U.S. DEPARTMENT OF AGRICULTURE

COMMODITY CREDIT CORPORATION

2010 ANNUAL REPORT

U.S. Department of Agriculture
Commodity Credit Corporation

1400 Independence Avenue, SW
Washington, DC 20250

2010 Annual Report

PREFACE

This Annual Report shows the results of the Commodity Credit Corporation's (CCC) operations for fiscal year 2010. This report replaces the former Annual Report of the Commodity Credit Corporation and meets the requirements of the CCC Charter Act, as amended, and the Government Corporation Control Act, as amended.

CCC worked closely with Clifton Gunderson LLP and the Office of Inspector General (OIG) for the United States Department of Agriculture (USDA) in the development of this report.

The Management's Discussion and Analysis section of the report contains the purpose, authority, mission, and goals of the Corporation, financial, program summaries, and performance measures. This information is followed by the audit opinion letter, financial statements, and accompanying notes.

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Part I: Management's Discussion and Analysis (Unaudited)

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 United States 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 to 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, in which the CCC has a permanent indefinite borrowing authority, as defined by OMB Circular A-11, Preparation, Submission, and Execution of the Budget. Borrowing authority permits the Corporation to incur obligations and authorizes it to borrow funds to liquidate the obligations. 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.

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.

Structure of the Commodity Credit Corporation

A Board of Directors manages CCC and is 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.

CCC has no actual employees; it carries out the majority of its programs through the personnel and facilities of the 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). 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.

CCC Board of Directors

Chairperson, Thomas James Vilsack, Secretary of Agriculture
Vice Chairperson, Vacant, Deputy Secretary of Agriculture
Member, James W. Miller, Under Secretary, Farm and Foreign Agricultural Services (FFAS)
Member, Vacant, Under Secretary, Rural Development (RD)
Member, Vacant, Under Secretary, Food, Nutrition, and Consumer Services (FNCS)
Member, Vacant, Chief Financial Officer and Chief Information Officer, USDA
Member, Edward M. Avalos, Under Secretary, Marketing and Regulatory Programs (MRP)
Member, Harris D. Sherman, Under Secretary, Natural Resources and Environment (NRE)

CCC Officers

President, James W. Miller, Under Secretary, FFAS
Executive Vice President, Jonathan W. Coppess, Administrator, Farm Service Agency (FSA)
Vice President, Carolyn Cooksie, Associate Administrator, Operations and Management, FSA
Vice President, Rayne Pegg, Administrator, Agricultural Marketing Service (AMS)
Vice President, John D. Brewer, Administrator, Foreign Agricultural Service (FAS)
Vice President, Janet Nuzum, General Sales Manager, FAS
Vice President, Julie Paradis, Administrator, Food and Nutrition Service (FNS)
Vice President, David White, Chief, Natural Resources Conservation Service (NRCS)
Deputy Vice President, James W. Monahan, Deputy Administrator, Commodity Operations, FSA
Deputy Vice President, Philip G. Short, Deputy Administrator, Management, FSA
Deputy Vice President, Brandon C. Willis, Deputy Administrator, Farm Programs, FSA
Deputy Vice President, Michael Wooden, Acting Deputy Administrator, Field Operations, FSA
Deputy Vice President, Joy Harwood, Director, Economic & Policy Analysis Staff, FSA
Deputy Vice President, Virginia Murphy, Associate Chief, NRCS
Deputy Vice President, Craig Derickson, Deputy Chief, Financial Assistance and Community Development, NRCS
Deputy Vice President, Anthony Kramer, Deputy Chief, Easement and Landscape Planning, NRCS
Deputy Vice President, Eloris Speight, 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, Ricky T. Valentine, Director, Office of Budget and Finance, FSA
Treasurer, Heidi G. Ware, Deputy Director, Office of Budget and Finance, FSA
Chief Accountant, Agnes Leung, Acting Center Director, Policy, Accounting, Reporting, and Loan Center, Financial Management Division, FSA

Advisors

General Counsel, Ramona Emilia Romero, Office of the General Counsel
Associate General Counsel, Ralph A. 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, disaster assistance programs, and the Noninsured Crop Disaster Assistance Program (NAP). FSA is responsible for administering income support and disaster assistance. The agency is expanding the way it interfaces with farmers and producers in its traditional "safety net" programs by adding on-line options while maintaining more traditional approaches. This has been a monumental challenge for FSA. The performance discussion will cover the progress of the current initiatives.

Conservation – Supported by the Food, Conservation, and Energy Act of 2008 (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 personnel 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 market development programs 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 payment guarantees for third party commercial financing and direct financing of U.S. agricultural exports. These programs facilitate exports to buyers in countries where credit is necessary to maintain or increase U.S. sales but where financing may not be available without CCC credit facilities.

Future Effects of Demands, Events, and Conditions

Economic Fluctuation and Volatility

The world recession was the major underlying factor contributing to a decline in global agricultural demand, trade, and prices, which reduced farm income and the value of U.S. agricultural exports in 2009. As economies of the world recover, steady domestic and international economic growth supports gains in the U.S. agricultural sector over the next decade. In addition, long-run developments reflect continued demand for agricultural commodities for the production of bio-fuels. Thus, after declining in 2009, cash receipts to farmers and the value of U.S. agricultural trade grow through the 2010-19 projection period. With increases in production expenses offsetting some of the gains in cash receipts, net farm income should rise moderately from 2011 to 2019. Retail food prices should rise faster than the general inflation rate through 2012, partly reflecting higher meat prices in 2011 and 2012.
Net farm income should decline in the near term from the 2008 peak but then grows moderately over the next decade and exceeds the average of the previous ten years by the middle of the projection period. A sharp increase in price volatility and more outside investment have marked commodity markets in recent years.

Increased price volatility has led to increased financial vulnerability in the commodity storage and marketing sectors. Lower government payments and rising farm production expenses offset some of the anticipated gains in cash receipts and other sources of farm income.

Government payments to farmers are projected to fall from $12.4 billion in 2010 to an average of less than $10 billion annually in 2011 to 2019. Price-dependent program benefits account for a declining share of payments. Strengthening domestic and international demand holds prices for most crops above levels that would result in marketing loan benefits or counter-cyclical payments. For example, even with stochastic considerations (included here to capture potential variation in farm program benefits due to variability in production yields and the impacts on prices), payments for marketing loan benefits and counter-cyclical payments for feed grains are minimal, and likely to total less than $100 million from 2011 through 2019. Marketing loan benefits and counter-cyclical payments for upland cotton are projected to average about $450 million per year over the same time period. Payments for upland cotton represent more than 90 percent of the projected marketing loan benefits and counter-cyclical payments for all commodities.

Initial enrollment in the Average Crop Revenue Election (ACRE) program covered less than 13 percent of eligible base acres. Projections of government payments under the ACRE program exceed $400 million in 2010 (for 2009 crops), mostly reflecting reductions in prices from 2008 highs. Assuming stochastic yield variability for 2010 and later crops, annual ACRE payments over 2011-2019 should average about $110 million, reflecting relative stability in agricultural commodity markets in the projections and an assumed continued moderate level of producer enrollment in the program.

Sustained higher crop prices make the use of land for production more valuable causing rental rates for land in the Conservation Reserve Program (CRP) to rise. CRP is expected to be fully enrolled at the statutory cap of 32 million acres from 2011 through 2019. Therefore, the expected increase in CRP payments from about $1.8 billion in 2010 to $2.3 billion in 2019 is solely due to rising rental rates.

With higher prices, government payments have a smaller role in the agricultural sector's income. Government payments, which represented more than eight percent of gross cash income in 2005, account for less than three percent during most of the projection period. Conversely, the sector is more reliant on the market for income. Cash receipts plus farm-related income rise to more than 97 percent of gross cash income.

The majority of the above came from: "USDA Agricultural Projections to 2019" OCE-2010-1, issued February 2010, pp 88, 89, Office of the Chief Economist, World Agricultural Outlook Board, Interagency Agricultural Projections Committee.

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. A number of new CCC programs authorized by the *Food, Conservation and Energy Act of 2008* rely on price and yield data to determine program eligibility and payment rates. As budgets are squeezed across the Department, statistical agencies are cutting back on their data collections, and the resulting lack of data could jeopardize program intent.

FSA has a human capital plan in place, but it has not been updated to address the changing circumstances of the Agency. FSA is challenged with continuing and deepening budget constraints, and, as reported by FSA officials, permanent on-board employees are at a record low, down 16 percent in the last seven years. The ability of FSA to deliver its programs could be seriously compromised as the retirement eligible employees depart before significant numbers of new employees can be brought on board and trained to provide all required services. This is particularly evident in the field offices where farm programs and loans are delivered to farmers and ranchers. FSA stated that its retirement eligibility rate is currently at 20.5 percent with an additional 24 percent eligible for retirement within the next five years. This could result in a potential loss of almost 45 percent of existing FSA employees by Fiscal Year 2015. If one third of the eligible employees retire during the next five years, the expected attrition from retirement alone would be an additional 15 percent on top of the 16 percent reduction already due to budget constraints. FSA officials have stated that a comprehensive workforce succession plan is needed to ensure continuity of the delivery of Agency critical programs.

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. Furthermore, global climate change is acknowledged as a reality which will affect farming and ranching practices and conservation measures. Agencies are in the process of developing plans to review programs and operations to help mitigate global climate change while ensuring efficient and abundant agricultural production.

2010 Performance Highlights Summary

The Commodity Credit Corporation (CCC) was successful in meeting or exceeding its performance expectations for 2010. Significant progress in meeting CCC objectives was demonstrated by the fact that the Farm Service Agency (FSA) exceeded three out of four of its CCC performance targets.

The Direct Crop and Counter-Cyclical Programs (DCP) authorized under the *Food, Conservation, and Energy Act of 2008*, (Public Law 110-234), is a key program in the Agency effort to mitigate market losses. FSA provides direct payments (cash) to eligible crop producers. The intent is to allow planting flexibility while providing a safety net for producers. The DCP is authorized for FY 2008 through FY 2012. The Average Crop Revenue Election (ACRE) Program, added under the 2008 Act, is a revenue-based farm safety net program offered as an alternative program to the price-based safety net provided by counter-cyclical payments under DCP for crop years 2009 through 2012. Under ACRE a farm acre payment is based on a revenue-guarantee calculation using a five-year average State yield and the most recent two-year price average. Participation in the ACRE program is limited to farms with covered commodity or peanut base acres. The Fiscal Year (FY) 2010 performance target for the measurement of these programs, “maintain the percent of eligible base acres participating in DCP and ACRE programs” has exceeded its 95 percent participation rate target by achieving a 96.2 percent participation rate of eligible base acres.

Another significant CCC function is executed through the CCC Warehouse Examination Program that 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* (USWA) 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 CCC account, the number of USWA licensed warehouses, 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 or attrition, and funding for the examination program. The CCC FY 2010 performance target of 400 days between warehouse examinations was exceeded based on current data that projects only 345 days between examinations at the end of the fiscal year. This was made possible due to efficient examination practices and time savings through the use of electronic warehouse receipts.

The CCC conservation programs help agricultural producers enhance and restore production and conservation capabilities as well as enhance energy sustainability. The Conservation Reserve Program (CRP) is a voluntary program for agricultural landowners. Through CRP, producers can receive annual rental payments and cost-share assistance to establish long-term, resource conserving covers on eligible farmland. Participants enroll in CRP contracts for ten to 15 years. An important measure of conservation performance is the monitoring of agricultural land acreage enrolled as riparian and grass buffer zones under CRP. These buffers intercept sediment and nutrients before they reach surface waters. CRP met its performance target of 1.99 million acres enrolled for the measure for FY 2010, during which time producers set aside approximately 2.02 million acres as CRP buffer areas.

The CRP contributes to conservation objectives in other ways as well. The Farmable Wetlands Program (FWP) is a recently enacted voluntary program to restore up to one million acres of farmable wetlands and associated buffers by improving the land’s hydrology and vegetation. Eligible producers in all States can enroll eligible land in the FWP through the CRP. Restored wetlands in CRP reached more than 2.5 million acres, exceeding the target by .06 million acres. These restored wetlands are the result of several initiatives, including the 250,000-acre Bottomland Hardwood Timber Initiative, a 250,000-acre Non-floodplain Wetland Restoration Initiative, and a 150,000-acre Prairie Pothole Duck Nesting Habitat Initiative. The major increase in restored wetlands is due to the announcement of increased incentives for certain wetland practices and expansion of the Prairie Pothole Duck Nesting Habitat Initiative.

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, 2010 and September 30, 2009 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 Requirement (Revised).*

Assets: The Balance Sheet shows the Agency had total assets of $11.8 billion as of September 30, 2010, a decrease of $650 million (5 percent) below the previous year's total assets of $12.5 billion. The decrease of $159 million in Commodity Inventories reflects a decrease in purchases and issuance of Price Support Certificates, primarily for nonfat dry milk in fiscal year 2010. Producers, with a loan from CCC secured by pledged crop as collateral, may purchase Price Support Certificates in the Adjusted World Price below the applicable loan rate. With market prices and the Adjusted World Price for certain crops increasing, commodity certificate sales have decreased.

The increase in Fund Balance with Treasury is attributed to an increase in cash collections for Price Support loan repayments between fiscal years 2009 and 2010.

Assets Dollars in Millions

As of September 30	2010	2009	Variance	Variance %
Fund Balance with Treasury	$ 1,797	$ 1,315	$ 482	37%
Cash and Other Monetary Assets	-	92	(92)	-100%
Accounts Receivable, Loans and Credit Receivables, Net	9,834	10,726	(892)	-8%
Commodity Inventories, Net	46	205	(159)	-78%
General Property and Equipment, Net	57	44	13	30%
Other	81	83	(2)	-2%
Total Assets	$ 11,815	$ 12,465	$ (650)	-5%

Liabilities: The Balance Sheet shows the Agency had total liabilities of $18.5 billion as of September 30, 2010. This represents a decrease of $4 billion below the previous year's total liabilities of $22.5 billion. The decrease in Debt to the Treasury is primarily due to a decrease in notes payable on the loan principal and the accrual of interest on U.S Treasury notes. CCC increased repayments to the Treasury and decreased its debts as a result.

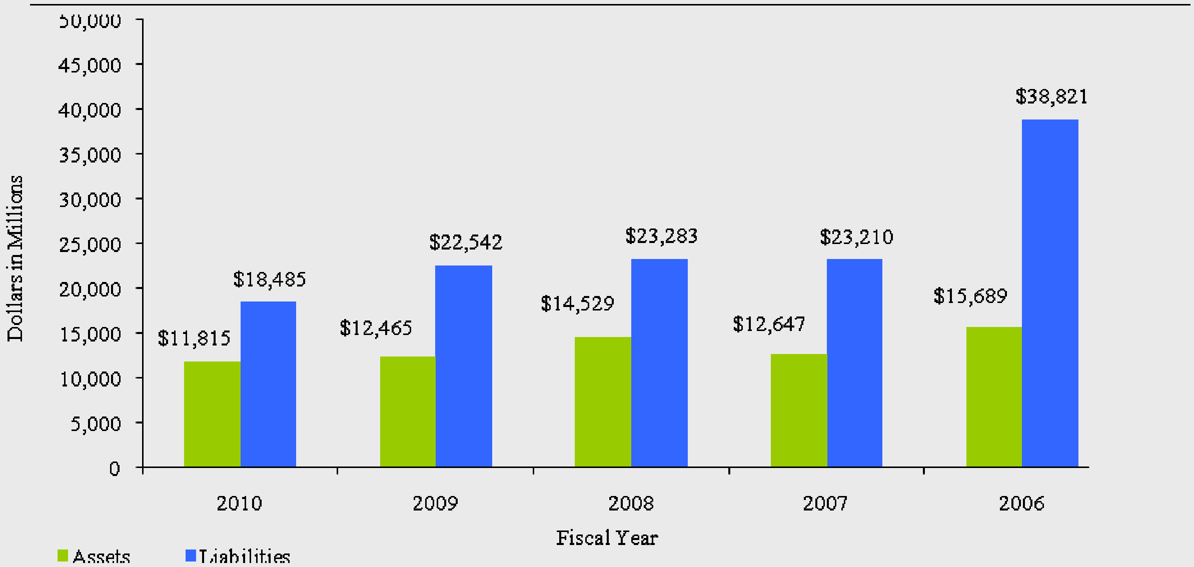
CCC's financial statements as of September 30, 2010 included a contingent liability of $100 million for Pigford II claim litigation, a legal case for which a payment has been deemed probable. The decrease in Other Liabilities is attributed to a downward adjustment from $1.25 billion as of September 30, 2009 to $100 million as of September 30, 2010, following a decision by the Department and the Office of General Counsel that $1.15 billion is a liability of the Farm Service Agency.

Additionally, the Public Liability included $286 million in litigation related to Brazilian Cotton Industry World Trade Organization.

Liabilities

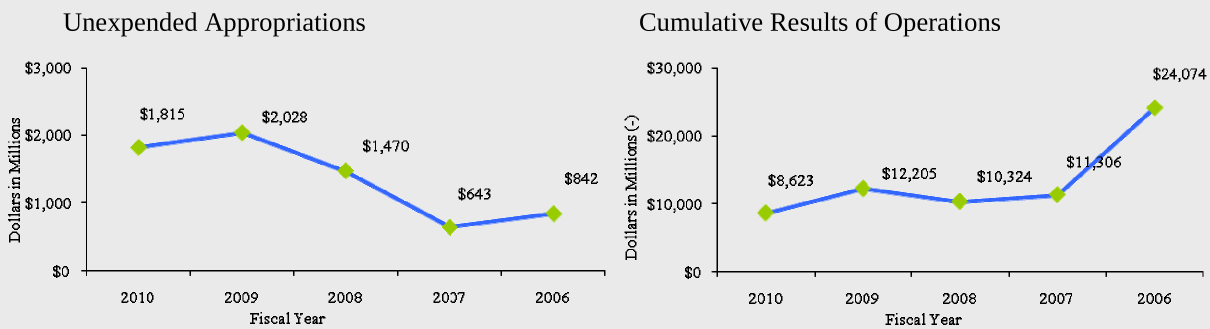
Dollars in Millions	2010	2009	Variance	Variance %
Accounts Payable	$ 386	$ 302	$ 84	28%
Debt to the Treasury	3,274	4,877	(1,603)	-33%
Loan Guarantee Liabilities	184	221	(37)	-17%
Environmental and Disposal Liabilities	8	8	-	0%
Other	14,633	17,134	(2,501)	-15%
Total Liabilities	$ 18,485	$ 22,542	$ (4,057)	-18%

Assets and Liabilities



Ending Net Position: As of September 30, 2010 and September 30, 2009, the Agency's net position was ($6.7 billion) and ($10.1 billion), respectively. Net Position is the sum of the Unexpended Appropriations, Cumulative Results of Operations, and Capital Stock.

Unexpended Appropriations and Cumulative Results of Operations



Results of Operations: The Commodity Credit Corporation categorizes the net cost of operations based on the Agency's strategic goals. Net cost of operations was $11.1 billion and $14.2 billion for the fiscal years ended September 30, 2010 and September 30, 2009, respectively. Overall total net cost of operations decreased 22 percent from the prior year. As shown in the table below, Supporting Productive Farms and Ranches expenses comprise a majority of the costs for the fiscal years ended September 30, 2010 and September 30, 2009. The activity that caused the fluctuation in the Statement of Net Cost for the fiscal year ended September 30, 2010 relates to the following strategic goals:

- **Supporting Productive Farms and Ranches** – For the fiscal year ended September 30, 2010 there were three contributing factors to the decrease from the prior year. First, the decrease in the Price Support Commodity Certificate program gross costs and earned revenues was caused by market prices and the Adjusted World Price for certain crops being higher than the National Average Loan rate. Also the recording of an anticipated court-ordered payment, a $1.15 billion contingent liability on CCC's books in 2009, was reversed and reassigned to another USDA agency in FY 2010. In addition, there was an increase in milk prices in FY 2010 which led to a decrease in gross cost for the Milk Income Loss program.

- **Supporting Secure and Affordable Food and Fiber –** The increase in net cost is due primarily to increase in costs associated with U.S. Agency for International Development.

- **Conserving Natural Resources and Enhancing the Environment –** The increase in net cost is primarily due to the initiation of disbursement activities of the new Biomass Crop Assistance Program (BCA).

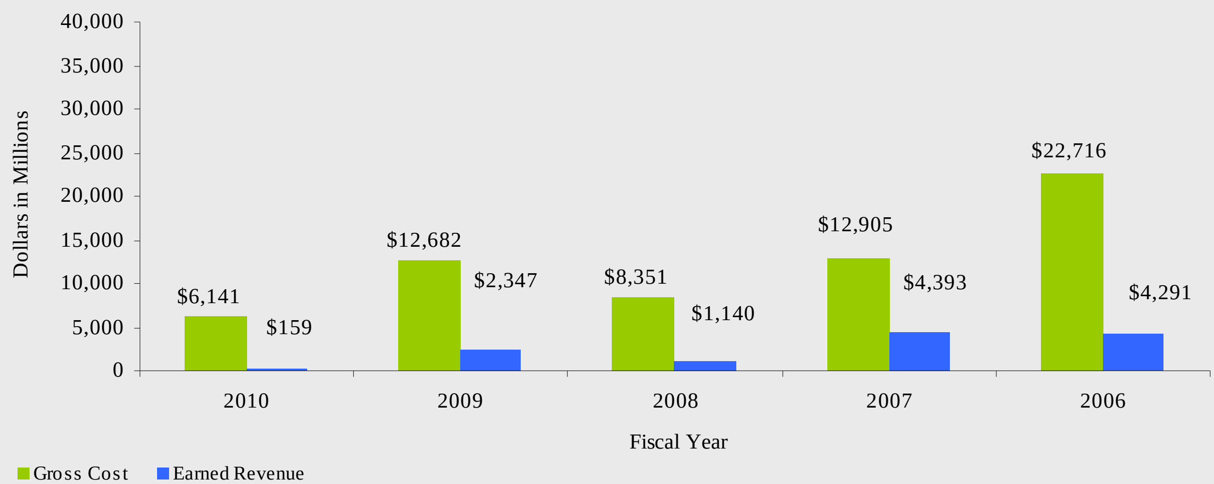
- **Supporting International Economic and Trade Capacity –** The increase in net cost is primarily due to two contributing factors. First there was an increase in cost for P.L. 480 Direct Loans and secondly, the recording of unfunded liability for Brazilian Cotton Industry.

Summary of Net Cost of Operations by Strategic Goals

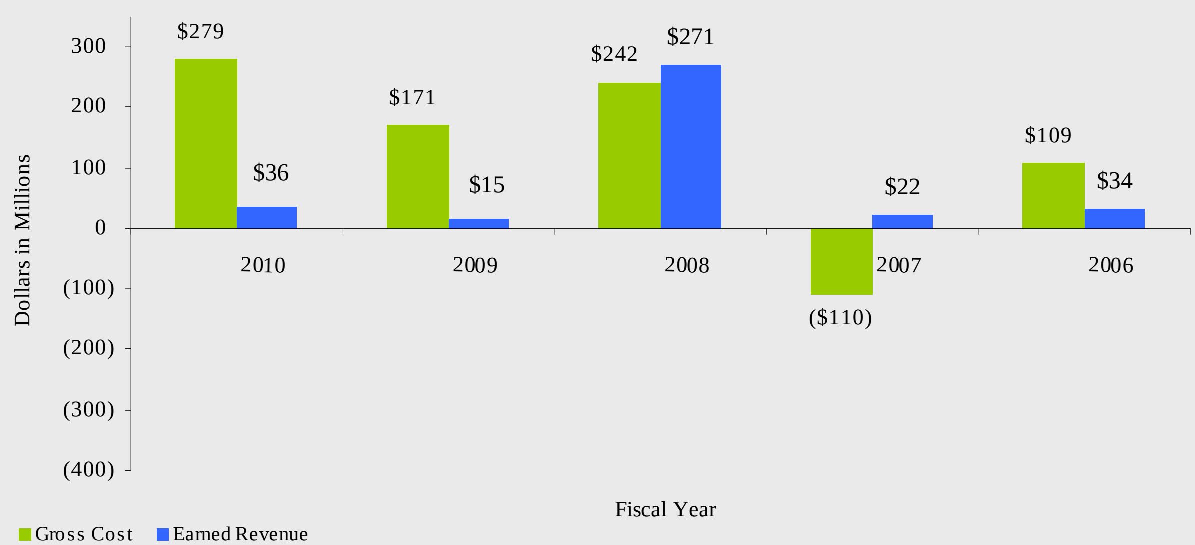
Dollars in Millions

For the Fiscal Years Ended	2010	2009	Variance	Variance %
Supporting Productive Farms and Ranches	$ 5,982	$ 10,335	$ (4,353)	-42%
Supporting Secure and Affordable Food and Fiber	243	156	87	56%
Conserving Natural Resources and Enhancing the Environment	2,425	2,222	203	9%
Supporting International Economic Development and Trade Capacity Building	2,401	1,444	957	66%
Total Obligations	$ 11,051	$ 14,157	$ (3,106)	-22%

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

Obligations and Outlays: Between FY 2010 and FY 2009, Obligations Incurred decreased by $1.9 billion. For Direct Obligations, the difference was due to a subsidy payment to the Treasury.

Summary of Obligations

Dollars in Millions

For the Periods Ended	2010	2009	Variance	Variance %
Obligations Incurred:				
Direct	$ 4,355	$ 4,420	$ (65)	-1%
Reimbursable	22,438	24,232	(1,794)	-7%
Total Obligations	$ 26,793	$ 28,652	$ (1,859)	-6%

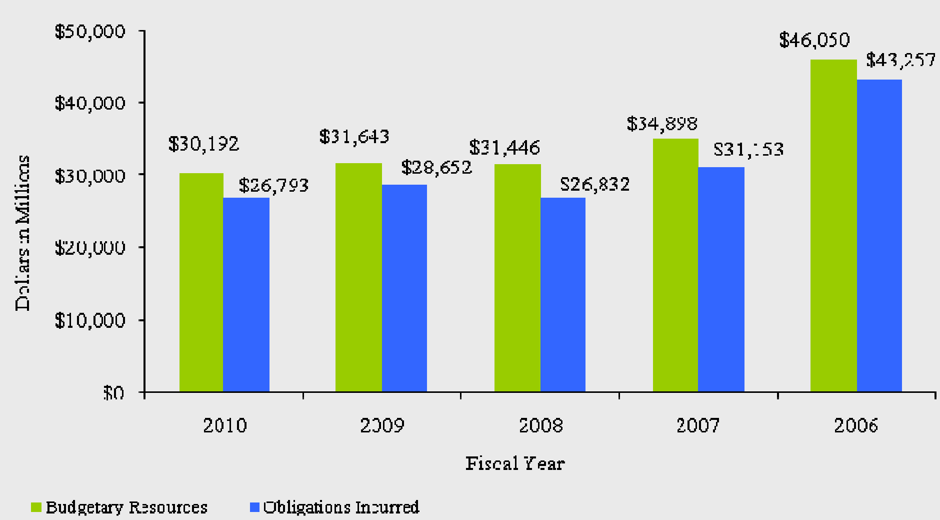
Between FY 2010 and FY 2009, Net Outlays decreased by $1.6 billion. In FY 2010, there was a disbursement of a downward re-estimate from the Export Credit Guarantee Financing Fund, 12X4337, for General Sales Management program subsidy and interest. A downward re-estimate indicates that an excess subsidy had been paid to the financing account.

Summary of Net Outlays

Dollars in Millions

For the Periods Ended	2010	2009	Variance	Variance %
Net Outlays:				
Gross Outlays	$ 24,996	$ 26,927	$ (1,931)	-7%
Offsetting Collections	(13,115)	(13,559)	444	-3%
Less: Distributed Offsetting Receipts	(576)	(473)	(103)	22%
Net Outlays	$ 11,305	$ 12,895	$ (1,590)	-12%

Budgetary Resources



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

Commodity Credit Corporation

1400 Independence Avenue, SW
Stop 0581

Washington, DC 20250-0581

TO: Jon M. Holladay
Acting Chief Financial Officer
Office of the Chief Financial Officer

THROUGH: James W. Miller
Under Secretary
Farm and Foreign Agricultural Services

AUG 3 0 2010

FROM: Jonathan W. Coppess
Administrator
Farm Service Agency

Ricky T. Valentine
Chief Financial Officer
Controller, Commodity Credit Corporation

AUG 2 6 2010

SUBJECT: Fiscal Year (FY) 2010 Federal Managers' Financial Integrity Act; Federal Financial Management Improvement Act, 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) assertions to support the Secretary's annual assurances for the Federal Managers' Financial Integrity Act (FMFIA). This includes the assurance statements for the Office of Management and Budget (OMB) A-123, Appendix A, "Internal Control over Financial Reporting," and the Department's certification for the Federal Financial Management Improvement Act (FFMIA).

Federal Managers' Financial Integrity Act Assertions

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

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

3. Management has conducted its annual evaluations of internal control and financial systems pursuant to Section 2 and Section 4 of FMFIA, respectively, for the period ended September 30, 2010.

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4. Based on the results of the evaluations, FFAS/FSA/CCC can provide reasonable assurance that internal controls are operating effectively.

5. No new material weaknesses and no new significant deficiencies were identified; one existing material weakness and three significant deficiencies remain; two significant deficiencies were corrected; and one is currently in negotiation with the auditors to reach Management Decision with the Office of Inspector General – CCC continues to maintain a "non-concurrence" to the audit recommendation. These conditions are subject to revision based on the final CCC Audit report to be completed in November 2010.

6. Corrective action plans have been submitted in the Office of the Chief Financial Officer's (OCFO) A-123 Document Tracking System (ADTS).

Internal Control over Financial Reporting Assertions

7. FFAS/FSA/CCC conducted its assessment of the effectiveness of internal control over financial reporting as of June 30, 2010, in accordance with the guidance USDA's from the Office of the Chief Financial Officer/Planning and Accountability Division provided on March 3, 2010 to the OMB Circular A-123, Appendix A, Assessment Implementation team.

8. The assessment included risk assessments, process descriptions and flowcharts, documentation of key controls, an assessment of the design of key controls, tests of operating effectiveness of properly designed business process and general computer controls in the financial reporting cycle and significant financial information systems, 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, FFAS/FSA/CCC can provide reasonable assurance that internal controls in the financial reporting cycle and general computer controls related to significant financial information systems are operating effectively.

11. No new material weaknesses and no new significant deficiencies were identified during this fiscal year; no existing material weaknesses or significant deficiencies remain. All 6 significant deficiencies were corrected.

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12. Documentation to support actions taken on significant deficiencies corrected during the fiscal year is available in the ADTS application.

Federal Financial Management Improvement Act Assertions

13. FFAS/FSA/CCC management evaluated its financial management systems under FFMIA for the period ending September 30, 2010.

14. Based on the results of our evaluation, we are in substantial compliance with Sections: 2. Applicable Federal Accounting Standards; 3. Standard General Ledger at the transaction level; and 4. Information Security, Policies, Procedures and Practices. CCC continues to be non-compliant in Section 1. Federal Financial System Requirements, which is currently being addressed through the Financial Management Modernization Initiative since 2004.

15. A corrective action plan has been submitted in ADTS.

Attached is a summary of the identified material weaknesses, significant deficiencies, and system non-conformances.

Should you have any questions or require additional information please contact Elizabeth L Russell, Audit Liaison, Office of Budget and Finance at 703-305-1283.

Attachment

Federal Managers' Financial Integrity Act (FMFIA)

Overview

The Federal Managers' Financial Integrity Act (FMFIA) requires ongoing evaluations of internal control and financial management systems. These evaluations lead to an annual statement of assurance 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.

The Commodity Credit Corporation (CCC) annually evaluates its internal controls over financial reporting in accordance with OMB Circular A-123, "Management's Responsibility for Internal Control," Appendix A, "Internal Control Over Financial Reporting" (A-123, Appendix A).

The CCC operates a comprehensive internal control program. This program ensures compliance with the requirements of FMFIA and other laws and OMB Circulars A–123, Appendix A, and A–127, "Financial Management Systems." All FSA/CCC managers must ensure that their programs operate efficiently and effectively, and comply with relevant laws. They must also ensure that financial management systems conform to applicable laws, standards, principles, and related requirements. In conjunction with OIG and GAO, the Department's management works aggressively to determine the root causes of its material weaknesses so that it can direct resources to focus on their remediation.

CCC remains committed to reducing and eliminating the risks associated with its deficiencies. It also strives to efficiently and effectively operate its programs in compliance with FMFIA.

Fiscal Year 2010 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 2010.

CCC has one existing material weakness. There is one system non-conformance related to Funds Control Management. The following exhibit summarizes the result reported in CCC's' Financial Statements Audit Report.

TOTAL MATERIAL WEAKNESSES	**1**					**1**
Conformance with Financial Management System Requirements (FMFIA § 4)						
Statement of Assurance	**Qualified**					
Material Weakness	**Beginning**	**New**	**Resolved**	**Consolidated**	**Reassessed**	**Ending**
Funds Control Management	1					1
TOTAL NON-CONFORMANCE	**1**					**1**

Summary of Outstanding System Non-Conformance

System Non-Conformance Existing	**1. Funds Control Management**	**Overall Estimated Completion Date**	**FY 2012**
	System improvements needed in recording obligations at the transactions level. (CCC)		

FY 2010 Accomplishments:	**FY 2011 Planned Actions:**
CCC: • Enhanced the usage of the electronic Fund Management System (eFMS) by incorporating transaction level obligations for the Tobacco Transition Payment Program, and Direct Payments, that check funds availability at the time of obligation. • Implemented Web-based Supply Chain Management (WBSCM) to integrate obligation transactions for the Commodity Credit Corporation (CCC) Commodity Operations programs into eFMS for the programs currently "live" or deployed in WBSCM. • Completed planning phase and began software and acquisition phase of the Modernize and Innovate the Delivery of Agriculture Systems (MIDAS) project.	**CCC will:** • Incorporate transaction level obligations for the Conservation Reserve Program (CRP) Annual Rental program as well as additional Farm Programs as they are implemented. • Continue to incorporate WBSCM programs into eFMS as those programs are moved from the Processed Commodities Inventory Management System (PCIMS) to WBSCM. • Continue to develop the MIDAS program, and to make sure financial requirements are clearly captured in the design of this system.

CCC continues to report a material weakness for a system nonconformance based on the fact that the system cannot record an obligation at the time a contract is executed by the county offices. The Funds Control Management material weaknesses will be mitigated through the Financial Management Modernization Initiative (FMMI) which continues to be on track and fully implemented by FY 2012.

Federal Financial Management Improvement Act (FFMIA)

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

Exhibit 1: Initiatives To Be Completed

Outstanding Initiatives to Achieve FFMIA Compliance			
Initiative	**Section of Non-compliance**	**Agency**	**Target Completion Date**
Funds Control Management	Federal Financial Management System requirements.	CCC	12/30/2012

Federal Financial Management System Requirements

CCC continues to develop a fully integrated funds control system, the electronic Funds Management System (eFMS), within the FSA Core financial management system. This work includes integration with CCC's general ledger system at the transaction level. eFMS will also provide management with timely information to monitor and control the status of budgetary resources recorded in the general ledger.

FY 2010 accomplishments included:

- Enhanced the usage of eFMS by incorporating transaction level obligations for the Tobacco Transition Payment Program, and Direct Payments, that check funds availability at the time of obligation.
- Implemented Web-based Supply Chain Management (WBSCM) to integrate obligation transactions for CCC Commodity Operations programs into eFMS for the programs currently "live" or deployed in WSCM; and
- Completed Planning phase and begin Software and Acquisition phase of MIDAS.

In FY 2011, CCC will:

- Incorporate transaction level obligations for the Conservation Reserve Program (CRP) Annual Rental Program as well as additional Farm Programs as they are implemented;
- Continue to incorporate WBCSM programs into eFMS as those program are moved from the Processed Commodities Inventory Management System (PCIMS) to WBSCM; and
- Continue to develop the MIDAS Program, and to make sure financial requirements are clearly captured in the design of this system.

In FY 2012, CCC will:

- Complete software modifications to web-based program applications to send obligation transactions for CCC Farm Programs.
- Implement Financial Management Modernization Initiative (FMMI) for FSA program activity.
- Complete Initial Operating Capability for FSA's Modernize and Innovate the Delivery of Agricultural Systems (MIDAS).

Anti-deficiency Act (ADA)

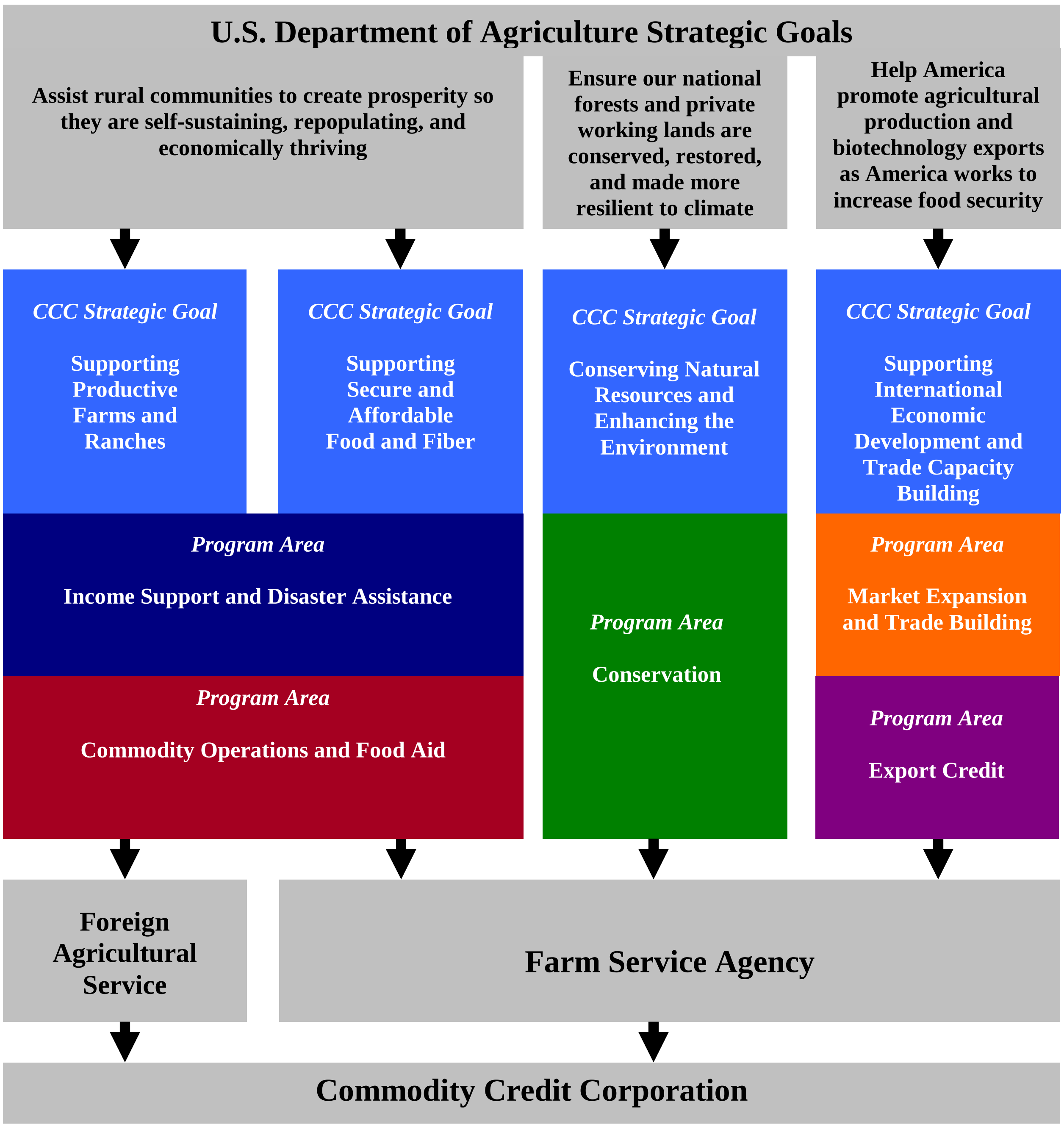
FSA/CCC management has identified violations of the Anti-deficiency Act regarding the Biomass Crop Assistance Program that must be reported to the Congress and the President.

Limitations of the 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.

Part II: Performance Section (Unaudited)

Part II: 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 towards the strategic goals of the Department as well as to the strategic goals of the Farm Service Agency (FSA) and the Foreign Agricultural Service (FAS). Each of these strategic goals, in turn, has 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 above summarizes the relationship between the USDA's strategic goal and the Agency's strategic goal, CCC program area. The table also displays which USDA agency administers the strategic goal.

Income Support and Disaster Assistance Program Area

MISSION ELEMENT

Stabilizing, supporting, and protecting farm income and prices.

Program Overview

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 human-caused disasters. CCC payments are best explained in the context of a commodity crop year. A crop year is the year in which a crop is harvested. This creates some unique challenges for discussing payment trends and performance because a crop year can overlap one fiscal year to the next and not directly correspond to one year's financial statement.

The Direct Crop and Counter-Cyclical Program (DCP) is a key program in the Agency's effort to mitigate market losses. The Food, Conservation, and Energy Act of 2008, (Public Law 110-234), enacted into law on May 22, 2008, authorized DCP for FY 2008 through FY 2012. FSA/CCC provides direct payments (cash) to eligible crop producers. The intent is to allow planting flexibility while providing a safety net for producers. For crop years 2008 through 2012, eligible crop producers will receive counter-cyclical (CC) payments if the effective price for the covered commodity is less than the target price for the covered commodity. CC payments vary as market prices change.

The FSA/CCC 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 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 USDA mandate to expand E-Gov options for program participants.

The optional Average Crop Revenue Election Program (ACRE), added under the 2008 Act, is an alternative revenue-based safety net to the price-based safety net provided by counter-cyclical payments. For crop years 2009 through 2012, farms with covered commodity or peanut base acres may participate in ACRE. Under ACRE, producers may receive revenue-based payments as an alternative to receiving price-based CC payments. ACRE provides producers an option to protect against declines in market revenue. ACRE involves State and farm revenue changes from guarantee revenue levels that are based on national prices, State planted yields, and farm planted yields. A decision to elect ACRE may be made in any of the crop years 2009-2012; however, the ACRE election is irrevocable and cannot be changed from the time of election through the 2012 crop year. Producers on farms that have elected ACRE must decide annually whether to enroll in ACRE. Failing to re-enroll the farm will render the farm ineligible for program year farm program benefits even though the election is effective. Producers may elect the ACRE alternative on a farm-by-farm basis. Producers who elect and enroll a farm in ACRE agree to: (1) forgo CC payments, (2) a 20 percent reduction in their direct payments, and (3) a 30 percent reduction in the marketing assistance loan rates for all commodities produced on the farm.

ACRE payments are tied to current plantings on the farm as opposed to CC payments, which are tied to the farm's base acres. ACRE payments are issued when two conditions are met for a commodity. The first condition is met when the actual state revenue falls below the state ACRE guarantee. The second condition is met when the actual farm revenue falls below the farm ACRE guarantee. Producers on participating ACRE Program farms can receive both direct and ACRE payments, but the direct payment will undergo a 20 percent reduction. Land used for non-agricultural purposes or land enrolled in the Conservation Reserve Program, Grassland Reserve Program and the Wetlands Reserve Program is not eligible for ACRE, CC, or direct payments.

Direct payments are limited to $40,000 per person or entity minus the amount that direct payments are reduced under ACRE. Total CC and ACRE payments are limited to $65,000 plus the amount that direct payments are reduced. The limitation is attributed to entities and individuals, including indirect amounts received through entities. Persons or legal entities whose average nonfarm Adjusted Gross Income (AGI) exceeds $500,000 are not eligible for direct, CC or ACRE payments. Also, persons or legal entities whose average farm AGI exceeds $750,000 are not eligible for direct payments under the DCP and ACRE Programs.

Analysis of Results

CCC helps farmers manage market risk primarily through income support and disaster assistance programs. These programs help farmers and ranchers to address major fluctuations in market conditions and unexpected natural or man-made disasters. These programs provide a safety net to farmers and ranchers and supports productive farms and ranches, thriving agricultural communities, market-based agriculture and secure and affordable food and fiber.

Annual Performance Goals and Indicators	Fiscal Year 2010		
	2010 Target	2010 Estimate	Result
Maintain the percent of eligible base acres participating in Direct and Counter-cyclical Payment Program (DCP) and Average Crop Revenue Election (ACRE) program Threshold range: +-0.5 percent **Rationale for Met Range:** Management determination.	95.00%	96.22%	Exceeded

CCC exceeded its performance target for 2010 to maintain the percent of eligible base acres participating in the DCP and ACRE programs. Maintaining a high participation rate in the DCP and ACRE programs is important because the associated program payments provide incentives for good land stewardship, crop and acreage reporting, and maintaining green space. In order to participate in DCP and ACRE, producers must be willing to comply with the following requirements: 1) share in the risk of producing a crop on base acres on a farm enrolled in DCP, and be entitled to share in the crop available for marketing from the base acres or would have shared had a crop been produced; 2) annually report the use of the farm's cropland acreage; 3) comply with conservation and wetland protection requirements on all of their land; 4) comply with planting flexibility requirements; 5) use the base acres for agricultural or related activities; and 6) protect all base acres from erosion, including providing sufficient cover as determined necessary by the county FSA committee, and controlling weeds.

Other CCC Income Support and Disaster Assistance accomplishments during the year include:

- The Non-Insured Crop Disaster Assistance Program (NAP) provided a risk management tool for producers of non-insurable crops that are unable to obtain crop insurance through an insurance product. NAP enrollment was up, in part, because of the recent passage of the 2008 Act which requires participation in NAP and/or purchase of crop insurance in order to gain eligibility for other disaster programs authorized under the 2008 Act. NAP benefits paid have increased from $52.4 million in FY 2009 to $82.2 million to date in FY 2010.

- Over 22,800 Farm Storage Facility Loans (FSFLs) were disbursed from FY 2000 through 2010. The *Food, Conservation and Energy Act of 2008* added hay and renewable biomass as eligible commodities. In August 2009, through the discretionary authority given the Secretary of Agriculture, cold storage facilities for fruits and vegetables were also added to the program. The FSFL Program has provided financing for on-farm storage for over 683 million bushels of eligible FSFL commodities since FY 2000. FSFL applications have increased from 1,717 in FY 2005 to 3,290 in FY 2009, an increase of 1,573. As of early August, FY 2010, 3,363 FSFLs have been approved and obligated totaling over $265 million.

- The Marketing Assistance Loan Program (MAL) disburses non-resource commodity loans during a crop year. Likewise, the Loan Deficiency Payment (LDP) program issues approximately 99 percent of crop year LDP benefits electronically. In crop year 2009, 33,833 LDPs were disbursed for a total of $124.5 million and 74,653 MALs were disbursed for a total of $6.8 billion. To date in crop year 2010, approximately 8,307 LDPs have been disbursed totaling $14.8 million and 1,138 MALs have been disbursed totaling $50.2 million.

- The Milk Income Loss Contract Program (MILC) application and payment processing software was released nationwide to State and County Offices February 2, 2009. Approximately 97 percent of MILC payments issued to eligible milk producers were in the form of electronic payments during FY 2009. FSA expects to again meet this 97 percent mark for FY 2010. As of August 17, 2010, approximately $831 million has been disbursed for FY 2009 and $106 million has been issued for FY 2010 MILC payments using this software.

- *The American Recovery and Reinvestment Act of 2009* (Recovery Act) provided $50 million for Aquaculture Grant Program (AGP) to provide assistance to eligible aquaculture producers that suffered financial losses associated with high feed input costs during the 2008 calendar year. In FY 2009, the Commodity Credit Corporation (CCC) provided $47 million in grant funding to 37 participating States. However in FY 2010 to date, CCC has collected AGP refunds from States totaling $8.7 million and provided approximately $1 million in additional grant funding to States. It is anticipated that in FY 2010, approximately $3.1 million of additional AGP grant funding will be allocated to States that did not receive enough grant funding in FY 2009 to cover all eligible aquaculture feed losses in the State.

Program Area Performance Summary (includes Planned Actions)

CCC hopes to expand protection opportunities for producers through the ACRE program through which producers may receive revenue-based payments as an alternative to price-based Counter-Cyclical payments.

Performance Measure	2006 Actual	2007 Actual	2008 Actual	2009 Actual	2010 Estimate
Maintain the percent of eligible base acres participating in Direct and Counter-cyclical Payment Program (DCP) and Average Crop Revenue Election (ACRE) program	97.34%	96.91%	96.31%	95.99%	96.22%

Participation in the DCP and ACRE programs has been declining gradually. Producer participation is voluntary and there are a variety of reasons as to why producers might choose to not participate in the programs. For example, the base acreage may have been packaged and sold as a small parcel to a non-producer and, as a result of the small parcel size, the associated direct and counter-cyclical payments may not be large enough to entice the landowner to enroll in the programs. Due to relatively high prices and strong market conditions for most of the eligible loan commodities, lower than average producer participation is expected for the MAL and LDP programs. It is anticipated that MILC payments during FY 2011 will be $27 million and $20 million during FY 2012. The Farm Storage Facility Loans (FSFLs), which have been increasing in number each of the last four years, are expected to continue increase its participation.

Conservation Program Area

MISSION ELEMENT

Conservation of soil, air, and water resources and protection and improvement of wildlife habitats

Program Overview

The focus of the USDA conservation programs administered by FSA is to use environmentally sound management for agricultural lands to promote the conservation of natural resources and enhance the environment. The Conservation Reserve Program (CRP) is the nation's largest private-lands conservation financial assistance program with a cumulative total of over 31.3 million enrolled acres. The CRP is a voluntary program available to agricultural producers to help them safeguard environmentally sensitive land. CRP also contributes to increased wildlife populations and has added more than two million ducks to the North Prairie Region annually, recovered sage and sharp-tailed grouse populations in eastern Washington State, increased ring-necked pheasant populations, and increased grassland bird populations. 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 ten and fifteen years. The long-term goal for the FSA conservation programs is to protect and enhance the Nation's natural resources and environment to meet the needs of current and future generations.

Analysis of Results

The Food, Conservation, and Energy Act of 2008 (2008 Farm Bill) limited the maximum CRP enrollment to 32 million acres beginning in FY 2010. FSA has either met or exceeded its targets established for FY 2010 and has made substantial progress in protecting watershed health and enhancing soil quality. Enrolled acres annually reduce soil erosion by more than 450 million tons, reduce nitrogen, phosphorus, and sediment leaving the field by over 85 percent, and sequester over 44 million metric tons of carbon dioxide.

Annual Performance Goals and Indicators	Fiscal Year 2010		
	2010 Target	2010 Actual	Result
Increase Conservation Reserve Program (CRP) acres of riparian and grass buffers (cumulative and in million acres). Thresholds range: +-.5 **Rationale for Met Range:** Management determination.	1.99	2.02	Met
CRP: restored wetland acreage (million acres) Thresholds range: +-.5 **Rationale for Met Range:** Management determination.	1.99	2.05	Exceeded

During FY 2010, FSA has met its enrollment target for CRP acres of riparian and grass buffers. Riparian and grass buffers intercept sediment and nutrients before they reach surface waters. To measure performance in achieving its strategy, FSA monitors acreage of agricultural lands to be enrolled as buffer zones in CRP. CRP met its performance target of 1.99 million acres for the measure. For FY 2010, producers have set aside approximately 2.02 million acres as CRP buffer areas.

Restored wetlands in CRP reached more than 2.5 million acres, exceeding the target by .06 million acres. These restored wetlands are the result of several initiatives, including the 250,000-acre Bottomland Hardwood Timber Initiative, a 250,000-acre Non-floodplain Wetland Restoration Initiative, and a 150,000-acre Prairie Pothole Duck Nesting Habitat Initiative. The major increase is due to the announcement of increased incentives for certain wetland practices and expansion of the Prairie Pothole Duck Nesting Habitat Initiative.

Program Area Performance Summary (includes Planned Actions)

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. The chart below illustrates the long term program performance of the CRP.

Performance Measure	2006 Actual	2007 Actual	2008 Actual	2009 Actual	2010 Estimate
Increase Conservation Reserve Program (CRP) acres of riparian and grass buffers (cumulative and in million acres.) Threshold: +-.5	1.86	1.92	2.0	2.03	2.02
CRP: restored wetland acreage (million acres) Threshold: +-.5	2.03	2.08	1.98	2.04	2.05

*Starting in FY 2010, the enrollment authority for CRP decreased to 32 million acres. The targets for 2010 were reduced accordingly.

FY 2010 and FY 2011 enrollments are expected to be between 31 and 32 million acres. Sustained higher crop prices make the use of land for production more valuable, so rental rates for land in the Conservation Reserve Program (CRP) rise. CRP is expected to be fully enrolled at the statutory cap of 32 million acres from 2011 through 2019. Therefore, CRP payments are expected to rise only moderately from about $1.8 billion in 2010 to $2.3 billion in 2019. While creating a challenging situation, FSA remains strongly committed to attaining its conservation and global change objectives. Special focus will be placed on targeting and monitoring acreage impacts in the President's High Priority Performance Goals priority areas. In order to advance this area, FSA will be seeking new wetland contracts for more than 50,000 acres in both FY 2011 and FY 2012, seeking contracts covering 40,000 acres to fulfill riparian buffers and grass filter goals, and continuing several initiatives, including the 350,000-acre upland bird buffer, the 150,000-acre Duck Nesting Habitat Initiative, and the State Areas for Wildlife Enhancement (SAFE) initiative, a 650,000-acre initiative, announced in FY 2007, to improve habitat for endangered, threatened, or high-priority fish and wildlife species. The Department also will continue the 250,000 acre initiative to restore longleaf pine. In the early 1700s, over 90 million acres of longleaf pine ecosystem existed. Today, fewer than four million acres exist.

Commodity Operations and Food Aid Program Area

MISSION ELEMENT

Maintaining balanced and adequate supplies of agricultural commodities and aiding in their orderly distribution

Program Overview

Commodity Operations manages the acquisition, handling, storage, transportation, and disposition of agricultural commodities in order to carry out Commodity Credit Corporation (CCC) program commitments and to administer the United States Warehouse Act (USWA). These programs help achieve domestic farm program price support objectives, ensure the timely provision of various commodities for domestic and international food assistance, and administer a uniform regulatory system for storing agricultural products. Warehouse operators issue negotiable warehouse receipts to producers under the provisions of the USWA. Producers who use the stored commodity as collateral for a Marketing Assistance Loan (MAL) may deliver the warehouse receipts to FSA as security for a nine-month MAL. FSA also works with its Dairy Product Price Support Program (DPPSP) partners to provide adequate, secure storage capacity to maintain quality and improve the purchase and delivery of food aid. Food assistance purchases support domestic programs such as the National School Lunch Program and The Emergency Food Assistance Program, as well as international food aid through the U.S. Agency for International Development and the United Nations' World Food Program.

Analysis of Results

The FSA/CCC performance measure “Reduce the average number of days between warehouse examinations,” is on track to achieve its target to reduce the average time between warehouse examinations. The FY 2010 target is 400 days between examinations. In FY 2010, the examinations were performed more frequently, an average of 345 days between examinations. The more frequently warehouses are examined for compliance by FSA warehouse examiners, the sooner any potential compliance issues, pest infestation, or deterioration of quality for commodities in store will be discovered. From FY 2009 through FY 2010, changes to regulatory oversight and examination requirements have been implemented. For example, beginning in April, 2009, State licensed warehouses were not required to submit to examinations under the Uniform Grain and Rice Storage Agreement (UGRSA) for CCC interest commodities. This change freed staff to concentrate on USWA licensed warehouse examinations, Cotton Storage Agreement (CSA) examinations, and UGRSA examinations in States without licensing or storage regulations. This led to a reduction in time between examinations in FY 2009 and FY 2010. The policy change has shifted the role of CCC to that of a depositor or lien holder with no special rights or authority. Another factor that has impacted the days between examinations is the reduction in inventories held by CCC due to limited loan forfeitures and liquidation of the Bill Emerson Humanitarian Trust and the minimal time that stocks are maintained in CCC inventory.

As staffing has decreased, management has implemented procedures to conduct warehouse examinations at multiple locations in a non-traditional manner designed to cut travel expenses while maintaining the integrity of the examination. This process and continued use of electronic documents has helped the efficiency of the program.

Annual Performance Goals and Indicators	Fiscal Year 2010		
	2010 Target	2010 Estimate	Result
Reduce average time between warehouse examinations (in days) **Threshold range:** >102 percent **Rationale for Met Range:** Management determination.	400	345*	Exceeded Target

*Projection as of August 18, 2010

The CCC FY 2010 performance target of 400 days between warehouse examinations was surpassed with the annual projection of only 345 days. In FY 2009 and 2010, examinations in State licensed UGRSA warehouses were discontinued for the most part due to policy changes regarding oversight over CCC interest commodities. Examination staff was able to shift priorities to USWA warehouse examinations, CSA examinations, and UGRSA examinations in states without licensing or storage regulations. Factors affecting the time between examinations of these warehouses include: 1) funding for the examination program; 2) CCC policy and regulations regarding storage and oversight; 3) the length of time CCC-owned commodities are in storage; and 4) staffing and staff losses during FY 2010. Retirements have reduced staff even as the numbers of USWA licensed warehouses have increased. Examination division staffing has declined from 91 in January of 2006 to 68 in July of 2010. There are only 43 warehouse examiners currently in the field throughout the United States. These warehouse examiners are based in strategic locations to perform timely examinations. The reduction in staff is anticipated to increase the time between examinations. Examiners have to travel farther to conduct examinations. Some examinations that require teams pose logistic problems because of the additional travel required to bring the teams together. Until additional staff can be hired, management anticipates increased days between examinations in the next fiscal year.

Program Area Performance Summary (includes Planned Actions)

For the past several years, the average number of days between examinations has been less than the target. Commodity operations will continue to facilitate and encourage electronic commerce to reduce costs and delays associated with marketing and delivering commodities. It will implement and encourage increased efficiencies through non-traditional examination processes.

Performance Measure	2006 Actual	2007 Actual	2008 Actual	2009 Actual	2010 Estimate
Reduce average time between warehouse examinations (in days) **Threshold range:** >102 percent **Rationale for Met Range:** Management determination.	384	381	387	363	345*

*Projection as of August 18, 2010

CCC will continue to provide food assistance purchases support to domestic and international programs. While there is currently no CCC inventory of dairy products, Commodity Operations is currently projecting FY 2012 DPPSP purchases of 15 million pounds of non-fat dry milk, one million pounds of cheese, and .5 million pounds of butter. Commodity Operations will continue its efforts to reduce the number of days between examinations as the performance measure for the program. However, Commodity Operations anticipates an increase in the days between examinations until hiring is authorized to fill vacancies caused by retirements within the organization.

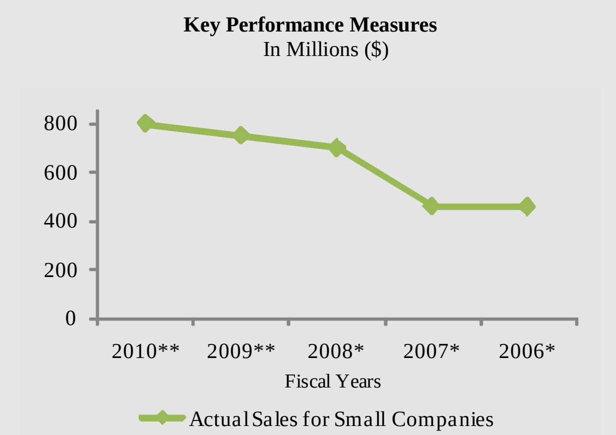
Marketing Expansion and Trade Building Program Area

MISSION ELEMENT

Developing new domestic and foreign markets and marketing facilities for agricultural commodities.

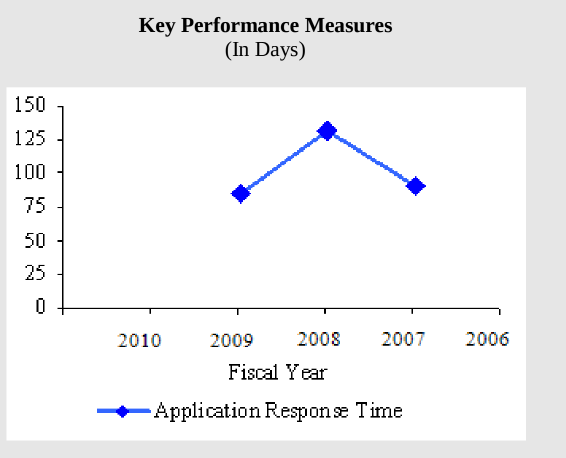
The Foreign Agriculture Service (FAS) promotes market expansion and trade building through cooperative agreements between CCC and nonprofit agricultural trade commodity groups and through grant agreements with private voluntary organizations, foreign governments, and the World Food Program. USDA uses funds or commodities from CCC to encourage development, maintenance, and expansion of commercial export markets for agricultural commodities.

Program Area Performance Summary



Key Performance Measures	2010	2009	2008	2007	2006
Target Dollar value of actual sales for small companies (dollars in millions) * Target exceeded ** Estimate; Final data not yet available	**800	**750	700*	462*	460*

Key Performance Measures	2010	2009	2008	2007	2006
Application Response Time—Food Aid (in days) ** Estimate; Final data not yet available	N/A	85	132	90	N/A



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

Program Overview and Performance

Program	USDA FOOD AID PROGRAMS	Market Expansion and Trade Building Program Area
Strategic Goal	Help America promote agricultural production and biotechnology exports as America works to increase food security	
Lead Agency	Foreign Agricultural Service(FAS)	

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.

Recommendations for Performance Measures	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. USDA has selected a firm to build the Food Aid Information System (FAIS).
Improve the timeliness of notifying cooperating sponsors when they are late in submitting required semi-annual reports on logistics and monetization.	Action taken. FAS sends delinquency letters to organizations that fail to report. The letters are sent within 60-90 days of the infraction.
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. USDA is also developing frameworks for the food aid programs and will be incorporating results oriented management.
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 began in FY 2009.

<table>
<tr><td>Program</td><td>USDA FOREIGN MARKET DEVELOPMENT PROGRAMS</td><td rowspan="3">Market Expansion and Trade Building Program Area</td></tr>
<tr><td>Strategic Goal</td><td>Help America promote agricultural production and biotechnology exports as America works to increase food security</td></tr>
<tr><td>Lead Agency</td><td>Foreign Agricultural Service</td></tr>
<tr><td colspan="3">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.</td></tr>
</table>

Recommendations for Performance Measures	Status of Implementing Recommendations
Reallocate funding to target funds to those that would benefit the most from the programs.	Completed. Review of the application review process has been completed and program allocation criteria ensure that funds are targeted to those non-profit industry groups with a demonstrated ability to make the most effective use of the funds. Enhancements to the program evaluation process were completed in May 2007.
Include performance measures in the Foreign Agricultural Service's strategic plan.	Completed. Relevant performance measures have been included in FAS' Office of Trade Programs' (OTP) final strategic plan.
Work with cooperators to systematically collect long-term performance information for use in the OTP strategic plan.	Dropped, replaced with program-wide cost-benefit study results which were completed March 2010.
Complete enhancement of the Unified Export Strategy online system for the 2011 program year.	Completed. Assigned contractor completed the planned software enhancement/upgrade in time for the 2011 application program year.

Export Credit Program Area

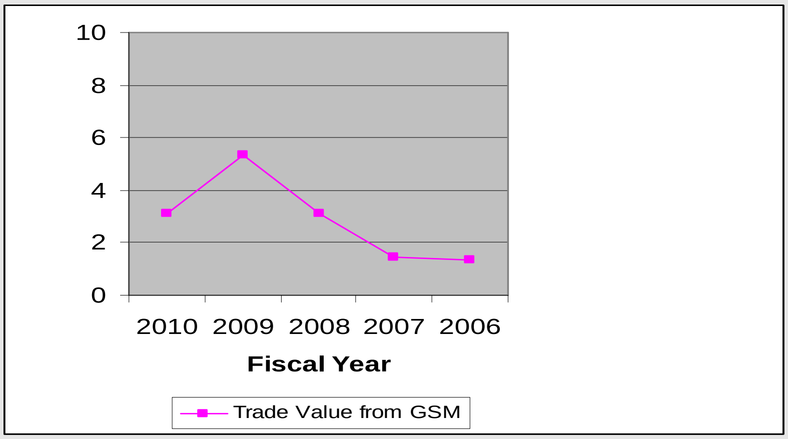
MISSION ELEMENT

Developing new domestic and foreign markets and marketing facilities for agricultural commodities.

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 FAS and FSA on behalf of CCC.

Program Area Performance Summary

Key Performance Measures
In Billions ($)



Key Performance Measures	2010	2009	2008	2007	2006
Estimated trade value resulting from USDA GSM export credit guarantee programs (dollars in billions)	3.09*	5.32	3.11	1.45	1.36

* Estimate; Final data not yet available

Program Overview and Performance

<table>
<tr><td>Program</td><td>AGRICULTURAL EXPORT CREDIT GUARANTEE PROGRAMS</td><td rowspan="3">Market Expansion and Trade Building Program Area</td></tr>
<tr><td>Strategic Goal</td><td>Help America promote agricultural production and biotechnology exports as America works to increase food security</td></tr>
<tr><td>Lead Agency</td><td>Foreign Agricultural Service</td></tr>
<tr><td colspan="3">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.</td></tr>
</table>

Recommendations for Performance Measures	Status of Implementing Recommendations
Review and modify underlying assumptions of defaults and recoveries	Action Taken But Not Completed. The 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 0.87 percent for FY 2009, -1.21 percent in FY 2010 and -0.86 percent (estimated) in FY 2011, a significant reduction over previous years. The second phase of the project, which is near completion, would employ macroeconomic indices to better forecast country risk and claims and recoveries at the individual registration level, thus improving the ability to charge program fees appropriate to cover costs and losses.

Part III: Financial Section

Commodity Credit Corporation

CONSOLIDATED BALANCE SHEETS

As of September 30, 2010 and 2009

(Dollars in Millions)

	2010	2009
Assets:		
Intragovernmental:		
Fund Balance with Treasury (Note 2)	$ 1,797	$ 1,315
Accounts Receivable, Net (Note 4)	116	129
Other	1	2
Total Intragovernmental Assets	$ 1,914	$ 1,446
Cash and Other Monetary Assets (Note 3)	-	92
Accounts Receivable, Net (Note 4)	4,247	5,057
Direct Loans and Loans Guarantees, Net:		
Commodity Loans, Net (Note 5)	673	414
Credit Program Receivables, Net (Note 6)	4,798	5,126
Subtotal	$ 5,471	$ 5,540
Commodity Inventories and Related Property, Net (Note 7)	46	205
General Property and Equipment, Net (Note 8)	57	44
Other	80	81
Total Assets	$ 11,815	$ 12,465
Stewardship Land (Note 1)		
Liabilities:		
Intragovernmental:		
Debt to the Treasury (Note 10)	$ 3,274	$ 4,877
Other:		
Resources Payable to Treasury(Note 12)	2,447	2,744
Deposit and Trust Liabilities (Note 11)	1,356	974
Other (Note 12)	203	592
Subtotal	$ 4,006	$ 4,310
Total Intragovernmental Liabilities	$ 7,280	$ 9,187
Accounts Payable	386	302
Loan Guarantee Liability (Note 6)	184	221
Environmental and Disposal Liabilities (Note 13)	8	8
Other Liabilities:		
Accrued Liabilities (Note 14)	10,227	11,560
Deposit and Trust Liabilities (Note 11)	7	7
Other (Note 12)	393	1,257
Subtotal	$ 10,627	$ 12,824
Total Liabilities (Note 9)	$ 18,485	$ 22,542
Commitments and Contingencies (Note 15)		
Net Position:		
Unexpended Appropriations	$ 1,853	$ 2,028
Capital Stock	100	100
Cumulative Results of Operations	(8,623)	(12,205)
Total Net Position	$ (6,670)	$ (10,077)
Total Liabilities and Net Position	$ 11,815	$ 12,465

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, 2010 and 2009

(Dollars in Millions)

	2010	2009
Strategic Goals:		
Supporting Productive Farms and Ranches:		
Gross Cost	$ 6,141	$ 12,682
Less: Earned Revenue	159	2,347
Net Goal Cost	$ 5,982	$ 10,335
Supporting Secure and Affordable Food and Fiber:		
Gross Cost	$ 279	$ 171
Less: Earned Revenue	36	15
Net Goal Cost	$ 243	$ 156
Conserving Natural Resources and Enhancing the Environment:		
Gross Cost	$ 2,426	$ 2,223
Less: Earned Revenue	1	1
Net Goal Cost	$ 2,425	$ 2,222
Supporting International Economic Development and Trade Capacity Building:		
Gross Cost	$ 2,726	$ 1,749
Less: Earned Revenue	325	305
Net Goal Cost	$ 2,401	$ 1,444
Total Gross Cost	$ 11,572	$ 16,825
Less: Total Earned Revenue	521	2,668
Net Cost of Operations	$ 11,051	$ 14,157

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, 2010 and 2009
(Dollars in Millions)

	2010	2009
Capital Stock	$ 100	$ 100
Cumulative Results of Operations:		
Beginning Balance	$ (12,205)	$ (10,324)
Budgetary Financing Sources:		
Appropriations Used	17,252	13,929
Non-exchange Revenue	3	8
Transfers in/out without Reimbursement, Net	(3,756)	(2,445)
Other Financing Sources (Non-Exchange):		
Transfers in/out without Reimbursement, Net	(232)	(550)
Imputed Financing	1,378	1,334
Other	(12)	-
Total Financing Sources	$ 14,633	$ 12,276
Net Cost of Operations	(11,051)	(14,157)
Net Change	$ 3,582	$ (1,881)
Cumulative Results of Operations	$ (8,623)	$ (12,205)
Unexpended Appropriations:		
Beginning Balance	$ 2,028	$ 1,470
Budgetary Financing Sources:		
Appropriations Received	17,077	14,494
Other Adjustments	-	(7)
Appropriations Used	(17,252)	(13,929)
Total Budgetary Financing Sources	$ (175)	$ 558
Total Unexpended Appropriations	$ 1,853	$ 2,028
Net Position	$ (6,670)	$ (10,077)

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, 2010 and 2009

(Dollars in Millions)

	2010 Budgetary	2010 Non-Budgetary Credit Program Financing Accounts	2009 Budgetary	2009 Non-Budgetary Credit Program Financing Accounts
Budgetary Resources:				
Unobligated balance, brought forward, October 1:	$ 2,019	$ 972	$ 2,098	$ 2,516
Recoveries of prior year unpaid obligations	1,332	34	182	10
Budget authority:				
Appropriation	18,014	-	15,444	-
Borrowing authority (Note 17)	39,064	1,199	28,870	340
Spending authority from offsetting collections:				
Earned:				
Collected	11,295	501	11,722	553
Change in receivables from Federal sources	13	-	(89)	-
Change in unfilled customer orders:				
Advance received	382	-	154	-
Without advance from Federal sources	-	(19)	-	(18)
Expenditure transfers from trust funds	937	-	1,130	-
Subtotal	$ 69,705	$ 1,681	$ 57,231	$ 875
Nonexpenditure transfers, net, actual	(3,617)	-	(2,241)	-
Permanently not available	(41,586)	(348)	(27,445)	(1,583)
Total Budgetary Resources	$ 27,853	$ 2,339	$ 29,825	$ 1,818
Status of Budgetary Resources:				
Obligations incurred:				
Direct	$ 3,127	$ 1,228	$ 3,574	$ 846
Reimbursable	22,438	-	24,232	-
Subtotal	$ 25,565	$ 1,228	$ 27,806	$ 846
Unobligated balance:				
Apportioned	$ 305	$ 861	$ 330	$ 363
Exempt from apportionment	1,188	5	841	4
Subtotal	$ 1,493	$ 866	$ 1,171	$ 367
Unobligated balance not available	795	245	848	605
Total Status of Budgetary Resources	$ 27,853	$ 2,339	$ 29,825	$ 1,818
Change in Obligated Balance:				
Obligated balance, net				
Unpaid obligations, brought forward, October 1	$ 9,542	$ 159	$ 7,967	$ 201
Less: Uncollected customer payments from Federal sources, brought forward, October 1	(233)	(177)	(322)	(195)
Total unpaid obligated balance, net	$ 9,309	$ (18)	$ 7,645	$ 6
Obligations incurred, net	25,565	1,228	27,806	846
Less: Gross outlays	(23,881)	(1,115)	(26,049)	(878)
Less: Recoveries of prior year unpaid obligations, actual	(1,332)	(34)	(182)	(10)
Change in uncollected customer payments from Federal sources	(13)	19	89	18
Total Change in Obligated Balance	$ 9,648	$ 80	$ 9,309	$ (18)
Obligated balance, net, end of period:				
Unpaid obligations	$ 9,894	$ 238	$ 9,542	$ 159
Less: Uncollected customer payments from Federal sources	(246)	(158)	(233)	(177)
Total, unpaid obligated balance, net, end of period	$ 9,648	$ 80	$ 9,309	$ (18)
Net Outlays:				
Gross outlays	$ 23,881	$ 1,115	$ 26,049	$ 878
Offsetting collections	(12,614)	(501)	(13,006)	(553)
Less: Distributed Offsetting receipts	-	(576)	-	(473)
Total Net Outlays	$ 11,267	$ 38	$ 13,043	$ (148)

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 several 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, 2010 and September 30, 2009 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. CCC consolidates all costs related to its child activities for the allocated funds transfers and shared appropriations. 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

CCC modified its accounting practices for the Conservation Reserve Program (CRP) in FY 2010. The change of practice was to record obligations of funds according to budgetary accounting principles and legal requirements. CCC received funding from OMB in FY 2010 to allow the recordation of the CRP agreements as obligations in its books and records. This will be reflected as a material variance on the SBR. Previously CRP recorded an unfunded expense and payable to reflect the agreements which would be paid in the subsequent year.

Fund Balance with Treasury

CCC disbursements are made by checks or electronic funds transfers that are deducted from CCC's account at Treasury. Generally, receipts and disbursements for CCC are processed by the Federal Reserve Banking system.

Cash

Treasury requires that the Fund Balance with Treasury amounts reported via Federal Agencies' Centralized Trial Balance System II (FACTS II) be in agreement with Treasury's records. To comply with 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 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 CCC disposes of forfeited commodities, depending on the type of disposition, any loss on the disposition is realized as either a cost of sales or donation.

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.

Note 1 - Significant Accounting Policies, Continued

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 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, payments to CCC including origination and other fees, penalties, and recoveries, including the effects of any expected actions by CCC and the exercise by the guaranteed lender or the borrower of an option included in the loan guarantee contract.

Note 1 - Significant Accounting Policies, Continued

In estimating net present values, the discount rate is the average interest rate on marketable Treasury securities of similar maturity 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 (Refer to Note 6). Credit program receivables consist of:

- direct credits extended under Public Law 83-480 (P.L. 480) programs;
- receivables in the Debt Reduction Fund;
- receivables for the General Sales Manager program 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 of their estimated net cash inflows. The difference between the outstanding principal of these receivables and the present value of their net cash inflows is recognized as an allowance. CCC uses the Credit Subsidy Calculator 2 (CSC2) for computing the subsidy re-estimates for its 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 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.

Note 1 - Significant Accounting Policies, Continued

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 and 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 general property and equipment.

Note 1 - Significant Accounting Policies, Continued

In addition, internal use software valued at $100,000 or more and a useful life of 2 years or greater is capitalized. Internal use software development costs are accumulated and capitalized upon completion. In accordance with SFFAS No. 10, *Accounting for Internal Use Software*, capitalized software development costs include contractor developed software, purchased software, and internally developed software. Capitalized internal use software costs are amortized over a period of 5 years beginning with the first year the software is fully operational. Also included are costs incurred by FSA which are 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.

Non-Entity Assets

Non-entity assets are assets held by CCC that are not available for use in its operations.

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 until congressional action is completed.

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.

Loan 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 United States Agency for International Development (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. 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.

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 remains responsible to disclose required information for all WRP easements as stewardship land in FY 2010 and future years as long as NRCS maintains the administration, management responsibilities, and accountability for the WRP easements.

Note 2 – Fund Balance with Treasury

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

	(In Millions)	
	2010	2009
Revolving Funds	$ (389)	$ (696)
General Funds	2,186	2,011
Total Fund Balance with Treasury	$ 1,797	$ 1,315

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

	(In Millions)	
	2010	2009
Unobligated Balance		
Available	$ 2,359	$ 1,537
Unavailable	1,039	1,454
Obligated Balance not yet Disbursed	9,727	9,290
Subtotal	$ 13,125	$ 12,281
Less: Borrowing Authority not yet Converted to Fund Balance	(11,328)	(10,966)
Total Fund Balance with Treasury	$ 1,797	$ 1,315

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, 2010 and 2009, 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. Borrowing authority permits the Corporation to incur obligations and authorizes it to borrow funds to liquidate the obligations. See Note 17.

Note 3 – Cash and Other Monetary Assets

As of September 30, 2010, CCC does not have balances classified as Cash and Other Monetary Assets. As of September 30, 2009, Cash and Other Monetary Assets was $92 million. In FY 2009, the balance reflected "in transit" amounts that have not been cleared by Treasury as a result of 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)	
	2010	2009
Intragovernmental:		
Due from the Department of Treasury	$ 8	$ 7
Due from the Department of Transportation	80	89
Due from Other Federal Agencies	28	33
Total Intragovernmental Accounts Receivable, Net	$ 116	$ 129
Public:		
Claims Receivable	$ -	$ 17
Notes Receivable	18	31
Interest Receivable	6	12
TTPP Receivable	4,125	4,990
Other	108	11
Subtotal	$ 4,257	$ 5,061
Less: Allowances for Doubtful Accounts	(10)	(4)
Total Public Accounts Receivable, Net	$ 4,247	$ 5,057

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 and Conservation Reserve Program.

As of September 30, 2010, the Accounts Receivable, Net: Public balance for the Tobacco Transition Payment Program (TTPP) is $4,125 million and includes $345 million as a short-term receivable. TTPP comprises $11 million of the Notes Receivable balance; and, $6 million in Interest Receivable balance.

As of September 30, 2009, the Accounts Receivable, Net: Public balance for the Tobacco Transition Payment Program (TTPP) was $4,990 million and included $314 million as a short-term receivable, and comprising $23 million of the Notes Receivable balance; and, $5 million in Interest Receivable balance. 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)	
	2010	2009
Cotton	$ 126	$ 56
Dry Whole Peas	3	2
Feed Grains:		
Barley	8	5
Corn	175	148
Grain Sorghum	1	2
Oats	1	1
Honey	2	2
Oilseeds	2	3
Peanuts	46	27
Rice	143	30
Soybeans	21	14
Wheat	143	124
Total Commodity Loans	$ 671	$ 414
Accrued Interest Receivable	2	3
Less: Allowances for Losses	-	(3)
Total Commodity Loans, Net	$ 673	$ 414

As of September 30, 2010, total commodity loans increased by $259 million and is attributed to increases in outstanding rough rice loans. Current year prices for rough rice are significantly lower than in fiscal year 2009; producers tend to place the commodity under loan in hopes that prices will recover before the loan matures.

Note 6 – Credit Program Receivables, Net

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. The Credit Reform Act 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 loans or defaulted guaranteed loans receivable at any point in time is the amount of the gross loan or defaulted guaranteed loans receivable less the present value of the subsidy at that time.
The net present value of Direct Loan and Loan Guarantees, Net is not necessarily representative of the proceeds that might be expected if these loans were sold on the open market.

Credit Program Discussion and Descriptions

Guaranteed Loans, Credit Guarantee Programs – Export

CCC's Export Credit Guarantee (GSM) programs encourage exports of U.S. agricultural products to buyers in countries where credit is necessary to maintain or increase U.S. sales, but where financing may not be available without such credit guarantees. The Corporation underwrites credit extended by the private banking sector in the U.S. (or, less commonly, by the exporter) under the GSM-102 program for terms of 3 years or less. CCC does not provide financing, but guarantees payments due from foreign banks and obligors. 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. 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.

Under Section 3101 of the Food, Conservation, and Energy Act of 2008 (2008 Farm Bill), authority for the GSM 103 and Supplier Credit programs was specifically repealed. Remaining liability under these programs is still subject to annual reestimate.

Guaranteed loans outstanding at the end of FY 2010 were $6,645 million in outstanding principal and $6,513 million in outstanding principal guaranteed, compared to $7,039 and $6,898 million, respectively at the end of FY 2009. (See table 5.)

During the fiscal year, the value of the guaranteed loans is adjusted by the value of the loan guarantee liability held against those loans. Current year subsidy expense, modification and reestimates all contribute to the change of the loan guarantee liability through the year. The loan guarantee liability is a combination of the liability for losses on pre-1992 guarantees and post-1991 guarantees. Table 6 shows that total liability moved from $221 million to $184 million during FY 2010, a decrease of $37 million. There is no further loan guarantee liability for pre-1992 guarantees.

Total guaranteed loan subsidy expense is a combination of subsidy expense for new guaranteed loans disbursed in the current year, modifications to existing loans, and interest rate and technical reestimates to existing loans. Total guaranteed loan subsidy expense in FY 2010 was $6 million compared to $55 million in FY 2009. Table 7 illustrates the breakdown of total subsidy expense for FY 2010 and FY 2009. Guaranteed loan volume decreased from $5,250 million in FY 2009 to $2,891 million in FY 2010. (See table 9.)

Note 6 – Credit Program Receivables, Net, Continued

Direct Loans

During the fiscal year, the gross outstanding balance of the direct loans obligated post-1991 is adjusted by the value of the subsidy cost allowance held against those loans. Current year subsidy expense, modifications and reestimates all contribute to the change of the subsidy cost allowance throughout the year. For P.L. 480, the subsidy cost allowance moved from $721 million to $737 million during FY 2010, an increase of $16 million. For Farm Storage Facility Loans (FSFL), the subsidy cost allowance changed from $31.0 million in FY 2009 to $25.4 million in FY 2010, a decrease of $5 million. The subsidy cost allowance for the Boll Weevil program was $10 million for both FY 2010 and 2009. Table 2 shows the reconciliation of subsidy cost allowance balances from FY 2009 to FY 2010.

Total direct loan subsidy expense is a combination of subsidy expense for new direct loans disbursed in the current year, modifications to existing loans, and interest rate and technical reestimates to existing loans. For P.L. 480, subsidy expense in FY 2010 was $74 million compared to ($397 million) in FY 2009. For FSFL, total direct loan subsidy expense for FY 2010 was ($14 million) compared to ($7 million) in FY 2009. Table 3 illustrates the breakdown of total subsidy expense for FY 2010 and FY 2009. There was no additional direct food aid loans disbursed in either 2009 or 2010. Disbursements for FSFL loans increased from $140 million in FY 2009 to $228 million in FY 2010 as shown in Table 4.

Direct Credit Programs – Food Aid

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. Although legislative authority for the P.L. 480 Title I Program still exists, there have been no new loans extended under the program since FY 2006.

Direct Credit Programs – Domestic

The 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, 10 or 12 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. In accordance with the 2008 Farm Bill, revised program regulations were promulgated to expand the program in regard to available loan terms and eligible commodities, as well as to increase the loan limitation.

The Boll Weevil Program made available to the Texas Boll Weevil Eradication Foundation in FY 2001 an interest-free $10 million loan to be repaid over 10 years.

The Apple Loan Program in FY 2001 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.

Administrative Expenses

Consistent with the Federal Credit Reform Act of 1990 as amended, subsidy cash flows exclude direct Federal administrative expenses. Administrative expenses on direct credit and loan programs were $3 million for each of the fiscal years ended September 30, 2010 and 2009. Administrative expenses for the credit guarantee programs were $7 million and $5 million for fiscal years ended September 30, 2010 and 2009, respectively.

Note 6 – Credit Program Receivables, Net, Continued

Subsidy Rates

Subsidy rates are used to compute each year's subsidy expenses as disclosed above. The subsidy rates disclosed in Tables 11 and 12 pertain only to the FY 2010 and FY 2009 cohorts. These rates cannot be applied to the direct and guaranteed loans disbursed during the current reporting year to yield the subsidy expense. The subsidy expense for new loans reported in the current year could result from disbursements of loans from both current year cohorts and prior-year cohorts. The subsidy expense reported in the current year also includes reestimates.

Events and Changes Having a Significant and Measurable Effect upon Subsidy Rates, Subsidy Expense, and Reestimates

Current world events and government initiatives have a major impact upon CCC's foreign receivables. Defaults during FY 2009 by three banks in Kazakhstan were rescheduled during FY 2010. Ukraine defaults have not been rescheduled to date. There were defaults on Russian banks during FY 2010, with projections of significant additional claims (approximately $160 million) to be paid in FY 2011.

For the GSM program, a new model was introduced in FY 2010. Changes include the use of econometric predictions versus a single ICRAS informed curve for each country for defaults and recoveries and predictions that are generated at the registration level rather than at the country level. Economic factors evaluated include changes in gross national product (GNP), exchange rate growth, and ICRAS grade. Data on GNP and exchange rates are obtained from publications of the USDA Economic Research Service. ICRAS is provided by OMB.

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.

Loan Modifications and Reschedulings

A modification is any Government action different from the baseline assumptions that affects the subsidy cost such as a change in the terms of the loan contract. The cost of a modification is the difference between the present value of the cash flows before and after the modification.

The Debt Reduction Fund is used to account for CCC's modified debt. Debt is considered to be modified if the original debt has been reduced or the interest rate of the agreement changed. In contrast, when debt is "rescheduled," only the date of payment is changed. Rescheduled debt is carried in the original fund until paid. With one exception, all outstanding CCC modified debt is carried in the Debt Reduction Fund and is governed by the Federal Credit Reform Act of 1990 as amended.

Interest Credit

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.

Note 6 – Credit Program Receivables, Net, Continued

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

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

The P.L. 480 program had a net reestimate for FY 2010 of $40 million, of which $17 million was the technical reestimate and $23 million was interest on the reestimate. The upward reestimate totals $51 million, and the downward reestimate totals $11 million. The FY 1999 cohort technical reestimate is $9.2 million and represents 54 percent of the total technical upward reestimate. Actual FY 2010 data reflects larger defaults and lower recoveries than projected in FY 2009, and that trend of higher defaults and lower recoveries is carried through the projections for FY 2011 and beyond. The largest impact is due to Russia’s projected recoveries, which are projected at $7 million lower than at the end of FY 2009.

Farm Storage Facility Loans Reestimate Trend Analysis

The FSFL program had a net downward reestimate of $20 million, of which $3.8 million was the upward technical reestimate, $2.7 million was the interest on the upward reestimate, $23 million was the downward technical reestimate and $3.6 million was the interest on the downward reestimate. Most ($15 million) of the downward technical reestimate was in the 2009 cohort, which is due to the fact that the original subsidy rate was 6.25 percent and was determined to be too high for this program, which has had a total of nine defaults since its inception. Reestimates for other cohorts were not significant.

Export Credit Guarantees (GSM) Reestimate Trend Analysis

The GSM-102 program had a net downward reestimate of $88.3 million for FY 2010. The upward reestimate is $95.2 million for the technical portion and $1.5 million interest on the reestimate. The upward reestimate is almost completely attributable to the 2010 cohort and reflects projected defaults in excess of $100 million, mitigated to a small extent based on fairly small projected recoveries. The downturn in the Russian economy due to drought and resulting crop failures has affected the ability of some banks to remain solvent.

The downward reestimate is $143.2 million technical and $41.8 million interest on the reestimate. The 2007, 2008 and 2009 cohorts had large downward technical reestimates of $16.8 million, $45.3 million and $58 million respectively. Although projected defaults are now greater than predicted at the end of FY 2009, the main cause for the change is recoveries. The GSM program projected no recoveries for these three cohorts in the previous reestimate. In the previous model (used at the end of FY 2009), the GSM program did not predict recoveries unless a rescheduled agreement was constructed, and there were no rescheduled agreements in these cohorts at that time. With the new model and methodology change that occurred this year, the GSM program now predicts regular recoveries (not rescheduled) as well as recoveries on rescheduled agreements. In addition, Kazakhstan debt for these three cohorts was rescheduled during FY 2010.

Note 6 – Credit Program Receivables, Net, Continued

The Supplier Credit total reestimate was $25.3 million, comprised almost exclusively of an upward reestimate for the 2004 cohort. As with GSM-102, assumptions were changed in the new model to reflect econometric predictions based on historical patterns. Our recovery predictions for Supplier Credit are now approximately one-third of what was predicted at the end of FY 2009 and more closely resembles actual experience to date in this cohort.

P.L. 480, Title I direct credits outstanding that were obligated prior to FY 1992 and 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 are as follows. Defaults on credit guarantees made prior to FY 1992 and related interest receivable are also listed below. This information is current as of September 30, 2010 and 2009.

Table 1. Direct Loan and Loan Guarantees, Net

2010			(In Millions)	
Direct Loans	Loans Receivable, Gross	Interest Receivable	Present Value Allowance	Value Of Assets Related to Loans
Obligated Pre-1992				
P.L. 480 Title I	$ 4,149	$ 43	$ (1,517)	$ 2,675
Pre-1992 Total	$ 4,149	$ 43	$ (1,517)	$ 2,675
Obligated Post-1991				
P.L. 480 Title I	$ 1,215	$ 17	$ (285)	$ 947
Debt Reduction Fund	258	1	(226)	33
Farm Storage Facility	548	41	(26)	563
Boll Weevil Program	10	-	(10)	-
Post-1991 Total	2,031	59	(547)	1,543
Total Direct Loan Program Receivables	$ 6,180	$ 102	$ (2,064)	$ 4,218
Defaulted Guarantee Loans				
Pre-1992				
Export Credit Guarantee Programs	$ 134	$ 1	$ (70)	$ 65
Pre-1992 Total	$ 134	$ 1	$ (70)	$ 65
Post-1991				
Export Credit Guarantee Programs	$ 731	$ 10	$ (226)	$ 515
Post-1991 Total	731	10	(226)	515
Total Defaulted Guarantee Loans	$ 865	$ 11	$ (296)	$ 580
Total Direct Loan and Loan Guarantees, Net	$ 7,045	$ 113	$ (2,360)	$ 4,798

Note 6 – Credit Program Receivables, Net, Continued

Table 1. Direct Loan and Loan Guarantees, Net (continued)

2009			(In Millions)	
Direct Loans				
Obligated Pre-1992	Loans Receivable, Gross	Interest Receivable	Present Value Allowance	Value Of Assets Related to Loans
P.L. 480 Title I	$ 4,470	$ 47	$ (1,407)	$ 3,110
Pre-1992 Total	$ 4,470	$ 47	$ (1,407)	$ 3,110
Obligated Post-1991				
P.L. 480 Title I	$ 1,333	$ 19	$ (302)	$ 1,050
Debt Reduction Fund	282	2	(216)	68
Farm Storage Facility	417	35	(31)	421
Boll Weevil Program	10	-	(10)	-
Post-1991 Total	2,042	56	(559)	1,539
Total Direct Loan Program Receivables	$ 6,512	$ 103	$ (1,966)	$ 4,649
Defaulted Guarantee Loans				
Pre-1992				
Export Credit Guarantee Programs	$ 135	$ 1	$ (82)	$ 54
Pre-1992 Total	$ 135	$ 1	$ (82)	$ 54
Post-1991				
Export Credit Guarantee Programs	$ 620	$ 7	$ (204)	$ 423
Post-1991 Total	620	7	(204)	423
Total Defaulted Guarantee Loans	$ 755	$ 8	$ (286)	$ 477
Total Direct Loan and Loan Guarantees, Net	$ 7,267	$ 111	$ (2,252)	$ 5,126

Note 6 – Credit Program Receivables, Net, Continued

Table 2. Schedule for Reconciling Subsidy Cost Allowance Balances (Post-1991)
Direct Loans

	(In Millions) 2010	2009
Beginning Balance of the Subsidy Cost Allowance	$ 763	$ 1,262
Add: Subsidy expense for direct loans disbursed during the year by component		
Interest Rate Differential Costs	(2)	(1)
Default Costs (net of recoveries)	8	5
Total Subsidy Expense Prior to Adjustements and Reestimates	$ 6	$ 4
Adjustments		
Loan Modifications	$ 34	$ 19
Fees Received	2	-
Loans Written Off	(214)	(77)
Subsidy Allowance Amortization	(6)	(52)
Other	168	34
Total Subisidy Cost Allowance before Reestimates	$ 753	$ 1,190
Add or Subtract Subsidy Reestimates by Component		
Interest Rate Reestimate	$ 23	$ (244)
Technical/Default Reestimate	(3)	(183)
Total Reestimates	20	(427)
Ending Balance of the Subsidy Cost Allowance	$ 773	$ 763

Subsidy Allowance – End of Fiscal Year 2009 includes subsidy for both direct loans and loans receivable derived from those guaranteed transactions on which CCC was called upon to perform. For comparison purposes, prior year balances have been adjusted to reflect the same.

Note 6 – Credit Program Receivables, Net, Continued

Table 3. Subsidy exepense for Direct loans by Program and Component

2010 (In Millions)

Direct Loan Programs	Interest Differential	Defaults	Subtotal Subsidy	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total Subsidy Expense
P.L 480 Title I	$ -	$ -	$ -	$ 34	$ 23	$ 17	$ 40	$ 74
Farm Storage Facility	(2)	8	6	-	-	(20)	(20)	(14)
Total Direct Loan Subsidy Expense	$ (2)	$ 8	$ 6	$ 34	$ 23	$ (3)	$ 20	$ 60

2009 (In Millions)

Direct Loan Programs	Interest Differential	Defaults	Subtotal Subsidy	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total Subsidy Expense
P.L 480 Title I	$ -	$ -	$ -	$ 19	$ (245)	$ (171)	$ (416)	$ (397)
Farm Storage Facility	-	4	4	-	-	(11)	(11)	(7)
Apple Loan Program	-	-	-	-	1	(1)	-	-
Total Direct Loan Subsidy Expense	$ -	$ 4	$ 4	$ 19	$ (244)	$ (183)	$ (427)	$ (404)

*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, 2010 and 2009, current and prior year disbursements of post-1991 direct credits and loans are as follows:

Table 4. Total Amount of Direct Loans Disbursed (Post -1991)

	(In Millions) 2010	(In Millions) 2009
Direct Loan Programs		
Farm Storage Facility	$ 228	$ 140
Total	$ 228	$ 140

As of September 30, 2010 and 2009, post-1991 credit guarantees outstanding are as follows:

Table 5. Guaranteed Loans Outstanding

2010 (In Millions)

Loan Guarantee Programs	Post-1991 Outstanding Principal, Face Value	Total Outstanding Principal, Face Value	Post-1991 Outstanding Principal, Guaranteed	Total Outstanding Principal, Guaranteed
Export Credit Guarantee Programs	$ 6,645	$ 6,645	$ 6,513	$ 6,513
Tota Guarantees Disbursed	$ 6,645	$ 6,645	$ 6,513	$ 6,513

2009 (In Millions)

Loan Guarantee Programs	Post-1991 Outstanding Principal, Face Value	Total Outstanding Principal, Face Value	Post-1991 Outstanding Principal, Guaranteed	Total Outstanding Principal, Guaranteed
Export Credit Guarantee Programs	$ 7,039	$ 7,039	$ 6,898	$ 6,898
Tota Guarantees Disbursed	$ 7,039	$ 7,039	$ 6,898	$ 6,898

* 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

As of September 30, 2010 and 2009 Pre - 1992 Liability for Loan Guarantees (Present Value Method) are as follows:

Table 6. Liability for Loan Guarantees (Present Value Method for Pre-1992 Guarantees)

2010	(In Millions)	
Loan Guarantee Programs	Liabilities for Loan Guarantees on Post-1991 Guarantees Present Value	Total Liabilities for Loan Guarantees
Export Credit Guarantee Program	$ 184	$ 184
Total Liability for Loan Guarantees	$ 184	$ 184

2009	(In Millions)	
Loan Guarantee Programs	Liabilities for Loan Guarantees on Post-1991 Guarantees Present Value	Total Liabilities for Loan Guarantees
Export Credit Guarantee Program	$ 221	$ 221
Total Liability for Loan Guarantees	$ 221	$ 221

Note 6 – Credit Program Receivables, Net, Continued

The change in the liability for Post - 1991 credit guarantees as of September 30, 2010 and 2009 is as follows:

Table 7. Schedule for Reconciling Loan Guarantee Liability

	(In Millions)	
	2010	2009
Beginning balance of the loan guarantee liability	$ 221	$ 161
Add: Subsidy expense for guaranteed loans disbursed during the year by component		
Default costs (net of recoveries)	10	77
Fees and other collections	(4)	(22)
Total of the above subsidy expense components	$ 6	$ 55
Adjustments		
Fees received	$ 19	$ 41
Claim payments to lenders	(161)	(25)
Other	162	26
Ending balance of the subsidy cost allowance before reestimates	$ 247	$ 258
Add or Subtract subsidy reestimates by component:		
Interest rate reestimate	$ (41)	$ (46)
Technical/default reestimate	(22)	9
Total of the above reestimate components	$ (63)	$ (37)
Ending balance of the loan guarantee liability	$ 184	$ 221

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, 2010 and 2009 are as follows:

Table 8. Subsidy Expense for Loan Guarantees by Program and Component

2010 (In Millions)

Loan Guarantee Programs	Defaults	Fees and Other Collections	Subtotal	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total Subsidy Expense
Export Credit Guarantee Programs	$ 10	$ (4)	$ 6	$ (41)	$ (22)	$ (63)	$ (57)
Total Loan Guarantee Programs	$ 10	$ (4)	$ 6	$ (41)	$ (22)	$ (63)	$ (57)

2009 (In Millions)

Loan Guarantee Programs	Defaults	Fees and Other Collections	Subtotal	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total Subsidy Expense
Export Credit Guarantee Programs	$ 77	$ (22)	$ 55	$ (46)	$ 9	$ (37)	$ 18
Total Loan Guarantee Programs	$ 77	$ (22)	$ 55	$ (46)	$ 9	$ (37)	$ 18

*Subsidy reestimates are calculated on cumulative disbursements for all cohorts.

Note 6 – Credit Program Receivables, Net, Continued

For the fiscal years ended September 30, 2010 and 2009, current and prior year credit guarantee disbursements are as follows:

Table 9. Guaranteed Loans Disbursed

	(In Millions)_			
	2010		2009	
Loan Guarantee Programs	Principal, Face Value Disbursed	Principal, Guaranteed Disbursed	Principal, Face Value Disbursed	Principal, Guaranteed Disbursed
Export Credit Guarantee Programs	$ 2,891	$ 2,835	$ 5,250	$ 5,145
Total Guaranteed Loans Disbursed	$ 2,891	$ 2,835	$ 5,250	$ 5,145

Table 10. Administrative Expenses

	(In Millions)	
	2010	2009
Direct Loan Programs	$ 3	$ 3
Guaranteed Loan Programs	7	5
Total Administative Expenses	$ 10	$ 8

Note 6 – Credit Program Receivables, Net, Continued

FY 2010 and 2009 subsidy rates (percentage) for direct credits and loans are as follows:

Table 11. Subsidy Rates for Direct Loans (percentage)

2010

Direct Loan Programs	Interest Differential	Defaults	Fees and Other Collections	Other	Total
Farm Storage Facility	(0.88)	0.02	(0.14)	(0.01)	(1.01)

2009

Direct Loan Programs	Interest Differential	Defaults	Fees and Other Collections	Other	Total
Farm Storage Facility	(0.82)	7.21	(0.14)	-	6.25

For the fiscal years ended 2010 and 2009, there were no apportionments or funding for P.L. 480, and thus, no subsidy rate was provided. The Apple Loan Program is a one year program, cohort 2001.

FY 2010 and 2009 subsidy rates (percentage) for credit guarantee programs are as follows:

Table 12. Subsidy Rates for Loan Guarantees (percentage)

2010

Guaranteed Loan Programs	Defaults	Fees and Other Collections	Other	Total
Export Credit Guarantee Programs	(0.58)	(0.63)	-	(1.21)

2009

Guaranteed Loan Programs	Defaults	Fees and Other Collections	Other	Total
Export Credit Guarantee Programs	1.47	(0.60)	-	0.87

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 7 – Commodity Inventories and Related Property, Net

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

	(In Millions)	
	2010	2009
Commodity Inventories - Beginning of Fiscal Year	$ 202	$ 11
Acquisitions	946	4,101
Cost of Sales	(47)	(2,803)
Donations	(1,058)	(1,113)
Other Dispositions, Additions and Deductions	(21)	6
Commodity Inventories - End of Fiscal Year	$ 22	$ 202
Less: Allowance for losses	(2)	-
Barter Delivery Obligations (BDO)	26	3
Commodity Inventories and Related Property, Net	$ 46	$ 205

Commodity loan forfeitures included in the Acquisitions line item were $2.7 million and $47 million for the fiscal years ended September 30, 2010 and 2009, respectively.

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. 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.

Note 8 – General Property and Equipment, Net

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

2010:	Acquisition Value (In Millions)	Accumulated Depreciation (In Millions)	Net Book Value (In Millions)
Equipment	$ 37	$ (37)	$ -
Capitalized Software Costs	134	(77)	57
Total General Property and Equipment	$ 171	$ (114)	$ 57

2009:	Acquisition Value (In Millions)	Accumulated Depreciation (In Millions)	Net Book Value (In Millions)
Equipment	$ 45	$ (45)	$ -
Capitalized Software Costs	114	(70)	44
Total General Property and Equipment	$ 159	$ (115)	$ 44

Note 9 – Liabilities Not Covered by Budgetary Resources

	2010 (In Millions)	2009 (In Millions)
Accrued Liabilities (Note 14)		
Conservation Reserve Program	$ -	$ 1,734
Tobacco Transition Payment Program	3,797	4,705
Environmental and Disposal Liabilities (Note 13)	8	8
Total Liabilities Not Covered by Budgetary Resources	$ 3,805	$ 6,447
Total Liabilities Covered by Budgetary Resources	$ 14,680	$ 16,095
Total Liabilities	$ 18,485	$ 22,542

Liabilities not covered by budgetary resources are liabilities for which Congressional action or OMB apportionment is needed before budgetary resources can be provided. During FY 2010, CCC obtained OMB's apportionment to fund. As a result, the related accrued liability was moved to Liabilities Covered by Budgetary Resources.

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)	
	2010	2009
Debt - Beginning of Fiscal Year		
Principal: Interest Bearing	$ 4,874	$ 5,866
Accrued Interest Payable	3	11
Total Debt Outstanding - Beginning of Fiscal Year	$ 4,877	$ 5,877
New Debt		
Principal: Interest Bearing	$ 32,793	$ 22,876
Accrued Interest Payable	6	3,014
Total New Debt	$ 32,799	$ 25,890
Repayments		
Principal: Interest Bearing	$ (34,394)	$ (23,868)
Accrued Interest Payable	(8)	(3,022)
Total Repayments	$ (34,402)	$ (26,890)
Debt - End of Fiscal Year		
Principal: Interest Bearing	$ 3,274	$ 4,874
Accrued Interest Payable	-	3
Total Debt Outstanding - End of Fiscal Year	$ 3,274	$ 4,877

CCC may borrow interest-free up to the amount of its unreimbursed realized losses. Monthly interest rates ranged from 0.250 percent to 4.375 percent during FY 2010 and from 0.375 percent to 2.000 percent during FY 2009.

There was no debt principal and interest refinanced for the period ended September 30, 2010. There was no outstanding principal rolled over for the periods ended September 30, 2010 and 2009. There was no accrued interest rolled into notes payable for the fiscal years ended September 30, 2010 and 2009. Interest expense incurred on Treasury borrowings was $126 million and $140 million for the fiscal years ended September 30, 2010 and 2009, respectively.

The FY 2010 and 2009 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 loans 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 $123 million and $122 million for the fiscal years ended September 30, 2010 and 2009, respectively.

CCC has an authorized capital stock of $100 million held by the Treasury and 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. 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 $3 million in interest expense on capital stock for both fiscal years ended September 30, 2010 and 2009.

Note 10 – Debt to the Treasury, Continued

Total debt outstanding, by program and maturity date, as of September 30, 2010, is as follows:

Program	Debt (In Millions)	Maturity Date
CCC Borrowing Authority	$ 755	January 1, 2010
Export Credit Guarantees	171	September 30, 2011
	1	September 30, 2013
	59	September 30, 2015
	44	September 30, 2018
	2	September 30, 2019
	92	September 30, 2020
	70	September 30, 2022
	65	September 30, 2024
P.L. 480 Direct Credits	162	September 30, 2018
	111	September 30, 2019
	86	September 30, 2020
	65	September 30, 2021
	85	September 30, 2022
	68	September 30, 2023
	91	September 30, 2024
	91	September 30, 2025
	56	September 30, 2026
	59	September 30, 2027
	58	September 30, 2031
	36	September 30, 2032
	30	September 30, 2033
	26	September 30, 2034
	18	September 30, 2035
Debt Reduction	10	September 30, 2012
	4	September 30, 2013
	7	September 30, 2018
	1	September 30, 2020
	9	September 30, 2021
	40	September 30, 2022
	12	September 30, 2023
	19	September 30, 2024
	15	September 30, 2026
	3	September 30, 2028
Farm Storarge Facility Loans	4	September 30, 2011
	11	September 30, 2012
	22	September 30, 2013
	48	September 30, 2014
	87	September 30, 2015
	110	September 30, 2016
	166	September 30, 2017
	405	September 30, 2018
Total Debt Outstanding	$ 3,274	

Note 11 – Deposit and Trust Liabilities

Deposit and trust liabilities are amounts advanced to or deposited with CCC, on behalf of other entities. Refer to Note 18 – Disclosures Not Related to a Specific Statement for additional information. The balances, categorized as intragovernmental and public, as of September 30 are as follows:

	(In Millions)	
	2010	2009
Intragovernmental (Note 18):		
Agricultural Marketing Service	$ 486	$ 274
Food and Nutrition Service	485	441
Foreign Agricultural Service	193	143
Natural Resources Conservation Service	192	116
Total Intragovernmental Deposit and Trust Liabilities	$ 1,356	$ 974
Public	$ 7	$ 7
Total Public Deposit and Trust Liabilities	$ 7	$ 7

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 $7 million as of September 30, 2010 and 2009, 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)	
	2010	2009
Intragovernmental:		
Resources Payable to Treasury:		
P.L.480 Direct Credit Liquidating Fund	$ 2,402	$ 2,697
Export Credit Guarantee Direct Loans Liquidating Fund	45	47
Resources Payable to Treasury	$ 2,447	$ 2,744
Accrued Reimbursements to CCC from Tobacco Trust Fund	-	11
Excess Subsidy Payable to Treasury	179	563
Accrued Conservation Reserve Program Technical Assistance	6	-
Other	18	18
Total Intragovernmental Other Liabilities	$ 203	$ 592
Public	$ 393	$ 1,257
Total Public Other Liabilities	$ 393	$ 1,257

Resources Payable to Treasury represents CCC’s liquidating fund assets (cash and loans receivable, net of an allowance) less any liabilities that may be held as working capital. Loans made in 1991 and before (pre-credit reform direct loans and assigned loan guarantees) are accounted for in liquidating funds. These funds collect loan payments and pay any related expenses or default claims. At the end of each year, any unobligated cash balance is transferred to Treasury.

As of September 30, 2010, the Public Liability included $286 million related to Brazilian Cotton Industry and $100 million related to Pigford II claim litigation. There was a reversal of a $1.15 billion contingent liability resulting from the Pigford II case that was transferred to the Farm Service Agency.

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) was discovered in groundwater. CCC recorded an estimate of the total liability for investigation and remediation of affected sites of $8 million for both fiscal years ended September 30, 2010 and 2009 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, 2010 and 2009, payments for these activities totaled $4 million and $5 million, respectively. At September 30, 2010, CCC estimates the range of potential future losses to be between $8 million and $55 million.

Note 14 – Accrued Liabilities

Accrued liabilities as of September 30 are as follows:

	(In Millions)	
	2010	2009
Conservation Reserve Program	$ 1,659	$ 1,734
Export Programs	74	135
Income Support Programs:		
Direct and Counter-Cyclical Payments	4,684	4,960
Milk Income Loss Contract	1	13
Other	9	7
Tobacco Transition Payment Program	3,797	4,705
Other	3	6
Total Accrued Liabilities	$ 10,227	$ 11,560

The liabilities for Conservation Reserve Programs were considered current as of September 30, 2010 and 2009. The liability of $3,797 million and $4,705 million under the Tobacco Transition Payment Program (TTPP) includes a current liability of $955 as of September 30, 2010 and 2009. The remaining balance was a long term liability as of September 30, 2010 and 2009. 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

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, 2010 and 2009 were $197 million and $215 million, respectively. At September 30, 2010 and 2009, CCC's undelivered orders on current contracts were $219 million and $224 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, 2010 and 2009 were $96 million and $64 million, respectively. At September 30, 2010 CCC had no undelivered orders on current contracts. CCC's undelivered orders on current contracts at September 30, 2009 were $4 million.

Commodity Acquisition

Commitments to acquire commodities represent the contract value of commodities not yet delivered under CCC purchase contracts. Such commitments amounted to $71 million and $134 million for Export Program and, $257 million and $109 million for Food for Progress at September 30, 2010 and 2009, respectively.

Commitments for the Food for Education program amounted to $173 million and $34 million as of September 30, 2010 and 2009, respectively. The Price Support processing program had commitments of $3 million and $5 million as of September 30, 2010 and 2009, respectively. As of September 30, 2010, there were no commitments for the Food Security Reserve program.

Note 15 – Commitments and Contingencies, Continued

Conservation Reserve Program (CRP)

Through CRP, eligible participants sign 10 to 15 year contracts to remove land from production in exchange for an annual rental payment. The participants also receive cost-share assistance for establishing conservation practices on the reserve acreage and additional incentive payments for adopting high-priority conservation measures. CCC estimates that the future liability for CRP rental payments through FY 2016 will average $1.8 billion annually. This estimate is based on current program levels with the assumption that expiring lands are re-enrolled and new lands are enrolled such that enrollment ranges between 30 and 32 million acres between FY 2010 and FY 2016. Accrued liabilities for CRP totaled approximately $1.7 billion for both fiscal years.

Leases

As of September 30, 2010, 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
2011	$ 5
2012	4
2013	1
2014	1
2015	1
Total	$ 12

Allocated rent expense, net of reimbursements, was $54 million for both fiscal years ended September 30, 2010 and 2009, respectively. This allocated rent expense is recognized as part of the CCC's imputed financing sources and imputed costs.

Contingencies

Legal Disputes and Claims

In the normal course of business, CCC becomes involved in various legal disputes and claims. CCC vigorously defends its position in such actions through the Office of the General Counsel (OGC) and the U.S. Department of Justice. CCC's financial statements as of September 30, 2010 included a contingent liability of $100 million for Pigford II claim litigation, a legal case for which a payment has been deemed probable. This amount has been adjusted downward from $1.25 billion as of September 30, 2009 to $100 million as of September 30, 2010, following a decision by the Department and the Office of General Counsel that $1.15 billion is a liability of the Farm Service Agency.

A contingency is considered reasonably possible when the chance of the future confirming event or events occurring is more than remote but less than probable. CCC has one ongoing case, Prime Time International Company v. Vilsack. A payment for this case has been deemed reasonably possible, and an estimated range of potential loss is between $3 million and $7 million.

No amounts have been accrued in the financial statements for claims where the amount is uncertain or where the probability of judgment against USDA 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)			
	2010		2009	
Intragovernmental Earned Revenue:				
Commodity Inventory Sales	$	788	$	921
Interest Income		26		47
Other		132		146
Less: Intra-Agency Eliminations		(788)		(921)
Total Intragovernmental Earned Revenue	$	158	$	193
Earned Revenue from the Public				
Commodity Inventory Sales	$	43	$	1,916
Interest Income		273		190
Other		47		369
Total Earned Revenue from the Public	$	363	$	2,475
Total Earned Revenue	$	521	$	2,668

Public commodity inventory sales decreased to $43 million in FY 2010 from $1,916 million in FY 2009. This decrease is due to higher upland cotton market prices, which affected commodity certificate exchanges in FY 2010. Of the total $47 million reported as other earned revenue from the public for September 30, 2010, a majority, $45 million of earned revenues, are attributable to the Tobacco Trust Fund Program.

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, Tobacco Transition Payment Program, Disaster Assistance,

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

Milk Income Loss Payments, Price Support, and Direct and Counter-Cyclical programs comprise major program activity.

Under supporting secure and affordable food and fiber, program areas include Commodity Operations, Dairy Price Support, and Food Security Reserve. Of these, 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 year ended September 30, 2010 (In Millions) is as follows:

	Commodity Operations	Income Support and Disaster Programs	Conservation Programs	Foreign Programs	Intra-entity Eliminations	Total
Supporting Productive Farms and Ranches						
Intragovernment Cost	$ 49	$ 909	$ -	$ -	$ -	$ 958
Public Cost	(1,138)	6,321	-	-	-	5,183
Total Cost	$ (1,089)	$ 7,230	$ -	$ -	$ -	$ 6,141
Intragovernment Earned Revenue	$ -	$ (1)	$ -	$ -	$ -	$ (1)
Public Earned Revenue		160	-	-	-	160
Total Earned Revenue	$ -	$ 159	$ -	$ -	$ -	$ 159
Supporting Secure and Affordable Food and Fiber						
Intragovernment Cost	$ 91	$ 28	$ -	$ -	$ -	$ 119
Public Cost	173	(13)	-	-	-	160
Total Cost	$ 264	$ 15	$ -	$ -	$ -	$ 279
Intragovernment Earned Revenue	$ 8	$ 13	$ -	$ -	$ -	$ 21
Public Earned Revenue	-	15	-	-	-	15
Total Earned Revenue	$ 8	$ 28	$ -	$ -	$ -	$ 36
Conserving Natural Resources and Enhancing the Environment						
Intragovernment Cost	$ -	$ -	$ 415	$ -	$ -	$ 415
Public Cost	-	-	2,011	-	-	2,011
Total Cost	$ -	$ -	$ 2,426	$ -	$ -	$ 2,426
Intragovernment Earned Revenue	$ -	$ -	$ -	$ -	$ -	$ -
Public Earned Revenue	-	-	1	-	-	1
Total Earned Revenue	$ -	$ -	$ 1	$ -	$ -	$ 1
Support International Economic Development and Trade Capacity Buildings						
Intragovernment Cost	$ -	$ -	$ -	$ 948	$ (788)	$ 160
Public Cost	-	-	$ -	2,566	-	2,566
Total Cost	$ -	$ -	$ -	$ 3,514	$ (788)	$ 2,726
Intragovernment Earned Revenue	$ -	$ -	-	$ 925	$ (788)	$ 137
Public Earned Revenue	-	-	$ -	188	-	188
Total Earned Revenue	$ -	$ -	- -	$ 1,113	$ (788)	$ 325
Total Gross Cost	**$ (825)**	**$ 7,245**	**$ 2,426**	**$ 3,514**	**$ (788)**	**$ 11,572**
Less: Total Earned Revenue	**8**	**187**	**1**	**1,113**	**(788)**	**521**
Net Cost of Operations	**$ (833)**	**$ 7,058**	**$ 2,425**	**$ 2,401**	**$ -**	**$ 11,051**

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

Net cost of operations for the fiscal year ended September 30, 2009 (In Millions) is as follows:

	Commodity Operations	Income Support and Disaster Programs	Conservation Programs	Foreign Programs	Intra-entity Eliminations	Total
Supporting Productive Farms and Ranches						
Intragovernment Cost	$ 54	$ 930	$ -	$ -	$ -	$ 984
Public Cost	1,175	10,523	-	-	-	11,698
Total Cost	$ 1,229	$ 11,453	$ -	$ -	$ -	$ 12,682
Intragovernment Earned Revenue	$ -	$ -	$ -	$ -	$ -	$ -
Public Earned Revenue	-	2,347	-	-	-	2,347
Total Earned Revenue	$ -	$ 2,347	$ -	$ -	$ -	$ 2,347
Supporting Secure and Affordable Food and Fiber						
Intragovernment Cost	$ 87	$ 24	$ -	$ -	$ -	$ 111
Public Cost	67	(7)	-	-	-	60
Total Cost	$ 154	$ 17	$ -	$ -	$ -	$ 171
Intragovernment Earned Revenue	$ (9)	$ 10	$ -	$ -	$ -	$ 1
Public Earned Revenue	-	14	-	-	-	14
Total Earned Revenue	$ (9)	$ 24	$ -	$ -	$ -	$ 15
Conserving Natural Resources and Enhancing the Environment						
Intragovernment Cost	$ -	$ -	$ 399	$ -	$ -	$ 399
Public Cost	-	-	1,824	-	-	1,824
Total Cost	$ -	$ -	$ 2,223	$ -	$ -	$ 2,223
Intragovernment Earned Revenue	$ -	$ -	$ -	$ -	$ -	$ -
Public Earned Revenue	-	-	1	-	-	1
Total Earned Revenue	$ -	$ -	$ 1	$ -	$ -	$ 1
Support International Economic Development and Trade Capacity Buildings						
Intragovernment Cost	$ -	$ -	$ -	$ 1,057	$ (920)	$ 137
Public Cost	-	-	-	1,612	-	1,612
Total Cost	$ -	$ -	$ -	$ 2,669	$ (920)	$ 1,749
Intragovernment Earned Revenue	$ -	$ -	$ -	$ 1,113	$ (920)	$ 193
Public Earned Revenue	-	-	-	112	-	112
Total Earned Revenue	$ -	$ -	$ -	$ 1,225	$ (920)	$ 305
Total Gross Cost	**$ 1,383**	**$ 11,470**	**$ 2,223**	**$ 2,669**	**$ (920)**	**$ 16,825**
Less: Total Earned Revenue	**(9)**	**2,371**	**1**	**1,225**	**(920)**	**2,668**
Net Cost of Operations	**$ 1,392**	**$ 9,099**	**$ 2,222**	**$ 1,444**	**$ -**	**$ 14,157**

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 year ended September 30, 2010, 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 $4.4 billion direct obligations and $22.4 billion reimbursable obligations.

For the fiscal year ended September 30, 2009, 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 $4.4 billion direct obligations and $24.2 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 $42.0 billion and $29.0 billion for the fiscal years ended September 30, 2010 and 2009, respectively.

CCC has a permanent indefinite borrowing authority, as defined by OMB Circular A-11, Preparation, Submission, and Execution of the Budget. An indefinite permanent borrowing authority becomes available pursuant to standing provisions of law without further appropriations actions by Congress after the transmittal of the budget for the year involved. CCC's authority is established annually to record the obligations of CCC; apportionment documents received for some of CCC's specific programs provide spending limitations within the borrowing authority and are subject to the Anti-Deficiency Act. The borrowing authority provides that all obligations are reported, even though subsequent appropriations or offsetting collections will ultimately be used to liquidate the obligations of the corporation. The Circular A-11 permits the Corporation to incur obligations which can exceed the $30 billion ceiling and authorizes CCC to borrow funds to liquidate the obligations. An indefinite borrowing authority ceiling limits the amount of moneys derived from borrowing from Treasury to liquidate the obligations incurred.

Per the CCC Charter Act, 15 U.S.C. 714, the Corporation's borrowing authority is made up of both interest and non-interest bearing notes. These notes are drawn upon on a daily basis when disbursements exceed deposits, as reported by the Federal Reserve Banks (FRBs), their branches, the Treasury, and CCC's financing office. CCC is authorized to issue and have outstanding at any one time bonds, notes, debentures, and other similar obligations in an aggregate amount not to exceed $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. Refer to Note 10, Debt to the Treasury, for additional information. The amount of available borrowing authority for the fiscal year ended September 30, 2010 is $11.3 billion. CCC receives an annual appropriation to fund subsidy costs incurred. In addition, CCC has permanent indefinite appropriation authority to finance disbursements made under the liquidating accounts related to the pre-Credit Reform program activities, which are not covered by available working capital.

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 $3.2 billion and $4.2 billion for the fiscal years ended September 30, 2010 and 2009, respectively.

Unobligated budget authority is the difference between the obligated balance and the total unexpended balance. It represents that portion of the unexpended balance unencumbered by recorded obligations. Appropriations are provided on an annual, multi-year, and no-year basis. 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 an additional five fiscal years. The unobligated balance remains available to make legitimate obligation adjustments, i.e., to record previously unrecorded obligations and to make upward adjustments in previously underestimated obligations for five years. At the end of the fifth year, the authority is canceled. Thereafter, the authority is not available for any purpose.

No contributed capital was received during the reporting periods.

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

Any information about legal arrangements affecting the use of the unobligated balance of budget authority is specifically stated by program and fiscal year in the appropriation language or in the alternative provisions section at the end of the appropriations act. CCC does not have obligations from canceled appropriations.

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 2012* are not available for FY 2010, the reconciliation between the President's Budget and the SBR for FY 2010 cannot be performed. The *Budget of the United States Government, Fiscal Year 2012* is expected to be published in February 2011 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 2010 will be reconciled to the FY 2010 actuals on the P&F Schedules reported in the *Budget of the United States Government, Fiscal Year 2012*, once released.

The SF-133 and the SBR for FY 2009 have been reconciled to the FY 2009 actuals on the P&F Schedules presented in the *Budget of the United States Government, Fiscal Year 2011*. While Net Outlays reconcile between the P&F Schedules and the SF-133, Gross Outlays and Offsetting Collections show variances due to reporting differences related to advances from the Agricultural Marketing Service (AMS) and Food and Nutrition Service (FNS) by Treasury. Currently, both AMS and FNS have agreed to change their reporting practices in order to reconcile at Gross Outlays and Offsetting Collections.

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 2009 SBR to the actual on the FY 2009 P&F Schedules presented in the *Budget of the United States Government, Fiscal Year 2011 is* as follows.

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	4,614	4,611	3		
2	22.10/73.40	Recoveries of Prior Year Obligations	192	220	(28)		c
3A	40.00/60.00	Appropriations Received	15,444	15,445	(1)		
3B	67.10	Authority to Borrow	29,210	24,614	4,596	4,597	a
3D1a/3D2a/3D5	58.00/68.00/69.00	Offsetting Collections - Collected	13,559	13,558	1		
3D1b/3D2b	69.10/74.00	Offsetting Collections - Receivable	(107)	(107)	-		
4	41.00/42.00/22.21/22.22/61.00/62.00	Budgetary Resources/Unobligated Balance - Net Transfers	(2,241)	(2,242)	1		
6	22.40/22.60/40.35/40.36/69.27/69.47	Permanently not Available	(29,028)	(24,429)	(4,599)	(4,597)	a
7 or 11	23.90	Total Budgetary Resources/Status of Budgetary Resources	31,643	31,668	(25)		c
8	10.00	Total New Obligations	28,652	28,681	(29)		c
9/10	24.40	Unobligated Balance - End of Year	2,991	2,989	2		
12	72.40	Obligated Balance - Beginning of Year	7,651	7,560	91		b
13	73.10	Obligations Incurred	28,652	28,681	(29)		c
14	73.20	Gross Outlays	(26,927)	(26,836)	(91)		b
16	73.45	Recoveries of Prior Year Obligations	(192)	(220)	28		c
17	74.00/74.10	Change in Uncollected Customer Payments from Federal Sources	107	107	-		
18	74.40	Obligated Balance - End of Year	9,291	9,292	(1)		
19A/19B	90.00	Outlays	13,368	13,278	90		b

NOTES:

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

a. The variance in the Revolving Fund, fund 12X4336, and the Farm Storage Facility and Sugar Storage Facility Loans Financing Fund, fund 12X4158, is due to the differences between the Program and Finance (P&F) and Statement of Budgetary Resources (SBR) crosswalks. The P&F crosswalk records standard general ledger (SGL) account 4143, Decreases to Indefinite Borrowing Authority, in Line 3B Borrowing Authority. However, the SBR crosswalk reports SGL account 4143 to Line 6, Permanently not Available. The variances between Line 3B and Line 6 offset.

b. OMB instructed CCC to zero out the FY 2008 balances for Treasury symbol 12X5310, Export Guarantee Program, Negative Subsidies, in FACTS II. Treasury symbol 12X5310 was reported on the FY 2008 SBR, and its ending balances have carried over to beginning balances on the FY 2009 SBR. This variance existed throughout FY 2009.

c. The variance in the Export Credit Guarantee Program Fund, fund 12X1336, reflects a corrective action taken to resolve an abnormal balance in FY 2009. The SGL account used 4971, Downward Adjustments of Prior-Year Unpaid Delivered Orders - Obligations, Recoveries, closed to the SGL account 4901, Delivered Orders - Unpaid.

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, 2010 and 2009, outlays under reimbursable agreements with other USDA agencies amounted to $29 million and $35 million, respectively.

For the fiscal years ended September 30, 2010 and 2009, CCC received $19 and $17 million respectively from FSA for the allocation of internal software development costs, which are 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, 2010 and 2009 were $159 million and $170 million, respectively.

For the fiscal years ended September 30, 2010 and 2009, CCC transferred $21 million and $24 million, respectively, to FNS for the Senior's Farmers Market Nutrition Program. CCC transferred $452 million in FY 2010 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 $1 million to the Office of the CFO for bio-diesel fuel education and bio-based products, $62 million to AMS for commodity assistance program and marketing service, and $28 million to the Rural Business and Cooperative Development Service for biomass research and development in FY 2010. Also in FY 2010, CCC transferred $109 million to Cooperative State Research, Education, and Extension Service (CSREES) for the national agricultural higher education, research, and extension system which are designed to address national problems and needs related to agriculture, the environment, human health and well being, and communities.

For the fiscal years ended September 30, 2010 and 2009, CCC disbursed a total of $2.9 billion and $2.2 billion, respectively, on behalf of NRCS for various conservation programs and technical assistance. In addition, for the fiscal year ended September 30, 2010 CCC disbursed $54 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, 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. Also in FY 2010, CCC transferred $6 million to other USDA agencies including Farm Service Agency (FSA) and Risk Management Agency.

CCC also transferred 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 Year ended September 30 are as follows:

	(In Millions)	
	2010	2009
Revenue Activity:		
Sources of Cash Collections:		
Repayment of Farm Credit Loans	$ 1,360	$ 1,202
Administrative and Other Service Fees	61	13
Total Cash Collections	$ 1,421	$ 1,215
Total Custodial Revenue	$ 1,421	$ 1,215
Disposition of Collections:		
Transfers to Others:		
USDA Farm Service Agency	$ 1,387	$ 1,211
Other USDA Agencies	32	13
Department of Treasury	2	13
Total Disposition of Collections	$ 1,421	$ 1,237
Increase/Decrease in Amounts Yet to be Transferred (+/-)	-	$ (22)
	-	
Net Custodial Activity	$ -	$ -

Note 19 – Reconciliation of Net Cost of Operations to Budget

Budgetary and proprietary accounting information are inherently different because of the types of information and the timing of their recognition. The Reconciliation of Net Cost of Operations to Budget provides a link between budgetary and proprietary accounting information. It serves not only to explain how information on net obligations relates to the net cost of operations but also to assure integrity between budgetary and proprietary accounting.

Net obligations and the net cost of operations are different because (1) the net cost of operations may be financed by non-budgetary resources (e.g. imputed financing); (2) the budgetary and non-budgetary resources used may finance activities which are not components of the net cost of operations; and (3) the net cost of operations may contain components which do not use or generate resources in the current period.

Note 19 – Reconciliation of Net Cost of Operations to Budget, Continued

The Reconciliation of Net Cost of Operations to Budget for the fiscal year ended September 30, 2010 is as follows:

	(In Millions)	
	2010	2009
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	$ 26,793	$ 28,652
Less: Spending Authority from Offsetting Collections and Recoveries	14,475	13,644
Obligations Net of Offsetting Collections and Recoveries	$ 12,318	$ 15,008
Less: Offsetting Receipts	576	473
Net Obligations	$ 11,742	$ 14,535
Other Resources:		
Transfers In/Out without Reimbursement, Net	$ (232)	$ (550)
Imputed Financing from Costs Absorbed by Others	1,378	1,334
Other	(12)	-
Net Other Resources Used to Finance Activities	$ 1,134	$ 784
Total Resources Used to Finance Activities	**$ 12,876**	**$ 15,319**
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	$ 950	$ (1,681)
Resources that Fund Expenses Recognized in Prior Periods	(2,434)	(764)
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	723	760
Change in Unfilled Customer Orders	318	108
Decrease in Exchange Receivables from the Public	6,708	5,791
Other	117	166
Resources that Finance the Acquisition of Assets	(8,288)	(9,771)
Other Resources or Adjustments to Net Obligated Resources that Do Not Affect Net Cost of Operations	862	(489)
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	**$ (1,044)**	**$ (5,880)**
Total Resources Used to Finance the Net Cost of Operations	**$ 11,832**	**$ 9,439**
Total Resources Used to Fund Items Not Part of the Net Cost of Operations		
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	$ 173	$ 100
(Increase) in Exchange Revenue Receivable from the Public	(68)	89
Other	(1,174)	1,064
Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods	$ (1,069)	$ 1,253
Components not Requiring or Generating Resources:		
Depreciation and Amortization	1	(38)
Revaluation of Assets or Liabilities	18	29
Other Components not Requiring or Generating Resources:		
Bad Debt Expense	137	(523)
Cost of Goods Sold	835	2,803
Other	(703)	1,194
Total Components of Net Cost of Operations that will not Require or Generate Resources	$ 288	$ 3,465
Total Components of Net Cost of Operations that will not Require or Generate Resources in the Current Period	**$ (781)**	**$ 4,718**
Net Cost of Operations	**$ 11,051**	**$ 14,157**

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, 2010
(Dollars in Millions)

	12X4336	12X2278	12X8161	(72)12X2278	12X1336	Other	Total Budgetary
Budgetary Resources:							
Unobligated balance, brought forward, October 1:	$ 1,342	$ 237	$ -	$ 21	$ 316	$ 103	$ 2,019
Recoveries of prior year unpaid obligations	1,245	-	-	73	5	9	1,332
Budget authority:						-	
Appropriation	-	1,840	937	-	68	15,169	18,014
Borrowing authority (Note 17)	39,064	-	-	-	-	-	39,064
Spending authority from offsetting collections:							
Earned:							
Collected	10,769	93	-	-	-	433	11,295
Change in receivables from Federal sources	(62)	75	-	-	-	-	13
Change in unfilled customer orders:							
Advance received	382	-	-	-	-	-	382
Expenditure transfers from trust funds	937	-	-	-	-	-	937
Subtotal	$ 51,090	$ 2,008	$ 937	$ -	$ 68	$ 15,602	$ 69,705
Nonexpenditure transfers, net, actual	11,470	(1,249)	-	1,249	-	(15,087)	(3,617)
Permanently not available	(41,152)	-	-	-	-	(434)	(41,586)
Total Budgetary Resources	$ 23,995	$ 996	$ 937	$ 1,343	$ 389	$ 193	$ 27,853
Status of Budgetary Resources:							
Obligations incurred:							
Direct	$ -	$ 736	$ 937	$ 1,343	$ 58	$ 53	$ 3,127
Reimbursable	22,371	-	-	-	-	67	22,438
Subtotal	$ 22,371	$ 736	$ 937	$ 1,343	$ 58	$ 120	$ 25,565
Unobligated balance:							
Apportioned	-	185	-	87	10	23	305
Exempt from apportionment	1,188	-	-	-	-	-	1,188
Subtotal	$ 1,188	$ 185	$ -	$ 87	$ 10	$ 23	$ 1,493
Unobligated balance not available	436	75	-	(86)	322	48	795
Total Status of Budgetary Resources	$ 23,995	$ 996	$ 937	$ 1,344	$ 390	$ 191	$ 27,853

Schedule 1
Supporting Schedule to the Combined Statements of Budgetary Resources
Budgetary Accounts

For the Fiscal Year Ended September 30, 2010
(Dollars in Millions)

Change in Obligated Balance:	12X4336	12X2278	12X8161	(72)12X2278	12X1336	Other	Total Budgetary
Obligated balance, net							
Unpaid obligations, brought forward, October 1	$ 7,803	$ 251	$ -	$ 849	$ 11	$ 628	$ 9,542
Less: Uncollected customer payments from Federal sources, brought forward, October 1	(233)	-	-	-	-	-	(233)
Total unpaid obligated balance, net	$ 7,570	$ 251	$ -	$ 849	$ 11	$ 628	$ 9,309
Obligations incurred, net	22,371	736	937	1,343	58	120	25,565
Less: Gross outlays	(20,877)	(834)	(937)	(899)	(64)	(270)	(23,881)
Less: Recoveries of prior year unpaid obligations, actual	(1,245)	-	-	(73)	(5)	(9)	(1,332)
Change in uncollected customer payments from Federal sources	62	(75)	-	-	-	-	(13)
Total Change in Obligated Balance	$ 7,881	$ 78	$ -	$ 1,220	$ -	$ 469	$ 9,648
Obligated balance, net, end of period:							
Unpaid obligations	$ 8,052	$ 153	$ -	$ 1,220	$ -	$ 469	$ 9,894
Less: Uncollected customer payments from Federal sources	(171)	(75)	-	-	-	-	(246)
Total, unpaid obligated balance, net, end of period	$ 7,881	$ 78	$ -	$ 1,220	$ -	$ 469	$ 9,648
Net Outlays:							
Gross outlays	$ 20,877	$ 834	$ 937	$ 899	$ 64	$ 270	$ 23,881
Offsetting collections	(12,088)	(93)	-	-	-	(433)	(12,614)
Total Net Outlays	$ 8,789	$ 741	$ 937	$ 899	$ 64	$ (163)	$ 11,267

The accompanying notes are an integral part of these statements.

Schedule 1
Required Supplementary Information (Unaudited)

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

For the Fiscal Year Ended September 30, 2010
(Dollars in Millions)

	12X4049	12X4337	12X4158	Other	Total Non-Budgetary
Budgetary Resources:					
Unobligated balance, brought forward, October 1:	$ 607	$ 265	$ 35	$ 65	$ 972
Recoveries of prior year unpaid obligations	-	-	34	$ -	34
Budget authority:					
Borrowing authority (Note 17)	381	299	519	-	1,199
Spending authority from offsetting collections:					
Earned:					
Collected	138	158	139	66	501
Change in unfilled customer orders:					
Without advance from Federal sources	-	(10)	(8)	(1)	(19)
Subtotal	$ 519	$ 447	$ 650	$ 65	$ 1,681
Permanently not available	-	(91)	(257)	-	(348)
Total Budgetary Resources	$ 1,126	$ 621	$ 462	$ 130	$ 2,339
Status of Budgetary Resources:					
Obligations incurred:					
Direct	$ 493	$ 329	$ 375	$ 31	$ 1,228
Subtotal	$ 493	$ 329	$ 375	$ 31	$ 1,228
Unobligated balance:					
Apportioned	523	235	70	33	861
Exempt from apportionment	-	5	-	-	5
Subtotal	$ 523	$ 240	$ 70	$ 33	$ 866
Unobligated balance not available	110	52	17	66	245
Total Status of Budgetary Resources	$ 1,126	$ 621	$ 462	$ 130	$ 2,339

Schedule 1
Supporting Schedule to the Combined Statements of Budgetary Resources
Non-Budgetary Credit Program Financing Accounts

For the Fiscal Year Ended September 30, 2010
(Dollars in Millions)

Change in Obligated Balance:	**12X4049**	**12X4337**	**12X4158**	**Other**	**Total Non-Budgetary**
Obligated balance, net					
Unpaid obligations, brought forward, October 1	$ -	$ -	$ 159	$ -	$ 159
Less: Uncollected customer payments from Federal sources, brought forward, October 1	(43)	(125)	(9)	-	(177)
Total unpaid obligated balance, net	$ (43)	$ (125)	$ 150	$ -	$ (18)
Obligations incurred, net	493	329	375	31	1,228
Less: Gross outlays	(493)	(317)	(274)	(31)	(1,115)
Less: Recoveries of prior year unpaid obligations, actual	-	-	(34)	-	(34)
Change in uncollected customer payments from Federal sources	-	10	8	1	19
Total Change in Obligated Balance	$ (43)	$ (103)	$ 225	$ 1	$ 80
Obligated balance, net, end of period:					
Unpaid obligations	$ -	$ 12	$ 226	$ -	$ 238
Less: Uncollected customer payments from Federal sources	(43)	(115)	(1)	1	(158)
Total, unpaid obligated balance, net, end of period	$ (43)	$ (103)	$ 225	$ 1	$ 80
Net Outlays:					
Gross outlays	$ 493	$ 317	$ 274	$ 31	$ 1,115
Offsetting collections	(138)	(158)	(139)	(66)	(501)
Less: Distributed Offsetting receipts	(431)	(127)	(18)	-	(576)
Total Net Outlays	$ (76)	$ 32	$ 117	$ (35)	$ 38

The accompanying notes are an integral part of these statements.

Part IV: Other Accompanying Information (Unaudited)

Schedule 2
Other Accompanying Information (Unaudited)
Change in Inventory by Commodity
For the Fiscal Year Ended September 30, 2010
(Dollars in Thousands)

	Unit of	Beginning Inventory October 1, 2009		Acquisitions		Cost of Sales a/		Donations		Other Additions, Net c/		Other Dispositions b/		Deductions, Net c/		Ending Inventory September 30, 2010	
	Measure	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value
Feed Grains:																	
Barley	Bushels	-	-	15	33	-	-	-	-	(15)	(33)	-	-	-	-	-	-
Corn	Bushels	-	-	-	-	-	-	(20)	(123)	20	123	-	-	-	-		
Corn Meal	Pounds	17,573	3,108	234,724	36,200	(250,132)	(38,953)	-	-	-	-	-	-	-	-	2,165	355
Oats	Bushels	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Grain Sorghum	Bushels	110	588	21,143	92,249	(21,253)	(92,837)	-	-	-	-	-	-	-	-	-	
Sorghum Grits	Pounds	-	-	-	-	-	-	-	-			-	-	-	-		
Total Feed Grains		XXX	$ 3,696	XXX	$ 128,482	XXX	$ (131,790)	XXX	$ (123)	XXX	$ 90	XXX	$ -	XXX	$ -	XXX	$ 355
Wheat	Bushels	-	-	36,297	207,969	(32,952)	(186,985)	(3,307)	(20,864)	(37)	(120)	-	-	-	-	-	-
Wheat Flour	Pounds	17,639	3,534	361,314	60,207	(379,009)	(63,762)	88	27	-	-	-	-	-	-	33	6
Wheat Products, Other	Pounds			150,164	22,094	(138,285)	(20,055)	-	-	-	-	-	-	-	-	11,879	2,040
Total Wheat		XXX	$ 3,534	XXX	290,270	XXX	(270,801)	XXX	(20,837)	XXX	(120)	XXX	-	XXX	-	XXX	2,046
Rice Products:																	
Rice Products	Cwt.	4	109	3,520	86,674	(3,352)	(82,391)	-	-	-	-	-	-	-	-	172	4,391
Total Rice Products		XXX	109	XXX	86,674	XXX	(82,391)	XXX	-	XXX		XXX	-	XXX	-	XXX	4,391
Cotton, Extra Long Staple	Bales	-	-	-	2	-	-	-	-	-	(2)	-	-	-	-	-	-
Cotton, Upland	Bales	-	-	179	45,870	(177)	(45,354)	-	-	(2)	(516)	-	-	-	-	-	-
Total Cotton		XXX	-	XXX	45,872	XXX	(45,354)	XXX	-	XXX	(518)	XXX	-	XXX	-	XXX	-
Dairy Products																	
Butter	Pounds																
Nonfat Dry Milk	Pounds	223,725	184,499	132	126	(1,000)	(825)	(52,190)	(59,808)	(164,924)	(118,279)	814	369	-	-	6,558	6,081
Cheese Regular Price Support	Pounds	-	-	(706)	(992)	-	-	(41,545)	(36,937)	42,251	37,929	-	-	-	-	-	-
Cheese Variety	Pounds	-	-	21,216	45,646	-	-	(21,216)	(45,646)	-	-	-	-	-	-	-	-
Ultra High Temperature Milk	Pounds	-	-	(2,877)	(1,287)	-	-	(123,997)	(31,563)	126,875	32,850	-	-	-	-	-	-
Total Dairy Products		XXX	184,499	XXX	43,493	XXX	(825)	XXX	(173,954)	XXX	(47,500)	XXX	369	XXX	-	XXX	6,081
Peanuts	Pounds	-	-	13,041	2,431	(2,427)	(413)	-	-	(10,614)	(2,018)	-	-	-	-	-	-

Schedule 2
Other Accompanying Information (Unaudited)
Change in Inventory by Commodity, Continued
For the Fiscal Year Ended September 30, 2010
(Dollars in Thousands)

	Unit of	Beginning Inventory October 1, 2009		Acquisitions		Cost of Sales a/		Donations		Other Additions, Net c/		Other Dispositions b/		Deductions, Net c/		Ending Inventory September 30, 2010	
	Measure	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value
Soybean Products	Bushels	-	-	3	36	(3)	(36)	-	-	-	-	-	-	-	-	-	-
Soybean Products	Pounds	-	-	54,465	9,996	18,725	4,018	(73,191)	(14,014)	-	-	-	-	-	-	-	-
Dry Edible Beans	Cwt.	12	541	821	30,192	(784)	(28,899)	-	-	-	-	-	-	-	-	49	1,834
Blended Foods	Pounds	13,268	3,285	286,369	64,642	(284,028)	(64,221)	-	-	-	-	-	-	-	-	15,609	3,707
Honey	Pounds	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Meat	Pounds	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Pork Bellies	Pounds	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dry Whole Peas	Cwt.	166	3,127	2,739	46,680	(2,902)	(49,736)	-	-	-	-	-	-	-	-	3	71
Lentils Dry	Cwt.	-	-	845	29,616	(845)	(29,616)	-	-	-	-	-	-	-	-	-	-
Soybean Salad Oil	Pounds	-	-	49,203	19,045	(26,140)	(9,987)	(23,063)	(9,058)	-	-	-	-	-	-	-	-
Vegetable Oil	Pounds	5,525	3,365	265,060	148,363	(221,202)	(124,828)	(44,589)	(24,136)	551	322	-	-	-	-	5,345	3,086
Veg Cnd Veg Soup	Pounds	-	-	-	-	-	-	(191,092)	(6,355)	191,092	6,355	-	-	-	-	-	-
Veg Cnd Tomatoes-Soup	Pounds	-	-	-	-	-	-	(232,866)	(6,819)	232,866	6,819	-	-	-	-	-	-
Carton -Soup		-	-	-	-	-	-	(587,175)	(15,198)	587,175	15,198	-	-	-	-	-	-
Subtotal		XXX	10,318	XXX	351,001	XXX	(303,717)	XXX	(75,580)	XXX	26,676	XXX	-	XXX	-	XXX	8,698
Total Inventory Operations		XXX	202,156	XXX	945,791	XXX	(46,888)	XXX	(1,058,484)	XXX	(21,372)	XXX	369	XXX	-	XXX	21,570

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 Management Assurances

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 Payment Information Act (IPIA) 2002 Compliance

Executive Order 13520 of November 20, 2009, Reducing Improper Payments, directed agencies to continue efforts to identify and recover improper payments. The reduction of improper payments remains a key goal for agencies. The Farm Service Agency (FSA), under the direction of the Department of Agriculture Chief Financial Officer (OCFO), annually reviews programs to identify if any are susceptible to significant improper payments. The Office of Management and Budget (OMB) is responsible for developing implementation guidance for 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 OCFO. Current OCFO guidance requires that over the course of a three-year period, all agency programs will be risk assessed to determine their level of risk for improper payments. The risk assessment determines whether each program is at a low or high risk for improper payments. Key elements of the risk assessment process include identifying potential vulnerabilities within the program and internal controls in place to address those vulnerabilities. A Test of Transactions (TOT) sample may be performed on select programs to further determine their level of risk. The TOT is conducted based on guidance issued by the OCFO on an annual basis.

As part of the IPIA compliance efforts and the risk assessment review process, the OCFO and or OMB may conclude that a program should be categorized as 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 sample of payment transactions to determine the projected annual amount of improper payments for the program being reviewed. Based on the findings (amount and type of errors), FSA then must develop a Correction Action Plan (CAP) for reducing improper payments and establish performance goals.

As part of the Fiscal Year 2010 IPIA Review Cycle, FSA completed risk assessments of seven programs identified as high risk. The seven high risk programs were Marketing Assistance Loan Program, Loan Deficiency Payments, Milk Income Loss Contract Program, Conservation Reserve Program, Direct and Counter-Cyclical Payments, Noninsured Assistance Program, and Disaster Programs. A comparison of the FY 2010 Statistical Sample results to FY 2009 is shown below.

	IMPROPER PAYMENTS INFORMATION ACT (IPIA) COMPLIANCE[1]									
	Value of Total Outlays ($ millions)		Improper Payments ($ millions)		Value of Administrative Errors ($ millions)		Value of Incorrect Disbursements ($ millions)		Percent Incorrect Disbursements	
Program	FY 2009	FY 2010	FY 2009	FY 2010	FY 2009	FY 2010	FY 2009	FY 2010	FY 2009	FY 2010
MAL	$4,935	$4,151	$85.4	$34.7	$80.2	$30.9	$5.3	$3.8	0.16%	0.09%
LDP[2]	NA	$114	NA	$.463	NA	$0	NA	$.471	NA	0.44%
MILC[3]	NA	$602	NA	$4.7	NA	$1.0	NA	$3.7	NA	0.52%
CRP	$1,876	$1,814	$11.2	$23.7	$5.8	$15.0	$6.8	$9.2	0.44%	0.47%
DCP	$4,948	$5,921	$19.5	$55.6	$15.1	$12.9	$7.9	$42.7	0.17%	0.74%
NAP	$67	$59	$8.3	$6.7	$5.4	$4.2	$3.7	$3.3	6.4%	5.63%
Disaster	$2,245	$108	$19.2	$5.1	$2.3	$1.1	$17.8	$4.0	0.84%	3.56%

[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.
[2] Due to the low volume of payment activity in FY 2008, Loan Deficiency Payments were not reviewed.
[3] Due to the low volume of payment activity in FY 2008, the Milk Income Loss Contract Program was not reviewed.

As FSA moves forward and awaits the issuance of guidance by OMB related to further implementation of the Presidential Executive Order as well as the Improper Payment Elimination and Recovery Act of 2010 (IPERA), other key developments that have recently taken place and those that will take place in the near future include:

- Issuance of draft guidance related to the risk assessment of those programs receiving Recovery Act funds.
- The Office of the Inspector General will be having an entrance conference to explain to agencies their plan for reviewing agency recovery efforts of improper payments for those programs currently identified as high risk.
- The OIG is also in the process of having a Planning Conference related to IPIA in which all agencies will participate.
- "Root Causes" of improper payments are also being reported as part of the statistical sample review to help focus on those areas which will provide for the most "Return on Investment" (ROI) efforts.
- FSA has also participated on OMB workgroups to help develop future guidance related to IPIA. This is a result of past and present successful efforts related to reducing improper payment amounts for agency programs.

Glossary of Acronyms

ADA	Anti-deficiency 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

Glossary of Acronyms

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

SAP Systems Applications Products

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 Agro-terrorism

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