U.S. Department of Agriculture

Office of Inspector General
Financial & IT Operations

Audit Report

Commodity Credit Corporation's Financial Statements for Fiscal Years 2007 and 2006

Report No. 06401-22-FM
November 2007

UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington D.C. 20250

November 13, 2007

REPLY TO
ATTN OF: 06401-22-FM

TO: Board of Directors
Commodity Credit Corporation

Dennis Taitano, 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 2007 and 2006

This report presents the auditors' opinion on the Commodity Credit Corporation's (CCC) principal financial statements for the fiscal years ending September 30, 2007, and 2006. Reports on CCC's internal control structure and its compliance with laws and regulations are also provided.

KPMG LLP (KPMG) an independent certified public accounting firm, conducted the audits. In connection with the contract, we reviewed KPMG's report and related documentation and inquired of its representatives. Our review, as differentiated from an audit in accordance with *Government Auditing Standards* (issued by the Comptroller General of the United States), was not intended to enable us to express, and we do not express, opinions on CCC's financial statements or internal control or on whether CCC's financial management systems substantially complied with the Federal Financial Management Improvement Act (FFMIA); or conclusions on compliance with laws and regulations. KPMG is responsible for the attached auditor's report, dated November 7, 2007, and the conclusions expressed in the report. However, our review disclosed no instances where KPMG did not comply, in all material respects, with *Government Auditing Standards* and the Office of Management and Budget Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*.

It is the opinion of KPMG, that the financial statements present fairly, in all material respects, CCC's financial position as of September 30, 2007, and 2006; and its net costs, changes in net position, and budgetary resources, in conformity with generally accepted accounting principles.

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

- Information security controls;
- financial system functionality and funds control;
- management's review procedures over the cash flow models for direct and credit guarantee programs; and
- producer monitoring procedures.

KPMG considered the first three significant deficiencies 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, FFMIA, and the Anti-Deficiency Act.

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, 2007

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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, 2007 and 2006, and the related consolidated statements of net cost and changes in net position, and 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 2007 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, 2007 and 2006, 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 and reporting for parent-child relationships and its method of reporting the reconciliation of budgetary resources obligated to the net cost of operations in fiscal year 2007 to adopt the provisions of Office of Management and Budget (OMB) Circular No. A-136, *Financial Reporting Requirements*.

Our consideration of internal control over financial reporting resulted in the following conditions being identified as significant deficiencies:

- Improvement needed in information security controls
- Improvement needed in financial system functionality and funds control
- Improvement needed in management's review procedures over the cash flow models for direct credit and credit guarantee programs
- Improvement needed in producer monitoring procedures.

We consider the first three significant deficiencies above to be material weaknesses.

We noted no deficiencies involving the design of the internal control over the existence and completeness assertions related to key performance measures.

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 OMB Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*:

- Federal Information Security Management Act (FISMA)
- The Anti-Deficiency Act (ADA).

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. The results of our tests of FFMIA disclosed no instances in which CCC did not substantially comply with the United States Government Standard General Ledger (USSGL) at the transaction level or applicable federal accounting standards.

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, 2007 and 2006, and the related consolidated statements of net cost and changes in net position, 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, 2007 and 2006, and its net costs, changes in net position, and budgetary resources 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 and reporting for parent-child relationships and its method of reporting the reconciliation of budgetary resources obligated to the net cost of operations in fiscal year 2007 to adopt the provisions of OMB Circular No. A-136, *Financial Reporting Requirements.*

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.

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

KPMG

Internal Control over Financial Reporting

Our consideration of the internal control over financial reporting was for the limited purpose described in the Responsibilities section of this report and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects CCC's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of CCC's consolidated financial statements that is more than inconsequential will not be prevented or detected by CCC's internal control over financial reporting. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by CCC's internal control.

In our fiscal year 2007 audit, we consider the deficiencies, described in Exhibits 1 and 2, to be significant deficiencies in internal control over financial reporting. However, of the significant deficiencies described in Exhibits 1 and 2, we believe that the significant deficiencies presented in Exhibit 1 are material weaknesses. Summaries of the status of prior year noncompliance and other matters, material weaknesses, and reportable conditions are included as Exhibit 3, 4, and 5, respectively.

We also noted certain additional matters that we reported to the management of CCC in a separate letter dated November 7, 2007.

Internal Controls over Performance Measures

Our tests of internal control over performance measures, as described in the Responsibilities section of this report, disclosed no deficiencies involving the design of the internal control over the existence and completeness assertions related to key performance measures.

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 two instances of noncompliance that are required to be reported herein under *Government Auditing Standards* and OMB Bulletin No. 07-04, and are 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 2007, the Information Technology Services (ITS) and CCC have made much progress with their information security program in order to meet FISMA and OMB Circular No. A-130 guidelines. (ITS 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 ITS.) During fiscal year 2007, ITS/CCC continued implementing corrective actions to address FISMA noncompliance issues, but continue to be in noncompliance with FISMA requirements. ITS/CCC needs further improvement in its entity-wide security and contingency planning programs to fully meet the FISMA requirements. The information security weaknesses we identified during the financial audit were consistent with weaknesses identified by the USDA Office of Inspector General (OIG) during its annual FISMA evaluation. The material weaknesses reported and CCC's noncompliance with FISMA all contribute to CCC's noncompliance with FFMIA. These matters are described in more detail in Exhibit 1.

ADA. The ADA is one of the major laws through which Congress exercises its constitutional control of the public purse. The law prohibits:

- Making or authorizing an expenditure from, or creating or authorizing an obligation under, any appropriation or fund in excess of the amount available in the appropriation or fund unless authorized by law.
- Involving the government in any obligation to pay money before funds have been appropriated for that purpose, unless otherwise allowed by law.
- Accepting voluntary services for the United States, or employing personal services not authorized by law, except in cases of emergency involving the safety of human life or the protection of property.
- Making obligations or expenditures in excess of an apportionment or reapportionment, or in excess of the amount permitted by agency regulations.

In May 2007, USDA's Office of General Counsel made the legal determination that an ADA violation had occurred in fiscal year 2003 concerning the improper donation and transportation of 24.7 million pounds of nonfat dry milk to a feed mill in Mississippi, resulting in a total antideficiency of approximately $8.2 million. This determination followed an audit completed by the USDA OIG in September 2006 at the request of the Farm Service Agency (FSA) Administrator.

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. Further, ITS/CCC's FISMA noncompliance contributes to noncompliance with FFMIA, as one of the FFMIA requirements directly links to security over financial systems. The results of our tests of FFMIA disclosed no instances in which CCC did not substantially comply with the USSGL at the transaction level or applicable federal accounting standards.

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*.

FFMIA also 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.

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), Required Supplementary Information, and Other Accompanying Information
- Establishing and maintaining effective internal control
- 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 2007 and 2006 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. 07-04. Those standards and OMB Bulletin No. 07-04 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
- 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 2007 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 as a basis for designing 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. 07-04. 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 express an opinion on the effectiveness of CCC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of CCC's internal control over financial reporting.

As required by OMB Bulletin No. 07-04, in our fiscal year 2007 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 report deficiencies in the design of internal control over key performance measures in accordance with OMB Bulletin No. 07-04. 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 2007 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. 07-04, 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. 07-04 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.

CCC's response to the findings identified in our audit are presented in Exhibit 6. We did not audit CCC's response and, accordingly, we express no opinion on it.

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 7, 2007

U.S. DEPARTMENT OF AGRICULTURE –
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Material Weaknesses

Introduction

The internal control deficiencies discussed in this report, and the Commodity Credit Corporation's (CCC) progress toward correcting these deficiencies, 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), the USDA Farm Service Agency (FSA), and the USDA Information Technology Services (ITS). As a result, several of the IT control deficiencies identified in this report will require the combined effort of USDA and CCC management.

Exhibit 1 herein describes the material weaknesses and Exhibit 2 describes the significant deficiency noted during our audit as of and for the year ended September 30, 2007, and our recommendations thereon. The status of prior year noncompliance and other matters, material weaknesses, and reportable conditions are reported in Exhibits 3, 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, 2007, 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 ITS/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, ITS/CCC has taken steps to improve its information security program. For example, during fiscal year 2007, ITS/CCC:

- Completed outstanding risk mitigation plan milestones and risk assessments for the Financial Management System (FMS), Automated Cotton Reporting System (ACRS), Data Control System (DCS), and Electronic Funds Control System (eFUNDS), as a part of the certification and accreditation process.
- Streamlined change management and change control procedures to include the requirement of the proper submission of all changes and required approvals.
- Updated overall system development life cycle (SDLC) and change control procedures to include prohibiting emergency changes on production applications.

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Material Weaknesses

- Improved management review of all physical access requests and retention of access control documentation for the Beacon facility server room.

Despite these efforts, additional enhancements are needed to help improve ITS/CCC's level of confidentiality, integrity, and availability of sensitive and critical information systems and resources. Specifically, as in prior years, we noted several areas, detailed below, where improvements are needed in establishing and maintaining information security.

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.

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 individual responsibility.

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

- During our analyses of ITS/CCC's vulnerability scanning activity reports, we observed instances where high-risk vulnerabilities were not timely resolved. In addition, we noted that during fiscal year 2007, approximately 15% of previously identified security vulnerabilities were again identified during three or more subsequent scan cycles. Further, we noted that security improvement plans of actions and milestones were not updated to reflect all system vulnerabilities. These issues are significant for CCC, as the identified system weaknesses could be exploited by unauthorized personnel attempting to penetrate ITS/CCC's IT environment to ultimately gain access to sensitive financial processing devices and applications.

- Monitoring unauthorized installations of virtual private networking (VPN) software should be improved. For example, FSA's VPN application can be installed on an unauthorized, nongovernment computer because the VPN application and related configuration settings are available via FSA's Intranet. Maintaining stringent security over remote access capabilities is a critical component of an organization's security program. FISMA requires that federal agencies follow the security guidance issued by the National Institute of Standards and Technology (NIST). NIST, in its Federal Information Processing Standard (FIPS PUB) 199, guides that organizations should establish strict terms and conditions for the use of personally owned information systems. FIPS PUB 199 further guides that the terms and conditions should address, at a minimum, the use of VPN and firewall technologies.

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Material Weaknesses

- Performance of periodic review of user access authorizations needs improvement. CCC has not implemented corrective actions identified during the fiscal year 2006 A-123 review of key applications, including CORE, PCIMS, and eFunds.

- Monitoring of user account termination/employee separation processes for separated individuals needs improvement. For example, we noted in our review that two users were not removed for at least 30 days after separation.

- Completion percentage of county office annual security compliance reviews needs improvement, as required by the Information Security Program's 6-IRM policy.

Computer Operations

Computer operations should be in place to ensure that all critical data, transactions, and programs are backed up on a defined schedule and that the backups are complete, accurate, and can be recovered if needed. An organization's business continuity and contingency planning efforts are critical in the event a serious disruption or disaster occurs. During the fiscal year 2007 CCC financial audit, we found the following:

- No alternative processing site for Web farm applications has been identified.

- Lack of documented research and resolution activities for data backup log failures.

- Backup media (i.e., tapes and CDs) for county office system resources and other application data reside in an unsecured location, and were stored in open and accessible racks.

FISMA requires that federal agencies follow the security guidance issued by the NIST. NIST Special Publication 800-53, *Recommended Security Controls for Federal Information Systems,* guides that the organizations should identify an alternate processing site and initiate necessary agreements to permit the resumption of information system operations for critical mission/business functions within a reasonable amount of time when the primary processing capabilities are unavailable.

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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 IT 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 fiscal year 2007 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, computing devices, and all mobile devices. Program offices have also 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, as noted earlier, FISMA requires that federal agencies follow NIST security guidance. 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 800-18, *Guide for Developing Security Plans for Information Technology Systems*, states that if new controls are added to the application of the support system, additional acceptance tests of those controls must be performed.

We recognize that CCC has implemented various corrective action plans (CAPS) to address certain prior year findings and recommendations. While we acknowledge that certain CAPS are being implemented, we recommend the remediation efforts continue through completion. In addition, we recognize that CCC immediately resolved one of the technical access security findings (VPN Software). As a result, we have no further recommendation for addressing the issue.

Recommendations

For all findings noted above that are not addressed in existing CAPS, we recommend that FSA/CCC management, in cooperation with the ITS system owners:

1. Revise and enforce agency employee termination procedures to include a timely notification of terminated users from the Human Resources Department to the Information Security Officer (ISO).

2. Enforce the deadline for the completion of county office compliance reviews. In addition, establish a formal procedure outlining the requirements for completing FSA 774 and 774A reviews, including the review and sign-off by the Program Technician preparing the review, as well as the County Executive Director.

3. Create backup job error correction policies and procedures to require the recordation, research, and resolution of identified errors.

4. Schedule backup tapes for pickup on a regular basis to help ensure that backup tapes do not remain on site for a long period of time unattended and unprotected.

(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 support the following management objectives:

- *Accountability*, by providing accurate information needed to inform taxpayers, Congress, and agency personnel in terms they can readily understand, on how the Nation's dollars are spent, and how federal assets are protected.

- *Efficiency, economy, and effectiveness*, by supporting delivery of efficient, economical, and effective delivery of services 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.

- *Decision making*, by providing Congress, agency heads, and program managers with timely reports linking financial results and program data so that policy and program decisions can be accurately identified, tracked, and forecasted. [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.

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, agencies must implement controls to ensure that ADA violations do not occur. The success of properly implementing and executing these

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[1] From *Financial Systems Integration Office, Core Financial System Requirements*, dated January 2006.

(Continued)

controls 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 suballotments made by the agency, and statutory limitations or any other administrative subdivision of funds made by CCC.

During fiscal year 2007, CCC took additional steps to improve its manual processes to work around the system functionality issues noted in the prior years' audits and monitor funds control. These steps included enhancing the documentation of management's analysis of CCC's programs by funding type and obligation category, which allowed management to focus on the funds control process for apportioned programs and nonapportioned programs with spending limits. CCC also further improved its 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 or enhanced the following 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 staff accountants to monitor obligations for specific programs, was enhanced to increase communication, coordination, and collaboration with program managers, resulting in on-going review and validation of data. We also noted increased management involvement with this process, which resulted in fewer adjustments during the year and at year end.
- The Fund Status Report, which lists the general ledger balances for budgetary resources, disbursements, accruals, obligations, and the authority remaining for each program with a spending limit and the funding used for those programs with no spending limit. The program managers compare the undelivered orders balance that is reflected in this report to their documentation and note any differences. Based on this analysis, the program accountants record any noted adjustments and monitor the reasonableness of account balance relationships.

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Material Weaknesses

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 proper funds control. Due to the fact that obligation information for CCC's apportioned programs and nonapportioned 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. Therefore, 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, and in this regard CCC remains noncompliant with FFMIA. In addition, systems deficiencies, under FISMA, are contributing to CCC's noncompliance with FFMIA.

As part of its Financial Management Modernization Initiative, CCC is implementing corrective action through the development and implementation of new systems that are expected to achieve funds control upon their implementation, which is expected to be completed in fiscal year 2009. Until this long-term solution is in place, CCC management represents that it recognizes the need to continue to refine the manual processes in place to mitigate the system functionality issues noted above. As a result, we have no further recommendation for addressing the issue.

(3) Improvement Needed in Management's Review Procedures Over the Cash Flow Models for Direct Credit and Credit Guarantee Programs

As part of our audit procedures over the fiscal year 2007 direct credit and credit guarantee programs and the related re-estimation processes, we noted several matters arising due to a lack of effective management review.

During our review of CCC's methodology for calculating the projected future cash flows to be used for the September 30, 2007 Credit Reform financial statement re-estimates, we continued to note functionality issues as identified in the fiscal year 2006 audit related to the calculation of the Public Law (PL) 480 program prepayments, default amounts, and offsetting entries. As a result, certain prepayment amounts were incorrectly calculated by the model. However, these misstatements were considered to be immaterial to the overall reestimate.

In addition, we noted that the calculation year used in the Credit Reform estimation model that produces the cash flow projections for the PL 480 program, was based on the budget year (i.e., 2009) as opposed to the financial reporting year (i.e., 2007) and this issue was not identified by management in a timely manner. As a result, the cash flow output submitted for audit was incorrect, which required CCC to rerun the Consolidated Subsidy Calculator 2 (CSC2) tool and record a post-closing adjusting entry in the amount of approximately $331 million.

We also noted during our review of CCC's calculation of the PL 480 and General Sales Manager (GSM) liquidating fund reserves (i.e., pre-Credit Reform programs), that a required discounting factor (i.e., the Treasury rate for securities with similar maturities) was not included as an assumption used to project future cash flows. The calculation errors were not identified by management's review of the model outputs or the related journal entries, nor were the errors identified during management's review of the reasonableness of account balance amounts. The loan receivable balances initially recorded for the pre-Credit Reform PL 480 and GSM programs were overstated by $945 million and $40 million, respectively. Further, management used the incorrect OMB default rates, which resulted in an unrecorded audit difference in the amount of $53 million.

The main cause of these issues continues to be that model validation and verification is not sufficiently thorough prior to the models being finalized and submitted for audit. In addition, according to management, in fiscal year 2007 there were some staffing changes between departmental functions, including staffing separations. However a comprehensive transfer of knowledge was not accomplished in time for the implementation of the new CSC 2 tool and the year end re-estimate process. As such, management's oversight of the development, implementation, and maintenance of the cash flow models and the related calculations for both the Credit Reform and pre-Credit Reform programs was not effective.

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."

Office of Management and Budget (OMB) Circular A-123, *Management Accountability and Control*, prescribes the expectation of management and the responsibility of managers for the quality and timeliness of program performance. Management controls are the organization policies and procedures used to reasonably ensure that (i) programs achieve their intended results; (ii) resources are used consistent with agency mission; (iii) programs and resources are protected from waste, fraud, and mismanagement; (iv) laws and regulations are followed; and (v) reliable and timely information is obtained, maintained, reported and used for decision making.

The lack of effective management review and approval procedures for the development, implementation, and maintenance of the cash flow model changes and the related cash flow calculations increases the risk that errors in the models will exist and not be detected by CCC's internal controls, thereby increasing the risk of material misstatement to the financial statements and related disclosures.

Recommendations

In addition to recommendation 23 from our fiscal year 2005 report related to the documentation, review, and approval of the cash flow models, we recommend that:

5. Office of Budget and Finance management create a specific policy for reviewing and implementing changes to ensure that further enhancements to the cash flow models are adequately reviewed and approved. This will help to ensure the accuracy and reliability of the model calculations. Perhaps this can be accomplished by performing an Independent Verification

and Validation (IV&V) of the models once all changes are developed, implemented and, approved by management.

6. Management provide training to personnel working with the direct credit and credit guarantee programs for the purpose of enhancing the collective departmental expertise in performing the calculations and in conducting effective management reviews.

U.S. DEPARTMENT OF AGRICULTURE –
COMMODITY CREDIT CORPORATION

Significant Deficiency

The significant deficiency we identified as of and for the year ended September 30, 2007, is summarized below:

(4) Improvement Needed in Producer Monitoring Procedures

As noted in the previous years' audits, producer monitoring procedures need improvement. Compliance with CCC's producer monitoring requirements is necessary to deter improper payments, program abuse, and possible fraudulent actions committed against federal resources. The matters noted herein are based on the results of our county office site visits performed between April and July 2007.

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 2007 site visits, we noted that for eight of the 97 loans 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 six 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 three 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) four of the 12 county offices reviewed did not perform the production spot checks on a monthly basis; (2) in three 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 one of the 12 county offices reviewed, there was no documentation evidencing that the county office staff or County Executive Director (CED) 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 –
COMMODITY CREDIT CORPORATION**

Significant Deficiency

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.

As part of its own efforts to improve financial management, CCC management represents that it has begun to implement certain corrective actions related to improper payments that it believes will address the issues noted herein. Although we have not reviewed these actions, we encourage management to complete those efforts.

Recommendations

We recommend that:

7. County office personnel review the reasonableness of the producers' collateral in light of the remaining eligible production prior to making loan and LDP disbursements. For this purpose, county office personnel should timely update the producer's profile in the system and should enter the most recent COC yield determinations. The CED should perform documented quality control procedures by periodically reviewing producer files and system information to ensure that compliance with these requirements is achieved.

8. County office management should ensure that all random and mandatory spot checks are performed in a timely manner. Furthermore, county office management should ensure that the loan and LDP spot checks performed are supported by sufficient production evidence maintained in the producer's loan or LDP file. Discrepancies not within tolerance should be reviewed, approved, and resolved by the COC.

9. CCC management should formally emphasize to the state office officials, through a policy memorandum or other means, the importance of performing adequate quality controls to monitor the county offices' completion of spot checks and the performance of annual reviews of county office spot check files for compliance with the applicable program handbook.

10. CCC management should test compliance with these procedures as part of the internal control evaluation process.

Exhibit 3

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

Status of Prior Year Noncompliance and Other Matters

Fiscal Year 2006 Finding	Year First Reported by KPMG	Fiscal Year 2007 Status
Federal Information Security Management Act (FISMA) – The Information Technology Services (ITS)/ Commodity Credit Corporation (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 2007 ITS/CCC took several actions to address prior years' information security and contingency planning weaknesses. For example, ITS/CCC: • Completed outstanding risk mitigation plan milestones and risk assessments for the Financial Management System (FMS), Automated Cotton Reporting System (ACRS), Data Control System (DCS), and Electronic Funds Control System (eFUNDS), as a part of the certification and accreditation process. • Streamlined change management and change control procedures to include the requirement of the proper submission of all changes and required approvals. • Updated overall system development life cycle (SDLC) and change control procedures to include prohibiting emergency changes on production applications. • Improved management review procedures of all physical access requests and retention of access control documentation for the Beacon facility server room. However, weaknesses continue to exist in the areas of technical security access controls, computer operations, and end-user computing, as documented in the *Improvement Needed in Information Security Controls* section of Exhibit 1. Therefore, in fiscal year 2007, the presentation of the issue was modified to reflect current year operations and

(Continued)

Exhibit 3

U.S. DEPARTMENT OF AGRICULTURE –
COMMODITY CREDIT CORPORATION

Status of Prior Year Noncompliance and Other Matters

Fiscal Year 2006 Finding	Year First Reported by KPMG	Fiscal Year 2007 Status
		continues to be reported as noncompliance with FISMA. The reported material weaknesses and noncompliance with FISMA contribute to noncompliance with the Federal Financial Management Improvement Act of 1996 (FFMIA), discussed below.
Federal Financial Management Improvement Act of 1996 (FFMIA) – CCC was not in substantial compliance with the following OMB Bulletin No. 06-03 (currently OMB Bulletin No. 07-04) and FFMIA requirements: *Section 1 – Federal financial management systems requirements with respect to:* ➢ 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.* *Section 2* – Federal accounting standards	2002	During fiscal year 2007, CCC implemented corrective actions to improve controls and processes supporting its financial processing and reporting environment. For example, CCC improved its manual processes to work around its system functionality issues and monitor funds control; refined its manual controls related to recording and maintaining obligation balances; and substantially improved its financial accounting and reporting policies and procedures. As such, nothing come to our attention to lead us to believe that CCC is not in substantial compliance with the following FFMIA requirements: • *Section 2* – Federal accounting standards • *Section 3* – Compliance with 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. Further, ITS/CCC FISMA noncompliance noted above contributes to noncompliance with FFMIA as one of the FFMIA requirements directly links to security over financial systems.

Exhibit 3

U.S. DEPARTMENT OF AGRICULTURE –
COMMODITY CREDIT CORPORATION

Status of Prior Year Noncompliance and Other Matters

Fiscal Year 2006 Finding	Year First Reported by KPMG	Fiscal Year 2007 Status
		Therefore, in fiscal year 2007, 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 2006 Finding	Years Reported by KPMG/Type	Fiscal Year 2007 Status
(1) Improvement needed in information security controls	2002–2007 – Material Weakness	During fiscal year 2007 Information Technology Services (ITS)/ Commodity Credit Corporation (CCC) took several actions to address prior years' information security and contingency planning weaknesses. For example, ITS/ CCC: • Completed outstanding risk mitigation plan milestones and risk assessments for the Financial Management System (FMS), Automated Cotton Reporting System (ACRS), Data Control System (DCS), and Electronic Funds Control System (eFUNDS), as a part of the certification and accreditation process. • Streamlined change management and change control procedures to include the requirement of the proper submission of all changes and required approvals. • Updated overall system development life cycle (SDLC) and change control procedures to include prohibiting emergency changes on production applications. • Improved management review of all physical access requests and retention of access control documentation for the Beacon facility server room. However, weaknesses continue to exist in the areas of technical security access controls, computer operations, and end-user

(Continued)

Exhibit 4

U.S. DEPARTMENT OF AGRICULTURE –
COMMODITY CREDIT CORPORATION

Status of Prior Year Material Weaknesses

Fiscal Year 2006 Finding	Years Reported by KPMG/Type	Fiscal Year 2007 Status
		computing. Therefore, in fiscal year 2007, 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).
2) **Improvement needed in financial system functionality and funds control**	2002–2007 – Material Weakness	CCC implemented corrective actions to improve controls and processes supporting its financial processing and reporting environment. For example, CCC improved its manual processes to work around its system functionality issues and monitor funds control by refining its manual controls related to the recording and maintenance of obligation balances. However, as in prior years' audits, we noted that additional improvements are still needed with regard to financial system functionality and funds control. 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.

(Continued)

U.S. DEPARTMENT OF AGRICULTURE –
COMMODITY CREDIT CORPORATION

Status of Prior Year Material Weaknesses

Fiscal Year 2006 Finding	Years Reported by KPMG/Type	Fiscal Year 2007 Status
		Therefore, in fiscal year, 2007 the presentation of the issue was modified to reflect current year operations and continues to be reported as a material weakness. This issue also contributes to CCC noncompliance with the Federal Financial Management Improvement Act of 1996 (FFMIA) related to Category 1: financial management systems requirements.
(3) Improvement needed in financial accounting and reporting policies and procedures	2002–2006 – Material Weakness 2007 – Closed	In fiscal year 2007, CCC took significant steps to improve financial accounting and reporting policies and procedures related to all areas, including the overall financial statement preparation process. Therefore, in fiscal year 2007, this issue was closed.

Exhibit 5

U.S. DEPARTMENT OF AGRICULTURE –
COMMODITY CREDIT CORPORATION

Status of Prior Year Reportable Conditions

Fiscal Year 2006 Finding	Years Reported by KPMG/Type	Fiscal Year 2007 Status
(4) Improvement needed in producer monitoring procedures	2004–2006 – Reportable Condition 2007 – Significant Deficiency[1]	The finding noted in fiscal year 2006 continues unmitigated in fiscal year 2007. See Exhibit 2 for additional information. Therefore, in fiscal year 2007, this issue is reported as a significant deficiency.
(5) Improvement needed in management's review procedures related to the development, implementation, and maintenance of Credit Reform cash flow models	2005 and 2006 – Reportable Condition 2007 – Material Weakness	CCC management decided to not make any changes to the Public Law (PL) 480 Credit Reform cash flow models in fiscal year 2007, since management believes that the prepayment issue identified during the fiscal year 2006 audit was not material. As such, the issue identified in the prior year audit continues to exist in fiscal year 2007. In fiscal year 2007, the Office of Management and Budget (OMB) released the Credit Subsidy Calculator (CSC) 2 tool for use in calculating subsidy estimates, re-estimates, and financing account interest for Credit Reform programs. The implementation of the new tool required significant agency resources. Further, there were some staffing changes between departmental functions, including staffing separations, and a comprehensive transfer of knowledge was not accomplished in time for the implementation of the new CSC 2 tool and the year-end re-estimate process. As such, new issues arose in fiscal year 2007 that resulted in a lack of effective management review. Therefore, in fiscal year 2007, this issue is reported as a material weakness.

[1] Effective for periods ending on or after December 15, 2006, Statement of Auditing Standards (SAS) No. 112 replaces SAS No. 60 and establishes new criteria for evaluating internal control deficiencies. Under SAS No. 112, the auditor must evaluate identified control deficiencies and determine whether those deficiencies, individually or in combination, are significant deficiencies or material weaknesses. Further, the auditor must communicate, in writing, significant deficiencies and material weaknesses (including those identified in prior audits but not yet remediated) to management and those charged with governance.

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ashington, DC
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Exhibit 6

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

NOV 07 2007

Mike Lippert
Senior Partner
Kylnveld Peat Marwick Goerdeler

FROM: Dennis J. Taitano Dennis J. Taitano
Controller
Commodity Credit Corporation

SUBJECT: Response to the Draft Combined Independent Auditor's Report on the Commodity Credit Corporation's (CCC) Fiscal Years 2007 and 2006 Comparative Financial Statements

We have reviewed Kylnveld Peat Marwick Goerdeler's (KPMG) Draft Combined Independent Auditor's Report dated November 7, 2007, and provide the following comments:

1. On page 1-8 the report states, "Monitoring unauthorized installations of Virtual Private Networking (VPN) software should be improved. For example, the Farm Service Agency's (FSA) VPN application can be installed on an unauthorized, non-government computer because VPN application and related configuration settings are available via FSA's Intranet."

   <u>CCC Response</u>: The capability of downloading the VPN software from FSA's Intranet was immediately taken down. The software can only be downloaded from within the FSA Intranet, and if downloaded, can only be utilized by approved FSA employees with a valid VPN remote access identification (ID). Also, the Information Technology Services (ITS) network utilizes and follows the Department's guidelines with respect to VPN and firewall technologies. As a result, the likelihood and magnitude affecting the financial data and its reporting is remote.

2. On Page 1-9 the report states, "Completion percentage of county office annual security compliance reviews need improvement, as required by the Information Security Program's 6-IRM policy."

   CCC Response: The timely completion of these compliance reviews (774s) would not affect CCC's ability to recover the site, consequently having no impact on financial data. As a result, the likelihood and magnitude affecting the financial data and its reporting is remote.

3. On Page 1-9 the report states, "Lack of documented research and resolution activities for data backup log failures."

   CCC Response: This incident was an isolated case that was proven to be effectively researched and resolved. This isolated incident was an inconsequential design flaw with no risk attributable to the integrity of financial data.

4. On Page 1-9 the report states, "Backup media (i.e., tapes and compact discs) for county office system resources and other application data reside in an unsecured location and were stored in open and accessible racks."

   CCC Response: The entire location (i.e., building) is secure in addition to the fact that the outer perimeter security and server room security is only accessible with a key card; therefore, the tapes are only available to individuals that have authorized key card access. Also, the data on these tapes can be recovered from the field offices. As a result, the likelihood and magnitude affecting financial data and its reporting is remote.

5. **Recommendation #1:** Revise and enforce Agency employee termination procedures to include a timely notification of terminated users from the Human Resources Division to the Information Security Officer (ISO).

   CCC Response to Recommendation #1: Non-concur. CCC has implemented corrective action plan (CAP) to mitigate this finding as part of the internal control review process required by the Office of Management and Budget's (OMB) Circular A-123, Appendix A. CCC looks forward to the auditors' review, testing, and validation of these CAP as part of the FY 2008 financial statement audit.

6. **Recommendation #2:** Enforce the deadline for the completion of county office

compliance review. In addition, establish a formal procedure outlining the requirements for completing FSA 774 and 774A reviews, including the review and sign-off by the Program Technician preparing the review, as well as the County Executive Director (CED).

CCC Response to Recommendation #2: Non-concur. CCC has implemented a CAP to mitigate this deficiency through the internal control review process required by OMB Circular A-123, Appendix A. CCC looks forward to the auditors' review, testing, and validation of these CAP as part of the FY 2008 financial statement audit.

7. **Recommendation #3:** Create backup job error correction policies and procedures to require the recordation, research, and resolution of identified errors.

   CCC Response to Recommendation #3: Concur. CCC will develop a CAP to address the deficiency identified during the audit.

8. **Recommendation #4:** Schedule backup tapes for pickup on a regular basis to help ensure that backup tapes do not remain on site for a long period of time unattended and unprotected.

   CCC Response to Recommendation #4: Non-concur to the recommendation and concur to the deficiency reported. These are daily tapes that get reused on a rotational basis, and therefore, CCC does not agree with the recommendation for off-site storage. CCC offers to purchase a fireproof locked safe tape storage device to mitigate this finding. The Office of the Chief Information Officer/ITS organization has adopted this solution to mitigate a similar finding.

9. **Recommendation #5:** Budget Division management create a specific policy for reviewing and implementing changes to ensure that further enhancements to the cash flow models are adequately reviewed and approved. This will help to ensure the accuracy and reliability of the model calculations. Perhaps this can be accomplished by performing an Independent Verification and Validation of the models once all changes are developed, implemented and approved by management.

   CCC Response to Recommendation #5: Concur. Management concurs with the accuracy of the finding and recommendation. To clarify, there were no changes made to the Public Law 480 cash flow model since the last audit. Due to resource constraints, both in terms of staffing and time, management made the decision not to pursue additional model changes during the last year, since the prepayment issue had been demonstrated to be immaterial. Available resources instead had to be applied to OMB required reconciliation of cash and debt balances for Credit Subsidy Calculator (CSC) 2 tool implementation.

A contractor has been engaged to make needed model changes and enhancements. For all future model changes, the Office of Budget and Finance (OBF) will follow the Cash Flow Modeling Guidance as updated by the Office of the Chief Financial Officer in fiscal year (FY) 2007, particularly regarding the sections addressing testing and model approval procedures and the involvement of the Configuration Control Board (CCB). The development team and end user analysts in OBF will jointly develop a test plan. The test plan will be submitted to the CCB for approval. End user analysts who perform the testing will be independent of the development team who made the model change and will document the results of their testing

10. **Recommendation #6:** Management provide training to personnel working with the direct credit and credit guarantee programs for the purpose of enhancing the collective departmental expertise in performing the calculations and in conducting effective management reviews.

    <u>CCC Response to Recommendation #6</u>: Concur. Management concurs that training is a key component in the successful operation of the credit programs. While all personnel working with the direct credit and credit guarantee program have had credit reform training, additional training is always endorsed.

11. **Recommendation #7:** County office personnel review the reasonableness of the producers' collateral in light of the remaining eligible production prior to making loan and Loan Deficiency Payment (LDP) disbursements. For this purpose, county office personnel should timely update the producer's profile in the system and should enter the most recent County Office Committee (COC) yield determinations. The CED should perform quality control procedures by periodically reviewing producer files and system information to ensure that compliance with these requirements is achieved.

Recommendation #8: County office management should ensure that all random and mandatory spot checks are performed in a timely manner. Furthermore, county office management should ensure that the loan and LDP spot checks performed are supported by sufficient production evidence maintained in the producer's loan or LDP file. Discrepancies not within tolerance should be reviewed, approved, and resolved by the COC.

Recommendation #9: CCC management should formally emphasize to the State office officials through a policy memorandum or other means the importance of performing adequate quality controls to monitor the county offices' completion of spot checks and the performance of annual reviews of county office spot check files for compliance with the applicable program handbook.

Recommendation #10: CCC management should test compliance with these procedures as part of the A-123 process.

<u>CCC Response to Recommendations #8, #9, and #10</u>: Non-concur to the recommendations and concur to the deficiencies noted. CCC recognizes issues exist with internal controls at the county office level and the potential for improper payments. To this end, CCC agrees that a significant deficiency exists in county office operations. For the past several years, OMB has enforced legislation specifically to address and mitigate the potential risk for improper payments through two initiatives: (1) Improper Payment Information Act of 2002 (IPIA), and (2) OMB Circular A-123 (A-123), Appendix A, Internal Control Initiative. A-123 incorporates the intent of the Chief Financial Officers Act (CFO Act), Federal Managers Financial Integrity Act of 1982 (FMFIA), Government Performance and Results Act (GPRA), and the Federal Financial Management Improvement Act (FFMIA) into a single source. Through these two initiatives, many internal controls at the county office level have been tested and reported annually to identify, quantify, and mitigate known deficiencies whether found through audit test work or Agency test work. CAPs for these county office deficiencies have been developed with status monitored by the Department, OMB, and external contracting auditors based on either the IPIA or A-123 initiatives. CCC looks forward to the auditors' review, testing, and validation of these CAPs as part of the FY 2008 financial statement audit.

USDA

U.S. DEPARTMENT OF AGRICULTURE

COMMODITY CREDIT CORPORATION

ANNUAL REPORT

FISCAL YEAR 2007

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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

MISSION STATEMENT

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

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

HISTORY OF THE COMMODITY CREDIT CORPORATION

Established in 1933, the Commodity Credit Corporation (hereinafter CCC, Agency, or Corporation) is a government-owned corporation within the 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 credit and guarantees commodity sales to foreign countries throughout the world.

CCC has its own disbursing authority and utilizes the Federal Reserve Bank system and United States Treasury to make payments. This disbursing authority allows CCC to make payments quickly and 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.

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[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. Conner, *Deputy Secretary of Agriculture*
Member, Mark E. Keenum, *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)*
Member, Mark E. Rey, *Under Secretary, Natural Resources and Environment (NRE)*

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Deputy Vice President, Dana D. York, *Associate Chief, NRCS*
Deputy Vice President, Thomas Christensen, *Deputy Chief, Programs, NRCS*
Deputy Vice President, Kathy C. Gugulis, *Deputy Chief, Management, NRCS*
Secretary, Steven N. Mikkelsen, Acting *Executive Assistant to the Administrator, FSA*
Deputy Secretary, Vacant, *FSA*
Assistant Secretary, Monique B. Randolph, *Staff Assistant, FSA*
Controller, Dennis Taitano, *Director, Financial Management Division (FMD), FSA*
Treasurer, David Nichols, *Deputy Director, FMD, FSA*
Chief Accountant, Rebecca Hedrick, *Acting Center Director, Policy, Accounting, Reporting, and Loan Center, 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 United 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 U.S. Department of Agriculture recommended more than 65 proposals for the 2007 Farm Bill corresponding to the 2002 Farm Bill titles with additional special focus areas, including specialty crops, beginning farmers and ranchers, and socially disadvantaged producers. USDA began preparations for the 2007 Farm Bill in 2005 by conducting 52 Farm Bill forums across the country. More than 4,000 comments were recorded or collected during forums and via electronic and standard mail. The Administration's 2007 Farm Bill proposals would spend approximately $10 billion less than the 2002 Farm Bill spent over the past five years (excluding ad-hoc disaster assistance), upholding the President's plan to eliminate the deficit in five years. 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.

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 agencies 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. Increased production by foreign producers can lower commodity prices and affect the ability of farmers and ranchers to compete in the global marketplace. Policy changes in foreign countries may create trade barriers that will affect the ability of American producers to market and sell their products in overseas markets. The strength of the U.S. dollar relative to other currencies can also affect the competitiveness of American products in foreign countries. Recent high fuel prices affect farmers and ranchers by increasing the prices of inputs required to produce commodities. Increasing energy concerns are projected to have a significant effect on farm economics. These concerns may stall conservation decision making. As commodity prices increase, landowners are less willing to retire cropland for conservation practices.

Natural Disasters and Weather Conditions – Extreme climate and weather events often cause extensive flooding and sustained droughts that profoundly impact our society in general and agriculture in particular. Agriculture is vulnerable to variations and fluctuations in weather and climate because existing agricultural practices were developed for average weather and climate conditions. Emergency payments are the most variable among the farm programs. For example, the 2006 supplemental appropriation for hurricane assistance provided $199.8 million in hurricane disaster assistance. In some years, emergency payments can significantly increase the number of farms receiving payments, especially if the distressed farms produce commodities such as cattle or specialty crops not otherwise covered by a program.

PERFORMANCE HIGHLIGHTS SUMMARY

The Commodity Credit Corporation (CCC) met most of its performance targets for Fiscal Year (FY) 2007. CCC met the performance target to maintain or increase the percentage of program benefits delivered through a web environment. Of the nine farm programs designated to be web-enabled, benefits for three programs are currently available to producers through a web environment. CCC met the performance target by maintaining the percentage at 33 percent for web-enabled programs available to producers.

The Noninsured Crop Disaster Assistance Program (NAP) provides financial assistance to producers of crops for which there is no available crop insurance when low yields, loss of inventory, or prevented planting occur because of a natural disaster. The Farm Service Agency (FSA)/CCC has met its FY 2007 target for increasing the percentage of eligible crops with NAP coverage to 11.76 percent. The NAP program set a performance threshold to meet its annual goal of a coverage range between 11.5 percent and 14.5 percent. The target and threshold represent the value of crops participating in the program compared to the universe of the value of crops eligible to participate in the NAP program. While the participation rate may fluctuate from year to year, the program remains on track towards meeting its long term target of 13.9 percent in FY 2010.

The FSA measure, "Reduce the average number of days between warehouse examinations," enhances farmers' assets and protects the food supply from pests and disease. FSA/CCC has exceeded its target to reduce the average time between warehouse examinations by 11 days. Warehouse examinations for FY 2007 were reported as 381 days between warehouse examinations. The more frequently warehouses are examined for compliance with CCC storage agreements and U.S. Warehouse Act licensing authorities by FSA warehouse examiners, the sooner any potential pest infestation or deterioration of quality for commodities in store will be discovered. The warehouse examination program performs examinations of licensed and contracted warehouse facilities that store or handle commodities for CCC. Factors affecting the time between examinations of these warehouses include the number of warehouses participating in storage programs for the account of CCC, the amount or value of commodity in store with CCC interest, the length of time the commodities have been in store, whether the commodities have been forfeited or are simply under loan, and the availability of examiners and funding for the examination program.

The Conservation Reserve Program (CRP) is the nation's largest private-lands conservation financial assistance program, with over 36.8 million acres enrolled. Producers enrolled in the program plant long-term, resource-conserving covers such as grasses and trees. In return, FSA provides participants with rental payments and cost-share assistance. The long-term goal for USDA conservation programs is to protect and enhance the Nation's natural resources and environment to meet the needs of current and future generations. The USDA *Strategic Plan for FY 2005-2010* set a strategy of helping producers increase the number of riparian and grass buffers on agricultural lands. These buffers intercept sediment and nutrients before they reach surface waters. As one indicator of its performance in achieving this strategy, FSA monitors acreage of agricultural lands to be enrolled as buffer zones in CRP. During the past five years, the number of acres set aside as buffer areas under the CRP program has increased steadily. However, the performance target of two million acres was missed by .08 million (80,000) acres this fiscal year. One reason for the missed target was the dramatic increase in commodity prices in FY 2007. Additionally, expected land rental rate adjustments are creating some market uncertainty, leading eligible producers to delay enrollment in the program. To date, producers have set aside approximately 1.92 million acres as CRP buffer areas. Total CRP enrollment is now over 36.8 million acres.

During the past five years, the number of restored wetlands under CRP has increased steadily. However, the performance target of 2.2 million acres was missed by approximately .12 million (120,000) acres this fiscal year. These restored wetlands are the result of several initiatives, including the 500,000 acre Bottomland Hardwood Timber Initiative and the 250,000 acre non-floodplain Wetland Restoration Initiative. These wetlands and buffers have increased prime wildlife habitat and water storage capacity, and have led to a net increase in wetland acres on agriculture land. CRP continues to be acknowledged for its environmental benefits generated by long-term conservation contracts protecting air, soil, water, and wildlife resources.

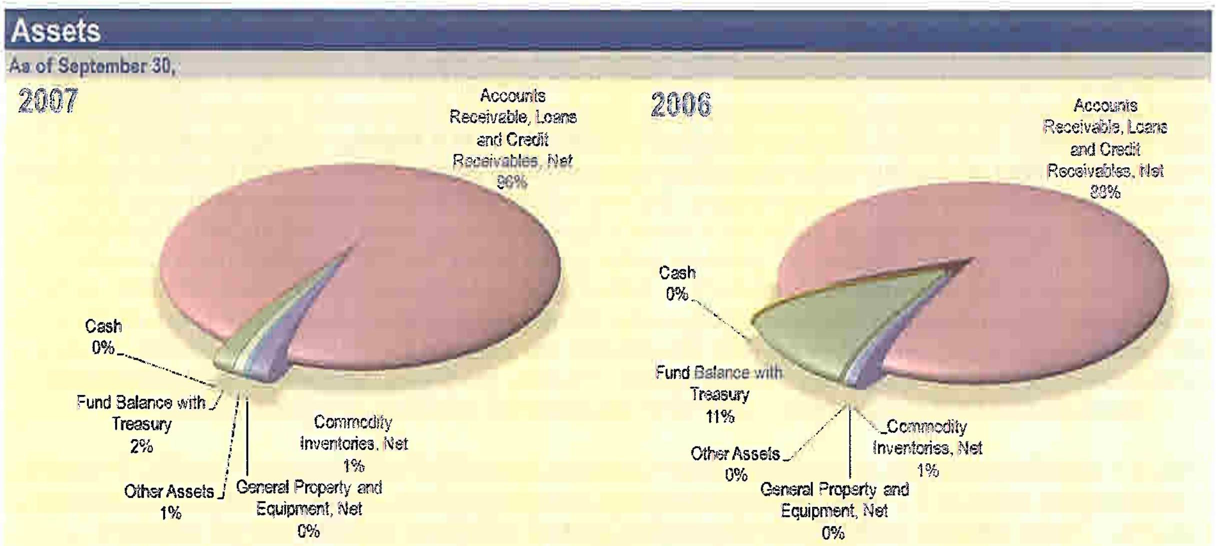
FINANCIAL HIGHLIGHTS

As part of its mission to stabilize, support, and protect farm income and prices, CCC is also responsible for providing accurate, timely, and useful financial management information to all Agency stakeholders. These statements have been prepared from the accounting records of the Agency as of September 30, 2007 and September 30, 2006 in accordance with generally accepted accounting principles for Federal entities and policies prescribed in the Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*.

Assets: The Balance Sheet shows the Agency had total assets of $12.6 billion as of September 30, 2007. This represents a decrease of $3 billion (19 percent) over the previous year's total assets of $15.7 billion. The $1.5 billion variance in Fund Balance with Treasury is primarily due to the increased repayments of principal and interest to the Treasury. Receivables decreased compared to FY 2006 primarily due to lower volumes for programs and two large prepayments received from Peru and Algeria of $700 million collectively. The Agency's Commodity Inventories, Net increased because an allowance was not established in FY 2007 due to higher commodity market prices and a revision in the methodology used for estimating allowances. Other assets increased due to a change in financial statement reporting requirements relating to parent/child relationships, leading CCC to report advances made by USAID to grantees of $64 million.

Assets

(Dollars in Millions)	2007	2006	Variance	Variance %
Fund Balance with Treasury	$ 216	$ 1,740	$ (1,524)	-88%
Cash	-	36	(36)	-100%
Accounts Receivable, Loans and Credit Receivables, Net	12,096	13,774	(1,678)	-12%
Commodity Inventories, Net	185	55	130	236%
General Property and Equipment, Net	55	52	3	6%
Other Assets	95	32	63	197%
Total Assets	$ 12,647	$ 15,689	$ (3,042)	-19%



Liabilities: The Balance Sheet shows the Agency had total liabilities of $23.2 billion as of September 30, 2007. This represents a decrease of $15.6 billion (40 percent) over the previous year's total liabilities of $38.8 billion. Accounts Payable increased by $241 million due to increasing amounts owed by USAID ($204 million).

Debt to the Treasury decreased due to interest and principal payments of $13 billion made to the Treasury for debt related to credit reform programs.

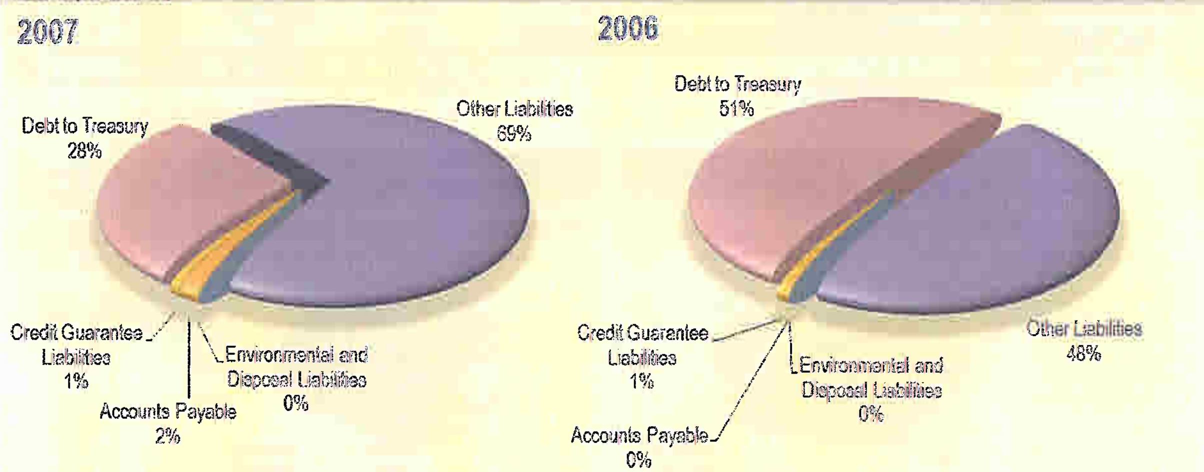
Other liabilities decreased by $2.6 billion from the prior year. As a result of substantially higher commodity market prices, Direct and Counter-Cyclical Payment Program payables decreased by $1.1 billion. The Tobacco Transition Payments Program liability decreased by $757 million due to payments made in FY 2007.

Liabilities

(Dollars in Millions)		2007		2006		Variance	Variance %
Accounts Payable	$	395	$	154	$	241	156%
Debt to the Treasury		6,516		19,768		(13,252)	-67%
Credit Guarantee Liabilities		184		220		(36)	-16%
Environmental and Disposal Liabilities		8		11		(3)	-27%
Other		16,107		18,668		(2,561)	-14%
Total Liabilities	$	23,210	$	38,821	$	(15,611)	-40%

Liabilities

As of September 30,



Ending Net Position: As of September 30, 2007 and September 30, 2006, the Agency's net position was $10.6 billion and $23.1 billion, respectively. Net Position is the sum of the Unexpended Appropriations, Cumulative Results of Operations, and Capital Stock.

Results of Operations: CCC categorizes the net cost of operations based on the Agency's strategic goals. Net cost of operations is $11.7 billion and $21.0 billion for the years ended September 30, 2007 and September 30, 2006, respectively. Overall expenses decreased by 36 percent and revenue decreased by one percent from the prior year. As shown in the table below, Supporting Productive Farms and Ranches expenses underlie a majority of the costs for the years ended September 30, 2007 and September 30, 2006. The activity that caused the fluctuation in the Statement of Net Cost for the year ended September 30, 2007 is from the following strategic goals:

- ***Supporting Productive Farms and Ranches*** – For the year ended September 30, 2007 there was a decrease in Loan Deficiency payments for corn, sorghum, upland cotton, and rice. Due to higher market prices for these commodities, primarily for corn, there were also fewer Direct and Counter-Cyclical Payments.

- ***Supporting Secure and Affordable Food and Fiber*** – The decrease in Net Cost for the year ended September 30, 2007 is due to large downward adjustments made in the allowance for inventory losses relating to wheat and nonfat dry milk, caused by higher market rates for these commodities.

- ***Conserving Natural Resources and Enhancing the Environment*** – The decrease in Net Cost is due to a reduction in permanent easement and cost share restoration payments.

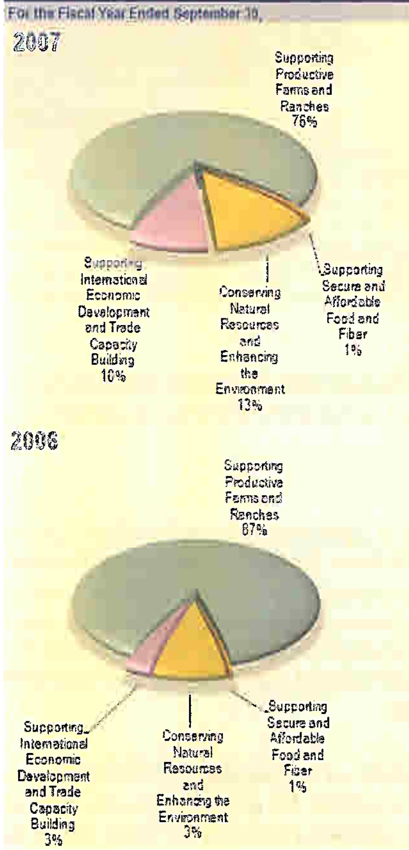
- ***Supporting International Economic Development and Trade Capacity Building*** – The majority of the Net Cost increase is due to the new Parent/Child reporting requirement in FY 2007. OMB guidance requires that the parent report all budgetary and proprietary activity in its financial statements. In accordance with this guidance, CCC as the parent is reporting USAID's proprietary balances in FY 2007.

Summary of Net Cost of Operations by Strategic Goals

(Dollars in Millions)	2007	2006	Variance	Variance %
Supporting Productive Farms and Ranches	$ 8,512	$ 18,425	$ (9,913)	-54%
Supporting Secure and Affordable Food and Fiber	(132)	75	(207)	-276%
Conserving Natural Resources and Enhancing the Environment	2,157	2,331	(174)	-7%
Supporting International Economic Development and Trade Capacity Building	1,160	182	978	537%
Total Net Cost of Operations	$ 11,697	$ 21,013	$ (9,316)	-44%

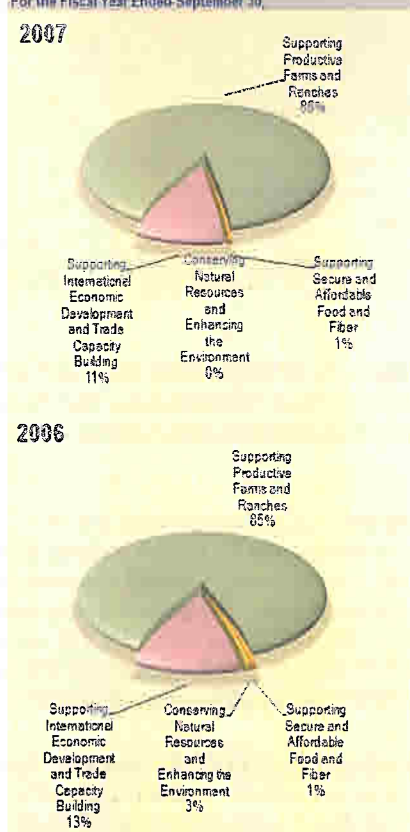
Gross Costs

For the Fiscal Year Ended September 30,



Earned Revenue

For the Fiscal Year Ended September 30,



Obligations and Outlays: Between FY 2007 and FY 2006, Obligations Incurred decreased by $12.1 billion. For Direct Obligations, the difference was due to a decrease in financing requests for the General Sales Manager program and a reduction in Direct Loan activity. For Reimbursable Obligations, the higher price of commodities led to decreased activity in Loan Deficiency Payments.

Summary of Obligations

(Dollars in Millions)		2007		2006		Variance	Variance %
Obligations incurred:							
Direct	$	3,801	$	4,325	$	(524)	-12%
Reimbursable		27,352		38,932		(11,580)	-30%
Subtotal	$	31,153	$	43,257	$	(12,104)	-28%

Between FY 2007 and FY 2006, Net Outlays decreased by $8 billion. Because the market price of commodities is above the price support level, Loan Deficiency Payments and Direct and Counter-Cyclical Payments decreased.

Summary of Net Outlays

(Dollars in Millions)		2007		2006		Variance	Variance %
Net Outlays:							
Gross outlays	$	31,606	$	38,650	$	(7,044)	-18%
Offsetting collections		(18,827)		(17,392)		(1,435)	-8%
Less: Distributed Offsetting receipts		(464)		(987)		523	53%
Net Outlays	$	12,315	$	20,271	$	(7,956)	-39%

Stewardship Land: The Natural Resources Conservation Service (NRCS) administers the Wetland Reserve Program (WRP) using CCC funding for program years prior to FY 2002. In FY 2002, funding responsibility for the Wetland Reserve Program returned to NRCS; however, CCC remains responsible for easements using funding prior to the signing of the 2002 Farm Bill. 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. For more information on WRP, refer to Note 8 – Disclosures Related to Stewardship Land.

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" as of September 30, 2007.

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

Scorecard

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

* Status reviewed by Office of Budget and Program Analysis.

The President's Management Agenda also includes a measure for Health Information Quality and Transparency; however, the Department of Agriculture is not required to provide a scorecard on this initiative.

MANAGEMENT CONTROLS, SYSTEMS, AND COMPLIANCE WITH LAWS AND REGULATIONS

FMFIA and FFMIA Assurance Statement

TO: Charles R. Christopherson, Jr.
Chief Financial and Information Officer

THROUGH: Mark Keenum Floyd D. Gaibler AUG 3 0 2007
for Under Secretary
Farm and Foreign Agricultural Services

for Teresa C. Lasseter Thomas B. Hofeller 8/30/07
Administrator

Thomas B. Hofeller Thomas B. Hofeller 8/30/07
Associate Administrator for
Operations and Management

FROM: Dennis J. Taitano Dennis J. Taitano **8/30/2007**
Chief Financial Officer

SUBJECT: Fiscal Year (FY) 2007 Federal Managers' Financial Integrity Act (FMFIA); Federal Financial Management Improvement Act (FFMIA), the Office of Management and Budget (OMB) Circular A-123, Appendix A Certification Statement

This memorandum provides the Farm and Foreign Agricultural Services (FFAS)/Farm Service Agency (FSA)/Commodity Credit Corporation (CCC) assertions to support the Secretary's annual assurances for the FMFIA, including the assurance statement for Internal Control over Financial Reporting, and the Department of Agriculture (the Department) certification for the FFMIA. These reports and corresponding certification will be updated as necessary upon completion of the KPMG Audit of the CCC information in November 2007.

Federal Managers' Financial Integrity Act Assertions

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

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

3. Management has conducted its annual evaluations of internal control and financial systems pursuant to Section 2 and Section 4 of FMFIA, respectively, for the period ended September 30, 2007.

4. With the exceptions noted within the attached documents and based on the results of the annual evaluations, the FFAS/FSA/CCC can provide reasonable assurance that internal controls are operating effectively.

5. No new material weaknesses were identified. Three existing material weaknesses and two significant deficiencies (related to Audit Report Number 06401-21-FM "CCC Financial Statements for Fiscal Years 2006 and 2005") remain. One material weakness (County Office Operations) was downgraded to a significant deficiency.

6. Corrective action plans are attached for all existing material weaknesses and/or significant deficiencies, and documentation is provided to support actions that were taken on material weaknesses and/or significant deficiencies corrected or re-determined during the fiscal year.

Internal Control over Financial Reporting Assertions

7. The FFAS/FSA/CCC conducted its assessment of the effectiveness of internal control over financial reporting as of June 30, 2007, in accordance with USDA's Implementation Guide and as required by the OMB Circular A-123, Appendix A. The assessment included an evaluation of entity level control, risk assessments, process descriptions and flowcharts, documentation of key controls, an assessment of the design of key controls, tests of effectiveness of properly designed controls, summary of deficiencies, and the development of corrective action plans for control deficiencies.

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

9. With the exceptions noted within the attached documents and based on the results of the annual evaluations, the FFAS/FSA/CCC can provide reasonable assurance that internal controls are operating effectively.

10. No new material weaknesses were identified. Seven new significant deficiencies were identified. Two existing material weakness (County Office Operations and Obligations & Accruals) were downgraded to significant deficiencies and one significant deficiency (Tobacco Transition Payment Program) was corrected. A total of nine significant deficiencies are addressed.

11. Corrective action plans are attached for all new significant deficiencies, and documentation was provided to support actions taken on material weaknesses and/or significant deficiencies corrected or re-determined during the fiscal year.

Federal Financial Management Improvement Act Assertions

12. The FFAS/FSA/CCC management evaluated its financial management systems under FFMIA for the period ended September 30, 2007.

13. Based on the results of our evaluation, we are in substantial compliance with Section 2 Applicable Federal Accounting Standards.

14. Corrective action plans are attached for areas of substantial non-compliance. Documentation is attached for all non-compliances corrected during fiscal year 2007.

Attached is a summary of the identified material weaknesses, significant deficiencies, system nonconformances and FFMIA non-compliances. In addition, the FSA will work with the Department to address the FY 2007 USDA Major Management Challenges identified by the Office of Inspector General, working to the best of our abilities to reengineer our business processes and systems with the budget and resources allocated.

Please contact me at (202) 720-3674 should you have any questions or require additional information.

* Note that this assurance statement was signed on August 30, 2007, prior to the end of the 2007 fiscal year. For the Federal Managers' Financial Integrity Act Assertions item 5, above, the Financial Reporting material weakness was downgraded to a significant deficiency by the end of the fiscal year. Thus, only two existing material weaknesses are carried forward from FY 2006. At the end of FY 2007, a new material weakness was identified in the auditor's review of the quality control procedures surrounding credit reform cash flow models. A total of three material weaknesses exist at the end of FY 2007. For the Federal Financial Management Improvement Act Assertions item 13, above, CCC was also in compliance with Section 3 U.S. Standard General Ledger by the end of the fiscal year. Furthermore, note that this assurance statement also covers FFAS and FSA in addition to CCC.

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT (FMFIA)

Overview

The Federal Managers' Financial Integrity Act of 1982 (FMFIA) requires Federal agencies to submit an annual report to the President and Congress reflecting the status of management controls for program, financial, and administrative operations. The Commodity Credit Corporation's (CCC) FMFIA Annual Report contains CCC's material weaknesses, significant deficiencies, and related corrective action plans including material deficiencies identified through the Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Internal Control*, Appendix A, implementation and assessment process conducted during Fiscal Year (FY) 2007. The CCC Controller provides an annual statement of assurance to the Department of Agriculture's (USDA) Office of the Chief Financial Officer certifying that CCC is compliant with FMFIA and is fulfilling requirements to perform ongoing evaluations of internal control. The assurance statement also includes a certification from the Controller that:

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

In addition to FMFIA, the Federal Information Security Management Act (FISMA) requires agencies to report in the assurance statement any significant deficiency in information security policy, procedure, or practice identified (in agency reporting):

- As a material weakness in reporting under FMFIA; and
- If relating to financial management systems, as an instance of a lack of substantial compliance under the Federal Financial Management Improvement Act (FFMIA).

Fiscal Year 2007 Results

In accordance with the requirements of the FMFIA and OMB Circular A-123, CCC evaluated, assessed, and tested its management controls for program, financial, and administrative operations and completed a single-year implementation of the OMB Circular A-123 assessment during FY 2006. Management's assessment of internal controls over financial reporting as of September 30, 2006 identified four material weaknesses: Information Technology General Computer Controls, Funds Control Management, Financial Reporting, and County Office (CO) Operations.

During FY 2007, CCC took corrective actions to address prior years' information security and contingency planning and county office operations weaknesses, and to improve controls and processes supporting its financial systems reported under FMFIA Section 2, Material Weaknesses in Internal Controls, and Section 4, Material Non-conformances in Financial Systems, respectively. Based on the completion of the A-123 assessment for FY 2007 and the implementation of internal controls through corrective action plans as of September 30, 2007, two of those weaknesses were downgraded to a significant deficiency: Financial Reporting and CO Operations. Additional corrective actions are proceeding on course for the remaining two material weaknesses with progress toward correcting these deficiencies monitored weekly in remediation meetings led by CCC's Controller.

At the end of FY 2007, a new material weakness was identified in the auditor's review of the quality control procedures surrounding credit reform cash flow models.

Summary of FMFIA Material Weaknesses

Material Weaknesses Resolved in FY 2007

County Office Operations

This weakness was reassessed and downgraded to a significant deficiency. During FY 2007, FSA underwent a rigorous effort to identify and document the processes and controls existing at USDA county offices related to program enrollment, payment calculations, disbursements, receipts, reporting and monitoring. The results of this comprehensive assessment confirmed that mitigating factors are in place to reduce the risk of a material misstatement occurring in the financial statements. Controls were strengthened by no longer accepting cash receipts in one-person offices and centralizing password maintenance/access to county office systems.

Financial Accounting and Reporting

This material weakness has been resolved. In FY 2006, CCC reported a lack of effective preventive controls around the completeness, accuracy and validity of accrual estimate calculations. CCC has taken action to remediate this weakness as follows:

- Strengthened the program account analysis process for monitoring and accounting for events for each program;
- Enhanced the analytical reviews of program operations prior to posting accruals;
- Developed the Obligation and Accruals Guidance Report to document trigger points for recording accounting activity; and
- Improved the processes for reviewing accrual entries recorded at year-end.

Additionally, this weakness included the process for preparing the Statement of Financing. CCC resolved this finding as follows:

- Enhanced the methodology used for preparing the Statement of Financing, the mapping logic, and the treatment of transactions for specific lines items;
- Documented deviations from Treasury's crosswalk and Implementation Guide; and
- Implemented an "audit taskforce" approach to perform effective technical reviews of the financial statement compilation process.

Material Weaknesses Remaining in FY 2007

Material Weakness 1: Improvement Needed in Information Security Controls

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

Critical Corrective Action Milestones include the following:

Information security program management

- Identify and implement controls to better track security training efforts and outstanding risk mitigation plan milestones.
- 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.
- Verify that risk mitigation plans incorporate all the risks identified in the risk assessments.

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).
- Develop a process to verify that systems identified with a high risk vulnerability do not show up on subsequent monthly vulnerability scan reports.
- Establish and enforce a policy that requires physical access authorizations to be completed in their entirety.

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.

End user computing

- Encrypt all workstations and computing devices that are utilizing spreadsheets and localized access databases for processing of financial data.

Expected Completion Date: FY 2008

Material Weakness 2: Improvement Needed in Financial System Functionality and Funds Control

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 funds control.

Critical Corrective Action Milestones include the following:

- 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.

In FY 2007, CCC began to address the need for a fully integrated funds control system within the financial management system that is capable of interfacing with CCC CORE at the transaction level and provides management with timely information to periodically monitor and control the status of budgetary resources recorded in the general ledger. FY 2007 accomplishments include:

- Developed the to-be process design; and
- Developed the business case for the Modernize and Innovate the Delivery of Agricultural Systems (MIDAS).

In FY 2008, CCC will:

- Document CCC obligation business events and develop solutions for providing pre-authorization of funds;
- Prepare system requirements documentation;
- Select software solution; and
- Begin to implement the software solution.

In FY 2009, CCC will:

- Develop a fully integrated funds control system; and
- Continue implementation of the software package.

Expected Completion Date: FY 2009

Material Weakness Identified in FY 2007

Improvement Needed in Management's Review Procedures Related to Credit Reform Cash Flow Models

There are numerous variables utilized for cash flow models such as the calculation year and discount rates. Incomplete and incorrect variables were found. CCC did not identify these in a timely manner.

Critical Corrective Action Milestones include the following:

In FY 2008, CCC will:

- Review all credit reform budget and finance functions and determine an action plan;
- Leverage additional contractor resources, specialized in credit reform and related modeling;
- Provide training to enhance FSA/CCC's expertise;
- Improve documentation and related policies and procedures.

Expected Completion Date: FY 2008

FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT (FFMIA)

The Federal Financial Management Improvement Act (FFMIA) is designed to improve financial and program managers' accountability, provide better information for decision-making and improve the efficiency and effectiveness of Federal programs. FFMIA requires that financial management systems provide reliable, consistent disclosure of financial data in accordance with generally accepted accounting principles and standards. These systems must also comply substantially with: (1) Federal financial management system requirements; (2) applicable Federal accounting standards; and (3) the Standard General Ledger at the transaction level. Additionally, the Federal Information Security Management Act (FISMA) requires that there be no significant weaknesses in information security policies, procedures or practices to be substantially compliant with FFMIA.

During FY 2007, CCC evaluated its financial management systems to assess substantial compliance with the Act. CCC has demonstrated substantial compliance with the standards promulgated by the Federal Accounting Standards Advisory Board (FASAB) and the U.S. Standard General Ledger at the transaction level. CCC is not substantially compliant with Federal financial management system requirements, which are reported above in the FMFIA section of this report. As part of the financial systems strategy, CCC continues to work to meet FFMIA objectives.

IMPROPER PAYMENTS INFORMATION ACT (IPIA) COMPLIANCE

The President's Management Agenda identified the reduction of improper payments as a key goal for Government Agencies. The IPIA legislation requires that FSA, under the direction of the Department of Agriculture, annually review programs and activities to identify if any are susceptible to significant improper payments. 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 Office of the Chief Financial Officer (OCFO). The risk assessment determines whether each program is at low or high risk for making improper payments. Also, OMB during its review of the risk assessment documentation may conclude that a program should be high risk. If a program is identified as high risk, FSA must complete a 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 FSA/CCC's improper payment risk assessments are included in the USDA's Management Discussion and Analysis section of its annual *Performance and Accountability Report* (PAR). The PAR is released annually on November 15.

FSA completed the risk assessment of all CCC programs identified for review during the FY 2007 review cycle. The results of those reviews identified no new programs that were at high risk for making improper payments. Statistical samples were completed for the seven high risk programs identified in previous years where improper payments had exceeded the 2.5 percent maximum improper payment rate established by the legislation. The seven high risk programs are Marketing Assistance Loan Program, Loan Deficiency Payments, Milk Income Loss Contracts, Direct and Counter-Cyclical Payments, Conservation Reserve Program, Disaster Programs, and Noninsured Assistance Program. The FY 2007 statistical sample results indicate dramatic decreases in most programs' improper payment rates as compared to the results from FY 2006.

Program	A Value of Outlay Sample Universe (In million $)		B Total Value of Improper Payments (In million $)		C Value of Administrative Errors (In million $)		D Value of Incorrect Disbursements (In million $)		E Percent of Incorrect Disbursements	
FY Testing Done	FY 2006	FY 2007	FY 2006	FY 2007	FY 2006	FY 2007	FY 2006	FY 2007	FY 2006	FY 2007
Marketing Assistance Loans	$7,950	$6,306	$1,611	$457.60	$1,594	$433.90	$17	$23.70	0.21%	0.39%
Loan Deficiency Payments	$4,790	$4,071	$443	$18.30	$390	*	$53	$18.30	1.11%	0.45%
Noninsured Assistance Program	$109	$64	$25	$8.40	$22	$0.40	$3	$8.00	2.75%	12.41%
Direct and Counter-Cyclical Program	$8,546	$9,550	$424	$37.00	$357	*	$67	$37.00	0.78%	0.37%
Disaster Payments	$2,365	$368	$291	$25.30	$235	$2.80	$56	$22.50	2.37%	6.02%
Conservation Reserve Program	$1,815	$1,851	$64	$8.70	$54	$4.30	$10	$4.40	0.55%	0.23%
Milk Income Loss Contracts **	$0	$351	$0	$7.70	$0	$0.10	$0	$7.60	0.00%	2.13%
All High Risk Programs	$25,575	$22,561	$2,859	$563.00	$2,652	$441.50	$206	$121.50	0.81%	0.54%

(Source of FY 2006 Data was the USDA PAR and FY 2007 Data was the sampling results reported to OCFO for the 2007 PAR in the corrective action plans)

* Level of activity was less than .005 percent.

** MILC was inactive in FY 2005; therefore, no sample was required for FY 2006.

FSA identified actions it would take during FY 2008 to further 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 automated internal controls and expanded reviews and certification of data supporting payments.

ANTIDEFICIENCY ACT (ADA)

A violation of the Antideficiency Act occurred in FY 2003 concerning the improper donation and transportation of 24.7 million pounds of non-fat dry milk to a feed mill in Mississippi. The violation did not come to the attention of the FSA Administrator until April 2005. The Administrator immediately requested an audit by the Department of Agriculture's Office of Inspector General which was completed in September 2006. A full legal analysis of the extent of the ADA violation was subsequently requested and received back from the Office of General Counsel (OGC) in May 2007. Based on OGC's legal opinion that an ADA violation occurred, a receivable was recognized in FY 2007 for the amount of $8.2 million.

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 for 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 2010.

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 four main reasons:

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

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

- *Meet Legislative and Management Mandates:* The FMMI program will enable FSA/CCC to meet its fiduciary responsibilities, including accountability for U.S. tax dollars, and to comply with several legislative and regulatory mandates. These mandates include regulations such as the Chief Financial Officer's (CFO) Act, the Federal Managers' Financial Integrity Act (FMFIA), the Federal Financial Management Improvement Act (FFMIA), the Clinger-Cohen Act, the Government Paperwork Elimination Act (GPEA), Financial System Integration Office (FSIO, formerly the Joint Financial Management Improvement Program or JFMIP), the Government Performance and Results Act (GPRA), the Federal Information Security Management Act (FISMA), and associated National Institute of Standards and Technology (NIST) guidance in NIST SP 800-53.

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

CCC is working with USDA to replace its legacy financial systems, including CCC's current CORE financial management systems and administrative and program general ledger systems, and to consolidate its data and business functions with SAP's Commercial-Off-the-Shelf (COTS) accounting and ledger system.

To meet this objective, CCC, together with USDA and the integrator, 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 No. A-123, Appendix A

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

For FY 2007, FSA utilized the services of a contractor to help with documentation and testing of various CCC business cycles and processes as part of the OMB A-123, internal control assessment. FSA followed the Departmental methodology for completing the assessment using a systematic method for identifying and documenting controls within business processes. From the documented controls, FSA then defined those that are key controls to operations. FSA tested the key controls (both automated and manual) and documented the performance of those controls. Failed control deficiencies that did not perform as intended or were not designed properly were further evaluated and in many cases remediated with corrective action plans prepared for follow-up resolution.

LIMITATIONS OF FINANCIAL STATEMENTS

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

PERFORMANCE SECTION

PERFORMANCE SECTION

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

CCC Program Alignment to USDA Performance and Accountability Report Goals

USDA Agency	CCC Program Area	USDA Strategic Goal	Agency Strategic Goal	CCC Mission Element
FSA	Income Support and Disaster Assistance	Enhance the Competitiveness and Sustainability of Rural Farm Economies	Supporting Productive Farms and Ranches Supporting Secure and Affordable Food and Fiber	Stabilizing, supporting, and protecting farm income and prices.
	Conservation	Protect and Enhance the Nation's Natural Resource Base and Environment	Conserving Natural Resources and Enhancing the Environment	Conservation of soil, air, and water resources and protection and improvement of wildlife habitats.
	Commodity Operations and Food Aid	Enhance the Competitiveness and Sustainability of Rural Farm Economies	Supporting Productive Farms and Ranches Supporting Secure and Affordable Food and Fiber	Maintaining balanced and adequate supplies of agricultural commodities and aiding in their orderly distribution.
FAS	Market Expansion and Trade Building	Enhance International Competitiveness of American Agriculture	Supporting International Economic Development and Trade Capacity Building	Developing new domestic and foreign markets and marketing facilities for agricultural commodities.
	Export Credit	Enhance International Competitiveness of American Agriculture	Supporting International Economic Development and Trade Capacity Building	Developing new domestic and foreign markets and marketing facilities for agricultural commodities.

PROGRAM AREA PERFORMANCE DATA

Program Assessment Rating Tool (PART)
Implementation Status of OMB Follow up Actions as of Fourth Quarter 2007

CCC major programs are summarized briefly. The USDA Strategic Goal reported in the USDA 2007 *Performance and Accountability Report* is shown for the major program areas. Findings and recommendations resulting from the PART process (if available for that program) are shown. The status of implementing recommendations is included in the tables representing the CCC programs. The PART was developed by the Office of Management and Budget (OMB) to assess and help improve program performance so that the Federal government can achieve better results. A PART review helps identify a program's strengths and weaknesses, allowing management to make informed 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. The USDA has completed 84 PART reviews through FY 2007. The outstanding recommendations from the PART process and the status of implementing these recommendations are shown as follow up actions and milestones.

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, payment eligibility rules established in public policy, and natural or man-made disasters. CCC payments are best explained in the context of a commodity crop year. Crop years do not directly correspond to financial statement reporting, so this creates some unique challenges for discussing payment trends and performance.

Program Performance Scores and Status

Agricultural Crops Counter-Cyclical Payments Program. The Direct and Counter-Cyclical Programs (DCP) are key to the Agency's effort to support farm income and mitigate market losses. Authorized by the Farm Security and Rural Investment Act of 2002 (the Farm Bill), DCP provides payments to eligible producers on farms enrolled for the 2002 through 2007 crop years. Counter-cyclical payments vary as market prices change, providing as much as $4.7 billion in a single year to mitigate market losses.

The FSA electronic Direct and Counter-Cyclical Payment Program (eDCP) service allows agricultural producers to enroll in DCP online. Producers can choose DCP payment options, assign crop shares, and sign, view, print, and submit their DCP contracts from any computer with Internet access at any time. This service is available to all eligible producers for the FY 2005-2007 DCP program years and helps the Agency maintain participation rates for this program. While producers still have the option to sign up for the program in person at their local USDA Service Center, offering sign-up options through the Internet helps the Agency meet its performance objectives, in line with the President's Management Agenda and the USDA's mandate to expand E-Gov options for program participants.

- ***USDA Strategic Goal Alignment*** – Enhance the Competitiveness and Sustainability of Rural 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.
1.1.2 Milestone	Develop legislative proposals for program beyond FY 2007.
Target Date	3/31/2007
Actual Date	1/31/2007
Status	Completed: The Secretary of Agriculture published more than 65 proposals that correspond to the 2002 Farm Bill titles with additional special focus areas. The proposals represent the final phase of a two year process of conducting 52 Farm Bill Forums and collecting and studying over 4,000 comments from producers and stakeholders across the country. Each proposal provides information about why a change is needed, the recommended solution, and relevant background information about the impacted program or policy.

Direct Payments Program. FSA/CCC provides direct payments (cash) to eligible crop producers. The intent is to allow planting flexibility while providing a safety net for producers.

- ***USDA Strategic Goal Alignment*** – Enhance the Competitiveness and Sustainability of Rural 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.
1.1.2 Milestone	Develop legislative proposals.
Target Date	3/31/2007
Actual Date	1/31/2007
Status	Completed: The Secretary of Agriculture published more than 65 proposals for consideration for the FY 2007 Farm Bill that include proposed changes to the Direct Crop Payment program. The proposals represent the final phase of a two-year process of conducting 52 Farm Bill Forums and collecting and studying over 4,000 comments from producers and stakeholders across the country. Each proposal provides information about why a change is needed, the recommended solution, and relevant background information about the impacted program or policy.

Milk Income Loss Contract. The Milk Income Loss Contract Program (MILC) compensates dairy producers when domestic milk prices fall below a specified level. The 2002 Farm Bill authorized MILC through September 30, 2005. The Agricultural Reconciliation Act of 2005 reauthorized the program through September. 30, 2007.

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

Milk Income Loss Contract	
1.0 OMB Follow-up Action	Proposing changing the dairy operation definition in the legislation to eliminate State by State variations in the determination of the number of eligible dairy operations under the program.
1.1.1 Milestone	Examine and propose program design changes that would improve performance.
Target Date	3/20/2007
Actual Date	3/20/2007
Status	Completed: In its Farm Bill Proposal, USDA included extending the MILC program. Under the proposed MILC program, dairy producers would continue to be eligible to receive a payment if the Class I price in Boston in any month falls below $16.94 per cwt. For FY 2008, the proposed payment rate would remain at the current rate of 34 percent of the difference between $16.94 per cwt and the Class I price in Boston. For subsequent years, the payment rate would be phased down to 31 percent in FY 2009, 28 percent in FY 2010, 25 percent in FY 2011, 22 percent in FY 2012, and 20 percent in FY 2013 through 2017.
2.0 OMB Follow-up Action	Eliminating shortcomings identified in financial audits by strengthening the processes and controls in the program's disbursement system.
2.1.1 Milestone	Program managers will review mitigating controls to determine if they are effective and develop a plan to modify controls, as needed.
Target Date	9/30/2007
Actual Date	9/17/2007
Status	Completed: The statistical sample testing results were provided to program managers in August 2007. Program managers and the Financial Management Division staff prepared a Corrective Action Plan (CAP) to address weaknesses identified by the statistical sampling and provided this plan to the Office of the Chief Financial Officer on September 17, 2007.

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

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

Noninsured Crop Disaster Assistance Program	
1.0 OMB Follow-up Action	Eliminate shortcomings identified in financial audits by strengthening the processes and controls in the program's disbursement system.
1.1.1 Milestone	Program managers will review mitigating controls to determine if they are effective and develop a plan to modify controls, as needed.
Target Date	9/30/2007
Actual Date	9/17/2007
Status	Completed: The statistical sample testing results were provided to program managers in August 2007. Program managers and the Financial Management Division staff prepared a Corrective Action Plan (CAP) to address weaknesses identified by the statistical sampling and provided this plan to the Office of the Chief Financial Officer on September 17, 2007
2..0 OMB Follow-up Action	Develop and implement a performance-based budgeting process that will improve accountability of budget and financial systems.
2.1.1 Milestone	Develop cost structures for the Budget and Performance Management System (BPMS) that will allow for new cost management reports that demonstrate cost per service unit, and ratios for total indirect to administrative costs.
Target Date	12/31/2007
Actual Date	Open

Noninsured Crop Disaster Assistance Program

Status	Action taken but not completed. Task progress is on schedule and budget.
3.0 OMB Follow-up Action	Investigate options to commission independent evaluations that analyze program performance.
3.1.1 Milestone	Establish a working group to research options to commission an independent evaluation that analyzes program performance.
Target Date	6/30/2007
Actual Date	2/7/2007
Status	Completed: In January 2007, a NAP working group was established. The working group consists of representatives from the following FSA offices: Deputy Administrator for Farm Programs (DAFP); Economics, Policies and Analysis Staff (EPAS); Budget Division; and Production, Emergencies and Compliance Division (PECD). In February, the NAP working group met to discuss options to conduct an independent evaluation to analyze NAP program performance.
3.1.2 Milestone	Develop a Request for Information (RFI) to solicit responses from contractors addressing information needed to investigate options to commission an independent evaluation.
Target Date	6/30/2008
Actual Date	Open
Status	Action taken but not completed: NAP survey evaluation has been placed on hold pending 2007 Farm Bill Negotiations regarding NAP. Milestone 3.1.3 was duplicative in nature, and therefore merged with Milestone 3.1.2.

Key Performance Measures for Income Support and Disaster Assistance Programs

Measure	FY 2007 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
Increase percentage of eligible crops with NAP coverage.	13.00%	No Quarterly Data Available	11.76%	11.76%	Met Target

Trends in Income Support and Disaster Assistance Programs

Key Performance Measures	2003	2004	2005	2006	2007
Maintain or increase % of program benefits delivered through a Web environment.	NA	NA (program initiated in FY05)	22%	33%	33%
Increase percentage of eligible crops with NAP coverage.	6.66%	11.12%	12.82%	12.70%	11.76%

Program Area – Conservation

Program Area Summary

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

Program Performance Score and Status

Conservation Reserve Program. The Conservation Reserve Program (CRP) safeguards millions of acres of highly erodible and other environmentally sensitive cropland by placing it in long-term protective cover. Key benefits of the acres under contract each year include reduced soil erosion, increased wildlife habitat, and protection of surface and ground water from non-point source pollution.

- *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 Task Title	Plan to utilize the private sector for technical assistance delivery.
1.1.1 Milestone	Reengineer CRP business industry delivery of technical assistance; plan to utilize the private sector for technical assistance delivery.
Target Date	9/30/2006
Actual Date	9/30/2006
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 during FY 2006. The vendor is responsible for providing 390 conservation plans from spring FY 2007 general signup.
1.1.2 Milestone	Issue a contract for training an additional 200 State and county FSA employees to implement technical assistance for CRP continuous sign-up.
Target Date	9/30/2007
Actual Date	9/28/2007
Status	Completed: Contract was awarded September 28, 2007.
1.1.3 Milestone	Issue a contract to implement technical assistance for CRP continuous sign-up.
Target Date	9/30/2008
Actual Date	Open
Status	Action taken but not completed: Revised target date has been provided.
1.1.4 Milestone	Issue a contract to develop a CRP planning tool (GIS conservation plan).
Target Date	7/31/2007
Actual Date	Open
Status	No action taken: The contract was not awarded due to lack of funding.
1.1.5 Milestone	Issue a contract for training State and County FSA employees on the CRP planning tool.
Target Date	9/30/2007
Actual Date	Open

Conservation Reserve Program

Status	No action taken: The contract was not awarded due to lack of funding.
2.0 OMB Follow-up Action	Performing independent program evaluations to identify recommendations for improving performance and efficiency.
2.0 Task Title	Assess effectiveness of CRP programs.
2.1.1 Milestone	Develop cooperative agreements.
Target Date	9/30/2006
Actual Date	9/30/2006
Status	Completed: FSA has cooperative agreements with U.S. Geological Survey (USGS) and U.S. Fish and 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 and 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 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.
2.1.2 Milestone	Use results from cooperative agreements with USGS and USFWS to update performance measures.
Target Date	10/1/2007
Actual Date	10/1/2007
Status	Action taken but not completed: FSA has received reports from cooperative agreements with USGS and USFWS to assess the effectiveness of the CRP on restored wetlands and grassland bird and duck populations in the Northern Prairie. Additionally, agreements have been received from the Food and Agricultural Policy Research Institute, Iowa State University, 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, potential for restored CRP wetlands to filter nitrogen from cropland runoff, and quail, pheasant, and sage grouse populations. Each of these completed reports is available online at www.fsa.usda.gov. Proposed new measure submitted to OMB. Data is reported, but awaiting OMB clearance of revised measure before proceeding.
3.0 OMB Follow-up Action	Collecting performance data and using them to improve the field-level oversight of the Conservation Reserve Program contracts.
3.1. Task Title	Develop agreements to peer review CRP contract data.
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	3/31/2007
Actual Date	3/31/2007
Status	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 on quail, pheasant, and sage grouse populations have been completed and are either available on line or are under final professional review. Similarly, FSA agreements with 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. FSA will continue to seek improvement in performance measures and outside review of CRP performance.
3.1.2. Milestone	Perform compliance checks on all expiring 2007–2010 contracts offered for re-enrollment or extension.
Target Date	12/31/2006
Actual Date	12/31/2006
Status	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 re-enroll or extend (REX) their contract. In order to ensure CRP land

Conservation Reserve Program

met the goals and objectives of the program, FSA conducted a compliance review on each CCC contract proposed for REX. Eligible land had to be in full compliance with the contract including the cover requirements and the control of insects, pests, and weeds, including noxious weeds.

Key Performance Measures for Conservation Programs

Measure	FY 2007 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).	2.0 million acres	2.0 million acres (cumulative)	1.92 million acres (cumulative)	1.92 million acres (cumulative)	Target not met
Increase wetlands acres restored	2.2 million acres	2.2 million acres	2.08 million acres	2.08 million acres	Target not met

Trends in Conservation Programs

Key Performance Measures	2003	2004	2005	2006	2007
Increase Conservation Reserve Program (CRP) acres of riparian and grass buffers (million acres).	1.45 million acres	1.65 million acres	1.75 million acres	1.86 million acres	1.92 million acres
Increase wetlands acres restored	1.79 million acres	1.89 million acres	1.96 million acres	2.03 million acres	2.08 million acres

Program Area – Commodity Operations and Food Aid

Program Area Summary

Commodity Operations Programs provide adequate, secure storage capacity to maintain quality, expand domestic and international market opportunities, and improve the purchase and delivery of food aid. These programs handle the acquisition, procurement, storage, disposition, and distribution of commodities, as well as the administration of the U.S. Warehouse Act. These programs help achieve domestic farm program objectives, produce a uniform regulatory system for storing farm products, and ensure the timely delivery of food products for domestic and international food aid programs, and market development programs. With an increased awareness of the need to protect this Nation's food supply and provide food aid in times of natural or man-made disasters, the importance of FSA's Commodity Operations is even more evident.

Program Performance Score and Status

Dairy Price Support Program. Under the authority of the Agricultural Act of 1949, as amended, national policies and procedures are formulated and administered through the Dairy Price Support Program. In order to stabilize domestic dairy prices as required by law, dairy products are purchased at announced prices under this program. Commodity Operations arranges for warehouse storage, transportation, handling, and inspection of the dairy products until the commodities are used in domestic or foreign feeding programs or sold by CCC.

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

Milk (Dairy) Price Support Program (MPSP)	
1.0 OMB Follow-up Action	Add price variability data for an annual outcome performance measure.
1.1.1 Milestone	Identify a 10 year dairy price series to be developed with methods to measure price volatility.
Target Date	03/30/2008
Actual Date	Open
Status	Action taken but not completed: FSA has finished collecting price data and is now in the process of developing methodology to determine price volatility.
2.0 OMB Follow-up Action	Identify program improvements or program alternatives that could be less market distorting and more directly serve as a safety net program for all dairy producers.
2.1.1 Milestone	Identify and propose program improvements that could be less market distorting and more directly serve as a safety net program for all dairy producers.
Target Date	6/30/2007
Actual Date	3/30/2007
Status	Completed: USDA has outlined its dairy program proposal for the 2007 Farm Bill. The Secretary of Agriculture developed and published more than 65 proposals that correspond to the 2002 Farm Bill titles with additional special focus areas. The proposals represent the final phase of a two-year process of conducting 52 Farm Bill Forums and collecting and studying over 4,000 comments from producers and stakeholders across the country. Each proposal provides information about why a change is needed, the recommended solution, and relevant background information about the impacted program or policy.
3.0 OMB Follow-up Action	Begin a biannual management review of the rate of price support between the purchase prices for nonfat dry milk and butter to assess whether expenditures are minimized. The review should consider the costs of donating or selling dairy products in CCC inventory in achieving objectives other than minimizing costs. The biannual reviews will be conducted on the schedule of the President's budget and budget updates.
3.1.1. Milestone	Identify requirements allowing for the internal biannual review to be conducted and released.
Target Date	9/30/2007
Actual Date	8/14/2007
Status	Completed: The FSA issued a commodity disposition handbook (Commodity Disposition, For DACO and KCCO, 4-IM). This handbook was issued to specify the responsibilities, decision process, documentation, clearance process, policies, and procedures for the disposal of CCC-owned inventories. First biannual review was conducted after the Mid-Session Review of the Presidents Budget. No dairy product purchases had been made during FY 2007 and no purchases were projected in the baseline so it was determined no purchase price adjustment was necessary to minimize expenditures.

Key Performance Measures for Commodity Operations and Food Aid Programs

Measure	FY 2007 Target	4th Quarter Estimated Performance	4th Quarter Actual Performance	Actual Year to Date Performance	Result
Reduce average time between warehouse examinations.	392 Days	383 Days	381 Days	381 Days	Exceeded Target

Trends in Commodity Operations and Food Aid Programs

Key Performance Measures	2003	2004	2005	2006	2007
Reduce average time between warehouse examinations.	N/A	399 Days	365 Days	384 Days	381 days

Program Area – Market Expansion and Trade Building

Program Area Summary

The Foreign Agriculture Service (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.	In progress. 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, 2006 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 data 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 for Market Expansion and Trade Building Programs

Measure	2002	2003	2004	2005	2006	2007
Target Dollar value of actual sales for small companies (millions) * Target exceeded ** Estimate; Final data not yet available	$427.7*	$450*	$470*	$490*	$710*	$604**

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

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 (ECGPs) 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, FAS 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 Section 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 Section 4 authority was provided for contracting legal services and investigators in overseas markets, claims processing and debt recovery. This contract was terminated in September 2006. In FY 2007, it was determined that claims should be pursued through in-country legal counsel using

Recommendations from PART Process	Status of Implementing Recommendations
	$300,000 of Section 4 funds. The FY 2007 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 this basis, the ECGP demonstrated a high degree of efficiency, recording in FY 2004 an efficiency measure of .03% (= .0003 cents/$1 ECG), .06% in FY 2005 (=.0006 cents/$1 ECG), 10% in FY 2006, and 12% in FY 2007.
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, .06% (=.0006 cents/$1ECG) in FY 2005, 10% in FY 2006, and 12% in FY 2007. 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 applications/year compared to 4,000 applications/year) with fewer staff. In FY 2005, the GSM online system became available, allowing bankers and exporters the ability to complete program applications online. FAS anticipates that increased use of this system should help decrease administrative time associated with taking program applications. FAS will continue to examine whether this approach of comparing the number of processed applications to staffing could serve as an additional efficiency measure.
Improve claims recoveries and reduce defaults.	Completed. FAS 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, due to the large number of defaults under the Supplier Credit Guarantee Program (SCGP), and the program being subject to fraud, the USDA has proposed termination of the SCGP in the 2007 Farm Bill. For recoveries of prior claims, FAS has secured funding since FY 2005 to contract for legal services and investigators in overseas markets, claims processing and debt recovery. Finally, FAS is working with the OIG and the Department of Justice to pursue claims recoveries.

Key Performance Measures for Export Credit Programs

Measure	2002	2003	2004	2005	2006	2007
Application Response Time—Food Aid	N/A	N/A	N/A	N/A	90 days	132 days
Estimated trade value resulting from USDA GSM export credit guarantee programs (billions)	N/A	$3.63	$4.20	$2.91	$1.39	$1.47
Administrative cost per loan—measures USDA's efficiency of loan making and servicing	N/A	.04%	.03%	.06%	.10%	.12%

CONSOLIDATED FINANCIAL STATEMENTS

Commodity Credit Corporation
CONSOLIDATED BALANCE SHEETS
As of September 30, 2007 and 2006
(Dollars in Millions)

		2007		2006
ASSETS:				
Intragovernmental:				
Fund Balance with Treasury (Note 2)	$	216	$	1,740
Accounts Receivable, Net (Note 3)		243		174
Other		-		1
Total Intragovernmental Assets	$	459	$	1,915
Cash		-		36
Accounts Receivable, Net (Note 3)		5,931		6,396
Loans and Credit Program Receivables:				
Commodity Loans, Net (Note 4)		759		1,360
Credit Program Receivables, Net (Note 5)		5,142		5,823
Other Foreign Receivables, Net		21		20
Subtotal	$	5,922	$	7,203
Commodity Inventories, Net (Note 6)		185		55
General Property and Equipment, Net (Note 7)		55		52
Other		95		32
Total Assets	**$**	**12,647**	**$**	**15,689**
Stewardship Land (Note 8)				
LIABILITIES:				
Intragovernmental:				
Accounts Payable	$	9	$	-
Debt to the Treasury (Note 10)		6,516		19,768
Other:				
Resources Payable to Treasury		3,180		3,599
Deposit and Trust Liabilities (Note 11)		818		998
Other (Note 12)		540		507
Subtotal	$	4,538	$	5,104
Total Intragovernmental Liabilities	$	11,063	$	24,872
Accounts Payable		386		154
Credit Guarantee Liabilities (Note 5)		184		220
Environmental and Disposal Liabilities (Note 13)		8		11
Other Liabilities:				
Accrued Liabilities (Note 14)		11,543		13,505
Deposit and Trust Liabilities (Note 11)		14		1
Other (Note 12)		12		58
Subtotal	$	11,569	$	13,564
Total Liabilities (Note 9)	**$**	**23,210**	**$**	**38,821**
Commitments and Contingencies (Note 15)				
NET POSITION:				
Unexpended Appropriations	$	643	$	842
Capital Stock		100		100
Cumulative Results of Operations		(11,306)		(24,074)
Total Net Position	**$**	**(10,563)**	**$**	**(23,132)**
Total Liabilities and Net Position	**$**	**12,647**	**$**	**15,689**

The accompanying notes are an integral part of these statements.

Commodity Credit Corporation

CONSOLIDATED STATEMENTS OF NET COST (NOTE 16)

For the Fiscal Years Ended September 30, 2007 and 2006

(Dollars in Millions)

	2007	2006
STRATEGIC GOALS:		
Supporting Productive Farms and Ranches:		
Gross Cost	$ 12,905	$ 22,716
Less: Earned Revenue	4,393	4,291
Net Goal Cost	$ 8,512	$ 18,425
Supporting Secure and Affordable Food and Fiber:		
Gross Cost	$ (110)	$ 109
Less: Earned Revenue	22	34
Net Goal Cost	$ (132)	$ 75
Conserving Natural Resources and Enhancing the Environment:		
Gross Cost	$ 2,158	$ 2,366
Less: Earned Revenue	1	35
Net Goal Cost	$ 2,157	$ 2,331
Supporting International Economic Development and Trade Capacity Building:		
Gross Cost	$ 1,712	$ 852
Less: Earned Revenue	552	670
Net Goal Cost	$ 1,160	$ 182
Total Gross Cost	**$ 16,665**	**$ 26,043**
Less: Total Earned Revenue	**4,968**	**5,030**
Net Cost of Operations	**$ 11,697**	**$ 21,013**

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, 2007 and 2006

(Dollars in Millions)

	2007	2006
CAPITAL STOCK	**$ 100**	**$ 100**
CUMULATIVE RESULTS OF OPERATIONS:		
Beginning Balance	$ (24,074)	$ (27,647)
Changes in Accounting Principles (Note 1)	1,022	-
Beginning Balance, as adjusted	$ (23,052)	$ (27,647)
Budgetary Financing Sources:		
Appropriations Used	24,787	27,254
Non-exchange Revenue	6	17
Transfers in/out without Reimbursement, Net	(2,179)	(3,293)
Other Financing Sources (Non-Exchange):		
Transfers in/out without Reimbursement, Net	(442)	(533)
Imputed Financing	1,271	1,141
Total Financing Sources	$ 23,443	$ 24,586
Net Cost of Operations	(11,697)	(21,013)
Net Change	$ 11,746	$ 3,573
Cumulative Results of Operations	**$ (11,306)**	**$ (24,074)**
UNEXPENDED APPROPRIATIONS:		
Beginning Balance	$ 842	$ 713
Changes in Accounting Principles (Note 1)	(351)	-
Beginning Balance, as adjusted	$ 491	$ 713
Budgetary Financing Sources:		
Appropriations Received	24,939	27,220
Appropriations Transferred in/out	-	215
Other Adjustments	-	(52)
Appropriations Used	(24,787)	(27,254)
Total Budgetary Financing Sources	$ 152	$ 129
Total Unexpended Appropriations	**$ 643**	**$ 842**
NET POSITION	**$ (10,563)**	**$ (23,132)**

The accompanying notes are an integral part of these statements.

Commodity Credit Corporation

COMBINED STATEMENTS OF BUDGETARY RESOURCES

For the Fiscal Years Ended September 30, 2007 and 2006
(Dollars in Millions)

	2007		2006	
	Budgetary	Non-Budgetary Credit Program Financing Accounts	Budgetary	Non-Budgetary Credit Program Financing Accounts
BUDGETARY RESOURCES:				
Unobligated balance, brought forward, October 1:	$ 1,166	$ 1,627	$ 1,299	$ 2,699
Recoveries of prior year unpaid obligations	717	14	4,945	4
Budget authority:				
Appropriation	25,872	-	28,112	-
Borrowing authority (Note 17)	41,185	281	44,465	824
Spending authority from offsetting collections:				
Earned:				
Collected	16,884	1,189	15,067	1,174
Change in receivables from Federal sources	(963)	4	54	(29)
Change in unfilled customer orders:				
Advance received	(180)	-	259	-
Expenditure transfers from trust funds	934	-	891	-
Subtotal	$ 83,732	$ 1,474	$ 88,848	$ 1,969
Nonexpenditure transfers, net, actual	(1,830)	-	(1,872)	-
Permanently not available	(51,934)	(68)	(50,152)	(1,690)
Total Budgetary Resources	**$ 31,851**	**$ 3,047**	**$ 43,068**	**$ 2,982**
STATUS OF BUDGETARY RESOURCES:				
Obligations incurred:				
Direct	$ 2,894	$ 907	$ 2,970	$ 1,355
Reimbursable	27,352	-	38,932	-
Subtotal	$ 30,246	$ 907	$ 41,902	$ 1,355
Unobligated balance:				
Apportioned	402	1,084	363	748
Exempt from apportionment	808	5	533	-
Subtotal	$ 1,210	$ 1,089	$ 896	$ 748
Unobligated balance not available	395	1,051	270	879
Total Status of Budgetary Resources	**$ 31,851**	**$ 3,047**	**$ 43,068**	**$ 2,982**
CHANGE IN OBLIGATED BALANCE:				
Obligated balance, net				
Unpaid obligations, brought forward, October 1	$ 9,281	$ 75	$ 9,649	$ 49
Less: Uncollected customer payments from Federal sources, brought forward, October 1	(1,275)	(174)	(1,221)	(203)
Total unpaid obligated balance, net	$ 8,006	$ (99)	$ 8,428	$ (154)
Obligations incurred, net	30,246	907	41,902	1,355
Less: Gross outlays	(30,763)	(843)	(37,325)	(1,325)
Less: Recoveries of prior year unpaid obligations, actual	(717)	(14)	(4,945)	(4)
Change in uncollected customer payments from Federal sources	963	(4)	(54)	29
Total Change in Obligated Balance	**$ 7,735**	**$ (53)**	**$ 8,006**	**$ (99)**
Obligated balance, net, end of period:				
Unpaid obligations	$ 8,047	$ 125	$ 9,281	$ 75
Less: Uncollected customer payments from Federal sources	(312)	(178)	(1,275)	(174)
Total, unpaid obligated balance, net, end of period	**$ 7,735**	**$ (53)**	**$ 8,006**	**$ (99)**
NET OUTLAYS:				
Gross outlays	$ 30,763	$ 843	$ 37,325	$ 1,325
Offsetting collections	(17,638)	(1,189)	(16,218)	(1,174)
Less: Distributed Offsetting receipts	-	(464)	-	(987)
Net Outlays	**$ 13,125**	**$ (810)**	**$ 21,107**	**$ (836)**

The accompanying notes are an integral part of these statements.

NOTES TO THE FINANCIAL STATEMENTS

Note 1 - Significant Accounting Policies

Reporting Entity

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

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

CCC operations are financed through appropriated funds, as well as an authority to borrow from the U.S. Treasury (Treasury). The Treasury also holds capital stock in the amount of $100 million with no obligation to repay, on which the Corporation pays interest. CCC receives direct appropriations for 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 related revolving fund include proceeds from the sale of CCC commodities, loan repayments, interest income, and various program fees.

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

Basis of Presentation

The Corporation's financial statements report the financial position and results of operations of CCC pursuant to the requirements of 31 U.S.C. 3515 (b). These statements have been prepared from the accounting records of the Agency as of September 30, 2007 and September 30, 2006 in accordance with generally accepted accounting principles for Federal entities and policies prescribed in the Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*. OMB financial reporting guidelines require the presentation of comparative financial statements for all of the principal financial statements. The statements are in addition to the external financial reports used to monitor and control budgetary resources, which are also prepared from CCC's general ledger. These financial statements have been prepared for the Corporation, which is a component of the U.S. Government, a sovereign entity.

Basis of Accounting

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

Note 1 - Significant Accounting Policies, continued

Fund Balance with Treasury

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

Cash

Treasury requirements for the Federal Agencies Centralized Trial Balance System (FACTS) II, used for the preparation of Treasury and the OMB yearend reports, require that the Fund Balance with Treasury 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 designated commodities, repay the loan at the market rate; or (c) at maturity, forfeit the commodity in satisfaction of the loan. These loans are not subject to the accounting and reporting requirements of Credit Reform (Note 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. 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 Law 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 beginning in FY 2005. The Law authorized a total maximum of $10.14 billion over the period to cover the realized losses of $292 million related to the disposition of the tobacco loan collateral in FY 2005, making payments to producers and quota holders, and other eligible expenses. CCC estimates that payments made, over the 10-year

Note 1 - Significant Accounting Policies, continued

period, will be approximately $6.7 billion to quota holders and $2.9 billion to tobacco producers. The total source of revenue or other financing for the program is intended to be derived from assessments levied upon manufacturers and importers of tobacco products and collected quarterly. Manufacturers and importers are expected to pass these costs on to consumers of tobacco products through increased sales prices. All collections from the tobacco industry are deposited into the Tobacco Trust Fund.

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

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

Credit Program Receivables

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

- direct credits extended under Public Law 83-480 (P.L. 480) programs and the Food for Progress Program, which provide foreign aid;
- 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 Credit Subsidy Calculator 2 (CSC2) for computing the subsidy reestimates for its foreign Credit Reform programs. The CSC2 is an OMB tool for performing credit calculations, incorporating both financing account interest and dollar reestimates functionality. CCC also uses the Treasury Credit Reform Certificate Program guidelines, Statement of Federal Financial Accounting Standards (SFFAS) No. 2, *Accounting for Direct Loans and Loan Guarantees*, Federal Accounting Standards Advisory Board (FASAB) No. 18, *Amendments to Accounting for Direct Loans and Loan Guarantees*, and FASAB No. 19, *Technical Amendments to Accounting for Direct Loans and Loan Guarantees* for the accounting and reporting of its loan subsidy cost reestimation and amortization.

Capitalized Interest

Rescheduling agreements frequently allow CCC to add uncollected interest to the principal balance of foreign credit and other foreign receivables (capitalized interest). In such circumstances, CCC records an allowance to reduce the receivable, including the capitalized interest, to the net present value of future

Note 1 - Significant Accounting Policies, continued

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.

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

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

Ending inventory balances are examined at period end to determine potential disposition. Commodities purchased for export donation or acquired through the price support programs and anticipated to be donated within one year of the reporting date are written down to a zero net realizable value. All other commodity inventories are written down to net realizable value based on an analysis of the disposition venues and the related cash flows. For these commodities, CCC considers the current market rate to determine if an allowance is necessary.

During fiscal year 2007, CCC revised the estimation methodology used for recording inventory allowances related to the mandatory reserve for the Bill Emerson Humanitarian Trust. In prior years, these commodities were written down to a zero net realizable value, as their ultimate disposition is expected to be donation. However, as these commodities can only be released upon authorization by the Secretary of Agriculture and are usually held in inventory for an undetermined amount of time, CCC will record these commodities at the lower of cost or market. Current market prices in relation to inventory costs did not warrant the recording of an allowance for this mandatory reserve at September 30, 2007.

General Property and Equipment

General property and equipment purchases are recorded at the acquisition cost plus expenditures related to placing the asset into service, such as freight, installation, and testing. Purchases of property valued at $25,000 or more, with a useful life of 2 years or greater are capitalized. Property and equipment is depreciated on a straight-line basis. Automated Data Processing (ADP) equipment has a service life of 5 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

Note 1 - Significant Accounting Policies, continued

the first year the software is fully operational. Also included are costs incurred by FSA, which are transferred to CCC without reimbursement and are reflected as software-in-development on CCC's financial statements until such time as the software is completed and put into operation. Once the software is put into operation, amortization begins.

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 Note 9, result from the accrual of unpaid amounts due for various CCC programs. Budgetary resources for the programs will not be made available until the subsequent fiscal year.

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 of agricultural products. CCC underwrites credit extended by the private banking sector under the Export Credit Guarantee Programs (GSM-102 and GSM-103). Credit guarantee liabilities represent the estimated net cash outflows (loss) of the guarantees on a net present value basis. 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.

Credit Reform Accounting

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

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

The cost of direct loans is accounted for on a net present value (NPV) basis, at the time when the direct loan is disbursed. It includes the cash flows of loan disbursements; repayments of principal; payments of interest; recoveries or proceeds of asset sales; and other payments by or to the Government over the life

Note 1 - Significant Accounting Policies, continued

of the loan. The NPV computation also contains effects for estimated defaults, prepayments, fees, penalties, and any expected actions, such as the exercise by the borrower of an option included in the loan contract.

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

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.

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

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

Imputed Costs

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

Tax Status

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

Use of Estimates

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

Implementation of New Accounting Standards

Allocation Transfers and Shared Appropriations

CCC is a party to allocation transfers with other Federal agencies as both a transferring (parent) entity and a receiving (child) entity. Allocation transfers are legal delegations by one department of its authority

Note 1 - Significant Accounting Policies, continued

to obligate budget authority and outlay funds to another department. A separate fund account (allocation account) is created in the U.S. Treasury as a subset of the parent fund account for tracking and reporting purposes. All allocation transfers of balances are credited to this account, and subsequent obligations and outlays incurred by the child entity are charged to this allocation account as they execute the delegated activity on behalf of the parent entity.

Effective for FY 2007, the parent must report all budgetary and proprietary activity in its financial statements, whether material to the parent or not. Receiving agencies with transfer appropriation accounts must submit the information required to the parent no later than 12 calendar days following the end of the reporting period or a date required by the parent to meet its reporting and auditing deadlines, whichever comes first. CCC allocates funds, as the parent, to USAID. The purpose of allocation transfers to USAID is to fund P.L. 480 Title II transportation and other administrative costs in connection with foreign donations. CCC receives allocation transfers, as the child, from FSA. Effective FY 2007, this activity will not be reported in CCC's financial statements.

In FY 2006, OMB guidance required that if an allocation transfer was material to the child's financial statements, the child should report the proprietary activity relating to the allocation transfer in its financial statements. Accordingly, in FY 2006 CCC, as the parent agency, reported only budgetary activity related to the allocation transfer with USAID in its financial statements. Under the same principle, as a child, CCC did not include the budgetary activity related to FSA allocation transfer programs but did record the related proprietary activities in its financial statements. Per OMB A-136 guidance, CCC will not restate its prior year financial information due to this change in parent/child accounting principles.

Because CCC now reports USAID's proprietary transactions for which it is the parent and excludes FSA's proprietary transactions for which it is the child, the Cumulative Results of Operations and Unexpended Appropriation balances for these funds at September 30, 2006 will be recorded in CCC's FY 2007 Statement of Changes in Net Position as changes in accounting principles. The changes related to the new parent/child reporting requirements are shown below:

Impact of Changes in Parent/Child Reporting Requirements
As of September 30, 2007
(Dollars in Millions)

	CCC	USAID	Consolidated
Balance Sheet			
Fund Balance with Treasury	$ (778)	$ 994	$ 216
Other	31	64	95
Accounts Payable	182	204	386
Unexpended Appropriations	747	(104)	643
Cumulative Results of Operations	10,348	958	11,306
Statement of Net Costs			
Gross Costs	15,652	1,013	16,665
Statement of Changes in Net Position			
Cumulative Results of Operations: Changes in Accounting Principles	-	1,022	1,022
Cumulative Results of Operations: Transfers in/out without Reimbursement, Net	(3,128)	949	(2,179)
Cumulative Results of Operations: Net Cost of Operations	(10,684)	(1,013)	(11,697)
Unexpended Appropriations: Changes in Accounting Principles	(217)*	(134)	(351)
Unexpended Appropriations: Appropriations Transferred in/out	(30)	30	-

*The $217 million represents the net FSA related allocation transfer balance as of October 1, 2006.

Presentation of Financial Statements

Effective for FY 2007 the Statement of Financing (SOF) is presented as a note per OMB's authority under SFFAS No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, and will no longer be considered a Basic Statement. The Statement

Note 1 - Significant Accounting Policies, continued

of Financing will now be displayed in Note 19 and referred to as "Reconciliation of Net Cost of Operations (proprietary) to Budget." The FY 2006 Statement of Financing has been reclassified from a Basic Statement to Note 19 to conform with the current year presentation.

SFFAS No. 29 – Heritage Assets and Stewardship Land

The Federal Accounting Standards Advisory Board's SFFAS No. 29, *Heritage Assets and Stewardship Land*, became effective in FY 2006, with an exception allowing for a phase-in of certain disclosure requirements continuing through FY 2009. Although there were no new requirements effective in FY 2007, the following requirements will impact CCC's disclosures in future years. SFFAS No. 29 amends SFASS No. 6, *Accounting for Property, Plant, and Equipment*, SFFAS No. 8, *Supplementary Stewardship Reporting*, and SFFAS No. 14, *Amendments to Deferred Maintenance Reporting*, and rescinds SFFAS No. 16, *Amendments to Accounting for PP&E: Multi-Use Heritage Assets*, and requires the following:

- the disclosure of all stewardship land information as basic financial statement information except for condition information, which is to be reported 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);
- two new note disclosures for stewardship land: entity stewardship policies and an explanation of how stewardship land relates to the mission of the entity (effective FY 2006);
- a description of each major category of stewardship land use and physical unit information for the end of the reporting period (effective FY 2008); and
- quantification of stewardship land in terms of physical units and a description of the methods of acquisition and withdrawal (effective FY 2009).

In FY 2007, 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. See Note 8 for further information.

Reclassifications

In the current year, CCC realigned various programs with its strategic goals to conform with the FSA FY 2005 – 2011 Strategic Plan. As a result, certain amounts within the FY 2006 Consolidated Statement of Net Cost have been reclassified to conform to the current year presentation.

Certain FY 2006 funds were reclassified in Note 2, Fund Balance with Treasury, to conform with fund group classifications.

The FY 2006 Statement of Financing is displayed within Note 19, Reconciliation of Net Cost of Operations (proprietary) to Budget, per OMB. See Note 1, Presentation of Financial Statements, for more information.

Note 2 - Fund Balance with Treasury

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

	(In Millions)	
	2007	2006
Revolving Funds	$ (774)	$ (340)
General Funds	990	2,080
Total Fund Balance with Treasury	$ 216	$ 1,740

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

	(In Millions)	
	2007	2006
Unobligated Balance		
Available	$ 2,299	$ 1,795
Unavailable	1,446	1,021
Obligated Balance not yet Disbursed	7,681	7,015
Subtotal	$ 11,426	$ 9,831
Less: Borrowing Authority not yet Converted to Fund Balance	(11,210)	(8,091)
Total Fund Balance with Treasury	$ 216	$ 1,740

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, 2007 and 2006, which will be funded by future borrowings. In addition, the $9.8 billion sum of unobligated and obligated balances not yet disbursed presented in the above schedule does not agree with the corresponding line items on the SBR for FY 2006. The total of the unobligated and obligated balances not yet disbursed on the SBR is $10.7 billion as of September 30, 2006. The difference of $869 million as of September 30, 2006 represents allocation transfer activity with USAID and FSA. Due to changes in parent/child reporting requirements, this difference was eliminated in FY 2007. In addition, $994 million in the Total Fund Balance with Treasury is attributed to USAID transactions. 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 Federal Reserve Banks (FRBs), their branches, the Treasury, and CCC's financing office. There are no unreconciled differences between CCC's general ledger and the balances per Treasury's records.

Note 3 - Accounts Receivable, Net

Accounts receivable as of September 30 are as follows:

	(In Millions)	
	2007	2006
Intragovernmental:		
Due from the Department of Treasury	$ 12	$ 25
Due from the Department of Transportation	200	122
Due from Other Federal Agencies	31	27
Total Intragovernmental Accounts Receivable, Net	$ 243	$ 174
Public:		
Claims Receivable	$ 50	$ 73
Notes Receivable	7	7
Interest Receivable	3	12
TTPP Receivable	5,861	6,336
Other	30	19
Subtotal	$ 5,951	$ 6,447
Less: Allowances for Doubtful Accounts	(20)	(51)
Total Public Accounts Receivable, Net	$ 5,931	$ 6,396

CCC records a receivable due from the Department of Treasury. The receivable is related to the collection of credit subsidy for the Debt Reduction Fund. Since this program is pre-credit reform/prior to FY1992, it does not have a program fund account and CCC records a separate receivable to capture the transaction with Treasury.

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

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

The receivable of $5,861 million for TTPP includes $482 million as a short-term asset as of September 30, 2007. See Note 1 under TTPP for a further discussion.

Note 4 - Commodity Loans, Net

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

	(In Millions)	
	2007	2006
Cotton	$ 145	$ 502
Dry Whole Peas	3	12
Feed Grains:		
Barley	6	12
Corn	208	234
Grain Sorghum	1	2
Oats	1	2
Honey	5	8
Oilseeds	3	13
Peanut	11	19
Rice	147	189
Soybeans	107	264
Sugar	35	10
Wheat	72	196
Total Commodity Loans	$ 744	$ 1,463
Accrued Interest Receivable	15	29
Less: Allowances for Losses	-	(132)
Total Commodity Loans, Net	$ 759	$ 1,360

There were no allowances for losses in FY 2007 due to market prices that were higher than the price support level. See also Note 1, Commodity Loans.

Note 5 - Credit Program Receivables, Net

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

Direct credit and loan obligations and credit guarantee commitments made after FY 1991, and the resulting direct credits and loans or credit guarantees, are governed by the Federal Credit Reform Act of 1990, as amended. Credit Reform requires agencies to estimate the cost of direct credits and loans, and credit guarantees at the present value of future cash flows 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 guarantees receivable less the present value of the subsidy at that time.

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

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

Credit Guarantee Programs

CCC's Export Credit Guarantee programs encourage exports of U.S. agricultural products to buyers in countries where credit is necessary to maintain or increase U.S. sales, but where financing may not be available without such credit guarantees. The Corporation 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.

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

Direct Credit Programs – Foreign

Under the P.L. 480 Title I Program, CCC finances the sales of U.S. agricultural commodities to countries in need of food assistance on favorable credit terms (at low rates of interest for up to 30 years with grace periods of up to 7 years). P.L. 480 Title I provides for government-to-government (and some government-to-private entity) sales of U.S. agricultural commodities to developing countries on credit terms or for local currencies. Priority 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 based, equitable and sustainable development. All credits under this program are denominated in U.S. dollars.

Note 5 - Credit Program Receivables, Net, continued

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.

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 P.L. 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.

Debt Modifications and Reschedulings

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.

Direct Credit Programs – Domestic

The Farm Storage Facility Loan (FSFL) Program was implemented to provide low cost financing for producers to build or upgrade on-farm commodity storage and handling facilities. The loans have a term of 7 years with a requirement of annual repayment installments. Interest on these loans is accrued monthly from the date of disbursement 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 2007 or 2006.

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 Credit Risk Assessment System (ICRAS) country risk evaluation and rating.

Note 5 - Credit Program Receivables, Net, continued

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 provides the default calculation methodology. ICRAS ratings are a product of the Inter-Agency Risk Assessment Committee and their use is required by OMB.

After analyzing foreign credits government-wide, in FY 2007 OMB determined that actual performance on foreign credits was better than had been previously forecasted and, therefore, mandated a change to the default 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 $429 million and $453 million in FY 2007 and 2006, 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 was used to generate the default estimate for each rating.

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

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

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

Interest Income on Direct Credits and Credit Guarantees

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

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

Note 5 - Credit Program Receivables, Net, continued

A summary of CCC's net credit program receivables as of September 30, 2007 and 2006 is as follows:

	(In Millions) 2007	(In Millions) 2006
Direct Credit and Loan Programs:		
Pre-1992:		
P.L. 480 Title I	$ 2,870	$ 3,098
Post-1991:		
P.L. 480 Title I	1,108	1,196
Debt Reduction Fund	147	137
Farm Storage Facility	245	202
Apple Loan Program	-	1
Defaulted Credit Guarantees:		
Pre-1992 Export Credit Guarantees	240	386
Post-1991 Export Credit Guarantees	532	803
Total Credit Program Receivables, Net	$ 5,142	$ 5,823

P.L. 480, Title I direct credits outstanding that were obligated prior to FY 1992 and related interest receivable as of September 30, 2007 and 2006 are as follows:

(In Millions)

2007:	Credit Receivable, Gross	Interest Receivable, Gross	Allowances for Uncollectible Accounts/CUP*	Credit Program Receivables, Net
P.L. 480 Title I	$ 5,204	$ 62	$ (2,396)	$ 2,870

(In Millions)

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

* CUP: Currency Use Payment.

Note 5 - Credit Program Receivables, Net, continued

P.L. 480 direct credits and direct loans for FSFL, Boll Weevil, and apple loans that were obligated after FY 1991 and related interest receivable outstanding as of September 30, 2007 and 2006 are as follows:

(In Millions)

2007:	Credit Receivable, Gross	Interest Receivable, Gross	Allowances for Uncollectible Accounts	Credit Program Receivables, Net
P.L. 480 Title I	$ 1,986	$ 30	$ (908)	$ 1,108
Debt Reduction Fund	428	3	(284)	147
Farm Storage Facility	304	27	(86)	245
Boll Weevil Program	10	-	(10)	-
Total	$ 2,728	$ 60	$ (1,288)	$ 1,500

(In Millions)

2006:	Credit Receivable, Gross	Interest Receivable, Gross	Allowances for Uncollectible Accounts	Credit Program Receivables, Net
P.L. 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

Note 5 - Credit Program Receivables, Net, continued

Defaults on credit guarantees made prior to FY 1992 and related interest receivable as of September 30, 2007 and 2006 are as follows:

	(In Millions)			
2007:	Credit Receivable, Gross	Interest Receivable, Gross	Allowances for Uncollectible Accounts	Credit Program Receivables, Net
Export Credit Guarantee Programs	$ 349	$ 5	$ (114)	$ 240

	(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

Defaults on credit guarantees made after FY 1991 and related interest receivable as of September 30, 2007 and 2006 are as follows:

	(In Millions)			
2007:	Credit Receivable, Gross	Interest Receivable, Gross	Allowances for Uncollectible Accounts	Credit Program Receivables, Net
Export Credit Guarantee Programs	$ 630	$ 16	$ (114)	$ 532

	(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

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, 2007 and 2006 are as follows:

	(In Millions)	
	2007	2006
Subsidy Allowance - Beginning of Fiscal Year	$ 1,329	$ 1,421
Subsidy Expense for Current Year Disbursements:		
Interest Rate Differential	4	17
Default Costs (Net of Recoveries)	9	7
Other Subsidy Costs	(8)	(3)
Total Subsidy Expense	$ 5	$ 21
Adjustments:		
Subsidy Allowance Amortization	16	11
Loans Written Off / Forgiven	(4)	(97)
Other	(31)	14
Balance Before Reestimates	$ 1,315	$ 1,370
Subsidy Reestimates:		
Interest Rate Reestimate	$ (25)	$ 5
Technical/Default Reestimates	(2)	(46)
Total Subsidy Reestimates	$ (27)	$ (41)
Subsidy Allowance - End of Fiscal Year	$ 1,288	$ 1,329

Note 5 - Credit Program Receivables, Net, continued

For fiscal years ended September 30, 2007 and 2006, subsidy expenses for the current year disbursements of post-1991 direct credits and loans and subsidy reestimates are as follows:

(In Millions)

2007:	Subsidy Expense for New Direct Loans Disbursed				Reestimates			
	Interest Differential	Defaults	Other	Total	Interest Rate	Technical	Total	Grand Total
P.L. 480 Title I	$ 4	$ 1	$ -	$ 5	$ (28)	$ (12)	$ (40)	$ (35)
Farm Storage Facility	-	8	(8)	-	3	10	13	13
Total	$ 4	$ 9	$ (8)	$ 5	$ (25)	$ (2)	$ (27)	$ (22)

(In Millions)

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

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

Note 5 - Credit Program Receivables, Net, continued

For the fiscal years ended September 30, 2007 and 2006, current and prior year disbursements of post-1991 direct credits and loans are as follows:

	(In Millions)		
	2007	2006	Curent Year Over (Under) Prior Year
P.L. 480 Title I	$ 9	$ 16	$ (7)
Farm Storage Facility	113	82	31
Total	$ 122	$ 98	$ 24

As of September 30, 2007 and 2006, post-1991 credit guarantees outstanding are as follows:

	(In Millions)			
	Face Value		Guaranteed*	
2007:	Post-1991 Outstanding Principal	Post-1991 Outstanding Interest	Post-1991 Outstanding Principal	Post-1991 Outstanding Interest
Export Credit Guarantee Programs	$ 2,371	$ 170	$ 2,312	$ 70

	(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

* 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, 2007 and 2006 is as follows:

	(In Millions)	
	2007	2006
Credit Guarantee Liability - Beginning of Fiscal Year	$ 220	$ 260
Subsidy Expense for Current Year Disbursements:		
Default Costs (Net of Recoveries)	48	78
Fees and Other Collections	(6)	(9)
Total Subsidy Expense	$ 42	$ 69
Adjustments:		
Fees Received	10	10
Claim Payments to Lenders	(8)	(19)
Other	309	248
Balance Before Reestimates	$ 573	$ 568
Subsidy Reestimates:		
Interest Rate Reestimate	$ (95)	$ 23
Technical/Default Reestimates	(294)	(371)
Total Subsidy Reestimates	$ (389)	$ (348)
Credit Guarantee Liability - End of Fiscal Year	$ 184	$ 220

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, 2007 and 2006 are as follows:

(In Millions)

2007:	Subsidy Expense for New Direct Loans Disbursed				Reestimates			
	Interest Supplement	Defaults	Fees and Other Collect.	Total	Interest Rate	Technical	Total	Grand Total
Export Credit Guarantee Programs	$ -	$ 48	$ (6)	$ 42	$ (95)	$ (294)	$ (389)	$ (347)

(In Millions)

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

Subsidy reestimates are calculated on cumulative disbursements for all cohorts.

For the fiscal years ended September 30, 2007 and 2006 current and prior year credit guarantee disbursements are as follows:

(In Millions)

	2007		2006	
	Outstanding Principal, Face Value	Outstanding Interest, Guaranteed	Outstanding Principal, Face Value	Outstanding Interest, Guaranteed
Export Credit Guarantee Programs	$ 1,086	$ 1,037	$ 1,568	$ 1,451

Administrative expenses on direct credit and loan programs were $3 million and $5 million in FY 2007 and FY 2006, respectively. Administrative expenses for the credit guarantee programs were $5 million in both FY 2007 and FY 2006, respectively.

Note 5 - Credit Program Receivables, Net, continued

FY 2007 and 2006 subsidy rates (percentage) for direct credits and loans are as follows:

2007:	Interest Differential	Defaults	Fees and Other Collections	Other	Total
Farm Storage Facility	0.03	7.27	(0.11)	(6.81)	0.38
Sugar Storage Facility Loans	0.63	7.40	-	(10.74)	(2.71)

There were no apportionments for P.L. 480 in FY 2007, and thus no subsidy rate was provided.

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 Storage Facility Loans	0.36	0.90	-	-	1.26

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

FY 2007 and 2006 subsidy rates (percentage) for credit guarantee programs are as follows:

2007:	Defaults	Fees and Other Collections	Total
Export Credit Guarantee Programs	5.24	(0.76)	4.48

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

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

Note 5 - Credit Program Receivables, Net, continued

The principal balance of CCC direct credit and credit guarantee receivables in a non-performing status both at September 30, 2007 and 2006, totaled $1.2 billion, respectively, compared to a total principal balance (performing and non-performing) at September 30, 2007 and 2006, of $8.9 billion and $9.9 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 $40 million from a total of $240 million in FY 2007, and increased by $130 million from a total of $575 million reported in FY 2006. 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 $950 million and $910 million through September 30, 2007 and 2006, respectively.

Direct credit and credit guarantee principal receivables under rescheduling agreements as of September 30, 2007 and 2006, were $3.4 billion and $4.2 billion, respectively.

During FY 2007, there were no new Paris Club agreements to reschedule P.L. 480 debt or GSM debt. One rescheduling agreement entered into force in FY 2007 related to Moldova. Additionally, no claims on refinancing agreements entered into force in FY 2007. An agreement is considered to have "entered into force" when all agreed upon domestic prerequisite conditions have been satisfied by the debtor.

Other Significant Events

In October 2006, Algeria prepaid $582 million of its GSM debt. In October 2007, CCC received P.L. 480 prepayments of $378 million from Russia and $240 million from Peru. The payments from Algeria and Peru both inherently qualified as debt modifications in that the receipt of payment deviated from their original debt repayment schedules.

Changes in the Export Credit Guarantee Programs

As the result of actions by the World Trade Organization (WTO) with respect to farm subsidies and fair trade practice, in FY 2006 USDA implemented new guarantee fee rates under CCC's Export Credit Guarantee Program (GSM-102) and SCGP. The new fee rates utilize a risk-based structure based on a country risk scale, as well as different repayment terms. USDA has decided not to conduct business in those countries that are or become rated below a predetermined risk threshold. As a result, significant declines in programming levels were noted in FY 2006 and are expected to continue in subsequent program years. FY 2007 was no exception.

There was no SCGP program in FY 2007.

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

OMB released a revised version of the Credit Subsidy Calculator (CSC 2) tool for use in calculating the FY 2007 reestimate of subsidy and financing account interest. Previously, CCC used the balances approach method for calculating reestimates, in which the NPV of remaining cash flows for a cohort were compared to the balance on deposit with Treasury for the cohort. The CSC 2 tool uses the balances approach and also incorporates a reestimate check under the traditional approach. The CSC 2 tool also calculates a Finance Account Interest (FAIC) adjustment to adjust financing account interest amounts for what they would have been had the new tool been in use in prior years. Due to data limitations, OMB approved the use of the balances approach for P.L. 480 for cohorts 1992 through 1996 and use of the complete CSC 2 tool for all subsequent cohorts.

Note 5 - Credit Program Receivables, Net, continued

The ICRAS ratings and associated default rates directly impact reestimate calculations for international programs. ICRAS country risk ratings are developed by an Inter-Agency task force to reflect government-wide experience with debtor countries. These ratings, which are provided annually by OMB, are used for reestimates government-wide and may not reflect USDA's specific experience with a given country. Similarly, ICRAS default rates are provided annually by OMB and also reflect government-wide experience.

OMB's default rates for all ICRAS grades other than C and E- declined significantly between the rates used at the end of FY 2006 and those used at the end of 2007. On a strictly numeric basis, the changes do not appear to be large, but the change in terms of percentage was significant. For the cohorts with large downward reestimates, less than 10 percent of funds were disbursed for risk grades C and E-. Aside from the FAI adjustments noted above, the change in default rates is the main contributor to the downward reestimate.

Components of the FY 2007 P.L. 480 reestimate are as follows:

FY 2007 Reestimate
(In Millions)

Cohort	Reestimate	Interest on Reestimate	FAI adjustment	Total Reestimate
1992	$ 1	$ 3	-	$ 4
1993	1	2	-	3
1994	(4)	(7)	-	(11)
1995	(4)	(6)	-	(10)
1996	(4)	(4)	-	(8)
1997	(6)	(6)	5	(7)
1998	-	-	(3)	(3)
1999	1	1	(13)	(11)
2000	(1)	-	1	-
2001	1	-	-	1
2002	1	-	(1)	-
2003	1	-	-	1
2004	1	-	-	1
2005	-	-	-	-
2006	-	-	-	-
Total	$ (12)	$ (17)	$ (11)	$ (40)

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

Revised recovery rates were developed for the GSM programs during FY 2007. OMB directed agencies to produce program specific recovery rates to be used in conjunction with OMB's gross default rates to produce net default rates. Therefore, the revised rates utilize GSM program specific historical data. The data demonstrates that, once an agreement is rescheduled under GSM 102, countries have consistently met their commitments in full. Arrears on GSM 102 rescheduled agreements are insignificant.

Export Credit Guarantee Program (GSM 102)

The analysis showed that very little of the reestimate was due to the change in ICRAS grades for GSM 102 ($4 million). The revised net default/recovery rates for GSM 102 had the most significant impact on the reestimate. Although projected defaults for the newer cohorts in GSM 102 were affected to some degree, the most substantial impact was on cohorts with outstanding rescheduled agreements, including cohorts 1996, 1997 and 2001. Approximately $148 million of the total $334 million downward reestimate

Note 5 - Credit Program Receivables, Net, continued

was attributable to these three cohorts. The 2004 to 2007 cohorts had large downward reestimates due to a combination of the revised net default/recovery rate and large balances on deposit with Treasury as compared to NPV of remaining cashflows. The downward reestimate for these cohorts totaled $145 million. Of that amount, $53 million is directly attributable to the revised net default/recovery rate. Revised ICRAS grades had no impact on those cohorts. The remainder of the reestimate for cohorts 2004 to 2007 is due to positive net liabilities that significantly exceed the NPV of remaining borrower cashflows (projected defaults).

Components of the FY 2007 Export Credit Guarantee Program reestimate are as follows:

FY 2007 Reestimate
(In Millions)

Cohort	Reestimate	Interest on Reestimate	FAI Adjustment	Total Reestimate
1992	$ (4)	$ (5)	-	$ (9)
1993	(9)	(8)	-	(17)
1996	(17)	(18)	-	(35)
1997	(32)	(30)	-	(62)
1998	(3)	(2)	-	(5)
1999	(2)	(1)	-	(3)
2000	-	-	-	-
2001	(36)	(15)	-	(51)
2002	(1)	-	-	(1)
2003	(4)	-	-	(4)
2004	(32)	(4)	2	(34)
2005	(41)	(5)	2	(44)
2006	(40)	(4)	1	(43)
2007	(25)	(1)	-	(26)
Total	$ (246)	$ (93)	$ 5	$ (334)

Supplier Credit Guarantee Program

The change in the reestimate due to the revised recovery rate for SCGP was insignificant. The downward reestimate for SCGP is the result of a non-sovereign rescheduled agreement with Indonesia in cohort 2004 that is included in the reestimates for the first time in FY 2007. Under that agreement, Indonesia owes approximately $66 million in principal and interest over the next six years. After applying the net default/recovery rates and the present value factors for the years in question, the net present value of remaining cashflows for the 2004 cohort is $50.8 million. Therefore, this resulted in a large downward reestimate for the 2004 cohort year. Excluding the 2004 cohort, the remaining reestimate is only $2 million.

Components of the FY 2007 Supplier Credit Guarantee Program reestimate are as follows:

FY 2007 Reestimate
(In Millions)

Cohort	Reestimate	Interest on Reestimate	FAI Adjustment	Total Reestimate
2002	$ (1)	$ -	-	$ (1)
2003	-	-	-	-
2004	(50)	(2)	-	(52)
2005	5	-	(2)	3
Total	$ (46)	$ (2)	$ (2)	$ (50)

Note 6 - Commodity Inventories, Net

Inventory activities as of September 30 are as follows:

	(In Millions)	
	2007	2006
Commodity Inventories - Beginning of Fiscal Year	$ 226	$ 304
Acquisitions	5,468	6,017
Cost of Sales	(4,736)	(5,339)
Donations	(773)	(753)
Other Dispositions, Additions and Deductions	-	(3)
Commodity Inventories - End of Fiscal Year	$ 185	$ 226
Less: Allowances for Losses	-	(171)
Commodity Inventories, Net	$ 185	$ 55

Commodity loan forfeitures included in the acquisitions line item were $77 million and $133 million for the fiscal years ended September 30, 2007 and 2006, respectively.

The allowances for losses in FY 2007 are insignificant. See Note 1, Commodity Inventories, for more information.

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 P.L. 480. In addition, if commodities that meet unanticipated needs under Title II of P.L. 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. As of September 30, 2007, there was no allowance for commodity losses for wheat due to strong market prices. See Note 1, Commodity Inventories, for more information.

Note 7 - General Property and Equipment, Net

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

2007	Acquisition Value (In Millions)	Accumulated Depreciation (In Millions)	Net Book Value (In Millions)
ADP Equipment	$ 55	$ (55)	$ -
Capitalized Software Development Costs	105	(50)	55
Total General Property and Equipment	$ 160	$ (105)	$ 55

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

Note 8 -- Disclosures Related to Stewardship Land

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.

Wetland Reserve Program (WRP)
NRCS administers WRP programs using CCC funding for program years prior to FY 2002. In FY 2002, funding responsibility for the Wetland Reserve Program returned to NRCS; however, CCC remains responsible for easements funded prior to the signing of the 2002 Farm Bill. 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; and
- Previously restored wetlands that need long-term protection.

Note 8 – Disclosures Related to Stewardship Land, continued

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 a 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 9 – Liabilities Not Covered by Budgetary Resources

	(In Millions)			
	2007		2006	
Accrued Liabilities (Note 14)				
Conservation Reserve Program	$	1,810	$	1,779
Tobacco Transition Payment Program		5,380		6,137
Environmental and Disposal Liabilities (Note 13)		8		11
Total Liabilities Not Covered by Budgetary Resources	$	7,198	$	7,927
Total Liabilities Covered by Budgetary Resources	$	16,012	$	30,894
Total Liabilities	$	23,210	$	38,821

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

Note 10 – Debt to the Treasury

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

	(In Millions)			
	2007		2006	
Debt - Beginning of Fiscal Year				
Principal: Interest Bearing	$	19,341	$	23,103
Accrued Interest Payable		427		323
Total Debt Outstanding - Beginning of Fiscal Year	$	19,768	$	23,426
New Debt				
Principal: Interest Bearing	$	28,664	$	27,596
Accrued Interest Payable		796		557
Total New Debt	$	29,460	$	28,153
Repayments				
Principal: Interest Bearing	$	(41,553)	$	(31,414)
Accrued Interest Payable		(1,159)		(453)
Total Repayments	$	(42,712)	$	(31,867)
Interest Refinanced		-		56
Debt - End of Fiscal Year				
Principal: Interest Bearing	$	6,452	$	19,341
Accrued Interest Payable		64		427
Total Debt Outstanding - End of Fiscal Year	$	6,516	$	19,768

CCC may borrow interest-free up to the amount of its unreimbursed realized losses. For interest bearing notes, monthly interest rates ranged from 4.750 percent to 5.125 percent during FY 2007 and from 3.875 percent to 5.250 percent during FY 2006. Repayments are applied to non-interest bearing notes first. Once these are liquidated, repayments are then applied to interest bearing notes.

The total amount of debt principal and interest refinanced was $11.6 billion in FY 2006. There was no debt principal and interest refinanced in FY 2007. This amount is included in the table above in the total amounts of new debt and repayments. The outstanding principal rolled over in FY 2006. Accrued interest rolled into notes payable was $56 million in FY 2006; there was no accrued interest rolled into notes payable in FY 2007.

Interest expense incurred on Treasury borrowings was $350 million and $552 million for FY 2007 and 2006, respectively.

The FY 2007 and 2006 interest rates on long-term borrowings under the permanent indefinite borrowing authority for the Credit Reform programs are calculated using the OMB CSC 2 tool. 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 10 - Debt to the Treasury, continued

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

CCC has a separate permanent indefinite borrowing authority for the Credit Reform programs to finance disbursements on post-1992 Credit Reform direct credit and loan obligations and credit guarantees. On October 1, CCC borrows from Treasury for the entire fiscal year, based on annual estimates of the difference between the amount appropriated (subsidy) and the amount to be disbursed to the borrower. CCC may repay the loan agreement, in whole or in part, prior to maturity by paying the principal amount of the borrowings plus accrued interest up to the date of repayment. Interest is paid on these borrowings based on weighted average interest rates for the cohort to which the borrowings are associated. Interest expense incurred on borrowings associated with the Credit Reform programs amounted to $163 million and $194 million in FY 2007 and 2006, 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 in interest expense on capital stock for the fiscal years ended September 30, 2007 and 2006.

Note 10 - Debt to the Treasury, continued

Total debt outstanding, by program and maturity date, as of September 30, 2007, is as follows:

Program	Debt (In Millions)	Maturity Date
CCC Borrowing Authority	$ 3,493	January 1, 2008
Export Credit Guarantee	238	September 30, 2007*
	16	September 30, 2009
	64	September 30, 2010
	110	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
	18	September 30, 2035
Debt Reduction	17	September 30, 2012
	17	September 30, 2018
	9	September 30, 2021
	56	September 30, 2022
	22	September 30, 2023
	88	September 30, 2024
	26	September 30, 2026
	3	September 30, 2028
Farm Storage Facility Loans	3	September 30, 2008
	18	September 30, 2009
	18	September 30, 2010
	32	September 30, 2011
	39	September 30, 2012
	57	September 30, 2013
	114	September 30, 2014
	186	September 30, 2015
Boll Weevil	4	September 30, 2008
Apple Loans	1	September 30, 2010
Total Debt Outstanding	$ 6,452	

*This debt is past due. An updated maturity date is forthcoming.

Note 11 - 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)	
	2007	2006
Intragovernmental:		
Agricultural Marketing Service	$ 265	$ 454
Food and Nutrition Service	303	294
Foreign Agricultural Service	150	142
Natural Resources Conservation Service	100	108
Total Intragovernmental Deposit and Trust Liabilities (Note 18)	$ 818	$ 998
Public	$ 14	$ 1
Total Public Deposit and Trust Liabilities	$ 14	$ 1

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

The $14 million of public liability consists of unapplied collections for warehouse user fees, claims for disaster programs, and other miscellaneous collections that are temporarily held in suspense until appropriately identified and applied.

Note 12 - Other Liabilities

Other liabilities as of September 30 are as follows:

	(In Millions)	
	2007	2006
Intragovernmental:		
Accrued Reimbursable Agreements	$ -	$ 1
Accrued Conservation Reserve Program Technical Assistance	8	28
Excess Subsidy Payable to Treasury	504	458
Other	28	20
Total Intragovernmental Other Liabilities	$ 540	$ 507
Public	$ 12	$ 58
Total Public Other Liabilities	$ 12	$ 58

Note 13 - Environmental and Disposal Liabilities

The Corporation formerly operated approximately 4,500 grain storage facilities in the U.S. To date, at approximately 120 of these facilities, Carbon Tetrachloride (a fumigant commonly used at grain storage facilities during that time) was discovered in groundwater. CCC recorded an estimate of the total liability for investigation and remediation of affected sites of $8 million and $11 million at September 30, 2007 and 2006, respectively, based on actual cleanup costs at similar sites. This liability is not covered by budgetary resources.

Hazardous Waste Program

Since the first discovery of contaminated groundwater CCC has been engaged in an active program to identify affected sites, perform risk assessments, and conduct cleanup actions. Payments for these activities totaled $5 million and $7 million as of September 30, 2007 and 2006 respectively. At September 30, 2007, CCC estimates the range of potential loss to be between $8 million and $49 million.

Note 14 - Accrued Liabilities

Accrued liabilities as of September 30 are as follows:

	(In Millions)	
	2007	2006
Conservation Reserve Program	$ 1,810	$ 1,779
Export Programs	100	86
Income Support Programs:		
Direct and Counter-Cyclical Payments	4,246	5,378
Milk Income Loss Contract	1	89
Other	4	27
Tobacco Transition Payment Program:		
Liability to Tobacco Quota Holders	3,763	4,293
Liability to Tobacco Producers	1,617	1,844
Other	2	9
Total Accrued Liabilities	$ 11,543	$ 13,505

The liabilities for Conservation Reserve Programs are considered current. The liability of $5.4 billion under the Tobacco Transition Payment Program includes $903 million as a current liability as of September 30, 2007; the remaining balance is a long term liability. See Note 1 for a further discussion.

Note 15 - Commitments and Contingencies

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

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

Commitments

Wetland Reserve Program (WRP)
Under WRP, CCC purchases easements, based on agricultural value, to restore wetlands that have previously been drained and converted to agricultural uses in order 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, 2007 and 2006, were $8 million and $19 million, respectively. At September 30, 2007 and 2006, CCC's undelivered orders on current contracts were $21 million and $40 million, respectively.

Market Access Program (MAP)
The MAP was authorized by the Agriculture Trade Act of 1978, as amended, to encourage the development, maintenance, and expansion of commercial export markets for agricultural commodities through cost-share assistance to eligible trade organizations that implement a foreign market development program. CCC makes funds available to reimburse program participants for authorized promotional expenses. Program expenses for the fiscal years ended September 30, 2007 and 2006, were $184 million and $158 million, respectively. At September 30, 2007 and 2006, CCC's undelivered orders on current contracts were $221 million and $205 million, respectively.

Noninsured Crop Disaster Assistance Program (NAP)
The NAP was authorized as a CCC program under the 1996 Act. The NAP provides financial assistance to producers of non-insurable crops when a low yield crop, loss of inventory, or prevented planting occurs due to natural disasters. The crops must be non-insurable commodities for which the catastrophic risk protection level of crop insurance is not available. Program expenses for the FY 2007 and 2006 were $127 million and $65 million, respectively. At September 30, 2007 and 2006, CCC's undelivered orders on current contracts were $8 million and $9 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 $88 million and $87 million at September 30, 2007 and 2006, 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.

Note 15 - Commitments and Contingencies, continued

Leases
As of September 30, 2007, 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
2008	$ 4
2009	3
2010	1
Total	**$ 8**

Allocated rent expense, net of reimbursements, was $54 million and $64 million for the fiscal years ended September 30, 2007 and 2006, respectively. This allocated rent expense is recognized as part of the CCC's imputed financing sources and imputed costs.

Contingencies

Legal Disputes and Claims
In the normal course of business, CCC becomes involved in various legal disputes and claims. CCC vigorously defends its position in such actions through the Office of the General Counsel (OGC) and the U.S. Department of Justice. At September 30, 2007 legal disputes and claims are considered to be immaterial.

Note 16 – Disclosures Related to the Statement of Net Cost

Earned Revenue

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

	(In Millions)	
	2007	2006
Intragovernmental Earned Revenue:		
Commodity Inventory Sales	$ 679	$ 529
Interest Income	62	89
Other	271	147
Less: Intra-Agency Eliminations	(679)	(519)
Total Intragovernmental Earned Revenue	$ 333	$ 246
Earned Revenue from the Public		
Commodity Inventory Sales	$ 3,714	$ 4,177
Interest Income	444	545
Other	477	62
Total Earned Revenue from the Public	$ 4,635	$ 4,784
Total Earned Revenue	$ 4,968	$ 5,030

Other Income under Intragovernmental Earned Revenue consists of $78 million for accruals during the year for the collection of ocean freight differential costs from the Department of Transportation related to the commodity shipments to foreign countries under the Maritime Administration. See Note 3 for reference. Interest Income under Intragovernmental Earned Revenue consists of a $31 million decrease from FY 2006 to FY 2007 in P.L. 480 Direct Loans.

Public commodity inventory sales decreased from $4.2 billion in FY 2006 to $3.7 billion in FY 2007 due to higher upland cotton market prices, which affected commodity certificate exchanges in FY 2007. Other earned revenue from the public includes $465 million that was recognized in FY 2007 under TTPP.

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. $1.013 billion of CCC's total gross cost is attributable to USAID. 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.

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

CCC's strategic goals are as follows:

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

Under supporting productive farms and ranches, program areas include Income Support and Disaster Assistance. CCC provides financial assistance in the form of flexible payments and short term financing to stabilize, support, and protect farm income and prices due to the fluctuation of commodity market prices or income support due to damage caused by natural disaster. Commodity Loans, TTPP, Disaster Assistance, and Direct and Counter-Cyclical 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 supporting international economic development and trade capacity building, program areas include Export Credit, Market Expansion and Trade Building. FAS and CCC form cooperative agreements with other nonprofit agricultural trade commodity groups to encourage development, maintenance and expansion of commercial export markets for agricultural commodities. Major programs include Food Aid, Foreign Market Development and Export Credit Guarantee.

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

Net cost of operations as of September 30, 2007 (In millions), is as follows:

Agency Strategic Goals:

	Commodity Operations	Income Support and Disaster Programs	Conservation Programs	Foreign Programs	Intra-entity Eliminations	Total
Supporting Productive Farms and Ranches						
Intragovernmental Cost	$ 374	$ 1,042	$ -	$ -	$ -	$ 1,416
Public Cost	12	11,477	-	-	-	11,489
Total Cost	$ 386	$ 12,519	$ -	$ -	$ -	$ 12,905
Intragovernmental Earned Revenue	$ -	$ -	$ -	$ -	$ -	$ -
Public Earned Revenue	5	4,388	-	-	-	4,393
Total Earned Revenue	$ 5	$ 4,388	$ -	$ -	$ -	$ 4,393
Supporting Secure and Affordable Food and Fiber						
Intragovernmental Cost	$ 45	$ 22	$ -	$ -	$ -	$ 67
Public Cost	(190)	13	-	-	-	(177)
Total Cost	$ (145)	$ 35	$ -	$ -	$ -	$ (110)
Intragovernmental Earned Revenue	$ -	$ 12	$ -	$ -	$ -	$ 12
Public Earned Revenue	-	10	-	-	-	10
Total Earned Revenue	$ -	$ 22	$ -	$ -	$ -	$ 22
Conserving Natural Resources and Enhancing the Environment						
Intragovernmental Cost	$ -	$ -	$ 245	$ -	$ -	$ 245
Public Cost	-	-	1,913	-	-	1,913
Total Cost	$ -	$ -	$ 2,158	$ -	$ -	$ 2,158
Intragovernmental Earned Revenue	$ -	$ -	$ -	$ -	$ -	$ -
Public Earned Revenue	-	-	1	-	-	1
Total Earned Revenue	$ -	$ -	$ 1	$ -	$ -	$ 1
Supporting International Economic Development and Trade Capacity Building						
Intragovernmental Cost	$ -	$ -	$ -	$ 854	$ (679)	$ 175
Public Cost	-	-	-	1,537	-	1,537
Total Cost	$ -	$ -	$ -	$ 2,391	$ (679)	$ 1,712
Intragovernmental Earned Revenue	$ -	$ -	$ -	$ 1,000	$ (679)	$ 321
Public Earned Revenue	-	-	-	231		231
Total Earned Revenue	$ -	$ -	$ -	$ 1,231	$ (679)	$ 552
Total Gross Cost	**$ 241**	**$ 12,554**	**$ 2,158**	**$ 2,391**	**$ (679)**	**$ 16,665**
Less: Total Earned Revenue	**5**	**4,410**	**1**	**1,231**	**(679)**	**4,968**
Net Cost of Operations	**$ 236**	**$ 8,144**	**$ 2,157**	**$ 1,160**	**$ -**	**$ 11,697**

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

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

Agency Strategic Goals:

	Commodity Operations	Income Support and Disaster Programs	Conservation Programs	Foreign Programs	Intra-entity Eliminations	Total
Supporting Productive Farms and Ranches						
Intragovernmental Cost	$ 602	$ 960	$ -	$ -	$ -	$ 1,562
Public Cost	103	21,113	-	-	-	21,216
Total Cost	$ 705	$ 22,073	$ -	$ -	$ -	$ 22,778
Intragovernmental Earned Revenue	$ -	$ 8	$ -	$ -	$ -	$ 8
Public Earned Revenue	25	4,273	-	-	-	4,298
Total Earned Revenue	$ 25	$ 4,281	$ -	$ -	$ -	$ 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
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
Supporting International Economic Development and Trade Capacity Building						
Intragovernmental Cost	$ -	$ -	$ -	$ 719	$ (520)	$ 199
Public Cost	-	-	-	653	-	653
Total Cost	$ -	$ -	$ -	$ 1,372	$ (520)	$ 852
Intragovernmental Earned Revenue	$ -	$ -	$ -	$ 757	$ (520)	$ 237
Public Earned Revenue	-	-	-	433	-	433
Total Earned Revenue	$ -	$ -	$ -	$ 1,190	$ (520)	$ 670
Total Gross Cost	**$ 752**	**$ 22,073**	**$ 2,366**	**$ 1,372**	**$ (520)**	**$ 26,043**
Less: Total Earned Revenue	**44**	**4,281**	**35**	**1,190**	**(520)**	**5,030**
Net Cost of Operations	**$ 708**	**$ 17,792**	**$ 2,331**	**$ 182**	**$ -**	**$ 21,013**

Note 17 - Disclosures Related to the Statement of Budgetary Resources

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

As of September 30, 2007, 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 $3.8 billion direct obligations and $27.4 billion reimbursable obligations.

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.

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 $52.0 billion and $51.8 billion as of September 30, 2007 and 2006, respectively.

CCC has a permanent indefinite borrowing authority, as defined by OMB Circular A-11, *Preparation and Submission of Budget Estimates*, of $30 billion. 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, 2007, is $26.5 billion. See Note 10 for further discussion.

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

Undelivered orders, either unpaid or prepaid, are obligations, purchase orders, or contracts awarded in which goods or services have not yet been received. The amounts for undelivered orders are $3.4 billion and $1.9 billion as of September 30, 2007 and 2006, respectively.

Unobligated budget authority is the difference between the total unexpended appropriation balance and the obligated balance. An appropriation expires on the last day of its period of availability and is no longer available for new obligations. Unobligated balances retain their fiscal year identity in an "expired account" for 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).

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 2007 President's Budget that will be published in FY 2008.

Since the Budget of the U.S. Government P&F Schedules for 2007 are not available, the reconciliation between the President's Budget and the SBR for FY 2007 cannot be performed. The 2007 Budget of the United States Government is expected to be published in February 2008 and will be available on OMB's website (www.whitehouse.gov/omb) at that time. The SF-133 and the SBR for FY 2007 will be reconciled to the FY 2007 actuals on the P&F Schedules presented in the Budget of the United States Government once released.

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

The SF-133 and the SBR for FY 2006 have been reconciled to the FY 2006 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.

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

The comparison of selected line items of the FY 2006 SBR to the actuals on the FY 2006 P&F Schedules presented in the Budget of the United States Government is as follows:

In Millions

SBR Line Ref	P&F Line No.	SBR Line Description	SBR Amount	P&F Amount	Difference	Portion of Difference Resulting from Reporting Requirements [c,e,f,h]	Note
7 or 11	22.00 or 23.90	Total Budgetary Resources/Status of Budgetary Resources	$ 46,049	$ 46,051	$ (2)	$ -	a
8	10.00	Total New Obligations	43,256	43,257	(1)	-	a
3D1a/3D2a/3D5	58.00/68.00/69.00	Offsetting Collections - Collected	17,392	17,408	(16)	-	b
3D1b	69.10/74.00	Offsetting Collections - Receivable	25	25	-	-	
3A	40.00/60.00	Appropriations Received	28,111	28,111	-	-	
3B	67.10	Authority to Borrow	45,289	37,747	7,542	7,541	c
4	41.00/42.00/22.21/22.22/61.00/62.00	Budgetary Resources/Unobligated Balance - Net Transfers	(1,872)	(1,864)	(8)	(1)	d, e
6	22.40/22.60/40.35/40.36/69.27/69.47	Permanently not Available	(51,842)	(44,318)	(7,524)	(7,523)	b, c, d, e, f
2	22.10/73.40	Recoveries of Prior Year Obligations	4,948	4,948	-	-	
1	21.40	Unobligated Balance - Beginning of Year	3,998	3,994	4	4	a, f
9,/10	24.40	Unobligated Balance - End of Year	2,794	2,794	-	-	
12	72.40	Obligated Balance - Beginning of Year	8,275	8,319	(44)	3	g, h
13	73.10	Obligations Incurred	43,256	43,257	(1)	-	a
14	73.20	Gross Outlays	38,650	38,699	(49)	(1)	a, g, h
15	73.31/73.32	Obligated Balance Transfers, Net	-	-	-	-	
16	73.45	Recoveries of Prior Year Obligations	4,948	4,948	-	-	
17	74.00/74.10	Change in Uncollected Customer Payments from Federal Sources	(25)	(25)	-	-	
18	74.40	Obligated Balance - End of Year	7,907	7,905	2	(1)	h
19A/19B	90.00	Outlays	21,258	21,291	(33)	(1)	a, b, g, h

NOTES:

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

a. The variance is due to a $2.3 million FACTS II adjustment in Export Credit Guarantee Financing Fund 12X4337. This adjustment was due to a 2005 reconciling item, in Outlays: Disbursements. In 2005, $798 million was reported to Treasury for Outlays: Disbursements, however, the SBR reported $800 million in Outlays: Disbursements, causing a difference of $2.3 million which was carried forward into the amount being reported in Line 1 of the SBR, Unobligated Balance Brought Forward, October 1, for 2006 reporting period.

b. $16 million of the variance in CCC's Revolving Fund 12X4336 on Line 3D1a/3D2a/3D5 Offsetting Collections and Line 19A/19B Outlays is due to an offsetting entry directed by OMB to increase NRCS Net Outlays in Fund 1004 from what was reported to Treasury on FACTS II and to offset the decrease in CCC's Net Outlays in MAX, so that total USDA Outlays would remain the same. In addition, Line 6 Permanently not Available, Portion Applied to Repay Debt, was also effected by the amount of Offsetting Collections used for repayment of outstanding borrowing.

c. $7,541 million of the variance in CCC's Revolving Fund 12X4336 on Line 3B Borrowing Authority is due to the differences in reporting on the P&F crosswalk against the Statement of Budgetary Resources. The P&F crosswalk includes actual reductions of borrowing authority in Line 3B Borrowing Authority, however, the SBR crosswalk reports the actual reductions of borrowing authority in Line 6, Permanently not Available. The variance of $7,541 million is offset in Line 6, Permanently not Available.

d. $6.4 million of the variance in CCC's Revolving Fund 12X4336 on Line 4, Budgetary Resources/Unobligated Balance-Net Transfers and Line 6 Permanently not Available, is due to Allocations of Realized Authority that had not been transferred to USAID.

e. $1.4 million of the variance in Farm Storage Facility Loans Fund 12X3301 on Line 4 Budgetary Resources/Unobligated Balance-Net Transfers is due to the difference in reporting on the P&F Crosswalk. The P&F crosswalk includes Transfers-Prior Year in Line 6, Permanently not Available, however, the SBR includes Transfers-Prior Year on Line 4 Budgetary Resources/Unobligated Balance-Net Transfers. The variance of $1.4 million is offset in Line 6, Permanently not Available.

f. The variance of $4.4 million is the balance in expired Treasury Symbol 1213302 reported on the SBR. Expired Treasury Symbols are not reported on the P&F Schedule.

g. The majority of the variance in Obligated Balance-Beginning of Year, Gross Outlays, and Outlays is due to $47 million of activity involving USAID in Funds 12X4336 and (72)12X4336. The amounts reported in the SBR for FY2006 are different from the SF-133 submitted by USAID, for FY 2005 transactions that were recorded in the FY 2006 SBR. The difference of $47 million is not captured in the 2006 P&F Schedule, due to the amount already being reported for the 2005 P&F Schedule.

h. A portion of the difference includes activity for Hazardous Waste Fund, 12X0500, that is reported on the SBR. This fund is reported at the Department level, in the Budget of the U.S. Government and therefore is not presented by the Agency.

Note 18 - Disclosures Not Related to a Specific Statement

Transactions with Related Organizations

CCC maintains deposit and trust liabilities for AMS, FAS, FNS, and NRCS. Refer to Note 11 for a further discussion. In addition, CCC has the following transactions with USDA agencies:

As of September 30, 2007 and 2006, outlays under reimbursable agreements with other USDA agencies amounted to $11 million and $36 million, respectively.

CCC transferred $4 million to FAS in FY 2007 and FY 2006 and an additional $6 and $5 million to FSA for salaries and expenses for administering the foreign Credit Reform programs, respectively.

CCC received an $18 million and $12 million charge from FSA for the allocation of internal software development costs during FY 2007 and FY 2006, respectively, which were capitalized. 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.

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, 2007 and 2006, were $109 million and $170 million, respectively.

In both fiscal years ended September 30, 2007 and 2006, CCC transferred $15 million to FNS for the Senior's Farmers Market Nutrition Program. CCC transferred $55 million in FY 2007 to the Animal and Plant Health Inspection Service for bovine tuberculosis, light brown apple moth outbreak, and potato cyst nematode eradication programs. In addition, CCC transferred $2 million to the Office of the CFO for bio-diesel fuel education and bio-based products, $2 million to AMS for general program and peanut mandatory inspection activity, and $14 million to the Rural Business and Cooperative Development Service for biomass research and development as of September 30, 2007.

During FY 2007 and 2006, under the 2002 Farm Bill, CCC disbursed a total of $1.7 billion and $1.8 billion, respectively, to NRCS for various conservation programs and technical assistance. In addition, during FY 2007, CCC disbursed $100 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 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. 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 also transfers funds to USAID to fund P.L. 480 Title II transportation and other administrative costs in connection with foreign donations. See Note 1 under Allocation Transfers and Shared Appropriations for further information.

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

Custodial Activity

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

Custodial activities as of September 30 are as follows:

	(In Millions)	
	2007	2006
Revenue Activity:		
Sources of Cash Collections:		
Repayment of Farm Credit Loans	$ 1,317	$ 1,366
Administrative and Other Service Fees	28	19
Total Cash Collections	$ 1,345	$ 1,385
Total Custodial Revenue	$ 1,345	$ 1,385
Disposition of Collections:		
Transfers to Others:		
USDA Farm Service Agency	$ 1,326	$ 1,375
Other USDA Agencies	-	12
Department of Treasury	2	2
Total Disposition of Collections	$ 1,328	$ 1,389
Amounts Yet to be Transferred (+/-)	$ 17	$ (4)

Note 19 – Reconciliation of Net Cost of Operations (proprietary) to Budget (formerly the Statement of Financing)

The Reconciliation of Net Cost of Operations (Proprietary) to Budget (formerly the Statement of Financing) for the fiscal years ended September 30 is as follows:

	(In Millions)	
	2007	2006
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	$31,153	$43,256
Less: Spending Authority from Offsetting Collections and Recoveries	18,599	22,365
Obligations Net of Offsetting Collections and Recoveries	$12,554	$20,891
Less: Offsetting Receipts	464	987
Net Obligations	$12,090	$19,904
Other Resources:		
Transfers In/Out without Reimbursement, Net	$ (442)	$ (533)
Imputed Financing from Costs Absorbed by Others	1,271	1,141
Net Other Resources Used to Finance Activities	$ 829	$ 608
Total Resources Used to Finance Activities	**$12,919**	**$20,512**
Resources Used to Finance Items not Part of the Net Cost of Operations:		
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered but not Yet Provided	$ (1,459)	$ (128)
Resources that Fund Expenses Recognized in Prior Periods	(382)	(97)
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	1,583	2,094
Other	8,065	7,067
Resources that Finance the Acquisition of Assets	(12,300)	(13,224)
Other Resources or Adjustments to Net Obligated Resources that Do Not Affect Net Cost of Operations	(1,662)	(1,650)
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	**$ (6,155)**	**$ (5,938)**
Total Resources Used to Finance the Net Cost of Operations	**$ 6,764**	**$14,574**
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	$ 39	$ 233
(Increase) in Exchange Revenue Receivable from the Public	(9)	(135)
Other	(189)	(192)
Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods	$ (159)	$ (94)
Components not Requiring or Generating Resources:		
Depreciation and Amortization	51	(28)
Revaluation of Assets or Liabilities	(177)	(76)
Other	5,218	6,637
Total Components of Net Cost of Operations that will not Require or Generate Resources	$ 5,092	$ 6,533
Total Components of Net Cost of Operations that will not Require or Generate Resources in the Current Period	**$ 4,933**	**$ 6,439**
Net Cost of Operations	**$11,697**	**$21,013**

Note 19 – Reconciliation of Net Cost of Operations (proprietary) to Budget (formerly the Statement of Financing), continued

The current year transactions which include current year accruals, as well as the reversal of prior year accruals are reported on the Resources That Fund Expenses Recognized in Prior Periods line of the reconciliation.

Other Budgetary Offsetting Collections and Receipts That Do Not Affect Net Cost of Operations for the fiscal years ended September 30 are as follows:

	(In Millions)	
	2007	2006
Loans Receivable - Commodity Loans Repaid	$ 7,136	$ 5,932
Refund Receivables/Repayments	404	463
Other Non-Credit Reform Collections	60	472
Total Decrease in Exchange Receivables from the Public	7,600	6,867
Change in Unfilled Customer Orders	826	189
Other		
Export	(23)	-
Ocean Transport Food for Progress	(25)	-
Tri-Agency	(67)	-
Miscellaneous	(246)	11
Total	$ 8,065	$ 7,067

Other Resources or Adjustments to Net Obligated Resources That Do Not Affect Net Cost of Operations for the fiscal years ended September 30 are as follows:

	(In Millions)	
	2007	2006
Allocation Transfer - USAID	$ (11)	$ (886)
Claim Disbursements	(764)	(901)
Tri-Agency Activities	(762)	-
Intra-Agency Transfers	-	81
Miscellaneous	(125)	56
Total	$ (1,662)	$ (1,650)

Note 19 – Reconciliation of Net Cost of Operations (proprietary) to Budget (formerly the Statement of Financing), continued

Other Components Requiring or Generating Resources In Future Periods for the fiscal years ended September 30 are as follows:

	(In Millions)	
	2007	2006
Tobacco Transition Program	$ (465)	$ -
Price Support Certificate Exchange	(3)	(213)
Price Support Accrued Liabilities	311	-
Miscellaneous	(32)	21
Total	$ (189)	$ (192)

$465 million for the Tobacco Transition Payment Program represents earned revenue from the tobacco industry that was recognized during the fiscal year.

Other Components Not Requiring or Generating Resources for the fiscal years ended September 30 are as follows:

	(In Millions)	
	2007	2006
Bad Debt Expense	$ (301)	$ 433
Cost of Donations	773	753
Cost of Goods Sold	5,413	5,339
Other		
Other Expenses Not Requiring Budgetary Resources	(60)	-
Allocation Transfers from FSA for the Conservation Programs	-	142
USAID Reconciling Items	(46)	-
Miscellaneous	(561)	(30)
Total	$ 5,218	$ 6,637

Bad debt expense consists primarily of $166 million for P.L. 480 Direct Loans and $111 million for Price Support.

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

Schedule 1

Required Supplementary Information

Wetlands Reserve Program

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.

In FY 2002, funding responsibility for 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, 2007 and 2006 are as follows:

	2007	2006
Easement Acreage Acquired - Beginning of Fiscal Year	1,026,110	1,007,746
Additions	-	18,364
Easement Acreage Acquired – End of Fiscal Year	1,026,110	1,026,110

There were no additions to easement acreage acquired during FY 2007. All CCC funds disbursed in FY 2007 for WRP were for restoration costs, related costs, or installment payments.

Schedule 2
Required Supplementary Information (Unaudited)

Supporting Schedule to the Combined Statements of Budgetary Resources
Budgetary Accounts

For the Fiscal Year Ended September 30, 2007
(Dollars in Millions)

	Treasury Fund Symbols						
	12X4336	12X2278	(72)12X4336	12X8161	12X2274	Other	Total Budgetary
Budgetary Resources:							
Unobligated balance, brought forward, October 1:	$ 609	$ 80	$ 131	$ -	$ 162	$ 184	$ 1,166
Recoveries of prior year unpaid obligations	508	136	73	-	-	-	717
Budget authority							
Appropriation	10	1,665	-	934	143	23,120	25,872
Borrowing Authority (Note 16)	41,185	-	-	-	-	-	41,185
Contract Authority (Note)							
Spending authority from offsetting collections:							
Earned:							
Collected	16,014	129	-	-	-	741	16,884
Change in receivables from Federal sources	(963)	-	-	-	-	-	(963)
Change in unfilled customer orders:							
Advance received	(180)	-	-	-	-	-	(180)
Expenditure transfers from trust funds	934	-	-	-	-	-	934
Subtotal	$ 57,000	$ 1,794	$ -	$ 934	$ 143	$ 23,861	$ 83,732
Nonexpenditure transfers, net actual	20,289	-	949	-	-	(23,068)	(1,830)
Permanently not available	(51,168)	-	-	-	-	(766)	(51,934)
Total Budgetary Resources	**$ 27,238**	**$ 2,010**	**$ 1,153**	**$ 934**	**$ 305**	**$ 211**	**$ 31,851**
Status of Budgetary Resources							
Obligations incurred:							
Direct	$ -	$ 1,770	$ -	$ 934	$ 122	$ 68	$ 2,894
Reimbursable	26,295	-	1,057	-	-	-	27,352
Subtotal	$ 26,295	$ 1,770	$ 1,057	$ 934	$ 122	$ 68	$ 30,246
Unobligated balance:							
Apportioned	$ 97	$ 91	$ 95	$ -	$ 22	$ 97	$ 402
Exempt from apportionment	807	-	-	-	-	1	808
Subtotal	$ 904	$ 91	$ 95	$ -	$ 22	$ 98	$ 1,210
Unobligated balance not available	39	149	1	-	161	45	395
Total status of budgetary resources	**$ 27,238**	**$ 2,010**	**$ 1,153**	**$ 934**	**$ 305**	**$ 211**	**$ 31,851**

Schedule 2
Required Supplementary Information (Unaudited)

Supporting Schedule to the Combined Statements of Budgetary Resources
Budgetary Accounts

For the Fiscal Year Ended September 30, 2007
(Dollars in Millions)

	Treasury Fund Symbols						
	12X4336	12X2278	(72)12X4336	12X8161	12X2274	Other	Total Budgetary
Change in Obligated Balance							
Obligated Balance, net, beg. of period							
Unpaid obligations, brought forward, October 1	$ 6,812	$ 1,208	$ 955	$ -	$ 168	$ 138	$ 9,281
Less: Uncollected customer payments from Federal sources, brought forward, October 1	(1,275)	-	-	-	-	-	(1,275)
Total unpaid obligated balance, net	$ 5,537	$ 1,208	$ 955	$ -	$ 168	$ 138	$ 8,006
Obligations incurred, net	26,295	1,770	1,057	934	122	68	30,246
Less: Gross outlays	(25,854)	(2,679)	(1,071)	(934)	(124)	(101)	(30,763)
Less: Recoveries of prior year unpaid obligations, actual	(508)	(136)	(73)	-	-	-	(717)
Change in uncollected customer payments from Federal sources	963	-	-	-	-	-	963
Total Change in Obligated Balance	**$ 6,433**	**$ 163**	**$ 868**	**$ -**	**$ 166**	**$ 105**	**$ 7,735**
Obligated balance, net,end of period:							
Unpaid obligations	$ 6,745	$ 163	$ 868	$ -	$ 166	$ 105	$ 8,047
Less: Uncollected customer payments from Federal sources	(312)	-	-	-	-	-	(312)
Total, unpaid obligated balance, net, end of period	**$ 6,433**	**$ 163**	**$ 868**	**$ -**	**$ 166**	**$ 105**	**$ 7,735**
Net Outlays							
Gross outlays	$ 25,854	$ 2,679	$ 1,071	$ 934	$ 124	$ 101	$ 30,763
Less: Offsetting collections	(16,768)	(129)	-	-	-	(741)	(17,638)
Net Outlays	**$ 9,086**	**$ 2,550**	**$ 1,071**	**$ 934**	**$ 124**	**$ (640)**	**$ 13,125**

Schedule 2
Required Supplementary Information (Unaudited)

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

For the Fiscal Year Ended September 30, 2007
(Dollars in Millions)

	Treasury Fund Symbols				
	12X4337	12X4049	12X4158	Other	Total Non-Budgetary
Budgetary Resources:					
Unobligated balance, brought forward, October 1:	$ 895	$ 625	$ 23	$ 84	$ 1,627
Recoveries of prior year unpaid obligations	-	-	14	-	14
Budget authority					
Borrowing Authority (Note 16)	-	18	190	73	281
Spending authority from offsetting collections:					
Earned:					
Collected	780	278	79	52	1,189
Change in receivables from Federal sources	(1)	3	1	1	4
Subtotal	$ 779	$ 299	$ 270	$ 126	$ 1,474
Nonexpenditure transfers, net actual	-	-	-	-	-
Permanently not available	-	-	(67)	(1)	(68)
Total Budgetary Resources	**$ 1,674**	**$ 924**	**$ 240**	**$ 209**	**$ 3,047**
Status of Budgetary Resources					
Obligations incurred:					
Direct	$ 460	$ 151	$ 196	$ 100	$ 907
Subtotal	$ 460	$ 151	$ 196	$ 100	$ 907
Unobligated balance:					
Apportioned	$ 260	$ 766	$ 17	$ 41	$ 1,084
Exempt from apportionment	5	-	-	-	5
Subtotal	$ 265	$ 766	$ 17	$ 41	$ 1,089
Unobligated balance not available	949	7	27	68	1,051
Total status of budgetary resources	**$ 1,674**	**$ 924**	**$ 240**	**$ 209**	**$ 3,047**

Schedule 2
Required Supplementary Information (Unaudited)

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

For the Fiscal Year Ended September 30, 2007
(Dollars in Millions)

	Treasury Fund Symbols				
	12X4337	12X4049	12X4158	Other	Total Non-Budgetary
Change in Obligated Balance					
Obligated Balance, net, beg. of period					
Unpaid obligations, brought forward, October 1	$ 1	$ 2	$ 72	$ -	$ 75
Less: Uncollected customer payments from Federal sources, brought forward, October 1	(131)	(43)	-	-	(174)
Total unpaid obligated balance, net	$ (130)	$ (41)	$ 72	$ -	$ (99)
Obligations incurred, net	460	151	196	100	907
Less: Gross outlays	(460)	(151)	(134)	(98)	(843)
Less: Recoveries of prior year unpaid obligations, actual	-	-	(14)	-	(14)
Change in uncollected customer payments from Federal sources	1	(3)	(1)	(1)	(4)
Total Change in Obligated Balance	**$ (129)**	**$ (44)**	**$ 119**	**$ 1**	**$ (53)**
Obligated balance, net,end of period:					
Unpaid obligations	$ 1	$ 2	$ 120	$ 2	$ 125
Less: Uncollected customer payments from Federal sources	(130)	(46)	(1)	(1)	(178)
Total, unpaid obligated balance, net, end of period	**$ (129)**	**$ (44)**	**$ 119**	**$ 1**	**$ (53)**
Net Outlays					
Gross outlays	$ 460	$ 151	$ 134	$ 98	$ 843
Less: Offsetting collections	(780)	(278)	(79)	(52)	(1,189)
Less: Distributed Offsetting receipts	(391)	(66)	-	(7)	(464)
Net Outlays	**$ (711)**	**$ (193)**	**$ 55**	**$ 39**	**$ (810)**

OTHER ACCOMPANYING INFORMATION (UNAUDITED)

Schedule 3
Other Accompanying Information (Unaudited)
Change in Inventory by Commodity

For the Fiscal Year Ended September 30, 2007
(Dollars in Thousands)

	Unit of Measure	Beginning Inventory October 1, 2006		Acquisitions		Cost of Sales a/		Donations		Other Dispositions b/		Deductions, Net c/		Ending Inventory September 30, 2007	
		Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value
Feed Grains:															
Barley	Bushels	36	$ 69	-	$ 2	(31)	$ (61)	-	$ -	-	$ -	-	$ -	5	$ 10
Corn	Bushels	1,365	2,791	3,937	11,279	(4,350)	(12,123)	-	-	-	-	-	-	951	1,947
Corn Meal	Pounds	9,230	962	355,098	53,093	(364,328)	(54,055)	-	-	-	-	-	-	-	-
Oats	Bushels	-	-	12	13	(12)	(13)	-	-	-	-	-	-	-	-
Sorghum	Bushels	7	14	17,050	78,799	(16,584)	(76,415)	(472)	(2,397)	-	-	-	-	-	-
Sorghum Grits	Pounds	-	-	8,149	1,349	(8,149)	(1,349)	-	-	-	-	-	-	-	-
Total Feed Grains		xxx	$ 3,835	xxx	$ 144,535	xxx	$ (144,016)	xxx	$ (2,397)	xxx	$ -	xxx	$ -	xxx	$ 1,957
Wheat	Bushels	43,406	$ 158,919	34,904	$ 182,335	(30,274)	$ (178,982)	(6,544)	$ (12,145)	-	$ -	(2,236)	$ (6,309)	39,256	$ 143,818
Wheat Flour	Pounds	-	-	178,201	28,096	(177,203)	(28,004)	(998)	(92)	-	-	-	-	-	-
Wheat Products, Other	Pounds	18,766	2,002	329,859	45,954	(344,740)	(47,536)	(705)	(101)	-	-	-	-	3,180	318
Rice Products:															
Rice Products	Cwt.	-	$ -	1,629	$ 30,203	(1,299)	$ (24,128)	(328)	$ (6,034)	-	$ -	-	$ -	2	$ 42
Rice, Rough	Cwt.	57	334	4	25	(12)	(70)	-	-	-	-	-	-	49	288
Rice, Brown	Pounds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cotton, Extra Long Staple	Bales	-	$ -	1	$ 276	(1)	$ (229)	-	$ -	-	$ -	-	$ -	-	$ 47
Cotton, Upland	Bales	5	1,204	17,908	4,707,868	(17,860)	(4,694,227)	-	-	(2)	(500)	-	-	51	14,345
Dairy Products															
Nonfat Dry Milk	Pounds	49,153	$ 40,906	-	$ 101	(656)	$ (620)	(33,824)	$ (36,622)	(64)	$ (93)	(128)	$ 10,192	14,481	$ 13,864
Cheese Regular Price Support	Pounds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Dairy Products		xxx	$ 40,906	xxx	$ 101	xxx	$ (620)	xxx	$ (36,622)	xxx	$ (93)	xxx	$ 10,192	xxx	$ 13,864
Oils & Oilseeds:															
Flaxseed	Cwt.	4	$ 40	16	$ 142	(20)	$ (182)	-	$ -	-	$ -	-	$ -	-	$ -
Sunflower Seed	Cwt.	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sunflower Seed Oil, Processed	Pounds	-	-	3,296	2,027	-	-	(3,296)	(2,027)	-	-	-	-	-	-
Canola Seed	Cwt.	5	47	-	-	(5)	(47)	-	-	-	-	-	-	-	-
Safflower Seed	Cwt.	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Crambe Oilseed	Cwt.	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Mustard Seed	Cwt.	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sunflower Seed Non-Oil	Cwt.	-	-	1	2	(1)	(2)	-	-	-	-	-	-	-	-
Total Oils and Oilseeds		xxx	$ 87	xxx	$ 2,171	xxx	$ (232)	xxx	$ (2,027)	xxx	$ -	xxx	$ -	xxx	$ -
Peanut Butter	Pounds	-	$ -	244,824	$ -	-	$ -	(242,312)	$ (1,776)	-	$ -	2,512	$ 1,776	-	$ -
Peanuts	Pounds	51,023	9,454	37,749	7,023	(54,990)	(10,201)	-	-	-	-	(33,782)	(6,275)	-	-
Soybean Products	Bushels	965	$ 5,257	3,675	$ 18,353	(3,578)	$ (18,154)	-	$ -	-	$ -	(417)	$ (2,140)	646	$ 3,316
Soybean Products	Pounds	-	-	149,815	14,938	(79,562)	(7,395)	(70,253)	(7,543)	-	-	-	-	-	-

Continued on Next Page

Schedule 3
Other Accompanying Information (Unaudited)
Change in Inventory by Commodity

For the Fiscal Year Ended September 30, 2007
(Dollars in Thousands)

	Unit of Measure	Beginning Inventory October 1, 2006		Acquisitions		Cost of Sales a/		Donations		Other Dispositions b/		Deductions, Net c/		Ending Inventory September 30, 2007	
		Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value
Dry Edible Beans	Cwt.	34	$ 941	824	$ 24,749	(765)	$ (22,787)	(24)	$ (764)	-	$ -	-	$ -	68	$ 2,139
Blended Foods	Pounds	3,472	491	223,840	38,606	(227,313)	(39,097)	-	-	-	-	-	-	-	-
Honey	Pounds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Meat	Pounds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Pork Bellies	Pounds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dry Whole Peas	CWT.	66	630	2,299	35,619	(2,136)	(33,084)	(141)	(1,389)	-	-	-	-	88	1,777
Lentils Dry	CWT.	44	594	1,299	21,657	(1,230)	(19,948)	(108)	(2,219)	-	-	-	-	5	85
Corn Seed	Pounds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Plants & Seeds	Pounds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Potatoes Dehydrated	Pounds	-	-	309	203	(309)	(203)	-	-	-	-	-	-	-	-
In Process Beet Sugar	Pounds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sugar, Raw Cane	Pounds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sugar, Refined Beet	Pounds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sugar, Refined Cane	Pounds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Corn Oil	Pounds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Soybean Salad Oil	Pounds	-	-	80,614	23,515	(70,694)	(20,877)	(9,921)	(2,638)	-	-	-	-	-	-
Vegetable Oil	Pounds	3,547	1,386	305,509	139,766	(272,449)	(124,346)	(36,189)	(16,810)	-	-	5,313	2,994	5,732	2,990
Fish, Canned Salmon	Pounds	-	-	553	769	-	-	(553)	(769)	-	-	-	-	-	-
Pudding	Pounds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Tobacco:															
Burley	Pounds	-	$ -	-	$ -	-	$ -	-	$ -	-	$ -	-	$ -	-	$ -
Cigar	Pounds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dark Air Cured	Pounds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Fire Cured	Pounds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Flue Cured	Pounds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Virginia Fire Cured	Pounds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Subtotal		xxx	$ -	xxx	$ -	xxx	$ -	xxx	$ -	xxx	$ -	xxx	$ -	xxx	$ -
Emergency Food Ration Bars	Pounds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Mohair	Pounds	-	-	2	13	(2)	(13)	-	-	-	-	-	-	-	-
Tallow	Pounds	-	-	4,409	878	-	-	(4,409)	(878)	-	-	-	-	-	-
Wool	Pounds	-	-	5	11	(5)	(11)	-	-	-	-	-	-	-	-
Subtotal		xxx	$ -	xxx	$ 903	xxx	$ (25)	xxx	$ (878)	xxx	$ -	xxx	$ -	xxx	$ -
Elimination of Sales to P.L. 480		-	$ -	(1,473,357)	$ -	(1,473,357)	$ (678,833)	-	$ (678,833)	-	$ -	-	$ -	-	$ -
Total Inventory Operations		xxx	$ 226,039	xxx	$ 5,467,664	xxx	$ (4,735,326)	xxx	$ (773,037)	xxx	$ (593)	xxx	$ 238	xxx	$ 184,985

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.

Summary of Financial Statement Audit

Audit Opinion	Unqualified				
Restatement	No				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Improvement Needed in Information Security Controls	1				1
Improvement Need in Financial System Functionality and Funds Control	1				1
Improvement Needed in Financial Accounting and Reporting Policies and Procedures	1		✓		0
Improvement Needed in Management's Review of Cash Flow Models	0	✓			1
Total Material Weaknesses	3	1	(1)		3

Summary of Management Assurances

Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)						
Statement of Assurance	Reasonable assurance					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Fin. Acct. & Reporting	1		✓			0
Total Material Weaknesses	1		(1)			0

Effectiveness of Internal Control over Operations (FMFIA § 2)						
Statement of Assurance	Reasonable assurance					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Information Security Controls	1					1
County Office Operations	1				✓	0
Review of Cash Flow Models	0	✓				1
Total Material Weaknesses	2	1			(1)	2

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

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

GLOSSARY OF ACRONYMS

ADP – Automatic Data Processing
AMS – Agricultural Marketing Service
BEHT – Bill Emerson Humanitarian Trust
BPMS – Budget and Performance Management System
CCC – Commodity Credit Corporation
CRP – Conservation Reserve Program
CSC 2 – Credit Subsidy Calculator 2
DCP – Direct and Counter-Cyclical Payment Program
e-FC – e-Funds Control
EQIP – Environmental Quality Incentive Program
FACTS II – Federal Agencies Centralized Trial Balance System II
FAS – Foreign Agricultural Service
FDIIP – Financial Data Integration Improvement Plan
FFAS – Farm and Foreign Agricultural Services
FFMIA – Federal Financial Management Improvement Act
FMFIA – Federal Managers' Financial Integrity Act
FMMI – Financial Management Modernization Initiative
FNS – Food and Nutrition Service
FRBs – Federal Reserve Banks
FSA – Farm Service Agency
FSFL – Farm Storage Facility Loan
GAAP – Generally Accepted Accounting Principles
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
IPIA – Improper Payments Information Act of 2002
MAP – Market Access Program
MIDAS – Modernize and Innovate the Delivery of Agricultural Systems
MILC – Milk Income Loss Contract Program
NAP – Noninsured Crop Disaster Assistance Program
NPS – National Payment Service
NPV – Net Present Value
NRCS – National Resources Conservation Service
OCFO – Office of the Chief Financial Officer
OAGR – Obligations and Accruals Guidance Report
OGC – Office of the General Counsel
OMB – Office of Management and Budget
PAR – Performance and Accountability Report
PART – Program Assessment Rating Tool
P&F Schedule – Program and Financing Schedule
S&E – Salaries and Expenses
SBR – Statement of Budgetary Resources

SCGP -- Supplier Credit Guarantee Program
SFFAS -- Statement of Federal Financial Accounting Standards
SOF -- Statement of Financing
TFM -- Treasury Financial Manual
TTPP -- Tobacco Transition Payment Program
USAID -- United States Agency for International Development
USDA -- United States Department of Agriculture
USWA -- United States Warehouse Act
WRP -- Wetland Reserve Program
WTO -- World Trade Organization