be used solely for emergency food assistance. BEHT stocks can be exchanged for other U.S. agricultural commodities of equal value or for an equivalent amount of funds from the market to meet emergency food needs. The 2008 Farm Bill extended the authorization to replenish the trust through fiscal year 2012.

On April 15, 2008 and May 16, 2008, the Secretary of Agriculture authorized the release of the wheat reserves for use under P.L. 480, Title II. On May 23, 2008, CCC made available for sale all remaining BEHT wheat owned by the CCC, with proceeds available for use under P.L. 480, Title II. Refer to Note 1 under Commodity Inventories for additional information.

Note 8 – General Property and Equipment, Net

General property and equipment as of September 30 are as follows:

2009:	Acquisition Value (In Millions)	Accumulated Depreciation (In Millions)	Net Book Value (In Millions)
Equipment	$ 45	$ (45)	$ -
Capitalized Software Costs	114	(70)	44
Total General Property and Equipment	$ 159	$ (115)	$ 44

2008:	Acquisition Value (In Millions)	Accumulated Depreciation (In Millions)	Net Book Value (In Millions)
Equipment	$ 49	$ (49)	$ -
Capitalized Software Costs	118	(67)	51
Total General Property and Equipment	$ 167	$ (116)	$ 51

Note 9 – Liabilities Not Covered by Budgetary Resources

	2009 (In Millions)	2008 (In Millions)
Accrued Liabilities (Note 14)		
Conservation Reserve Program	$ 1,734	$ 1,775
Tobacco Transition Payment Program	4,705	5,302
Environmental and Disposal Liabilities (Note 13)	8	8
Total Liabilities Not Covered by Budgetary Resources	$ 6,447	$ 7,085
Total Liabilities Covered by Budgetary Resources	$ 16,095	$ 16,198
Total Liabilities	$ 22,542	$ 23,283

Liabilities not covered by budgetary resources are liabilities for which Congressional action is needed before budgetary resources can be provided.

Note 10 – Debt to the Treasury

Debt to the Treasury, categorized as interest bearing and non-interest bearing notes, as of September 30 is as follows:

	(In Millions)			
	2009		2008	
Debt - Beginning of Fiscal Year				
Principal: Interest Bearing	$	5,866	$	6,452
Accrued Interest Payable		11		64
Total Debt Outstanding - Beginning of Fiscal Year	$	5,877	$	6,516
New Debt				
Principal: Interest Bearing	$	22,876	$	22,996
Accrued Interest Payable		3,014		104
Total New Debt	$	25,890	$	23,100
Repayments				
Principal: Interest Bearing	$	(23,868)	$	(23,582)
Accrued Interest Payable		(3,022)		(157)
Total Repayments	$	(26,890)	$	(23,739)
Debt - End of Fiscal Year				
Principal: Interest Bearing	$	4,874	$	5,866
Accrued Interest Payable		3		11
Total Debt Outstanding - End of Fiscal Year	$	4,877	$	5,877

CCC may borrow interest-free up to the amount of its unreimbursed realized losses. Monthly interest rates ranged from 0.375 percent to 2.000 percent during FY 2009 and from 1.625 percent to 4.250 percent during FY 2008.

There was no debt principal and interest refinanced for the fiscal year ended September 30, 2009. There was no outstanding principal rolled over for the fiscal years ended September 30, 2009 and 2008. There was no accrued interest rolled into notes payable for the fiscal years ended September 30, 2009 and 2008. Interest expense incurred on Treasury borrowings was $140 million and $263 million for the fiscal years ended September 30, 2009 and 2008, respectively.

The FY 2009 and 2008 interest rates on long-term borrowings under the permanent indefinite borrowing authority for the Credit Reform programs are calculated using the OMB Credit Subsidy Calculator 2. For FY 2001 and future cohorts, the single effective interest rate produced from the calculator, along with budget assumptions, is used to calculate interest expense.

Note 10 – Debt to the Treasury, continued

The repayment terms for borrowings made for the Export Credit Guarantee programs range from under 3 years up to 10 years. Currently, maximum loan terms do not exceed 7 years, while the repayment term for P.L. 480 direct credits program borrowing is 30 years. The repayment term is 7 years for direct loans under the Farm Storage Facility Loans program, 3 years for direct loans under the Apple Loan Program, and 10 years for the direct loan made under the Boll Weevil program. For all Credit Reform programs, principal repayments are required only at maturity, but are permitted at any time during the term of the loan.

CCC has a separate permanent indefinite borrowing authority for the Credit Reform programs to finance disbursements on post-1991 Credit Reform direct credit and loan obligations and credit guarantees. On October 1, CCC borrows from Treasury for the entire fiscal year based on annual estimates of the difference between the amount appropriated (subsidy) and the amount to be disbursed to the borrower. CCC may repay the loan agreement, in whole or in part, prior to maturity by paying the principal amount of the borrowings plus accrued interest up to the date of repayment. Interest is paid on these borrowings based on weighted average interest rates for the cohort to which the borrowings are associated. Interest expense incurred on borrowings associated with the Credit Reform programs was $122 million and $164 million for the fiscal years ended September 30, 2009 and 2008, respectively.

CCC has an authorized capital stock of $100 million held by the Treasury and with the authority to have outstanding borrowings of up to $30 billion at any one time. Interest on borrowings from the Treasury (and on capital stock) is paid at a rate based upon the average interest rate of all outstanding marketable obligations (of comparable maturity date) of the U.S. government as of the preceding month. CCC incurred $4 million and $5 million in interest expense on capital stock for the fiscal years ended September 30, 2009 and 2008, respectively.

Note 10 – Debt to the Treasury, continued

Total debt outstanding, by program and maturity date, as of September 30, 2009, is as follows:

Program	Debt (In Millions)	Maturity Date
CCC Borrowing Authority	$ 3,206	January 1, 2010
Export Credit Guarantee	72	September 30, 2010
	129	September 30, 2011
	1	September 30, 2013
	49	September 30, 2015
	43	September 30, 2018
	2	September 30, 2019
P.L. 480 Direct Credits	81	September 30, 2018
	70	September 30, 2019
	42	September 30, 2020
	29	September 30, 2021
	47	September 30, 2022
	48	September 30, 2023
	54	September 30, 2024
	91	September 30, 2025
	36	September 30, 2026
	35	September 30, 2027
	39	September 30, 2031
	29	September 30, 2032
	25	September 30, 2033
	20	September 30, 2034
	15	September 30, 2035
Debt Reduction	10	September 30, 2012
	4	September 30, 2013
	6	September 30, 2018
	1	September 30, 2020
	9	September 30, 2021
	40	September 30, 2022
	12	September 30, 2023
	19	September 30, 2024
	14	September 30, 2026
	3	September 30, 2028
Farm Storage Facility Loans	6	September 30, 2010
	13	September 30, 2011
	19	September 30, 2012
	33	September 30, 2013
	62	September 30, 2014
	113	September 30, 2015
	148	September 30, 2016
	198	September 30, 2017
Boll Weevil	0	September 30, 2009
Apple Loans	0	September 30, 2010
Total Debt Outstanding	$ 4,874	

Note 11 – Deposit and Trust Liabilities

Deposit and trust liabilities are amounts advanced to or deposited with CCC, on behalf of other entities. Refer to Note 18 – Disclosures Not Related to a Specific Statement for additional information. The balances, categorized as intragovernmental and public, as of September 30 are as follows:

	(In Millions)	
	2009	2008
Intragovernmental (Note 18):		
Agricultural Marketing Service	$ 274	$ 130
Food and Nutrition Service	441	482
Foreign Agricultural Service	143	120
Natural Resources Conservation Service	116	88
Total Intragovernmental Deposit and Trust Liabilities	$ 974	$ 820
Public	$ 7	$ 6
Total Public Deposit and Trust Liabilities	$ 7	$ 6

Within USDA, Agricultural Marketing Service (AMS) and Food and Nutrition Service (FNS) coordinate with FSA/CCC to purchase certain commodities for domestic feeding programs. AMS funds the purchase of commodities for the purpose of facilitating additional sales in world markets at competitive prices. FNS funds the purchase of commodities for the National School Lunch and many other domestic feeding programs administrated by voluntary organizations which help to fight hunger worldwide. The commodities purchased are meats, poultry, fish, fruit, vegetables, egg products, dry beans, and tree nuts. FNS coordinates the purchase through competitive bids or negotiated contracts to assure the quantity, quality, and variety of commodities purchased meet the needs of schools and institutions participating in the domestic nutrition programs. These purchases also assist farmers, commodity producers, and processors by helping to maintain stable commodity prices.

The public liability was $7 million and $6 million as of September 30, 2009 and 2008, respectively.
The public liability consists of unapplied collections for warehouse user fees, claims for disaster programs, and other miscellaneous collections that are temporarily held in suspense until appropriately identified and applied.

Note 12 – Other Liabilities

Other liabilities as of September 30 are as follows:

	(In Millions)	
	2009	2008
Intragovernmental:		
Resources Payable to Treasury:		
P.L. 480 Direct Credit Liquidating Fund	$ 2,697	$ 3,123
Export Credit Guarantee Direct Loans Liquidating Fund	47	72
Export Guarantee Program, Negative Subsidies	-	2
Resources Payable to Treasury	$ 2,744	$ 3,197
Accrued Conservation Reserve Program Technical Assistance	$ 11	$ -
Excess Subsidy Payable to Treasury	563	614
Other	18	49
Other Intragovernmental Liabilities	$ 592	$ 663
Public	$ 1,257	$ 110
Other Public Liabilities	$ 1,257	$ 110

Resources Payable to Treasury represents CCC's liquidating fund assets (cash and loans receivable, net of an allowance) less any liabilities that may be held as working capital. Loans made in 1991 and before (pre-credit reform direct loans and assigned loan guarantees) are accounted for in liquidating funds. These funds collect loan payments and pay any related expenses or default claims. At the end of each year, any unobligated cash on hand is transferred to Treasury.

The Public liability as of September 30, 2009 included $1.25 billion related to the Pigford II litigation. CCC recorded a contingent liability of $100 million for the litigation at the end of FY 2008. As of September 30, 2009, the contingent liability was adjusted to $1.25 billion to reflect the estimated amount of potential loss.

Note 13 – Environmental and Disposal Liabilities

The Corporation formerly operated approximately 4,500 grain storage facilities in the U.S. To date, at approximately 120 of these facilities, Carbon Tetrachloride (a fumigant commonly used at grain storage facilities during that time) was discovered in groundwater. CCC recorded an estimate of the total liability for investigation and remediation of affected sites of $8 million for both fiscal years ended September 30, 2009 and 2008 based on actual cleanup costs at similar sites. This liability is not covered by budgetary resources.

Hazardous Waste Program

Since the first discovery of contaminated groundwater, CCC has been engaged in an active program to identify affected sites, perform risk assessments, and conduct cleanup actions. As of September 30, 2009 and 2008, payments for these activities totaled $5 million. At September 30, 2009, CCC estimates the range of potential future losses to be between $8 million and $47 million.

Note 14 – Accrued Liabilities

Accrued liabilities as of September 30 are as follows:

	(In Millions)	
	2009	2008
Conservation Reserve Program	$ 1,734	$ 1,775
Export Programs	135	183
Income Support Programs:		
Direct and Counter-Cyclical Payments	4,960	4,878
Milk Income Loss Contract	13	-
Other	7	14
Tobacco Transition Payment Program	4,705	5,302
Other	6	2
Total Accrued Liabilities	$ 11,560	$ 12,154

The liabilities for Conservation Reserve Programs were considered current as of September 30, 2009 and 2008. The liability of $4.7 billion and $5.3 billion under the Tobacco Transition Payment Program (TTPP) includes a current liability of $955 million as of September 30, 2009 and 2008. The remaining balance was a long term liability as of September 30, 2009 and 2008. Refer to Note 1, under Liabilities, for additional information.

Note 15 – Commitments and Contingencies

A loss contingency is an existing condition, situation, or set of circumstances involving uncertainty as to possible loss to an entity. The uncertainty will ultimately be resolved when one or more future events occur or fail to occur. A loss contingency is a liability when a past event or exchange transaction has occurred; a future outflow or other sacrifice of resources is probable; and the future outflow or sacrifice of resources is measurable.

In addition to loss contingencies, CCC also discloses (1) an estimate of obligations related to canceled appropriations for which the reporting entity has a contractual commitment for payment and (2) amounts for contractual arrangements that may require future financial obligations.

Commitments

Wetland Reserve Program (WRP)

WRP provides technical and financial assistance to eligible landowners to restore, enhance, and protect wetlands. This voluntary program offers landowners an opportunity to establish, at minimal cost, long-term conservation and wildlife habitat enhancement practices and protection. WRP program expenses for the fiscal years ended September 30, 2009 and 2008 were $9 thousand and $3 million, respectively. The decrease reflects the limited number of remaining contracts with CCC. As of September 30, 2009 and 2008, CCC's undelivered orders on current contracts were $15 thousand and $25 thousand, respectively.

Market Access Program (MAP)

The MAP was authorized by the Agriculture Trade Act of 1978, as amended, to encourage the development, maintenance, and expansion of commercial export markets for agricultural commodities through cost-share assistance to eligible trade organizations that implement a foreign market development program. CCC makes funds available to reimburse program participants for authorized promotional expenses. Program expenses for the fiscal years ended September 30, 2009 and 2008 were $215 million and $179 million, respectively. At September 30, 2009 and 2008, CCC's undelivered orders on current contracts were $224 million and $243 million, respectively.

Noninsured Crop Disaster Assistance Program (NAP)

The NAP was authorized as a CCC program under the 1996 Act. The NAP provides financial assistance to producers of non-insurable crops when a low yield crop, loss of inventory, or prevented planting occurs due to natural disasters. The crops must be non-insurable commodities for which the catastrophic risk protection level of crop insurance is not available. Program expenses for the fiscal years ended September 30, 2009 and 2008 were $64 million and $74 million, respectively. At September 30, 2009 and 2008, CCC's undelivered orders on current contracts were $4 million and $6 million, respectively.

Commodity Acquisition

Commitments to acquire commodities represent the contract value of commodities not yet delivered under CCC purchase contracts. Such commitments amounted to $134 million and $176 million for Export Program; and, $109 million and $94 million for Food for Progress at September 30, 2009 and 2008, respectively.

As of September 30, 2009, commitments amounted to $34 million for the Food for Education and $5 million for Price Support processing program. As of September 30, 2008, commitments amounted to $13 million for the Food Security Reserve program.

Note 15 – Commitments and Contingencies, continued

Conservation Reserve Program (CRP)

Through CRP, participants' sign 10-15 year contracts to remove land from production in exchange for an annual rental payment. The participants also receive cost-share assistance for establishing conservation practices on the reserve acreage and additional incentive payments for adopting high-priority conservation measures. CCC estimates that the future liability for CRP rental payments through FY 2016 will average $1.8 billion annually. This estimate is based on current program levels with the assumption that expiring lands are re-enrolled and new lands are enrolled such that enrollment ranges between 30 and 32 million acres between FY 2010 and FY 2016. At September 30, 2009 and 2008, accrued liabilities for CRP totaled approximately $1.7 billion and $1.8 billion, respectively.

Leases

As of September 30, 2009, future minimum rental payments required under FSA operating leases for State office space, for which CCC is directly liable, consisted of the following:

Year	(In Millions) Rent Expense
2010	1
Total	**$ 1**

Allocated rent expense, net of reimbursements, was $54 million for the fiscal years ended September 30, 2009 and 2008. This allocated rent expense is recognized as part of the CCC's imputed financing sources and imputed costs.

Contingencies

Legal Disputes and Claims

In the normal course of business, CCC becomes involved in various legal disputes and claims. CCC vigorously defends its position in such actions through the Office of the General Counsel (OGC) and the U.S. Department of Justice. CCC's financial statements as of September 30, 2009 included a contingent liability of $1.25 billion for a legal case for which a payment has been deemed probable.

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. CCC has one ongoing case, Prime Time International Company v. Vilsack. A payment for this case has been deemed reasonably possible and the amount is uncertain. No amounts have been accrued in the financial statements for claims where the amount is uncertain or where the probability of judgment against USDA is remote.

Note 16 – Disclosures Related to the Statement of Net Cost

Earned Revenue

Revenue and expense are recognized based on SFFAS No. 7, *Accounting for Revenue and Other Financing Sources*. CCC follows the implementation guide for classifying, recognizing, and measuring inflows of resources. Earned revenues are exchange revenues, which arise when a Federal entity provides goods and services to the public or to another government entity for a price.

Earned revenue for the fiscal years ended September 30 is as follows:

	(In Millions)			
	2009		2008	
Intragovernmental Earned Revenue:				
Commodity Inventory Sales	$	921	$	921
Interest Income		47		91
Other		146		-
Less: Intra-Agency Eliminations		(921)		(925)
Total Intragovernmental Earned Revenue	$	193	$	87
Earned Revenue from the Public				
Commodity Inventory Sales	$	1,916	$	244
Interest Income		190		468
Other		369		1,030
Total Earned Revenue from the Public	$	2,475	$	1,742
Total Earned Revenue	$	2,668	$	1,829

Public commodity inventory sales increased to $1,916 million in FY 2009 from $244 million in FY 2008. This increase reflects the sale proceeds of price support certificates, and is due to lower upland cotton market prices, which affected commodity certificate exchanges in FY 2009.

For FY 2009, Earned Revenue from the Public: Other decreased to $369 million. This is mostly comprised of the Tobacco Trust Fund Program which totaled $337 million.

Note 16 – Disclosures Related to the Statement of Net Cost, continued

CCC's strategic goals are as follows:

- Supporting productive farms and ranches
- Supporting secure and affordable food and fiber
- Conserving natural resources and enhancing the environment
- Supporting international economic development and trade capacity building

Under supporting productive farms and ranches, program areas include Income Support and Disaster Assistance. CCC provides financial assistance in the form of flexible payments and short term financing to stabilize, support, and protect farm income and prices due to the fluctuation of commodity market prices or income support due to damage caused by natural disaster. Commodity Loans, Tobacco Transition Payment Program, Disaster Assistance, Milk Income Loss Payments, Price Support, and Direct and Counter-Cyclical programs comprise major program activity.

Under supporting secure and affordable food and fiber, program areas include Commodity Operations, Dairy Price Support, and Food Security Reserve. Of these, CCC's Dairy Price Support and Food Security Reserve programs protect the nation's agriculture and food supply through a uniform regulatory system for the storage of agricultural products and ensure the timely provision of food products procured for domestic and international food assistance programs and market development programs.

Under conserving natural resources and enhancing the environment, the Conservation Reserve Program safeguards natural resources by paying farmers to take environmentally sensitive crop land out of production, and plant long-term resource-conserving covers (such as grasses and trees). These covers improve the quality of water and air, control soil erosion, and enhance wildlife habitat.

Under supporting international economic development and trade capacity building, program areas include Export Credit, Market Expansion and Trade Building. FAS and CCC form cooperative agreements with other nonprofit agricultural trade commodity groups to encourage development, maintenance and expansion of commercial export markets for agricultural commodities. Major programs include Food Aid, Foreign Market Development and Export Credit Guarantee.

Refer to the Management Discussion and Analysis, Performance Section for additional information on the CCC's alignment of its strategic goals to the USDA Performance and Accountability Report Goals.

Note 16 – Disclosures Related to the Statement of Net Cost, continued

Net cost of operations for the fiscal year ended September 30, 2009 (In Millions), is as follows:

Agency Strategic Goals:

	Commodity Operations	Income Support and Disaster Programs	Conservation Programs	Foreign Programs	Intra-entity Eliminations	Total
Supporting Productive Farms and Ranches						
Intragovernment Cost	$ 54	$ 930	$ -	$ -	$ -	$ 984
Public Cost	1,175	10,523	-	-	-	11,698
Total Cost	$ 1,229	$ 11,453	$ -	$ -	$ -	$ 12,682
Intragovernment Earned Revenue	$ -	$ -	$ -	$ -	$ -	$ -
Public Earned Revenue	-	2,347	-	-	-	2,347
Total Earned Revenue	$ -	$ 2,347	$ -	$ -	$ -	$ 2,347
Supporting Secure and Affordable Food and Fiber						
Intragovernment Cost	$ 87	$ 24	$ -	$ -	$ -	$ 111
Public Cost	67	(7)	-	-	-	60
Total Cost	$ 154	$ 17	$ -	$ -	$ -	$ 171
Intragovernment Earned Revenue	$ (9)	$ 10	$ -	$ -	$ -	$ 1
Public Earned Revenue	-	14	-	-	-	14
Total Earned Revenue	$ (9)	$ 24	$ -	$ -	$ -	$ 15
Conserving Natural Resources and Enhancing the Environment						
Intragovernment Cost	$ -	$ -	$ 399	$ -	$ -	$ 399
Public Cost	-	-	1,824	-	-	1,824
Total Cost	$ -	$ -	$ 2,223	$ -	$ -	$ 2,223
Intragovernment Earned Revenue	$ -	$ -	$ -	$ -	$ -	$ -
Public Earned Revenue	-	-	1	-	-	1
Total Earned Revenue	$ -	$ -	$ 1	$ -	$ -	$ 1
Support International Economic Development and Trade Capacity Buildings						
Intragovernment Cost	$ -	$ -	$ -	$ 1,057	$ (920)	$ 137
Public Cost	-	-	-	1,612	-	1,612
Total Cost	$ -	$ -	$ -	$ 2,669	$ (920)	$ 1,749
Intragovernment Earned Revenue	$ -	$ -	$ -	$ 1,113	$ (920)	$ 193
Public Earned Revenue	-	-	-	112	-	112
Total Earned Revenue	$ -	$ -	$ -	$ 1,225	$ (920)	$ 305
Total Gross Cost	**$ 1,383**	**$ 11,470**	**$ 2,223**	**$ 2,669**	**$ (920)**	**$ 16,825**
Less: Total Earned Revenue	**(9)**	**2,371**	**1**	**1,225**	**(920)**	**2,668**
Net Cost of Operations	**$ 1,392**	**$ 9,099**	**$ 2,222**	**$ 1,444**	**$ -**	**$ 14,157**

Note 16 – Disclosures Related to the Statement of Net Cost, continued

Net cost of operations for the fiscal year ended September 30, 2008 (In Millions), is as follows:

Agency Strategic Goals:

	Commodity Operations	Income Support and Disaster Programs	Conservation Programs	Foreign Programs	Intra-entity Eliminations	Total
Supporting Productive Farms and Ranches						
Intragovernment Cost	$ 167	$ 1,101	$ -	$ -	$ -	$ 1,268
Public Cost	113	6,970	-	-	-	7,083
Total Cost	$ 280	$ 8,071	-	-	-	$ 8,351
Intragovernment Earned Revenue	$ -	$ -	$ -	$ -	$ -	$ -
Public Earned Revenue	1	1,139	-	-	-	1,140
Total Earned Revenue	$ 1	$ 1,139	$ -	$ -	$ -	$ 1,140
Supporting Secure and Affordable Food and Fiber						
Intragovernment Cost	$ 48	$ 23	$ -	$ -	$ -	$ 71
Public Cost	229	(58)	-	-	-	171
Total Cost	$ 277	$ (35)	$ -	$ -	$ -	$ 242
Intragovernment Earned Revenue	$ 9	$ 11	$ -	$ -	$ (4)	$ 16
Public Earned Revenue	243	12	-	-	-	$ 255
Total Earned Revenue	$ 252	$ 23	$ -	$ -	$ (4)	$ 271
Conserving Natural Resources and Enhancing the Environment						
Intragovernment Cost	$ -	$ -	$ 236	$ -	$ -	$ 236
Public Cost	-	-	1,889	-	-	1,889
Total Cost	$ -	$ -	$ 2,125	$ -	$ -	$ 2,125
Intragovernment Earned Revenue	$ -	$ -	$ -	$ -	$ -	$ -
Public Earned Revenue	-	-	2	-	-	2
Total Earned Revenue	$ -	$ -	$ 2	$ -	$ -	$ 2
Support International Economic Development and Trade Capacity Buildings						
Intragovernment Cost	$ -	$ -	$ -	$ 1,101	$ (925)	$ 176
Public Cost	-	-	-	1,891	-	1,891
Total Cost	$ -	$ -	$ -	$ 2,992	$ (925)	$ 2,067
Intragovernment Earned Revenue	$ -	$ -	$ -	$ 992	$ (921)	$ 71
Public Earned Revenue	-	-	-	345	-	345
Total Earned Revenue	$ -	$ -	$ -	$ 1,337	$ (921)	$ 416
Total Gross Cost	**$ 557**	**$ 8,036**	**$ 2,125**	**$ 2,992**	**$ (925)**	**$ 12,785**
Less: Total Earned Revenue	**253**	**1,162**	**2**	**1,337**	**(925)**	**1,829**
Net Cost of Operations	**$ 304**	**$ 6,874**	**$ 2,123**	**$ 1,655**	**$ -**	**$ 10,956**

Note 17 – Disclosures Related to the Statement of Budgetary Resources

The SBR is a combined statement, and as such, intra-agency transactions have not been eliminated.

For the fiscal year ended September 30, 2009, there were no obligations incurred under apportionment category A, which is funded on a quarterly basis, while obligations incurred under apportionment category B, which are funded annually, consist of $4.4 billion direct obligations and $24.2 billion reimbursable obligations.

For the fiscal year ended September 30, 2008, there were no obligations incurred under apportionment category A, which is funded on a quarterly basis; while obligations incurred under apportionment category B, which are funded annually, consist of $5.1 billion direct obligations and $21.7 billion reimbursable obligations.

Obligations for the P.L. 480 Title II Grants Fund, incurred by USAID, for the fiscal year ended September 30, 2008, were reclassified from reimbursable to direct. The direct obligations are obligations financed by appropriations, and reimbursable obligations are obligations financed by offsetting collections. The amount of reclassification was $1.4 billion.

The majority of the amounts reported as permanently not available represent redemption of debt or the amount of principal repayments paid to the Treasury on CCC's outstanding borrowings. The remaining balance represents rescissions of budgetary authority. The amounts were $29.0 billion and $33.7 billion for the fiscal years ended September 30, 2009 and 2008, respectively.

CCC has a permanent indefinite borrowing authority, as defined by OMB Circular A-11, *Preparation, Submission, and Execution of the Budget,* of $30 billion. The Corporation's borrowing authority is made up of both interest and non-interest bearing notes. These notes are drawn upon on a daily basis when disbursements exceed deposits, as reported by the Federal Reserve Banks (FRBs), their branches, the Treasury, and CCC's financing office. CCC's notes payable under its permanent indefinite borrowing authority have a term of one year. On January 1 of each year, CCC refinances its outstanding borrowings, including accrued interest, at the January borrowing rate. The amount of available borrowing authority for the fiscal year ended September 30, 2009 is $11 billion. Refer to Note 10, Debt to the Treasury, for additional information.

CCC receives an annual appropriation to fund subsidy costs incurred. In addition, CCC has permanent indefinite appropriation authority to finance disbursements made under the liquidating accounts related to the pre-Credit Reform program activities, which are not covered by available working capital.

Undelivered orders, either unpaid or prepaid, are obligations, purchase orders, or contracts awarded for which goods or services have not yet been received. The amounts for undelivered orders are $4.2 billion and $2.6 billion for the fiscal years ended September 30, 2009 and 2008, respectively.

Unobligated budget authority is the difference between the total unexpended appropriation balance and the obligated balance. An appropriation expires on the last day of its period of availability and is no longer available for new obligations. Unobligated balances retain their fiscal year identity in an "expired account" for appropriation for an additional 5 fiscal years. The unobligated balance remains available to make legitimate obligation adjustments (i.e., to record previously unrecorded obligations and to make upward adjustments in previously under-recorded obligations).

No contributed capital was received during the reporting periods.

Note 17 – Disclosures Related to the Statement of Budgetary Resources, continued

Unobligated budget authority is the difference between the obligated balance and the total unexpended balance. It represents that portion of the unexpended balance unencumbered by recorded obligations. Appropriations are provided on an annual, multi-year, and no-year basis. An appropriation expires on the last day of its period of availability and is no longer available for new obligations. Unobligated balances retain their fiscal-year identity in an expired account for an additional five fiscal years. The unobligated balance remains available to make legitimate obligation adjustments, i.e., to record previously unrecorded obligations and to make upward adjustments in previously underestimated obligations for five years. At the end of the fifth year, the authority is canceled. Thereafter, the authority is not available for any purpose.

Any information about legal arrangements affecting the use of the unobligated balance of budget authority is specifically stated by program and fiscal year in the appropriation language or in the alternative provisions section at the end of the appropriations act. CCC does not have obligations from canceled appropriations.

The SF-133, Report on Budget Execution, which is used by CCC to report and certify obligation balances is also used to populate some portions of the Program and Financing Schedules (P&F Schedules) within the Budget of the United States Government.

Since the P&F Schedules within the *Budget of the United States Government, Fiscal Year 2011*, are not available for FY 2009, the reconciliation between the President's Budget and the SBR for FY 2009 cannot be performed. The *Budget of the United States Government, Fiscal Year 2011*, is expected to be published in February 2010 and will be available on the website of the Office of Management and Budget (www.whitehouse.gov/omb) at that time. The SF-133 and the SBR for FY 2009 will be reconciled to the FY 2009 actuals on the P&F Schedules reported in the *Budget of the United States Government, Fiscal Year 2011*, once released. The SF-133 and the SBR for FY 2008 have been reconciled to the FY 2008 actuals on the P&F Schedules presented in the *Budget of the United States Government, Fiscal Year 2010*. While Net Outlays reconcile between the P&F Schedules and the SF-133, Gross Outlays and Offsetting Collections show variances due to reporting differences related to advances from the Agricultural Marketing Service (AMS) and Food and Nutrition Service (FNS) by Treasury.

A table presenting this comparison appears on the following page.

Note 17 – Disclosures Related to the Statement of Budgetary Resources, continued

The comparison of selected line items of the FY 2008 SBR to the actuals on the FY 2008 P&F Schedules presented in the *Budget of the United States Government, Fiscal Year 2010 is* as follows.

SBR Line Ref	P&F Line No.	SBR Line Description	SBR Amount (Ref. Tab B)	P&F Amount (Ref. Tab A, pg 2/2)	Difference	Portion of Difference Resulting from Reporting Requirements	Note
1	21.40	Unobligated Balance - Beginning of Year	$ 3,745	$ 3,745	$ -	$ -	
2	22.10/73.40	Recoveries of Prior Year Obligations	1,273	1,273	-	-	
3A	40.00/60.00	Appropriations Received	16,154	16,154	-	-	
3B	67.10	Authority to Borrow	30,569	21,014	9,555	9,555	a
3D1a/3D2a/3D5	58.00/68.00/69.00	Offsetting Collections - Collected	16,022	15,932	90	-	b
3D1b/3D2b	69.10/74.00	Offsetting Collections - Receivable	27	27	-	-	
4	41.00/42.00/22.21/22.22/61.00/62.00	Budgetary Resources/Unobligated Balance - Net Transfers	(2,620)	(2,621)	1	-	
6	22.40/22.60/40.35/40.36/69.27/69.47	Permanently not Available	(33,724)	(24,169)	(9,555)	(9,555)	a
7 or 11	23.90	Total Budgetary Resources/Status of Budgetary Resources	31,446	31,351	95	-	b,c
8	10.00	Total New Obligations	26,832	26,737	95	-	b,c
9/10	24.40	Unobligated Balance - End of Year	4,614	4,614	-	-	
12	72.40	Obligated Balance - Beginning of Year	7,682	7,683	(1)	-	
13	73.10	Obligations Incurred	26,832	26,737	95	-	b,c
14	73.20	Gross Outlays	(25,563)	(25,560)	(3)	-	c
16	73.45	Recoveries of Prior Year Obligations	(1,273)	(1,273)	-	-	
17	74.00/74.10	Change in Uncollected Customer Payments from Federal Sources	(27)	(27)	-	-	
18	74.40	Obligated Balance - End of Year	7,651	7,561	90	-	b
19A/19B	90.00	Outlays	9,541	9,628	(87)	-	b,c

NOTES:

General Any difference that is not otherwise specified is a result of rounding.

a. The variance in the Revolving Fund and the Farm Storage Facility and Sugar Storage Facility Loans Financing Fund, is due to the differences between the Program and Finance (P&F) and Statement of Budgetary Resources (SBR) crosswalks. The P&F crosswalk records decreases to indefinite borrowing authority, in Line 3B, Borrowing Authority. However, the SBR crosswalk reports decreases to indefinite borrowing authority, in Line 6, Permanently not Available. The variances between Line 3B and Line 6 offset.

b. The variance in the Export Guarantee Program, Negative Subsidies, reflects timing differences in the recording of debt modification from Algeria. Although CCC maintained the collection in its general ledger at the end of FY 2008, the Department of Treasury recorded the transfer and receipt of the collection from CCC. At the beginning of FY 2009, the transfer was made to the Department of Treasury.

c. The variance in the Export Credit Guarantee Financing Fund, reflects a modification adjustment transfer between the Export Credit Guarantee Financing Fund and the Department of Treasury. Although CCC maintained the modification adjustment transfer in its general ledger at the end of FY 2008, the Department of Treasury recorded the transfer and receipt from CCC. At the beginning of FY 2009, the transfer was made to the Department of Treasury.

Note 18 – Disclosures Not Related to a Specific Statement

Transactions with Related Organizations

CCC maintains deposit and trust liabilities for Agricultural Marketing Service (AMS), Foreign Agricultural Service (FAS), Food and Nutrition Service (FNS), and the National Resources Conservation Service (NRCS). Refer to Note 11, Deposit and Trust Liabilities, for additional information. In addition, CCC has the following transactions with USDA agencies:

For the fiscal years ended September 30, 2009 and 2008, outlays under reimbursable agreements with other USDA agencies amounted to $35 million and $54 million, respectively.

For the fiscal years ended September 30, 2009 and 2008, CCC received $17 million and $13 million respectively from FSA for the allocation of internal software development costs, which were capitalized. Currently, CCC reimburses FSA for the costs incurred in the development of software used to administer agriculture programs. Refer to Note 1, under General Property and Equipment, for additional information.

CCC donates commodities for use under domestic feeding programs administered by FNS. The value of commodities donated for these domestic purposes, including related transportation and storage costs for the fiscal years ended 30, 2009 and 2008 were $170 million and $120 million, respectively.

For the fiscal years ended September 30, 2009 and 2008, CCC transferred $24 million and $21 million, respectively, to FNS for the Senior's Farmers Market Nutrition Program. CCC transferred $371 million in FY 2009 to the Animal and Plant Health Inspection Service for bovine tuberculosis, light brown apple moth outbreak, and potato cyst nematode eradication programs. In addition, CCC transferred $1 million to the Office of the CFO for bio-diesel fuel education and bio-based products, $56 million to AMS for commodity assistance program and marketing service and $20 million to the Rural Business and Cooperative Development Service for biomass research and development in FY 2009. Also in FY 2009, CCC transferred $101 million to Cooperative State Research, Education, and Extension Service (CSREES) for the national agricultural higher education, research, and extension system which are designed to address national problems and needs related to agriculture, the environment, human health and well being, and communities.

During FY 2009 and 2008, CCC disbursed a total of $2.2 billion and $1.9 billion, respectively, on behalf of NRCS for various conservation programs and technical assistance. In addition, for the fiscal year ended September 30, 2009, CCC disbursed $55 million to NRCS for CRP technical assistance. These programs included Wetland Reserve Program, Environmental Quality Incentive Program (EQIP), Farm and Ranch Lands Protection Program (FRPP), Wildlife Habitat Incentives Program, Ground and Surface Water Conservation Program, Grassland Reserve Program (GRP), and the Conservation Security Program. NRCS is responsible for the administration of these programs. For GRP, NRCS has entered into a memorandum of understanding with CCC to disburse funds using the services and facilities of CCC. It should be noted that although NRCS has been receiving funding for the EQIP since FY 2003, CCC continues to receive separate funding for the FY 2002 and earlier program years. Also in FY 2009, CCC transferred $56 million to other USDA agencies including Farm Service Agency (FSA) and Risk Management Agency.

CCC also transferred funds to USAID to fund P.L. 480 Title II transportation and other administrative costs in connection with foreign donations. Refer to Note 1 under Allocation Transfers and Shared Appropriations for further information

Note 18 – Disclosures Not Related to a Specific Statement, continued

Custodial Activity

CCC's custodial activities involve the collection and transfer of funds received from the public on behalf of U.S. Treasury, FSA, and other USDA agencies. These collections include amounts related to FSA's Farm Loan Program, as well as other interest, fees, and penalties due to Treasury and other USDA agencies.

Custodial activities for the fiscal years ended September 30 are as follows:

	(In Millions)	
	2009	2008
Revenue Activity:		
Sources of Cash Collections:		
Repayment of Farm Credit Loans	$ 1,202	$ 1,325
Administrative and Other Service Fees	13	82
Total Cash Collections	$ 1,215	$ 1,407
Total Custodial Revenue	$ 1,215	$ 1,407
Disposition of Collections:		
Transfers to Others:		
USDA Farm Service Agency	$ 1,211	$ 1,336
Other USDA Agencies	13	40
Department of Treasury	13	19
Total Disposition of Collections	$ 1,237	$ 1,395
Increase/Decrease in Amounts Yet to be Transferred (+/-)	$ (22)	$ 12
Net Custodial Activity	$ -	$ -

Note 19 – Reconciliation of Net Cost of Operations 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 Net Cost of Operations to Budget 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 operations 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.

For the current year, the "Components Not Requiring or Generating Resources: Cost of Goods Sold" amount reflects the elimination of sales for P.L. 480 commodities. For comparative purposes, the reclassification has been made to the prior year amount to conform to the current year presentation.

Note 19 – Reconciliation of Net Cost of Operations to Budget, continued

The Reconciliation of Net Cost of Operations to Budget for the fiscal years ended September 30 is as follows:

	(In Millions)	
	2009	2008
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	$ 28,652	$ 26,832
Less: Spending Authority from Offsetting Collections and Recoveries	13,644	17,322
Obligations Net of Offsetting Collections and Recoveries	$ 15,008	$ 9,510
Less: Offsetting Receipts	473	353
Net Obligations	$ 14,535	$ 9,157
Other Resources:		
Transfers In/Out without Reimbursement	$ (550)	$ (379)
Imputed Financing from Costs Absorbed by Others	1,334	1,334
Net Other Resources Used to Finance Activities	$ 784	$ 955
Total Resources Used to Finance Activities	**$ 15,319**	**$ 10,112**
Resources Used to Finance Items not Part of the Net Cost of Operations:		
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered but not Yet Provided	$ (1,681)	$ 822
Resources that Fund Expenses Recognized in Prior Periods	(764)	111
Budgetary Offsetting Collections and Receipts That Do Not Affect Net Cost of Operations:		
Credit Program Collections which Increase Liabilities for Loan Guarantees or Allowances for Subsidy	760	1,546
Change in Unfilled Customer Orders	108	(2)
Decrease in Exchange Receivables from the Public	5,791	9,061
Other	166	507
Resources that Finance the Acquisition of Assets	(9,771)	(10,788)
Other Resources or Adjustments to Net Obligated Resources that Do Not Affect Net Cost of Operations	(489)	(231)
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	**$ (5,880)**	**$ 1,026**
Total Resources Used to Finance the Net Cost of Operations	**$ 9,439**	**$ 11,138**
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Periods:		
Upward/(Downward) Reestimates of Credit Subsidy Expense	$ 100	$ 166
(Increase) in Exchange Revenue Receivable from the Public	89	(122)
Other	1,064	(867)
Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods	**$ 1,253**	**$ (823)**
Components not Requiring or Generating Resources:		
Depreciation and Amortization	(38)	74
Revaluation of Assets or Liabilities	29	(140)
Other Components not Requiring or Generating Resources:		
Bad Debt Expense	(523)	(375)
Cost of Goods Sold	2,803	126
Other	1,194	956
Total Components of Net Cost of Operations that will not Require or Generate Resources	$ 3,465	$ 641
Total Components of Net Cost of Operations that will not Require or Generate Resources in the Current Period	**$ 4,718**	**$ (182)**
Net Cost of Operations	**$ 14,157**	**$ 10,956**

Required Supplementary Information (Unaudited)

Schedule 1
Supporting Schedule to the Combined Statements of Budgetary Resources
Budgetary Accounts

For the Fiscal Year Ended September 30, 2009
(Dollars in Millions)

	Treasury Fund Symbols						
	12X4336	12X2278	12X8161	(72)12X2278	12X1336	Other	Total Budgetary
Budgetary Resources:							
Unobligated balance, brought forward, October 1:	$ 1,173	$ 141	$ 180	$ 32	$ 279	$ 293	$ 2,098
Recoveries of prior year unpaid obligations	119	17	-	40	1	5	182
Budget authority							
Appropriation	-	2,321	950	-	61	12,112	15,444
Borrowing Authority (Note 17)	28,870	-	-	-	-	-	28,870
Spending authority from offsetting collections:							
Earned:							
Collected	11,140	130	-	-	-	452	11,722
Change in receivables from Federal sources	(25)	(64)	-	-	-	-	(89)
Change in unfilled customer orders:							
Advance received	154	-	-	-	-	-	154
Expenditure transfers from trust funds	1,130	-	-	-	-	-	1,130
Subtotal	$ 41,269	$ 2,387	$ 950	$ -	$ 61	$ 12,564	$ 57,231
Nonexpenditure transfers, net, actual	9,884	(1,449)	-	1,448	-	(12,124)	(2,241)
Permanently not available	(26,882)	-	-	-	-	(563)	(27,445)
Total Budgetary Resources	**$ 25,563**	**$ 1,096**	**$ 1,130**	**$ 1,520**	**$ 341**	**$ 175**	**$ 29,825**
Status of Budgetary Resources							
Obligations incurred:							
Direct	$ -	$ 859	$ 1,130	$ 1,499	$ 24	$ 62	$ 3,574
Reimbursable	24,221	-	-	-	-	11	24,232
Subtotal	$ 24,221	$ 859	$ 1,130	$ 1,499	$ 24	$ 73	$ 27,806
Unobligated balance:							
Apportioned	63	236	-	21	51	(41)	330
Exempt from apportionment	841	-	-	-	-	-	841
Subtotal	$ 904	$ 236	$ -	$ 21	$ 51	$ (41)	$ 1,171
Unobligated balance not available	438	1	-	-	266	143	848
Total status of budgetary resources	**$ 25,563**	**$ 1,096**	**$ 1,130**	**$ 1,520**	**$ 341**	**$ 175**	**$ 29,825**

Schedule 1
Supporting Schedule to the Combined Statements of Budgetary Resources
Budgetary Accounts

For the Fiscal Year Ended September 30, 2009
(Dollars in Millions)

	Treasury Fund Symbols						
	12X4336	12X2278	12X8161	(72)12X2278	12X1336	Other	Total Budgetary
Change in Obligated Balance							
Obligated Balance, net							
Unpaid obligations, brought forward, October 1	$ 6,276	$ 347	$ -	$ 594	$ 63	$ 687	$ 7,967
Less: Uncollected customer payments from Federal sources, brought forward, October 1	(258)	(64)	-	-	-	-	(322)
Total unpaid obligated balance, net	$ 6,018	$ 283	$ -	$ 594	$ 63	$ 687	$ 7,645
Obligations incurred, net	24,221	859	1,130	1,499	24	73	27,806
Less: Gross outlays	(22,575)	(938)	(1,130)	(1,204)	(75)	(127)	(26,049)
Obligated balance transferred, net							
Less: Recoveries of prior year unpaid obligations, actual	(119)	(17)	-	(40)	(1)	(5)	(182)
Change in uncollected customer payments from Federal sources	25	64	-	-	-	-	89
Total Change in Obligated Balance	**$ 7,570**	**$ 251**	**$ -**	**$ 849**	**$ 11**	**$ 628**	**$ 9,309**
Obligated balance, net,end of period:							
Unpaid obligations	$ 7,803	$ 251	$ -	$ 849	$ 11	$ 628	$ 9,542
Less: Uncollected customer payments from Federal sources	(233)	-	-	-	-	-	(233)
Total, unpaid obligated balance, net, end of period	**$ 7,570**	**$ 251**	**$ -**	**$ 849**	**$ 11**	**$ 628**	**$ 9,309**
Net Outlays							
Gross outlays	$ 22,575	$ 938	$ 1,130	$ 1,204	$ 75	$ 127	$ 26,049
Less: Offsetting collections	(12,424)	(130)	-	-	-	(452)	(13,006)
Net Outlays	**$ 10,151**	**$ 808**	**$ 1,130**	**$ 1,204**	**$ 75**	**$ (325)**	**$ 13,043**

The accompanying notes are an integral part of these statements.

Schedule 1
Required Supplementary Information (Unaudited)

Supporting Schedule to the Combined Statements of Budgetary Resources
Non-Budgetary Credit Program Financing Accounts

For the Fiscal Year Ended September 30, 2009
(Dollars in Millions)

	Treasury Fund Symbols				
	12X4049	12X4337	12X4158	Other	Total Non-Budgetary
Budgetary Resources:					
Unobligated balance, brought forward, October 1:	$ 1,372	$ 873	$ 116	$ 155	$ 2,516
Recoveries of prior year unpaid obligations	-	-	10	-	10
Budget authority					
Borrowing Authority (Note 17)	43	15	271	11	340
Spending authority from offsetting collections:					
Earned:					
Collected	195	174	118	66	553
Change in unfilled customer orders:					
Without Advance from Federal sources	-	(26)	8	-	(18)
Subtotal	$ 238	$ 163	$ 397	$ 77	$ 875
Permanently not available	(598)	(650)	(202)	(133)	(1,583)
Total Budgetary Resources	**$ 1,012**	**$ 386**	**$ 321**	**$ 99**	**$ 1,818**
Status of Budgetary Resources					
Obligations incurred:					
Direct	$ 405	$ 121	$ 286	$ 34	$ 846
Subtotal	$ 405	$ 121	$ 286	$ 34	$ 846
Unobligated balance:					
Apportioned	243	68	12	40	363
Exempt from apportionment	-	4	-	-	4
Subtotal	$ 243	$ 72	$ 12	$ 40	$ 367
Unobligated balance not available	364	193	23	25	605
Total status of budgetary resources	**$ 1,012**	**$ 386**	**$ 321**	**$ 99**	**$ 1,818**

Schedule 1
Supporting Schedule to the Combined Statements of Budgetary Resources
Non-Budgetary Credit Program Financing Accounts

For the Fiscal Year Ended September 30, 2009
(Dollars in Millions)

	Treasury Fund Symbols				
	12X4049	12X4337	12X4158	Other	Total Non-Budgetary
Change in Obligated Balance					
Obligated Balance, net, beg. of period					
Unpaid obligations, brought forward, October 1	$ -	$ -	$ 109	$ 92	$ 201
Less: Uncollected customer payments from Federal sources, brought forward, October 1	(43)	(151)	(1)	-	(195)
Total unpaid obligated balance, net	$ (43)	$ (151)	$ 108	$ 92	$ 6
Obligations incurred, net	405	121	286	34	846
Less: Gross outlays	(405)	(121)	(226)	(126)	(878)
Less: Recoveries of prior year unpaid obligations, actual	-	-	(10)	-	(10)
Change in uncollected customer payments from Federal sources	-	26	(8)	-	18
Total Change in Obligated Balance	**$ (43)**	**$ (125)**	**$ 150**	**$ -**	**$ (18)**
Obligated balance, net,end of period:					
Unpaid obligations	$ -	$ -	$ 159	$ -	$ 159
Less: Uncollected customer payments from Federal sources	(43)	(125)	(9)	-	(177)
Total, unpaid obligated balance, net, end of period	**$ (43)**	**$ (125)**	**$ 150**	**$ -**	**$ (18)**
Gross outlays	$ 405	$ 121	$ 226	$ 126	$ 878
Less: Offsetting collections	(195)	(174)	(118)	(66)	(553)
Less: Distributed Offsetting receipts	(348)	(64)	(61)	-	(473)
Net Outlays	**$ (138)**	**$ (117)**	**$ 47**	**$ 60**	**$ (148)**

Part IV: Other Accompanying Information (Unaudited)

Schedule 2
Other Accompanying Information (Unaudited)
Change in Inventory by Commodity

For the Fiscal Year Ended September 30, 2009
(Dollars in Thousands)

	Unit of Measure	Beginning Inventory October 1, 2008		Acquisitions		Cost of Sales a/		Donations		Other Dispositions b/		Deductions, Net c/		Ending Inventory September 30, 2009	
		Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value
Feed Grains:															
Barley	Bushels	-	$ -	6	$ 9	(6)	$ (9)	-	$ -	-	$ -	-	$ -	-	$ -
Corn	Bushels	-	-	1,829	10,826	(215)	(1,504)	(1,614)	(9,322)	-	-	-	-	-	-
Corn Meal	Pounds	22,441	4,407	315,547	57,412	(320,432)	(58,715)	17	3	-	-	-	-	17,573	3,108
Oats	Bushels	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Grain Sorghum	Bushels	28	190	29,114	128,180	(29,032)	(127,782)	-	-	-	-	-	-	110	588
Sorghum Grits	Pounds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Feed Grains		XXX	$ 4,597	XXX	$ 196,427	XXX	$ (188,010)	XXX	$ (9,319)	XXX	$ -	XXX	$ -	XXX	$ 3,696
Wheat	Bushels	-	$ -	31,532	$ 217,463	(25,290)	$ (175,858)	(6,775)	$ (44,441)	-	$ (4)	532	$ 2,840	-	$ -
Wheat Flour	Pounds	389	89	240,696	47,737	(196,009)	(39,054)	(27,437)	(5,237)	-	-	-	-	17,639	3,534
Wheat Products, Other	Pounds	-	-	292,741	51,097	(298,850)	(52,455)	6,110	1,358	-	-	-	-	-	-
Total Wheat		XXX	$ 89	XXX	$ 316,297	XXX	$ (267,367)	XXX	$ (48,320)	XXX	$ (4)	XXX	$ 2,840	XXX	$ 3,534
Rice Products:															
Rice Products	Cwt.	2	$ 72	1,652	$ 48,735	(1,650)	$ (48,698)	(30)	$ (994)	-	$ -	30	$ 994	4	$ 109
Rice, Rough	Cwt.	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Rice, Brown	Pounds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Rice Products		XXX	$ 72	XXX	$ 48,735	XXX	$ (48,698)	XXX	$ (994)	XXX	$ -	XXX	$ 994	XXX	$ 109
Cotton, Extra Long Staple	Bales	-	$ -	-	$ 137	-	$ -	-	$ -	-	$ -	-	$ (137)	-	$ -
Cotton, Upland	Bales	-	-	10,980	2,791,638	(10,814)	(2,744,294)	-	-	-	-	(166)	(47,344)	-	-
Total Cotton		XXX	$ -	XXX	$ 2,791,775	XXX	$ (2,744,294)	XXX	$ -	XXX	$ -	XXX	$ (47,481)	XXX	$ -
Dairy Products															
Butter	Pounds	-	$ -	4,639	$ 4,871	(4,638)	$ (4,870)	-	$ -	(1)	$ (1)	-	$ -	-	$ -
Nonfat Dry Milk	Pounds	-	-	269,553	219,744	(1,000)	(816)	(23,367)	(26,692)	(1,201)	(1,014)	(20,259)	(6,724)	223,725	184,499
Cheese Regular Price Support	Pounds	-	-	706	992	-	-	(9,041)	(12,851)	-	-	8,335	11,860	-	-
Infant Formula	Pounds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Ultra High Temperature Milk	Pounds	-	-	2,877	1,287	-	-	(2,877)	(1,287)	-	-	-	-	-	-
Total Dairy Products		XXX	$ -	XXX	$ 226,894	XXX	$ (5,686)	XXX	$ (40,830)	XXX	$ (1,015)	XXX	$ 5,136	XXX	$ 184,499
Oils & Oilseeds:															
Flaxseed	Cwt.	-	$ -	-	$ -	-	$ -	-	$ -	-	$ -	-	$ -	-	$ -
Sunflower Seed	Cwt.	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sunflower Seed Oil, Processed	Pounds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Canola Seed	Cwt.	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Safflower Seed	Cwt.	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Crambe Oilseed	Cwt.	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Mustard Seed	Cwt.	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sunflower Seed Non-Oil	Cwt.	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Oils and Oilseeds		XXX	$ -	XXX	$ -	XXX	$ -	XXX	$ -	XXX	$ -	XXX	$ -	XXX	$ -
Peanut Butter	Pounds	-	$ -	-	$ -	-	$ -	(4,714)	$ (3,660)	-	$ -	4,714	$ 3,660	-	$ -
Peanuts	Pounds	-	-	305,800	54,291	(298,691)	(52,940)	-	-	-	-	(7,109)	(1,351)	-	-
Soybean Products	Bushels	-	$ -	186	$ 2,341	-	$ -	(186)	$ (2,341)	-	$ -	-	$ -	-	$ -
Soybean Products	Pounds	-	-	107,140	19,788	(19,996)	(4,415)	(87,144)	(15,373)	-	-	-	-	-	-

Schedule 2
Other Accompanying Information (Unaudited)
Change in Inventory by Commodity

For the Fiscal Year Ended September 30, 2009
(Dollars in Thousands)

	Unit of Measure	Beginning Inventory October 1, 2008		Acquisitions		Cost of Sales a/		Donations		Other Dispositions b/		Deductions, Net c/		Ending Inventory September 30, 2009	
		Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value
Dry Edible Beans	Cwt.	2	$ 68	1,115	$ 48,258	(999)	$ (42,416)	(105)	$ (5,369)	-	$ -	-	$ -	12	$ 541
Blended Foods	Pounds	7,829	2,086	321,343	76,491	(308,288)	(73,235)	(7,617)	(2,057)	-	-	-	-	13,268	3,285
Honey	Pounds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Meat	Pounds	-	-	-	-	-	-	(5,292)	(7,892)	-	-	5,292	7,892	-	-
Pork Bellies	Pounds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dry Whole Peas	Cwt.	95	2,281	3,186	70,550	(3,169)	(70,964)	55	1,260	-	-	-	-	166	3,127
Lentils Dry	Cwt.	-	-	1,016	46,426	(1,005)	(45,817)	(11)	(609)	-	-	-	-	-	-
Corn Seed	Pounds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Plants & Seeds	Pounds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Potatoes Dehydrated	Pounds	-	-	265	203	(265)	(203)	-	-	-	-	-	-	-	-
Veg Fresh Potatoes	Pounds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
In Process Beet Sugar	Pounds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sugar, Raw Cane	Pounds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sugar, Refined Beet	Pounds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sugar, Refined Cane	Pounds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Corn Oil	Pounds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Soybean Salad Oil	Pounds	-	-	24,135	8,353	(18,249)	(6,360)	(5,886)	(1,993)	-	-	-	-	-	-
Vegetable Oil	Pounds	1,830	1,564	318,472	193,913	(282,100)	(173,184)	(42,421)	(24,099)	-	-	9,744	5,170	5,525	3,365
Fish Cnd Tuna	Pounds	-	-	-	-	-	-	(34,740)	(11,581)	-	-	34,740	11,581	-	-
Fish Salmon	Pounds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Fish, Canned Salmon	Pounds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Poultry Cnd Chicken	Pounds	-	-	-	-	-	-	(17,175)	(18,854)	-	-	17,175	18,854	-	-
Poultry Frzn Chicken	Pounds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Veg Cnd Carrots	Pounds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Veg Cnd Peas	Pounds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Poultry Frzn Turkey	Pounds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Veg Cnd Green Beans	Pounds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Veg Cnd Spinach	Pounds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Veg Cnd Tomatoes	Pounds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Tobacco:															
Burley	Pounds	-	$ -	-	$ -	-	$ -	-	$ -	-	$ -	-	$ -	-	$ -
Cigar	Pounds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dark Air Cured	Pounds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Fire Cured	Pounds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Flue Cured	Pounds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Virginia Fire Cured	Pounds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Subtotal		XXX	$ 5,999	1,082,658	$ 520,614	(932,762)	$ (469,534)	(205,236)	$ (92,568)	-	$ -	64,556	$ 45,806	18,971	$ 10,318
Emergency Food Ration Bars	Pounds	-	$ -	-	$ -	-	$ -	-	$ -	-	$ -	-	$ -	-	$ -
Mohair	Pounds	-	-	5	19	(5)	(19)	-	-	-	-	-	-	-	-
Tallow	Pounds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Wool	Pounds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Subtotal		-	$ -	5	$ 19	(5)	$ (19)	-	$ -	-	$ -	-	$ -	-	$ -
Elimination of Sales to P.L. 480		-	-	-	-	(1,449,561)	(920,658)	-	(920,658)	-	-	-	-	-	-
Total Inventory Operations		XXX	$ 10,757	XXX	$ 4,100,761	XXX	$ (2,802,950)	XXX	$ (1,112,689)	XXX	$ (1,019)	XXX	$ 7,295	XXX	$ 202,156

Note: Inventories of commodities as shown in this report include commodities committed to sale or otherwise obligated. Due to distinct units of measure, Quantity totals are not tabulated, and are denoted as xxx.
a/ Includes commodities subsequently exported and financed under P.L. 480.
b/ Includes inventory quantity gains under the Export Program, and the losses incurred for conversion, incurred casualties and transit, and shrinkage and spoilage of commodities.
c/ Includes the net of over-deliveries, premiums, under-deliveries and discounts resulting from warehouse operations; the net change in value and quantity of inventory exchanged or in process of exchange; and processing end packaging costs and related quantitative gains and losses in processing operations and items which are footnoted individually.

Summary of Financial Statement Audit

Audit Opinion	**Unqualified**				
Restatement	No				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Improvement Needed in Financial System Functionality and Funds Control	1				1
Improvement Needed in Management's Review of Cash Flow Models	1		(1)		0
Improvements Needed to Ensure Obligations and Liabilities Related to Prior Program Years are Accurately Reflected in the Financial Statements	1		(1)		0
Total Material Weaknesses	3		(2)		1

Summary of Management Assurances

Effectiveness of Internal Control over Operations (FMFIA § 2)						
Statement of Assurance	Reasonable assurance					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Review of Cash Flow Models	1		(1)			0
Recording Accruals and Obligations	1		(1)			0
Total Material Weaknesses	1		(2)			0

Conformance with Financial Management Systems Requirements (FMFIA § 4)						
Statement of Assurance	Systems do not conform to financial management system requirements					
Non-conformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Financial System Functionality	1					1
Total Non-conformances	1					1

Compliance with Federal Financial Management Improvement Act (FFMIA)		
	Agency	Auditor
Overall Substantial Compliance	No	No
1. System Requirements	No	
2. Accounting Standards	Yes	
3. USSGL at Transaction Level	Yes	

IMPROPER PAYMENTS INFORMATION ACT (IPIA) COMPLIANCE

The President's Management Agenda identified the reduction of improper payments as a key goal for Government Agencies. The IPIA legislation requires that FSA, under the direction of the Department of Agriculture Chief Financial Officer, annually review programs and activities to identify if any are susceptible to significant improper payments. OMB is responsible for implementing IPIA. OMB defines programs as high risk if they have more than 2.5 percent and $10 million in improper payments annually. Annually FSA completes risk assessments of the programs identified by the Office of the Chief Financial Officer (OCFO). The risk assessment determines whether each program is at low or high risk for making improper payments. Also, OMB, during its review of the risk assessment documentation, may conclude that a program should be high risk. If a program is identified as high risk, FSA must complete a review of payments in accordance with the requirements outlined in Appendix C of OMB Circular A-123. FSA then develops a statistically valid estimate to determine the projected annual amount of improper payments for the program or activity. Based on the kinds of errors found during the review, FSA must develop a corrective action plan for reducing improper payments and establish performance goals.

The results of FSA/CCC's improper payment risk assessments are included in the USDA's Management Discussion and Analysis section of its annual *Performance and Accountability Report* (PAR). The PAR is released annually on November 15.

FSA completed the risk assessment of all CCC programs identified for review as part of the FY 2009 Review Cycle. The results of those reviews identified no new programs that were at high risk for making improper payments. Statistical samples were completed for five of the seven high risk programs identified in previous years where improper payments had exceeded the 2.5 percent maximum improper payment rate established by the legislation. The five high risk programs reviewed were Marketing Assistance Loan Program, Direct and Counter-Cyclical Payments, Conservation Reserve Program, Miscellaneous Disaster Programs, and Noninsured Disaster Assistance Program. Two high risk programs, Marketing Assistance Loans and Loan Deficiency Payments were not reviewed due to the low volume of payment activity. The FY 2009 statistical sample results are compared to the results from FY 2008 in the table shown below.

IMPROPER PAYMENTS INFORMATION ACT (IPIA) COMPLIANCE

Program	A Value of Outlay Sample Universe (in million $)		B Total Value of Improper Payments (in million $)		C Value of Administrative Errors (in million $)[1]		D Value of Incorrect Disbursements (in million $)[1]		E Percent of Incorrect Disbursements	
FY Testing Done	FY 2008	FY 2009	FY 2008	FY 2009	FY 2008	FY 2009	FY 2008	FY 2009	FY 2008	FY 2009
Marketing Assistance Loans	$4,981	$4,935	$92	$85.4	$82	$80.1	$9.8	$5.3	0.19 %	0.16%
Noninsured Assistance Program	$126	$67	$18	$8.4	$16.3	$5.4	$4.0	$3.7	3.29 %	6.37%
Direct and Counter- Cyclical Program	$7,144	$4,948	$47	$19.4	$32.3	$15.1	$14.9	$7.9	0.22 %	0.17%
Disaster Payments	$154	$2,245	$5	$19.2	$2.9	$2.3	$3.7	$17.8	3.13%	0.84%
Conservation Reserve Program	$1,888	$1,876	$24	$11.1	$6.7	$5.8	$19.4	$6.8	1.02 %	0.44%
All High Risk Programs	$14,293	$14,071	$186	$143.5	$140.2	$108.7	$51.8	$41.5	0.36 %	0.29%

Source of FY 2008 data was the FY 2008 USDA PAR and FY 2009 Data was the Memo dated May 27, 2009 from Director, Operations Review and Analysis Staff to Director, Office of Budget and Finance.

[1]Estimates are individually calculated statistical projections and are not intended to conform to nor validate another estimate using an arithmetical expression. Each point estimate is calculated with respect to its own expansion factors and lies within its own confidence bounds. Because of the sample design complexity, additional calculations are generally necessary to add or combine two distinct statistical estimates.

Glossary of Acronyms

ADA	Anti-deficiency Act
ADP	Automatic Data Processing
AMS	Agricultural Marketing Service
BEHT	Bill Emerson Humanitarian Trust
BDO	Barter Delivery Obligations
BPMS	Budget and Performance Management System
CAP	Corrective Action Plan
CCC	Commodity Credit Corporation
CFO	Chief Financial Officer
COR	County Office Review
COTS	Commercial-off-the-Shelf
CRP	Conservation Reserve Program
CSC 2	Credit Subsidy Calculator 2
DAFP	Deputy Administrator for Farm Programs
DCP	Direct and Counter-Cyclical Payment Program
DPSP	Daily Product Price Support Program
eDCP	Electronic Direct and Counter-Cyclical Payment Program
EQIP	Environmental Quality Incentive Program
EPAS	Economics, Policy, and Analysis
FACTS II	Federal Agencies Centralized Trial Balance System II
FAI	Finance Account Interest
FAPRI	Food and Agricultural Policy Research Institute
FASAB	Federal Accounting Standards Advisory Board
FAS	Foreign Agricultural Service
FATER	Food Aid Targeting Effectiveness Ratio
FCRA	Federal Credit Reform Act of 1990
FDIIP	Financial Data Integration Improvement Plan
FFAS	Farm and Foreign Agricultural Services
FFMIA	Federal Financial Management Improvement Act
FGP	Facilities Guarantee Program
FISMA	Federal Information Security Management Act

FMFIA	Federal Managers' Financial Integrity Act
FMMI	Financial Management Modernization Initiative
FNCS	Food, Nutrition, and Consumer Services
FNS	Food and Nutrition Service
FRBs	Federal Reserve Banks
FRPP	Farm and Ranch Lands Protection Program
FSA	Farm Service Agency
FSFL	Farm Storage Facility Loan Program
FSIO	Financial System Integration Office
FSIS	Food Safety and Inspection Service
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GMLoB	Grants Management Line of Business
GPEA	Government Paperwork Elimination Act
GPRA	Government Performance and Results Act
GRP	Grassland Reserve Program
GSM	General Sales Manager
HIPC	Heavily Indebted Poor Countries
ICRAS	Inter-Agency Credit Risk Assessment System
IPIA	Improper Payments Information Act of 2002
IT	Information Technology
ITS	Information Technology Services
JFMIP	Joint Financial Management Improvement Program
MAL	Marketing Assistant Loans
MAP	Market Access Program
MIDAS	Modernize and Innovate the Delivery of Agricultural Systems
MILC	Milk Income Loss Contract Program
MRP	Marketing and Regulatory Programs
NAP	Noninsured Crop Disaster Assistance Program
NIST	National Institute of Standards and Technology
NPS	National Payment Service

NRE	Natural Resources and Development
NRCS	National Resources Conservation Service
OCFO	Office of the Chief Financial Officer
OGC	Office of the General Counsel
OIG	Office of the Inspector General
OMB	Office of Management and Budget
PAR	Performance and Accountability Report
PART	Program Assessment Rating Tool
PECD	Production, Emergencies, and Compliance Division
P&F Schedule	Program and Financing Schedule
PL	Public Law
PP&E	Property, Plant and Equipment
PSD	Price Support Division
PV	Present Value
RD	Rural Development
REX	Re-enroll or Extend
RFI	Request for Information
RSI	Required Supplementary Information
RSSI	Required Supplementary Stewardship Information
SAP	Systems Applications Products
SCGP	Supplier Credit Guarantee Program
S&E	Salaries and Expenses
SBR	Statement of Budgetary Resources
SFFAC	Statement of Federal Financial Accounting Concepts
SFFAS	Statement of Federal Financial Accounting Standards
SNC	Statement of Net Cost
SPPA	Strategic Partnership Program Agro-terrorism
TTPP	Tobacco Transition Payment Program
USAID	United States Agency for International Development
USDA	United States Department of Agriculture
USFWS	U.S. Fish and Wildlife Service

USGS	Geological Survey
USWA	United States Warehouse Act
WRP	Wetlands Reserve Program
WTO	World Trade Organization