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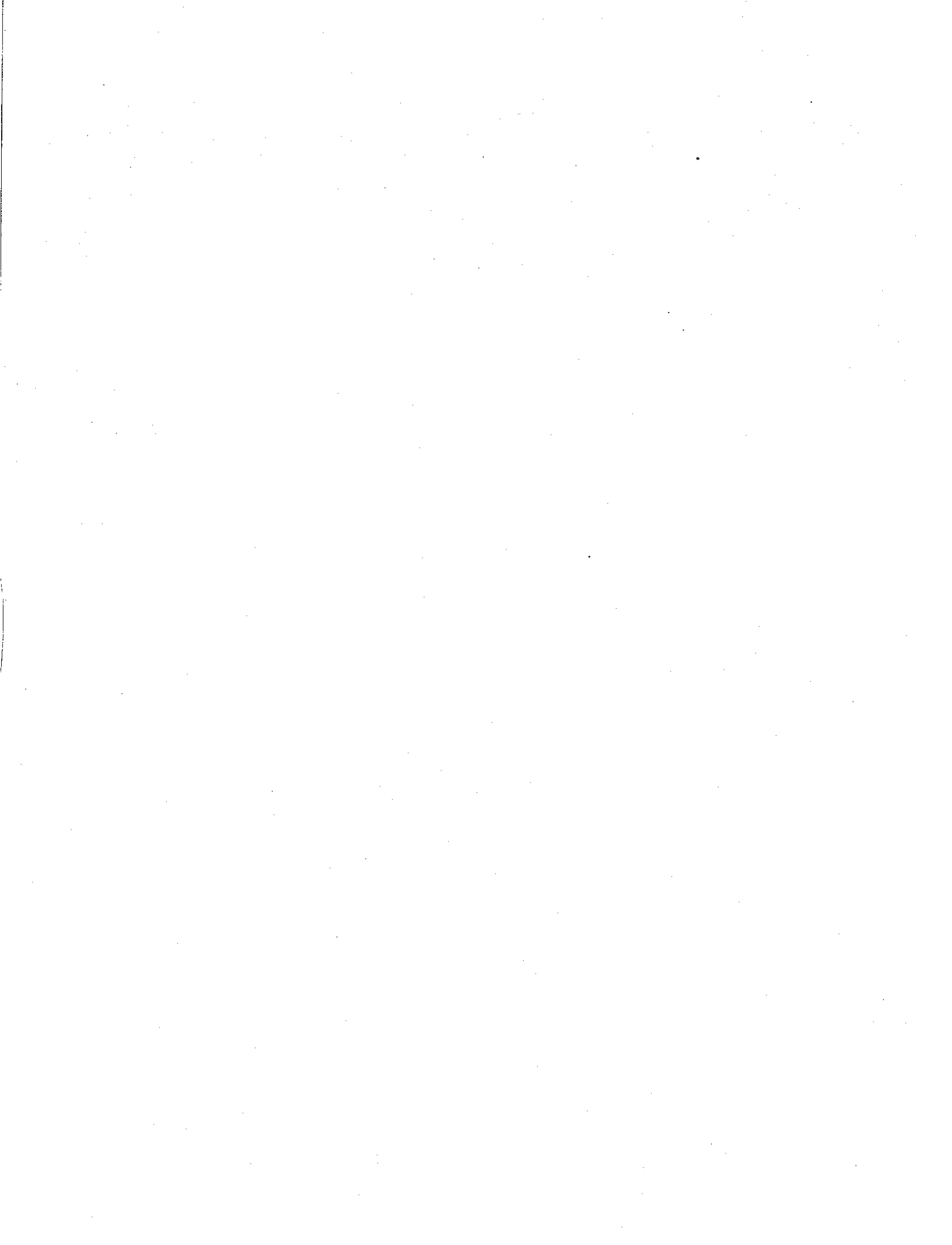


Office of Inspector General
Financial and IT Operations

Audit Report

Commodity Credit Corporation's Financial Statements for Fiscal Years 2003 and 2002

**Report No. 06401-16-FM
November 2003**





UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington D.C. 20250



DATE: NOV 07 2003

REPLY TO

ATTN OF: 06401-16-FM

SUBJECT: U.S. Department of Agriculture Commodity Credit Corporation's
Financial Statements for Fiscal Years 2003 and 2002

TO: Board of Directors
Commodity Credit Corporation

ATTN: Kristine Chadwick
Controller
Commodity Credit Corporation

The report presents the auditors' opinion on the Commodity Credit Corporation's (CCC) principal financial statements for the fiscal years ending September 30, 2003 and 2002. Reports on CCC's internal controls structure and its compliance with laws and regulations are also provided.

KPMG Peat Marwick LLP, an independent certified public accounting firm, conducted the audits. We monitored the progress of the audits at all key points, reviewed the workpapers, and performed other procedures, as we deemed necessary. We determined the audits were conducted in accordance with generally accepted auditing standards, Government Auditing Standards (issued by the Comptroller General of the United States), and the Office of Management and Budget's Bulletin No. 01-02, "Audit Requirements for Federal Financial Statements."

It is the opinion of KPMG Peat Marwick LLP, that the financial statements present fairly, in all material respects, CCC's financial position as of September 30, 2003, and 2002, and its net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations for the years then ended, in conformity with generally accepted accounting principles. The KPMG Peat Marwick LLP report on CCC's internal control structure over financial reporting identified five reportable conditions that it also considered material weaknesses. Specifically, KPMG identified material weaknesses in CCC's:

- Information security controls;
- Financial system functionality and related processes;

- Funds control mechanisms;
- Financial accounting and reporting processes and procedures; and
- Budgetary accounting and reporting policies and procedures.

The results of KPMG's tests of compliance with laws and regulations disclosed instances of noncompliance with the laws and regulations identified below:

- The Federal Information Security Management Act;
- The Debt Collection Improvement Act of 1996; and
- The Federal Financial Management Improvement Act of 1996.

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



RICHARD D. LONG
Assistant Inspector General
for Audit

UNITED STATES DEPARTMENT OF AGRICULTURE

Commodity Credit Corporation

September 30, 2003

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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, 2003 and 2002, and the related consolidating statements of net cost, consolidated changes in net position and financing, and the combined statements of budgetary resources, (hereinafter referred to as the "consolidated financial statements") for the years then ended. 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 audits, we also considered CCC's internal control over financial reporting and tested CCC's compliance with certain provisions of applicable laws and regulations that could have a direct and material effect on its 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, 2003 and 2002, are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America.

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

- Improvement needed in information security controls;
- Improvement needed in financial system functionality and related processes;
- Improvement needed in funds control mechanisms;
- Improvement needed in financial accounting and reporting policies and procedures; and
- Improvement needed in budgetary accounting and reporting policies and procedures.







We consider the reportable conditions above to be material weaknesses.

The results of our tests of compliance with certain provisions of laws and regulations disclosed instances of noncompliance with the following laws and regulations that are required to be reported under *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*:

- Federal Information Security Management Act;
- Debt Collection Improvement Act of 1996); and
- Federal Financial Management Improvement Act of 1996.

The following sections discuss our opinion on CCC's consolidated financial statements, our consideration of CCC's internal control over financial reporting, our tests of CCC's compliance with certain provisions of applicable laws and regulations, 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 as of September 30, 2003 and 2002, and the related consolidating statements of net cost, consolidated changes in net position and financing; and the combined statements of budgetary resources, for the years then ended.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CCC as of September 30, 2003 and 2002, and its net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations, for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The information in the Management's Discussion and Analysis, Required Supplementary Stewardship Information and Required Supplementary Information sections is not a required part of the consolidated financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America or OMB Bulletin No. 01-09, *Form and Content of Agency Financial Statements*. 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.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The other accompanying information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. The other accompanying information in Schedule 5 has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole. The other accompanying information in Schedule 4 has not been subjected to the auditing procedures and, accordingly, we express no opinion on it.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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



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

In our fiscal year 2003 audit, we noted certain matters, described in exhibit 1, involving internal control over financial reporting and its operation that we consider to be reportable conditions. We believe that all of the reportable conditions presented in exhibit 1 are material weaknesses. Certain matters noted in exhibit 1 were not reported by CCC in its fiscal year 2003 internal control self assessment, conducted under the *Federal Managers' Financial Integrity Act of 1982 (FMFIA)*.

* * * * *

Summaries of the status of prior year noncompliance with laws and regulations and material weaknesses are included as exhibits 2 and 3, respectively. CCC management's response is presented in exhibit 4.

We also noted other matters involving internal control over financial reporting and its operation that we have reported to the management of CCC in a separate letter dated November 3, 2003.

COMPLIANCE WITH LAWS AND REGULATIONS

Our tests of compliance with certain provisions of laws and regulations, as described in the Responsibilities section of this report, exclusive of the FFMIA, disclosed two instances of noncompliance with the following laws and regulations that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 01-02, and are described below.

Federal Information Security Management Act (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 A-130, *Management of Federal Information Resources*, provides further information security guidance.

We noted that during fiscal year 2003 the Farm Service Agency (FSA) and CCC has made much progress with its information security program in order to meet FISMA and OMB Circular A-130 guidelines (FSA provides and maintains the IT infrastructure supporting CCC general support systems and major applications, hence the reference here, and later in this report, to FSA). However, FSA and CCC needs continued improvement with its entity wide security and contingency planning programs to fully meet these guidelines. These matters are described in exhibit 1.

Debt Collection Improvement Act of 1996 (DCIA). The DCIA is intended to significantly enhance the Federal Government's ability to service and collect debts. Under the DCIA, Treasury assumes a significant role for improving government-wide receivables management. The DCIA requires Federal agencies to refer eligible delinquent non-tax debts over 180 days to U.S. Treasury for the purpose of collection by



cross-servicing or the offset program. Our tests of compliance disclosed instances where CCC was not in compliance with certain provisions of the DCIA. Specifically, we noted that due process is not performed in a timely manner to ensure that some eligible debts are forwarded to Treasury for cross-servicing or the offset program within the timeframes established by DCIA. These matters are described in exhibit 1.

The results of our tests of compliance with other laws and regulations, exclusive of FFMIA, disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 01-02.

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, Federal accounting standards, or the United States Government Standard General Ledger at the transaction level.

FFMIA mandates that Federal financial management be advanced by ensuring that Federal financial management systems can and do provide reliable, consistent disclosure of financial data, and that they do so on a basis that is uniform across the Federal government from year to year consistently using accounting principles generally accepted in the United States of America. Federal agencies need to comply with FFMIA by adhering to policies established by OMB, such as OMB Circular A-127, *Financial Management Systems*, and OMB Circular A-130.

A summary of the instances of FFMIA non-compliance noted in exhibit 1 follows:

- FFMIA requires that Federal agencies implement information security controls and contingency planning capabilities in accordance with OMB Circular A-130. As noted above, CCC needs to improve in these areas to be in compliance with Circular A-130.
- FFMIA requires that Federal agencies implement financial systems controls in accordance with OMB Circular A-127. We noted several areas where CCC can improve the controls and processes over financial systems to better comply with Circular A-127. For example, CCC needs to improve its funds control and financial reporting processes to fully comply with FFMIA.
- FFMIA requires that Federal agencies' comply with the Federal accounting standards using the United States Government Standard General Ledger at the transaction level. We noted that CCC's financial systems and processes for posting transactions can be improved.

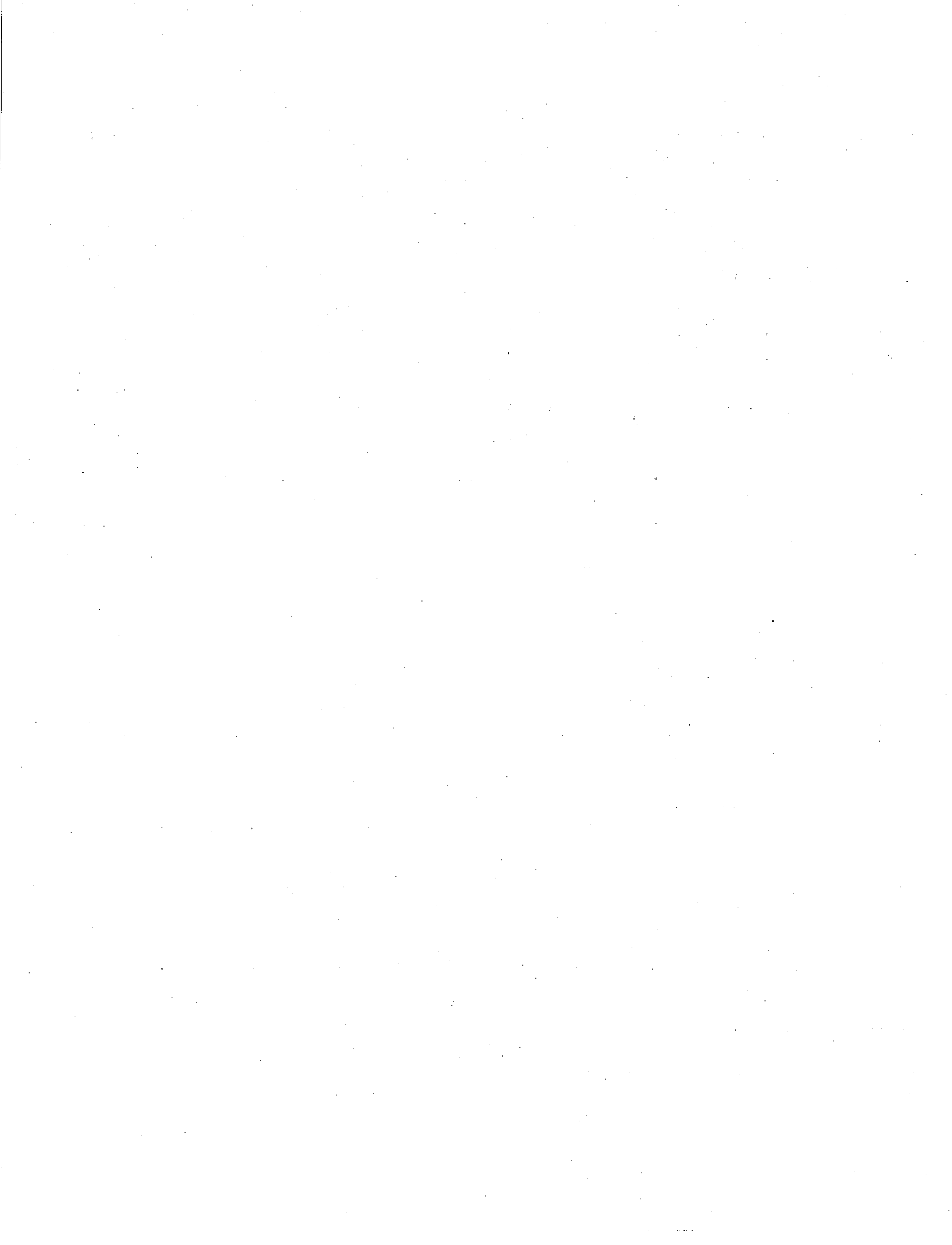
RESPONSIBILITIES

The Chief Financial Officers (CFO) Act of 1990 requires federal agencies to report annually to Congress on its financial status and any other information needed to fairly present the agencies' financial position and results of operations. To meet the CFO Act reporting requirements, CCC prepares annual consolidated financial statements, since CCC is a wholly owned government corporation within USDA.

Management's Responsibilities

Management is responsible for the consolidated financial statements, including:

- Preparing the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America;
- Establishing and maintaining internal controls over financial reporting, preparation of the Management's Discussion and Analysis (including the performance measures), the required supplementary information, and the required supplementary stewardship information; and
- Complying with laws and regulations, including FFMIA.





In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies. Because of inherent limitations in internal control, misstatements, due to error or fraud may nevertheless occur and not be detected.

Auditors' Responsibilities

Our responsibility is to express an opinion on the fiscal year 2003 and 2002 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* and OMB Bulletin No. 01-02. Those standards and OMB Bulletin No. 01-02 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:

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

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

In planning and performing our fiscal year 2003 audit, we considered CCC's internal control over financial reporting by obtaining an understanding of CCC's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 01-02 and *Government Auditing Standards*. We did not test all internal controls relevant to operating objectives as broadly defined by FMFIA. The objective of our audit was not to provide assurance on internal control over financial reporting. Consequently, we do not provide an opinion thereon.

As required by OMB Bulletin No. 01-02, we considered CCC's internal control over required supplementary stewardship information by obtaining an understanding of CCC's internal control, determining whether these internal controls had been placed in operation, assessing control risk, and performing tests of controls. Our procedures were not designed to provide assurance on internal control over required supplementary stewardship information and, accordingly, we do not provide an opinion thereon.

As further required by OMB Bulletin No. 01-02, with respect to internal control related to performance measures determined by management to be key and reported in the Management's Discussion and Analysis, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions. Our procedures were not designed to provide assurance on internal control over performance measures and, accordingly, we do not provide an opinion thereon.

As part of obtaining reasonable assurance about whether CCC's fiscal year 2003 consolidated financial statements are free of material misstatement, we performed tests of CCC's compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 01-02, including certain provisions referred to in FMFIA. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test



compliance with all laws and regulations applicable to CCC. Providing an opinion on compliance with laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

Under OMB Bulletin No 01-02 and FFMLA, 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 United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMLA Section 803(a) requirements.

DISTRIBUTION

This report is intended for the information and use of CCC's management, the USDA Office of the Inspector General, OMB, GAO, 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 3, 2003



INTRODUCTION

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

Exhibit 1 describes the reportable conditions, all of which are considered to be material weaknesses as of and for the year ended September 30, 2003, and our recommendations. Summaries of the status of prior year noncompliance with laws and regulations and material weaknesses are included as exhibits 2 and 3, respectively. CCC management's response is presented in exhibit 4.

MATERIAL WEAKNESSES

The material weaknesses we identified as of and for the year ended September 30, 2003, are summarized below.

1. IMPROVEMENT NEEDED IN INFORMATION SECURITY CONTROLS.

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

Information security weaknesses have been identified in FSA and CCC's processing environment for several years by the USDA Office of Inspector General (OIG) and through prior year CCC financial statement audits. In response to these findings, and to requirements mandated by the Federal Information Security Management Act (FISMA), FSA and CCC have undertaken initiatives to improve its information security program. For example, during fiscal year 2003, FSA and CCC:

- Issued and implemented a statement of work (SOW) to perform risk assessments and provide security planning support for all CCC general support systems and major applications;
- Worked closely with the USDA Office of the Chief Information Officer (OCIO) to develop a standard contingency planning methodology, and select automated tools, to assist in contingency plan development and maintenance.

While these accomplishments are commendable, more needs to be done to ensure appropriate levels of confidentiality, integrity, and availability of sensitive and critical information systems and resources. Specifically, we again noted several areas, detailed below, where improvements are needed in establishing and maintaining sustainable and repeatable information security and contingency planning controls affecting CCC's financial systems environment, as well as other sensitive and mission-critical systems and processes.

Information Security Program Management

CCC lacks a complete information security management program that can be applied to its general support systems and its various financial systems. Specifically:

- As noted above, CCC has issued a SOW to perform security risk assessments for major applications. CCC's current security risk assessment practices do not provide for a consistent, agency-wide approach for performing assessments. Although CCC has had risk assessments performed for some of its systems and applications, several different vendors and processes have been used, leading to some inconsistency in the process and analysis of the findings. CCC management recognizes that it needs to improve in this area, and plans to use more consistent processes for performing future risk assessments. For example, during fiscal year 2004, risk assessments are planned for several key CCC general support system platforms, such as for the AS/400 county office computer platforms, web farms, desktops, and telecommunications.

Completion of security risk assessments for major general support systems and major applications should be one of the first steps in an information security program, as it provides the basis for many other aspects of the security program, such as security planning and implementation of cost-beneficial technical security controls. OMB Circular A-130 states that the need to determine adequate security requires that a risk-based approach be used. This risk assessment approach should include a consideration of major risk management factors, including the value of the system or application, threats, vulnerabilities, and the effectiveness of current or proposed safeguards.

- We noted that CCC's security planning process can be improved. For example, security plans have not been completed, or are not current, for all CCC systems; CCC lacks an overall organizational security plan; guidance for updating county office security plans needs to be improved; and reviews of general support systems and application security controls have not been consistently performed within the three year timeframe required by OMB Circular A-130. As noted above, CCC has issued a SOW to obtain contractor support in this area and, during fiscal year 2004, plans to take steps to address each of the identified issues.

Maintaining consistent and complete security plans is a critical component of an organization's entity-wide security program. CCC program managers should rely upon the accuracy and completeness of system and application security plans to make a determination of whether to accept the security risks associated with the systems and applications. Without complete security plans, security responsibilities and controls may not be adequately documented, leading management to inadvertently rely on security controls that could be insufficient to fully ensure data integrity, confidentiality, and availability. Further, OMB Circular A-130 states that security plans should be developed for all Federal general support systems and applications that contain sensitive information. OMB Circular A-130 further states that given the expansion of distributed processing, there is a presumption that all general support systems contain some sensitive information that requires protection to ensure its integrity, availability, or confidentiality.

- CCC applications and general support systems have not consistently received formal authorizations to operate through an established security certification and accreditation (C&A) process. OMB Circular A-130 states that agencies should authorize processing by ensuring that a management official authorizes, in writing, use of computer applications and the related application security controls. The application must be authorized prior to operating and re-authorized at least every three years thereafter. Management's authorization implies its acceptance of the risk of each system used by the application and commonly results from a system security C&A process. The C&A process for general support systems and major applications is closely linked with the completion of security risk assessments and related security plans. FSA and CCC management have recognized this risk, and have issued a SOW to have formal C&As completed for all major CCC general support systems and major applications by July 2004.

- FSA performs periodic security vulnerability scans of FSA and CCC computer devices (i.e. workstations and servers). This is a good detective control. However, during the scans performed for fiscal year 2003, high risk vulnerabilities, such as missing device passwords, were identified. This issue is significant for CCC, as the identified device weaknesses could be exploited by unauthorized personnel to attack and penetrate CCC's IT environment to ultimately gain access to sensitive financial processing devices and applications. Because of the sensitivity of these weaknesses, the details on these issues are not included in this report.

We recognize that managing IT devices and mitigating device vulnerabilities is a challenging and ongoing process, especially in light of the many new vulnerabilities and viruses that are regularly appearing. However, the types of vulnerabilities identified by the FSA scanning process were previously identified by the USDA OIG and through prior financial statement audits. Consequently, additional preventive controls are needed. FSA and CCC management recognize this risk, and during fiscal year 2004 plan to more aggressively enforce the policy of performing preventive vulnerability scanning of devices before they enter production.

- Information security controls at the county offices can be improved. During our visits to several CCC county offices, we noted certain security weaknesses. Key weaknesses included: a current listing of authorized system users and their access authorizations is not consistently reviewed; county office security officers have the ability to print a report with user passwords identified in clear text; and the process for granting user access is inconsistent. Collectively, these issues have occurred because of the lack of an effective information security support structure for the county offices, and outdated county office system platforms. The cumulative effect of these issues is a lack of sufficient security controls at the county offices.

CCC management recognizes the risks associated with these county office information security weaknesses. During fiscal year 2004 several actions are planned to address the issues, including: implementation of a standard user access request form; development of additional information security guidance for use by the county offices; and deployment of the National Payment Service (NPS), a web based payment process that will allow for the implementation of more modern security controls.

- Background screening checks are not being consistently performed for CCC employees in accordance with USDA guidance. For example, for 23 CCC Kansas City employees hired during fiscal year 2003, six did not receive background investigations. Background investigations are extremely important for IT personnel who may have sensitive access to CCC systems. We noted that three of the fiscal year 2003 hires not having background checks were hired for IT positions. We also noted that background re-investigations are not being performed for long-term employees in accordance with USDA guidance. These issues are very important to an organizational information security program, and are not IT in nature, so they need to be addressed primarily by the FSA Human Resources Division (HRD), in coordination with CCC system owners.

The USDA Departmental Manual, *Background Investigations and Security Clearance Policy*, requires the performance of background investigations and periodic re-investigations for Federal, State, and county employees, contractors, and non-Federal employees using USDA Local Area Networks, Wide Area Networks, and voice networks. The nature and scope of the investigations should be commensurate with the position risk/sensitivity and necessary level of access. This USDA requirement is supported by similar Federal information security guidance, such as the National Institute of Standard and Technology's (NIST's) *Generally Accepted Principles and Practices for Securing Information Technology Systems* and *An Introduction to Computer Security: The NIST Handbook*.

Contingency Planning

A key information security requirement in OMB Circular A-130 relates to the completion and testing of general support system and application contingency plans. Such efforts are important not only to maintain business and IT operations during an outage, but also to maintain adequate information security over systems and resources during an outage. We identified the following examples where CCC's contingency planning efforts need improvement:

- An emergency replacement facility for the Kansas City, Missouri Beacon Road facility has not been identified and tested. The Beacon Road facility is a vital link in the transfer of data to and from the CCC county offices, where much of the CCC financial data processing originates. The Beacon Road facility hosts computer network connectivity devices needed to access the National Information Technology Center (NITC) mainframe, as well as key CCC financial operations personnel. Consequently, there is a significant risk that if the Beacon Road facility becomes unavailable, CCC financial operations and processing continuity may be negatively impacted. CCC management officials have expressed similar concerns regarding this issue, and USDA, FSA, and CCC officials are coordinating to research alternatives, but a solution has not been identified.
- Although CCC performs recovery testing of its key mainframe applications hosted at the USDA maintained NITC, there is not a well-defined and regular schedule for such testing. CCC negotiates such testing activities with NITC officials, and NITC currently is renegotiating a new recovery contract with its vendor. CCC officials informed us that once the NITC recovery contract is renegotiated, they plan to negotiate with NITC to obtain resources and capabilities to perform more regular recovery testing.

Without a regular application recovery testing schedule, there is a heightened risk that current versions of production applications may not be available during a recovery operation. This is especially important for CCC because of application changes made to support new legislation, such as the Farm Security and Rural Investment Act of 2002 (the Farm Bill). As computer systems and applications are modified and updated, the service continuity strategy must also be updated to ensure the recovery of these applications is feasible within established recovery timeframes.

- During our CCC county office test work, we noted that documented and tested contingency plans for the offices were not consistently prepared and tested in accordance with Federal guidance, such as OMB Circular A-130. For example, there was a lack of detailed instructions for restoring operations should an outage occur, and key data files that would need to be recovered were not consistently identified. As noted earlier in this report, FSA and CCC officials have been working closely with the USDA OCIO to enhance the Department-wide contingency planning capabilities. As part of this improvement effort, by September 2004 FSA and CCC plan to develop formal contingency plans for applications supporting county offices.

Recommendations:

The above issues significantly reduce the overall information security controls for CCC's financial systems processing environment, as well as for other sensitive and mission critical CCC applications. Many of these issues, and the related recommendations below, have been previously reported as part of CCC financial statement audits, or as part of USDA OIG audits.

We continue to recommend that the FSA Chief Information Officer (CIO), in coordination with CCC system owners and USDA information security requirements:

1. Ensure the planned completion of CCC system security plans and the FSA organization-wide security plan is accomplished.
2. Ensure that the planned security risk assessments for major systems and applications are consistently performed for CCC systems.
3. Enhance the information security control posture for the county offices.
4. Implement a framework to satisfy the requirements of effective contingency planning for the CCC county offices.
5. Implement a more rigorous vulnerability scanning process by performing scans of computer devices before they enter production.
6. Re-emphasize the need for system administrators and other key IT officials to establish and maintain computer devices in a secure manner.

We also recommend that the FSA CIO, in coordination with CCC system owners and USDA information security requirements:

7. Utilize the results of recommendations #1 through #6 above to ensure that formal authorizations to operate are prepared for CCC applications and general support systems. Such authorizations to operate should be based on C&A efforts.
8. Continue efforts to identify, equip, and test an alternate processing facility for the Beacon Road facility.
9. Continue efforts to implement a regular recovery testing schedule for NITC-hosted CCC applications.

In addition, the FSA HRD should:

10. Enhance the employee and contractor background check process to adhere to USDA policies for ensuring that such checks are completed.
11. Enhance the employee and contractor background re-investigation check process to adhere to USDA policies for ensuring that such checks are performed timely.

2. IMPROVEMENT NEEDED IN FINANCIAL SYSTEM FUNCTIONALITY AND RELATED PROCESSES.

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

- **Accountability.** Inform taxpayers, Congress, and agency personnel in terms they can readily understand, on how the Nation's tax dollars are spent, and how Federal assets are protected.
- **Efficiency and Effectiveness.** Provide efficient and effective service to the Federal agency's internal and external customers (e.g., individuals, contractors, partnerships, State and local governments, other Federal agencies/organizations, the military, and foreign governments).

- *Better Decision-Making.* Provide to Congress, agency heads and program managers, timely reports linking financial results and program data so that financial and program results of policy and program decisions can be identified, tracked, and forecasted more accurately¹.

As noted earlier in this report, 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 FFMIA and OMB Circular 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 A-127 sets forth policies for establishing and maintaining Federal financial management systems in accordance with FFMIA.

During fiscal year 2003, CCC implemented several corrective actions to improve controls and processes supporting its financial systems. For example, prior year weaknesses with Hyperion, CCC's financial consolidation software, were addressed. In addition, CCC developed and implemented enhanced funds control system functionality, through the e-Funds control system.

However, we noted certain additional improvements could be made to financial system functionality and related processes. For example:

- As reported in fiscal year 2002, we noted that CCC accountants need to improve their knowledge of financial system and process operations. CCC needs to provide additional training to personnel responsible for posting accounting entries in accordance with the U.S. Government Standard General Ledger (SGL). Because the entries related to the loans made to the tobacco associations were incorrectly posted in the CORE general ledger, CCC had to reverse transactions worth \$25 million. Further, although the funds apportioned for the Sugarcane Hurricane program were deobligated in fiscal year 2004, an accrual entry was posted for the program in the amount of \$55.8 million.
- As reported in fiscal year 2002, although improvements have been made during fiscal year 2003, CCC does not currently have a collection of financial systems and processes that are capable of fully monitoring and controlling budgetary resources for all programs. This has occurred, in part, because CCC does not have an integrated financial system to track and govern the status of obligations and administrative limitations established by legislation or agency policy and is dependent upon manual processes. The use of manual processes and reconciliations to manage budgetary accounts subjects CCC's overall funds control process to significant control risk. Additional details on this issue are provided later in this report.

Recommendations:

We continue to recommend that CCC:

1. Take steps to provide training and sharing of accounting standards related knowledge to key accounting personnel. Such efforts would not only provide additional training and knowledge to staff, but will also help address continuity of knowledge if staff turnover occurs. For example, training efforts could be enhanced in regard to SGL accounting.
2. Continue with plans to implement additional financial system and related process improvements, most notably in the areas of budgetary and funds control and financial accounting and reporting processes. Detailed recommendations for each of these issues are provided later in this report.

¹ From the Joint Financial Management Improvement Program (JFMIP) *Core Financial System Requirements*, dated November 2001.

3. IMPROVEMENT NEEDED IN FUNDS CONTROL MECHANISMS.

As reported in prior years, CCC does not have a collection of financial systems and processes that are capable of fully monitoring and controlling budgetary resources at the transaction level. Rather, CCC is managing funds control for many programs through manual analysis and reconciliation, meant to mitigate the risks associated with the lack of an integrated obligating system. This occurs because CCC does not have an overall integrated system to track and govern the status of obligations and administrative limitations established by legislation or agency policy.

During fiscal year 2003, CCC took action to further improve this process. For example:

- In response to our 2002 recommendations, CCC established an Obligations Task Force in fiscal year 2003, created to periodically monitor obligations. The new process was developed to ensure that outstanding obligations were monitored and accurately recorded periodically throughout the fiscal year. The task force was established to supplement the controls implemented in 2002, which include a daily funds tracking report and an authorized payment process for National Program Managers, whereby program managers are required to authorize payments on programs when funds are within 15 percent of the budget threshold. We noted that the duties of the task force were not effectively carried out, and therefore, the no significant results were realized by CCC in fiscal year 2003. Improvement in this process would further strengthen internal control processes in fiscal year 2004.
- In addition, CCC developed and implemented the e-Funds Control system, an intranet based application functional at the National, State and county office levels. The e-Funds system is not integrated with CORE, therefore, no general ledger entries are made directly from the e-Funds system to CORE. County office disbursement transactions are batched and posted each night to CORE. At the same time, county office information is posted hourly to the e-Funds system table that resides in CORE. Nightly, the e-Funds system compares the disbursement information uploaded to the CORE general ledger and the information updated to CORE's e-funds system table to verify the disbursement amounts are in agreement. Once verified, if the disbursement totals exceed allotments, no money is disbursed.

These improvements, although significant, must be further enhanced because CCC continues to be exposed to a significant risk of material misstatement occurring and not being detected timely. For example, as part of its obligating process, CCC personnel manually evaluate obligations on open contracts and adjust the program obligation account balances annually. Disbursements, which serve to liquidate these obligations are batched and posted to the general ledger obligation accounts monthly. We noted that a significant number of program obligation balances were over/under stated and required adjustment, which on a net basis, totaled \$261,746,167, highlighting the need for enhanced operational accounting controls. In addition, CCC's risk of non-compliance with the Anti-Deficiency Act increases due to the manually intensive nature of daily compliance. Also, improvements made in the funds control process would enhance CCC's ability to accurately prepare quarterly financial statements as required by OMB Bulletin No. 01-09.

Funds control is a vital component of any Federal government operation. It requires that an obligation be recorded prior to disbursement of funds. When a disbursement is processed the systems' funds control function will compare the amount to be disbursed to the remaining amount of the obligation to ensure funds remain available. Only when funds remain available will funds be disbursed. In addition, the Anti-Deficiency Act provides, in part, that an office or employee of the United States Government may not (a) make or authorize an expenditure or obligation exceeding an amount available in an appropriation or fund for the expenditure or obligation; (b) involve the government in a contract or obligation for the payment of money before an appropriation is made unless authorized by law. Section 1517a.2., of this Act further

provides that an agency may not exceed the available amount of an administrative subdivision officially directed by the agency.

In accordance with part 4 of OMB Circular A-11, 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 CCC's management to identify the person responsible for any obligation or expenditure exceeding the amount available in the appropriation or fund account, the OMB apportionment or reapportionment, the allotments of sub-allotments made by CCC, and statutory limitations, and any other administrative sub-division of funds made by CCC.

In addition, the Joint Financial Management Improvement Program (JFMIP) *Core Financial System Requirements*, dated November 2001, require agency core financial systems to support the budget execution process by:

- Providing the capability to compare actual amounts (e.g., commitments and obligations) against the original and revised budgeted amounts consistent with each financial planning level;
- Providing the ability to manage and control prior year funds in the current year, including the capability to identify prior year and current year de-obligations separately;
- Providing control features that ensure that the amounts reflected in the fund control structure agree with the related general ledger account balances at the end of each update cycle; and
- Verifying that funds distributed do not exceed the amount of funds available for allotment or sub-allotment at each distribution level.

Therefore, an agency must have an automated funds control system to monitor and control the entire process. Such control mechanisms must account for all apportionments/appropriations for each program/fund as well as the related allotments, obligations and disbursements.

Recommendations:

14. In the short-term, we recommend that CCC develop a process to review unliquidated program obligations on a quarterly basis, with direct oversight provided by the Office of the Director.
15. In addition, we continue to recommend that CCC further enhance and more fully utilize its e-funds control system so that the functionality of the application is fully integrated as part of CCC's financial management system.

4. IMPROVEMENT NEEDED IN FINANCIAL ACCOUNTING AND REPORTING POLICIES AND PROCEDURES.

CCC's financial accounting and reporting policies and procedures should be strengthened to ensure that errors are prevented or identified and corrected during the fiscal year. During our audit, we noted that although CCC has taken steps to reduce the number of post-closing entries, material adjustments were made to the consolidated financial statements after the general ledger was closed for fiscal year 2003. As reported in fiscal year 2002, CCC's policy for recording producer payment program liabilities should be formally documented.

CCC prepared accounting requirements memoranda (Memos) for the new programs established under the Farm Security and Rural Investment Act 2002 (the Farm Bill). However, we noted that the program

requirements were not adequately reviewed by CCC to determine if the programs required accruals at year-end. The Memos indicated either that 'no accruals will be required' or 'the need for accruals will be determined at year-end'. As a result, documentation to support the rationale used by CCC to record producer payment program liabilities at September 30, 2003 needed significant improvement. Therefore, the Kansas City Finance Office, economists, Program Office, and Financial Management Division (FMD) performed the research to determine whether accruals were necessary and, if so, the proper basis for calculation.

As a result, CCC recorded the following post-closing adjusting entries, to increase the producer payment program liabilities and related expenses as of September 30, 2003:

- \$2.65 billion of Direct Payments for the Direct and Counter-Cyclical program to be disbursed in fiscal year 2004, but approved in fiscal year 2003;
- \$196 million of Crop Disaster Assistance Program disbursements made in fiscal year 2004 to eligible program participants enrolled in fiscal year 2003;
- \$55.6 million for the Peanut Quota Buyout Program to be disbursed to eligible producers who were enrolled in the program prior to September 30, 2003;
- \$18 million of Loan Deficiency Payments disbursed in fiscal year 2004, but approved in fiscal year 2003.

Further, the following accruals were recorded by CCC incorrectly at September 30, 2003, and were reversed after the general ledger was closed:

- \$317 million recorded for cover cost and incentive payments for the Conservation Reserve Program;
- \$167 million recorded for the Livestock Compensation Program;
- \$108 million recorded for Counter-Cyclical payments for the Direct and Counter-Cyclical program
- \$55.8 million recorded for the Sugar Beet Disaster Program;
- \$55.8 million recorded for the Sugar Cane Hurricane Program;
- \$20 million recorded for the Hard White Wheat Incentive Program.

Additionally, we noted that communication and coordination between FMD Program Office, Budget Office, and Kansas City Finance Office needs to be improved in determining the accrual policy for producer payment programs. Further, we noted that changes in the program requirements were not communicated timely to FMD to ensure that adequate accruals are recorded.

CCC's policy for monitoring receivables should be improved to ensure that due process is performed on delinquent debts for achieving compliance with the Debt Collections Improvement Act of 1996 (DCIA). As noted in previous years, CCC was not in substantial compliance with one provision of DCIA, and receivables older than 60 days were not always converted by the county office personnel to claim status and reported to CCC's centralized debt servicing system.

CCC commenced training selected field office personnel during fiscal year 2003 on the organization-wide policies and procedures over the monitoring of delinquent debts. However, during our audit, we noted that field office personnel did not comply with the timeliness requirements for following up on outstanding debts as follows:

- For 96 of the 234 receivables and claims reviewed, notification or demand letters were not sent to producers within the time frame established by CCC policy. DCIA requires that proper due process be given a debtor prior to referral to Treasury for cross-servicing or the offset program.
- 59 of the 163 receivables reviewed were outstanding for more than 60 days and were not converted to claims status. At September 30, 2003, we noted that CCC had approximately 21,590 receivables amounting to approximately \$24 million, older than 60 days that were not converted to claim status.
- For 1 of the 33 claims reviewed, which had been outstanding for more than 180 days, we noted that field office personnel had not performed proper due process, although the claim was not considered collectible at the CCC county office. This claim would be eligible for immediate transfer to Treasury for cross-servicing. At September 30, 2003, we noted that 10,122 receivable balances, totaling approximately \$15 million, were over 180 days past due and could be subject to immediate referral to Treasury for cross-servicing or the offset program if they were converted to claim status, and determined eligible.
- 21 of the 33 claims reviewed were not established as claims within the time frames stipulated in the CCC Debt Collection Policy.

Recommendations:

We recommend that CCC:

16. Formalize its accounting policies and procedures through the development and routine maintenance of a comprehensive policies and procedures manual for all CCC programs that is based on current accounting standards. The Kansas City Finance Office and FMD should hold meetings with the Program Office and the economists to review the program requirements and document accrual policies. Additionally, CCC's Program Office should provide new program requirements on a timely basis to FMD to ensure that the accounting requirements memoranda are updated before fiscal year accrual estimates are finalized.
17. Continue training CCC County Office personnel on the organization-wide policies and procedures over the monitoring of delinquent debts.

We continue to recommend that CCC:

18. Prepare an analysis of programs annually to identify which programs require year-end activity cut off adjustments (e.g., unrecorded liabilities and undelivered orders).
19. Generate reports to identify which delinquent receivables have not been sent a demand letter on a monthly basis to ensure proper notification is provided to the producers, and identify which balances are eligible to be transferred to claim status or to Treasury for cross-servicing or the offset program. In addition, the policy should be revised to ensure that these reports are reviewed on a timely basis by senior management to ensure that the field offices are following CCC's policies to ensure compliance with DCIA.

5. IMPROVEMENT NEEDED IN BUDGETARY ACCOUNTING AND REPORTING POLICIES AND PROCEDURES.

During fiscal year 2003, CCC has continued to enhance its procedures over the budget execution process in accordance with OMB and U.S. Treasury requirements based on prior year audit recommendations. For example, CCC developed and implemented a monthly budgetary to proprietary reconciliation process beginning in February 2002, designed to ensure that all budgetary and proprietary transactions are properly and timely recorded. In fiscal year 2003, this reconciliation process was refined and continues to operate.

Although progress has been made, significant control weaknesses remain. CCC's internal control policies and procedures must ensure the status of CCC's budgetary resources is properly recorded in the general ledger (e.g., CORE) and reported to OMB on a quarterly and year-end basis. In addition, these policies must ensure that the status of budgetary resources is properly reported in the Combined Statement of Budgetary Resources and the related notes to the consolidated financial statements. Budget execution procedures must be improved for CCC to ensure that accurate, complete and timely budgetary accounting entries are made, and that the year end status of budgetary resources are accurately reported.

CCC management has not yet fully implemented consistent and comprehensive accounting guidelines for program and accounting staff to follow when determining what constitutes, and should be recorded as, an obligation. As a result, the accounting standards and policies and procedures were inconsistently applied during fiscal year 2003, leading to adjustments after year-end.

During our audit, we noted the following:

- CCC's undelivered orders (UDOs) balances were primarily supported by documentation and certifications provided by program offices as a result of KCFO information requests at September 30, 2003. Some program offices did not appear to be fully aware of the accounting requirements for recording unliquidated obligations. In some cases, the determining factors that controlled the recording of obligations were based on individual interpretations of whether an obligating event had occurred rather than the application of generally accepted accounting principles (GAAP). In two of 10 cases tested, the documentation provided by CCC to support the UDO program balances was incomplete and we were unable to reconcile the detailed listing of contracts to the amounts recorded in the general ledger. As a result, it was necessary for CCC to make a downward adjustment to its UDO balances of more than \$261 million.
- During our internal control test work over apportionments, we noted that 11 of 20 apportionments/reapportionment schedules (SF-132's) selected for testing were recorded more than one month subsequent to the OMB approval date. The untimely recording of apportionments increases the risk of inaccurate presentation and disclosure of budgetary resources and status of budgetary resources in the financial statements. In addition, if apportionments are not recorded timely, it makes it more difficult to track the status of budgeted resources and maintain funds control. Apportionments were not recorded timely because the Financial Systems and Program Branch (FSPB) management has not established and enforced timelines for, the preparation of the associated accounting requirements or CORE table updates.

Recommendations:

We recommend that CCC:

20. Revise the current budget execution policies and procedures to include the definition and enforcement of reasonable timelines to follow to ensure apportionment transactions are appropriately recorded on a timely basis.
21. Develop comprehensive accounting policies and procedures pertaining to the identification and recording of obligations based on appropriate GAAP and appropriations law.
22. Distribute to and enforce the application of policies and procedures to all agency managers and staff associated with the budget execution process to ensure consistent application of budgetary accounting concepts and internal policies and procedures.

23. Staff receive additional training that will provide them with the necessary knowledge to apply budgetary accounting concepts, as well as management's budgetary accounting policies and procedures.

Exhibit 2 – Status of Prior Year Noncompliance with Laws and Regulations

<i>Fiscal Year 2002 Finding</i>	<i>Fiscal Year 2003 Status</i>
<p>Computer Security Act of 1987 and GISRA – CCC needs to improve its level of compliance with the Computer Security Act and GISRA by implementing additional controls and processes supporting its entity wide security program and operating device security.</p>	<p>The appropriate legislation for this issue is now the Federal Information Security Management Act, which in 2002 superceded the Computer Security Act of 1987 and GISRA.</p> <p>During fiscal year 2003 CCC took several actions to address prior year information security and contingency planning weaknesses. For example:</p> <ul style="list-style-type: none"> ■ CCC issued a Statement of Work (SOW) to have security risk assessment and security plans completed for major general support systems and applications. A significant number of risk assessments and plans are expected to be completed during fiscal year 2004. ■ As part of CCC's GISRA remediation actions, many technical security weaknesses were addressed and new security guidance memos were issued. ■ CCC personnel participated on a USDA-wide contingency planning task force to review contingency planning software development and maintenance tools. Because of CCC's active involvement in this task force, CCC will be one of the pilot agencies to test the new software during fiscal year 2004. <p>Therefore, in fiscal year 2003, the presentation of the issue was modified to reflect current year operations and continues to be reported as a noncompliance with FISMA.</p>

Exhibit 2 – Status of Prior Year Noncompliance with Laws and Regulations

Fiscal Year 2002 Finding	Fiscal Year 2003 Status
<p>Debt Collection Improvement Act of 1996 (DCIA) – CCC was not in compliance with certain provisions of DCIA, as due process is not performed in a timely manner to ensure that some eligible debts are forwarded to U.S. Treasury for cross-servicing or the offset program within the timeframes established by DCIA.</p>	<p>CCC commenced training selected county office personnel during fiscal year 2003 on the organization-wide policies and procedures over the monitoring of delinquent debts. However, as reported in the <i>Improvement Needed in Financial Accounting and Reporting Policies and Procedures</i> section of Exhibit 1, the county office personnel did not comply with the timeliness requirements for following up on outstanding debts.</p> <p>Therefore, in fiscal year 2003, the presentation of the issue was modified to reflect current year operations and continues to be reported as a noncompliance with DCIA.</p>
<p>Federal Financial Management Improvement Act of 1996 (FFMIA) - CCC was not in compliance with OMB Bulletin 01-02 and FFMIA as follows:</p> <ul style="list-style-type: none"> - Information security controls and contingency planning capabilities in accordance with OMB Circular A-130 Federal financial management systems - Financial systems controls in accordance with OMB Circular A-127 	<p>CCC implemented several corrective actions to improve controls and processes supporting its financial systems during fiscal year 2003. In addition, CCC developed and implemented enhanced funds control system functionality, through the use of e-Funds control system. However, as reported in the <i>Improvement Needed in Financial System Functionality and Related Processes</i> section of Exhibit 1, certain additional improvements could be made to financial systems functionality and related processes.</p> <p>Therefore, in fiscal year 2003, the presentation of the issue was modified to reflect current year operations and continues to be reported as a noncompliance with FFMIA.</p>

Exhibit 3 – Status of Prior Year Material Weaknesses Reported

<i>Fiscal Year 2002 Finding</i>	<i>Type</i>	<i>Fiscal Year 2003 Status</i>
<p>Improvement needed in information security controls</p>	<p>2002 – Material Weakness</p> <p>2003 – Material Weakness</p>	<p>During fiscal year 2003, CCC took several actions to address prior year information security and contingency planning weaknesses. For example:</p> <ul style="list-style-type: none"> ■ CCC issued a Statement of Work (SOW) to have security risk assessment and security plans completed for major general support systems and applications. A significant number of risk assessments and plans are expected to be completed during fiscal year 2004. ■ As part of CCC’s GISRA remediation actions, many technical security weaknesses were addressed and new security guidance memos were issued. ■ CCC personnel participated on a USDA-wide contingency planning task force to review contingency planning software development and maintenance tools. Because of CCC’s active involvement in this task force, CCC will be one of the pilot agencies to test the new software during fiscal year 2004. <p>Therefore, in fiscal year 2003, the presentation of the issue was modified to reflect current year operations and continues to be reported as a material weakness, as well as non-compliance with the Federal Information Security Management Act of 2002 (FISMA).</p>
<p>Improvement needed in financial system functionality and related processes</p>	<p>2002 – Material Weakness</p> <p>2003 – Material Weakness</p>	<p>CCC implemented several corrective actions to improve controls and processes supporting its financial systems during fiscal year 2003. In addition, CCC developed and implemented enhanced funds control system functionality, through the use of e-Funds control system. However, certain additional improvements could be made to financial systems functionality and related processes.</p> <p>Therefore, in fiscal year 2003, the presentation of the issue was modified to reflect current year operations and continues to be reported as a material weaknesses.</p>

Exhibit 3 – Status of Prior Year Material Weaknesses Reported

<i>Fiscal Year 2002 Finding</i>	<i>Type</i>	<i>Fiscal Year 2003 Status</i>
Improvement needed in funds control mechanisms	2002 – Material Weakness 2003 – Material Weakness	CCC has made improvements to its funds control process including the establishment of an obligations taskforce to review and provide control over recorded obligations, and the limited implementation of its new e-Funds Control application software. However, the obligations taskforce experienced limited success in accomplishing its objectives in fiscal year 2003 and significant improvements are still necessary to integrate CCC's financial system. Therefore, in fiscal year 2003, the presentation of the issue was modified to reflect current year operations and continues to be reported as a material weaknesses.
Improvement needed in financial accounting and reporting policies and procedures	2002 – Material Weakness 2003 – Material Weakness	Although CCC has taken steps to reduce the number of post-closing entries, we noted that material adjustments were made to the consolidated financial statements after the general ledger was closed for fiscal year 2003 for producer payment accruals. Additionally, CCC's policy for monitoring receivables should be improved to ensure that due process is performed on delinquent debts for achieving compliance with the Debt Collection Improvement Act of 1996 (DCIA). Therefore, in fiscal year 2003, the presentation of the issue was modified to reflect current year operations and continues to be reported as a material weaknesses.
Improvement needed in budgetary accounting and reporting policies and procedures	2002 – Material Weakness 2003 – Material Weakness	CCC has improved its process to reconcile budgetary to proprietary information by making the process more effective and timely, however, we continue to note material year end adjustments in the budget area. As such, we continue to note the need for improvement in CCC's budgetary accounting policies and procedure in fiscal year 2003. Therefore, the presentation of this issue was modified to reflect current year operations, and continues to be reported as a material weaknesses for 2003.



United States
Department of
Agriculture

NOV 13 2003

Domestic and Foreign
Agricultural
Services

Exhibit 4

Commodity Credit
Corporation

1400 Independence
Avenue, SW
Washington, DC
20250-0581

TO: Wanda Philippi
Regional Inspector General
Office of Inspector General

Cathy Supernaw
Senior Partner
Klynveld Peat Marwick Goerdeler (KPMG)

FROM: Kristine M. Chadwick
Controller

SUBJECT: Response to the Draft Combined Independent Auditor's Report on the
Commodity Credit Corporation's (CCC) Fiscal Year 2003 Comparative
Financial Statements

We have reviewed KPMG's Draft Combined Independent Auditor's Report dated November 12, 2003, and agree with its content. CCC will develop an implementation plan to address the findings and recommendations identified during the audit. As we consider the required corrective actions, we will continue to work with KPMG and the Office of Inspector General in identifying the specific actions that will assist us in successfully addressing the recommendations.

If you have any questions or require additional information, please contact Elizabeth Russell at (703) 305-1273.



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CONSOLIDATED FINANCIAL STATEMENTS

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An Overview of the Commodity Credit Corporation

Mission

To assist in stabilizing, supporting, and protecting farm income and prices, to help maintain balanced and adequate supplies of agricultural commodities, to help in the orderly distribution of these commodities, and to assist in the conservation of soil and water resources.

E Established in 1933, the Commodity Credit Corporation (CCC or the Corporation) is a wholly owned government corporation within the U.S. Department of Agriculture (USDA), created to stabilize, support, and protect farm income and prices, among other activities. The CCC has been the Federal government's primary financing arm for an array of domestic and international agricultural programs. CCC also helps maintain balanced and adequate supplies of agricultural commodities and aids in their orderly distribution.

The Corporation helps America's farmers through commodity and farm storage facility loans, purchases, income support payments, and other operations, and makes available materials and facilities required in the production and marketing of agricultural commodities. It also provides incentives and payments to landowners to establish conservation practices on their land.

CCC provides agricultural commodities to other Federal agencies and foreign governments, as well as donates commodities to domestic and international relief agencies, and foreign countries. The Corporation assists in the development of new domestic and foreign markets and marketing facilities for American agricultural commodities.

The Corporation has no employees; it carries out the majority of its programs through the personnel and facilities of the Farm Service Agency (FSA) (see page 3 for the organization chart of FSA). Most of CCC's programs are delivered through an extensive nationwide network of FSA field offices, including over 2,500 USDA Service Centers and 51 State Offices (including Puerto Rico). This network enables the Corporation to maintain a close relationship with its customers, successfully addressing their needs and continually improving program delivery.

Other programs are operated with the personnel and support of such USDA agencies as the Agricultural Marketing Service (AMS), the Natural Resources Conservation Service (NRCS), and the Foreign Agricultural Service (FAS). CCC also receives support from the U.S. Agency for International Development (AID) in operating some of its international programs.

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. As shown in Appendix A, 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 them to office. The members of the Board and the Corporation's officers are currently officials of USDA. Officers of CCC, directly or through officials of

designated USDA agencies, maintain liaison with numerous other governmental and private trade operations¹.

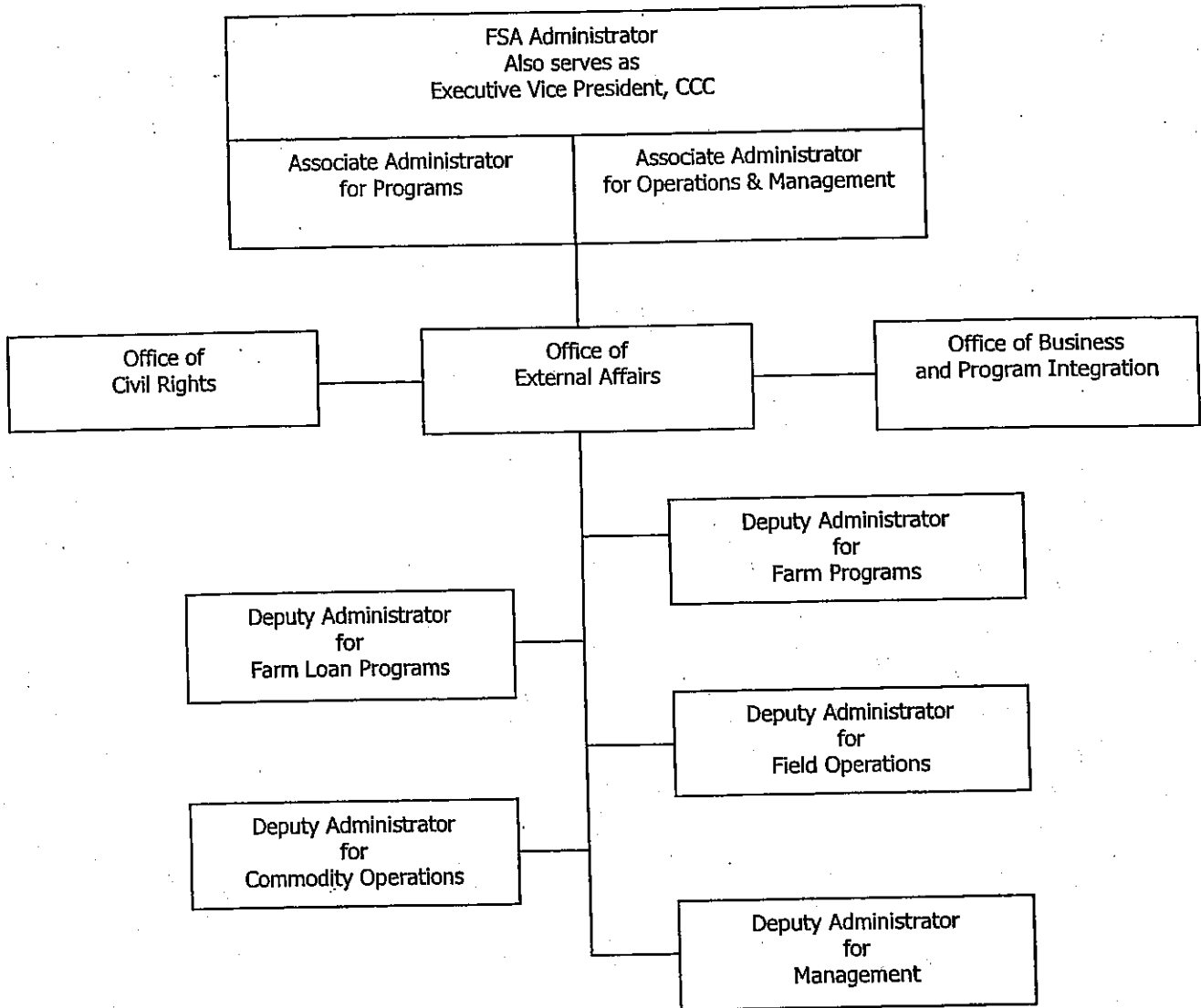
The Corporation operates numerous domestic programs, such as income support, disaster, and conservation programs. It also extends direct credits and guarantee commodity sales to foreign countries throughout the world.

CCC has its own disbursing authority rather than issuing payments through the Treasury Department. It utilizes the Federal Reserve banking system to make payments. This disbursing authority allows the Corporation to make payments quickly and get aid and financial support to America's producers without delay.

CCC has a variety of funding mechanisms (see Appendix B for a listing of CCC accounts with the Treasury Department). Most of the domestic programs are operated out of a revolving fund, which has a \$30 billion borrowing authority from the U.S. Treasury. This fund also receives monies from appropriated funding for costs incurred (i.e., realized losses), loan repayments, inventory sales, interest income, and fees. Additionally, the Corporation receives direct appropriations for specific programs, such as its Credit Reform programs, foreign grant and donation programs, and disaster relief.

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 held an open meeting 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.

Farm Service Agency Organization Chart



Strategic Goals

CCC's strategic goals, objectives, and performance measures are taken from FSA's Annual Performance Plan, since the two entities are so closely related. A separately issued Annual Performance Plan (and corresponding Performance Report) is not prepared for the Corporation.

Strategic Goals

- ✓ *To provide farm income support to eligible producers, cooperatives, and associations to help improve the economic stability and viability of the agricultural sector and to ensure the production of an adequate and reasonably priced supply of food and fiber.*
- ✓ *To assist agricultural producers and landowners in achieving a high level of stewardship of soil, water, air, and wildlife resources on America's farms and ranches while protecting the human and natural environment.*
- ✓ *To improve the effectiveness and efficiency of commodity acquisition, procurement, storage, and distribution activities to support domestic and international food assistance programs.*
- ✓ *To provide effective administrative services and information technology processes.*

Improving Life in Rural America

The CCC provides assistance to America's farmers through income support, commodity loan programs, inventory operations, and emergency assistance.

Rapid Implementation of the 2002 Farm Bill

On May 13, 2002, President Bush signed into law the 2002 Farm Bill, officially known as the "Farm Security and Rural Investment Act of 2002", Public Law 107-171. The 2002 Farm Bill, which governs Federal farm programs, offers certainty and support for America's farmers and ranchers by providing a generous safety net for farmers without encouraging overproduction and depressing prices. The 2002 Farm Bill overhauled many existing laws and created complex new programs. It impacted CCC by changing the direction of its programs and the nature of assistance it grants. To implement the 2002 Farm Bill, the Farm Service Agency promulgated 17 new regulations, over half within 5 months of the enactment of the new legislation. America's farmers and ranchers benefited from this quick and efficient implementation of this legislation. The discussion that follows includes information on the specifics of the 2002 Farm Bill, regarding programs administered by CCC.

Direct and Counter-Cyclical Program Payments (DCP)

The DCP replaced the Production Flexibility Contract payment program in fiscal year 2003 for wheat, feed grains, upland cotton, rice, and oilseeds, and peanuts as authorized in the 2002 Farm Bill. A major feature gives producers the option of updating historical average bases and crop yields to determine program benefits. The annual sign-up for DCP began on October 1, 2002 for crop years 2002 and 2003. **Direct payments** are available at the option of the producer. Up to 50 percent of the direct payment for a covered commodity, for any of the 2003 through 2007 crop years, shall be paid to the producer in

COMMODITY CREDIT CORPORATION

**Management's Discussion and Analysis
September 30, 2003**

advance. Payment rates for direct payments are established by the 2002 Farm Bill and are issued regardless of market prices. **Counter-cyclical payments** are made to producers on farms for which payment yield and base acres are established with respect to the covered commodity. Producers are also eligible for counter-cyclical payments, but payments are issued only if effective prices are less than the target prices set in the 2002 Farm Bill. The effective price is equal to the higher of the average loan rate or national average market price received by producers, plus the direct payment rate. Final crop year 2002 counter-cyclical payments for corn, grain sorghum and soybeans are zero because the effective prices for these commodities were equal to or exceeded their target prices.

As of September 30, \$4.9 billion in DCP direct payments and \$1.1 billion in DCP counter-cyclical payments have been issued to eligible producers.

Direct and counter-cyclical payment rates as set forth in the 2002 Farm Bill are presented below.

	Wheat (per bu.)	Corn (per bu.)	Grain Sorghum (per bu.)	Barley (per bu.)	Oats (per bu.)	Upland Cotton (per lb.)	Rice (per cwt.)	Soybeans (per bu.)	Other Oilseeds (per lb.)
Direct Payment Rates	\$0.52	\$0.28	\$0.35	\$0.24	\$0.024	\$0.0667	\$2.35	\$0.44	\$0.008
Counter-Cyclical Payment Target Prices:									
• Crop Years 2002-2003	\$3.86	\$2.60	\$2.54	\$2.21	\$1.40	\$0.724	\$10.50	\$5.80	\$0.098
• Crop Years 2004-2007	\$3.92	\$2.63	\$2.57	\$2.24	\$1.44	\$0.724	\$10.50	\$5.80	\$0.101

Peanut Quota Buy-Out Program

The 2002 Farm Bill authorized a Peanut Quota Buy-Out Program that compensates quota owners for the lost asset value of their quota through 5 equal installments or a lump sum payment. Sign-up for the Peanut Quota Buyout Program began on September 3, 2002. In 2003, \$1.3 billion in payments were issued. The 2002 Farm Bill also made significant changes to the peanut program, by replacing the peanut marketing system that was established over 60 years ago. The new program provisions include direct and counter-cyclical program payments, as well as non-recourse loans with marketing loan provisions. Because of the former program and marketing structure, there is no widely reported cash price for peanuts as there are for other crops, thus necessitating that USDA establish a price. Peanuts are now marketed freely and some time will be required for prices to fully reflect the new market structure. In preparation for the new peanut program, receivables established to cover \$12 million in 1999 crop year losses were charged off in fiscal year 2002 since the Corporation will no longer be collecting peanut marketing assessments to cover these losses. Additionally, 2001 crop year loans to the three peanut associations were closed out as of September 30, 2002, resulting in a net loss to the Corporation of \$149 million in fiscal year 2002.

Other 2002 Farm Bill Income Support Programs

Other income support programs authorized by the 2002 Farm Bill and effective in fiscal year 2003 are the **Milk Income Loss Contract (MILC) Program** and the **Apple Market Loss Assistance Program (AMLAP-III)**. Under the MILC program, dairy producers enter into contracts that will end on September 30, 2005, and receive monthly direct payments when domestic milk prices fall below a specified level. Sign-up for the MILC program began on August 13, 2002. Over \$1.9 billion in payments have been made in 2003. Payments under MILC are expected to rise as milk prices continue to be low. AMLAP-III provides assistance to eligible apple growers to help offset economic losses due to low prices in the U.S. apple market in 2000. Sign-up for AMLAP-III began on October 1, 2002. As of September 30, 2003, expenses for the program totaled \$93 million. Minimal future payments are expected.

Farm Storage Facility Loans (FSFL)

CCC provides FSFL to assist producers in building additional on-farm storage in order to obtain high market returns, manage production inventories, and control livestock feeding costs. The FSFL program was first implemented in fiscal year 2000 and is expected to expand on-farm grain storage by 312 million bushels by 2005. Loans outstanding under the FSFL program were \$160 million and \$144 million as of September 30, 2003 and 2002, respectively. The table below presents CCC's performance in support of providing farm income support through the FSFL program. This performance goal was first identified in the 2002/2003 Annual Performance Plan; therefore, there are no established targets for 2000 and 2001.

Performance Goal and Indicator	1999 Target/ Actual	2000 Target/ Actual	2001 Target/ Actual	2002 Target/ Actual	2003 Target/ Actual ^a
Farm Storage Facility Loan Program					
Total bushels of additional on-farm storage capacity built through the FSFL program (millions of bushels)	N/A	N/A/56.7	N/A/69.2	76.7/21.4	36.5/45.7

^a Preliminary as of October 10, 2003.

Demand for the program in fiscal year 2003 exceeded expected levels; however, the trend is expected to turn downward as farmers in some parts of the nation have already constructed the on-farm storage capacity they need. Also with continued difficulties in the farm economy, many producers are unwilling to take on additional long-term debt. As a result, performance targets for subsequent years will be revised downward.

Sugar Storage Facility Loans (SSFL)

The 2002 Farm Bill directs that the CCC establish an SSFL program to provide financing for processors of domestically produced sugar cane and sugar beet to construct or upgrade storage and handling facilities for raw and refined sugar. The loan term can be up to 15 years with the amount and terms being determined as with any other commercial loan. Loans may be made only for the purchase and installation of eligible storage facilities, permanently affixed handling equipment, or the remodeling of existing facilities. To date, no applications for loans have been filed because sugar processors do not need additional storage or are unable to take on additional debt.

Bioenergy Program

CCC's Bioenergy Program, made permanent by the 2002 Farm Bill, was revised to expand industrial consumption of agricultural commodities by promoting their use in the production of ethanol and biodiesel. The Bioenergy Program promotes sustained increases in bioenergy production and related industrial agricultural commodities, and allows the U.S. to reduce dependence on traditional energy sources while providing alternative market opportunities for producers. Payments made in fiscal years 2003 and 2002 amounted to \$167 million and \$77 million, respectively.

Commodity Loan Programs

CCC has several commodity loan programs. It offers price support loans for tobacco, recourse loans for mohair and honey, and marketing assistance loans on other commodities. As a result of the 2002 Farm Bill, support for peanuts was changed from a price support program with marketing quotas, to a marketing assistance loan program.

Marketing assistance and price support loans provide interim financing to eligible producers on their production and facilitate the orderly distribution of loan-eligible commodities throughout the year. Instead of selling the crop immediately at harvest, these marketing assistance loans allow producers who grow an eligible crop to store the production, pledging the crop itself as collateral. The loan proceeds help producers pay bills when they come due without having to sell the harvested crop at a time of year

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when prices tend to be lowest. Later, when market conditions may be more favorable, producers may sell the crop and repay their loans with the sales proceeds.

Marketing assistance loans are provided to producers of wheat, feed grains, oilseeds, upland cotton, and rice. Under the 2002 Farm Bill, marketing loan provisions were extended to peanuts, wool, mohair, and honey (in addition to other certain commodities). Loans are made for nine months, and loan rates are fixed. Per legislation, interest is charged on these loans at a rate one percentage point above CCC's cost of borrowing from the U.S. Treasury.

Marketing assistance loans are non-recourse. If market prices rise above the loan rate, the producer can repay the loan with interest, and sell the crop in the marketplace. If prices fall below the loan level, the producer can deliver the commodity to CCC in full satisfaction of the loan.

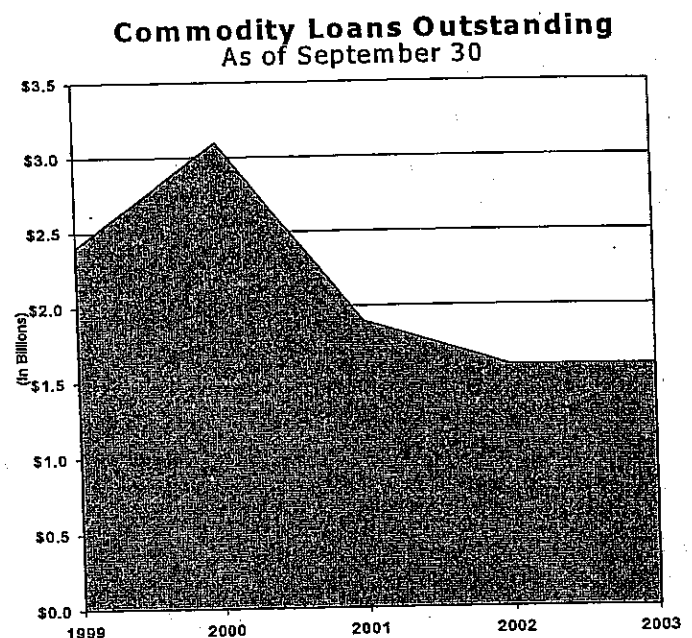
As discussed in the following paragraphs, there are several program provisions authorized to prevent delivery of loan collateral to CCC. By reducing loan collateral forfeited to the Corporation, these provisions considerably reduce the Federal government's inventory acquisition that might otherwise occur. Such inventories tend to make U.S.-produced commodities less competitive in world markets and may impose a significant taxpayer burden in the form of storage costs.

Market loan repayment provisions allow, under certain circumstances, loans to be repaid at less than principal plus accrued interest and other charges, with a portion of the principal and interest due to be waived. The portion of principal waived is considered a **marketing loan gain** for the producer. During fiscal year 2003, marketing loan gains totaled \$227 million; in the prior fiscal year, they totaled \$672 million.

Loan deficiency payments (LDP's) allow the producer to receive a payment in lieu of securing a loan from the Corporation. LDP's disbursed this fiscal year were \$664 million, a substantial reduction from the \$5,268 million disbursed last fiscal year. This was the result of the sharp decrease in LDP disbursements for soybeans, corn, and upland cotton because their respective market prices and corresponding alternative loan repayment rates increased significantly in 2003. Consequently, the LDP rates decreased significantly, therefore, the producers chose not to receive LDP's.

The 5-year trend of commodity loans outstanding (including marketing assistance loans) reflects a sharp decrease in loans during fiscal year 2001. Contributing to the decrease was the legislatively authorized forfeiture into inventory of \$609 million of tobacco in settlement of outstanding loans. Additionally, a drop in market prices early in the year spurred an increase in sugar forfeitures to \$326 million during fiscal year 2001. Decreases in commodity loans continued through fiscal year 2002; however, a slight increase was reflected in fiscal year 2003.

As of September 30, 2003, commodity loans outstanding were \$1,644 million, compared to \$1,600 million as of September 30, 2002. The



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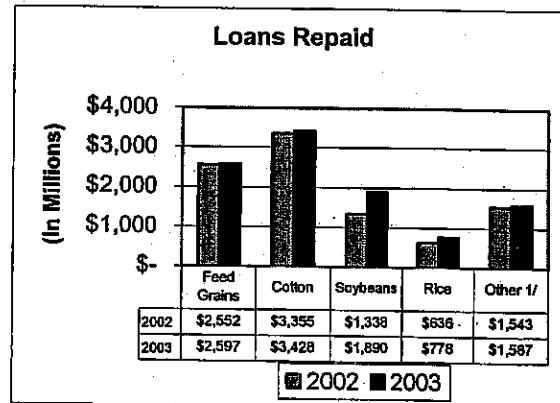
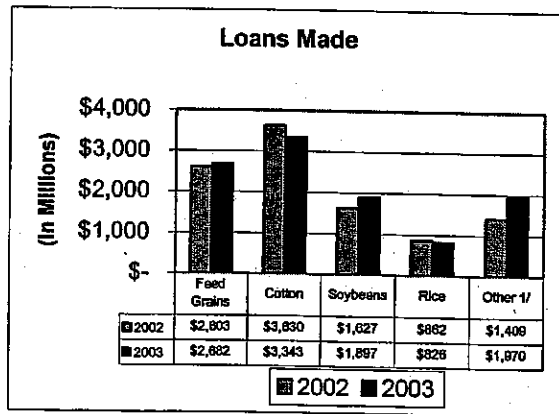
majority of loans outstanding are for tobacco, wheat, corn, and rice.

Marketing assistance loans (MAL's) and LDP's are a major part of the Federal government's agriculture production assistance programs. They enable payment recipients to continue farming operations without marketing their product immediately after harvest. By operating these programs, CCC is working towards its goal of providing farm income support to help improve the economic stability and viability of the agricultural sector and will continue to administer MAL's and LDP's as directed by the 2002 Farm Bill. The table below presents CCC's performance in support of this goal. It appears that considering current market prices of commodities and crop conditions in most parts of the nation, there will be less demand for LDP's in the near future.

Performance Goal and Indicator	1999 Target/ Actual	2000 Target/ Actual	2001 Target/ Actual	2002 Target/ Actual	2003 Target/ Actual
Marketing Assistance Loans and Loan Deficiency Payments					
Percentage of eligible commodity production placed under marketing assistance loan or loan deficiency payment ^a :					
• Wheat, corn, sorghum, barley, oats and soybeans	N/A/77%	67%/80%	75%/90%	82%/79%	82%/13%
• Upland cotton	N/A/85%	67%/98%	40%/97%	97%/99%	97%/99%

^a Based on crop year, not a fiscal year. For example, the fiscal year 2002 actual is data for crop year 2001.

Loans made totaled \$10,718 million and \$10,131 million in fiscal years 2003 and 2002, respectively. Loans repaid totaled \$10,280 million and \$9,424 million in fiscal years 2003 and 2002, respectively. The charts below depict the breakdown of loans made and loans repaid, by commodity.



^{1/} Includes wheat, tobacco, honey, sugar, peanuts, oilseeds, and mohair.

In July 2003, the lowest rate CCC has charged for funds advanced to producers for commodity loans since CCC began charging the variable monthly interest rate in 1980, was announced. CCC charged 2 percent per annum for funds advanced during July 2003 for 1996 and subsequent crop year loans and 1 percent per annum for new advances on outstanding crop year loans from 1995 and prior crop years. The last time the U.S. Treasury charged CCC interest rates this low was in 1958.

The CCC tobacco price support program provides loans to eligible producers through loan associations under cooperative agreements with CCC. These programs operate at no-net-cost to the American taxpayer. As such, tobacco allotments and quotas, approved by producers in referenda, are established to help ensure a balance between supply and demand in the marketplace. Furthermore, producers and

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purchasers of certain tobacco incur marketing assessments for tobacco brought into the marketplace. These assessments are held by the Corporation to offset projected program losses.

Maintaining a balance between supply and demand in the marketplace stabilizes the price of tobacco by rates, producers' income improves and loans outstanding decrease, thereby lowering expenses associated with the operation of the program. These cost savings result in lower assessments for tobacco producers and purchasers. The target average assessment is \$.08 per pound or less. The target average price is \$1.70 per pound. CCC's performance in relation to these goals is shown in the table below.

Performance Goal and Indicator	2000 Actual	2001 Actual	2002 Actual	2003 Actual
Tobacco Price Support Program				
Average tobacco ^a assessment (\$/lb.)	\$.055	\$.054	\$.039	\$.038
Average price per pound of tobacco ^a	\$1.81	\$1.85	\$1.90	\$1.89

^a Based on crop year, not a fiscal year. For example, the fiscal year 2003 actual is data for crop year 2002.

Commodity Inventory Operations

Forfeitures under non-recourse commodity loan programs are not the only means by which CCC acquires inventory. Under the milk price support program, CCC buys surplus butter, cheese, and nonfat dry milk from processors at announced prices. These purchases help maintain market prices at the legislated support level. Originally slated to end last year, the 2002 Farm Bill extended the program's provisions through December 31, 2007.

There are several electronic systems in place to aid in the procurement and delivery of CCC commodity inventory. An electronic bid entry system receives vendor commodity bids, supporting the procurement of about \$2 billion of export commodities annually. There is also a domestic electronic bid entry system that enhances the process of soliciting and receiving bids for the distribution of food assistance. It is imperative that commodities are purchased as efficiently as possible. These bid entry systems provide an electronic link between CCC and commodity vendors, thereby reducing the time required for generating contracts. Deployed in 2001, the Cotton On-line Processing System (COPS) is an electronic system that can be accessed by entities that store cotton owned by CCC or have cotton pledged as collateral for CCC loans. In conjunction with COPS, CCC has an electronic cotton sales system in which potential buyers can access CCC-owned cotton and place offers to purchase selected lots.

Electronic Warehouse Receipts (EWRs) are similar to paper warehouse receipts in that they convey title to commodities. They contain all the information required to make up a valid warehouse receipt in an electronic format. Currently, EWRs are only available for cotton; however, in November 2000, the Grain Standards and Warehouse Improvement Act was passed and amended the U.S. Warehouse Act (USWA), providing authority for EWRs on all commodities. A final rule was issued on August 5, 2002, to allow for implementing EWRs and other changes in the USWA. EWRs allow for nearly instantaneous transfer of title to the commodity, which has greatly enhanced cotton marketing. EWRs were first made available in 1995 for cotton only, and, by 1999, nearly 90 percent of all cotton was represented by EWRs. In 1997, the cotton industry estimated that the use of EWRs results in savings of between \$5 and \$15 per bale. There is an initiative underway for a pilot project for creating EWR's for peanuts.

The USWA, as amended, authorizes the Secretary of Agriculture to establish regulations allowing the use of voluntary systems for other electronic documents related to the shipment, payment, and financing of agricultural products. A final rule announcing the regulatory guidelines for systems of electronic conveyance was published on August 5, 2002. Use of electronic documents is expected to eventually allow for a paperless flow of commodities from the farm to the end-user. CCC will benefit by the

implementation of this paperless flow through the marketing assistance loan program, during commodity procurement processes, and as donated commodities are exported to foreign destinations.

CCC can store purchased food in over 10,000 commercial warehouses across the Nation approved for this purpose. However, commodity inventories are not simply kept in storage. CCC works to return stored commodities to private trade channels. At the FSA's Kansas City Commodity Office, located in Kansas City, Missouri, FSA merchandisers regularly sell and swap CCC inventories, using commercial telecommunication trading networks.

Beyond the marketplace, CCC commodities fill the need for hunger relief both in the United States and in foreign countries. CCC works closely with USDA's Food and Nutrition Service to purchase and deliver food for the National School Lunch and many other domestic feeding programs. U.S. farm products and food, along with donations authorized by Public Law (P.L.) 83-480, Section 416(b) of the Agricultural Act of 1949 (the 1949 Act), and the Food for Progress Act of 1985, help USDA fight hunger worldwide.

Inventory as of September 30, 2003, totaled \$1,984 million, compared to \$2,486 million the previous year. Most of the inventory decrease is attributable to the destruction of approximately \$322 million in tobacco inventory and dispositions of \$101 million of sugar inventory. This brought the fiscal year 2003 ending balance of tobacco to \$278 million and completely eliminated the sugar inventory.

Commodity	2003	2002
Dairy Products	\$ 1,325	\$ 1,284
Wheat Products	292	370
Tobacco	278	599
Sugar	--	101
Other	89	132
Total Inventory	<u>\$ 1,984</u>	<u>\$ 2,486</u>

As a result of droughts in Kentucky and floods in North Carolina, 1999 was one of the worst of years for tobacco farmers. For this reason, in fiscal year 2001, legislation was passed ordering USDA to buy up much of the harvest that totaled \$599 million. Because no bids were received to sell this tobacco for export use, CCC's only other authorized option is to destroy the inventory. Destruction of the tobacco inventory will continue through 2004.

On March 6, 2003, CCC sold its remaining 21,385 tons of raw cane sugar to the storing warehouse operator. Over a 3-year period, CCC disposed of over a million tons of refined and raw cane sugar. The majority of the sugar stocks was disposed through payment-in-kind programs and unrestricted cash sales to storing sugar processors. CCC also sold all rice in its inventory during 2003. A total of 4.1 million hundredweight of 2001 crop rice was sold over a 6-month period. All the rice sold was obtained through loan forfeitures.

CCC purchased \$512 million in nonfat dry milk in fiscal year 2003. This brought the nonfat dry milk inventory to \$1,294 million as of September 30, 2003. Of this amount, \$230 million is expected to be donated through domestic and export donation programs, \$261 million is expected to be disposed under the feed assistance programs and \$334 million is expected to be sold domestically. \$21 million is to be exchanged for pudding while the remainder is currently considered to be uncommitted inventory. Several nonfat dry milk donation and exchange initiatives that provide assistance to many have been implemented. The National Nonprofit Humanitarian Initiative helps feed hungry people in the U.S. As part of this initiative, CCC-owned nonfat dry milk is to be delivered to nonprofit charitable organizations. This one-time only initiative will enable USDA to provide additional outreach to the millions of Americans who suffer from hunger or malnutrition. Orders were accepted beginning September 2003, with deliveries for approved agreements to be completed by September 2004. On September 17, 2003, it was announced that the USDA would donate CCC-owned nonfat dry milk to nonprofit, faith-based and

community organizations for use in meal services or for distribution to needy recipients. This program will contribute to USDA's efforts to meet nutritional requirements of those in need and will build on President Bush's Faith-Based Community Initiative. Two exchange programs that were approved in 2003 included one that sought qualified companies to exchange ready-to-eat and instant pudding for CCC-owned nonfat dry milk for use in domestic programs. The other involved the exchange of CCC-owned nonfat dry milk and cash for cheese also for use in domestic programs.

CCC field test results performed in cooperation with the dairy industry indicate there are sufficient benefits for CCC to offer its nonfat dry milk for sale to the industry for conversion into edible casein or caseinate. As a result, CCC will make available up to 300 million pounds of nonfat dry milk, 24 months or older, for casein or caseinate production. Some of the older nonfat dry milk that has been deemed unacceptable for program use, due to the age of the product, will be periodically sold for animal feed.

Responding to Natural Disasters

Unreasonably dry conditions in many parts of the country have seriously affected many farmers and ranchers. Using every tool available, the Bush Administration has provided timely disaster assistance by quickly implementing the Agricultural Assistance Act of 2003 which included a crop disaster assistance program that reimburses producers for qualifying crop losses in either 2001 or 2002. The timetable for implementation was hastened and sign-up consequently began several weeks sooner than previous disaster aid packages, even though this legislation was more complicated.

Emergency/Disaster Assistance

During fiscal year 2003, the Corporation incurred \$2.8 billion in net costs for emergency assistance programs, compared to \$597 million a year earlier. Program costs were much higher in fiscal year 2003 primarily due to the **2001/2002 Crop Disaster Assistance Program** briefly mentioned above. This program was established to make emergency financial assistance available to producers on a farm that has incurred qualifying crop losses in either 2001 or 2002 on an agricultural commodity (other than sugar or tobacco) due to damaging weather or related condition. Sign-up for the 2001/2002 Crop Disaster Assistance Program began on June 6, 2003. Producers with crop losses in both years are only eligible to receive payment for one year. Payments started going out to farmers on June 30, 2003, and, as of September 30, 2003, \$2.1 billion has been issued to eligible producers. The Agricultural Assistance Act of 2003 extended the **Livestock Compensation Program (LCP)** originally created in 2002, into 2003. The 2003 LCP (LCP-II) is an emergency initiative that provides immediate assistance to eligible owners and cash lessees of certain types of livestock for damages and losses due to any natural disaster. To be eligible for assistance, a producer's livestock headquarters must be physically located in the county with a qualifying disaster. This program provides direct payments to eligible livestock producers. Sign-up for the extended program began on April 1, 2003, through early June. As of September 30, \$251 million in program costs have been incurred for LCP-II. The **2001/2002 Livestock Assistance Program (LAP)**, also authorized by the Agricultural Assistance Act of 2003, made available \$250 million to livestock producers for grazing losses that occurred as a result of drought, severe weather and related causes in either 2001 or 2002. Sign-up began in August and ends in October, with payments being made shortly thereafter. LAP payments to a producer will be reduced by the amount of assistance received by that producer under LCP.

The **Noninsured Assistance Program (NAP)** is an ongoing program that provides financial assistance to producers for noninsurable crop losses and loss of income as a result of a natural disaster which prevented planting of crops. Producers applying for program coverage must file their application and pay a service fee. When a natural disaster strikes, producers must then apply for the NAP payment. During

fiscal years 2003 and 2002, CCC incurred \$240 million and \$182 million in NAP program costs, respectively.

Other emergency assistance programs include the **Hurricane Assistance-Sugarcane Program, Sugar Beet Disaster Program, Quality Loss and Pasture Recovery** programs.

Improving the Environment

The Corporation funds several conservation programs, serving to preserve and conserve the Nation's farmland for future generations. As reflected on the Statement of Net Cost, costs associated with the Corporation's conservation programs were \$2,227 million this fiscal year. Last year, costs were \$2,369 million. Costs are expected to increase in future years due to the increased conservation program funding provided in the 2002 Farm Bill. While continuing and expanding the programs that retire environmentally sensitive land from crop production, the 2002 Farm Bill emphasizes programs that support conservation on land in production, including livestock operations.

Farmland Protection Program (FPP)

Under the FPP, the Corporation reimburses state and local governments for the purchase of easements to preserve productive farmland and keep it in use. This program is a voluntary program, so the location and extent of enrollment – and resultant environmental benefits – will depend on who submits bids and how these bids are selected for enrollment. Under the 2002 Farm Bill, the program will receive 10-year funding of \$985 million, which represents a nearly twenty-fold increase over the \$53.4 million provided since 1996.

Environmental Quality Incentives Program (EQIP)

The EQIP was created to consolidate several conservation programs and encourage farmers and ranchers to adopt practices that reduce environmental and resource problems. The program offers technical assistance, cost sharing, and incentive payments to assist livestock and crop producers with conservation and environmental improvements. The 2002 Farm Bill phases funding for the program up to \$1.3 billion annually by fiscal year 2007, a significant increase from the annual funding of roughly \$200 million per year under the 1996 Farm Bill. During fiscal year 2003, CCC incurred program costs of \$102 million. Due to an Office of Management and Budget (OMB) apportionment, NRCS assumed responsibility for program payments for the latter part of fiscal year 2002 and subsequent fiscal years. As a result, CCC transferred \$442 million in fiscal year 2003 and \$200 million in fiscal year 2002 to NRCS to fund the payments. Consequently, CCC will fund the program regardless of which agency makes the actual payments to the landowners.

Conservation Reserve Program (CRP)

The Corporation also funds the CRP, the Nation's premier program for protecting fragile natural resources and enhancing the environment. The purpose of the program is to safeguard millions of acres of American topsoil from erosion, increase wildlife habitat, protect ground and surface water, and improve air and water quality. CRP participants sign a contract with CCC for a period of 10 to 15 years. During the contract period, the producer agrees to convert eligible (highly erodible or environmentally sensitive) land to a conserving use. In return, the producer receives an annual rental payment. The producer can also receive cost-share assistance for establishing permanent conservation practices. Additionally, CCC can arrange for technical assistance in cooperation with the private sector technical service providers, NRCS, the Forest Service, and the U.S. Fish and Wildlife Service. The 2002 Farm Bill increased the acreage cap for the program from 36.4 million to 39.2 million acres. Actual enrolled acreage will vary from year to year due to program provisions which allow for extension of existing contracts, regularly

scheduled sign-up periods, and a continuous sign-up for select environmental priority practice acreage. In fiscal years 2003 and 2002, the Corporation incurred net costs for CRP of \$1,781 million and \$1,831 million, respectively.

The CRP and other conservation programs assist agricultural producers and landowners in achieving a high level of stewardship of soil, water, air, and wildlife resources on America's farms and ranches while protecting the human and natural environment. Appendix C presents CCC's performance in support of this goal.

Reaching Across the Globe

CCC's foreign programs provide economic stimulus to both the U.S. and foreign markets, while also giving humanitarian assistance to the most needy people throughout the world. CCC provides the funding for these programs which are administered by FAS and AID.

Export Assistance

Several programs exist to provide export assistance.

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 United States (or, less commonly, by the U.S. exporter) under the **GSM-102** (credit terms up to three years) and **GSM-103** (credit terms up to ten 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.

Under the **Supplier Credit Guarantee Program**, CCC guarantees a portion of payments due from importers 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.

The **Facility Guarantee Program** provides payment guarantees to facilitate the financing of manufactured goods and services exported from the United States to improve or establish agriculture-related facilities in emerging markets. These guarantees can have payment terms from 1 to 10 years.

As of September 30, 2003, the principal value of guarantees outstanding under these programs was \$4,820 million, compared to \$4,893 million as of September 30, 2002. This fiscal year, CCC paid \$100 million on defaulted guarantees. In the prior fiscal year, CCC paid \$40 million. Claims and rescheduled export credit guarantee receivables outstanding were \$6,743 million and \$6,930 million as of September 30, 2003 and 2002, respectively.

The **Dairy Export Incentive Program (DEIP)** is used to help exporters of U.S. dairy products compete with prevailing world prices for targeted dairy products and destinations. Through the program, sales of U.S. dairy products are made that would not otherwise be possible because of subsidized prices offered by competitor countries. This fiscal year, CCC paid \$52 million in bonuses to exporters under this program while last fiscal year \$25 million was paid. The introduction of butterfat into the program during fiscal year 2003 attributed to the increase in bonuses paid. Under the 2002 Farm Bill, DEIP was extended to 2007.

The **Market Access Program (MAP)** is designed to create, expand, and maintain foreign markets for U.S. agricultural commodities and products through cost-share assistance. Under the MAP, CCC enters

into agreements with eligible participants to share the costs of certain overseas marketing and promotion activities. The Corporation made \$103 million in MAP payments this fiscal year, and \$98 million in payments last fiscal year. The 2002 Farm Bill reauthorized the program through 2007, gradually increasing program funding each year.

Food Aid

CCC provides U.S. agricultural commodities to countries in need of food assistance through direct donations and extension of credit on concessional terms (i.e., low interest rates, payment terms of up to 30 years, and grace periods of up to 7 years). Food aid is provided through three channels: P.L. 480 programs; the Food for Progress Act; and Section 416(b) of the Agricultural Act of 1949 (the 1949 Act).

P.L. 480 is composed of three programs. Title I provides for the government-to-government financing of sales of U.S. agricultural commodities to developing countries on dollar 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. As of September 30, 2003, P.L. 480 Title I direct credit receivables outstanding totaled \$9,840 million, a slight decrease from last year's total of \$10,186 million.

Title II, the U.S. government's major humanitarian food aid program, provides for the donation of U.S. agricultural commodities to meet emergency and non-emergency food needs in other countries. Title III supports long-term growth in the least developed countries around the world. Under Title III, donated commodities are sold in the recipient country for local currency, and the revenue generated is used to support economic development programs. Donations under these two programs were \$748 million and \$482 million in fiscal years 2003 and 2002, respectively.

In March 2003, USDA Secretary Veneman and AID Administrator Andrew S. Natsios announced the immediate release of 200,000 metric tons of wheat from the Bill Emerson Humanitarian Trust, with another 400,000 tons to be made available and shipped as needed. A portion of the wheat from the reserve will be exchanged for rice, so that a combination of commodities will be available to feed the people of Iraq. The commodities will be provided through P.L. 480, Title II. The U.S. is working in close partnership with international institutions and other nations as well as private voluntary organizations to ensure the rapid delivery of humanitarian relief for Iraq.

During fiscal year 2003, the largest P.L. 480, Title II purchase in recent years was announced with the acceptance of offers for up to 229,000 metric tons (505 million pounds) of processed and packaged commodities for food assistance programs worldwide. This is the largest processed and whole grain packaged commodity purchase in over five years. Iraq will be the largest beneficiary of the purchase, receiving 105,000 metric tons of commodities including wheat flour, milled rice, vegetable oil, and great northern beans.

Under the **Food for Progress Program**, CCC finances the sale and export of agricultural commodities on credit terms, or can provide commodities on a grant basis. The purpose of the program is to support developing countries and countries that are emerging democracies and have made commitments to introduce or expand free enterprise elements into their agricultural economies. Food for Progress Program grants totaled \$110 million in fiscal year 2003, and \$81 million in fiscal year 2002. Direct credits outstanding under the program as of September 30, 2003 and 2002, were \$352 million and \$409 million, respectively.

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Commodity donations under **Section 416(b)** of the 1949 Act help to reduce CCC's surplus commodity inventories, while also helping countries in need. Donations under this authorization totaled \$330 million in fiscal year 2003, and \$463 million in fiscal year 2002.

Reporting Financial Information

The Corporation's financial statements were re-formatted last year to meet new reporting requirements issued by the Office of Management and Budget (OMB), as well as to more closely conform to the presentation used by the Department of Agriculture for its consolidated financial statements. The 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 books and records of the CCC 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. Furthermore, the statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity. A discussion on the more noticeable variances reflected on the financial statements is presented below.

The Corporation had a higher Fund Balance with Treasury as of September 30, 2003, compared to the prior year, in part due to the establishment of a new multi-year fund for the P.L. 480 Program for emergency assistance with an appropriation of \$250 million. Another contributor was the change in accounting for disbursements that have not yet cleared the Federal Reserve Banks (FRB's) and therefore, per instructions from Treasury, are not to be considered as Fund Balance with Treasury, as they were previously reported. As a result, these transactions are now recognized as disbursements-in-transit which also accounts for the large increase in the accounts payable. Once these transactions have cleared the FRB's, they are reported as Fund Balance with Treasury. Payments for such programs as the Direct and Counter-Cyclical Program, Milk Income Loss Contract Program and the Noninsured Assistance Program are among those that were issued in September, but had not yet cleared the FRB's.

Selected Items from the Balance Sheet As of September 30 (In Millions)		
Line Item	2003	2002
Fund Balance with Treasury	\$ 2,597	\$ 2,453
Accounts Receivable (Federal)	466	7
Cash	51	6
Accounts Payable (Public)	486	3
Accrued Liabilities	4,865	2,043
Cumulative Results of Operations	(25,282)	(19,899)

As discussed in Note 1, Fund Balance with Treasury timing differences between the Corporation's records and those of Treasury are accounted for as cash in transit, and make up the current Cash balance. The individual timing differences have been identified and will process in the subsequent fiscal year. During fiscal year 2003, CCC continued to improve its reporting to Treasury, as well as its fund balance with Treasury reconciliation procedures and processes, including strengthening internal controls and increasing supervisory review. These improvements resulted in the Corporation monitoring and clearing out reconciling items in a timely manner while also reducing the number of outstanding transactions.

In fiscal year 2003, CCC began calculating and recording reimbursements due from the Department of Transportation, Maritime Administration (MARAD) for the 20% excess freight costs incurred in prior program years. The financial statements as of September 30, 2003, reflect \$390 million in receivables for these costs. An additional \$35 million shown on this year's Balance Sheet represents amounts due from

MARAD for Ocean Freight Differential cost reimbursement. This accounts for the sharp increase in the accounts receivable from Federal agencies from fiscal year 2002.

Accrued program liabilities increased from the prior year as the result of accruals established for newly established and extended disaster assistance programs under Agricultural Assistance Act of 2003, such as the 2002/2001 Crop Disaster Assistance Program and the Livestock Assistance Program. In addition, accruals for the Direct and Counter-Cyclical Program established by the 2002 Farm Bill were recorded.

CCC incurred over \$23 billion in realized losses in fiscal year 2003, and \$17 billion in fiscal year 2002. This unreimbursed loss represents the majority of the balance of Cumulative Results of Operations. Rather than receiving an appropriation at the beginning of the fiscal year, CCC's revolving fund receives its appropriation in subsequent fiscal years, based on realized losses incurred. During fiscal years 2003 and 2002, CCC received \$17,684 million and \$22,800 million, respectively, in reimbursements for prior year losses incurred.

The net cost of operations for the domestic programs totaled \$21,019 million in fiscal year 2003 compared to \$16,662 million in the prior year. As shown in the table to the right and on the supporting schedule to the Statement of Net Cost, emergency assistance showed the largest increase in cost from 2002. This was the result of the implementation of the Agricultural Assistance Act of 2003, which established and extended many disaster assistance programs to provide relief to producers that experienced loss due to natural disasters.

Summary of Net Cost of Operations Domestic Programs (In Millions)		
Program	FY 2003	FY 2002
Commodity Operations	\$ 1,777	\$ 3,139
Farm Income Support	5,316	6,289
Direct & Counter Cyclical	8,896	—
Production Flexibility	—	4,268
Emergency Assistance	2,803	597
Conservation Programs	2,227	2,369
Total	\$ 21,019	\$ 16,662

During 2003, CCC provided funding, through non-expenditure transfers, to other Departmental and Federal agencies for programs created by the 2002 Farm Bill. These transfers, totaling \$2,258 million, are reflected on the Statement of Changes in Net Position as transfers out of budgetary resources without reimbursement.

Implementing the President's Management Agenda

Improving Financial Management

The President's Management Agenda provides President George W. Bush's strategy for improving the management and performance of the Federal government. This document sets forth 5 government-wide goals to improving Federal management, remedy long-standing problems, and deliver results that matter to the American people.

President's Management Agenda 5 Government-wide Initiatives	
✓	Improved financial performance
✓	Budget and performance integration
✓	Strategic management of human capital
✓	Competitive sourcing
✓	Expanded electronic government

Improving financial management is one of the goals set by the President. CCC is working aggressively to meet this goal, implementing several new initiatives this year that will lay the groundwork for improved financial operations in the future.

Providing accurate and timely financial information to its customers and managers is of primary importance to the Corporation. It is working to reduce the number of days it takes to close the monthly general ledgers, thereby having financial data available faster than in the past. Reporting processes are

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being streamlined by replacing manual tasks with automated processes wherever possible. During fiscal year 2002, several standard monthly reconciliations were implemented and additional analysis tools were developed to examine and verify financial data before its release.

Biannually, financial managers convene to develop means and strategies to improve financial management in the coming years. Several new management initiatives have been identified thus far, and task forces put together to address these projects. Accelerated timelines, improved internal controls, and increased attention to reconciliations are among the priorities established for financial management.

CCC's goal is to obtain a clean audit opinion on its financial statements. To help in improving the reporting process, CCC prepared interim financial statements in fiscal year 2002, and in fiscal year 2003, quarterly financial statements were prepared as required by OMB. CCC continues to work closely with the USDA Chief Financial Officer to ensure the financial statements are in compliance with Federal and Departmental accounting policies and standards. The Corporation is also proactive in identifying possible weaknesses, and implementing controls to eliminate those weaknesses. For example, several task forces have been established to address financial management challenges and reporting deficiencies, with project goals identified and plans laid out to meet those goals.

Clean Audit Opinion

CCC has displayed its commitment to improving financial management and performance and accountability to the American people through gaining an unqualified (clean) audit opinion on its fiscal year 2003 financial statements. CCC also received a clean audit opinion on the fiscal year 2002 financial statements, the first such opinion since 1997. Receiving a clean audit opinion is an indicator of sound financial management policies and procedures. It gives assurances to the public that the financial statement data is fairly stated in all material respects. It also allows the user to place a high degree of reliability on the information and to use the data to make informed decisions and manage resources wisely. Achieving this goal meant overcoming many obstacles. In the past, CCC has had difficulties in meeting Departmental timeframes, and in providing sufficient and competent evidential documentation to the auditors to substantiate certain line items on the financial statements. However, the Corporation has worked diligently to address and resolve issues identified in prior years' audits, and continues to make great strides in the coordination and validation of information used in its financial statements.

Audit Opinion On Financial Statements	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Unqualified	X	X		X				X ^a	X	X
Qualified						X				
Disclaimer			X		X		X	X ^a		

^a In fiscal year 2001, CCC received an unqualified opinion on its Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position, and a disclaimer of opinion on the Statements of Budgetary Resources and Financing.

Reducing Erroneous Payments

A component of the President's Management Agenda is the initiative to reduce erroneous payments. The Improper Payments Information Act (IPIA) of 2002, signed into law in late November 2002, greatly expanded the Bush Administration's efforts to identify and reduce erroneous payments in the government's programs and activities. This guidance promises to improve the integrity of the government's payments and improve the efficiency of its programs and activities. Under this legislation, each executive agency, in accordance with OMB guidance, is directed to review all of its programs and activities annually. Those programs and activities that may be susceptible to significant erroneous

payments must be identified and estimates of the annual amount of improper payments must be submitted to Congress before March 31 of the following applicable year. By November 18, 2003, each USDA agency must provide its input for the implementation of IPIA for possible inclusion in the USDA Consolidated IPIA plan. The Farm and Foreign Agricultural Services mission area programs (which includes CCC) that are expected to have payments exceeding \$10 million in fiscal year 2004, are being identified. A preliminary risk assessment is required immediately for those programs to determine if there is a significant risk of erroneous payments. Programs that are rated as "high-risk" for erroneous payments (erroneous payment equal to or greater than \$10 million and 2.5 percent of the program's outlays) in fiscal year 2004 will be included in the USDA Consolidated IPIA plan. They will be subject to periodic reporting on erroneous payment rates, improvement targets, and remediation plans to OMB.

Budget and Performance Integration

FSA is fully engaged in this major reform initiative and has requested to be the lead agency in the Department's implementation. The goal is to "get to green" for integrating budget and performance on the President's Management Agenda Scorecard. To achieve this goal, the Agency is clearly linking day-to-day program activities with the long-term strategic goals and identifying the full cost of the program activities, as well as the costs associated with achieving the various strategic goals and objectives.

Strategic Management of Human Capital

FSA has fully adopted the USDA Human Capital Plan for fiscal years 2003 to 2007 and continues to be active on the USDA Human Capital Accountability Team.

Competitive Sourcing

USDA is well prepared to address this initiative. USDA Mission Areas and Offices are working to comply with OMB's direction to reduce operating costs and improve service to the public. USDA has accomplished much to improve its program by accomplishing the following:

- Updating competitive sourcing plan
- Directly converting and competing positions
- Establishing a competitive sourcing office
- Establishing competitive sourcing program staffs in several agencies (one of which is FSA)
- Forming a Department-wide OMB Circular A-76 working group.

Management controls are the organization structure, policies, and procedures used to reasonably ensure that:

- ✓ Programs achieve their intended results;
- ✓ Resources are used consistent with the agency mission;
- ✓ Programs and resources are protected from waste, fraud, and mismanagement;
- ✓ Laws and regulations are followed; and
- ✓ Reliable and timely information is obtained, maintained, reported, and used for decision-making.

Management Controls

The Corporation has a network of financial management systems and internal controls in place to support the preparation of the financial statements, performance information, and compliance with applicable laws. It has identified system weaknesses and internal control deficiencies. The following narrative discusses those weaknesses and the plans in place to address them, as presented in various management reports.

FMFIA Report

The Federal Managers' Financial Integrity Act (FMFIA) requires Federal managers, on an annual basis, to assess the effectiveness of management controls applicable to their responsibilities. If material deficiencies are discovered, managers must report those deficiencies with scheduled milestones leading to the resolution of the deficiency. FMFIA reporting ensures management's accountability for the effectiveness and efficiency of program operations.

Section 2 of the FMFIA Report requires an assessment of whether there is reasonable assurance that agency controls are achieving their intended objectives. It also requires a report on material weaknesses in agency controls. A material weakness is a condition in which management controls are not sufficient to provide assurance of their effectiveness, and requires completion of major milestones for corrective action. Such a weakness may significantly impair the fulfillment of an agency's mission; violate statutory or regulatory requirements; or significantly weaken safeguards against waste, loss, or unauthorized use of assets. Section 4 of the FMFIA requires an annual assessment of whether the agency's financial management systems comply with government-wide requirements. If the agency's systems do not comply, plans must be developed to address the non-conformances. Appendix D presents CCC's reporting on FMFIA.

Legal Compliance

As reported in the 2002 audit report, there were two instances of noncompliance with the following laws and regulations that are required to be reported under the *Government Auditing Standards* and OMB Bulletin No. 01-02, as described below.

Computer Security Act of 1987 and Government Information Security Reform Act (GISRA). The Computer Security Act of 1987 requires that Federal agencies implement acceptable information security practices, such as mandatory periodic training for all system users, to improve the security and privacy of sensitive information maintained in Federal computer systems. More recently, GISRA was passed and mandates that Federal agencies implement processes and controls to maintain an effective information security program, including planning, risk assessment, training, and evaluations in such a manner to comply with policy guidance contained in OMB Circular A-130, *Management of Federal Information Resources*. CCC is working, in conjunction with the USDA Chief Information Officer, to improve its level of compliance with the Computer Security Act and GISRA by implementing additional controls and processes supporting its entity-wide security program and operating device security.

Debt Collection Improvement Act. The Debt Collection Improvement Act of 1996 (DCIA) is intended to significantly enhance the Federal Government's ability to service and collect debts. Under the DCIA, Treasury assumes a significant role for improving government-wide receivables management. The DCIA requires Federal agencies to refer eligible delinquent non-tax debts over 180 days to the U.S. Treasury for the purpose of collection. During the 2002 audit, instances were discovered where CCC was not in compliance with certain provisions of the Act. Specifically, some eligible debts were not forwarded to the U.S. Treasury for cross servicing or the offset program. In response, CCC has implemented new reporting processes in the county offices in order to provide up-to-date information on delinquent debt so that necessary action can be taken.

FFMIA Report

The Federal Financial Management Improvement Act (FFMIA) requires Federal agencies to assess, on an annual basis, the compliance of their financial management systems with applicable financial management systems requirements, Federal accounting standards, and the U.S. Government Standard General Ledger. Agencies not in compliance must develop remediation plans to bring its systems into compliance. Appendix E presents CCC's remediation plan.

Improving Payment and Collection Processes

CCC is working to improve its payment processes, making payments faster and more accurately.

The Prompt Payment Act requires Federal agencies to:

- ✓ Make payments on time,
- ✓ Pay interest penalties when payments are late, and
- ✓ Take advantage of discounts when payments are made on or before the discount date.

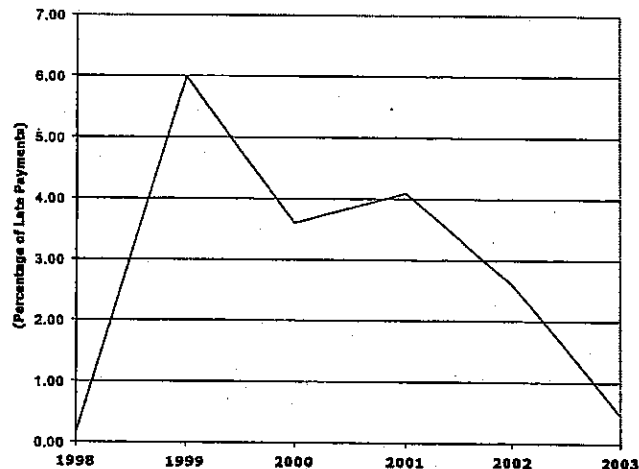
Prompt Payment

The Prompt Payment Act encourages timely payments, better relationships with contractors and producers, improved competition for government business, and reduced costs to the Government for property and services.

In fiscal year 2003, CCC made 17 million payments that were subject to the provisions of the Prompt Payment Act. These payments totaled \$26,113 million. Of these payments, .46% of them were paid late. This is an improvement over last year when CCC made 7 million payments totaling \$20,664 million. Of these payments, 2.6% were paid late.

A comparison of the percentage of payments made late, by fiscal year, is presented. In fiscal year 1998, 0.16% of payments were late. However, only \$13,925 million in payments were subject to Prompt Payment Act provisions. The dramatic increase in late payments in fiscal year 1999 was due to the backlog and high volume of loan deficiency payments. Additionally, there was an 84% increase in the dollar amount of payments, with \$25,555 million of payments being made in fiscal year 1999.

Percentage of Late Payments
As of September 30



Electronic Funds Transfer (EFT)

CCC continues its use of EFT for vendor payments and payment of program benefits to producers. The expansion of the use of EFT is largely dependent on the customer's voluntary participation. It is expected that there will always be payment recipients who will continue to choose a paper check due to personal preference, technical issues, or business practices.

Performance in relation to vendor EFT payments fell slightly from last year as depicted in the table below. The EFT volume for vendor payments in the Service Centers declined as the result of more payments being issued to larger corporations or other Government entities, such as the General Services Administration. These entities will not accept EFTs without payment detail being made available. Due to the current system design, detail payment information to EFT recipients is prevented. Therefore, checks are still the preferred manner of payment for most vendors. The new system that allows vendors to

download and access necessary payment detail information has been developed. However, this new system is not yet available to recipients of payments from county offices that issue the largest number of vendor payments. It is expected that the new system will be made available to these recipients later in 2003. This new system should improve future EFT payment performance in the county offices.

Percentage of Payments Made via EFT As of September 30			
Payment Recipient	2001	2002	2003
Vendor	45%	54%	47%
Producer	72%	77%	74%

As shown in the table, 74% of producer payments were made via EFT this year, a slight decrease from the 77% reported in fiscal year 2002. History has shown that the recurring-type of producer payments (income support, CRP annual rental payments, etc.) tend to be made via EFT, with one-time payments (i.e., disbursement of loan, disaster assistance, etc.) more likely to be made via check. The slight decrease in the EFT volume for producer payments is the result of the increase in the number of one-time only disaster and loan program payments made during the fiscal year. An increase

in the producer payment EFT rate is expected in the future since assignees can now get their payment via EFT. However, future producer payment performance will be tempered as Treasury has adopted more lenient requirements for waiver from receiving payments via EFT.

Debt Collection

The DCIA provided additional collection tools for agencies to use to collect delinquent debts owed. Two of the collection tools, the Treasury Offset Program (TOP) and cross-servicing, require agencies to refer debts to the Treasury Department when they become 180 days delinquent.

In fiscal year 2003, CCC referred 6,522 debts valued at \$61 million, to the TOP. In fiscal year 2002, CCC referred 8,571 debts, valued at \$73 million. In both fiscal years 2003 and 2002, as a result of these and prior year referrals, CCC received \$1 million in offsets from other Federal payments to be made to individuals with delinquent debts to the Corporation.

In fiscal year 2003, CCC referred 1,349 debts valued at \$11 million, for cross servicing. In fiscal year 2002, CCC referred 965 debts, valued at \$4 million. Figures are higher this year because, in fiscal year 2002, CCC had just completed a major clean up of debt returned from cross servicing. CCC collected less than \$1 million from cross servicing in each of the last two fiscal years.

CCC continues to maintain a very strong internal debt management program. CCC collected \$9 million and \$5 million, respectively, in fiscal years 2003 and 2002 by internal administrative offset. CCC also collected from delinquent debtors via internal collection efforts \$17 million and \$9 million, respectively, in fiscal years 2003 and 2002. In addition, CCC also collected another \$2 million from debts referred to the Justice Department in fiscal year 2003, and \$1 million in fiscal year 2002.

The DCIA Compliance Review Team was established in January 2003. Over the past 9 months, the Team traveled to 5 State Offices and 23 County Offices, resolving \$9.3 million in debt. Quarterly reports have been developed to provide information on the status of receivables not in compliance with DCIA. These reports keep senior management aware of the issues Debt Management must deal with on a monthly basis in order to continue to be in compliance with requirements set forth by DCIA.

By implementing all collection tools available, CCC is striving to achieve its strategic goal of providing effective administrative services and reducing the dollar amount of delinquent debt owed to the Corporation. The table below presents CCC's performance in support of this goal.

Performance Goal and Indicator	2000 Target/ Actual	2001 Target/ Actual	2002 Target/ Actual	2003 Target/ Actual	2004 Target
Financial Management					
Decrease the average volume of the CCC delinquent domestic debt portfolio as it relates to farm programs (number) ^a	N/A/ 10,973	N/A/ 9,441	8,120/ 11,234 ^c	7,065/ 11,860 ^c	10,674 ^c
Decrease the average age of CCC delinquent domestic debt portfolio (years) ^b	N/A/5.2	N/A/3.44	3.0/3.32	2.5/3.41 ^d	2.5

^a This performance goal was first established in the fiscal years 2002/2003 Annual Performance Plan, therefore, targets for prior years do not exist.

^b This performance goal was first established in the fiscal years 2001/2002 Annual Performance Plan, therefore, targets for prior years do not exist.

^c In fiscal year 2003, the 2002 Farm Bill was implemented and new farm program support programs were established. Some of these programs affected payments that had already been issued in fiscal year 2002.

^d In fiscal year 2003, a debt reconciliation team worked with field offices in moving aged receivables into the delinquent domestic debt portfolio. The average age shown above is for delinquent claims only. The average age of all CCC domestic receivables was just over 1 year.

Making Government More Accessible

CCC supports the goals of electronic government as defined by the Administration and as mandated in the Government Paperwork Elimination Act (GPEA), the Freedom to E-File Act, and related statutes. FSA has partnered with NRCS and Rural Development (RD) to implement a system for the implementation of electronic services for its customers. The three agencies implemented an e-forms system this year to enable customers to electronically access and file forms and related electronic information. In order to provide authentication and access to participating customers, the three agencies also implemented a standard electronic access, Central Authentication and Authorization Facility (WebCAAF). CCC is committed to continuing the partnership effort with the Service Center Agencies (SCA) to implement generations 3 and 4 of the e-forms system to enrich and expand the electronic services available to its customers.

CCC was challenged by the implementation of the 2002 Farm Bill. This far-reaching and complex piece of legislation affected nearly every program delivered to FSA customers. The initial priority for FSA was to reach out to America's ranchers and farmers to make sure they had timely program information so they could make the best possible decisions for their businesses. This included informing producers of important programs and relevant sign-up dates such as October 1, 2002, the day when eligible producers could begin signing up for the direct and counter-cyclical payment programs and update their base and yield data. In addition, FSA has provided a steady stream of information on other programs such as dairy, peanuts, pulse crops, feed assistance and others. FSA is providing exceptional access to 2002 Farm Bill program information on its website. For example, MILC program information was available on the FSA website shortly after the program was announced on August 5, 2002. The FSA website has pertinent MILC program and signup information, the monthly payment rates, and a payment calculator facility to enable an interested applicant to estimate program benefits.

FSA also used the SCA Common Computing Environment (CCE) capabilities to leverage the implementation of the 2002 Farm Bill. The Service Center Information Management System (SCIMS) shared customer name and address records were used to notify over 6.6 million customers of 2002 Farm Bill changes that may impact their participation in USDA programs.

Base and Yield Analysis (BYA) Tool

FSA partnered with Texas A&M University's Agricultural Food and Policy Center to develop an interactive BYA tool for the USDA and FSA websites. As announced by Secretary Veneman, "This innovative, web-based software will provide landowners with options for estimating farm bill program payments and help them make informed decisions." The BYA tool helps producers analyze the economic consequences of selecting different base and yield options.

Electronic Loan Deficiency Payment (eLDP)

CCC initiated the Electronic Loan Deficiency Payment (eLDP) Program that accepts electronic LDP applications from producers and issues electronic payments. The initial eLDP beta program (covering 2001 crops) was implemented in early spring of 2002 as an Internet application that provided capability for producers to request LDP's via the web. The eLDP website is hosted on the FSA Electronic Access Initiative (EAI) web farm located in Kansas City. Producers who elected to participate in the eLDP initially visited the local FSA Service Center to sign-up for the eLDP and complete the LDP application to provide farming information. The FSA Service Center provided the producer with a user ID to access the eLDP Internet application. The FSA Service Center also established the producer's parameters in the eLDP Internet application for payment limitation and program participation reasonableness. Producers meeting the program requirements for participating in the eLDP program were able to initiate a request for eLDP through the Internet. Valid eLDP requests that met the criteria for the approved application parameters established by the local Service Centers were processed and a payment was calculated, certified and disbursed. This initial beta process was successful on a small scale early in 2002. The next phase of eLDP is a beta expansion for 2002 crops covering at least one site in each state. The strategy for eLDP is to prove the viability of this electronic process through a large-scale beta process and expand the availability of eLDP as rapidly as possible to nationwide coverage.

Food Aid Request Entry System (FARES)

CCC is developing a number of important government-to-business services on its Internet architecture. The FARES, a web-based application, will streamline program operations and improve customer service by automating the entry of commodity requests ("call forwards") from AID and private voluntary organizations (PVO's). The call forwards will then be electronically transmitted to CCC for purchase. Phase II of FARES is currently in the requirements stage. This will allow PVO's to enter their Annual Estimated Requirements (AER's) via the web. AID will then review and approve AER's electronically which will eliminate the flow of paper and duplicative data entry. This information will also be used by FSA's export operations to forecast demand and insure call forwards do not exceed authorizations.

Electronic Distribution

CCC's Electronic Distribution project phase III (ED3) is currently in the requirements stage and will be implemented by the first quarter 2004. This web-based system will automate the contract-invoicing portion of the Processed Commodities Inventory Management System (PCIMS). Vendor invoices will be electronically entered to PCIMS with electronic signatures and processed without paper. FSA financial personnel will use the ED3 application to review and approve all payments.

Market Entry System

CCC's Market Entry System is currently in the requirements stage and will be implemented in 2004. This web-based application will allow grain warehouses to enter their daily purchase price for grain. This information will be used by FSA in the analysis of commodity market prices and the determination of loan rates and LDP rates.

Freight Entry Bid Entry and Evaluation System

FSA is partnering with AID in the design and construction of the Freight Entry Bid Entry and Evaluation System. This will be a web-based system designed to allow steamship transportation lines to register bids and enter their ocean rate information.

Making the Workplace More Efficient**Information Technology Infrastructure**

The standardization of the information technology infrastructure for the field structure is well underway and is expected to be completed during next year. The flexible new infrastructure is built around the strategy of maximizing shareability of appropriate information both within USDA and with other Federal, state and local agencies, USDA customers and the private sector. The SCA have already achieved a level of success in sharing the following CCE infrastructure components and software applications:

- Telecommunications network
- Help desk support
- Common workstations with standard software and local area network
- Peripheral equipment including printers, routers, network server
- Common administrative applications
- Web farm components and standard security firewall stacks
- Email services and active directory
- Common testing facilities
- SCIMS name and address
- Office information profile
- WebCAAF

The shared CCE architecture components implemented in fiscal year 2003 include the installation of servers with relational database capability in the SCA service centers to support the Graphical Information Systems (GIS) data layers and the multi-user access to GIS applications. Another key infrastructure component is the upgrading of the telecommunications network to provide T-1 level service to over 2000 of the larger offices and an upgrade in network capacity to all offices.

Appendix A
CCC Board of Directors and Officers

CCC Board of Directors

Chairperson, Ann M. Veneman, *Secretary, USDA*

Vice Chairperson, James R. Moseley, *Deputy Secretary, USDA*

Member, J.B. Penn, *Under Secretary, Farm and Foreign Agricultural Services, USDA*

Member, Thomas C. Dorr, *Under Secretary, Rural Development, USDA*

Member, Eric M. Bost, *Under Secretary, Food, Nutrition, and Consumer Services, USDA*

Member, Joseph J. Jen, *Under Secretary, Research, Education and Economics, USDA*

Member, William T. Hawks, *Under Secretary, Marketing and Regulatory Programs, USDA*

Member, Mark E. Rey, *Under Secretary, Natural Resources and Environment, USDA*

CCC Officers

President, J.B. Penn, *Under Secretary, Farm and Foreign Agricultural Services, USDA*

Executive Vice President, James R. Little, *Administrator, FSA*

Vice President, Vacant, *Associate Administrator, Programs, FSA*

Vice President, Verle Lanier, *Associate Administrator, Operations and Management, FSA*

Vice President, A.J. Yates, *Administrator, Agricultural Marketing Service*

Vice President, Ellen Terpstra, *Administrator, Foreign Agricultural Service (FAS)*

Vice President, W. Kirk Miller, *General Sales Manager, FAS*

Vice President, Roberto Salazar, *Administrator, Food and Nutrition Service*

Vice President, Bruce I. Knight, *Chief, Natural Resources Conservation Service (NRCS)*

Deputy Vice President, Hubert O. Farrish, *Deputy Administrator for Commodity Operations, FSA*

Deputy Vice President, John Williams, *Deputy Administrator for Management, FSA*

Deputy Vice President, John Johnson, *Deputy Administrator for Farm Programs, FSA*

Deputy Vice President, Larry Walker, *Director, Economic and Policy Analysis Staff, FSA*

Deputy Vice President, Thomas A. Weber, *Associate Chief, NRCS*

Deputy Vice President, Jose Acevedo, *Acting Deputy Chief, Programs, NRCS*

Deputy Vice President, P. Dwight Holman, *Deputy Chief, Management, NRCS*

Secretary, Tom B. Hofeller, *Executive Assistant to the Administrator, FSA*

Deputy Secretary, Ken Hill, *Acting Director, Strategic Planning Staff, FSA*

Assistant Secretary, Monique B. Randolph, *Strategic Planning Staff, FSA*

Controller, Kristine M. Chadwick, *Director, Financial Management Division, FSA*

Treasurer, Linda Herbert, *Deputy Director, Financial Management Division, FSA*

Chief Accountant, Dwight T. Tayman, *Chief, Financial Accounting and Reporting Branch, Financial Management Division, FSA*

**Appendix B
CCC Funds**

The following table lists the funds reflected on the Corporation's financial statements.

Treasury Fund Group Number	Description
0500	Hazardous Waste Management Fund (USDA shared appropriation)
0600	Salaries and Expenses
1336	Export Credit Guarantee Program Fund
2271	P.L. 480 Title I, Ocean Freight Differential
2273	Food for Progress Credits Program Fund
2274	P.L. 480 Direct Credit Liquidating Fund
2277	P.L. 480 Direct Credit Program Fund
2278	P.L. 480 Grant Fund
2701	Tree Assistance Program
3301	Farm Storage Loans Program Fund
3302	Apple Loans Program Fund
3303	Emergency Boll Weevil Loan Program Fund
3314	Dairy Indemnity Program
3315	Agricultural Conservation Program
3316	Emergency Conservation Program
3319	Conservation Reserve Program
3337	Rural Clean Water Program
3674	Appropriation Warrant Fund
4049	P.L. 480 Direct Credit Financing Fund
4078	Food for Progress Credits Financing Fund
4143	Debt Reduction Financing Fund
4158	Farm Storage Loans Financing Fund
4211	Apple Loans Financing Fund
4221	Emergency Boll Weevil Loans Financing Fund
4336	Revolving Fund (including specific appropriations for disaster relief)
4337	Export Credit Guarantee Financing Fund
4338	Export Credit Guarantee Liquidating Fund

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Appendix C
Performance Goals for Conservation Programs

The following table presents the Corporation's performance as it relates to the conservation programs.

Performance Goal and Indicator	2000 Target/ Actual	2001 Target/ Actual	2002 Target/ Actual	2003 Target/ Actual*	2004 Target
Increase the number of acres enrolled in CRP and increase the number of Conservation Reserve Enhancement Program (CREP) agreements.					
Number of acres enrolled in CRP (million acres, cumulative)	32.8/31.4	33.9/33.6	34.2/33.9	34.3/34.1	35.6
• General sign-up (competitive) enrollment (million acres, cumulative)	30.9/30.2	32.3/32.0	31.8/31.8	31.7/31.6	32.3
• Continuous (including CREP) enrollment (million acres, cumulative)	1.4/1.2	1.6/1.6	2.4/2.1	2.7/2.5	3.4
Acres of high environmental sensitivity enrolled in CREP (million acres, cumulative)	0.25/0.08	0.5/0.19	0.3/0.36	0.5/0.05	0.7
Acres planted with trees (million acres, cumulative)	2.0/2.5	2.3/2.9	3.0/3.1	3.2/3.2	3.5
Acres enrolled in the Prairie Pothole, Chesapeake Bay, Great Lakes, Long Island Sound, and Long Leaf Pine national conservation priority areas (million acres, cumulative)	7.2/7.2	7.7/7.8	8.1/8.0	8.2/8.1	8.7
Approved CREP agreements (number)	15/12	20/18	25/24	30/26	33
Reduce soil erosion, protect water and air quality, restore wetlands, and improve wildlife habitat by establishing conservation cover and/or installing priority practices.					
Soil Erosion					
• Reduced soil erosion (million tons/year)	N/A/407	N/A/428	431/447	449/446	459
Water and Air Quality					
• Reduced sheet and rill erosion (million tons/year)	N/A/166	N/A/178	180/215	216/214	220
• Reduced wind erosion -- also a measure of air quality (million tons/year)	N/A/241	N/A/250	251/232	233/232	239
• Reduced nitrogen applications on land under long-term land retirement contract (thousand acres)	N/A/605	N/A/634	N/A/681	691/655	731
• Reduced phosphorus applications on land under long-term land retirement contract (thousand acres)	N/A/87	N/A/97	N/A/104	106/103	111
• Acres established in conservation buffers, including filter strips and riparian buffers ¹ (million acres, cumulative)	1.4/1.3	1.6/1.7	2.2/2.1	2.4/2.4	2.9
• Carbon sequestered in soil and vegetation through long-term retirement of crop and grazing land (million metric tons/year)	N/A/15.2	N/A/16.1	16.4/16.3	16.8/17	17.8
Wetlands					
• Restored acres of wetlands ² (million acres, cumulative)	1.6/1.5	1.7/1.7	1.8/1.7	1.9/1.9	2.1
Wildlife Habitat (million acres, cumulative)					
• Acres planted with vegetative covers defined as best suited for wildlife	17.1/16.6	18.8/18.2	18.2/18.1	18.1/18.1	19
• Land restored to ecosystems with high benefits for wildlife ³	N/A/2.1	N/A/2.6	2.9/3.3	3.5/3.5	3.9

* Year-end estimates based on preliminary data.

Appendix C Performance Goals for Conservation Programs

- ¹ Most buffers installed under the CRP are installed primarily for water quality. However, buffers provide multiple benefits, including air quality, wildlife habitat, and carbon sequestration.
- ² Primarily wetland restoration, which includes adjacent upland.
- ³ Primary conservation practices include, but are not limited to, wetland restoration, wildlife corridors, riparian buffers, longleaf pine establishment, and rare and declining habitats.

APPENDIX D
FMFIA Reporting

The following table presents Section 2 material weaknesses related to the Corporation as reported in FSA's fiscal year 2003 FMFIA Report.

Section 2 of the FMFIA Report
Material Weaknesses in Internal Control**Material Weakness:**

Significant differences exist between the amounts in CCC's fiscal year 2001 Combining Statement of Budgetary Resources (SBR) and those reported to the OMB's MAX Budget Information System in preparation of the Program and Financing Schedules in the President's Budget.

Year Identified in FMFIA Report: 2002

Deficiency Status: Corrected.

Actual Completion Date: Fiscal year 2003

Corrective Actions:

1. Submitted timely data to OMB for inclusion in the OMB MAX Budget Information System.
2. Developed new or modified existing reports to replace and/or supplement the applicable budget reports using budgetary account information.
3. A significant source of differences was that budgetary resources reported on the Program and Financing Schedules (Actuals for fiscal year 2002) were drawn from proprietary accounts and adjusted manually. These schedules have been converted to budgetary accounts for the fiscal year 2004 Federal Budget.
4. Prepared timely reconciliation of the Combining Statement of Budgetary Resources and the Program and Financing Schedules used in the President's Budget. Disclosed the reasons for significant differences in the notes to the financial statement per SFFAS No. 7, paragraph no. 79.
5. Modify budgetary accounting system to obtain the level of detail needed to submit budget execution information for the President's Budget.
6. Through implementation of Phase I and II of the Automated Budget System, used the CCC-CORE data warehouse to integrate accounting data for preparation of both financial statements and schedules for the President's Budget. Ensured the proper format of accounting data from single source and streamlined report preparation processes. Achieved data integrity and validation requirements, including compliance with OMB Circular A-11 and MAX reporting.

Material Weakness:

Claims for reimbursement from the U.S. Department of Transportation were not made for cargo preference costs incurred under the P.L. 480 programs.

Year Identified in FMFIA Report: 2001

Actual Completion Date: Fiscal year 2003

Corrective Actions:

1. Resolved issues with Maritime Administration.
2. Brought billings for Ocean Freight Differential to current status.

APPENDIX D
FMFIA Reporting

The following table presents Section 4 nonconformances related to the Corporation as reported in FSA's fiscal year 2003 FMFIA Report.

Section 4 of the FMFIA Report Nonconformances in Financial Systems
<p>Material Weakness: Foreign credit subsidiary and credit reform systems are not fully automated and integrated into CCC's Core Accounting System (CORE).</p> <p>Year Identified in FMFIA Report: 2000</p> <p>Target Completion Date: Fiscal year 2004</p> <p>Planned Corrective Actions:</p> <ol style="list-style-type: none"> 1. Begin programming for accrued interest. 2. Begin programming an accounting interface to CORE accounting system. 3. Program/store late interest for rescheduling installments. 4. Standardize elapsed days calculation. 5. Complete implementation of the new GSM system interface to CORE (Modules 1-4). 6. Replace the former FMS accounting structure in the APLUS system with the CORE accounting system.
<p>Material Weakness: Improvement needed in financial system functionality and related processes.</p> <p>Year Identified in FMFIA Report: 2003</p> <p>Revised Target Completion Date: Fiscal year 2004</p> <p>Planned Corrective Actions:</p> <ol style="list-style-type: none"> 1. Contractor will evaluate the accounting environment to identify needed posting logic updates to ensure budgetary entries are posted with the corresponding proprietary entries and provide recommendations on necessary changes to CORE posting models. 2. Contractor will evaluate the feeder system accounting relationships with CORE to provide a basis for resolving differences and limiting adjustments. Contractor provides recommendations on necessary improvements in interface controls. 3. Program, test, and implement CORE posting logic updates. 4. Implement improved interface controls between feeder systems in CORE.

**APPENDIX E
CCC Remediation Plan**

The following table presents the Corporation's latest remediation plan as it relates to the three requirements for FFMIA reporting.

1. Compliance with Federal Financial Management Systems Requirements

1.1: Foreign program feeder systems do not comply with OMB Circular A-127.			
Corrective Action		Target Date	Status
1.1.1	Complete implementation of new GSM system to be interfaced directly to CORE general ledger.	01/2004	<p>Completed 11/2002 - Phase 1 (Modules 1, Announcement; 2, Registration; & 3, Evidence of Export) were put into production 11/2002.</p> <p>Completed 3/2003 - Phase 2 (Module 4, Claims) were put into production 03/01/2003. The Claims module is currently in parallel production.</p> <p>GSM Interface to CORE: The GSM to CORE interfaces is being developed as follows: modules 1-4 are targeted for completion by 01/2004.</p>
1.1.2	Replace the former FMS accounting structure in the P.L. 480 Title I feeder system (APLUS) with the CORE accounting structure.	01/2004	A-PLUS Interface to CORE phase: The CORE interface is being developed for A-PLUS and is targeted for completion by 01/2004.
1.2: CORE financial systems do not comply with OMB Circular A-127.			
1.2.1	CCC will establish a team to develop a project plan to complete research, and recommend entity-wide policies and procedures needed for management to perform adequate review of all obligations. The process should provide for central management control and review, to ensure adequate support for recorded amounts exists and sufficient consideration is given to the legitimacy of unliquidated obligation amounts.	06/2003	Completed 06/2003: The team was established in 03/2003 and began meeting to define goals and complete research. The development of the project plan and management recommendations is in process.
1.2.2	Document and publish an obligation and deobligation policy for CCC.	09/2003	The proposed policy statement has been drafted and is in the clearance process to be finalized. Once finalized, the Controller, CCC, will receive the policy statement for final signature.
1.2.3	Establish a standard process to require the review and certification of open obligations by program offices.	09/2003	CCC has initiated quarterly reviews of unliquidated obligations. In June 2003, CCC sent out a judgmental sample of these obligations, as of March 31, 2003, to FSA/CCC offices. CCC is still in the process of receiving adjustment documentation from these offices. Future reviews will focus on July, October, January, and April month-end records. This quarterly process will become a standard activity to ensure the accuracy and reliability of the obligated amounts.

**APPENDIX E
CCC Remediation Plan**

1. Compliance with Federal Financial Management Systems Requirements, *Continued*

1.2: CORE financial systems do not comply with OMB Circular A-127, <i>Continued</i>			
Corrective Action		Target Date	Status
1.2.4	Identify programs with specific obligation and disbursement events.	11/2003	Work has begun with program divisions to develop a worksheet that identifies all key programs, the basis for determining that an amount is due to a producer, and when the payment actually occurs. This data will be used to determine those programs that will require a specific obligation entry to be recorded.
1.2.5	Develop and implement changes in the program and financial software to record obligations. Phase I will be the key big dollar programs.	06/2004	Key programs identified with specific and identifiable obligation and disbursement dates will be prioritized for program application modification. The target to implement these changes is related to the Department's goal to have all material weaknesses resolved by 06/2004.
1.2.6	Develop and implement changes in program and financial software to record obligations. Phase II will be all remaining programs.	TBD	The target date for completing this task will be better determined after the analysis covered in 1.2.4 is completed.

1. Compliance with Federal Financial Management Systems Requirements Estimated Resources Needed for Corrective Actions		
Fiscal Year	Full-Time Equivalents (FTEs)	Dollars
2003	10	\$1.5 million
2004	5	\$185 thousand
2005	-	-

APPENDIX E
CCC Remediation Plan

2. Compliance with Applicable Federal Accounting Standards

CCC is in substantial compliance with this requirement.

3. Noncompliance with the U.S. Government Standard General Ledger (SGL) at the Transaction Level

3.1 Concerns about CORE posting model:

Posting models used for recording inventory sales and purchases.

	Corrective Action	Target Date	Status
3.1.1	CCC has prepared a Statement of Work (SOW) requesting an evaluation of its accounting environment by outside sources. The SOW is designed to identify posting logic updates and any required changes. This will ensure the necessary budgetary entries are posted with the corresponding proprietary entries. The contractor will provide a report to CCC management detailing the results of their analysis.	09/2003	
3.1.2	Program, test, and implement CORE posting logic updates.	06/2004	

3.2 Improvements needed in interface controls between feeder systems and CORE.

Reconciling items between the feeder systems and CORE need to be identified and cleared on a timely basis.

3.2.1	CCC has prepared an SOW requesting an evaluation of its accounting environment by outside sources. The SOW contractor will provide an analysis of the treatment of the feeder system accounting relationships with CORE. This will provide a basis for resolving differences and limiting adjustments identified in the 2002 audit. The contractor will provide a report to CCC management detailing the results of their analysis.	09/2003	
3.2.2	Implement improved interface controls between feeder systems and CORE.	06/2004	

APPENDIX E
CCC Remediation Plan

3. Noncompliance with the U.S. Government Standard General Ledger (SGL) at the Transaction Level		
Estimated Resources Needed for Corrective Actions		
Fiscal Year	Full-Time Equivalents (FTEs)	Dollars
2003	1	\$975 thousand
2004	TBD	TBD
2005	-	-

Exhibit A

Commodity Credit Corporation
Consolidated Balance Sheets

As of September 30, 2003 and 2002
(Dollars in Millions)

	<u>2003</u>	<u>2002</u>
Assets:		
Intragovernmental:		
Fund Balance with Treasury (Note 2)	\$ 2,597	\$ 2,453
Accounts Receivable, Net (Note 3)	466	7
Other	6	20
Total Intragovernmental Assets	<u>3,069</u>	<u>2,480</u>
Cash	51	6
Accounts Receivable, Net (Note 3)	43	38
Loans and Credit Program Receivables:		
Commodity Loans, Net (Note 4)	\$ 1,715	\$ 1,552
Credit Program Receivables, Net (Note 5)	8,484	8,826
Other Foreign Receivables, Net	348	354
Subtotal	<u>10,547</u>	<u>10,732</u>
Commodity Inventories, Net (Note 6)	276	723
General Property and Equipment, Net (Note 7)	29	19
Other	91	100
Total Assets	<u>\$ 14,106</u>	<u>\$ 14,098</u>
Liabilities:		
Intragovernmental:		
Accounts Payable	\$ 1,205	\$ 565
Debt to the Treasury (Note 8)	21,836	20,491
Other:		
Resources Payable to Treasury	\$ 6,482	\$ 6,450
Deposit and Trust Liabilities (Note 9)	1,184	892
Other (Note 10)	797	1,018
Subtotal	<u>8,463</u>	<u>8,360</u>
Total Intragovernmental Liabilities	31,504	29,416
Accounts Payable	486	3
Credit Guarantee Liabilities (Note 5)	22	411
Other Liabilities:		
Accrued Liabilities (Note 11)	\$ 4,865	\$ 2,043
Deposit and Trust Liabilities (Note 9)	873	639
Other (Note 10)	2	2
Subtotal	<u>5,740</u>	<u>2,684</u>
Total Liabilities	<u>37,752</u>	<u>32,514</u>
Commitments and Contingencies (Note 12)		
Net Position:		
Unexpended Appropriations	1,536	1,383
Capital Stock	100	100
Cumulative Results of Operations	(25,282)	(19,899)
Total Net Position	<u>(23,646)</u>	<u>(18,416)</u>
Total Liabilities and Net Position	<u>\$ 14,106</u>	<u>\$ 14,098</u>

The accompanying notes are an integral part of these statements.

Exhibit B

**Commodity Credit Corporation
Consolidating Statements of Net Cost (Note 13)**

**For the Fiscal Year Ended September 30, 2003
(Dollars in Millions)**

	Commodity Operations	Income Support Programs	Conservation Programs	Foreign Programs	Other	Combined Total	Eliminations	Consolidated Total
Intragovernmental Gross Costs	\$ 48	\$ 926	\$ 201	\$ 937	\$ 56	\$ 2,168	\$ (767)	\$ 1,401
Less: Intragovernmental Earned Revenue	(774)	(8)	-	(99)	-	(881)	767	(114)
Intragovernmental Net Costs	\$ (726)	\$ 918	\$ 201	\$ 838	\$ 56	\$ 1,287	\$ -	\$ 1,287
Gross Costs with the Public:								
Grants and Direct Payments	-	16,123	1,984	695	207	19,009	-	19,009
Credit Program Subsidy	-	(7)	-	(1,121)	-	(1,128)	-	(1,128)
Commodity Programs	5,770	-	-	-	-	5,770	-	5,770
Stewardship Land Acquisition	-	-	48	-	-	48	-	48
Other	(55)	83	(7)	(366)	6	(339)	-	(339)
Less: Earned Revenues from the Public	(3,212)	(102)	1	(491)	2	(3,802)	-	(3,802)
Net Costs with the Public	2,503	16,097	2,026	(1,283)	215	19,558	-	19,558
Net Cost of Operations	\$ 1,777	\$ 17,015	\$ 2,227	\$ (445)	\$ 271	\$ 20,845	\$ -	\$ 20,845

Exhibit B

**Commodity Credit Corporation
Consolidating Statements of Net Cost (Note 13), continued**

**For the Fiscal Year Ended September 30, 2002
(Dollars in Millions)**

	Commodity Operations	Income Support Programs	Conservation Programs	Foreign Programs	Other	Combined Total	Eliminations	Consolidated Total
Net Program Costs:								
Intragovernmental Gross Costs	\$ 69	\$ 808	\$ 190	\$ 696	\$ 34	\$ 1,797	\$ (527)	\$ 1,270
Less: Intragovernmental Earned Revenue	(528)	(11)	-	(72)	-	(611)	527	(84)
Intragovernmental Net Costs	\$ (459)	\$ 797	\$ 190	\$ 624	\$ 34	\$ 1,186	\$ -	\$ 1,186
Gross Costs with the Public:								
Grants and Direct Payments	-	9,669	2,076	517	109	12,371	-	12,371
Credit Program Subsidy	-	(2)	-	(552)	-	(554)	-	(554)
Commodity Programs	5,340	-	-	-	-	5,340	-	5,340
Stewardship Land Acquisition	-	-	105	-	-	105	-	105
Other	366	776	(3)	(204)	36	961	-	961
Less: Earned Revenues from the Public	(2,098)	(86)	1	(564)	-	(2,747)	-	(2,747)
Net Costs with the Public	\$ 3,598	\$ 10,357	\$ 2,179	\$ (803)	\$ 145	\$ 15,476	\$ -	\$ 15,476
Net Cost of Operations	\$ 3,139	\$ 11,154	\$ 2,369	\$ (179)	\$ 179	\$ 16,662	\$ -	\$ 16,662

The accompanying notes are an integral part of these statements.

Exhibit C**Commodity Credit Corporation
Consolidated Statements of Changes in Net Position****For the Fiscal Year Ended September 30, 2003
(Dollars in Millions)**

	<u>Cumulative Results of Operations</u>	<u>Capital Stock</u>	<u>Unexpended Appropriations</u>
Beginning Balances	\$ (19,899)	\$ 100	\$ 1,383
Budgetary Financing Sources:			
Appropriations Received	-	-	20,446
Appropriations Transferred - In	-	-	159
Appropriations Transferred - Out	-	-	(323)
Other Adjustments	-	-	(10)
Appropriations Used	20,119	-	(20,119)
Nonexchange Revenue	5	-	-
Transfers In Without Reimbursement	34	-	-
Transfers Out Without Reimbursement	(4,322)	-	-
Other Financing Sources:			
Imputed Financing	900	-	-
Transfers In Without Reimbursement	13	-	-
Transfers Out Without Reimbursement	(2,012)	-	-
Other	725	-	-
Total Financing Sources	<u>15,462</u>	<u>-</u>	<u>153</u>
Net Cost of Operations	<u>(20,845)</u>	<u>-</u>	<u>-</u>
Ending Balances	<u>\$ (25,282)</u>	<u>\$ 100</u>	<u>\$ 1,536</u>

Exhibit C

**Commodity Credit Corporation
Consolidated Statements of Changes in Net Position, *continued***

**For the Fiscal Year Ended September 30, 2002
(Dollars in Millions)**

	<u>Cumulative Results of Operations</u>	<u>Capital Stock</u>	<u>Unexpended Appropriations</u>
Beginning Balances	\$ (24,363)	\$ 100	\$ 2,742
Budgetary Financing Sources:			
Appropriations Received	-	-	24,320
Appropriations Transferred - In	-	-	409
Appropriations Transferred - Out	-	-	(2,155)
Other Adjustments	-	-	528
Appropriations Used	24,461	-	(24,461)
Nonexchange Revenue	2	-	-
Transfers Out Without Reimbursement	(2,845)	-	-
Other Financing Sources:			
Imputed Financing	747	-	-
Transfers In Without Reimbursement	12	-	-
Transfers Out Without Reimbursement	(1,310)	-	-
Other	59	-	-
Total Financing Sources	<u>21,126</u>	<u>-</u>	<u>(1,359)</u>
Net Cost of Operations	<u>(16,662)</u>	<u>-</u>	<u>-</u>
Ending Balances	<u>\$ (19,899)</u>	<u>\$ 100</u>	<u>\$ 1,383</u>

The accompanying notes are an integral part of these statements.

Exhibit D

**Commodity Credit Corporation
Combined Statements of Budgetary Resources (Note 14)**

**For the Fiscal Year Ended September 30, 2003
(Dollars in Millions)**

	Budgetary	Non-Budgetary Credit Program Financing Accounts	Total
Budgetary Resources:			
Budget Authority:			
Appropriations Received	\$ 20,446	\$ -	\$ 20,446
Borrowing Authority	49,343	1,277	50,620
Net Transfers (+/-)	(2,202)	-	(2,202)
Unobligated Balance:			
Beginning of Period	1,196	1,461	2,657
Net Transfers, Actual (+/-)	(315)	-	(315)
Spending Authority from Offsetting Collections:			
Earned:			
Collected	14,008	1,439	15,447
Receivable from Federal Sources	1,499	59	1,558
Change in Unfilled Customer Orders:			
Advance Received	292	-	292
Subtotal	15,799	1,498	17,297
Recoveries of Prior Year Obligations	1,200	8	1,208
Permanently not Available	(47,536)	(416)	(47,952)
Total Budgetary Resources	\$ 37,931	\$ 3,828	\$ 41,759
Status of Budgetary Resources:			
Obligations Incurred:			
Direct	\$ 2,642	\$ 1,732	\$ 4,374
Reimbursable	33,949	-	33,949
Subtotal	36,591	1,732	38,323
Unobligated Balance:			
Apportioned	752	2,068	2,820
Exempt from Apportionment	9	1	10
Unobligated Balance not Available	579	27	606
Total Status of Budgetary Resources	\$ 37,931	\$ 3,828	\$ 41,759

Exhibit D

**Commodity Credit Corporation
Combined Statements of Budgetary Resources (Note 14), continued**

**For the Fiscal Year Ended September 30, 2003
(Dollars in Millions)**

	<u>Budgetary</u>	<u>Non-Budgetary Credit Program Financing Accounts</u>	<u>Total</u>
Relationship of Obligations to Outlays:			
Obligated Balance, Net Beginning of Period	\$ 4,305	\$ 24	\$ 4,329
Obligated Balance, Net, End of Period:			
Accounts Receivable	(2,049)	(166)	(2,215)
Unfilled Customer Orders from Federal Sources	-	(1)	(1)
Undelivered Orders	2,072	120	2,192
Accounts Payable	5,766	15	5,781
Outlays:			
Disbursements	32,408	1,721	34,129
Collections	(14,300)	(1,439)	(15,739)
Subtotal	18,108	282	18,390
Less: Offsetting Receipts	-	(1,293)	(1,293)
Net Outlays	\$ 18,108	\$ (1,011)	\$ 17,097

Exhibit D

**Commodity Credit Corporation
Combined Statements of Budgetary Resources (Note 14), continued**

**For Fiscal Year Ended September 30, 2002
(Dollars in Millions)**

	Budgetary	Non-Budgetary Credit Program Financing Accounts	Total
Budgetary Resources:			
Budget Authority:			
Appropriations Received	\$ 24,320	\$ -	\$ 24,320
Borrowing Authority	34,054	396	34,450
Net Transfers (+/-)	(3,501)	-	(3,501)
Unobligated Balance:			
Beginning of Period	3,853	908	4,761
Net Transfers, Actual (+/-)	(6)	-	(6)
Spending Authority from Offsetting Collections:			
Earned:			
Collected	11,562	905	12,467
Receivable from Federal Sources	(468)	(68)	(536)
Change in Unfilled Customer Orders:			
Advance Received	209	-	209
Without Advance from Federal Sources	-	(1)	(1)
Subtotal	11,303	836	12,139
Recoveries of Prior Year Obligations	347	-	347
Permanently not Available	(41,167)	(170)	(41,337)
Total Budgetary Resources	\$ 29,203	\$ 1,970	\$ 31,173
Status of Budgetary Resources:			
Obligations Incurred:			
Direct	\$ 1,477	\$ 509	\$ 1,986
Reimbursable	26,530	-	26,530
Subtotal	28,007	509	28,516
Unobligated Balance:			
Apportioned	977	1,435	2,412
Exempt from Apportionment	27	-	27
Unobligated Balance not Available	192	26	218
Total Status of Budgetary Resources	\$ 29,203	\$ 1,970	\$ 31,173

Exhibit D

**Commodity Credit Corporation
Combined Statements of Budgetary Resources (Note 14), continued**

**For Fiscal Year Ended September 30, 2002
(Dollars in Millions)**

	<u>Budgetary</u>	<u>Non-Budgetary Credit Program Financing Accounts</u>	<u>Total</u>
Relationship of Obligations to Outlays:			
Obligated Balance, Net Beginning of Period	\$ 4,316	\$ 38	\$ 4,354
Obligated Balance, Net, End of Period:			
Accounts Receivable	(550)	(108)	(658)
Unfilled Customer Orders from Federal Sources	-	(1)	(1)
Undelivered Orders	3,644	109	3,753
Accounts Payable	1,211	24	1,235
Outlays:			
Disbursements	28,139	590	28,729
Collections	(11,771)	(903)	(12,674)
Subtotal	16,368	(313)	16,055
Less: Offsetting Receipts	(3)	(130)	(133)
Net Outlays	\$ 16,365	\$ (443)	\$ 15,922

The accompanying notes are an integral part of these statements.

Exhibit E

**Commodity Credit Corporation
Consolidated Statements of Financing (Note 15)**

**For the Fiscal Years Ended September 30, 2003 and 2002
(Dollars in Millions)**

	<u>2003</u>	<u>2002</u>
Resources Used to Finance Activities:		
Budgetary Resources Obligated:		
Obligations Incurred	\$ 38,323	\$ 28,516
Less: Spending Authority from Offsetting Collections and Recoveries	<u>(18,505)</u>	<u>(12,486)</u>
Obligations Net of Offsetting Collections and Recoveries	19,818	16,030
Less: Offsetting Receipts	<u>(1,293)</u>	<u>(133)</u>
Net Obligations	18,525	15,897
Other Resources:		
Transfers In/Out without Reimbursement	(1,999)	(1,298)
Imputed Financing from Costs Absorbed by Others	900	747
Other	725	59
Net Other Resources Used to Finance Activities	<u>(374)</u>	<u>(492)</u>
Total Resources Used to Finance Activities	18,151	15,405
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	2,204	336
Resources that Fund Expenses Recognized in Prior Periods	<u>(1,750)</u>	<u>(1,806)</u>
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	1,773	1,152
Other	10,322	9,443
Resources that Finance the Acquisition of Assets	<u>(16,275)</u>	<u>(15,820)</u>
Other Resources or Adjustments to Net Obligated Resources that Do Not Affect Net Cost of Operations	<u>(2,587)</u>	<u>(659)</u>
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	(6,313)	(7,354)
Total Resources Used to Finance the Net Cost of Operations	11,838	8,051
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	4	194
Increase in Exchange Revenue Receivable from the Public	750	(59)
Other	<u>1,670</u>	<u>1,751</u>
Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods	2,424	1,886
Components not Requiring or Generating Resources:		
Depreciation and Amortization	120	96
Revaluation of Assets or Liabilities	(55)	356
Other	<u>6,518</u>	<u>6,273</u>
Total Components of Net Cost of Operations that will not Require or Generate Resources	6,583	6,725
Total Components of Net Cost of Operations that will not Require or Generate Resources in the Current Period	9,007	8,611
Net Cost of Operations	\$ 20,845	\$ 16,662

The accompanying notes are an integral part of these statements.

Note 1 - Significant Accounting Policies

These financial statements have been prepared to report the financial position and results of operations of the Commodity Credit Corporation (CCC or the Corporation). CCC's financial statements are presented in accordance with the Office of Management and Budget (OMB) guidance on the form and content of agency financial statements.

Reporting Entity

CCC is a Federal corporation operating within and through the United States Department of Agriculture (USDA). It was established to:

- stabilize, support, and protect farm income and prices;
- assist in the maintenance of balanced and adequate supplies of agricultural commodities; and
- facilitate the orderly distribution of those commodities.

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

CCC operations are financed through appropriated and revolving 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 its foreign assistance programs and special activities, such as disaster aid. Permanent indefinite appropriation authority exists for programs subject to the Federal Credit Reform Act of 1990, as amended (Credit Reform). Receipts flowing through CCC's revolving fund include proceeds from the sale of CCC commodities, loan repayments, interest income, and various program fees.

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

Basis of Accounting

The accounting principles and standards applied in preparing the financial statements and described in this note are in accordance with Generally Accepted Accounting Principles (GAAP) for Federal entities.

Transactions are recorded on an accrual basis of accounting. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. The financial statements include all Treasury funds of CCC, which encompass its domestic and foreign activities. In consolidation, intra-agency activities and balances have been eliminated, except for the Statement of Budgetary Resources that is presented on a combined basis as required by OMB guidance.

Fund Balance with Treasury

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

Note 1 - Significant Accounting Policies, *continued***Cash**

Treasury requirements for the Federal Agencies Centralized Trial Balance System II (FACTS II), for the preparation of Treasury and OMB year end reports, require that the Fund Balance with The cash balance consists of these cash-in-transit 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 on designated agricultural commodities. In the case of nonrecourse loans, producers have the option to: (a) repay the principal plus interest; (b) for certain announced commodities, repay the loan at the market rate; or (c) at maturity, forfeit the commodity in satisfaction of the loan. These loans are not subject to the accounting and reporting requirements of Credit Reform (Note 5) because these loans are less than 12 months in duration.

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

Commodity loans are reported net of an allowance for doubtful accounts, which reduces the loans to net realizable value. The allowances are based on the estimated loss on ultimate commodity disposition, when it is more likely than not that the loans will not be fully collected. The allowance also takes into account

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 are reported as "in-transit".

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

Tobacco loans are subject to the No-Net-Cost Tobacco Program Act of 1982, as amended, which requires tobacco producers to pay CCC a No-Net-Cost Assessment (NNCA) on each pound of tobacco they sell. Additionally, importers and purchasers of flue cured and burley tobacco are required to pay a NNCA on each pound of tobacco imported or purchased. These funds earn interest and are applied against future loan losses of the respective tobacco cooperative.

Credit Program Receivables

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

- direct credits extended under P.L. 83-480 (P.L. 480) programs and the Food for Progress Program;
- guaranteed payments made under the Export Credit Guarantee programs;
- 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 are recognized as an allowance.

Note 1 - Significant Accounting Policies, *continued*

CCC uses the Balances Approach Reestimate Calculator for computing the subsidy reestimates for its foreign Credit Reform programs and the Treasury Credit Reform Certificate Program guidelines for the accounting and reporting of its other subsidy reestimates and amortization.

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

Capitalized Interest

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

Commodity Inventories

Commodity inventories, referred to as goods held under price support and stabilization programs in the Statement of Federal Financial Accounting Standards (SFFAS) No. 3, *Accounting for Inventory and Related Property*, issued by the Federal Accounting Standards Advisory Board, represent commodities acquired by the Corporation. They are eventually sold or otherwise disposed of to satisfy or help 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. However, in other cases, the cost is computed on the basis of actual (historical) cost of the commodity. This is prevalent with the following: (a) dispositions from peanut price support inventory; (b) simultaneous acquisition and disposition for commodity export programs; and (c) dispositions of commodities previously pledged as price support loan collateral which are acquired by CCC during the exchange of commodity certificates. Commodity certificates are negotiable instruments issued by CCC, which can be exchanged for a commodity owned or controlled by the Corporation.

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

Based on recent Treasury guidance, the cost of commodity inventories sold to other Federal entities is classified as an expense with the public since the commodities being sold are originally purchased or otherwise acquired from a public source. The fiscal year 2002 financial statements are reclassified to reflect this. Prior to this change, the costs were reflected as intragovernmental in nature.

General Property and Equipment

General property and equipment purchases are recorded at the acquisition cost plus any expenditures related to placing the asset into service, such as freight, installation and testing, related to placing the asset into service. For fiscal year 2003, purchases of personal property valued at \$25,000 or more, with a useful life of 2 years or greater are capitalized compared to a \$5,000 capitalization threshold for fiscal year 2002. Personal property and equipment is depreciated on a straight-line basis. Automated Data Processing (ADP) equipment has a service

Note 1 - Significant Accounting Policies, *continued*

life of 5 years, while non-expendable administrative property is depreciated over a service life range of 5 to 10 years. There is no salvage value associated with personal property and equipment.

In addition, internal use software valued at \$100,000 or more with a useful life of 2 years or greater is capitalized. Internal use software development costs are accumulated and are capitalized upon completion. In accordance with SFFAS No. 10, *Accounting for Internal Use Software*, capitalized software development costs include contractor developed software, purchased software, and internally developed software. Capitalized internal use software costs are amortized over a period of 5 years, beginning with the first year the software is fully operational. Also included are costs incurred by FSA which are reflected as software-in-development on CCC's financial statements until such time as the software is completed and put into operation. At that time, amortization will begin.

Producer Assistance Advances

Public Law 107-25 (commonly referred to as the Agricultural Economic Assistance Act), signed in fiscal year 2001, 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. These 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

CCC recognizes a liability in one of two ways, depending on the type of transaction. If an exchange transaction occurs (i.e., when CCC receives 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 11, result from the accrual of unpaid amounts due for various CCC programs, where the 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. Excess funds not needed for working capital (after liquidating all liabilities) are returned to Treasury.

Credit Guarantee Liabilities

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

Interest Income on Direct Credits and Credit Guarantees

Interest is accrued monthly on both performing and non-performing 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 schedule 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.

Allocation Transfers and Shared Appropriations

OMB guidance requires that the parent agency in an allocation transfer report the activity in its financial statements unless the allocation transfer is material to the child's financial

Note 1 - Significant Accounting Policies, *continued*

statements, except for the Statement of Budgetary Resources. For this reason, FSA allocation transfer programs are not included on the Corporation's Statement of Budgetary Resources. Additionally, CCC is the parent agency in an allocation transfer (for P.L. 480 Title II transportation and other costs related to foreign donations) relationship with the U.S. Agency for International Development (AID). As such, this allocation transfer is included on the Statement of Budgetary Resources.

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

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 and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results will invariably differ from those estimates.

Reclassifications

Certain reclassifications were made to the fiscal year 2002 statements to conform to the current year's presentation. These changes in format were made to more closely conform to the form and content guidelines issued by OMB.

Certain activities were reorganized between the program segments on the Statement of Net Cost for consistency.

Notes to Financial Statements
September 30, 2003 and 2002**Note 2 - Fund Balance with Treasury**

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

	(In Millions)	
	2003	2002
Revolving Funds	\$ 165	\$ 517
Appropriated Funds	<u>2,432</u>	<u>1,936</u>
Total Fund Balance with Treasury	<u>\$ 2,597</u>	<u>\$ 2,453</u>

There are no unreconciled differences between CCC's general ledger and the balances per Treasury's records. See Note 1 for a discussion on the treatment of timing differences.

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

	(In Millions)	
	2003	2002
Unobligated Balance:		
Available	\$ 2,876	\$ 2,518
Unavailable	615	226
Obligated Balance not yet Disbursed	<u>4,674</u>	<u>3,671</u>
Subtotal	8,165	6,415
Less Borrowing Authority not yet Converted to Fund Balance	<u>(5,568)</u>	<u>(3,962)</u>
Total Fund Balance with Treasury	<u>\$ 2,597</u>	<u>\$ 2,453</u>

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, 2003 and 2002, which will be funded by future borrowings.

In addition, amounts presented in the above schedule do not agree with the corresponding line items on the Statement of Budgetary Resources due to OMB reporting requirements for allocation transfers. The total unobligated balance and obligated balance not yet disbursed on the Statement of Budgetary Resources is \$9,193 million and \$6,986 million as of September 30, 2003 and 2002, respectively. The difference of \$1,028 million and \$571 million, respectively, represents allocation transfer activity with AID and FSA. See Note 1 for information on CCC's allocation transfer relationships.

COMMODITY CREDIT CORPORATION

Notes to Financial Statements
September 30, 2003 and 2002

Note 3 - Accounts Receivable, Net

Accounts receivable as of September 30, is as follows:

(In Millions)

	2003	2002
<u>Intragovernmental:</u>		
Due from Treasury	\$ 12	\$ 7
Due from Transportation	613	--
Due from Other Federal Agencies	29	--
Subtotal	654	--
Less: Allowance for Doubtful Accounts	(188)	--
Total Intragovernmental Accounts Receivable, Net	\$ 466	\$ 7
<u>Public:</u>		
Claims Receivable	\$ 74	\$ 66
Notes Receivable	3	3
Interest Receivable	18	23
Other	54	58
Subtotal	\$ 149	\$ 150
Less: Allowance for Doubtful Accounts	(106)	(112)
Total Public Accounts Receivable, Net	\$ 43	\$ 38

The Cargo Preference provisions of the Food Security Act provide for the reimbursement of certain transportation costs the Corporation incurs under the Section 416(b) and P.L. 480 foreign donation programs. In fiscal year 2003, CCC established a receivable from the Department of Transportation (DOT) for freight costs exceeding 20 percent of the total cost of commodities donated, including ocean freight expenses. This is authorized by Section 901d(b) of the Merchant Marine Act of 1938. Because these billings are subject to review and adjustment by DOT, CCC recognizes an

allowance against the receivable until such time as management determines that amounts scheduled for collection from DOT are appropriate.

Other public receivables consist of amounts due from program overpayments under such programs as the Market Loss Assistance, Peanut Marketing Assistance, Crop Loss Disaster Assistance, Dairy Market Loss Assistance, Production Flexibility Contracts, Conservation Reserve and the Direct and Counter-Cyclical Payment programs.

Notes to Financial Statements
September 30, 2003 and 2002**Note 3 - Accounts Receivable, Net, *continued***

The changes in the allowance for doubtful accounts on intragovernmental and public receivables for the fiscal years ended September 30, are as follows:

	(In Millions)	
	2003	2002
<u>Intragovernmental:</u>		
Allowance – Beginning of Fiscal Year	\$ --	\$ --
Less: Charge-offs	--	--
Add: Provision for Doubtful Accounts	<u>188</u>	<u>--</u>
Allowance - End of Fiscal Year	<u>\$ 188</u>	<u>\$ --</u>

	(In Millions)	
	2003	2002
<u>Public:</u>		
Allowance – Beginning of Fiscal Year	\$ 112	\$ 137
Less: Charge-offs	(13)	(10)
Add: Provision for Doubtful Accounts	<u>7</u>	<u>(15)</u>
Allowance - End of Fiscal Year	<u>\$ 106</u>	<u>\$ 112</u>

COMMODITY CREDIT CORPORATION

Notes to Financial Statements
September 30, 2003 and 2002

Note 4 – Commodity Loans, Net

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

	(In Millions)	
	2003	2002
Tobacco	\$ 719	\$ 598
Wheat	377	174
Corn	255	205
Soybeans	59	63
Rice	102	206
Cotton	65	315
Other Commodities	<u>67</u>	<u>39</u>
Total Commodity Loans	1,644	1,600
Accrued Interest Receivable	119	129
Less: Allowance for Losses	<u>(48)</u>	<u>(177)</u>
Total Commodity Loans, Net	<u>\$ 1,715</u>	<u>\$ 1,552</u>

The change in the allowance for losses on commodity loans and related interest receivable for the fiscal years ended September 30, is as follows:

	(In Millions)	
	2003	2002
Allowance – Beginning of Fiscal Year	\$ 177	\$ 224
Less: Charge-offs	(229)	(826)
Add: Provision for Doubtful Accounts	<u>100</u>	<u>779</u>
Allowance - End of Fiscal Year	<u>\$ 48</u>	<u>\$ 177</u>

Note 5 - Credit Program Receivables, Net

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

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

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

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

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 United States (or, less commonly, by the exporter) under the GSM-102 (credit terms up to

three years) and GSM-103 (credit terms up to ten 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, CCC guarantees a portion of payments due from importers under short-term financing arrangements (up to 180 days) that exporters have extended directly to the importers for the purchase of U.S. agricultural products. All guarantees under this program are denominated in U.S. dollars.

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

In the event that CCC pays a claim under the guarantee programs, CCC assumes the debt and treats it as a credit receivable for accounting and collection purposes. All guarantees outstanding at September 30, 2003 and 2002, were issued post-1991.

Direct Credit Programs

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

Note 5 - Credit Program Receivables, Net, *continued*

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.

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

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

Paris Club

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

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

Economic Factors and Outlook Affecting Subsidy Reestimates

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

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

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

During fiscal year 2002, after analyzing foreign credits government-wide, OMB determined that actual performance on foreign credits was better than had been previously forecast and therefore mandated a change to the default calculation methodology. As a consequence, significant downward subsidy reestimates were anticipated across the Federal government, including CCC's foreign Credit Reform programs resulting in CCC returning to Treasury \$1,285 million in subsidy reestimates during fiscal year 2003.

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

Note 5 - Credit Program Receivables, Net, *continued***Changes in Economic Conditions Having Measurable Effects Upon Subsidy Rates and Reestimates**

Current world events and government initiatives have a major impact upon CCC's foreign receivables. For example, the United States is currently considering debt 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.

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

Direct Loan Programs

The **Farm Storage Facility Loan (FSFL) Program** was implemented to provide low cost financing for producers to build or upgrade on-farm commodity storage and handling facilities. The loans have a term of seven 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 ten years.

The **Apple Loan Program** provides loans to apple producers who are suffering 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 may obtain loans up to \$300 per acre of apple trees in production in 1999 or 2000, up to a maximum indebtedness of \$500,000. The maximum repayment term is three years and the interest rate is equivalent to the rate of interest charged on the Treasury securities of comparable maturity.

COMMODITY CREDIT CORPORATION

Notes to Financial Statements
September 30, 2003 and 2002

Note 5 - Credit Program Receivables, Net, *continued*

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

	(In Millions)	
	2003	2002
Direct Credit and Loan Programs:		
Pre-1992:		
P.L. 480 Title I	\$ 3,575	\$ 3,683
Post-1991:		
P.L. 480 Title I	875	969
Debt Reduction Fund	121	88
Food for Progress	273	256
Farm Storage Facility	171	150
Boll Weevil Program	3	3
Apple Loan Program	5	9
Defaulted Credit Guarantees:		
Pre-1992 Export Credit Guarantees	2,795	2,632
Post-1991 Export Credit Guarantees	<u>666</u>	<u>1,036</u>
Total Credit Program Receivables, Net	<u>\$ 8,484</u>	<u>\$ 8,826</u>

P.L. 480 direct credits outstanding that were obligated prior to fiscal year 1992 and related interest receivable as of September 30, are as follows:

(In Millions)

<u>2003</u>	Credit Receivables, Gross	Interest Receivable, Gross	Allowance for Uncollectible Accounts	Credit Program Receivables, Net
P.L. 480 Title I	<u>\$ 7,545</u>	<u>\$ 75</u>	<u>\$ (4,045)</u>	<u>\$ 3,575</u>

(In Millions)

<u>2002</u>	Credit Receivables, Gross	Interest Receivable, Gross	Allowance for Uncollectible Accounts	Credit Program Receivables, Net
P.L. 480 Title I	<u>\$ 7,852</u>	<u>\$ 90</u>	<u>\$ (4,259)</u>	<u>\$ 3,683</u>

Notes to Financial Statements
September 30, 2003 and 2002

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 fiscal year 1991 and related interest receivable outstanding as of September 30, are as follows:

(In Millions)

<u>2003</u>	<u>Credit Receivables, Gross</u>	<u>Interest Receivable, Gross</u>	<u>Subsidy Allowance</u>	<u>Credit Program Receivables, Net</u>
P.L. 480 Title I	\$ 2,294	\$ 23	\$ (1,442)	\$ 875
Debt Reduction Fund	334	1	(214)	121
Food for Progress	352	11	(90)	273
Farm Storage Facility	160	7	4	171
Boll Weevil Program	10	--	(7)	3
Apple Loan Program	<u>4</u>	<u>--</u>	<u>1</u>	<u>5</u>
Total	<u>\$ 3,154</u>	<u>\$ 42</u>	<u>\$ (1,748)</u>	<u>\$ 1,448</u>

(In Millions)

<u>2002</u>	<u>Credit Receivables, Gross</u>	<u>Interest Receivable, Gross</u>	<u>Subsidy Allowance</u>	<u>Credit Program Receivables, Net</u>
P.L. 480 Title I	\$ 2,334	\$ 23	\$ (1,388)	\$ 969
Debt Reduction Fund	236	1	(149)	88
Food for Progress	409	12	(165)	256
Farm Storage Facility	144	10	(4)	150
Boll Weevil Program	10	--	(7)	3
Apple Loan Program	<u>8</u>	<u>--</u>	<u>1</u>	<u>9</u>
Total	<u>\$ 3,141</u>	<u>\$ 46</u>	<u>\$ (1,712)</u>	<u>\$ 1,475</u>

COMMODITY CREDIT CORPORATION

Notes to Financial Statements
September 30, 2003 and 2002

Note 5 - Credit Program Receivables, Net, *continued*

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

(In Millions)

	Credit Receivables, Gross	Interest Receivable, Gross	Allowance for Uncollectible Accounts	Credit Program Receivables, Net
<u>2003</u>				
Export Credit Guarantee Programs	<u>\$ 4,943</u>	<u>\$ 30</u>	<u>\$ (2,178)</u>	<u>\$ 2,795</u>

(In Millions)

	Credit Receivables, Gross	Interest Receivable, Gross	Allowance for Uncollectible Accounts	Credit Program Receivables, Net
<u>2002</u>				
Export Credit Guarantee Programs	<u>\$ 5,171</u>	<u>\$ 28</u>	<u>\$ (2,567)</u>	<u>\$ 2,632</u>

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

(In Millions)

	Credit Receivable, Gross	Interest Receivable, Gross	Subsidy Allowance	Credit Program Receivables, Net
<u>2003</u>				
Export Credit Guarantee Programs	<u>\$ 1,799</u>	<u>\$ 28</u>	<u>\$ (1,161)</u>	<u>\$ 666</u>

(In Millions)

	Credit Receivables, Gross	Interest Receivable, Gross	Subsidy Allowance	Credit Program Receivables, Net
<u>2002</u>				
Export Credit Guarantee Programs	<u>\$ 1,759</u>	<u>\$ 47</u>	<u>\$ (770)</u>	<u>\$ 1,036</u>

Notes to Financial Statements
September 30, 2003 and 2002**Note 5 - Credit Program Receivables, Net, *continued***

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

	(In Millions)	
	2003	2002
Subsidy Allowance – Beginning of Fiscal Year	\$ 1,712	\$ 2,043
Subsidy expense for current year disbursements:		
Interest rate differential	28	37
Default costs (net of recoveries)	20	30
Other subsidy costs	<u>3</u>	<u>15</u>
Total subsidy expense	51	82
Adjustments:		
Loan modifications	58	9
Subsidy allowance amortization	44	6
Other	<u>12</u>	<u>105</u>
Balance before reestimates	1,877	2,245
Subsidy reestimates:		
Interest rate reestimate	(1)	(139)
Technical/default reestimate	<u>(128)</u>	<u>(394)</u>
Total subsidy reestimates	<u>(129)</u>	<u>(533)</u>
Subsidy Allowance – End of Fiscal Year	<u>\$ 1,748</u>	<u>\$ 1,712</u>

COMMODITY CREDIT CORPORATION

Notes to Financial Statements
September 30, 2003 and 2002

Note 5 - Credit Program Receivables, Net, *continued*

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

(In Millions)

2003	Subsidy Expense for New Direct Loans Disbursed				Total	Mods. Total	Reestimates		Total	Grand Total
	Interest Differential	Defaults	Fees and Other Colls.	Other			Interest Rate	Technical		
P.L. 480, Title I	\$ 28	\$ 19	\$ --	\$ 3	\$ 50	\$ 58	\$ (1)	\$ 45	\$ 44	\$ 152
Debt Reduction Fund	--	--	--	--	--	--	--	(83)	(83)	(83)
Food for Progress	--	--	--	--	--	--	--	(82)	(82)	(82)
Farm Storage Facility	--	1	--	--	1	--	--	(8)	(8)	(7)
Total	\$ 28	\$ 20	\$ --	\$ 3	\$ 51	\$ 58	\$ (1)	\$ (128)	\$ (129)	\$ (20)

(In Millions)

2002	Subsidy Expense for New Direct Loans Disbursed				Total	Mods. Total	Reestimates		Total	Grand Total
	Interest Differential	Defaults	Fees and Other Colls.	Other			Interest Rate	Technical		
P.L. 480, Title I	\$ 37	\$ 29	\$ --	\$ 15	\$ 81	\$ --	\$ (138)	\$ (210)	\$ (348)	\$ (267)
Debt Reduction Fund	--	--	--	--	--	9	--	(69)	(69)	(60)
Food for Progress	--	--	--	--	--	--	--	(112)	(112)	(112)
Farm Storage Facility	--	1	--	--	1	--	(1)	(5)	(6)	(5)
Boll Weevil Program	--	--	--	--	--	--	--	1	1	1
Apple Loan Program	--	--	--	--	--	--	--	1	1	1
Total	\$ 37	\$ 30	\$ --	\$ 15	\$ 82	\$ 9	\$ (139)	\$ (394)	\$ (533)	\$ (442)

Subsidy reestimates are calculated on cumulative disbursements for all cohorts.

Notes to Financial Statements
September 30, 2003 and 2002

Note 5 - Credit Program Receivables, Net, *continued*

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

(In Millions)

	2003	2002	Current Year Over (Under) Prior Year
P.L. 480 Title I	\$ 65	\$ 122	\$ (57)
Farm Storage Facility	44	66	(22)
Apple Loan Program	--	1	(1)
Total	<u>\$ 109</u>	<u>\$ 189</u>	<u>\$ (80)</u>

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

(In Millions)

	<u>Face Value</u>		<u>Guaranteed*</u>	
	Post-1991 Outstanding Principal	Post-1991 Outstanding Interest	Post-1991 Outstanding Principal	Post-1991 Outstanding Interest
<u>2003</u>				
Export Credit Guarantee Programs	<u>\$ 4,820</u>	<u>\$ 75</u>	<u>\$ 4,657</u>	<u>\$ 34</u>

(In Millions)

	<u>Face Value</u>		<u>Guaranteed*</u>	
	Post-1991 Outstanding Principal	Post-1991 Outstanding Interest	Post-1991 Outstanding Principal	Post-1991 Outstanding Interest
<u>2002</u>				
Export Credit Guarantee Programs	<u>\$ 4,893</u>	<u>\$ 212</u>	<u>\$ 4,706</u>	<u>\$ 64</u>

* 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.

COMMODITY CREDIT CORPORATION

Notes to Financial Statements
September 30, 2003 and 2002

Note 5 - Credit Program Receivables, Net, *continued*

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

	(In Millions)	
	<u>2003</u>	<u>2002</u>
Credit Guarantee Liability - Beginning of Fiscal Year	\$ 411	\$ 341
Subsidy expense for current year disbursements:		
Default costs (net of recoveries)	93	120
Fees and other collections	<u>(7)</u>	<u>(10)</u>
Total subsidy expense	86	110
Adjustments:		
Fees received	20	20
Claim payments to lenders	(100)	(40)
Other	<u>(194)</u>	<u>54</u>
Balance before reestimates	223	485
Subsidy reestimates:		
Interest rate reestimate	4	(588)
Technical/default reestimate	<u>(205)</u>	<u>514</u>
Total subsidy reestimates	<u>(201)</u>	<u>(74)</u>
Credit Guarantee Liability - End of Fiscal Year	<u>\$ 22</u>	<u>\$ 411</u>

Notes to Financial Statements
September 30, 2003 and 2002

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 fiscal year 1991, and subsidy reestimates for the fiscal years ended September 30, are as follows:

(In Millions)

	<u>Subsidy Expense for New Credit Guarantees Disbursed</u>					<u>Reestimates</u>			<u>Grand Total</u>
	<u>Interest Supplement</u>	<u>Defaults</u>	<u>Fees and Other Colls.</u>	<u>Other</u>	<u>Total</u>	<u>Interest Rate</u>	<u>Technical</u>	<u>Total</u>	
<u>2003</u>									
Export Credit Guarantee Programs	\$ --	\$ 93	\$ (7)	\$ --	\$ 86	\$ 4	\$ (205)	\$ (201)	\$ (115)

(In Millions)

	<u>Subsidy Expense for New Credit Guarantees Disbursed</u>					<u>Reestimates</u>			<u>Grand Total</u>
	<u>Interest Supplement</u>	<u>Defaults</u>	<u>Fees and Other Colls.</u>	<u>Other</u>	<u>Total</u>	<u>Interest Rate</u>	<u>Technical</u>	<u>Total</u>	
<u>2002</u>									
Export Credit Guarantee Programs	\$ --	\$ 120	\$ (10)	\$ --	\$ 110	\$ (588)	\$ 514	\$ (74)	\$ 36

Subsidy reestimates are calculated on cumulative disbursements for all cohorts.

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

(In Millions)

	<u>2003</u>		<u>2002</u>	
	<u>Outstanding Principal, Face Value</u>	<u>Outstanding Principal, Guaranteed</u>	<u>Outstanding Principal, Face Value</u>	<u>Outstanding Principal, Guaranteed</u>
Export Credit Guarantee Programs	\$ 2,770	\$ 2,529	\$ 3,340	\$ 3,131

For the fiscal years ended September 30, 2003 and 2002, administrative expenses on direct credit and loan programs were \$2 million in each year and \$4 million for the credit guarantee programs in each year.

COMMODITY CREDIT CORPORATION

Notes to Financial Statements
September 30, 2003 and 2002

Note 5 - Credit Program Receivables, Net, *continued*

Fiscal years 2003 and 2002 subsidy rates for direct credits and loans are as follows:

(Percentages)

	Interest Differential	Defaults	Fees and Other Collections	Other	Total
<u>2003</u>					
P.L. 480 Programs	47.24	22.04	--	5.83	75.11
Farm Storage Facility	(0.88)	2.27	(0.11)	--	1.28
<u>2002</u>					
P.L. 480 Programs	46.07	30.82	--	4.84	81.73
Farm Storage Facility	0.30	2.24	(0.12)	--	2.42

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

Fiscal years 2003 and 2002 subsidy rates for credit guarantee programs are as follows:

(Percentages)

	Defaults	Fees and Other Collections	Total
<u>2003</u>			
Export Credit Guarantee Programs	7.64	(0.68)	6.96
<u>2002</u>			
Export Credit Guarantee Programs	7.41	(0.66)	6.75

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

Note 5 - Credit Program Receivables, Net, continued

The principal balance of CCC direct credit and credit guarantee receivables in a non-performing status at September 30, 2003 and 2002, totaled \$2,742 million and \$3,462 million, respectively, compared to a total principal balance (performing and non-performing) at September 30, 2003 and 2002, of \$17,267 million and \$17,761 million, 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 \$35 million to a total of \$500 million in fiscal year 2003, and increased by \$59 million to a total of \$1,392 million in fiscal year 2002. During the entire delinquency, 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 by \$891 million and \$856 million through September 30, 2003, and 2002, respectively.

Direct credit and credit guarantee principal receivables under rescheduling agreements as of September 30, 2003 and 2002, were \$7,532 million and \$7,494 million, respectively. During fiscal years 2003 and 2002, CCC entered into agreements with debtor countries to reschedule their delinquent debt owed to CCC. These reschedulings totaled \$591 million in delinquent principal and \$196 million in delinquent interest during fiscal year 2003, and \$152 million in delinquent principal and \$55 million in delinquent interest during fiscal year 2002.

The Paris Club Agreed Minutes of October 16, 2001, reduced Sierra Leone debt under the P.L. 480 program. As a result of this debt reduction, principal and interest in the amount of \$22 million was written-off in fiscal year 2003. This amount represents the first stage currently in force under the Agreed Minutes.

The Paris Club Agreed Minutes of July 10, 2001, reduced Bolivia debt under the P.L. 480

program. As a result of this debt reduction, principal and interest in the amount of \$32 million was written-off in fiscal year 2003.

On April 5, 2003, the United States Government and the Government of the Islamic Republic of Pakistan entered into an agreement to cancel 91% of the relevant Official Development Assistance block of debt outstanding as of December 1, 2002, pursuant to the rescheduling agreement between the U.S. and Pakistan signed August 23, 2003. This agreement applies to P.L. 480 direct credits. The amount of the debt to be reduced is just under \$1 billion.

CCC is awaiting an apportionment from the Office of Management and Budget before the transaction can be completed. Until such time, however, there is a 100% subsidy allowance established against the relevant debt as of September 30, 2003.

During fiscal year 2002, the Government of the United States and the Government of Guinea entered into an agreement providing debt forgiveness under the HIPC Initiative. This modification resulted in the reduction of P.L. 480 direct credits of \$3 million in principal owed to CCC. The discount rate used for calculating the modification expense was 6.30%.

In addition, during fiscal year 2002 the Government of the United States and the Government of Peru entered into a Tropical Forest Agreement to facilitate the conservation, protection, restoration, and sustainable use and management of tropical forests in Peru. This modification resulted in the reduction of P.L. 480 direct credits of \$10.6 million in principal owed to CCC with a discount rate of 5.47% used for calculating the modification expense.

COMMODITY CREDIT CORPORATION

Notes to Financial Statements
September 30, 2003 and 2002

Note 6 - Commodity Inventories, Net

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

	(In Millions)	
	2003	2002
Commodity Inventories – Beginning of Fiscal Year	\$ 2,486	\$ 2,284
Acquisitions	5,001	5,063
Cost of Sales	(4,481)	(4,160)
Donations	(730)	(699)
Other Dispositions, Additions and Deductions	<u>(292)</u>	<u>(2)</u>
Commodity Inventories - End of Fiscal Year	1,984	2,486
Less: Allowance for Losses	<u>(1,708)</u>	<u>(1,763)</u>
Commodity Inventories, Net	<u>\$ 276</u>	<u>\$ 723</u>

Commodity loan forfeitures during the fiscal years ended September 30, 2003 and 2002, were \$149 million and \$165 million, respectively. Estimated future commodity donations are expected to be \$964 million. An analysis of the change in inventory by commodity for fiscal years 2003 and 2002, is presented in the Required Supplementary Information section.

Restrictions on Commodity Inventory

In accordance with the Bill Emerson Humanitarian Trust (BEHT) Act of 1998, CCC maintains a required commodity reserve of 63 million bushels of wheat valued at \$234 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 in developing countries. As a result of the Agricultural Act of 1980, BEHT stocks can be exchanged for eligible U.S. agricultural commodities of equal value. 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 fiscal year 2007. Since the Corporation is legislatively limited in how it may dispose of the wheat reserve, an allowance equal to 100 percent of the wheat inventory valued at \$234 million has been established.

As of September 30, 2003 and 2002, CCC had tobacco inventory in the amount of \$278 million and \$599 million, respectively. Since the Corporation is legislatively limited in how it may dispose of this inventory, an allowance equal to 100 percent of the tobacco inventory value has been established.

Notes to Financial Statements
September 30, 2003 and 2002**Note 7 – General Property and Equipment, Net**

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

	(In Millions)		
<u>2003</u>	Acquisition Value	Accumulated Depreciation	Net Book Value
ADP Equipment	\$ 94	\$ (93)	\$ 1
Capitalized Software Development Costs	<u>34</u>	<u>(6)</u>	<u>28</u>
Total General Property and Equipment	<u>\$ 128</u>	<u>\$ (99)</u>	<u>\$ 29</u>

	(In Millions)		
<u>2002</u>	Acquisition Value	Accumulated Depreciation	Net Book Value
ADP Equipment	\$ 98	\$ (96)	\$ 2
Capitalized Software Development Costs	<u>25</u>	<u>(8)</u>	<u>17</u>
Total General Property and Equipment	<u>\$ 123</u>	<u>\$ (104)</u>	<u>\$ 19</u>

COMMODITY CREDIT CORPORATION

Notes to Financial Statements
September 30, 2003 and 2002

Note 8 – Debt to the Treasury

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

	(In Millions)	
	2003	2002
Debt – Beginning of Fiscal Year:		
Principal: Interest Bearing	\$ 9,162	\$ 13,836
Non-Interest Bearing	11,263	11,263
Accrued Interest Payable	<u>66</u>	<u>175</u>
Total Debt Outstanding – Beginning of Fiscal Year	20,491	25,274
New Debt:		
Principal: Interest Bearing	35,026	20,143
Interest Accrued	<u>171</u>	<u>211</u>
Total New Debt	35,197	20,354
Repayments:		
Principal: Interest Bearing	(22,447)	(24,822)
Non-Interest Bearing	(11,263)	–
Interest Accrued	<u>(142)</u>	<u>(320)</u>
Total Repayments	(33,852)	(25,142)
Interest Refinanced	–	5
Debt – End of Fiscal Year		
Principal: Interest Bearing	21,741	9,162
Non-Interest Bearing	–	11,263
Accrued Interest Payable	<u>95</u>	<u>66</u>
Total Debt Outstanding – End of Fiscal Year	<u>\$ 21,836</u>	<u>\$ 20,491</u>

CCC may borrow interest-free up to the amount of its unreimbursed realized losses. For interest bearing notes, interest is accrued at a rate based upon the average interest rate of all outstanding U.S. marketable obligations of comparable maturity date as of the preceding month. Repayments are applied to non-interest bearing notes first. Once these are liquidated, repayments are then applied to interest bearing notes.

In fiscal year 2003, CCC was fully reimbursed for its prior year net realized losses. As a result, CCC paid down its non-interest-bearing note based upon the agreement with Treasury.

The total amount of debt principal and interest refinanced was \$12,372 million and \$14,864 million in fiscal years 2003 and 2002, respectively. These amounts are included in the total amounts of new borrowings and repayments in the table above. Of these amounts, \$12,372 million and \$14,859 million consisted of outstanding borrowings rolled over in fiscal years 2003 and 2002, respectively. Accrued interest rolled over into notes payable was less than \$1 million in fiscal year 2003 and \$5 million in fiscal year 2002.

Interest on borrowings under CCC's permanent indefinite borrowing authority from Treasury is

Note 8 – Debt to the Treasury, *continued*

paid monthly at a rate based upon the average interest rate of all outstanding marketable obligations (of comparable maturity date) of the United States as of the preceding month. Interest rates ranged from 1.00% to 1.75% during fiscal year 2003 and from 1.75% to 3.25% during fiscal year 2002.

Interest expense incurred on these borrowings was \$162 million and \$211 million for fiscal years 2003 and 2002, respectively.

The fiscal year's 2003 and 2002 interest rates on long-term borrowings under the permanent indefinite borrowing authority for the Credit Reform programs are calculated using the OMB Financing Account Interest Calculator. For the 2001 and future cohorts, the single effective rate and budget assumptions are used.

The 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. The repayment terms for borrowings for the P.L. 480 program are 30 years. Repayment terms for direct loans under the FSFL program is 7 years. Repayment terms for direct loans under the Apple Loan Program are 3 years, 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.

Interest expense incurred on borrowings associated with the Credit Reform programs amounted to \$187 million and \$164 million in fiscal years 2003 and 2002, respectively.

COMMODITY CREDIT CORPORATION

Notes to Financial Statements
September 30, 2003 and 2002

Note 8 – Debt to the Treasury, *continued*

Total debt outstanding, by program and maturity date, as of September 30, 2003, is as follows:

<u>Program</u>	<u>Debt</u> (In Millions)	<u>Maturity Date</u>
CCC Revolving Fund	\$ 18,653	Jan. 1, 2004
Export Credit Guarantees	756	Sep. 30, 2006
	277	Sep. 30, 2007
	79	Sep. 30, 2008
	89	Sep. 30, 2009
	136	Sep. 30, 2010
	124	Sep. 30, 2011
	2	Sep. 30, 2012
	3	Sep. 30, 2014
	6	Sep. 30, 2015
	3	Sep. 30, 2016
P.L. 480 Direct Credits	127	Sep. 30, 2018
	117	Sep. 30, 2019
	71	Sep. 30, 2020
	53	Sep. 30, 2021
	65	Sep. 30, 2022
	49	Sep. 30, 2023
	59	Sep. 30, 2024
	282	Sep. 30, 2025
	79	Sep. 30, 2026
	113	Sep. 30, 2027
	42	Sep. 30, 2031
Food for Progress	191	Sep. 30, 2007
Debt Reduction	31	Sep. 30, 2012
	25	Sep. 30, 2018
	13	Sep. 30, 2026
	2	Sep. 30, 2028
Farm Storage Facility Loans	43	Sep. 30, 2008
	73	Sep. 30, 2009
	93	Sep. 30, 2010
	71	Sep. 30, 2011
Boll Weevil	4	Sep. 30, 2008
Apple Loans	<u>10</u>	Sep. 30, 2004
Total Debt Outstanding	<u>\$ 21,741</u>	

Notes to Financial Statements
September 30, 2003 and 2002**Note 9 – Deposit and Trust Liabilities**

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

	(In Millions)	
	2003	2002
<u>Intragovernmental:</u>		
Other Agriculture Agencies (Note 16)	\$ 1,184	\$ 892
<u>Public:</u>		
No-Net-Cost Tobacco Program	\$ 633	\$ 593
P.L. 480 Program	188	7
Export Credit Guarantee Programs	39	31
Other	13	8
Total Public Deposit and Trust Liabilities	\$ 873	\$ 639

Note 10 – Other Liabilities

Other liabilities as of September 30, are as follows:

	(In Millions)	
	2003	2002
<u>Intragovernmental:</u>		
Accrued Reimbursable Agreements	\$ 2	\$ 4
Accrued Conservation Reserve Program Technical Assistance	13	—
Excess Subsidy Payable to Treasury	769	990
Other	13	24
Total Other Intragovernmental Liabilities	\$ 797	\$ 1,018
<u>Public:</u>		
Payable to Producers	\$ 2	\$ 2

These liabilities are considered current.

Note 11 - Accrued Liabilities

Accrued liabilities as of September 30, are as follows:

	(In Millions)	
	2003	2002
<u>Liabilities Covered by Budgetary Resources:</u>		
Income Support Programs	\$ 2,980	\$ 144
Export Programs	154	110
Hazardous Waste Program	13	15
Cotton User Marketing Certificates	45	6
Other Programs	<u>3</u>	<u>17</u>
Subtotal	<u>\$ 3,195</u>	<u>\$ 292</u>
<u>Liabilities Not Covered by Budgetary Resources:</u>		
Conservation Reserve Program (Note 12)	\$ 1,634	\$ 1,751
Bioenergy Program	<u>36</u>	<u>--</u>
Subtotal	<u>1,670</u>	<u>1,751</u>
Total Accrued Liabilities	<u>\$ 4,865</u>	<u>\$ 2,043</u>

Liabilities covered by budgetary resources for income support programs includes accruals for the Milk Income Loss Program, Loan Deficiency Payments, Apple Market Loss Program, and direct payments, among others. The large increase in accrued liabilities for income support

programs is primarily due to unpaid amounts accrued for direct payments, a program that began in fiscal year 2003.

These liabilities are considered current.

Note 12 - Commitments and Contingencies

Sales and other disposition commitments are not reflected in the accounts, but are considered in establishing the allowance for loss on commodity inventories.

Wetland Reserve Program (WRP)

Under WRP, CCC purchases easements, based on agricultural value, to restore wetlands that have previously been drained and converted to agricultural uses, to protect or enhance wetlands on the owner's property. WRP also provides an opportunity for landowners to receive cost-share payments to restore, protect, or enhance a wetland without selling an easement. Program expenses for the fiscal years ended September 30, 2003 and 2002, were \$48 million and \$104 million, respectively. At September 30, 2003

and 2002, CCC's undelivered orders on current contracts were \$103 million and \$145 million, respectively.

Dairy Export Incentive Program (DEIP)

The DEIP is authorized under the Food Security Act of 1985, to facilitate the export of U.S. dairy products. Under this program, CCC pays the exporter a bonus, when necessary, to enable an exporter to sell the product at a competitive world price. Program expenses for the fiscal years ended September 30, 2003 and 2002, were \$52 million and \$25 million, respectively. At September 30, 2003 and 2002, CCC's undelivered orders on current contracts were \$14 million and \$46 million, respectively.

Note 12 – Commitments and Contingencies, continued**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, 2003 and 2002, were \$103 million and \$96 million, respectively. At September 30, 2003 and 2002, CCC's undelivered orders on current contracts were \$184 million and \$178 million, respectively.

Environmental Quality Incentive Program (EQIP)

EQIP was reauthorized by the 2002 Farm Bill to provide a voluntary conservation program for farmers and ranchers that promotes agricultural production and environmental quality as compatible national goals. Program expenses for the fiscal years ended September 30, 2003 and 2002, were \$102 million and \$146 million, respectively. At September 30, 2003 and 2002, CCC's undelivered orders on current contracts were \$305 million and \$465 million, respectively.

Noninsured Crop Assistance Program (NAP)

The NAP was authorized as a CCC program under the 1996 Act and is a standing crop disaster aid program for crops that are not covered by catastrophic risk protection crop insurance. Program expenses for the fiscal years ended September 30, 2003 and 2002, were \$240 million and \$182 million, respectively. It is estimated that \$276 million will be outlayed in fiscal year 2004.

Commodity Acquisition

Commitments to acquire commodities represent the contract value of commodities not yet delivered under CCC purchase contracts. Such commitments amounted to \$138 million and

\$397 million at September 30, 2003 and 2002, respectively.

Hazardous Waste Program

The Corporation formerly operated approximately 4,500 grain storage facilities in the United States. 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. Payments for site inspection and cleanup, as well as operations and maintenance, totaled \$7 million for both fiscal years ended September 30, 2003 and 2002. CCC recorded an estimate of the total liability for investigation and remediation of affected sites totaling \$13 million at September 30, 2003, and \$15 million at September 30, 2002. At September 30, 2003, CCC estimates the range of potential loss to be between \$13 million and \$63 million.

In fiscal year 2004, the Department is expected to provide funding of \$16 million under the ongoing Department-wide hazardous waste management program to remain available until expended. A portion of this funding will be allotted to CCC. Potential costs are extremely difficult to estimate until site investigations are completed. CCC intends to monitor the cost estimate and make revisions as necessary.

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 annual rental payments through fiscal year 2012 is \$20 billion. This estimate is based on current program levels with the assumption that expiring lands are re-enrolled or replaced with lands of equal value. At September 30, 2003 and 2002, accrued liabilities for CRP totaled \$1,634 million and \$1,751 million, respectively.

Note 12 – Commitments and Contingencies, *continued***Leases**

Future minimum rental payments required under FSA operating leases for state office space, for which CCC is directly liable as of September 30, 2003 and 2002, were \$18 million and \$5 million, respectively.

Allocated rent expense net of reimbursements was \$54 million and \$56 million for fiscal years ended September 30, 2003 and 2002, respectively. This allocated rent expense is recognized as part of the CCC imputed financing and imputed cost.

Legal Disputes and Claims

In the normal course of business, CCC becomes involved in legal disputes and claims of many kinds and CCC, through the Office of General Counsel (OGC) and the U.S. Department of Justice, vigorously defends its position in such actions.

As of September 30, 2003, there are no legal disputes and or claims that are likely to result in an unfavorable outcome for CCC.

Note 13 – Disclosures Related to the Statement of Net Cost**Credit Program Subsidy**

Credit program subsidy costs for the fiscal years ended September 30, 2003 and 2002, were negative \$1,128 million and negative \$554 million, respectively, due to downward re-estimates of subsidy.

Other Program Costs

Other program costs for the fiscal years ended September 30, 2003 and 2002, were negative

\$339 million and \$961 million, respectively. Amounts in () on the face of the Statement represent the establishment of receivables or claims for program payment refunds. They also represent downward adjustments to the allowances on pre-Credit Reform receivables.

Note 13 – Disclosures Related to the Statement of Net Cost, *continued***Earned Revenue**

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

	(In Millions)	
	2003	2002
Intragovernmental Earned Revenue:		
Commodity Inventory Sales	\$ 774	\$ 528
Interest Income	<u>107</u>	<u>83</u>
Total Intragovernmental Earned Revenue	881	611
Earned Revenue from the Public:		
Commodity Inventory Sales	3,209	2,098
Interest Income	575	635
Other	<u>18</u>	<u>14</u>
Total Earned Revenue from the Public	<u>3,802</u>	<u>2,747</u>
Total Earned Revenue Before Eliminations	<u>4,683</u>	<u>3,358</u>
Less: Intra-Agency Eliminations	<u>(767)</u>	<u>(527)</u>
Total Earned Revenue	<u>\$ 3,916</u>	<u>\$ 2,831</u>

Commodity inventory sales to the public increased from \$2,098 million in fiscal year 2002 to \$3,209 million in fiscal year 2003 due to increased upland cotton commodity certificate exchanges.

Note 14 - Disclosures Related to the Statement of Budgetary Resources

The Statement of Budgetary Resources (SBR) is a combined statement and, as such, intra-agency transactions have not been eliminated.

As of September 30, 2003, obligations incurred under apportionment category A are \$6 million direct, while obligations incurred under apportionment category B consists of \$4,368 million direct and \$33,949 million reimbursable.

As of September 30, 2002, obligations incurred under apportionment category A were \$6 million direct, while obligations incurred under apportionment category B consisted of \$1,980 million direct and \$26,530 million reimbursable.

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 majority of the remaining balance represents rescissions of budget authority. The amounts were \$47,952 million and \$41,337 million as of September 30, 2003, and 2002, respectively.

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

On January 1 of each year, CCC refinances its outstanding borrowings, including accrued interest, at the January borrowing rate. The amount of available borrowing authority as of September 30, 2003, is \$11,347 million. CCC

may borrow interest-free up to the amount of its unreimbursed realized losses. For interest bearing notes, interest is accrued at a rate based upon the average interest rate of all outstanding U.S. marketable obligations of comparable maturity date as of the preceding month. Repayments are applied to non-interest bearing notes first. Once these are liquidated, repayments are then applied to interest bearing notes.

CCC has a separate permanent indefinite borrowing authority for the Credit Reform programs to finance disbursements on post-Credit Reform direct credit and loan obligations and credit guarantees. In accordance with Credit Reform, CCC borrows from Treasury on October 1, for the entire fiscal year, based on annual estimates of the difference between the amount appropriated (subsidy) and the amount to be disbursed to the borrower. CCC may repay under this agreement, in whole or in part, prior to maturity by paying the principal amount of the borrowings plus accrued interest to the date of repayment. CCC is required to pay interest to Treasury on the last day of the fiscal year, based on the outstanding balance of borrowings in each financing fund. Interest is paid on these borrowings based on weighted average interest rates for the cohort to which the borrowings are associated. CCC earns interest from Treasury on the daily balance of uninvested funds in the Credit Reform financing funds. The interest income is used to reduce interest expense on the underlying borrowings.

Under Credit Reform, CCC receives an annual appropriation to fund subsidy costs incurred. In addition, CCC has permanent indefinite appropriation authority available to finance any disbursements incurred under the liquidating accounts that are not covered by available working capital.

Unobligated budget authority is the difference between the obligated balance and the total unexpended balance and represents that portion of the unexpended balance unencumbered by recorded obligations. An appropriation expires

Note 14 - Disclosures Related to the Statement of Budgetary Resources, *continued*

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 five fiscal years.

The unobligated balance remains available to make legitimate obligation adjustments (i.e., to record previously unrecorded obligations and to make upward adjustments in previously under-recorded obligations).

CCC's borrowing authority under its revolving fund is indefinite and, therefore, no unobligated balance carries forward to the following year.

No contributed capital was received during the reporting periods.

The Statement of Budgetary Resources agrees with the SF-133, Report on Budget Execution, which will be used as input for the actual column for fiscal year 2003 in the fiscal year 2005 Budget of the United States Government Program and Financing Schedules (P&F Schedules). Since the P&F Schedules for 2003 are not currently available, a reconciliation to

the SF-133 and Statement of Budgetary Resources for fiscal year 2003 cannot be performed. The 2005 Budget of the United States Government is expected to be published in February 2004 and will be available on OMB's website (www.whitehouse.gov/omb) at that time.

The SF-133 and the Statement of Budgetary Resources for fiscal year 2002 has been reconciled to the fiscal year 2002 actuals on the P&F Schedules presented in the Budget of the United States Government. The majority of the differences identified are the result of audit adjustments made to the Statement of Budgetary Resources after the submission of actuals to the P&F Schedules. The remaining differences are the result of line classifications on the P&F Schedules as compared to the Statement of Budgetary Resources along with small differences from rounding and some differences related to the inclusion of expired account activity. In the future, these types of differences will be minimal due to the accelerated deadlines.

COMMODITY CREDIT CORPORATION

Notes to Financial Statements
September 30, 2003 and 2002

Note 14 - Disclosures Related to the Statement of Budgetary Resources, *continued*

The comparison of selected line items of the fiscal year 2002 Statement of Budgetary Resources to the actuals on the fiscal year 2002 P&F Schedules presented in the Budget of the United States Government is as follows:

Line	(In Millions)			Portion of Difference Related to Hazardous Waste (12X0500) ^{2/}
	SBR Amount	P&F Amount	Difference ^{1/}	
Total Budgetary Resources/Status of Resources	\$ 31,173	\$ 30,949	\$ 224	\$ 6
Total New Obligations	28,516	28,351	165	6
Offsetting Collections-Collected	12,675	12,663	12	0
Offsetting Collections-Receiveable	(536)	(499)	(37)	0
Authority to Borrow	34,450	17,141	17,309 ^{3/}	0
Portion Applied to Repay Debt	(40,670)	(22,310)	(18,360) ^{4/}	0
Recoveries of Prior Year Obligations	347	44	303	4
Unobligated Balance-Beginning of Year	4,761	4,760	1	0
Unobligated Balance-End of Year	2,657	2,598	59	0
Obligated Balance-Beginning of Year	4,354	4,349	5	4
Obligated Balance-End of Year	4,329	4,437	(108)	3
Outlays	16,055	16,050	5	4

^{1/} The majority of differences are the result of certain audit adjustments not reported in the P&F Schedules due to accelerated OMB reporting deadlines.

^{2/} The Departmental shared appropriation amounts for CCC's portion of the Hazardous Waste fund, 12X0500, are not included in the P&F amounts presented here. This fund is reported at the Departmental level in the Budget of the United States Government and therefore, is not presented by agency. However, the SBR amounts presented here do include this fund activity. For this reason, a portion of the difference includes the activity for this fund.

^{3/} This difference includes \$17,402 million which represents line classification inconsistencies between the SBR and P&F. The P&F amount does not include several budgetary accounts (or SF-133 lines) that should be factored in when arriving at the Authority to Borrow amount. The remaining difference includes \$103 million of audit adjustments. The rest represents expired account activity that should not be included on the P&F.

^{4/} This difference includes \$18,358 million which represents line classification inconsistencies between the SBR and P&F. The P&F amount does not include several budgetary accounts (or SF-133 lines) that should be factored in when arriving at the Portion Applied to Repay Debt amount. The remaining difference is attributable to rounding.

Notes to Financial Statements
September 30, 2003 and 2002**Note 15 - Disclosures Related to the Statement of Financing**

At September 30, 2003 and 2002, CCC's Liabilities Not Covered by Budgetary Resources as disclosed in Note 11 were \$1,670 million and \$1,751 million, respectively. These amounts are reported in the Other line within the Components Requiring or Generating Resources in Future Periods section of the Statement of Financing, and represent program liabilities that are accrued in the current fiscal year but funded in the following fiscal year.

As discussed in Note 1 under Allocation Transfers and Shared Appropriations, if the allocation transfer is material to the child's financial statements, the child should report the activity relating to the allocation transfer in all of its financial statements, except the Statement of

Budgetary Resources. Accordingly, as the parent agency, CCC reports none of the allocation transfer activity to AID in its financial statements, except for the Statement of Budgetary Resources. The purpose of the allocation transfer is to fund P.L. 480 Title II transportation and other costs in connection with foreign donations. The reconciling item related to this allocation transfer amounted to \$1,137 million in fiscal year 2003, and \$583 million in fiscal year 2002. It is included as part of the Other Resources or Adjustments to Net Obligated Resources That Do Not Affect Net Cost of Operations line of the Statement of Financing, totaling \$2,587 million and \$659 million as of September 30, 2003 and 2002, respectively.

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

	(In Millions)	
	2003	2002
Cost of Sales	\$ 5,339	\$ 4,770
Cost of Donations	730	699
Claims Receivables	330	15
Bad Debt Expenses/Allowances	(458)	550
Interest Collections In-transit in Liquidating Funds	--	37
Upward Credit Subsidy Re-estimate Accruals	357	--
Allocation Transfers from FSA for the Conservation Programs	215	202
Other	5	--
Total	\$ 6,518	\$ 6,273

Note 16 - Disclosures Not Related to a Specific Statement**Related Party Transactions**

CCC makes disbursements for many FSA programs, which are funded through allocation transfers from FSA. During fiscal years 2003 and 2002, FSA transferred to CCC \$159 million and \$185 million, respectively. These transfers plus prior year carryovers were used to make payments by CCC in the approximate amount of \$216 million and \$204 million, respectively.

The Corporation also provides services to other USDA agencies to carry out their authorities and responsibilities. AMS and the Food and Nutrition Service (FNS) fund the purchase of certain commodities for domestic feeding programs. In addition, AMS funds the purchase of commodities for the purpose of facilitating additional sales in world markets at competitive prices. As of September 30, 2003 and 2002, the related deposit and trust liabilities for AMS and FNS were \$503 million and \$706 million, respectively.

CCC donates commodities for use under domestic feeding programs administered by FNS. The value of commodities donated for these domestic purposes, including related transportation and storage costs, for the fiscal years ended September 30, 2003 and 2002, were \$121 million and \$60 million, respectively.

CCC transferred \$4 million to FAS and an additional \$2 million to FSA during each of the fiscal years 2003 and 2002, for salaries and expenses for administering the foreign Credit Reform programs.

During fiscal years 2003 and 2002, outlays under reimbursable agreements with other USDA agencies amounted to \$40 million and \$25 million, respectively. Interagency accruals, reflecting amounts due and payable on reimbursable agreements as September 30, 2003 and 2002, amounted to \$2 million and \$4 million, respectively.

During the fiscal years ended September 30, 2003 and 2002, the Corporation transferred

\$378 million and \$200 million, respectively, to the Animal and Plant Health Inspection Service (APHIS) for the eradication of animal and plant diseases. A deposit and trust liability to cover payments for karnal bunt, a fungal disease of wheat, on behalf of APHIS was \$1 million and \$3 million as of September 30, 2003 and 2002, respectively. In addition, a deposit and trust liability to cover payments for avian influenza, a poultry disease, on behalf of APHIS was less than \$1 million as of September 30, 2003.

During fiscal year 2003, CCC made several authorized transfers to other USDA agencies. CCC transferred to AMS \$250 million for emergency surplus removal of agricultural commodities and \$1 million for the Peanut Administrative Committee activities; \$15 million to FNS for the Senior's Farmers Market Nutrition Program; \$23 million to Rural Development (RD) for the Renewable Energy Program, \$40 million for the Value-Added Agricultural Produce Market Development Grants, and \$20 million for enhancements to the Broadband Program; \$50 million to Forest Service (FS) for Fire Suppression activities and \$20 million for the Forest Land Enhancement Program; \$2 million to the Office of the Chief Economist (OCE) for the Biobased Products Program; and \$100 million to FAS for the McGovern-Dole International Food for Education and Child Nutrition Program.

During fiscal years 2003 and 2002, under the 2002 Farm Bill, CCC transferred a total of \$1,289 million and \$572 million, respectively, to NRCS for various conservation programs and technical assistance. These programs included WRP, EQIP, Farmland Protection Program, Wildlife Habitat Incentives Program, Klamath Basin, Ground and Surface Water Conservation Program, and Biomass Research and Development. In addition to these programs, the fiscal year 2003 transfers included the Conservation Security Program and Grassland Reserve Program (GRP). NRCS is responsible for administering these programs.

Note 16 - Disclosures Not Related to a Specific Statement, *continued*

For EQIP and GRP, NRCS has entered into a memorandum of understanding with CCC to disburse funds using the services and facilities of CCC. A deposit and trust liability to cover the program payments on behalf of NRCS for these programs and other conservation programs was \$681 million and \$184 million as of September 30, 2003 and 2002, respectively. It should be noted that although NRCS receives funding for the EQIP program, CCC continues to receive separate funding for this program as well.

During fiscal year 2002, CCC made several authorized transfers to other USDA agencies under the 2002 Farm Bill. CCC transferred \$600 million to RD for the funding of pending rural development loan and grant applications; \$20 million to FNS for the Women, Infant, and Children Farmer's Market Nutrition Program; \$8 million to the Cooperative State Research, Education, and Extension Service for its grants program; \$5 million to AMS for the National Organic Certification Cost Share Program; and \$1 million to OCE for the Federal Procurement of Biobased Products Program. A payable was established for a pending \$20 million transfer to FS for the Forest Land Enhancement Program and was subsequently reversed out in fiscal year 2003.

During fiscal years 2003 and 2002, CCC paid \$72 million and \$50 million, respectively, to FSA to cover administrative expenses associated with implementing the 2002 Farm Bill.

During fiscal year 2003, CCC paid FAS \$1 million for costs related to the International Conference and Expo on Agricultural Science and Technology; \$5 million to the Risk Management Agency (RMA) for the 2002 Farm Bill Implementation; \$17 million to RMA, and \$1 million each to NRCS and AMS for the Agricultural Management Assistance Program (AMAP). Of the \$17 million paid to RMA for AMAP, prepayments in the amount of \$3 million were established to recognize amounts unearned by RMA.

In addition, during fiscal year 2003, CCC expensed \$1 million against prior advances made to the FS for CRP technical assistance and accrued \$13 million in expenses for CRP technical assistance performed by NRCS.

In fiscal year 2002, CCC paid RMA and NRCS \$1 million for technical assistance relating to AMAP and \$38 million to NRCS for technical assistance for various conservation programs.

COMMODITY CREDIT CORPORATION

Notes to Financial Statements
September 30, 2003 and 2002

Note 16 - Disclosures Not Related to a Specific Statement, *continued*

Custodial Activity

Custodial activities as of September 30, are as follows:

	(In Millions)	
	<u>2003</u>	<u>2002</u>
Sources of Collection:		
Repayment of Farm Credit Loans	\$ 1,744	\$ 1,677
Administrative and Other Service Fees	<u>4</u>	<u>38</u>
Total Revenue Collected	1,748	1,715
Disposition of Collection:		
Amounts Transferred to the Farm Service Agency	1,735	1,689
Amounts Transferred to Treasury	<u>--</u>	<u>3</u>
Total Disposition of Revenue	1,735	1,692
Amounts Yet to be Transferred	<u>13</u>	<u>23</u>
Net Custodial Activity	<u>\$ --</u>	<u>\$ --</u>

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REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION (UNAUDITED)

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Schedule 1

Required Supplementary Stewardship Information

Wetlands Reserve Program

The Wetlands Reserve Program (WRP) is a voluntary program established to restore, protect, and enhance wetlands on agricultural land. Participants in the program may sell a conservation easement or enter into a cost-share restoration agreement with CCC in order to restore and protect wetlands. The landowner voluntarily limits the future use of the land, yet retains private ownership. The program provides many benefits for the entire community, such as better water quality, enhanced habitat for wildlife, reduced soil erosion, reduced flooding, and better water supply.

To be eligible for WRP, land must be restorable and be suitable for wildlife benefits. Once land is enrolled in the program, the landowner continues to control access to the land -- and may lease the land -- for hunting, fishing, and other undeveloped recreational activities. Once enrolled, the land is monitored to ensure compliance with program requirements. At any time, a landowner may request that additional activities (such as cutting hay, grazing livestock, or harvesting wood products) be evaluated to determine if they are compatible uses for the site. Compatible uses are allowed if they are fully consistent with the protection and enhancement of the wetland. The condition of the land is immaterial as long as the easement on the land meets the eligibility requirements of the program.

CCC records an expense for the acquisition cost of purchasing easements, plus any additional costs such as closing transactions, survey, and restoration costs. Easements can be either permanent or of a 30-year duration. In exchange for establishing a permanent easement, the landowner receives payment up to the agricultural value of the land and 100 percent of the restoration costs for restoring the wetlands. The 30-year easement payment is 75 percent of what would be provided for a permanent easement on the same site and 75 percent of the restoration cost.

Withdrawals from the program are rare. The Secretary of Agriculture has the authority to terminate contracts, with agreement from the landowner, after an assessment of the effect on public interest, and following a 90-day notification period of the House and Senate agriculture committees.

In fiscal year 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, are as follows:

	<u>2003</u>	<u>2002</u>
Easement Acreage Acquired - Beginning of Fiscal Year	971,680	629,065
Additions	<u>33,026</u>	<u>342,615</u>
Easement Acreage Acquired - End of Fiscal Year	<u>1,004,706</u>	<u>971,680</u>

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REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

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Schedule 2

Required Supplementary Information (Unaudited)

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

For the Fiscal Year Ended September 30, 2003
(Dollars in Millions)

	<u>12X4336</u>	<u>(72)12X4336</u>	<u>12X1336</u>	<u>12X2277</u>	<u>12X2278</u>	<u>12342278</u>	<u>1233674</u>	<u>Other</u>	<u>Total</u> <u>Budgetary</u>
Budgetary Resources:									
Budget Authority:									
Appropriations Received	\$ -	\$ -	\$ 780	\$ 131	\$ 1,569	\$ 250	\$ 17,684	\$ 32	\$20,446
Borrowing Authority	49,343	-	-	-	-	-	-	-	49,343
Net Transfers (+/-)	14,423	1,128	-	(1)	(68)	-	(17,684)	-	(2,202)
Unobligated Balance:									
Beginning of Period	-	-	627	254	106	-	-	209	1,196
Net Transfers, Actual (+/-)	-	-	(300)	-	-	-	-	(15)	(315)
Spending Authority from Offsetting Collections:									
Earned:									
Collected	13,029	-	-	-	31	-	-	948	14,008
Receivable from Federal Sources	1,138	-	-	-	349	-	-	12	1,499
Change in Unfilled Customer Orders:									
Advance Received	292	-	-	-	380	-	-	-	292
Subtotal	14,459	-	-	-	380	-	-	960	15,799
Recoveries of Prior Year Obligations	1,135	57	-	(1)	(8)	(2)	-	(929)	1,200
Permanently not Available	(46,596)	-	-	-	1,979	248	-	265	(47,596)
Total Budgetary Resources	\$ 32,764	\$ 1,185	\$ 1,107	\$ 383	\$ 1,979	\$ 248	\$ -	\$ 265	\$ 37,931
Status of Budgetary Resources:									
Obligations Incurred:									
Direct	-	-	723	88	1,530	248	-	53	2,642
Reimbursable	32,764	1,185	-	-	1,530	248	-	53	33,949
Subtotal	32,764	1,185	723	88	1,530	248	-	53	36,591
Unobligated balance:									
Apportioned	-	-	384	295	65	-	-	8	752
Exempt from Apportionment	-	-	-	-	384	-	-	9	9
Unobligated Balance not Available	-	-	-	-	-	-	-	195	579
Total Status of Budgetary Resources	\$ 32,764	\$ 1,185	\$ 1,107	\$ 383	\$ 1,979	\$ 248	\$ -	\$ 265	\$ 37,931

Schedule 2

Required Supplementary Information (Unaudited), continued

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

**For the Fiscal Year Ended September 30, 2003
(Dollars in Millions)**

	<u>12X4336</u>	<u>(72)12X4336</u>	<u>12X1336</u>	<u>12X2277</u>	<u>12X2278</u>	<u>12342278</u>	<u>1223674</u>	<u>Other</u>	<u>Total Budgetary</u>
Relationship of Obligations to Outlays:									
Obligated Balance, Net, Beginning of Period	\$ 2,817	\$ 712	\$ 69	\$ 71	\$ 613	\$ -	\$ -	\$ 23	\$ 4,305
Obligated Balance, Net, End of Period:									
Accounts Receivable	(1,688)	-	-	-	(349)	-	-	(12)	(2,049)
Undelivered Orders	1,028	749	101	75	24	72	-	23	2,072
Accounts Payable	4,150	356	53	-	1,202	-	-	5	5,766
Outlays:									
Disbursements	29,818	735	638	84	918	176	-	39	32,408
Collections	(13,321)	-	-	-	(32)	-	-	(947)	(14,300)
Net Outlays	<u>\$ 16,497</u>	<u>\$ 735</u>	<u>\$ 638</u>	<u>\$ 84</u>	<u>\$ 886</u>	<u>\$ 176</u>	<u>\$ -</u>	<u>\$ (908)</u>	<u>\$ 18,108</u>

Schedule 2

Required Supplementary Information (Unaudited), continued

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

**For the Fiscal Year Ended September 30, 2003
(Dollars in Millions)**

	<u>12X4337</u>	<u>12X4049</u>	<u>12X4158</u>	<u>Other</u>	<u>Total Non-Budgetary</u>
Budgetary Resources:					
Budget Authority:	\$ 1	\$ 1,029	\$ 158	\$ 89	\$ 1,277
Borrowing Authority					
Unobligated Balance:	1,004	246	81	130	1,461
Beginning of Period					
Spending Authority from Offsetting Collections:					
Earned:					
Collected	897	200	45	297	1,439
Receivable from Federal Sources	41	17	-	1	59
Subtotal	938	217	45	298	1,498
Recoveries of Prior Year Obligations			8		.8
Permanently not Available	(95)	(166)	(139)	(16)	(416)
Total Budgetary Resources	\$ 1,848	\$ 1,326	\$ 153	\$ 501	\$ 3,828
Status of Budgetary Resources:					
Obligations Incurred:					
Direct	738	653	85	256	1,732
Subtotal	738	653	85	256	1,732
Unobligated Balance:					
Apportioned	1,109	660	57	242	2,068
Exempt from Apportionment	1	-	-	-	1
Unobligated Balance Not Available		13	11	3	27
Total Status of Budgetary Resources	\$ 1,848	\$ 1,326	\$ 153	\$ 501	\$ 3,828

Schedule 2

Required Supplementary Information (Unaudited), continued

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

**For the Fiscal Year Ended September 30, 2003
(Dollars in Millions)**

	<u>12X4337</u>	<u>12X4049</u>	<u>12X4158</u>	<u>Other</u>	<u>Total Non-Budgetary</u>
Relationship of Obligation to Outlays:					
Obligated Balance, Net, Beginning of Period	\$ (62)	\$ 46	\$ 38	\$ 2	\$ 24
Obligated Balance, Net, End of Period:					
Accounts Receivable	(102)	(62)	(1)	(1)	(166)
Unfilled Customer Orders from Federal Sources	-	-	(1)	-	(1)
Undelivered Orders	-	67	50	3	120
Accounts Payable	2	2	-	11	15
Outlays:					
Disbursements	735	675	67	244	1,721
Collections	(897)	(200)	(45)	(297)	(1,439)
Subtotal	(162)	475	22	(53)	282
Less: Offsetting Receipts	(552)	(537)	(8)	(196)	(1,293)
Net Outlays	\$ (714)	\$ (62)	\$ 14	\$ (249)	\$ (1,011)

Schedule 2

Required Supplementary Information (Unaudited), continued

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

**For the Fiscal Year Ended September 30, 2002
(Dollars in Millions)**

	<u>12X4336</u>	<u>(72)12X4336</u>	<u>12X1336</u>	<u>12X2277</u>	<u>12X2278</u>	<u>1223674</u>	<u>Other</u>	<u>Total Budgetary</u>
Budgetary Resources:								
Budget Authority:								
Appropriations Received	\$ -	\$ -	\$ 417	\$ 191	\$ 864	\$ 22,821	\$ 27	\$24,320
Borrowing Authority	34,054	-	-	-	-	-	-	34,054
Net Transfers (+/-)	20,608	566	(1,969)	(1)	96	(22,800)	(1)	(3,501)
Unobligated Balance:								
Beginning of Period	868	-	2,405	288	94	-	198	3,853
Net Transfers, Actual (+/-)	-	-	-	-	-	-	(6)	(6)
Spending Authority from Offsetting Collections:								
Earned:								
Collected	10,505	-	-	27	23	-	1,007	11,562
Receivable from Federal Sources	(455)	-	-	(13)	-	-	-	(468)
Change in Unfilled Customer Orders:								
Advance Received	209	-	-	-	-	-	-	209
Subtotal	10,259	-	-	14	23	-	1,007	11,303
Recoveries of Prior Year Obligations	291	40	-	-	-	(21)	(990)	347
Permanently not Available	(40,156)	-	-	-	-	-	251	(41,167)
Total Budgetary Resources	\$ 25,924	\$ 606	\$ 853	\$ 492	\$ 1,077	\$ -	\$ -	\$ 29,203
Status of Budgetary Resources:								
Obligations Incurred:								
Direct	-	-	227	239	972	-	39	1,477
Reimbursable	25,924	606	-	-	-	-	-	26,530
Subtotal	25,924	606	227	239	972	-	39	28,007
Unobligated balance:								
Apportioned	-	-	626	253	82	-	16	977
Exempt from Apportionment	-	-	-	-	-	-	27	27
Unobligated Balance not Available	-	-	-	-	23	-	169	192
Total Status of Budgetary Resources	\$ 25,924	\$ 606	\$ 853	\$ 492	\$ 1,077	\$ -	\$ 251	\$ 29,203

Schedule 2

Required Supplementary Information (Unaudited), continued

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

**For the Fiscal Year Ended September 30, 2002
(Dollars in Millions)**

	<u>12X4336</u>	<u>(72)12X4336</u>	<u>12X1336</u>	<u>12X2277</u>	<u>12X2278</u>	<u>1223674</u>	<u>Other</u>	<u>Total Budgetary</u>
Relationship of Obligations to Outlays:								
Obligated Balance, Net, Beginning of Period	\$ 3,009	\$ 488	\$ 105	\$ 70	\$ 587	\$ -	\$ 57	\$ 4,316
Obligated Balance, Net, End of Period:	(550)	-	-	-	-	-	-	(550)
Accounts Receivable	3,001	422	62	71	68	-	20	3,644
Undelivered Orders	366	290	8	-	546	-	1	1,211
Accounts Payable								
Outlays:								
Disbursements	26,279	342	262	251	945	-	60	28,139
Collections	(10,713)	-	-	(27)	(23)	-	(1,008)	(11,771)
Subtotal	15,566	342	262	224	922	-	(948)	16,368
Less: Offsetting Receipts	-	-	-	-	-	-	(3)	(3)
Net Outlays	<u>\$ 15,566</u>	<u>\$ 342</u>	<u>\$ 262</u>	<u>\$ 224</u>	<u>\$ 922</u>	<u>\$ -</u>	<u>\$ (951)</u>	<u>\$ 16,365</u>

Schedule 2

Required Supplementary Information (Unaudited), continued

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

**For the Fiscal Year Ended September 30, 2002
(Dollars in Millions)**

	<u>12X4337</u>	<u>12X4049</u>	<u>12X4158</u>	<u>Other</u>	<u>Total Non-Budgetary</u>
Budgetary Resources:					
Budget Authority:					
Borrowing Authority	\$ 221	\$ 29	\$ 140	\$ 6	\$ 396
Unobligated Balance:					
Beginning of Period	589	159	18	142	908
Spending Authority from Offsetting Collections:					
Earned:					
Collected	495	274	34	102	905
Receivable from Federal Sources	(42)	(18)	-	(8)	(68)
Change in Unfilled Customer Orders:					
Without Advance from Federal Sources	-	-	(1)	-	(1)
Subtotal	453	256	33	94	836
Permanently not Available	-	(36)	(61)	(73)	(170)
Total Budgetary Resources	\$ 1,263	\$ 408	\$ 130	\$ 169	\$ 1,970
Status of Budgetary Resources:					
Obligations Incurred:					
Direct	259	162	49	39	509
Subtotal	259	162	49	39	509
Unobligated Balance:					
Apporportioned	1,004	246	67	118	1,435
Unobligated Balance Not Available	-	-	14	12	26
Total Status of Budgetary Resources	\$ 1,263	\$ 408	\$ 130	\$ 169	\$ 1,970

Schedule 2

Required Supplementary Information (Unaudited), continued

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

**For the Fiscal Year Ended September 30, 2002
(Dollars in Millions)**

	<u>12X4337</u>	<u>12X4049</u>	<u>12X4158</u>	<u>Other</u>	<u>Total Non-Budgetary</u>
Relationship of Obligation to Outlays:					
Obligated Balance, Net, Beginning of Period	\$ (105)	\$ 43	\$ 99	\$ 1	\$ 38
Obligated Balance, Net, End of Period:					
Accounts Receivable	(62)	(46)	-	-	(108)
Unfilled Customer Orders from Federal Sources	-	-	(1)	-	(1)
Undelivered Orders	-	67	38	4	109
Accounts Payable	-	24	-	-	24
Outlays:					
Disbursements	258	178	111	43	590
Collections	(495)	(274)	(33)	(101)	(903)
Subtotal	(237)	(96)	78	(58)	(313)
Less: Offsetting Receipts	(126)	-	(1)	(3)	(130)
Net Outlays	\$ (363)	\$ (96)	\$ 77	\$ (61)	\$ (443)

Schedule 3

Required Supplementary Information (Unaudited)

Intragovernmental Amounts

Intragovernmental amounts represent assets, liabilities, non-exchange and earned revenues between CCC and other Federal agencies. Amounts as of September 30, 2003, are as follows:

Intragovernmental Assets:

		(In Millions)		
<u>Agency</u>	<u>Fund Balance With Treasury</u>	<u>Accounts Receivable</u>	<u>Other</u>	
Treasury Department	\$ 2,597	\$ 466	\$ --	
Other	--	--	6	
Total	<u>\$ 2,597</u>	<u>\$ 466</u>	<u>\$ 6</u>	

Intragovernmental Liabilities:

		(In Millions)			
<u>Agency</u>	<u>Accounts Payable</u>	<u>Debt to the Treasury</u>	<u>Resources Payable to Treasury</u>	<u>Deposit and Trust Liabilities</u>	<u>Other Liabilities</u>
Treasury Department	\$ --	\$ 21,836	\$ 6,482	\$ --	\$ 769
U.S. Agency for Int'l Dev.	1,202	--	--	--	--
Other Agriculture Agencies	--	--	--	1,184	28
Other	3	--	--	--	--
Total	<u>\$ 1,205</u>	<u>\$ 21,836</u>	<u>\$ 6,482</u>	<u>\$ 1,184</u>	<u>\$ 797</u>

Intragovernmental Non-Exchange Revenue:

		(In Millions)	
<u>Agency</u>	<u>Transfers In</u>	<u>Transfers Out</u>	
Treasury Department	\$ --	\$ 2,012	
Farm Service Agency	13	--	
Total	<u>\$ 13</u>	<u>\$ 2,012</u>	
Budgetary Financing Sources:			
Treasury Department	\$ --	\$ 959	
Agricultural Marketing Service	--	251	
Animal and Plant Health Inspection Service	--	378	
Natural Resources Conservation Service	34	1,289	
Foreign Agricultural Service	--	100	
U.S. Agency for International Development	--	1,195	
Other Agriculture Agencies	--	150	
Total	<u>\$ 34</u>	<u>\$ 4,322</u>	

Schedule 3

Required Supplementary Information (Unaudited), *Continued*

Intragovernmental amounts represent assets, liabilities, non-exchange and earned revenues between CCC and other Federal agencies. Amounts as of September 30, 2002, are as follows:

Intragovernmental Assets:

		(In Millions)		
<u>Agency</u>	<u>Fund Balance With Treasury</u>	<u>Accounts Receivable</u>	<u>Other</u>	
Treasury Department	\$ 2,453	\$ 7	\$ --	
Other	--	--	20	
Total	<u>\$ 2,453</u>	<u>\$ 7</u>	<u>\$ 20</u>	

Intragovernmental Liabilities:

		(In Millions)			
<u>Agency</u>	<u>Accounts Payable</u>	<u>Debt to the Treasury</u>	<u>Resources Payable to Treasury</u>	<u>Deposit and Trust Liabilities</u>	<u>Other Liabilities</u>
Treasury Department	\$ 47	\$ 20,491	\$ 6,450	\$ --	\$ 1,014
U.S. Agency for Int'l Dev.	496	--	--	--	--
Other Agriculture Agencies	20	--	--	892	4
Other	2	--	--	--	--
Total	<u>\$ 585</u>	<u>\$ 20,491</u>	<u>\$ 6,450</u>	<u>\$ 892</u>	<u>\$ 1,018</u>

Intragovernmental Non-Exchange Revenue:

		(In Millions)	
<u>Agency</u>	<u>Transfers In</u>	<u>Transfers Out</u>	
Treasury Department	\$ --	\$ 1,306	
Foreign Agricultural Service	12	--	
Other	--	4	
Total	<u>\$ 12</u>	<u>\$ 1,310</u>	
Budgetary Financing Sources:			
Treasury Department	\$ --	\$ 653	
Animal and Plant Health Inspection Service	--	200	
Food and Nutrition Service	--	21	
Rural Development	--	600	
Natural Resources Conservation Service	--	572	
U.S. Agency for International Development	--	565	
Interior Department	--	200	
Other Agriculture Agencies	--	34	
Total	<u>\$ --</u>	<u>\$ 2,845</u>	

OTHER ACCOMPANYING INFORMATION (UNAUDITED)

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Schedule 4

Other Accompanying Information (Unaudited)

**Commodity Credit Corporation
Change in Inventory, by Commodity**

For Fiscal Year 2003
(In Thousands)

Unit of Measure	Beginning Inventory October 1, 2002		Acquisitions		Cost of Sales a/		Donations		Other Dispositions b/		Deductions, Net c/		Ending Inventory September 30, 2003	
	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value
Feed Grains:														
Barley	11	20	56	81	(41)	(56)	(23)	(38)	0	0	(3)	(5)	0	0
Bushels	18,125	33,089	20,158	57,295	(11,494)	(31,338)	(10,840)	(31,651)	(2)	(2)	(275)	1,252	15,675	28,654
Corn	2,325	575	335,507	36,274	(316,966)	(34,623)	(12,979)	(1,272)	(324)	(44)	0	0	7,564	910
Corn Meal	0	0	7	8	(7)	(8)	0	0	0	0	0	0	0	0
Oats	620	1,174	6,179	20,577	(6,155)	(19,432)	(589)	(2,417)	(3)	(3)	0	210	54	108
Sorghum	0	0	14,655	1,892	(14,644)	(1,891)	0	0	(10)	(1)	0	0	0	0
Sorghum Grits	xxx	34,867	xxx	116,126	xxx	(87,351)	xxx	(35,377)	xxx	(51)	xxx	1,457	xxx	29,673
Total Feed Grains														
Wheat	101,821	364,156	84,098	391,907	(65,201)	(280,440)	(38,676)	(192,900)	(0)	(3)	(1,387)	7,303	80,755	290,022
Wheat Flour	43,700	5,529	843,137	74,822	(488,539)	(56,666)	(216,374)	(26,384)	(934)	(130)	0	4,286	10,990	1,257
Wheat Products, Other	3,499	357	375,332	41,539	(318,014)	(34,280)	(66,068)	(7,196)	(248)	(29)	0	0	4,502	451
Rice Products:														
Rice Products	215	2,545	4,961	48,394	(2,784)	(27,426)	(2,138)	(20,572)	(3)	(38)	0	0	251	2,902
Rice, Rough	782	5,341	100,354	682,759	(100,905)	(666,410)	(212)	(1,619)	0	0	0	44	18	114
Cotton, Extra Long Staple														
Cotton, Upland	33	14,052	189	79,433	(221)	(93,121)	0	0	0	0	0	0	1	364
	108	29,477	13,191	3,257,505	(13,201)	(3,260,225)	0	0	(0)	(46)	0	0	87	26,712
Dairy Products:														
Nonfat Dry Milk	1,332,037	1,279,093	634,359	511,655	(269,393)	(256,841)	(253,170)	(261,354)	(5,962)	(7,610)	2,319	29,532	1,440,189	1,294,475
Butter	0	0	11,337	11,950	(845)	(889)	0	0	(10)	(22)	0	0	10,482	11,038
Cheese Mozzarella	0	0	13,664	3,826	0	0	(13,664)	(3,826)	0	0	0	0	0	0
Cheese Regular Price Support	3,930	4,555	59,873	67,464	(5,081)	(6,650)	(39,830)	(45,035)	(470)	(639)	0	0	18,421	19,694
Dry Whole Milk	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Dairy Products	xxx	1,283,648	xxx	594,894	xxx	(264,381)	xxx	(310,215)	xxx	(8,270)	xxx	29,532	xxx	1,325,207
Oils & Oilseeds:														
Flaxseed	0	3	(0)	(1)	(0)	(2)	0	0	0	0	0	0	0	(0)
Sunflower Seed	0	0	4	40	(4)	(40)	0	0	0	0	0	0	0	0
Sunflower Seed Oil, Processed	0	0	6,611	1,978	0	(1,978)	(6,611)	(1,978)	0	0	0	0	0	0
Canola Seed	0	0	8	74	(8)	(74)	0	0	0	0	0	0	0	(0)
Crambe Oilseed	0	0	1	10	(1)	(10)	0	0	0	0	0	0	0	0
Mustard Seed	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Sunflower Seed Non-Oil	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Peanuts	21	36,665	36,665	6,835	(35,154)	(6,557)	0	0	0	0	0	0	1,533	280
Soybeans	2,667	14,105	3,976	23,069	(3,438)	(16,496)	(2,428)	(14,776)	2	0	(76)	(287)	702	3,606
Soybean Products	0	0	284,570	27,468	(20,600)	(1,847)	(283,847)	(25,150)	(123)	(470)	0	0	0	(0)
Total Oils and Oilseeds	xxx	14,109	xxx	59,472	xxx	(27,025)	xxx	(41,904)	xxx	(470)	xxx	(297)	xxx	3,686
Dry Edible Beans	486	13,955	1,860	44,253	(1,428)	(34,054)	(665)	(17,990)	1	(58)	0	0	254	6,105
Blanded Foods	55,105	7,604	497,310	66,291	(478,502)	(64,970)	(31,046)	(6,829)	(657)	(90)	21,851	6,053	63,059	8,360
Honey	0	0	(24)	(15)	24	15	0	0	0	0	0	0	(0)	(0)

Schedule 4

Other Accompanying Information (Unaudited), Continued

**Commodity Credit Corporation
Change in Inventory, by Commodity**

For Fiscal Year 2003
(In Thousands)

Unit of Measure	Beginning Inventory October 1, 2002		Acquisitions		Cost of Sales a/		Donations		Other Dispositions b/		Deductions, Net c/		Ending Inventory September 30, 2003	
	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value
Meat	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Pork Bellies	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Dry Whole Pigs	2,543	236	127,952	20,846	(126,046)	(20,203)	864	(4)	82	(12)	0	0	5,394	0
Lentils Dry	21,669	3,395	112,608	25,287	(26,182)	(7)	3	(7)	(70)	(23)	0	0	14,910	2
Corn Seed	0	0	0	0	0	0	(64)	0	64	0	0	0	0	0
Plants & Seeds	0	0	0	0	0	0	(130)	38	130	(38)	0	0	0	0
Potatoes Dehydrated	0	0	2,601	1,484	(306,478)	(54,708)	(2,601)	(1,484)	(0)	(0)	0	(8,196)	(0)	0
Sugar, Raw Cane	357,998	63,903	0	0	(154,907)	(37,350)	0	0	0	0	(51,520)	0	0	0
Sugar, Refined Beet	154,907	37,256	0	93	(306)	(62)	0	0	0	0	(962)	0	0	0
Sugar, Refined Cane	1,267	255	0	0	0	0	0	0	0	0	0	(194)	0	0
Corn Oil	0	0	44	22	0	0	(44)	(22)	0	0	0	0	0	0
Soybean Salad Oil	0	0	214,571	48,627	(96,178)	(23,209)	(116,495)	(25,618)	102	0	0	0	0	0
Vegetable Oil	20,466	6,645	585,002	232,994	(468,254)	(189,925)	(119,276)	(41,923)	(46)	(73)	0	0	17,891	7
Veg Dehyd Vegetable Soup	0	0	176	153	0	0	(176)	(153)	(0)	(0)	0	0	0	0
Veg Frzn Corn	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Fish, Canned Salmon	0	0	287	226	0	0	(287)	(226)	0	0	0	0	0	0
Fruit Fresh Apples	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Tobacco:														
Burley	149,434	479,259	0	(0)	0	0	0	0	(75,447)	(241,209)	0	0	73,988	238
Cigar	183	291	0	0	0	0	0	0	(183)	(281)	0	0	0	0
Flue Cured	75,333	119,672	0	0	0	0	0	0	(62,701)	(79,671)	0	0	22,632	40
Virginia Fire Cured	0	0	404	950	0	0	0	0	(404)	(950)	0	0	0	0
Total Tobacco	xxx	599,222	xxx	950	xxx	0	xxx	0	xxx	(322,121)	xxx	0	xxx	276
Feed For Govt Facilities	0	0	6	60	(6)	(60)	0	0	0	0	0	0	(0)	0
Emergency Food Ration Bars	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Subtotal	xxx	2,486,553	xxx	5,768,125	xxx	(5,247,731)	xxx	(730,325)	xxx	(331,454)	xxx	36,988	xxx	1,984
Elimination of Sales to P.L. 460	0	0	xxx	(766,609)	xxx	(766,609)	0	0	0	0	0	0	0	0
Total Inventory Operations	xxx	2,486,553	xxx	5,001,516	xxx	(4,481,122)	xxx	(730,325)	xxx	(331,454)	xxx	36,988	xxx	1,984

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; processing and packaging costs and related quantitative gains and losses in processing operations and items which are footnoted individually.

Schedule 4

Other Accompanying Information (Unaudited)

**Commodity Credit Corporation
Change in Inventory, by Commodity**

For Fiscal Year 2002
(In Thousands)

Commodity	Unit of Measure	Beginning Inventory October 1, 2001		Acquisitions		Cost of Sales a/		Donations		Other Dispositions b/		Deductions, Net c/		Ending Inventory September 30, 2002	
		Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value
Feed Grains:															
Barley	Bushels	280	\$ 480	358	\$ 579	(627)	\$ (1,049)	-	\$ -	-	\$ -	-	\$ -	11	\$ 20
Corn	Bushels	22,368	44,526	74,237	165,078	(61,877)	(136,491)	(14,784)	(38,884)	3	(1,129)	(1,823)	(1,129)	18,125	33,099
Com Meal	Pounds	2,026	283	328,460	38,460	(119,759)	(12,863)	(207,965)	(25,203)	(436)	(103)	-	-	2,325	575
Oats	Bushels	20	23	14	17	(34)	(40)	-	-	-	(2)	-	-	-	-
Sorghum	Bushels	93	180	3,806	9,929	(3,098)	(7,944)	-	-	-	(13)	19	11	620	1,174
Sorghum Grits	Pounds	-	-	28,449	3,415	(28,347)	(3,402)	-	-	(102)	(13)	-	-	-	-
Total Feed Grains		xxx	\$ 45,503	xxx	\$ 216,478	xxx	\$ (161,790)	xxx	\$ (64,087)	xxx	\$ (118)	xxx	\$ (1,118)	xxx	\$ 34,857
Wheat	Bushels	118,115	403,640	104,650	371,222	(69,237)	(246,177)	(51,470)	(192,512)	(6)	(27,980)	(130)	(27,980)	101,921	384,156
Wheat Flour	Pounds	27	3	835,162	93,480	(291,503)	(31,213)	(499,346)	(56,604)	(640)	(137)	-	-	43,700	5,529
Wheat Products, Other	Pounds	600	58	331,644	32,493	(236,833)	(21,981)	(91,487)	(10,170)	(424)	(51)	-	8	3,498	357
Rice Products:															
Rice Products	Cwt.	-	-	4,042	37,847	(1,373)	(11,703)	(2,449)	(23,520)	(4)	(60)	-	-	215	2,545
Rice, Rough	Cwt.	32	193	67,481	443,099	(66,731)	(437,939)	-	-	-	-	-	(12)	782	5,341
Cotton, Extra Long Staple	Bales	10	4,292	50	21,554	(28)	(11,794)	-	-	-	-	-	-	33	14,052
Cotton, Upland	Bales	21	6,150	13,125	3,251,741	(13,039)	(3,228,501)	-	-	-	86	-	-	108	29,477
Diary Products:															
Nonfat Dry Milk	Pounds	857,052	860,371	826,104	563,455	(16,278)	(15,912)	(120,422)	(135,062)	(1,589)	(2,070)	(12,830)	(12,830)	1,332,037	1,279,093
Cheese Regular Price Support	Pounds	5,426	6,463	5,653	6,574	(6,569)	(7,776)	(586)	(698)	6	(8)	-	-	3,930	4,555
Dry Whole Milk	Pounds	-	-	-	-	-	-	(1)	-	1	-	-	-	-	-
Total Dairy Products		xxx	\$ 866,534	xxx	\$ 570,029	xxx	\$ (23,686)	xxx	\$ (135,760)	xxx	\$ (2,078)	xxx	\$ (12,830)	xxx	\$ 1,283,649
Oil & Oilseeds:															
Flaxseed	Cwt.	-	4	16	153	(16)	(154)	-	-	-	-	-	-	-	3
Sunflower Seed	Cwt.	1	10	45	403	(46)	(412)	-	-	-	-	-	-	-	-
Sunflower Seed Oil, Processed	Pounds	-	-	34,769	12,494	(16,479)	(5,132)	(18,277)	(7,357)	(13)	(4)	-	-	-	-
Canola Seed	Cwt.	-	3	15	140	(15)	(143)	-	-	-	-	-	-	-	-
Crabbe Oilseed	Cwt.	-	-	51	445	(51)	(445)	-	-	-	-	-	-	-	-
Mustard Seed	Cwt.	-	3	-	339	(36)	(339)	-	-	-	-	-	-	-	-
Sunflower Seed Non-Oil	Cwt.	-	-	36	102	(447)	(100)	-	-	-	-	-	-	21	1
Peanuts	Pounds	-	-	468	28,841	(468)	(95,040)	(6,605)	(35,392)	-	-	-	-	2,667	14,105
Soybeans	Bushels	2,885	15,594	24,102	128,841	(17,779)	(4,319)	(243,946)	(21,605)	123	(60)	-	-	-	-
Soybean Products	Pounds	-	-	285,024	25,974	(41,202)	(54,332)	(386,624)	(54,332)	-	(33)	-	-	-	-
Soybean Salad Oil	Pounds	-	-	498,773	81,747	(160,149)	(27,383)	(336,624)	(54,332)	-	(87)	-	-	-	-
Total Oils and Oilseeds		xxx	\$ 15,714	xxx	\$ 250,638	xxx	\$ (133,470)	xxx	\$ (116,686)	xxx	\$ (87)	xxx	\$ (33)	xxx	\$ 14,109

Schedule 4

Other Accompanying Information (Unaudited), Continued

**Commodity Credit Corporation
Change in Inventory, by Commodity**

For Fiscal Year 2002
(in Thousands)

Unit of Measure	Beginning Inventory October 1, 2001		Acquisitions		Cost of Sales a/		Donations		Other Dispositions b/		Deductions, Net c/		Ending Inventory September 30, 2002	
	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value
Dry Edible Beans	-	-	1,511	44,439	(1,086)	(31,145)	64	756	(2)	(94)	-	-	486	1
Blended Foods	17,123	2,250	648,734	82,917	(507,696)	(64,542)	(163,691)	(31,636)	(4,531)	(632)	65,066	19,246	55,105	6
Honey	-	-	173	106	(173)	(106)	-	-	-	-	-	-	-	-
Meat	-	-	-	-	(225)	(225)	-	-	225	-	-	-	-	-
Pork Beans	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dry Whole Peas	2,012	292	76,443	10,154	(67,705)	(9,080)	(9,013)	(1,105)	(194)	(26)	-	-	2,543	3
Lentils Dry	461	60	201,296	30,324	(175,665)	(25,974)	(4,471)	(976)	47	(38)	-	-	21,669	3
Corn Seed	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Plants & Seeds	-	-	-	-	-	-	(49)	-	49	-	-	-	-	-
Potatoes Dehydrated	-	-	991	425	-	-	(991)	(425)	-	-	-	-	-	-
Sugar, Raw Cane	589,108	105,156	-	-	(626)	(112)	(254)	(45)	-	-	(230,280)	(41,086)	357,998	6
Sugar, Refined Beet	886,595	219,520	16,660	3,938	(701,292)	(172,392)	(11,991)	(2,944)	(23,195)	(5,731)	(20,871)	(5,194)	154,907	3
Sugar, Refined Cane	20,190	4,064	-	-	(18,391)	(3,701)	(532)	(107)	-	-	-	-	1,267	3
Corn Oil	-	-	18,182	6,682	-	-	(18,182)	(6,682)	-	-	-	-	-	-
Vegetable Oil	6,548	2,166	392,384	129,582	(219,337)	(71,515)	(156,045)	(52,248)	(3,065)	(1,339)	-	-	20,466	6
Tallow	-	-	6,612	1,032	-	-	(6,612)	(1,032)	-	-	-	-	-	-
Feed For Govt Facilities	-	-	6	56	(6)	(56)	-	-	-	-	-	-	-	-
Fish, Canned Salmon	-	-	-	-	62	64	-	-	(52)	(64)	-	-	-	-
Fruit Fresh Apples	-	-	4,234	1,206	-	-	(4,180)	(1,180)	(53)	(16)	-	-	-	-
Veg Frzn Corn	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Molasses	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Tobacco:														
Burley	149,434	479,259	-	-	-	-	-	-	-	-	-	-	149,434	47
Cigar	183	291	-	-	-	-	-	-	-	-	-	-	183	6
Flue Cured	75,333	129,464	-	(9,792)	-	-	-	-	-	-	-	-	75,333	3
Total Tobacco	xxx \$	609,014	xxx \$	(9,792)	xxx \$	-	xxx \$	-	xxx \$	-	xxx \$	-	xxx \$	59
Emergency Food Ration Bars														
Subtotal	xxx \$	2,284,907	xxx \$	5,589,649	xxx \$	(4,686,824)	xxx \$	(998,976)	xxx \$	(10,398)	xxx \$	6,194	xxx \$	2,488
Elimination of Sales to P.L. 480	xxx	-	xxx	(626,689)	xxx	526,689	xxx	-	xxx	-	xxx	-	xxx	-
Total Inventory Operations	xxx \$	2,284,907	xxx \$	5,062,960	xxx \$	(4,160,135)	xxx \$	(998,976)	xxx \$	(10,398)	xxx \$	5,194	xxx \$	2,488

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, operation; the net change in value and quantity of inventory exchanged or in process of exchange; processing and packaging costs and related quantifiable gains and losses in processing operations and items which are footnoted individually.

Schedule 5

Other Accompanying Information

**Commodity Credit Corporation
Supporting Schedule to the Consolidating Statements of Net Cost**

**For the Fiscal Year Ended September 30, 2003
(Dollars in Millions)**

	Income Support Programs				Conservation Programs				Foreign Programs				Unallocated Expenses	Combined Total	
	Commodity Operations	Farm Income Support Programs	Direct and Counter Cyclical Payments	Emergency Assistance Programs	Conservation Reserve Program	Other Conservation Programs	P.L. 480 Programs	Export Credit Guarantees	Other Foreign Programs						
Net Program Costs:															
Intragovernmental Gross Costs	\$ 48	\$ 366	\$ 360	\$ 200	\$ 125	\$ 76	\$ 839	\$ 87	\$ 11	\$ 56	\$ 2,168				
Less: Intragovernmental Earned Revenue	(774)	(8)	-	-	-	-	(44)	(55)	-	-	(881)				
Intragovernmental Net Costs	(726)	358	360	200	125	76	795	32	11	56	1,287				
Gross Costs with the Public:															
Grants and Direct Payments	-	4,972	8,541	2,610	1,661	323	24	(327)	671	207	19,009				
Credit Program Subsidy	-	(7)	-	-	-	-	(794)	-	-	-	(1,128)				
Commodity Programs	5,770	-	-	-	-	48	-	-	-	-	5,770				
Stewardship Land Acquisition	-	-	(5)	1	(6)	(1)	(156)	(388)	181	6	(339)				
Other	(55)	87	-	(8)	1	-	(222)	(243)	(26)	2	(3,802)				
Less: Earned Revenues from the Public	(3,212)	(94)	-	-	1	-	(1,151)	(958)	826	215	19,558				
Net Costs with the Public	2,503	4,958	8,536	2,603	1,656	370	(1,151)	(958)	826	215	19,558				
Net Cost of Operations	\$ 1,777	\$ 5,316	\$ 8,896	\$ 2,803	\$ 1,781	\$ 446	\$ (356)	\$ (926)	\$ 897	\$ 271	\$ 20,845				

Schedule 5

Other Accompanying Information

**Commodity Credit Corporation
Supporting Schedule to the Consolidating Statements of Net Cost, continued**

**For the Fiscal Year Ended September 30, 2002
(Dollars in Millions)**

	Income Support Programs							Conservation Programs				Foreign Programs				Combined Total
	Commodity Operations	Farm Income Support Programs			Production Flexibility Contracts	Emergency Assistance Programs	Conservation Reserve Program	Other Conservation Programs		P.L. 480 Programs	Export Credit Guarantees	Other Foreign Programs	Unallocated Expenses			
		Income Support Programs	Production Flexibility Contracts	Emergency Assistance Programs				Conservation Reserve Program	Other Conservation Programs							
Intragovernmental Gross Costs	\$ 69	\$ 376	\$ 283	\$ 149	\$ 108	\$ 84	\$ 598	\$ 89	\$ 11	\$ 34	\$ 1,797	\$ 34	\$ 1,797			
Less: Intragovernmental Earned Revenue	(528)	(11)	-	-	-	-	(23)	(49)	-	-	(611)	-	(611)			
Intragovernmental Net Costs	(459)	365	283	149	108	84	573	40	11	34	1,186	34	1,186			
Gross Costs with the Public:																
Grants and Direct Payments	-	5,188	4,036	465	1,726	350	(1)	-	518	109	12,371	109	12,371			
Credit Program Subsidy	-	(2)	-	-	-	-	(692)	140	-	-	(554)	-	(554)			
Commodity Programs	5,340	-	-	-	-	-	-	-	-	-	5,340	-	5,340			
Stewardship Land Acquisition	-	-	-	-	-	105	-	-	-	-	105	-	105			
Other	356	829	(51)	(2)	(2)	(1)	35	(229)	(10)	36	961	36	961			
Less: Earned Revenues from the Public	(2,098)	(71)	-	(15)	1	-	(287)	(269)	(28)	-	(2,747)	-	(2,747)			
Net Costs with the Public	3,598	5,924	3,985	448	1,725	454	(925)	(358)	480	145	15,478	145	15,478			
Net Cost of Operations	\$ 3,139	\$ 6,299	\$ 4,268	\$ 597	\$ 1,831	\$ 538	\$ (352)	\$ (318)	\$ 491	\$ 179	\$ 10,962	\$ 179	\$ 10,962			