



U.S. Department of Agriculture



Office of Inspector General
Financial & IT Operations

Audit Report

Commodity Credit Corporation's Financial Statements for Fiscal Years 2005 and 2004

Report No. 06401-20-FM
November 2005



UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington D.C. 20250



REPLY TO

ATTN OF: 06401-20-FM

TO: Board of Directors
Commodity Credit Corporation

Kristine Chadwick, Controller
Commodity Credit Corporation

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

FROM: Robert W. Young
Assistant Inspector General
for Audit

SUBJECT: Commodity Credit Corporation's Financial Statements
for Fiscal Years 2005 and 2004

This report presents the auditors' opinion on the Commodity Credit Corporation's (CCC) principal financial statements for the fiscal years ending September 30, 2005, and 2004. Reports on CCC's internal control 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 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, 2005, and 2004; 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 six reportable conditions. Specifically, KPMG identified weaknesses in CCC's:

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

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

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

U.S. DEPARTMENT OF AGRICULTURE –
COMMODITY CREDIT CORPORATION

September 30, 2005

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INDEPENDENT AUDITORS' REPORT



KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

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

To Commodity Credit Corporation:

We have audited the accompanying consolidated balance sheets of the Commodity Credit Corporation (CCC) as of September 30, 2005 and 2004, and the related consolidated statements of net cost, changes in net position, and financing and 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, regulations, contracts, and grant agreements that could have a direct and material effect on these consolidated financial statements.

Summary

As stated in our opinion on the consolidated financial statements, we concluded that CCC's consolidated financial statements as of and for the years ended September 30, 2005 and 2004, 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 over the budget execution process;
- Improvement needed in financial accounting and reporting policies and procedures;
- Improvement needed in producer monitoring procedures; and
- Improvement needed in management's review procedures related to the development, implementation, and maintenance of CCC's credit reform cash flow models.

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



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

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

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, regulations, contracts, and grant agreements; and management's and our responsibilities.

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of the Commodity Credit Corporation (CCC) as of September 30, 2005 and 2004, and the related consolidated statements of net cost, changes in net position, and financing and 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, 2005 and 2004, 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 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 Circular A-136, *Financial Reporting Requirements, Part A, Form and Content of the Performance Accountability Report*. 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. As a result of such limited procedures, we believe that the performance measurement data presented in the Management Discussion and Analysis section is not in conformity with accounting principles generally accepted in the United States of America because CCC omitted substantially all 2005 performance measurement targets from the presentation.

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 2005 audit we noted certain matters, described in Exhibits 1 and 2, involving internal control over financial reporting and its operation that we consider to be reportable conditions. We believe that the reportable conditions presented in Exhibit 1 are material weaknesses. Exhibit 2 presents the other reportable conditions.

* * * * *

Summaries of the status of prior year material weaknesses, reportable conditions, and management's response to our findings are included as Exhibit 4, 5 and 6, respectively.

We also noted certain additional matters that we reported to the management of CCC in a separate letter dated November 7, 2005.

Compliance and Other Matters

Our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements as described in the Responsibilities section of this report, exclusive of those referred to in FFMIA, disclosed one instance of noncompliance that is required to be reported under *Government Auditing Standards* and OMB Bulletin No. 01-02, and is described below. A summary of the status of prior year noncompliance and other matters is included as Exhibit 3.

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 2005, the Farm Service Agency (FSA) and CCC have made much progress with their information security program in order to meet FISMA and OMB Circular A-130 guidelines. (FSA provides and maintains the IT infrastructure supporting CCC's general support systems and major applications, hence the reference here, and later in this report, to FSA.) However, FSA/CCC needs further improvement in its entity-wide security and contingency planning programs to fully meet these guidelines. These matters are described in more detail in Exhibit 1.

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



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

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

- FFMIA requires that Federal agencies implement information security controls and contingency planning capabilities in accordance with OMB Circular A-130. As noted above, CCC needs to improve in these areas to be in compliance with Circular A-130. For example, CCC needs to enhance its procedures in order to establish and maintain information security and contingency planning controls.
- 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 budgetary reporting processes to fully comply with FFMIA.
- FFMIA requires that Federal agencies comply with the Federal accounting standards using the USSGL at the transaction level. We noted that CCC's financial systems and processes for posting transactions can be improved. For example, CCC's financial systems are not capable of recording budget execution events at the transaction level.

Responsibilities

Management's Responsibilities. The *Government Management Reform Act of 1994 (GMRA)*, *Accountability of Tax Dollars Act*, and *Government Corporation Control Act* require agencies to report annually to Congress on their financial status and any other information needed to fairly present their financial position and results of operations. To meet these reporting requirements, CCC prepares and submits consolidated financial statements in accordance with Part A of OMB Circular A-136.

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;
- Preparing the Management Discussion and Analysis (including the performance measures), Required Supplementary Information, and Required Supplementary Stewardship Information;
- Establishing and maintaining internal controls over financial reporting; and
- Complying with laws, regulations, contracts, and grant agreements, including FFMIA.

In fulfilling this responsibility, management is required to make estimates and judgments to assess the expected benefits and related costs of internal control policies. 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 2005 and 2004 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 consideration of internal control over financial reporting as a basis for designing audit procedures



that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of CCC's internal control over financial reporting. Accordingly, we express no such opinion.

An audit also includes:

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

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

In planning and performing our fiscal year 2005 audit, we considered CCC's internal control over financial reporting by obtaining an understanding of CCC's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in *Government Auditing Standards* and OMB Bulletin No. 01-02. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982* (FMFIA). The objective of our audit was not to provide assurance on CCC's internal control over financial reporting. Consequently, we do not provide an opinion thereon.

As required by OMB Bulletin No. 01-02, in our fiscal year 2005 audit, 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, in our fiscal year 2005 audit, with respect to internal control related to performance measures determined by management to be key and reported in the Management Discussion and Analysis section, we were unable to obtain an understanding of the design of significant internal controls relating to the existence and completeness assertions because CCC omitted substantially all 2005 performance measures from the presentation. Our procedures were not designed to provide assurance on internal control over reported performance measures and, accordingly, we do not provide an opinion thereon.

As part of obtaining reasonable assurance about whether CCC's fiscal year 2005 consolidated financial statements are free of material misstatement, we performed tests of CCC's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of 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 FFMIA. We limited our tests of compliance to the provisions described in the preceding sentence and we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to CCC. However, providing an opinion on compliance with laws, regulations, contracts, and grant agreements was not an objective of our audit and, accordingly, we do not express such an opinion.



Under OMB Bulletin No. 01-02 and FFMIA, we are required to report whether CCC's financial management systems substantially comply with (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the USSGL at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA Section 803(a) requirements.

Distribution

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

KPMG LLP

November 7, 2005

**U.S. DEPARTMENT OF AGRICULTURE –
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Material Weaknesses

Introduction

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

Exhibit 1 describes the material weaknesses and Exhibit 2 describes the reportable conditions as of and for the year ended September 30, 2005, and our recommendations thereon. The status of prior year material weaknesses and reportable conditions are reported in Exhibits 4 and 5, respectively. CCC management's response to our findings is presented in Exhibit 6.

Material Weaknesses

The material weaknesses we identified as of and for the year ended September 30, 2005, are summarized below.

(1) Improvement Needed in Information Security Controls

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

Information security weaknesses have been identified in FSA/CCC's IT environment in prior year audits conducted by the USDA Office of the Inspector General (OIG), as well as in prior audits of CCC's consolidated financial statements. In response to these findings, and to address Federal Information Security Management Act (FISMA) requirements, FSA/CCC has taken steps to improve its information security program. For example, during fiscal year 2005 FSA/CCC:

- Drafted an infrastructure support disaster recovery plan;
- Scheduled an application-specific disaster recovery test for early in fiscal year 2006;
- Continued updating security risk assessments for key applications; and
- Began using the Electronic Repository for Security Requests (ERSR), a new system for managing network and application user access requests.

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

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Material Weaknesses

The issues are identified into the following key control areas:

- Information security program management;
- Technical security access controls;
- Software change/configuration management; and
- Contingency planning.

Information Security Program Management

Information security program management controls should be in place to establish a framework and continuing cycle of activity to manage security risk, develop security policies, assign responsibilities, and monitor the adequacy of IT security related controls. During our fiscal year 2005 IT control testing, we noted that FSA/CCC has made progress with its security program management efforts. However, as identified in prior year CCC consolidated financial statement audits, we also noted that FSA/CCC's information security program needs continued improvement. Noted below are specific areas for improvement.

- FSA/CCC has taken steps to improve its security risk assessment process, but the risk assessments for the major applications supporting CCC's operations still have not been finalized. Maintaining consistent, current, and complete security risk assessments is a critical component of an organization's security program, as the risk assessments drive other security related activities, such as planning for the implementation of technical security controls, as well as contingency planning efforts. Further, FISMA requires that security risk assessments be completed for agency systems and applications. FSA/CCC recognizes this weakness, and plans to finalize the risk assessment documentation during fiscal year 2006.
- FSA/CCC's security awareness and training efforts could not be effectively tracked. For example, FSA/CCC currently does not have a control to ensure that (1) employees have completed the required security awareness training, and (2) employees continue to update their security awareness training as their responsibilities change and/or FSA/CCC's IT environment changes. FSA/CCC recognizes this weakness, and is working on methods to address the issue.
- Application user access lists are not updated to immediately reflect employee separation. For example, a current listing of authorized county office AS/400 system users and their access authorizations are not consistently reviewed. We noted two cases where AS/400 system user accounts were still active when the personnel had not been assigned to that office for more than six months.

Technical Security Access Controls

In close concert with an organization's security program management efforts, technical security access controls for systems and applications should provide reasonable assurance that IT resources such as data files, application programs, and IT-related facilities/equipment, are protected against unauthorized modification, disclosure, loss, or impairment. Technical access controls are facilitated by an organization's overall information security program. Inadequate technical security access

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controls diminish the reliability of data and increase the risk of destruction or inappropriate disclosure of information, both of which are significant risks from a financial audit perspective.

The objectives of limiting access are to ensure that users have only the access needed to perform their duties; that access to very sensitive resources, such as security software programs, is limited to very few individuals; and that employees are restricted from performing incompatible functions or functions beyond their responsibility. This is reiterated by Federal guidelines. For example, FISMA mandates that technical security access controls be implemented in accordance with the various information security guidelines issued by National Institute of Standards and Technology (NIST).

During our fiscal year 2005 IT control testing, as in prior years, we noted that technical security access controls needed improvement at FSA/CCC. Noted below are specific areas for improvement.

- FSA/CCC performs periodic security vulnerability scans of IT devices (i.e., workstations and servers). As a result of exercising this control in fiscal year 2005, as in prior years, 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 attempting to penetrate FSA/CCC's IT environment to ultimately gain access to sensitive financial processing devices and applications. The risk of illicit access to IT resources and data is increased if vulnerabilities remain unidentified, which might otherwise be detected and resolved through consistent vulnerability assessments and penetration testing on a scheduled periodic basis. Without conducting consistent, periodic assessments and testing on the network and its interconnecting systems, management cannot be assured that the network security controls have been properly implemented to protect the FSA/CCC Beacon Facility network and data from intruders and attackers. Because of the sensitivity of these weaknesses, the details regarding these issues are not included in this report.

We recognize that managing IT devices and mitigating IT 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/CCC scanning process have been repeatedly identified through USDA OIG audits and CCC consolidated financial statement audits. Consequently, additional preventive controls are needed. For example, although FSA/CCC did perform some vulnerability assessments during fiscal year 2005, the consistency of the scans can be improved, as we noted that in a six-month period during fiscal year 2005, scans were only conducted for three of the months.

FSA/CCC management recognizes this risk and has begun implementing additional controls. For example, FSA/CCC recently implemented a strategic vulnerability assessment process designed to address the FSA/CCC network, including large offices and field county offices, to ensure a uniform approach to scanning within the enterprise. As part of this effort, FSA/CCC plans to perform vulnerability scanning every 30 days, and the scanning will encompass all workstations, servers, routers, switches, and printers. FSA/CCC anticipates that conducting the scans every 30 days will help ensure that new IT devices will be scanned as they come on the network.

- Password settings for domain log-on attempts do not meet FSA/CCC policy standards. FSA/CCC policy requires user accounts to be locked after three invalid password attempts are made.

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However, we noted that passwords for the National Information Technology Center (NITC) and National Finance Center (NFC) domains, as well as the Virtual Private Network (VPN), are set for five invalid log-on attempts before accounts are locked.

- ACF2 is the mainframe security software in place to secure key FSA/CCC mainframe applications, such as the Processed Commodities Inventory Management System (PCIMS), Grain Inventory Management System (GIMS), and CORE, which is the core CCC financial system. We noted users who have access to system development library/data sets and production library/data sets, which is a segregation of duties weakness. Such a weakness needs to be corrected, or alternatively strong compensating controls need to be in place to mitigate the weakness. Given the sensitivity of the issue, we are not providing the details of this issue in this report, but have separately provided the details to FSA/CCC management. FSA/CCC management recognize this weakness, and indicated that they plan to implement additional controls during fiscal year 2006 to review access to production libraries, including periodic reviews by FSA/CCC security administrators and the implementation of a software configuration management tool for the FSA/CCC application platforms.

Software Change/Configuration Management

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

During our fiscal year 2005 FSA/CCC IT control testing we noted that software change/configuration management controls could be improved, as follows.

- As reported in prior years, FSA/CCC's current mainframe change control policy document (14-ADM), has yet to be updated. Policy document 14-ADM was last updated in September 1998. We also noted that application and system-specific change management plans have not been developed to update the procedures noted in 14-ADM.
- As reported in prior years, training for mainframe software change management is not required for programming/system development staff. Such training can help provide consistency in the software change management process. For example, we reviewed a small judgmental sample of seven software changes made during fiscal year 2005, and found that one was missing proper approvals. Training on the software change management process could help ensure additional consistency in the application of software change controls.

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Material Weaknesses

Contingency Planning

A key information security requirement in FISMA and 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 controls during an outage. We found that although FSA/CCC had made improvements with the organizational contingency planning program during fiscal year 2005, additional efforts were needed. For example, during fiscal year 2005, FSA/CCC tested its application-specific disaster recovery plans, but has not yet formally implemented the changes resulting from the testing. In review of the after action reports for the application disaster recovery testing, we noted that the reports identified weaknesses in the plans or related procedures that could impact FSA/CCC's ability to recover key operations during a significant outage. FSA/CCC recognizes this weakness, and began updating the application disaster recovery plans in late fiscal year 2005. FSA/CCC plans to have all updates to the application plans completed by the second quarter of fiscal year 2006.

When considered together, the above issues significantly reduce the overall information security controls for FSA/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 consolidated financial statement audits or as part of USDA OIG audits.

Recommendations

We recommend that FSA/CCC management, in cooperation with the FSA/CCC system owners:

1. Identify and implement controls to better track security training efforts.
2. Formalize and better control the process by which employees who no longer need access to systems and applications have their access rights suspended/removed.
3. Perform more consistent vulnerability scans on all workstations, servers, routers, switches, and printers.
4. Ensure that remediation controls are timely implemented as security vulnerabilities are identified.
5. Implement additional controls to review access to production libraries, including periodic review of accounts by FSA/CCC security administrators, and the implementation of a software configuration management tool for the various FSA/CCC application platforms.
6. Require periodic management review of AS/400 county office system users access.
7. Update 14-ADM or an equivalent policy guide to reflect the current IT processing environment and FSA/CCC's software change management processes and controls.
8. Provide training to applicable staff regarding the FSA/CCC software change management process.

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9. Update application risk assessment documentation, and then ensure that the documentation is updated at least every three years (or when major system or application changes are made), to support FSA/CCC's overall security program.
10. Require domain and VPN passwords to comply with FSA/CCC's policy of three invalid attempts prior to locking the account.
11. Update all application contingency plans with testing results, and ensure that the plans continue to be updated based on future testing efforts and any relevant IT environment changes or business process changes.

(2) Improvement Needed in Financial System Functionality and Related Processes

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

- *Accountability.* Inform taxpayers, Congress, and agency personnel, in terms they can readily understand, on how the Nation's tax dollars are spent and how Federal assets are protected.
- *Efficiency and Effectiveness.* Provide efficient and effective service to the Federal agency's internal and external customers (e.g., individuals, contractors, partnerships, State and local governments, other Federal agencies/organizations, the military, and foreign governments).
- *Better Decision Making.* Provide to Congress, agency heads, and program managers timely reports linking financial results and program data so that financial and program results of policy and program decisions can be identified, tracked, and forecasted more accurately¹.

As noted previously herein, not only are quality financial management systems important for the day-to-day management of organizational financial data and information, but also for complying with 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 2005, CCC implemented corrective actions to improve controls and processes supporting its financial processing environment. For example, CCC implemented new direct and guaranteed loans cash flow models.

However, as in fiscal years 2003 and 2004, we again noted that additional improvements are needed with regards to financial system functionality and related processes. For example, CCC does not have a completely integrated financial system to track and govern the status of obligations and

¹ From the *Joint Financial Management Improvement Program (JFMIP), Core Financial System Requirements*, and its addendum, dated November 2001 and March 2004, respectively.

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Material Weaknesses

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 herein as part of material weakness no. 3.

Recommendations

We continue to recognize the need for CCC to further improve its system functionality as reported in our fiscal year 2003 report, recommendation no. 13.

(3) Improvement Needed Over the Budget Execution Process

As reported in prior years, CCC does not have a collection of financial systems that allows management to monitor and control budgetary events at the transaction level. This limitation, in addition to the decentralized nature of CCC's operations, creates challenges for management in its ability to properly communicate between departments and effectively monitor funds control because the current mechanisms and systems are meant to monitor disbursements rather than obligation activity. For instance, CCC uses the e-Funds Control system to monitor daily program disbursements made at CCC's state and county offices. The system is designed to compare at a summary level the amount of budgetary authority remaining to disbursements made without consideration given to program obligations. As such, the e-Funds system does not provide the necessary management information to determine the status of net available program resources at the transaction level as disbursements are made.

Funds control is a vital component of any Federal government operation. It requires that an obligation be recorded prior to the disbursement of funds. In addition, the Anti-Deficiency Act (ADA) provides that an office or employee of the United States Government may not (a) make or authorize an expenditure or obligation exceeding an amount available in an appropriation or fund for the expenditure or obligation; or (b) involve the government in a contract or obligation for the payment of money before an appropriation is made, unless authorized by law. Section 1517a.2 of this Act further provides that an agency may not exceed the available amount of an administrative subdivision officially directed by the agency. The success of properly implementing and executing these requirements is dependent on the effectiveness of an agency's funds control mechanism. In accordance with Part 4 of OMB Circular A-11, *Instructions on Budget Execution*, the purpose of funds control is to:

- Restrict both obligations and expenditures from each appropriation or fund account to the lower of the amount apportioned by OMB or the amount available for obligation and/or expenditure in the appropriation or fund account.
- Enable CCC 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 or any other administrative sub-division of funds made by CCC.

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In addition, the *Joint Financial Management Improvement Program (JFMIP) Core Financial System Requirements*, and its addenda, dated November 2001 and March 2004, respectively, requires 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;
- Verifying that funds distributed do not exceed the amount of funds available for an allotment or sub-allotment at each distribution level; and
- Maintaining payee (vendor) information to support obligation, accounts payable, and disbursement processes.

If Federal agencies are to accurately monitor funds available for obligation and internal control, policies and procedures must be designed to ensure the status of budgetary resources is properly recorded in the general ledger and accurately reported to OMB on a quarterly and annual basis. In an effort to respond to prior year recommendations, CCC developed new policies and procedures to review budgetary obligations and accruals, while at the same time continued with plans to further enhance its financial systems to fully monitor budgetary resources at the transaction level. In fiscal year 2005, CCC developed the following two accounting policies: (1) Accounting Policy 05-001, *Financial Obligations*, and (2) Accounting Policy 05-002, *Financial Accruals*. However, CCC was not able to fully implement the new policies and procedures in fiscal year 2005 as evidenced by its inability to properly assess the correct accounting treatment for certain budgetary transactions in accordance with generally accepted accounting principles. For example, we noted the following during our audit:

- Of the undelivered orders totaling \$4.8 billion at June 30, 2005, related to the Direct and Counter Cyclical Payments (DCP) program, \$668 million related to amounts to be paid in the last quarter of fiscal year 2005. Accordingly, the obligations related to these payments should have been liquidated and expenses accrued as of June 30, 2005. As a result, net cost and accounts payable were understated in the amount of \$668 million at June 30, 2005. Although CCC liquidated the undelivered orders for these programs as disbursements were made during the fourth quarter of 2005, CCC's procedures calling for a periodic review of obligations and accruals did not detect the need to liquidate the related undelivered orders and record the expense accrual at June 30, 2005.
- As a result of our fiscal year 2004 audit results, CCC determined that it needed to perform a review of its programs and related obligations, in particular the Ocean Transportation program. The outcome of CCC's review of this program generated an upward adjustment to undelivered orders in the amount of \$758 million to cover shipping, inland, and administrative costs related to fiscal years 1999 through 2004 open contracts. During our review, we noted that the supporting documentation provided by CCC management did not support the amount of CCC's

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adjustment, but rather supported an upward adjustment to undelivered orders in the amount of only \$85 million. Accordingly, CCC made a correcting entry in the amount of \$673 million to reduce undelivered orders at September 30, 2005.

Based on our fiscal year 2005 audit results, CCC continues to experience significant internal control deficiencies and remains non-compliant with FFMIA. These continued compliance and control weaknesses stem from CCC's on going system limitations, as demonstrated by its inability to fully comply with JFMIP; and the lack of a cohesive internal control structure supported by clear lines of authority to actively and effectively monitor budgetary transactions. Material weakness no. 4 further discusses our conclusions regarding CCC's success in implementing its new accrual accounting policy 05-002.

Recommendations

We recommend that CCC management:

12. Develop a fully integrated funds control system within a financial management system capable of interfacing with CCC CORE at the transaction level that provides management with timely information to periodically monitor and control the status of budgetary resources recorded in the general ledger.
13. Define clear lines of authority to allow for the proper execution of new or existing policies and procedures and to enhance the effectiveness of both intra- and interdepartmental communications, thereby improving the overall application of control procedures and accounting standards.

(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 timely. The issues we identified pertaining to CCC's financial accounting and reporting policies and procedures affect various aspects of CCC's operations, including financial statement preparation, and as described below.

Preparation of the Statement of Financing

During our review of the CCC's financial statements as of June 30, 2005, we noted that management's interpretation of the applicable guidance regarding preparation of the Statement of Financing (SoF) needs improvement. CCC management attempted to enhance its preparation procedures for the SoF during fiscal year 2005. As a result, management made changes to the way the general ledger accounts were crosswalked to the SoF. The initial supporting documentation provided did not properly identify reasons for the changes in the crosswalk from the prior year. A subsequent review of the documentation to support the changes demonstrated that the crosswalk of the general ledger accounts to the SoF was not in accordance with U.S. Treasury or other related guidance, specifically the Implementation Guide to the Statement of Financing in the Statement of Federal Financial Accounting Standards no. 7, *Accounting for Revenue and Other Financing Sources: Detail Information on the Statement of Financing (Implementation Guide)*. Many of the discrepancies were related to credit reform transactions and the Conservation Reserve Program (CRP). For instance, we noted CCC inappropriately classified certain material credit reform accounts

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reflecting activity that impact the net cost of operations to sections in the SoF that are meant to report transactions that do not impact the net cost of operations. In addition, we noted that CCC did not properly classify CRP accrued liabilities not covered by budgetary resources. Based on the results of our audit procedures, CCC reclassified balances in excess of \$3.9 billion to properly reflect the account activity in the fiscal year 2005 SoF.

Policies and Procedures Related to Liability Recognition

In fiscal year 2004, we reported that CCC's policies for recording producer payment program liabilities should be formally documented and that CCC continued to lack standardized policies and procedures for recording accrued liabilities. During our fiscal year 2005 audit, we noted that CCC prepared this documentation in its new accounting policy for accrued liabilities no. 05-002. CCC appropriately identified the applicable authoritative literature to be used as guidance in developing the accounting policy and the procedures related to liability recognition. However, management inappropriately applied the accounting standards and related concept statements in formulating these policies, as management concluded that CCC should recognize a liability only upon the entry and acceptance of the producer's program application into the system or the receipt and acceptance of an invoice. However, according to Statement of Federal Financial Accounting Standards (SFFAS) No. 5, *Accounting for Liabilities of the Federal Government*, a liability is the probable future outflow or other sacrifice of resources as a result of past transactions or events. Paragraph 24 of SFFAS No. 5 states that liabilities include amounts due from the Federal entity to pay for benefits, goods or services provided under the terms of the program, as of the Federal entity's reporting date, whether or not such amounts have been reported to the Federal entity. The standard concludes that it is possible to make meaningful estimates of the future amounts required to continue present policies regarding Federal programs.

Expense Accruals for Inventory Purchases

Under policy 05-002 discussed above, CCC revised its prior year inventory accrual procedures to eliminate the requirement for estimating amounts due and payable at period end for deliveries that were not invoiced from the vendor as of the period's general ledger closing date. Since CCC does not receive notification of commodity deliveries when they occur, CCC management determined that it is not reasonable to record a liability for amounts that have not yet been invoiced by the vendor. Based on our request, CCC personnel performed an analysis of quantities delivered but not yet invoiced, and estimated the liability to be approximately \$20 million at July 31, 2005. CCC personnel validated the methodology used in developing the accrual estimate at July 31, 2005, by reviewing subsequent invoices received by vendors and concluded that the methodology used developed a reasonable estimate of the amounts payable to vendors. Based on discussions with management during our interim audit procedures, CCC reverted to the prior year's accrual procedures for estimating the inventory accrual at September 30, 2005. We have audited the fiscal year 2005 expense accrual estimates generated based on the procedures used by CCC in prior years and have concluded that the accrual estimates at September 30, 2005, are reasonable.

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Expense Accruals for Producer Payment Programs

CCC applied policy 05-002 to record the liability for producer payment programs at September 30, 2005. The documentation used to record the producer payment program accruals at fiscal year end indicated supervisory review and approval; however, we determined that significant adjustments still needed to be made, as follows:

- FMD personnel recorded accruals for the Conservation Reserve Program (CRP) – Signing Incentive Payment, Practice Incentive Payment, and Cost Share Payment, based on estimates provided by USDA economists without first performing an independent analysis of this data provided. During our audit, we determined that the USDA economists developed these estimates for budgetary purposes and approximately \$40 million, \$35 million, \$94 million of the accruals recorded for each of these programs, respectively, were not due and payable at September 30, 2005. As a result, KPMG proposed audit adjustments in the respective amounts to reduce the amounts payable.
- Similarly, FMD recorded accruals for the 2003 and 2004 Direct and Counter-Cyclical Program (DCP) – Direct Payment program years, based on estimates provided by USDA economists without evaluating the reasonableness of the data. Almost all the final payments for these program years were disbursed in October 2003 and 2004, respectively, and relatively few disbursements will be made subsequent to September 30, 2005. Based on our analysis, each of these program year accruals was overstated by approximately \$48 million and an audit adjustment was proposed to correct the amounts reported.
- Based on our review of subsequent disbursements, we estimated that the expense accruals recorded for Loan Deficiency Payments (LDPs), the 03-04-05 Corp Disaster, and the Emergency Livestock Feed programs were understated in the amounts of \$20 million, \$51 million, and \$133 million, respectively. CCC's systems lack the capability of providing approved application information for these programs and management has concluded that it cannot develop a methodology for reasonably estimating the expense accruals for participant applications approved prior to September 30th. However, FASAB no. 5 recognizes the need for agencies to estimate, through reasonable means, amounts payable at fiscal year end. Due to system limitations imposed on CCC, a reasonable estimation methodology should include consideration of subsequent disbursements made in October. Accordingly, we proposed an audit adjustment to accrue the amounts disbursed in the month of October 2005.
- The accrual recorded for the 2004 DCP – Counter Cyclical Payments was overstated by approximately \$6 million due to a calculation error. Accordingly, an audit adjustment was proposed.

Accounting Treatment of the Tobacco Transition Payment Program

FMD management should develop a formalized communication and evaluation process to consider technical accounting issues as they arise. For example, FMD management inappropriately applied certain accounting standards related to the Tobacco Transition Payment Program. In its review of the applicable law (Public Law 108-357, the Law), management concluded that no accrual or account receivable should be recorded for the program, however, based on our review of the Law, we

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determined that both an account receivable and liability should be recorded. Our conclusions were based on the applicable 2004 Law that stipulated certain tobacco producers and quota holders were to receive tobacco program payments over the period 2005 to 2014 based on eligibility requirements that were determined and met in fiscal year 2005. In addition, the Law stipulated that the payments to program participants were to be funded by tobacco manufacturers and importers based on their relative market share for each class of tobacco product marketed in the United States over the same period. Therefore, as of September 30, 2005, the tobacco producers and quota holders had met all requirements to receive future payments and the manufacturers and importers were bound by Law to make payments as billed by CCC. Accordingly, we proposed an audit adjustment to record a receivable and a liability in the amount of approximately \$7 billion at September 30, 2005.

Recording Inventory Transactions in the General Ledger

Inventory transactions are recorded in the Processed Commodities Inventory Management System (PCIMS), which feeds the CORE general ledger via an automatic interface that is triggered once the PCIMS accounting events occur upon the completion of certain PCIMS data fields. During our audit procedures performed on transactions recorded in PCIMS and the reconciliation of PCIMS to CORE, we noted the following:

- For 3 of the 30 domestic donations tested, the bills of lading or consignee receipts had not been received as of the date of our interim testwork; therefore, the accounting transactions were not recorded in the CORE general ledger via the PCIMS interface.
- During our review of the June 30, 2005 PCIMS to CORE reconciliation, we noted that CCC personnel had identified 88 million pounds of non-fat dry milk valued at approximately \$78 million as reconciling items between PCIMS and the CORE general ledger. We noted during our testwork that CCC management had not taken follow up action with respect to these reconciling items, which represented transactions that were not recorded in the general ledger. Based on our request, CCC personnel performed an analysis of these reconciling items and concluded that 77 million pounds of non-fat dry milk valued at approximately \$68 million were assigned to a Notice to Deliver for domestic donation purposes, but were not recorded in the CORE general ledger because the bills of lading or consignee receipts were not received and/or processed in PCIMS, preventing the accounting transaction from being interfaced to the CORE general ledger. As a result of our audit finding, CCC recorded a manual adjusting entry to properly reflect the domestic donation transactions in the general ledger at September 30, 2005.
- For 9 of 29 transactions tested related to the exchange of non-fat dry milk for pudding, the bills of lading quantity was incorrectly input in PCIMS; therefore, some of the disposed inventory quantities were not recorded in the CORE general ledger via the PCIMS interface. After we brought the issue to management's attention, CCC personnel identified 11 million pounds of non-fat dry milk valued at approximately \$10 million that were not recorded in the CORE general ledger. CCC recorded a manual adjusting entry to properly reflect these transactions in the general ledger at September 30, 2005.

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- During the fiscal year 2004 audit, we noted that CCC's general ledger was incorrectly configured to calculate the cost of pudding acquired in exchange for non-fat dry milk. This configuration issue affected donation expense, as the acquired pudding is donated as part of CCC's domestic donation program. During fiscal year 2005, CCC recorded manual adjusting entries aimed to correct the system configuration error; however, these manual adjusting entries were inaccurate. We proposed an audit adjustment in the amount of \$17 million dollars to record the cost of the pudding at the carrying value of the non-fat dry milk for which it was exchanged.

The lack of effective controls over (1) the timely receipt of source documents, such as bills of lading and consignee receipts; (2) the accuracy of source document data entries in PCIMS; (3) the PCIMS to CORE reconciliation process; and (4) the system configuration set-up, resulted in the inaccurate recording of the inventory transactions in the general ledger in fiscal year 2005. Although not individually material to the consolidated financial statements, the lack of inventory-related controls has the potential to cause individually significant errors in the future.

Allowances for Loan and Inventory Losses

CCC utilizes the expertise of FSA economists and Kansas City Commodity Office (KCCO) commodity experts to determine the net realizable value of its outstanding commodity loans and commodity inventory stock, respectively. These individuals develop the net realizable values based on the loan redemption for each outlet (i.e., forfeiture, repayment at market value for less than the loan principal, or full repayment) or inventory disposition for each outlet (i.e., sale, donation, or destruction), and submit this information to the Financial Management Division (FMD) by completing Form CCC-277, *Allowance for Losses Report*. However, there are no procedures in place to require that the FSA Group Director of Farm Loan Analysis or an experienced FSA economist review the completed Loan Form CCC-277 before it is submitted to FMD to prepare the allowance calculations. Similarly, no procedures exist that require a review of the completed Inventory Form CCC-277 by a KCCO Branch Chief or a Deputy Administrator, Commodity Operations (DACO) designee. As a result, the following was noted during our review of the loan and inventory loss allowance calculations as of June 30, 2005:

- The KCCO commodity experts did not include net realizable unit rates for cheese, milk, and pudding, and included incorrect net realizable unit rates for certain other commodities on the Inventory Form CCC-277 submitted to FMD. The FMD accountant responsible for performing the allowance calculation identified and corrected these errors; however, the FMD accountant does not have the program knowledge necessary to evaluate the reasonableness of the quantities and disposition outlet provided.
- The economists and commodity experts develop the net realizable unit rates one month prior to the reporting month due to the current accelerated reporting deadlines. We noted during our testwork that these individuals did not review the final calculated allowance amounts for reasonableness based on the information available as of the end of the reporting period. Further, FMD did not communicate with the FSA economists, KCCO Branch Chiefs, or DACO designee with respect to the sufficiency of the net realizable unit values related to the commodity loans outstanding or inventory balances recorded. Although the economists have the expertise and the responsibility for developing the net realizable unit rates, the ultimate responsibility for ensuring

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the overall reasonableness of the rates resides with FMD. Therefore, it is important that FMD personnel communicate with the economists to ensure they understand the basis for the unit rates used to prepare the allowances recorded.

- The allowance calculations at June 30, 2005 did not undergo an effective, detailed supervisory review by someone with a sufficient understanding to detect errors in the calculation or the related journal entries. During our testwork, we noted that the allowance for loan losses in the trial balance differed from the amount per the allowance calculation supporting schedule prepared by the FMD accountant by approximately \$5 million. Although not material, CCC's control processes did not detect this difference until it was brought to their attention during the audit.

As a result, at September 30, 2005, we proposed adjusting entries in the amount of approximately \$15 million and \$12 million to decrease the allowance for loan and inventory losses, respectively. Given the overall significance of the allowance amounts to CCC's consolidated financial statements, a significant risk of misstatement related to the net inventory and commodity loan consolidated financial statement line items exists due to the process deficiencies noted above.

Identification and Monitoring of Debt

In previous years we reported that CCC was not in substantial compliance with one provision of the Debt Collection Improvement Act of 1996 (DCIA). CCC has taken significant steps over the past several years to address this issue. CCC management has continued to emphasize to county office personnel the importance of debt management for achieving compliance with DCIA requirements. Management has also provided additional training and tools to facilitate this process. Although during our 2005 site visits we again noted a lack of timeliness related to certain producer notifications, dispatch of demand letters, and the conversion of receivables to claim status, we noted the occurrences of these errors were significantly diminished in fiscal year 2005. In addition, we noted a heightened awareness by county office personnel of the organization-wide policies and procedures related to debt management and a renewed commitment to implement them. Through discussions with management and review of certain county office documentation since our site visits, we understand that CCC management has implemented enhancements to the existing software capabilities and has introduced new software that will further enhance CCC's ability to monitor and process delinquent producer debts. These enhancements consist of a new capability to automatically generate producer notifications and demand letters and to automatically convert receivables to claim status.

Process improvements are already evident in the fourth quarter of fiscal year 2005. For example, at September 30, 2004, CCC had approximately 1,600 receivables, amounting to approximately \$10.5 million, older than 90 days that were not converted to claim status. Comparatively, at September 30, 2005, CCC had only 2 receivables, amounting to \$1,662, older than 90 days and both of these receivables were outstanding for less than 180 days.

Although these statistics strongly indicate that significant progress has been made to address the prior year issues related to non-compliance with DCIA as of September 30, 2005, our audit results indicate that more needs to be done to address the issue of properly identifying and recording overpayments and performing due process related to delinquent debt. Overpayments arise when

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producers receive a CCC benefit in excess of the qualifying amount. Therefore, overpayments represent unrecorded receivables. When overpayments are not identified and recorded, the consolidated financial statements reflect overstated program expenses and understated receivables. During our 2005 site visits, we noted that:

- For 2 of the 12 county offices reviewed, the county office personnel did not consistently review overpayment registers to identify amounts due to CCC. Additionally, the county office did not retain these reports for documentation purposes.
- For 3 of the 12 county offices reviewed, the county office personnel did not initiate collection procedures in a timely manner for identified overpayments.
- For 2 receivables sampled for review amounting to \$29,054, the county office personnel determined that the receivables were no longer due. However, as of the date of our review, the receivables were not canceled in the system in accordance with CCC's operating policies and procedures.
- For 3 of the 45 claims reviewed, amounting to \$3,830 and \$82,927, respectively, the county office personnel made a determination that the claims were not collectible via administrative offset because the producer was no longer participating in CCC programs. However, the county office personnel did not refer the claims to the Kansas City Finance Office-Debt Management Division (DMD) for collection in accordance with CCC's operating policies and procedures.

Recommendations

In addition to recommendations 16 and 18 from our fiscal year 2003 report, and recommendation 9 from our fiscal year 2004 report related to the expense accruals for producer payment programs, we also recommend that:

14. We recommend that FMD management develop a formalized process to use in drafting the SoF. The process should be developed based on consultation with other division and departmental personnel responsible and knowledgeable about the various types of activity that affect the SoF. In addition, the process should include a sound methodology to properly and thoroughly analyze account activity to ensure proper classification in the SoF.
15. FMD management develop and implement a formal process to evaluate and document conclusions reached when considering technical accounting issues as they arise.
16. Management implement controls to ensure that: (1) all documents that provide source data for accounting events are timely received and are accurately entered in PCIMS; (2) the PCIMS to CORE reconciliation is used as a tool for identifying and correcting general ledger misstatements; and (3) the general ledger is properly configured to record the milk-for-pudding exchange transactions.
17. CCC management implement appropriate procedures to require the FSA Group Director of Farm Loan Analysis or an experienced FSA economist to review the completed Loan Form CCC-277 before it is submitted to FMD.

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18. CCC management implement procedures to require a KCCO Branch Chief or a DACO designee to review the completed Inventory Form CCC-277 before it is submitted to FMD.
19. FSA economists, the KCCO Branch Chiefs, and DACO designee be provided with the final allowance calculation before the entry is made in the general ledger for review and final approval.
20. The allowance calculations be reviewed in detail by FMD personnel with a sufficient understanding of the process to be able to detect errors in the calculation and related journal entries.
21. The National Office stress to county office personnel the importance of conducting periodic reviews of the overpayment registers to identify amounts due CCC. The program technicians responsible for conducting this review should document their determination of whether the overpayments listed in these registers should be recorded as receivables and, where applicable, the date when the receivables are recorded in the Common Receivables System. The County Executive Director or his designee should periodically review the program technicians' determinations and conclude as to whether action is appropriate and timely.

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Reportable Conditions

The reportable conditions we identified as of and for the year ended September 30, 2005, are summarized below:

(5) Improvement Needed in Producer Monitoring Procedures

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

In accordance with CCC's policies and procedures, benefit payments made to producers for loans and LDPs may be based on the producer's certification of the underlying production quantities. The certified amount is subject to evaluation by the county office personnel, who must determine the maximum eligible quantity of production based on the yield determinations made by the County Office Committee (COC) and the producer's reported acreage. CCC policies require that county office personnel not allow the producer to receive a loan based on quantities in excess of 110% of the maximum eligible quantity, unless the COC reviews and approves the transaction. During the fiscal year 2005 site visits, we noted that for 4 of the 92 loans reviewed and 7 of the 99 LDPs reviewed, the producer's underlying collateral exceeded the maximum eligible quantity of production. In these instances, the benefit payment was made for the full amount claimed without prior COC approval, and for one of the four county offices where this condition was noted, the county office personnel failed to obtain prior COC approval for all the loan and LDP benefits claimed.

In addition, the county offices must make production spot checks of randomly selected farm-stored loans and certified LDPs on a monthly basis and gather adequate production evidence. Adequate documentation must be maintained by the county office to support the spot check results. During our audit we noted that field office personnel did not always comply with these requirements. The results of our audit procedures determined that (1) 2 of the 12 county offices reviewed did not perform the production spot checks on a monthly basis; (2) 1 of the 12 county offices reviewed did not perform one of the spot checks selected for testing; (3) in 2 of the 12 county offices reviewed, seven producers selected for spot checks did not provide production evidence within nine months of the disbursement date and county office personnel did not take appropriate follow-up action; and (4) in 1 of the 12 county offices reviewed, there was no documentation evidencing that the county office staff or County Executive Director reviewed the monthly spot check registers to determine whether each loan or LDP listed was supported by sufficient production evidence.

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

Recommendations

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

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

During fiscal year 2005, CCC developed and implemented new cash flow models for its direct loan and loan guarantee estimates under the PL 480 and General Sales Manager (GSM) programs, respectively. However, we noted that management's review of the development and implementation of the cash flow models needs improvement. For example, we noted the following errors in the cash flow models and related data, all of which were corrected by CCC prior to finalizing the September 30, 2005 re-estimates:

- During our review of CCC's newly developed cash flow models we noted several cases in which loans were omitted from the calculations performed by the models;
- We identified inaccuracies with certain amounts reported in the output data files, in particular recoveries, prepayments, and defaults. These errors included incorrectly calculated default and recovery amounts in both the GSM and the PL 480 cash flow model output reports;
- We identified instances where prepayments were incorrectly identified and therefore, inappropriately processed by the models. In addition, we noted incorrect calculations of prepayment adjustments made to the original payment schedules in the PL 480 cash flow model; and
- We noted errors in the source data supplied by FMD, including inconsistencies in country codes between the source data files and the default rates supplied by FMD. The inconsistencies resulted in omitting those countries from the totals reported in the Balances Approach Re-estimate Calculator (BARC) input file.

In addition, we noted that CCC does not have adequate version control procedures. During our review of the re-estimate calculation, we identified that the calculated from the BARC did not agree to the information for PL480 in the cash flow model. In discussions with management, KPMG determined that FMD personnel used the wrong version to record the accounting entries. The lack of version control resulted in a \$4 million error, which was subsequently corrected.

A lack of effective management review and version control procedures over the development and implementation of the new 2005 cash flow models, or prospectively, to any changes to the cash flow model structure in future years, increases the risk that errors in the models may exist and not be detected.

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Recommendations

We recommend that:

22. Budget Division management enhance its procedures to ensure that further modifications made to the cash flow models are thoroughly reviewed and approved to ensure the accuracy and reliability of the model calculations. The review and approval of all changes should be formally documented.
23. Budget Division management implement version control procedures to ensure that (1) all changes to the models are properly documented, reviewed, and approved, and (2) only the current and final approved versions of the cash flow models are being used to prepare year-end consolidated financial statements.

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Status of Prior Year Noncompliance and Other Matters Reported

Fiscal Year 2004 Finding	Year First Reported by KPMG	Fiscal Year 2005 Status
<p>Federal Information Systems Management Act (FISMA) – FSA/CCC needs to improve its level of compliance with FISMA by implementing additional controls and processes supporting its entity-wide security program and operating device security.</p>	<p align="center">2002</p>	<p>During fiscal year 2005 FSA/CCC took several actions to address prior year information security and contingency planning weaknesses. For example FSA/CCC:</p> <ul style="list-style-type: none"> • Drafted an infrastructure support disaster recovery plan; • Scheduled an application specific disaster recovery test for early in fiscal year 2006; • Continued updating security risk assessments for key applications; and • Began using the Electronic Repository for Security Requests (ERSR), a new system for managing network and application user access requests. <p>However, additional weaknesses were identified in the areas of the information security program, technical access controls, change management, and contingency planning. Therefore, in fiscal year 2005 the presentation of the issue was modified to reflect current year operations and continues to be reported as non-compliance with FISMA.</p>

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Status of Prior Year Noncompliance and Other Matters Reported

Fiscal Year 2004 Finding	Year First Reported by KPMG	Fiscal Year 2005 Status
<p>Debt Collection Improvement Act of 1996 (DCIA) – 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.</p>	<p align="center">2002</p>	<p>CCC has taken significant steps over the past several years to address this issue. CCC management has continued to emphasize to county office personnel the importance of debt management for achieving compliance with DCIA requirements. Management has also provided additional training and tools to facilitate this process. Therefore, we did not report non-compliance with DCIA in our fiscal year 2005 report.</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 • Federal accounting standards using the USSGL at the trans-action level 	<p align="center">2002</p>	<p>During fiscal year 2005, CCC implemented corrective actions to improve controls and processes supporting its financial processing environment. For example, CCC implemented new direct and guaranteed loans cash flow models. 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 system functionality and related processes.</p> <p>Therefore, in fiscal year 2005 the presentation of the issue was modified to reflect current year operations; however, CCC continues to be non-compliant with FFMIA.</p>

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

Status of Prior Year Material Weaknesses Reported

Fiscal Year 2004 Finding	Years Reported by KPMG/Type	Fiscal Year 2005 Status
<p>(1) Improvement needed in information security controls</p>	<p>2002 – Material Weakness 2003 – Material Weakness 2004 – Material Weakness 2005 – Material Weakness</p>	<p>During fiscal year 2005, CCC took several actions to address prior years’ information security and contingency planning weaknesses. For example:</p> <ul style="list-style-type: none"> • Drafted an infrastructure support disaster recovery plan; • Scheduled an application specific disaster recovery test for early in fiscal year 2006; • Continued updating security risk assessments for key applications; and • Began using the Electronic Repository for Security Requests (ERSR), a new system for managing network and application user access requests. <p>However, additional weaknesses were identified in the areas of information security program, technical access controls, change management, and contingency planning. Therefore, in fiscal year 2005 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>

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

Status of Prior Year Material Weaknesses Reported

Fiscal Year 2004 Finding	Years Reported by KPMG/Type	Fiscal Year 2005 Status
<p>2) Improvement needed in financial system functionality and related processes</p>	<p>2002 – Material Weakness 2003 – Material Weakness 2004 – Material Weakness 2005 – Material Weakness</p>	<p>CCC implemented several corrective actions to improve controls and processes supporting its financial systems during fiscal year 2005. However, as in prior years audits, we again noted that additional improvements are needed with regards to financial system functionality and related processes. For example, CCC does not have a completely integrated financial system to track and govern the status of obligations and administrative limitations established by legislation or agency policy, and its systems are dependent upon manual processes that require further enhancements to be effective.</p> <p>Therefore, in fiscal year 2005 the presentation of the issue was modified to reflect current year operations and continues to be reported as a material weakness.</p>

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

Status of Prior Year Material Weaknesses Reported

Fiscal Year 2004 Finding	Years Reported by KPMG/Type	Fiscal Year 2005 Status
(3) Improvement needed in funds control mechanisms	2002 – Material Weakness 2003 – Material Weakness 2004 – Material Weakness 2005 – Material Weakness	<p>As reported in prior years, CCC does not have a collection of financial systems that allows management to monitor and control budgetary events at the transaction level. This limitation, in addition to the decentralized nature of CCC's operations, continues to create challenges for management in its ability to properly communicate between departments and effectively monitor funds controls.</p> <p>Effective funds control is dependent upon systems and the accuracy of the budgetary account balances. In fiscal year 2004, we reported as a separate material weakness issues we noted related to CCC's ability to accurately report budgetary account balances. In 2005, we note that CCC responded to this matter by developing new policies surrounding the accounting for budgetary transactions; however, CCC was unable to fully implement effective policies, resulting in material audit adjustments in fiscal year 2005.</p> <p>Therefore, in fiscal year 2005 the presentation of these issues is combined into one material weakness reported as "Improvement Needed Over the budget Execution Process".</p>
(4) Improvement needed in budgetary accounting and reporting policies and procedures	2002 – Material Weakness 2003 – Material Weakness 2004 – Material Weakness	<p>We believe this material weakness continues to exist and is combined with material weakness no. 3 as noted above.</p>

**U.S. DEPARTMENT OF AGRICULTURE –
COMMODITY CREDIT CORPORATION**
Status of Prior Year Reportable Conditions Reported

Fiscal Year 2004 Finding	Years Reported by KPMG/Type	Fiscal Year 2005 Status
<p>(5) Improvement needed in financial accounting and reporting policies and procedures</p>	<p>2002 – Material Weakness 2003 – Material Weakness 2004 – Reportable Condition 2005 – Material Weakness</p>	<p>CCC has taken steps to improve internal operations and to develop new policies and procedures related to expense accruals. Additionally, CCC has made significant progress in establishing claims for the outstanding amounts due and in following up on outstanding debts for achieving compliance with the Debt Collection Improvement Act of 1996 (DCIA). However, in fiscal year 2005, we noted the need for significant improvements in the overall accounting and reporting policies related to new programs and a general lack of effective management review over expense accruals recorded. For instance, we noted material errors in management’s application of accounting standards and the lack of a clear review process over data inputs to the expense accrual process. In addition, CCC made significant line item reclassifications to the 2005 statement of financing as a result of our review of that statement.</p> <p>Therefore, in fiscal year 2005 the presentation of the issue was modified to reflect current year operations and is reported as a material weakness in our fiscal year 2005 report.</p>

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

Status of Prior Year Reportable Conditions Reported

Fiscal Year 2004 Finding	Years Reported by KPMG/Type	Fiscal Year 2005 Status
<p>(6) Improvement needed in producer monitoring procedures</p>	<p>2004 Reportable Condition 2005 Reportable Condition</p>	<p>CCC took steps to improve the implementation of its producer monitoring procedures. During the prior year site visits, we noted that county office personnel did not always perform producer eligibility determinations prior to making payments. During the 2005 site visits, we noted that the eligibility determinations, including the collateral reasonableness analysis, were being performed. However, there were several instances in which the producer's underlying collateral exceeded the maximum eligible quantity of production, but the benefit payment was made for the full amount claimed without prior COC approval. We noted almost no changes in the nature or frequency of occurrence of the findings related to the production spot check controls.</p> <p>Therefore, in fiscal year 2005 the presentation of the issue was modified to reflect current year operations and continues to be reported as a reportable condition.</p>



Exhibit 6

United States
Department of
Agriculture

NOV 08 2005

Farm and Foreign
Agricultural
Services

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

Commodity Credit
Corporation

1400 Independence
Avenue, SW
Stop 0581

Mike Lippert
Senior Partner
Klynveld Peat Marwick Goerdeler (KPMG)

Washington, DC
20250-0581

FROM: Kristine M. Chadwick
Controller, Commodity Credit Corporation

SUBJECT: Response to the Draft Combined Independent Auditor's Report on the
Commodity Credit Corporation's (CCC) Fiscal Years 2005 and 2004
Comparative Financial Statements

We have reviewed KPMG's Draft Combined Independent Auditor's Report dated November 7, 2005, 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 the Inspector General in identifying the specific actions that will assist us in successfully addressing the recommendations.

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

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CONSOLIDATED FINANCIAL STATEMENTS

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, air, and water resources and in the protection and improvement of wildlife habitat.

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. CCC is 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 and ranchers 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 land conservation practices on their land.

CCC provides agricultural commodities to other Federal agencies and foreign governments, and 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 approximately 2,400 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

COMMODITY CREDIT CORPORATION

Management's Discussion and Analysis September 30, 2005

Corporation's officers are officials of USDA. CCC officers, directly or through officials of designated USDA agencies, maintain liaison with numerous other governmental and private trade operations¹.

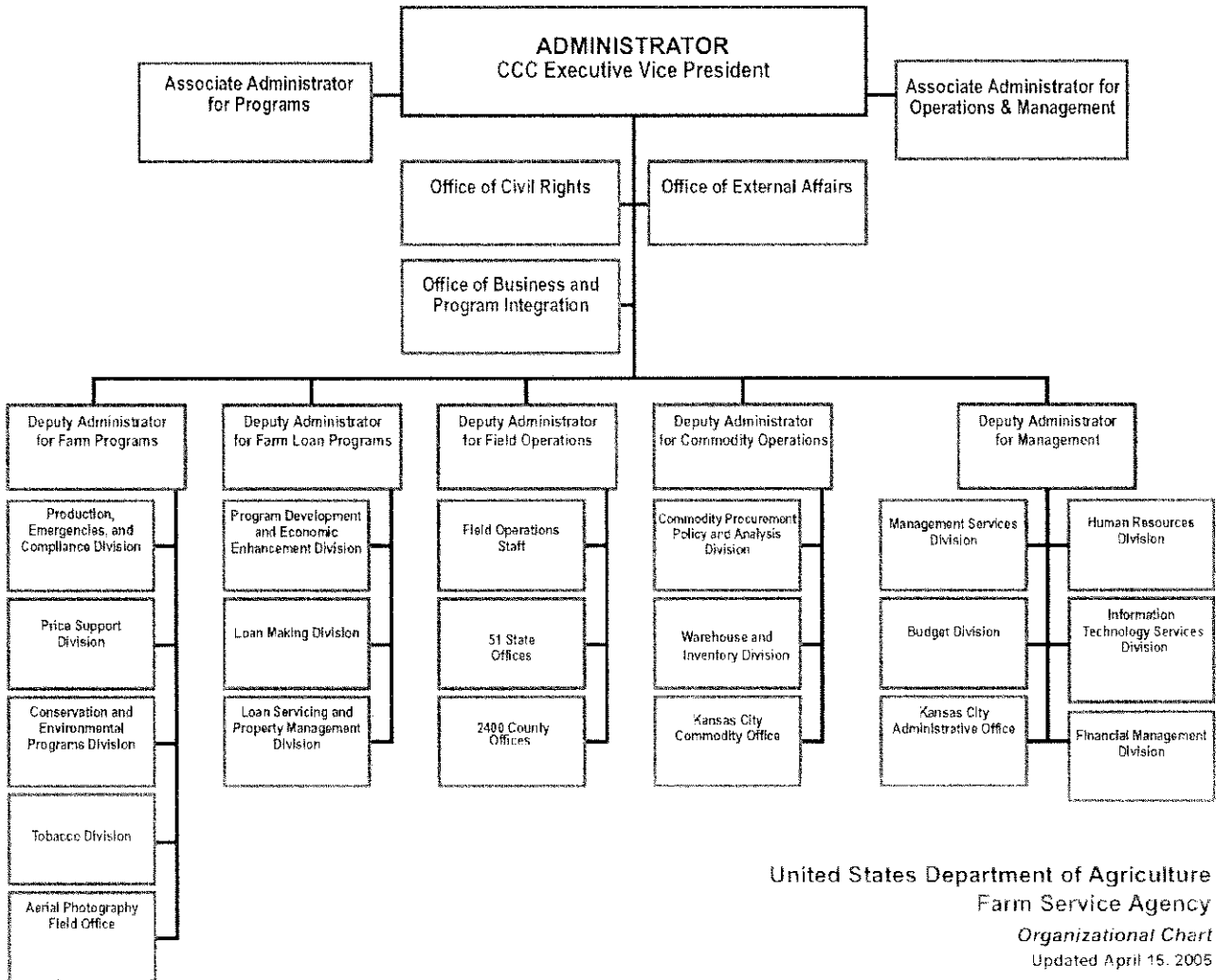
The Corporation operates numerous domestic programs, such as income support, disaster, and conservation programs. It also extends direct credits and guarantees commodity sales to foreign countries throughout the world.

CCC has its own disbursing authority. For several programs, CCC utilizes the Federal Reserve banking system to make payments. This disbursing authority allows the Corporation to make payments quickly and provide financial support to America's producers and farmer's without delay.

CCC has a variety of funding mechanisms [see Appendix B for a listing of CCC accounts with the U.S. Department of the Treasury (Treasury)]. Most of the domestic programs are operated out of a revolving fund, which has a \$30 billion borrowing authority from the Treasury. This fund also receives 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 did not hold any open or closed meetings this fiscal year. Additionally, there was no litigation brought against the Board under the Government in the Sunshine Act this year. Similarly, there are no changes in policies or statutes requiring notification under this subsection.

Farm Service Agency Organizational Chart



United States Department of Agriculture
Farm Service Agency
Organizational Chart
Updated April 15, 2005

CCC's Strategic Goals and Performance Measures

The CCC strategic goals and performance measures included in this report are consistent with those reported in Management's Discussion and Analysis in fiscal years 2000 through 2004. They are based upon the FSA Strategic Plan for Fiscal Years 2001-2005.

FSA is currently in the process of implementing a new budget and performance management system which complies with the President's Management Agenda for budget and performance integration. The cornerstone of that effort is a new FSA strategic plan for fiscal years 2005 through 2010, which, as of September 30, 2005, was a draft document approved by the Administrator for review and comment by FSA employees and the public.

Strategic Goal: Provide farm income support and natural disaster assistance to eligible producers, cooperatives, and associations to help improve the economic stability and viability of the agricultural section, and to help ensure the production of an adequate and reasonably priced supply of food and fiber

Responding to the Nation's Natural Disasters

In October 2004, President Bush signed disaster and drought legislation (P.L. 108-324) that provides more than \$3 billion in financial relief to farmers, ranchers, foresters, and other agricultural producers who incurred losses due to weather conditions in recent years. The legislation funds new and existing programs administered by USDA's FSA. In addition, USDA is making more than \$170 million in emergency assistance available to agricultural producers suffering from Hurricane Katrina. CCC programs that provide assistance are the **Emergency Conservation Program (ECP), Marketing Assistance Loans (MAL), Crop Disaster Assistance Program (CDP), and the Livestock Assistance Program (LAP)**.

Emergency Disaster Relief Programs for Farmers and Ranchers Coping with Hurricane Katrina

Emergency Conservation Funding (ECP)

USDA is providing more than \$20 million to States and counties in ECP funds to help producers repair damage to their lands. ECP participants will receive cost-share assistance of up to 75 percent of the cost to implement approved emergency conservation practices such as debris removal and restoration of fences and conservation structures. The ECP is administered at the county level under the guidance of the FSA State offices.

Marketing Assistance Loans and "On-Farm" Grain Storage

CCC has implemented changes to its MAL to allow producers to obtain loans for "on-farm" grain storage on the ground in addition to grain bins and other normally approved structures. This action is designed

to alleviate short-term logistical problems and support local cash prices above distressed levels as a result of the hurricane. Grain producers in the United States (U.S.) are facing logistical challenges as port operations in the central Gulf Coast and lower Mississippi River have been hampered by Hurricane Katrina, which were already complicated by summer drought conditions in the upper Mississippi and Illinois River basins.

USDA is providing a temporary incentive to assist immediate movement of some 140 barges of damaged corn (over 7 million bushels) out of New Orleans to up-river locations. Once unloaded, the empty barges will continue up the river to load and begin moving new-crop commodities to help producers deliver and sell crops in the absence of barge transportation caused by the hurricane. USDA will pay incentives for alternative storage of up to 50 million bushels of grain. These actions will further ease pressure on producers to market commodities under adverse conditions.

CCC also provides producers its **Farm Storage Facility Loan Program (FSFL)** that is available to provide low-interest financing for producers to build or upgrade on-farm grain or silage storage facilities. Eligible size of the structure is determined by the borrower's demonstrated need for additional on-farm storage capacity to store eligible commodities. An eligible borrower must have a satisfactory credit rating as determined by CCC and demonstrate the ability to repay the facility loan debt. Facilities built for commercial purposes and not for the sole use of the borrower(s) are not eligible for financing.

Additional Assistance

FSA has other programs to help producers recover from losses resulting from natural disasters such as Hurricane Katrina. FSA's **Noninsured Crop Disaster Assistance Program (NAP)** provides financial assistance to producers of noninsurable crops when low yields, loss of inventory or prevented planting occur due to natural disasters. To be eligible for NAP assistance, crops must be noninsurable crops and agricultural commodities for which the catastrophic risk protection level of crop insurance is not available. Producers must meet other eligibility requirements to receive NAP payments.

Florida Hurricane Disaster Assistance Programs

Usually harsh weather conditions late in fiscal year 2004 as a result of Hurricanes Charley, Frances, Ivan, and Jeanne resulted in devastation to the Florida citrus fruits and vegetables and nursery industries causing substantial production and tree losses. The Florida Hurricane Agriculture Disaster Assistance Programs provide special disaster relief to producers of citrus, selected tropical fruits, vegetables, and nursery crops located in Florida counties that have received a Presidential disaster declaration. Payments for this assistance are authorized under Section 32 of the Agricultural Act of August 24, 1935, which allows the Secretary of Agriculture to restore producers' purchasing power. This assistance program falls under CCC's Disaster Program. To answer the needs of those producers impacted by the havoc wreaked as a result of the hurricanes, FSA was provided \$532 million for direct payments. The fiscal year 2005 costs for the Florida Hurricane Citrus Program, the Florida Hurricane Nursery Program, and the Florida Hurricane Vegetable Program were \$347 million, \$50 million, and \$14 million, respectively.

Citrus producers were reimbursed on a per acre basis for each eligible grove. Payments are based on the severity of destruction as determined by the path of the storms and damage estimates which will take into account various levels of losses generally correlating to the distance from the eye of the hurricanes, the average production loss, tree loss, and rehabilitation and cleanup costs. Fruits from groves must have been marketed in both 2003 and 2004. Sign-up began October 5, 2004.

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Nursery payments were based on 25 percent of inventory loss plus a flat rate payment of \$250 per acre to address general cleanup costs from the hurricanes. Sign-up began October 20, 2004.

Payments for vegetable, fruit and tropical fruit producers were based on a per acre basis, and payments for plasticulture (production practices where the soil has been bedded, fumigated, fertilized, and plastic-mulch laid) vegetable producers were based on the type of planting application or method installed or completed at the time the hurricanes hit. Sign-up began October 20, 2004.

Each producer's payment was limited to \$80,000 under all three of these programs. Payment rates were 5 percent less for producers who did not obtain Federal Crop Insurance or coverage under the Noninsured Crop Disaster Assistance Program.

Emergency/Disaster Assistance

During fiscal year 2005, the Corporation incurred \$3 billion in net costs for emergency assistance programs, compared to \$1.1 billion a year earlier. Program costs were much higher in fiscal year 2005 primarily due to the **Crop Disaster Assistance Program**. There was an overall increase of the \$1.9 billion in payments during FY 2005 to producers for crop disaster throughout the nation for 2003, 2004, and 2005 crop losses due to damaging weather.

The 2003/2004/2005 **Crop Disaster Program** (CDP), as provided for by the Military Construction and Emergency Hurricane Supplemental Appropriations Act of 2005, reimburses producers for qualifying losses to agricultural commodities (other than sugar cane or cotton seed) due to damaging weather or related conditions. The damages must be in excess of 35 percent for the loss of production or 20 percent for quality losses. The program, administered by FSA, has no set funding limitation. In addition to the assistance provided under the 2003/2004/2005 CDP, the legislation also authorized \$3 million for 2003 fruit and vegetable losses in North Carolina and \$50 million for 2003 crop losses in Virginia.

Qualifying crop losses for the 2005 crop are limited to only those losses caused by hurricane or tropical storms of the 2004 hurricane season in counties declared disaster areas by the President of the U.S. Producers who received payments from Section 32 of the Agricultural Act of August 24, 1935, with respect to 2004 hurricane crop losses are not eligible for payments under this crop disaster program. Sign-up for the 2001/2002 **Crop Disaster Assistance Program** began on June 6, 2003. Producers with crop losses in both years are eligible to receive payment for 1 year. Payments started going out to farmers on June 30, 2003, and, for the fiscal year ended September 30, 2003, \$2.1 billion had been issued to eligible producers. Payments issued in fiscal years 2005 and 2004 totaled \$2.4 billion and \$561 million, respectively.

FSA's **Livestock Assistance Program (LAP)** is a grazing loss program that will pay eligible livestock producers for grazing losses on a per head basis of eligible livestock. A producer must have control of adequate grazing land to support the eligible livestock, and the producer must possess beneficial interest in eligible livestock that have been owned or leased for at least 3 months. During 2003 or 2004, a livestock producer must have suffered a 40 percent or greater loss of grazing production for three or more consecutive months due to natural disasters. Funding for LAP is authorized by the Military Construction and Emergency Hurricane Supplemental Appropriations Act, 2005. Unlike prior LAP programs, there is no cap on total funding.

The 2005 Act also imposes a requirement that limits assistance to persons with a gross revenue limit of \$2.5 million, which is a change from the previous LAP. A \$40,000 per person payment limitation also applies to LAP assistance. As of September 30, 2005, \$70 million in program costs had been incurred for LAP compared to 2004 costs at \$130 million, a decrease of \$60 million.

The **American Indian Livestock Feed Program (AILFP)** provides reimbursement of expenses for purchases of livestock feed for producers whose livestock were on tribal-governed land at the time of a natural disaster. Payments are made directly to the livestock owners and based on the smaller of either 30 percent of basic feed needs, stated as the Animal Unit Day (AUD) for eligible livestock, or the actual dollar amount of livestock feed purchases recorded on receipts.

As in the past, tribal governments will request to enter into a government-to-government contract for areas meeting the loss criteria. In addition to meeting other loss criteria, the tribal-governed land must have had a loss of grazing production in excess of 35 percent. Livestock owners will receive benefits for the actual number of livestock that were present on tribal-governed land during the disaster payment period in which supplemental feed was provided.

The **Non-fat Dry Milk Livestock Feed Assistance Initiative**, announced by the Secretary on July 16, 2004, provides assistance to livestock producers in States that need help in maintaining foundation livestock herds as the result of extreme drought conditions. CCC sells, through feed dealers in the State, a portion of its non-fat dry milk inventory as livestock feed under section 165 of the Federal Agriculture Improvement and Reform Act of 1996. CCC has been working with the U.S. Drought Council in determining the amount of assistance producers need and the States suffering the most severe impact of the drought. Producers in nine States were eligible for the first 2004 initiative allocation. The States were Arizona, Idaho, Montana, Nebraska, Nevada, New Mexico, Oregon, Utah and Wyoming. Total costs for this program were \$5 million in fiscal year 2005.

The **Noninsured Crop Disaster Assistance Program (NAP)** is an ongoing program that provides financial assistance to producers for non-insurable crop losses and loss of income as a result of a natural disaster that 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 2005 and 2004, CCC incurred \$108 million and \$122 million in program costs, respectively.

Improving Life in Rural America

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

Direct and Counter-Cyclical Program Payments

The Direct and Counter-cyclical Payment Program (DCP) provides payments to eligible producers on farms enrolled for the 2002 through 2007 crop years. There are two types of DCP payments – direct payments and counter-cyclical payments. Both are computed using the base acres and payment yields established for the farm. DCP was authorized by the Farm Security and Rural Investment Act of 2002 (2002 Farm Bill) and is administered by FSA. The 2002 Farm Bill replaced production flexibility contract (PFC) payments (which were established by the Federal Agriculture Improvement and Reform Act of 1996) with direct payments.

COMMODITY CREDIT CORPORATION

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Base acres and payment yields are established for the following commodities:

	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

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, may be paid to the producer in advance. Payment rates for direct payments are established by the 2002 Farm Bill and are issued regardless of market prices.

Producers are also eligible for **counter-cyclical payments** on farms for which payment yields and base acres are established with respect to the covered commodity, 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. The 2002 Farm Bill allows producers to receive counter-cyclical payments in three installments. The first two installment payment rates are based on supply, demand, and price forecasts for the commodity. The final payment rate is determined after the end of the commodity's marketing year.

In fiscal year 2005, \$4.9 billion in direct payments and \$3.2 billion in counter-cyclical payments were issued to eligible producers. As required by the 2002 Farm Bill, any overpayments to producers under the counter-cyclical payment program must be repaid. As of September 30, 2005, CCC had \$320.6 million in receivables due from producers under this program.

Milk Income Loss Contract (MILC) Program

The MILC Program financially compensates dairy producers when domestic milk prices fall below a specified level. MILC payments are made monthly when the milk price falls below the established price per hundredweight. Dairy producers entered into contracts with CCC that ended on September 30, 2005, and received monthly direct payments when domestic milk prices fell below a specified level. Payments in fiscal year 2005 were \$11 million, a decrease of \$235 million from fiscal year 2004 payments of \$246 million. The decline in MILC payments for 2005, are attributed to the fact that there was only 1 month in which there was a payment rate in effect during fiscal year 2005, and the rate was substantially low (\$0.0315/cwt.). In contrast, in fiscal year 2004, there were 4 months with effective payment rates that averaged \$0.6457/cwt. This considerable drop in payments is the result of higher market prices.

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. Loans outstanding under the FSFL program were \$210 million

and \$187 million as of September 30, 2005 and 2004, respectively.

Demand for the program in fiscal year 2005 continued to exceed expected levels, and the trend may exceed targeted levels in future years as farmers in some parts of the country have to store their 2005 harvested crops on the ground due to a shortage of available commercial storage space. Also, with rising interest rates, many producers may have to rely on the Farm Storage Facility Loan program to fund additional storage needs. In addition, the program also allows farmers to build storage to store their genetically engineered crops used for bio-energy that cannot be commingled with the nation's food supply. It is anticipated the harvested acres of these crops will continue to rise with demand for alternate fuel sources.

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. Expenses incurred in fiscal years 2005 and 2004 amounted to \$99 million and \$115 million, respectively.

Commodity Loan Programs

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 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.

On October 22, 2004, President Bush signed the American Jobs Creation Act of 2004, which included the Fair and Equitable Tobacco Reform, commonly referred to as the "Tobacco Buyout." USDA is charged with administering the program, and titled it the Tobacco Transition Payment Program. Beginning with the 2005 tobacco crop, all aspects of the Federal tobacco marketing quota and price support loan programs ended.

Marketing assistance loans (MAL) 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 9 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 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

COMMODITY CREDIT CORPORATION

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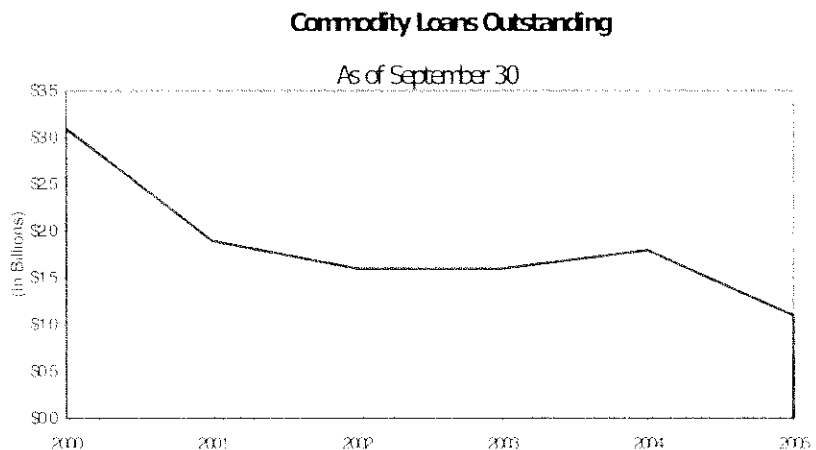
occur. Such inventories tend to make U.S.-produced commodities less competitive in world markets and may impose a significant taxpayer burden in the form of storage costs.

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 2005, marketing loan gains totaled \$360 million; in the prior fiscal year, they totaled \$149 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 \$3.8 billion, an increase from the \$461 million disbursed last fiscal year. CCC made \$3.3 billion more in loan deficiency payments during fiscal year 2005 compared to 2004 based on the increase of the 2004 crop year production of corn, soybeans, and upland cotton. This increase of production led to crop prices falling and loan deficiency rates to rise.

Commodity certificates are available to producers to purchase for use in redeeming collateral pledged to CCC for a commodity loan. The redemption of the loan collateral using commodity certificates may encourage producers to redeem the loan rather than forfeiting or delivering the collateral to CCC at loan maturity. The certificate exchange rate at which the producers purchase the commodity certificates is the market price of the commodity on the date of the purchase. These commodity certificates are not available when the exchange rate exceeds the applicable loan rate. The producers must immediately exchange the commodity certificates purchased for the loan collateral. The difference between the loan rate and the certificate exchange rate (i.e., the market price) is a net cost to CCC. In fiscal year 2005, \$5.1 billion in loans were exchanged for commodity certificates valued at \$3.6 billion, resulting in a \$1.5 billion net cost to CCC. In fiscal year 2004, the equivalent net cost was \$998 million. The increased net cost in fiscal year 2005 is indicative of declining market prices for cotton, rice, and corn.

The 6-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 1999 crop 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 years 2003 and 2004. There was a decrease in commodity loans in fiscal year 2005, mainly attributed to CCC calling all of the remaining tobacco loans.



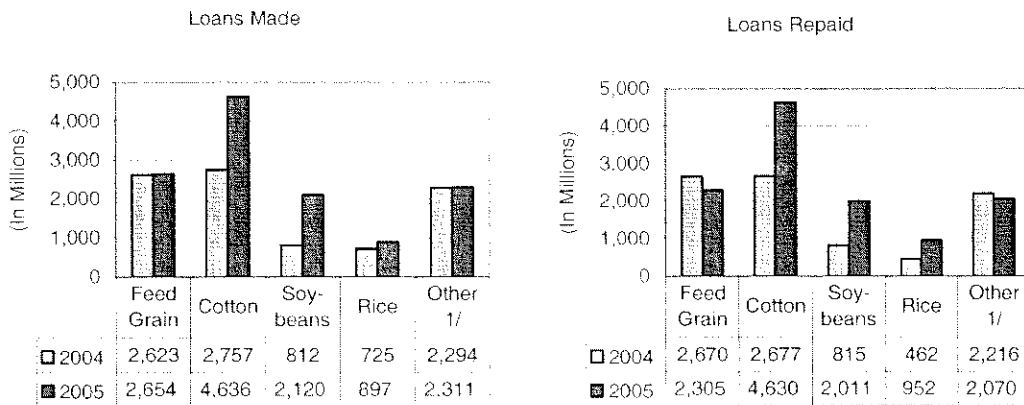
As of September 30, 2005, commodity loans outstanding were \$1 billion, compared to \$1.8 billion as of September 30, 2004. The majority of loans outstanding are for soybeans, wheat, corn, rice, and cotton.

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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.

Loans made totaled \$12.6 billion and \$9.2 billion in fiscal years 2005 and 2004, respectively. Loans repaid totaled \$12 billion and \$8.8 billion in fiscal years 2005 and 2004, respectively. The charts below depict the breakdown of loans made and loans repaid, by commodity. The "Other" category in the following charts includes wheat, tobacco, honey, sugar, peanuts, oilseeds, and mohair.



Tobacco Transition Payment Program (TTPP)

All aspects of the Federal tobacco marketing quota and price support loan programs are ending. Beginning with the 2005 tobacco crop there were no planting restrictions, no marketing cards, and no price support loans. Sign-up for the Tobacco Transition Payment Program (TTPP) was the *final and only* opportunity to receive Federal payments related to tobacco production.

TTPP provides ten equal installment payments to tobacco quota holders and tobacco producers beginning in 2005 and ending in 2014. During 2005, CCC called all the outstanding tobacco loans and brought the tobacco collateral into CCC inventory. The calling of all CCC's tobacco loan portfolio was authorized by the legislation. CCC disposed of the acquired tobacco inventory by either selling it to the tobacco associations in exchange for amounts from No Net Cost Tobacco Account (NNCTA) funds being held by CCC, or by bid sells to the public. The use of NNCTA funds to exchange for tobacco inventory reduced CCC's liabilities to the tobacco association because the NNCTA funds were being held for the benefit of the tobacco association. During 2006, the remaining NNCTA funds will be distributed to the tobacco associations when the Under Secretary approves the tobacco association's plan to distribute the NNCTA funds to their members.

Strategic Goal: Assist agricultural producers and landowners achieve a high level of stewardship of soil, water, air, and wildlife resources on America's farmland and ranches while protecting the human and natural environment

Improving the Environment

The Corporation funds several conservation programs, serving to preserve and conserve the Nation's farmland for future generations and to provide clean water, air, and wildlife for the general public. As reflected on the Statement of Net Cost, costs associated with the Corporation's conservation programs were \$10.6 billion this fiscal year. Last year, costs were \$2.3 billion. Costs are expected to remain steady 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.

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. 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 \$685 million in fiscal year 2004 and \$442 million in fiscal year 2003 to NRCS to fund the payments. In fiscal year 2005, CCC and NRCS entered into an agreement for NRCS to become responsible for payments for outstanding 1997 through 2002 EQIP contracts. CCC transferred \$216 million to NRCS for these outstanding contracts.

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 NRCS and others including private sector technical service providers, the Forest Service, and the U.S. Fish and Wildlife Service. The acreage cap for the program is 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 2005 and 2004, the Corporation incurred net costs for CRP of \$2 billion in both consecutive years.

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

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protecting the human and natural environment. FSA is supporting numerous research efforts that will better quantify the CRP's environmental benefits.

Conservation Reserve Program Performance Measures	2001 Actual	2002 Actual	2003 Actual	2004 Actual ^{1/}	2005 Target/ Actual
Increase CRP acres of riparian and grass buffers (million acres, cumulative)	.95	1.24	1.45	1.65	1.75/1.75
Increase CRP restored wetland acres (million acres, cumulative)	1.65	1.74	1.79	1.89	1.99/1.96

^{1/} These measures are new for FY 2005, included in the FY 2005-2010 draft FSA Strategic Plan. Actual historical information is included above for reference.

Efforts to increase wetlands acres and provide adequate enrollment opportunities cover several initiatives, including one to allow enrollment of larger wetland complexes and playa lakes beyond the 100 year floodplain. However, there is an inherent uncertainty in knowing how soon these initiatives will start generating demand for enrollment in wetlands. The wetlands initiative, Bottomland Hardwoods, has had lower than anticipated enrollment to date. Another potential performance shortfall is the availability of technical assistance resources. FSA intends to use private sector vendors, nonprofit organizations, and public sector agencies as additional resources for providing technical assistance.

Strategic Goal: Improve the effectiveness and efficiency of FSA's commodity acquisition, procurement, storage, and distribution activities to support domestic and international food assistance programs, and administer the U.S. Warehouse Act

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 non-fat dry milk from processors at announced prices. These purchases help maintain market prices at the legislated support level. Originally slated to end in 2002, 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. 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.

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Electronic Warehouse Receipts (EWRs) are identical 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. Originally, EWRs were 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. CCC implemented the Peanut Electronic Warehouse Receipts Pilot project for the 2003 crop year. In fiscal year 2005, an electronic sales system was implemented 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 inventories 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 through private trade channels. At the FSA's Kansas City, Missouri Commodity Office, 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 U.S. 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, 2005, totaled \$304 million, compared to \$950 million the previous year. Most of the inventory decrease is attributable to the disposition of \$501 million of dairy products.

Commodity Inventory As of September 30 (In Millions)

Commodity	2005	2004
Dairy Products	\$95	\$606
Wheat Products	173	291
Tobacco	1	2
Sugar	0	8
Other	35	43
Total Inventory	<u>\$304</u>	<u>\$950</u>

CCC purchased \$26 million (33.5 million pounds) of non-fat dry milk in fiscal year 2005. CCC field test results performed in cooperation with the dairy industry indicate there are sufficient benefits for CCC to offer its non-fat dry milk for sale to the industry for conversion into edible casein or caseinate. As a

result, CCC made available up to 32 million pounds of non-fat dry milk, 24 months or older, for casein or caseinate production.

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 General Sales Manager (GSM) programs encourage exports of U.S. agricultural products to buyers in countries where credit is necessary to maintain or increase U.S. sales, but where financing may not be available without such credit guarantees. The Corporation underwrites credit extended by the private banking sector in the U.S. (or, less commonly, by the U.S. exporter) under the **GSM-102** (credit terms up to 3 years) and **GSM-103** (credit terms up to 10 years) programs. Under these programs, CCC does not provide financing, but guarantees payments due from foreign banks. Typically, 98 percent of principal and a portion of interest at an adjustable rate are covered. 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 U.S. 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, 2005, the principal value of guarantees outstanding under all GSM programs was \$4.2 billion, compared to \$5 billion as of September 30, 2004. This fiscal year, CCC paid \$185 million on defaulted guarantees. In the prior fiscal year, CCC paid \$127 million. Claims and rescheduled export credit guarantee receivables outstanding were \$3.1 billion and \$6.5 billion as of September 30, 2005, and 2004, 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 \$1.2 million in bonuses to exporters under this program while last fiscal year, \$19 million was 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 \$139 million in MAP payments this fiscal year and \$124 million in payments last fiscal year. The 2002 Farm Bill reauthorized the program through 2007, gradually increasing program funding each year.

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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).

The **P.L. 480, Food for Peace Program** was enacted in 1954. The objectives of the program are to cut world hunger and poverty in half by 2015, reduce malnutrition, and ensure that people everywhere have enough food at all times for healthy, productive lives. The program uses America's agricultural and scientific talents to fight undernourishment and famine around the world. Through this program, the U.S. has shipped more than 3 million metric tons of food aid over the last fiscal year and nearly 13 million metric tons over the last 5 years to feed people around the world.

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, 2005, P.L. 480 Title I direct credit receivables outstanding totaled \$8.5 billion, an increase from last year's total of \$8.4 billion.

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 \$642 million and \$716 million in fiscal years 2005 and 2004, respectively.

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 \$49 million in fiscal year 2005, and \$67 million in fiscal year 2004. Direct credits outstanding under the program as of September 30, 2005, were \$239 million. As of September 30, 2004, direct credits were \$295 million.

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 \$178 million in fiscal year 2005, and \$137 million in fiscal year 2004.

The **McGovern-Dole International Food for Education and Child Nutrition Program (FFE Program)** helps support education, child development, and food security for some of the world's poorest children. It provides for donations of U.S. agricultural products, as well as financial and technical assistance, for school feeding and maternal and child nutrition projects in low-income, food deficient countries that are committed to universal education.

The FFE program was authorized by the Farm Security and Rural Investment Act of 2002 and is administered by the USDA's FAS. Under this program, the U.S. shipped 14,400 metric tons with a commodity value of \$6.1 million in fiscal year 2005.

Strategic Goal: Provide effective administrative services and information technology processes

Implementing the President's Management Agenda

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 improve 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

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 has reduced the number of days it takes to close the monthly general ledgers, thereby making financial data available faster than in the past. Reporting processes are being streamlined by replacing manual tasks with automated processes wherever possible. Several standard monthly reconciliations are in place and additional analytical tools are being used to examine and verify financial data before its release. These reconciliations continue to be enhanced and improved upon. Additionally, CCC measures and monitors its monthly performance on several key financial indicators and communicates progress to management.

In fiscal years 2005 and 2004, quarterly financial statements were prepared as required by OMB. This assisted in improving the reporting process. 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. In fiscal year 2005, CCC developed updated policies and procedures for recording obligations and accruals. It implemented improved oversight, analytical, and reporting processes to ensure the accuracy of obligation balances. It added or restructured transaction codes for obligations in its core financial system to reduce manual postings. It implemented standard operating procedures for monthly reconciliations between the e-Funds control system and the general ledger. In fiscal year 2006, CCC plans to undertake additional internal control improvements to ensure budgetary transactions are properly supported, recorded timely and accurately in accordance with the U.S. Standard General Ledger.

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Clean Audit Opinion

CCC has displayed its commitment to improving financial management and performance and accountability to the American people through earning an unqualified (clean) audit opinion on its fiscal year 2005 and 2004 financial statements. 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 and internal control weaknesses identified in prior years' audits. CCC continues to make great strides in the coordination and validation of information used in its financial statements.

Audit Opinion On Financial Statements	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Unqualified	X		X				X ^a	X	X	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.

In fiscal year 2004, OMB required a statistical sample of Marketing Assistance Loan (MAL) Program payments to determine the projected erroneous payment amount and rate. In July 2004, FSA awarded a contract to perform the statistical sampling for CCC's MAL program and to recommend actions to reduce erroneous payments for the future. CCC completed the FY 2005 risk assessment for the MAL program in September 2005. The initial determination was that the program had a low risk for erroneous payments. The statistical sampling process confirmed the actual level of erroneous payments was 0.7 percent, which is well below the 2.5 percent threshold established by OMB. The sampling contractor provided information concerning the cause of erroneous payments and recommendations on how CCC can reduce or eliminate those causes. The primary cause of erroneous payments for this program is the information provided by the producer concerning the collateral being offered for the loan. During FY 2005, statistical samples were also completed for the Loan Deficiency Payment and Milk Income Loss Contract

programs. The results of the sampling confirmed that the erroneous payment rates for those programs were 1 percent and 0.3 percent, respectively, well below the 2.5 percent threshold established by 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 is fully aligned with the Mission Area Human Capital Plan and the revised USDA Human Capital Plan for fiscal years 2004 to 2009. Both plans address and engage strategies to meet the Human Capital standards of success identified by the Office of Personnel Management (OPM) and OMB, particularly in talent management, leadership development, and improving its performance culture. To ensure the accomplishment of Agency goals, FSA is undertaking initiatives in areas such as effective workforce planning and organizational alignment, the recruitment and development of staff whose size, skills, and deployment meet the Agency's needs, leadership continuity and succession planning, and the creation of a diverse, results-oriented culture.

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;
- Forming a Department-wide OMB Circular A-76 working group;
- Establishing competitive sourcing program staff in several agencies (one of which is FSA).

FSA currently has no future planned competitive sourcing activity due to the restriction placed on FSA in House Resolution 4818, the Consolidated Appropriations Act, 2005, enacted on December 8, 2004. This bill contains language that limits FSA's ability to implement and conduct competitive sourcing studies.

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.

Federal Managers' Financial Integrity Act (FMFIA) Report

The 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 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 C presents CCC's reporting on FMFIA.

Legal Compliance

As reported in the 2004 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 in the following.

The **Federal Information Security Management Act (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.

The auditors noted that during fiscal year 2003, CCC had 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.). During fiscal years 2003 and 2004, CCC continued to improve its information security program. Many of CCC's IT weaknesses were closed by completing the Certification and Accreditation process and its associated documentation for all CCC IT systems by September 30, 2004. Others were closed by CCC or the Office of the Chief Information Officer's (OCIO) Information Technology Services (ITS) developing new IT policies and procedures and developing and testing disaster recovery/contingency plans.

During fiscal years 2004-2005, CCC mitigated all its material weaknesses reported in FISMA. These included the following issues:

- Configuration Management Controls Needs Improvement (completed in FY 2004)
- Formal Certification & Accreditation and Security Test & Evaluation for Major Applications (completed in FY 2004)

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- Access Controls Need Improvements
- Develop And Test Contingency Plans (Including County Office Plans)
- Update Risk Management Program (and Complete Risk Assessments, which were completed in FY 2004)

CCC developed Plans of Action and Milestones (POA&M) to mitigate all of these material weaknesses, as well as, minor/reportable items found through annual self-reviews following guidance from National Institute of Standards and Technology (NIST) Special Publication 800-26, "Security Self-Assessment Guide for Information Technology Systems." FSA/CCC completed over 98 percent (247/251) of its FY 2005 POA&M items, with only four minor items carried over into FY 2006.

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 Treasury for the purpose of collection by cross-servicing or the offset program. CCC remains substantially in compliance with DCIA, having implemented all the required provisions of the law.

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 D presents CCC's remediation plan.

Improving Payment and Collection Processes

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

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.

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.

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Percentage of Late Payments
As of September 30



In fiscal year 2005, CCC made 22 million payments that were subject to the provisions of the Prompt Payment Act. These payments totaled \$30.2 billion. Of these 2005 payments, 0.68 percent of them were paid late. This is an increase over last year when CCC made 16 million payments totaling \$19.5 billion. Of these 2004 payments, 0.31 percent were paid late.

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 from last year as depicted in the table below due in large part to the unwillingness of rural vendors to accept payment by EFT, and system constraints for reporting detail information to support EFT payments to large corporations. The system that allows vendors to download and access necessary payment detail information is only available for payments initiated by our Kansas City Finance Office's Centralized Disbursement System. The system will not be redesigned to report vendor payments to our 2,400 service centers because the Service Centers are migrating the vendor payment process to the National Finance Center. Implementation is being phased in through fiscal year 2006, with full implementation to be completed by October 1, 2006.

Percentage of Payments Made via EFT As of September 30			
Payment Recipient	2003	2004	2005
Vendor	47%	35%	26%
Producer	74%	78%	78%

As shown in the table, 78 percent of producer payments were made via EFT in fiscal years 2005 and 2004. History has shown that the recurring-type 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. It is anticipated the percentage of EFT will increase as we move into new web based payment processes.

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 Treasury when they become 180 days delinquent.

In fiscal year 2005, CCC referred 5,654 debts valued at \$69 million, to the TOP. In fiscal year 2004, CCC referred 6,853 debts, valued at \$68 million. In both fiscal years 2005 and 2004, 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 2005, CCC referred 1,742 debts valued at \$8 million, for cross servicing. In fiscal year 2004, CCC referred 1,834 debts, valued at \$17 million. CCC collected less than \$1 million from cross servicing in the last 2 fiscal years combined.

CCC continues to maintain a very strong internal debt management program. CCC collected \$10 million and \$7 million, respectively, in fiscal years 2005 and 2004 by internal administrative offset. CCC also collected from delinquent debtors via internal collection efforts \$13 million and \$14 million, respectively, in fiscal years 2005 and 2004. In addition, CCC also collected another \$5 million from debts referred to the Justice Department in fiscal year 2005, and \$2 million in fiscal year 2004.

The DCIA Compliance Review Team was established in January 2003. Since then, the team has traveled to State offices and county offices, resolving \$12 million in debt. In FY 2004 and 2005, the DCIA team continued to tighten the controls over compliance. County offices are now required to certify to their State office quarterly, their compliance with DCIA and CCC policy for both receivables and claims. The State offices are required to certify to the Headquarters semi-annually, their State's compliance. In fiscal year 2005, system software modifications were made to automate timely issuance of demand letters and subsequent automatic transfer of delinquent debts from receivable to claim status thereby preparing debts for timely referral to Treasury. By implementing all collection tools available, CCC is striving to achieve its strategic goal of providing effective administrative services and maintaining the debt portfolio as current as possible with the lowest possible number of delinquencies.

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 to provide electronic services for its customers. The three agencies implemented an e-forms system in 2004 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 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

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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 sign-up 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.

Applying for Programs over the Internet

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 elect to participate in the eLDP initially visit their local FSA Service Center to sign-up for the eLDP and complete the LDP application to provide farming information. The FSA Service Center provides the producer with a user ID to access the eLDP Internet application. The FSA Service Center also establishes 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 are able to initiate a request for eLDP through the Internet. Valid eLDP requests that meet the criteria for the approved application parameters established by the local Service Centers are processed and payments calculated, certified and disbursed. This initial beta process was successful on a small scale early in 2002. The next phase of eLDP was a beta expansion for 2002 crops covering at least one site in each State. The strategy for eLDP was 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. Nationwide deployment of all commodities, except cotton, was completed in September 2004 with cotton implemented in October 2004. In fiscal year 2005, electronic submission access was extended to allow members of partnerships, corporations, and other entities beyond a single producer to submit applications. The eLDP program was further enhanced to leverage centralized information for determining eligibility and adjusted gross income thus eliminating manual servicing of these parameters in the Service Center. Capability was added for submission of field direct, load summary, and warehouse stored eLDP applications.

For crop year 2005, CCC implemented a web-enabled application to provide Service Centers and producers the capability to e-file applications for DCP program benefits. Service Center employees were the first to pilot the web-based application. Access was subsequently opened to the public allowing producers to sign up for the program from their home computer, thus saving a trip to the Service Center. In fiscal year 2006, CCC will extend eDCP to utilize the National Payment Service for disbursing electronic payments.

Representative Link Manager System (RLMS)

In fiscal year 2005, CCC implemented a web-based application to maintain a record of certain customer representative and relationship roles for web-based software applications to leverage in determining

electronic customer accessibility. RLMS is a critical component in establishing the relationships necessary to support e-Commerce activities for members of entities such as corporations, partnerships, and joint ventures.

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, streamlined program operations and improved customer service by automating the entry of commodity requests ("call forwards") from AID and private voluntary organizations (PVO's). The call forwards are electronically transmitted to CCC for purchase. In fiscal year 2005, improvements were made for the tracking of commodities requests.

Electronic Distribution

CCC's Electronic Distribution Project Phase III (ED3) provides disbursement statements and storage invoices electronically for customers and businesses interacting with the Processed Commodities Inventory Management System and the Grain Inventory Management System. In fiscal year 2005, the Grain Inventory Management System storage invoices were made available in ED3.

USDA Customer Statement

In support of the USDA OCIO initiative to improve and expand customer access to information, CCC implemented processes to provide USDA customers access to FSA/CCC payment information and Farm Loan debt. In fiscal year 2006, CCC will enhance the services provided for the USDA Customer Statement to offer access to FSA acreage reporting information and to provide access to a Geographical Information System representation of the customer's Common Land Unit (CLU) with the crop reports graphically displayed on the CLU.

Financial Inquiries

CCC implemented a web-based application to provide FSA and CCC customers on-line access to financial information, such as payments, collections, debts, and 1099-G, Certain Government Payments Reports. Customers have access to both summary and detailed information, thus eliminating the need to request information from the local Service Center. Summary financial data has been linked to the USDA Customer Statement with the capability for customers to "drill" into the detail.

Financial Services

In 2004, CCC implemented a web-based Financial Services (FS) application which allows Service Center employees and customers, e.g., producers, financial institutions, to electronically submit direct deposit profiles, assignments, and joint payments.

General Sales Manager (GSM) Web Portal

CCC implemented a web portal in 2004 to allow U.S. banks and commodity exporters participating in the GSM programs to electronically submit Registrations, Evidence of Exports, and Notices of Default. The GSM System supports the USDA in its objectives to provide approximately 4,000 guarantees to U.S. exporters and financial institutions each year, worth about \$3.5 billion to \$4.5 billion. FSA and FAS are

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jointly responsible for program, administrative, and financial functions related to CCC's Export Credit Guarantee programs.

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.

Emergency Disaster Legislation

FSA implemented a number of web-based programs in fiscal year 2005 to support emergency disaster legislation including the Livestock Assistance Program, the American Indian Livestock Feeding Program, the Tree Assistance Program for Pecans, Orchards, and Timber, and the Dairy Disaster Assistance Program.

Tobacco Transition Payment Program (TTPP)

On October 22, 2004, the President signed Public Law 108-357 to "buyout" tobacco quota holders, tobacco producers, and to issue transition payments. In March 2005, FSA implemented a web-based on-line TTPP contract system, providing FSA Service Centers with the ability to create and approve TTPP contracts. Payments began in July 2005 utilizing the National Payment Service for electronic payment certification and signing. In fiscal year 2006, FSA will implement an e-Commerce application to allow registered financial institutions who are approved to purchase TTPP contracts to submit and manage purchased contracts via the web.

Modernize and Innovate the Delivery of Agricultural Systems (MIDAS)

FSA has begun the development and implementation of the modernization of Farm Program delivery. This process, known as MIDAS, will provide "real time" transactions and uniform business processes. FSA delivered the first applications following this new business model to support the sign-up and payment processes for the Livestock Assistance Program and American Indian Livestock Feed Program. In fiscal year 2005, FSA made available the option of electronically applying for LDP, and MILC payments. In a future year, FSA will make available the option of electronically applying for DCP payments. The ultimate objective is to deliver farm programs through an intuitive, web-based system of relational databases that pre-populate best practices to improve the workplace for FSA employees, increase producer program participation, and enable FSA to better serve the American public. In addition, the design and documentation of streamlined business processes will leverage the Common Computing Environment's (CCE) hardware, software, data, and capabilities, and maximize FSA's investment in geospatial data and Graphical Information Systems (GIS) technologies.

Making the Workplace More Efficient

Information Technology Infrastructure

The standardization of the information technology infrastructure for the field structure is continuing. Much progress has been made in the deployment of patching systems and improved intrusion detection devices which search for patterns of inappropriate activity, not just known signatures. During next year,

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the Universal Telecommunications Network will be fully implemented thus bringing better network bandwidth and reliability of service. The flexible new infrastructure continues to be 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. Efforts to implement a Sharepoint site for the Department are being supported. The SCAs 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
- eAuthentication
- SCIMS Link Manager
- Representative Link Manager
- Extensible Authorization System
- WebCAAF

The shared CCE architecture components implemented in fiscal year 2005 include the installation of servers with relational database capability in the SCA service centers to support the GIS data layers and the multi-user access to GIS applications. Another key infrastructure component was 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. Small office servers covering small field offices with 2-3 persons each were also deployed.

The following initiatives reflect FSA's modernization initiative to manage information technology in a manner that enhances productivity, customer service, and information sharing. FSA is modernizing its business processes to eliminate redundancy and provide consistent automated processes that will support the enterprise-wide modernization effort. The modernized applications will fulfill the requirements of the President's Management Agenda by delivering customer-centric electronic applications.

National Payment Service (NPS)

In fiscal year 2004, CCC implemented a web-enabled NPS to support payment requests for web-enabled FSA/CCC program delivery systems, such as eLDP and MILC Contracts. FSA Service Center employees access the NPS to review payment requests and apply late payment interest penalties, debt offsets, voluntary receivable repayments, assignments and joint payments, and electronically sign and certify payments. In fiscal year 2005, FSA/CCC piloted an interface with Treasury's Financial Management Service (FMS), for processing farm program payments. FSA/CCC payments certified through the NPS are routed to FMS for processing through the Federal Reserve System. FSA plans to extend this initiative to all FSA/CCC payments including all farm program payments and commodity operations payments. FSA will continue to implement interim strategies for extending the features of NPS to support obligations, on-line payments, and the establishment of receivables for program overpayments until the enterprise

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Financial Management Line of Business COTS solution is selected and made available for Agency implementation.

Geospatial Information Systems (GIS)

CCC is implementing a number of GIS tools to provide Service Centers with access to digital geospatial data to maintain a digital database of aerial photography, soils information, customer information, and farm records, and to eliminate the printing and storage of paper maps. As the CLU digitization is completed, more Service Centers will have access to these tools, thus enabling further integration with program delivery. The GIS digital layer and the CLU and Land Use layers will be housed in a sharable and accessible Geo-Spatial Data Warehouse. To position FSA for a new Farm Bill late in a future year, the MIDAS program is focused on delivering a core set of business processes coined as "minimum viable services (MVS)." MVS will fully enable customer relationship management and support the integration of the CLU Geospatial data layer with Farm Records tabular data for land management and land use activities.

CRP Sign-up Offer Process (GSOP)

During 2003, CCC implemented a workstation based Conservation Reserve Program General Offer system. This system leveraged the GIS soils layer, the GIS hydrologic layer, and the FSA CLU to significantly streamline the collection and evaluation of applicant offer information. This new software performed the technical determination for land eligibility and Environmental Benefits Index scoring, resulting in reduced time to process an offer from days to 45 minutes and saved FSA \$8 million to \$11 million in technical service costs. During 2004, CCC updated the general sign-up offer system to a web-based system to further streamline and leverage the automated GIS information available in the Service Center Agencies. During fiscal year 2006, CCC will implement a web-based sign-up offer process utilizing the GIS layers to streamline the offer process resulting in a potential savings of \$300 million in technical assistance costs.

Producer Eligibility, Adjusted Gross Income, and Permitted Entity Services

During fiscal year 2005, CCC implemented web-based services for determining eligibility, adjusted gross income, and permitted entity shares for use in the determination of program participation and payment eligibility. These services are being shared by NRCS in the delivery of the Environmental Quality Incentives Program.

Reporting Financial Information

The Corporation's financial statements report the financial position and results of operations of CCC pursuant to the requirements of 31 U.S.C. 3515(b). These statements have been prepared from CCC's recorded business transactions for fiscal years 2005 and 2004 in accordance with generally accepted accounting principles for Federal entities and the Statements of Federal Financial Accounting Concepts and Standards. CCC's financial statements are prepared in accordance with policies prescribed in OMB Circular A-136 and shown comparatively for ending fiscal years 2005 and 2004. The statements are in addition to the external financial reports used to monitor and control budgetary resources, which are also prepared from CCC's general ledger. Furthermore, CCC's financial statements are a component of the U.S. Government, a sovereign entity.

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Variance analyses are prepared each quarter and year-end for each financial statement line item to determine if large variances exist from year to year and to research the cause of such variances. It is a management tool used to forecast future events for planning and budgeting purposes, as well as, determining whether each account is performing as expected. The following table represents the largest meaningful variances reflected in the financial statements with regard to CCC's assets and liabilities.

The variance for Loans Receivable and Related Foreclosed Property, Net account is attributable to decreases in Foreign Loans Receivable and related interest receivable, net of allowances, in the amounts of \$1,230 million in the General Sales Manager (GSM) Guaranteed Loan Program and \$268 million in GSM-5-Export Credit Sales. The countries of Russia and Poland bought back their loans during 2005. There was also a decrease of \$693 million in 2005 attributable to the calling of all tobacco loans.

Selected Items from the Balance Sheet As of September 30 (In Millions)		
Line Item	2005	2004
Loans Receivable and Related Foreclosed Property, Net	\$8,294	\$10,364
Inventory and Related Property, Net	\$29	\$141
Debt	\$23,426	\$12,468

The variance for Inventory and Related Property, Net is primarily due to a decrease in commodity inventory of \$635 million consisting of non-fat dry milk, wheat, and corn. The inventory allowance also decreased during fiscal year 2005 by \$535 million due to anticipated domestic donations and the Bill Emerson Humanitarian Trust donations.

The largest variance in Debt, Debt to Treasury, occurred in CCC's revolving fund (12X4336), increasing by \$10,500 million. In fiscal year 2005, CCC increased the Treasury borrowing in order to finance current operations due to the increase in current year cost.

The net cost of operations for CCC's domestic programs totaled \$23,529 million in fiscal year 2005 compared to \$12,186 million in the prior year. As shown in the table to the right and on the supporting schedule to the Statement of Net Cost disclosed in the footnotes, Direct and Counter-Cyclical expenses were the largest costs in the current and previous fiscal years. These program expenses were higher in 2005 due to lower market year average prices resulting in higher payment rates. First and second partial counter-cyclical payment rates for corn, soybeans, and upland cotton were significantly higher for the 2004 crop year.

Program	FY 2005	FY 2004
Commodity Operations	\$ 1,303	\$ (156)
Farm Income Support	(2,519)	2,484
Direct & Counter-Cyclical	11,083	6,510
Emergency Assistance	3,099	1,057
Conservation Programs	10,563	2,291
Total	\$ 23,529	\$ 12,186

CCC's loan deficiency payments were \$3,300 million more in fiscal year 2005 than 2004. An increase in the 2004 crop year production of corn, soybean, and upland cotton led the 2004-crop prices to fall and the loan deficiency payment rates to rise. In addition, the newly established 2005 Tobacco Trust Fund program incurred \$1,240 million in payments.

During 2005, Commodity Program costs increased by \$1,147 million due to the increase in cost of goods sold that is recognized when commodity certificates related to wheat and feed grains are redeemed to repay loans outstanding. These costs are partially offset by revenue recognized from the sale of the certificates; consequently the net difference reflects the variation in the loan rates versus the market prices.

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Appendix A CCC Board of Directors and Officers

CCC Board of Directors

Chairperson, Michael O. Johanns *Secretary, USDA*

Vice Chairperson, Charles F. Conner, *Deputy Secretary, USDA*

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

Member, Vacant, *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, Michael W. Yost, *Acting Administrator, Farm Service Agency (FSA)*

Vice President, Michael W. Yost, *Associate Administrator, Programs, FSA*

Vice President, Thomas B. Hofeller, *Associate Administrator, Operations and Management, FSA*

Vice President, Dr. Kenneth C. Clayton, *Acting 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 W. Williams, *Deputy Administrator for Management, FSA*

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

Deputy Vice President, Douglas W. Frago, *Deputy Administrator, Field Operations, FSA*

Deputy Vice President, Edward Rall, *Acting Director, Economic & Policy Analysis Staff, FSA*

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

Deputy Vice President, Thomas Christensen, *Deputy Chief, Programs, NRCS*

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

Secretary, Steven N. Mikkelsen, *Acting Executive Assistant to the Administrator, FSA*

Deputy Secretary, Karen A. Malkin, *Director, Strategic Performance and Evaluation Staff, FSA*

Assistant Secretary, Monique B. Randolph, *Assistant Secretary, Strategic Performance and Evaluation Staff, FSA*

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

Treasurer, Linda Herbert, *Deputy Director, FMD, FSA*

Chief Accountant, Zayra Okrak, *Chief, Financial Accounting and Reporting Branch, FMD, FSA*

ADVISORS

General Counsel, Nancy S. Bryson, *Office of the General Counsel*

Associate General Counsel, Thomas V. Conway, *International Affairs, Commodity Programs and Food Assistance Programs*

COMMODITY CREDIT CORPORATIONManagement's Discussion and Analysis
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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
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 Facility and Sugar Storage Facility 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
3674	Reimbursement for Net Realized Losses - Appropriation Warrant Fund
4049	P.L. 480 Direct Credit Financing Fund
4143	Debt Reduction Financing Fund
4158	Farm Storage Facility and Sugar Storage Facility Loans Financing Fund
4211	Apple Loans Financing Fund
4221	Emergency Boll Weevil Direct Loans Financing Fund
4336	Revolving Fund (including specific appropriations for disaster relief)
4337	Export Credit Guarantee Financing Fund
4338	Export Credit Guarantee Direct Loans Liquidating Fund
8161	Tobacco Trust Fund

Section 4 of the FMFIA Report
Material Nonconformances in Financial Systems

Material Nonconformance:

Improvement needed in information security controls:

- Risk assessment process
- Information Technology (IT) security plans
- Security vulnerability scans
- System certification
- Background investigations
- Contingency planning
- Network security weaknesses

Year Identified in FMFIA Report: 2003

Revised Target Completion Date: Fiscal year 2006

Section 4 of the FMFIA Report

Material Nonconformances in Financial Systems

Completed Corrective Actions:

1. Risk assessments were conducted on all FSA Information Technology (IT) systems in FY 2003-2004.
2. Security plans were completed for all FSA IT systems in FY 2003-2004.
3. The security vulnerability scans issue was corrected by FSA. However, vulnerability scans, along with FSA's entire IT infrastructure, are now (since November 28, 2004) the responsibility of OCIO's ITS. FSA, along with the other Service Center Agencies (SCA), worked with ITS on this issue. ITS has issued a policy: Departmental Regulation (DR) 3602-001, "OCIO-ITS Security Policy Manual" and procedures: ITS 8000-002, "Vulnerability Scan Security Procedures Guide," on scanning. The procedures specifically address performing vulnerability scans of devices before they enter production.
4. FSA has formally certified and accredited all its IT systems (including CCC financial applications) as of September 30, 2004.
5. The Human Resources Division (HRD) in Kansas City, Missouri, is up-to-date with USDA background investigation requirements. HRD in Washington, D.C., follows the USDA policy in initiating security clearances and is current on new investigations.
6. Application-level contingency plans were developed for all FSA major applications as part of the C&A process and tested in November-December 2004. FSA has identified, equipped, and tested at 8930 Ward Parkway, Kansas City, Missouri, as an alternate processing facility for its Beacon Drive facility. FSA has completed its actions needed to close the audit findings on the contingency plan issue.
7. FSA had previously fixed its network security weaknesses and verified this by vulnerability scans of its networks. However, network security and vulnerability scanning is now the responsibility of ITS. The FSA Information Security Office has worked with the other SCA and ITS to develop DR 3602-001, "OCIO-ITS Security Policy Manual." It includes configuration management policies for firewalls, Intrusion Detection Systems, routers and switches, and servers. ITS will regularly scan FSA's networks to ensure that systems are configured properly and any network security weaknesses are found and corrected.

Planned Corrective Actions:

8. FSA will collaborate with the Office of the Chief Information Officer to identify and implement additional improvements needed to improve USDA's general control environment. This includes the following improvements needed in information security controls:
 - Information security program management
 - Technical security access controls
 - Software change/configuration management
 - Contingency planning

**Appendix C
FMFIA Reporting**

Section 4 of the FMFIA Report
Material Nonconformances in Financial Systems

Material Nonconformance:

Improvement needed in funds control mechanisms and in budgetary accounting and reporting policies and procedures.

Year Identified in FMFIA Report: 2004

Revised Target Completion Date: Fiscal year 2005 (Completed)

Completed Corrective Actions:

1. Documented standard processes for recording obligations for programs with common triggering business events.
2. Added or restructured transaction codes for obligations in CORE to reduce manual postings and provided improved reports regarding obligations to program managers. Implemented an automated process to accumulate obligation data from program systems and post on a monthly basis into CORE.

Material Nonconformance:

Improvement needed in financial system functionality and related processes.

Year Identified in FMFIA Report: 2003

Revised Target Completion Date: Fiscal year 2005 (Completed)

Completed Corrective Actions:

1. Completed financial posting review of transactions that may have a material impact on CCC's financial statements.
2. Implemented any changes to the posting model for financial transactions, which may have a material impact on CCC's Financial Statements, and recorded posting adjustments in CORE general ledger to correct errors.

**Appendix C
FMFIA Reporting**

Section 4 of the FMFIA Report

Material Nonconformances in Financial Systems

Material Nonconformance:

Improvement needed in financial accounting and reporting policies and procedures

Year Identified in FMFIA Report: 2004

Revised Target Completion Date: Fiscal year 2006

Completed Corrective Actions:

1. Completed review of specific accounting and reporting policies and procedures.
2. Developed and documented improved procedures in collaboration with program offices to identify and record accruals for major CCC programs.

Planned Corrective Actions:

3. Re-examine existing accrual policies and analytical procedures in terms of Federal accounting standards and CCC business practices, determine where improvements need to be made, and implement improvements.

Material Nonconformance:

Improvement needed in controls to ensure budgetary transactions are properly supported, recorded timely and accurately in accordance with Federal accounting standards using the U.S. Standard General Ledger (USSGL) at the transaction level.

Year Identified in FMFIA Report: 2005

Target Completion Date: Fiscal year 2009

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Planned Corrective Actions:

1. Document and evaluate current system of budgetary accounting controls, identify deficiencies, develop and implement improved, well-defined control processes, as part of OMB A-123 Appendix A assessment of CCC's internal controls over financial reporting: FY 2006
2. Obtain contractor training for financial management staff in budgetary accounting and analysis: FY 2006
3. Transform the organizational structure to establish clear lines of authority, leverage expertise, and improve performance in the implementation and documentation of financial and budgetary accounting policy, budgetary and proprietary accounting analysis, reconciliations, and review: FY 2006
4. As an interim solution, analyze current feeder systems to determine compliance with financial data requirements, and if required financial data elements are not gathered for transmission to the core financial system, identify feeder system gaps and costs to correct: FY 2006.
5. Through the FSA MIDAS (Modernize and Innovate the Delivery of Agricultural Systems) initiative, ensure that all financial management requirements are incorporated at the transaction level in the next generation of program feeder systems: FY 2009
6. As an interim solution, enhance existing financial web services, such as the National Payment Service and e-Funds control systems, and increase CCC programs using these systems: FY 2007.
7. Implement a new integrated financial management system that includes funds control functionality, under OMB Financial Management-Line of Business: TBD
8. Re-examine existing accrual policies and analytical procedures in terms of Federal accounting standards and CCC business practices, determine where improvements need to be made, and implement improvement: FY 2006

**Appendix D
CCC Remediation Plan**

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

1. Noncompliance with Federal Financial Management Systems Requirements

<p>1.1 Improvement needed in information security controls:</p> <p>Corrective Actions:</p> <p>Target Completion Date: Fiscal year 2006</p> <p>1.1.1 FSA will collaborate with the Office of the Chief Information Officer (OCIO) to identify and implement additional improvements needed to improve USDA's general control environment. This includes the following improvements needed in information security controls:</p> <ul style="list-style-type: none"> o Information security program management o Technical security access controls o Software change/configuration management o Contingency planning
--

Estimated Resources Needed for Corrective Actions for Sections 1 and 4		
Fiscal Year	Full-Time Equivalents (FTEs)	Dollars
2006	40 contractors	\$3,200,000 \$2,600,000
2007	-	-
2008	-	-

Appendix D
CCC Remediation Plan

2. Noncompliance with Applicable Federal Accounting Standards

2.1 Improvement needed in controls to ensure transactions are properly supported, recorded timely and accurately in accordance with Federal accounting standards using the U.S. Standard General Ledger (USSGL) at the transaction level.

Corrective Actions:

Target Completion Date: Fiscal year 2009

- 2.1.1 Document and evaluate current system of budgetary accounting controls, identify deficiencies, develop and implement improved, well-defined control processes, as part of OMB A-123 Appendix A assessment of CCC's internal controls over financial reporting: FY 2006
- 2.1.2 Obtain contractor training for financial management staff in budgetary accounting and analysis: FY 2006
- 2.1.3 Transform the organizational structure to establish clear lines of authority, leverage expertise, and improve performance in the implementation and documentation of financial and budgetary accounting policy, budgetary and proprietary accounting analysis, reconciliations, and review: FY 2006
- 2.1.4 As an interim solution, analyze current feeder systems to determine compliance with financial data requirements, and if required financial data elements are not gathered for transmission to the core financial system, identify feeder system gaps and costs to correct: FY 2006.
- 2.1.5 Through the FSA MIDAS (Modernize and Innovate the Delivery of Agricultural Systems) initiative, ensure that all financial management requirements are incorporated at the transaction level in the next generation of program feeder systems: FY 2009
- 2.1.6 As an interim solution, enhance existing financial web services, such as the National Payment Service and e-Funds control systems, and increase CCC programs using these systems: FY 2007.
- 2.1.7 Implement a new integrated financial management system that includes funds control functionality, under OMB Financial Management-Line of Business: TBD¹
- 2.1.8 Re-examine existing accrual policies and analytical procedures in terms of Federal accounting standards and CCC business practices, determine where improvements need to be made, and implement improvements: FY 2006

¹ TBD (to be determined): implementation of a new integrated financial management system, under OMB Financial Management-Line of Business, is dependent upon decisions by the Department of Agriculture and funding at both the Department and FSA/CCC levels.

(See resource requirements in Section 3.)

Appendix D
CCC Remediation Plan

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

3.1 Improvement needed in controls to ensure transactions are properly supported, recorded timely and accurately in accordance with U.S. Standard General Ledger at the transaction level.

Corrective Actions:

Target Completion Date: Fiscal year 2009

- 3.1.1 Document and evaluate current system of budgetary accounting controls, identify deficiencies, develop and implement improved, well-defined control processes, as part of OMB A-123 Appendix A assessment of CCC's internal controls over financial reporting: FY 2006
- 3.1.2 Obtain contractor training for financial management staff in budgetary accounting and analysis: FY 2006
- 3.1.3 Transform the organizational structure to establish clear lines of authority, leverage expertise, and improve performance in the implementation and documentation of financial and budgetary accounting policy, budgetary and proprietary accounting analysis, reconciliations, and review: FY 2006
- 3.1.4 As an interim solution, analyze current feeder systems to determine compliance with financial data requirements, and if required financial data elements are not gathered for transmission to the core financial system, identify feeder system gaps and costs to correct: FY 2006.
- 3.1.5 Through the FSA MIDAS (Modernize and Innovate the Delivery of Agricultural Systems) initiative, ensure that all financial management requirements are incorporated at the transaction level in the next generation of program feeder systems: FY 2009
- 3.1.6 As an interim solution, enhance existing financial web services, such as the National Payment Service and e-Funds control systems, and increase CCC programs using these systems: FY 2007.
- 3.1.7 Implement a new integrated financial management system that includes funds control functionality, under OMB Financial Management-Line of Business: TBD¹

¹ TBD (to be determined): implementation of a new integrated financial management system, under OMB Financial Management-Line of Business, is dependent upon decisions by the Department of Agriculture and funding at both the Department and FSA/CCC levels.

Appendix D
CCC Remediation Plan

Estimated Resources Needed for Corrective Actions for Sections 2 and 3		
Fiscal Year	Full-Time Equivalents (FTEs)	Dollars
2006	10 Contractors	\$800,000 \$2 million
2007	TBD	TBD
2008	TBD	TBD
2009	TBD	TBD

**Appendix D
CCC Remediation Plan**

4. Noncompliance with Information Security Policies, Procedures and Practices

4.1 Improvement needed in information security controls:

Corrective Actions:

Target Completion Date: Fiscal year 2006

4.1.1 FSA will collaborate with the Office of the Chief Information Officer to identify and implement additional improvements needed to improve USDA's general control environment. This includes the following improvements needed in information security controls:

- Information security program management
- Technical security access controls
- Software change/configuration management
- Contingency planning

(See resource requirements in Section 1 that has same corrective action plan.)

Exhibit A

Commodity Credit Corporation
Consolidated Balance Sheets

As of September 30, 2005 and 2004
(Dollars in Millions)

	<u>2005</u>		<u>2004</u>
Assets:			
Intragovernmental:			
Fund Balance with Treasury (Note 2)	\$ 2,781		\$ 3,213
Accounts Receivable, Net (Note 3)	387		400
Other	1		3
Total Intragovernmental Assets	<u>\$ 3,169</u>		<u>\$ 3,616</u>
Cash	59		-
Accounts Receivable, Net (Note 3)	7,572		439
Loans and Credit Program Receivables:			
Commodity Loans, Net (Note 4)	\$ 1,031		\$ 1,798
Credit Program Receivables, Net (Note 5)	7,237		8,272
Other Foreign Receivables, Net	26		294
Subtotal	<u>\$ 8,294</u>		<u>\$ 10,364</u>
Commodity Inventories, Net (Note 6)	29		141
General Property, Plant, and Equipment, Net (Note 7)	52		48
Other	28		35
Total Assets	<u>\$ 19,203</u>		<u>\$ 14,643</u>
Liabilities			
Intragovernmental:			
Accounts Payable	\$ 819		\$ 811
Debt to the Treasury (Note 8)	23,426		12,468
Other:			
Resources Payable to Treasury (Note 1)	\$ 4,681		\$ 6,029
Deposit and Trust Liabilities (Note 9)	739		2,126
Other (Note 10)	926		468
Subtotal	<u>\$ 6,346</u>		<u>\$ 8,623</u>
Total Intragovernmental Liabilities	<u>\$ 30,591</u>		<u>\$ 21,902</u>
Accounts Payable	469		315
Credit Guarantee Liabilities (Note 5)	260		240
Environmental and Disposal Liabilities (Note 11)	11		15
Other Liabilities:			
Accrued Liabilities (Note 12)	\$ 14,644		\$ 4,923
Deposit and Trust Liabilities (Note 9)	28		502
Other (Note 10)	33		32
Subtotal	<u>\$ 14,705</u>		<u>\$ 5,457</u>
Total Liabilities	<u>\$ 46,036</u>		<u>\$ 27,929</u>
Commitments and Contingencies (Note 13)			
Net Position:			
Unexpended Appropriations	714		1,647
Capital Stock	190		100
Cumulative Results of Operations	(27,647)		(15,033)
Total Net Position	<u>\$ (26,833)</u>		<u>\$ (13,286)</u>
Total Liabilities and Net Position	<u>\$ 19,203</u>		<u>\$ 14,643</u>

The accompanying Notes are an integral part of the Financial Statements

Exhibit B

Commodity Credit Corporation
Consolidated Statement of Net Cost (Note 14)

For the Fiscal Years Ended September 30, 2005 and 2004
(Dollars in Millions)

	<u>2005</u>	<u>2004</u>
Net Program Costs:		
Intragovernmental Costs		
Imputed Costs	\$ 1,094	\$ 999
Reimbursable Costs	181	85
Borrowing Interest Expense	591	321
Other	4	(184)
Total Intragovernmental Gross Costs	<u>1,870</u>	<u>1,221</u>
Less: Intragovernmental Earned Revenue	131	135
Intragovernmental Net Costs	<u>\$ 1,739</u>	<u>\$ 1,086</u>
Gross Costs with the Public:		
Grants and Direct Payments	28,966	11,781
Credit Program Subsidy	(591)	(979)
Commodity Programs	6,997	2,276
Stewardship Land Acquisition	16	26
Other	(765)	(989)
Total Gross Costs with the Public	<u>34,623</u>	<u>12,115</u>
Less: Earned Revenue from the Public	13,103	1,510
Net Costs with the Public	<u>21,520</u>	<u>10,605</u>
Net Cost of Operations	<u>\$ 23,259</u>	<u>\$ 11,691</u>

The accompanying Notes are an integral part of the Financial Statements

Exhibit C

Commodity Credit Corporation
Consolidated Statement of Changes in Net Position

For the Fiscal Year Ended September 30, 2005
(Dollars in Millions)

	Cumulative Results of Operations	Capital Stock	Unexpended Appropriations
Beginning Balances	\$ (15,033)	\$ 100	\$ 1,647
Budgetary Financing Sources:			
Appropriations Received			14,546
Appropriations Transferred - In			222
Appropriations Transferred - Out			(698)
Other Adjustments			(214)
Appropriations Used	14,789		(14,789)
Nonexchange Revenue	5		
Transfers In Without Reimbursement	105		
Transfers Out Without Reimbursement	(4,552)		
Other Financing Sources:			
Imputed Financing	1,094		
Transfers In Without Reimbursement	17		
Transfers Out Without Reimbursement	(1,001)		
Other	188		
Total Financing Sources	10,645		(933)
Net Cost of Operations	(23,259)		
Ending Balances	\$ (27,647)	\$ 100	\$ 714

The accompanying Notes are an integral part of the Financial Statements

Exhibit C

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

For the Fiscal Year Ended September 30, 2004
(Dollars in Millions)

	Cumulative Results of Operations	Capital Stock	Unexpended Appropriations
Beginning Balances	\$ (25,282)	\$ 100	\$ 1,536
Budgetary Financing Sources:			
Appropriations Received			24,941
Appropriations Transferred - In			175
Appropriations Transferred - Out			(15)
Other Adjustments			(9)
Appropriations Used	24,981		(24,981)
Nonexchange Revenue	29		
Transfers In Without Reimbursement	46		
Transfers Out Without Reimbursement	(3,266)		
Other Financing Sources:			
Imputed Financing	999		
Transfers In Without Reimbursement	25		
Transfers Out Without Reimbursement	(1,076)		
Other	202		
Total Financing Sources	21,940		111
Net Cost of Operations	(11,691)		
Ending Balances	\$ (15,033)	\$ 100	\$ 1,647

The accompanying Notes are an integral part of the Financial Statements

Exhibit D

Commodity Credit Corporation
Combined Statement of Budgetary Resources (Note 15)

For Fiscal Years Ended September 30, 2005 and 2004
(Dollars in Millions)

	2005		2004	
	Budgetary	Non-Budgetary Credit Program Financing Accounts	Budgetary	Non-Budgetary Credit Program Financing Accounts
Budgetary Resources:				
Budget Authority				
Appropriations Received	\$ 15,444	\$ -	\$ 24,941	\$ -
Borrowing Authority	45,357	688	29,004	692
Net Transfers (+/-)	(2,173)		(1,781)	
Unobligated Balance:				
Beginning of Period	1,197	2,643	1,340	2,096
Net Transfers, actual (+/-)	(664)		(2)	-
Spending Authority from Offsetting Collections:				
Earned:				
Collected	17,267	1,768	13,931	1,090
Receivable from Federal Sources	(158)	(113)	(669)	150
Change in Unfilled Customer Orders:				
Advance Received	(1,387)		941	
Transfers from Trust Funds:				
Collected	899			
Subtotal	16,621	1,655	14,203	1,240
Recoveries of Prior Year Obligations	2,836	3	1,848	12
Permanently not Available	(33,582)	(734)	(40,856)	(123)
Total Budgetary Resources	\$ 45,036	\$ 4,255	\$ 28,697	\$ 3,917
Status of Budgetary Resources:				
Obligations Incurred:				
Direct	\$ 2,954	\$ 1,556	\$ 2,431	\$ 1,274
Reimbursable	40,782	-	25,070	
Subtotal	43,736	1,556	27,501	1,274
Unobligated Balance:				
Apportioned	331	2,523	813	2,627
Exempt from Apportionment	872	6	1	6
Unobligated Balance not Available	97	170	382	10
Total Status of Budgetary Resources	\$ 45,036	\$ 4,255	\$ 28,697	\$ 3,917
Relationship of Obligations to Outlays:				
Obligated Balance, Net, Beginning of Period	\$ 5,596	\$ (229)	\$ 5,789	\$ (32)
Obligated Balance Transferred, Net (+/-)	(216)			
Obligations Incurred	43,736	1,556	27,501	1,274
Less:				
Recoveries of Prior Year Obligations	2,836	3	1,848	12
Change from Federal Sources	(158)	(113)	(669)	150
Obligated Balance, Net, End of Period:				
Accounts Receivable	(1,221)	(203)	(1,379)	(316)
Unfilled Customer Orders from Federal Sources				(1)
Undelivered Orders	1,661	48	1,885	87
Accounts Payable	7,988	1	5,090	1
Total Obligated Balance, Net, End of Period	8,428	(154)	5,596	(229)
Outlays:				
Disbursements	38,011	1,591	26,515	1,311
Collections	(16,780)	(1,768)	(14,872)	(1,090)
Subtotal	21,231	(177)	11,643	221
Less: Offsetting Receipts	-	723	-	601
Net Outlays	\$ 21,231	\$ (900)	\$ 11,643	\$ (380)

The accompanying Notes are an integral part of the Financial Statements

Exhibit E

Commodity Credit Corporation
Consolidated Statement of Financing (Note 16)

For the Fiscal Years Ended September 30, 2005 and 2004
(Dollars in Millions)

	<u>2005</u>	<u>2004</u>
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	\$ 45,293	\$ 28,775
Less: Spending Authority from Offsetting Collections and Recoveries	21,116	17,303
Obligations Net of Offsetting Collections and Recoveries	24,177	11,472
Less: Offsetting Receipts	723	601
Net Obligations	23,454	10,871
Other Resources:		
Transfers In/Out without Reimbursement	(984)	(1,051)
Imputed Financing from Costs Absorbed by Others	1,094	999
Other	188	202
Net Other Resources Used to Finance Activities	298	150
Total Resources Used to Finance Activities	23,752	11,021
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	933	(1,198)
Resources that Fund Expenses Recognized in Prior Periods	1,216	1,670
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	(3,288)	(1,649)
Other	(12,227)	(8,867)
Resources that Finance the Acquisition of Assets	18,589	11,313
Other Resources or Adjustments to Net Obligated Resources that Do Not Affect Net Cost of Operations	2,396	1,335
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	7,619	2,604
Total Resources Used to Finance the Net Cost of Operations	16,133	8,417
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	(992)	14
(Increase)/Decrease in Exchange Revenue Receivable from the Public	(7,791)	880
Other	9,111	1,608
Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods	328	2,502
Components not Requiring or Generating Resources:		
Depreciation and Amortization	114	59
Revaluation of Assets or Liabilities	(533)	(627)
Other	7,217	1,250
Total Components of Net Cost of Operations that will not Require or Generate Resources	6,798	882
Total Components of Net Cost of Operations that will not Require or Generate Resources in the Current Period	7,126	3,274
Net Cost of Operations	\$ 23,259	\$ 11,691

The accompanying Notes are an integral part of the Financial 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 funds, as well as an authority to borrow from the U.S. Treasury (Treasury). The Treasury also holds capital stock in the amount of \$100 million with no obligation to repay, on which the Corporation pays interest. CCC receives direct appropriations for some of its foreign assistance programs and special activities, such as disaster aid. Permanent indefinite 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 USDA's Farm Service Agency (FSA), Agricultural Marketing Service (AMS), Natural Resources Conservation Service (NRCS), and Foreign Agricultural Service (FAS); and the U.S. Agency for International Development (AID). The accompanying financial statements include an allocation, as appropriate, of salaries and expenses (e.g., facility costs) incurred by these agencies. In other instances, CCC reimburses the other agencies for their administrative costs.

Basis of Accounting

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

Transactions are recorded on the accrual basis of accounting. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. The financial statements include all Treasury funds of CCC, which encompass its domestic and foreign activities. In consolidation, intra-agency activities and balances have been eliminated, except for the Statement of Budgetary Resources, which 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 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". 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 of designated agricultural commodities. In the case of nonrecourse loans, producers have the option to: (a) repay the principal plus interest; (b) for certain announced commodities, repay the loan at the market rate; or (c) at maturity, forfeit the commodity in satisfaction of the loan. These loans are not subject to the accounting and reporting requirements of Credit Reform (Note 5) because these loans are less than 12 months in duration.

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

Commodity loans are reported net of an allowance for doubtful accounts, which reduces the loans to their estimated net realizable value.

The allowance is based on the estimated loss on ultimate disposition, when it is more likely than not that the loans will not be fully collected. The allowance also takes into account losses anticipated on the disposition of inventory acquired through loan forfeiture. When forfeited commodities are subsequently disposed, any loss on the disposition is realized as either a cost of sales or donation, depending on the type of disposition.

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

On October 22, 2004, President Bush signed the American Jobs Creation Act of 2004, which included the Fair and Equitable Tobacco Reform, commonly referred to as the "Tobacco buyout." USDA, which is charged with administering the program, titled it the Tobacco Transition Payment Program (TTPP). All aspects of the Federal tobacco marketing quota and price support loan programs are ending. Beginning with the 2005 tobacco crop there are no planting restrictions, marketing cards, or price support loans.

TTPP provides ten equal installment payments to tobacco quota holders and tobacco producers beginning in 2005 and ending in 2014. According to the American Jobs Creation Act of 2004, tobacco manufacturers and importers will be assessed a fee based on relative market share to reimburse CCC for the amounts paid to tobacco quota holders and producers over the payout period.

During 2005, CCC called all the outstanding tobacco loans and brought the tobacco collateral into CCC inventory. CCC disposed of the

COMMODITY CREDIT CORPORATION

Notes to Financial Statements September 30, 2005 and 2004

Note 1 - Significant Accounting Policies, *continued*

tobacco inventory acquired by either selling it to the tobacco associations in exchange for payment from No Net Cost Tobacco Account (NNCTA) funds being held by CCC, or bid sales to the public. The use of NNCTA funds in exchange for tobacco inventory reduced CCC's liabilities to the tobacco association because the NNCTA funds were being held for the benefit of the tobacco association members, and helped to defray the losses sustained on the sales transactions. During 2006, the remaining NNCTA funds will be distributed to the tobacco associations when the Under Secretary approves the tobacco associations' plan to distribute the NNCTA funds to association members.

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 is recognized as an allowance. 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 calculates and pays Treasury interest income and expense for its Credit Reform programs based on actual data through August 31, rather than September 30.

Capitalized Interest

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

Commodity Inventories

Commodity inventories, referred to as goods held under price support and stabilization programs in the 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 help satisfy economic goals.

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

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

COMMODITY CREDIT CORPORATION

Notes to Financial Statements
September 30, 2005 and 2004

Note 1 - Significant Accounting Policies, *continued*

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

The cost of commodity inventories sold to other Federal entities is classified as an expense with the public since the commodities being sold are originally purchased or otherwise acquired from a public source.

General Property and Equipment

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

Depending on the type of transaction, CCC recognizes a liability in one of two ways. 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 Notes 11 and 12, result from the accrual of unpaid amounts due for various CCC programs. Budgetary resources for the programs will not be made available until the subsequent fiscal year.

Resources Payable to Treasury

Resources payable to Treasury represent the net resources of the pre-Credit Reform programs. These net resources are held as working capital until funds are no longer needed to fund

COMMODITY CREDIT CORPORATION

Notes to Financial Statements
September 30, 2005 and 2004

Note 1 - Significant Accounting Policies, *continued*

liabilities, at which time they 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 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 if an allocation transfer is material to the child's financial statements, the child should report the activity relating to the allocation transfer in all of its financial statements, except the Statement of Budgetary Resources. Accordingly, as a 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 administrative costs in connection with foreign donations. Under the same principle, CCC does not include FSA allocation transfer programs on the Corporation's 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.

COMMODITY CREDIT CORPORATION

**Notes to Financial Statements
September 30, 2005 and 2004**

Note 2 - Fund Balance with Treasury

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

	(In Millions)	
	2005	2004
Revolving Funds	\$ 1,049	\$ 871
Appropriated Funds	1,732	2,342
Total Fund Balance with Treasury	\$ 2,781	\$ 3,213

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

	(In Millions)	
	2005	2004
Unobligated Balance:		
Available	\$ 3,828	\$ 3,479
Unavailable	254	397
Obligated Balance not yet Disbursed	7,400	4,501
Subtotal	11,482	8,377
Less Borrowing Authority not yet Converted to Fund Balance	(8,701)	(5,164)
Total Fund Balance with Treasury	\$ 2,781	\$ 3,213

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, 2005 and 2004, 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 \$11.5 billion and \$9.2 billion as of September 30, 2005 and 2004, respectively. The difference of \$795 and \$829 million, respectively, represents allocation transfer activity with AID and FSA. See Note 1 for information on CCC's allocation transfer relationships.

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.

COMMODITY CREDIT CORPORATION

Notes to Financial Statements
September 30, 2005 and 2004

Note 3 - Accounts Receivable, Net

Accounts receivable as of September 30, is as follows:

	(In Millions)	
	2005	2004
<u>Intragovernmental:</u>		
Due from Department of Treasury	\$ 136	\$ 54
Due from Department of Transportation	248	283
Due from Other Federal Agencies	<u>3</u>	<u>63</u>
Total Intragovernmental Accounts Receivable, Net	<u>\$ 387</u>	<u>\$ 400</u>
<u>Public:</u>		
Claims Receivable	\$ 67	\$ 85
Notes Receivable	9	10
Interest Receivable	12	15
Tobacco Trust Fund	7,214	-
Other	<u>342</u>	<u>400</u>
Subtotal	\$ 7,644	\$ 510
Less: Allowance for Doubtful Accounts	<u>(72)</u>	<u>(71)</u>
Total Public Accounts Receivable, Net	<u>\$ 7,572</u>	<u>\$ 439</u>

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

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

In fiscal year 2005, CCC recognized a public receivable in the amount of \$7.2 billion under the Tobacco Transition Payment Program (TTPP). The receivable is recorded at the present value of the remaining expected receipts in the Tobacco Trust Fund over a 10-year period beginning in 2005 and ending in 2014.

COMMODITY CREDIT CORPORATION

Notes to Financial Statements
September 30, 2005 and 2004

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)	
	2005	2004
<u>Intragovernmental:</u>		
Allowance – Beginning of Fiscal Year	\$ --	\$ 188
Provision for Doubtful Accounts	(–)	(188)
Allowance – End of Fiscal Year	\$ --	\$ --

	(In Millions)	
	2005	2004
<u>Public:</u>		
Allowance – Beginning of Fiscal Year	\$ 71	\$ 106
Provision for Doubtful Accounts	2	(35)
Allowance – End of Fiscal Year	\$ 73	\$ 71

COMMODITY CREDIT CORPORATION

Notes to Financial Statements
September 30, 2005 and 2004

Note 4 – Commodity Loans, Net

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

	(In Millions)	
	2005	2004
Tobacco	\$ -	\$ 738
Wheat	330	311
Corn	280	179
Soybeans	153	53
Rice	179	288
Cotton	80	115
Other Commodities	<u>86</u>	<u>118</u>
Total Commodity Loans	1,108	1,802
Accrued Interest Receivable	16	84
Less: Allowance for Losses	<u>(93)</u>	<u>(88)</u>
Total Commodity Loans, Net	<u>\$ 1,031</u>	<u>\$ 1,798</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)	
	2005	2004
Allowance - Beginning of Fiscal Year	\$ 88	\$ 48
Less: Charge-offs	(360)	(149)
Add: Provision for Doubtful Accounts	<u>365</u>	<u>189</u>
Allowance – End of Fiscal Year	<u>\$ 93</u>	<u>\$ 88</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 (SCGP), 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, 2005 and 2004, 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.

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

agricultural commodities to developing countries on credit terms or for local currencies. Priority goes to countries with the greatest need for food that are undertaking economic development to improve food security and agricultural development, alleviate poverty, and promote broad based, equitable and sustainable development. All credits under this program are denominated in U.S. dollars.

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.

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. This is a major contributor to the significant downward subsidy reestimates for CCC's foreign Credit Reform programs, resulting in a net downward reestimate of \$818 million and \$1.1 billion in fiscal years 2005 and 2004, respectively.

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

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

maturity Treasuries were used to generate the default estimate for each rating. In fiscal year 2005, CCC changed the methodology for computing GSM contingent liability. The availability of more detailed data from the subsidy application system which includes contract phase-out and undelivered amounts made the change possible. The difference in fiscal year 2005 is approximately \$24 million of outstanding guarantees.

During Fiscal Year 2005, CCC experienced significant defaults under the GSM Supplier Credit program in Mexico. As of September 30, 2005, CCC has paid 296 claims totaling \$95.8 million. An additional 27 claims totaling \$6.5 million are pending review and payment. The Office of Inspector General (OIG) has opened an investigation into these claims. In April 2005, the Foreign Agricultural Service (FAS) determined that the outstanding risk of four Mexican importers under the Supplier Credit Guarantee Program (SCGP) should be contained. As a result, FAS denied \$30 million in pending Mexican SCGP applications for corn and soybeans.

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. These countries include: Bangladesh, Eritrea and Sri Lanka.

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

Direct Loan Programs

The **Farm Storage Facility Loan (FSFL) Program** was implemented to provide low cost financing for producers to build or upgrade on-farm commodity storage and handling facilities. The loans have a term of 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** provided loans to apple producers who suffered hardships due to low prices following the 1998-1999 growing season when apple prices fell to their lowest levels in nearly 10 years. Eligible applicants obtained loans up to \$300 per acre of apple trees in production in 1999 or 2000, up to a maximum indebtedness of \$500,000. The Apple Loan Program was not funded in fiscal years 2005 and 2004.

COMMODITY CREDIT CORPORATION

**Notes to Financial Statements
September 30, 2005 and 2004**

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)	
	2005	2004
<u>Direct Credit and Loan Programs:</u>		
Pre-1992:		
P.L. 480 Title I	\$ 3,354	\$ 3,385
Post-1991:		
P.L. 480 Title I	1,280	1,091
Debt Reduction Fund	160	129
Farm Storage Facility	211	189
Boll Weevil Program	--	3
Apple Loan Program	1	1
<u>Defaulted Credit Guarantees:</u>		
Pre-1992 Export Credit Guarantees	1,294	2,526
Post-1991 Export Credit Guarantees	<u>937</u>	<u>948</u>
Total Credit Program Receivables, Net	<u>\$ 7,237</u>	<u>\$ 8,272</u>

P.L. 480, Title I 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>2005</u>	Credit Receivables, Gross	Interest Receivable, Gross	Allowance for Uncollectible Accounts	Credit Program Receivables, Net
P.L. 480 Title I	<u>\$ 5,909</u>	<u>\$ 69</u>	<u>\$ (2,624)</u>	<u>\$ 3,354</u>

(In Millions)

<u>2004</u>	Credit Receivables, Gross	Interest Receivable, Gross	Allowance for Uncollectible Accounts	Credit Program Receivables, Net
P.L. 480 Title I	<u>\$ 6,244</u>	<u>\$ 71</u>	<u>\$ (2,930)</u>	<u>\$ 3,385</u>

COMMODITY CREDIT CORPORATION

**Notes to Financial Statements
September 30, 2005 and 2004**

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>2005</u>	Credit Receivables, Gross	Interest Receivable, Gross	Subsidy Allowance	Credit Program Receivables, Net
P.L. 480 Title I	\$ 2,273	\$ 35	\$ (1,028)	\$ 1,280
Debt Reduction Fund	521	2	(363)	160
Farm Storage Facility	210	22	(21)	211
Boll Weevil Program	10	--	(10)	--
Apple Loan Program	<u> --</u>	<u> --</u>	<u> 1</u>	<u> 1</u>
Total	\$ 3,014	\$ 59	\$ (1,421)	\$ 1,652

(In Millions)

<u>2004</u>	Credit Receivables, Gross	Interest Receivable, Gross	Subsidy Allowance	Credit Program Receivables, Net
P.L. 480 Title I	\$ 2,483	\$ 30	\$ (1,422)	\$ 1,091
Debt Reduction Fund	524	3	(398)	129
Farm Storage Facility	187	3	(1)	189
Boll Weevil Program	10	--	(7)	3
Apple Loan Program	<u> 1</u>	<u> --</u>	<u> --</u>	<u> 1</u>
Total	\$ 3,205	\$ 36	\$ (1,828)	\$ 1,413

COMMODITY CREDIT CORPORATION

**Notes to Financial Statements
September 30, 2005 and 2004**

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)

<u>2005</u>	Credit Receivables, Gross	Interest Receivable, Gross	Allowance for Uncollectible Accounts	Credit Program Receivables, Net
Export Credit Guarantee Programs	\$ 1,401	\$ 15	\$ (122)	\$ 1,294

(In Millions)

<u>2004</u>	Credit Receivables, Gross	Interest Receivable, Gross	Allowance for Uncollectible Accounts	Credit Program Receivables, Net
Export Credit Guarantee Programs	\$ 4,709	\$ 21	\$ (2,204)	\$ 2,526

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

(In Millions)

<u>2005</u>	Credit Receivables, Gross	Interest Receivable, Gross	Subsidy Allowance	Credit Program Receivables, Net
Export Credit Guarantee Programs	\$ 1,604	\$ 24	\$ (691)	\$ 937

(In Millions)

<u>2004</u>	Credit Receivables, Gross	Interest Receivable, Gross	Subsidy Allowance	Credit Program Receivables, Net
Export Credit Guarantee Programs	\$ 1,794	\$ 27	\$ (873)	\$ 948

COMMODITY CREDIT CORPORATION

Notes to Financial Statements
September 30, 2005 and 2004

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)	
	2005	2004
Subsidy Allowance -- Beginning of Fiscal Year	\$ 1,828	\$ 1,748
Subsidy expense for current year disbursements:		
Interest rate differential	20	21
Default costs (net of recoveries)	5	11
Other subsidy costs	<u>1</u>	<u>3</u>
Total subsidy expense	26	35
Adjustments:		
Loan modifications	6	141
Subsidy allowance amortization	56	(11)
Loans written off	(43)	(229)
Other	<u>(110)</u>	<u>457</u>
Balance before reestimates	1,763	2,141
Subsidy reestimates:		
Interest rate reestimate	2	(1)
Technical/default reestimate	<u>(344)</u>	<u>(312)</u>
Total subsidy reestimates	<u>(342)</u>	<u>(313)</u>
Subsidy Allowance -- End of Fiscal Year	<u>\$ 1,421</u>	<u>\$ 1,828</u>

COMMODITY CREDIT CORPORATION

**Notes to Financial Statements
September 30, 2005 and 2004**

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)

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

(In Millions)

2004	Subsidy Expense for New Direct Loans Disbursed					Mods. Total	Reestimates			Grand Total
	Interest Differential	Defaults	Fees and Other Colls.	Other	Total		Interest Rate	Technical	Total	
P.L. 480, Title I	\$ 21	\$ 10	\$ --	\$ 3	\$ 34	\$ 141	\$ (3)	\$ (201)	\$ (204)	\$ (29)
Debt Reduction Fund	--	--	--	--	--	--	--	(118)	(118)	(118)
Farm Storage Facility	--	1	--	--	1	--	2	7	9	10
Total	\$ 21	\$ 11	\$ --	\$ 3	\$ 35	\$ 141	\$ (1)	\$ (312)	\$ (313)	\$ (137)

Subsidy reestimates are calculated on cumulative disbursements for all cohorts.

COMMODITY CREDIT CORPORATION

**Notes to Financial Statements
September 30, 2005 and 2004**

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)

	2005	2004	Current Year Over (Under) Prior Year
P.L. 480 Title I	\$ 46	\$ 60	\$ (14)
Farm Storage Facility	<u>59</u>	<u>61</u>	<u>(2)</u>
Total	<u>\$ 105</u>	<u>\$ 121</u>	<u>\$ (16)</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>2005</u>				
Export Credit Guarantee Programs	<u>\$ 4,240</u>	<u>\$ 203</u>	<u>\$ 4,098</u>	<u>\$ 103</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>2004</u>				
Export Credit Guarantee Programs	<u>\$ 5,042</u>	<u>\$ 113</u>	<u>\$ 4,833</u>	<u>\$ 60</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, 2005 and 2004

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)	
	2005	2004
Credit Guarantee Liability - Beginning of Fiscal Year	\$ 240	\$ 22
Subsidy expense for current year disbursements:		
Default costs (net of recoveries)	181	271
Fees and other collections	<u>(16)</u>	<u>(25)</u>
Total subsidy expense	165	246
Adjustments:		
Fees received	16	22
Claim payments to lenders	(185)	(127)
Other	<u>499</u>	<u>885</u>
Balance before reestimates	735	1,048
Subsidy reestimates:		
Interest rate reestimate	(287)	(259)
Technical/default reestimate	<u>(188)</u>	<u>(549)</u>
Total subsidy reestimates	<u>(475)</u>	<u>(808)</u>
Credit Guarantee Liability - End of Fiscal Year	<u>\$ 260</u>	<u>\$ 240</u>

COMMODITY CREDIT CORPORATION

**Notes to Financial Statements
September 30, 2005 and 2004**

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>2005</u>									
Export Credit Guarantee Programs	\$ --	\$ 181	\$ (16)	\$ --	\$ 165	\$ (287)	\$ (188)	\$ (475)	\$ (310)

(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>2004</u>									
Export Credit Guarantee Programs	\$ --	\$ 271	\$ (25)	\$ --	\$ 246	\$ (259)	\$ (549)	\$ (808)	\$ (562)

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>2005</u>		<u>2004</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	\$ 2,956	\$ 2,678	\$ 3,873	\$ 3,374

For the fiscal years ended September 30, 2005 and 2004, administrative expenses on direct credit and loan programs were \$5 million and \$3 million, respectively and \$4 million for the credit guarantee programs in each year.

COMMODITY CREDIT CORPORATION

Notes to Financial Statements
September 30, 2005 and 2004

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

Fiscal years 2005 and 2004 subsidy rates for direct credits and loans are as follows:

	(Percentages)				
	Interest		Fees and		
	Differential	Defaults	Collections	Other	Total
<u>2005</u>					
P.L. 480 Programs	45.85	10.13	--	--	55.98
Farm Storage Facility	(1.68)	0.51	(0.11)	(0.15)	(1.43)
	Interest		Fees and		
	Differential	Defaults	Collections	Other	Total
<u>2004</u>					
P.L. 480 Programs	42.49	24.53	--	11.88	78.90
Farm Storage Facility	(0.97)	1.62	(0.11)	0.68	1.22

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

Fiscal years 2005 and 2004 subsidy rates for credit guarantee programs are as follows:

	(Percentages)		
		Fees and	
		Other	
	Defaults	Collections	Total
<u>2005</u>			
Export Credit Guarantee Programs	7.48	0.65	8.13
		Fees and	
		Other	
	Defaults	Collections	Total
<u>2004</u>			
Export Credit Guarantee Programs	7.48	(0.66)	6.82

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.

COMMODITY CREDIT CORPORATION

Notes to Financial Statements September 30, 2005 and 2004

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, 2005 and 2004, totaled \$2.9 and \$2.8 billion, respectively, compared to a total principal balance (performing and non-performing) at September 30, 2005 and 2004, of \$11.7 and \$15.8 billion, respectively. If interest had been reported on these non-performing receivables, instead of reported only to the extent of the collections received, direct credit and credit guarantee interest income would have increased by \$16 million from a total of \$486 million in fiscal year 2005, and decreased by \$19 million from a total of \$591 million reported in fiscal year 2004. During the entire delinquency period, if interest had been reported on these non-performing receivables, instead of reported only to the extent of the collections received, interest income would have increased by \$888 million and \$872 million through September 30, 2005 and 2004, respectively.

Direct credit and credit guarantee principal receivables under rescheduling agreements as of September 30, 2005 and 2004, were \$5.5 and \$7.4 billion, respectively.

During fiscal year 2005 Paris club agreed minutes to reschedule PL-480 debt were signed as follows:

<u>Date</u>	<u>Country</u>	<u>Amount in Millions</u>
12/16/04	Republic of Congo	\$ 7,778
05/10/05	Indonesia	61,559
06/15/05	Sri Lanka	25,542
	Total	\$ 94,879

During fiscal year 2005, rescheduling and claims refinancing agreements entering into force on agreements negotiated in prior periods totaled \$115 million in principal and \$434 thousand in interest, of which \$114 million was with the private sector – primarily in Argentina.

In addition, during fiscal year 2005 Russia, Poland and Lithuania prepaid their debt in the

amount of \$1 billion, \$825 million and \$61 million respectively.

Other Significant Events

In November 2004 the Paris Club (Club) met to discuss debt relief for the Republic of Iraq. The members of the Club agreed to reduce Iraq's debt by 80% in three tranches: 30% immediately; 30% upon signing of an International Monetary Fund (IMF) agreement, and 20% in three years provided Iraq continues to perform under that agreement. In March 2005, 100% of Iraq's debt to the United States was forgiven, more than 99% of which was due to Commodity Credit Corporation (\$2 billion of principal and \$1.9 billion interest.)

Banco de Provincia de Buenos Aires Argentina (Provincia), 100 percent owned by the government of the Province of Buenos Aires, is in default on guarantees under the Export Credit Guarantee Program (GSM-102) of approximately \$1.13 billion. On February 11, 2005, the Commodity Credit Corporation (CCC) and Provincia signed a Preliminary Agreement Letter, agreeing to the basic economic terms and conditions for restructuring. On June 30, 2005, CCC signed a Dollar Loan Agreement with Provincia restructuring the \$1.13 billion claim. On the same day, CCC received a cash payment of \$34.2 million for past due principal. The remaining \$78.4 million will be paid over nine years with a 3.5 year grace period on principal. In addition, CCC received its first semi-annual interest payment of \$1.2 million. Default interest on the past due principal was waived but CCC will have no loss on a net present value basis.

Changes in the Export Credit Guarantee Programs

As the result of actions by the World Trade Organization with respect to farm subsidies, the U.S. Department of Agriculture (USDA) implemented new guarantee fee rates under the Commodity Credit Corporation's Export Credit

COMMODITY CREDIT CORPORATION

Notes to Financial Statements
September 30, 2005 and 2004

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

Guarantee Program (GSM-102) and the Supplier Credit Guarantee Program (SCGP). The new fee rates use a risk-based structure based on a country risk scale, as well as different repayment terms (i.e. tenors). The USDA has decided not to conduct business in countries that are rated below the risk scale of six. As a result significant declines in program levels are anticipated for Fiscal Year 2006 and subsequent program years.

PL 480 Title I Direct Credit Trend Analysis

The PL 480 Title I weighted average subsidy rate reported in the Federal Credit Supplement for 2004 was 78.90 percent. The 2005 weighted average rate was 55.98 percent. The decrease of more than 29 percent is mostly due to changes in the "Default" and the "Other" components.

The default component for 2004 was 24.53 percent. The default component for 2005 was 10.13 percent. This reflects a shift in 2005 credit programming to a higher percentage of countries with more favorable risk ratings.

The 2004 weighted average subsidy rate included an "Other" component of 11.88 percent to reflect the cost of Title I-funded Food for Progress Grants. For 2005, OMB decided USDA should not include grants as part of the weighted average subsidy rate presented in the Federal Credit Supplement.

	FY 2005	FY 2004	Change
Weighted Average Rate	55.98	78.90	-22.92
Components:			
Default	10.13	24.53	-14.40
Interest	45.85	42.49	3.36
Other	--	11.88	-11.88

Reestimates

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

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

The PL 480 Title I 2004 downward reestimate of \$69 million is partly due to upgrades to the ICRAS ratings for six countries. Disbursements for these countries account for about 13 percent of total disbursements for all countries over all cohorts. An offsetting upward reestimate of \$8 million was partly due to downgrades to the ICRAS ratings for three countries. Disbursements for these three countries account for about 4.6 percent of total disbursements for all countries over all cohorts.

For the 1992 cohort, ICRAS ratings improved for five countries while ratings worsened for three countries. Repayments for the cohort are scheduled through FY 2023. The NPV of remaining cashflows for the cohort (P&I payments less net defaults) is \$110 million. Net liabilities, which include balances owed to Treasury of \$127 million less balances on deposit of \$17 million, total \$110 million. Expected payments exceed liabilities, resulting in a downward reestimate of \$263,317 for the 1992 cohort.

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

For the 1993 cohort, ICRAS ratings improved for four countries while ratings worsened for two countries. Repayments for the cohort are scheduled through FY 2024. The NPV of remaining cashflows for the cohort (P&I payments less net defaults) is \$289 million. Net liabilities, which include balances owed to Treasury of \$309 million less balances on deposit of \$12 million, total \$297 million. Liabilities exceed expected payments, resulting in an upward reestimate of \$7.9 million for the 1993 cohort.

For the 1994 cohort, ICRAS ratings improved for two countries while ratings worsened for one country. Repayments for the cohort are scheduled through FY 2025. The NPV of remaining cashflows for the cohort (P&I payments less net defaults) is \$72 million. Net liabilities, which include balances owed to Treasury of \$71 million less balances on deposit of \$4.3 million, total \$66.7 million. Expected payments exceed liabilities, resulting in a downward reestimate of \$5.6 million for the 1994 cohort.

For the 1995 cohort, ICRAS ratings improved for two countries while ratings worsened for one country. Repayments for the cohort are scheduled through FY 2026. The NPV of remaining cashflows for the cohort (P&I payments less net defaults) is \$53.9 million. Net liabilities, which include balances owed to Treasury of \$53 million less balances on deposit of \$7 million total \$46 million. Expected payments exceed liabilities, resulting in a downward reestimate of \$7.9 million for the 1995 cohort.

For the 1996 cohort, ICRAS ratings improved for three countries while ratings worsened for one country. Repayments for the cohort are scheduled through FY 2027. The NPV of remaining cashflows for the cohort (P&I payments less net defaults) is \$62.6 million. Net liabilities, which include balances owed to Treasury of \$65 million less balances on deposit of \$10 million, total \$55 million. Expected payments exceed liabilities, resulting in a downward reestimate of \$7 million for the 1996 cohort.

For the 1997 cohort, ICRAS ratings improved for three countries. Repayments for the cohort are scheduled through FY 2028. The NPV of remaining cashflows for the cohort (P&I payments less net defaults) is \$41.5 million. Net liabilities, which include balances owed to Treasury of \$49 million less balances on deposit of \$19.8 million, total \$29 million. Expected payments exceed liabilities, resulting in a downward reestimate of \$12 million for the 1997 cohort.

For the 1998 cohort, ICRAS ratings improved for one country while ratings worsened for two countries. Repayments for the cohort are scheduled through FY 2029. The NPV of remaining cashflows for the cohort (P&I payments less net defaults) is \$51.7 million. Net liabilities, which include balances owed to Treasury of \$58.7 million less balances on deposit of \$10 million, total \$48.7 million. Expected payments exceed liabilities, resulting in a downward reestimate of \$3 million for the 1998 cohort.

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

For the 1999 cohort, ICRAS ratings improved for one country. Repayments for the cohort are scheduled through FY 2030. The NPV of remaining cashflows for the cohort (P&I payments less net defaults) is \$252 million. Net liabilities, which include balances owed to Treasury of \$282 million less balances on deposit of \$44 million, total \$238 million. Expected payments exceed liabilities, resulting in a downward reestimate of \$14.5 million for the 1999 cohort.

For the 2000 cohort, ICRAS ratings remained the same for all countries. Repayments for the cohort are scheduled through FY 2031. The NPV of remaining cashflows for the cohort (P&I payments less net defaults) is \$44 million. Net liabilities, which include balances owed to Treasury of \$79 million less balances on deposit of \$37 million, total \$42 million. Expected payments exceed liabilities, resulting in a downward reestimate of \$1.6 million for the 2000 cohort.

For the 2001 cohort, the ICRAS rating worsened for one country. Repayments for the cohort are scheduled through FY 2032. The NPV of remaining cashflows for the cohort (P&I payments less net defaults) is \$40 million. Net liabilities, which include balances owed to Treasury of \$113 million less balances on deposit of \$82 million, total \$31 million.

Expected payments exceed liabilities, resulting in a downward reestimate of \$8 million for the 2001 cohort.

For the 2002 cohort, the ICRAS rating improved for one country and worsened for one country. Repayments for the cohort are scheduled through FY 2033. The NPV of remaining cashflows for the cohort (P&I payments less net defaults) is \$44 million. Net liabilities, which include balances owed to Treasury of \$56 million less balances on deposit of \$15 million, total \$41 million. Expected payments exceed liabilities, resulting in a downward reestimate of \$3 million for the 2002 cohort.

For the 2003 cohort, the ICRAS rating improved for one country. Repayments for the cohort are scheduled through FY 2034. The NPV of remaining cashflows for the cohort (P&I payments less net defaults) is \$29 million. Net liabilities, which include balances owed to Treasury of \$537 million less balances on deposit of \$511 million, total \$26 million. Expected payments exceed liabilities, resulting in a downward reestimate of \$3 million for the 2003 cohort.

COMMODITY CREDIT CORPORATION

**Notes to Financial Statements
September 30, 2005 and 2004**

Note 6 - Commodity Inventories, Net

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

	(In Millions)	
	2005	2004
Commodity Inventories – Beginning of Fiscal Year	\$ 950	\$ 1,984
Acquisitions	7,172	2,252
Cost of Sales	(6,146)	(1,314)
Donations	(1,276)	(1,583)
Other Dispositions, Additions and Deductions	<u>(396)</u>	<u>(389)</u>
Commodity Inventories - End of Fiscal Year	304	950
Less: Allowance for Losses	<u>(275)</u>	<u>(809)</u>
Commodity Inventories, Net	<u>\$ 29</u>	<u>\$ 141</u>

Commodity loan forfeitures during the fiscal years ended September 30, 2005 and 2004, were \$79 million and \$25 million, respectively. Tobacco loan forfeitures amounted to \$985 million including accrued interest. An analysis of the change in inventory by commodity for fiscal years 2005 and 2004, is presented in the Required Supplementary Information Section (Unaudited).

Restrictions on Commodity Inventory

In accordance with the Bill Emerson Humanitarian Trust (BEHT) Act of 1998, CCC currently maintains a commodity reserve of 60 million bushels of wheat valued at \$152 million for use when domestic supplies are so limited that quantities cannot meet the availability criteria under P.L. 480. In addition, if commodities that meet unanticipated needs under Title II of P.L. 480 cannot be made available in a timely manner, the Secretary may

release up to 500,000 metric tons of wheat or an equivalent value of eligible commodities, plus up to 500,000 metric tons of eligible commodities that could have been released, but were not released, under this authority in prior fiscal years. Commodities are to be used solely for emergency food assistance. BEHT stocks can be exchanged for other U.S. agricultural commodities of equal value to meet emergency food needs. The reserve is established at 2 million metric tons and is replenished through purchases or by designation of commodities owned by CCC. The authority to replenish the reserve expires at the end of 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 \$152 million has been established.

COMMODITY CREDIT CORPORATION

**Notes to Financial Statements
September 30, 2005 and 2004**

Note 7 – General Property and Equipment, Net

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

	(In Millions)		
<u>2005</u>	Acquisition Value	Accumulated Depreciation	Net Book Value
ADP Equipment	\$ 76	\$ (76)	\$ --
Capitalized Software Development Costs	<u>74</u>	<u>(22)</u>	<u>52</u>
Total General Property and Equipment	<u>\$ 150</u>	<u>\$ (98)</u>	<u>\$ 52</u>

	(In Millions)		
<u>2004</u>	Acquisition Value	Accumulated Depreciation	Net Book Value
ADP Equipment	\$ 79	\$ (79)	\$ --
Capitalized Software Development Costs	<u>59</u>	<u>(11)</u>	<u>48</u>
Total General Property and Equipment	<u>\$ 138</u>	<u>\$ (90)</u>	<u>\$ 48</u>

COMMODITY CREDIT CORPORATION

**Notes to Financial Statements
September 30, 2005 and 2004**

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)	
	2005	2004
Debt – Beginning of Fiscal Year:		
Principal: Interest Bearing	\$ 12,397	\$ 21,741
Non-Interest Bearing	--	--
Accrued Interest Payable	<u>72</u>	<u>95</u>
Total Debt Outstanding – Beginning of Fiscal Year	12,469	21,836
New Debt:		
Principal: Interest Bearing	26,977	18,371
Non-Interest Bearing	--	--
Accrued Interest Payable	<u>383</u>	<u>123</u>
Total New Debt	27,360	18,494
Repayments:		
Principal: Interest Bearing	(16,306)	(27,735)
Non-Interest Bearing	--	--
Accrued Interest Payable	<u>(132)</u>	<u>(146)</u>
Total Repayments	(16,438)	(27,881)
Interest Refinanced	35	19
Debt – End of Fiscal Year		
Principal: Interest Bearing	23,103	12,396
Non-Interest Bearing	--	--
Accrued Interest Payable	<u>323</u>	<u>72</u>
Total Debt Outstanding – End of Fiscal Year	<u>\$ 23,426</u>	<u>\$ 12,468</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. Monthly interest rates ranged from 2.00% to 3.875% during fiscal year 2005 and from 1.25% to 2.125% during fiscal year 2004. Repayments are applied to non-interest bearing notes first. Once these are liquidated, repayments are then applied to interest bearing notes.

In fiscal years 2005 and 2004, CCC was fully reimbursed for its prior year net realized losses,

therefore, CCC carried no non-interest bearing notes. In fiscal year 2004, Treasury returned \$24 million in interest paid by CCC, rather than having CCC establish a non-interest bearing note and subsequently repaying it.

The total amount of debt principal and interest refinanced was \$13.6 billion and \$10.3 billion in fiscal years 2005 and 2004, respectively. These amounts are included in the total amounts of new debt and repayments in the table above. These amounts include the outstanding principal rolled over in fiscal years 2005 and 2004, respectively. Accrued interest rolled over into notes payable was \$35 million in fiscal year 2005 and \$19 million in fiscal year 2004.

Note 8 – Debt to the Treasury, *continued*

Interest expense incurred on these borrowings was \$379 million and \$100 million for fiscal years 2005 and 2004, respectively.

The fiscal year 2005 and 2004 interest rates on long-term borrowings under the permanent indefinite borrowing authority for the Credit Reform programs are calculated using the OMB Credit Subsidy Calculator. For the 2001 and future cohorts, the single effective interest rate produced from the calculator, along with budget assumptions, are used to calculate interest expense.

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, while the repayment terms for borrowings for the P.L. 480 program are 30 years. The repayment terms for direct loans under the FSFL program is 7 years, 3 years for direct loans under the Apple Loan Program, and 10 years for the direct loan made under the Boll Weevil program. For all Credit Reform programs, principal repayments are required only at maturity, but are permitted at any time during the term of the loan.

Interest expense incurred on borrowings associated with the Credit Reform programs amounted to \$212 million and \$221 million in fiscal years 2005 and 2004, respectively.

COMMODITY CREDIT CORPORATION

**Notes to Financial Statements
September 30, 2005 and 2004**

Note 8 – Debt to the Treasury, *continued*

Total debt outstanding, by program and maturity date, as of September 30, 2005, is as follows:

<u>Program</u>	<u>Debt</u> (In Millions)	<u>Maturity Date</u>
CCC Borrowing Authority	\$ 19,491	January 1, 2006
Export Credit Guarantees	718	September 30, 2006
	250	September 30, 2007
	15	September 30, 2009
	69	September 30, 2010
	121	September 30, 2011
	3	September 30, 2013
	9	September 30, 2014
	6	September 30, 2015
	5	September 30, 2016
	16	September 30, 2017
	50	September 30, 2018
	81	September 30, 2019
P.L. 480 Direct Credits	110	September 30, 2018
	297	September 30, 2019
	67	September 30, 2020
	46	September 30, 2021
	55	September 30, 2022
	37	September 30, 2023
	49	September 30, 2024
	238	September 30, 2025
	46	September 30, 2026
	113	September 30, 2027
	56	September 30, 2031
	537	September 30, 2032
	80	September 30, 2033
Debt Reduction	23	September 30, 2012
	32	September 30, 2018
	37	September 30, 2020
	9	September 30, 2021
	82	September 30, 2022
	20	September 30, 2023
	15	September 30, 2024
	26	September 30, 2026
	2	September 30, 2028
Farm Storage Facility Loans	16	September 30, 2008
	39	September 30, 2009
	35	September 30, 2010
	55	September 30, 2011
	66	September 30, 2012
	74	September 30, 2013
Boll Weevil	4	September 30, 2008
Apple Loans	1	September 30, 2007
Total Debt Outstanding	\$ 23,103	

COMMODITY CREDIT CORPORATION

**Notes to Financial Statements
September 30, 2005 and 2004**

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)	
	2005	2004
<u>Intragovernmental:</u>		
Agricultural Marketing Service/Food and Nutrition Service	\$ 513	\$ 763
Animal and Plant Health Inspection Service	1	1
Foreign Agricultural Service	111	127
Natural Resources Conservation Service	114	1,235
Total Intragovernmental Deposit and Trust Liabilities (Note 17)	\$ 739	\$ 2,126
<u>Public:</u>		
No-Net-Cost Tobacco Program	\$ 8	\$ 439
P.L. 480 Program/Debt Reduction Financing Fund	-	7
Export Credit Guarantee Programs	-	8
Other	20	48
Total Public Deposit and Trust Liabilities	\$ 28	\$ 502

Note 10 – Other Liabilities

Other liabilities as of September 30, are as follows:

	(In Millions)	
	2005	2004
<u>Intragovernmental:</u>		
Excess Subsidy Payable to Treasury	\$ 905	\$ 451
Other	21	17
Total Other Intragovernmental Liabilities	\$ 926	\$ 468
<u>Public:</u>		
Payable to Producers	\$ 33	\$ 32

These liabilities are considered current.

Notes to Financial Statements
September 30, 2005 and 2004

Note 11 – Environmental and Disposal Liabilities

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. CCC recorded an estimate of the total liability for investigation and remediation of affected sites of \$11 million and \$15 million at September 30, 2005 and 2004, respectively, based on actual cleanup costs at similar sites. This liability is not covered by budgetary resources.

Note 12 - Accrued Liabilities

Accrued liabilities as of September 30, are as follows:

	(In Millions)	
	2005	2004
<u>Liabilities Covered by Budgetary Resources:</u>		
Income Support Programs	\$ 5,681	\$ 3,098
Export Programs	121	89
Cotton User Marketing Certificates	68	36
Conservation Programs	4	-
Other Programs	-	2
Subtotal	<u>\$ 5,874</u>	<u>\$ 3,225</u>
<u>Liabilities Not Covered by Budgetary Resources:</u>		
Conservation Reserve Program (Note 13)	\$ 1,695	\$ 1,663
Tobacco Transition Payment Program:		
Liability to Tobacco Quota Holders	4,948	-
Liability to Tobacco Producers	2,127	-
Bioenergy Program	-	35
Subtotal	<u>8,770</u>	<u>1,698</u>
Total Accrued Liabilities	<u>\$ 14,644</u>	<u>\$ 4,923</u>

Liabilities covered by budgetary resources for income support programs include accruals for direct payments, counter-cyclical payments, and Loan Deficiency Program payments among others. These liabilities are considered current.

Liabilities not covered by budgetary resources include a long-term liability in the amount of \$7.1 billion under the Tobacco Transition Payment Program (TTPP). TTPP provides for ten installment payments to tobacco quota holders and tobacco producers beginning in 2005 and ending in 2014. The liability is presented at the present value of the remaining pay-out amount.

Note 13 – Commitments and Contingencies

Sales and other disposition commitments are not reflected in the financial statements, 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, 2005 and 2004, were \$16 million and \$26 million, respectively. At September 30, 2005 and 2004, CCC's undelivered orders on current contracts were \$60 million and \$76 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, 2005 and 2004, were \$1 million and \$15 million, respectively. At September 30, 2005 and 2004, CCC had no undelivered orders on current contracts.

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, 2005 and 2004, were \$139 million and \$116 million, respectively. At September 30, 2005 and 2004, CCC's

undelivered orders on current contracts were \$192 million and \$187 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 promote agricultural production and environmental quality as compatible national goals. Program expenses for the period ended September 30, 2004, \$64 million. At September 30, 2004, CCC's undelivered orders on current contracts were \$222 million. In fiscal year 2005, NRCS took over administration of this program from CCC. CCC returned over \$1 billion of advanced funds to NRCS. Therefore, CCC's program expenses and undelivered orders for this program were zero as of September 30, 2005.

Noninsured Crop Disaster 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, 2005 and 2004, were \$108 million and \$122 million, respectively. It is estimated that \$326 million will be disbursed in fiscal year 2006.

Commodity Acquisition

Commitments to acquire commodities represent the contract value of commodities not yet delivered under CCC purchase contracts. Such commitments amounted to \$143 million and \$110 million at September 30, 2005 and 2004, respectively.

Hazardous Waste Program

Payments for site inspection, cleanup, as well as operations and maintenance, totaled \$4 million for fiscal years 2005 and 2004. At September 30, 2005, CCC estimates the range of potential loss to be between \$11 million and \$51 million (Note 11).

Notes to Financial Statements
September 30, 2005 and 2004**Note 13 – Commitments and Contingencies, *continued***

In fiscal year 2005, the Department is expected to provide funding of \$17 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 2015 is \$2 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, 2005 and 2004, accrued liabilities for CRP totaled \$1.7 billion.

Leases

As of September 30, 2005, future minimum rental payments required under FSA operating leases for state office space, for which CCC is directly liable consisted of the following: \$4 million in fiscal year 2006, \$3 million in fiscal year 2007, \$2 million in fiscal years 2008 and 2009, and \$1 million in fiscal year 2010.

Allocated rent expense, net of reimbursements, was \$66 million and \$62 million for the fiscal years ended September 30, 2005 and 2004, respectively. This allocated rent expense is recognized as part of the CCC imputed financing and imputed costs.

Legal Disputes and Claims

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

COMMODITY CREDIT CORPORATION

Notes to Financial Statements
September 30, 2005 and 2004

Note 14 – Disclosures Related to the Statement of Net Cost

Credit Program Subsidy

Credit program subsidy costs for the fiscal years ended September 30, 2005 and 2004, were negative \$591 million and negative \$979 million, respectively, due to downward re-estimates of subsidy.

Other Program Costs

Other program costs for the fiscal years ended September 30, 2005 and 2004, were negative \$765 million and negative \$989 million, respectively. These costs represent favorable changes in the loan and inventory allowances.

Earned Revenue

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

	(In Millions)	
	2005	2004
Intragovernmental Earned Revenue:		
Commodity Inventory Sales	\$ 745	\$ 800
Interest Income	118	129
Less: Intra-Agency Eliminations	<u>(732)</u>	<u>(794)</u>
Total Intragovernmental Earned Revenue	<u>131</u>	<u>135</u>
Earned Revenue from the Public:		
Commodity Inventory Sales	4,479	777
Interest Income	495	705
Other	<u>8,129</u>	<u>28</u>
Total Earned Revenue from the Public	<u>13,103</u>	<u>1,510</u>
Total Earned Revenue	<u>\$ 13,234</u>	<u>\$ 1,645</u>

Commodity inventory sales to the public increased from \$777 million in fiscal year 2004 to \$4.4 billion in fiscal year 2005 due to lower upland cotton market prices, which negatively affected commodity certificate exchanges in fiscal year 2005.

Other earned revenue from the public for fiscal year 2005 includes receivables related to the Tobacco Transition Payment Program in the amount of \$7.2 billion.

COMMODITY CREDIT CORPORATION

**Notes to Financial Statements
September 30, 2005 and 2004**

Note 14 - Disclosures Related to the Statement of Net Cost, *continued*

Net cost of operations as of September 30, are as follows:

2005

(In Millions)

	Commodity Operations	Income Support Programs	Conservation Programs	Foreign Programs	Other	Combined Total	Eliminations	Consolidated Total
Net Program Costs:								
Intragovernmental Gross Costs:								
Imputed Costs	\$ 39	\$ 896	\$ 142	\$ 10	\$ 7	\$ 1,094	\$ --	\$ 1,094
Reimbursable Costs	--	5	51	814	43	913	(732)	181
Borrowing Interest Expense	22	323	39	205	2	591	--	591
Other	4	--	--	--	--	4	--	4
Total Intragovernmental Gross Costs	65	1,224	232	1,029	52	2,602	(732)	1,870
Less: Intragovernmental Earned Revenue	(745)	(5)	--	(113)	--	(863)	732	(131)
Intragovernmental Net Costs	\$ (680)	\$ 1,219	\$ 232	\$ 916	\$ 52	\$ 1,739	\$ --	\$ 1,739
Gross Costs with the Public:								
Grants and Direct Payments	--	25,329	3,246	312	79	28,966	--	28,966
Credit Program Subsidy	--	2	--	(593)	--	(591)	--	(591)
Commodity Programs	8,997	--	--	--	--	6,997	--	6,997
Stewardship Land Acquisition	--	--	16	--	--	16	--	16
Other	(535)	402	(4)	(636)	8	(765)	--	(765)
Total Gross Cost with the Public	8,462	25,733	3,258	(917)	87	34,623	--	34,623
Less: Earned Revenue from the Public	(4,479)	(8,214)	(1)	(407)	(2)	(13,103)	--	(13,103)
Net Costs with the Public	1,983	17,519	3,257	(1,324)	85	21,520	--	21,520
Net Cost of Operations	\$ 1,303	\$ 18,738	\$ 3,489	\$ (408)	\$ 137	\$ 23,259	\$ --	\$ 23,259

2004

(In Millions)

	Commodity Operations	Income Support Programs	Conservation Programs	Foreign Programs	Other	Combined Total	Eliminations	Consolidated Total
Net Program Costs:								
Intragovernmental Gross Costs:								
Imputed Costs	\$ 40	\$ 766	\$ 175	\$ 11	\$ 7	\$ 999	\$ --	\$ 999
Reimbursable Costs	--	2	12	815	50	879	(794)	85
Borrowing Interest Expense	(1)	96	17	207	2	321	--	321
Other	4	--	--	(188)	--	(184)	--	(184)
Total Intragovernmental Gross Costs	43	864	204	845	59	2,015	(794)	1,221
Less: Intragovernmental Earned Revenue	(800)	(7)	--	(122)	--	(929)	794	(135)
Intragovernmental Net Costs	\$ (757)	\$ 857	\$ 204	\$ 723	\$ 59	\$ 1,086	\$ --	\$ 1,086
Gross Costs with the Public:								
Grants and Direct Payments	--	9,235	2,068	306	172	11,781	--	11,781
Credit Program Subsidy	--	9	--	(988)	--	(979)	--	(979)
Commodity Programs	2,275	--	--	--	--	2,276	--	2,276
Stewardship Land Acquisition	--	--	26	--	--	26	--	26
Other	(899)	64	(6)	(120)	(28)	(989)	--	(989)
Total Gross Cost with the Public	1,377	9,308	2,068	(802)	144	12,115	--	12,115
Less: Earned Revenue from the Public	(776)	(114)	(1)	(617)	(2)	(1,510)	--	(1,510)
Net Costs with the Public	601	9,194	2,067	(1,419)	142	10,605	--	10,605
Net Cost of Operations	\$ (156)	\$ 10,051	\$ 2,291	\$ (696)	\$ 201	\$ 11,691	\$ --	\$ 11,691

Note 15 - 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, 2005, there are no obligations incurred under apportionment category A, while obligations incurred under apportionment category B consists of \$4.5 billion direct and \$40.7 billion reimbursable.

As of September 30, 2004, there were no obligations incurred under apportionment category A, while obligations incurred under apportionment category B consisted of \$3.7 billion direct and \$25 billion 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 remaining balance represents rescissions of budgetary authority. The amounts were \$34.3 billion and \$40.9 billion as of September 30, 2005, and 2004, 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, 2005, is \$10.5 billion.

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. 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 through borrowings 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 total unexpended balance and the obligated balance. An appropriation expires on the last day of its period of availability and is no longer available for new obligations.

Note 15 - Disclosures Related to the Statement of Budgetary Resources, *continued*

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 reconciles to the SF-133, Report on Budget Execution, with the exception of the portion which was submitted by USAID as discussed in the following paragraph.

Amounts reported in the Statement of Budgetary Resources are different from the SF-133 submitted by USAID due to a misclassification between allocations of realized authority and allocation transfers prior year balance in the amount of \$1.15 billion. In

addition, there is a difference in the balance for undelivered orders, accounts payable, and disbursements in the amounts of \$59.7 million, \$106.8 million, and \$47.1 million, respectively.

The correction of those differences will be performed during the revision window in January 2006. The SF 133 as crosswalked to the P&F Schedules will be used as input for the actual column for fiscal year 2005 in the fiscal year 2006 Budget of the United States Government Program and Financing Schedules (P&F Schedules). Since the P&F Schedules for 2005 are not available, the reconciliation to the SF-133 and Statement of Budgetary Resources for fiscal year 2005 cannot be performed. The 2007 Budget of the United States Government is expected to be published in February 2006 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 2004 has been reconciled to the fiscal year 2004 actuals on the P&F Schedules presented in the Budget of the United States Government. A table presenting this comparison appears on the following page.

COMMODITY CREDIT CORPORATION

Notes to Financial Statements
September 30, 2005 and 2004

Note 15 - Disclosures Related to the Statement of Budgetary Resources, *continued*

The comparison of selected line items of the fiscal year 2004 Statement of Budgetary Resources to the actuals on the fiscal year 2004 P&F Schedules presented in the Budget of the United States Government is as follows:

(In Millions)

Line	SBR Amount	P&F Amount	Difference ^{1/}	Portion of Difference Resulting From Reporting Requirements
Total Budgetary Resources/Status of Resources	\$ 32,614	\$ 32,603	\$ 11 ^{2/}	\$ 11
Total New Obligations	28,775	28,774	1	1
Offsetting Collections-Collected	15,962	15,958	4	0
Offsetting Collections- Receivable	(519)	(513)	(6)	0
Budgetary Resources-Net Transfers	(1,781)	(1,847)	66 ^{3/}	0
Unobligated Balance-Net Transfers	(2)	(2)	0	0
Authority to Borrow	29,696	27,734	1,962 ^{4/}	0
Other Authority Withdrawn	(1,964)	0	(1,964) ^{4/}	0
Portion Applied to Repay Debt	(38,982)	(38,925)	(57) ^{5/}	0
Recoveries of Prior Year Obligations	1,860	1,860	0	0
Unobligated Balance-Beginning of Year	3,436	3,426	10 ^{2/}	10
Unobligated Balance-End of Year	3,839	3,828	11 ^{2/}	11
Obligated Balance-Beginning of Year	5,757	5,755	2	0
Obligated Balance-End of Year	5,367	5,363	4	0
Outlays	27,826	27,819	7 ^{5/}	4

^{1/} Any difference that is not otherwise specified is a result of either a difference in line item classifications or rounding.

^{2/} The SBR includes expired accounts; however, certain lines on the P&F do not include expired accounts (per OMB, Circular A-11, Exhibit 130K). As a result, a portion of the difference includes the expired account activity reported on the SBR.

^{3/} The majority of the difference is the result of the \$67 million beginning balance of allocation transfer activity involving USAID in funds 12X4336 and 72-12X4336 (see Note 1). The amount to be transferred in fund 72-12X4336 (USAID) was overstated by this amount and has subsequently been adjusted to bring the two funds into agreement.

^{4/} The P&F crosswalk for line 1B (Borrowing Authority) includes actual reductions of borrowing authority. The SBR crosswalk reports actual reductions of borrowing authority on line 6D (Other Authority Withdrawn). Actual reductions of borrowing authority as of September 30, 2004, amounted to \$1.9 billion.

^{5/} 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.

COMMODITY CREDIT CORPORATION

**Notes to Financial Statements
September 30, 2005 and 2004**

Note 16 - Disclosures Related to the Statement of Financing

At September 30, 2005 and 2004, CCC's Liabilities Not Covered by Budgetary Resources as disclosed in Notes 11 and 12 were \$1.9 billion and \$8.7 billion, 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 administrative costs in connection with foreign donations. The reconciling item related to this allocation transfer amounted to \$659 million in fiscal year 2005, and \$926 million in fiscal year 2004. 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 \$2.3 and \$1.3 billion as of September 30, 2005 and 2004, respectively.

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

	(In Millions)	
	2005	2004
Loans Receivable - Commodity Loans Repaid	\$ (11,968)	\$ (8,806)
Foreign Loans Receivable	(242)	(31)
Miscellaneous	(17)	(30)
Total	\$ (12,227)	\$ (8,867)

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

	(In Millions)	
	2005	2004
Allocation Transfer - USAID	\$ 1,150	\$ 926
Tobacco Trust Transfer	899	--
Debt Reduction Disbursement	416	234
Claim Disbursements	(103)	127
Miscellaneous	34	48
Total	\$ 2,396	\$ 1,335

COMMODITY CREDIT CORPORATION

**Notes to Financial Statements
September 30, 2005 and 2004**

Note 16 - Disclosures Related to the Statement of Financing

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

	(In Millions)	
	2005	2004
Conservation Reserve Annual Rental Payment Accrual	\$ 1,695	\$ 1,663
Tobacco Transition Payment Program Accrual	7,075	--
Tobacco Trust Fund Liability	341	--
Miscellaneous	--	35
Total	\$ 9,111	\$ 1,698

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

	(In Millions)	
	2005	2004
Cost of Sales	\$ 6,175	\$ 2,158
Cost of Donations	1,276	645
Claims Receivables	--	(1,316)
Bad Debt Expenses/Allowances	(658)	(171)
Upward Credit Subsidy Re-estimate Accruals	208	(238)
Allocation Transfers from FSA for the Conservation Programs	178	172
Miscellaneous	38	--
Total	\$ 7,217	\$ 1,250

The large increase in cost of sales above is due to the increase in cost of goods sold recognized when commodity certificates related to wheat, feed grains, and upland cotton are redeemed to repay loans outstanding. These costs are partially offset by revenue recognized from the sale of the certificates. The increase is also attributable to the cost of tobacco that was sold to the tobacco associations and the public.

Note 17 - Disclosures Not Related to a Specific Statement**Related Party Transactions**

CCC makes disbursements for many Farm Service Agency (FSA) programs, which are funded through allocation transfers from FSA. During fiscal years 2005 and 2004, FSA transferred to CCC \$306 million and \$132 million, respectively. These transfers plus prior year carryovers were used to make payments by CCC in the approximate amount of \$144 million and \$172 million, respectively.

The Corporation also provides services to other USDA agencies to carry out their authorities and responsibilities. The Agricultural Marketing Service (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, 2005 and 2004, the related deposit and trust liabilities for AMS and FNS were \$434 million and \$530 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, 2005 and 2004, were \$228 million and \$297 million, respectively.

CCC transferred \$4 million to FAS for fiscal years 2005 and 2004 and an additional \$4 million and \$2 million, respectively, to FSA for salaries and expenses for administering the foreign Credit Reform programs.

During fiscal years 2005 and 2004, outlays under reimbursable agreements with other USDA agencies amounted to \$36 million and \$45 million, respectively. Interagency accruals, reflecting amounts due and payable on reimbursable agreements as of September 30, 2005, were \$6 million.

During the fiscal years ended September 30, 2005 and 2004, the Corporation transferred

\$169 million and \$210 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 on behalf of APHIS for karnal bunt, a fungal disease of wheat, was less than \$1 million for both fiscal years 2005 and 2004. In addition, a deposit and trust liability to cover payments on behalf of APHIS for avian influenza, a poultry disease, was less than \$1 million for both fiscal years 2005 and 2004.

A \$111 million and \$127 million deposit and trust liability to cover payments for the McGovern-Dole International Food for Education and Child Nutrition Program and the Trade Adjustment Assistance Program were established on behalf of FAS as of September 30, 2005 and 2004, respectively. Additionally, there was a deposit and trust liability as of September 30, 2005 and 2004, of \$79 million and \$233 million, respectively, with AMS to cover payments for the Cattle Feed Program, Livestock Feed Program, Lamb Meat Adjustment Assistance Program and the Florida Hurricane Charley Citrus Disaster Program.

As of fiscal years 2005 and 2004, CCC made several authorized transfers to other USDA agencies. CCC transferred \$15 million to FNS for the Senior's Farmers Market Nutrition Program; \$5 million to Risk Management Agency (RMA) for the Agricultural Management Assistance Program (AMAP); and \$2 million to the Office of the Chief Economist for the Biobased Products Program, respectively.

As of September 30, 2005, CCC also made authorized transfers in the amounts of \$90 million to AMS for the 2004 hurricane losses in Florida; \$15 million to Forest Service for the Forest Land Enhancement Program and private landowner disaster assistance; \$50 million to FSA to provide emergency assistance to producers who suffered losses due to natural disasters; and \$2 million to AMS for AMAP.

During fiscal years 2005 and 2004, under the 2002 Farm Bill, CCC transferred a total of \$1.9

COMMODITY CREDIT CORPORATION

Notes to Financial Statements
September 30, 2005 and 2004

Note 17 - Disclosures Not Related to a Specific Statement, *continued*

billion and \$1.7 billion, respectively, to the Natural Resources Conservation Service (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, Grassland Reserve Program (GRP), Biomass Research and Development and the Conservation Security Program. NRCS is responsible for the administration of these programs. For EQIP and GRP, NRCS has entered into a memorandum of understanding with CCC to disburse funds using the services and facilities of CCC. A deposit and trust liability to cover the program payments on behalf of

NRCS for these programs and other conservation programs was \$114 million and \$1.2 billion as of September 30, 2005 and 2004, respectively.

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

In addition, during fiscal year 2005, CCC disbursed \$41 million to NRCS for CRP technical assistance and paid RMA \$2 million for technical assistance relating to AMAP.

Custodial Activity

Custodial activities as of September 30, are as follows:

	(In Millions)	
	<u>2005</u>	<u>2004</u>
Sources of Collection:		
Repayment of Farm Credit Loans	\$ 1,540	\$ 1,672
Administrative and Other Service Fees	<u>22</u>	<u>19</u>
Total Revenue Collected	1,562	1,691
Disposition of Collection:		
Amounts Transferred to the Farm Service Agency	1,544	1,675
Other USDA Agencies	1	--
Department of Treasury	<u>2</u>	<u>--</u>
Total Disposition of Collections	1,547	1,675
Amounts Yet to be Transferred	<u>15</u>	<u>16</u>
Net Custodial Activity	\$ --	\$ --

**REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION
(UNAUDITED)**

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>2005</u>	<u>2004</u>
Easement Acreage Acquired - Beginning of Fiscal Year	1,007,076	1,004,706
Additions	<u>670</u>	<u>2,370</u>
Easement Acreage Acquired -- End of Fiscal Year	<u>1,007,746</u>	<u>1,007,076</u>

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

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, 2005
(Dollars in Millions)

	<u>12X4336</u>	<u>(72)12X4336</u>	<u>12X1336</u>	<u>12X2277</u>	<u>12X2278</u>	<u>12X562278</u>	<u>1253674</u>	<u>Other</u>	<u>Total Budgetary</u>
Budgetary Resources:									
Budget Authority:									
Appropriations Received	\$ 45,357	-	\$ 522	\$ 106	\$ 1,422	\$ -	\$ 12,456	\$ 938	\$ 15,444
Borrowing Authority	9,147	1,165	-	(2)	1	12	(12,456)	(40)	45,357
Net Transfers (+/-)	-	-	-	-	-	-	-	-	(2,173)
Unobligated Balance:									
Beginning of Period	-	-	458	237	365	-	-	197	1,197
Net Transfers, Actua. (+/-)	10	-	(695)	31	(10)	-	-	-	(664)
Spending Authority from Offsetting Collections: Earned									
Collected	14,814	-	-	12	151	-	-	2,290	17,267
Receivable from Federal Sources	57	-	-	-	(201)	-	-	(24)	(158)
Change in Unfilled Customer Orders:									
Advance Received	(1,387)	-	-	-	-	-	-	-	(1,387)
Transfers from Trust Funds	899	-	-	-	-	-	-	-	899
Collected	-	-	-	-	-	-	-	-	-
Anticipated	-	-	-	-	-	-	-	-	-
Subtotal	14,393	-	-	12	(50)	-	-	2,266	16,621
Recoveries of Prior Year Obligations	2,636	97	-	(192)	102	-	-	1	2,836
Permanently not Available	(31,058)	-	-	-	(9)	-	-	(2,323)	(33,582)
Total Budgetary Resources	<u>\$ 40,485</u>	<u>\$ 1,262</u>	<u>\$ 285</u>	<u>\$ 192</u>	<u>\$ 1,761</u>	<u>\$ 12</u>	<u>\$ -</u>	<u>\$ 1,039</u>	<u>\$ 45,036</u>
Status of Budgetary Resources:									
Obligations Incurred:									
Direct	\$ -	\$ -	\$ 181	\$ 104	\$ 1,710	\$ 12	\$ -	\$ 947	\$ 2,954
Reimbursable	39,534	1,248	-	-	-	-	-	-	40,782
Subtotal	39,534	1,248	181	104	1,710	12	-	947	43,736
Unobligated balance									
Apportioned	107	-	104	48	50	-	-	22	331
Exempt from Apportionment	843	-	-	-	-	-	-	39	872
Unobligated Balance not Available	-	14	-	40	1	-	-	42	97
Total Status of Budgetary Resources	<u>\$ 40,484</u>	<u>\$ 1,262</u>	<u>\$ 285</u>	<u>\$ 192</u>	<u>\$ 1,761</u>	<u>\$ 12</u>	<u>\$ -</u>	<u>\$ 1,040</u>	<u>\$ 45,036</u>

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, 2005
(Dollars in Millions)

	<u>12X4336</u>	<u>(72)12X4336</u>	<u>12X1336</u>	<u>12X2277</u>	<u>12X2278</u>	<u>12562278</u>	<u>1253674</u>	<u>Other</u>	<u>Total</u> <u>Budgetary</u>
Relationship of Obligations to Outlays:									
Obligated Balance, Net, Beginning of Period	\$ 3,494	\$ 895	\$ 364	\$ 125	\$ 711	\$ -	\$ -	\$ 7	\$ 5,596
Obligated Balance Transferred, Net (+/-)	(216)								(216)
Obligations Incurred	39,534	1,248	176	105	1,710	12	-	951	43,736
Less:									
Recoveries of Prior Year Obligations	2,636	96			103			1	2,836
Change from Federal Sources	67				(201)			(24)	(158)
Obligated Balance, Net, End of Period:									
Accounts Receivable	(1,221)	-	-	-	-	-	-	-	(1,221)
Undelivered Orders	742	599	152	76	75	-	-	17	1,561
Accounts Payable	6,682	324	13	-	967	-	-	2	7,988
Total Obligated Balance, Net, End of Period	6,203	923	165	76	1,042	-	-	19	8,428
Outlays:									
Disbursements	33,906	1,124	379	154	1,477	12	-	959	38,011
Collections	(14,326)	-	-	(12)	(150)	-	-	(2,292)	(16,780)
Net Outlays	\$ 19,580	\$ 1,124	\$ 379	\$ 142	\$ 1,327	\$ 12	\$ -	\$ (1,333)	\$ 21,231

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, 2005
(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	\$ 326	\$ 92	\$ 104	\$ 166	\$ 688
Unobligated Balance:					
Beginning of Period	1,277	1,316	27	23	2,643
Spending Authority from Offsetting Collections: Earned:					
Collected	942	390	64	372	1,768
Receivable from Federal Sources	(113)	-	-	-	(113)
Subtotal	829	390	64	372	1,655
Recoveries of Prior Year Obligations Permanently not Available	-	-	3	-	3
Total Budgetary Resources	(475)	(161)	(82)	(16)	(734)
	<u>\$ 1,957</u>	<u>\$ 1,637</u>	<u>\$ 116</u>	<u>\$ 545</u>	<u>\$ 4,255</u>
Status of Budgetary Resources:					
Obligations Incurred:					
Direct	\$ 800	\$ 179	\$ 87	\$ 490	\$ 1,556
Subtotal	800	179	87	490	1,556
Unobligated Balance:					
Apportioned	1,152	1,319	18	34	2,523
Exempt from Apportionment	5	-	-	1	6
Unobligated Balance Not Available	-	139	11	20	170
Total Status of Budgetary Resources	<u>\$ 1,957</u>	<u>\$ 1,637</u>	<u>\$ 116</u>	<u>\$ 545</u>	<u>\$ 4,255</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, 2005
(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	\$ (273)	\$ 5	\$ 39	\$ -	\$ (229)
Obligations Incurred	800	179	87	490	1,556
Less:					
Recoveries of Prior Year Obligations	-	-	3	-	3
Change from Federal Sources	(113)	-	-	-	(113)
Obligated Balance, Net, End of Period:					
Accounts Receivable	(160)	(43)	-	-	(203)
Unfilled Customer Orders from Federal Sources	-	-	-	-	-
Undelivered Orders	-	2	46	-	48
Accounts Payable	-	-	1	-	1
Total Obligated Balance, Net, End of Period	(160)	(41)	47	-	(154)
Outlays:					
Disbursements	800	225	76	490	1,591
Collections	(942)	(389)	(64)	(373)	(1,768)
Subtotal	(142)	(164)	12	117	(177)
Less: Offsetting Receipts	528	69	5	121	723
Net Outlays	\$ (670)	\$ (233)	\$ 7	\$ (4)	\$ (900)

Schedule 3

Required Supplementary Information (Unaudited)

Intragovernmental Amounts

Intragovernmental amounts represent assets, liabilities, and non-exchange revenue between CCC and other Federal agencies. Amounts as of September 30, 2005, 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	\$ 2,781	\$ 136	\$ --
Transportation Department	--	248	--
Other	--	3	1
Total	\$ 2,781	\$ 387	\$ 1

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	\$ --	\$ 4,681	\$ 23,426	\$ --	\$ 905
U.S. Agency for Int'l Dev.	813	--	--	--	--
Other Agriculture Agencies	5	--	--	739	21
Total	\$ 818	\$ 4,681	\$ 23,426	\$ 739	\$ 926

Intragovernmental Non-Exchange Revenue:

	(In Millions)	
<u>Agency</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Treasury Department	\$ --	\$ 1,001
Farm Service Agency	17	--
Total	\$ 17	\$ 1,001
Budgetary Financing Sources:		
Treasury Department	\$ --	\$ 961
Food and Nutrition Service	--	15
Animal and Plant Health Inspection Service	--	169
Natural Resources Conservation Service	55	2,300
Agriculture Marketing Service	--	92
Farm Service Agency	50	50
Forest Service	--	15
U.S. Agency for International Development	--	820
Other	--	130
Total	\$ 105	\$ 4,552

Schedule 3

Required Supplementary Information (Unaudited)

Intragovernmental Amounts

Intragovernmental amounts represent assets, liabilities, and non-exchange revenue between CCC and other Federal agencies. Amounts as of September 30, 2004, 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	\$ 3,213	\$ 54	\$ --
Transportation Department	--	283	--
Other	--	63	3
Total	<u>\$ 3,213</u>	<u>\$ 400</u>	<u>\$ 3</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	\$ --	\$ 12,468	\$ 6,029	\$ --	\$ 452
U.S. Agency for Int'l Dev.	804	--	--	--	--
Other Agriculture Agencies	7	--	--	2,126	16
Total	<u>\$ 811</u>	<u>\$ 12,468</u>	<u>\$ 6,029</u>	<u>\$ 2,126</u>	<u>\$ 468</u>

Intragovernmental Non-Exchange Revenue:

	(In Millions)	
<u>Agency</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Treasury Department	\$ --	\$ 1,076
Farm Service Agency	25	--
Total	<u>\$ 25</u>	<u>\$ 1,076</u>
Budgetary Financing Sources:		
Treasury Department	\$ --	\$ 677
Food and Nutrition Service	--	15
Animal and Plant Health Inspection Service	--	210
Natural Resources Conservation Service	44	1,660
U.S. Agency for International Development	--	696
Other	2	8
Total	<u>\$ 46</u>	<u>\$ 3,266</u>