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Office of Inspector General
Financial & IT Operations

Audit Report

Commodity Credit Corporation's Financial Statements for Fiscal Years 2006 and 2005

Report No. 06401-21-FM
November 2006

UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington D.C. 20250

November 13, 2006

REPLY TO
ATTN OF: 06401-21-FM

TO: Board of Directors
Commodity Credit Corporation

Kristine Chadwick, Controller
Commodity Credit Corporation

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 2006 and 2005

This report presents the auditors' opinion on the Commodity Credit Corporation's (CCC) principal financial statements for the fiscal years ending September 30, 2006 and 2005. Reports on CCC's internal control structure and its compliance with laws and regulations are also provided.

KPMG LLP, an independent certified public accounting firm, conducted the audits. We monitored the progress of the audits at all key points, reviewed audit documentation, and performed other procedures, as we deemed necessary. We determined the audits were conducted in accordance with generally accepted auditing standards, *Government Auditing Standards* (issued by the Comptroller General of the United States), and the Office of Management and Budget Bulletin No. 06-03, "Audit Requirements for Federal Financial Statements."

It is the opinion of KPMG LLP, that the financial statements present fairly, in all material respects, CCC's financial position as of September 30, 2006 and 2005; and its net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations for the years then ended, in conformity with generally accepted accounting principles.

The KPMG LLP report on CCC's internal control structure over financial reporting identified five reportable conditions. Specifically, KPMG identified weaknesses in CCC's:

- Information security controls;
- financial system functionality and funds control;
- financial accounting and reporting policies and procedures;
- producer monitoring procedures; and
- management's review procedures related to the development, implementation, and maintenance of credit reform cash flow models.

KPMG considered the first three reportable conditions to be material weaknesses. The results of KPMG's tests of compliance with laws and regulations disclosed instances of noncompliance with the Federal Information Security Management Act and the Federal Financial Management Improvement Act of 1996.

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, 2006

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INDEPENDENT AUDITORS' REPORT

KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

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

To Commodity Credit Corporation:

We have audited the accompanying consolidated balance sheets of the Commodity Credit Corporation (CCC) as of September 30, 2006 and 2005, and the related consolidated statements of net cost, changes in net position, and financing and the combined statements of budgetary resources for the years then ended (hereinafter referred to as the consolidated financial statements). CCC is a wholly owned government corporation within the U.S. Department of Agriculture (USDA). The objective of our audits was to express an opinion on the fair presentation of these consolidated financial statements. In connection with our fiscal year 2006 audit, we also considered CCC's internal controls over financial reporting and performance measures, and tested CCC's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements that could have a direct and material effect on these consolidated financial statements.

Summary

As stated in our opinion on the consolidated financial statements, we concluded that CCC's consolidated financial statements as of and for the years ended September 30, 2006 and 2005, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, CCC changed its method of accounting for and reporting stewardship land in fiscal year 2006 to adopt the provisions of SFFAS No. 29, *Heritage Assets and Stewardship Land*.

Our consideration of internal control over financial reporting and performance measures resulted in the following conditions being identified as reportable conditions:

- Improvement needed in information security controls;
- Improvement needed in financial system functionality and funds control;
- Improvement needed in financial accounting and reporting policies and procedures;
- Improvement needed in producer monitoring procedures; and
- Improvement needed in management's review procedures related to the development, implementation, and maintenance of credit reform cash flow models.

We consider the first three reportable conditions, above, to be material weaknesses.

The results of our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements disclosed the following instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 06-03, *Audit Requirements for Federal Financial Statements*:

- Federal Information Security Management Act (FISMA); and
- Federal Financial Management Improvement Act of 1996 (FFMIA).

The results of our tests of FFMIA disclosed instances, described in more detail in Exhibit 1, where CCC's financial management systems did not substantially comply with Federal financial management systems requirements or applicable Federal accounting standards. The results of our tests of FFMIA disclosed no instances in which CCC's financial management systems did not substantially comply with the United States Government Standard General Ledger (USSGL) at the transaction level.

The following sections discuss our opinion on CCC's consolidated financial statements; our consideration of CCC's internal controls over financial reporting, and performance measures; our tests of CCC's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements; and management's and our responsibilities.

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of the Commodity Credit Corporation (CCC) as of September 30, 2006 and 2005, and the related consolidated statements of net cost, changes in net position, and financing and the combined statements of budgetary resources for the years then ended.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CCC as of September 30, 2006 and 2005, and its net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations, for the years then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, CCC changed its method of accounting for and reporting stewardship land in fiscal year 2006 to adopt the provisions of SFFAS No. 29, *Heritage Assets and Stewardship Land*.

The information in the Management Discussion and Analysis and Required Supplementary Information sections is not a required part of the consolidated financial statements, but is supplementary information required by U.S. generally accepted accounting principles and OMB Circular No. A-136, *Financial Reporting Requirements*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

Internal Control over Financial Reporting

Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect CCC's ability to record, process, summarize, and report financial data consistent with the assertions by management in the consolidated financial statements.

Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud, in amounts that would be material in relation to the consolidated financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal control, misstatements due to error or fraud may nevertheless occur and not be detected.

In our fiscal year 2006 audit, we noted certain matters, described in Exhibits 1 and 2, involving internal control over financial reporting and its operation that we consider to be reportable conditions. We believe that the reportable conditions presented in Exhibit 1 are material weaknesses. Exhibit 2 presents the other reportable conditions. Summaries of the status of prior year material weaknesses, reportable conditions, and management's response to our findings are included as Exhibit 4, 5 and 6, respectively.

We also noted certain additional matters that we reported to the management of CCC in a separate letter dated November 13, 2006.

Internal Controls over Performance Measures

Under OMB Bulletin No. 06-03, the definition of material weaknesses is extended to other controls as follows. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud, in amounts that would be material in relation to a performance measure or aggregation of related performance measures, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal control, misstatements due to error or fraud may nevertheless occur and not be detected.

Our consideration of the internal control over the design and operation of internal control over the existence and completeness assertions related to key performance measures would not necessarily disclose all matters involving the internal control and its operation related to the design and operation of the internal control over the existence and completeness assertions related to key performance measures that might be reportable conditions.

In our fiscal year 2006 audit, we noted no matters involving the design and operation of the internal control over the existence and completeness assertions related to key performance measures that we considered to be material weaknesses as defined above.

Compliance and Other Matters

Our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, as described in the Responsibilities section of this report, exclusive of those referred to in FFMIA, disclosed one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and OMB Bulletin No. 06-03, and is described below.

FISMA. FISMA, passed as part of the E-Government Act of 2002, requires that Federal agencies (1) provide a comprehensive framework for ensuring the effectiveness of information security controls over information resources that support Federal operations and assets; (2) provide effective government-wide management and oversight of the related information security risks; (3) provide for development and maintenance of minimum controls required to protect Federal information and information systems; (4) provide a mechanism for improved oversight of Federal agency information security programs; (5) acknowledge that commercially developed information security products offer advanced, dynamic, robust, and effective information security solutions, reflecting market solutions for the protection of critical information infrastructures important to the national defense and economic security of the nation that are designed, built, and operated by the private sector; and (6) recognize that the selection of specific technical hardware and software information security solutions should be left to individual agencies from among commercially developed products. OMB Circular No. A-130, *Management of Federal Information Resources*, provides further information security guidance.

We noted that during fiscal year 2006, the Farm Service Agency (FSA) and CCC have made much progress with their information security program in order to meet FISMA and OMB Circular No. A-130 guidelines. (FSA provides and maintains the IT infrastructure supporting CCC's general support systems and major applications, hence the reference here, and later in this report, to FSA.) However, FSA/CCC needs further improvement in its entity-wide security and contingency planning programs to fully meet these guidelines. These matters are described in more detail in Exhibit 1.

The results of our tests of compliance with certain provisions of other laws and regulations, exclusive of those referred to in FFMIA, disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 06-03.

FFMIA. The results of our tests of FFMIA disclosed instances, described in more detail in Exhibit 1, where CCC's financial management systems did not substantially comply with Federal financial management systems requirements or applicable Federal accounting standards. The results of our tests of FFMIA disclosed no instances in which CCC's financial management systems did not substantially comply with the USSGL at the transaction level.

FFMIA mandates that Federal financial management be advanced by ensuring that Federal financial management systems can and do provide reliable, consistent disclosure of financial data and that they do so on a basis that is uniform across the Federal government from year to year, consistently using accounting principles generally accepted in the United States of America. Federal agencies need to comply with FFMIA by adhering to policies established by OMB, such as OMB Circular No. A-127, *Financial Management Systems*, and OMB Circular No. A-130, *Management of Federal Information Resources*.

A summary of the instances of FFMIA noncompliance noted in Exhibit 1 follows:

- FFMIA requires that Federal agencies implement information security controls and contingency planning capabilities in accordance with OMB Circular No. A-130. As noted above, CCC needs to improve in these areas to be in compliance with OMB Circular No. A-130. For example, CCC needs to enhance its procedures in order to establish and maintain information security and contingency planning controls. FFMIA also requires that Federal agencies implement financial systems controls in accordance with OMB Circular No. A-127 and we noted that CCC needs to improve in this area. For example, CCC needs to improve its processes over funds control.
- FFMIA requires that Federal agencies adhere to applicable Federal accounting standards. We noted instances where CCC needs to improve processes regarding financial reporting in order to comply with U.S. generally accepted accounting principles.

Responsibilities

Management's Responsibilities. The United States Code Title 31 Section 3515 and 9106 requires agencies to report annually to Congress on their financial status and any other information needed to fairly present their financial position and results of operations. To meet these reporting requirements, CCC prepares and submits consolidated financial statements in accordance with OMB Circular No. A-136.

Management is responsible for the consolidated financial statements, including:

- Preparing the consolidated financial statements in conformity with U.S. generally accepted accounting principles;

- Preparing the Management Discussion and Analysis (including the performance measures) and Required Supplementary Information;
- Establishing and maintaining effective internal control; and
- Complying with laws, regulations, contracts, and grant agreements applicable to CCC, including FFMIA.

In fulfilling this responsibility, management is required to make estimates and judgments to assess the expected benefits and related costs of internal control policies.

Auditors' Responsibilities. Our responsibility is to express an opinion on the fiscal year 2006 and 2005 consolidated financial statements of CCC based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin No. 06-03. Those standards and OMB Bulletin No. 06-03 require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of CCC's internal control over financial reporting. Accordingly, we express no such opinion.

An audit also includes:

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

We believe that our audits provide a reasonable basis for our opinion.

In planning and performing our fiscal year 2006 audit, we considered CCC's internal control over financial reporting by obtaining an understanding of CCC's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in *Government Auditing Standards* and OMB Bulletin No. 06-03. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982* (FMFIA). The objective of our audit was not to provide assurance on CCC's internal control over financial reporting. Consequently, we do not provide an opinion thereon.

As further required by OMB Bulletin No. 06-03, in our fiscal year 2006 audit, with respect to internal control related to performance measures determined by management to be key and reported in the Management Discussion and Analysis, we obtained an understanding of the design of internal controls relating to the existence and completeness assertions and determined whether these internal controls had been placed in operation. We limited our testing to those controls necessary to test and report on the internal control over key performance measures in accordance with OMB Bulletin No. 06-03. However, our procedures were not designed to provide an opinion on internal control over reported performance measures and, accordingly, we do not provide an opinion thereon.

As part of obtaining reasonable assurance about whether CCC's fiscal year 2006 consolidated financial statements are free of material misstatement, we performed tests of CCC's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of the consolidated financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 06-03, including certain provisions referred to in FFMIA. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to CCC. However, providing an opinion on compliance with laws, regulations, contracts, and grant agreements was not an objective of our audit and, accordingly, we do not express such an opinion.

Under OMB Bulletin No. 06-03 and FFMIA, we are required to report whether CCC's financial management systems substantially comply with (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the USSGL at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA Section 803(a) requirements.

Restricted Use

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

KPMG LLP

November 13, 2006

Exhibit 1

U.S. DEPARTMENT OF AGRICULTURE –
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Material Weaknesses

Introduction

The internal control weaknesses discussed in this report, and the Commodity Credit Corporation's (CCC) progress toward correcting these weaknesses, are discussed in the context of CCC's existing statutory and organizational structure. We recognize that any recommended information technology (IT) control enhancements pertaining to CCC operations cannot be implemented solely by CCC, because CCC's applications are in many cases hosted on systems managed by the United States Department of Agriculture (USDA) and the USDA Farm Service Agency (FSA). As a result, several of the IT control weaknesses identified in this report will require the combined effort of USDA and CCC management.

Exhibit 1 describes the material weaknesses and Exhibit 2 describes the reportable conditions as of and for the year ended September 30, 2006, and our recommendations thereon. The status of prior year material weaknesses and reportable conditions are reported in Exhibits 4 and 5, respectively. CCC management's response to our findings is presented in Exhibit 6.

Material Weaknesses

The material weaknesses we identified as of and for the year ended September 30, 2006, are summarized below.

(1) Improvement Needed in Information Security Controls

Information security management is a crucial component in protecting sensitive and critical CCC information resources and financial data. The citizens of the United States entrust the stewardship of Federal government financial resources and assets to government financial and program managers. Without effective information security controls over financial systems and supporting systems, there is substantial risk that the resources under stewardship may be exposed to unauthorized modification, disclosures, loss, or impairment.

Information security weaknesses have been identified in FSA/CCC's IT environment in prior year audits conducted by the USDA Office of the Inspector General (OIG), as well as in prior audits of CCC's consolidated financial statements. In response to these findings, and to address Federal Information Security Management Act (FISMA) requirements, FSA/CCC has taken steps to improve its information security program. For example, during fiscal year 2006 FSA/CCC:

- Revised the current mainframe change control document, 14-ADM;
- Implemented supervisory review of the Guarantee Sales Manager (GSM) user community;
- Continued updating security risk assessments for key applications;
- Implemented a security and awareness training tracking mechanism; and
- Updated domain password settings to adhere to internal policy requirements.

Despite these efforts, additional enhancements are needed to help improve FSA/CCC's level of confidentiality, integrity, and availability of sensitive and critical information systems and resources. Specifically, as in prior year CCC consolidated financial statement audits, we noted several areas, detailed below, where improvements are needed in establishing and maintaining information security and contingency planning controls.

Information Security Program Management

Information security program management controls should be in place to establish a framework and continuing cycle of activity to manage security risk, develop security policies, assign responsibilities, and monitor the adequacy of IT security related controls. During our fiscal year 2006 IT control testing, we noted that FSA/CCC has made progress with its security program management efforts. However, as identified in prior year CCC consolidated financial statement audits, we also noted that FSA/CCC's information security program needs continued improvement. Noted below are specific areas for improvement.

- The existing risk assessment process needs to be more consistent. For example, FSA/CCC has taken steps to improve its security risk assessment process, but the risk assessments for the major applications supporting CCC's operations have not been finalized. Maintaining consistent, current, and complete security risk assessments is a critical component of an organization's security program, as the risk assessments drive other security related activities, such as planning for the implementation of technical security controls, as well as contingency planning efforts. Further, FISMA requires that security risk assessments be completed for agency systems and applications.

- Updating risk mitigation plans to reflect current year status needs improvement. For example, four of seven application risk mitigation plans prepared by FSA/CCC have milestones with initial completion dates ranging from January 1, 2004 to March 30, 2005, that have not been updated to reflect the current fiscal year 2006 status. The four applications are the Financial Management System (FMS), Automated Cotton Reporting System (ACRS), Data Control System (DCS), and electronic Funds Control System (e-Funds).

- Discrepancies between risk assessments and risk mitigation plans must be addressed more thoroughly. For example, discrepancies were found in five risk assessments that included risks not identified in the corresponding risk mitigation plans. The five applications with inconsistencies between the risk assessments and the risk mitigation plans were the Automated Price Support System (APSS), the CCC Core Accounting system (CORE), e-Funds, FMS, and DCS.

Technical Security Access Controls

In close concert with an organization's security program management efforts, technical security access controls for systems and applications should provide reasonable assurance that IT resources such as data files, application programs, and IT-related facilities/equipment are protected against unauthorized modification, disclosure, loss, or impairment. Technical access controls are facilitated by an organization's overall information security program. Inadequate technical security access controls diminish the reliability of data and increase the risk of destruction or inappropriate disclosure of information, both of which are significant risks from a financial audit perspective.

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The objectives of limiting access are to ensure that users have only the access needed to perform their duties; that access to very sensitive resources, such as security software programs, is limited to very few individuals; and that employees are restricted from performing incompatible functions or functions beyond their responsibility.

A summary of the technical access control weaknesses we identified follows:

- The immediacy of resolving "high risk" vulnerabilities needs improvement. We noted that in a six-month period during fiscal year 2006, the same "high risk" vulnerabilities were identified in consecutive monthly scan reports. This issue is significant for CCC, as the identified system weaknesses could be exploited by unauthorized personnel attempting to penetrate FSA/CCC's IT environment to ultimately gain access to sensitive financial processing devices and applications.

- Reviews of user access lists need improvement. For example, we found that a current listing of authorized county office AS/400 system users and their access authorizations is not consistently reviewed. In two cases AS/400 user accounts were still active despite the personnel not being assigned to that office for more than six months.

- Management review of all physical access requests needs improvement. For example, we identified numerous access control documentation deficiencies for the Beacon facility server room.

Software Change/Configuration Management

The primary focus of an organization's software change/configuration management program is to control the software changes made to systems and applications in operation. Establishing controls over the modification of software programs ensures that only authorized programs and authorized modifications are implemented. This is accomplished by instituting policies, procedures, and techniques to determine that all programs and program modifications are properly authorized, tested, and approved, and that access to and distribution of programs is carefully controlled. Without such controls, there is a risk that security features could be inadvertently or deliberately omitted or turned off, or that processing irregularities or malicious codes could be introduced into the IT environment.

A summary of the software change/configuration management weaknesses we identified follows:

- System security and configuration management procedures and documentation need improvement. For example, financial application software change request forms supporting changes made to the ACRS, APSS, CORE, DCS, e-Funds, FMS State and County Office Automation Project (SCOAP), and the Processed Commodities Information Management System (PCIMS) applications lacked consistently documented approvals and sign-offs.

- Documentation of change management policies and procedures need improvement. For example, CCC has not implemented formal procedures to address identification, documentation review, and approval of emergency changes that occur in the application environment.

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Material Weaknesses

End-User Computing

End-user computing tools/programs (e.g., spreadsheets and other user-developed programs) provide a unique set of general control needs within an organization. By its nature, end user computing brings the development and processing of information systems closer to the user. This environment may not be subjected to the same level of rigor and structure as an IT general controls environment. During the FY 2006 CCC financial audit we found that end-user computing policies and procedures need to be better documented. For example, CCC has not fully documented policies that address standards or requirements for data encryption for CCC workstations, and program offices have not documented procedures for controlling end-user computing.

Maintaining good IT controls is not only part of a sound management governance structure, it is also required by Federal laws and regulations. For example, FISMA requires that Federal agencies follow the security guidance issued by the National Institute of Standards and Technology (NIST). NIST provides the following relevant guidance:

- Special Publication 800-53, *Recommended Security Controls for Federal Information Systems,* guides that the organizations should maintain sufficient access controls to protect sensitive agency data.
- Special Publication 800-12, *An Introduction to Computer Security*, guides that organizations, to effectively address security, should plan and manage security throughout a computer system's life cycle, from initial planning, through design, implementation, and operation, to disposal.
- Special Publication 800-14, *Generally Accepted Principles and Practices for Security Information Technology Systems,* guides that organizations should ensure effective administration of users' computer access to maintain system security, including user account management and the timely modification or removal of access.

Further, CCC's internal policies and procedures guide for the maintenance of sound IT controls. For example:

- CCC's Administrative and Financial Applications Office (AFAO) Change Control Process provides criteria for documentation and approval of application changes.
- The FSA 6-IRM Security Policy requires local management to bi-annually review all physical access requests.

Recommendations

In addition to recommendations 2 and 9 from our fiscal year 2005 report, we recommend that FSA/CCC management, in cooperation with the FSA/CCC system owners:

1. Identify and implement controls to better track outstanding risk mitigation plan milestones.
2. Verify that risk mitigation plans incorporate all the risks identified in the risk assessments.

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3. Develop a process to verify that systems identified with a high risk vulnerability do not show up on subsequent monthly vulnerability scan reports, unless they are verified and documented as a false-positive.

4. Establish and enforce a policy that requires physical access authorizations to be completed in their entirety, and physical access lists to the server room in the Beacon facility to be reviewed on a regularly scheduled basis, accompanied with appropriate management approval.

5. Implement an overall standard change control process, including a process for acceptance testing and emergency changes, so that application modifications are managed in a consistent manner.

6. Implement encryption on workstations and computing devices that are utilizing spreadsheets and localized access databases for processing of financial data.

(2) Improvement Needed in Financial System Functionality and Funds Control

Maintaining quality Federal financial management system functionality is critical to enhance the accountability of financial and program managers, to provide better information for decision making, and to increase the efficiency and effectiveness of services provided by the Federal government. Proper and reliable financial management systems must provide for:

- *Accountability*. Inform taxpayers, Congress, and agency personnel, in terms they can readily understand, on how the nation's tax dollars are spent and how Federal assets are protected.
- *Efficiency and Effectiveness*. Provide efficient and effective service to the Federal agency's internal and external customers (e.g., individuals, contractors, partnerships, State and local governments, other Federal agencies/organizations, the military, and foreign governments).
- *Better Decision Making*. Provide to Congress, agency heads, and program managers timely reports linking financial results and program data so that financial and program results of policy and program decisions can be identified, tracked, and forecasted more accurately[1].

As noted previously herein, not only are quality financial management systems important for the day-to-day management of organizational financial data and information, but also for complying with the Federal Financial Management Improvement Act of 1996 (FFMIA) and OMB Circular No. A-127. FFMIA mandates that Federal financial management be advanced by ensuring that Federal financial management systems and accounting standards be implemented to provide reliable, consistent disclosure of financial data. OMB Circular No. A-127 sets forth policies for establishing and maintaining Federal financial management systems in accordance with FFMIA.

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[1] From the *Joint Financial Management Improvement Program* (JFMIP), (now known as *the Financial Systems Integration Office*), *Core Financial System Requirements*, and its addendum, dated November 2001 and March 2004, respectively.

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Material Weaknesses

During fiscal year 2006, CCC implemented corrective actions to improve controls and processes supporting its financial processing environment. For example, CCC updated the direct and guaranteed loans cash flow models implemented in fiscal year 2005 to address the issues noted during last year's audit that required manual adjustment. CCC is also either working on or has already implemented new systems aimed at automating previously manual processes, thereby achieving expected operating efficiencies and a better controlled environment. New systems implemented in 2006 or at the end of 2005 include the electronic Loan Deficiency Payments (eLDP) system, the electronic Milk Income Loss Contract (eMILC) system, and the Tobacco Transition Payments Program (TTPP) system. In addition, the National Payment System (NPS) is used by CCC to disburse payments on behalf of the systems that interface with NPS, such as eLDP, eMILC, and TTPP. We understand that a new obligation Web service has been defined and programmed for farm programs that are initiated through NPS; however, applications have not been developed for the interface to update the obligation Web service.

As noted in the prior year's audit report, CCC uses e-Funds, an intranet based application functional at the national, state, and county office levels to help monitor daily program disbursements made at CCC's state and county offices. The system is designed to compare at a summary level the amount of budgetary authority remaining for these programs to disbursements made without consideration given to program obligations (specifically undelivered orders and delivered orders-unpaid). As such, the e-Funds system does not provide the necessary management information to determine the true status of net available program resources as disbursements are made.

During fiscal year 2006 CCC took additional steps to improve its manual processes to monitor funds control. These steps included the documentation of management's analysis of CCC's programs by funding type and obligation category, which allowed management to zero in on the funds control process for apportioned programs and non-apportioned programs with spending limits. CCC also documented guidance on how to account for obligations and accruals at the program category (PCAT) level in the Obligations and Accruals Guidance Report (OAGR). In accordance with this guidance, CCC implemented the following main manual controls to compensate for the lack of integrated financial systems and processes related to monitoring and controlling net budgetary resources:

- The Program Account Analysis (PAA), which designates accountants who periodically (i.e., monthly) monitor obligations for specific programs, subject to management review and approval.

- The Monthly Reporting/Oversight module of the Financial Reporting Tool, which generates monthly reports, such as the *Obligations Report, Undelivered Orders Aging Report, Budget Execution Report,* designed to illustrate the obligated and unobligated balance at the PCAT level and monitor obligations, accruals, and disbursements. These controls are also subject to management review and approval.

While these manual controls help mitigate the risk of financial statement misstatement, they do not fully address the risks arising from the lack of an integrated obligation and disbursement system related to funds control. The enhanced control procedures documented above consist of after-the-fact manual journal entries, reviews, and reconciliations and therefore would not be able to achieve

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proper funds control. Due to the fact that obligation information for CCC's apportioned programs and non-apportioned programs with spending limits is not readily available to allow for a timely analysis of available program funding, there still remains a significant risk that funds could be disbursed or obligations and liabilities incurred with no or insufficient budget authority to fund the expense, obligation, or liability.

Funds control is a vital component of any Federal government operation. It requires that an obligation be recorded prior to the disbursement of funds. In addition, the Anti-Deficiency Act (ADA) provides that an office or employee of the United States Government may not (a) make or authorize an expenditure or obligation exceeding an amount available in an appropriation or fund for the expenditure or obligation; or (b) involve the government in a contract or obligation for the payment of money before an appropriation is made, unless authorized by law. Section 1517a.2 of this Act further provides that an agency may not exceed the available amount of an administrative subdivision officially directed by the agency. The success of properly implementing and executing these requirements is dependent on the effectiveness of an agency's funds control mechanism. In accordance with Part 4 of OMB Circular No. A-11, *Instructions on Budget Execution*, the purpose of funds control is to:

- Restrict both obligations and expenditures from each appropriation or fund account to the lower of the amount apportioned by OMB or the amount available for obligation and/or expenditure in the appropriation or fund account.
- Enable management to identify the person responsible for any obligation or expenditure exceeding the amount available in the appropriation or fund account, the OMB apportionment or reapportionment, the allotments of sub-allotments made by the agency, and statutory limitations or any other administrative sub-division of funds made by CCC.

Based on our fiscal year 2006 audit results, CCC continues to experience significant funds control deficiencies and in this regard remains noncompliant with FFMIA.

Recommendation

We continue to recommend the need for CCC to further improve its system functionality regarding funds control as stated in our fiscal year 2003 report, recommendation no. 13 and in our fiscal year 2005 report, recommendation no. 12.

(3) Improvement Needed in Financial Accounting and Reporting Policies and Procedures

CCC's financial accounting and reporting policies and procedures should be strengthened to ensure that errors are prevented or identified and corrected timely and the management prepared financial statements are in accordance with U.S. generally accepted accounting principles. The issues we identified pertaining to CCC's financial accounting and reporting policies and procedures affect both the form and content of CCC's financial statements, as described below. The final September 30, 2006 financial statements issued by CCC included corrections to all issues noted.

(Continued)

U.S. DEPARTMENT OF AGRICULTURE –
COMMODITY CREDIT CORPORATION

Material Weaknesses

Preparation of the Financial Statements – Implementation of New Reporting Standard

CCC implemented certain provisions of SFFAS No. 29, *Heritage Assets and Stewardship Land*, and the fiscal year 2006 reporting changes required by OMB Circular No. A-136. However, the provisions of SFFAS No. 29 were not incorporated into the draft financial statements until brought to management's attention during the audit. Further, the draft financial statements needed to undergo significant revisions in order to become compliant with the OMB Circular No. A-136 requirements.

Statement of Net Cost – OMB Circular No. A-136 requires agencies to disclose how programs relate to agency strategic goals. We noted in the June 30 draft statements that the matrix presented by CCC in the notes showed a comparison of CCC goals to the USDA departmental goals without discussing programs and it did not support the related Statement of Net Cost. We also noted that TTPP, an entitlement program implemented to compensate tobacco quota holders and producers for losses incurred due to the devaluation of their quota assignments upon the termination of the tobacco price support program, was incorrectly included within the Conserving Natural Resources and Enhancing the Environment strategic goal. The same issues were also noted during our initial review of CCC's draft September 30, 2006 financial statements.

Stewardship Land – the draft June 30 financial statements did not contain information about stewardship land, as CCC planned to compile that information only at year end. During our review of the draft September 30 financial statements, we noted that CCC did not comply with Federal reporting guidelines related to the implementation of SFFAS No. 29 requirements that became effective in fiscal year 2006. Specifically, the Wetlands Reserve Program continued to be reported as Required Supplementary Stewardship Information and was not presented as a basic financial statement note disclosure. Further, the discussion provided did not address how the program relates to the mission of the entity, nor did it describe the condition of the stewardship land, which is required supplementary information per SFFAS No. 29.

Preparation of the Financial Statements – Statement of Financing

Our detailed procedures over the June 30, 2006 Statement of Financing (SoF) revealed that the mapping used by CCC for several SoF reconciling line items was not in accordance with Treasury and other related guidance, specifically the Implementation Guide to Statement of Financing in SFFAS No. 7, *Accounting for Revenue and Other Financing Sources: Detailed Information on the Statement of Financing* (Implementation Guide), and these departures from the guidance were not adequately explained.

During our audit of CCC's SoF as of June 30, 2006, we did not see evidence that management performed a technical review of the statement compilation or evaluated the substance of the reconciling items prior to providing the SoF to us for audit. When CCC management determined the way the general ledger accounts were to be cross walked to the SoF line items, it did not develop an audit trail that described the rationale behind the mapping logic. In addition, CCC's SoF Methodology Guide (the Guide) does not readily consider the technical justification for specific statement line item treatment of transactions. Further, we noted that CCC's Guide is not comprehensive because it does not list all accounts or transaction identification codes that are used

(Continued)

by CCC in the compilation of the SoF. As a result, in some instances we noted inconsistencies between the Guide and the crosswalk used in the preparation of the SoF.

Our review of the June 30, 2006 SoF revealed the following discrepancies related primarily to CCC's Revolving Fund transactions:

- $108 million in principal collections for short-term non-Credit Reform loans (accounting ID F3I5), $125 million in receivable collections arising from ocean freight differential costs (accounting ID F5HY), and $174 million in receivable collections arising from overpayment activity (accounting ID F5M1) were included on line 16, *Other Resources or Adjustments to Net Obligated Resources that Do Not Affect Net Cost of Operations*, whereas the Implementation Guide states that offsetting collection activity that does not affect net cost of operations should be recorded on line 14B, *Budgetary Offsetting Collections and Receipts that Do Not Affect Net Cost of Operations*.

- $3.8 billion in principal loan collections for short-term non-Credit Reform loans (accounting ID F540) was included on line 15, *Resources that Finance the Acquisition of Assets*, whereas the Implementation Guide states that offsetting collection activity that does not affect net cost of operations should be recorded on line 14B, *Budgetary Offsetting Collections and Receipts that Do Not Affect Net Cost of Operations.* Further, $1.1 billion in transactions were included on line 15 at a time when all assets acquired by CCC on behalf of other Federal agencies are not CCC assets, but simply reduce CCC's custodial liability to these other agencies.

- $140 million in accrued interest for Credit Reform funds (accounting ID F828) was included on line 25, *Depreciation and Amortization*, whereas the Implementation Guide states that increases in receivables for exchange revenue from the public over the reporting period should be recorded on line 22, *Increase in Exchange Revenue Receivable from the Public*.

Based on the results of our audit procedures over the SoF, CCC reclassified balances in excess of $6.3 billion to properly reflect the account activity in the SoF prepared as of September 30, 2006. In addition, corrections in the amount of approximately $5 billion were made to the SoF as late as November 10, 2006.

Preparation of the Financial Statements – Disclosures Related to the Statement of Budgetary Resources

The reconciliation of the 2005 Statement of Budgetary Resources to the President's Program and Financing Schedule (P&F) is a material component of note 16, *Disclosures Related to the Statement of Budgetary Resources*. During our interim test work over this reconciliation, we noted that CCC had presented a variance analysis that did not properly calculate or identify the portion of difference resulting from reporting requirements. Per Section 9.33 of OMB Circular No. A-136, legitimate reasons for differences could exist and this disclosure should be provided when comparable line items differ between the P&F and the Statement of Budgetary Resources. We further noted that certain explanations for the differences between the Statement of Budgetary Resources and the P&F were inaccurate and unsupported.

(Continued)

U.S. DEPARTMENT OF AGRICULTURE –
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Material Weaknesses

Given the issues noted in our review of CCC's draft financial statements and related notes as well as the SoF in fiscal year 2006, it does not appear that an effective technical review is being performed prior to the distribution of the financial statements outside the Financial Management Division (FMD).

Expense Accruals and Liquidation of Obligations for Producer Payment Programs

During fiscal year 2006, CCC documented its overall policies and procedures related to producer payment program obligations and accruals by major program category, which also included a discussion at the program level. We also noted an attempt to enhance the level of analysis performed at the program level for many active programs. The documentation used to record producer payment program accruals and liquidate related undelivered orders indicated supervisory review and approval; however, we determined that a significant adjustment still needed to be made, as follows:

- At September 30, 2006, we noted that CCC incorrectly accrued $1.483 billion for Counter-Cyclical Program (CCP) payments expected to be made in fiscal year 2007 related to the 2006 program year. Since these disbursements will occur in three installments based on timetables set by statute, CCC agreed that at September 30 it should only accrue for the first installment expected to be disbursed in the following fiscal year, which amounts to approximately 35% of the total annual expected payment. Thus, the accrual for the 2006 CCP was overstated by approximately $964 million and an audit adjustment was proposed to correct the amount initially reported.

The overstatement results because there was not an adequate analytical review performed by management to evaluate the reasonableness of the amounts recorded.

Allowances for Loan Losses

CCC utilizes the expertise of FSA economists to determine the net realizable value of its outstanding commodity loans. These individuals develop the net realizable values based on the loan redemption for each outlet (i.e., forfeiture, repayment at market value for less than the loan principal, or full repayment) or inventory disposition for each outlet (i.e., sale, donation, or destruction), and submit this information to FMD by completing Form CCC-277, *Allowance for Losses Report*. During the fourth quarter of fiscal year 2006, CCC improved two aspects of the loan allowance calculation process by introducing a second level review and by improving the timeliness of information used in recording general ledger amounts. First, after the preparer completes the CCC-277 forms, a second economist reviews, dates, and signs the forms prior to submission to FMD. Second, the September 30, 2006 allowance for loan losses was developed using general ledger data through September 27, 2006. In prior periods, the economists developed the estimate using general ledger data one month prior to the reporting month. Despite these improvements to the process, more needs to be done to ensure reasonableness of the loan allowance estimates with respect to methodology.

CCC's methodology of accounting for anticipated loan collateral forfeitures does not account for the net realizable market value of forfeitures. Loan collateral forfeitures become part of CCC's inventory and, as such, may be sold or donated. If forfeitures are likely to be sold, they should be assigned a non-zero unit rate, as all or a portion of the loan redemption loss may be recovered. Of the estimated

(Continued)

loss of approximately $123 million recorded by CCC related to commodity loans outstanding at June 30, 2006, approximately $108 million related to expected loan forfeitures. Approximately $105 million of this amount related exclusively to expected peanut loan forfeitures and CCC assigned a net realizable unit rate of zero to the peanut inventory without evaluating whether the acquired inventory could be sold.

Similarly, approximately $58 million of the estimated loss recorded by CCC at September 30, 2006 related to anticipated loan collateral forfeitures. CCC assigned a net realizable unit rate of zero to the commodities expected to be received into inventory without evaluating whether the acquired inventory could be sold. The analysis we performed by taking into account the disposition outlet for the commodities expected to be forfeited (peanuts, upland cotton, and soybeans) indicated that the amount of overstatement ranged from $2 million (if all three commodities would be donated) to $50 million (if all the commodities were sold). Given the sensitivity of the estimated loss to the disposition outlet, we proposed an audit adjustment in the amount of approximately $26 million (the midpoint of the range) to decrease the allowance for loan losses in order to account for the estimated value of loan collateral expected to be acquired in inventory. Given the overall significance of the allowance amounts to CCC's consolidated financial statements, a significant risk of misstatement related to the net commodity loans consolidated financial statement line item continues to exist due to weaknesses identified.

Accounting Treatment of the Tobacco Transition Payments Program

As noted in the 2005 audit report, FMD management inappropriately applied certain accounting standards related to TTPP. This program was implemented towards the end of fiscal year 2005 and, with a magnitude of approximately $10 billion, was and continues to be significant to CCC's financial statements. This program is also complex due to its funding mechanisms and the fact that it is accounted for in two separate Treasury fund symbols. During the fiscal year 2006 interim audit procedures, we requested to review the posting models established and used by CCC to record the business events for this program as well as the accounting entries that were posted to the general ledger. However, the Accounting Memos (the formal documents used by CCC to document the accounting policies and related posting models) provided were not up-to-date. Based on our review of the Accounting Memos and the entries that were recorded in the general ledger, we concluded that the posting models used during the year were not adequate to properly reflect the business events related to TTPP as evidenced by multiple correcting entries recorded by CCC at year end to align the balances in the two Treasury fund symbols. A proper posting model developed when the program was first implemented would have eliminated the need for multiple manual correcting entries at year end.

At the same time we were performing our independent review of the tobacco program documentation, CCC management developed new posting models for the program based on business events and recorded multiple adjusting entries to properly state the general ledger balances at September 30, 2006. However, management did not perform an analytical analysis of the program general ledger balances to determine their reasonableness. As a result, we proposed an audit adjustment in the amount of approximately $226 million to properly state the receivable from the tobacco industry for losses incurred by CCC in fiscal years 2005 and 2006.

(Continued)

**U.S. DEPARTMENT OF AGRICULTURE –
COMMODITY CREDIT CORPORATION**

Material Weaknesses

Recommendations

In addition to recommendation 14 from our fiscal year 2005 report, we also recommend that CCC management:

7. Improve its policies and procedures regarding monitoring and implementation of new accounting and reporting standards. To this end, management should take steps to (i) monitor annually changes in authoritative requirements/guidance and (ii) implement a formalized process to be used internally to evaluate and document technical accounting issues and to discuss financial statement implications for both financial statement captions and related note disclosures.

8. Assess the overall process used to compile and review the financial statements and note disclosures in order to identify an effective review technique that incorporates analytical reviews and provides for a more efficient, accurate, and consistent financial reporting process.

9. Establish policies and procedures to require the periodic evaluation and refinement of the methodology used to estimate loss reserves. To this end, we recommend that management (i) revise the current methodology of accounting for anticipated loan collateral forfeitures to recognize that these commodities may be sold and quantify the related financial effect accordingly and (ii) perform an after-the-fact reasonableness analysis to determine whether the allowances estimated and recorded in the prior period were reasonable based on losses that occurred during the subsequent periods.

10. Enhance the formalized policies and procedures specific to each producer payment program to specifically describe the (i) mechanics of the accrual calculation and (ii) key program expense drivers that should be evaluated when performing the final program accrual analytical review (such as program disbursement timetables, program software changes, market trends, enrollment data, etc.). Further, review prior year's list of post closing adjusting journal entries and audit differences to ensure that all issues identified in the prior year are corrected in the current year prior to closing.

11. Redefine the Accounting Requirements Memo preparation process to state the specific authoritative guidance (e.g., Treasury Financial Manual model entries) used in developing accounting requirements and general ledger posting models. Where applicable, update the Accounting Requirement Memos in a timely manner to ensure proper recording of business events throughout the year. If a program impacts more than one Treasury fund symbol, the Accounting Requirement Memos for the program should specifically describe the impact that each business event has on all impacted funds, as well as the interfund elimination entries that need to be recorded for consolidation purposes.

12. Ensure that personnel with financial accounting and reporting responsibilities related to the areas noted above attend specified training to gain or maintain the skills necessary for properly discharging their job responsibilities. This training should relate to selected technical topics specific to CCC and all new or upcoming accounting and reporting standards.

U.S. DEPARTMENT OF AGRICULTURE –
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Reportable Conditions

The reportable conditions we identified as of and for the year ended September 30, 2006, are summarized below:

(4) Improvement Needed in Producer Monitoring Procedures

As noted in the previous year, producer monitoring procedures need improvement. Compliance with CCC's producer monitoring requirements is necessary to deter program abuse and possible fraudulent actions committed against Federal resources.

In accordance with CCC's policies and procedures, benefit payments made to producers for loans and Loan Deficiency Payments (LDPs) may be based on the producer's certification of the underlying production quantities. The certified amount is subject to evaluation by the county office personnel, who must determine the maximum eligible quantity of production based on the yield determinations made by the County Office Committee (COC) and the producer's reported acreage. CCC policies require that county office personnel not allow the producer to receive a loan based on quantities in excess of 110% of the maximum eligible quantity, unless the COC reviews and approves the transaction. During the fiscal year 2006 site visits, we noted that for 3 of the 96 loans reviewed and 2 of the 107 LDPs reviewed, the producer's underlying collateral exceeded the maximum eligible quantity of production and the benefit payment was made for the full amount claimed without prior COC approval. In addition, for 2 of the 12 counties reviewed, we did not see evidence that county office personnel reviewed the reasonableness of the producers' collateral in light of the remaining eligible production prior to making loan and LDP disbursements. Three of the 12 counties reviewed did not perform the required due diligence necessary to ensure that the eligible acreage entered in the system was supported by signed producer certifications or represented the most recent information available. For 1 of the 12 counties reviewed, we noted that the system did not appropriately add the producer's acreage allocated to the planted commodities; therefore, the information that was used to perform the producers' maximum production reasonableness analysis was not accurate. For 3 of the 12 counties reviewed, we noted that county office personnel did not appropriately update the yield determinations made by the COC; therefore, the information that was used to perform the producers' maximum production reasonableness analysis was not accurate.

In addition, the county offices must make production spot checks of randomly selected farm-stored loans and certified LDPs on a monthly basis and gather adequate production evidence. Adequate documentation must be maintained by the county office to support the spot check results. During our audit we noted that field office personnel did not always comply with these requirements. The results of our audit procedures determined that (1) 5 of the 12 county offices reviewed did not perform the production spot checks on a monthly basis; (2) in 3 of the 12 county offices reviewed, the producers selected for spot checks did not provide production evidence within nine months of the disbursement date and county office personnel did not take appropriate follow-up action or the production evidence obtained was not adequate; and (3) in 2 of the 12 county offices reviewed, there was no documentation evidencing that the county office staff or County Executive Director reviewed the spot check measurements performed to determine whether each loan or LDP listed was supported by sufficient production evidence.

(Continued)

U.S. DEPARTMENT OF AGRICULTURE –
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Reportable Conditions

There is an increased risk of making improper payments if county office personnel do not perform the required producer monitoring eligibility procedures. Also, if collateral reported by producers is not properly verified, there is a risk that loans will not be adequately collateralized, which may expose CCC to losses not supported by statutory requirements.

Recommendations

We continue to make recommendations 10, 11, and 12 from our fiscal year 2004 audit report.

(5) Improvement Needed in Management's Review Procedures Related to the Development, Implementation, and Maintenance of Credit Reform Cash Flow Models

During fiscal year 2006, USDA OCFO created the Configuration Control Board (CCB or the Board) to lead the USDA's annual credit reform model change procedures. The CCB consists of representatives from Accounting, Budget Division (BD), and OCFO. The CCB has established policies that require cash flow model changes proposed by USDA agencies to first be approved by the Board before the changes are implemented. We consider the creation of the CCB a significant improvement towards ensuring the quality and reasonableness of USDA agencies' cash flow model. However, through our review of the cash flow model change control process, we noted additional opportunities for CCC to improve its review and approval process similar to those noted in fiscal year 2005.

For instance, in fiscal year 2006, the CCB approved a series of changes for the CCC credit reform models for both the PL 480 and GSM programs. During our review of CCC's model changes we noted issues related to the newly developed methodology for calculating PL 480 prepayments, a suggested modification that was identified during last year's audit. As we reviewed the changes to the model, we noted conceptual issues with the model's calculation of prepayments under very specific conditions in which the models were incorrectly calculating prepayments, default amounts, or offsetting entries. This issue is best illustrated by the example of a country which makes a payment that exceeds the total amount it owes. Although the model accurately identifies this as a prepayment, it does not create the correct offsetting and default entries for the years after the prepayment. In the example used, there should be no defaults in the years after the prepayment occurs because all the scheduled payments for the out years are prepaid. However, the PL 480 model applies its standard method to calculate defaults, thereby creating positive defaults (credits) for future years. As another example, the PL 480 model does not always accurately calculate prepayments when there are multiple prepayments occurring in non-consecutive periods. The dollar value of the misstatements caused by the above issues was immaterial with respect to the overall prepayments.

The cash flow model changes noted above involved multiple steps. For example, changing the way prepayments were calculated required modifications of two macros and ten queries. According to BD personnel, the implementation of the model changes was performed by contractor support personnel and reviewed by analysts assigned to the programs, by the section head of Credit Programs, the CCB and the Director of the Budget Division. However, these reviews were not properly documented and the testwork was not sufficient enough to identify the issues noted above. Furthermore, BD does not have personnel with the technical expertise to properly asses and review

(Continued)

the implementation of changes to the cash flow models and as such a technical review of the model changes by personnel within the BD is not practical.

Technical Release No. 6, *Preparing Estimates for Direct Loan and Loan Guarantee Subsidies, January 2004, paragraph 40* states:

"The cash flow estimation process, including all underlying assumptions, should be reviewed and approved at the appropriate level including revisions and updates to the original model. Cash flow models should be tested for reliability as part of the approval process by comparing estimated cash flows to actual cash flows and assessing the model's ability to replicate a credit program's performance."

USDA's *Creating and Modifying Credit Reform Cash Flow Model, Discussion Draft, Version 1.1, December 2005, Section 6 Testing* states:

"The completed model will be provided to the end user for testing. The model should be tested for both re-estimate and formulation. The end users will advise the configuration control board whether the new or revised model should be accepted."

As noted above, CCC through the CCB has not included in its Section 6 discussion draft policies that require agency personnel to observe a proper segregation of duties during the change process. As such, there is no requirement that personnel separate from those responsible for the oversight of contractors making changes to the models are required to review, test, and approve implemented changes. In addition, we noted that although end user personnel are required to report to the CCB that changes were made to the models, the policies are not adequate in that they do not require agency personnel to provide evidence that changes were independently tested and reviewed and that the end user has approved the final model version.

The lack of policies requiring a proper segregation of duties during the change process increases the risk that errors in the models will exist and not be detected by agency personnel. In addition a lack of a policy requiring agency personnel to report change testing results to the CCB reduces the oversight capabilities of the Board thereby reducing its effectiveness. As a result, there is an increased risk of material misstatement to the financial statements and related disclosures.

Recommendations

We recommend that:

13. The BD and the CCB ensure that a thorough analysis of the functionality and results of the cash flow models is performed once implementation of changes to the models is completed. Such analysis should be performed by cash flow model specialists in conjunction with CCC's budget analysts and financial management personnel.

(Continued)

**U.S. DEPARTMENT OF AGRICULTURE –
COMMODITY CREDIT CORPORATION**

Reportable Conditions

14. The test and review results should be communicated to the CCB and accompanied by the documentation evidencing that the proper reviews were performed and the related model documentation is complete.

(Continued)

Exhibit 3

U.S. DEPARTMENT OF AGRICULTURE –
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Status of Prior Year Noncompliance and Other Matters

Fiscal Year 2005 Finding	Year First Reported by KPMG	Fiscal Year 2006 Status
Federal Information Systems Management Act (FISMA) – FSA/CCC needs to improve its level of compliance with FISMA by implementing additional controls and processes supporting its entity-wide security and contingency planning programs.	2002	During fiscal year 2006 FSA/CCC took several actions to address prior year's information security and contingency planning weaknesses. For example, FSA/CCC: • Revised the current mainframe change control document, 14-ADM; • Implemented supervisory review of the Guarantee Sales Manager (GSM) user community; • Continued updating security risk assessments for key applications; • Implemented a security and awareness training tracking mechanism; and • Updated domain password settings to adhere to internal policy requirements. However, additional weaknesses were identified in the areas of the information security program management, technical security access controls, software change/configuration management, and end-user computing. Therefore, in fiscal year 2006 the presentation of the issue was modified to reflect current year operations and continues to be reported as noncompliance with FISMA.

Exhibit 3

U.S. DEPARTMENT OF AGRICULTURE –
COMMODITY CREDIT CORPORATION

Status of Prior Year Noncompliance and Other Matters

Fiscal Year 2005 Finding	Year First Reported by KPMG	Fiscal Year 2006 Status
Federal Financial Management Improvement Act of 1996 (FFMIA) – CCC was not in substantial compliance with OMB Bulletin No. 01-02 (currently OMB Bulletin No. 06-03) and FFMIA as follows: • Information security controls and contingency planning capabilities in accordance with OMB Circular A-130, *Management of Federal Information Resources* • Financial systems controls in accordance with OMB Circular A-127, *Financial Management Systems* • Federal accounting standards using the USSGL at the transaction level	2002	During fiscal year 2006, CCC implemented corrective actions to improve controls and processes supporting its financial processing environment. For example, CCC implemented several new systems aimed at automating previously manual processes. It also implemented manual controls related to the recording of obligations. As such, CCC is currently in substantial compliance with the FFMIA requirement that transactions are recorded using the USSGL at the transaction level. However, as reported in the *Improvement Needed in Financial System Functionality and Funds Control* section of Exhibit 1, additional improvements are still needed to financial system functionality and related processes. Therefore, in fiscal year 2006 the presentation of the issue was modified to reflect current year operations and continues to be reported as noncompliance with FFMIA.

Exhibit 4

U.S. DEPARTMENT OF AGRICULTURE – COMMODITY CREDIT CORPORATION

Status of Prior Year Material Weaknesses

Fiscal Year 2005 Finding	Years Reported by KPMG/Type	Fiscal Year 2006 Status
(1) Improvement needed in information security controls	2002 – Material Weakness 2003 – Material Weakness 2004 – Material Weakness 2005 – Material Weakness 2006 – Material Weakness	During fiscal year 2006, FSA/CCC took several actions to address prior years' information security and contingency planning weaknesses. For example, FSA/CCC: • Revised the current mainframe change control document, 14-ADM; • Implemented supervisory review of the Guarantee Sales Manager (GSM) user community; • Continued updating security risk assessments for key applications; • Implemented a security and awareness training tracking mechanism; and • Updated domain password settings to adhere to internal policy requirements. However, additional weaknesses were identified in the areas of information security program management, technical security access controls, software change/configuration management, and end-user computing. Therefore, in fiscal year 2006 the presentation of the issue was modified to reflect current year operations and continues to be reported as a material weakness, as well as noncompliance with the Federal Information Security Management Act of 2002 (FISMA).

(Continued)

U.S. DEPARTMENT OF AGRICULTURE –
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Status of Prior Year Material Weaknesses

Fiscal Year 2005 Finding	Years Reported by KPMG/Type	Fiscal Year 2006 Status
2) Improvement needed in financial system functionality and related processes	2002 – Material Weakness 2003 – Material Weakness 2004 – Material Weakness 2005 – Material Weakness 2006 – Material Weakness	CCC implemented several corrective actions to improve controls and processes supporting its financial systems during fiscal year 2006. For example, CCC implemented several new systems aimed at automating previously manual processes. It also implemented manual controls related to the recording of obligations. As such, CCC is currently in substantial compliance with the FFMIA requirement that transactions are recorded using the USSGL at the transaction level. However, as in prior year's audit, we again noted that additional improvements are still needed with regards to financial system functionality and related processes. For example, CCC does not have a completely integrated obligation and disbursement system to track and govern the status of obligations and administrative limitations established by legislation or agency policy, and its funds control processes are dependent upon manual controls that require further enhancements to be effective. Therefore, in fiscal year 2006 the presentation of the issue was modified to reflect current year operations and continues to be reported as a material weakness and noncompliance with the Federal Financial Management Improvement Act of 1996 (FFMIA) related to the financial management system requirements.

(Continued)

U.S. DEPARTMENT OF AGRICULTURE –
COMMODITY CREDIT CORPORATION

Status of Prior Year Material Weaknesses

Fiscal Year 2005 Finding	Years Reported by KPMG/Type	Fiscal Year 2006 Status
(3) Improvement needed over the budget execution process	2002 – Material Weakness 2003 – Material Weakness 2004 – Material Weakness 2005 – Material Weakness 2006 – Material Weakness (related to funds control – combined with finding no. 2)	In prior years we reported that CCC does not have a collection of financial systems that allows management to monitor and control budgetary events at the transaction level and effectively monitor funds controls. Further, we reported several issues related to CCC's ability to properly record and report certain budgetary transactions. In fiscal year 2006, CCC implemented manual controls related to the recording of budgetary transactions that help mitigate the risk of financial statement misstatement. Therefore, we consider the fiscal year 2005 finding related to budgetary accounting and reporting closed. Effective funds control is dependent upon systems and the ability to compare program legislative limitations to disbursements made and obligations incurred. The manual controls implemented by CCC do not fully address the risks arising from the lack of an integrated obligation and disbursement system related to funds control. See Exhibit 1 for additional information. Therefore, in fiscal year 2006 the presentation of the funds control issue is combined with the financial system functionality issue into one material weakness reported as "Improvement Needed in Financial System Functionality and Funds Control".

(Continued)

**U.S. DEPARTMENT OF AGRICULTURE –
COMMODITY CREDIT CORPORATION**

Status of Prior Year Material Weaknesses

Fiscal Year 2005 Finding	Years Reported by KPMG/Type	Fiscal Year 2006 Status
(4) Improvement needed in financial accounting and reporting policies and procedures	2002 – Material Weakness 2003 – Material Weakness 2004 – Reportable Condition 2005 – Material Weakness 2006 – Material Weakness	CCC has taken steps to improve financial accounting and reporting policies and procedures related to all areas, including the recording of program obligation and accrual transactions and the overall financial statement preparation process. However, in fiscal year 2006, we continued to note the need for improvement in the overall monitoring and review controls related to the preparation of the financial statements, particularly the Statement of Financing; the methodology for calculating loan allowance reserves; and the accounting treatment of the Tobacco Transition Payments Program. We also noted one instance of ineffective management review controls related to material producer payment accruals. Therefore, in fiscal year 2006 the presentation of the issue was modified to reflect current year operations and continues to be reported as a material weakness and noncompliance with FFMIA related to the applicable Federal accounting standards requirement.

Exhibit 5

U.S. DEPARTMENT OF AGRICULTURE –
COMMODITY CREDIT CORPORATION

Status of Prior Year Reportable Conditions

Fiscal Year 2005 Finding	Years Reported by KPMG/Type	Fiscal Year 2006 Status
(5) Improvement needed in producer monitoring procedures	2004 – Reportable Condition 2005 – Reportable Condition 2006 – Reportable Condition	CCC took steps to improve the implementation of its producer monitoring procedures. The Electronic Loan Deficiency Payments (e-LDP) system, which in 2006 became the primary system for disbursing e-LDP payments, automatically calculates the producer's remaining eligible production for receiving loan and LDP benefits. However, during the 2006 site visits, we noted that not all the counties visited were appropriately using these reports to monitor producers' eligibility determinations. Further, some of these reports did not accurately reflect the producer's maximum eligible production either due to the use of incorrect County Office Committe approved yields or crop acreage. See Exhibit 2 for additional information. Therefore, in fiscal year 2006 the presentation of the issue continues to be reported as a reportable condition.
(6) Improvement needed in management's review procedures related to the development, implementation, and maintenance of Credit Reform cash flow models	2005 – Reportable Condition 2006 – Reportable Condition	During fiscal year 2006, USDA OCFO created the Change Control Board to lead USDA's annual credit reform model change procedures and ensure the quality and reasonableness of USDA agencies' cash flow model. However, we noted additional opportunities for CCC to improve its review and approval process. See Exhibit 2 for additional information. Therefore, in fiscal year 2006 the presentation of the issue continues to be reported as a reportable condition.

USDA

United States
Department of
Agriculture

Farm and Foreign
Agricultural
Services

Commodity Credit
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Exhibit 6

NOV 13 2006

TO: Wanda Philippi
Regional Inspector General
Office of the Inspector General

Mike Lippert
Senior Partner
Kylnveld Peat Marwick Goerdeler (KPMG)

FROM: Kristine M. Chadwick
Controller
Commodity Credit Corporation

SUBJECT: Response to the Draft Combined Independent Auditors' Report on the Commodity Credit Corporation's (CCC) Fiscal Years 2006 and 2005 Comparative Financial Statements

We have reviewed KPMG's Draft Combined Independent Auditors' Report dated November 13, 2006 and generally agree with its content. CCC will develop an implementation plan to address the findings and recommendations identified during the audit. As we consider the required corrective actions, we will continue to work with KPMG and the Office of the Inspector General in identifying the specific actions that will assist us in successfully addressing the recommendations.

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

USDA – FARM SERVICE AGENCY
Commodity Credit Corporation

Consolidated Financial Report

FY 2006

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Management's Discussion and Analysis

Mission

The Commodity Credit Corporation (CCC) 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 U.S. 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 works also 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 credits 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 provide financial support to America's producers and farmers without delay. 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.

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, there are several CCC funded programs that 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 land owners 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

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Vice Chairperson, Charles F. Connor, *Deputy Secretary of Agriculture*
Member, Vacant*, Under Secretary, Farm and Foreign Agricultural Services (FFAS)*
Member, Thomas C. Dorr, *Under Secretary, Rural Development (RD)*
Member, Nancy Montanez-Johner, *Under Secretary, Food, Nutrition, and Consumer Services (FNCS)*
Member, Charles R. Christopherson Jr., *Chief Financial Officer, USDA*
Member, Bruce I. Knight, *Under Secretary, Marketing and Regulatory Programs (MRP)*
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Deputy Secretary, Vacant, FSA
Assistant Secretary, Monique B. Randolph, *Staff Assistant*, FSA
Controller, Kristine M. Chadwick, *Director, Financial Management Division (FMD), FSA*
Treasurer, David Nichols, *Deputy Director, FMD, FSA*
Chief Accountant, Zayra I. Okrak, *Chief, Financial Accounting and Reporting Branch, FMD, FSA*

ADVISORS

General Counsel, Marc Kesselman, *Office of the General Counsel*
Associate General Counsel, Thomas V. Conway, *International Affairs, Commodity Programs and Food Assistance Programs*

CCC Program Areas

CCC funds many programs which fall under multiple agencies within the USDA. Each CCC funded program helps to 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 and the Noninsured Crop Disaster Assistance Program (NAP). Assistance is also provided through *ad hoc* disaster programs that vary from year-to-year. FSA is responsible for administering Income Support and Disaster Assistance programs. FSA is redesigning the way it interfaces with farmers and producers in its traditional "safety net" programs by expanding on-line options while maintaining more traditional approaches. This has been a monumental challenge for the Agency. The performance discussion will cover the progress of the on-line initiatives.

- **Conservation –** Strengthened by the 2002 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 programs 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 Unites States, future growth in demand for food and agricultural products will occur primarily in overseas markets. FAS' international activities 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 programs, administered by FAS in conjunction with FSA, provide payment guarantees for the commercial 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 guarantees.

Future Effects of Demands, Events and Conditions

Farm Bill Reauthorization – The Farm Bill is the primary instrument that authorizes CCC's domestic programs and policy actions. With the 2002 Farm Bill changes implemented, the CCC and Agencies are focusing attention on the Farm Bill reauthorization expected to take effect in Fiscal Year (FY) 2007. If the 2002 Farm Bill reauthorization is any indication, the effect of the Farm Bill reauthorization to the CCC program outlays and Agency business processes and systems could be significant. The leadership of USDA traveled the country last year to hear the opinions of producers and other stakeholders on future farm policy in preparation for the Farm Bill reauthorization. Fifty-two farm bill forums were held throughout the United States, while others submitted comments through our website and through the mail. The Secretary of the USDA was very pleased to personally host twenty-one of the forums. All totaled, USDA received more than 4,000 comments throughout this process.

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 has been a recent increased risk of knowledge loss as experienced employees retire. USDA and CCC are addressing this issue through a series of information technology modernization initiatives coupled with human capital planning.

Economic Fluctuation and Volatility – Global and domestic economic volatility is causing corresponding volatility to the CCC program portfolio. An example of this is increased production by foreign producers, which may lower commodity prices and affect farmers' and ranchers' ability to compete on the international market. Policy changes in foreign countries may create or reduce trade and non-trade barriers that will affect American producers' ability 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.

Additionally, recent high fuel prices affect farmers and ranchers by increasing the prices of inputs required to produce goods. Increasing energy concerns are projected to have a significant effect on farm economics, which may stall conservation decision making as implementing new practices could further decrease farmers' and ranchers' bottom line.

Hurricane Katrina – USDA responded and provided assistance to people affected by the hurricanes that impacted the Gulf Coast in 2005. USDA deployed over 6,000 personnel to provide meals, housing, debris and animal carcass removal, logistical and technical support, and animal rescue. Over 10,000 displaced residents were provided housing in USDA financed rural housing units. More than 23 million pounds of commodities and baby food were provided to the affected areas. Additional support to farmers is being provided through crop and livestock disaster payments; watershed and farm clean-up; and the deferment of farm loan payments for one year.

Under the Emergency Conservation Program (ECP), the USDA shares the cost of carrying out practices to assist and encourage farmers to rehabilitate farmland damaged by natural disasters. In particular, it addresses those problems which if left untreated would: impair or endanger the land, materially affect the productive capacity of the land, be so costly to rehabilitate that Federal assistance would be required to return the land to productive agricultural use; and represent damage that is unusual and would not recur frequently in the same area. For the past several years, this program has been funded through emergency supplemental appropriations. The Hurricane Disaster Assistance Act of 2005 provided $150 million for ECP and the 2006 supplemental appropriation for hurricane assistance provided $199.8 million.

Financial Highlights

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 in FY 2006 and 2005 in accordance with generally accepted accounting principles for Federal entities and policies prescribed in OMB Circular A-136, *Financial Reporting Requirements*. 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 are a component of the U.S. Government's financial statements, a sovereign entity. The Agency's financial statements, which appear in the Financial Section of this report, received an unqualified audit opinion for the fiscal years ended September 30, 2006 and 2005.

The agency has been committed to implementing the requirements outlined in OMB's Circular A-123, *Management's Responsibility for Internal Control,* for the fiscal year ending 2006. The management challenges that were imposed by the implementation are discussed in brief in the **Management Summary, Initiatives, Information and Issues** section**.**

Assets: The Balance Sheet shows the agency had total assets of $16 billion at the end of FY 2006. This represents a decrease of $3.5 billion (eighteen percent) over the previous year's total assets of $19 billion. Receivables decreased by fifteen percent compared to the prior year due to the collections of $891 million from the tobacco industry, and $313 million related to overpayments for counter-cyclical advances. Also, CCC received $1.1 billion of prepayments of foreign loans from Russia during 2006.

(In Millions)	2006	2005	Variance	% Variance
Fund Balance with Treasury	$1,740	$2,781	-$1,041	-37%
Cash	36	59	-23	-39%
Accounts, Loans & Credit Receivable, Net	13,773	16,253	-2,480	-15%
Inventory	55	29	26	90%
Property and Equipment, Net	52	52		
Other Assets	33	29	4	14%
Total Assets	$15,689	$19,203	-$3,514	-18%

The agency's Fund Balance with Treasury decreased due to the fact that CCC disbursed more funds this year for the Direct and Counter Cyclical Payments program and the Loan Deficiency Payments program.

Liabilities: The agency had total liabilities of $39 billion and $46 billion in FY 2006 and 2005, respectively. Accounts Payable decreased by eighty-eight percent due to the payable to the United States Agency for International Development (USAID) being transferred out from CCC in FY 2006. Half of the agency's total liabilities at the end of FY 2006 are incurred from borrowings from the Treasury. CCC may borrow interest-free up to the amount of its unreimbursed realized losses. Debt to the Treasury decreased by sixteen percent due to the repayments to Treasury of excess funds in the foreign financing funds. Other Liabilities decreased by eleven percent in FY 2006 due to the return of unused funds to Treasury in Pre-Credit Reform loans and collections in the Export Guarantee Financing Fund. Further CCC's liability for the tobacco transition payment program was reduced by $938 million due to the 2006 program payment.

(In Millions)	2006	2005	Variance	% Variance
Accounts Payable	$154	$1,288	-$1,134	-88%
Debt to the Treasury	19,768	23,426	-3,658	-16%
Credit Guarantee Liabilities	220	260	-40	-15%
Environmental and Disposal Liabilities	11	11		
Other Liabilities	18,668	21,051	-2,383	-11%
Total Liabilities	$38,821	$46,036	-$7,215	-16%

Ending Net Position: At the end of FY 2006 and FY 2005, the agency's net position was $23 billion and $27 billion, respectively. Net Position is the sum of the Unexpended Appropriations and Cumulative Results of Operations.

RESULTS OF OPERATIONS

CCC categorizes the net cost of operations based on the agency's strategic goals. Net cost of operations is $21 billion and $23 billion at the end of FY 2006 and 2005 respectively. Overall expenses decreased by twenty-nine percent and revenue decreased by sixty-two percent from prior year. As shown in the table below, Supporting Productive Farms and Ranches expenses underlie a majority of the costs in both FY 2006 and 2005. The activity that caused the fluctuation in the Statement of Net Cost at the end of FY 2006 is from the following strategic goals:

- Supporting Productive Farms and Ranches – The majority of Crop Disaster Program payments were paid out or accrued for in late FY 2005, with few expenses incurred in early FY 2006. Further, in FY 2006 and there was a decrease in Direct & Counter-Cyclical expenses for sorghum, peanuts, upland cotton and rice.

- Supporting Secure and Affordable Food and Fiber – The increase in Net Cost in FY 2006 is due to large downward adjustments made in the allowance for inventory losses relating to wheat and nonfat dry milk in the prior year.

- Supporting International Economic Development and Trade Capacity Building – The majority is due to the revenue decrease in Public Law 480 Title II World Food Program and Voluntary Agency Program sales in year 2006.

Summary of Net Cost of Operations
Strategic Goals
(In Millions)

Strategic Goals	FY 2006	FY 2005	Variance	% Variance
Supporting Productive Farms and Ranches	$18,472	$21,887	-$3,415	-16%
Supporting Secure and Affordable Food and Fiber	28	-437	465	>100%
Conserving Natural Resources and Enhancing the Environment	2,331	2,155	176	8%
Supporting International Economic Development and Trade Capacity Building	182	-346	528	>100%
Total Net Cost of Operations	$21,013	$23,259	-$2,246	-10%

President's Management Agenda

In FY 2002 the President laid out a plan to improve management and performance within the federal government. This plan, the President's Management Agenda, identified several key areas where improvement was urgently needed. In order to implement the plan, the President asked Cabinet Secretaries to designate a chief operating officer to manage the daily activities of departments and agencies. The President also re-established the President's Management Council to support government-wide priorities and centralized management leadership. The table below shows the CCC's progress towards "green."

The Stoplight Scoring System is located at the following internet web address: www.whitehouse.gov/results/agenda/scorecard.html

The scorecard employs a simple grading system common today in well-run businesses:

- Green for success
- Yellow for mixed results
- Red for unsatisfactory

Initiatives	Self-Score	Final Score	Previous Final Score	Status
Competitive Sourcing	N/A	N/A	N/A	N/A
Strategic Management of Human Capital				Approved
Financial Management				Finalizing
E-Government		In Progress		Finalizing
Budget and Performance Integration	In Progress	In Progress		Self Score
Real Property		In Progress		Finalizing
Improper Payments	In Progress			Self Score
Faith-Based Initiative	N/A	N/A	N/A	N/A
Research and Development	N/A	N/A	N/A	N/A
Credit Programs	In Progress			Self Score

Management Controls, Systems, and Compliance with Laws and Regulations

FMFIA Assurance Statement

CCC management is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA). CCC is able to provide a qualified statement of assurance that the internal controls and financial management systems meet the objectives of FMFIA, with the exception of four material weaknesses. The details of the exceptions are provided in the following section.

Management conducted an assessment of the effectiveness of internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of September 30, 2006 and financial reporting as of June 30, 2006 in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Internal Control*. Based on the results of this evaluation, CCC identified four material weaknesses in its internal control over financial reporting. We have achieved substantial compliance with the United States Standard General Ledger (USSGL) at the transaction level. However, we are still unable to provide reasonable assurance that internal controls over financial reporting are operating effectively or that CCC's financial management systems are in substantial compliance with Federal financial management systems requirements. Other than the exceptions noted, internal controls were operating effectively and no other material weaknesses were found in the design or operation of the annual evaluations of internal control and financial systems pursuant to Section 2 and Section 4 of FMFIA, respectively, for the period ended September 30, 2006. However, management identified potential violations of the Anti-Deficiency Act. These potential violations relate to transportation costs for donated food commodities. The transactions in questions also potentially violated the CCC Charter Act and commodity procurement regulations.

Management recognizes its responsibility for monitoring and correcting all control deficiencies. Remediation plans are available, if applicable, for all new and existing material weaknesses and/or reportable conditions. Documentation to support actions taken on material weaknesses corrected during the fiscal year is also available upon request.

Floyd D. Gaibler

Floyd Gaibler
Acting President
Commodity Credit Corporation

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT

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 CCC FMFIA annual report, which is a component of the USDA's Performance and Accountability Report, contains the Agency material weaknesses and reportable conditions.

In accordance with the requirements of the FMFIA, CCC has evaluated their management controls for program, financial, and administrative operations as of September 30, 2006. Although significant improvements were made in FY 2006, the internal controls are not consistently functioning as intended, accordingly additional actions will be taken in FY 2007.

FY 2006 Results

In FY 2006, CCC achieved full compliance with the new OMB requirements as defined in Circular A-123, Appendix A (A-123). This was a major undertaking complicated by the number and complexity of CCC programs and lack of control documentation. In the process, internal controls over financial reporting were documented, the design of key controls was assessed, the effectiveness of controls assessed as being properly designed was tested, test results were documented and evaluated, and corrective action plans (CAP) were developed to remediate control deficiencies. The assessment covered seven cycles. Over 80 processes within the seven cycles were assessed. Documentation was prepared, including Inherent Risk Assessments, Cycle/Process memos, Risk and Control Matrices, Test Plans and Conclusions, Summary of Aggregated Deficiencies (SAD) and, where applicable, Remediation Summary and CAPs. Over 900 Application Controls and General Computer Controls were documented in the process.

Based on the results of this evaluation, CCC identified four material weaknesses in its internal control over financial reporting: Information Technology Controls, Funds Control Management, Financial Reporting, and County Office (CO) Operations. Information Technology Controls, Funds Control Management, and Financial Reporting are repeat conditions.

Corrective actions were completed in FY 2006 that met substantial compliance requirements with the USSGL at the transaction level.

Summary of Material Weaknesses

Material Weakness 1: Improvement needed in information security controls

Description: This is a repeat condition under which CCC is collaborating with the Office of the Chief Information Officer (OCIO) to identify and implement additional improvements needed to enhance USDA's general control environment. The complexity and level of effort required to improve information security controls was greater than anticipated, compelling a revised completion date. Weaknesses have been identified in information security program management, technical security access controls, software change/configuration management, and contingency planning.

Responsible Official: Kristine Chadwick, Controller, CCC; Director, FMD and Steven L. Sanders, Director, ITSD

Critical Corrective Action Milestones:

- Information security program management
    - Identify and implement controls to better track security training efforts.
    - Formalize and better control the process by which employees who no longer need access to systems and applications have their access rights suspended/removed.
    - Require periodic management review of AS/400 county office system users' access.
    - Update application risk assessment documentation, and then ensure 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.

- Technical security access controls
    - Perform more consistent vulnerability scans on all workstations, servers, routers, switches, and printers.
    - Ensure that remediation controls are timely implemented as security vulnerabilities are identified.
    - Implement additional controls to review access to production libraries, including periodic review of accounts by FSA/CCC security administrators, and the implementation of a software configuration management tool for the various FSA/CCC application platforms.
    - Require domain and VPN passwords to comply with policy of three invalid attempts prior to locking the account (or obtain a waiver to this policy).

- Software change/configuration management
    - Update 14-ADM or an equivalent policy guide to reflect the current IT processing environment and CCC's software change management processes and controls.
    - Provide training to applicable staff regarding the CCC software change management process.

- Contingency planning
    - Update all application contingency plans with testing results, and ensure that the plans continue to be updated based on future testing efforts and any relevant IT environment changes or business process change.

Estimated Completion Date: FY 2008

Material Weakness 2: Improvement needed in financial system functionality and funds control

Description: The e-Funds Control system monitors daily program disbursements made at the state and county offices in summary level, but does not provide the necessary management information to determine the true status of net available program resources as disbursements are made. CCC does not fully address the risks arising from lack of an integrated obligation and disbursement system related to fund control.

Responsible Official: Kristine Chadwick, Controller, CCC; Director, FMD

Critical Corrective Action Milestones:

- Develop a fully integrated funds control system within a financial management system capable of interfacing with CCC CORE at the transaction level that provides management with timely information to periodically monitor and control the status of budgetary resources recorded in the general ledger.

- Continue with plans to implement additional financial systems and related process improvements, most notably in the areas of budgetary and funds control and financial accounting and reporting processes.

Estimated Completion Date: FY 2007

Material Weakness 3: Improvement needed in financial accounting and reporting policies and procedures

Description: CCC's financial accounting and reporting policies and procedures should be strengthened to ensure that errors are prevented and corrected on a timely basis.

Responsible Official: Kristine Chadwick, Controller, CCC; Director, FMD

Critical Corrective Action Milestones:

- Improve CCC's policies and procedures in accrual, obligation and implementation of new accounting and reporting standards. Formalize the internal review process and document technical accounting issues to address financial statement implications.

- Assess the overall process in compiling and reviewing the financial statements and note disclosures in order to identify an effective review technique that incorporates analytical reviews and provides for a more efficient, accurate, and consistent financial reporting process.

- Develop a formalized process to use in drafting the Statement of Financing (SoF).

- Establish policies and procedures to require the periodic evaluation and refinement of the methodology used to perform analysis.

- Enhance the formalized policies and procedures to describe the mechanics on business process and other factors in order to evaluate the final analytical review in program performance.

- Redefine the Accounting Requirements Memo preparation process.

- Ensure proper training in personnel to gain or maintain the skills necessary.

Estimated Completion Date: FY 2007

Material Weakness 4: Improvement needed in County Office Operations

Description: The risk of potential errors, misuse and fraud identified relative to segregation of duties and compliance related issues yields more than a remote chance of occurrence within the distributed nature of the CO operations structure. Moreover, given the size and volume of the program outlays related to both benefits (such as Direct & Counter Cyclical Payments) and loan programs (such as MALs and LDPs) administered in the COs, the ability for the limited resources in these offices to actually detect erroneous transactions resulting from SoD or compliance issues is a great challenge.

Responsible Official: Kristine Chadwick, Controller, CCC; Director, FMD

Critical Corrective Action Milestones:

- Implementing role based security across SCIMS and FS
- Implementing compensating controls at COs to allow the function to update producer information in the name and address database of record (SCIMS) to remain in the individual COs.
- Removing management of producer bank account information from the COs and centralizing the function outside of payment processing.
- Centralizing production of paper checks and removing that function and the associated check stock from the COs.
- Formalizing internal controls for collections processing for COs with fewer than two employees.
- Providing training of employees and improving accountability for compliance with administrative controls through performance based control testing.
- Centralizing password maintenance for the SCOAP system.

Estimated Completion Date: FY 2007

Commodity Credit Corporation (CCC) and Farm Service Agency (FSA)

Fiscal Year 2006 Fourth Quarter Remediation Plan

As of 09/30/2006

Section 1

Areas of Non-Compliance			
No	System Requirements	Instance	OIG Report #
1.1	**General System Control Environment**	**Information Security Controls**	**06401-20-FM**

Corrective Actions Planned				
Corrective Action Milestones*	OIG Audit Rec. #	Target Completion Date	Revised Completion Date	Actual Completion Date
1.1.1 Improvement needed in information security controls. ▪ This is a repeat condition under which FSA is collaborating with the OCIO to identify and implement additional improvements needed to improve USDA's general control environment. The complexity and level of effort required to improve information security controls is greater than anticipated compelling a revised completion date of FY 2007. This includes the following improvements needed in information security controls: ▪ Information security program management ▪ Technical security access controls ▪ Software change/configuration management ▪ Contingency planning	1-11	FY 2006 Q3	~~FY 2006 Q4~~ FY 2007 Q3	

Corrective Actions Planned				
Corrective Action Milestones*	OIG Audit Rec. #	Target Completion Date	Revised Completion Date	Actual Completion Date
▪ Information security program management .	1-2, 6, 9	FY 2006 Q3	~~FY 2006 Q4~~ FY 2007 Q3	
▪ Identify and implement controls to better track security training efforts.				FY 2006 Q3
▪ Formalize and better control the process by which employees who no longer need access to systems and applications have their access rights suspended/removed.			FY 2006 Q4	FY 2006 Q4
▪ Require periodic management review of AS/400 county office system users' access.			~~FY 2006 Q4~~ FY 2007 Q2	
▪ Update application risk assessment documentation, and then ensure that the documentation is updated at least every three years (or when major system or application changes are made), to support FSA/CCC's overall security program.			~~FY 2006 Q4~~ FY 2007 Q3	
The complexity and level of effort involved to improve information security program management is greater than anticipated compelling a revised completion date from FY 2006 Q3 to FY 2006 Q4 to FY 2007 Q3.				
• Technical security access controls.	3-5, 10	FY 2006 Q3	~~FY 2006 Q4~~ FY 2007 Q1	
▪ Perform more consistent vulnerability scans on all workstations, servers, routers, switches, and printers.				FY 2006 Q3
▪ Ensure that remediation controls are timely implemented as security vulnerabilities are identified.				FY 2006 Q3
▪ Implement additional controls to review access to production libraries, including periodic review of accounts by FSA/CCC security administrators, and the implementation of a software configuration management tool for the various FSA/CCC application platforms.			~~FY 2006 Q4~~ FY 2007 Q1	
▪ Require domain and VPN passwords to comply with policy of three invalid attempts prior to locking the account (or obtain a waiver to this policy).			FY 2006 Q4	FY 2006 Q4

Corrective Actions Planned				
Corrective Action Milestones*	OIG Audit Rec. #	Target Completion Date	Revised Completion Date	Actual Completion Date
The complexity and level of effort involved to improve technical security access controls is greater than anticipated compelling a revised completion date from FY 2006 Q3 to FY 2006 Q4 to FY 2007 Q1.				
▪ Software change/configuration management ▪ Update 14-ADM or an equivalent policy guide to reflect the current IT processing environment and FSA/CCC's software change management processes and controls. ▪ Provide training to applicable staff regarding the FSA/CCC software change management process.	7-8	FY 2006 Q3		FY 2006 Q3 FY 2006 Q3 FY 2006 Q3
▪ Contingency planning ▪ Update all application contingency plans with testing results, and ensure that the plans continue to be updated based on future testing efforts and any relevant IT environment changes or business process change.	11	FY 2006 Q3		FY 2006 Q3 FY 2006 Q3

Discussion Supporting CCC's Substantial Compliance Position

FMD has re-examined existing policies and analytical procedures in terms of Federal accounting standards and CCC business practices, and has made the appropriate improvements to these processes and documentation. Part of this re-examination process included reviewing all programs with disbursement activity and determining their impact on the obligation and accrual recordation process. Documented results are at a detailed program roll-up level in the Obligations and Accruals Guidance Report (OAGR), including the obligation and accrual methodology performed for each program and is available upon request. The OAGR provides comprehensive procedures and guidance for the following areas of Budget Execution: budgetary authority, obligations, accruals and disbursements.

In addition, to provide comprehensive documentation of budget execution, the OAGR includes the standard accounting entries as defined in the Treasury Financial Manual (TFM) or an explanation for departures from that standard for all entries. One key component of this documentation process is providing guidance to staff related to the budget execution process. Adhering to these policies and procedures, in conjunction with monitoring CCC's program (subsidiary) and financial systems, has allowed management to control budgetary resources more effectively.

Moreover, FMD completed an assessment of CCC programs, business processes, corresponding system(s)/interfaces, and defined the business events triggering accounting transactions, along with procedural guidance to timely record obligation and accruals for all applicable programs.

To standardize and expedite the posting of obligations, a series of daily, weekly, and monthly reports displaying detailed and summarized accounting information are generated out of the applicable program and feeder application. To further standardize and expedite the process, CCC programs' process flows are categorized on the basis of common systems and manual processes. Below is a further detailed discussion for these controls.

Despite the implementation of these compensating controls, sufficient controls are not yet in place to demonstrate substantial compliance. Accordingly, additional strategies will be pursued.

Background

Prior to FY 2005, CCC largely recorded obligations, accruals and allowances in the general ledger only at yearend. Budgetary events requiring the posting of budget authority were not consistently posted at the time the accounting event occurred. To appropriately report financial balances for the interim financial statements, the compilation staff made pen and ink changes to the face of the statements using the Hyperion software. As a result of this practice, CCC was generating hundreds of accounting entries and adjustments creating a high vulnerability to errors and omissions at the end of each FY.

Long-Term Plan

CCC's long-term planned corrective actions include the Modernize and Innovate the Delivery of Agricultural Systems (MIDAS) and the Department of Agriculture's (USDA, hereinafter referred to as "the Department") Financial Management Modernization Initiative (FMMI). The Department will provide a facility for agencies to implement web-enabled, integrated financial systems under FMMI, but because the FMMI solution will not be available for several years, the Farm Service Agency (FSA)/CCC is developing a customized Financial Web Services (FWS) application to support farm programs delivered through MIDAS web-enabled developed applications. FWS includes e-Funds Control (e-FC) and the National Payment Service (NPS). If funding is not available for MIDAS, legacy systems must still be modified to transmit all required accounting transactions and data elements for Treasury and financial reporting to both the current (CCC CORE) accounting system and FMMI enterprise solution.

Through the FWS, MIDAS initiative, FMD can achieve full compliance with FFMIA by resolving budgetary execution deficiencies, streamlining current processes and implementing automated internal control processes. Nevertheless, it is Management's opinion that in the current year, sufficient controls over the budget execution process are implemented to reduce the material weakness finding for funds control and the system non-conformance to a reportable condition with a remediation plan developed and reported through the A-123 certification process.

Section 2

Areas of Non-compliance			
No.	System Requirements	Instance	OIG Audit Report #
2.1	SFFAS No. 5	Recording accurate accrual estimates for producer payment programs.	06401-16-FM 06401-17-FM
2.2	OMB Circular A-136	Recording financial business events at the transaction level.	06401-20-FM

Corrective Actions Planned					
	Corrective Action Milestones*	OIG Audit Rec. #	Target Completion Date	Revised Completion Date	Actual Completion Date
2.1.1	Improvement needed in financial accounting and reporting policies and procedures.	FY 2003 #16, 18 FY 2004 #9	FY 2006 Q4		FY 2006 Q3
•	Re-examine existing accrual policies and analytical procedures in terms of Federal accounting standards and CCC business practices, determine where improvements need to be made, and implement improvements.	FY 2003 #16, 18 FY 2004 #9	FY 2006 Q4		FY 2006 Q3
•	Re-examine existing obligation policies and analytical procedures in terms of Federal accounting standards and CCC business practices, determine where improvements need to be made, and implement improvements.*		FY 2006 Q4		FY 2006 Q3
2.2.1	Improvement needed in controls to ensure transactions are properly supported, recorded timely and accurately in accordance with Federal accounting standards using the U.S. Standard General Ledger (USSGL) at the transaction level.	FY 2005 #12, 13	FY 2006 Q4		FY 2006 Q4
•	Document and evaluate current system of budgetary accounting controls, identify deficiencies, develop and implement improved, well-defined control processes.*		FY 2006 Q4		FY 2006 Q3
•	As part of the OMB A-123 Appendix A assessment of CCC's internal controls over financial reporting, testing will be conducted on these newly improved, well-defined controls and		FY 2006 Q4		FY 2006 Q3

Corrective Actions Planned				
Corrective Action Milestones*	OIG Audit Rec. #	Target Completion Date	Revised Completion Date	Actual Completion Date
processes for budgetary accounting transactions. If additional deficiencies are detected, a remediation plan to address the weaknesses will be promptly developed and executed. *				
• Obtain contractor training for financial management staff in budgetary accounting and analysis.		FY 2006 Q4		FY 2006 Q3
• Transform the organizational structure to establish clear lines of authority, leverage expertise, and improve performance in the implementation and documentation of financial and budgetary accounting policy, budgetary and proprietary accounting analysis, reconciliations, and review.		FY 2006 Q4		FY 2006 Q4
• As an interim solution, analyze current feeder systems to determine compliance with financial data requirements, and if required financial data elements are not gathered for transmission to the core financial system, identify feeder system gaps. FMD has removed part of the corrective action to determine the costs to correct the deficiencies based on the relevancy of costs being a mitigating control.		FY 2006 Q4		FY 2006 Q4

* A decision was made to differentiate between two separate distinct corrective actions incorporating the same objectives in order to address material weaknesses and implement mitigating controls in a much tighter timeframe.

Section 3

U.S. Government Standard General Ledger (SGL) at the Transaction Level
Classification of financial events for financial statements and required financial information provided to the Department of the Treasury and OMB is consistent with the account descriptions and posting rules approved by the SGL Board and published by the Treasury Department's Financial Management Service in the Treasury Financial Manual.

Corrective actions were completed in FY 2006 that met substantial compliance requirements with the USSGL at the transaction level. See Section 2 for the explanation.

Areas of Non-compliance			
No.	System Requirements	Instance	OIG Audit Report #
3.1	OMB Circular A-127 -Joint Financial Management Improvement Program (JFMIP)	Recording financial business events at the transaction level	06401-20-FM

Corrective Action Planned				
Corrective Action Milestones*	OIG Audit Rec. #	Target Completion Date	Revised Completion Date	Actual Completion Date
3.1.1 Improvement needed in controls to ensure transactions are properly supported, recorded timely and accurately in accordance with the USSGL at the transaction level.	FY 2005 #12	FY 2006 Q4		FY 2006 Q4
• Document and evaluate current system of budgetary accounting controls, identify deficiencies, develop and implement improved, well-defined control processes.*		FY 2006 Q 4		FY 2006 Q3
• As part of the OMB A-123 Appendix A assessment of CCC's internal controls over financial reporting, testing will be conducted on these newly improved, well-defined controls and processes for budgetary accounting transactions. If additional deficiencies are detected, a remediation plan to address the weaknesses will be promptly developed and executed.		FY 2006 Q4		FY 2006 Q4
• Obtain contractor training for financial management staff in budgetary accounting and analysis.		FY 2006 Q4		FY 2006 Q3
• Transform the organizational structure to establish clear lines of authority,		FY 2006 Q4		FY 2006 Q4

Corrective Action Planned				
Corrective Action Milestones*	OIG Audit Rec. #	Target Completion Date	Revised Completion Date	Actual Completion Date
leverage expertise, and improve performance in the implementation and documentation of financial and budgetary accounting policy, budgetary and proprietary accounting analysis, reconciliations, and review.				
As an interim solution, analyze current feeder systems to determine compliance with financial data requirements, and if required financial data elements are not gathered for transmission to the core financial system, identify feeder system gaps.		FY 2006 Q4		FY 2006 Q4

* A decision was made to differentiate between two separate distinct corrective actions incorporating the same objectives in order to address material weaknesses and implement mitigating controls in a much tighter timeframe.

Section 4

Information Security Policies, Procedures and Practices
Information security policies, procedures, and practices meet the reporting requirements of the Federal Information Security Management Act.

NOTE: Corrective action plans and target dates are duplicative of Section 1 and will not be repeated in this section.

Section 5

Identify official(s) responsible for corrective actions.

Official(s) Responsible for Corrective Actions		
Name	Title	Phone No.
Kristine M. Chadwick	Controller, CCC; Director, FMD	703-305-1386
Steven L. Sanders	Director, ITSD	202-720-7796

Improper Payment Improvement Act Compliance (IPIA)

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, annually review programs and activities to identify if any are susceptible to significant improper payments. The OMB is responsible for implementing IPIA. OMB defined 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 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 statistically valid estimate to determine the actual annual amount of improper payments for the program or activity. Based on the kinds of errors found in developing the statistical estimate, FSA must develop a plan for reducing improper payments and establish performance goals.

The results of 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 during the FY 2006 review cycle. The results of those reviews identified two new programs as potentially at high risk for making improper payments. Those programs were the Noninsured Assistance Program (NAP) and Direct and Counter Cyclical Payment Program (DCP). OMB reviewed the risk assessments and added two additional programs to CCC's group of potentially high risk programs. Those programs were the Conservation Reserve Program (CRP) and Disaster Programs (DCP). Statistical samples were completed for each of these programs and the results indicate that these programs exceed the 2.5 percent maximum improper payment rate established by the legislation. These four programs joined the three programs identified in prior year risk assessments or OMB selections (Marketing Assistance Loans, Loan Deficiency Payments, and Milk Income Loss Contracts) as high risk programs.

FSA identified actions it would take during FY 2007 to reduce the level of improper payments and established both reduction targets and recovery targets for these improper payments. The Agency is committed to reducing the level of improper payments through a combination of improved program and financial systems automating internal controls and expanded reviews and certification of data supporting payments.

Performance Highlights Summary

The CCC either met or exceeded all of its performance targets for FY 2006. CCC met its performance target for the percentage of program benefits delivered through a Web environment, with 33 percent of relevant programs being fully Web-enabled. One-third of these particular CCC programs offer software to producers and ranchers for use in their home or office, helping to reduce the average processing time for delivering program benefits. The Conservation Reserve Program (CRP) met its target for the number of acres of riparian and grass buffers enrolled in the program during this fiscal year. The cumulative total of enrolled acres for FY 2006 is 1.86 million acres of buffer areas, meeting and slightly bettering the program's target of 1.85 million enrolled acres. CCC also maintained the sales of targeted commodities from the previous year's total thus meeting its target, while the average time between warehouse examinations decreased significantly so that the FY 2006 target was exceeded.

There are a number of factors that may affect the CCC and its programs' ability to meet their performance targets. External factors include extreme weather events, such as widespread flooding, drought, or other natural disasters, that can increase the amount of disaster assistance needed in any given year. Because it is impossible to predict when natural disasters will occur, some years require little disaster assistance and others may require large amounts of additional emergency assistance, such as in 2005 when additional funding was needed for recovery from that year's devastating hurricanes. In particular, the unexpected nature and intensity of many natural disasters may require additional time and resources to quickly process and deliver emergency program benefits. Natural disasters and weather-related events may also exacerbate or expand resource problems, eliminate previous conservation gains, and may result in redirection of planned activities to provide emergency assistance.

Global trends and economic conditions can affect the ability of CCC to meet its performance targets. Growing conditions here and abroad affect commodity prices for American farmers and ranchers. For example, increased productions by foreign producers can lower world commodity prices and affects farmers' and ranchers' abilities to compete internationally. Policy changes in foreign countries may create or reduce trade and non-trade barriers that will affect American producers' ability to access and sell their products in international markets. The competitiveness of American products in other countries can also be determined by the strength of the U.S. dollar relative to other currencies.

Recent high fuel prices affect farmers and ranchers by increasing the prices of inputs needed to produce their goods. In addition to the resulting higher product prices, landowners may be more reluctant to enroll in new programs, implement new conservation practices or adopt new technologies that could further decrease their bottom line. Increasing energy concerns are projected to have a significant effect on farm economics, which may stall conservation decision making.

Additional external factors with the potential to affect CCC programs include the macroeconomic conditions of the U.S. and the potential for actions by a variety of Federal, State and local governments that can influence the sustainability of the rural infrastructure. The technology and infrastructure of rural communities are also factors that limit the speed and the extent to which CCC programs can quickly move to electronic payment systems to deliver program benefits.

Comprehensive Performance Section

Given that CCC effectively has no employees and most of its services are carried out by the employees of other USDA Agencies, CCC's mission aligns to the strategic goals of the Department as well as those of FSA and FAS. Strategic goals describe the outcomes that emerge from achieving CCC's mission. Each of these strategic goals in turn has outcome objectives that support the results the Agencies want to achieve. The performance measures allow the CCC to tangibly measure how well it is achieving these objectives without creating a duplicate reporting burden. The table below summarizes the relationship between the USDA Strategic Goal, the CCC program area, the Agency's strategic goal and the CCC mission element. The table also displays which USDA Agency administers the strategic goal.

CCC Program Alignment to USDA Performance and Accountability Report Goals

<table>
<tr><th>USDA Strategic Goal</th><th>CCC Program Area</th><th>USDA Agency</th><th>Agency Strategic Goal</th><th>CCC Mission Element</th></tr>
<tr><td>Enhance the Competitiveness and Sustainability of Rural and Farm Economies</td><td>Income Support and Disaster Assistance</td><td>FSA</td><td>Supporting productive farms and ranches</td><td>Stabilizing, supporting, and protecting farm income and prices.</td></tr>
<tr><td>Enhance Protection and Safety of the Nation's Agriculture and Food Supply</td><td>Commodity Operations and Food Aid</td><td>FSA</td><td>Supporting Secure and Affordable Food and Fiber</td><td>Maintaining balanced and adequate supplies of agricultural commodities and aiding in their orderly distribution.</td></tr>
<tr><td>Protect and Enhance the Nation's Natural Resource Base and Environment</td><td>Conservation</td><td>FSA</td><td>Conserving Natural Resources and Enhancing the Environment</td><td>Conservation of soil, air, and water resources and protection and improvement of wildlife habitats.</td></tr>
<tr><td>Enhance International Competitiveness of American Agriculture</td><td>Market Expansion and Trade Building</td><td>FAS</td><td>Expand the Global Agricultural Trading System</td><td rowspan="2">Developing new domestic and foreign markets and marketing facilities for agricultural commodities.</td></tr>
<tr><td>Enhance International Competitiveness of American Agriculture</td><td>Export Credit</td><td>FAS</td><td>Expand the Global Agricultural Trading System</td></tr>
</table>

Program Area Performance Data:

Within each program area this report will provide a brief summary of the CCC program along with the corresponding USDA Strategic Goal. Also provided are the recommendations resulting from the PART (Program Assessment Rating Tool) process (if available for that program) and the status of implementing those recommendations. The PART process was developed to assess and improve program performance so that the Federal government can achieve better results. A PART review helps identify a program's strengths and weaknesses to inform funding and management decisions aimed at making the program more effective. The PART therefore looks at all factors that affect and reflect program performance, including program purpose and design; performance measurement, evaluations, and strategic planning; program management; and program results. Because the PART includes a consistent series of analytical questions, it allows programs to show improvements over time, and allows comparisons between similar programs. The USDA has 56 programs set for the PART process through FY 2006. At this time not all programs have undergone the PART process or the PART data is not fully available. If PART data is not fully available, this will be reflected in the text of the data that is included. Performance Measures are also shown for each program area.

Program Area – Income Support and Disaster Assistance
Program Area Summary

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, the incidence of disaster, and payment eligibility rules established in public policy. CCC payment volume trends 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. This performance discussion will cover overall program effectiveness and the efforts made by the Agency to web-enable the business process for administering these programs so that the CCC can be more agile in responding to the workload fluctuations inherent in these programs.

Program Performance Scores and Status

Agricultural Crops Counter Cyclical Payments Program. The counter-cyclical payment program is one part of the Government's "safety net" for farmers. It provides income support while minimally impacting trade and production. The program protects farmers from low program commodity prices, and helps ensure farmers' cash flow needs are met.

- **USDA Strategic Goal Alignment** - Enhance the Competitiveness and Sustainability of Rural and Farm Economies
- **Lead Agency** - FSA

Agricultural Crops Counter-Cyclical Payments	
1.0 OMB Follow-up Action	Develop an independent evaluation process to be conducted once every three years.
1.1.1 Milestone	Develop evaluation process to measure effectiveness of Direct and Counter-Cyclical Programs (DCP).
Target Date	09/30/2007
Actual Date	09/30/2006
Status	**Completed:** The current program legislation ends in FY 2007. Therefore, an independent evaluation process every three years is not feasible for this program at this time.
2.0 OMB Follow-up Action	Take measures to collect data to monitor program performance.
2.1.1 Milestone	Collect data for income derived from counter-cyclical payments.

Target Date	01/31/2006
Actual Date	12/31/2005
Status	**Completed:** FSA developed new, outcome oriented performance measures as part of the strategic planning process initiated in October 2003. A draft of the FY 2005-2011 Strategic Plan was issued for public comment in April 2005. Performance targets will be evaluated quarterly and annually, as appropriate. A new data verification and validation checklist process will be put into place for all performance measures. The Farm Programs staff, to validate all data related to strategic performance measures, is currently using the draft checklist. FSA awaits Departmental clearance prior to issuing the FSA 2005–2011 Strategic Plan in "final." FSA has finalized the Farm Programs portion of its Strategic Plan and aligned its measures to the USDA FY 2005–2010 Strategic Plan. Data is being 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. There is a specific measure related to DCP participation, as well as performance measures related to the percentage of farm income derived from non-governmental sources.
3.0 OMB Follow-up Action	Work to achieve its long-term performance goals.
Status	**Completed:** FSA developed new, outcome oriented performance measures as part of the strategic planning process initiated in October 2003. A draft of the FSA FY 2005–2011 Strategic Plan was issued for public comment in April 2005. Performance targets will be evaluated quarterly and annually, as appropriate. A new data verification and validation checklist process will be put into place for all performance measures. The Farm Programs staff, to validate all data related to strategic performance measures, is currently using the draft checklist. FSA awaits Departmental clearance prior to issuing the FSA 2005–2011 Strategic Plan in "final." FSA has finalized the Farm Programs portion of the Strategic Plan and aligned its measures to the USDA Draft FY 2005–2010 Strategic Plan. Data is being 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.

Agricultural Marketing Assistance Loan Payment Program - The purposes of this program are: 1) to provide short term financing for marketing of program commodities (wheat, feed grains, cotton, rice, oilseeds, peanuts, honey, wool, mohair, and pulses); and 2) to provide subsidies when market prices of program commodities are relatively low.

- **USDA Strategic Goal Alignment** - Enhance the Competitiveness and Sustainability of Rural and Farm Economies
- **Lead Agency** – FSA

Agricultural Marketing Assistance Loan Payments	
1.0 OMB Follow-up Action	Discrepancies between county offices in the delivery of services to producers should be addressed.
1.1.1 Milestone	Conduct National/Regional Training and Clarify Handbooks.
Target Date	09/30/2005
Actual Date	09/30/2005
Status	**Completed:** Program training has been done in recent years; FSA provides National/Regional program training, as appropriate and within budget constraints. Program policy handbooks and notices have been issued and updated to clarify CCC Marketing Assistance Loan Repayment Policies.

	FSA addresses problematic issues in service delivery on an on-going basis, and as problems arise. The Price Support Division continues to update National handbook policies and procedures for clarity and to ensure program implementation is uniformly administered among States and County Offices. The Price Support Division has also developed self-paced PowerPoint training presentation using "Ready Talk" software. The LDP training modules were made available to FSA State Offices in July, 2006. Future training modules will cover performance and accountability issues and general MAL policies and procedures.
2.0 OMB Follow-up Action	More frequent external audits of program effectiveness ought to be conducted.
2.1.1 Milestone	Conduct statistical sampling.
Target Date	04/2005
Actual Date	09/2005
Status	**Completed**: An independent contractor completed the statistical sample and the final report was provided to FSA in September, 2005.
3.0 OMB Follow-up Action	That the House and Senate Agriculture Committees examine the issue of payment limits for marketing loan and LDP gains and how they could be tightened.
3.1.1 Milestone	Propose payment limits for FY 2006 Budget.
Status	**Completed:** The proposed FY 2006 Budget would have reduced the payment limitation caps for all Farm Programs. The proposed legislation also suggested that marketing loan gains would be based on historical payment yields instead of current production.
4.0 OMB Follow-up Action	Conducting audits more frequently.
4.1 Milestone	Conduct an additional review of the program activity.
Target Date	12/30/2006
Actual Date	06/30/2006
Status	**Completed:** OIG conducted an audit of the MAL program to determine if FSA had adequate controls over farm stored nonrecourse MALs and a review of FSA's controls for ensuring the value of collateral temporarily stored on-ground (due to Hurricanes Katrina and Rita). The audit was completed and a final report was provided on June 27, 2006. FSA responded to the Audit 03601-47-TE on August 4, 2006 and September 20, 2006. FSA is in the process of providing applicable documentation, as requested by OIG, to finalize FSA's response to the OIG audit. FSA will provide the requested documentation on or before November 17, 2006.
5.0 OMB Follow-up Action	Addressing payment limit loopholes through the regulatory process.
Status	**Completed:** The payment limitation amounts are statutory. The regulations reflect and support the current legislations; therefore, no further regulatory action is necessary. Legislative changes would be necessary before program regulations could be amended to address issues pertaining to payment limitations. No further action will be taken on this issue.

Direct Crop Payments Program. CCC provides direct payments (cash) to eligible crop farmers. The intent is to provide a safety net for farmers, but to continue to allow them planting flexibility. Roughly 41 percent of farms receive direct payments.

- **USDA Strategic Goal Alignment** - Enhance the Competitiveness and Sustainability of Rural and Farm Economies
- **Lead Agency** – FSA

Direct Crop Payments	
1.0 OMB Follow-up Action	The limitations of the direct payment program will have to be dealt with legislatively. The Administration will reduce trade barriers through trade negotiations, to create new markets for U.S. agricultural exports, so that farmers will be less reliant on government income support.
1.1.1 Milestone	Analyze input from the listening sessions.
Target Date	09/30/2006
Actual Date	03/31/2006
Status	**Completed:** The Secretary of Agriculture conducted stakeholder listening sessions to obtain input on the provisions of the next Farm Bill. FSA collected the input from the listening sessions. USDA has been analyzing the input to identify any legislative changes that can be proposed to address the limitations of this program.
2.0 OMB Follow-up Action	The program management has devised performance goals that are designed to improve the delivery of the program.
Status	**Completed:** An important goal was to establish an electronic Direct and Counter-Cyclical Program (DCP) service that allows agricultural producers to enroll online. Producers can choose DCP payment options, assign crop shares, and sign and submit their contracts from any computer with Internet access and no longer have to travel to their local FSA office to complete these tasks. FSA developed and incorporated an efficiency measure into the Quarterly Performance Report and USDA's Performance and Accountability Report to "maintain or increase percentage of program benefits delivered through a Web environment," which includes DCP.
3.0 OMB Follow-up Action	Requiring producers to purchase higher levels of crop insurance for all crops on which they receive direct payments; limiting the need for ad hoc disaster assistance and maintaining farm income.
3.1.1 Milestone	Analyze input from stakeholder listening sessions.
Target Date	9/30/2006
Actual Date	3/31/2006
Status	**Completed:** The Farm Security and Rural Investment Act of 2002 (Farm Bill) authorizes direct payments through 2007. Currently, statute provides no requirement for purchasing crop insurance in order to receive program benefits. Therefore, the requirements of the direct payment program will have to be dealt with legislatively. See 1.1.1., above.
4.0 OMB Follow-up Action	**Completed:** (not a follow-up action in the 2006 budget.)
5.0 OMB Follow-up Action	Reducing trade barriers through trade negotiations, to create new markets for U.S. agricultural exports, so that farmers will be less reliant on government support
Status	**Completed:** After consultation with OBPA, FSA believes that this follow-up action was misdirected towards this Agency. No further FSA action required.

Key performance measures:

Key Performance Measure	FY 2006 Target	4th Quarter Estimated Performance	4th Quarter Actual Performance	Actual Year to Date Performance	Result
Maintain or increase % of program benefits delivered through a Web environment.	33%	33%	33%	33%	Met Target

Trends in Income Support and Disaster Assistance Programs

Key Performance Measure	2002	2003	2004	2005	2006
Maintain or increase % of program benefits delivered through a Web environment.	NA	NA	NA (program initiated in FY05)	22%	33%

Program Area – Conservation
Program Area Summary

The Conservation program area provides incentives to producers to establish long-term, resource conserving covers on eligible farmland. CCC makes annual rental payments based on the agriculture rental value of the land, and it provides cost-share assistance for up to 50 percent of the participant's costs in establishing approved conservation practices. Participants enroll in CRP contracts for 10 to 15 years, thus making a short-term performance analysis of a contract difficult. Performance of these conservation programs should be evaluated at the expiration of each contract.

Program Performance Score and Status

Conservation Reserve Program - The Conservation Reserve Program (CRP) safeguards natural resources by paying farmers to take environmentally sensitive cropland 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.

- **USDA Strategic Goal Alignment** - Protect and Enhance the Nation's Natural Resource Base and Environment
- **Lead Agency** – FSA

Conservation Reserve Program	
1.0 OMB Follow-up Action	Improving FSA's technical assistance accountability systems.
1.1.1 Milestone	Reengineer CRP business industry delivery of technical assistance; plan to utilize the private sector for technical assistance delivery.
Target Date	09/30/2006
Actual Date	09/30/2006
Status	**Completed:** For FY 2006, FSA established a target of five percent of technical assistance work that would be performed by the private sector. To achieve this target, a pilot program in ten States was implemented during FY 2006, and training for these States was completed. With this training, FSA staff can supervise, administer, and maintain private sector and other non-Federal technical assistance contracts and cooperative agreements. Over 140 counties in Idaho, Illinois, Kansas, Kentucky, Missouri, Nebraska, North Carolina, North Dakota, Pennsylvania, and Washington were trained. For the next phase of deployment, FSA identified certain Signup 33 contracts in four of these States (Kansas, Nebraska, North Dakota, and Washington) for which it planned to utilize a private sector technical assistance provider to develop conservation plans. A contract was awarded in the summer of FY 2006. The vendor is responsible for

	providing 390 conservation plans from this spring's general signup.
2.0 OMB Follow-up Action	Performing independent program evaluations to identify follow-up actions for improving performance.
2.1.1 Milestone	Develop cooperative agreements.
Target Date	09/30/2006
Actual Date	09/30/2006
Status	**Completed:** FSA has cooperative agreements with U.S. Geological Survey (USGS) and U.S. Fish & Wildlife Service (USFWS) to assess the effectiveness of the CRP on restored wetlands and duck populations in the Northern Prairie. Additionally, agreements with the Food & Agricultural Policy Research Institute (FAPRI), Mississippi State University, West, Inc., and Washington State Department of Natural Resources to assess the effect of CRP on the off field movement of sediment and nutrients, and quail, pheasant and sage-grouse populations have been completed and are either available on line or under final professional review. Similarly, FSA agreements with the Iowa State University and USGS examining the potential for restoring wetlands to filter nutrients from cropland runoff are completed and undergoing review. Oklahoma State University's examination of Great Plain Grasslands and alternative management systems for better CRP grassland management is nearing completion. Each of the above studies will be used to enhance program delivery and improve interagency assessment of CRP.
3.1.1. Milestone	Develop and implement agreements with several scientific and educational institutions to assess wildlife and wetland management plans and peer review CRP contract data.
Target Date	12/31/2006
Actual Date	
Status	**Action taken, but not completed:** FSA has cooperative agreements with USGS and USFWS to assess the effectiveness of the CRP on restored wetlands and duck populations in the Northern Prairie. Additionally, agreements with FAPRI, Mississippi State University, West, Inc., and Washington State Department of Natural Resources to assess the effect of CRP on the off field movement of sediment and nutrients, and quail, pheasant and sage-grouse populations have been completed and are either available on line or under final professional review. Similarly, FSA agreements with the Iowa State University and USGS examining the potential for restoring wetlands to filter nutrients from cropland runoff are completed and undergoing review. Oklahoma State University's examination of Great Plain Grasslands and alternative management systems for better CRP grassland management is nearing completion. Each of the above studies will be used to enhance program delivery and improve interagency assessment of CRP.
3.0 OMB Follow-up Action	Continuing to collect performance data and using the data to improve the field-level oversight of CRP contracts.
3.1.2. Milestone	Perform compliance checks on all expiring 2007–2011 contracts offered for re-enrollment or extension.
Target Date	12/31/2006

Actual Date	
Status	**Action taken, but not completed:** There are 317,172 CRP contracts on 27,530,739 acres expiring in FY 2007 through FY 2010 that were offered the opportunity to reenroll or extend their contract. Traditionally, ten percent of CRP contracts are spot-checked for compliance on an annual basis. To address concerns in regards to noxious weeds on CRP lands and to ensure CRP land meets the goals and objectives of the program, FSA is conducting a compliance review on each contract proposed for reenrollment or extension. Eligible land must be in full compliance with the contract including the cover requirements and the control of weeds, including noxious weeds, insects, and pests. At the end of September, field checks were completed on more than 97 percent of the expiring 2007 contracts who had accepted a reenrollment or extension offer. Field reviews were completed on approximately 70 percent of the expiring 2008-2010 contracts. For contracts scheduled to expire between September 30, 2008 and 2010, compliance reviews will be completed by December 31, 2006.

Key Performance Measures:

Key Performance Measure	FY 2006 Target	4th Quarter Estimated performance	4th Quarter Actual Performance	Actual Year to Date Performance	Result
Increase Conservation Reserve Program (CRP) acres of riparian and grass buffers (million acres).	1.85 million acres	1.86 million acres	1.86 million acres	1.86 million acres	Met Target

Trends in Conservation Programs

Key Performance Measure	2001	2002	2003	2004	2005	2006
Increase Conservation Reserve Program (CRP) acres of riparian and grass buffers (million acres).	0.95 million acres	1.24 million acres	1.45 million acres	1.65 million acres	1.75 million acres	1.86 million acres

Program Area – Commodity Operations and Food Aid
Program Area Summary

Commodity Operations maintains the price of milk used for manufactured dairy products through the Dairy Price Support Program and stores, handles and disposes Commodity Credit Corporation's owned commodities for export and domestic commodity donation programs. Commodity Operations produces a uniform regulatory system for the storage of agricultural products and ensures the timely provision of food products procured for domestic and international food assistance programs and market development programs.

Program Performance Score and Status

Dairy Price Support Program. CCC is required to maintain the price of milk used for manufactured dairy products above $9.90 per hundredweight (equivalent to about 85 cents per gallon); by purchasing nonfat dry milk, butter, and cheese at established prices. Purchased commodities may be stored, sold or donated.

- **USDA Strategic Goal Alignment** – Enhance Protection and Safety of the Nation's Agriculture and Food Supply
- **Lead Agency** – FSA

	Milk (Dairy) Price Support Program (MPSP)
1.0 OMB Follow-up Action	Refine new long-term performance measures, develop corresponding baselines, and performance targets for MPSP.
1.1.1 Milestone	Work with OMB to determine a mutually satisfactory measure of MPSP performance that appropriately tiers down from FSA's Draft FY 2005-2011 Strategic Plan.
Target Date	09/30/2007 (New date for re-PART)
Actual Date	
Status	**Action Taken, but not completed**: FSA developed new long-term, program specific, performance measures that tier down from its draft Strategic Plan for FY 2005-2011. The new measures were proposed to OMB during a re-PART review during FY 2006, and one was accepted. Work continues to develop a second measure that is mutually satisfactory.
2.0 OMB Follow-up Action	Identify program improvements and alternatives that could more directly address current problems facing dairy producers.
2.1.1 Milestone	Meet with Economic Research Service (ERS) officials, to discuss policy evaluation results and challenges facing dairy producers.
Target Date	12/31/2005
Actual Date	12/30/2005
Status	**Completed:** Discussions were held with ERS regarding research and the paper, "Global Dairy Markets and Impacts of Policy Reform." The research found that the US dairy industry could benefit from more open global trade. Policies that limit foreign competition are judged to be detrimental because new market opportunities are foregone. Domestic programs that distort dairy markets can also cause the industry to miss new market opportunities. Most ERS follow-up actions related to reducing global export subsidies and import restrictions that lie outside FSA programs. Domestic market distortion reductions could be achieved through better management of purchase price levels under the Dairy (Milk) Price Support Program. Proposals for these improvements were included in the legislative language that was submitted with the FY 2007 budget.
2.1.2 Milestone	Meet with officials from other countries, as appropriate, to compare/contrast FSA dairy programs.

Target Date	12/31/2005
Actual Date	09/14/2005
Status	**Completed:** FSA is consistently researching ways to improve the MPSP. For example, in August 2005, FSA met with representatives of the Canadian Dairy Commission. The discussion included similarities and differences between FSA and Canadian Dairy Programs and methods used to evaluate the programs. The Agency will consider the lessons learned through these discussions in reassessing the program. In September, 2005, discussions were held with board members from Friesland Foods of the Netherlands. Discussion included policy impacts on dairy production and production innovation. In addition, discussions with the Congressional Budget Office led to a legislative proposal to alter operation of the program to make it more efficient. A proposal to modify legislative language to minimize expenditures by the CCC on butter and nonfat dry milk purchases was used to support FSA's budget for FY 2007.
2.1.3 Milestone	Develop follow-up actions for additional program improvements and appropriate changes in legislation.
Target Date	09/30/2005
Actual Date	09/15/2005
Status	**Completed:** Discussions with the Congressional Budget Office and OMB led to legislative proposal to alter operation of the program to make it more efficient. A proposal to modify legislative language to minimize expenditures by the Commodity Credit Corporation on butter and nonfat dry milk purchases was included in the Budget Year 2006 budget submission on February 7, 2005. Draft bills were transmitted for consideration of the Congress on August 22, 2005. Proposed legislative language to minimize the cost of the Dairy (Milk) Price Support Program was submitted with the 2007 budget materials.
2.1.4 Milestone	Meet with OMB to seek support of program and legislative changes.
Target Date	09/30/2005
Actual Date	09/15/2005
Status	**Completed:** FSA met with OMB to discuss the program's performances measures and related issues. There was concurrence that program improvements through legislation would improve program operation and continued discussion on program alternatives was suggested. Proposed legislation was submitted with the FY 2007 budget.
3.0 OMB **Follow-up Action**	Identifying current issues facing the U.S. dairy industry and how these are impacted by the MPSP.
3.1.1. Milestone	Identify U.S. dairy industry issues and concerns, as articulated in the Farm Bill listening sessions and other documents on dairy policy issues, and analyze how those concerns are impacted by MPSP.

Target Date	09/30/2006
Actual Date	09/30/2006
Status	**Completed:** Farm Bill Listening sessions called for continuation of MPSP as the most effective safety net program and expressed interest in simplifying the program. Others called for replacement of MPSP with a safety net program with more direct payments and less market distortion. Calls for free-trade compliant programs were also made. The National Milk Producers Federation state in the 2006 National Dairy Producer Conclaves, Policy Issues and Concerns, that MSPS does "maintain a safety net for dairy producers and cooperatives that minimizes market volatility, while balancing supply and demand. The dairy price support program has performed effectively in that regard and is the preferred safety net option. However, it may be necessary to consider alternative programs which would accomplish the same policy goals as the current program."

Bioenergy- USDA's Bioenergy program, extended by the 2002 Farm Bill until 2006, was designed to expand industrial consumption of agricultural commodities by promoting their use in the production of bioenergy (fuel grade ethanol and biodiesel). The program provides financial assistance by subsidizing part of bioenergy production costs.

- **USDA Strategic Goal Alignment** – Enhance Protection and Safety of the Nation's Agriculture and Food Supply
- **Lead Agency** – FSA

Bioenergy	
1.0 OMB Follow-up Action	Ensure a sufficient level of support to growing bio-diesel industry.
Status	**Completed:** FSA cannot address this follow-up action further due to the following: 1) Ethanol and bio-diesel industries are experiencing record growth, while at the same time Program funding was cut significantly for FY 2005. Combined, these factors resulted in program payments being significantly reduced to approximately 60 percent for the first quarter, and 43 percent in the fourth quarter of FY 2005 to hold them to available funding; 2) Program Agreements for the life of the program were executed with participants before this follow-up action was made. The Agreement provisions limit our ability to address this follow-up action. The program expired in FY 2006.
2.0 OMB Follow-up Action	Increase collaboration and coordination between related programs.
Status	**Completed:** The program manager participated in USDA-wide Bio-based Products and Coordination Council planning sessions and maintained contacts with both ethanol and bio-diesel industry trade groups.
3.0 OMB Follow-up Action	Tie program performance to budget requests in the 2005 President's Budget.
Status	**Completed:** Program performance is included in the budget submissions and requests beginning with the FY 2005 budget.
4.0 OMB Follow-up Action	Assess performance targets to ensure they are ambitious and reasonable.

Status	**Completed:** FSA revised its performance targets, with OMB input, beginning with the FY 2005 budget submission to reflect budget realities and program phase-out.

Program Area – Market Expansion and Trade Building
Program Area Summary

The FAS promotes market expansion and trade building through cooperative agreements between CCC and nonprofit agricultural trade commodity groups. USDA uses funds or commodities from CCC to encourage development, maintenance and expansion of commercial export markets for agricultural commodities. This is done through cost-share assistance to eligible trade organizations that implement a foreign market development program.

Program Performance Score and Status

USDA Food Aid Programs - 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.

- **USDA Strategic Goal Alignment** – Enhance International Competitiveness of American Agriculture
- **Lead Agency** – FAS

Recommendations from PART Process	Status of Implementing Recommendations
FAS has developed and continues to refine a new food security annual performance measure and baseline.	FAS and USAID have had ongoing discussions to incorporate this common food aid measure. Using their Food Security Assessment Model, ERS has analyzed 5 years' historical food aid data for FAS and several years' food aid data for USAID. FAS, ERS, OBPA, and USAID met on May 11 to discuss and finalize the targeting assumptions to be used to determine the food aid targeting effectiveness ratio for both USDA's and USAID's programs. At that time, USAID stated that its restructuring and a requirement to develop new performance measures would prevent it from adopting a common performance measure at least at this time. FAS has agreed to use the targeting assumptions and will furnish revised spreadsheets to ERS for further analysis. Upon ERS' completion, FAS will set both baseline and annual performance measures.
Financial management improvements in the areas of credit reform, budget reporting and reimbursements are on-going.	Completed
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. BearingPoint, an information technology (IT) contractor, completed in May 2005 an interagency study of IT systems used by FAS, USAID, FSA and MARAD for food aid data management and program controls. The report provided recommendations on the potential for consolidated reports, standardization of data fields and data transfer protocols. A Memorandum of Understanding between the four food aid agencies to form a technical working group to develop such standards has been drafted and is being circulated for signature. FAS continues to make progress on its Food Aid Information System (FAIS) and has sought funding under the CCC Section 11 authority and updated its business case (OMB-300) justification.

USDA Foreign Market Development Programs - 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.

- **USDA Strategic Goal Alignment** Enhance International Competitiveness of American Agriculture
- **Lead Agency** – FAS

Key Performance Measures:

Key Performance Measure	2001	2002	2003	2004	2005	2006
Target Dollar value of actual sales for small companies (millions) *Target exceeded **Data not yet available	$367.2*	$427.7*	$450*	$470*	$490*	$710**

Key performance measures for the Market Expansion and Trade Building program area are noted above, with targets established for FY 2006:

Program Area – Export Credit
Program Area Summary

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 Performance Score and Status

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

- **USDA Strategic Goal Alignment** – Enhance International Competitiveness of American Agriculture
- **Lead Agency** – FAS

Recommendations from PART Process	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. For future years, we will work to achieve the objective of contracting, using FAS S&E funds, with USDA/ERS, OIG or another independent party to conduct an independent review of the Export Credit Guarantee Program prior to FY 2010.
Provide funding in the Budget to improve claims recoveries.	COMPLETED. In FY 2005, CCC's Sec. 4 authority was used to provide up to $2.085 million for a contract to improve recovery of private, foreign debt issued under the ECGP. Since mid-March 2005 when the contract went into effect, about $1.7 million in claims recoveries has been collected. For FY 2006, $1.965 million in funding under CCC's Sec. 4 authority is being provided for contracting legal services and investigators in overseas markets, claims processing and debt recovery. The FY 2006 Appropriations Act also included $775,000 to continue claim recovery activities started in FY 2005.
Include a reduction in administrative costs in the budget.	COMPLETED. 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

Recommendations from PART Process	Status of Implementing Recommendations
	this basis, the ECGP demonstrated a high degree of efficiency, recording in FY 2004 an efficiency measure of .03% (= .0003 cents/$1 ECG) and .06% in FY 2005 (=.0006 cents/$1 ECG).
Develop meaningful targets for the efficiency measure.	COMPLETED. 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 an efficiency measure of .03% (= .0003 cents/$1 ECG) in FY 2004 and.06% (=.0006 cents/$1ECG) in FY 2005. An output measure may be another means of looking at administrative costs and efficiencies. Since the late 1990s, operations staff has processed 50% more applications (6,000 applic./year compared to 4,000 applic./yr) with fewer staff. In FY 2005, the GSM online system became available, allowing bankers and exporters the ability to complete program applications online. We anticipate that increased use of this system should help decrease administrative time associated with taking program applications. We will continue to examine whether this approach of comparing the no. of processed applications to staffing could serve as an additional efficiency measure.
Improve claims recoveries and reduce defaults.	COMPLETED. FAS has implemented a number of measures which should reduce defaults under the ECGP. Beginning July 1, 2005, FAS set risk-based fees for the program so that transactions involving greater risk are charged a higher fee for program participation. FAS is also not issuing any export guarantees under the longer term GSM 103 program and has elected not to issue guarantees to those countries with the highest repayment risk (countries rated an E- or below). These actions should decrease default rates and improve the program's ability to achieve a breakeven point over time. In addition, the Supplier Credit Guarantee Program (SCGP) has not been announced for FY 2006; we are examining ways in which the program can be made more default-resistant before restarting it. For recoveries of prior claims, FAS secured funding in FY 2005 and FY 2006 to contract for legal services and investigators in overseas markets, claims processing and debt recovery. Finally, we are working with the OIG and the Department of Justice to pursue claims recoveries.

Key Performance Measures:

Key Performance Measure	2001	2002	2003	2004	2005	2006
Application Response Time—Food Aid	N/A	N/A	N/A	N/A	N/A	90 days
Estimated trade value resulting from USDA GSM export credit guarantee programs (billions)	N/A	N/A	$3.63	$4.20	$2.91	$1.39
Administrative cost per loan -- measures USDA's efficiency of loan making and servicing	N/A	N/A	.04%	.03%	.06%	.10%

Management Summary, Initiatives, Information and Issues

INITIATIVE: BUDGET AND PERFORMANCE MANAGEMENT SYSTEM

The Budget and Performance Management System (BPMS) is a management initiative led by the FSA in collaboration with the FAS and other USDA Agencies. 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 has defined a more integrated framework for reporting CCC performance results. Future activities include the implementation of a CCC managerial cost accounting model which will provide full program costs and other cost management reports and analyses. Each FSA program area, including non-CCC program areas, are 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 new labor data collection system, improvements to workload data collection, and a 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. The FDIIP is the plan to get the USDA to green in Improved Financial Management. Progress is reported on a quarterly basis to USDA through the FDIIP. Implementation is underway and is expected to be completed by the end of FY 2009.

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

The FM-LOB Initiative:
The FM-LOB Initiative is mandated by the OMB. It will identify 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.

The FMMI Overview:
FSA/CCC in partnership with USDA's OCFO is pursuing significant modernization of aging departmental and agency financial systems in order 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 and provides maximum support to the Agencies' mission.

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

Grants Management Line of Business: USDA is developing 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. 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 Federal Government by consolidating services into those Centers of Excellence.

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 CCC legacy accounting systems are no longer supported by the vendor, and CCC must address material weaknesses in agency-specific general ledger systems.

CCC intends to replace several legacy financial systems, including their current core financial management system, Foundation Financial Information System (FFIS), administrative and program general ledger systems and consolidate their data and business function with a new Federal Systems Integration Office/Joint Financial Management Improvement Program (FSIO/JFMIP) compliant Commercial-Off-the-Shelf (COTS) accounting and ledger system. To meet this objective, CCC, together with USDA and the vendor, will perform an analysis of all CCC's financial and program applications and their functionality to identify possible candidates for:

- Full replacement by the new system
- Partial replacement of only financial functionality by the new system
- Interfaces into the new system.

INITIATIVE: IMPLEMENTATION OF OMB CIRCULAR A-123

Circular No. A-123 is issued under the FMFIA and implemented by the OMB. OMB Circular A-123 provides guidance to Agencies to ensure programs are managed appropriately and their financial statements accurately reflect agency operations. A-123 requires that FSA assess its operational controls and document the performance of those controls. Controls may be automated or manual, and may be in a FSA County office or in the FSA National Office. Controls that do not perform as intended, or do not have verifiable mitigating controls, must be reviewed. After review, a plan is implemented to strengthen control effectiveness as FSA assumes accountability for ensuring that its programs are administered as intended and funding received for those programs is expended as instructed.

FSA utilized the services of a contractor to help with portions of the A-123 implementation for FY 2006. The contractor provided a systematic process to identify each control separating it from other processes. From the identified controls, the contractor then defined those that are key to operations. Only key controls were tested for their effectiveness.

The selection of the controls from other ordinary processes and the further narrowing of the testing to only include key controls, posed the largest challenge for those in charge of the implementation. CCC cycle memos were used as the basis for the testing and controls were selected from the text. While the contractors and FSA employees shared the actual testing responsibilities, FSA employees were charged with ensuring that the testing was accurate and the tested controls accurately reflected the actions taken by FSA in its operations.

INITIATIVE: REORGANIZATION OF FMD

One major challenge for the management of the FMD was the reorganization of the staff and office structure. To accomplish the delivery of improved financial performance in accordance with the President's Management Agenda, the FMD needed to "Create and implement initiatives to actively engage the workforce, better align resources and processes, strengthen communications, and develop succession plans and training strategies."

The management of FMD sees financial improvement as being accomplished through performance measurement, accountability and data integrity. FMD is facing a higher degree of accountability, while facing shrinking budgets and an aging workforce that is rapidly approaching potential retirement.

The desired outcomes of the reorganization of FMD are numerous. First and foremost is the clarification of FMD's roles and responsibilities within FSA, FAS, CCC and USDA and the establishment of clear lines of responsibility. FMD seeks to improve the delivery of its services while eliminating material weaknesses identified by management and by the auditors. FMD desires to have satisfied customers with access to the financial information they need to make decisions. The final desired outcome of the reorganization is to have satisfied and skilled employees that know what is expected from them and are motivated to stay with FMD.

With FMD having established the goals for the reorganization, management worked to set strategies to achieve these goals. The first strategy was to align with Agency and Department strategic plans and link responsibility and accountability for all employees within FMD. FMD also sought to improve employee understanding of and participation in the FMD mission and goals. Complete succession planning was deemed necessary to ensure the transfer of knowledge within FMD. Finally, adequate preparation for the transition to FMMI was found to be essential to the reorganization.

The reorganization was approved by the Deputy Administrator for Management on August 16, 2006. With these goals and strategies in place, management is prepared for a smooth transition through the reorganization into the new structure of FMD.

CONSOLIDATED FINANCIAL STATEMENTS

Commodity Credit Corporation
Consolidated Balance Sheets

As of September 30, 2006 and 2005
(Dollars in Millions)

	2006		2005	
Assets:				
Intragovernmental:				
Fund Balance with Treasury (Note 2)		$ 1,740		$ 2,781
Accounts Receivable, Net (Note 3)		174		387
Other		1		1
Total Intragovernmental Assets		$ 1,915		$ 3,169
Cash		36		59
Accounts Receivable, Net (Note 3)		6,396		7,572
Loans and Credit Program Receivables:				
Commodity Loans, Net (Note 4)	$ 1,360		$ 1,031	
Credit Program Receivables, Net (Note 5)	5,823		7,237	
Other Foreign Receivables, Net	20		26	
Subtotal		$ 7,203		$ 8,294
Commodity Inventories, Net (Note 6)		55		29
General Property and Equipment, Net (Note 7)		52		52
Other		32		28
Total Assets		$ 15,689		$ 19,203
Stewardship Land (Note 14)				
Liabilities:				
Intragovernmental:				
Accounts Payable		$ -		$ 819
Debt to the Treasury (Note 8)		19,768		23,426
Other:				
Resources Payable to Treasury	$ 3,599		$ 4,681	
Deposit and Trust Liabilities (Note 9)	998		739	
Other (Note 10)	507		926	
Subtotal		$ 5,104		$ 6,346
Total Intragovernmental Liabilities		$ 24,872		$ 30,591
Accounts Payable		$ 154		$ 469
Credit Guarantee Liabilities (Note 5)		220		260
Environmental and Disposal Liabilities (Note 11)		11		11
Other Liabilities:				
Accrued Liabilities (Note 12)	$ 13,505		$ 14,644	
Deposit and Trust Liabilities (Note 9)	1		28	
Other (Note 10)	58		33	
Subtotal		$ 13,564		$ 14,705
Total Liabilities		$ 38,821		$ 46,036
Commitments and Contingencies (Note 13)				
Net Position:				
Unexpended Appropriations		$ 842		$ 714
Capital Stock		100		100
Cumulative Results of Operations		(24,074)		(27,647)
Total Net Position		$ (23,132)		$ (26,833)
Total Liabilities and Net Position		$ 15,689		$ 19,203

The accompanying notes are an integral part of these statements.

Commodity Credit Corporation
Consolidated Statements of Net Cost (Note 15)

For the Fiscal Years Ended September 30, 2006 and 2005
(Dollars in Millions)

	2006	2005
Strategic Goals:		
Supporting Productive Farms and Ranches:		
Gross Cost	$ 22,778	$ 34,537
Less: Earned Revenue	4,306	12,650
Net Goal Cost	$ 18,472	$ 21,887
Supporting Secure and Affordable Food and Fiber:		
Gross Cost	$ 47	$ (375)
Less: Earned Revenue	19	62
Net Goal Cost	$ 28	$ (437)
Conserving Natural Resources and Enhancing the Environment:		
Gross Cost	$ 2,366	$ 2,157
Less: Earned Revenue	35	2
Net Goal Cost	$ 2,331	$ 2,155
Supporting International Economic Development and Trade Capacity Building:		
Gross Cost	$ 1,372	$ 907
Less: Earned Revenue	1,190	1,253
Net Goal Cost	$ 182	$ (346)
Intra-entity Eliminations:		
Gross Cost	$ (520)	$ (733)
Less: Earned Revenue	(520)	(733)
Net Goal Cost	$ -	$ -
Total Gross Cost	**$ 26,043**	**$ 36,493**
Less: Total Earned Revenue	**5,030**	**13,234**
Net Cost of Operations	**$ 21,013**	**$ 23,259**

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, 2006 and 2005
(Dollars in Millions)

	2006	2005
Capital Stock	$ 100	$ 100
Cumulative Results of Operations:		
Beginning Balances	$ (27,647)	$ (15,033)
Budgetary Financing Sources:		
Appropriations Used	27,254	14,789
Non-exchange Revenue	17	5
Transfers in/out without Reimbursement	(3,293)	(4,447)
Other Financing Sources (Non-Exchange):		
Transfers in/out without Reimbursement	(533)	(984)
Imputed Financing	1,141	1,094
Other	-	188
Total Financing Sources	$ 24,586	$ 10,645
Net Cost of Operations	(21,013)	(23,259)
Net Change	$ 3,573	$ (12,614)
Cumulative Results of Operations	**(24,074)**	**(27,647)**
Unexpended Appropriations:		
Beginning Balance	713	1,647
Budgetary Financing Sources:		
Appropriations Received	27,220	14,546
Appropriations Transferred in/out	215	(476)
Other Adjustments	(52)	(214)
Appropriations Used	(27,254)	(14,789)
Total Budgetary Financing Sources	$ 129	$ (933)
Total Unexpended Appropriations	$ 842	$ 714
Net Position	**$ (23,132)**	**$ (26,833)**

The accompanying notes are an integral part of these statements.

COMMODITY CREDIT CORPORATION
Consolidated Financial Statements
Fiscal Years 2006 and 2005

Commodity Credit Corporation
Combined Statements of Budgetary Resources (Note 16)

For the Fiscal Years Ended September 30, 2006 and 2005
(Dollars in Millions)

	2006 Budgetary	2006 Non-Budgetary Credit Program Financing Accounts	2005 Budgetary	2005 Non-Budgetary Credit Program Financing Accounts
Budgetary Resources:				
Unobligated balance, brought forward, October 1	$ 1,299	$ 2,699	$ 1,197	$ 2,643
Recoveries of prior year unpaid obligations	4,945	4	2,836	3
Budget authority:				
Appropriation	28,112	-	15,444	-
Borrowing authority (Note 16)	44,465	824	45,357	688
Spending authority from offsetting collections:				
Earned:				
Collected	15,067	1,174	17,267	1,768
Change in receivables from Federal sources	54	(29)	(158)	(113)
Change in unfilled customer orders:				
Advance received	259	-	(1,387)	-
Expenditure transfers from trust funds	891	-	899	-
Subtotal	$ 88,848	$ 1,969	$ 77,422	$ 2,343
Nonexpenditure transfers, net, actual	(1,872)	-	(2,837)	-
Permanently not available	(50,152)	(1,690)	(33,582)	(734)
Total Budgetary Resources	**$ 43,068**	**$ 2,982**	**$ 45,036**	**$ 4,255**
Status of Budgetary Resources:				
Obligations incurred:				
Direct	$ 2,970	$ 1,355	$ 2,954	$ 1,556
Reimbursable	38,932	-	40,782	-
Subtotal	$ 41,902	$ 1,355	$ 43,736	$ 1,556
Unobligated balance:				
Apportioned	363	748	331	2,523
Exempt from apportionment	533	-	872	6
Subtotal	$ 896	$ 748	$ 1,203	$ 2,529
Unobligated balance not available	270	879	97	170
Total Status of Budgetary Resources	**$ 43,068**	**$ 2,982**	**$ 45,036**	**$ 4,255**
Change in Obligated Balance:				
Obligated balance, net, beginning of period				
Unpaid obligations, brought forward, October 1	$ 9,649	$ 49	$ 6,975	$ 88
Less: Uncollected customer payments from Federal sources, brought forward, October 1	(1,221)	(203)	(1,379)	(316)
Total unpaid obligated balance, net	$ 8,428	$ (154)	$ 5,596	$ (228)
Obligations incurred, net	41,902	1,355	43,736	1,556
Less: Gross outlays	(37,325)	(1,325)	(38,011)	(1,591)
Obligated balance transferred, net				
Actual transfers, unpaid obligations	-	-	(216)	-
Total unpaid obligated balance transferred, net	$ -	$ -	$ (216)	$ -
Less: Recoveries of prior year unpaid obligations, actual	(4,945)	(4)	(2,836)	(3)
Change in uncollected customer payments from Federal sources	(54)	29	159	113
Total Change in Obligated Balance	**$ 8,006**	**$ (99)**	**$ 8,428**	**$ (153)**
Obligated balance, net, end of period:				
Unpaid obligations	$ 9,281	$ 75	$ 9,649	$ 50
Less: Uncollected customer payments from Federal sources	(1,275)	(174)	(1,221)	(203)
Total, unpaid obligated balance, net, end of period	**$ 8,006**	**$ (99)**	**$ 8,428**	**$ (153)**
Net Outlays:				
Gross outlays	$ 37,325	$ 1,325	$ 38,011	$ 1,591
Less: Offsetting collections	(16,218)	(1,174)	(16,780)	(1,768)
Less: Distributed Offsetting receipts	-	(987)	-	(723)
Net Outlays	**$ 21,107**	**$ (836)**	**$ 21,231**	**$ (900)**

The accompanying notes are an integral part of these statements.

Commodity Credit Corporation
Consolidated Statements of Financing (Note 17)

For the Fiscal Years Ended September 30, 2006 and 2005
(Dollars in Millions)

	2006	2005
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	$ 43,256	$ 45,293
Less: Spending Authority from Offsetting Collections and Recoveries	22,365	21,116
Obligations Net of Offsetting Collections and Recoveries	$ 20,891	$ 24,177
Less: Offsetting Receipts	987	723
Net Obligations	$ 19,904	$ 23,454
Other Resources:		
Transfers In/Out without Reimbursement	$ (533)	$ (984)
Imputed Financing from Costs Absorbed by Others	1,141	1,094
Other	-	188
Net Other Resources Used to Finance Activities	$ 608	$ 298
Total Resources Used to Finance Activities	**$ 20,512**	**$ 23,752**
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	$ (128)	$ (933)
Resources that Fund Expenses Recognized in Prior Periods	(97)	479
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	2,094	3,287
Other	7,067	10,369
Resources that Finance the Acquisition of Assets	(13,224)	(18,587)
Other Resources or Adjustments to Net Obligated Resources that Do Not Affect Net Cost of Operations	(1,650)	(539)
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	**$ (5,938)**	**$ (5,924)**
Total Resources Used to Finance the Net Cost of Operations	**$ 14,574**	**$ 17,828**
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	$ 233	$ (992)
Increase in Exchange Revenue Receivable from the Public	(135)	(7,790)
Other	(192)	7,415
Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods	$ (94)	$ (1,367)
Components not Requiring or Generating Resources:		
Depreciation and Amortization	(28)	114
Revaluation of Assets or Liabilities	(76)	(533)
Other	6,637	7,217
Total Components of Net Cost of Operations that will not Require or Generate Resources	$ 6,533	$ 6,798
Total Components of Net Cost of Operations that will not Require or Generate Resources in the Current Period	**$ 6,439**	**$ 5,431**
Net Cost of Operations	**$ 21,013**	**$ 23,259**

The accompanying notes are an integral part of these statements.

Glossary of Acronyms

ADP – Automatic Data Processing

AMAP – Agricultural Management Assistance Program

AMS – Agricultural Marketing Service

APHIS – Animal and Plant Health Inspection Service

BARC – Balances Approach Reestimate Calculator

BEHT – Bill Emerson Humanitarian Trust

CCC – Commodity Credit Corporation

CRP – Conservation Reserve Program

DOT – Department of Transportation

EQIP – Environmental Quality Incentive Program

FACTS II – Federal Agencies Centralized Trial Balance System II

FAS – Foreign Agricultural Service

FNS – Food and Nutrition Service

FRB's – Federal Reserve Bank

FSA – Farm Service Agency

FSFL – Farm Storage Facility Loan

GMLoB – Grants Management Line of Business

GRP – Grassland Reserve Program

GSM – General Sales Manager

HIPC - Heavily Indebted Poor Countries

ICRAS - Inter-Agency Risk Assessment System

MAP – Market Access Program

NAP – Noninsured Crop Disaster Assistance Program

NNCA – No Net Cost Assessment

NPV – Net Present Value

NRCS – National Resources Conservation Service

OGC – Office of the General Counsel

OMB – Office of Management and Budget

P&F Schedule – Program and Financing Schedule

RMA – Risk Management Agency

SBR – Statement of Budgetary Resources

SCGP – Supplier Credit Guarantee Program

SFFAS – Statement of Federal Financial Accounting Standards

TTPP – Tobacco Transition Payment Program

USAID – United States Agency for International Development

USDA – United States Department of Agriculture

WRP – Wetland Reserve Program

WTO – World Trade Organization

Note 1 - Significant Accounting Policies

The financial statements report the financial position and results of operations of the Commodity Credit Corporation (CCC, the Corporation, or the Agency) pursuant to the requirements of 31 U.S.C. 3515 (b). These statements have been prepared from the accounting records of the Agency for the years ended 2006 and 2005, respectively, in accordance with generally accepted accounting principles for Federal entities and policies prescribed in Office of Management and Budget (OMB) Circular A-136*, Financial Reporting Requirements*. 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 are a component of the U.S. Government, a sovereign entity.

Reporting Entity

CCC 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 some 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 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), the Agriculture Marketing Service (AMS), the Natural Resources Conservation Service (NRCS), and the Foreign Agriculture 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 Accounting

The accounting principles and standards applied in preparing the financial statements and described in this note are in accordance with generally accepted accounting principles for Federal entities. The financial statements and accompanying notes are presented in accordance with the form and content guidelines established by OMB in Circular A-136.

Transactions are recorded on the accrual basis of accounting. 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 financial statements include all Treasury funds of CCC, which encompass its domestic and foreign activities. 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

Most CCC disbursements are made by either checks or electronic payments drawn against its account at Treasury. Generally, disbursements and receipts for which CCC is responsible are processed by the Federal Reserve Banks (FRB's), their branches, and the Treasury, which then report the activity to the Corporation.

Cash

Treasury requirements for the Federal Agencies Centralized Trial Balance System II (FACTS II), used for the preparation of Treasury and the OMB yearend reports, require that the Fund Balance with Treasury (FBWT) amount reported via FACTS II be in agreement with what is reflected in Treasury's records. To adhere to 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 announced 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 5) 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.

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. The allowance also takes into account losses anticipated on the disposition of inventory acquired through loan forfeiture. When forfeited commodities are subsequently disposed, any loss on the disposition is realized as either a cost of sales or donation, depending on the type of disposition.

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 Act required CCC to dispose of its outstanding 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 will occur over ten years. The Law authorized a total maximum of $10.14 billion over the period to cover the losses related to disposing of the tobacco loan collateral,

Note 1 - Significant Accounting Policies, continued

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. Approximately $2.9 billion will be paid to tobacco producers over the 10-year period. All quota holder and producer payments began in FY 2005. 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 shown as revenue in the Tobacco Trust Fund. These amounts are transferred to CCC's revolving fund to reimburse CCC's revolving 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 is occurring 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.

During FY 2005, CCC disposed of its tobacco loan portfolio by calling the loans and taking the tobacco loan collateral into CCC inventory. This action closed all loan balances. The tobacco inventory was disposed of through an exchange with the tobacco associations, where the No Net Cost Tobacco Account funds were used to purchase tobacco inventory, and auction sales, where the highest bidder received the tobacco inventory. All tobacco inventory was disposed of during FY 2005 and the majority of the approximately $292 million loss realized was invoiced to the tobacco industry as part of the September 30, 2005 quarterly assessment invoice.

Credit Program Receivables

CCC has several credit programs subject to Credit Reform requirements. Credit program receivables consist of:

- direct credits extended under PL 83-480 (PL 480) programs and the Food for Progress Program;
- receivables in the Debt Reduction Fund (see Note 5);
- 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 Balances Approach Reestimate Calculator (BARC) for computing the subsidy reestimates for its foreign Credit Reform programs and the Treasury Credit Reform Certificate Program guidelines and SFFAS No. 2, *Accounting for Direct Loans and Loan Guarantees*, for the accounting and reporting of its loan subsidy cost reestimation and amortization.

Note 1 - Significant Accounting Policies, continued

Consistent with other USDA agencies, in order to meet reporting requirements, CCC calculates and pays Treasury interest income and expense for its Credit Reform programs based on actual data through August 31, rather than September 30.

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 net 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.

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.

Commodity inventories are reported at the lower of cost or net realizable value through the use of a commodity valuation allowance. This allowance is based on the estimated loss on commodity dispositions, including donations (for which a 100 percent allowance is established).

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 negotiable instruments issued by CCC, which can be exchanged for a commodity owned or controlled by the Corporation.

In accordance with Treasury guidance, 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.

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 personal property valued at $25,000 or more, with a useful life of 2 years or greater are capitalized. Personal property and equipment is depreciated on a straight-line basis. Automated Data Processing (ADP) equipment has a service life of 5 years, while non-expendable administrative property, such as computer equipment, is depreciated over a service life range of 5 to 10 years. There is no salvage value associated with personal property and equipment.

In addition, internal use software valued at $100,000 or more with 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 reflected

Note 1 - Significant Accounting Policies, continued

as software-in-development on CCC's financial statements until such time as the software is completed and put into operation. At that time, amortization will begin.

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 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.

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 Notes 11 and 12, 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.

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.

Credit 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. CCC underwrites credit extended by the private banking sector under GSM-102 and GSM-103 programs. Credit guarantee liabilities represent the estimated net cash outflows (loss) of the guarantees on a net present value basis. To this effect, CCC records a liability and an expense to the extent, in management's estimate, CCC will be unable to recover claim payments under the Credit Reform Export Credit Guarantee programs.

Allocation Transfers and Shared Appropriations

CCC engages in what are defined by OMB as "parent/child" relationships with several agencies. OMB guidance requires that if an allocation transfer is material to the child's financial statements, the child should report the activity relating to the allocation transfer in all of its financial statements, except the SBR, which is reported in the parent's financial statements. Accordingly, as a parent agency, CCC reports none of the allocation transfer activity with USAID in its financial statements, except for the SBR.

The purpose of the allocation transfer to USAID is to fund PL 480 Title II transportation and other administrative costs in connection with foreign donations. Under the same principle, as a child, CCC does not include budgetary transaction activity related to FSA allocation transfer programs on CCC's SBR. Those transactions are recorded in FSA's SBR. As a child agency, CCC records the transfer activities with FSA in the Statement of Net Costs.

The Hazardous Waste Departmental activity is recorded in a shared account under USDA that retains the fund symbol identified with the original appropriation from which monies are advanced. CCC's portion of this activity is included in these financial statements.

Note 1 - Significant Accounting Policies, continued

Credit Reform Accounting

Credit reform accounting measures more accurately the costs of Federal credit programs and places the cost of credit programs on a budgetary basis equivalent to other Federal spending. It applies to direct loans and loan guarantees.

Direct loans are a disbursement of funds by the Government to non-Federal borrowers under contracts that require the repayment of such funds 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. Direct loans are not for the acquisition of federally guaranteed loans in satisfaction of default claims or the price support loans of CCC. Loan guarantees are insurance or other pledge with respect to the payment of all or a part of the principal or interest on any debt obligation of a non-Federal borrower to a non-Federal lender, but do not include the insurance of deposits, shares, or other withdrawable accounts in financial institutions.

The cost of direct loans is accounted for on a net present value (NPV) basis, at the time when the direct loan is disbursed. It includes the cash flows of loan disbursements; repayments of principal; and payments of interest and other payments by or to the Government over the life of the loan. The NPV computation also contains adjustments for estimated defaults, prepayments, fees, penalties, and other recoveries, including any effects of changes in loan terms resulting from the exercise by the borrower of any option included in the loan contract.

The cost of loan guarantees is also accounted for on a NPV basis, at the time when the guaranteed loan is disbursed. It also contains the estimated cash flows of payments by CCC to cover defaults and delinquencies, interest subsidies, or other payments; and payments to CCC including origination and other fees, penalties and recoveries, including the effects of changes in loan terms resulting from the exercise by the guaranteed lender of any option included in the loan guarantee contract, or by the borrower of an option included in the guaranteed loan contract.

In estimating net present values, the discount rate is the average interest rate on marketable Treasury securities of similar maturity to the 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, for the fiscal year in which the funds are obligated.

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 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 Secretary of the Treasury or the Federal Financing Bank. The unobligated balances of such accounts that are in excess of current needs must be transferred to the general fund of the Treasury. Transfers are made at least once each year.

Note 1 - Significant Accounting Policies, continued

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.

Implementation of New Accounting Standards

SFFAS 29 – *Heritage Assets and Stewardship Land*

The Federal Accounting Standards Advisory Board's SFFAS No. 29, *Heritage Assets and Stewardship Land*, became effective beginning in FY 2006 and continuing through FY 2009. This new standard amends SFFAS No. 6, *Accounting for Property, Plant, and Equipment*, SFFAS No. 8, *Supplementary Stewardship Reporting*, and SFFAS No. 14, A*mendments to Deferred Maintenance Reporting*, and rescinds SFFAS No. 16, *Amendments to Accounting for PP&E: Multi-Use Heritage Assets*, by:

- reclassifying all stewardship land information as basic except for condition information, which is reclassified as required supplementary information (RSI) (effective FY 2006);
- referencing a note on the balance sheet that discloses information about stewardship land, without showing an asset dollar amount (effective FY 2006);
- requiring two new disclosures for stewardship land: entity stewardship policies and an explanation of how stewardship land relates to the mission of the entity (effective FY 2006); and
- requiring a description of each major category of stewardship land use and quantification of stewardship land in terms of physical units (effective in phases FY 2007 to FY 2008).

In FY 2006, CCC has disclosed its stewardship land program, the Wetland Reserve Program, in the RSI and notes in accordance with the requirements of SFFAS No. 29 effective in FY 2006.

Reclassifications

Certain reclassifications have been made to prior year amounts to conform to the current year presentation.

Note 2 - Fund Balance with Treasury

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

	(In Millions)	
	2006	2005
Revolving Funds	$ (287)	$ 1,049
Appropriated Funds	2,027	1,732
Total Fund Balance with Treasury	$ 1,740	$ 2,781

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

	(In Millions)	
	2006	2005
Unobligated Balance:		
Available	$ 1,795	$ 3,828
Unavailable	1,021	254
Obligated Balance not yet Disbursed	7,015	7,400
Subtotal	$ 9,831	$ 11,482
Less: Borrowing Authority not yet Converted to Fund Balance	(8,091)	(8,701)
Total Fund Balance with Treasury	$ 1,740	$ 2,781

The unavailable balance represents unobligated resources not yet apportioned by OMB and unobligated appropriations from prior years that are no longer available for new obligations. Total unobligated balances and obligated balances not yet disbursed do not agree with the corresponding fund balance with Treasury amounts presented above because CCC borrows funds from Treasury at the time certain obligations are disbursed. Borrowing authority not yet converted to fund balance represents unobligated and obligated amounts recorded at September 30, 2006 and 2005, which will be funded by future borrowings. In addition, amounts presented in the above schedule do not agree with the corresponding line items on the SBR due to OMB reporting requirements for allocation transfers. The total of the unobligated and obligated not yet disbursed balances on the SBR is $10.7 billion and $12.3 billion as of September 30, 2006 and 2005, respectively. The difference of $869 and $792 million, respectively, represents allocation transfer activity with USAID and FSA. See Note 1 for information on CCC's allocation transfer relationships.

CCC has a permanent indefinite borrowing authority, as defined by OMB Circular A-11, *Preparation and Submission of Budget Estimates*, of $30 billion. The Corporation's borrowing authority is made up of both interest and non-interest bearing notes. These notes are drawn upon daily when disbursements exceed deposits, as reported by the FRB's, their branches and CCC's financing office. Due to month end cash-in-transit timing differences, disbursements exceed deposits, including borrowing from Treasury, as of September 30, 2006 causing a negative fund balance in CCC's revolving funds in the amount of $287 million. There are no unreconciled differences between CCC's general ledger and the balances per Treasury's records. See Note 1 for a discussion on the treatment of timing differences.

Note 3 - Accounts Receivable, Net

Accounts receivable as of September 30, are as follows:

	(In Millions)	
	2006	2005
Intragovernmental:		
Due from Department of Treasury	$ 25	$ 136
Due from Department of Transportation	122	248
Due from Other Federal Agencies	27	3
Total Intragovernmental Accounts Receivable, Net	$ 174	$ 387
Public:		
Claims Receivable	$ 73	$ 67
Notes Receivable	7	9
Interest Receivable	12	12
Tobacco Receivable	6,336	7,214
Other	19	342
Subtotal	$ 6,447	$ 7,644
Less: Allowances for Doubtful Accounts	(51)	(72)
Total Public Accounts Receivable, Net	$ 6,396	$ 7,572

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 Fund does not have a program fund account, CCC set up a separate receivable to capture the transaction with Treasury.

The Cargo Preference provisions of the Food Security Act of 1985 provide for the reimbursement of certain transportation costs the Corporation incurs under foreign assistance programs. In accordance with the cargo preference provision, CCC established a receivable from the Department of Transportation (DOT) for freight costs exceeding 20 percent of the total cost related to the donated commodities and ocean freight expenses. This is authorized by Section 901d(b) of the Merchant Marine Act, 1938. CCC received $227 million and $469 million in payments from DOT in FY 2006 and 2005, respectively.

Other public receivables consist of amounts due as a result of program overpayments under such programs as Market Loss Assistance, Conservation Reserve Program, Price Support, and Direct and Counter Cyclical.

In FY 2005, CCC recognized a public receivable in the amount of $7.2 billion under the TTPP. The receivable is valued at the present value of the remaining expected receipts in the Tobacco Trust Fund over the 10-year period ending in 2014. Payments received from manufacturers and importers on a quarterly basis are transferred to CCC's revolving fund to reimburse it for disbursements made to the tobacco quota holders and producers, and losses incurred on the calling of the tobacco loans. As of September 30, 2006, the balance of the receivable is $6.3 billion. See Note 1 under TTPP discussion.

Note 4 - Commodity Loans, Net

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

	(In Millions)	
	2006	2005
Wheat	$ 196	$ 330
Corn	234	280
Soybeans	264	153
Rice	189	179
Cotton	502	80
Other Commodities	78	86
Total Commodity Loans	$ 1,463	$ 1,108
Accrued Interest Receivable	29	16
Less: Allowances for Losses	(132)	(93)
Total Commodity Loans, Net	$ 1,360	$ 1,031

Note 5 - Credit Program Receivables, Net

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

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

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 the cost of direct credits and loans, and credit guarantees at present value for the President's Budget. 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 guarantee 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.

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 underwrites 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 3 years) and GSM-103 (credit terms up to 10 years) programs. Under these 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.

Under the Supplier Credit Guarantee Program (SCGP), CCC guarantees 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.

The Facility Guarantee Program provides payment guarantees to facilitate the financing of manufactured goods and services exported from the United States to improve or establish agriculture-related facilities in emerging markets. The guarantees can have payment terms from 1 to 10 years. All guarantees under this program are denominated in U.S. dollars.

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. At September 30, 2006 and 2005, there are no guarantees issues prior to 1991 that are subject to new claims. While the debt is still outstanding, the period to file a claim is expired.

Direct Credit Programs

Under the PL 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). PL 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 goes 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

Note 5 - Credit Program Receivables, Net, continued

based, equitable and sustainable development. All credits under this program are denominated in U.S. dollars.

The Food for Progress Program provides for a responsive food aid mechanism to encourage and support the expansion of private enterprise in recipient countries and is meant to help countries seeking to implement democratic and market reforms.

The Debt Reduction Fund is used to account for modified debt. Debt is considered to have been modified if the original debt has been reduced or the interest rate of the agreement changed. In contrast, when debt is rescheduled, only the date of payment is changed. Rescheduled debt is carried in the original fund until paid.

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 the world's most severely 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 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 PL 480 direct credits and 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.

Economic Factors and Outlook Affecting Subsidy Reestimates

The foreign credit subsidy reestimates are affected by four basic components:

- cash flow data (disbursements, collections including fees, original subsidy and scheduled future payments),
- interest rates,
- defaults, and
- Inter-Agency Risk Assessment System (ICRAS) country grades.

Cash flow data may be modified to reflect pending reschedulings. Otherwise, the reestimate process is such that these elements permit little discretionary change by CCC. The interest rates used in the reestimate are developed and published by Treasury for use government-wide. OMB mandates the default calculation methodology. ICRAS grades are a product of the Inter-Agency Risk Assessment Committee and their use is also mandated.

After analyzing foreign credits government-wide, OMB determined that actual performance on foreign credits was better than had been previously forecasted and, therefore, mandated a change to the default calculation methodology. This is a major contributor to the significant downward subsidy reestimates for CCC's foreign Credit Reform programs, resulting in a net downward reestimate of $453 million and $818 million in FY 2006 and 2005, respectively.

Sovereign and non-sovereign lending risks are regularly analyzed and sorted into one of eleven risk categories in a manner similar to ratings generated by private rating agencies, such as Standard and Poors, and Moody's. Each of the eleven risk categories is also associated with a default estimate. The average spread between the yield to maturity of dollar denominated bonds of like-rated sovereigns and comparable maturity Treasuries were used to generate the default estimate for each rating.

Note 5 - Credit Program Receivables, Net, continued

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: Bangladesh, Eritrea and Sri Lanka.

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.

Direct Loan Programs

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 at the rate equivalent to the rate of interest charged on the Treasury securities of comparable maturity.

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 2006 or 2005.

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 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 balance sheet.

Note 5 - Credit Program Receivables, Net, continued

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

	(In Millions)	
	2006	2005
Direct Credit and Loan Programs:		
Pre-1992:		
PL 480 Title I	$ 3,098	$ 3,354
Post-1991:		
PL 480 Title I	1,196	1,280
Debt Reduction Fund	137	160
Farm Storage Facility	202	211
Boll Weevil Program	-	-
Apple Loan Program	1	1
Defaulted Credit Guarantees:		
Pre-1992 Export Credit Guarantees	386	1,294
Post-1991 Export Credit Guarantees	803	937
Total Credit Program Receivables, Net	$ 5,823	$ 7,237

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

	(In Millions)			
2006:	Credit Receivable, Gross	Interest Receivable, Gross	Allowances for Uncollectible Accounts	Credit Program Receivables, Net
PL 480 Title I	$ 5,600	$ 68	$ (2,570)	$ 3,098

	(In Millions)			
2005:	Credit Receivable, Gross	Interest Receivable, Gross	Allowances for Uncollectible Accounts	Credit Program Receivables, Net
PL 480 Title I	$ 5,909	$ 69	$ (2,624)	$ 3,354

Note 5 - Credit Program Receivables, Net, continued

PL 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, are as follows:

(In Millions)

2006:	Credit Receivable, Gross	Interest Receivable, Gross	Allowances for Uncollectible Accounts	Credit Program Receivables, Net
PL 480 Title I	$ 2,166	$ 33	$ (1,003)	$ 1,196
Debt Reduction Fund	382	1	(246)	137
Farm Storage Facility	248	25	(71)	202
Boll Weevil Program	10	-	(10)	-
Apple Loan Program	-	-	1	1
Total	$ 2,806	$ 59	$ (1,329)	$ 1,536

(In Millions)

2005:	Credit Receivable, Gross	Interest Receivable, Gross	Allowances for Uncollectible Accounts	Credit Program Receivables, Net
PL 480 Title I	$ 2,273	$ 35	$ (1,028)	$ 1,280
Debt Reduction Fund	521	2	(363)	160
Farm Storage Facility	210	22	(21)	211
Boll Weevil Program	10	-	(10)	-
Apple Loan Program	-	-	1	1
Total	$ 3,014	$ 59	$ (1,421)	$ 1,652

Note 5 - Credit Program Receivables, Net, continued

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

	(In Millions)			
2006:	Credit Receivable, Gross	Interest Receivable, Gross	Allowances for Uncollectible Accounts	Credit Program Receivables, Net
Export Credit Guarantee Programs	$ 516	$ 7	$ (137)	$ 386

	(In Millions)			
2005:	Credit Receivable, Gross	Interest Receivable, Gross	Allowances for Uncollectible Accounts	Credit Program Receivables, Net
Export Credit Guarantee Programs	$ 1,401	$ 15	$ (122)	$ 1,294

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

	(In Millions)			
2006:	Credit Receivable, Gross	Interest Receivable, Gross	Allowances for Uncollectible Accounts	Credit Program Receivables, Net
Export Credit Guarantee Programs	$ 1,189	$ 20	$ (406)	$ 803

	(In Millions)			
2005:	Credit Receivable, Gross	Interest Receivable, Gross	Allowances for Uncollectible Accounts	Credit Program Receivables, Net
Export Credit Guarantee Programs	$ 1,604	$ 24	$ (691)	$ 937

Note 5 - 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, 2006 are as follows:

	(In Millions)	
	2006	2005
Subsidy Allowance - Beginning of Fiscal Year	$ 1,421	$ 1,828
Subsidy Expense for Current Year Disbursements:		
Interest Rate Differential	17	20
Default Costs (Net of Recoveries)	7	5
Other Subsidy Costs	(3)	1
Total Subsidy Expense	$ 21	$ 26
Adjustments:		
Loan Modifications	-	6
Subsidy Allowance Amortization	11	56
Loans Written Off / Forgiven	(97)	(43)
Other	14	(110)
Balance Before Reestimates	$ 1,370	$ 1,763
Subsidy Reestimates:		
Interest Rate Reestimate	$ 5	$ 2
Technical/Default Reestimates	(46)	(344)
Total Subsidy Reestimates	$ (41)	$ (342)
Subsidy Allowance - End of Fiscal Year	$ 1,329	$ 1,421

Note 5 - Credit Program Receivables, Net, continued

For fiscal years ended September 30, subsidy expenses for the current year disbursements of post-1991 direct credits and loans, modifications (Mods.) and subsidy reestimates are as follows:

(In Millions)

2006:	Subsidy Expense for New Direct Loans Disbursed					Mods.	Reestimates			
	Interest Differential	Defaults	Fees and Other Collect.	Other	Total	Total	Interest Rate	Technical	Total	Grand Total
PL 480 Title I	$ 18	$ 4	$ -	$ -	$ 22	$ -	$ -	$ (99)	$ (99)	$ (77)
Debt Reduction Fund	-	-	-	-	-	-	-	11	11	11
Boll Weevil	-	-	-	-	-	-	-	-	-	-
Farm Storage Facility	(1)	3	-	(3)	(1)	-	5	42	47	46
Total	$ 17	$ 7	$ -	$ (3)	$ 21	$ -	$ 5	$ (46)	$ (41)	$ (20)

(In Millions)

2005:	Subsidy Expense for New Direct Loans Disbursed					Mods.	Reestimates			
	Interest Differential	Defaults	Fees and Other Collect.	Other	Total	Total	Interest Rate	Technical	Total	Grand Total
PL 480 Title I	$ 21	$ 4	$ -	$ 1	$ 26	$ 6	$ -	$ (414)	$ (414)	$ (382)
Debt Reduction Fund	-	-	-	-	-	-	-	70	70	70
Boll Weevil	-	-	-	-	-	-	1	3	4	4
Farm Storage Facility	(1)	1	-	-	-	-	1	(3)	(2)	(2)
Total	$ 20	$ 5	$ -	$ 1	$ 26	$ 6	$ 2	$ (344)	$ (342)	$ (310)

Subsidy reestimates are calculated on cumulative disbursements for all cohorts, budget fiscal years.

Note 5 - Credit Program Receivables, Net, continued

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

	(In Millions)		
	2006	2005	Curent Year Over (Under) Prior Year
PL 480 Title I	$ 16	$ 46	$ (30)
Farm Storage Facility	82	59	23
Total	$ 98	$ 105	$ (7)

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

	(In Millions)			
	Face Value		Guaranteed*	
2006:	Post-1991 Outstanding Principal	Post-1991 Outstanding Interest	Post-1991 Outstanding Principal	Post-1991 Outstanding Interest
Export Credit Guarantee Programs	$ 3,022	$ 193	$ 2,925	$ 93

	(In Millions)			
	Face Value		Guaranteed*	
2005:	Post-1991 Outstanding Principal	Post-1991 Outstanding Interest	Post-1991 Outstanding Principal	Post-1991 Outstanding Interest
Export Credit Guarantee Programs	$ 4,240	$ 203	$ 4,098	$ 103

* 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 5 - Credit Program Receivables, Net, continued

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

	(In Millions)	
	2006	2005
Credit Guarantee Liability - Beginning of Fiscal Year	$ 260	$ 240
Subsidy Expense for Current Year Disbursements:		
Default Costs (Net of Recoveries)	78	181
Fees and Other Collections	(9)	(16)
Total Subsidy Expense	$ 69	$ 165
Adjustments:		
Fees Received	10	16
Claim Payments to Lenders	(19)	(185)
Other	248	499
Balance Before Reestimates	$ 568	$ 735
Subsidy Reestimates:		
Interest Rate Reestimate	$ 23	$ (287)
Technical/Default Reestimates	(371)	(188)
Total Subsidy Reestimates	$ (348)	$ (475)
Credit Guarantee Liability - End of Fiscal Year	$ 220	$ 260

Note 5 - 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, are as follows:

(In Millions)

2006:	Subsidy Expense for New Direct Loans Disbursed					Reestimates			
	Interest Supplement	Defaults	Fees and Other Collect.	Other	Total	Interest Rate	Technical	Total	Grand Total
Export Credit Guarantee Programs	$ -	$ 78	$ (9)	$ -	$ 69	$ 23	$ (371)	$ (348)	$ (279)

(In Millions)

2005:	Subsidy Expense for New Direct Loans Disbursed					Reestimates			
	Interest Supplement	Defaults	Fees and Other Collect.	Other	Total	Interest Rate	Technical	Total	Grand Total
Export Credit Guarantee Programs	$ -	$ 181	$ (16)	$ -	$ 165	$ (287)	$ (188)	$ (475)	$ (310)

Subsidy reestimates are calculated on cumulative disbursements for all cohorts.

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

(In Millions)

	2006		2005	
	Outstanding Principal, Face Value	Outstanding Interest, Guaranteed	Outstanding Principal, Face Value	Outstanding Interest, Guaranteed
Export Credit Guarantee Programs	$ 1,568	$ 1,451	$ 2,956	$ 2,678

Administrative expenses on direct credit and loan programs were $5 million in both FY 2006 and 2005 and $5 million and $4 million for the credit guarantee programs in FY 2006 and 2005, respectively.

Note 5 - Credit Program Receivables, Net, continued

FY 2006 and 2005 subsidy rates (percentage) for direct credits and loans are as follows:

2006:	Interest Differential	Defaults	Fees and Other Collections	Other	Total
P.L. 480 Programs	44.39	11.01	-	-	55.40
Farm Storage Facility	0.04	6.76	(0.11)	(7.31)	(0.62)
Sugar Store Facility Loans	0.36	0.90	-	-	1.26

2005:	Interest Differential	Defaults	Fees and Other Collections	Other	Total
P.L. 480 Programs	45.85	10.13	-	-	55.98
Farm Storage Facility	(1.68)	0.51	(0.11)	(0.15)	(1.43)
Sugar Storage Facility Loans	(6.20)	0.96	-	-	(5.24)

The Boll Weevil and Apple Loan Programs are one year programs, cohort 2001.

FY 2006 and 2005 subsidy rates (percentage) for credit guarantee programs are as follows:

2006:	Defaults	Fees and Other Collections	Total
Export Credit Guarantee Programs	9.50	(0.57)	8.93

2005:	Defaults	Fees and Other Collections	Total
Export Credit Guarantee Programs	7.48	0.65	8.13

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 cohorts. 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 5 - Credit Program Receivables, Net, continued

The principal balance of CCC direct credit and credit guarantee receivables in a non-performing status at September 30, 2006 and 2005, totaled $1.5 billion and $2.9 billion, respectively, compared to a total principal balance (performing and non-performing) at September 30, 2006 and 2005, of $9.9 billion and $11.7 billion, 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 increased by $130 million from a total of $575 million in FY 2006, and increased by $16 million from a total of $486 million reported in FY 2005. 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 $1 billion and $888 million through September 30, 2006 and 2005, respectively.

Direct credit and credit guarantee principal receivables under rescheduling agreements as of September 30, 2006 and 2005, were $4.2 billion and $5.5 billion, respectively.

During FY 2006, there were no new Paris Club agreed minutes to reschedule PL-480 debt or GSM debt. However, reschedulings and claims on refinancing agreements entered into force in FY 2006 totaled $116.7 million in principal and interest. An agreement is considered to have "entered into force" when all agreed upon domestic prerequisite conditions have been satisfied by the debtor. The following table provides an itemization of those agreements entering into force in FY 2006:

In Force Date	Country	Amount (In Millions)
10/20/05	Republic of Congo	$ 15.9
11/17/05	Sri Lanka	25.7
01/09/06	Republic of Congo	15.9
04/28/06	Dominican Republic	50.9
06/02/06	Georgia	3.7
06/02/06	Georgia	2.3
07/26/06	Georgia	2.3
	Total	$ 116.7

Other Significant Events

During FY 2006, Russia prepaid $1.1 billion of its outstanding debt to CCC.

During FY 2005, Russia, Poland and Lithuania prepaid debts in the amounts of $1 billion, $825 million and $61 million, respectively.

CCC expects to receive prepayments of approximately $565 million from Algeria and $7 million from Bulgaria in early FY 2007.

Changes in the Export Credit Guarantee Programs

As the result of actions by the World Trade Organization (WTO) with respect to farm subsidies, USDA implemented new guarantee fee rates under CCC's Export Credit Guarantee Program (GSM-102) and SCGP. The new fee rates use a risk-based structure based on a country risk scale, as well as different repayment terms. USDA has decided not to conduct business in countries that are rated below the risk scale of six. As a result, significant declines in program levels were anticipated for FY 2006 and are expected to continue in subsequent program years.

There was no SCGP program in FY 2006.

Note 5 - Credit Program Receivables, Net, continued

PL 480 Title I Direct Credit Trend Analysis

Reestimates

The balances approach method is used to reestimate PL 480 Title I direct loan subsidy costs. With this approach, the NPV of remaining cash flows for a cohort is compared to the balance on deposit with Treasury for the cohort. It is necessary to make sure payments are made to service debt with Treasury before reestimates are performed each year to avoid excess cash balances that could affect the outcome of reestimates.

ICRAS risk ratings and associated default rates can have a major impact on export program subsidy calculations. ICRAS country risk ratings are developed by an interagency task force to reflect government-wide experience with debtor countries. These ratings, which are provided annually, are used for reestimates and may not reflect USDA's specific experience with a given country. Similarly, ICRAS default rates are provided annually by OMB and reflect government-wide experience.

FY 2006 Reestimate

There was a total downward reestimate of $56 million. Of that amount, $10.5 million was due to changes in the default rates. $24.3 million was due to changes in the ICRAS grades. Prepayments and balances with Treasury comprise the difference.

FY 2005 Reestimate

In the 2005 reestimate, 79 percent of the total downward reestimate of $239 million was explained by the activity in three cohorts, 1993, 1997 and 1999. This activity is examined in further detail below:

Downward Reestimates
(In Millions)

Cohort	Reestimate	Interest on Reest
1992	$ (8)	$ (12)
1993	(58)	(71)
1994	(3)	(4)
1995	(4)	(4)
1996	(13)	(11)
1997	(24)	(16)
1998	(14)	(7)
1999	(109)	(50)
2000	(1)	-
2001	-	-
2002	(2)	(1)
2003	-	-
2004	(3)	-
2005	-	-
Total	$ (239)	$ (176)

Trend Analysis - 1993 Cohort

For the 1993 cohort, the major factor in the reestimate was a $17 million prepayment by Lithuania. Although there was approximately $5 million in scheduled interest payments for the remainder of the loan term that will not be received, the prepayment removed all default projections for Lithuania, a grade D country. For the remaining cash flows in the 1993 cohort, regular repayments for the cohort are

Note 5 - Credit Program Receivables, Net, continued

scheduled through FY 2024. However, there are rescheduled agreements with Pakistan that require repayment through FY 2039 ($37 million in principal and interest payments), a factor that did not exist in the previous reestimate. Overall, the NPV of remaining cash flows for the cohort is $319 million. Net liabilities, which include balances owed to Treasury of $297 million less balances on deposit of $103 million, total $194 million. Expected repayments exceed liabilities, resulting in a significant downward reestimate, before current year interest, of $124 million. FY 2005 interest on the reestimate for the cohort was $4 million. The total downward reestimate for the 1993 cohort is $129 million.

Trend Analysis - 1997 Cohort

The 1997 cohort was also impacted to some extent by Lithuania's prepayment of their portfolio and rescheduled agreements with Pakistan. In the 1997 cohort, Lithuania's prepayment was $6.4 million, with interest payments due in the out-years of $1.7 million. The Pakistan rescheduled agreements also extend to 2039 ($72 million in principal and interest payments), a change from the previous reestimate. Other repayments for the cohort are scheduled through FY 2028. The Net Present Value (NPV) of remaining cash flows for the cohort is $73 million. Net liabilities, which include balances owed to Treasury of $37 million less balances on deposit of $2 million, total $35 million. Expected payments exceed liabilities, resulting in a downward reestimate, before current year interest, of $38 million. FY 2005 interest on the reestimate for the cohort is $1.2 million. The total downward reestimate for the 1997 cohort is $40 million.

Trend Analysis - 1999 Cohort

For the 1999 cohort, there are very few rescheduled agreements, and no recoveries are projected. Principal and interest repayments for the cohort are scheduled through FY 2030 for a total of $739 million. During FY 2005, cash receipts exceeded scheduled principal and interest due in FY 2005 by $32.4 million. While this does not impact the NPV of the remaining cash flows, it contributed to the balance on deposit with Treasury.

ICRAS grades improved for four of the countries in the 1999 cohort, and no countries in the 1999 cohort were downgraded. Specific dollar amounts attributable to the change in ICRAS grades are not readily discernable, but the countries that experienced improved ratings comprise only $77 million of the scheduled principal and interest repayments of $739 million. Default rates used in the 2005 reestimates are lower across the board than those used in 2004. This is most noticeable in terms of the default rate for grade F countries, which changed from 78 percent across all years in the 2004 reestimates, to a gradual increase from 22.8 percent in year 1 up to 78 percent in year 22, and 83 percent in year 50. Of the 46 countries in the 1999 cohort, 36 fall into ICRAS categories which had lower default rates in 2005 than in 2004.

The NPV of remaining cash flows for the 1999 cohort is $337 million. Net liabilities, which include balances owed to Treasury of $238 million less balances on deposit of $55 million, total $183 million. Expected repayments greatly exceed liabilities, resulting in a large downward reestimate, before current year interest, of $154 million. FY 2005 interest on the reestimate for the cohort is $5 million. The total downward reestimate for the 1999 cohort is $159 million.

Trend Analysis – General Sales Manager (GSM) Export Credit Guarantee Program

The Export Credit Guarantee Program consists of GSM 102, GSM 103, Supplier Credit Guarantee and Facilities Guarantees.

FY 2006 Reestimates

There has a net downward reestimate of $348 million in FY 2006. Of this amount, $9 million was due to changes in default rates and $118 million was due to changes in ICRAS grades. A significant portion of the reestimate that is not accounted for by either a changes due to ICRAS grade or default rate, relates to balances with Treasury.

Note 5 - Credit Program Receivables, Net, continued

Change in balance on deposit with Treasury netted to $230 million. The cohorts that had major changes in the balances on deposit with Treasury are 2002, 2003 and 2004 (down by $119 million, $73 million and $75.7 million respectively), but there are other cohorts that had changes in the opposite direction.

The major changes in balances owed occur in cohorts 1992 (down by $261 million) and 2001 (up by $49 million).

GSM 103

The reestimate consisted of $5 million in technical adjustments and $5.2 million in interest under the reestimate.

Supplier Credit

Incurred an upward reestimate of $79 million, for the most part in the 2005 cohort, reflects a net balance with Treasury of $78 million.

FY 2005 Reestimate

The two main programs which meet the established criteria for analysis and are considered material are GSM 102 and Supplier Credit. Discussion on the two programs follows:

GSM 102

(In Millions)

	Downward Reestimates	
Cohort	Reestimate	Interest on Reest
1992	-55	-60
1993	-18	-14
1996	-3	-2
1997	-7	-5
1998	-6	-3
1999	0	0
2000	0	0
2001	-65	-12
2002	-109	-14
2003	-71	-4
2004	-64	-3
2005	-24	-1
Total	-422	-118

GSM 102 processed several cohorts with large downward reestimates, specifically, those of 1992, 1993 and 2001 through 2005. GSM uses the Balance Approach Reestimate Calcultor (BARC) in determining the upward or downward reestimate for each cohort.

Other factors contributing to the large downward reestimate are the recoveries scheduled for cohorts 1992 and 1993 out to 2016 and 2012, respectively. For the 2004 cohort, 98 percent of the recoveries are from the Former Soviet Union and Russia. For the 1993 cohort, again 98 percent of the recoveries scheduled come from Ukraine. These projected recoveries contributed to the GSM 102 program’s large downward reestimate.

Note 5 - Credit Program Receivables, Net, continued

Supplier Credit Guarantee

	Upward Reestimates		Downward Reestimates	
Cohort	Reestimate	Interest on Reest	Reestimate	Interest on Reest
2002	-	-	-1	-
2003	-	-	-4	-
2004	47	2	-	-
2005	14	-	-	-
Total	61	2	-5	-

The Supplier Credit Guarantee program was initiated in 1997 and reestimates had typically been downward for the most cohorts, but never of material significance. Cohort years 2004 and 2005 comprise 99.9 percent of the total downward reestimates due to large claims paid for both Indonesia and Mexico. For Cohort 2005, 100 percent of the claims paid were for Mexico.

Note 6 - Commodity Inventories, Net

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

	(In Millions)	
	2006	2005
Commodity Inventories - Beginning of Fiscal Year	$ 304	$ 950
Acquisitions	6,017	7,172
Cost of Sales	(5,339)	(6,146)
Donations	(753)	(1,276)
Other Dispositions, Additions and Deductions	(3)	(396)
Commodity Inventories - End of Fiscal Year	$ 226	$ 304
Less: Allowance for Losses	(171)	(275)
Commodity Inventories, Net	$ 55	$ 29

Commodity loan forfeitures during the fiscal years ended September 30, 2006 and 2005, were $133 million and $79 million, respectively. Future commodity donations are estimated to be $37 million. An analysis of the change in inventory by commodity for FY 2006 and 2005 is provided in the Other Accompanying Information Section (unaudited).

Restrictions on Commodity Inventory

In accordance with the Bill Emerson Humanitarian Trust (BEHT) Act of 1998, CCC currently maintains a commodity reserve of 34 million bushels of wheat valued at $124 million for use when domestic supplies are so limited that quantities cannot meet the availability criteria under PL 480. In addition, if commodities that meet unanticipated needs under Title II of PL 480 cannot be made available in a timely manner, the Secretary may release up to 500,000 metric tons of wheat or an equivalent value of eligible commodities, plus up to 500,000 metric tons of eligible commodities that could have been released, but were not released, under this authority in prior fiscal years. Commodities are to be used solely for emergency food assistance. BEHT stocks can be exchanged for other U.S. agricultural commodities of equal value to meet emergency food needs. The reserve is established at 2 million metric tons and is replenished through purchases or by designation of commodities owned by CCC. The authority to replenish the reserve expires at the end of FY 2007. Since the Corporation is legislatively limited in how it may dispose of the wheat reserve, an allowance equal to 100 percent of the wheat inventory valued at $124 million has been established.

Note 7 - General Property and Equipment, Net

General property and equipment as of September 30, is as follows:

2006:	Acquisition Value (In Millions)	Accumulated Depreciation (In Millions)	Net book Value (In Millions)
ADP Equipment	$ 58	$ (58)	$ -
Capitalized Software Development Costs	87	(35)	52
Total General Property and Equipment	$ 145	$ (93)	$ 52

2005:	Acquisition Value (In Millions)	Accumulated Depreciation (In Millions)	Net book Value (In Millions)
ADP Equipment	$ 76	$ (76)	$ -
Capitalized Software Development Costs	74	(22)	52
Total General Property and Equipment	$ 150	$ (98)	$ 52

Note 8 - 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)	
	2006	2005
Debt - Beginning of Fiscal Year:		
Principal: Interest Bearing	$ 23,103	$ 12,397
Accrued Interest Payable	323	72
Total Debt Outstanding - Beginning of Fiscal Year	$ 23,426	$ 12,469
New Debt:		
Principal: Interest Bearing	$ 27,596	$ 26,977
Accrued Interest Payable	557	383
Total New Debt	$ 28,153	$ 27,360
Repayments:		
Principal: Interest Bearing	$ (31,414)	$ (16,306)
Accrued Interest Payable	(453)	(132)
Total Repayments	$ (31,867)	$ (16,438)
Interest Refinanced	56	35
Debt - End of Fiscal Year		
Principal: Interest Bearing	$ 19,341	$ 23,103
Accrued Interest Payable	427	323
Total Debt Outstanding - Ending of Fiscal Year	$ 19,768	$ 23,426

CCC may borrow interest-free up to the amount of its unreimbursed realized losses. For interest bearing notes, monthly interest rates ranged from 3.875 percent to 5.250 percent during FY 2006 and from 2.00 percent to 3.875 percent during FY 2005. Repayments are applied to non-interest bearing notes first. Once these are liquidated, repayments are then applied to interest bearing notes. CCC had no non-interest bearing notes in FY 2006 and 2005.

The total amount of debt principal and interest refinanced was $11.6 billion and $13.6 billion in FY 2006 and 2005, respectively. These amounts are included in the total amounts of new debt and repayments in the table above. These amounts include the outstanding principal rolled over in FY 2006 and 2005, respectively. Accrued interest rolled over into notes payable was $56 million in FY 2006 and $35 million in FY 2005.

Interest expense incurred on Treasury borrowings was $552 million and $379 million for FY 2006 and 2005, respectively.

The FY 2006 and 2005 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. For the 2001 and future cohorts, the single effective interest rate produced from the calculator, along with budget assumptions, is used to calculate interest expense.

Note 8 - Debt to the Treasury, continued

The repayment terms for borrowings made for the GSM programs range from under 3 years up to 10 years. Currently, maximum loan terms do not exceed 7 years, while the repayment term for PL 480 program borrowing is 30 years. The repayment term is 7 years for direct loans under the FSFL 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-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 under 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 amounted to $194 million and $212 million in FY 2006 and 2005, respectively.

CCC has an authorized capital stock of $100 million held by the Treasury, 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 $5 million and $4 million in interest expense on capital stock for the fiscal year ended September 30, 2006 and 2005, respectively.

Note 8 - Debt to the Treasury, continued

Total debt outstanding, by program and maturity date, as of September 30, 2006, is as follows:

Program	Debt (In Millions)	Maturity Date
CCC Borrowing Authority	$ 16,595	January 1, 2007
Export Credit Guarantees	237	September 30, 2007
	16	September 30, 2009
	64	September 30, 2010
	111	September 30, 2011
	1	September 30, 2013
	1	September 30, 2014
	49	September 30, 2015
	457	September 30, 2016
	3	September 30, 2017
	100	September 30, 2019
P.L. 480 Direct Credits	104	September 30, 2018
	257	September 30, 2019
	48	September 30, 2020
	41	September 30, 2021
	62	September 30, 2022
	70	September 30, 2023
	64	September 30, 2024
	332	September 30, 2025
	47	September 30, 2026
	43	September 30, 2027
	48	September 30, 2031
	32	September 30, 2032
	24	September 30, 2033
	20	September 30, 2034
Debt Reduction	17	September 30, 2012
	17	September 30, 2018
	9	September 30, 2021
	56	September 30, 2022
	22	September 30, 2023
	16	September 30, 2024
	26	September 30, 2026
	3	September 30, 2028
Farm Storage Facility Loans	10	September 30, 2008
	29	September 30, 2009
	26	September 30, 2010
	41	September 30, 2011
	49	September 30, 2012
	69	September 30, 2013
	120	September 30, 2014
Boll Weevil	4	September 30, 2008
Apple Loans	1	September 30, 2007
Total Debt Outstanding	$ 19,341	

Note 9 - Deposit and Trust Liabilities

Deposit and trust liabilities are amounts advanced to or deposited with CCC, on behalf of other entities. The balances, categorized as intragovernmental and public, as of September 30, are as follows:

	(In Millions)	
	2006	2005
Intragovernmental:		
Agricultural Marketing Service/Food and Nutrition Service	$ 748	$ 513
Animal and Plant Health Inspection Service	-	1
Foreign Agricultural Service	142	111
Natural Resources Conservation Service	108	114
Total Intragovernmental Deposit and Trust Liabilities (Note 17)	$ 998	$ 739
Public:		
No-Net Cost Tobacco Program	$ -	$ 8
Other	1	20
Total Public Deposit and Trust Liabilities	$ 1	$ 28

Within USDA, 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 meets 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.

Note 10 - Other Liabilities

Other liabilities as of September 30 are as follows:

	(In Millions)	
	2006	2005
Intragovernmental:		
Accrued Reimbursable Agreements	$ 1	$ -
Accrued Conservation Reserve Program Technical Assistance	28	-
Excess Subsidy Payable to Treasury	458	905
Other	20	21
Total Intragovernmental Other Liabilities	$ 507	$ 926
Public:		
Payable to Producers	$ -	$ 33
Other	58	-
Total Public Other Liabilities	$ 58	$ 33

The majority of the balance on Payable to Producers relates to Marketing Assistance Loans.

The Marketing assistance loans provide producers interim financing at harvest time to meet cash flow needs without having to sell their commodities when market prices are typically at harvest-time lows. Allowing producers to store production at harvest facilitates more orderly marketing of commodities throughout the year.

Other Public Liabilities consists of $45 million related to accruals for Credit Reform Loan programs and $10 million for No Net Cost Assessment program (NNCA).

Note 11 - 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 $11 million both at September 30, 2006 and 2005, respectively, based on actual cleanup costs at similar sites. This liability is not covered by budgetary resources.

Note 12 - Accrued Liabilities

Accrued liabilities as of September 30 are as follows:

	(In Millions)	
	2006	2005
Liabilities Covered by Budgetary Resources:		
Income Support Programs		
Direct and Counter-Cyclical Payments	$ 5,378	$ 5,440
Milk Income Loss Contract	89	-
Other	27	241
Export Programs	86	121
Cotton User Marketing Certificates	9	68
Conservation Programs	-	4
Subtotal	$ 5,589	$ 5,874
Liabilities Not Covered by Budgetary Resources:		
Conservation Reserve Programs (Note 13)	1,779	1,695
Tobacco Transition Payment Program:		
Liability to Tobacco Quota Holders	4,293	4,948
Liability to Tobacco Producers	1,844	2,127
Subtotal	$ 7,916	$ 8,770
Total Accrued Liabilities	$ 13,505	$ 14,644

Liabilities covered by budgetary resources are considered current.

Liabilities not covered by budgetary resources include a $1.8 billion current liability for Conservation Reserve Programs. The liability of $6.1 billion under TTPP includes $954 million as a current liability; the remaining balance is a long term liability. See Note 1 for TTPP discussion.

Note 13 - Commitments and Contingencies

Commitments

Wetland Reserve Program (WRP)

Under WRP, CCC purchases easements, based on agricultural value, to restore wetlands that have previously been drained and converted to agricultural uses, to protect or enhance wetlands on the owner's property. WRP also provides an opportunity for landowners to receive cost-share payments to restore, protect, or enhance a wetland without selling an easement. Program expenses for the fiscal years ended September 30, 2006 and 2005, were $19 million and $16 million, respectively.

In accordance with the provisions of the Federal Accounting Standards Advisory Board's SFFAS No. 29, *Heritage Assets and Stewardship Land,* CCC is disclosing the required information related to stewardship land in a separate note. For further details about the program operation and policy, please see Note 14.

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, 2006 and 2005, were $158 million and $139 million, respectively. At September 30, 2006 and 2005, CCC's undelivered orders on current contracts were $205 million and $192 million, respectively.

Noninsured Crop Disaster Assistance Program (NAP)

The NAP was authorized as a CCC program under the 1996 Act. The NAP is a standing crop disaster aid program for crops that are not covered by catastrophic risk protection crop insurance that 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 commodity for which the catastrophic risk protection level of crop insurance is not available. Program expenses for the FY 2006 and 2005 were $65 million and $108 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 $87 million and $143 million at September 30, 2006 and 2005, respectively.

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 a one-time payment equal to not more than 50 percent of the eligible costs of establishing conservation practices on the reserve acreage. CCC estimates that the future liability for CRP rental payments through FY 2016 will be $1.9 billion annually. This estimate is based on current program levels with the assumption that expiring lands are re-enrolled or replaced with lands of equal value. At September 30, 2006 and 2005, accrued liabilities for CRP totaled approximately $1.7 billion.

Note 13 - Commitments and Contingencies, continued

Leases

As of September 30, 2006, 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
2007	$ 4
2008	4
2009	2
2010	2
2011	1
Total	**$ 13**

Allocated rent expense, net of reimbursements, was $64 million and $66 million for the fiscal years ended September 30, 2006 and 2005, respectively. This allocated rent expense is recognized as part of the CCC's imputed financing sources and imputed costs.

Contingencies

Hazardous Waste Program

Payments for site inspection, cleanup, as well as operations and maintenance, totaled $7 million and $4 million for FY 2006 and 2005. respectively. At September 30, 2006, CCC estimates the range of potential loss to be between $11 million and $55 million.

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. At September 30, 2006 legal disputes and claims are considered to be immaterial.

Note 14 – Disclosures Related to Stewardship Land

Wetland Reserve Program (WRP)

The NRCS administers WRP programs using CCC funding. WRP is a voluntary program that provides technical and financial assistance to eligible landowners to address wetland, wildlife habitat, soil, water, and related natural resource concerns on private lands in an environmentally beneficial and cost-effective manner. The program provides an opportunity for landowners to receive financial incentives to enhance wetlands in exchange for retiring marginal land from agriculture. Landowners who choose to participate in WRP may sell a conservation easement or enter into a cost-share restoration agreement with USDA to restore and protect wetlands. The landowner voluntarily limits future use of the land, yet retains private ownership. The landowner and NRCS develop a plan for the restoration and maintenance of the wetland. This program complies with CCC's strategic goals under conserving natural resources and enhancing the environment.

The program offers landowners three options: permanent easements, 30-year easements, and restoration cost-share agreements with a minimum 10-year duration.

1. *Permanent Easement.* This is a conservation easement in perpetuity. Easement payment will be the lesser of: the agricultural value of the land, an established payment cap, or an amount offered by the landowner. In addition to paying for the easement, USDA pays 100 percent of the costs of restoring the wetland.
2. *30-Year Easement.* This is a conservation easement lasting 30 years. Easement payments are 75 percent of what would be paid for a permanent easement. USDA also pays 75 percent of restoration costs.
3. *Restoration Cost-Share Agreement.* This is an agreement (generally for a minimum of 10 years in duration) to re-establish degraded or lost wetland habitat. USDA pays 75 percent of the cost of the restoration activity. This does not place an easement on the property. The landowner provides the restoration site without reimbursement.

To offer a conservation easement, the landowner must have owned the land for at least 12 months prior to enrolling it in the program, unless the land was inherited, the landowner exercised the landowner's right of redemption after foreclosure, or the landowner can prove the land was not obtained for the purpose of enrolling it in the program. To participate in a restoration cost-share agreement, the landowner must show evidence of ownership. To be eligible for WRP, land must be restorable and be suitable for wildlife benefits. This includes:

- Wetlands farmed under natural conditions;
- Farmed wetlands;
- Prior converted cropland;
- Farmed wetland pasture;
- Farmland that has become a wetland as a result of flooding;
- Range land, pasture, or production forest land where the hydrology has been significantly degraded and can be restored;
- Riparian areas which link protected wetlands;
- Lands adjacent to protected wetlands that contribute significantly to wetland functions and values;
- Previously restored wetlands that need long-term protection.

Ineligible land includes wetlands converted after December 23, 1985; lands with timber stands established under a Conservation Reserve Program contract; Federal lands; and lands where conditions make restoration impossible. Access to the land under WRP easement is controlled by the landowner, who may lease the land for hunting, fishing, and other undeveloped recreational activities. At any time, a participant may request that additional activities be evaluated to determine if they are compatible uses for the site. This request may include such items as permission to cut hay, graze livestock, or harvest wood products. Compatible uses are allowed if they are fully consistent with the protection and enhancement of the wetland.

Note 15 – Disclosures Related to the Statement of Net Cost

Earned Revenue

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

	(In Millions)	
	2006	2005
Intragovernmental Earned Revenue:		
Commodity Inventory Sales	$ 529	$ 745
Interest Income	89	118
Other	147	-
Less: Intra-Agency Eliminations	(519)	(732)
Total Intragovernmental Earned Revenue	$ 246	$ 131
Earned Revenue from the Public:		
Commodity Inventory Sales	$ 4,177	$ 4,479
Interest Income	545	495
Other	62	8,129
Total Earned Revenue from the Public	$ 4,784	$ 13,103
Total Earned Revenue	$ 5,030	$ 13,234

Other Income under Intragovernmental Earned Revenue consists of $147 million accrued for the year end collection of ocean freight differential costs from DOT related to the commodity shipments to foreign countries under PL 480 Title I and Title II programs. See Note 3 for reference.

Intragovernmental commodity inventory sales decreased from $745 million in FY 2005 to $529 million in FY 2006 due to the decrease on PL 480 Title I concession sales and Title II donations to developing countries in FY 2006.

Public commodity inventory sales decreased from $4.5 billion in FY 2005 to $4.2 billion in FY 2006 due to higher upland cotton market prices, which affected commodity certificate exchanges in FY 2006.

Other earned revenue from the public for FY 2006 includes $34 million related to reviewing fees in CRP, $13 million related to TTPP billings to manufacturers and importers that were not accrued at FY 2005, and $9 million related to the service fees in NAP.

Revenue and expense are recognized based on SFFAS No. 7, *Accounting for Revenue and Other Financing Sources*. CCC follows the implementation guideline for classifying, recognizing, and measuring inflows of resources. Program costs are the full costs of each program's output, which consists of direct, indirect and the costs of identifiable supporting services provided by other segments. 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.

OMB Circular A-136, *Financial Reporting Requirements*, requires that the presentation of the Statement of Net Costs align directly with the major goals and outputs described in the agency's strategic and performance plans, required by the Government Performance and Results Act.

Note 15 – Disclosures Related to the Statement of Net Cost, continued

CCC's strategic goals are as follow:

- Supporting productive farms and ranches
- Supporting secure and affordable food and fiber
- Conserving natural resources and enhancing the environment
- Support 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 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. Direct Loans, TTPP, and Disaster Assistance programs comprise major program activity.

Under supporting secure and affordable food and fiber, program areas include Commodity Operations. 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 support 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.

Note 15 – Disclosures Related to the Statement of Net Cost, continued

Net cost of operations as of September 30, 2006 (In Millions), is as follows:

	Commodity Operations	Income Support and Disaster Programs	Conservation Programs	Foreign Programs	Eliminations	Total
Supporting Productive Farms and Ranches						
Intragovernmental Cost	$ 601	$ 960				$ 1,561
Public Cost	156	21,061				21,217
Total Cost	$ 757	$ 22,021				$ 22,778
Intragovernmental Earned Revenue	$ -	$ 9				$ 9
Public Earned Revenue	24	4,273				4,297
Total Earned Revenue	$ 24	$ 4,282				$ 4,306
Supporting Secure and Affordable Food and Fiber						
Intragovernmental Cost	$ 41					$ 41
Public Cost	6					6
Total Cost	$ 47					$ 47
Intragovernmental Earned Revenue	$ -					$ -
Public Earned Revenue	19					19
Total Earned Revenue	$ 19					$ 19
Conserving Natural Resources and Enhancing the Environment						
Intragovernmental Cost			$ 284			$ 284
Public Cost			2,082			2,082
Total Cost			$ 2,366			$ 2,366
Intragovernmental Earned Revenue			$ -			$ -
Public Earned Revenue			35			35
Total Earned Revenue			$ 35			$ 35
Support International Economic Development and Trade Capacity Buildings						
Intragovernmental Cost				$ 719		$ 719
Public Cost				653		653
Total Cost				$ 1,372		$ 1,372
Intragovernmental Earned Revenue				$ 757		$ 757
Public Earned Revenue				433		433
Total Earned Revenue				$ 1,190		$ 1,190
Intra-entity Eliminations						
Intragovernmental Cost					$ (520)	$ (520)
Public Cost					-	-
Total Cost					$ (520)	$ (520)
Intragovernmental Earned Revenue					$ (520)	$ (520)
Public Earned Revenue					-	-
Total Earned Revenue					$ (520)	$ (520)
Total Gross Cost	**$ 804**	**$ 22,021**	**$ 2,366**	**$ 1,372**	**$ (520)**	**$ 26,043**
Less: Total Earned Revenue	**43**	**4,282**	**35**	**1,190**	**(520)**	**5,030**
Net Cost of Operations	**$ 761**	**$ 17,739**	**$ 2,331**	**$ 182**	**$ -**	**$ 21,013**

Note 15 - Disclosures Related to the Statement of Net Cost, continued

Net cost of operations as of September 30, 2005 (In Millions), is as follows:

	Commodity Operations	Income Support and Disaster Programs	Conservation Programs	Foreign Programs	Eliminations	Total
Supporting Productive Farms and Ranches						
Intragovernmental Cost	$ 440	$ 913				$ 1,353
Public Cost	8,564	24,620				33,184
Total Cost	$ 9,004	$ 25,533				$ 34,537
Intragovernmental Earned Revenue	$ -	$ 17				$ 17
Public Earned Revenue	8,125	4,508				12,633
Total Earned Revenue	$ 8,125	$ 4,525				$ 12,650
Supporting Secure and Affordable Food and Fiber						
Intragovernmental Cost	$ 40					$ 40
Public Cost	(415)					(415)
Total Cost	$ (375)					$ (375)
Intragovernmental Earned Revenue	$ -					$ -
Public Earned Revenue	62					62
Total Earned Revenue	$ 62					$ 62
Conserving Natural Resources and Enhancing the Environment						
Intragovernmental Cost			$ 187			$ 187
Public Cost			1,970			1,970
Total Cost			$ 2,157			$ 2,157
Intragovernmental Earned Revenue			$ -			$ -
Public Earned Revenue			2			2
Total Earned Revenue			$ 2			$ 2
Support International Economic Development and Trade Capacity Buildings						
Intragovernmental Cost				$ 1,024		$ 1,024
Public Cost				(117)		(117)
Total Cost				$ 907		$ 907
Intragovernmental Earned Revenue				$ 846		$ 846
Public Earned Revenue				407		407
Total Earned Revenue				$ 1,253		$ 1,253
Intra-entity Eliminations						
Intragovernmental Cost					$ (733)	$ (733)
Public Cost					-	-
Total Cost					$ (733)	$ (733)
Intragovernmental Earned Revenue					$ (733)	$ (733)
Public Earned Revenue					-	-
Total Earned Revenue					$ (733)	$ (733)
Total Gross Cost	**$ 8,629**	**$ 25,533**	**$ 2,157**	**$ 907**	**$ (733)**	**$ 36,493**
Less: Total Earned Revenue	**8,187**	**4,525**	**2**	**1,253**	**(733)**	**13,234**
Net Cost of Operations	**$ 442**	**$ 21,008**	**$ 2,155**	**$ (346)**	**$ -**	**$ 23,259**

Note 16 - Disclosures Related to the Statement of Budgetary Resources

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

As of September 30, 2006, there are 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 $4.3 billion direct obligations and $38.9 billion reimbursable obligations.

As of September 30, 2005, there were no obligations incurred under apportionment category A, while obligations incurred under apportionment category B consisted of $4.5 billion direct and $40.7 billion reimbursable obligations.

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 $51.8 billion and $34.3 billion as of September 30, 2006 and 2005, respectively.

CCC has a permanent indefinite borrowing authority, as defined by OMB Circular A-11, *Preparation and Submission of Budget Estimates*, of $30 billion. The Corporation's borrowing authority is made up of both interest and non-interest bearing notes. These notes are drawn upon daily when disbursements exceed deposits, as reported by the FRB's, their branches and CCC's financing office. When deposits exceed disbursements, CCC makes repayments on its notes. Deposits (financing sources) flowing through CCC's revolving fund include proceeds from the sale of CCC commodities, loan repayments, interest income and various program fees. CCC's notes payable under its permanent indefinite borrowing authority have a term of 1 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 as of September 30, 2006, is $11 billion.

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.

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. The amounts for undelivered orders are $9.4 billion and $9.7 billion as of September 30, 2006 and 2005, respectively. Unobligated balances retain their fiscal year identity in an "expired account" for that 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).

Since CCC has indefinite borrowing authority to support payments made from its revolving fund, no unobligated balance carries forward to the following year.

No contributed capital was received during the reporting periods.

The SF-133, *Report on Budget Execution*, which is currently 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). The information contained in those schedules will be used as input for the actual column of the FY 2006 President's Budget that will be published in FY 2007.

Note 16 - Disclosures Related to the Statement of Budgetary Resources, continued

Since the Budget of the US Government P&F Schedules for 2006 are not available, the reconciliation between the President's Budget and the SBR for FY 2006 cannot be performed. The 2006 Budget of the United States Government is expected to be published in February 2007 and will be available on OMB's website (www.whitehouse.gov/omb) at that time.

The SF-133 and the SBR for FY 2005 have been reconciled to the FY 2005 actuals on the P&F Schedules presented in the Budget of the United States Government. A table presenting this comparison appears on the following page.

The SF-133 and the SBR for FY 2006 will be reconciled to the FY 2006 actuals on the P&F Schedules presented in the Budget of the United States Government once released.

Amounts reported in the SBR for FY2005 are different from the SF-133 submitted by USAID due to a difference in the balance for undelivered orders, accounts payable, and disbursements in the amounts of $47.1 million, $102.8 million, and $47.1 million, respectively. CCC recorded these FY 2005 USAID transactions in FY 2006.

Note 16 - Disclosures Related to the Statement of Budgetary Resources, continued

The comparison of selected line items of the FY 2005 SBR to the actuals on the FY 2005 P&F Schedules presented in the Budget of the United States Government is as follows:

(In Millions)

Line	SBR Amount	P&F Amount	Difference [1/]	Portion of Difference Resulting From Reporting Requirements
Total Budgetary Resources/Status of Resources	$ 49,291	$ 49,471	$ (180) [2/]	5
Total New Obligations	45,292	45,473	(181) [2/]	0
Offsetting Collections-Collected	18,547	18,547	0	0
Offsetting Collections-Receivable	(271)	(272)	1	0
Appropriations Received	15,444	15,444	0	0
Authority to Borrow	46,045	44,198	1,847 [3/]	0
Budgetary Resources/Unobligated Balance-Net Transfers	(2,837)	(2,150)	(687) [4/]	0
Portion to Repay Debt	0	(29,437)	29,437 [5/]	0
Capital Transfer to General Fund	(34,316)	(3,709)	(30,607) [3, 4, 5/]	(9)
Recoveries of Prior Year Obligations	2,839	2,840	(1)	0
Unobligated Balance – Beginning Balance	3,840	4,010	(170) [2, 6/]	13
Unobligated Balance – End of Year	3,999	3,998	1	5
Obligated Balance – Beginning Year	5,367	5,180	187 [2, 8/]	4
Obligation Incurred	45,292	45,473	(181) [2/]	0
Gross Outlays	39,602	39,551	51 [7/]	1
Obligated Balance Transfer, Net	(216)	(216)	0	0
Recoveries of Prior Year Obligations	2,839	2,840	(1)	0
Change in Uncollected Customer Payments from Federal Sources	271	272	(1)	0
Obligated Balance-End of Year	8,274	8,318	(44) [7, 8/]	3
Outlays	21,054	21,004	50 [7/]	1

[1/] Difference which is not specifically identified is a result of rounding.

[2/] The variances in Total Budgetary Resources/Status of Budgetary Resources, Total New Obligations, Unobligated Balance – Beginning of Year, Obligated Balance – Beginning of Year, and Obligation Incurred of $184 million is due to an inconsistency between the FY2004 ending and the FY2005 beginning Unobligated Balance on the P&F.

[3/] The P&F includes actual reductions of borrowing authority on this line. The SBR reports actual reductions of borrowing authority on a different line. The variance in Authority to Borrow of $1.8 billion is offset in Capital Transfer to General Fund.

[4/] The P&F crosswalk for Budgetary Resources/Unobligated Balance – Net Transfers (Line 4) excludes capital transfers, which are crosswalked to Capital Transfer to General Fund of $695 million in 12X1336.

[5/] The P&F crosswalk for Line 6 separates Permanently not available resources into the Portion to Repay Debt and Capital Transfers to the General Fund. The SBR does not separate these amounts. Therefore the total variance shown in the portion to Repay Debt of $29.4 billion is offset in Capital Transfer to General Fund.

[6/] This line item includes expired Treasury Symbols 1204336 and 1213302. Expired Treasury Symbols are not reported on the P&F schedule. The variance total is $13 million.

[7/] The majority of the variance in Obligated Balance-End of Year, Gross Outlays, and Outlays is due to $47 million of activity involving USAID in funds 12X4336 and (72) 12X4336.

[8/] The departmental shared appropriated amounts for CCC's portion of the Hazardous Waste Fund, 12X0500, in the amount of $3 million, are not included in the P&F amounts presented here. This fund is reported at the Departmental level in the Budget of the United States Government and, therefore, is not presented by agency. However, the SBR amounts presented here do include this fund activity. For this reason, a portion of the difference ($187 million) includes the activity for this fund.

Note 17 - Disclosures Related to the Statement of Financing

As of September 30, 2006, CCC's Liabilities Not Covered by Budgetary Resources as disclosed in Note 12 was approximately $8 billion. The current year transactions which include current year accruals, as well the reversal of prior year accruals are reported on the Resources That Fund Expenses Recognized In Prior Periods line of the Statement of Financing.

As discussed in Note 1, CCC engages in what are defined by OMB as "parent/child" relationships with several agencies. OMB guidance requires that if an allocation transfer is material to the child's financial statements, the child should report the activity relating to the allocation transfer in all of its financial statements, except the SBR which is reported in the parent's financial statements. Accordingly, as a parent agency, CCC reports none of the allocation transfer activity with USAID in its financial statements, except for the SBR. Under the same principle, as a child CCC does not include budgetary transaction activity related to FSA allocation transfer programs on CCC's SBR. Those transactions are recorded in FSA's SBR. The Hazardous Waste Departmental activity is recorded in a shared account under USDA that retains the fund symbol identified with the original appropriation from which monies are advanced. CCC's portion of this activity is included in USDA's financial statements.

The reconciling item related to the USAID allocation transfer amounted to $886 million in FY 2006. It is included as part of the Other Resources or Adjustments to Net Obligated Resources That Do Not Affect Net Cost of Operations line of the Statement of Financing, totaling ($1) billion as of September 30, 2006. For further illustration on the Other Resources or Adjustment to Net Obligated Resources, please see the table below.

Other budgetary offsetting collections and receipts that do not affect net cost of operations as of September 30, are as follows:

	(In Millions)	
	2006	2005
Loans Receivable - Commodity Loans Repaid	$ 5,932	$ 10,111
Foreign Loans Receivable	-	242
Refund Receivables/Repayments	463	-
Other Non-Credit Reform Collections	472	-
Miscellaneous	200	16
Total	$ 7,067	$ 10,369

Note 17 - Disclosures Related to the Statement of Financing, continued

Other resources or adjustments to net obligated resources that do not affect net cost of operations as of September 30, are as follows:

	(In Millions)	
	2006	2005
Allocation Transfer - USAID	$ (886)	$ (192)
Claim Disbursements	(901)	103
Debt Reduction Disbursement	-	(416)
Intra-Agency Transfers	81	-
Miscellaneous	56	(34)
Total	$ (1,650)	$ (539)

Other components requiring or generating resources in future periods as of September 30, are as follows:

	(In Millions)	
	2006	2005
Tobacco Transition Program	$ -	$ 7,415
Price Support Certificate Exchange	(213)	-
Miscellaneous	21	-
Total	$ (192)	$ 7,415

To conform with USDA's presentation concerning lines 13 and 23 in the SoF, certain reclassifications have been made to prior year amounts to be consistent with current year's presentation.

Note 17 - Disclosures Related to the Statement of Financing, continued

Other components not requiring or generating resources as of September 30, are as follows:

	(In Millions)	
	2006	2005
Allocation Transfers from FSA for the Conservation Programs	$ 142	$ 178
Bad Debt Expenses	433	(658)
Cost of Donations	753	1,276
Cost of Sales	5,339	6,175
Upward Credit Subsidy Reestimate Accurals	-	208
Miscellaneous	(30)	38
Total	$ 6,637	$ 7,217

Note 18 - Disclosures Not Related to a Specific Statement

Related Party Transactions

CCC makes disbursements for many FSA programs, which are funded through allocation transfers from FSA. During FY 2006 and 2005, FSA transferred to CCC $216 million and $306 million, respectively. These transfers plus prior year carryovers were used to make payments by CCC in the approximate amount of $752 million and $144 million, respectively.

As noted in Note 9, the Corporation also provides services to other USDA agencies to carry out their authorities and responsibilities. As of September 30, 2006 and 2005, the related deposit and trust liabilities for AMS and FNS were $494 million and $434 million, respectively.

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 September 30, 2006 and 2005, were $170 million and $228 million, respectively.

CCC transferred $4 million to FAS for FY 2006 and 2005 and an additional $5 million and $4 million, respectively, to FSA for salaries and expenses for administering the foreign Credit Reform programs.

During FY 2006 and 2005, outlays under reimbursable agreements with other USDA agencies amounted to $6 million and $36 million, respectively.

During the fiscal years ended September 30, 2006 and 2005, the Corporation transferred $60 million and $169 million, respectively, to the Animal and Plant Health Inspection Service (APHIS) for the eradication of animal and plant diseases.

A $142 million and $111 million deposit and trust liability to cover payments for the McGovern-Dole International Food for Education and Child Nutrition Program and the Trade Adjustment Assistance Program were established on behalf of FAS as of September 30, 2006 and 2005, respectively. Additionally, there was a deposit and trust liability as of September 30, 2006 and 2005, of $254 million and $79 million, respectively, with AMS to cover payments for the Cattle Feed Program, Livestock Feed Program, Lamb Meat Adjustment Assistance Program and the Florida Hurricane Charlie Citrus Disaster Program.

As of FY 2006 and 2005, CCC made several authorized transfers to other USDA agencies. CCC transferred $15 million to FNS for the Senior's Farmers Market Nutrition Program and $2 million to the office of the Chief Economist for the Biobased Products Program.

As of September 30, 2006, CCC also made authorized transfers in the amounts of $5 million to the Risk Management Agency (RMA) for the Agricultural Management Assistance Program (AMAP); $50 million to FSA to provide emergency assistance to producers who suffered losses due to natural disasters and $2 million to AMS for AMAP.

As of September 30, 2006 and 2005, CCC also made authorized transfers to AMS in the amounts of $2 million for AMAP and $90 million for the 2004 hurricane losses in Florida, respectively; $5 million and $15 million, respectively, to Forest Service for the Forest Land Enhancement Program and private landowner disaster assistance.

During FY 2006 and 2005, under the 2002 Farm Bill, CCC transferred a total of $1.8 billion and $1.9 billion, respectively, to NRCS for various conservation programs and technical assistance. In addition, during FY 2006, CCC disbursed $77 million to NRCS for CRP technical assistance. These programs included WRP, Environmental Quality Incentive Program (EQIP), Farmland Protection Program, Wildlife Habitat Incentives Program, Klamath Basin, Ground, and Surface Water Conservation Program, Grassland Reserve Program (GRP), Biomass Research and Development and the

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

Conservation Security Program. NRCS is responsible for the administration of these programs. For EQIP and GRP, NRCS has entered into a memorandum of understanding with CCC to disburse funds using the services and facilities of CCC. A deposit and trust liability to cover the program payments on behalf of NRCS for these programs and other conservation programs was $108 million and $114 million as of September 30, 2006 and 2005, respectively.

It should be noted that, although NRCS has been receiving funding for the EQIP since 2003; CCC continues to receive separate funding for the 2002 and earlier program years.

CCC received a $12 million charge from FSA for the allocation of internal software capitalization cost during FY 2006. Currently CCC reimburses FSA for the cost incurred in the development of software used to administer agriculture programs. See Note 1 for a discussion under General Property and Equipment.

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 as of September 30, are as follows:

	(In Millions)	
	2006	2005
Sources of Collections		
Repayment of Farm Credit Loans	$ 1,366	$ 1,540
Admininstrative and Other Service Fees	19	22
Total Revenue Collected	$ 1,385	$ 1,562
Disposition of Collection:		
Amounts Transferred to the Farm Service Agency	1,375	1,544
Other USDA Agencies	12	1
Department of Treasury	2	2
Total Disposition of Collections	$ 1,389	$ 1,547
(Increase)/Decrease in Amounts Yet to be Transferred	(4)	15
Net Custodial Activity	$ -	$ -

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

Required Supplementary Information

Schedule 1

Wetlands Reserve Program – Condition Assessment

The emphasis for purchasing land easements in the Wetlands Reserve Program (WRP) is to protect, restore, and enhance the functions and values of wetland ecosystems. These lands are used to increase habitat for migratory birds and wetland dependent wildlife (including threatened and endangered species), protect and improve water quality, attenuate water flows due to flooding, protect and enhance open space and aesthetic quality, protect native flora and fauna contributing to the Nation's natural heritage, and contribute to educational and scientific scholarship. Once land has been deemed eligible and enrolled in the WRP, the land's condition is no longer material as it has become part of a long-term restoration and conservation plan. This program complies with CCC's strategic goals under Conserving natural resources and enhancing the environment

In FY 2002, funding responsibility for Wetlands Reserve Program (WRP) returned to NRCS; however, CCC remains responsible for easements using funding prior to the signing of the 2002 Farm Bill. Listed below are acres purchased using CCC funds.

The change in acres covered by these easements for the fiscal years ended September 30, are as follows:

	2006	2005
Easement Acreage Acquired - Beginning of Fiscal Year	1,007,746	1,007,076
Additions	18,364	670
Easement Acreage Acquired – End of Fiscal Year	1,026,110	1,007,746

Schedule 2
Required Supplementary Information (Unaudited)

Commodity Credit Corporation
Supporting Schedule to the Combined Statements of Budgetary Resources
Budgetary Accounts

For the Fiscal Year Ended September 30, 2006
(Dollars in MIlions)

	12X4336	(72)12X4336	12X1336	12X2277	12X2278	Other	Total Budgetary
Budgetary Resources:							
Unobligated balance, brought forward, October 1:	$ 950	$ 14	$ 104	$ 88	$ 51	$ 92	$ 1,299
Recoveries of prior year unpaid obligations	4,738	113	-	-	94	-	4,945
Budget authority							
Appropriation	$ -	$ -	$ 197	$ 68	$ 1,500	$ 26,347	$ 28,112
Borrowing Authority (Note 16)	44,465	$ -	-	-	-	-	44,465
Spending authority from offsetting collections:							
Earned:							
Collected	13,411	-	-	11	221	1,424	15,067
Change in receivables from Federal sources	54	-	-	-	-	-	54
Change in unfilled customer orders:							
Advance received	259	-	-	-	-	-	259
Expenditure transfers from trust funds	891	-	-	-	-	-	891
Subtotal	$ 59,080	-	$ 197	$ 79	$ 1,721	$ 27,771	$ 88,848
Nonexpenditure transfers, net actual	22,371	1,189	-	-	-	(25,432)	(1,872)
Permanently not available	(48,783)	-	-	(1)	(12)	(1,356)	(50,152)
Total Budgetary Resources	**$ 38,356**	**$ 1,316**	**$ 301**	**$ 166**	**$ 1,854**	**$ 1,075**	**$ 43,068**
Status of Budgetary Resources							
Obligations incurred:							
Direct	$ -	$ -	$ 139	$ 127	$ 1,774	$ 930	$ 2,970
Reimbursable	37,747	1,185	-	-	-	-	38,932
Subtotal	$ 37,747	$ 1,185	$ 139	$ 127	$ 1,774	$ 930	$ 41,902
Unobligated balance:							
Apportioned	$ 79	$ -	$ 81	$ 36	$ 75	$ 92	$ 363
Exempt from apportionment	530	-	-	-	-	3	533
Subtotal	$ 609	$ -	$ 81	$ 36	$ 75	$ 95	$ 896
Unobligated balance not available	-	131	81	3	5	50	270
Total status of budgetary resources	**$ 38,356**	**$ 1,316**	**$ 301**	**$ 166**	**$ 1,854**	**$ 1,075**	**$ 43,068**

Schedule 2

Required Supplementary Information (Unaudited), continued

Commodity Credit Corporation
Supporting Schedule to the Combined Statements of Budgetary Resources
Budgetary Accounts

For the Fiscal Year Ended September 30, 2006
(Dollars in Millions)

	12X4336	(72)12X4336	12X1336	12X2277	12X2278	Other	Total Budgetary
Change in Obligated Balance							
Obligated Balance, net, beg. of period							
Unpaid obligations, brought forward, October 1	$ 7,424	$ 922	$ 166	$ 76	$ 1,043	$ 18	$ 9,649
Less: Uncollected customer payments from Federal sources, brought forward, October 1	(1,221)	-	-	-	-	-	(1,221)
Total unpaid obligated balance, net	$ 6,203	$ 922	$ 166	$ 76	$ 1,043	$ 18	$ 8,428
Obligations incurred, net	37,747	1,185	139	127	1,774	930	41,902
Less: Gross outlays	(33,621)	(1,039)	(137)	(85)	(1,515)	(928)	(37,325)
Less: Recoveries of prior year unpaid obligations, actual	(4,738)	(113)	-	-	(94)	-	(4,945)
Change in uncollected customer payments from Federal sources	(54)	-	-	-	-	-	(54)
Total Change in Obligated Balance	**$ 5,537**	**$ 955**	**$ 168**	**$ 118**	**$ 1,208**	**$ 20**	**$ 8,006**
Obligated balance, net,end of period:							
Unpaid obligations	$ 6,812	$ 955	$ 168	$ 118	$ 1,208	$ 20	$ 9,281
Less: Uncollected customer payments from Federal sources	(1,275)	-	-	-	-	-	(1,275)
Total, unpaid obligated balance, net, end of period	**$ 5,537**	**$ 955**	**$ 168**	**$ 118**	**$ 1,208**	**$ 20**	**$ 8,006**
Net Outlays							
Gross outlays	$ 33,621	$ 1,039	$ 137	$ 85	$ 1,515	$ 928	$ 37,325
Less: Offsetting collections	(14,562)	-	-	(11)	(221)	(1,424)	(16,218)
Net Outlays	**$ 19,059**	**$ 1,039**	**$ 137**	**$ 74**	**$ 1,294**	**$ (496)**	**$ 21,107**

Schedule 2

Required Supplementary Information (Unaudited), continued

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

For the Fiscal Year Ended September 30, 2006
(Dollars in Millions)

	12X4337	12X4049	12X4158	Other	Total Non-Budgetary
Budgetary Resources:					
Unobligated balance, brought forward, October 1:	$ 1,157	$ 1,458	$ 29	$ 55	$ 2,699
Recoveries of prior year unpaid obligations	-	-	4	-	4
Budget authority					
Borrowing Authority (Note 16)	$ 233	$ 437	$ 135	$ 19	$ 824
Spending authority from offsetting collections:					
Earned:					
Collected	709	265	62	138	1,174
Change in receivables from Federal sources	(29)	-	-	-	(29)
Subtotal	$ 913	$ 702	$ 197	$ 157	$ 1,969
Permanently not available	(537)	(978)	(76)	(99)	(1,690)
Total Budgetary Resources	**$ 1,533**	**$ 1,182**	**$ 154**	**$ 113**	**$ 2,982**
Status of Budgetary Resources					
Obligations incurred:					
Direct	$ 638	$ 557	$ 131	$ 29	$ 1,355
Subtotal	$ 638	$ 557	$ 131	$ 29	$ 1,355
Unobligated balance:					
Apportioned	$ 661	$ 26	$ 4	$ 57	$ 748
Subtotal	$ 661	$ 26	$ 4	$ 57	$ 748
Unobligated balance not available	234	599	19	27	879
Total status of budgetary resources	**$ 1,533**	**$ 1,182**	**$ 154**	**$ 113**	**$ 2,982**

Schedule 2
Required Supplementary Information (Unaudited), continued

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

For the Fiscal Year Ended September 30, 2006
(Dollars in Millions)

	12X4337	12X4049	12X4158	Other	Total Non-Budgetary
Change in Obligated Balance					
Obligated Balance, net, beg. of period					
Unpaid obligations, brought forward, October 1	$ -	$ 2	$ 47	$ -	$ 49
Less: Uncollected customer payments from Federal sources, brought forward, October 1	(160)	(43)	-	-	(203)
Total unpaid obligated balance, net	$ (160)	$ (41)	$ 47	$ -	$ (154)
Obligations incurred, net	638	557	131	29	1,355
Less: Gross outlays	(637)	(557)	(102)	(29)	(1,325)
Less: Recoveries of prior year unpaid obligations, actual	-	-	(4)	-	(4)
Change in uncollected customer payments from Federal sources	29	-	-	-	29
Total Change in Obligated Balance	**$ (130)**	**$ (41)**	**$ 72**	**$ -**	**$ (99)**
Obligated balance, net,end of period:					
Unpaid obligations	$ 1	$ 2	$ 72	$ -	$ 75
Less: Uncollected customer payments from Federal sources	(131)	(43)	-	-	(174)
Total, unpaid obligated balance, net, end of period	**$ (130)**	**$ (41)**	**$ 72**	**$ -**	**$ (99)**
Net Outlays					
Gross outlays	$ 637	$ 557	$ 102	$ 29	$ 1,325
Less: Offsetting collections	(709)	(265)	(62)	(138)	(1,174)
Less: Distributed Offsetting receipts	(551)	(415)	(4)	(17)	(987)
Net Outlays	**$ (623)**	**$ (123)**	**$ 36**	**$ (126)**	**$ (836)**

Schedule 3
Other Accompanying Information (Unaudited)

Commodity Credit Corporation
Change in Inventory by Commodity

For Fiscal Year 2006
(In Thousands)

	Unit of Measure	Beginning Inventory October 1, 2005		Acquisitions		Cost of Sales a/		Donations		Other Dispositions b/		Deductions, Net c/		Ending Inventory September 30, 2006	
		Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value
Feed Grains:															
Barley	Bushels	19	35	648	1,215	(591)	(1,048)	(39)	(134)	0	0	0	0	36	$ 69
Corn	Bushels	939	2,213	289,053	561,067	(287,678)	(558,127)	(837)	(2,251)	(0)	0	(112)	(112)	1,365	$ 2,791
Corn Meal	Pounds	20,098	2,120	279,715	28,883	(287,612)	(29,786)	(2,971)	(255)	0	0	0	0	9,230	$ 962
Oats	Bushels	0	0	70	83	(70)	(83)	0	0	0	0	0	0	(0)	$ 0
Sorghum	Bushels	111	356	23,660	68,324	(23,594)	(68,065)	(169)	(601)	0	0	0	0	7	$ 14
Sorghum Grits	Pounds	0	0	13,861	1,989	(13,861)	(1,989)	0	0	(0)	(0)	0	0	(0)	$ 0
Total Feed Grains		xxx	$ 4,725	xxx	$ 661,561	xxx	$ (659,098)	xxx	$ (3,241)	xxx	$ (0)	xxx	$ (112)	xxx	$ 3,835
Wheat	Bushels	46,460	171,055	56,803	239,777	(27,855)	(134,374)	(31,994)	(117,486)	(0)	(0)	(7)	(54)	43,406	$ 158,919
Wheat Flour	Pounds	0	0	134,483	17,431	(123,111)	(15,630)	(11,372)	(1,800)	(0)	(0)	0	0	0	$ 0
Wheat Products, Other	Pounds	22,046	2,226	378,760	45,673	(380,937)	(45,776)	(1,102)	(121)	0	(0)	0	0	18,766	$ 2,002
Rice Products:															
Rice Products	Cwt.	0	0	1,747	25,883	(1,474)	(21,642)	(273)	(4,241)	(0)	0	0	0	0	$ (0)
Rice, Rough	Cwt.	292	2,025	20,927	134,317	(21,161)	(136,009)	0	0	0	0	0	0	57	$ 334
Rice, Brown	Pounds	0	0	0	0	0	0	0	0	0	0	0	0	0	$ -
Cotton, Extra Long Staple	Bales	0	0	0	0	0	0	0	0	0	0	0	0	0	$ -
Cotton, Upland	Bales	2	633	16,220	4,261,503	(16,218)	(4,260,932)	0	0	0	0	0	0	5	$ 1,204
Dairy Products:															
Nonfat Dry Milk	Pounds	104,646	94,497	62,190	49,726	(27,682)	(24,795)	(82,349)	(75,475)	(6,163)	(5,966)	(1,488)	2,918	49,153	$ 40,906
Butter	Pounds	0	0	0	0	0	0	0	0	0	0	0	0	0	$ -
Cheese Regular Price Support	Pounds	707	700	198	230	(745)	(609)	(277)	(258)	(61)	(116)	177	54	0	$ 0
Ultra High Temperature Milk	Pounds	0	0	11,481	5,294	0	0	(11,481)	(5,294)	0	0	0	0	0	$ -
Total Dairy Products		xxx	$ 95,197	xxx	$ 55,250	xxx	$ (25,404)	xxx	$ (81,027)	xxx	$ (6,082)	xxx	$ 2,972	xxx	$ 40,906
Oils & Oilseeds:															
Flaxseed	Cwt.	0	0	13	122	(9)	(82)	0	0	0	0	0	0	4	$ 40
Sunflower Seed	Cwt.	0	0	206	1,930	(206)	(1,930)	0	0	0	0	0	0	0	$ -
Sunflower Seed Oil, Processed	Pounds	0	0	0	0	0	0	0	0	0	0	0	0	0	$ -
Canola Seed	Cwt.	0	4	8	70	(3)	(27)	0	0	0	0	0	0	5	$ 47
Safflower Seed	Cwt.	0	0	0	0	0	0	0	0	0	0	0	0	0	$ -
Crambe Oilseed	Cwt.	0	0	0	0	0	0	0	0	0	0	0	0	0	$ -
Mustard Seed	Cwt.	0	0	0	0	0	0	0	0	0	0	0	0	0	$ -
Sunflower Seed Non-Oil	Cwt.	0	0	62	587	(62)	(587)	0	0	0	0	0	0	0	$ (0)
Total Oils and Oilseeds		xxx	$ 4	xxx	$ 657	xxx	$ (614)	xxx	$ -	xxx	$ -	xxx	$ -	xxx	$ 47

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Schedule 3
Other Accompanying Information (Unaudited)

Commodity Credit Corporation
Change in Inventory by Commodity

For Fiscal Year 2006
(In Thousands)

	Unit of Measure	Beginning Inventory October 1, 2005 Quantity	Value	Acquisitions Quantity	Value	Cost of Sales a/ Quantity	Value	Donations Quantity	Value	Other Dispositions b/ Quantity	Value	Deductions, Net c/ Quantity	Value	Ending Inventory September 30, 2006 Quantity	Value
Peanuts	Pounds	65,244	12,656	1,176,293	210,664	(1,190,514)	(213,866)	0	0	0	0	0	0	51,023	$ 9,454
Peanuts Raw	Pounds	0	0	0	0	0	0	0	0	0	0	0	0	0	$ -
Soybeans	Bushels	7	37	15,255	79,257	(12,827)	(64,290)	(1,470)	(9,747)	0	0	0	0	965	$ 5,257
Soybean Products	Pounds	0	0	142,145	14,709	(15,762)	(1,521)	(126,382)	(13,188)	0	0	0	0	(0)	$ -
Dry Edible Beans	Cwt.	9	206	639	13,895	(573)	(12,117)	(42)	(1,042)	(0)	(0)	0	0	34	$ 941
Blended Foods	Pounds	9,612	1,552	286,315	37,052	(292,454)	(38,113)	0	0	0	0	0	0	3,472	$ 491
Dry Whole Peas	CWT.	258	2,939	2,173	22,423	(2,365)	(24,732)	0	0	(0)	0	0	0	66	$ 630
Lentils Dry	CWT.	97	1,734	1,805	24,799	(1,847)	(25,794)	(11)	(144)	0	0	0	0	44	$ 594
Plants & Seeds	Pounds	0	0	0	0	0	0	0	0	0	0	0	0	0	$ -
Corn Seed	Pounds	0	0	0	0	0	0	0	0	0	0	0	0	0	$ -
Potatoes Dehydrated	Pounds	0	0	1,940	767	(507)	(254)	(1,433)	(514)	0	0	0	0	(0)	$ (0)
Sugar, Raw Cane	Pounds	0	0	0	0	0	0	0	0	0	0	0	0	0	$ -
Sugar, Refined Beet	Pounds	0	0	0	0	0	0	0	0	0	0	0	0	0	$ -
Sugar, Refined Cane	Pounds	0	0	0	0	0	0	0	0	0	0	0	0	0	$ -
In Process Beet Sugar	Pounds	0	0	0	0	0	0	0	0	0	0	0	0	0	$ -
Honey	Pounds	0	0	0	0	0	0	0	0	0	0	0	0	0	$ -
Meat	Pounds	0	0	0	0	0	0	0	0	0	0	0	0	0	$ -
Pork Bellies	Pounds	0	0	0	0	0	0	0	0	0	0	0	0	0	$ -
Corn Oil	Pounds	0	0	(11)	(6)	0	0	11	6	0	0	0	0	0	$ -
Soybean Salad Oil	Pounds	0	0	181,997	42,270	(131,194)	(30,186)	(50,804)	(12,084)	0	0	0	0	0	$ (0)
Vegetable Oil	Pounds	22,421	9,092	309,763	116,462	(297,642)	(111,857)	(30,995)	(12,311)	0	0	0	0	3,547	$ 1,386
Fruit Cnd Cranberry Sauce	Pounds	0	0	0	0	0	0	0	0	0	0	0	0	0	$ -
Fish, Canned Salmon	Pounds	0	0	287	265	0	0	(287)	(265)	0	0	0	0	0	$ -
Pudding	Pounds	76	107	6,749	10,381	0	0	(6,826)	(10,488)	(0)	(0)	0	0	(0)	$ (0)
Raisins	Pounds													-	-
Tobacco:															
Burley	Pounds	0	0	0	0	0	0	0	0	0	0	0	0	0	$ -
Cigar	Pounds	0	0	0	0	0	0	0	0	0	0	0	0	0	$ -
Dark Air Cured	Pounds	0	0	0	0	0	0	0	0	0	0	0	0	0	$ -
Fire Cured	Pounds	0	0	0	0	0	0	0	0	0	0	0	0	0	$ -
Flue Cured	Pounds	0	0	0	0	0	0	0	0	0	0	0	0	0	$ -
Virginia Fire Cured	Pounds	0	0	0	0	0	0	0	0	0	0	0	0	0	$ -
		xxx	$ -	xxx	$ -	xxx	$ -	xxx	$ -	xxx	$ -	xxx	$ -	xxx	$ -
Emergency Food Ration Bars	Pounds	0	0	0	0	0	0	0	0	0	0	0	0	0	$ -
Mohair	Pounds	0	0	2	17	(2)	(17)	0	0	0	0	0	0	0	$ -
Tallow	Pounds	0	0	0	0	0	0	0	0	0	0	0	0	0	$ -
Subtotal		xxx	$ -	xxx	$ 17	xxx	$ (17)	xxx	$ -	xxx	$ -	xxx	$ -	xxx	$ -
Elimination of Sales to P.L. 480		0	0	0	0	0	(485,244)	0	(485,244)	0	0	0	0	0	$ -
Total Inventory Operations		xxx	$ 304,186	xxx	$ 6,017,059	xxx	$ (5,338,993)	xxx	$ (752,938)	xxx	$ (6,082)	xxx	$ 2,806	xxx	$ 226,039

Note: Inventories of commodities as shown in this report include commodities committed to sale or otherwise obligated.

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.

Schedule 3
Other Accompanying Information (Unaudited)

Commodity Credit Corporation
Change in Inventory by Commodity

For Fiscal Year 2005
(In Thousands)

	Unit of Measure	Beginning Inventory October 1, 2004		Acquisitions		Cost of Sales a/		Donations		Other Dispositions b/		Deductions, Net c/		Ending Inventory September 30, 2005	
		Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value
Feed Grains:															
Barley	Bushels	17	$ 31	665	$ 1,186	(664)	$ (1,182)	-	$ -	-	$ -	-	$ -	19	$ 35
Corn	Bushels	11,780	21,660	98,954	204,284	(96,636)	(198,417)	(13,143)	(25,279)	1	(5)	(17)	(29)	939	2,213
Corn Meal	Pounds	-	-	247,086	24,599	(226,578)	(22,420)	-	-	(410)	(60)	-	-	20,098	2,120
Oats	Bushels	40	52	199	255	(239)	(306)	-	-	-	-	-	-	0	(0)
Sorghum	Bushels	25	50	15,892	43,492	(15,806)	(43,183)	-	-	(0)	(2)	-	-	111	356
Sorghum Grits	Pounds	-	-	17,438	2,135	(17,421)	(2,133)	-	-	(17)	(2)	-	-	(0)	(0)
Total Feed Grains		xxx	$ 21,793	xxx	$ 275,952	xxx	$ (267,641)	xxx	$ (25,279)	xxx	$ (70)	xxx	$ (29)	xxx	$ 4,725
Wheat	Bushels	80,993	$ 291,081	68,222	$ 286,936	(71,492)	$ (295,088)	(31,261)	$ (111,864)	(0)	$ (2)	(3)	$ (8)	46,460	$ 171,055
Wheat Flour	Pounds	-	-	227,538	26,042	(188,209)	(21,239)	(38,067)	(4,641)	(1,263)	(162)	-	-	0	(0)
Wheat Products, Other	Pounds	3,585	355	289,694	28,726	(270,603)	(26,784)	1	0	(631)	(72)	-	-	22,046	2,226
Rice Products:															
Rice Products	Cwt.	251	$ 2,903	2,273	$ 30,331	(2,124)	$ (27,340)	(392)	$ (5,804)	(7)	$ (91)	-	$ -	0	$ (0)
Rice, Rough	Cwt.	23	144	67,906	450,310	(67,637)	(448,429)	-	-	-	-	-	-	292	2,025
Rice, Brown	Pounds	-	-	13,222	1,703	(13,222)	(1,703)	-	-	-	-	-	-	-	-
Cotton, Extra Long Staple	Bales	2	$ 673	1	$ 386	(3)	$ (1,059)	-	$ -	-	$ -	-	$ -	(0)	$ -
Cotton, Upland	Bales	0	7	17,402	4,469,349	(17,400)	(4,468,723)	-	-	-	-	-	-	2	633
Dairy Products:															
Nonfat Dry Milk	Pounds	661,148	$ 594,615	33,703	$ 26,484	(185,524)	$ (164,346)	(276,108)	$ (258,814)	16,927	$ 14,308	(145,499)	$ (117,749)	104,646	$ 94,497
Butter	Pounds	138	164	-	-	(137)	(163)	-	-	(0)	(0)	-	-	0	(0)
Cheese Regular Price Support	Pounds	8,306	10,765	9,553	17,093	(9,140)	(10,950)	(9,713)	(17,304)	(117)	(1,022)	1,818	2,118	707	700
Ultra High Temperature Milk	Pounds	-	-	9,806	4,506	-	-	(9,806)	(4,506)	-	-	-	-	-	-
Total Dairy Products		xxx	$ 605,543	xxx	$ 48,082	xxx	$ (175,459)	xxx	$ (280,624)	xxx	$ 13,285	xxx	$ (115,631)	xxx	$ 95,197
Oils & Oilseeds:															
Flaxseed	Cwt.	-	$ -	-	$ -	-	$ -	-	$ -	-	$ -	-	$ -	-	$ -
Sunflower Seed	Cwt.	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sunflower Seed Oil, Processed	Pounds	-	-	(59)	(20)	-	-	59	20	-	-	-	-	-	-
Canola Seed	Cwt.	-	-	6	57	(6)	(52)	-	-	-	-	-	-	0	4
Safflower Seed	Cwt.	-	-	2	16	(2)	(16)	-	-	-	-	-	-	-	-
Crambe Oilseed	Cwt.	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Mustard Seed	Cwt.	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sunflower Seed Non-Oil	Cwt.	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Oils and Oilseeds		xxx	$ -	xxx	$ 72	xxx	$ (68)	xxx	$ -	xxx	$ -	xxx	$ -	xxx	$ 4

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Schedule 3
Other Accompanying Information (Unaudited)

Commodity Credit Corporation
Change in Inventory by Commodity

For Fiscal Year 2005
(In Thousands)

		Beginning Inventory October 1, 2004		Acquisitions		Cost of Sales a/		Donations		Other Dispositions b/		Deductions, Net c/		Ending Inventory September 30, 2005	
	Unit of Measure	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value
Peanuts	Pounds	-	$ -	310,674	$ 57,866	(245,430)	$ (45,210)	-	$ -	-	$ -	-	$ -	65,244	$ 12,656
Peanuts Raw	Pounds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Soybeans	Bushels	2	$ 11	6,117	$ 32,019	(5,630)	$ (29,143)	(441)	$ (2,637)	(0)	$ (4)	(41)	$ (208)	7	$ 37
Soybean Products	Pounds	-	-	97,625	8,835	-	-	(97,627)	(8,835)	2	-	-	-	0	(0)
Dry Edible Beans	Cwt.	228	$ 5,799	720	$ 22,178	(868)	$ (25,632)	(64)	$ (1,949)	(7)	$ (190)	-	$ -	9	$ 206
Blended Foods	Pounds	34,807	4,448	455,350	66,970	(479,208)	(69,696)	17	3	(1,508)	(219)	154	46	9,612	1,552
Dry Whole Peas	CWT.	120	1,544	2,471	28,258	(2,264)	(26,036)	(66)	(750)	(4)	(77)	-	-	258	2,939
Lentils Dry	CWT.	153	2,479	2,151	40,392	(2,204)	(41,068)	0	(0)	(2)	(70)	-	-	97	1,734
Plants & Seeds	Pounds	-	-	2,205	347	(2,205)	(347)	-	-	-	-	-	-	-	-
Corn Seed	Pounds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Potatoes Dehydrated	Pounds	-	-	0	2	-	-	-	(2)	-	-	-	-	0	(0)
Sugar, Raw Cane	Pounds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sugar, Refined Beet	Pounds	32,000	7,616	48,000	10,555	(80,000)	(18,171)	-	-	-	-	-	-	0	-
Sugar, Refined Cane	Pounds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
In Process Beet Sugar	Pounds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Honey	Pounds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Meat	Pounds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Pork Bellies	Pounds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Corn Oil	Pounds	-	-	1,102	551	-	-	(1,102)	(551)	-	-	-	-	-	-
Soybean Salad Oil	Pounds	-	-	159,772	38,213	(112,378)	(26,624)	(47,395)	(11,589)	0	(0)	-	-	(0)	0
Vegetable Oil	Pounds	7,530	3,312	443,108	179,890	(413,351)	(167,879)	(14,121)	(5,851)	(745)	(380)	-	-	22,421	9,092
Fruit Cnd Cranberry Sauce	Pounds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Fish, Canned Salmon	Pounds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Pudding	Pounds	-	-	71,331	82,600	-	-	(71,267)	(82,493)	13	-	-	-	76	107
Raisins	Pounds	-	-	-	0	-	-	-	(0)	-	-	-	-	-	-
Tobacco:															
Burley	Pounds	-	$ -	118,482	$ 525,607	(81,893)	$ (363,294)	-	$ -	(36,589)	$ (162,314)	-	$ -	-	$ (0)
Cigar	Pounds	-	-	$ -	384	(112)	(228)	-	-	112	(156)	-	-	-	(0)
Dark Air Cured	Pounds	-	-	332	997	(105)	(314)	-	-	(227)	(683)	-	-	(0)	(0)
Fire Cured	Pounds	-	-	4,713	10,931	(3,563)	(8,263)	-	-	(1,150)	(2,667)	-	-	0	0
Flue Cured	Pounds	1,965	2,495	156,287	446,595	(113,981)	(323,459)	-	-	(44,270)	(125,631)	-	-	(0)	-
Virginia Fire Cured	Pounds	-	-	234	655	(133)	(372)	-	-	(101)	(283)	-	-	0	(0)
		xxx	$ 2,495	xxx	$ 985,169	xxx	$ (695,930)	xxx	$ -	xxx	$ (291,735)	xxx	$ -	xxx	$ (0)
Emergency Food Ration Bars	Pounds	-	$ -	-	$ -	-	$ -	-	$ -	-	$ -	-	$ -	-	$ -
Tallow	Pounds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Subtotal		xxx	$ -	xxx	$ -	xxx	$ -	xxx	$ -	xxx	$ -	xxx	$ -	xxx	$ -
Elimination of Sales to P.L. 480		-	$ -	0	$ -	0	$ (732,841)	-	$ (732,841)	-	$ -	-	$ -	-	$ -
Total Inventory Operations		xxx	$ 950,204	xxx	$ 7,171,715	xxx	$ (6,146,428)	xxx	$(1,275,688)	xxx	$ (279,786)	xxx	$ (115,831)	xxx	$ 304,186

Note: Inventories of commodities as shown in this report include commodities committed to sale or otherwise obligated.

a/ Includes commodities subsequently exported and financed under PL 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.