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Office of Inspector General
Financial & IT Operations

Audit Report

Commodity Credit Corporation's Financial Statements for Fiscal Years 2008 and 2007

Report No. 06401-23-FM
November 2008

UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington D.C. 20250

November 13, 2008

REPLY TO
ATTN OF: 06401-23-FM

TO: Board of Directors
Commodity Credit Corporation

Dennis Taitano, Controller
Commodity Credit Corporation

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

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

SUBJECT: Commodity Credit Corporation's Financial Statements
for Fiscal Years 2008 and 2007

This report presents the auditors' opinion on the Commodity Credit Corporation's (CCC) consolidated financial statements for the fiscal years ending September 30, 2008, and 2007. Reports on CCC's internal control structure and its compliance with laws and regulations are also provided.

KPMG LLP (KPMG) an independent certified public accounting firm, conducted the audits. In connection with the contract, we reviewed KPMG's report and related documentation and inquired of its representatives. Our review, as differentiated from an audit in accordance with *Government Auditing Standards* (issued by the Comptroller General of the United States), was not intended to enable us to express, and we do not express, opinions on CCC's financial statements, internal control or on whether CCC's financial management systems substantially complied with the Federal Financial Management Improvement Act (FFMIA); or conclusions on compliance with laws and regulations. KPMG is responsible for the attached auditor's report, dated November 10, 2008, and the conclusions expressed in the report. However, our review disclosed no instances where KPMG did not comply, in all material respects, with *Government Auditing Standards* and the Office of Management and Budget Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements,* as amended.

It is the opinion of KPMG, that the financial statements present fairly, in all material respects, CCC's financial position as of September 30, 2008, and 2007; and its net costs, changes in net position, and budgetary resources, in conformity with generally accepted accounting principles.

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

- Financial system functionality and funds control;
- management's review procedures over the cash flow models;
- management's analysis of obligations and liabilities for the Direct and Countercyclical Payment Programs;
- information security controls; and
- monitoring of child agency financial information.

KPMG considered the first three significant deficiencies to be material weaknesses. The results of KPMG's tests of compliance with laws and regulations disclosed instances of noncompliance with the Federal Information Security Management Act, FFMIA, and the Anti-Deficiency Act.

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

U.S. DEPARTMENT OF AGRICULTURE –
COMMODITY CREDIT CORPORATION

September 30, 2008

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INDEPENDENT AUDTIORS' REPORT

KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

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

To the Commodity Credit Corporation:

We have audited the accompanying consolidated balance sheets of the Commodity Credit Corporation (CCC) as of September 30, 2008 and 2007, and the related consolidated statements of net cost, and changes in net position, and combined statements of budgetary resources (hereinafter referred to as "consolidated financial statements") for the years then ended. The objective of our audits was to express an opinion on the fair presentation of these consolidated financial statements. In connection with our fiscal year 2008 audit, we also considered CCC's internal controls 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, 2008 and 2007, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.

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

- Improvement needed in financial system functionality and funds control
- Improvement needed in management's review procedures over its cash flow models
- Improvements needed in management's analysis of obligations and liabilities for the Direct and Countercyclical Payment Programs
- Improvement needed in information security controls
- Improvement needed in monitoring of child agency financial information

We consider the first three significant deficiencies 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 that are required to be reported herein under *Government Auditing Standards,* issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 07-04.

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

The results of our tests of FFMIA disclosed instances, described in more detail in Exhibit I, where CCC's financial management systems did not substantially comply with federal financial management systems requirements.

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

The following sections discuss our opinion on CCC's consolidated financial statements; our consideration of CCC's internal controls over financial reporting; 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 CCC as of September 30, 2008 and 2007, and the related consolidated statements of net cost, and changes in net position, and the combined statements of budgetary resources for the years then ended.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CCC as of September 30, 2008 and 2007, and its net costs, changes in net position, and budgetary resources for the years then ended, in conformity with U.S. generally accepted accounting principles.

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

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

Internal Control Over Financial Reporting

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

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

In our fiscal year 2008 audit, we consider the deficiencies, described in Exhibits 1 and 2, to be significant deficiencies in internal control over financial reporting. However, of the significant deficiencies described in Exhibits 1 and 2, we believe that the significant deficiencies presented in Exhibit 1 are material weaknesses. A summary of the status of prior year noncompliance and other matters is presented in Exhibit 3. Exhibit 4 presents the status of prior years' material weaknesses and significant deficiencies.

We noted certain additional matters that we have reported to management of CCC in a separate letter dated November 12, 2008.

Compliance and Other Matters

The results of certain of our tests of compliance as described in the Responsibilities section of this report, exclusive of those referred to in the *Federal Financial Management Improvement Act of 1996* (FFMIA), disclosed two instance of noncompliance that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 07-04, and is described below.

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

We noted that during fiscal year 2008, the International Technology Services (ITS) and CCC have made significant progress with their information security program in order to meet the requirements of FISMA and OMB Circular No. A-130. (ITS provides and maintains the IT infrastructure supporting CCC's general support systems and major applications, hence the reference here, and later in this report, to ITS.) However, FSA/CCC needs further improvement in its technical security access controls and computer operations programs to fully meet these requirements. The information security weaknesses we identified during the financial audit were consistent with weaknesses identified by the USDA Office of Inspector General (OIG) during its annual FISMA evaluation. The significant deficiency reported in Exhibit 2 and CCC's noncompliance with FISMA both contribute to CCC's noncompliance with FFMIA.

ADA. As previously reported in our fiscal year 2007 report, the USDA's Office of General Counsel made the legal determination in May 2007 an ADA violation occurred. The violation was the result of the improper donation and transportation of nonfat dry milk during fiscal year 2003. During fiscal year 2008, CCC reported the ADA violation to the appropriate parties as required by OMB Circular A-11.

The results of our other tests of compliance as described in the Responsibilities section of this report, exclusive of those referred to in FFMIA, disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 07-04.

The results of our tests of FFMIA disclosed instances, described in more detail in Exhibit I, where CCC's financial management systems did not substantially comply with federal financial management systems requirements. Further, ITS/CCC's FISMA noncompliance contributed to its noncompliance with FFMIA, as one of the FFMIA requirements related to security over financial systems. The results of our tests of

FFMIA disclosed no instances in which CCC did not substantially comply with applicable federal accounting standards or the USSGL at the transaction level.

FFMIA mandates that federal financial management be advanced by ensuring that federal financial management systems can and do provide reliable, consistent disclosure of financial data and that they do so on a basis that is uniform across the federal government from year to year, consistently using U.S. generally accepted accounting principles. Federal agencies need to comply with FFMIA by adhering to policies established by OMB, such as OMB Circular No. A-127, *Financial Management Systems*. For example, CCC needs to improve its processes in order to effectively implement a comprehensive funds control process.

FFMIA also requires that federal agencies implement information security controls and contingency planning capabilities in accordance with OMB Circular No. A-130. As noted in more detail in Exhibit 2, CCC needs to improve in these and other areas to be in compliance with FISMA and OMB Circular No. A-130. For example, CCC needs to further enhance its procedures in order to establish and maintain information security and contingency planning procedures.

* * * * * * *

Responsibilities

Management's Responsibilities. Management is responsible for the consolidated financial statements; establishing and maintaining effective internal control; and complying with laws, regulations, contracts, and grant agreements applicable to CCC.

Auditors' Responsibilities. Our responsibility is to express an opinion on the fiscal year 2008 and 2007 consolidated financial statements of CCC based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin No. 07-04. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of CCC's internal control over financial reporting. Accordingly, we express no such opinion.

An audit also includes:

- Examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements;
- Assessing the accounting principles used and significant estimates made by management; 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 2008 audit, we considered CCC's internal control over financial reporting by obtaining an understanding of CCC's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*. The objective of our audit was not to express an opinion on the effectiveness of CCC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of CCC's internal control over financial reporting.

KPMG

As part of obtaining reasonable assurance about whether CCC's fiscal year 2008 consolidated financial statements are free of material misstatement, we performed tests of CCC's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of the consolidated financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04, including the provisions referred to in Section 803(a) of 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 the 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.

CCC's response to the findings identified during our audit is presented in Exhibit 5. We did not audit CCC's response and, accordingly, we express no opinion on it.

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

KPMG LLP

November 12, 2008

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

Material Weaknesses

Introduction

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

Exhibit 1 herein describes the material weaknesses and Exhibit 2 describes the significant deficiency noted during our audit as of and for the year ended September 30, 2008, and our recommendations thereon. A summary of the status of prior year noncompliance is presented in Exhibit 3. Exhibit 4 presents the status of prior years' material weaknesses and significant deficiencies. CCC management's response to our findings is presented in Exhibit 5.

Material Weaknesses

The material weaknesses we identified as of and for the year ended September 30, 2008, are summarized below.

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

As noted in prior year audits, CCC does not have a system in place that adequately reduces the risk that funds could be disbursed or obligations incurred with no or insufficient budget authority to fund the expense or obligation.

The Antideficiency Act requires that agency heads prescribe, by regulation, a system of administrative control of funds. The system is also called the fund control system and the regulations are called fund control regulations. In accordance with OMB Circular No. A-11, Part 4, *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, and
- Enable management to identify the person responsible for any obligation or expenditure exceeding the amount available in the appropriation or fund account, the OMB apportionment or reapportionment, the allotments or suballotments made by the agency, and statutory limitations or any other administrative subdivision of funds made by CCC.

CCC has implemented and continues to improve certain manual controls to help mitigate the risk of financial statement misstatement; however, these controls are detective in nature. As such, the existing controls do not adequately address the risks arising from the lack of an integrated obligation and disbursement system related to funds control. As a result of this control deficiency, CCC continues to remain noncompliant with FFMIA.

Recommendation

FSA/CCC management is continuing its efforts to develop and implement new systems that are expected to achieve funds control upon their implementation, which is expected to be completed by fiscal year 2012. Until this long-term solution is in place, CCC management represents that it recognizes the need to continue to refine the manual processes in place to mitigate to the extent possible the system functionality issues noted above. As a result, we have no further recommendation regarding this issue.

(2) Improvement Needed in Management's Review Procedures Over Its Cash Flow Models

During our review of the credit reform models in fiscal year 2008, we noted that internal control weaknesses in the model validation and verification process continued to exist at CCC. Specifically, we identified certain errors in the PL 480 and the Farm Storage models related to data input and/or model logic. The errors were identified through the audit process, and as a result, the models were revised multiple times. All significant errors in the models were corrected at year end.

Technical Release No. 6, *Preparing Estimates for Direct Loan and Loan Guarantee Subsidies, January 2004, paragraph 40* states, "The cash flow estimation process, including all underlying assumptions, should be reviewed and approved at the appropriate level including revisions and updates to the original model. Cash flow models should be tested for reliability as part of the approval process by comparing estimated cash flows to actual cash flows and assessing the model's ability to replicate a credit program's performance."

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

As noted in fiscal year 2007, CCC's model validation and verification procedures are not sufficiently thorough. As such, management's oversight of the development, implementation, and maintenance of the cash flow models and the related calculations for the Credit Reform program was not effective and errors continue to exist in the model versions submitted for audit.

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

Recommendation

1. We recommend that the Office of Budget and Finance (OBF) management perform a more thorough and in-depth review of the models prior to submitting them for auditor review. In addition, OBF should begin making any necessary revisions to the model earlier in the fiscal year. This will allow for more time to ensure that all changes to the models are properly made and reviewed.

(3) Improvements needed in management's analysis of obligations and liabilities for the Direct and Countercyclical Payment Programs

In recent years, CCC has significantly improved its accounting policies and procedures related to the producer payment programs. In fiscal year 2008, CCC further updated its overall policies and procedures related to producer payment program obligations and accruals by major program category and program level. We also noted that CCC improved the level of analysis performed at the program level for many active programs. Our review of documentation used by CCC to record producer payment program accruals and to liquidate related undelivered orders generally indicated that supervisory review and approval was performed; however, we identified certain significant errors at September 30, 2008, as follows:

- At September 30, 2008, CCC used its economists' estimate to record an accrual for the counter-cyclical payments (CCP) expected to be made to producers in fiscal year 2009 related to the 2007 program year. The economists subsequently revised their previous estimate on October 10, 2008, to reflect an updated payment rate for the commodity. However, the year end CCP accrual was not adjusted for the most recent estimate information, which indicated the future CCP payments were fully accrued, and as a result, CCC overstated the program accrual in the amount of $215 million.

- As noted above, CCC had fully accrued for the counter-cyclical payments expected to be made in fiscal year 2009 related to the 2007 program year. Based on the most recent market data, the economists' estimate did not anticipate any additional disbursements to occur for this program; however, the related undelivered orders balance of $548 million was not de-obligated at year end.

- At September 30, 2008, CCC recorded an upward adjustment to its undelivered orders for $46 million for the 2007 Direct Payment (DP) program based on prior estimates provided by the economist. CCC accountants performed a lag analysis to observe the disbursement trend; however, this analysis was not used to evaluate the reasonableness of the recorded amount. The analysis of disbursement trends for the 2002 through 2006 DP program years indicated that CCC has paid an average of $9 million related to this program after the completion of the program's statutory disbursement date, which is deemed to be a reasonable estimate of future obligations for this program at September 30, 2008. Based on this analysis, the amount recorded for undelivered orders for the 2007 DP program year was overstated in the amount of $37 million.

Statement of Federal Financial Accounting Standards 5, *Accounting for Liabilities of the Federal Government*, states that: "A liability for federal accounting purposes is a probable future outflow or other sacrifice of resources as a result of past transactions or events." It further states, "Government-related events resulting in a liability should be recognized in the period the event occurs if the future outflow or other sacrifice of resources is probable and the liability can be measured, or as soon thereafter as it becomes probable and measurable."

OMB Circular A-11, Preparation, Submission, and Execution of the Budget, stated: obligations are evidenced by legally binding agreement that will result in outlays, immediately or in the future. When government employees place an order, sign a contract, award a grant, purchase a service, or take other actions that require the Government to make payments to the public or from one Government account to another, government employees incur an obligation. Services and supplies that are purchased by contract are recorded as obligations at the time there is a binding agreement, which is usually when the contract is signed. As a general rule, the amount of the obligation is the maximum liability to the Federal Government. The maximum liability to the Government is normally limited by the terms of the contract, e.g., cancellation clauses.

CCC management uses estimates related to expected payments that are dependent on future commodity market prices to properly record program obligations and accruals in accordance with U.S. generally accepted accounting principles. Management has implemented effective monitoring and review procedures to ensure that obligations and accrued expense amounts related to active commodity programs are reasonable and timely recorded based on these estimates. However, the same level of timely analysis does not appear to be performed on residual balances related to programs for which the program years have ended.

As a result of the errors noted above, accrued liabilities and undelivered orders were overstated by approximately $215 million and $585 million, respectively. CCC made adjusting entries at September 30, 2008 to reduce accrued liabilities and undelivered orders by approximately $215 million and $510 million, respectively.

Recommendation

2. We recommend that the formalized policies and procedures specific to the CCP and DP programs specifically describe: i) a process to perform a reasonableness analysis on the prior program year accruals and obligations carried forward to the current period; ii) actions that should be taken based on this analysis; and iii) procedures that should be followed to update the recorded amounts based on information that comes to management's attention subsequent to fiscal year end that is relevant to current year recorded amounts.

EXHIBIT 2

U.S. DEPARTMENT OF AGRICULTURE
COMMODITY CREDIT CORPORATION

Significant Deficiencies

The significant deficiencies we identified as of and for the year ended September 30, 2008, are summarized below:

(4) 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 2008 FSA/CCC:

- Completed a physical access review of its data center;
- Updated all contingency plans for fiscal year 2008;
- Developed and implemented backup error correction policy procedure for fiscal year 2008 processing; and
- Substantially completed remediation of outstanding IT corrective actions.
- Outlined steps to correct vulnerability weaknesses within corrective action plan (CAP) # 95.2006.GCC.025.

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 audits, we noted several areas, detailed below, where improvements are needed in properly establishing and maintaining information security.

Technical Security Access Controls

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

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

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

- During our analyses of the vulnerability scanning activity reports, we observed certain instances where identified high-risk vulnerabilities were not resolved timely. Of the 47 vulnerabilities identified, 78% of them were related to areas that were undergoing process modifications and another 10% were due to a Microsoft Systems Management Server update that had not been received.

- eAuthentication password settings and the Active Directory password settings for the tds.eai domain did not meet the USDA requirements (e.g., 12 characters minimum).

- The TECHNCAL user profile for the CCC CORE application had access to certain security groups, which provided members of the profile unnecessary access to enter records into certain tables.

Computer Operations

Computer operations should be in place so that all critical data, transactions and programs are backed up on a defined schedule and that the backups are complete, accurate and can be recovered if needed. An agency's business continuity or contingency planning has no effect on its current abilities to initiate, authorize, record, process, or report financial data. Therefore, an agency's business continuity or contingency planning is not part of internal control over financial reporting but the ability to recover financial data is critical in the event a serious disruption or disaster occurs. During our fiscal year 2008 audit, we identified there was no alternative processing site for Web Farm applications.

Federal laws and regulations such as FISMA, require that Federal agencies follow the security guidance issued by the National Institute of Standards and Technology (NIST). NIST provides the following relevant guidance:

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

- NIST Special Publication 800-34, *Contingency Planning Guide for Information Technology System*, states: "Backup tapes should be tested regularly to ensure that data are being stored correctly and that the files may be retrieved without errors or lost data.”

Recommendations

We recommend that FSA/CCC management, in cooperation with the relevant ITS system owners and NITC management:

3. Continue actions, as outlined in CAP # 95.2006.GCC.025, to revise and implement procedures to ensure that all hosts are scanned monthly per policy and that remediation occurs in a timely manner for high and medium vulnerabilities;

4. Configure the e-Authentication and the tds.eai domain Active Directory password settings to meet the standards set by the 12/14/2007 memorandum from the USDA Chief Financial Officer (CFO);

5. Regularly review each CCC CORE user profile to determine whether its members' access is appropriate based on their job responsibilities; and

6. FSA/CCC OCIO, in coordination with FSA/CCC system owners and USDA OCIO officials, should ensure that management continues to execute the established CAP in order for FSA/CCC to obtain an alternate processing facility that will allow the Web Farm applications to continue processing in the event it's not available due to a significant interruption.

(5) Improvement Needed in Monitoring of Child Agency Financial Information

CCC is a party to allocation transfers with the U.S. Agency for International Development (USAID) as the transferring entity (parent). CCC allocated funds of approximately $1 billion to USAID (the child) during fiscal year 2008 to fund P.L. 480 Title II transportation and other administrative costs in connection with foreign donations. As the parent, CCC is required by Office of Management and Budget (OMB) Circular A-136 to report all budgetary and proprietary activity related to the allocation transfer in its financial statements.

During our testing of activities related to the allocation transfer, we noted that CCC was not effectively monitoring USAID to ensure the financial information reported to CCC was accurate. Specifically, we identified certain errors that were the result of significant control deficiencies related to USAID's accrual estimation and fund balance with Treasury reconciliation processes that were unknown to CCC's management and staff.

OMB Circular A-136, *Financial Reporting Requirements*, states "The parent is authorized to delegate part or all of the work to other Federal agencies to carry out its program. However, the parent still has full responsibility for the program and its outputs. The parent is responsible for the program's overall performance and may decide to reallocate funds if the parent is not satisfied with the child's performance." It further states that "The key to timely and accurate quarterly reporting by the child agency is the communication between the parent and child. It is strongly recommended that issues such as formats, abnormal balances, capitalization thresholds, useful lives, depreciation methodologies, transfer of trading partner information, etc., be discussed and resolutions reached at a date required by the parent to meet its reporting and auditing deadlines"

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

CCC does not currently have formal policies and procedures in place for monitoring the proprietary and budgetary transactions reported by USAID. In addition, we were not able to identify evidence that there is an ongoing dialogue between the two agency staffs, thereby increasing the risks that errors may occur.

The lack of effective monitoring increases the risk that significant errors will exist in the financial information provided by USAID and not be detected by CCC, thereby increasing the risk of significant misstatement to CCC's financial statements.

Recommendation

7. We recommend that CCC develop and implement policies and procedures to effectively monitor the transactions reported by USAID for inclusion in CCC's financial statements. The procedures should call for frequent data analysis and regularly scheduled communication between agency staff to ensure CCC management is aware of any issues that underlie the financial transactions.

Exhibit 3

U.S. DEPARTMENT OF AGRICULTURE –
COMMODITY CREDIT CORPORATION

Status of Prior Year Noncompliance and Other Matters

Fiscal Year 2007 Finding	Year First Reported by KPMG	Fiscal Year 2008 Status
Federal Information Security Management Act (FISMA) – The Information Technology Services (ITS)/ Commodity Credit Corporation (CCC) needs to improve its level of compliance with FISMA by implementing additional controls and processes supporting its entity-wide security and contingency planning programs.	2002	Open
Federal Financial Management Improvement Act of 1996 (FFMIA) – CCC was not in substantial compliance with the following OMB Bulletin No. 07-04 (formerly OMB Bulletin No. 06-03) and FFMIA requirements: *Section 1 – Federal financial management systems requirements with respect to:* ➢ Information security controls and contingency planning capabilities in accordance with OMB Circular A-130, *Management of Federal Information Resources.* ➢ Financial systems controls in accordance with OMB Circular A-127, *Financial Management Systems.*	2002	Open
ADA. The USDA's Office of General Counsel made the legal determination in May 2007 an ADA violation had occurred. The violation was the result of the improper donation and transportation of nonfat dry milk during fiscal year 2003. During fiscal year 2008, CCC reported the ADA violation to the appropriate parties as required by OMB Circular A-11.	2007	Closed

Exhibit 4

U.S. DEPARTMENT OF AGRICULTURE –
COMMODITY CREDIT CORPORATION

Status of Prior Year Findings

Fiscal Year 2007 Finding	Years Reported by KPMG/Type[1]	Fiscal Year 2008 Status
1) Improvement needed in information security controls	2002 – 2007 / Material Weakness (MW) 2008 / Significant Deficiency (SD)	Open (FY 2008 SD1)
2) Improvement needed in financial system functionality and funds control	2002 – 2008 / MW	Open (FY 2008 MW1)
3) Improvement needed in management's review procedures over its cash flow models	2005 – 2006 / Reportable Condition 2007 – 2008 / MW	Open (FY 2008 MW2)
4) Improvement needed in producer monitoring procedures	2004 – 2007 / SD	Open (FY 2008 Management Letter Comment)

[1] The term "reportable condition" was used through FY 2006 in accordance with Statement of Auditing Standard No. 60. However, the term "reportable condition" was discontinued during FY 2007 as a result of SAS No. 112 and replaced with the term "significant deficiency," which had a revised definition. Those findings that were reported under both SAS 60 and 112 have been identified as significant deficiencies for the purposes of this report.

USDA

United States Department of Agriculture

Farm and Foreign Agricultural Services

Commodity Credit Corporation

1400 Independence Avenue, SW
Stop 0581

Washington, DC
20250-0581

Exhibit 5

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

Mike Lippert
Senior Partner
Kylnveld Peat Marwick Goerdeler (KPMG)

FROM: for Dennis J. Taitano Owen G. Jones
Controller
Commodity Credit Corporation

SUBJECT: Response to the Draft Combined Independent Auditor's Report on the Commodity Credit Corporation's (CCC) Fiscal Years 2008 and 2007 Comparative Financial Statements

We have reviewed KPMG's Draft Combined Independent Auditor's Report dated November 12, 2008, and concur with its contents. CCC will develop corrective action plans, where necessary, to address the findings and recommendations identified during the audit. As we consider the required corrective actions, we will continue to work with the Office of the Inspector General in ensuring that the specific actions will assist us in successfully addressing the recommendations and reaching management decision.

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

USDA

U.S. Department of Agriculture

Commodity Credit Corporation

ANNUAL REPORT

Fiscal Year 2008

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MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)

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

MISSION STATEMENT

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

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

HISTORY OF THE COMMODITY CREDIT CORPORATION

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

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

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

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

STRUCTURE OF THE COMMODITY CREDIT CORPORATION

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

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

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

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

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

CCC BOARD OF DIRECTORS

Chairperson, Edward T. Schafer, Secretary of Agriculture
Vice Chairperson, Charles F. Conner, Deputy Secretary of Agriculture
Member, Mark E. Keenum, Under Secretary, Farm and Foreign Agricultural Services (FFAS)
Member, Thomas C. Dorr, Under Secretary, Rural Development (RD)
Member, Nancy Montanez-Johner, Under Secretary, Food, Nutrition, and Consumer Services (FNCS)
Member, Charles R. Christopherson Jr., Chief Financial Officer and Chief Information Officer, USDA
Member, Bruce I. Knight, Under Secretary, Marketing and Regulatory Programs (MRP)
Member, Mark E. Rey, Under Secretary, Natural Resources and Environment (NRE)

CCC OFFICERS

President, Mark E. Keenum, Under Secretary, FFAS
Executive Vice President, Teresa C. Lasseter, Administrator, Farm Service Agency (FSA)
Vice President, Glen L. Keppy, Associate Administrator, Programs, FSA
Vice President, Thomas B. Hofeller, Associate Administrator, Operations and Management, FSA
Vice President, Lloyd C. Day, Administrator, Agricultural Marketing Service (AMS)
Vice President, Michael W. Yost, Administrator, Foreign Agricultural Service (FAS)
Vice President, W. Kirk Miller, General Sales Manager, FAS
Vice President, Roberto Salazar, Administrator, Food and Nutrition Service (FNS)
Vice President, Arlen Lancaster, Chief, Natural Resources Conservation Service (NRCS)
Deputy Vice President, Larry J. Adams, Deputy Administrator, Commodity Operations, FSA
Deputy Vice President, David Lavway, Acting, Deputy Administrator, Management, FSA
Deputy Vice President, John A. Johnson, Deputy Administrator, Farm Programs, FSA
Deputy Vice President, Steven A. Connelly, Deputy Administrator, Field Operations, FSA
Deputy Vice President, Joy Harwood, Director, Economic & Policy Analysis Staff, FSA
Deputy Vice President, Dana D. York, Associate Chief, NRCS
Deputy Vice President, Thomas W. Christensen, Deputy Chief, Programs, NRCS
Deputy Vice President, Katherine C. Gugulis, Deputy Chief, Management, NRCS
Secretary, Steven N. Mikkelsen, Acting Executive Assistant to the Administrator, FSA
Deputy Secretary, Vacant, Farm Service Agency (FSA)
Assistant Secretary, Monique B. Randolph, Staff Assistant, FSA
Controller, Dennis Taitano, Director, Office of Budget and Finance, FSA
Treasurer, Owen Jones, Acting, Director, Financial Management Division, FSA
Chief Accountant, Agnes Leung, Acting, Center Director, Policy, Accounting, Reporting, and Loan Center, Financial Management Division, FSA

ADVISORS

General Counsel, Marc L. Kesselman, Office of the General Counsel
Associate General Counsel, Ralph Linden, International Affairs, Commodity Programs and Food Assistance Programs

CCC PROGRAM AREAS

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

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

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

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

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

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

FUTURE EFFECTS OF DEMANDS, EVENTS AND CONDITIONS

2008 Farm Bill Passage: The "Food, Conservation, and Energy Act of 2008" (2008 Farm Bill) has a variety of new and revised provisions to CCC funded programs that will place significant strain on the FSA to implement. The new farm bill contains over 600 sections/provisions, which is more than a 50 percent increase when compared to the 2002 Farm Bill. The major changes include: the Average Crop Revenue Election program, Supplemental Agricultural Disaster Assistance Programs for crop production and/or crop quality losses, livestock forage losses, livestock death losses; assistance to orchardists and nursery tree growers; and emergency assistance to producers of livestock, honey bees, and farm raised fish that are not properly covered under any other program; Planting Transferability Pilot Project for fruit and vegetables grown for processing on base acres in the upper Midwest; direct attribution for payment limitations; new adjusted gross income limitation provisions; the Biomass Crop Assistance Program; Feedstock Flexibility Program for Bio-energy Producers; compensation for dairy producers when domestic milk prices fall below a specified level and payment rate adjustment for feed prices; greater access and portability of Geospatial Information System data; state specific requirements and extension of the Pigford settlement to late filers. These programs will require a very substantial amount of information technology software development as well as additional employees at both headquarters and field offices. The 2008 Farm Bill authorized $50 million for implementation expenses. The actual costs to implement the 2002 Farm Bill were approximately $157 million. The effect of the projected funding shortfall may affect the timing of overall delivery.

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

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

Natural Disasters and Weather Conditions: Extreme climate and weather events often cause extensive flooding and sustained droughts that profoundly affect our society in general and agriculture in particular. Agriculture is vulnerable to variations and fluctuations in weather and climate because existing agricultural practices were developed for average weather and climate conditions. The Farm Service Agency provides assistance for natural disaster losses resulting from drought, flood, fire, freeze, tornadoes, pest infestation, and other calamities. On May 25, 2007, President Bush signed into law the "U.S. Troop Readiness, Veterans' Care, Katrina Recovery, and Iraq Accountability Appropriations Act, 2007" (2007 Act). The 2007 Act provides approximately $3 billion in agricultural disaster aid for America's farmers and ranchers. The aid will cover crop losses, livestock and feed losses, emergency conservation practices and dairy losses. The 2007 Act also extends the Emergency Forestry Conservation Reserve Program and the Milk Income Loss Contract program. Producers are eligible for this new disaster aid if their county was declared a disaster area by the President or Secretary of Agriculture for disasters occurring between January 1, 2005 and December 31, 2007.

PERFORMANCE HIGHLIGHTS SUMMARY

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

The Noninsured Crop Disaster Assistance Program (NAP) provides financial assistance to producers of crops for which there is no available crop insurance when low yields, loss of inventory, or prevented planting occur because of a natural disaster. With an estimated FY 2008 percentage of 7.2%, FSA/CCC has not met its FY 2008 target for increasing the percentage of eligible crops with NAP coverage for several reasons. Program results are based on noninsurable crops that have been affected by natural disasters and weather conditions occurring in FY 2007. The measure represents payments made in FY 2008 for disasters that occurred in FY 2007. FY 2007 was a year when fewer crops were affected by disaster declarations, resulting in a decrease in NAP payments. Program outcomes depend on the extent and severity of natural disasters, and therefore are difficult to measure or predict from year to year. Although NAP payments declined for the year, the actual number of crops enrolled in NAP increased from 154,282 crops in FY 2007 to 155,400 crops in FY 2008, an increase of 1,118 crops.

The FSA/CCC performance measure "Reduce the average number of days between warehouse examinations," achieved its goal to reduce the average time between warehouse examinations. The FY 2008 target was 390 days between warehouse examinations. In FY 2008, examinations were performed more frequently, an average of 387 days. The warehouse examination program performs examinations of licensed and contracted warehouse facilities that store or handle commodities for CCC. The more frequently warehouses are examined for compliance with CCC storage agreements and United States Warehouse Act licensing agreements by FSA warehouse examiners, the sooner any potential pest infestation or quality deterioration of commodities in store will be discovered. Factors affecting the time between examinations of these warehouses include the number of warehouses participating in storage programs for the account of CCC, the amount or value of commodity in store with CCC interest, the length of time the commodities have been in store, whether the commodities have been forfeited or are simply under loan, staff losses during FY 2008, and funding for the examination program.

CRP exceeded its performance target of 1.92 million acres for the measure "Increase Conservation Reserve Program (CRP) acres of riparian and grass buffers (million acres)**"** by more than 100,000 acres. For FY 2008, producers have set aside approximately 2.02 million acres as CRP buffer areas. The Conservation Reserve Program (CRP) is the nation's largest private-lands conservation financial assistance program, with over 34.7 million acres enrolled. The USDA *Strategic Plan for FY 2005-2010* set a strategy of helping producers increase the number of riparian and grass buffers on agricultural lands. As one indicator of its performance in achieving this strategy, FSA monitors acreage of agricultural lands to be enrolled as buffer zones in CRP. These buffers intercept sediment and nutrients before they reach surface waters.

CRP exceeded its performance target of 1.90 million acres for the measure "Increase wetlands acres restored" by 90,000 acres. These restored wetlands are the result of several initiatives, including the 500,000-acre Bottomland Hardwood Timber Initiative and the 250,000-acre non-floodplain Wetland Restoration Initiative. These wetlands and buffers have increased prime wildlife habitat and water storage capacity, and have led to a net increase in wetland acres on agriculture land. The CRP continues to be acknowledged for its environmental benefits generated by long-term conservation contracts protecting air, soil, water, and wildlife resources.

FINANCIAL HIGHLIGHTS

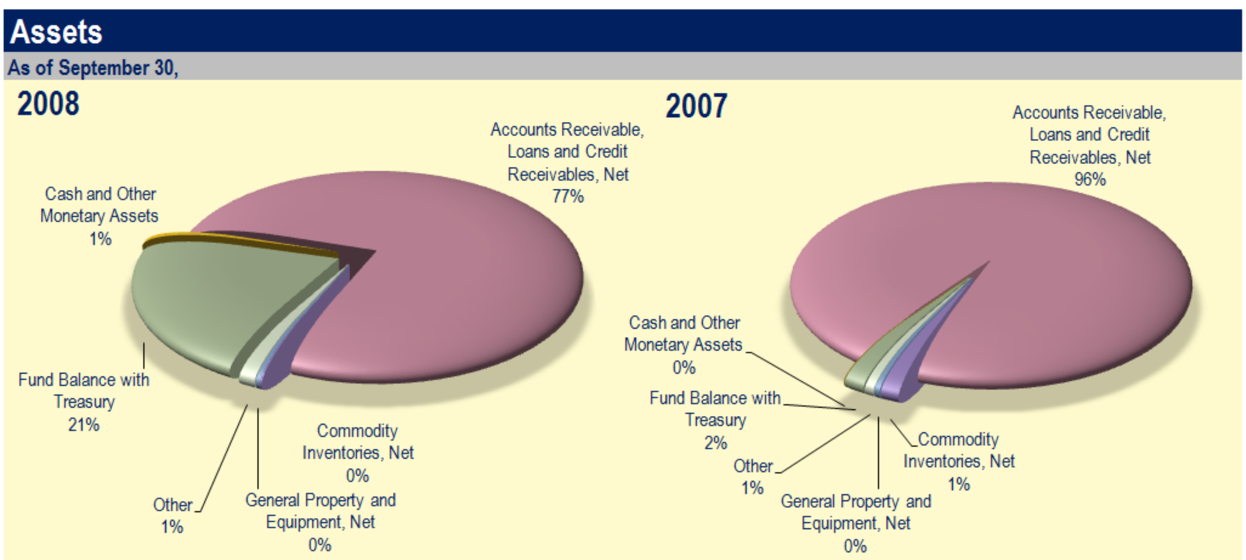
As part of its mission to stabilize, support, and protect farm income and prices, CCC is also responsible for providing accurate, timely, and useful financial management information to all Agency stakeholders. These statements have been prepared from the accounting records of the Agency as of September 30, 2008 and September 30, 2007 in accordance with generally accepted accounting principles for Federal entities and policies prescribed in the Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*.

Assets: The Balance Sheet shows the Agency had total assets of $14.5 billion as of September 30, 2008, an increase of $1.9 billion (15 percent) over the previous year's total assets of $12.6 billion. The $2.8 billion increase in Fund Balance with Treasury is primarily due to an increase in the collection of loan repayments in FY 2008, as a result of higher commodity market prices.

The increase in Cash and Other Monetary Assets is due to $92 million in undeposited collections of Cotton Loan Principal receipts, of which $26 million is in transit.

Assets

(Dollars in Millions)	2008	2007	Variance	Variance %
Fund Balance with Treasury	$ 3,035	$ 216	$ 2,819	1305%
Cash and Other Monetary Assets	92	-	92	100%
Accounts Receivable, Loans and Credit Receivables, Net	11,147	12,096	(949)	-8%
Commodity Inventories, Net	15	185	(170)	-92%
General Property and Equipment, Net	51	55	(4)	-7%
Other	189	95	94	99%
Total Assets	$ 14,529	$ 12,647	$ 1,882	15%

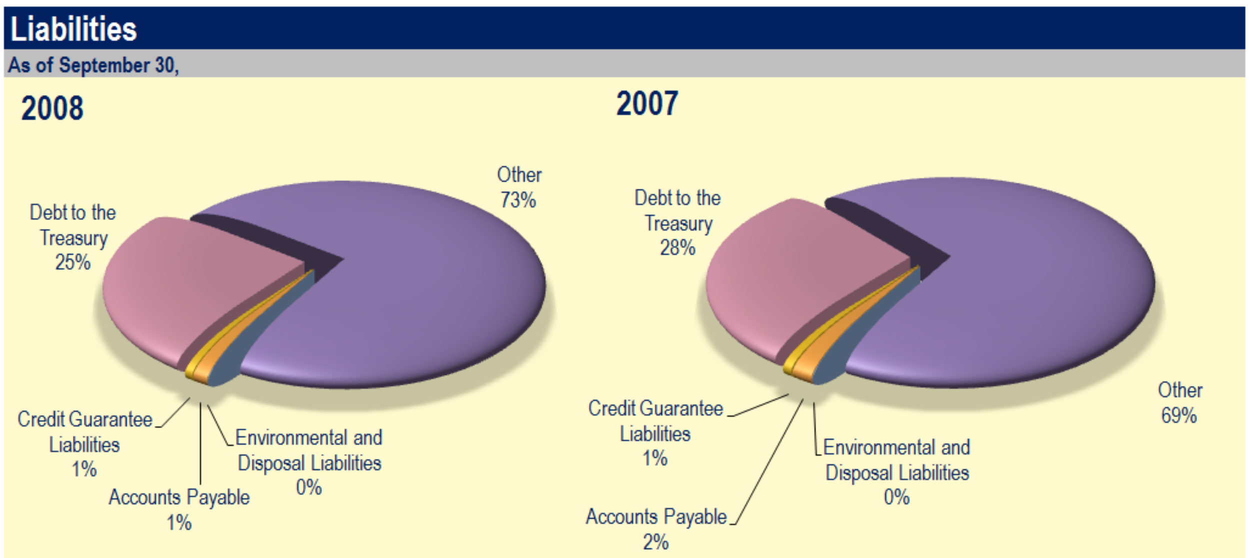


Liabilities: The Balance Sheet shows the Agency had total liabilities of $23.3 billion as of September 30, 2008. This represents an increase of $73 million over the previous year's total liabilities of $23.2 billion. The decrease in Debt to the Treasury is primarily due to the repayment of interest bearing Treasury notes. Total borrowings and repayments on borrowings from Treasury decreased in FY 2008 as a result of these payments.

Other Liabilities decreased from the prior year primarily as a result of the reduction in the calculation of the present value of Tobacco Transition Payment Program (TTPP) payments from 8 years to 7 years.

Liabilities

(Dollars in Millions)	2008	2007	Variance	Variance %
Accounts Payable	$ 287	$ 395	$ (108)	-27%
Debt to the Treasury	5,877	6,516	(639)	-10%
Credit Guarantee Liabilities	161	184	(23)	-13%
Environmental and Disposal Liabilities	8	8	-	0%
Other	16,950	16,107	843	5%
Total Liabilities	$ 23,283	$ 23,210	$ 73	0%



Ending Net Position: As of September 30, 2008 and September 30, 2007, the Agency's net position was $8.8 billion and $10.6 billion, respectively. Net Position is the sum of the Unexpended Appropriations, Cumulative Results of Operations, and Capital Stock.

Results of Operations: CCC categorizes the net cost of operations based on the Agency's strategic goals. Net cost of operations was $11.0 billion and $11.7 billion for the fiscal years ended September 30, 2008 and September 30, 2007, respectively. Overall Total Net Cost of Operations decreased by 6 percent from the prior year. As shown in the table below, Supporting Productive Farms and Ranches expenses underlie a majority of the costs for the fiscal years ended September 30, 2008 and September 30, 2007. The activity that caused the fluctuation in the Statement of Net Cost for the fiscal year ended September 30, 2008 relates to the following strategic goals:

- ***Supporting Productive Farms and Ranches*** – For the fiscal year ended September 30, 2008 there was a decrease in the Price Support Commodity Certificate Program due to higher market prices for commodities, primarily for upland cotton.

- ***Supporting Secure and Affordable Food and Fiber*** – The increase in Net Cost for the fiscal year ended September 30, 2008 is due to the sale of Bill Emerson Humanitarian Trust (BEHT) commodities.

- ***Conserving Natural Resources and Enhancing the Environment –*** The decrease in Net Cost is due to a reduction in permanent easement and conservation reserve annual payment.

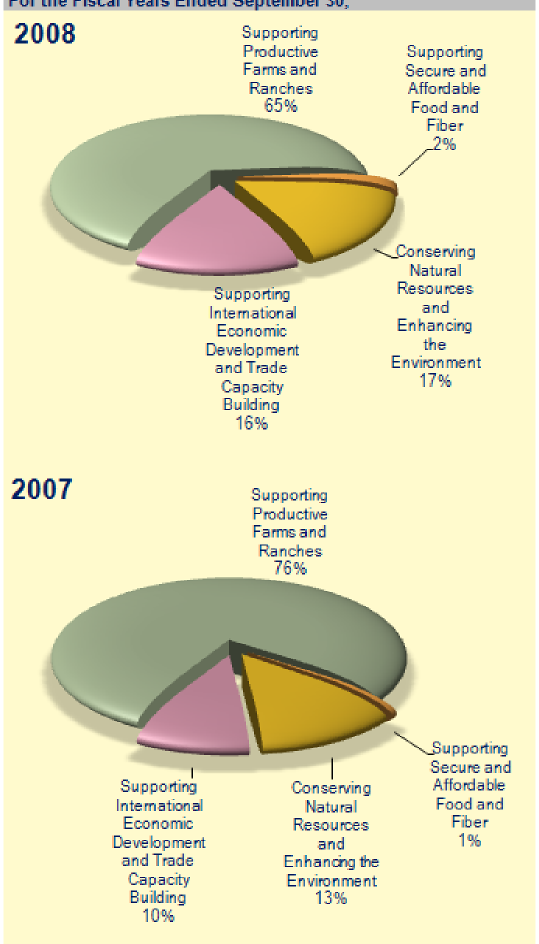
- ***Supporting International Economic Development and Trade Capacity Building*** – The increase in Net Cost is a result of P. L. 480 Title II Export program, which purchased additional commodities in FY 2008 to meet emergency needs in foreign countries; and, the General Sales Manager program, which recorded additional costs for reestimate allowances.

Summary of Net Cost of Operations by Strategic Goals

(Dollars in Millions)		2008		2007		Variance	Variance %
Supporting Productive Farms and Ranches	$	7,211	$	8,512	$	(1,301)	-15%
Supporting Secure and Affordable Food and Fiber		(29)		(132)		103	-78%
Conserving Natural Resources and Enhancing the Environment		2,123		2,157		(34)	-2%
Supporting International Economic Development and Trade Capacity Building		1,651		1,160		491	42%
Total Net Cost of Operations	$	10,956	$	11,697	$	(741)	-6%

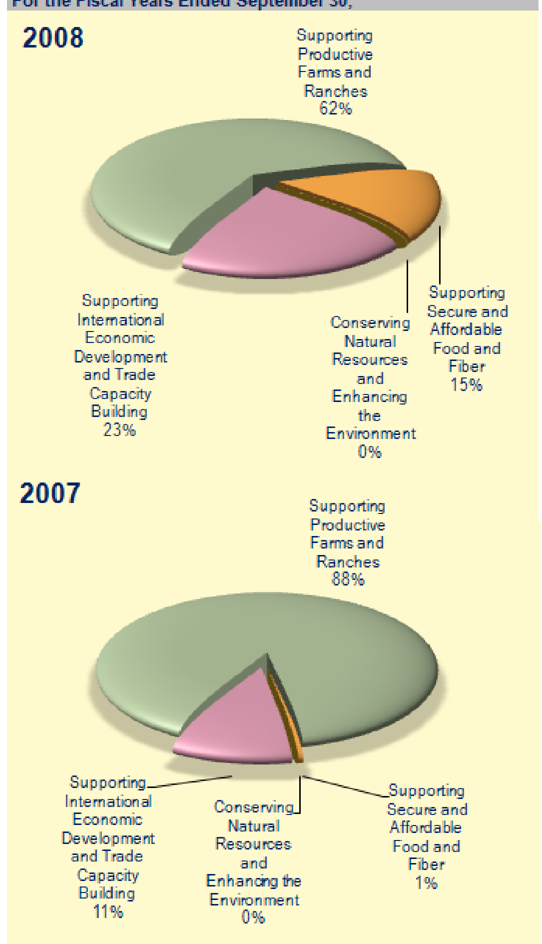
Gross Costs

For the Fiscal Years Ended September 30,



Earned Revenue

For the Fiscal Years Ended September 30,



Obligations and Outlays: Between FY 2008 and FY 2007, Obligations Incurred decreased by $4.3 billion. For Direct Obligations, the difference was due to a decrease in financing requests for the General Sales Manager program and a reduction in Direct Loan activity. For Reimbursable Obligations, the higher market price of commodities led to a decreased activity in Loan Deficiency Payments.

Summary of Obligations

(Dollars in Millions)	2008	2007	Variance	Variance %
Obligations incurred:				
Direct	$ 3,738	$ 3,801	$ (63)	-2%
Reimbursable	23,094	27,352	(4,258)	-16%
Total Obligations	$ 26,832	$ 31,153	$ (4,321)	-14%

Between FY 2008 and FY 2007, Net Outlays decreased by $3.1 billion. Because the market price of commodities was above the price support level, Loan Deficiency Payments and Direct and Counter-Cyclical Payments decreased.

Summary of Net Outlays

(Dollars in Millions)	2008	2007	Variance	Variance %
Net Outlays:				
Gross outlays	$ 25,563	$ 31,606	$ (6,043)	-19%
Offsetting collections	(16,022)	(18,827)	2,805	-15%
Less: Distributed Offsetting receipts	(353)	(464)	111	-24%
Net Outlays	$ 9,188	$ 12,315	$ (3,127)	-25%

PRESIDENT'S MANAGEMENT AGENDA

In FY 2002, the President laid out a plan to improve management and performance within the Federal government. This plan, the President's Management Agenda, identified several key areas where improvement was urgently needed. In order to implement the plan, the President asked Cabinet Secretaries to designate a chief operating officer to manage the daily activities of departments and agencies. The President also re-established the President's Management Council to support government-wide priorities and centralized management leadership. The table below is updated on a quarterly basis. The progress towards "green" in the table is updated prior to the completion of the CCC's independent audit. As a result, the table may not correspond to the actual audit results as shown in the FMFIA section of CCC's annual report.

The Stoplight Scoring System is located at the following internet web address:

- www.whitehouse.gov/results/agenda/scorecard.html

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

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

Scorecard

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

* Status reviewed by Office of Budget and Program Analysis.

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

MANAGEMENT CONTROLS, SYSTEMS, AND COMPLIANCE WITH LAWS AND REGULATIONS

FMFIA and FFMIA Assurance Statement

USDA

United States Department of Agriculture

Farm and Foreign Agricultural Services

Farm Service Agency

1400 Independence Avenue, SW
Stop 0571
Washington, DC
20250-0571

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

THROUGH: Mark Keenum Mark Keenum AUG 2 7 2008
Under Secretary
Farm and Foreign Agricultural Services

FROM: Teresa C. Lasseter Teresa C. Lasseter Aug. 22, 2008
Administrator

Dennis J. Taitano Dennis J. Taitano 8/21/2008
~~Chief Financial Officer~~
Controller, Commodity Credit Corporation

SUBJECT: Fiscal Year 2008 Federal Managers' Financial Integrity Act; Federal Financial Management Improvement Act, and the Office of Management and Budget Circular A-123, Appendix A Certification Statement

This memorandum provides the Farm and Foreign Agricultural Services, Farm Service Agency, Commodity Credit Corporation (FFAS/FSA/CCC) preliminary assertions to support the Secretary's annual assurances for the Federal Managers' Financial Integrity Act (FMFIA), including the assurance statement for Internal Control over Financial Reporting, and the Department's certification for the Federal Financial Management Improvement Act (FFMIA). This certification statement will be updated as necessary upon completion of the KPMG audit of the CCC financial statements in November 2008.

Federal Managers' Financial Integrity Act Assertions

1. Management is responsible for developing and maintaining internal control to ensure the effectiveness of operations, reliability of financial reporting, compliance with applicable laws and regulations, and the safeguarding of assets.
2. Internal control encompasses accounting and administrative controls. Such controls include program, operational and administrative areas, as well as accounting and financial management.
3. Management has conducted its annual evaluations of internal control and financial systems pursuant to Section 2 and Section 4 of FMFIA, respectively, for the period ending September 30, 2008.
4. Based on the results of the evaluations, the FFAS/FSA/CCC can provide reasonable assurance that internal controls are operating effectively.
5. No new material weaknesses were identified. Two material weaknesses were downgraded to significant deficiencies. In total, one existing material weakness, and three significant deficiencies remain.

Charles R. Christopherson, Jr.
Page 2

6. Corrective action plans are attached for the existing material weakness and the significant deficiencies corrected or re-determined.

Internal Control over Financial Reporting Assertions

7. The FFAS/FSA/CCC conducted its assessment of the effectiveness of internal control over financial reporting as of June 30, 2008, in accordance with USDA's Implementation Guide and as required by the OMB Circular A-123, Appendix A.
8. The assessment included an evaluation of entity level control, risk assessments, process descriptions and flowcharts, documentation of key controls, an assessment of the design of key controls, tests of effectiveness of properly designed controls, summary of deficiencies, and the development of corrective action plans for control deficiencies.
9. Management recognizes its responsibility for monitoring and correcting all control deficiencies.
10. Based on the results of the assessment, the FFAS/FSA/CCC can provide reasonable assurance that internal controls are operating effectively.
11. No new material weaknesses were identified. All material weaknesses were downgraded to significant deficiencies. In total, forty-one significant deficiencies remain.
12. Corrective action plans will be submitted into the A-123 document repository (ADTS) for approval. Documentation has been provided to support actions taken on material weaknesses and significant deficiencies corrected or re-determined during the fiscal year.

Federal Financial Management Improvement Act Assertions

13. The FFAS/FSA/CCC management evaluated its financial management systems under FFMIA for the period ending September 30, 2008.
14. Based on the results of our evaluation, we are in substantial compliance with Section 1, "Federal Financial Management Systems Requirements," Section 2, "Applicable Federal Accounting Standards," and Section 4, "Information Security, Policies, Procedures and Practices".
15. Corrective action plans are attached for the area of substantial non-compliance. Documentation has been provided for all non-compliances corrected during fiscal year 2008.

Attached is a summary of the identified material weaknesses, significant deficiencies, system nonconformances and FFMIA non-compliances. In addition, the FSA will work with the Department to address the FY 2008 USDA Major Management Challenges identified by the Office of Inspector General, working to the best of our abilities to reengineer our business processes and systems with the budget and resources allocated.

Charles R. Christopherson, Jr.
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Please contact Owen Jones, Deputy Director, Office of Budget and Finance, at (703) 305-1386 should you have any questions or require additional information.

Attachments

cc: Jon Holladay
Office of the Chief Financial Officer

Note: The Assurance Certification is due to the Department by August 30, 2008, which is almost three months before the final audit report is provided to CCC on November 7, 2008. Therefore, CCC must predict the outcome and results of material weaknesses it will expect to be reported. CCC believed that the credit reform material weakness would be downgraded to a significant deficiency; however, upon the auditor's review, they continued to find internal control weaknesses in the model validation and verification process. The auditors specifically identified certain errors in the Public Law 480 and the Farm Storage Facility Loan models related to data input and model logic. The errors were identified through the audit process and as a result the models were revised multiple times. All significant errors in the models were corrected at yearend; however, the auditors concluded that the models deficiencies continue to support a repeat material weakness in the credit reform area.

In addition, CCC is reporting a new material weakness in Management's analysis of obligations and liabilities for the Direct and Countercyclical Payment Programs. In recent years, CCC has significantly improved its accounting policies and procedures related to the producer payment programs. In fiscal year 2008, CCC further updated its overall policies and procedures related to producer payment program obligations and accruals by major program category and program level. CCC also improved the level of analysis performed at the program level for many active programs. However, the auditors identified certain significant errors at September 30, 2008.

As a result of both of these reported material weaknesses, the Assurance Certification displayed above is not congruent with CCC's FY 2008 Financial Statement Audit Report. The Certification will be revised and resubmitted to the Department in January 2009.

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT (FMFIA)

Overview

The Federal Managers' Financial Integrity Act of 1982 (FMFIA) requires Federal agencies to submit an annual report to the President and Congress reflecting the status of management controls for program, financial, and administrative operations. The Commodity Credit Corporation's (CCC) FMFIA Annual Report contains CCC's material weaknesses, significant deficiencies, and related corrective action plans including material deficiencies identified through the Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Internal Control*, Appendix A, implementation and assessment process conducted during Fiscal Year (FY) 2008. The CCC Controller provides an annual statement of assurance to the Department of Agriculture's (USDA) Office of the Chief Financial Officer certifying that CCC is compliant with FMFIA and is fulfilling requirements to perform ongoing evaluations of internal control. The assurance statement also includes a certification from the Controller that:

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

Fiscal Year 2008 Results

In compliance with the requirements of FMFIA, CCC evaluated, assessed, and tested its management controls for program, financial, and administrative operations through the OMB Circular A-123, Appendix A, assessment for FY 2008.

In FY 2007, management's assessment of internal controls over financial reporting as of September 30, 2007, identified three material weaknesses: Information Technology (IT) Security and Contingency Planning, and Financial Reporting – Credit Reform reported under FMFIA Section 2, Material Weaknesses in Internal Controls. Funds Control Management is reported in Section 4, Material Non-conformances in Financial Systems.

During FY 2008, CCC took corrective actions to address prior years' IT security and contingency planning to improve controls and processes supporting its financial systems. Based on the completion of the financial statement audit and A-123 assessment in FY 2008, there was one new material weakness and one new significant deficiency identified through the audit – Management's Analysis of Obligations and Liabilities for the Direct and Countercyclical (DCP) Programs and Monitoring of Child Agency Financial Information, respectively. With the implementation of internal controls through corrective action plans one of those material weaknesses were downgraded to a significant deficiency: IT Security and Contingency Planning. Additional corrective actions are proceeding on course for the two repeat material weaknesses: Credit Reform and Funds Control Management. A corrective action plan will be revised to address the deficiencies noted in the models' functionality. The Funds Control Management will be mitigated through the Financial Management Modernization Initiative (FMMI) which continues to be on track and fully implemented by FY 2012.

Summary of FMFIA Material Weaknesses

Material Weaknesses Reassessed in FY 2008

Improvement Needed in Information Security Controls

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

Critical Corrective Action Milestones included the following:

Information security program management

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

Technical security access controls

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

Software change/configuration management

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

Contingency planning

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

End user computing

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

Material Weaknesses Remaining in FY 2008

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

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

Critical Corrective Action Milestones include the following:

- Develop a fully integrated funds control system within a financial management system capable of interfacing with CCC CORE at the transaction level that provides management with timely information to periodically monitor and control the status of budgetary resources recorded in the general ledger.
- Continue with plans to implement additional financial systems and related process improvements, most notably in the areas of budgetary and funds control and financial accounting and reporting processes.

In FY 2008, CCC continued to address the need for a fully integrated funds control system within the financial management system that is capable of interfacing with CCC CORE at the transaction level that will provide management with timely information to periodically monitor and control the status of budgetary resources recorded in the general ledger. FY 2008 accomplishments included:

- Developed the to-be process design; and
- Developed the business case for the Modernize and Innovate the Delivery of Agricultural Systems (MIDAS);
- Documented CCC obligation business events and developed solutions for providing pre-authorization of funds;
- Prepared system requirements documentation to allow current FSA financial applications to accept obligation transactions; and
- Developed functionality to capture obligations within current FSA financial systems.

In addition, during FY 2008, CCC continued to enhance its manual processes to work around the system functionality issues to monitor funds control. These steps included enhancing the documentation of management's analysis of CCC's programs by funding type and obligation category, and designating dedicated staff to monitor obligations for specific programs. There are "Funds Control Status Reports" that contain general ledger balances for budgetary resources, disbursements, accruals, obligations, and the authority remaining for each program. These reports are provided to program managers for them to analyze and certify to the accuracy of those balances. Intensified communication and training from CCC finance personnel provided to program managers resulted in fewer adjustments during the year and yearend. However, these enhancements are considered "detective" controls instead of "preventive" controls and cannot be fully relied on as a funds control mechanism, although these controls help mitigate the risk of financial misstatement.

In FY 2009 through 2012, CCC will:

- Develop functionality to do funds control at the time of obligation request from program applications;

- Complete Software modifications to program applications to send obligation transactions. (Farm Programs, Farm Loan Programs, Foreign Programs and Commodity Programs)
- Select and implement software package.

Expected Completion Date: FY 2012

Material Weakness 2: Improvement Needed in Management's Review Procedures Over the Cash Flow Models for Direct Credit and Credit Guarantee Programs

In FY 2008, Budget management procured a contractor to provide quality in-house training to enhance the expertise of personnel who perform credit reform re-estimates. As a result, there were no significant issues or deficiencies in the re-estimate process.

Other actions taken in 2008 included Budget management creating a specific policy for reviewing and implementing changes that was approved by the Department to ensure that further enhancements to the cash flow models are adequately reviewed and approved. The objective of the policy was to ensure the accuracy and reliability of the model calculations. However, during the auditors' review of the credit reform models in FY 2008, they noted that internal control weaknesses in the model validation and verification process continued to exist at CCC. Specifically, they identified certain errors in the Public Law (PL) 480 and the Farm Storage Facility Loan (FSFL) models related to data input and/or model logic. The errors were identified through the audit process and as a result the models were revised multiple times. All significant errors in the models were corrected at yearend, however the auditors concluded that the models deficiencies continue to support a repeat material weakness in the credit reform area. CCC anticipates developing new PL480 and FSFL models in FY 2009.

In FY 2009, CCC will:

- Establish a team to review all model changes to include members of both the budget and the accounting disciplines; OIG will be invited to all Change Control Board meetings to monitor CCC's efforts;
- Establish a timeline for all model changes that will allow adequate time for test and review prior to delivery to the auditors;
- All model changes/development results will be tested to ensure that model outputs properly capture all elements of the cashflow, not just those affected by the change(s)in addition to being tested through the Office of Management and Budget's subsidy calculator (CSC2) to ensure that those results do not produce unintended consequences; and
- CCC will procure an independent contractor for an Independent Verification and Validation (IV&V) review and oversight for any newly developed models.

Material Weakness 3: Improvements Needed in Management's Analysis of Obligations and Liabilities for the Direct (DP) and Countercyclical Payment Programs (CCP)

CCC has significantly improved its accounting policies and procedures related to the producer payment programs. In fiscal year (FY) 2008, CCC further updated its overall policies and procedures related to producer payment program obligations and accruals by major program category and program level. In addition CCC improved the level of analysis performed at the program level for many active programs. The auditors' review of documentation used by CCC to record producer payment program accruals and to liquidate related undelivered orders generally indicated that supervisory review and approval was performed; however, the auditors identified certain significant errors at September 30, 2008 – fiscal yearend (FYE):

- The yearend CCP accrual was not adjusted for the most recent estimate information, which indicated the future CCP payments were fully accrued and CCC overstated the program accrual.

- CCC had fully accrued for the CCP payments expected to be made in FY 2009 related to the 2007 program year during 2008. Based on the most recent market data at FYE 2008, the economist did not expect any additional disbursements to occur for this program but the related undelivered orders balance was not adjusted accordingly to FYE close.
- CCC recorded an upward adjustment to its undelivered orders for the 2007 DP program based on prior estimates provided by the economist. CCC performed a lag analysis to observe the disbursement trend; however, this analysis was not used to evaluate the reasonableness of the recorded amount.

In FY 2009, CCC will:

CCC will revise accounting policies and procedures for the CCP and DP programs to specifically:

- Describe the appropriate entries and calculations for obligations and accruals;
- Document procedures to perform a reasonableness analysis for current and prior program years prior to close; and
- Document actions to be taken based on subsequent information that would materially affect the program information as recorded at yearend.

FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT (FFMIA)

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

During FY 2008, CCC evaluated its financial management systems to assess substantial compliance with the Act. CCC has demonstrated substantial compliance with Sections 2, 3, and 4. CCC is not substantially compliant with Section 1 - Federal financial management system requirements, which are reported above in the FMFIA section of this report. As part of the financial systems strategy, CCC continues to progress in it corrective actions to meet FFMIA objectives.

ANTIDEFICIENCY ACT (ADA)

A violation of the Antideficiency Act occurred in FY 2003 concerning the improper donation and transportation of 24.7 million pounds of non-fat dry milk to a feed mill in Mississippi. The violation did not come to the attention of the FSA Administrator until April 2005. The Administrator immediately requested an audit by the Department of Agriculture's Office of Inspector General which was completed in September 2006. A full legal analysis of the extent of the ADA violation was subsequently requested and received back from the Office of General Counsel (OGC) in May 2007. Based on OGC's legal opinion that an ADA violation occurred, a receivable was recognized in FY 2007 for the amount of $8.2 million. During fiscal year 2008 CCC reported the ADA violation to the appropriate parties as required by OMB Circular A-11.

MANAGEMENT SUMMARY, INITIATIVES, INFORMATION AND ISSUES

INITIATIVE: BUDGET AND PERFORMANCE MANAGEMENT SYSTEM (BPMS)

The Budget and Performance Management System (BPMS) is a management initiative led by the FSA in collaboration with the FAS, FSIS, RD, and ITS. A primary objective of BPMS is to integrate and improve management processes and information systems to enable the Agencies to better respond to administrative resource challenges and constraints (noted in Future Effects of Current Demands, Events, and Conditions). BPMS encompasses the management processes and information systems for CCC planning, budget formulation, budget execution, managerial cost accounting, and elements of financial statement preparation. BPMS has already delivered a modernized budgeting platform and has defined a more integrated framework for reporting CCC performance results. Future activities include the implementation of a CCC managerial cost accounting model that will provide full program costs and other cost management reports and analyses. Each FSA program area, including non-CCC program areas, are in the process of defining direct unit cost and indirect cost metrics using a standard methodology, activity dictionary, and formulas. Implementation of the CCC managerial cost accounting capability will be enabled by a new labor data collection system, improvements to workload data collection, and a commercial off-the-shelf (COTS) budgeting and cost accounting tool. The BPMS is the featured initiative on the USDA Financial Data Integration Improvement Plan (FDIIP) for the Farm and Foreign Agricultural Service (FFAS) business area. The FDIIP is the plan to get the USDA to green for Financial Management. Progress is reported on a quarterly basis to USDA through the FDIIP. Implementation is underway and is expected to be completed by the end of FY 2010.

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

MIDAS will transform Farm Service Agency's delivery of farm program benefits, on behalf of the Commodity Credit Corporation, into a 21st century business model by: deploying a robust customer-facing internet-based self service channel and providing the capability to meet the increasing demand for customer self-service and eliminating FSA's reliance on aging technology. MIDAS will reduce the risk of hardware failure by replacing the outdated AS400/S36 computing platform. The project will also reengineer business processes to be common and centralize data assets to support all farm programs by eliminating program specific duplication of functionality and non-integrated, distributed data that exists between farm program applications. It will also accomplish increased compliance with modern internal control structures and effectively implement improved IT security and install commitment-based accounting practices (e.g., obligations, commitments, outlays, funds control) to upgrade both the program and financial management business practices of the CCC. When finished, CCC will become compliant with federal financial accounting standards (FISMA/A-123/FMFIA). The project intends to align with Office of the Chief Financial Officer's Financial Management Modernization Initiative investment.

INITIATIVE: HOMELAND SECURITY INITIATIVES

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

INITIATIVE: FOOD AND HUMANITARIAN AID

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

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

In addition, in FY 2008, Commodity Operation implemented the Stocks for Food Initiative, under which government owned stocks were exchanged for processed and bulk commodities that were made available to domestic and international food assistance programs. Through these exchanges, CCC eliminated storage and handling expenses incurred on government owned commodity inventories and increased the quantity of food assistance that was provided.

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

The FM-LOB Initiative:
The FM-LOB Initiative is mandated by the OMB. It will identify Centers of Excellence for various business functions performed in the Government. These Centers of Excellence will become the service providers for other Government Agencies that perform similar lines of business. The goal is to reduce the redundancy of systems development within the Government by consolidating services into those Centers of Excellence.

The FMMI Overview: FSA/CCC, in partnership with USDA's OCFO is pursuing significant modernization of aging departmental and agency financial systems in order to address challenges and opportunities in the rapidly changing Federal financial management and technology environment. The primary objective of the FMMI is to improve financial management performance by efficiently providing USDA agencies with a modern, core financial management system that both complies with Federal accounting and systems standards and provides maximum support to the Agencies' mission.

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

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

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

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

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

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

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

To meet this objective, CCC, together with USDA and the integrator, will perform an analysis of all CCC's financial and program applications and their functionality to identify possible candidates for:

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

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

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

For FY 2008, FSA utilized the services of a contractor to help with documentation and testing of various CCC business cycles and processes as part of the OMB A-123, internal control assessment. FSA followed the Departmental methodology for completing the assessment using a systematic method for identifying and documenting controls within business processes. From the documented controls, FSA then defined those that are key controls to operations. FSA tested the key controls (both automated and manual) and documented the performance of those controls. Failed control deficiencies that did not perform as intended or were not designed properly were further evaluated and in many cases remediated with corrective action plans prepared for follow-up resolution.

LIMITATIONS OF FINANCIAL STATEMENTS

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

PERFORMANCE SECTION (UNAUDITED)

PERFORMANCE SECTION

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

CCC Program Alignment to USDA Performance and Accountability Report Goals

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

PROGRAM AREA PERFORMANCE DATA

Program Assessment Rating Tool (PART)

The PART was developed by the Office of Management and Budget (OMB) to assess and improve program performance so that the Federal government can achieve better results. A PART review helps identify a program's strengths and weaknesses to allow management to make informed decisions aimed at making the program more effective. The PART therefore looks at all factors that affect and reflect program performance including program purpose and design; performance measurement, evaluations, and strategic planning; program management; and program results. The USDA has completed 85 PARTS through FY 2008. The outstanding recommendations from the PART process and the status of implementing these recommendations are shown as follow up actions and milestones. The CCC major programs are summarized briefly. The USDA Strategic Goals reported in the USDA 2008 Performance Accountability Report are shown for the major program areas. Findings and recommendations resulting from the PART process (if available for that program) are shown. The status of implementing recommendations is included in the tables representing the CCC programs.

Program Area – Income Support and Disaster Assistance

Program Area Summary

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

Program Performance Scores and Status

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

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

Counter Cyclical Payments Program	
Recommendations from PART Process	**Status of Implementing Recommendations**
Develop an independent evaluation process to be conducted once every three years.	Action taken, but not completed: Establish policy within parameters of new Farm Bill legislation to improve delivery of the program.
Work to achieve its long-term performance goals.	Action taken, but not completed: Data continues to be collected on an annual basis on the percentage of farm income derived from counter-cyclical payments. This data is useful in determining the producers' level of dependence on government assistance, which can serve as an indicator of success.

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

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

Direct Crop Payments Program	
Recommendations from PART Process	Status of Implementing Recommendations
Reviewing and implementing the new Farm Bill including developing rules and regulations.	Action Taken But Not Completed
Continuing to lower improper payments.	Action Taken But Not Completed
Improving information sharing with other USDA agencies.	Action Taken But Not Completed

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

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

Marketing Assistance Loan Program	
Recommendations from PART Process	Status of Implementing Recommendations
Implement policies to reduce improper payments.	Action Taken But Not Completed: The MAL program has achieved significant improvements in its improper payment rate. In FY 2006, MAL reported IP of 20.26%, or $1,611 million. In FY 2007, the improper payment percentage was 7.52% or $458 million, $1,153 million lower. The program continues to take action to improve the improper payment percentages in the future.
Conduct more frequent external audits of program effectiveness.	Action Taken But Not Completed: In its FY 2008 Annual Plan, the USDA OIG indicated it plans to audit the Marketing Assistance Loans and Loan Deficiency Payments to Cooperative Marketing Associations and Designated Marketing Associations.
Establish policy within parameters of new Farm Bill legislation to improve delivery of the program.	Action Taken But Not Completed

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

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

Noninsured Crop Disaster Assistance Program	
Recommendations from PART Process	Status of Implementing Recommendations
Develop and implement a performance-based budgeting process that will improve accountability of budget and financial systems.	Action Taken But Not Completed: FSA is developing cost structures for the Budget and Performance Management System (BPMS) that will allow for new cost management reports that demonstrate cost per service unit, and ratios for total indirect to administrative costs. Task progress is on schedule and budget. Pilot of the process was started in the 4th quarter of FY 2007.
Investigate options to commission independent evaluations that analyze program performance.	Action Taken But Not Completed: In January 2007, a NAP working group was established. The working group consists of representatives from the following FSA offices: Deputy Administrator for Farm Programs (DAFP), Economics, Policies and Analysis Staff (EPAS), Budget Division, and Production, Emergencies and Compliance Division (PECD). The NAP working group met to discuss options to conduct an independent evaluation. NAP survey evaluation target has been revised pending review of new Farm Bill.

Milk Income Loss Contract Program. The Milk Income Loss Contract (MILC) program compensates dairy producers when domestic milk prices fall below a specified level. The 2008 Farm Bill authorizes the MILC program through September 30, 2012, and includes a payment rate adjustment for feed prices and changes to payment rate calculations and production limits.

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

Milk Income Loss Contract Program

Recommendations from PART Process	Status of Implementing Recommendations
Eliminating shortcomings identified in financial audits by strengthening the processes and controls in the program's disbursement system.	Action Taken But Not Completed: PSD is in the process of developing updated rules and regulations and modifying policy and procedure as appropriate.
Establish policy within parameters of new Farm Bill legislation to improve delivery of the program.	Action Taken But Not Completed: Program managers are soliciting input from State specialists to improve efficiency of program delivery.

FY 2008 Performance Targets and Actual Results

Measure	FY 2008 Target	Actual Year to Date Performance	Result
Maintain or increase % of program benefits delivered through a Web environment	33%	33%	Met Target
Increase percentage of eligible crops with NAP coverage	11.76%	7.2%	Target Not Met[1]

[1] Met range for NAP is 10.76% - 12.76%

Trends in Income Support and Disaster Assistance Programs

Key Performance Measures	2004	2005	2006	2007	2008
Maintain or increase % of program benefits delivered through a Web environment.	NA (program initiated in FY05)	22%	33%	33%	33%
Increase percentage of eligible crops with NAP coverage	11.12%	12.82%	12.70%	11.76%	7.2%

The Commodity Credit Corporation (CCC) met one of its performance targets for FY 2008. The CCC met the performance target to maintain or increase the percentage of program benefits delivered through a web environment. Of the nine farm programs designated to be web-enabled, benefits for three programs are currently available to producers through a web environment. CCC met the performance target by maintaining the percentage at 33% for web-enabled programs available to producers.

With an estimated FY 2008 percentage of 7.2 percent, USDA has not met its FY 2008 target for increasing the percentage of eligible crops with NAP coverage for the following reasons: First, prior ad hoc disaster legislation mandated participation in NAP as a precondition for receiving disaster payments. However, producers who had not purchased NAP were allowed to participate in the disaster program if they agreed to purchase NAP for the following two crop years. This legislative requirement expired with the 2007 crop; therefore, producers dropped out of the fee-based NAP program, causing the resulting drop in enrollments. The FY 2008 NAP performance measure reports results from claims made on the 2007 crop year. NAP payments in FY 2008 for the 2007 crop year were roughly half what they had been the prior year. There were record low loss rates because disaster claims were extremely low. The program has documented increased enrollment for FY 2008 and should trend upwards in the next fiscal year due to the requirement in the 2008 Farm Bill that a producer must have obtained a policy or plan of insurance or NAP coverage to maintain eligibility for four of the five new standing disaster programs.

Program Area – Conservation

Program Area Summary

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

Program Performance Score and Status

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

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

Conservation Reserve Program	
Recommendations from PART Process	Status of Implementing Recommendations
Improving the Farm Service Agency's technical assistance accountability systems	Action Taken But Not Completed: The agency is reengineering CRP business industry delivery of technical assistance by utilizing the private sector for technical assistance delivery. At the end of 2007, the agency issued a contract and is currently implementing private sector delivery of technical assistance for CRP accountability systems.
Performing independent program evaluations to identify recommendations for improving performance and efficiency	Action Taken But Not Completed: FSA received reports USGS and USFWS assessing CRP on restored wetlands and grassland bird and duck populations in the Northern Prairie. Agreements have been received from the Food and Ag Policy Res. Inst, Iowa State U, Mississippi State University, West, Inc., and WA State Dept. of Natural Resources to assess the effect of CRP on the off field movement of sediment and nutrients, potential for restored CRP wetlands to filter nitrogen from cropland runoff, and quail, pheasant, and sage grouse populations. FSA agreements with Iowa State University and USGS examining the potential for restoring wetlands to filter nutrients from cropland runoff are completed and undergoing review. Oklahoma State University's examination of Great Plain Grasslands and alternative management systems for better CRP grassland management is nearing completion. Each of the above studies will be used to enhance program delivery and improve interagency assessment of CRP.

FY 2008 Performance Targets and Actual Results			
Measure	FY 2008 Target	Actual Year to Date Performance	Result
Increase Conservation Reserve Program (CRP) acres of riparian and grass buffers (million acres).	1.92 million acres	2.02 million acres	Exceeded Target[1]
Increase wetlands acres restored	1.90 million acres	1.99 million acres	Exceeded Target[1]

[1] Performance threshold to exceed is >102 percent

Trends in Conservation Programs					
Key Performance Measures	2004	2005	2006	2007	2008
Increase Conservation Reserve Program (CRP) acres of riparian and grass buffers (million acres).	1.65 million acres	1.75 million acres	1.86 million acres	1.92 million acres	2.02 million acres

Trends in Conservation Programs					
Key Performance Measures	2004	2005	2006	2007	2008
Increase wetlands acres restored	1.89 million acres	1.96 million acres	2.03 million acres	2.08 million acres	1.99 million acres

The Conservation Reserve Program (CRP) is the nation's largest private-lands conservation financial assistance program, with over 34.7 million acres enrolled. The USDA *Strategic Plan for FY 2005-2010* set a strategy of helping producers increase the number of riparian and grass buffers on agricultural lands. These buffers intercept sediment and nutrients before they reach surface waters. As one indicator of its performance in achieving this strategy, FSA monitors acreage of agricultural lands to be enrolled as buffer zones in CRP. CRP exceeded its performance target of 1.92 million acres for the measure "Increase Conservation Reserve Program (CRP) acres of riparian and grass buffers (million acres)**"** by more than 100,000 acres. For FY 2008, producers have set aside approximately 2.02 million acres as CRP buffer areas.

Land currently under contract for the 2008 crop year is down 2.1 million acres from last year's 36.8 million acres. High commodity prices have reduced the attractiveness of retiring cropland from production and enrolling it in CRP. The Food, Conservation, and Energy Act of 2008 (2008 Farm Bill) reduced the maximum CRP enrollment to 32 million acres beginning in FY 2010.

The performance target of 1.90 million acres for the measure "Increase wetlands acres restored" has been exceeded by 90,000 acres. These restored wetlands are the result of several initiatives, including the 500,000 acre Bottomland Hardwood Timber Initiative and the 250,000 acre non-floodplain Wetland Restoration Initiative. These wetlands and buffers have increased prime wildlife habitat and water storage capacity, and have led to a net increase in wetland acres on agriculture land. The CRP continues to be acknowledged for its environmental benefits generated by long-term conservation contracts protecting air, soil, water, and wildlife resources.

Program Area – Commodity Operations and Food Aid

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

Program Performance Scores and Status

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

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

Dairy Product Price Support Program

Recommendations from PART Process	Status of Implementing Recommendations
Add price variability data for an annual outcome performance measure.	Action Taken But Not Completed: FSA is conducting a study to examine alternative methods for evaluating price variability.
Establish policy within parameters of new Farm Bill legislation to improve delivery of the program.	No Action Taken

FY 2008 Performance Targets and Actual Results

Key Performance Measures	FY 2008 Target	Actual Year to Date Performance	Result
Reduce average time between warehouse examinations.	390 days	387 days	Met Target

Trends in Commodity Operations and Food Aid Program Area

Key Performance Measures	2004	2005	2006	2007	2008
Reduce average time between warehouse examinations.	399 days	365 days	384 days	381 days	387 days

The FSA/CCC performance measure “Reduce the average number of days between warehouse examinations,” achieved its goal to reduce the average time between warehouse examinations. The FY 2008 target was 390 days between warehouse examinations. In FY 2008, examinations were performed more frequently, an average of 387 days. The warehouse examination program performs examinations of licensed and contracted warehouse facilities which store or handle commodities for CCC. The more frequently warehouses are examined for compliance with CCC storage agreements and United States Warehouse Act licensing agreements by FSA warehouse examiners, the sooner any potential pest infestation or deterioration of quality for commodities in store will be discovered. Factors affecting the time between examinations of these warehouses include the number of warehouses participating in storage programs for the account of CCC, the amount or value of commodity in store with CCC interest, the length of time the commodities have been in store, whether the commodities have been forfeited or are simply under loan, staff losses during FY 2008, and funding for the examination program.

Program Area – Market Expansion and Trade Building

Program Area Summary

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

Program Performance Score and Status

USDA Food Aid Programs. The USDA food aid programs address non-emergency food needs of developing countries through donation and long-term low interest loans for the purchase of U.S. agricultural commodities.

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

Recommendations from PART Process	Status of Implementing Recommendations
Develop and implement a new food aid database with user web-interface - the Food Aid Information System	Action taken, but not completed. The Food Aid Information System (FAIS) bid solicitation documentation has been completed and issuance is pending final USDA clearance
Improve the timeliness of notifying cooperating sponsors when they are late in submitting required semi-annual reports on logistics and monetization.	Action taken, but not completed FAS is implementing new procedures for tracking the performance of cooperating sponsors in submitting required semi-annual reports and for notifying them when reports are more than 180 days overdue.
FAS has developed and continues to refine a new food security annual performance measure and baseline.	The USDA food aid programs meet both development and nutrition needs and involve direct distribution of food and monetization of commodities donated. The development aspects of food aid involve the monetization (sale) of the food aid and the implementation of long-term development projects that benefit the people of the recipient country. The Food Aid Targeting Effectiveness Ratio (FATER) examines the degree to which food aid contributes to reducing a country's food distribution gap. The food distribution gap is the amount of food needed to raise consumption of each income group to the minimum nutritional requirement. When the FATER is zero, then this suggests that food aid was given to a country or countries, in which all people were at or above the minimum nutritional requirement. When the FATER is 100, then it is estimated that food aid raised the consumption of all income groups in a recipient country or countries to the minimum nutritional requirement level or above.
Financial management improvements in the areas of credit reform, budget reporting and reimbursements are on-going.	Completed. MARAD reimbursement process has improved significantly. Improvements in the reconciliation and reporting of unobligated balances have been made and will be strengthened through development of the Food Aid Information System.
FAS has contracted for a review of food aid information and reporting systems that will identify areas for improvement in IT systems that will lead to program efficiencies down the road. This review is on-going.	Completed. Improvements in the food aid information and reporting systems will be achieved through implementation of the Food Aid Information System. Development of the database system began in FY 2006. The second phase of implementation will begin in FY 2009.

Key Performance Measures for Food Aid Programs

Measure	2003	2004	2005	2006	2007	2008
Application Response Time—Food Aid ** Estimate; Final data not yet available	N/A	N/A	N/A	90 days	132 days	85 days**

USDA Foreign Market Development Programs. The purpose of these programs is to expand markets for U.S. agricultural commodities. Government funds provided through FAS are used to help producers, exporters, private companies, and other trade organizations promote U.S. agricultural commodities overseas.

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

Key Performance Measures for Market Expansion and Trade Building Programs						
Measure	2003	2004	2005	2006	2007	2008
Target Dollar value of actual sales for small companies (millions) * Target exceeded ** Estimate; Final data not yet available	$450*	$470*	$490*	$460	$462*	$700

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

Program Area – Export Credit

Program Area Summary

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

Program Performance Score and Status

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

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

Recommendations from PART Process	Status of Implementing Recommendations
Develop a means of regularly performing independent evaluations to examine program effectiveness.	Completed. In FY 2006, USDA's Office of the Inspector General (OIG) stated in its business plan that it will conduct a review of the Export Credit Guarantee Program. For future years, FAS will work to achieve the objective of contracting, using FAS S&E funds, with USDA/ERS, OIG or another independent party to conduct an independent review of the Export Credit Guarantee Program prior to FY 2010.
Provide funding in the Budget to improve claims recoveries.	Completed. SCGP and GSM-103 were repealed in the 2008 Farm Bill. For recoveries of prior claims, FAS has continued to secure funding each fiscal year to contract for legal services and investigators in overseas markets, claims processing and debt recovery. We continue to work with the OIG and the Department of Justice to pursue claims recoveries.
Examine administrative costs in light of changes to the supplier credit guarantee program stemming	Completed. The WTO Brazil cotton case led to the adoption of higher fees that are country risk-based but do not affect administrative costs.

Recommendations from PART Process	Status of Implementing Recommendations
from the WTO cotton case.	However, all USDA credit programs, including the ECGP, adopted with OMB approval, an efficiency measure comparing program administrative costs to the overall guarantees issued and outstanding. On this basis, the ECGP demonstrated a high degree of efficiency, recording in FY 2005 an efficiency measure of .06% (=.0006 cents/$1 ECG). In FY 2006, the efficiency measure was .10% (=.001 cents/$1 ECG), and .12% in FY 2007. The decrease in the efficiency measure between FY 2005 and FY 2007 is due in part to the significant reduction in registered sales under the program.
Develop meaningful targets for the efficiency measure.	Completed. All USDA credit programs, including the CCC Export Credit Guarantee Program, adopted with OMB approval an efficiency measure comparing program administrative costs to the overall guarantees issued and outstanding. On that basis, the program has demonstrated a high degree of efficiency which is reflected in the targets established for the efficiency performance measure.
Improve claims recoveries and reduce defaults.	Completed. Excluded non-credit worthy countries from program and limited the length of guarantees. Adopted a risk-based fee structure so that transactions involving higher risk are charged higher program fees. Supplier credit guarantee program was not announced for FY 2006 and to date has not been announced for FY 2007. The agency has contracted for legal services and investigations in overseas markets and continues to work with USDA's OIG & the Dep. of Justice to pursue claims recoveries.
Review and modify underlying assumptions of defaults and recoveries	Ongoing. A contractor has been hired to evaluate the assumptions used to create the existing model for credit reform subsidy cashflow calculations with the objective of determining whether the default and recovery assumptions are appropriate and true. Update: Contractor submitted adjusted credit subsidy rate to OMB for review, based on compilation of 10 years worth of data on registration guarantees, claims, recoveries and rescheduled payments. April Update: The adjusted credit subsidy rate has been accepted by OMB for the fiscal year 2009 President's Budget Submission. This initial phase of the study determined that historical assumptions used to estimate recoveries and restructurings were significantly understated, thereby overstating the program's overall "subsidy" cost. The revised assumptions on recovery and loan restructuring reduced the subsidy to 0.85 percent, a significant reduction over previous years.

Key Performance Measures for Export Credit Programs

Measure	2003	2004	2005	2006	2007	2008
Estimated trade value resulting from USDA GSM export credit guarantee programs (billions)	$3.63	$4.20	$2.91	$1.39	$1.47	$3.0**
Administrative cost per loan—measures USDA's efficiency of loan making and servicing. ** Estimate; Final data not yet available	.04%	.03%	.06%	.10%	.12%	.12%**

CONSOLIDATED FINANCIAL STATEMENTS

Commodity Credit Corporation
CONSOLIDATED BALANCE SHEETS
As of September 30, 2008 and 2007
(Dollars in Millions)

	2008	2007
ASSETS:		
Intragovernmental:		
Fund Balance with Treasury (Note 2)	$ 3,035	$ 216
Accounts Receivable, Net (Note 4)	125	243
Total Intragovernmental Assets	$ 3,160	$ 459
Cash and Other Monetary Assets (Note 3)	92	-
Accounts Receivable, Net (Note 4)	5,667	5,931
Loans and Credit Program Receivables:		
Commodity Loans, Net (Note 5)	643	759
Credit Program Receivables, Net (Note 6)	4,712	5,142
Other Foreign Receivables, Net	-	21
Subtotal	$ 5,355	$ 5,922
Commodity Inventories and Related Property, Net (Note 7)	15	185
General Property and Equipment, Net (Note 8)	51	55
Other	189	95
Total Assets	$ 14,529	$ 12,647
LIABILITIES:		
Intragovernmental:		
Accounts Payable	$ -	$ 9
Debt to the Treasury (Note 10)	5,877	6,516
Other:		
Resources Payable to Treasury	3,197	3,180
Deposit and Trust Liabilities (Note 11)	820	818
Other (Note 12)	663	540
Subtotal	$ 4,680	$ 4,538
Total Intragovernmental Liabilities	$ 10,557	$ 11,063
Accounts Payable	287	386
Credit Guarantee Liabilities (Note 6)	161	184
Environmental and Disposal Liabilities (Note 13)	8	8
Other Liabilities:		
Accrued Liabilities (Note 14)	12,154	11,543
Deposit and Trust Liabilities (Note 11)	6	14
Other (Note 12)	110	12
Subtotal	$ 12,270	$ 11,569
Total Liabilities (Note 9)	$ 23,283	$ 23,210
Commitments and Contingencies (Note 15)		
NET POSITION:		
Unexpended Appropriations	$ 1,470	$ 643
Capital Stock	100	100
Cumulative Results of Operations	(10,324)	(11,306)
Total Net Position	$ (8,754)	$ (10,563)
Total Liabilities and Net Position	$ 14,529	$ 12,647

The accompanying notes are an integral part of these statements.

Commodity Credit Corporation

CONSOLIDATED STATEMENTS OF NET COST (NOTE 16)

For the Fiscal Years Ended September 30, 2008 and 2007
(Dollars in Millions)

	2008		2007	
STRATEGIC GOALS:				
Supporting Productive Farms and Ranches:				
Gross Cost	$	8,351	$	12,905
Less: Earned Revenue		1,140		4,393
Net Goal Cost	$	7,211	$	8,512
Supporting Secure and Affordable Food and Fiber:				
Gross Cost	$	242	$	(110)
Less: Earned Revenue		271		22
Net Goal Cost	$	(29)	$	(132)
Conserving Natural Resources and Enhancing the Environment:				
Gross Cost	$	2,125	$	2,158
Less: Earned Revenue		2		1
Net Goal Cost	$	2,123	$	2,157
Supporting International Economic Development and Trade Capacity Building:				
Gross Cost	$	2,067	$	1,712
Less: Earned Revenue		416		552
Net Goal Cost	$	1,651	$	1,160
Total Gross Cost	$	12,785	$	16,665
Less: Total Earned Revenue		1,829		4,968
Net Cost of Operations	$	10,956	$	11,697

The accompanying notes are an integral part of these statements.

Commodity Credit Corporation

CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION

For the Fiscal Years Ended September 30, 2008 and 2007
(Dollars in Millions)

	2008	2007
CAPITAL STOCK	$ 100	$ 100
CUMULATIVE RESULTS OF OPERATIONS:		
Beginning Balance	$ (11,306)	$ (24,074)
Changes in Accounting Principles	-	1,022
Beginning Balance, as adjusted	$ (11,306)	$ (23,052)
Budgetary Financing Sources:		
Appropriations Used	14,180	24,787
Non-exchange Revenue	18	6
Transfers in/out without Reimbursement, Net	(3,215)	(2,179)
Other Financing Sources (Non-Exchange):		
Transfers in/out without Reimbursement, Net	(379)	(442)
Imputed Financing	1,334	1,271
Total Financing Sources	$ 11,938	$ 23,443
Net Cost of Operations	(10,956)	(11,697)
Net Change	$ 982	$ 11,746
Cumulative Results of Operations	$ (10,324)	$ (11,306)
UNEXPENDED APPROPRIATIONS:		
Beginning Balance	$ 643	$ 842
Changes in Accounting Principles	-	(351)
Beginning Balance, as adjusted	$ 643	$ 491
Budgetary Financing Sources:		
Appropriations Received	15,015	24,939
Other Adjustments	(8)	-
Appropriations Used	(14,180)	(24,787)
Total Budgetary Financing Sources	$ 827	$ 152
Total Unexpended Appropriations	$ 1,470	$ 643
NET POSITION	$ (8,754)	$ (10,563)

The accompanying notes are an integral part of these statements.

Commodity Credit Corporation

COMBINED STATEMENTS OF BUDGETARY RESOURCES

For the Fiscal Years Ended September 30, 2008 and 2007

(Dollars in Millions)

	2008		2007	
	Budgetary	Non-Budgetary Credit Program Financing Accounts	Budgetary	Non-Budgetary Credit Program Financing Accounts
BUDGETARY RESOURCES:				
Unobligated balance, brought forward, October 1:	$ 1,605	$ 2,140	$ 1,166	$ 1,627
Recoveries of prior year unpaid obligations	1,246	27	717	14
Budget authority:				
Appropriation	16,154	-	25,872	-
Borrowing authority (Note 17)	30,267	302	41,185	281
Spending authority from offsetting collections:				
Earned:				
Collected	13,811	1,249	16,884	1,189
Change in receivables from Federal sources	10	(177)	(963)	4
Change in unfilled customer orders:				
Advance received	3	-	(180)	-
Without advance from Federal sources	-	194	-	-
Expenditure transfers from trust funds	959	-	934	-
Subtotal	$ 61,204	$ 1,568	$ 83,732	$ 1,474
Nonexpenditure transfers, net	(2,620)	-	(1,830)	-
Permanently not available	(33,374)	(350)	(51,934)	(68)
Total Budgetary Resources	$ 28,061	$ 3,385	$ 31,851	$ 3,047
STATUS OF BUDGETARY RESOURCES:				
Obligations incurred:				
Direct	$ 2,869	$ 869	$ 2,894	$ 907
Reimbursable	23,094	-	27,352	-
Subtotal	$ 25,963	$ 869	$ 30,246	$ 907
Unobligated balance:				
Apportioned	$ 276	$ 1,662	402	1,084
Exempt from apportionment	811	5	808	5
Subtotal	$ 1,087	$ 1,667	$ 1,210	$ 1,089
Unobligated balance not available	1,011	849	395	1,051
Total Status of Budgetary Resources	$ 28,061	$ 3,385	$ 31,851	$ 3,047
CHANGE IN OBLIGATED BALANCE:				
Obligated balance, net				
Unpaid obligations, brought forward, October 1	$ 8,047	$ 125	$ 9,281	$ 75
Less: Uncollected customer payments from Federal sources, brought forward, October 1	(312)	(178)	(1,275)	(174)
Total unpaid obligated balance, net	$ 7,735	$ (53)	$ 8,006	$ (99)
Obligations incurred, net	25,963	869	30,246	907
Less: Gross outlays	(24,797)	(766)	(30,763)	(843)
Less: Recoveries of prior year unpaid obligations	(1,246)	(27)	(717)	(14)
Change in uncollected customer payments from Federal sources	(10)	(17)	963	(4)
Total Change in Obligated Balance	$ 7,645	$ 6	$ 7,735	$ (53)
Obligated balance, net, end of period:				
Unpaid obligations	$ 7,967	$ 201	$ 8,047	$ 125
Less: Uncollected customer payments from Federal sources	(322)	(195)	(312)	(178)
Total, unpaid obligated balance, net, end of period	$ 7,645	$ 6	$ 7,735	$ (53)
NET OUTLAYS:				
Gross outlays	$ 24,797	$ 766	$ 30,763	$ 843
Offsetting collections	(14,773)	(1,249)	(17,638)	(1,189)
Less: Distributed Offsetting receipts	-	(353)	-	(464)
Net Outlays	$ 10,024	$ (836)	$ 13,125	$ (810)

The accompanying notes are an integral part of these statements.

NOTES TO THE FINANCIAL STATEMENTS

Note 1 - Significant Accounting Policies

Reporting Entity

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

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

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

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

Basis of Presentation

The Corporation's financial statements report the financial position and results of operations of CCC pursuant to the requirements of 31 U.S.C. 3515 (b). These statements have been prepared from the accounting records of the Agency as of September 30, 2008 and September 30, 2007 in accordance with generally accepted accounting principles for Federal entities and policies prescribed in the Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*. OMB financial reporting guidelines require the presentation of comparative financial statements for all principal financial statements. The statements are in addition to the external financial reports used to monitor and control budgetary resources, which are also prepared from CCC's general ledger. These financial statements have been prepared for the Corporation, which is a component of the U.S. Government, a sovereign entity.

Basis of Accounting

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

Note 1 - Significant Accounting Policies, continued

Fund Balance with Treasury

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

Cash

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

CCC does not maintain cash in commercial bank accounts.

Accounts Receivable

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

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

Commodity Loans

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

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

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

Tobacco Transition Payment Program (TTPP)

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

The Law required CCC to dispose of its outstanding tobacco loan portfolio and establish contracts with and make payments to tobacco producers and quota holders to transition from the previous price support program to a free market. This transition period encompasses ten years and began in fiscal year (FY) 2005. The Law authorized a total maximum of $10.14 billion over the period to cover the realized losses of $292 million related to the disposition of the tobacco loan collateral in FY 2005, making payments to

Note 1 - Significant Accounting Policies, continued

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

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

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

Credit Reform Accounting

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

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

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

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

Note 1 - Significant Accounting Policies, continued

CCC and the exercise by the guaranteed lender or the borrower of an option included in the loan guarantee contract.

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

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

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

Credit Program Receivables

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

- direct credits extended under Public Law 83-480 (P.L. 480) programs;
- receivables in the Debt Reduction Fund (Refer to Note 6);
- receivables to GSM in the form of reschedule agreements;
- loans made to grain producers to build or upgrade farm storage and handling facilities;
- loans made to apple producers who incurred losses due to low market prices; and
- a loan made to the Texas Boll Weevil Eradication Foundation.

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

Capitalized Interest

Rescheduling agreements frequently allow CCC to add uncollected interest to the principal balance of foreign credit and other foreign receivables (capitalized interest). In such circumstances, CCC records an

Note 1 - Significant Accounting Policies, continued

allowance to reduce the receivable, including the capitalized interest, to the present value of future cash flows. Interest income is recognized only when, in management's judgment, debtors have demonstrated the ability to repay the debt in the normal course of business.

Commodity Inventories

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

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

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

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

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

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

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

General Property and Equipment

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

Note 1 - Significant Accounting Policies, continued

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

Producer Assistance Advances

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

Liabilities

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

Resources Payable to Treasury

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

Credit Guarantee Liabilities

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

Imputed Costs

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

Tax Status

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

Note 1 - Significant Accounting Policies, continued

Use of Estimates

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

Allocation Transfers and Shared Appropriations

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

CCC allocates funds, as the parent, to USAID to fund P.L. 480 Title II transportation and other administrative costs in connection with foreign donations. CCC receives allocation transfers, as the child, from FSA. The allocation transfers from FSA are not reported in CCC's financial statements.

CCC reports USAID's budgetary and proprietary transactions, for which it is the parent and excludes FSA's budgetary and proprietary transactions, for which it is the child. As a result of the changes in reporting requirements in FY2007, which required the Parent to report all budgetary and proprietary data, the Cumulative Results of Operations and Unexpended Appropriation balances for these funds at September 30, 2007 are presented on CCC's Statement of Changes in Net Position as Changes in Accounting Principles.

SFFAS No. 29 – Heritage Assets and Stewardship Land

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

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

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

Based on agreements, NRCS is responsible to disclose required information for all WRP easements as stewardship land in FY 2008 and future years as long as NRCS maintains the administration, management responsibilities, and accountability for the WRP easements.

Note 1 - Significant Accounting Policies, continued

Reclassifications

Certain reclassifications have been made to the prior year amounts to conform to the current year presentation. In the current year, CCC realigned various lines in the Reconciliation of Net Cost of Operations to Budget footnote; and to consolidate "other" amounts in Note 6 – Credit Program Receivables, Net; Note 12 – Other Liabilities; and, Note 14 – Accrued Liabilities.

Note 2 – Fund Balance with Treasury

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

	(In Millions)	
	2008	2007
Trust Funds	$ 180	$ -
Special Funds	91	-
Revolving Funds	939	(774)
General Funds	1,825	990
Total Fund Balance with Treasury	$ 3,035	$ 216

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

	(In Millions)	
	2008	2007
Unobligated Balance		
Available	$ 2,754	$ 2,299
Unavailable	1,860	1,446
Obligated Balance not yet Disbursed	7,651	7,681
Subtotal	$ 12,265	$ 11,426
Borrowing Authority not yet Converted to Fund Balance	(9,230)	(11,210)
Total Fund Balnce with Treasury	$ 3,035	$ 216

Unobligated Balance, Unavailable represents unobligated resources not yet apportioned by OMB and unobligated appropriations from prior years that are no longer available for new obligations. Borrowing authority not yet converted to fund balance represents unobligated and obligated amounts recorded at September 30, 2008 and 2007, which will be funded by future borrowings.

CCC has a permanent indefinite borrowing authority, as defined by OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*, of $30 billion. The Corporation's borrowing authority is made up of both interest and non-interest bearing notes. These notes are drawn upon daily when disbursements exceed deposits, as reported by the Federal Reserve Banks (FRBs), their branches, the Treasury, and CCC's financing office.

Note 3 – Cash and Other Monetary Assets

As of September 30, 2008 and 2007, Cash and Other Monetary Assets were $92 million and $0, respectively. The balance reflects “in transit” amounts that have not been cleared by Treasury. These timing differences result from varying processing times and cut-off dates between CCC and Treasury.

Note 4 – Accounts Receivable, Net

Accounts receivable as of September 30 are as follows:

	(In Millions)	
	2008	2007
Intragovernmental:		
Due from the Department of Treasury	$ 6	$ 12
Due from the Department of Transportation	92	200
Due from Other Federal Agencies	27	31
Total Intragovernmental Accounts Receivable, Net	$ 125	$ 243
Public:		
Claims Receivable	$ 35	$ 50
Notes Receivable	7	7
Interest Receivable	2	3
TTPP Receivable	5,603	5,861
Other	26	30
Subtotal	$ 5,673	$ 5,951
Less: Allowances for Doubtful Accounts	(6)	(20)
Total Public Accounts Receivable, Net	$ 5,667	$ 5,931

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

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

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

As of September 30, 2008, the Public Tobacco Transition Payment Program (TTPP) receivable balance of $5,603 million includes $309 million as a short-term receivable. As of September 30, 2007 the Public TTPP receivable balance of $5,861 million included $482 million as a short-term receivable. Refer to Note 1, under Tobacco Transition Payment Program, for additional information.

Note 5 – Commodity Loans, Net

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

	(In Millions)	
	2008	2007
Cotton	$ 369	$ 145
Dry Whole Peas	1	3
Feed Grains:		
Barley	4	6
Corn	92	208
Grain Sorghum	2	1
Oats	1	1
Honey	3	5
Oilseeds	-	3
Peanuts	16	11
Rice	37	147
Soybeans	11	107
Sugar	-	35
Wheat	94	72
Total Commodity Loans	$ 630	$ 744
Accrued Interest Receivable	13	15
Total Commodity Loans, Net	$ 643	$ 759

In FY 2008, Cotton Loans increased by $224 million. This increase is related to additional loans disbursed for upland cotton. This correlates to an increase in the Adjusted World Price for upland cotton. There were no allowances for losses as of September 30, 2008 and 2007 due to market prices that were higher than the price support level. Refer to Note 1, under Commodity Loans, for additional information.

Note 6 – Credit Program Receivables, Net

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

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

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

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

Credit Guarantee Programs

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

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

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

Direct Credit Programs – Foreign

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

Note 6 - Credit Program Receivables, Net, continued

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

Paris Club

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

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

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

Direct Credit Programs – Domestic

The Farm Storage Facility Loan (FSFL) Program was implemented to provide low cost financing for producers to build or upgrade on-farm commodity storage and handling facilities. The loans have a term of 7 years with a requirement of annual repayment installments. Interest on these loans is accrued monthly from the date of disbursement. The borrower's rate is established to be equivalent to the rate of interest charged on the Treasury securities of comparable maturity.

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

The Apple Loan Program provided loans to apple producers who suffered hardships due to low prices following the 1998 - 1999 growing season when apple prices fell to their lowest levels in nearly 10 years. Eligible applicants obtained loans up to $300 per acre of apple trees in production in 1999 or 2000, up to a maximum indebtedness of $500,000. The Apple Loan Program was not funded in FY 2008 or 2007.

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

Note 6 - Credit Program Receivables, Net, continued

- Inter-Agency Credit Risk Assessment System (ICRAS) country risk evaluation and rating for international programs only.

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

After analyzing foreign credits government-wide, in FY 2007 OMB determined that actual performance on foreign credits was better than had been previously forecasted and, therefore, mandated a change to the default calculation methodology. This was a contributor to the significant downward subsidy reestimates for CCC's foreign Credit Reform programs at the end of FY 2007. Net downward reestimates were $387 million and $185 million for the fiscal years ended September 30, 2008 and 2007, respectively. However, other factors contributed to the FY 2008 reestimates.

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 & Poors and Moody's. Each of the eleven risk categories is associated with a default estimate. The average spread between the yield to maturity of dollar denominated bonds of like-rated sovereigns and comparable maturity Treasuries was used to generate the default estimate for each rating.

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

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

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

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

Interest Income on Direct Credits and Credit Guarantees

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

Based on the Federal Credit Reform Act of 1990 and SFFAS No. 2, *Accounting for Direct Loans and Loan Guarantees*, all credit reform loans initiated after September 30, 1991 need to be presented on a present value basis. For loans initiated before FY 1992 (Pre-1992), restatement of loan value on a present value basis is permitted but not required. Since CCC elected to restate the Pre-1992 loan receivables from nominal value to net present value starting in 2001, the accounting treatment, including

Note 6 - Credit Program Receivables, Net, continued

revenue recognition and subsidy allowance calculation, has been applied consistently to Pre-1992 and Post-1991 Direct Loan and Loan Guarantee programs. For Pre-1992 and Post-1991 loan interest receivable, the portion related to non-performing loans is deferred and presented net of the loan receivable line item in the balance sheet.

A summary of CCC's net credit program receivables as of September 30, 2008 and 2007 is as follows:

	(In Millions)	
	2008	2007
Direct Credit and Loan Programs:		
Pre-1992:		
P.L. 480 Title I	$ 2,986	$ 2,870
Post-1991:		
P.L. 480 Title I	781	1,108
Debt Reduction Fund	99	147
Farm Storage Facility	361	245
Defaulted Credit Guarantees:		
Pre-1992 Export Credit Guarantees	48	240
Post-1991 Export Credit Guarantees	437	532
Total Credit Program Receivables, Net	$ 4,712	$ 5,142

P.L. 480, Title I direct credits outstanding that were obligated prior to FY 1992 and related interest receivable as of September 30, 2008 and 2007 are as follows:

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

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

Note 6 - Credit Program Receivables, Net, continued

P.L. 480 direct credits and direct loans for FSFL, Boll Weevil, and Apple Loans that were obligated after FY 1991 and related interest receivable outstanding as of September 30, 2008 and 2007 are as follows:

(In Millions)

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

(In Millions)

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

Note 6 - Credit Program Receivables, Net, continued

Defaults on credit guarantees made prior to FY 1992 and related interest receivable as of September 30, 2008 and 2007 are as follows:

2008:	Credit Receivable, Gross (In Millions)	Interest Receivable, Gross (In Millions)	Allowances for Uncollectible Accounts (In Millions)	Credit Program Receivables, Net (In Millions)
Export Credit Guarantee Programs	$ 136	$ 1	$ (90)	$ 48

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

Defaults on credit guarantees made after FY 1991 and related interest receivable as of September 30, 2008 and 2007 are as follows:

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

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

Note 6 - Credit Program Receivables, Net, continued

The changes in the subsidy allowance for outstanding direct credits and loans that were obligated after FY 1991 as of September 30, 2008 and 2007 are as follows:

	(In Millions)			
	2008		2007	
Subsidy Allowance - Beginning of Fiscal Year	$	1,288	$	1,329
Subsidy Expense for Current Year Disbursements:				
Interest Rate Differential		9		4
Default Costs (Net of Recoveries)		9		9
Other Subsidy Costs		(6)		(8)
Total Subsidy Expense	$	12	$	5
Adjustments:				
Subsidy Allowance Amortization		54		16
Loans Written Off / Forgiven		(22)		(4)
Other		149		(31)
Balance Before Reestimates	$	1,481	$	1,315
Subsidy Reestimates:				
Interest Rate Reestimate	$	(194)	$	(25)
Technical/Default Reestimates		(210)		(2)
Total Subsidy Reestimates	$	(404)	$	(27)
Subsidy Allowance - End of Fiscal Year	$	1,077	$	1,288

Note 6 - Credit Program Receivables, Net, continued

For the fiscal years ended September 30, 2008 and 2007 subsidy expenses for the current year disbursements of post-1991 direct credits and loans and subsidy reestimates are as follows:

(In Millions)

2008:	Subsidy Expense for New Direct Loans Disbursed				Reestimates			
	Interest Differential	Defaults	Other	Total	Interest Rate	Technical	Total	Grand Total
P.L. 480 Title I	$ 9	$ 2	$ -	$ 11	$ (181)	$ (163)	$ (344)	$ (333)
Farm Storage Facility	-	7	(6)	1	(13)	(47)	(60)	(59)
Total	$ 9	$ 9	$ (6)	$ 12	$ (194)	$ (210)	$ (404)	$ (392)

(In Millions)

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

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

Note 6 - Credit Program Receivables, Net, continued

For the fiscal years ended September 30, 2008 and 2007, current and prior year disbursements of post-1991 direct credits and loans are as follows:

	2008	2007	Curent Year Over (Under) Prior Year
	(In Millions)		
P.L. 480 Title I	$ 20	$ 9	$ 11
Farm Storage Facility	135	113	22
Total	$ 155	$ 122	$ 33

As of September 30, 2008 and 2007, post-1991 credit guarantees outstanding are as follows:

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

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

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

Note 6 - Credit Program Receivables, Net, continued

The change in the liability for post-1991 credit guarantees as of September 30, 2008 and 2007 is as follows:

	(In Millions)	
	2008	2007
Credit Guarantee Liability - Beginning of Fiscal Year	$ 184	$ 220
Subsidy Expense for Current Year Disbursements:		
Default Costs (Net of Recoveries)	58	48
Fees and Other Collections	(10)	(6)
Total Subsidy Expense	$ 48	$ 42
Adjustments:		
Loan Modifications	(91)	-
Fees Received	22	10
Claim Payments to Lenders	1	(8)
Other	40	309
Balance Before Reestimates	$ 204	$ 573
Subsidy Reestimates:		
Interest Rate Reestimate	$ (5)	$ (95)
Technical/Default Reestimates	(38)	(294)
Total Subsidy Reestimates	$ (43)	$ (389)
Credit Guarantee Liability - End of Fiscal Year	$ 161	$ 184

Note 6 - Credit Program Receivables, Net, continued

Subsidy expenses, net of fees and other collections, for current year disbursements related to credit guarantees made after FY 1991, and subsidy reestimates for the fiscal years ended September 30, 2008 and 2007 are as follows:

(In Millions)

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

(In Millions)

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

Subsidy reestimates are calculated on cumulative disbursements for all cohorts.

For the fiscal years ended September 30, 2008 and 2007 current and prior year credit guarantee disbursements are as follows:

(In Millions)

	2008		2007	
	Outstanding Principal, Face Value	Outstanding Interest, Guaranteed	Outstanding Principal, Face Value	Outstanding Interest, Guaranteed
Export Credit Guarantee Programs	$ 1,907	$ 1,909	$ 1,086	$ 1,037

Administrative expenses on direct credit and loan programs were $3 million for each of the fiscal years ended September 30, 2008 and 2007. Administrative expenses for the credit guarantee programs were $5 million for each of the fiscal years ended September 30, 2008 and 2007.

Note 6 - Credit Program Receivables, Net, continued

FY 2008 and 2007 subsidy rates (percentage) for direct credits and loans are as follows:

2008:	Interest Differential	Defaults	Fees and Other Collections	Total
Farm Storage Facility	0.02	1.10	(0.11)	1.01
Sugar Storage Facility Loans	0.36	0.62	-	0.98

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

For the fiscal years ended 2008 and 2007, there were no apportionments for P.L. 480 and thus no subsidy rate was provided. The Apple Loan Program is a one year program, cohort 2001.

FY 2008 and 2007 subsidy rates (percentage) for credit guarantee programs are as follows:

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

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

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

Note 6 - Credit Program Receivables, Net, continued

The principal balance of CCC direct credit and credit guarantee receivables, in a non-performing status, totaled $1.2 billion for the fiscal years ended September 30, 2008 and 2007; compared to a total principal balance (performing and non-performing) of $8 billion and $8.9 billion at September 30, 2008 and 2007, 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 $47 million from a total of $40 million in FY 2008, and increased by $40 million from a total of $240 million reported in FY 2007. During the entire delinquency period, if interest had been reported on these non-performing receivables, instead of reported only to the extent of the collections received, interest income would have increased to $998 million and $950 million through September 30, 2008 and 2007, respectively.

Direct credit and credit guarantee principal receivables under rescheduling agreements as of September 30, 2008 and 2007, were $3.1 billion and $3.4 billion, respectively.

During FY 2008, there were no new Paris Club agreements to reschedule P.L. 480 debt or GSM debt. Additionally, no claims on refinancing agreements entered into force in FY 2008. An agreement is considered to have "entered into force" when all agreed upon domestic prerequisite conditions have been satisfied by the debtor.

Other Significant Events

In October 2007, CCC received P.L. 480 prepayments of $378 million from Russia. For the GSM program, a modification was apportioned and recorded in FY 2008 to reflect the impact of the Algeria prepayment. Based on OMB guidance, it was determined that the prepayment was a modification since it was not specifically allowed by the terms of the original agreement. The modification resulted in a savings to the government of $89 million, and a modification adjustment transfer of $3 million was also returned to Treasury.

Changes in the Export Credit Guarantee Programs

As the result of actions by the World Trade Organization (WTO) with respect to farm subsidies and fair trade practice, USDA implemented new guarantee fee rates in FY 2006 under CCC's Export Credit Guarantee Program (GSM-102) and SCGP. The new fee rates utilize a risk-based structure based on a country risk scale, as well as different repayment terms. USDA has decided not to conduct business in those countries that are or become rated below a predetermined risk threshold. As a result, significant declines in programming levels were noted in FY 2006 and FY 2007. However, FY 2008 saw a resurgence in demand and due to changing world economic conditions, it is anticipated that this trend will continue through FY 2009. There was no SCGP program in FY 2008.

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

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

Note 6 - Credit Program Receivables, Net, continued

The P.L. 480 program had a large downward reestimate for FY 2008. The upward reestimate totals $3.9 million and the downward reestimate totals $347.9 million, for a net downward reestimate of $344 million. This is comprised of $163 million in technical reestimate and $181 million in interest on the reestimate.

The largest single factor in the reestimate was a $378 million prepayment by Russia, which resulted in a $224 million downward reestimate for the 1999 cohort alone. The 1992 through 1998 cohorts had a combined downward reestimate of $119.6 million. Projected defaults also declined. On a nominal basis, projected defaults from FY 2009 through the remainder of the loan program totaled $581 million at the end of FY 2007. Based on the FY 2008 default rates, projected defaults for the same period now total $530 million, a reduction of $51 million. Across all cohorts, actual defaults that occurred in FY 2008 were around $20 million less than anticipated at the end of FY 2007.

Components of the FY 2008 P.L. 480 reestimate are as follows:

FY 2008 Reestimate
(In Millions)

Cohort	Reestimate	Interest on Reestimate	FAI adjustment	Total Reestimate
1992	$ (5)	$ (11)	-	$ (16)
1993	(10)	(19)	-	(29)
1994	(5)	(10)	-	(15)
1995	(7)	(10)	-	(17)
1996	(5)	(7)	-	(12)
1997	(6)	(6)	-	(12)
1998	(9)	(8)	-	(17)
1999	(116)	(95)	(14)	(225)
2000	(2)	(1)	1	(2)
2001	1	1	-	2
2002	(1)	(1)	(1)	(3)
2003	1	-	-	1
2005	1	-	-	1
Total	$ (163)	$ (167)	$ (14)	$ (344)

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

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

Export Credit Guarantee Program (GSM 102)

For the Export Credit Guarantee programs (GSM 102, GSM 103 and Supplier Credit), the only significant reestimate was for the GSM 102 program. There was a downward reestimate for GSM 102 at the end of FY 2008 of $46.3 million. The downward reestimate of $58.8 million was offset by an upward reestimate of $12.5 million. The total reestimate is comprised of a $43.4 million technical reestimate and $2.9 million in interest on the reestimate.

Note 6 - Credit Program Receivables, Net, continued

The major contributor to the downward reestimate is in cohorts 2005 through 2007. These changes are due in large part to projected defaults in FY 2008 which did not occur. On a nominal basis, projected defaults for FY 2008 totaled $24.6 million at the end of FY 2007, none of which actually happened. In addition, for the FY 2008 cohort, projected defaults decreased by 35 percent, contributing to the large downward reestimate for the 2008 cohort.

Components of the FY 2008 Export Credit Guarantee Program reestimate are as follows:

FY 2008 Reestimate
(In Millions)

Cohort	Reestimate	Interest on Reestimate	FAI Adjustment	Total Reestimate
1992	$ (1)	$ (1)	-	$ (2)
1993	(1)	(1)	-	(2)
1996	1	1	-	2
1997	2	2	-	4
1998	1	1	-	2
2001	4	2	-	6
2004	-	-	(1)	(1)
2005	(10)	(2)	1	(11)
2006	(6)	(1)	(2)	(9)
2007	(13)	(1)	(1)	(15)
2008	(20)	(1)	-	(21)
Total	$ (43)	$ (1)	$ (3)	$ (47)

GSM 103 and Supplier Credit Guarantee Programs

For GSM 103, the FY 2008 reestimate was negligible (approximately $0.5 million for all cohorts). For Supplier Credit, the overall reestimate was $2.5 million, comprised of a $5.5 million technical reestimate and a reduction of $3 million of interest on the reestimate. Changes are due to differences in both actual and projected amounts. The major contributor to the upward reestimate was the 2004 cohort which had a $7.5 million upward technical reestimate. The FY 2007 Supplier Credit reestimate projected a recovery of $6.9 million in FY 2008, of which only $1.4 million was received. In addition, projected recoveries for FY 2009 and beyond decreased by approximately $1 million.

Trend Analysis - Farm Storage Facility Loan Reestimate

For the Farm Storage program, there was a significant downward reestimate for cohorts 2000 through 2007. The downward reestimate of $61.2 million was offset by an upward reestimate for the 2008 cohort of $1.8 million for a total reestimate of $59.4 million. The total reestimate is comprised of a $46.8 million technical reestimate and $12.6 million in interest on the reestimate.

The reestimate for FY 2008 adjusts cashflows for differences between actual and projected amounts, as well as changes in technical assumptions about future performance. The current reestimate brings amounts in the financing account in line with future expectations of very low defaults in the Farm Storage program, resulting in downward reestimates in all except the most recent cohort.

Note 6 - Credit Program Receivables, Net, continued

Components of the Farm Storage FY 2008 reestimate are as follows:

FY 2008 Reestimate
(In Millions)

Cohort	Reestimate	Interest on Reestimate	FAI Adjustment	Total Reestimate
2000	(2)	(1)	(3)	(6)
2001	(10)	(4)	2	(12)
2002	(7)	(2)	1	(8)
2003	(6)	(1)	-	(7)
2004	(5)	(1)	-	(6)
2005	(6)	(1)	(1)	(8)
2006	(8)	(1)	-	(9)
2007	(5)	-	-	(5)
2008	2	(1)	-	1
Total	$ (47)	$ (12)	$ (1)	$ (60)

Note 7 – Commodity Inventories and Related Property, Net

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

	(In Millions)	
	2008	2007
Commodity Inventories - Beginning of Fiscal Year	$ 185	$ 226
Acquisitions	1,126	5,468
Cost of Sales	(126)	(4,736)
Donations	(1,220)	(773)
Other Dispositions, Additions and Deductions	46	-
Commodity Inventories - End of Fiscal Year	$ 11	$ 185
Barter Delivery Obligations (BDO)	$ 4	-
Commodity Inventories and Related Property, Net	$ 15	$ 185

Commodity loan forfeitures included in the acquisitions line item were $8 million and $77 million for the fiscal years ended September 30, 2008 and 2007, respectively. As a result of high commodity market prices for fiscal years ended 2008 and 2007, an inventory allowance was not recorded.

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

Restrictions on Commodity Inventory

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

The reported value of the wheat inventory reserve at September 30, 2007 was $124 million. On April 15, 2008 and May 16, 2008, the Secretary of Agriculture authorized the release of the wheat reserves for use under P.L. 480, Title II. On May 23, 2008 CCC made available for sale all remaining BEHT wheat owned by the CCC, with proceeds available for use under P.L. 480, Title II. As of September 30, 2008, there were no wheat reserves. Refer to Note 1, under Commodity Inventories, for additional information.

Note 8 – General Property and Equipment, Net

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

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

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

Note 9 – Liabilities Not Covered by Budgetary Resources

	2008 (In Millions)	2007 (In Millions)
Accrued Liabilities (Note 14)		
Conservation Reserve Program	$ 1,775	$ 1,810
Tobacco Transition Payment Program	5,302	5,380
Environmental and Disposal Liabilities (Note 13)	8	8
Total Liabilities Not Covered by Budgetary Resources	$ 7,085	$ 7,198
Total Liabilities Covered by Budgetary Resources	$ 16,198	$ 16,012
Total Liabilities	$ 23,283	$ 23,210

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

Note 10 – Debt to the Treasury

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

	(In Millions)			
	2008		2007	
Debt - Beginning of Fiscal Year				
Principal: Interest Bearing	$	6,452	$	19,341
Accrued Interest Payable		64		427
Total Debt Outstanding - Beginning of Fiscal Year	$	6,516	$	19,768
New Debt				
Principal: Interest Bearing	$	22,996	$	28,664
Accrued Interest Payable		104		796
Total New Debt	$	23,100	$	29,460
Repayments				
Principal: Interest Bearing	$	(23,582)	$	(41,553)
Accrued Interest Payable		(157)		(1,159)
Total Repayments	$	(23,739)	$	(42,712)
Debt - End of Fiscal Year				
Principal: Interest Bearing	$	5,866	$	6,452
Accrued Interest Payable		11		64
Total Debt Outstanding - End of Fiscal Year	$	5,877	$	6,516

CCC may borrow interest-free up to the amount of its unreimbursed realized losses. Monthly interest rates ranges from 1.625 percent to 4.250 percent during FY 2008 and from 4.750 percent to 5.125 percent during FY 2007.

There was no debt principal and interest refinanced for the fiscal year ended September 30, 2008. There was no outstanding principal rolled over in fiscal years ended September 30, 2008 and 2007. There was no accrued interest rolled into notes payable for fiscal years ended September 30, 2008 and 2007. Interest expense incurred on Treasury borrowings was $263 million and $350 million for the fiscal years ended September 30, 2008 and 2007, respectively.

The FY 2008 and 2007 interest rates on long-term borrowings under the permanent indefinite borrowing authority for the Credit Reform programs are calculated using the OMB Credit Subsidy Calculator 2. For FY 2001 and future cohorts, the single effective interest rate produced from the calculator, along with budget assumptions, is used to calculate interest expense.

Note 10 – Debt to the Treasury, continued

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

CCC has a separate permanent indefinite borrowing authority for the Credit Reform programs to finance disbursements on post-1991 Credit Reform direct credit and loan obligations and credit guarantees. On October 1, CCC borrows from Treasury for the entire fiscal year, based on annual estimates of the difference between the amount appropriated (subsidy) and the amount to be disbursed to the borrower. CCC may repay the loan agreement, in whole or in part, prior to maturity by paying the principal amount of the borrowings plus accrued interest up to the date of repayment. Interest is paid on these borrowings based on weighted average interest rates for the cohort to which the borrowings are associated. Interest expense incurred on borrowings associated with the Credit Reform programs was $164 million and $163 million for the fiscal years ended September 30, 2008 and 2007, respectively.

CCC has an authorized capital stock of $100 million held by the Treasury, with the authority to have outstanding borrowings of up to $30 billion at any one time. Interest on borrowings from the Treasury (and on capital stock) is paid at a rate based upon the average interest rate of all outstanding marketable obligations (of comparable maturity date) of the U.S. government as of the preceding month. CCC incurred $5 million in interest expense on capital stock for the fiscal years ended September 30, 2008 and 2007.

Note 10 – Debt to the Treasury, continued

Total debt outstanding, by program and maturity date, as of September 30, 2008, is as follows:

Program	Debt (In Millions)	Maturity Date
CCC Borrowing Authority	$ 2,955	January 1, 2009
Export Credit Guarantee	16	September 30, 2009
	82	September 30, 2010
	146	September 30, 2011
	2	September 30, 2012
	2	September 30, 2013
	69	September 30, 2015
	457	September 30, 2016
	3	September 30, 2017
	56	September 30, 2018
	100	September 30, 2019
Debt Reduction	17	September 30, 2012
	17	September 30, 2018
	9	September 30, 2021
	56	September 30, 2022
	22	September 30, 2023
	91	September 30, 2024
	26	September 30, 2026
	3	September 30, 2028
P.L. 480 Direct Credits	104	September 30, 2018
	257	September 30, 2019
	48	September 30, 2020
	41	September 30, 2021
	62	September 30, 2022
	70	September 30, 2023
	64	September 30, 2024
	332	September 30, 2025
	47	September 30, 2026
	43	September 30, 2027
	48	September 30, 2031
	33	September 30, 2032
	26	September 30, 2033
	21	September 30, 2034
	18	September 30, 2035
Farm Storage Facility Loans	6	September 30, 2009
	10	September 30, 2010
	22	September 30, 2011
	29	September 30, 2012
	45	September 30, 2013
	81	September 30, 2014
	175	September 30, 2015
	155	September 30, 2016
Boll Weevil	0	September 30, 2008
Apple Loans	0	September 30, 2010
Total Debt Outstanding	$ 5,866	

Note 11 – Deposit and Trust Liabilities

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

	(In Millions)	
	2008	2007
Intragovernmental (Note 18):		
Agricultural Marketing Service	$ 130	$ 265
Food and Nutrition Service	482	303
Foreign Agricultural Service	120	150
Natural Resources Conservation Service	88	100
Total Intragovernmental Deposit and Trust Liabilities	$ 820	$ 818
Public	$ 6	$ 14
Total Public Deposit and Trust Liabilities	$ 6	$ 14

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

The public liability was $6 million and $14 million as of September 30, 2008 and 2007, respectively. The public liability consists of unapplied collections for warehouse user fees, claims for disaster programs, and other miscellaneous collections that are temporarily held in suspense until appropriately identified and applied.

Note 12 – Other Liabilities

Other liabilities as of September 30 are as follows:

	(In Millions)	
	2008	2007
Intragovernmental:		
Excess Subsidy Payable to Treasury	$ 614	$ 504
Other	49	36
Total Intragovernmental Other Liabilities	$ 663	$ 540
Public	$ 110	$ 12
Total Public Other Liabilities	$ 110	$ 12

Note 13 – Environmental and Disposal Liabilities

The Corporation formerly operated approximately 4,500 grain storage facilities in the U.S. To date, at approximately 120 of these facilities, Carbon Tetrachloride (a fumigant commonly used at grain storage facilities during that time) was discovered in groundwater. CCC recorded an estimate of the total liability for investigation and remediation of affected sites of $8 million for the fiscal years ended September 30, 2008 and 2007 based on actual cleanup costs at similar sites. This liability is not covered by budgetary resources.

Hazardous Waste Program

Since the first discovery of contaminated groundwater, CCC has been engaged in an active program to identify affected sites, perform risk assessments, and conduct cleanup actions. As of September 30, 2008 and 2007, payments for these activities totaled $5 million. At September 30, 2008, CCC estimates the range of potential future losses to be between $8 million and $42 million.

Note 14 – Accrued Liabilities

Accrued liabilities as of September 30 are as follows:

	(In Millions)	
	2008	2007
Conservation Reserve Program	$ 1,775	$ 1,810
Export Programs	183	100
Income Support Programs:		
Direct and Counter-Cyclical Payments	4,878	4,246
Other	14	5
Tobacco Transition Payment Program		
Liability to Tobacco Quota Holders	3,708	3,763
Liability to Tobacco Producers	1,594	1,617
Other	2	2
Total Accrued Liabilities	$ 12,154	$ 11,543

The liabilities for Conservation Reserve Programs were considered current as of September 30, 2008 and 2007. The liability of $5.3 billion and $5.4 billion under the Tobacco Transition Payment Program (TTPP) includes a current liability of $955 million and $903 million as of September 30, 2008 and 2007, respectively. The remaining balance was a long term liability as of September 30, 2008 and 2007. Refer to Note 1, under Liabilities, for additional information.

Note 15 – Commitments and Contingencies

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

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

Commitments

Wetland Reserve Program (WRP)
WRP provides technical and financial assistance to eligible landowners to restore, enhance, and protect wetlands. This voluntary program offers landowners an opportunity to establish, at minimal cost, long-term conservation and wildlife habitat enhancement practices and protection. WRP program expenses for the fiscal years ended September 30, 2008 and 2007 were $12 million and $8 million, respectively. As of September 30, 2008 and 2007, CCC's undelivered orders on current contracts were $25 thousand and $21 million, respectively.

Market Access Program (MAP)
The MAP was authorized by the Agriculture Trade Act of 1978, as amended, to encourage the development, maintenance, and expansion of commercial export markets for agricultural commodities through cost-share assistance to eligible trade organizations that implement a foreign market development program. CCC makes funds available to reimburse program participants for authorized promotional expenses. Program expenses for the fiscal years ended September 30, 2008 and 2007 were $179 million and $184 million, respectively. At September 30, 2008 and 2007, CCC's undelivered orders on current contracts were $243 million and $221 million, respectively.

Noninsured Crop Disaster Assistance Program (NAP)
The NAP was authorized as a CCC program under the 1996 Act. The NAP provides financial assistance to producers of non-insurable crops when a low yield crop, loss of inventory, or prevented planting occurs due to natural disasters. The crops must be non-insurable commodities for which the catastrophic risk protection level of crop insurance is not available. Program expenses for the fiscal years ended September 30, 2008 and 2007 were $74 million and $127 million, respectively. At September 30, 2008 and 2007, CCC's undelivered orders on current contracts were $6 million and $8 million, respectively.

Commodity Acquisition
Commitments to acquire commodities represent the contract value of commodities not yet delivered under CCC purchase contracts. Such commitments amounted to $176 million and $88 million for Export Program, $94 million and $28 million for Food for Progress, and $13 million and $0 for Food Security Reserve at September 30, 2008 and 2007, respectively.

Conservation Reserve Program (CRP)
Through CRP, participants sign 10-15 year contracts to remove land from production in exchange for an annual rental payment. The participants also receive a one-time payment equal to not more than 50 percent of the eligible costs of establishing conservation practices on the reserve acreage. CCC estimates that the future liability for CRP rental payments through FY 2016 will be $1.9 billion annually. This estimate is based on current program levels with the assumption that expiring lands are re-enrolled or replaced with lands of equal value. For the fiscal years ended September 30, 2008 and 2007, accrued liabilities for CRP totaled approximately $1.8 billion.

Note 15 – Commitments and Contingencies, continued

Leases

As of September 30, 2008, future minimum rental payments required under FSA operating leases for State office space, for which CCC is directly liable, consisted of the following:

Year	(In Millions) Rent Expense
2009	$ 4
2010	1
Total	$ 5

Allocated rent expense, net of reimbursements, was $54 million for the fiscal years ended September 30, 2008 and 2007. This allocated rent expense is recognized as part of the CCC's imputed financing sources and imputed costs.

Contingencies

Legal Disputes and Claims

In the normal course of business, CCC becomes involved in various legal disputes and claims. CCC vigorously defends its position in such actions through the Office of the General Counsel (OGC) and the U.S. Department of Justice. CCC's financial statements at September 30, 2008 included a contingent liability of $100 million for a legal case for which a payment has been deemed probable. CCC's potential liability for the case ranged from $100 million to $4 billion as of September 30, 2008. No amounts have been accrued in the financial statements for claims where the amount is uncertain or where the probability of judgment against CCC is remote.

Note 16 – Disclosures Related to the Statement of Net Cost

Earned Revenue

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

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

	(In Millions)	
	2008	2007
Intragovernmental Earned Revenue:		
Commodity Inventory Sales	$ 921	$ 679
Interest Income	91	62
Other	-	271
Less: Intra-Agency Eliminations	(925)	(679)
Total Intragovernmental Earned Revenue	$ 87	$ 333
Earned Revenue from the Public		
Commodity Inventory Sales	$ 244	$ 3,714
Interest Income	468	444
Other	1,030	477
Total Earned Revenue from the Public	$ 1,742	$ 4,635
Total Earned Revenue	$ 1,829	$ 4,968

Public commodity inventory sales decreased to $244 million in FY 2008 from $3.7 billion in FY 2007 due to higher upland cotton market prices, which affected commodity certificate exchanges in FY 2008. Other earned revenue from the public includes $891 million that was recognized in FY 2008 under the Tobacco Trust Fund Program.

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

CCC's strategic goals are as follows:

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

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

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

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

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

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

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

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

Agency Strategic Goals:

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

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

Net cost of operations for the fiscal years ended September 30, 2007 (In Millions), is as follows:

Agency Strategic Goals:

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

Note 17 – Disclosures Related to the Statement of Budgetary Resources

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

For the fiscal years ended September 30, 2008, there were no obligations incurred under apportionment category A, which is funded on a quarterly basis, while obligations incurred under apportionment category B, which are funded annually, consist of $3.7 billion direct obligations and $23.1 billion reimbursable obligations.

For the fiscal year ended September 30, 2007, there were no obligations incurred under apportionment category A, which is funded on a quarterly basis, while obligations incurred under apportionment category B, which are funded annually, consist of $3.8 billion direct obligations and $27.4 billion reimbursable obligations.

The majority of the amounts reported as permanently not available represent redemption of debt or the amount of principal repayments paid to the Treasury on CCC's outstanding borrowings. The remaining balance represents rescissions of budgetary authority. The amounts were $33.7 billion and $52.0 billion for the fiscal years ended September 30, 2008 and 2007, respectively.

CCC has a permanent indefinite borrowing authority, as defined by OMB Circular A-11, *Preparation and Submission of Budget Estimates*, of $30 billion. CCC's notes payable under its permanent indefinite borrowing authority have a term of one year. On January 1 of each year, CCC refinances its outstanding borrowings, including accrued interest, at the January borrowing rate. The amount of available borrowing authority for the fiscal year ended September 30, 2008, is $9.2 billion. Refer to Note 10, Debt to the Treasury, for additional information.

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

Undelivered orders, either unpaid or prepaid, are obligations, purchase orders, or contracts awarded for which goods or services have not yet been received. The amounts for undelivered orders are $2.6 billion and $3.4 billion for the fiscal years ended September 30, 2008 and 2007, respectively.

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

No contributed capital was received during the reporting periods.

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

Since the P&F Schedules within the *Budget of the United States Government, Fiscal Year 2010*, are not available for FY 2008, the reconciliation between the President's Budget and the SBR for FY 2008 cannot be performed. The *Budget of the United States Government, Fiscal Year 2010*, is expected to be published in February 2009 and will be available on the website of the Office of Management and Budget (www.whitehouse.gov/omb) at that time. The SF-133 and the SBR for FY 2008 will be reconciled to the FY 2008 actuals on the P&F Schedules reported in the *Budget of the United States Government, Fiscal*

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

Year 2010, once released. The SF-133 and the SBR for FY 2007 have been reconciled to the FY 2007 actuals on the P&F Schedules presented in the *Budget of the United States Government, Fiscal Year 2009*. A table presenting this comparison appears on the following page.

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

The comparison of selected line items of the FY 2007 SBR to the actuals on the FY 2007 P&F Schedules presented in the *Budget of the United States Government, Fiscal Year 2009* is as follows:

In Millions

SBR Line Ref	P&F Line No.	SBR Line Description	SBR Amount (Ref. Tab B)	P&F Amount (Ref. Tab A, pg 2/2)	Difference	Portion of Difference Resulting from Reporting Requirements	Note
1	21.40	Unobligated Balance - Beginning of Year	$ 2,793	$ 2,808	$ (15)	$ -	a
2	22.10/73.40	Recoveries of Prior Year Obligations	731	731	-		
3A	40.00/60.00	Appropriations Received	25,873	25,873	-		
3B	67.10	Authority to Borrow	41,466	31,504	9,962	9,962	b
3D1a/3D2a/3D5	58.00/68.00/69.00	Offsetting Collections - Collected	18,826	18,811	15	-	a
3D1b/3D2b	69.10/74.00	Offsetting Collections - Receivable	(959)	(959)	-		
4	41.00/42.00/22.21/22.22/61.00/62.00	Budgetary Resources/Unobligated Balance - Net Transfers	(1,831)	(1,831)	-		
6	22.40/22.60/40.35/40.36/69.27/69.47	Permanently not Available	(52,002)	(42,040)	(9,962)	(9,962)	b
7 or 11	23.90	Total Budgetary Resources/Status of Budgetary Resources	34,897	34,897	-		
8	10.00	Total New Obligations	31,153	31,154	(1)	-	
9/10	24.40	Unobligated Balance - End of Year	3,744	3,743	1	-	
12	72.40	Obligated Balance - Beginning of Year	7,907	7,905	2	-	c, d
13	73.10	Obligations Incurred	31,153	31,154	(1)	-	
14	73.20	Gross Outlays	(31,606)	(31,607)	1	-	c
16	73.45	Recoveries of Prior Year Obligations	(731)	(731)	-		
17	74.00/74.10	Change in Uncollected Customer Payments from Federal Sources	959	959	-		
18	74.40	Obligated Balance - End of Year	7,682	7,682	-		
19A/19B	90.00	Outlays	12,781	12,796	(15)	-	a, c

<u>NOTES:</u>

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

a. The variance in CCC's Revolving Fund 12X4336 on Line 1 Unobligated Balance - Beginning of Year, Line 3D1a/3D2a/3D5 Offsetting Collections, and Line 19A/19B Outlays is due to an offsetting entry directed by OMB to increase NRCS Net Outlays in Fund 1004 from what was reported to Treasury on FACTS II and to offset the decrease in CCC's Net Outlays in MAX, so that total USDA Outlays would remain the same.

b. The variance in CCC's Farm Storage Facility and Sugar Storage Facility Loans Financing Fund 12X4158 and CCC's Revolving Fund 12X4336 is due to the differences in reporting on the P&F crosswalk against the Statement of Budgetary Resources. The P&F crosswalk records SGL 4143, Decreases to Indefinite Borrowing Authority, in Line 3B Borrowing Authority on the SBR. However, the SBR crosswalk reports SGL 4143 to Line 6, Permanently not Available.

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

d. The variance reflects an entry into the MAX A-11 system for reconciling purposes in P.L. 480 Direct Credit Liquidating Fund 12X2274.

Note 18 – Disclosures Not Related to a Specific Statement

Transactions with Related Organizations

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

For the fiscal years ended September 30, 2008 and 2007, outlays under reimbursable agreements with other USDA agencies amounted to $54 million and $11 million, respectively.

For the fiscal years ended September 30, 2008 and 2007, CCC received $13 million and $18 million respectively from FSA for the allocation of internal software development costs, which were capitalized. Currently, CCC reimburses FSA for the costs incurred in the development of software used to administer agriculture programs. Refer to Note 1, under General Property and Equipment, for additional information.

CCC donates commodities for use under domestic feeding programs administered by FNS. The value of commodities donated for these domestic purposes, including related transportation and storage costs, for the fiscal years ended September 30, 2008 and 2007 were $120 million and $109 million, respectively.

For the fiscal years ended September 30, 2008 and 2007, CCC transferred $21 million and $15 million, respectively, to FNS for the Senior's Farmers Market Nutrition Program. CCC transferred $96 million in FY 2008 to the Animal and Plant Health Inspection Service for bovine tuberculosis, light brown apple moth outbreak, and potato cyst nematode eradication programs. In addition, CCC transferred $2 million to the Office of the CFO for bio-diesel fuel education and bio-based products, $42 million to AMS for commodity assistant program and marketing service and $2 million to the Rural Business and Cooperative Development Service for biomass research and development as of September 30, 2008.

During FY 2008 and 2007, CCC disbursed a total of $1.9 billion and $1.7 billion, respectively, on behalf of NRCS for various conservation programs and technical assistance. In addition, during FY 2008, CCC disbursed $60 million to NRCS for CRP technical assistance. These programs included Wetland Reserve Program, Environmental Quality Incentive Program (EQIP), Farm and Ranch Lands Protection Program (FRPP), Wildlife Habitat Incentives Program, Klamath Basin (NRCS did not receive funding for Klamath Basin for FY 2008), Ground and Surface Water Conservation Program, Grassland Reserve Program (GRP), and the Conservation Security Program. NRCS is responsible for the administration of these programs. For GRP, NRCS has entered into a memorandum of understanding with CCC to disburse funds using the services and facilities of CCC. It should be noted that, although NRCS has been receiving funding for the EQIP since FY 2003, CCC continues to receive separate funding for the FY 2002 and earlier program years.

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

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

Custodial Activity

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

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

	(In Millions)	
	2008	2007
Revenue Activity:		
Sources of Cash Collections:		
Repayment of Farm Credit Loans	$ 1,325	$ 1,317
Administrative and Other Service Fees	82	28
Total Cash Collections	$ 1,407	$ 1,345
Total Custodial Revenue	$ 1,407	$ 1,345
Disposition of Collections:		
Transfers to Others:		
USDA Farm Service Agency	$ 1,336	$ 1,326
Other USDA Agencies	40	-
Department of Treasury	19	2
Total Disposition of Collections	$ 1,395	$ 1,328
Increase/Decrease in Amounts Yet to be Transferred (+/-)	$ 12	$ 17
Net Custodial Activity	$ -	$ -

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

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

(In Millions)	2008	2007
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	$ 26,832	$ 31,153
Less: Spending Authority from Offsetting Collections and Recoveries	17,322	18,599
Obligations Net of Offsetting Collections and Recoveries	$ 9,510	$ 12,554
Less: Offsetting Receipts	353	464
Net Obligations	$ 9,157	$ 12,090
Other Resources:		
Transfers In/Out without Reimbursement, Net	$ (379)	$ (442)
Imputed Financing from Costs Absorbed by Others	1,334	1,271
Net Other Resources Used to Finance Activities	$ 955	$ 829
Total Resources Used to Finance Activities	**$ 10,112**	**$ 12,919**
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	$ 822	$ (1,459)
Resources that Fund Expenses Recognized in Prior Periods	111	(382)
Budgetary Offsetting Collections and Receipts That Do Not Affect Net Cost of Operations		
Credit Program Collections which Increase Liabilities for Loan Guarantees or Allowances for Subsidy	1,546	1,583
Change in Unfilled Customer Orders	(2)	826
Decrease in Exchange Receivables from the Public	9,061	7,600
Other	507	(361)
Resources that Finance the Acquisition of Assets	(10,788)	(12,300)
Other Resources or Adjustments to Net Obligated Resources that Do Not Affect Net Cost of Operations	(231)	(1,662)
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	**$ 1,026**	**$ (6,155)**
Total Resources Used to Finance the Net Cost of Operations	**$ 11,138**	**$ 6,764**
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	$ 166	$ 39
(Increase) in Exchange Revenue Receivable from the Public	(122)	(9)
Other	(867)	(189)
Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods	$ (823)	$ (159)
Components not Requiring or Generating Resources:		
Depreciation and Amortization	74	51
Revaluation of Assets or Liabilities	(140)	(177)
Other Components not Requiring or Generating Resources:		
Bad Debt Expense	(375)	(301)
Cost of Goods Sold	1,047	5,413
Other	35	106
Total Components of Net Cost of Operations that will not Require or Generate Resources	$ 641	$ 5,092
Total Components of Net Cost of Operations that will not Require or Generate Resources in the Current Period	**$ (182)**	**$ 4,933**
Net Cost of Operations	**$ 10,956**	**$ 11,697**

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

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

Gross offsetting collections and receipts are offset against obligations incurred to determine net obligations in the Resources Used to Finance Activities section of this note. Since not all of the offsetting collections and receipts are exchange revenue, adjustments are reported under the Budgetary Offsetting Collections and Receipts That Do Not Affect Net Cost of Operations section. The adjustments reflect the portion of offsetting collections and receipts that are not reported on the Statement of Net Cost (SNC).

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

	(In Millions)	
	2008	2007
Refund	$ 423	$ (261)
Price Support	55	(31)
Direct and Counter-cyclical Payment	15	1
Miscellaneous	14	(70)
Total	$ 507	$ (361)

The increase in Refunds reflects the collection of refunds receivable for expenses incurred in the current year that do not create budgetary resources when collected..

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

Resources or Adjustments to Net Obligated Resources That Do Not Affect Net Cost of Operations: Other, includes non-cash recoveries of prior year obligations. Recoveries are budgetary resources that offset obligations on the Statement of Budgetary Resources (SBR), but are not a proprietary financing source used to offset costs on the Statement of Net Cost.

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

	(In Millions)	
	2008	2007
Budgetary Adjustments	$ 1,617	$ 439
Deposit/Suspense Liability Collections (Other)	(1,462)	(2,416)
Miscellaneous	(386)	315
Total	$ (231)	$ (1,662)

The costs of the Federal Government are not always funded in the period the costs are incurred. Components Requiring or Generating Resources In Future Periods identifies items that are recognized as a component of the net cost of operations for the period; but, the budgetary resources (and related obligation) will not be provided (or incurred) until a subsequent period.

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

	(In Millions)	
	2008	2007
Price Support	$ 93	$ 308
Tobacco Trust Program	(891)	(465)
Miscellaneous	(69)	(32)
Total	$ (867)	$ (189)

For the fiscal year ended September 30, 2008, $891 million for the Tobacco Transition Payment Program reflects the estimated receivable due from the tobacco industry, and is recognized as revenue by the Tobacco Trust Program fund.

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

Components Not Requiring or Generating Resources includes items recognized as part of the net cost of operations for the period but will not generate or require the use of resources.

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

	(In Millions)	
	2008	2007
Operating/Program Expenses - Non-Federal	$ 313	$ 154
Revenue from Goods Sold	(243)	-
Operating Expenses/Program Costs	(36)	(60)
Miscellaneous	1	12
Total	$ 35	$ 106

For the fiscal year ended September 30, 2008, Operating/Program Expenses – Non-Federal consists primarily of $122 million for the Price Support and $60 million for the Food for Progress program.

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

Schedule 1
Required Supplementary Information (Unaudited)

Supporting Schedule to the Combined Statements of Budgetary Resources
Budgetary Accounts

For the Fiscal Year Ended September 30, 2008
(Dollars in Millions)

	Treasury Fund Symbols						
	12X4336	12X2278	(72)12X2278	12X8161	12X1336	Other	Total Budgetary
Budgetary Resources:							
Unobligated balance, brought forward, October 1:	$ 943	$ 240	$ 30	$ -	$ 183	$ 209	$ 1,605
Recoveries of prior year unpaid obligations	1,014	-	31	-	141	60	1,246
Budget authority							
Appropriation	100	2,070	-	1,139	105	12,740	16,154
Borrowing Authority (Note 17)	30,267	-	-	-	-	-	30,267
Contract Authority (Note)							
Spending authority from offsetting collections:							
Earned:							
Collected	12,442	693	-	-	-	676	13,811
Change in receivables from Federal sources	(54)	64	-	-	-	-	10
Change in unfilled customer orders:							
Advance received	3	-	-	-	-	-	3
Expenditure transfers from trust funds	959	-	-	-	-	-	959
Subtotal	$ 43,717	$ 2,827	$ -	$ 1,139	$ 105	$ 13,416	$ 61,204
Nonexpenditure transfers, net actual	9,832	(1,360)	1,360	-	-	(12,452)	(2,620)
Permanently not available	(32,785)	(9)	-	-	-	(580)	(33,374)
Total Budgetary Resources	$ 22,721	$ 1,698	$ 1,421	$ 1,139	$ 429	$ 653	$ 28,061
Status of Budgetary Resources							
Obligations incurred:							
Direct	$ -	$ 1,557	$ -	$ 960	$ 151	$ 201	$ 2,869
Reimbursable	21,547	-	1,389	-	-	158	23,094
Subtotal	$ 21,547	$ 1,557	$ 1,389	$ 960	$ 151	$ 359	$ 25,963
Unobligated balance:							
Apportioned	$ 27	$ 1	$ 32	$ -	$ 7	$ 209	$ 276
Exempt from apportionment	$ 811	$ -	$ -	$ -	$ -	$ -	811
Subtotal	$ 838	$ 1	$ 32	$ -	$ 7	$ 209	$ 1,087
Unobligated balance not available	336	140	-	179	271	85	1,011
Total status of budgetary resources	$ 22,721	$ 1,698	$ 1,421	$ 1,139	$ 429	$ 653	$ 28,061

Schedule 1
Required Supplementary Information (Unaudited)

Supporting Schedule to the Combined Statements of Budgetary Resources
Budgetary Accounts

For the Fiscal Year Ended September 30, 2008
(Dollars in Millions)

	Treasury Fund Symbols						
	12X4336	12X2278	(72)12X2278	12X8161	12X1336	Other	Total Budgetary
Change in Obligated Balance							
Obligated Balance, net, beg. of period							
Unpaid obligations, brought forward, October 1	$ 6,745	$ 162	$ -	$ -	$ 166	$ 974	$ 8,047
Less: Uncollected customer payments from Federal sources, brought forward, October 1	(312)	-	-	-	-	-	$ (312)
Total unpaid obligated balance, net	$ 6,433	$ 162	$ -	$ -	$ 166	$ 974	$ 7,735
Obligations incurred, net	21,547	1,557	1,389	960	151	359	25,963
Less: Gross outlays	(21,520)	(853)	(1,100)	(960)	(113)	(251)	(24,797)
Actual transfers,unpaid obligations	519	(519)	336	-	-	(336)	-
Less: Recoveries of prior year unpaid obligations, actual	(1,014)	-	(31)	-	(141)	(60)	(1,246)
Change in uncollected customer payments from Federal sources	54	(64)	-	-	-	-	(10)
Total Change in Obligated Balance	$ 6,019	$ 283	$ 594	$ -	$ 63	$ 686	$ 7,645
Obligated balance, net,end of period:							
Unpaid obligations	$ 6,277	$ 347	$ 594	$ -	$ 63	$ 686	7,967
Less: Uncollected customer payments from Federal sources	(258)	(64)	-	-	-	-	(322)
Total, unpaid obligated balance, net, end of period	$ 6,019	$ 283	$ 594	$ -	$ 63	$ 686	$ 7,645
Net Outlays							
Gross outlays	$ 21,520	$ 853	$ 1,100	$ 960	$ 113	$ 251	$ 24,797
Less: Offsetting collections	(13,403)	(693)	-	-	-	(677)	(14,773)
Net Outlays	$ 8,117	$ 160	$ 1,100	$ 960	$ 113	$ (426)	$ 10,024

Schedule 1
Required Supplementary Information (Unaudited)

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

For the Fiscal Year Ended September 30, 2008
(Dollars in Millions)

	Treasury Fund Symbols				
	12X4049	12X4337	12X4158	Other	Total Non-Budgetary
Budgetary Resources:					
Unobligated balance, brought forward, October 1:	$ 773	$ 1,215	$ 44	$ 108	$ 2,140
Recoveries of prior year unpaid obligations	2	-	25	-	27
Budget authority					
Borrowing Authority (Note 17)	5	130	164	3	302
Spending authority from offsetting collections:					
Collected	724	211	162	152	1,249
Change in receivables from Federal sources	(47)	(130)	-	-	(177)
Change in unfilled customer orders:					
Without Advance from Federal sources	43	151	-	-	194
Subtotal	$ 725	$ 362	$ 326	$ 155	$ 1,568
Permanently not available	-	(238)	(108)	(4)	(350)
Total Budgetary Resources	$ 1,500	$ 1,339	$ 287	$ 259	$ 3,385
Status of Budgetary Resources					
Obligations incurred:					
Direct	$ 128	$ 465	$ 172	$ 104	$ 869
Subtotal	$ 128	$ 465	$ 172	$ 104	$ 869
Unobligated balance:					
Apportioned	$ 1,341	$ 202	$ 75	$ 44	$ 1,662
Exempt from apportionment	-	5	-	-	5
Subtotal	$ 1,341	$ 207	$ 75	$ 44	$ 1,667
Unobligated balance not available	31	667	40	111	849
Total status of budgetary resources	$ 1,500	$ 1,339	$ 287	$ 259	$ 3,385

Schedule 1
Required Supplementary Information (Unaudited)

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

For the Fiscal Year Ended September 30, 2008
(Dollars in Millions)

	Treasury Fund Symbols				
	12X4049	12X4337	12X4158	Other	Total Non-Budgetary
Change in Obligated Balance					
Obligated Balance, net, beg. of period					
Unpaid obligations, brought forward, October 1	$ 2	$ 1	$ 120	$ 2	$ 125
Less: Uncollected customer payments from Federal sources, brought forward, October 1	(47)	(130)	(1)	-	(178)
Total unpaid obligated balance, net	(45)	(129)	119	2	(53)
Obligations incurred, net	128	465	173	103	869
Less: Gross outlays	(128)	(465)	(159)	(14)	(766)
Less: Recoveries of prior year unpaid obligations, actual	(2)	-	(25)	-	(27)
Change in uncollected customer payments from Federal sources	4	(21)	-	-	(17)
Total Change in Obligated Balance	(43)	(150)	108	91	6
Obligated balance, net,end of period:					
Unpaid obligations	$ -	$ 1	$ 109	$ 91	$ 201
Less: Uncollected customer payments from Federal sources	(43)	(151)	(1)	-	(195)
Total, unpaid obligated balance, net, end of period	(43)	(150)	108	$ 91	6
Net Outlays					
Gross outlays	$ 128	$ 465	$ 159	$ 14	$ 766
Less: Offsetting collections	(724)	(211)	(162)	(152)	(1,249)
Less: Distributed Offsetting receipts	(32)	(320)	(1)	-	(353)
Net Outlays	(628)	(66)	(4)	(138)	(836)

OTHER ACCOMPANYING INFORMATION (UNAUDITED)

Schedule 2

Other Accompanying Information (Unaudited)
Change in Inventory by Commodity

For the Fiscal Year Ended September 30, 2008
(Dollars in Thousands)

		Beginning Inventory October 1, 2007		Acquisitions		Cost of Sales a/		Donations		Other Dispositions b/		Deductions, Net c/		Ending Inventory September 30, 2008	
	Unit of Measure	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value
Feed Grains:															
Barley	Bushels	5	$ 10	-	$ -	(5)	$ (10)	-	$ -	-	$ -	-	$ -	-	$ -
Corn	Bushels	951	1,947	3,329	25,142	(182)	(593)	(3,177)	(24,611)	30	62	(951)	(1,947)	-	-
Corn Meal	Pounds	-	-	252,812	41,584	(204,457)	(32,098)	(25,914)	(5,078)	-	-	-	-	22,441	4,407
Oats	Bushels	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sorghum	Bushels	-	-	33,092	197,998	(30,018)	(176,289)	(3,046)	(21,518)	-	-	-	-	28	190
Sorghum Grits	Pounds	-	-	2,136	349	(2,136)	(349)	-	-	-	-	-	-	-	-
Total Feed Grains		xxx	$ 1,957	xxx	$ 265,072	xxx	$ (209,339)	xxx	$ (51,208)	xxx	$ 62	xxx	$ (1,947)	xxx	$ 4,598
Wheat	Bushels	39,256	$ 143,818	28,653	$ 295,216	(56,171)	$ (357,700)	(6,125)	$ (61,509)	-	$ -	(5,612)	$ (19,825)	-	$ -
Wheat Flour	Pounds	-	-	101,442	26,228	(97,175)	(25,269)	(4,429)	(1,130)	-	-	551	259	389	89
Wheat Products, Other	Pounds	3,180	318	320,851	65,900	(240,677)	(49,047)	(83,354)	(17,171)	-	-	-	-	-	-
Rice Products:															
Rice Products	Cwt.	2	$ 42	1,340	$ 34,363	(931)	$ (25,450)	(410)	$ (8,883)	-	$ -	-	$ -	2	$ 72
Rice, Rough	Cwt.	49	288	-	-	-	-	-	-	(47)	(276)	(2)	(12)	-	-
Rice, Brown	Pounds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cotton, Extra Long Staple	Bales	-	$ 47	-	$ 11	-	$ -	-	$ -	-	$ -	(0)	$ (58)	-	$ -
Cotton, Upland	Bales	51	14,345	37	9,790	(3)	(829)	-	-	-	-	(84)	(23,306)	-	-
Dairy Products															
Nonfat Dry Milk	Pounds	14,481	$ 13,864	-	$ -	(1,000)	$ (926)	(10,596)	$ (11,228)	(1,320)	$ (1,439)	(1,564)	$ (271)	-	$ -
Cheese Regular Price Support	Pounds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Infant Formula	Pounds	-	-	-	-	-	-	-	-						
Total Dairy Products		xxx	$ 13,864	xxx	$ -	xxx	$ (926)	xxx	$ (11,228)	xxx	$ (1,439)	xxx	$ (271)	xxx	$ -
Oils & Oilseeds:															
Flaxseed	Cwt.	-	$ -	-	$ -	-	$ -	-	$ -	-	$ -	-	$ -	-	$ -
Sunflower Seed	Cwt.	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sunflower Seed Oil, Processed	Pounds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Canola Seed	Cwt.	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Safflower Seed	Cwt.	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Crambe Oilseed	Cwt.	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Mustard Seed	Cwt.	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sunflower Seed Non-Oil	Cwt.	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Oils and Oilseeds		xxx	$ -	xxx	$ -	xxx	$ -	xxx	$ -	xxx	$ -	xxx	$ -	xxx	$ -
Peanut Butter	Pounds	-	$ -	-	$ -	-	$ -	(120,672)	$ (18,388)	-	$ -	120,672	$ 18,388	-	$ -
Peanuts	Pounds	-	-	1,100	189	(164)	(29)	-	-	-	-	(937)	(160)	-	-
Soybean Products	Bushels	646	$ 3,316	1	$ 63	(20)	$ (105)	-	$ (57)	-	$ -	(626)	$ (3,217)	-	$ -
Soybean Products	Pounds	-	-	154	53	-	-	(154)	(53)	-	-	-	-	-	-
Dry Edible Beans	Cwt.	68	$ 2,139	581	$ 26,022	(613)	$ (26,827)	(34)	$ (1,266)	-	$ -	-	$ -	2	$ 68
Blended Foods	Pounds	-	-	219,452	53,407	(185,001)	(44,502)	(42,170)	(9,910)	-	-	15,548	3,092	7,829	2,086
Honey	Pounds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Meat	Pounds	-	-	-	-	-	-	(10,876)	(13,673)	-	-	10,876	13,673	-	-
Pork Bellies	Pounds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dry Whole Peas	Cwt.	88	1,777	2,315	60,219	(1,858)	(47,453)	(450)	(12,261)	-	-	-	-	95	2,281
Lentils Dry	Cwt.	5	85	1,254	45,244	(1,257)	(45,287)	(2)	(42)	-	-	-	-	-	-
Corn Seed	Pounds	-	-	-	-	-	-	-	-	-	-	-	-	-	-

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

For the Fiscal Year Ended September 30, 2008
(Dollars in Thousands)

	Unit of Measure	Beginning Inventory October 1, 2007 Quantity	Value	Acquisitions Quantity	Value	Cost of Sales a/ Quantity	Value	Donations Quantity	Value	Other Dispositions b/ Quantity	Value	Deductions, Net c/ Quantity	Value	Ending Inventory September 30, 2008 Quantity	Value
Plants & Seeds	Pounds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Potatoes Dehydrated	Pounds	-	-	154	96	(154)	(96)	-	-	-	-	-	-	-	-
Veg Fresh Potatoes	Pounds	-	-	-	-	-	-	-	-						
In Process Beet Sugar	Pounds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sugar, Raw Cane	Pounds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sugar, Refined Beet	Pounds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sugar, Refined Cane	Pounds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Corn Oil	Pounds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Soybean Salad Oil	Pounds	-	-	27,929	15,529	(25,725)	(14,608)	(2,205)	(921)	-	-	-	-	-	-
Vegetable Oil	Pounds	5,732	2,990	313,157	228,873	(279,956)	(199,925)	(56,152)	(44,064)	-	-	19,048	13,690	1,830	1,564
Fish Cnd Tuna	Pounds	-	-	-	-	-	-	(14,760)	(6,088)	-	-	14,760	6,088	-	-
Fish Salmon	Pounds	-	-	-	-	-	-	(779)	(1,420)	-	-	779	1,420	-	-
Fish, Canned Salmon	Pounds	-	-	-	-	-	-	(21,440)	(7,984)	-	-	21,440	7,984	-	-
Poultry Cnd Chicken	Pounds	-	-	-	-	-	-	(10,897)	(14,549)	-	-	10,897	14,549	-	-
Poultry Frzn Chicken	Pounds	-	-	-	-	-	-	(3,881)	(3,134)	-	-	3,881	3,134	-	-
Veg Cnd Carrots	Pounds	-	-	-	-	-	-	(15,714)	(1,469)	-	-	15,714	1,469	-	-
Veg Cnd Peas	Pounds	-	-	-	-	-	-	(17,496)	(1,611)	-	-	17,496	1,611	-	-
Poultry Frzn Turkey	Pounds	-	-	-	-	-	-	(3,360)	(6,267)	-	-	3,360	6,267	-	-
Veg Cnd Green Beans	Pounds	-	-	-	-	-	-	(25,110)	(2,131)	-	-	25,110	2,131	-	-
Veg Cnd Spinach	Pounds	-	-	-	-	-	-	(9,101)	(917)	-	-	9,101	917	-	-
Veg Cnd Tomatoes	Pounds	-	-	-	-	-	-	(17,280)	(1,411)	-	-	17,280	1,411	-	-
Tobacco:															
Burley	Pounds	-	$ -	-	$ -	-	$ -	-	$ -	-	$ -	-	$ -	-	$ -
Cigar	Pounds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dark Air Cured	Pounds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Fire Cured	Pounds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Flue Cured	Pounds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Virginia Fire Cured	Pounds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Subtotal		xxx	$ -	xxx	$ -	xxx	$ -	xxx	$ -	xxx	$ -	xxx	$ -	xxx	$ -
Emergency Food Ration Bars	Pounds	-	$ -	-	$ -	-	$ -	-	$ -	-	$ -	-	$ -	-	$ -
Mohair	Pounds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Tallow	Pounds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Wool	Pounds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Subtotal		xxx	$ -	xxx	$ -	xxx	$ -	xxx	$ -	xxx	$ -	xxx	$ -	xxx	$ -
Elimination of Sales to P.L. 480		-	$ -	-	$ -	(1,074,556)	$ (921,316)	(1,074,556)	$ (921,316)	-	$ -	-	$ -	-	$ -
Total Inventory Operations		xxx	$ 184,986	xxx	$ 1,126,276	xxx	$ (126,076)	xxx	$ (1,220,061)	xxx	$ (1,654)	xxx	$ 47,286	xxx	$ 10,757

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

Summary of Financial Statement Audit

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

Summary of Management Assurances

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

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

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

IMPROPER PAYMENTS INFORMATION ACT (IPIA) COMPLIANCE

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

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

FSA completed the risk assessment of all CCC programs identified for review as part of the FY 2008 Review Cycle. The results of those reviews identified no new programs that were at high risk for making improper payments. Statistical samples were completed for the seven high risk programs identified in previous years where improper payments had exceeded the 2.5 percent maximum improper payment rate established by the legislation. The seven high risk programs are Marketing Assistance Loan Program, Loan Deficiency Payments, Milk Income Loss Contracts, Direct and Counter-Cyclical Payments, Conservation Reserve Program, Miscellaneous Disaster Programs, and Noninsured Assistance Program. In addition, a 100 percent testing of transactions assessment was also performed on three Miscellaneous Disaster Programs managed by the National Office in Washington, D.C. The FY 2008 statistical sample results are compared to the results from FY 2007 in the table shown below.

IMPROPER PAYMENTS INFORMATION ACT (IPIA) COMPLIANCE

Program	A Value of Outlay Sample Universe (in million $)		B Total Value of Improper Payments (in million $)		C Value of Administrative Errors (in million $)[1]		D Value of Incorrect Disbursements (in million $)[1]		E Percent of Incorrect Disbursements	
FY Testing Done	FY 2007	FY 2008	FY 2007	FY 2008	FY 2007	FY 2008	FY 2007	FY 2008	FY 2007	FY 2008
Marketing Assistance Loans	$6,306	$4,981	$457.60	$91.70	$433.90	$82.00	$23.70	$9.80	0.39 %	0.19 %
Loan Deficiency Payments	$4,071	$134	$18.30	$0.84	*	$0.93	$18.30	$0.72	0.45 %	0.51 %
Noninsured Assistance Program	$64	$126	$8.40	$17.70	$0.40	$16.30	$8.00	$3.90	12.41 %	3.29 %
Direct and Counter-Cyclical Program	$9,550	$7,144	$37.00	$47.20	*	$32.30	$37.00	$14.90	0.37 %	0.22 %
Disaster Payments	$368	$154	$25.30	$4.80	$2.80	$2.90	$22.50	$3.80	6.02 %	3.13 %
Conservation Reserve Program	$1,851	$1,888	$8.70	$23.90	$4.30	$6.70	$4.40	$19.50	0.23 %	1.02 %
Milk Income Loss Contracts	$351	$155	$7.70	$0.33	$0.10	$0.06	$7.60	$0.34	2.13 %	0.22 %
All High Risk Programs	$22,561	$14,582	$563.00	$186.47	$441.50	$141.19	$121.50	$52.96	0.54 %	0.36 %

Source of FY 2007 data was the FY 2007 USDA PAR and FY 2008 Data was the Memo dated August 8, 2008 from Director, ORAS to Director, OBF.
* Level of activity was less than .005 percent.

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

GLOSSARY OF ACRONYMS

ADA – Antideficiency Act
ADP – Automatic Data Processing
AMS – Agricultural Marketing Service
BEHT – Bill Emerson Humanitarian Trust
BDO – Barter Delivery Obligations
BPMS – Budget and Performance Management System
CAP – Corrective Action Plan
CCC – Commodity Credit Corporation
CFO – Chief Financial Officer
COR – County Office Review
COTS – Commercial-off-the-Shelf
CRP – Conservation Reserve Program
CSC 2 – Credit Subsidy Calculator 2
DAFP – Deputy Administrator for Farm Programs
DCP – Direct and Counter-Cyclical Payment Program
DPSP – Daily Product Price Support Program
eDCP – Electronic Direct and Counter-Cyclical Payment Program
EQIP – Environmental Quality Incentive Program
EPAS – Economics, Policy, and Analysis
FACTS II – Federal Agencies Centralized Trial Balance System II
FAI – Finance Account Interest
FAPRI – Food and Agricultural Policy Research Institute
FASAB – Federal Accounting Standards Advisory Board
FAS – Foreign Agricultural Service
FATER – Food Aid Targeting Effectiveness Ratio
FCRA - Federal Credit Reform Act of 1990
FDIIP – Financial Data Integration Improvement Plan
FFAS – Farm and Foreign Agricultural Services
FFMIA – Federal Financial Management Improvement Act
FGP- Facilities Guarantee Program
FISMA – Federal Information Security Management Act
FMFIA – Federal Managers' Financial Integrity Act
FMMI – Financial Management Modernization Initiative
FNCS – Food, Nutrition, and Consumer Services
FNS – Food and Nutrition Service
FRBs – Federal Reserve Banks
FRPP – Farm and Ranch Lands Protection Program
FSA – Farm Service Agency
FSFL – Farm Storage Facility Loan Program
FSIO – Financial System Integration Office
FSIS - Food Safety and Inspection Service
FY – Fiscal Year
GAAP – Generally Accepted Accounting Principles
GMLoB – Grants Management Line of Business

GPEA – Government Paperwork Elimination Act
GPRA - Government Performance and Results Act
GRP – Grassland Reserve Program
GSM – General Sales Manager
HIPC - Heavily Indebted Poor Countries
ICRAS – Inter-Agency Credit Risk Assessment System
IPIA – Improper Payments Information Act of 2002
IT – Information Technology
ITS – Information Technology Services
JFMIP – Joint Financial Management Improvement Program
MAL – Marketing Assistant Loans
MAP – Market Access Program
MIDAS – Modernize and Innovate the Delivery of Agricultural Systems
MILC – Milk Income Loss Contract Program
MRP – Marketing and Regulatory Programs
NAP – Noninsured Crop Disaster Assistance Program
NIST – National Institute of Standards and Technology
NPS – National Payment Service
NRE – Natural Resources and Development
NRCS – National Resources Conservation Service
OCFO – Office of the Chief Financial Officer
OGC – Office of the General Counsel
OIG – Office of the Inspector General
OMB – Office of Management and Budget
PAR – Performance and Accountability Report
PART – Program Assessment Rating Tool
PECD – Production, Emergencies, and Compliance Division
P&F Schedule – Program and Financing Schedule
PL – Public Law
PP&E – Property, Plant and Equipment
PSD – Price Support Division
PV – Present Value
RD – Rural Development
REX - Re-enroll or Extend
RFI – Request for Information
RSI – Required Supplementary Information
RSSI – Required Supplementary Stewardship Information
SCGP – Supplier Credit Guarantee Program
S&E – Salaries and Expenses
SBR – Statement of Budgetary Resources
SFFAC – Statement of Federal Financial Accounting Concepts
SFFAS – Statement of Federal Financial Accounting Standards
SNC – Statement of Net Cost
SPPA – Strategic Partnership Program Agroterrorism

TTPP – Tobacco Transition Payment Program
USAID – United States Agency for International Development
USDA – United States Department of Agriculture
USFWS – U.S. Fish and Wildlife Service
USGS – Geological Survey
USWA – United States Warehouse Act
WRP – Wetlands Reserve Program
WTO – World Trade Organization