United States Department of Agriculture
Office of Inspector General

Commodity Credit Corporation's Financial Statements for Fiscal Years 2012 and 2011



Audit Report 06401-0002-11

November 2012

United States Department of Agriculture
Office of Inspector General
Washington, D.C. 20250

DATE: November 9, 2012

AUDIT
NUMBER: 06401-0002-11

TO: Board of Directors
Commodity Credit Corporation

ATTN: Philip Sharp
Director
Operations Review and Analysis Staff
Farm Service Agency

FROM: Gil H. Harden
Assistant Inspector General for Audit

SUBJECT: Commodity Credit Corporation's Financial Statements for
Fiscal Years 2012 and 2011

This report presents the results of the audit of Commodity Credit Corporation's (CCC) financial statements for the fiscal years ending September 30, 2012 and 2011. The report contains an unqualified opinion on the financial statements, as well as an assessment of CCC's internal controls over financial reporting and compliance with laws and regulations.

CliftonLarsonAllen LLP, an independent certified public accounting firm, conducted the audit. In connection with the contract, we reviewed CliftonLarsonAllen LLP's report and related documentation and inquired of its representatives. Our review, as differentiated from an audit in accordance with government auditing standards (issued by the Comptroller General of the United States), was not intended to enable us to express, and we do not express, opinions on CCC's financial statements, internal control or on whether CCC's financial management systems substantially complied with the Federal Financial Management Improvement Act (FFMIA); or conclusions on compliance with laws and regulations. CliftonLarsonAllen LLP is responsible for the attached auditor's report, dated November 5, 2012, and the conclusions expressed in the report. However, our review disclosed no instances where CliftonLarsonAllen LLP did not comply, in all material respects, with government auditing standards and the Office of Management and Budget Bulletin 07-04, *Audit Requirements for Federal Financial Statements,* as amended.

It is the opinion of CliftonLarsonAllen LLP, that the financial statements present fairly, in all material respects, CCC's financial position as of September 30, 2012, and 2011 and its net costs, changes in net position, and budgetary resources for the years then ended, in conformity with generally accepted accounting principles.

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

- funds control, and
- controls over child agency financial reporting.

CliftonLarsonAllen LLP considered the first significant deficiency to be a material weakness. The results of CliftonLarsonAllen LLP's tests of compliance with laws and regulations disclosed substantial noncompliance with FFMIA for the United States Standard General Ledger at the transaction level.

U.S. DEPARTMENT OF AGRICULTURE
COMMODITY CREDIT CORPORATION

September 30, 2012

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CliftonLarsonAllen

CliftonLarsonAllen LLP
www.cliftonlarsonallen.com

INDEPENDENT AUDITOR'S REPORT

To the Inspector General
U.S. Department of Agriculture

To the Board of Directors
Commodity Credit Corporation:

We have audited the accompanying consolidated balance sheets of the Commodity Credit Corporation (CCC) as of September 30, 2012 and 2011, and the related consolidated statements of net cost and changes in net position, and the combined statements of budgetary resources ("financial statements") for the years then ended. The objective of our audit was to express an opinion on the fairness of these financial statements. In connection with our audit, we also considered the internal control over financial reporting and considered CCC's compliance with laws and regulations. In our audit, we found:

- The financial statements, including the accompanying notes, are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America (U.S.);
- One material weakness and one significant deficiency in internal control over financial reporting (including safeguarding of assets) and compliance;
- No instance of noncompliance with selected provisions of laws and regulations tested, exclusive of the Federal Financial Management Improvement Act (FFMIA); and
- Not in substantial compliance with the FFMIA Section 803 (a) on the application of the U.S. Standard General Ledger (USSGL) at the transaction level.

We also noted non-reportable matters that we will communicate to CCC in a separate management letter that will be dated November 5, 2012.

The following sections and exhibits discuss in more detail: (1) above conclusions, (2) our conclusions on Management's Discussion and Analysis (MD&A) and other accompanying information, (3) our responsibility for the audit, (4) management's responsibility for the financial statements, (5) management's response and our evaluation of their response, and (6) the current status of prior year findings and recommendations.

Opinion on the Financial Statements

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of CCC as of September 30, 2012 and 2011, and its net costs; changes in net position; and budgetary resources for the years then ended in conformity with accounting principles generally accepted in the U.S.

As discussed in Note 1 to the consolidated financial statements, CCC changed its presentation for reporting the Statement of Budgetary Resources in fiscal year 2012, based on new reporting requirements under OMB Circular A-136, *Financial Reporting Requirements*. As a result, CCC's Statement of Budgetary Resources for fiscal year 2011 has been adjusted to conform to the current year presentation.

Report on Internal Control over Financial Reporting and Compliance

In planning and performing our audit, we considered CCC's internal control over financial reporting and compliance (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of CCC's internal control or on management's assertion on internal control included in the MD&A. Accordingly, we do not express an opinion on the effectiveness of CCC's internal control or on management's assertion on internal control included in the MD&A.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a control deficiency, or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described above and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we identified a deficiency in internal control described in Exhibit 1 that we consider to be a material weakness and a combination of deficiencies described in Exhibit 2 that we consider to be a significant deficiency.

Also, as required by OMB Bulletin 07-04, as amended, *Audit Requirements for Federal Financial Statements,* we compared the material weakness disclosed during the audit with those material weaknesses reported in the CCC's Federal Managers Financial Integrity Act (FMFIA) report that relate to the financial statements. Our audit did not identify any material weaknesses that were not identified by CCC in their FMFIA report.

Report on Compliance and Other Matters

In connection with our audit, we performed tests of CCC's compliance with selected provisions of applicable laws and regulations. The results of our tests disclosed no instances of noncompliance that are required to be reported in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States or OMB Bulletin 07-04, as amended. However, the objective of our audit was not to provide an opinion on compliance with laws and regulations. Accordingly, we do not express such an opinion.

Under FFMIA, we are required to report whether the financial management systems used by CCC substantially comply with the (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the USSGL at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA Section 803(a) requirements.

The objective of our audit was not to provide an opinion on CCC's compliance with FFMIA. Accordingly, we do not express such an opinion. However, the results of our tests of FFMIA disclosed one instance in which CCC's financial management systems did not substantially comply with Section 803(a) requirement on the application of the USSGL at the transaction level. Application of the USSGL at the transaction level means that each time an approved transaction is recorded in the system; it will generate appropriate general ledger accounts for posting the transaction according to the rules defined in the USSGL guidance. See Exhibit 1 material weakness for the facts pertaining to the noncompliance, including the nature and extent of the noncompliance, and the primary reason or cause of the noncompliance.

Status of Prior Year's Findings and Recommendations

We have reviewed the status of CCC's corrective actions with respect to the findings and recommendations included in last year's Independent Auditor's Report. The status of prior year's findings and recommendations is presented in Exhibit 3.

Other Information

Accounting principles generally accepted in the U.S. require that CCC's MD&A and other required supplementary information (including stewardship information) be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the MD&A and required supplementary information in accordance with auditing standards generally accepted in the U.S., which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The performance section and other accompanying information section are presented for additional analysis and are not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Management's Responsibility for the Financial Statements

CCC management is responsible for (1) preparing the financial statements in conformity with accounting principles generally accepted in the U.S., (2) designing, implementing, and maintaining internal control to provide reasonable assurance that the broad control objectives of FMFIA are met, (3) ensuring that CCC's financial management systems substantially comply with FFMIA requirements, and (4) complying with other applicable laws, regulations, and government-wide policies.

Auditor's Responsibility

We are responsible for conducting our audit in accordance with auditing standards generally accepted in the U.S.; the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin 07-04, as amended. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the U.S. We are also responsible for: (1) obtaining a sufficient understanding of internal control over financial reporting and compliance to plan the audit, (2) testing whether CCC's financial management systems substantially comply with the FFMIA requirements referred to above, (3) testing compliance with selected provisions of laws, regulations, government-wide policies, laws identified in Appendix E of OMB Bulletin 07-04, as amended, and other applicable laws and regulations that could have a direct and material effect on the financial statements, and (4) performing limited procedures with respect to certain other information appearing in the published Annual Financial Report.

In order to fulfill these responsibilities, we (1) examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements; (2) assessed the appropriateness of the accounting policies used and the reasonableness of significant estimates made by management; (3) evaluated the overall presentation of the financial statements; (4) obtained an understanding of CCC and its operations, including its internal control related to financial reporting (including safeguarding of assets) and compliance with laws and regulations (including execution of transactions in accordance with budget authority); (5) evaluated the effectiveness of the design of internal control; (6) tested the operating effectiveness of relevant internal controls over financial reporting and compliance; (7) considered the design of the process for evaluating and reporting on internal control and financial management systems under FMFIA; (8) tested whether CCC's financial management systems substantially complied with the FFMIA requirements; and (9) tested compliance with selected provisions of certain laws and regulations. The procedures selected depend on the auditor's judgment, including our assessment of risks of material misstatement of the financial statements, whether due to fraud or error. We believe we obtained sufficient and appropriate audit evidence on which to base our conclusions.

We did not evaluate all internal controls relevant to operating objectives as broadly defined by the FMFIA, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to controls over financial reporting and compliance. Because of inherent limitations in internal control, misstatements due to error or fraud, losses, or noncompliance may nevertheless occur and not be detected. We also caution that projecting our audit results to future periods is subject to risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate. In addition, we caution that our internal control testing may not be sufficient for other purposes.

We did not test compliance with all laws, regulations, and government-wide policies applicable to CCC. We limited our tests of compliance to selected provisions of laws, regulations, and government-wide policies, applicable laws identified in Appendix E of OMB Bulletin 07-04, as amended, and other applicable laws and regulations that could have a direct and material effect on the CCC's financial statements for the fiscal year ended September 30, 2012. We caution that noncompliance with laws and regulations may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

CCC's Comments and our Evaluation

Management's response to our report is presented in Exhibit 4. We did not audit CCC's response and, accordingly, we express no opinion on it.

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

CliftonLarsonAllen LLP

Calverton, Maryland
November 5, 2012

U.S. DEPARTMENT OF AGRICULTURE
COMMODITY CREDIT CORPORATION
INDEPENDENT AUDITOR'S REPORT EXHIBIT 1
September 30, 2012

MATERIAL WEAKNESS

1. Funds Control (Modified Repeat Finding)

During the year, CCC has made significant progress in its control over funds management specific to recording obligations at the transaction level. However, CCC still has not achieved full funds control and still does not record certain obligations (budgetary entries) at the transaction level. This deficiency does not allow CCC to perform an automated and real time fund controls at the time contracts are fully executed (obligated).

CCC uses the funds-control system (eFMS) in recording obligations at the transaction level. However, as of September 30, 2012, a substantial portion of its funds is still not managed in eFMS. Approximately $2.2 billion of CCC's $14.7 billion budget authority as of March 31, 2012, remains to be fully integrated with eFMS for monitoring obligations against apportionment.

CCC's corrective action plan is projected to achieve full funds management control by the end of FY 2014 and has incorporated this as part of its Financial Management Modernization Initiative (FMMI) through the Agency-wide Modernize and Innovate the Delivery of Agricultural Systems (MIDAS) project.

OMB Circular A-11, *Preparation, Submission, & Execution of the Budget,* states that the agency accounting system must fully support agency funds control systems. The agency's system of administrative control of funds should be designed to keep obligations from exceeding apportioned amounts, allotments, suballotments, and other administrative subdivisions of funds. The funds-control system must track obligations by program reporting categories used in the apportionment.

Also, OMB Circular A-127, *Financial Management Systems,* states that, "Financial events shall be recorded applying the requirements of the U.S. Standard General Ledger (USSGL). Application of the USSGL at the transaction level means that each time an approved transaction is recorded in the system, it will generate appropriate general ledger accounts for posting the transaction according to the rules defined in the USSGL guidance."

CCC has continued to implement its remediation plan to achieve full funds control and record obligations at the transaction level. As of September 30, 2012, it has migrated approximately 85 percent of its budget authority in its eFMS. Accordingly, we will not repeat previous year's recommendations in this report.

SIGNIFICANT DEFICIENCY

2. Strengthen Control Over Child Agency Financial Reporting (Modified Repeat Finding)

The CCC is a party to allocation transfers with the U.S. Agency for International Development (USAID) as the transferring entity (parent). In accordance with OMB Circular A-136, *Financial Reporting Requirements*, "The parent is accountable for and maintains the responsibility for reporting while the child performs on behalf of the parent and controls how the funds are expended. The parent is responsible for the program's overall performance and may decide to reallocate funds if the parent is not satisfied with the child's performance." It further states that "The key to timely and accurate quarterly reporting by the child agency is the communication between the parent and child. It is strongly recommended that issues such as formats, abnormal balances, capitalization thresholds, useful lives, depreciation methodologies, transfer of trading partner information, etc., be discussed and resolutions reached at a date required by the parent to meet its reporting and auditing deadlines."

During fiscal year 2012, CCC allocated funds of approximately $1 billion to USAID (the child) to fund P.L. 480 Title II, transportation and other administrative costs in connection with foreign donations.

The relationship between CCC and USAID has improved significantly and CCC plans to continue its efforts to work with USAID to develop and implement processes and controls that will substantially mitigate this deficiency. Accordingly, we did not repeat previous years' recommendations in this report.

***Review and Reconciliation of Unliquidated Obligation* (Repeat Finding)**

During prior fiscal years, we reported a significant deficiency to CCC that USAID does not perform periodic reconciliations between unliquidated obligations in the general ledger (GL) and subsidiary records. During FY 2012, we noted that USAID performs an annual reconciliation in the fourth quarter but does not perform quarterly reconciliations to ensure that the unliquidated obligation balances at the end of each quarter are reasonable. USAID's unliquidated obligation is approximately $1.1 billion as of September 30, 2012. We requested but did not receive timely audit evidence that USAID performed periodic reviews and reconciliations between unliquidated obligations in the GL and subsidiary records as of June 30, 2012, and ensured that expired obligations were deobligated on a timely basis.

USAID has a policy for annual certification of validity of obligations and annual certification of unliquidated balances. During these certifications all obligations are supposed to be validated and marked for de-obligation if appropriate. However, this policy is not fully complied with.

***Review and Recording of Accruals* (Modified Repeat Finding)**

USAID records grant awards accrual on a quarterly basis. Accruals are calculated to provide an accurate picture of an award's true status. Accruals also help the Agency anticipate future funding and spending. The Cognizant Technical Officer (CTO) evaluates the system calculation and decides if an adjustment is necessary. The CTO uses a worksheet to calculate estimated quarterly expenses. The worksheet has historical monthly expenses beginning with the time the obligation/contract was made. The worksheet is used to calculate an estimate of a month's expenses by using a "burn rate" and a weighted quarterly average.

During our test of 20 sample transactions, we identified 6 instances where there was no timely supporting documentation for the accrual and 4 instances where an accrual transaction was calculated correctly in the worksheet but was overstated in the general ledger. This resulted in a combined overstatement of approximately $9 million for the accrual and the expenses balance reported as of June 30, 2012. USAID management noted the error and concurred.

USAID does not perform periodic look back procedures of the grant accruals to validate whether the grant accrual methodology results in accruals that approximate actual dollar amounts from subsequent grantee reporting.

Technical Release 12, *Accrual Estimates for Grant Programs*, states that "As part of agencies' internal control procedures to ensure that grant accrual estimates for the basic financial statements were reasonable, agencies should validate grant accrual estimates by comparing the estimates with subsequent grantee reporting."

USAID FBWT Reconciliation **(Modified Repeat Finding)**

During FY 2010 and 2011, we reported in a management letter that USAID continued to use a suspense account (account 1010.31) to post the differences between its GL Fund Balance with Treasury (FBWT) account as recorded in the financial accounting system (Phoenix) and the Fund Balance reported by the Department of the Treasury (Treasury) in order to facilitate FACTS II submissions.

In FY 2012, USAID continues to have unreconciled differences and uses a suspense account to post differences between its GL and Treasury's FBWT accounts without a formal identification of the causes of the differences. As of June 30, 2012, the net unreconciled difference in the suspense account was $0.7 million. The use of the suspense account resulted from recorded transactions that could not be readily identified when USAID received notification of these transactions from Treasury and could not resolve these items within the 60-day requirement established by Treasury.

GAO *Standard for Internal Control* states that internal control should generally be designed to assure that ongoing monitoring occurs in the course of normal operations. It is performed continually and is ingrained in the agency's operations. It includes regular management and supervisory activities, comparisons, reconciliations, and other actions people take in performing their duties.

In addition, OMB Circular A-123, *Management Responsibility for Internal Control,* states that monitoring the effectiveness of internal control should occur in the normal course of business. In addition, periodic reviews, reconciliations or comparisons of data should be included as part of the regular assigned duties of personnel. Periodic assessments should be integrated as part of management's continuous monitoring of internal control, which should be ingrained in the agency's operations. If an effective continuous monitoring program is in place, it can level the resources needed to maintain effective internal controls throughout the year.

U.S. DEPARTMENT OF AGRICULTURE
COMMODITY CREDIT CORPORATION
INDEPENDENT AUDITOR'S REPORT EXHIBIT 3
September 30, 2012

STATUS OF PRIOR YEAR'S FINDINGS AND RECOMMENDATIONS

As required by *Government Auditing Standards* and OMB Bulletin No. 07-04, as amended, *Audit Requirements for Federal Financial Statements*, we have reviewed the status of CCC corrective actions with respect to the findings and recommendations included in CCC's internal control report for FY 2011 dated November 4, 2011. The following analysis provides our assessment of the progress CCC has made through September 30, 2012 in correcting the noted deficiencies.

FY 2011 Findings	Years Reported	FY 2012 Status
Financial Management System's Functionality	2002 – 2011 Material Weakness (MW)	Open – Finding Condition Modified Reported as MW
Strengthen Information Security Controls	2002 – 2008 MW 2009-2011 Significant Deficiency (SD)	Open – Finding Reported Separately as Management Letter Comment
Strengthen Control Over Child Agency Financial Reporting	2008 - 2011 SD	Open – Finding Condition Modified Reported as a SD

USDA

Exhibit 4

United States Department of Agriculture

Farm and Foreign Agricultural Services

Commodity Credit Corporation

1400 Independence Avenue, SW
Stop 0581
Washington, DC
20250-0581

TO: Lynette Cockrell
Regional Inspector General
Office of the Inspector General

Mia Leswing
Partner-in-Charge
CliftonLarsonAllen

FROM: Bruce E. Ward
Chief Financial Officer
Commodity Credit Corporation

SUBJECT: Response to the Draft Combined Independent Auditor's Report on the Commodity Credit Corporation's (CCC) Fiscal Years 2012 and 2011, Comparative Financial Statements

We have reviewed the CliftonLarsonAllen (CLA) Draft Combined Independent Auditor's Report dated November 5, 2012, and concur with its contents. We are very pleased that for the 10th consecutive year, CCC's financial statements have received an unqualified opinion from the auditors.

CCC will continue to implement our planned corrective actions to address the findings identified during the audit. We will continue to work with the Office of the Inspector General and CLA to ensure that the specific actions will successfully mitigate the deficiencies reported.

If you have any questions or require additional information, please contact Elizabeth Russell at (202) 772-6031.

U.S. DEPARTMENT OF AGRICULTURE

COMMODITY CREDIT CORPORATION

2012 ANNUAL REPORT

U.S. Department of Agriculture
Commodity Credit Corporation

1400 Independence Avenue, S.W.
Washington, DC 20250

2012 Annual Report

PREFACE

This Annual Report shows the results of the Commodity Credit Corporation's (CCC) operations for fiscal year 2012. 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 CliftonLarsonAllen 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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Message from the Chief Financial Officer

The Commodity Credit Corporation (CCC) is committed to the principles as established by executive and legislative mandates that include information technology, financial management, procurement, and program performance management. In Fiscal Year (FY) 2012, CCC continued to move aggressively towards making improvements in financial management while continuing to carry out its mission to provide high quality services to the Nation's agricultural community and to proactively respond to worldwide agricultural needs.

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 CCC stakeholders. The Office of Budget and Finance is pleased to provide to you in this Annual Report, CCC's financial and program performance measures and audit results for FY 2012.

Excellence in financial management is a key to the success of any organization. CCC has demonstrated this excellence by successfully earning an unqualified audit opinion on its financial statements for the tenth consecutive year. This indicates that CCC has been a successful steward of the resources entrusted to us by managing our people, business processes, and financial systems, efficiently and effectively.

CCC's financial condition was significantly impacted by various programs with events in the global marketplace, extreme weather conditions, natural disasters, conservation, and the *Food, Conservation, and Energy Act of 2008 (2008 Farm Bill)*. To help keep American agriculture profitable and keep farmers on the farm, the Farm Service Agency (FSA), administering CCC's programs, immediately responds to farmers affected by the disasters across the country, ranging from record floods, droughts, and tropical storms. During the year, we have helped more than 250,000 farmers and ranchers suffering from severe drought and other natural disasters, providing disaster assistance worth more than $3.4 billion. With the new rule in 2011 to process Secretarial Designations, the time it takes to announce a disaster declaration was cut by 70 percent, resulting in CCC being able to help farmers and ranchers devastated by these natural disasters much more quickly. CCC will continue to make use of all its resources and capabilities to ensure farmers and ranchers have the full support from the Department of Agriculture (USDA) during this difficult time.

CCC was successful in meeting and exceeding its performance expectations for FY 2012. CCC funds many programs that are administered by multiple agencies across USDA. The CCC mission and strategic goals are achieved through the successful implementation of these key programs, and where these dollars made their way into local economies, supporting small businesses and creating jobs.

To carry out the approved FY 2012 Improper Payment Improvement Act Review Cycle, FSA/CCC performed Statistical Sample Reviews on five of the seven programs that are currently classified as "high risk" by the Office of Management and Budget (OMB). The percentage of improper payments dropped significantly this year as a result of continued improved performance.

FSA continues to oversee the Corporation's assessment of internal control over its programs, operations, financial systems, and financial reporting. The assessment is in accordance with the provisions of the *Federal Managers' Financial Integrity Act* and the *Federal Financial Management Improvement Act*. FSA's continuous monitoring and remediation efforts allow us to provide taxpayers with reasonable assurance that this report is based on sound, accurate data. Nevertheless, continued improvement is needed to remediate the one existing material weakness, several significant deficiencies, and financial system noncompliance discussed in more detail later in this report. To accomplish this goal, management continues to implement corrective action-plan activities.

CCC's financial statements, included herein, report the Corporation's FY 2012 financial position, results of operations, and status of budgetary resources. These statements are in compliance with the format prescribed by OMB in the form and content of Federal financial statements (Circular A-136), and are in accordance with Generally Accepted Accounting Principles for Federal entities.

Financial management performance measures also accompany the financial results. These performance measures demonstrate areas of efficiency, accomplishments, and highlight areas for improvement.

Thank you for your interest in the Commodity Credit Corporation. I salute all FSA/CCC employees for their outstanding work and am proud to share this information with our stakeholders.

Sincerely,

Bruce E. Ward
Chief Financial Officer
Commodity Credit Corporation

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

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

Mission Statement

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

- Stabilizing, supporting, and protecting farm income and prices.
- Conserving soil, air, and water resources and protecting and improving wildlife habitats.
- Maintaining balanced and adequate supplies of agricultural commodities and aiding in their orderly distribution.
- 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 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. The statutory authority for Corporation operations is found in the *CCC Charter Act*, 15 U.S.C. 714, and et seq. 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 Office of Management and Budget (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.

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 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.

The 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 the CCC programs are delivered through an extensive nationwide network of FSA field offices, including approximately 2,100 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. FSA implements CCC funded programs for income support, disaster assistance, conservation, and international food procurement.

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

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

CCC Board of Directors

Chairperson, Thomas James Vilsack, Secretary of Agriculture
Vice Chairperson, Kathleen Ann Merrigan, Deputy Secretary of Agriculture
Member, Michael T. Scuse, Under Secretary, Farm and Foreign Agricultural Services (FFAS)
Member, Dallas Paul Tonsager, Under Secretary, Rural Development (RD)
Member, Kevin W. Concannon, 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, Michael T. Scuse, Under Secretary, FFAS
Executive Vice President, Juan M. Garcia, Administrator, Farm Service Agency (FSA)
Vice President, Candace Thompson, Acting Associate Administrator, Operations and Management, FSA
Vice President, David R. Shipman, Administrator, Agricultural Marketing Service (AMS)
Vice President, Suzanne Heinen, Administrator, Foreign Agricultural Service (FAS)
Vice President, Suzanne Heinen, General Sales Manager, FAS
Vice President, Audrey Rowe, 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, Patricia Farmer, Acting Deputy Administrator, Management, FSA
Deputy Vice President, Craig Trimm, Acting Deputy Administrator, Farm Programs, FSA
Deputy Vice President, John Berge, Acting Deputy Administrator, Field Operations, FSA
Deputy Vice President, Joy Harwood, Director, Economic & Policy Analysis Staff, FSA
Deputy Vice President, Joanna Munno, Acting Associate Chief, NRCS
Deputy Vice President, Anthony Kramer, Deputy Chief, Programs, NRCS
Deputy Vice President, Jane Hardisty, Acting Deputy Chief, Management, NRCS
Secretary, Steven N. Mikkelsen, Acting Executive Assistant to the Administrator, FSA
Deputy Secretary, Vacant, Farm Service Agency
Assistant Secretary, Monique B. Randolph, Staff Assistant, FSA
Chief Financial Officer, Bruce Ward, Chief Financial Officer, FSA
Treasurer, Joseph Spain Jr., Director, Financial Management Division, FSA
Chief Accountant, Sherry A. Laws, 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

The 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. The CCC mission and strategic goals are achieved through the successful implementation of the following key programs areas:

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 programs.

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. These 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. FSA and NRCS administer the CCC conservation programs.

Commodity Operations and Food Aid – FSA personnel handle the procurement, acquisition, storage, disposition, and distribution of commodities, and the administration of the *United States 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.

Foreign Market Development – Expanding markets for agricultural products is critical to the long-term health and prosperity of the U.S. agricultural sector. With 95 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. The CCC funds used in the 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. FAS administers the CCC foreign market development programs.

Export Credit – The 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

Direct Government payments to farmers are expected to average about $9.6 billion annually over the next decade. Price-dependent marketing loan and counter-cyclical program benefits have become less important. Ad hoc and emergency payments are projected to fall from recent levels, in part because the supplemental agricultural disaster assistance programs authorized under the 2008 Farm Bill only cover qualifying losses that occurred on or before September 30, 2011. About 80 percent of direct Government payments are accounted for by the Conservation Reserve Program (CRP) and fixed direct payments during the latter part of the projection period.

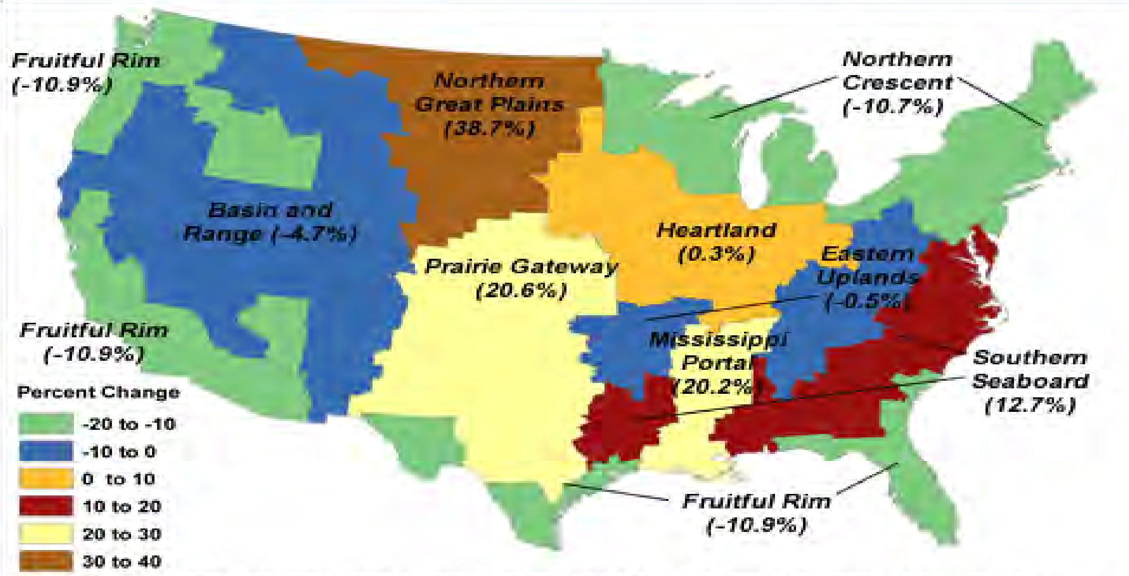
- Improving domestic and international demand keeps crop prices above levels that would result in marketing loan benefits or counter-cyclical payments, so benefits for these programs are projected to be negligible over the next decade. Similarly, with relatively low enrollment and projected long-run stability in commodity prices, projections of payments under the Average Crop Revenue Election (ACRE) program average less than $100 million annually over 2012-2021.
- High crop prices have made arable land more valuable, so rental rates for land in the CRP program have risen. Even with reduced CRP acreage enrollment due to the 2008 Farm Bill's lowering of the maximum acreage permitted in the program to 32 million acres, CRP payments are projected to rise from about $1.8 billion in 2010 to $2.5 billion in 2021.
- With high prices, Government payments have a smaller role in the agricultural sector's income. Government payments, which represented more than 8 percent of gross cash income in 2005, fall to a 2 to 3 percent range by the end of the projection period. Conversely, the sector relies on the market for more of its income.

After increasing by 17 percent in 2010 and 20 percent in 2011, average net cash income for farm businesses is projected to increase 2.3 percent, to $87,200, in 2012 (See Table 1for data by region). Drought conditions are affecting farm businesses differently across regions and among farm types and specializations. Commercial operations, which represent 80 percent of production, are expected to experience a 1.3 percent increase in average net cash income in 2012. Intermediate farms are projected to have incomes about 14 percent higher, on average. Farm businesses specializing in program crops are forecast to have higher net cash income in 2012, while farm businesses specializing in livestock are forecast to have more varied outcomes. These predictions are largely due to strong crop and feed prices and payout of insurance indemnities and represent average forecast farm business net cash income, which captures many of the potential drought impacts that producers are facing. However average net cash income may not reflect the financial position of producers facing extreme drought impacts.

Portions of Future Effects of Demands, Events, and Conditions were extracted from the World Outlook Board "USDA Agricultural Projections to 2021" dated February 2012; the Economic Research Service "Farm Sector Income & Finances" dated August 28, 2012; and the Economic Research Service "2012 Farm Sector Income Forecast" dated September 11, 2012.

Although all program crop farm businesses are forecast to have higher average net cash income in 2012 than 2011, some crop specializations will experience higher gains than others. Insurance indemnities are forecast to offset the impacts of declining yields associated with the drought. With increased wheat prices and the winter wheat harvest largely completed before the onset of drought, average net cash income for wheat farm business is forecast up nearly 33 percent over 2011. Average net cash income is forecast up for corn farms due to expanded acreage and high prices. A few States less affected by the drought even experienced an increase in corn yields over 2011. Soybean farm businesses largely follow the same pattern as corn farm businesses. Although cotton receipts are projected down in 2012, cotton and rice farm businesses are benefiting from strong grain and oilseed performance. Other field crop farm businesses (sugar crops, hay, silage, trees, and woody crops) are expected to experience a 19 percent increase in net cash income, on average, in 2012, with gross crop receipts forecast up about 6 percent. After substantial gains in average net cash income in 2010 and 2011, dairy farm businesses are forecast to experience a 52 percent decline in 2012.

Table 1: 2012 Farm Business Net Cash Income forecast compared with 2011



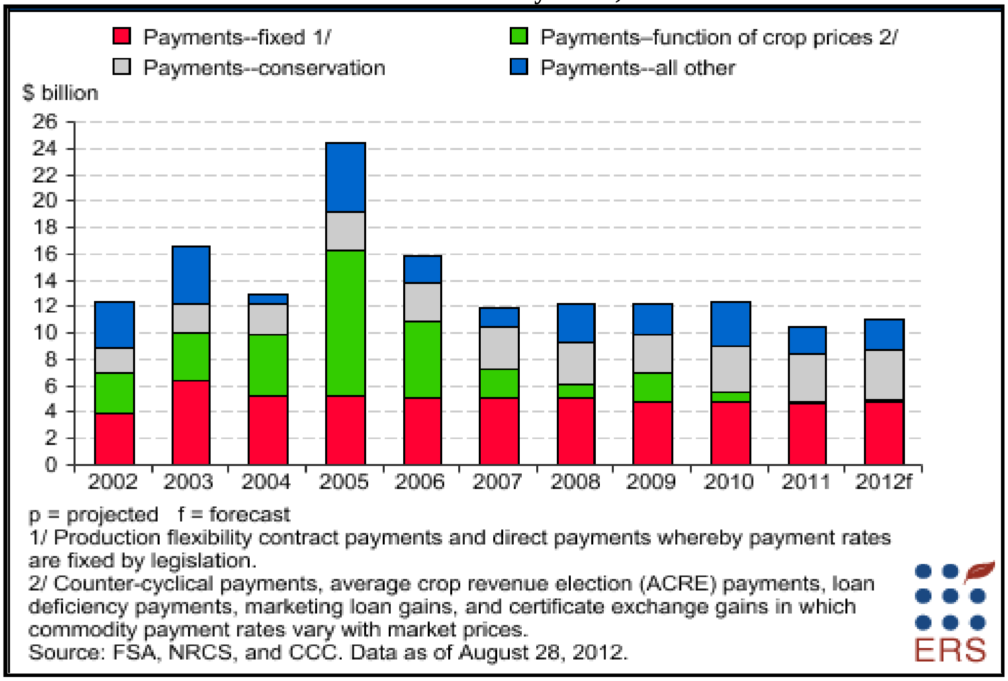
Source: ERS partial budget model based on the 2010 Agricultural Resource Management Survey (ARMS) using parameters from the sector forecasts. The model is static and therefore does not account for changes in crop rotation, weather, and other location production impacts the occurred after the base year.

There is considerable regional disparity in the outlook for 2012 farm business[1] net cash income, with two regions expected to experience losses of 10-11 percent from 2011 and three others expected to experience significant gains (See Table 1). With higher-than-average crop farm income and sustained cattle farm income, net cash farm income is forecast to increase by over one-third in the Northern Great Plains. The Prairie Gateway and Mississippi Portal are expected to benefit from increased program crop farm income. The largest drops in net cash farm income are in the Northern Crescent and the Fruitful Rim, where many farm businesses specialize in dairy production and specialty crop production, respectively.

[1] Farm businesses are defined as operations with sales of over $250,000 (labeled "commercial") or smaller operations where farming is reported as the operator's primary occupation (labeled "intermediate"). Approximately 18 percent U.S. farms are commercial and 25 percent are intermediate. "Rural residence farms" comprise the remaining 58 percent of operations. These tend to be small farms operated as a sideline by people with non-farm occupations or by retirees.

Government payments paid directly to producers are expected to total $11.1 billion in 2012, a 6.3 percent increase over the 2011 program payments. Direct payments under the Direct and Counter-Cyclical Payment Program (DCP) and the Average Crop Revenue Election Program (ACRE) are forecast at $4.96 billion for 2012. This 5.4 percent increase in direct payments in 2012 over 2011 is largely due to the fact that the percentage of base acres on which direct payments are made increased from 83.3 percent for the 2011 crop year to 85.0 percent for the 2012 crop year.

Table 2: Government Payments, 2002-2012f



Strong crop prices are expected to continue through the rest of 2012, reducing all expected commodity program payments based on price to $10 million. The Milk Income Loss Contract Program (MILC) compensates dairy producers when domestic milk prices fall below a specified benchmark price. For 2012, dairy producers are expected to receive $650 million in MILC payments. Primarily based on the high prices of the feed components in the dairy feed ration, the National Average Dairy Feed Ration Adjustment (NADFR) in 2012 has raised the benchmark MILC program price and triggered payments to dairy producers. Tobacco farmers and quota holders are expected to receive $651 million in Tobacco Transition Payment Program (TTPP) in 2012. Payments reported here include both CCC payments and lump-sum payments. Begun in 2005, this program provides annual payments over a 10-year period to eligible quota holders and producers of tobacco. Conservation programs include all conservation programs operated by the Farm Service Agency and the Natural Resources Conservation Service that provide direct payments to producers. Estimated conservation payments of $3.7 billion in 2012 are largely unchanged from 2011. Noninsured Crop Disaster Assistance Program payments of $250 million are expected to be made to livestock and specialty crop producers for which no commodity insurance program is available.

2012 Performance Highlights Summary

CCC was successful in meeting and exceeding its performance expectations for FY 2012. CCC funds many programs that fall under multiple agencies across USDA. Each Corporation funded program helps achieve parts of both the CCC mission and the strategic plan of the agency under which the program falls. The CCC mission and strategic goals are achieved through the successful implementation of the key programs.

The CCC exceeded or met its wetland and buffer program goals for FY 2012. Goals for FY 2013 are set to continue to enroll the same number of acres into these practices which provide large conservation benefits. This last summer, FSA added program flexibility to the conservation programs to alleviate the hay and pasture shortages faced by livestock producers during the drought.

The Income Support and Disaster Assistance Program met its program performance target in FY 2012. Most visible to the public have been the efforts to rally behind farmers and ranchers during the historic drought. FSA took great strides during the summer to streamline the disaster designation process to get Secretarial Designations processed more rapidly. The Agency will continue to use its resources and capabilities to ensure farmers and ranchers have the full support of USDA and CCC during this difficult time.

The CCC exceeded its FY 2012 performance target of 375 days between warehouse examinations. New examiners were hired and accounts for the improvement (decrease) in the number of days between warehouse examinations from FY 2011 (355) to FY 2012 (342). CCC will continue to provide food assistance purchases support to domestic and international programs. FSA is implementing a licensing requirement, including inspection and examination procedures for all port and trans-loading facilities receiving, storing, handling, and shipping export food assistance commodities for U. S. Agency for International Development (USAID) and FSA food assistance programs (P.L. 480, Title II and III, Food for Progress, Section 416(b) and McGovern-Dole International Food for Education and Child Nutrition programs). Commodities purchased by FSA on or after June 15, 2012, may be stored or handled only by facilities licensed under the *United States Warehouse Act*. There is currently no CCC inventory of dairy products and FSA is currently projecting no FY 2013 Dairy Product Price Support Program (DPPSP) purchases. FSA's Commodity Operations will continue its efforts to reduce the number of days between examinations as the performance measure for the program.

The CCC exceeded its target of the dollar value of agricultural exports resulting from participation in foreign food and agricultural trade shows. International trade shows are a key component in the export strategies of most of the 70-plus organizations receiving CCC market development funding. These organizations use market development funds to facilitate their industry members' participation in key trade shows. Some provide cost-share funding directly to small to medium-sized (SMEs) companies, enabling their participation. In particular, State Regional Trade Groups (SRTGs)--Food Export USA Northeast, Food Export Association of the Midwest USA, Southern United States Trade Association and Western United States Trade Association, use considerable CCC funds to provide a wide array of services to help U.S. companies export for the first time and enter new markets. SRTG export readiness training, market intelligence, how-to-export seminars, as well as cost-share support at trade shows, are particularly valuable to SMEs. In addition, FAS provides the National Association of State Departments of Agriculture (NASDA) CCC market development funds to enhance the appearance and services offered at U.S. pavilions at 20-25 trade shows annually. Many participants' market development-funded trade missions are coordinated with key trade shows. Trade shows and trade missions are critical components of the National Export Initiative's (NEI) goal of doubling exports by 2015. U.S. company sales resulting from trade show participation are a good indicator of the success of these investments.

The CCC Export Credit Guarantee Program exceeded both of its performance measures for FY 2012. The estimated trade value resulting from the Export Credit Guarantee Program is estimated at $3.85 billion which far exceeded the target for this measure by approximately $350 million. CCC also exceeded its 2012 economic return ratio target of $100/$1. Factors that contributed to exceeding the target include increased income from fees despite a marginal decrease in program size from FY 2011. It is significant that during FY 2012, despite global economic and political instability, the Export Credit Guarantee Program supported almost $4 billion in U.S. agricultural exports without defaults or claims.

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 stakeholders. The information that follows has been prepared from the accounting records of the Corporation as of September 30, 2012 and September 30, 2011 in accordance with generally accepted accounting principles for Federal entities and policies prescribed in the Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*.

Assets:

The Balance Sheet shows CCC had total assets of $10.0 billion as of September 30, 2012, a decrease of $2.4 billion (20 percent) below the previous year's total assets of $12.4 billion. This is mainly attributed to a decrease in Fund Balance with Treasury.

The $1.4 billion decrease in Fund Balance with Treasury is primarily due to an increase in disbursements in programs such as the Milk Income Loss Contract Program (MILC) and Noninsured Crop Disaster Assistance Program (NAP). In the MILC program, payments have increased due to the steady decrease in the Boston Class I milk price. Disbursement increase in NAP is due to the severe drought last summer and fall in the Southern Plains where grazing is predominant. The majority of NAP costs are associated with livestock grazing.

Table 3: Summary of Assets

Dollars in Millions

As of September 30	2012	2011	Variance	Variance %
Fund Balance with Treasury	$ 2,984	$ 4,394	$ (1,410)	-32%
Accounts Receivable, Loans and Credit Receivables, Net	6,836	7,782	(946)	-12%
Commodity Inventories, Net	14	51	(37)	-73%
General Property and Equipment, Net	28	48	(20)	-42%
Other	111	127	(16)	-13%
Total Assets	$ 9,973	$ 12,402	$ (2,429)	-20%

Liabilities:

The Balance Sheet shows CCC had total liabilities of $15.2 billion as of September 30, 2012. This represents a decrease of $911 million (6 percent) below the previous year's total liabilities of $16.1 billion. The variance is primarily due to $817 million decrease in Other Liabilities.

The decrease in Other Liabilities is due to the net present value of future accrued liabilities and receivables for the Tobacco Transition Payment Program (TTPP). Accrued liabilities will continue to decrease as the number of payments left to be paid to tobacco quota holders and producers declines.

Table 4: Summary of Liabilities

Dollars in Millions

As of September 30	2012	2011	Variance	Variance %
Accounts Payable	$ 464	$ 435	$ 29	7%
Debt to the Treasury	2,682	2,865	(183)	-6%
Loan Guarantee Liabilities	174	114	60	53%
Environmental and Disposal Liabilities	8	8	-	0%
Other	11,878	12,695	(817)	-6%
Total Liabilities	$ 15,206	$ 16,117	$ (911)	-6%

Ending Net Position:

As of September 30, 2012 and 2011, CCC's net position is $(5.2) billion and $(3.7) billion, respectively. Net Position is the sum of the Unexpended Appropriations, Cumulative Results of Operations, and Capital Stock. Refer to Note 1, under Reporting Entity, and Note 11 for additional information on Capital Stock.

The charts below present the trend of Unexpended Appropriations and Cumulative Results of Operations balances for the fiscal years ended September 30.

Chart 1: Unexpended Appropriations

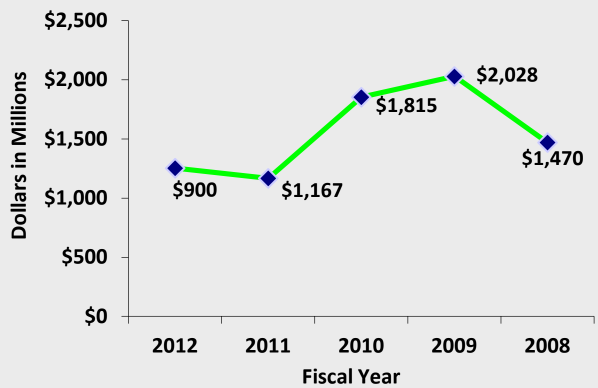


Chart 2: Cumulative Results of Operations

Net Cost of Operations:

CCC categorizes the net cost of operations based on CCC's strategic goals. Net cost of operations was $9.7 billion and $11.3 billion for the fiscal years ended September 30, 2012 and 2011, respectively. Overall total net cost of operations decreased 14 percent from the prior year. As shown in the Summary of Net Cost of Operations by Strategic Goals table, expenses for "Provide a Financial Safety Net for Farmers and Ranchers" comprise a majority of the costs for the fiscal years ended September 30, 2012 and 2011.

Table 5: Summary of Net Cost of Operations by Strategic Goal

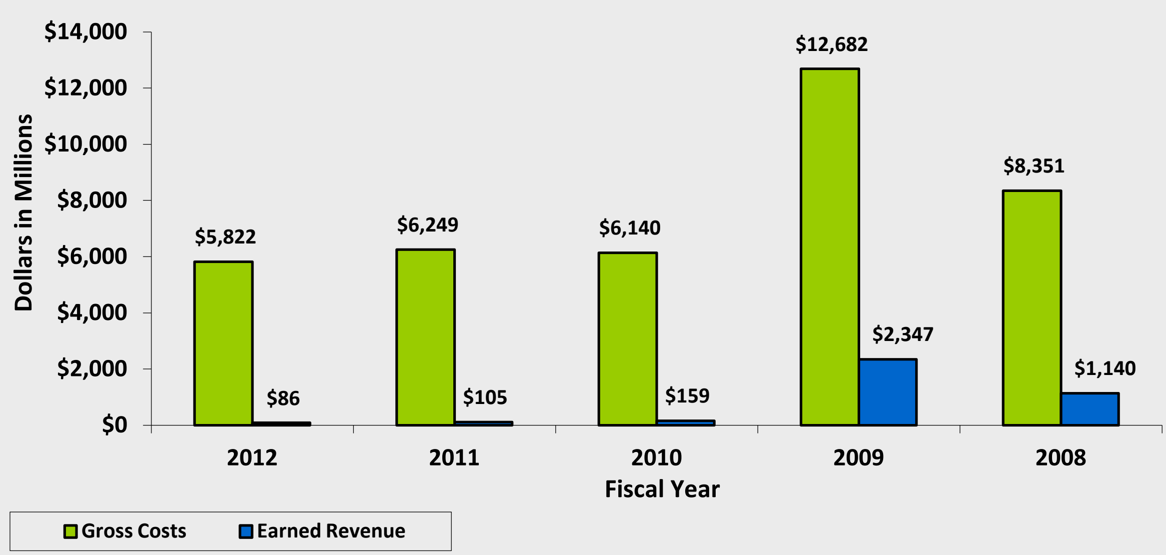
Dollars in Millions

For the Fiscal Years Ended September 30	2012	2011	Variance	Variance %
Provide a Financial Safety Net for Farmers and Ranchers	$ 5,736	$ 6,144	$ (408)	-7%
Ensure Commodities are Procured and Distributed Effectively and Efficiently	65	296	(231)	-78%
Increase Stewardship of Natural Resources While Enhancing the Environment	2,115	2,334	(219)	-9%
Increase U.S. Food and Agricultural Exports	1,809	2,536	(727)	-29%
Total Net Cost of Operations	$ 9,725	$ 11,310	$ (1,585)	-14%

The activity that caused the fluctuation in the Statement of Net Cost for the fiscal year ended September 30, 2012 relates to the following strategic goals:

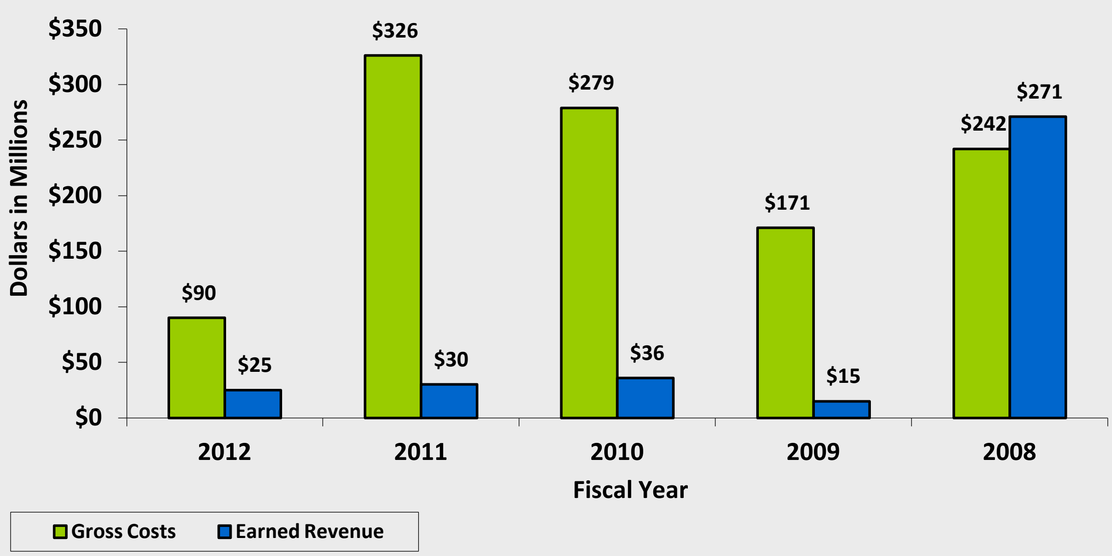
- Provide a Financial Safety Net for Farmers and Ranchers – The majority of the $408 million decrease comes from the continued refinement of accrual estimates based on prior year overestimated accruals in the Direct and Counter-Cyclical Payment Program (DCP) program in the amount of $799 million. Additionally, an increase in the MILC program gross costs in the amount of $404 million is due to the steady decrease in Boston Class 1 milk price. This low price triggered payments to eligible farmers for the first time since April 2010. The net effect between the decrease of the DCP and the increase to the MILC programs explains the variance within this goal.

Chart 3: Provide a Financial Safety Net for Farmers and Ranchers



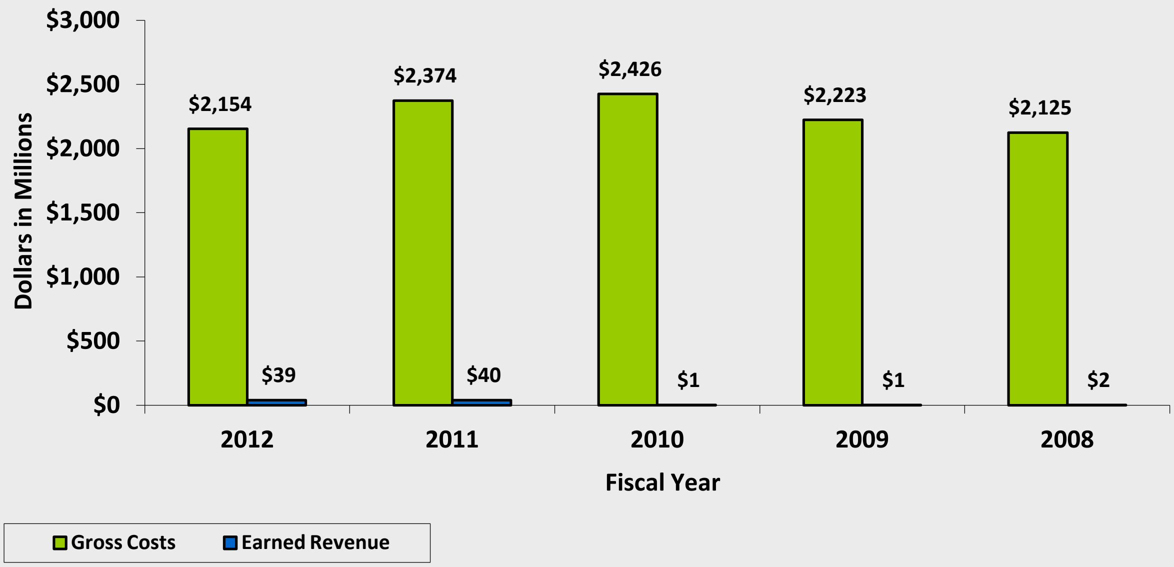
- Ensure Commodities are Procured and Distributed Effectively and Efficiently – The decrease of $231million is primarily due to the USAID balance allocation between CCC's Goal 2: "Ensure Commodities are Procured and Distributed Effectively and Efficiently" and Goal 4: "Increase U.S. Food and Agricultural Exports". During FY 2011, the USAID balance was divided between these two goals, however, beginning in FY 2012, the entire value of USAID is allocated to Goal 4. The decrease is also partially attributed to the reduction of expenses for the Local and Regional Pilot Program (LRP) in FY 2012 due to budgetary constraints.

Chart 4: Ensure Commodities are Procured and Distributed Effectively and Efficiently



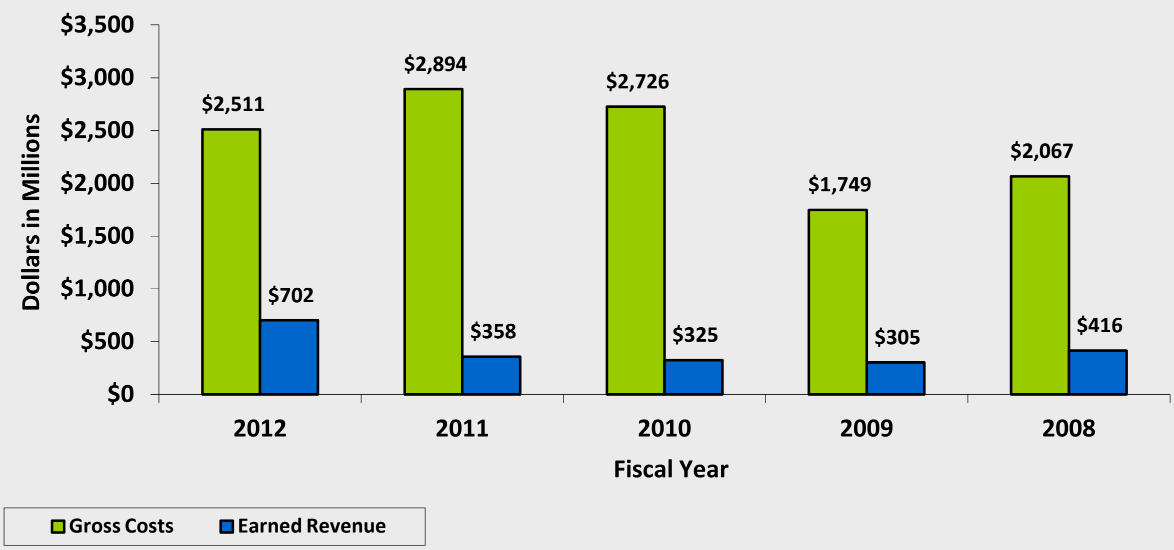
- Increase Stewardship of Natural Resources While Enhancing the Environment – The $219 million decrease in net cost is mainly attributed to diminishing activity in the Conservation Reserve Program (CRP). The high crop prices have resulted in producers pulling acres out of the program; thereby reducing future payments for the annual rental. At the same time the average rental price has increased for "new" contracts which will result in an increase in payments for the new contracts. High crop prices have made arable land more valuable, so rental rates for land in the CRP have risen.

Chart 5: Increase Stewardship of Natural Resources While Enhancing the Environment



- Increase U.S. Food and Agricultural Exports – The $727 million decrease was mainly due to fewer default loans in FY 2012 as compared to FY 2011.

Chart 6: Increase U.S. Food and Agricultural Exports



Obligations and Outlays:
Between September 30, 2012 and 2011, Obligations Incurred decreased by $2.4 billion, and Net Outlays decreased by $1.2 billion.

The variance in obligations incurred and net outlays is primarily due to high market prices in the Price Support program, which resulted in fewer farmers applying for Marketing Assistance Loans (MAL) in FY 2012 compared to FY 2011. This led to a reduction of the amount obligated and paid to farmers.

The variance in net outlays is also attributed to a timing difference in the DCP Program disbursements. Per the 2008 Farm Bill, DCP single final payments replace the partial payments process for program years 2011 and 2012. Since disbursements have not been recorded in FY 2012, a drop is reflected in the net outlays as compared to the same period in FY 2011.

Table 6: Summary of Obligations

Dollars in Millions

For the Fiscal Years Ended September 30	2012	2011	Variance	Variance %
Obligations Incurred:				
Direct	$ 3,514	$ 3,821	$ (307)	-8%
Reimbursable	18,186	20,244	(2,058)	-10%
Total Obligations	$ 21,700	$ 24,065	$ (2,365)	-10%

Table 7: Summary of Net Outlays

Dollars in Millions

For the Fiscal Years Ended September 30	2012	2011	Variance	Variance %
Net Outlays:				
Gross Outlays	$ 19,075	$ 23,196	$ (4,121)	-18%
Offsetting Collections	(9,998)	(12,782)	2,784	-22%
Less: Distributed Offsetting Receipts	(74)	(225)	151	-67%
Net Outlays	$ 9,003	$ 10,189	$ (1,186)	-12%

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
Deputy Chief Financial Officer
Office of the Chief Financial Officer

THROUGH: Michael T. Scuse
President
Commodity Credit Corporation

NOV - 2 2012

FROM: Juan M. Garcia
Executive Vice President
Commodity Credit Corporation

Bruce E. Ward
Chief Financial Officer
Commodity Credit Corporation

SUBJECT: Commodity Credit Corporation's (CCC) Federal Managers' Financial Integrity Act (FMFIA), Federal Financial Management Improvement Act (FFMIA), and the Office of Management and Budget (OMB) Circular A-123, Appendix A, Fiscal Year (FY) 2012 Assurance Certification Statement

This memorandum provides CCC's assertions of the annual assurances for FMFIA A-123, Appendix A, FFMIA, and any Anti-Deficiency Act (ADA) violations as of September 30, 2012.

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, 2012.

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

5. For Section 2 FMFIA, a material weakness (MW) for Funds Control Management was added as an internal control weakness but is not a new deficiency. Two significant deficiencies (SDs) existed at the beginning of FY 2012 with one mitigated by the fourth quarter. No new MWs or SDs were identified during FY 2012. One finding was reported in last year's audit report as a SD and a system nonconformance in Section 4. Agency management reassessed the condition and concluded that the finding has nominal risk of impact to our financial reporting and downgraded it to a control deficiency (CD) and is considered resolved.

   These conditions are subject to revision based on the final FY 2012 CCC Financial Statement Audit report to be finalized in November 2012.

6. Corrective action plans, where necessary, have been entered into the Office of the Chief Financial Officer's (OCFO) A-123 Document Tracking System (ADTS).

Internal Control over Financial Reporting Assertions

1. CCC assessed the effectiveness of internal control over financial reporting as of June 30, 2012. The assessment follows OCFO's guidance and is required by OMB Circular A-123, Appendix A.

2. The assessment included an evaluation of entity level controls, risk assessments, process descriptions and flowcharts, documentation of key controls, and an assessment of the design of key controls, tests of operating effectiveness of properly designed controls, summary of deficiencies, and the development of corrective action plans for CDs. For the FY 2012 assessment, management determined the business cycles to be tested based on the risk rating.

   Key controls in the following cycles/processes were tested:

   CCC Commodity Loans
   CCC Farm Storage Facility Loans
   CCC Credit Management-Direct Loans
   CCC Credit Management-Guaranteed Loans
   CCC Producer Payments
   CCC Commodity Procurement

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CCC Revenue and Receivables Management
CCC Tobacco Transition Payment Program
CCC Funds Management
CCC Funds Control
CCC Financial Reporting

3. Management recognizes its responsibility for monitoring and correcting all deficiencies.

4. Management further certifies that there have been no significant changes in the operation of controls tested from the sample selection date through June 30, 2012.

5. Based on the results of the assessment, CCC can provide reasonable assurance that internal controls over financial reporting are operating effectively.

6. At the beginning of FY 2012, CCC had no MWs and two existing SDs. Two new SDs were identified during FY 2012 – "Maintaining, Controlling, and Monitoring the CORE General Ledger (G/L)" and "Reconciling Fund Balance with Treasury." One SD was resolved, and one SD (FSFL Reconciliation) was combined with the new CORE G/L SD identified during FY 2012.

7. Corrective action plans, where necessary, have been entered into OCFO's ADTS.

Federal Financial Management Improvement Act Assertions

1. CCC management evaluated its financial management systems under FFMIA for the period ended September 30, 2012.

2. Based on the results of our evaluation, we are in substantial compliance with Section(s) 1. Federal Financial Management Systems Requirements, and 2. Applicable Federal Accounting Standards. CCC's financial management systems are not in compliance with Section 3. Standard General Ledger at the Transaction Level.

3. Corrective action plans have been submitted into OCFO's ADTS to remediate Section 3, which has a revised estimated completion date of FY 2014.

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Noncompliance with Laws and Regulations

CCC had no reportable ADA violations in FY 2012.

A summary matrix is attached. Should you have any questions or require additional information, please contact Elizabeth L Russell, Audit Liaison, Office of Budget and Finance, at 202-772-6031.

Attachment

NOTE:
The Assurance Certification is due to the Department annually by the last Friday in August, which is almost three months before the final independent auditor's report is provided to CCC on November 7, 2012. Therefore, in order to prepare the assurance statement and send it through the chain of command for signatures, CCC must assess reportable internal control weaknesses and non-conformances based on available information. If the FY 2012 final audit report contains any new unexpected reportable conditions, a revised assurance statement will be submitted during the second quarter of 2013.

During the preparation of the assurance certification for FY 2012, FSA/CCC conducted thorough research and discussed the condition of the substantial non-compliance reported in the FY 2011 assurance certification in Section 1 - Federal Financial Management Systems Requirements in FFMIA and as a significant deficiency (SD) in Section 4 of FMFIA. Agency management reassessed the condition and concluded that the finding has nominal risk of impact to our financial reporting and downgraded it to a control deficiency (CD). As a result, the finding is reported as reassessed and completed as of the end of this fiscal year.

Federal Managers' Financial Integrity Act

Overview

The *Federal Managers' Financial Integrity Act of 1982* (FMFIA) requires Federal agencies to submit an annual report to the President and Congress reflecting the status of management controls for program, financial, and administrative operations. The CCC Assurance Certification contains the FMFIA report that includes CCC's reportable conditions and related corrective action plans identified through the implementation and assessment process complying with the requirements of OMB Circular A-123, *Management's Responsibility for Internal Control*, including an assessment conducted in accordance with OMB Circular A-123, Appendix A, *Internal Control over Financial Reporting*. CCC provides the assurance certification to the Department of Agriculture's (USDA) Office of the Chief Financial Officer certifying that CCC is compliant with FMFIA by:

- Fulfilling requirements to perform ongoing evaluations of internal control,
- Developing corrective action plans to mitigate the deficiencies, and
- Providing management oversight to ensure that progress is made and the conditions are properly reported.

The certification also includes assurances from CCC's Chief Financial Officer, Executive Vice President, and President that:

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

Fiscal Year 2012 and 2011 Results

In accordance with FMFIA and OMB Circular A-123, Appendix A, information to support CCC's assurance certification was derived from FMFIA certification statements submitted by CCC board members and other appropriate management, audits, management reviews and insight gained from daily operations of programs and functions.

In FY 2012, management's assessment of internal controls over financial reporting as of September 30, 2012, determined that the material weakness (MW) - Funds Control Management – has not been sufficiently mitigated and will be a repeat finding in the audit report under FMFIA Section 4 as a system non-conformance and as a MW in Section 2 of FMFIA. CCC also revised the estimated completion date to September 2014. There were three significant deficiencies (SDs) reported in the 2011 audit report under FMFIA: Strengthen Internal Controls over Child Agency Financial Reporting [U.S. Agency for International Development (USAID)], Strengthen Internal Control over Intra-governmental Balances, and Strengthen Information Systems Controls – Antiquated Systems.

Regarding the SD for the lack of financial and monitoring controls over USAID, CCC continues to address the reportable conditions with the implementation of additional financial analytics, improved communication, and a revised Memorandum of Understanding with USAID in FY 2011, which continued through 2012. CCC will need to collect two periods of reconciliations and oversight documentation in FY 2013 to submit and request closure on the recommendations.

During 2012 CCC procured a contractor to obtain an understanding of and document the financial processes at USAID that affect CCC's financial statements. FSA/CCC conducted a series of offsite meetings with key USAID representatives during July and August, 2012, in order to finalize a detailed written corrective action plan acceptable to both parties that specifies the processes, duties, and responsibilities each party will take to effectively address all of the audit recommendations. The corrective actions were established and became effective October 1, 2012. CCC is the primary party responsible for the success of the remediation efforts and will continue to regularly brief the FSA/CCC CFO on progress, issues, and recommend any revisions to this plan as may be needed.

One deficiency, "Strengthen Information Systems Controls – Antiquated Systems", was reported in last year's audit report as a SD and a substantial system non-compliance with FFMIA. Agency management reassessed the condition and concluded that the finding has nominal risk of impact to our financial reporting and downgraded it to a CD. This finding is reported as reassessed to be substantially compliant with FFMIA and FMFIA, Section 4.

CCC closed all audit recommendations for Information Security Controls during FY 2012 and 2011 reducing the reportable condition to a CD in FY 2012. The SD of internal controls over Intra-governmental balances and reconciliations was mitigated by the end of the fourth quarter of FY 2012 by preparing two periods of documentation substantiating the fact that the controls were in place and operating effectively.

Under OMB Circular A-123, Appendix A, there was one SD reported for CCC in FY 2011 for "Funds Status Report", which was resolved during FY 2012. The SD for "Farm Storage Facility Loan (FSFL) reconciliations" was consolidated with other CDs from other areas for an overall SD for "Maintaining, Controlling, and Monitoring the CORE general ledger." One SD of "Reconciling Fund Balance with Treasury" was identified during FY 2012 and is reported on its own due to the significance of the task to mitigate.

Federal Financial Management Improvement Act

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

During FY 2012, CCC evaluated its financial management systems to assess substantial compliance with FFMIA. As of the completion of the annual report, CCC management has made the determination that CCC has demonstrated substantial compliance with Sections 1, 2, and 4; however, CCC is not substantially compliant with Section 3 – the USSGL at the transaction level.

The finding, "Strengthen Information Systems Controls – Antiquated Systems", was reported in last year's audit report as a SD and a substantial non-compliance with FFMIA. Agency management reassessed the condition and concluded that the finding has nominal risk of impact to our financial reporting and downgraded it to a CD. As a result, the finding was reported as reassessed to be substantially compliant with FFMIA and FMFIA, Section 4.

CCC has completed the development of a fully integrated funds control system, electronic Funds Management System (eFMS), within the FSA/CCC CORE financial management system. This system is integrated with CCC's general ledger system at the transaction level. The eFMS provides management with timely information to monitor and control the status of budgetary resources recorded in the general ledger. CCC continues to implement programs into eFMS for full funds control at the transaction level. CCC anticipates that when all material programs are fully implemented, CCC will be substantially compliant with Section 3 for FFMIA.

As of the end of FY 2012, a significant percentage of CCC's programs (85 percent) now include funds control and accounting using eFMS. An additional 8 percent are electronically controlled at the payment level but not at the transactional level. The balance (7 percent) of the payments are administratively controlled and will be either migrated into eFMS or continue to be administratively controlled due to age of the systems/cost benefit.

An estimated $1 billion in transactions are currently not processed through the funds control system, but through manual journal entries at period ends. The current conditions of programs not in eFMS are:

- Approximately $435 million or 44 percent of the $1billion relates to the Conservation Reserve Program (CRP). Of this amount, $112 million relates to actual approved agreements for the CRP technical assistance program. The remaining balance relates to CRP cost share, and at year end, Economic and Policy Analysis Staff (EPAS) provides an estimate of the estimated obligation amounts to be paid in the subsequent year and is the basis for the summary obligation that is recorded in CORE.
- Approximately $300 million or 30 percent relates to the Price Support program. The obligation for this program is accrued based on EPAS' estimates at year end.
- Approximately $147 million or 15 percent relates to the Brazilian Cotton Industry (BCI) case. The obligation for this case is recognized based on the agreement and the amount set by Congress.
- The remaining 11 percent represents various programs including aspects of the Biomass Crop Assistance Program (BCAP). The obligation for these programs is accrued partly based on EPAS' estimates and partly based on trend.

Significant progress has been made towards complete funds control, but the lack of the financial system functionality to record all obligations at the transaction level at the time the obligation occurs increases the risk that funds could be disbursed or obligations incurred with no or insufficient budget authority to fund the expense or obligation. Although CCC implemented detective manual controls to compensate for the system's inherent limitation, the controls may not be adequate to reduce the risks of an *Antideficiency Act* (ADA) violation occurring and may not prevent or detect violations timely. CCC has plans to correct the deficiency by FY 2014 with the migration to the Department's enterprise solution under the Financial Management Modernization Initiative (FMMI) plan. Interface assessments for the program areas have begun, and the FMMI team has completed some significant tasks toward implementation. However, continued efforts for the system migration will be required and are dependent upon additional funding to meet the current target date.

For FY 2013, CCC will:

- Identify all material CCC programs subject to funds control that are not currently controlled using the eFMS system and identify program and financial applications that are not eFMS compliant (system deficiencies);
- Collaborate with Information Technology Services Division (ITSD) and Deputy Administrator Farm Programs (DAFP) to develop and execute a project plan to complete software modifications for the identified program applications to send obligation transactions, including establishments, liquidations and adjustments (downward and upward) to eFMS at the transaction level;
- Implement a reconciliation process to ensure that budget authority in CORE agrees with budget authority in eFMS and SF-132's, *Apportionment and Reapportionment Schedules*, CCC's Apportionment Control log and unliquidated obligations in CORE agree with the unliquidated obligations in eFMS;
- Perform clean-up of existing unliquidated obligations; and
- Initiate implementation of programs in FMMI/MIDAS (Modernize and Innovate the Delivery of Agricultural Systems) and independent FMMI applications.

Antideficiency Act

CCC had no ADA violations in FY 2012.

Limitations of the Financial Statements

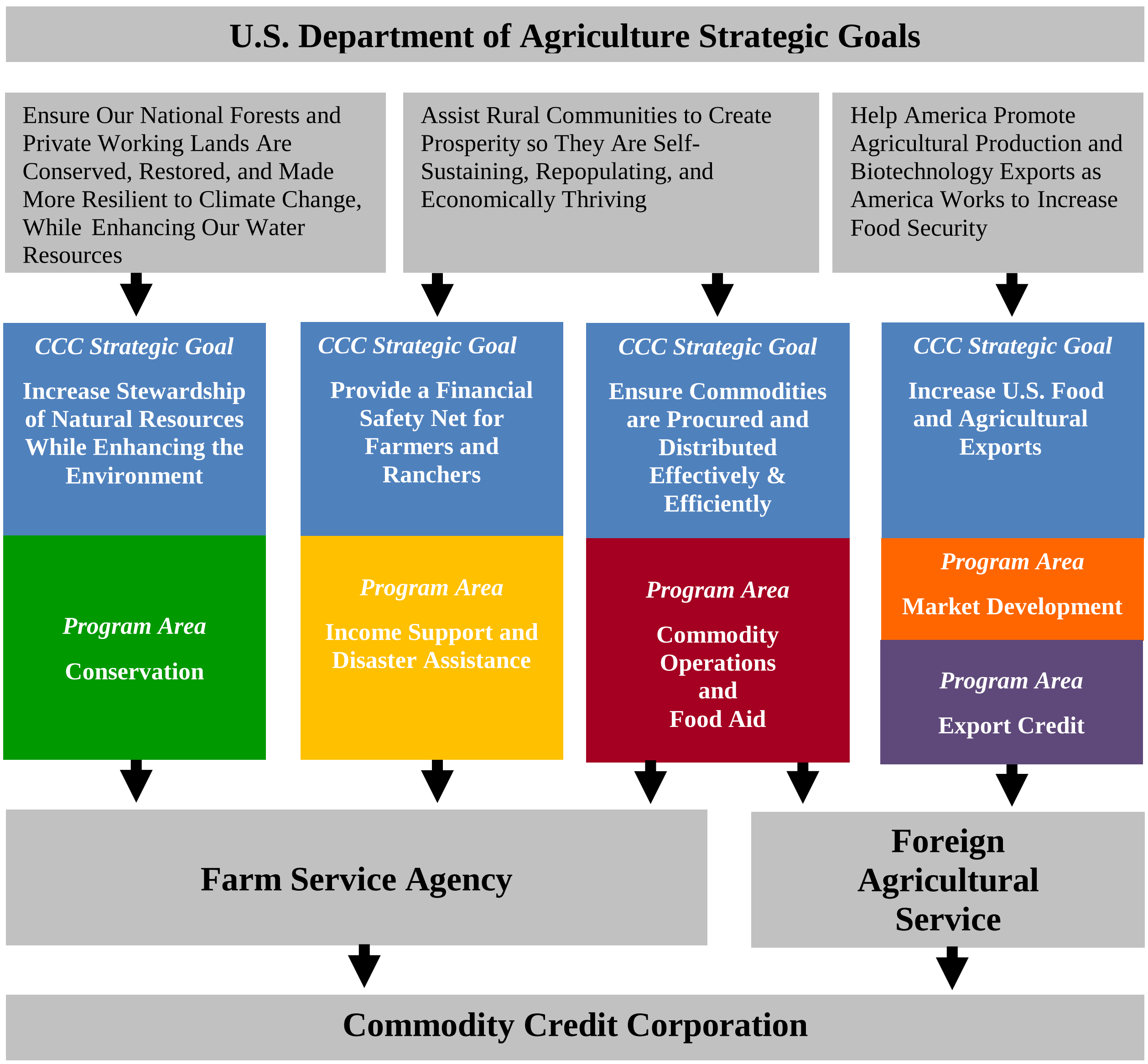
The principal financial statements have been prepared to report the financial position and results of operations of the entity, pursuant to the requirements of 31 U.S.C. 3515 (b), *Financial Statements of Agencies*. While the statements have been prepared from the books and records of the entity in accordance 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)

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 FSA and 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 below summarizes the relationship between the USDA strategic goals and the Agencies' strategic goals, and the CCC program areas.

Chart 7: Summary of Strategic Goals



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 dollars in income support and disaster assistance payments each year to agricultural commodity producers. These payments stabilize, support, and protect farm income. CCC payments for these programs are 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 which does not directly correspond to financial statement reporting.

The Direct Crop and Counter-Cyclical Program (DCP) is a key program in the CCC effort to mitigate market losses. Public Law 110-234, the *Food, Conservation, and Energy Act of 2008* (2008 Farm Bill), authorized DCP for FY 2008 through FY 2012. FSA provides direct cash payments 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 payments if the effective price for the covered commodity is less than the target price for the covered commodity. Counter-cyclical payments vary as market prices change relative to statutory income support levels.

The 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 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 meet 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 Farm Bill, 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 counter-cyclical 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 benefits even though the ACRE election is in effect. 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 counter-cyclical 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 counter-cyclical 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, counter-cyclical , 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 counter-cyclical 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 non-farm Adjusted Gross Income (AGI) exceeds $500,000 are not eligible for DCP 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 met its 2012 target to maintain the percentage 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 and acreage reporting. Due to expected changes in the farm bill currently under consideration by Congress, CCC will be discontinuing this measure for inclusion in future reports. Program officials are in the process of designing a replacement measure.

CCC helps farmers manage financial and market risks primarily through income support and disaster assistance programs. These programs help farmers and ranchers 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. Other CCC Income Support and Disaster Assistance accomplishments during the year include:

- The Noninsured 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 has been up, in part, because of the passage of the 2008 Farm Bill which requires participation in NAP and/or purchase of crop insurance in order to gain eligibility for other disaster programs authorized under the 2008 Farm Bill. NAP benefits paid decreased from $89.7 million in crop year 2009 to $61.2 million in crop year 2010. Through July 2012, NAP benefits paid out for 2011 crop year losses totaled $255 million.
- Supplemental Agricultural Disaster Assistance authorized under the 2008 Farm Bill provides five standing disaster programs for losses that occur on or before September 30, 2011. These programs provide assistance for crop, livestock, tree, and grazing losses that occur due to natural disasters and related conditions. Benefits received for 2008 crop year losses total $2.3 billion. Benefits paid for 2009 crop year losses total $910 million. Benefits paid for 2010 crop year losses total $563.4 million. Due to the lag in being able to implement the Supplemental Revenue Assistance Payments Program, final totals cannot be provided at this time for 2011 crop year losses.

- Over 30,300 Farm Storage Facility Loans (FSFLs) were disbursed from FY 2000 through July 2012. The 2008 Farm Bill 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. To date, since FY 2000 the FSFL Program has provided financing for on-farm storage for over 890 million bushels of eligible FSFL commodities. As of July 2012, a total of $1.6 billion have been disbursed to eligible producers. In FY 2011, 2,810 FSFLs were approved and obligated for a total of $221 million. As of July 2012, a total of 1,711 FSFL's have been approved and obligated, for a total of $149 million.

- The Marketing Assistance Loan (MAL) Program disburses nonrecourse commodity loans during a crop year. The Loan Deficiency Payment (LDP) Program issues LDP benefits electronically, when LDPs are in effect. In crop year 2011, LDPs were in effect for wool and unshorn pelts and 3,140 LDPs were disbursed for a total of $1.2 million. For 2011crop MALs, there were 59,063 MALs disbursed totaling $5.57 billion. As of July, 2012, for crop year 2012 there have been 227 MALs disbursed, totaling over $11.9million. The 2012 crop MAL disbursements will increase once all major 2012 crop year commodities have been harvested and requests have been initiated.

- The Milk Income Loss Contract Program (MILC) helps stabilize dairy farm income by making direct payments to dairy farmers when milk prices drop below the base milk price. This base price is adjusted when feed prices increase above a base level making the payments responsive not only to changes in milk prices, but also production costs. This serves as a safety net to the U.S. dairy producers. Approximately 97 percent of MILC payments issued to eligible milk producers were in the form of electronic payments. FSA expects to again meet this 97 percent mark for FY 2012. As of July 2012, approximately $831 million has been disbursed for FY 2009, $107 million has been disbursed for FY 2010, and $226.8 million MILC payments have been issued for FY 2012. Payments were triggered in February of this year due to declining milk prices and rising feed costs.

- The Reimbursement Transportation Cost Payment (RTCP) Program for Geographically Disadvantaged Farmers and Ranchers provides assistance to farmers and ranchers in Hawaii, Alaska, and insular areas that paid to transport either an agricultural commodity or an input used to produce an agricultural commodity. RTCP payments issued under the FY 2010 program as of July 2012 total $2.2 million to 1,307 eligible applicants. As of July 2012, for FY 2011, $1.6 million has been issued under 935 eligible applications. Participation under RTCP program for the FY 2012 program is expected to be equal to or greater than previous years as more producers become aware of the opportunity.

- The Dairy Economic Loss Assistance Program (DELAP) payments began within 60 days of the President signing the FY 2010 *Agricultural Appropriations Act* on October 21, 2009 authorizing this program to assist U.S. dairy producers. As of July 2012, a total of $289.9 million has been disbursed for all DELAP phases.

- The *American Recovery and Reinvestment Act of 2009* reauthorized and modified the Trade Adjustment Assistance for Farmers (TAAF) Program. Under the program, USDA provides technical assistance and cash benefits to eligible producers of raw agricultural commodities and fishermen who have been hurt by import competition. There were 5,393 FY 2010 applications received for TAAF for producers of catfish, asparagus, and shrimp and disbursements total $45.6 million as of July 2012. For FY 2011 the TAAF Program accepted one petition on behalf of blueberry producers, one on behalf of lobster producers, and one on behalf of shrimp producers. A total of 6,017 applications were received for FY 2011, with payments disbursed as of July 2012, totaling $8.5 million to 7,173 applicants.

Table 8: Summary of Performance Measures for DCP and ACRE programs

Performance Measure	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012		
					Target	Actual	Result
Maintain the percent of eligible base acres participating in Direct and Counter-Cyclical Payment Program (DCP) and Average Crop Revenue Election (ACRE) program.	96.31%	95.99%	95.65%	95.34%	95.00%	95.00% Estimate	Met
Threshold range: +-1.0% Rationale for Met Range: Management Determination							
Data Assessment of Performance Measure							
Data source: Direct and Counter-Cyclical and ACRE Program Enrollment Report (DCP-01) for the respective crop year. FY 2012 Actual is an estimate based on the historical trend from prior years. Completeness of Data: Data reported are estimated final results for the fiscal year based on data available as of June 30, 2012. Reliability of Data: Data are considered reliable. The measurement process involves determining the number of base acres enrolled in the DCP and ACRE program. That number is then divided by the total number of base acres on all farms to calculate the percentage of enrolled base acres. The enrollment report is updated periodically. The numerator is the number of base acres enrolled in DCP and ACRE at every USDA Service Center. The denominator is the total number of bases acres for all farms. Quality of Data: Overall, the quality of the data is good.							

Challenges for the Future

Congress has not taken action to pass multiyear, comprehensive Food, Farm and Jobs legislation. Beginning October 1, 2012, the authority or funding provided under the 2008 Farm Bill for USDA to operate a number of programs has expired, and the authority and funding for additional programs will expire over the coming months. Not only does this create uncertainty in terms of USDA programs, it leaves thousands of farming families exposed at a time when U.S. agriculture is fighting to maintain the tremendous momentum it has built over the past three years.

Conservation Program Area

MISSION ELEMENT

Conserving soil, air, and water resources and protecting and improving wildlife habitats

Program Overview

Under the CCC Conservation Reserve Program (CRP), producers plant long-term, resource-conserving covers to improve the quality of water, control soil erosion and enhance wildlife habitat. In return, CCC provides participants with rental payments and cost-share assistance. Contract duration is between 10 and 15 years. The program is designed to restore and enhance wetland areas, increase sediment trapping efficiencies, improve water quality, prevent soil erosion and provide habitat for waterfowl and other wildlife.

The program includes several initiatives for wetland restoration and enhancement. In March 2012, the Secretary of Agriculture announced 350,000 additional acres of wetland initiatives. CRP wetland initiatives now include a 600,000-acre Floodplain Restoration Initiative, a 250,000-acre Bottomland Hardwood Timber Initiative, a 350,000-acre Non-Floodplain and Playa Wetland Restoration Initiative, and a 300,000-acre Prairie Pothole Duck Nesting Habitat Initiative.

Analysis of Results

CCC has CRP contracts with landowners covering 2.29 million acres of wetlands (including upland buffers) as of June 2012, exceeding its FY 2012 target of 2.23 million acres, and CRP contracts covering 1.98 million acres of buffers meeting its target of 2.00 million acres for FY 2012. CCC has made substantial progress in protecting watershed health and enhancing soil quality. Total CRP enrollment stands at 29.60 million acres. These acres annually reduce soil erosion by 325 million tons, and nitrogen, phosphorus, and sediment by more than 85 percent, and sequester over 44 million metric tons of carbon dioxide. CRP also contributes to increased wildlife populations, and has added more than 2 million ducks to the Prairie Pothole Region annually, protected Sage Grouse populations in Eastern Washington and Lesser Prairie Chicken populations in the Great Plains, and increased ring-necked pheasant and other grassland bird populations.

Table 9: Summary of Performance Measure (Increase Acres) for CRP

Performance Measure	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012		
					Target	Actual	Result
Increase Conservation Reserve Program (CRP) acres of riparian and grass buffers (cumulative and in million acres).	2.00	2.01	2.02	2.01	2.00	1.98	Met
Threshold range: +/-.05 Rationale for Met Range: Management determination							
Data Assessment of Performance Measure							
The data source for this measure is the National CRP Contract Data Files. Completeness of Data: The targets and actual data are annual. Data reported are estimated final results for the fiscal year based on data available as of June 30, 2012. The measure reports national acres under contract with							

Performance Measure	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012		
					Target	Actual	Result
the following buffer practices: Grass Filter Strips, Riparian Buffers, Wildlife Habitat Buffers on Marginal Pasturelands, and Buffers established under the State Acres for Wildlife Enhancement. There are no known data limitations. Estimated FY2012 final enrollment is based on 4th quarter CRP wetland enrollment in previous years. Reliability of Data: USDA considers the data to be reliable. CRP is authorized through FY 2012. Quality of Data: Overall, the quality of the data is good.							

Table 10: Summary of Performance Measure (Restored Wetland Acreage) for CRP

Performance Measure	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012		
					Target	Actual	Result
CRP: restored wetland acreage (million acres)	1.98	2.04	2.05	2.21	2.23	2.29	Exceeded
Thresholds range: +/-.05 Rationale for Met Range: Management determination							
Data Assessment of Performance Measure							
The data source for this measure is the National CRP Contract Data Files. Completeness of Data: The targets and actual data are annual. Data reported are estimated final results for the fiscal year based on data available as of June 30, 2012. The measure reports national acres under contract with the following wetland practices: Wetland Restoration, Marginal Pastureland Buffers, Bottomland Trees, Shallow Water Areas for Wildlife, Duck Nesting Habitat, and Farmable Wetlands Programs. There are no known data limitations. Acres reported include associated upland buffers. Estimated FY2012 final enrollment is based on 4th quarter CRP wetland enrollment in previous years. Reliability of Data: USDA considers the data to be reliable. CRP is authorized through FY 2012. Quality of Data: Overall, the quality of the data is good.							

Challenges for the Future

The 2008 Farm Bill dropped CRP enrollment authority to no more than 32 million acres. FY 2013 enrollment is expected to end at about 29.6 million acres. The 6.5 million acres of CRP expiring in FY 2012, combined with relatively high commodity prices, will present USDA with a challenge in maintaining the magnitude of CRP's conservation benefits. Due to the pending Farm Bill reauthorization, these estimates for future years may need to be adjusted if there are changes to CRP acreage authorized. CCC remains strongly committed to attaining its conservation objectives. Special focus will be placed on accelerating the protection of clean and abundant water resources. CCC will seek wetland contracts for more than 50,000 acres in FY 2013. In addition, CCC will enroll contracts covering 40,000 acres to fulfill riparian buffer and grass filter strips. CCC will continue to support initiatives designed to improve wildlife habitat, including the 500,000-acre upland bird buffer, the 300,000-acre Duck Nesting Habitat Initiative, and the State Acres for Wildlife Enhancement initiative (a 1,250,000-acre initiative announced in FY 2007 and enhanced in 2012 to improve habitat for endangered, threatened, or high-priority fish and wildlife species). In addition, CCC will continue the 250,000-acre initiative to restore the longleaf pine ecosystem.

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 CCC program commitments and to administer the *United States Warehouse Act* (USWA). Activities related to the USWA are carried out by Commodity Operations through the regulations and policies to maintain acceptable standards for the warehouse industry. Protection of stored commodities is provided through the licensing and examination activities of the USWA.

CCC is also responsible for administering storage agreements that commercial warehouse operators enter into with CCC. The agreements are for CCC-interest commodities, including commodities owned by CCC or pledged as collateral for Marketing Assistance Loans (MALs). 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 MAL may deliver the warehouse receipts to FSA as security for a nine-month MAL. FSA also works with its 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 exceed its target to reduce the average time between warehouse examinations. The FY 2012 target is 375 days between examinations. In FY 2012, the examinations were performed more frequently, an average of 342 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. New examiners were hired and accounts for the improvement (decrease) in the number of days between warehouse examinations from FY 2011 (355) to FY 2012 (342). Factors that will affect the examination program in the future include new federal regulations proposed by Occupational Safety and Health Agency (OSHA) that may limit examination processes. Industry is developing safer, more efficient measurement technology in response to the increased regulation, but the technology will need to be tested and vetted for accuracy and dependability. Other 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 2011. Examination division staffing declined from 91 in January of 2006 to 70 in July of 2011. During FY 2012 there was a 4 percent increase in the number of licenses issued including 20 licenses issued (or in process) to export warehouses, which may increase the number of days between examinations. There are 48 warehouse examiners currently in the field throughout the United States, based in strategic locations to perform timely 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. CCC will continue to provide food assistance purchases support to domestic and international programs. There is currently no CCC inventory of dairy products and Commodity Operations is currently projecting no FY 2013 DPPSP purchases. Commodity Operations will continue its efforts to reduce the number of days between examinations as the performance measure for the program.

Table 11: Summary of Performance Measure (Reduce Average Time between Warehouse Examinations)

Performance Measure	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012		
					Target	Actual	Result
Reduce average time between warehouse examinations (in days)	387	363	345	355	375	342 Estimated	Exceeded
Threshold range: +/- 25 days Rationale for Met Range: Management determination							
Data Assessment of Performance Measure							
The data source for this measure is internal Deputy Administrator for Commodity Operations (DACO) files. Completeness of Data: The targets and actual data are annual. Data reported are estimated final results for the fiscal year based on data available as of August 31, 2012. Reliability of Data: USDA considers the data to be reliable. Quality of Data: Overall, the quality of the data is good.							

Challenges for the Future

From FY 2010 through FY 2011, staffing for the examination program decreased due to retirements and attrition. During the same time period, licensed capacities increased. Since September 30, 2010, grain capacities under USWA license have increased from 4,590,000,000 bushels to over 5 billion bushels. The USWA licensed warehouses represent more than half of all licensed grain warehouse capacity in the United States. 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. 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. As new examiners are trained, the days between examinations should decrease.

Market Development Program Area

MISSION ELEMENT

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

Program Overview

One-third of all U.S. agricultural cash receipts come from export sales, making the economic well-being of rural America heavily dependent on international trade. U.S. farmers and ranchers are among the world's most productive and efficient. However, they face complex and unfair obstacles in the global marketplace where 95 percent of the world's consumers live. A cooperative effort with the U.S. industry is needed to ensure the U.S. producers have fair market access, a strong understanding of key market trends, and support in overcoming constraints such as tight credit in international markets.

CCC supports U.S. industry efforts to build, maintain, and expand overseas markets for U.S. agricultural, fish and forest products. The FAS manages several export development programs including the Foreign Market Development (Cooperator) Program (FMD), Market Access Program (MAP), Technical Assistance for Specialty Crops (TASC) Program, Quality Samples Program (QSP), and Emerging Markets Program (EMP). These programs provide matching funds to U.S. non-profit organizations to conduct a wide range of activities including market research, consumer promotion, trade servicing, capacity building, and market access support. Working with the SRTGs and other industry organizations, CCC programs also provide funding to encourage small to medium-sized enterprises (SMEs) to become active in international markets. FAS staff in over 100 countries around the world support industry efforts by providing market intelligence and introducing U.S. exporters to potential foreign customers. FAS Trade Services Staff, FAS overseas offices and cooperators all provide services that help U.S. companies successfully access potential buyers in a wide-range of international trade shows.

Analysis of Results

An updated external cost-benefit analysis of market development programs found that U.S. food and agricultural exports increased by $35 for every dollar expended by government and industry, up from $25 in 2007. The study used multivariate econometric models for bulk commodities and high value products that isolated the unique long-run trade impacts of foreign market development. The report also showed that agricultural exports in 2009 were $6.1 billion higher than they would have been without increased investment in market development. Export gains associated with the programs increased the average annual level of U.S. farm cash receipts by $4.4 billion.

There are over 70 non-profit associations that participate in CCC market development programs. They are promoting U.S. products around the world and have an economic impact on virtually every state in the union. A few examples of their successes demonstrate the wide range of participants, activities, and target markets:

- The U.S. Grains Council used the FMD program to provide technical assistance to Taiwan, demonstrating the benefits of using distillers dry grains with soluble DDGS (a co-product of ethanol production) in their feed rations. Addressing Taiwan's questions and concerns with technical consultants, a survey team to the United States, and nutritional seminars, led to almost doubling U.S. DDGS exports in FY 2011, reaching $47 million; exports in FY 2012 are running at about $27 million ahead of last year.

- The U.S. Wheat Associates are using MAP and FMD to help Southeast Asian flour mills expand their product lines, by conducting baking seminars to introduce new products with higher profit margins, and educating buyers about U.S. wheat blends that profitably meet their needs. U.S. wheat sales to the region in June-May 2011 and 2012 were valued at $1.3 million and reached just over 3.8 MMT, nearly 40 percent higher than the previous five-year average.
- The Softwood Export Council's FMD–funded pavilion at the Dubai Wood 2012 trade show provided the opportunity to an Oregon mill to sign a sales contract for $75,000. The company stated that because of their participation at the show, they will be exporting and estimated $600,000 to the Middle East in 2012.
- A Hops Growers Association trade delegation used MAP to fund a booth and technical seminar at the Brau Beviale, the largest professional beer trade show in the world, held in Nuremberg, Germany. The QSP program funded hundreds of trial-size samples to brewers during the event. On site surveys indicated increased interest in trial purchases. Between December 2011 and March 2012, U.S. exports of hop cones and pellets to the EU reached $11.5 million, an increase of 38 percent compared to the same period the previous year.
- The Cherry Marketing Institute (CMI) used MAP to promote the extensive sports health benefits of U.S. tart cherries. There are now a whole range of product ambassadors from many sports disciplines speaking on behalf of Michigan Tart Cherries. CMI reported that sales have increased dramatically with over $2.5 million of U.S. tart cherry juice exported to the UK in July 2011 - June 2012.
- An Organic Trade Association, MAP-funded, reverse trade mission, brought 12 buyers from Germany, the UK, the Netherlands, Cyprus, China, Malaysia and France to the Natural Products Expo West in Anaheim, California, in March 2012. The buyers participated in nearly 200 pre-arranged meetings with 28 U.S. organic companies, resulting in an estimated $3 million in U.S. organic product sales.

CCC market development programs support the U.S. National Export Initiative (NEI). Broadening the base of U.S. exporters supports economic recovery and American jobs. A central focus of NEI is to provide additional assistance to SMEs, which are major drivers of new job creation. In calendar year 2011 there were 1,403 new U.S. company participants in market development programs; from January - June 2012 there were 1,062 new company participants. In calendar year 2011, 2,437 buyers were brought to the U.S. on reverse trade missions; from January - June 2012 there were 1,253 buyers on reverse trade missions. NEI also identifies the need to focus government resources to help exporters succeed, particularly SMEs that have the largest potential to expand internationally. Last year the reported performance measure for market development programs was SME sales. Due to data inconsistencies, this measure has been dropped. "The value of agricultural exports resulting from participation in foreign food and agricultural trade shows" is a broader measure of CCC and participant market development investment.

Table 12: Summary of Performance Measure for Market Development

Performance Measure	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012 Target	FY 2012 Actual	FY 2012 Result
Value of agricultural exports resulting from participation in foreign food and agricultural trade shows (million $)	$799	$697	$1,097	$1,072	$1,100	$1,332 Estimate	Exceeded
Threshold: +/- $150 million Rationale for Met Range: Management Determination							
Data Assessment of Performance Measure							
Data Source: Data are collected by surveying U.S. company participants at the end of each trade show. Survey responses represent about 60 to 90 percent of total company participants at a show. In large, multiproduct shows, about a third to a half of the respondents are companies that are participating with one of the market development organizations. In more product specific shows, about two thirds of the respondents are linked to market development funded participants. Data reported are 12-month projected sales. Completeness of Data: Data are through September 7, 2012; three more shows will take place before the end of September. Reliability of Data: Data are considered reliable. Quality of Data: Data are self-reported but is considered a good indicator of aggregate company sales. In 2011, an analysis of three trade shows was completed to assess the accuracy of reported projected sales. This analysis compared reported projected sales to actual 12- month sales that were obtained through an extensive telephone survey. This review demonstrated that overall the projections understated actual sales. Prior to the review, many assumed projections were considerably overstating final sales.							

Challenges for the Future

The economic fragility of the EU, the political unrest in the Middle East, and the slowdown in the Chinese economy, all can have a detrimental impact on the export results of market development programs, including dampening U.S. company sales prospects at international trade shows. The CCC ability to continue to survey company sales following trade shows may be disrupted, as the OMB continues its review of the current survey, as required by the *Paperwork Reduction Act*. Consistent and predictable funding for various market development programs is a challenge. A new Farm Bill, or an extension of the current 2008 Farm Bill, is needed to establish predictable program funding levels to bring stability to planning and program implementation. These factors can greatly influence the performance measure outcomes and the availability of data to support them.

Export Program Area

MISSION ELEMENT

Creating U.S. Agricultural Export Opportunities and Enhancing Global Food Security

Program Overview

The primary objective of the CCC Export Credit Guarantee Programs is to increase sales of U.S. agricultural commodities to international markets by facilitating the extension of export credits to countries that may not have access to adequate commercial credit. These CCC Programs encourage U.S. lenders and exporters to extend credit terms on sales of agricultural commodities and products to overseas customers. The CCC Export Credit Guarantee Programs support the involvement of foreign private sector banks and private sector importers in commercial trade transactions with the U.S. The Export Credit Guarantee (GSM-102) Program provides guarantees for export sales with repayment terms up to 2 years by current policy with further restrictions depending upon the risk grade of the country. The statutory cap on repayment terms remains at 3 years.

Analysis of Results

CCC exceeded its FY 2012 target of $3.5 billion by approximately $350 million or 10 percent based on current estimates. Increased demand for credit amidst a risky financial environment and rising commodity prices are among the factors that caused CCC to exceed its target. Given continued global economic volatility in the EU as well as political and economic volatility in the Middle East, demand for the program is likely to remain strong.

CCC exceeded its 2012 economic return ratio target of $100/$1. Factors that contributed to exceeding the target included increased income from fees despite a marginal decrease in program size from FY 2011. In addition, the lack of any defaults or claims paid in FY 2012 allowed default estimates and, hence, program costs to remain the same. The Economic Return Ratio is calculated using gross default estimates and does not take into consideration expected recoveries on claims paid. Program accomplishments for FY 2012 include:

- Risk dispersion in FY 2012 improved when compared to FY 2011. The top five obligor countries in FY 2012 represented only 60 percent of total projected program size. In FY 2011, the top five obligor countries represented almost 75 percent of total program size. A wider dispersion of obligors represents less risk concentration.
- Registrations to Africa and the Middle East increased by 18 percent over FY 2011, with registrations for Egypt increasing 128 percent.
- South East Asian registrations increased 63 percent over FY 2011, with registrations for the Philippines increasing over 600 percent and for Indonesia over 145 percent.
- Chilean banks increased program registrations by over 250 percent in FY 2012. Mexican banks returned to the program with over $90 million in registrations.
- FY 2012 saw registrations for new commodities such as almonds, breeding horses, corn gluten feed, corn meal, fish, fresh fruit and lumber.
- Soybean and soybean meal together totaled over $1.3 billion in registrations, while breeding cattle registrations were up over 400 percent.
- FY 2012 saw no reported defaults and no claims paid. $30.1 million in cash recoveries were received in FY 2012.

Table 13: Summary of Performance Measure for GSM

Performance Measure	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012		
					Target	Actual	Result
Estimated trade value resulting from USDA GSM export credit guarantee program (dollars in billions)	$3.11	$5.32	$3.09	$4.12	$3.5	$3.85 Estimate	Exceeded

Threshold: $0.25
Rationale for Met Range: Management decision

Data Assessment of Performance Measure

The data source for this measure is the GSM System. The GSM System records all export sales registered, guarantees issued and shipments and makes adjustments to these amounts due to reserves or shipments not completed.
Completeness of Data: Data reported are estimated final results for the fiscal year based on data available as of September 13, 2012. The estimated FY 2012 amount was derived by reviewing historical monthly registrations and projecting the same out for the remainder of the month as well as reviewing September registrations in previous years.
Reliability of Data: CCC considers this data to be reliable. The GSM System is updated every night. The GSM System is included in the annual A-123 review of the GSM-102 program and is also included in the annual audit by external auditors. The performance measure is simply the guaranteed amount derived from the Commitment Reports that are generated from the GSM System.
Quality of Data: The GSM System is a system designed solely to support the GSM export credit guarantee programs. The GSM System is updated every night and all changes are tested before incorporated into the system. Data is reviewed on a daily basis.

Table 14: Summary of Performance Measure for Economic Return Ratio

Performance Measure	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012		
					Target	Actual	Result
Economic Return Ratio (New measure in FY 2011)	N/A	N/A	N/A	$107.56/$ 1.00	$100/ $1.00	$111.24/ $1.00 Estimate	Exceeded

Threshold: +/-$5.00
Rationale for Met Range: Management decision

Data Assessment of Performance Measure

The data source for this measure is the GSM System. The GSM System records all export sales registered, guarantees issued and shipments and makes adjustments to these amounts due to reserves or shipments not completed.
Completeness of Data: Data reported are estimated final results for the fiscal year based on data available as of September 13, 2012. The estimated FY 2012 amount was derived by reviewing historical monthly registrations and projecting the same out for the remainder of the month as well as reviewing September registrations in previous years.
Reliability of Data: CCC considers this data to be reliable. The GSM System is updated every night. The GSM System is included in the annual A-123 review of the GSM-102 program and is also included in the annual audit by external auditors. The performance measure is simply the guaranteed amount derived from the Commitment Reports that are generated from the GSM System.
Quality of Data: The GSM System is a system designed solely to support the GSM export credit guarantee programs. The GSM System is updated every night and all changes are tested before incorporated into the system. Data is reviewed on a daily basis.

Challenges for the Future

FY 2013 presents numerous challenges for the CCC-funded Export Credit Guarantee Program. The pending Farm Bill and continued negotiation with Brazil to reach a solution to the long standing World Trade Organization dispute are likely to require some level of program changes. Both remain unclear at this time. Continued uncertainties in the global economic environment could create demand shifts based on commercial financing availability as the size of this program typically runs countercyclical to global financial stability.

Part III: Financial Section

Consolidated Financial Statements

Commodity Credit Corporation
CONSOLIDATED BALANCE SHEETS
As of September 30, 2012 and 2011
(In Millions)

	2012		2011	
Assets:				
Intragovernmental:				
Fund Balance with Treasury (Note 2)	$	2,984	$	4,394
Accounts Receivable, Net (Note 4)		151		55
Total Intragovernmental Assets	$	3,135	$	4,449
Accounts Receivable, Net (Note 4)		2,445		3,341
Direct Loans and Loans Guarantees, Net:				
Commodity Loans, Net (Note 5)		400		338
Credit Program Receivables, Net (Note 6)		3,840		4,048
Subtotal	$	4,240	$	4,386
Commodity Inventories and Related Property, Net (Note 7)		14		51
General Property and Equipment, Net (Note 8)		28		48
Other (Note 9)		111		127
Total Assets	$	9,973	$	12,402
Stewardship Land (Note 1)				
Liabilities (Note 10):				
Intragovernmental:				
Debt to the Treasury (Note 11)	$	2,682	$	2,865
Other:				
Resources Payable to Treasury (Note 13)		1,850		1,988
Deposit and Trust Liabilities (Note 12)		1,532		1,269
Other (Note 13)		159		86
Subtotal	$	3,541	$	3,343
Total Intragovernmental Liabilities	$	6,223	$	6,208
Accounts Payable		464		435
Loan Guarantee Liability (Note 6)		174		114
Environmental and Disposal Liabilities (Note 14)		8		8
Other Liabilities:				
Accrued Liabilities (Note 15)		8,246		9,109
Deposit and Trust Liabilities (Note 12)		7		7
Other (Note 13)		84		236
Subtotal	$	8,337	$	9,352
Total Liabilities	$	15,206	$	16,117
Commitments and Contingencies (Note 16)				
Net Position:				
Capital Stock	$	100	$	100
Unexpended Appropriations		900		1,167
Cumulative Results of Operations		(6,233)		(4,982)
Total Net Position	$	(5,233)	$	(3,715)
Total Liabilities and Net Position	$	9,973	$	12,402

The accompanying notes are an integral part of these statements.

Commodity Credit Corporation

CONSOLIDATED STATEMENTS OF NET COST

For the Fiscal Years Ended September 30, 2012 and 2011

(In Millions)

	2012	2011
Strategic Goals (Note 17):		
Provide a Financial Safety Net for Farmers and Ranchers:		
Gross Cost	$ 5,822	$ 6,249
Less: Earned Revenue	86	105
Net Goal Cost	$ 5,736	$ 6,144
Ensure Commodities are Procured and Distributed Effectively and Efficiently:		
Gross Cost	$ 90	$ 326
Less: Earned Revenue	25	30
Net Goal Cost	$ 65	$ 296
Increase Stewardship of Natural Resources While Enhancing the Environment:		
Gross Cost	$ 2,154	$ 2,374
Less: Earned Revenue	39	40
Net Goal Cost	$ 2,115	$ 2,334
Increase U.S. Food and Agricultural Exports:		
Gross Cost	$ 2,511	$ 2,894
Less: Earned Revenue	702	358
Net Goal Cost	$ 1,809	$ 2,536
Total Gross Cost	$ 10,577	$ 11,843
Less: Total Earned Revenue	852	533
Net Cost of Operations	$ 9,725	$ 11,310

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, 2012 and 2011

(In Millions)

	2012	2011
Capital Stock	$ 100	$ 100
Cumulative Results of Operations:		
Beginning Balance	$ (4,982)	$ (8,623)
Budgetary Financing Sources:		
Appropriations Used	11,431	17,124
Non-exchange Revenue	(8)	19
Transfers in/out without Reimbursement, Net	(4,042)	(3,497)
Other Financing Sources (Non-Exchange):		
Transfers in/out without Reimbursement, Net	(74)	(3)
Imputed Financing	1,252	1,417
Other	(85)	(109)
Total Financing Sources	$ 8,474	$ 14,951
Net Cost of Operations	(9,725)	(11,310)
Net Change	$ (1,251)	$ 3,641
Cumulative Results of Operations	$ (6,233)	$ (4,982)
Unexpended Appropriations:		
Beginning Balance	$ 1,167	$ 1,852
Budgetary Financing Sources:		
Appropriations Received	11,116	16,801
Appropriations Transferred in/out	-	(28)
Other Adjustments	48	(334)
Appropriations Used	(11,431)	(17,124)
Total Budgetary Financing Sources	$ (267)	$ (685)
Total Unexpended Appropriations	$ 900	$ 1,167
Net Position	$ (5,233)	$ (3,715)

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, 2012 and 2011
(In Millions)

	2012		2011	
	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts
Budgetary Resources:				
Unobligated balance brought forward, October 1	$ 1,870	$ 657	$ 2,288	$ 1,111
Recoveries of prior year unpaid obligations	1,199	29	828	38
Other changes in unobligated balance	(50)	(437)	(78)	(217)
Unobligated balance from prior year budget authority, net	3,019	249	3,038	932
Appropriations (discretionary and mandatory)	2,503	-	2,309	-
Borrowing Authority (discretionary and mandatory)	11,267	219	11,193	116
Spending authority from offsetting collections (discretionary and mandatory)	5,715	282	8,561	443
Total Budgetary Resources	$ 22,504	$ 750	$ 25,101	$ 1,491
Status of Budgetary Resources:				
Obligations Incurred (Note 18)	$ 21,291	$ 409	$ 23,231	$ 834
Apportioned	199	217	526	537
Exempt from apportionment	355	5	1,136	9
Unapportioned	659	119	208	111
Total Unobligated balance, end of year	1,213	341	1,870	657
Total Budgetary Resources	$ 22,504	$ 750	$ 25,101	$ 1,491
Change in Obligated Balance:				
Unpaid obligations, brought forward, October 1 (gross)	$ 9,924	$ 210	$ 9,894	$ 238
Uncollected customer payments from Federal sources, brought forward, October 1	(53)	(157)	(246)	(158)
Obligated balance, start of year (net)	9,871	53	9,648	80
Obligations Incurred	21,291	409	23,231	834
Outlays (gross)	(18,658)	(417)	(22,373)	(823)
Change in uncollected customer payments from Federal sources	(81)	-	193	-
Recoveries of prior year unpaid obligations	(1,199)	(29)	(828)	(38)
Obligated balance, end of year				
Unpaid obligations, end of year (gross)	11,358	173	9,924	210
Uncollected customer payments from Federal sources, end of year	(134)	(157)	(53)	(157)
Obligated balance, end of year (net)	$ 11,224	$ 16	$ 9,871	$ 53
Budget Authority and Outlays, Net:				
Budget authority, gross (discretionary and mandatory)	$ 19,485	$ 501	$ 22,063	$ 559
Actual offsetting collections (discretionary and mandatory)	(9,437)	(561)	(12,213)	(569)
Change in uncollected customer payments from Federal sources (discretionary and mandatory)	(81)	-	193	-
Budget authority, net (discretionary and mandatory)	$ 9,967	$ (60)	$ 10,043	$ (10)
Outlays, gross (discretionary and mandatory)	$ 18,658	$ 417	$ 22,373	$ 823
Actual offsetting collections (discretionary and mandatory)	(9,437)	(561)	(12,213)	(569)
Outlays, net (discretionary and mandatory)	9,221	(144)	10,160	254
Distributed offsetting receipts	-	(74)	-	(225)
Agency Outlays, net (discretionary and mandatory)	$ 9,221	$ (218)	$ 10,160	$ 29

The accompanying notes are an integral part of these statements (Note 18).

Notes to the Financial Statements

Note 1 - Significant Accounting Policies

Reporting Entity

CCC is a Federal corporation operating within and through 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 *Commodity Credit Corporation Charter Act*, 15 U.S.C. 714, and 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. 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 FSA, AMS, NRCS, FAS, and USAID. The accompanying financial statements include an allocation, as appropriate, of salaries and expenses (e.g., facility costs) incurred by FSA. 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), *Financial Statements of Agencies*. These statements have been prepared from the accounting records of CCC as of September 30, 2012 and September 30, 2011 in accordance with generally accepted accounting principles for Federal entities and policies prescribed in 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. (Refer to the Allocation Transfers and Shared Appropriations section of this note for parent/child information). In consolidation, intra-agency activities and balances have been eliminated except for the Statement of Budgetary Resources, which is presented on a combined basis as required by OMB Circular A-136 guidance.

Note 1 - Significant Accounting Policies, Continued

Allocation Transfers and Shared Appropriations

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

CCC allocates funds, as the parent, to USAID to fund P.L. 480 Title II transportation and other administrative costs in connection with foreign donations. CCC reports USAID's budgetary and proprietary transactions for which it is the parent. As of FY 2012, CCC no longer receives allocation transfers from FSA and no longer reports activity as a receiving (child) entity.

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.

Treasury requires that the Fund Balance with Treasury amounts reported via Federal Agencies' Centralized Trial-Balance System I (FACTS I) 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 includes such timing differences as a result of varying processing times and cut-off dates between CCC, Treasury, and other USDA entities.

Cash

CCC does not maintain cash in commercial bank accounts.

Accounts Receivable

Accounts receivable arise from claims to cash or other assets against other entities, either based on legal provisions, such as program overpayments, or for 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 if the market rate is less than the loan rate; or (c) at maturity, forfeit the commodity in satisfaction of the loan. Commodity loans are statutorily exempt from the accounting and reporting requirements of the *Federal Credit Reform Act*.

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 a donation.

Note 1 - Significant Accounting Policies, Continued

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 producer is an owner, operator, landlord, tenant, or sharecropper that shared in the risk of producing tobacco on a farm where tobacco was produced or considered planted pursuant to a tobacco farm poundage quota or farm acreage allotment. The quota holders are the landowners of the farm where a tobacco quota was assigned. Quota was the quantity of tobacco required to meet the national domestic needs during the year. That national amount was allocated among all the prior year quota holders to establish the quantity of tobacco that each individual quota holder could market during the program year.

The Law required CCC to dispose of its outstanding tobacco loan portfolio and establish contracts with and make payments to tobacco producers and quota holders to transition from the previous price support program to a free market. This transition period encompasses ten years and began in 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 managed by CCC.

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.

Note 1 - Significant Accounting Policies, Continued

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.

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.

Note 1 - Significant Accounting Policies, Continued

Credit Program Receivables

CCC has several credit programs subject to Credit Reform requirements (Refer to Note 6). Credit program receivables consist of:

- Direct loans extended under Public Law 83-480 (P.L. 480) programs;
- Receivables in the Debt Reduction Fund (this fund is specifically setup to restructure loans);
- Receivables for the General Sales Manager program in the form of reschedule agreements;
- Loans made to producers to build or upgrade farm storage and handling facilities;
- Loans made to apple producers who incurred losses due to low market prices; and
- Loans made to the Texas Boll Weevil Eradication Foundation.

These receivables (including related interest), for 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 cash flow amounts. 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.

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 (FASAB), 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.

Note 1 - Significant Accounting Policies, Continued

CCC purchases commodities for the USAID administered Bill Emerson Humanitarian Trust program, in order to meet humanitarian food needs in foreign countries. This prepositioned inventory is procured and made readily available as needed for foreign countries in need. This is done in advance because the process from procurement to delivery can be lengthy and by having the inventory available these food needs can be met more timely. CCC is currently recording prepositioned inventory on CCCs financial statements. Prior to March 2011, CCC was only recording domestic prepositioned inventory (located in the U.S., prior to being shipped overseas). With the conversion to the Web Based Supply Chain Management System (WBSCM), CCC is now recording both domestic and foreign prepositioned inventory.

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.

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 (Refer to Note 7).

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.

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 (Refer to Note 8).

Non-Entity Assets

Non-entity assets are assets held by CCC that are not available for use in its operations. In FY 2012, CCC did not have any non-entity assets.

Note 1 - Significant Accounting Policies, Continued

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 10, result from the accrual of unpaid amounts due to various CCC programs. Budgetary resources for the programs will not be made available until the subsequent fiscal year until Congressional action or OMB apportionment is completed.

Resources Payable to Treasury

Liquidating Funds: Resources payable to Treasury represent the Pre-Credit Reform funds 'assets that are in excess of the funds' liabilities. After liquidating all the liabilities of these Pre-Credit Reform funds, unobligated funds are then returned to Treasury annually.

Financing Funds: Downward reestimates/subsidies are paid to Treasury in the year of funding. The downward reestimate is recorded as an unfunded payable.

Custodial Collections

As a normal part of its business practices CCC collects FSA farm loans and forwards them to FSA. In addition, penalties, fines, fees and other funds are collected and forwarded to Treasury. These are not part of CCC budget authority

Downward Reestimates Payable to Treasury General Fund

When direct and guaranteed loan financing funds collect more subsidy than necessary to fund future net cash outflows, the applicable financing account transfers the excess subsidy, with interest, to a Treasury General Fund Receipt (GFR) Account. The GFR accounts are shown in the financial statements as non-entity. The downward reestimate costs are shown in the "Other" line of the Statement of Changes in Net Position.

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 that CCC will be unable to recover claim payments under the Credit Reform Export Credit Guarantee programs. The allowance is based on management's estimate.

Imputed Costs

Imputed costs represent costs incurred by 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 entity, 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.

Stewardship Land

Although the funding source of easements purchased for the Wetlands Reserve Program (WRP) 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. As such, NRCS remains responsible to disclose required information for all WRP easements as stewardship land.

Statement of Budgetary Resources Presentation

In accordance with OMB Circular A-136 requirements, the Statement of Budgetary Resources presentation was significantly restructured compared to its presentation for FY 2011 in order to better align with the reporting format of the SF-133, *Report on Budget Execution and Budgetary Resources*. Due to this change, the FY 2011 Statement of Budgetary Resources has been reformatted compared to what was reported in FY 2011. The result is a change in format only; the underlying supporting information is unchanged.

Note 2 – Fund Balance with Treasury

Fund balances with Treasury, by type of fund, as of September 30, 2012 and 2011 were as follows:

	(In Millions)	
	2012	2011
Trust Funds	$ 49	$ -
Revolving Funds	1,259	2,598
General Funds	1,676	1,793
Other Fund Types	-	3
Total Fund Balance with Treasury	$ 2,984	$ 4,394

The status of fund balances with Treasury as of September 30, 2012 and 2011 were as follows:

	2012	2011
Unobligated Balance		
Available	$ 776	$ 2,208
Unavailable	778	319
Obligated Balance not yet Disbursed	11,239	9,924
Subtotal	$ 12,793	$ 12,451
Less: Borrowing Authority not yet Converted to Fund Balance	(9,809)	(8,060)
Non-Budgetary Fund Balance with Treasury:	-	3
Total Fund Balance with Treasury	$ 2,984	$ 4,394

The Unobligated Unavailable balance 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 as of September 30, 2012 and 2011, 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 (Refer to Note 1, under Reporting Entity, and Note 18 for additional information on permanent indefinite borrowing authority).

Note 3 – Cash and Other Monetary Assets

As of September 30, 2012, CCC does not have balances classified as Cash and Other Monetary Assets.

Note 4 – Accounts Receivable, Net

Accounts receivable as of September 30, 2012 and 2011 were as follows:

	(In Millions)			
	2012		2011	
Intragovernmental:				
Due from the Department of Treasury	$	4	$	3
Due from the Department of Transportation		112		32
Due from Other Federal Agencies		35		20
Total Intragovernmental Accounts Receivable, Net	$	151	$	55
Public:				
Notes Receivable	$	20	$	20
Interest Receivable		16		35
TTPP Receivable		2,286		3,218
Other		137		79
Subtotal	$	2,459	$	3,352
Less: Allowances for Doubtful Accounts		(14)		(11)
Total Public Accounts Receivable, Net	$	2,445	$	3,341

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, which 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, 2012, Public Accounts Receivable for the Tobacco Transition Payment Program (TTPP) was $2,286 million and included $388 million as a short-term receivable and $14 million of the Notes Receivable balance; and, $8 million in Interest Receivable balance (Refer to the TTPP section of Note 1for general information on the program).

As of September 30, 2011, Public Accounts Receivable for TTPP was $3,218 million and included $352 million as a short-term receivable. TTPP comprised $13 million of the Notes Receivable balance; and, $8 million in Interest Receivable balance.

Note 5 – Commodity Loans, Net

Commodity loans receivable, by commodity, as of September 30, 2012 and 2011 were as follows:

	(In Millions)	
	2012	2011
Cotton	$ 93	$ 89
Dry Whole Peas	2	2
Feed Grains:		
Barley	3	1
Corn	57	45
Honey	2	2
Oilseeds	1	1
Peanuts	25	20
Rice	160	107
Soybeans	10	12
Wheat	43	56
Total Commodity Loans	$ 396	$ 335
Accrued Interest Receivable	$ 3	$ 1
Penalties, Fines, and Administrative Fees	$ 1	$ 2
Total Commodity Loans, Net	$ 400	$ 338

As of September 30, 2012, total commodity loans increased by $62 million from the previous year. The increase is primarily related to rice loans; the 2012 harvest is significantly ahead allowing loans to be placed earlier. Corn loans also increased due to an earlier harvest; wheat loans decreased primarily due to high market prices.

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 *Federal 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 as shown in the Balance Sheet, 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 GSM program has two sub categories, that is, GSM-102 and GSM-103; the underlying difference between these two programs is principally in the length of their terms of coverage. 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 up to three years and the GSM-103 program covers credit terms of up to ten years. 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 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

Supplier Credit was a subset of GSM-102 offering short term (6-months) credit at a reduced guarantee percentage of 65%. Credit was extended by the exporter to the importer for the purchase of U.S. agricultural products and had to be secured by a promissory note signed by the importer.

Facilities Guarantees provide payment guarantees to finance commercial exports of U.S. manufactured goods and services that will be used to improve agriculture-related facilities. Payment terms may range from 1 to 10 years, with semi-annual installments on principal and interest. An initial payment representing at least 15 percent of the value of the sales transaction must be provided by the importer to the exporter. The rate of coverage is currently 95 percent and will apply to the value of the transaction, excluding the minimum 15 percent initial payment. Only one facility guarantee has been made since program inception.

Guaranteed loans outstanding at the end of FY 2012 were $6,195 million in outstanding principal, of which $6,071 million is outstanding guaranteed principal. Guaranteed loans outstanding at the end of FY 2011 were $6,115 million in outstanding principal, of which $5,992 million was outstanding guaranteed principal. (See Table 20)

Note 6 – Credit Program Receivables, Net, Continued

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 and reestimates contributed to the change of the loan guarantee liability through the year. The loan guarantee liability represents CCC's liability for guarantees in the GSM program. Table 21 shows that total loan guarantee liability moved from $114 million to $174 million during FY 2012, an increase of $60 million.

Total guaranteed loan subsidy expense in FY 2012 was $31 million compared to $63 million in FY 2011. Table 23 illustrates the breakdown of total subsidy expense for FY 2012 and FY 2011. Guaranteed loan volume increased to $4,399 million in FY 2012, compared to $3,497 million in FY 2011 (See Table 24).

Direct Loans

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. As shown in Table 18, total direct loan subsidy expense for FY 2012 was $9million compared to $(2) million in FY 2011. For P.L. 480, subsidy expense in FY 2012 was $31 million compared to $13 million in FY 2011. For FSFL, total direct loan subsidy expense for FY 2012 was $(22) million compared to $(10) million in FY 2011. For Boll Weevil loans, subsidy expense for FY 2012 was $0, compared to $(5) million in FY 2011. There were no additional direct food aid credit agreements made in either 2011 or 2012. As shown in Table 19, disbursements for FSFL loans decreased from $247 million in FY 2011 to $205 million in FY 2012.

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. The aid provided under this program is in the form of agricultural commodities instead of actual loans; hence the term direct credit rather than direct loans, 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 – Export

Under the GSM program, several cohorts have had defaults that resulted in rescheduled loans which are now direct loans owed to CCC. Other than the fact that these are now direct loans, the programmatic purpose does not differ from the original guaranteed loans under GSM.

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.

Note 6 – Credit Program Receivables, Net, Continued

Sugar Storage Facility Loans were authorized by the 2008 Farm Bill specifically for processors of domestically produced sugarcane and sugar beets for the construction or upgrading of storage and handling facilities for raw sugars and refined sugars. Loan term is 15 years, and the maximum principal amount is 85 percent of the net cost of the storage or handling equipment. No sugar storage loans have been made since the program was authorized.

The Boll Weevil Program was 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 loans had not been repaid at the end of the 10 year timeframe, and new promissory notes were signed in May 2011 extending the repayment period to October 2020.

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. The original loan term was established as 3 years, but CCC is still receiving repayments.

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 $2 million and $3 million for the fiscal years ended September 30, 2012 and 2011, respectively. Administrative expenses for the credit guarantee programs were $7 million for each of the fiscal years ended September 30, 2012 and 2011 (See Table 25).

Subsidy Rates

Subsidy rates are used to compute each year's subsidy expenses as disclosed above. The subsidy rates disclosed in Tables 26 and 27 pertain only to the FY 2012 and FY 2011 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

During FY 2012, Foreign Agriculture Service's (FAS) Credit Program Division re-analyzed the expected recoveries on rescheduled debt for Kazakhstan. The analysis was based on a number of factors, including CCC's position with respect to seniority or subordination of the notes, assessment of the banks, and market price ranges for each note. This analysis once again resulted in a decrease in the projected recovery percentage for these particular rescheduled agreements.

During FY 2012, FAS increased fees for the GSM-102 and Facilities guarantee programs. These fee increases have served to lower the subsidy rates for both programs. FAS will continue to evaluate fees and incorporate changes as deemed necessary.

For the Boll Weevil loan program, new promissory notes with a revised payment schedule through FY 2021 were signed in May 2011. The associations that received these loans had repaid only nominal amounts through the first ten years of the loans. We anticipate that they will continue to repay in accordance with the revised notes, as was evidenced by the total amount of scheduled repayments being made during FY 2011 and FY 2012.

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.

Note 6 – Credit Program Receivables, Net, Continued

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. The other modification was a prepayment by Peru of GSM-102 rescheduled debt.

The $21 million increase in adjusted loan modifications (See Table 17) in FY 2012 is due to a receipt of subsidy from the Treasury for bilateral implementation of the Democratic Republic of Congo's 100 percent debt cancellation.

Interest Credit

Interest is accrued monthly on both performing and non-performing direct loans and loan guarantee receivables as it is earned using simple interest calculations based upon a 365-day year. A non-performing direct loan or loan 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, accrued interest is not recognized as income; rather, it is deferred until the interest is received or the receivable is returned to performing status.

Based on the *Federal Credit Reform Act of 1990* and SFFAS No. 2, *Accounting for Direct Loans and Loan Guarantees*, all credit reform loans initiated after September 30, 1991 need to be presented on a present value basis. For loans initiated before October 1, 1991 (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.

Reestimate Trend Analysis

Agencies are required to reestimate the subsidy cost throughout the life of each cohort of direct loans or loan guarantees to account for differences between the original assumptions of cash flow and actual cash flow or revised assumptions about future cash flow. These reestimates represent additional costs or savings to the Government and are recorded in the budget. Reestimates that indicate an increase in the subsidy cost are financed by permanent indefinite authority.

P.L. 480 Title I Direct Credit

The P.L. 480 program had a net reestimate for FY 2012 of $9.7 million, of which $10.1 million was the technical reestimate and $(0.4) million was interest on the reestimate. The upward reestimate totals $19 million, of which $10.6 million was technical and $8.4 million was interest on the reestimate. The downward reestimate totals $9.3 million, of which $0.5 million is technical and $8.8 million is interest on the reestimate. The reestimate for P.L. 480 program is not significant in light of the amounts disbursed.

Note 6 – Credit Program Receivables, Net, Continued

Farm Storage Facility Loans

The FSFL program had a total reestimate of $(18) million. The upward reestimate was $7.5 million, of which $4.1 million was the technical reestimate and $3.4 million was interest on the reestimate. The downward reestimate was $25.5 million, of which $22.4 million was the technical reestimate and $3.1 million was the interest on the reestimate. Sixty-three percent of the downward technical reestimate was in the 2011 cohort and was due to the financing component of subsidy which decreased dramatically during FY 2012. Reestimates for other individual cohorts were not significant.

Export Credit Guarantees (GSM)

The GSM-102 program had a total reestimate of $31.6 million for FY 2012. The upward reestimate total is $56 million and is largely attributable to four cohorts: 2008, 2009, 2010, and 2011, in part due to another downward revision to the projected recoveries on the Kazakhstan defaulted debt that was rescheduled in FY 2010. Cohort 2012 had a $12 million downward reestimate, attributable to an increase in actual fees received and a decrease in predicted defaults due to a less risky composition of the cohort than originally budgeted.

The GSM-103 and Supplier Credit reestimates were not significant. GSM-103 will be entirely closed out effective with the FY 2013 apportionment of the current reestimate.

Note 6 – Credit Program Receivables, Net, Continued

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, 2012 and 2011.

Table 15: Direct Loans and Defaulted Loan Guaranteed Loans, Net

FY 2012	(In Millions)			
Direct Loans				
Obligated Pre-1992	**Loans Receivable, Gross**	**Interest Receivable**	**Present Value Allowance**	**Value Of Assets Related to Loans**
PL 480 Title 1	$ 3,168	$ 824	$ (2,362)	$ 1,630
Pre-1992 Total	$ 3,168	$ 824	$ (2,362)	$ 1,630
Obligated Post-1991				
PL 480 Title 1	$ 1,066	$ 47	$ (278)	$ 835
Debt Reduction Fund	235	15	(244)	7
Farm Storage Facility	714	52	(21)	745
Boll Weevil Program	9	-	(5)	4
Post-1991 Total	$ 2,024	$ 114	$ (548)	$ 1,591
Total Direct Loan Program Receivables	$ 5,192	$ 938	$ (2,910)	$ 3,221
Defaulted Guaranteed Loans				
Pre-1992				
Export Credit Guarantee Programs	$ 109	$ 207	$ (264)	$ 52
Pre-1992 Total	$ 109	$ 207	$ (264)	$ 52
Post-1991				
Export Credit Guarantee Programs	$ 814	$ 20	$ (266)	$ 568
Post-1991 Total	$ 814	$ 20	$ (266)	$ 568
Total Defaulted Guarantee Loans	$ 923	$ 227	$ (530)	$ 620
Total Direct Loan and Loan Guarantees, Net	$ 6,115	$ 1,165	$ (3,440)	$ 3,840

Note 6 – Credit Program Receivables, Net, Continued

Table 16: Direct Loans and Defaulted Guaranteed Loans, Net, Continued

FY 2011 (In Millions)	**Loans Receivable, Gross**	**Interest Receivable**	**Present Value Allowance**	**Value Of Assets Related to Loans**
Direct Loans				
Obligated Pre-1992				
P.L. 480 Title I	$ 3,820	$ 10	$ (2,026)	$ 1,804
Pre-1992 Total	$ 3,820	$ 10	$ (2,026)	$ 1,804
Obligated Post-1991				
P.L. 480 Title I	$ 1,140	$ 1	$ (252)	$ 889
Debt Reduction Fund	247	-	(226)	21
Farm Storage Facility	671	49	(30)	690
Boll Weevil Program	9	-	(6)	3
Post-1991 Total	2,067	50	(514)	1,603
Total Direct Loan Program Receivables	$ 5,887	$ 60	$ (2,540)	$ 3,407
Defaulted Guaranteed Loans				
Pre-1992				
Export Credit Guarantee Programs	$ 124	$ 1	$ (75)	$ 50
Pre-1992 Total	$ 124	$ 1	$ (75)	$ 50
Post-1991				
Export Credit Guarantee Programs	$ 870	$ 7	$ (286)	$ 591
Post-1991 Total	870	7	(286)	591
Total Defaulted Guarantee Loans	$ 994	$ 8	$ (361)	$ 641
Total Direct Loan and Loan Guarantees, Net	$ 6,881	$ 68	$ (2,901)	$ 4,048

Note 6 – Credit Program Receivables, Net, Continued

Table 17: Schedule for Reconciling Subsidy Cost Allowance Balances (Post-1991) Direct Loans

(In Millions)	FY 2012	FY 2011
Beginning Balance of the Subsidy Cost Allowance	$ 800	$ 773
Add: Subsidy expense for direct loans disbursed during the year by component		
Interest Rate Differential Costs	(4)	(3)
Fees and Other Collections	(1)	-
Total Subsidy Expense prior to Adjustments and Reestimates	(5)	$ (3)
Adjustments		
Loan Modifications	$ 21	$ -
Accruals - Technical Default Reestimates	5	(22)
Fees Received	-	4
Loans written off	(629)	(78)
Subsidy allowance amortization	(14)	(33)
Other	559	201
Net Present Value (NPV) Adjustment	83	(43)
Total Subisidy Cost allowance before reestimates	$ 820	$ 799
Add or Subtract Subsidy Reestimates by Component		
Interest rate reestimate	$ -	$ 5
Technical/Default Reestimate	(7)	(4)
Total Reestimates	(7)	1
Ending Balance of the Subsidy Cost Allowance	$ 813	$ 800

Subsidy Allowance – Data in Table 17 includes subsidy for both direct loans and loans receivable derived from those defaulted guaranteed loans which CCC rescheduled as direct loans.

Note 6 – Credit Program Receivables, Net, Continued

Table 18: Subsidy Expense for Direct Loans by Program and Component

FY 2012 (In Millions)

Direct Loan Programs	Interest Differential	Fees and Other Collections	Subtotal Subsidy	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total Subsidy Expense
P.L 480 Title 1	$ -	$ -	-	$ 21	$ -	$ 10	$ 10	$ 31
Farm Storage Facility	(4)	(1)	(5)	-	-	(17)	(17)	(22)
Boll Weevil	-	-	-	-	-	-	-	-
Total Direct Loan Subsidy Expense	$ (4)	$ (1)	$ (5)	$ 21	$ -	$ (7)	$ (7)	$ 9

FY 2011 (In Millions)

Direct Loan Programs	Interest Differential	Fees and Other Collections	Subtotal Subsidy	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total Subsidy Expense
P.L 480 Title 1	$ -	$ -	$ -	$ -	$ 8	$ 5	$ 13	$ 13
Farm Storage Facility	(3)	-	(3)	-	-	(7)	(7)	(10)
Boll Weevil	-	-	-	-	(3)	(2)	(5)	(5)
Total Direct Loan Subsidy Expense	$ (3)	$ -	$ (3)	$ -	$ 5	$ (4)	$ 1	$ (2)

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

For the fiscal years ended September 30, 2012 and 2011, current and prior year disbursements of Post-1991 direct credits and loans were as follows:

Table 19: Total Amount of Direct Loans Disbursed (Post-1991)

(In Millions)	FY 2012	FY 2011
Direct Loan Programs		
Farm Storage Facility	$ 205	$ 247
Total	$ 205	$ 247

Note 6 – Credit Program Receivables, Net, Continued

As of September 30, 2012 and 2011, Post-1991 credit guarantees outstanding were as follows:

Table 20: Guaranteed Loans Outstanding

FY 2012

(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 Program	$ 6,195	$ 6,195	$ 6,071	$ 6,071
Total Guarantees Disbursed	$ 6,195	$ 6,195	$ 6,071	$ 6,071

FY 2011

(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 Program	$ 6,115	$ 6,115	$ 5,992	$ 5,992
Total Guarantees Disbursed	$ 6,115	$ 6,115	$ 5,992	$ 5,992

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.

As of September 30, 2012 and 2011, Post-1991 Liability for Loan Guarantees (Present Value Method) were as follows:

Table 21: Liability for Loan Guarantees (Present Value Method for Post-1991 Guarantees)

FY 2012

(In Millions)

Loan Guarantee Programs	Liabilities for Loan Guarantees on Post-1991 Guarantees Present Value	Total Liabilities for Loan Guarantees
Export Credit Guarantee Program	$ 174	$ 174
Total Liability for Loan Guarantees	$ 174	$ 174

FY 2011

(In Millions)

Loan Guarantee Programs	Liabilities for Loan Guarantees on Post-1991 Guarantees Present Value	Total Liabilities for Loan Guarantees
Export Credit Guarantee Program	$ 114	$ 114
Total Liability for Loan Guarantees	$ 114	$ 114

Note 6 – Credit Program Receivables, Net, Continued

The change in the liability for Post-1991 credit guarantees as of September 30, 2012 and 2011 was as follows:

Table 22: Schedule for Reconciling Loan Guarantee Liability

(In Millions)	FY 2012	FY 2011
Beginning balance of the loan guarantee liability	$ 114	$ 184
Add: Subsidy expense for guaranteed loans disbursed during the year by component		
Fees and other collections	-	1
Total of the above subsidy expense components	$ -	$ 1
Adjustments		
Fees received	41	$ 31
Claim payments to lenders	-	(175)
Other	(12)	11
Ending balance of the subsidy cost allowance before reestimates	$ 143	$ 52
Add or Subtract subsidy reestimates by component:		
Interest rate reestimate	$ (4)	$ 14
Technical/default reestimate	35	48
Total of the above reestimate components	$ 31	$ 62
Ending balance of the loan guarantee liability	$ 174	$ 114

Subsidy expenses related to credit guarantees, made after FY 1991, net of fees and other collections, and subsidy reestimates for the fiscal years ended September 30, 2012 and 2011 were as follows:

Table 23: Subsidy Expense for Loan Guarantees by Program and Component

FY 2012 (In Millions)

Loan Guarantee Programs	Fees and Other Collections	Subtotal	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total Subsidy Expense
Export Credit Guarantee Programs	$ -	$ -	$ (4)	$ 35	$ 31	$ 31
Total Loan Guarantee Programs	$ -	$ -	$ (4)	$ 35	$ 31	$ 31

FY 2011 (In Millions)

Loan Guarantee Programs	Fees and Other Collections	Subtotal	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total Subsidy Expense
Export Credit Guarantee Programs	$ 1	$ 1	$ 14	$ 48	$ 62	$ 63
Total Loan Guarantee Programs	$ 1	$ 1	$ 14	$ 48	$ 62	$ 63

Subsidy reestimates are calculated on cumulative disbursements for all cohorts.

Note 6 – Credit Program Receivables, Net, Continued

For the fiscal years ended September 30, 2012 and 2011, credit guaranteed disbursements were as follows:

Table 24: Guaranteed Loans Disbursed

	(In Millions)			
	FY 2012		FY 2011	
Loan Guarantee Programs	Principal, Face Value Disbursed	Principal, Guaranteed Disbursed	Principal, Face Value Disbursed	Principal, Guaranteed Disbursed
Export Credit Guarantee Programs	$ 4,399	$ 4,306	$ 3,497	$ 3,427
Total Guaranteed Loans Disbursed	$ 4,399	$ 4,306	$ 3,497	$ 3,427

Table 25: Administrative Expenses

	(In Millions)	
	FY 2012	FY 2011
Direct Loan Programs	$ 2	$ 3
Guaranteed Loan Programs	7	7
Total Administrative Expenses	$ 9	$ 10

FY 2012 and 2011 subsidy rates (percentage) for direct credits and loans were as follows:

Table 26: Subsidy Rates for Direct Loans (percentage)

FY 2012

Direct Loan Programs	Interest Differential	Defaults	Fees and Other Collections	Other	Total
Farm Storage Facility	(1.97)	0.02	(0.27)	(0.08)	(2.30)

FY 2011

Direct Loan Programs	Interest Differential	Defaults	Fees and Other Collections	Other	Total
Farm Storage Facility	(1.66)	0.03	(0.27)	(0.11)	(2.01)

For the fiscal years ended 2012 and 2011, there were no new loans for P.L. 480, and thus, no subsidy rate was provided. The Apple Loan Program is a one year program, cohort 2001.

Note 6 – Credit Program Receivables, Net, Continued

FY 2012 and 2011 subsidy rates (percentage) for credit guarantee programs were as follows:

Table 27: Subsidy Rates for Loan Guarantees (percentage)

FY 2012

Guaranteed Loan Programs	Defaults	Fees and Other Collections	Total
Export Guarantee Programs	0.06	(0.74)	(0.68)

FY 2011

Guaranteed Loan Programs	Defaults	Fees and Other Collections	Total
Export Guarantee Programs	(0.27)	(0.59)	(0.86)

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 as of September 30, 2012 and 2011 were as follows:

	(In Millions)	
	2012	2011
Commodity Inventories - Beginning of Fiscal Year	$ 50	$ 22
Acquisitions	814	742
Donations	(852)	(742)
Other Dispositions, Additions and Deductions	2	28
Commodity Inventories - As of September 30	$ 14	$ 50
Less: Allowance for losses	$ -	$ (2)
Barter Delivery Obligations (BDO)	$ -	$ 3
Commodity Inventories and Related Property, Net	$ 14	$ 51

Commodity loan forfeitures included in the Acquisitions line item and Barter Delivery Obligations (BDOs) are immaterial for the fiscal year ended September 30, 2012.

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 the Commodity Inventories section of Note 1 for additional information).

Refer to Schedule 2, *Change in Inventory by Commodity*, in the Other Accompanying Information section of this report that shows the types of commodities owned by CCC during FY 2012 and changes during the year.

Note 8 – General Property and Equipment, Net

General property and equipment as of September 30, 2012 and 2011 were as follows:

2012:	Acquisition Value (In Millions)	Accumulated Depreciation (In Millions)	Net Book Value (In Millions)
Equipment	$ 30	$ (30)	$ -
Capitalized Software Costs	128	(100)	28
Total General Property and Equipment	$ 158	$ (130)	$ 28

2011:	Acquisition Value (In Millions)	Accumulated Depreciation (In Millions)	Net Book Value (In Millions)
Equipment	$ 37	$ (37)	$ -
Capitalized Software Costs	128	(80)	48
Total General Property and Equipment	$ 165	$ (117)	$ 48

Note 9 – Other Assets

	2012 (In Millions)	2011 (In Millions)
Public:		
Voluntary Public Access-Habitat Incentive Program (VPA)	$ 19	$ 22
Peanut Loan Advance (PLA)	48	44
USAID	42	57
Other	2	4
Total Other Assets	$ 111	$ 127

The programs contributing to the majority of the Other Assets (Public) include:

Voluntary Public Access-Habitat Incentive Program (VPA)

The Voluntary Public Access-Habitat Incentive Program (VPA) was authorized as a CCC program under Section 2606 of the 2008 Farm Bill. Starting in FY 2010, States and tribal governments applied for grants to encourage owners and operators of privately held farm, ranch, and forest land to voluntarily make that land accessible to the public for wildlife-dependent recreation, including hunting and fishing under programs administered by the States and tribal governments. As of September 30, 2012, CCC's advance to VPA was $3 million less than the previous year.

Note 9 – Other Assets, Continued

Peanut Loan Advance (PLA)

CCC advanced to the Peanut Designated Marketing Association's (DMA) Disbursement Program for the 2012 Marketing Season. As the need for drawdown funds diminish, during the marketing season, excess drawdown advanced funds will be reimbursed to CCC. At the end of the marketing season, the DMA will reimburse CCC for any remaining drawdown fund advances; this will take place sometime after January 2013. As of September 30, 2012, CCC's advance to PLA was $4 million more than the previous year.

USAID

As of September 30, 2012, CCC's advance to the Emerson Humanitarian Trust decreased by $15 million compared to the previous year. The USAID program, Bill Emerson Humanitarian Trust is a food reserve for Public Law 480 administered under the authority of the Secretary of Agriculture. This reserve is available to meet emergency humanitarian food needs in developing countries, allowing the United States to respond to unanticipated food crises with U.S. commodities.

Note 10 – Liabilities Not Covered by Budgetary Resources

Liabilities not covered by budgetary resources as of September 30, 2012 and 2011 were as follows:

	(In Millions)			
	2012		2011	
Accrued Liabilities (Note 15)				
Tobacco Transition Payment Program	$	1,906	$	2,857
Other Programs		17		-
Environmental and Disposal Liabilities (Note 14)		8		8
Pigford II Liabilities - Court Ordered Payment		50		75
Total Liabilities Not Covered by Budgetary Resources	$	1,981	$	2,940
Total Liabilities Covered by Budgetary Resources	$	13,225	$	13,177
Total Liabilities	$	15,206	$	16,117

Liabilities not covered by budgetary resources are liabilities for which Congressional action or OMB apportionment is needed before budgetary resources can be provided (Refer to the Liabilities section of Note 1 for additional information).

Note 11 – Debt to the Treasury

Debt to the Treasury, categorized as interest bearing as of September 30, 2012 and 2011 was as follows:

	(In Millions)	
	2012	2011
Debt - Beginning of Fiscal Year		
Principal	$ 2,865	$ 3,274
New Debt		
Principal	$ 18,127	$ 25,604
Accrued Interest Payable	4	6
Total New Debt	$ 18,131	$ 25,610
Repayments		
Principal	$ (18,310)	$ (26,014)
Accrued Interest Payable	(4)	(6)
Total Repayments	$ (18,314)	$ (26,020)
Debt - As of September 30		
Principal	$ 2,682	$ 2,865
Total Debt Outstanding - As of September 30	$ 2,682	$ 2,865

CCC may borrow interest-free up to the amount of its unreimbursed realized losses. Monthly interest rates ranged from 0.125 percent to 0.250 for both FY 2012 and 2011.

Debt and interest payable to Treasury as of December 31, 2011 is paid and refinanced by borrowing like amounts from Treasury as of January 1, 2012.Interest expense incurred on Treasury borrowings was $117 million and $137 million for the fiscal years ended September 30, 2012 and 2011, respectively. The majority of the $117 million was associated with Credit Reform programs in FY 2012 and $133 million in FY 2011.

The FY 2012 and 2011 interest rates on long-term borrowings under the permanent indefinite borrowing authority for CCC's Credit Reform programs are calculated using the OMB Credit Subsidy Calculator 2 (CSC2). For FY 2001 and subsequent cohorts, the single effective interest rate produced from the calculator, along with budget assumptions, is used to calculate interest expenses for CCC's Credit Reform programs.

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 Title I 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.

Note 11 – Debt to the Treasury, Continued

CCC has permanent indefinite borrowing authority that is used by 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.

CCC has an authorized capital stock of $100 million held by the Treasury and has permanent indefinite 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 $2 million in interest expense on capital stock for both fiscal years 2012 and 2011, which is separate from the interest expense on Treasury borrowings.

Note 11 – Debt to the Treasury, Continued

Total debt outstanding, by program and maturity date, as of September 30, 2012, was as follows:

Program	Debt (In Millions)	Maturity Date
CCC Borrowing Authority	$ 315	January 1, 2013
Export Credit Guarantees	1	September 30, 2013
	27	September 30, 2015
	3	September 30, 2018
	1	September 30, 2019
	97	September 30, 2020
	173	September 30, 2021
	101	September 30, 2022
	20	September 30, 2023
	27	September 30, 2024
	9	September 30, 2025
P.L. 480 Direct Credits	136	September 30, 2018
	88	September 30, 2019
	72	September 30, 2020
	53	September 30, 2021
	70	September 30, 2022
	53	September 30, 2023
	79	September 30, 2024
	70	September 30, 2025
	51	September 30, 2026
	54	September 30, 2027
	55	September 30, 2031
	34	September 30, 2032
	28	September 30, 2033
	25	September 30, 2034
	19	September 30, 2035
Debt Reduction	4	September 30, 2013
	6	September 30, 2018
	1	September 30, 2020
	9	September 30, 2021
	40	September 30, 2022
	12	September 30, 2023
	23	September 30, 2024
	14	September 30, 2026
	3	September 30, 2028
Farm Storarge Facility Loans	16	September 30, 2013
	17	September 30, 2014
	40	September 30, 2015
	65	September 30, 2016
	114	September 30, 2017
	231	September 30, 2018
	219	September 30, 2019
	204	September 30, 2020
Boll Weevil	3	September 30, 2020
Total Debt Outstanding	$ 2,682	

Note 12 – Deposit and Trust Liabilities

Deposit and trust liabilities are amounts advanced to or deposited with CCC on behalf of other entities (Refer to Note 19, under Transactions with Related Organizations, for additional information). The balances, categorized as intragovernmental and public, as of September 30, 2012 and 2011 were as follows:

	(In Millions)	
	2012	2011
Intragovernmental (Note 19):		
Agricultural Marketing Service	$ 429	$ 290
Food and Nutrition Service	469	403
Foreign Agricultural Service	398	360
Natural Resources Conservation Service	236	216
Total Intragovernmental Deposit and Trust Liabilities	$ 1,532	$ 1,269
Public	$ 7	$ 7
Total Public Deposit and Trust Liabilities	$ 7	$ 7

The two programs contributing to the majority of the Intragovernmental Deposit and Trust Liabilities are Agricultural Marketing Service (AMS) and Food and Nutrition Service (FNS). Within USDA, AMS and 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 administered by voluntary organizations which help to fight hunger. 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 Deposit and Trust Liability was $7 million as of September 30 for both fiscal years 2012 and 2011. This 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 13 – Other Liabilities

Other liabilities as of September 30, 2012 and 2011 were as follows:

	(In Millions)	
	2012	2011
Intragovernmental:		
Resources Payable to Treasury:		
P.L.480 Direct Credit Liquidating Fund	$ 1,820	$ 1,948
Export Credit Guarantee Direct Loans Liquidating Fund	30	40
Resources Payable to Treasury	$ 1,850	$ 1,988
Accrued Conservation Reserve Program Technical Assistance	$ 68	$ 49
Excess Subsidy Payable to Treasury	73	10
Accrued Reimbursements to CCC from Tobacco Trust Fund	-	1
Other	18	26
Total Intragovernmental Other Liabilities	$ 159	$ 86
Public	$ 84	$ 236
Total Public Other Liabilities	$ 84	$ 236

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.

The Conservation Reserve Program Technical Assistance is administered by NRCS and provides land users with proven conservation technology and the delivery system needed to achieve the benefits of a healthy and productive landscape. As of September 30, 2012 and 2011 the accrued CRP Technical Assistance was $68 million and $49million respectively.

The excess subsidy payable to Treasury is the downward reestimate paid to Treasury from the financing fund. As of September 30, 2012 and 2011, the excess subsidy payable to Treasury was $73 million and $10 million respectively.

As of September 30, 2012, Other Liabilities (Public) is $84 million; $50 million of the liability is due to the Pigford II litigation case. An additional $18 million is deferred revenue made up of credits under the currency use payment provisions in the commodity sales agreements in the P.L. 480 program.

Note 14 – 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) has been discovered in groundwater. CCC recorded an estimate of the total liability for remediation of affected sites of $8 million for both fiscal years ended September 30, 2012 and 2011 based on actual cleanup costs at similar sites. This liability is not covered by budgetary resources (Refer to Note 10).

Hazardous Waste Program

Since the first discovery of contaminated groundwater, CCC has been engaged in an active program to identify affected sites, perform site investigations, risk assessments, and conduct cleanup actions. As of September 30, 2012 and 2011, payments for these activities totaled $5 million each year. At September 30, 2012, CCC estimates the range of potential future losses due to remedial actions to be between $8 million and $55 million.

Note 15 – Accrued Liabilities

Accrued liabilities as of September 30, 2012 and 2011 were as follows:

	(In Millions)	
	2012	2011
Conservation Reserve Program	$ 1,546	$ 1,717
Export Programs	1	15
Income Support Programs:		
Direct and Counter-Cyclical Payments	4,654	4,349
Other	21	44
Tobacco Transition Payment Program	1,906	2,857
Other	118	127
Total Accrued Liabilities	$ 8,246	$ 9,109

The Accrued Liabilities for Conservation Reserve Programs were considered current as of September 30, 2012 and 2011.

TTPP Accrued Liability was $1,906 million and $2,857 million, as of September 30, 2012 and 2011 respectively. TTPP includes a current liability of $955 and the remaining balance is a long term liability. Refer to Note 1, under Liabilities, for additional information.

Note 16 – 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 and borrowing authority programs for which the reporting entity has a contractual commitment for payment and (2) amounts for contractual arrangements that may require future financial obligations.

Commitments

Many programs and policies of the USDA were authorized under the 2008 Farm Bill through September 30, 2012. Beginning October 1, 2012, the authority or funding under the 2008 Farm Bill for USDA to operate a number of these programs expired, and the authority and funding for additional programs will expire in the following months. Because Congress has not passed a *2012 Food, Farm and Jobs Act*, USDA can no longer make new commitments for programs for which the Department's authority or funding has expired. Some programs continue with no changes and others that received discretionary funding during FY 2012 will continue under the Continuing Resolution. For those programs, policies, and authorities that expired, payments may still continue to be made in FY 2013 as required under the 2008 Farm Bill for the prior crop years and prior year agreements. Some of the major programs that will continue under the Continuing Resolution include:

Biomass Crop Assistance Program (BCAP)

BCAP, created in the 2008 Farm Bill, is a voluntary program for agricultural and forestland owners and operators. BCAP is intended to support the production and use of biomass crops for conversion to bioenergy. BCAP includes: (1) Matching Payments: Assists agricultural and forest land owners and operators with matching payments for the collection, harvest, storage and transportation (CHST) of eligible material by a qualified Biomass Conversion Facility (BCF), and (2) Project Areas: Supports establishing and producing eligible crops for the conversion to bioenergy on contracts up to 5 years for annual and non-woody perennial crops or up to 15 years for woody perennial crops. Support may include annual payments and cost-share assistance to establish eligible crops.
As of September 30, 2012 there was an average of $1.2 million in annual payments and $13 million in cost-share assistance.

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 2018 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 28 and 31 million acres between FY 2012 and FY 2018. Accrued liabilities for CRP totaled approximately $1.5 billion as of September 30, 2012.

Note 16 – Commitments and Contingencies, Continued

Grassland Reserve Program (GRP)

GRP is a voluntary program for landowners to protect, restore, and enhance grasslands on their property. NRCS and FSA jointly implement GRP to conserve vulnerable grasslands from conversion to cropland or other uses and conserve valuable grasslands by helping maintain viable ranching operations. GRP rental contracts can be 10, 15, 20, or 30 years long. There are some 30 year contracts that will go until 2033. Funding is received in full up front to cover the total obligated amount.

Payments are not static due to many variables (i.e. amount of program funding received each year, length of rental contracts, number of easements perfected/finalized each year and if the landowner takes a lump sum easement payment or chooses the option to receive 10 annual payments). As of September 30, 2012, total payments for GRP in FY 2012 were $37 million.

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 year ending September 30, 2012 were $199 million. At September 30, 2012, CCC's undelivered orders on current contracts were $206 million.

Noninsured Crop Disaster Assistance Program (NAP)

The NAP was authorized as a CCC program under the *Federal Agriculture Improvement and Reform Act of 1996*. 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 year ending September 30, 2012 were $256 million. At September 30, 2012, CCC had no undelivered orders on current contracts. Disbursements increased from FY 2011 to FY 2012 by $185 million due to the severe drought last Summer and Fall in the Southern Plains where grazing is predominant. The majority of NAP costs are associated with livestock grazing.

Hazardous Waste Program

As of September 30, 2012 and 2011, the cleanup activity for the Hazardous Waste Program totaled $5 million each year (Refer to Note 14).

Commodity Acquisition

Commitments to acquire commodities represent the contract value of commodities not yet delivered under CCC purchase contracts. Such commitments amounted to $145 million and $262 million for International Title II and, $221 million and $156 million for Food for Progress at September 30, 2012 and 2011, respectively.

Commitments for the Food for Education program amounted to $291 million and $318 million as of September 30, 2012 and 2011, respectively.

Leases

As of September 30, 2012, future minimum rental payments required under FSA operating leases for State office space are now being paid by FSA and therefore CCC is no longer directly liable.

Note 16 – Commitments and Contingencies, Continued

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.

As of September 30, 2012, the Pigford II claim litigation case has been resolved in favor of the plaintiff. CCC is liable for $100 million of the total $1.25 billion liability.

Funds are being held in the Tobacco Trust Fund associated with an appeal of the assessment value for Phillip Morris (PMUSA). PMUSA has disputed the assessment and asked that the funds be held in escrow until a determination has been made. The amount held is $48 million, and an additional $16 million per quarterly payment is required to be held in escrow pending resolution of the case. Refer to the TTPP section of Note 1for general information on the program.

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 amount of potential loss is approximately $12 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 17 – 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, 2012 and 2011 were as follows:

	(In Millions)	
	2012	2011
Intragovernmental Earned Revenue:		
Commodity Inventory Sales	$ -	$ 488
Interest Income	26	33
Other	318	211
Less: Intra-Agency Eliminations	-	(488)
Total Intragovernmental Earned Revenue	$ 344	$ 244
Earned Revenue from the Public		
Interest Income	$ 482	$ 252
Other	26	37
Total Earned Revenue from the Public	$ 508	$ 289
Total Earned Revenue	$ 852	$ 533

CCC no longer records commodity sales due to a change in the business process. In FY 2011 intragovernmental government commodity inventory sales were processed as a reimbursable between two different funds. Beginning April 2011, these commodities were purchased directly out of the Title II Grants fund.

CCC's strategic goals are as follows:

- Provide a Financial Safety Net for Farmers and Ranchers
- Ensure Commodities are Procured and Distributed Effectively and Efficiently
- Increase Stewardship of Natural Resources While Enhancing the Environment
- Increase U.S. Food and Agricultural Exports

Under Provide a Financial Safety Net for Farmers and Ranchers, 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 disasters. Commodity Loans, Tobacco Transition Payment Program, Disaster Assistance, Milk Income Loss Payments, Price Support, and Direct and Counter-Cyclical Payment programs comprise major program activity.

Note 17 – Disclosures Related to the Statement of Net Cost, Continued

Under Ensure Commodities are Procured and Distributed Effectively and Efficiently, 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 Increase Stewardship of Natural Resources While 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 grass and trees). These covers improve the quality of water and air, control soil erosion, and enhance wildlife habitat.

Under Increase U.S. Food and Agricultural Exports, program areas include Export Credit and Market Development. FAS and CCC form cooperative agreements with 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 alignment of CCC's and USDA's strategic goals.

Note 17 – Disclosures Related to the Statement of Net Cost, Continued

Net cost of operations for the fiscal year ended September 30, 2012 (In Millions) was as follows:

	Commodity Operations	Income Support and Disaster Programs	Conservation Programs	Foreign Programs	Intra-entity Eliminations	Total
Provide a Financial Safety Net for Farmers and Ranchers						
Intragovernment Cost	$ 68	$ 818	$ -	$ -	$ -	$ 886
Public Cost	28	4,908	-	-	-	4,936
Total Cost	$ 96	$ 5,726	$ -	$ -	$ -	$ 5,822
Intragovernment Earned Revenue	$ -	$ -	$ -	$ -	$ -	$ -
Public Earned Revenue	-	86	-	-	-	86
Total Earned Revenue	$ -	$ 86	$ -	$ -	$ -	$ 86
Ensure Commodities are Procured and Distributed Effectively and Efficiently						
Intragovernment Cost	$ 82	$ 25	$ -	$ -	$ -	$ 107
Public Cost	11	(28)	-	-	-	(17)
Total Cost	$ 93	$ (3)	$ -	$ -	$ -	$ 90
Intragovernment Earned Revenue	$ -	$ 10	$ -	$ -	$ -	$ 10
Public Earned Revenue	-	15	-	-	-	15
Total Earned Revenue	$ -	$ 25	$ -	$ -	$ -	$ 25
Increase Stewardship of Natural Resources While Enhancing the Environment						
Intragovernment Cost	$ -	$ -	$ 460	$ -	$ -	$ 460
Public Cost	-	-	1,694	-	-	1,694
Total Cost	$ -	$ -	$ 2,154	$ -	$ -	$ 2,154
Intragovernment Earned Revenue	$ -	$ -	$ 37	$ -	$ -	$ 37
Public Earned Revenue	-	-	2	-	-	2
Total Earned Revenue	$ -	$ -	$ 39	$ -	$ -	$ 39
Increase U.S. Food and Agricultural Exports						
Intragovernment Cost	$ -	$ -	$ -	$ 132	$ -	$ 132
Public Cost	-	-	-	2,379	-	2,379
Total Cost	$ -	$ -	$ -	$ 2,511	$ -	$ 2,511
Intragovernment Earned Revenue	$ -	$ -	$ -	$ 298	$ -	$ 298
Public Earned Revenue	-	-	-	404	-	404
Total Earned Revenue	$ -	$ -	$ -	$ 702	$ -	$ 702
Total Gross Cost	**$ 189**	**$ 5,723**	**$ 2,154**	**$ 2,511**	**$ -**	**$ 10,577**
Less: Total Earned Revenue	**-**	**111**	**39**	**702**	**-**	**852**
Net Cost of Operations	**$ 189**	**$ 5,612**	**2,115**	**$ 1,809**	**$ -**	**$ 9,725**

Note 17 – Disclosures Related to the Statement of Net Cost, Continued

Net cost of operations for the fiscal year ended September 30, 2011 (In Millions) was as follows:

	Commodity Operations	Income Support and Disaster Programs	Conservation Programs	Foreign Programs	Intra-entity Eliminations	Total
Provide a Financial Safety Net for Farmers and Ranchers						
Intragovernment Cost	$ 62	$ 926	$ -	$ -	$ -	$ 988
Public Cost	17	5,244	-	-	-	5,261
Total Cost	$ 79	$ 6,170	$ -	$ -	$ -	$ 6,249
Intragovernment Earned Revenue	$ -	$ -	$ -	$ -	$ -	$ -
Public Earned Revenue	-	105	-	-	-	105
Total Earned Revenue	$ -	$ 105	$ -	$ -	$ -	$ 105
Ensure Commodities are Procured and Distributed Effectively and Efficiently						
Intragovernment Cost	$ 92	$ 30	$ -	$ -	$ -	$ 122
Public Cost	215	(11)	-	-	-	204
Total Cost	$ 307	$ 19	$ -	$ -	$ -	$ 326
Intragovernment Earned Revenue	$ -	$ 14	$ -	$ -	$ -	$ 14
Public Earned Revenue	-	16	-	-	-	16
Total Earned Revenue	$ -	$ 30	$ -	$ -	$ -	$ 30
Increase Stewardship of Natural Resources While Enhancing the Environment						
Intragovernment Cost	$ -	$ -	$ 467	$ -	$ -	$ 467
Public Cost	-	-	1,907	-	-	1,907
Total Cost	$ -	$ -	$ 2,374	$ -	$ -	$ 2,374
Intragovernment Earned Revenue	$ -	$ -	$ 40	$ -	$ -	$ 40
Public Earned Revenue	-	-	-	-	-	-
Total Earned Revenue	$ -	$ -	$ 40	$ -	$ -	$ 40
Increase U.S. Food and Agricultural Exports						
Intragovernment Cost	$ -	$ -	$ -	$ 97	$ (17)	$ 80
Public Cost	-	-	-	2,814	-	2,814
Total Cost	$ -	$ -	$ -	$ 2,911	$ (17)	$ 2,894
Intragovernment Earned Revenue	$ -	$ -	$ -	$ 679	$ (488)	$ 191
Public Earned Revenue	-	-	-	167	-	167
Total Earned Revenue	$ -	$ -	$ -	$ 846	$ (488)	$ 358
Total Gross Cost	**$ 386**	**$ 6,189**	**$ 2,374**	**$ 2,911**	**$ (17)**	**$ 11,843**
Less: Total Earned Revenue	**-**	**135**	**40**	**846**	**(488)**	**533**
Net Cost of Operations	**$ 386**	**$ 6,054**	**$ 2,334**	**$ 2,065**	**$ 471**	**$ 11,310**

Note 18 – Disclosures Related to the Statement of Budgetary Resources

The Statement of Budgetary Resources is a combined statement, and as such, intra-agency transactions have not been eliminated. Effective in FY 2012, the structure of the Statement of Budgetary Resources changed significantly to better align with the reporting format of the SF-133, *Report on Budget Execution and Budgetary Resources.* Refer to Note 1, under Statement of Budgetary Resources Presentation, for additional information.

For the fiscal years ended September 30, 2012 and 2011, 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, were as follows:

Obligations	Dollars in Billions	
For the Fiscal Year Ended September 30	2012	2011
Direct	$ 3.51	$ 3.82
Reimbursable	18.19	20.24
Total Obligations	$ 21.70	$ 24.06

CCC has a permanent indefinite borrowing authority, as defined by OMB Circular A-11. An indefinite permanent borrowing authority becomes available pursuant to standing provisions of law without further 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 *Antideficiency 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. OMB Circular A-11 permits the Corporation to incur obligations which can exceed its $30 billion borrowing authority ceiling and authorizes CCC to borrow funds to liquidate the obligations. CCC’s indefinite borrowing authority ceiling, limits the amount of moneys derived from borrowing from Treasury to liquidate the obligations incurred.

Per the *Commodity Credit Corporation 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 11, for additional information. The amount of borrowing authority less principal payments to the U.S. Treasury Bureau of the Public Debt (i.e. available borrowing authority) for the fiscal year ended September 30, 2012 was $9.8 billion (Refer to Note 2, Fund Balance with Treasury – Borrowing Authority not yet converted to Fund Balance). CCC receives an annual appropriation to fund its net realized losses. In addition, CCC has permanent indefinite 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 purchase orders, or contracts awarded for which goods or services have not yet been received. The amounts for undelivered orders are $4.8 billion and $3.6 billion for the fiscal years ended September 30, 2012 and 2011, respectively.

Note 18 – Disclosures Related to the Statement of Budgetary Resources, Continued

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.

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 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 2014* were not available at the time CCC's Annual Report for FY 2012 was issued, the reconciliation between the President's Budget and the SBR for FY 2012 could not be performed. The *Budget of the United States Government, Fiscal Year 2014* is expected to be published in February 2013 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 2012 will be reconciled to the FY 2012 actuals on the P&F Schedules reported in the *Budget of the United States Government, Fiscal Year 2014*, once released.

The SF-133 and the SBR for FY 2011 have been reconciled to the FY 2011 actuals on the P&F Schedules presented in the *Budget of the United States Government, Fiscal Year 2013*.

A table presenting this comparison appears on the following page.

Note 18 – Disclosures Related to the Statement of Budgetary Resources, Continued

The comparison of selected line items of the FY 2011 SBR to the actuals on the FY 2011 P&F Schedules presented in the *Budget of the United States Government, Fiscal Year 2013 is* as follows.

SBR Line Ref	P&F Line No.	SBR Line Description	SBR Amount	P&F Amount	Difference	Portion of Difference Resulting from Reporting Requirements	Note
1000	1000	Unobligated balance brought forward, October 1	$ 3,399	$ 3,399	$ -		
1020	1020	Adjustment to unobligated balance brought forward, October 1	-	(571)	571	(571)	d
1021	1021	Recoveries of prior year unpaid obligations	865	867	(2)		b
1043	1022/1023	Other changes in unobligated balance	(295)	(295)	-		
1290	1160/1236/1260	Appropriations	2,310	2,314	(4)		b
1490	1440	Borrowing Authority	11,309	11,867	(558)	(571)	a, d
1890	1700/1850	Spending Authority from offsetting collections	9,004	9,001	3		
1910/2500	1930	Total Budgetary Resources/Status of Budgetary Resources	26,592	26,582	10		a, b
2190	3030	Obligations Incurred	24,065	24,056	9		a, b
2204, 2304, 2404	1941	Total unobligated balance, end of year	2,527	2,526	1		b
3000	3000/3001	Unpaid obligations, brought forward, October 1	10,132	10,165	(33)		a, b, c
3010	3010	Uncollected customer payments from Federal sources, brought forward, October 1	(405)	(406)	1		
3021	3020	Obligated balance, start of year, as adjusted	9,727	9,739	(12)		a, b, c
3032	3030	Obligations Incurred	24,065	24,056	9		a, b
3040	3040	Outlays (gross)	(23,197)	(23,203)	6		b, c
3052	3050	Change in uncollected customer payments from Federal sources	194	195	(1)		
3082	3080	Recoveries of prior year unpaid obligations	(865)	(867)	2		b
3090	3090	Unpaid obligations, end of year	10,135	10,151	(16)		b
3091	3091	Uncollected customer payments from Federal sources, end of year	(211)	(211)	-		
3100	3100	Obligated balance, end of year	9,924	9,940	(16)		b
4177	4033/4120/4123/4130	Actual offsetting collections	(12,782)	(12,780)	(2)		
4178	4140	Change in uncollected customer payments from Federal sources	194	195	(1)		
4185	4010/4011/4100/4110	Outlays (gross)	23,197	23,203	(6)		b, c
4187	4033/4120/4123/4130	Actual offsetting collections	(12,782)	(12,780)	(2)		
4190	4190	Outlays, net	10,415	10,423	(8)		b

NOTES:

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

a. The variance in Revolving Fund, 12X4336, is due to a prior-period adjustment for the Emergency Forestry Conservation Reserve Program (EFCRP) to comply with Government Accountability Office guidance on reporting payments using the accrual accounting method versus a cash basis. Effective FY 2011, the EFCRP proposed converting from a cash basis to an accrual basis program and the difference between the SBR and President's Budget is the result of this adjustment.

b. Treasury symbol 12X0500, Hazardous Waste Management Fund, is a shared appropriation. CCC reports the budgetary information for its portion in its Statement of Budgetary Resources. The USDA reports the SF-133 balances for this fund on a consolidated level.

c. The variance reflects timing differences in the allocation transfer (Parent/Child) relationship. CCC is the Parent and the U.S. Agency for International Development is the Child, reporting on the P.L. 480 Title II Grants, fund (72)12X2278, and the Bill Emerson Humanitarian Trust, fund (72)12X4336.

d. The variance reflects a reporting difference by line number. CCC reported the decrease to borrowing authority on Line 1490 but it was reported on Line 1020 on the President's Budget. In accordance with A-11, Section 185.32, Indefinite borrowing authority that is apportioned and is not exercised in a given fiscal year, must be recorded as a decrease to borrowing authority. If the amount was not recorded as an adjustment to borrowing authority as of September 30, 2011, then the amount is to be recorded as a negative amount on Line 1020, Adjustment to unobligated balance brought forward, October 1.

Note 19 – Disclosures Not Related to a Specific Statement

Transactions with Related Organizations

CCC maintains deposit and trust liabilities for AMS, FAS, FNS, and the NRCS (Refer to Note 12 for additional information). In addition, CCC has the following transactions with other USDA agencies:

- For the fiscal years ended September 30, 2012 and 2011, outlays under reimbursable agreements with other USDA agencies amounted to $49 million and $40 million, respectively.
- For the fiscal years ended September 30, 2012 and 2011, CCC did not receive funding 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 on accounting for internal use software.
- 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, 2012 and 2011 were $6 million and $31 million, respectively.

For the fiscal years ended September 30, 2012 and 2011, CCC transferred:

- $21 million to FNS for the Senior's Farmers Market Nutrition Program for both fiscal years.
- $343 million and $227 million, respectively, to the Animal and Plant Health Inspection Service (APHIS) for bovine tuberculosis, light brown apple moth outbreak, and potato cyst nematode eradication programs.
- $1 million to the Office of the CFO for bio-diesel fuel education and bio-based products for both fiscal years.
- $67 million to AMS for commodity assistance program and marketing service for both fiscal years.
- $149 million and $119 million, respectively, 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 wellbeing, and communities.

For the fiscal years ended September 30, 2012 and 2011, CCC disbursed:

- A total of $3.4 billion and $3.1 billion, respectively, on behalf of NRCS for various conservation programs and technical assistance.
- $91 million and $99 million, respectively, 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 program since FY 2003, CCC continues to receive separate funding for the FY 2002 and earlier program years.
- $6 million and $26 million, respectively, to other USDA agencies including FSA and Risk Management Agency (RMA).

Note 19 – Disclosures Not Related to a Specific Statement, Continued

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.

Custodial Activity

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

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

	(In Millions)	
	2012	2011
Revenue Activity:		
Sources of Cash Collections:		
Repayment of Farm Credit Loans	$ 1,820	$ 1,639
Administrative and Other Service Fees	234	187
Total Cash Collections	$ 2,054	$ 1,826
Total Custodial Revenue	$ 2,054	$ 1,826
Disposition of Collections:		
Transfers to Others:		
USDA Farm Service Agency	$ 1,829	$ 1,648
Other USDA Agencies	199	146
Department of Treasury	34	25
Total Disposition of Collections	$ 2,062	$ 1,819
(Increase)/Decrease in Amounts Yet to be Transferred (+/-)	$ 8	$ (7)
Net Custodial Activity	$ -	$ -

Note 20 – 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 20 – Reconciliation of Net Cost of Operations to Budget, Continued

The Reconciliation of Net Cost of Operations to Budget for the fiscal years ended September 30, 2012 and 2011 were as follows:

	(In Millions)			
		2012		2011
Resources Used to Finance Activities:				
Budgetary Resources Obligated				
Obligations Incurred	$	21,700	$	24,065
Less: Spending Authority from Offsetting Collections and Recoveries		11,307		13,455
Obligations Net of Offsetting Collections and Recoveries	$	10,393	$	10,610
Less: Offsetting Receipts		74		225
Net Obligations	$	10,319	$	10,385
Other Resources:				
Transfers In/Out without Reimbursement, Net	$	(74)	$	(3)
Imputed Financing from Costs Absorbed by Others		1,252		1,417
Other		(85)		(109)
Net Other Resources Used to Finance Activities	$	1,093	$	1,305
Total Resources Used to Finance Activities	**$**	**11,412**	**$**	**11,690**
Resources Used to Finance Items not Part of the Net Cost of Operations:				
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered but not Yet Provided	$	(1,217)	$	(483)
Resources that Fund Expenses Recognized in Prior Periods		(1,161)		(1,263)
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		798		776
Change in Unfilled Customer Orders		1,530		1,583
Decrease in Exchange Receivables from the Public		5,622		7,367
Other		(1,674)		175
Resources that Finance the Acquisition of Assets		(4,164)		(5,635)
Other Resources or Adjustments to Net Obligated Resources that Do Not Affect Net Cost of Operations		(2,653)		(3,584)
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	**$**	**(2,919)**	**$**	**(1,064)**
Total Resources Used to Finance the Net Cost of Operations	**$**	**8,493**	**$**	**10,626**
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	$	85	$	106
(Increase) in Exchange Revenue Receivable from the Public		(301)		(37)
Other		(326)		(896)
Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods	$	(542)	$	(827)
Components not Requiring or Generating Resources:				
Depreciation and Amortization		6		(30)
Revaluation of Assets or Liabilities		(1)		4
Other Components not Requiring or Generating Resources:				
Bad Debt Expense		163		533
Cost of Goods Sold		-		488
Other		1,606		516
Total Components of Net Cost of Operations that will not Require or Generate Resources	$	1,774	$	1,511
Total Components of Net Cost of Operations that will not Require or Generate Resources in the Current Period	**$**	**1,232**	**$**	**684**
Net Cost of Operations	**$**	**9,725**	**$**	**11,310**

Part IV: Required Supplementary Information (Unaudited)

Schedule of Combined Statement of Budgetary Resources by Major Fund: Budgetary Accounts (Unaudited)
For the Fiscal Year Ended September 30, 2012
(Dollars in Millions)

	CCC Fund (12X4336)	P.L. 480 Title II Grants (12X2278)	Tobacco Trust Fund (12X8161)	USAID - P.L. 480 Title II Grants ((72)12X2278)	Export Loans Program (12X1336)	Other	Total
Budgetary Resources:							
Unobligated balance brought forward, October 1	$ 1,600	$ 128	$ -	$ 66	$ 20	$ 56	$ 1,870
Recoveries of prior year unpaid obligations	646	1	-	552	-	-	1,199
Other changes in unobligated balance	-	129	-	(129)	-	(50)	(50)
Unobligated balance from prior year budget authority, net	2,246	258	-	489	20	6	3,019
Appropriations (discretionary and mandatory)	-	376	939	1,090	49	49	2,503
Borrowing Authority (discretionary and mandatory)	11,267	-	-	-	-	-	11,267
Spending authority from offsetting collections (discretionary and mandatory)	5,495	106	-	-	-	114	5,715
Total Budgetary Resources	$ 19,008	$ 740	$ 939	$ 1,579	$ 69	$ 169	$ 22,504
Status of Budgetary Resources:							
Obligations Incurred (Note 18)	$ 18,186	$ 635	$ 891	$ 1,452	$ 69	$ 58	$ 21,291
Unobligated balance, end of year:							
Apportioned	-	16	49	26	-	108	199
Exempt from apportionment	352	-	-	-	-	3	355
Unapportioned	469	89	-	101	-	-	659
Total Unobligated balance, end of year	821	105	49	127	-	111	1,213
Total Budgetary Resources	$ 19,007	$ 740	$ 940	$ 1,579	$ 69	$ 169	$ 22,504

	CCC Fund (12X4336)	P.L. 480 Title II Grants (12X2278)	Tobacco Trust Fund (12X8161)	USAID - P.L. 480 Title II Grants ((72)12X2278)	Export Loans Program (12X1336)	Other	Total
Change in Obligated Balance:							
Unpaid obligations, brought forward, October 1 (gross)	$ 8,369	$ 273	$ -	$ 1,246	$ -	$ 36	$ 9,924
Uncollected customer payments from Federal sources, brought forward, October 1	(32)	(20)	-	-	-	(1)	(53)
Obligated balance, start of year (net)	8,337	253	-	1,246	-	35	9,871
Obligations Incurred	18,186	635	891	1,452	69	58	21,291
Outlays (gross)	(15,979)	(734)	(891)	(914)	(69)	(71)	(18,658)
Change in uncollected customer payments from Federal sources	(13)	(69)	-	-	-	1	(81)
Recoveries of prior year unpaid obligations	(646)	(1)	-	(552)	-	-	(1,199)
Obligated balance, end of year							
Unpaid obligations, end of year (gross)	9,930	173	-	1,232	-	23	11,358
Uncollected customer payments from Federal sources, end of year	(45)	(89)	-	-	-	-	(134)
Obligated balance, end of year (net)	$ 9,885	$ 84	$ -	$ 1,232	$ -	$ 23	$ 11,224
Budget Authority and Outlays, Net:							
Budget authority, gross (discretionary and mandatory)	$ 16,762	$ 482	$ 939	$ 1,090	$ 49	$ 163	$ 19,485
Actual offsetting collections (discretionary and mandatory)	(8,991)	(38)	-	-	-	(408)	(9,437)
Change in uncollected customer payments from Federal sources (discretionary and mandatory)	(13)	(69)	-	-	-	1	(81)
Budget authority, net (discretionary and mandatory)	$ 7,758	$ 375	$ 939	$ 1,090	$ 49	$ (244)	$ 9,967
Outlays, gross (discretionary and mandatory)	$ 15,979	$ 734	$ 891	$ 914	$ 69	$ 71	$ 18,658
Actual offsetting collections (discretionary and mandatory)	(8,991)	(38)	-	-	-	(408)	(9,437)
Outlays, net (discretionary and mandatory)	6,988	696	891	914	69	(337)	9,221
Distributed offsetting receipts	-	-	-	-	-	-	-
Agency Outlays, net (discretionary and mandatory)	$ 6,988	$ 696	$ 891	$ 914	$ 69	$ (337)	$ 9,221

Schedule of Combined Statement of Budgetary Resources by Major Fund: Non-Budgetary Credit Program Financing Accounts (Unaudited)
For the Fiscal Year Ended September 30, 2012
(Dollars in Millions)

	P.L. 480 Direct Loan (12X4049)	CCC Export Guaranteed (12X4337)	Farm Storage Facility (12X4158)	Other	Total
Budgetary Resources:					
Unobligated balance brought forward, October 1	$ 166	$ 275	$ 123	$ 93	$ 657
Recoveries of prior year unpaid obligations	-	1	28	-	29
Other changes in unobligated balance	(118)	(159)	(150)	(10)	(437)
Unobligated balance from prior year budget authority, net	48	117	1	83	249
Appropriations (discretionary and mandatory)	-	-	-	-	-
Borrowing Authority (discretionary and mandatory)	1	-	213	5	219
Spending authority from offsetting collections (discretionary and mandatory)	109	84	49	40	282
Total Budgetary Resources	$ 158	$ 201	$ 263	$ 128	$ 750
Status of Budgetary Resources:					
Obligations Incurred (Note 18)	$ 70	$ 63	$ 244	$ 32	$ 409
Unobligated balance, end of year:					
Apportioned	88	103	8	18	217
Exempt from apportionment	-	5	-	-	5
Unapportioned	-	29	11	79	119
Total Unobligated balance, end of year	88	137	19	97	341
Total Budgetary Resources	$ 158	$ 200	$ 263	$ 129	$ 750

	P.L. 480 Direct Loan (12X4049)	CCC Export Guaranteed (12X4337)	Farm Storage Facility Direct Loan (12X4158)	Other	Total
Change in Obligated Balance:					
Unpaid obligations, brought forward, October 1 (gross)	$ -	$ 18	$ 192	$ -	$ 210
Uncollected customer payments from Federal sources, brought forward, October 1	(42)	(114)	(1)	-	(157)
Obligated balance, start of year (net)	(42)	(96)	191	-	53
Obligations Incurred	70	64	244	31	409
Outlays (gross)	(70)	(68)	(248)	(31)	(417)
Change in uncollected customer payments from Federal sources	(1)	-	1	-	-
Recoveries of prior year unpaid obligations	-	(1)	(28)	-	(29)
Obligated balance, end of year					
Unpaid obligations, end of year (gross)	-	13	160	-	173
Uncollected customer payments from Federal sources, end of year	(43)	(114)	-	-	(157)
Obligated balance, end of year (net)	$ (43)	$ (101)	$ 160	$ -	$ 16
Budget Authority and Outlays, Net:					
Budget authority, gross (discretionary and mandatory)	$ 110	$ 85	$ 261	$ 45	$ 501
Actual offsetting collections (discretionary and mandatory)	(144)	(173)	(204)	(40)	(561)
Change in uncollected customer payments from Federal sources (discretionary and mandatory)	(1)	-	1	-	-
Budget authority, net (discretionary and mandatory)	$ (35)	$ (88)	$ 58	$ 5	$ (60)
Outlays, gross (discretionary and mandatory)	$ 70	$ 68	$ 248	$ 31	$ 417
Actual offsetting collections (discretionary and mandatory)	(144)	(173)	(204)	(40)	(561)
Outlays, net (discretionary and mandatory)	(74)	(105)	44	(9)	(144)
Distributed offsetting receipts	(10)	(41)	(19)	(4)	(74)
Agency Outlays, net (discretionary and mandatory)	$ (84)	$ (146)	$ 25	$ (13)	$ (218)

Part V: Other Accompanying Information (Unaudited)

Schedule 1 – Schedule of Spending (Unaudited)
For the Fiscal Year Ended September 30, 2012
(Dollars in Millions)

The following schedule presents an overview of how and where CCC is spending its money in alignment to the USDA Performance and Accountability Report Goals. Refer to the Management Discussion and Analysis, Performance Section, for additional information on the alignment of CCC's and USDA's strategic goals.

	Budgetary	Non-Budgetary Credit Reform Financing Accounts
What Money is Available to Spend?		
Total Resources	$ 22,504	$ 750
Less Amount Available but Not Agreed to be Spent	554	222
Less Amount Not Available to be Spent	659	119
Total Amounts Agreed to be Spent	21,291	409
How was the Money Spent?		
Assist Rural Communities to Create Prosperity so They Are Self-Sustaining, Repopulating, and Economically Thriving:		
20- Contractual Services and Supplies	2,774	-
30- Acquisitions of Assets	5,472	206
40 - Grants and Fixed Charges	5,859	46
Total	14,105	252
Ensure Our National Forests and Private Working Lands Are Conserved, Restored, and Made More Resilient to Climate Change, While Enhancing Our Water Resources:		
40 - Grants and Fixed Charges, Total	1,980	-
Help America Promote Agricultural Production and Biotechnology Exports as America Works to Increase Food Security:		
20- Contractual Services and Supplies	813	-
30- Acquisitions of Assets	1	2
40 - Grants and Fixed Charges	1,759	163
Total	2,573	165
Total Spending	18,658	417
Unpaid obligations, end of year (gross)	11,358	173
Unpaid obligations, brought forward, October 1 (gross)	9,924	210
Recoveries of prior year unpaid obligations	1,199	29
Amounts Remaining to be Spent	2,633	(8)
Total Amounts Agreed to be Spent	$ 21,291	$ 409

Schedule 2 - Change in Inventory by Commodity (Unaudited)
For the Fiscal Year Ended September 30, 2012
(Dollars in Thousands)

	Unit of Measure	Beginning Inventory October 1, 2011		Acquisitions		Donations		Other Dispositions, Net a/		Other Additions/ (Deductions), Net Quantity b/		Ending Inventory September 30, 2012	
		Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value
Feed Grains:													
Corn	Bushels	-	-	488	3,735	(488)	(3,735)	-	-	-	-	-	-
Corn Meal	Pounds	-	-	102,520	22,860	(102,520)	(22,859)	-	(1)	-	-	-	-
Sorghum	Bushels	627	4,725	13,653	105,472	(14,280)	(110,197)	-	-	-	-	-	-
Total Feed Grains		XXX	4,725	XXX	132,067	XXX	(136,791)	XXX	(1)	XXX	-	XXX	-
Wheat	Bushels	-	-	27,244	222,134	(27,244)	(222,134)	-	-	-	-	-	-
Wheat Flour	Pounds	-	-	125,607	26,721	(125,607)	(26,721)	-	-	-	-	-	-
Wheat Products, Other	Pounds	-	-	72,612	13,936	(72,612)	(13,936)	-	-	-	-	-	-
Total Wheat		XXX	-	XXX	262,791	XXX	(262,791)	XXX	-	XXX	-	XXX	-
Rice Products	Cwt.	6	148	3,265	80,714	(3,204)	(79,196)	-	-	11	248	78	1,914
Total Rice Products		XXX	148	XXX	80,714	XXX	(79,196)	XXX	-	XXX	248	XXX	1,914
Cotton, Upland	Bales	-	-	-	1	-	-	-	-	-	(1)	-	-
Total Cotton		XXX	-	XXX	1	XXX	-	XXX	-	XXX	(1)	XXX	-
Nonfat Dry Milk	Pounds	-	-	-	-	(970)	(1,446)	-	-	970	1,446	-	-
Total Dairy Products		XXX	-	XXX	-	XXX	(1,446)	XXX	-	XXX	1,446	XXX	-
Soybean Products	Bushels	-	-	55	894	(55)	(895)	-	-	-	-	-	-
Soybean Products	Pounds	-	-	93,496	17,997	(94,180)	(18,349)	-	-	683	352	-	-
Dry Edible Beans	Cwt.	57	2,536	243	12,937	(303)	(15,631)	-	-	2	157	-	-
Blended Foods	Pounds	15,983	5,209	176,636	56,957	(190,481)	(61,431)	-	(1)	-	-	2,138	734
Meat	Pounds	72	155	-	-	(72)	(154)	-	-	-	-	-	-
Dry Whole Peas	Cwt.	250	8,486	2,089	64,601	(2,339)	(73,044)	-	(43)	-	-	-	-
Lentils Dry	Cwt.	-	-	681	19,930	(681)	(19,930)	-	-	-	-	-	-
Vegetable Oil	Pounds	33,102	24,429	210,449	149,544	(231,640)	(166,346)	-	-	309	225	12,220	7,851
Emergency Food Ration Bars	Pounds	2,183	4,440	2,752	5,619	(3,589)	(7,318)	-	-	-	-	1,345	2,742
Miscellaneous	Cwt.	-	128	-	7,708	-	(7,381)	-	-	-	-	-	456
Poultry Frzn Chicken	Pounds	-	-	-	1,155	-	(1,155)	-	-	-	-	-	-
SubTotal		XXX	**45,383**	XXX	**337,342**	XXX	**(371,634)**	XXX	**(44)**	XXX	**734**	XXX	**11,783**
Total Inventory Operations		**XXX**	**50,256**	**XXX**	**812,915**	**XXX**	**(851,858)**	**XXX**	**(45)**	**XXX**	**2,427**	**XXX**	**13,697**

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 inventory quantity gains under the Export Program, and the losses incurred for conversion, incurred casualties and transit, and shrinkage and spoilage of commodities.

b/ Includes the net of over-deliveries, premiums, under-deliveries and discounts resulting from warehouse operations; the net change in value and quantity of inventory exchanged or in process of exchange; and processing end packaging costs and related quantitative gains and losses in processing operations and items which are footnoted individually.

Summary of Financial Statement Audit[3]

The table below is a summary of the results of the FY 2012 independent audit of CCC's consolidated financial statements.

Audit Opinion	Unqualified				
Restatement	No				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending
System Substantial Non-Compliance – Funds Control	1	0	0	0	1
Total Material Weaknesses	1	0	0	0	1

Summary of Management Assurances[4]

The table below is a summary of management assurances related to the effectiveness of internal control over CCC's financial reporting and operations, and its conformance with financial management system requirements under Sections 2 and 4 of the *Federal Managers' Financial Integrity Act* (FMFIA). The last portion of table is a summary of CCC's compliance with the *Federal Financial Management Improvement Act* (FFMIA).

Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)						
Statement of Assurance	Unqualified statement of assurance					
Material Weakness	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Funds Control Management	1	0	0	0	0	1
Total Material Weakness	1	0	0	0	0	1
Effectiveness of Internal Control over Operations (FMFIA § 2)						
Statement of Assurance	Unqualified statement of assurance					
Material Weakness	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
	0	0	0	0	0	0
Total Material Weakness	0	0	0	0	0	0

[3] The Summary of Financial Statement Audit is as of completion of the Annual Report.
[4] The Summary of Management Assurances is as of completion of the Annual Report.

Conformance with Financial Management Systems Requirements (FMFIA § 4)						
Statement of Assurance	Systems do not conform to financial management system requirements					
Material Weakness	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Not in Substantial Compliance with FFMIA Funds Control Management	1	0	0	0	0	1
Total Non-conformances	1	0	0	0	0	1

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

Improper Payments Information Act of 2002
Improper Payments Elimination and Recovery Improvement Act of 2012

The *Improper Payments Information Act of 2002* (IPIA) was enacted to provide for estimates and reports of improper payments by federal agencies. IPIA requires agencies to identify each year programs and activities vulnerable to significant improper payments, to estimate the amount of overpayments or underpayments, and to report to Congress on steps being taken to reduce such payments. As part of the continuing efforts to identify, prevent, and recover improper payments, the Senate passed S. 1409, the *Improper Payments Elimination and Recovery Improvement Act of 2012* (IPERIA) on August 1, 2012. The bill requires agencies to intensify efforts to identify, prevent, and recover improper payments.

During FY 2012, as part of both IPIA and IPERIA, FSA took the following actions to ensure full compliance under both IPIA and IPERIA initiatives. These actions are described below:

- As part of the Fiscal Year 2012 IPIA Review Cycle, FSA completed Statistical Sample Reviews on five of the seven programs that are currently classified as "high risk" by the Office of Management and Budget. The five programs were the Marketing Assistance Loan Program (MAL), Conservation Reserve Program (CRP), Direct and Counter-Cyclical Payment Program (DCP), Noninsured Crop Disaster Assistance Program (NAP), and the Livestock Forage Disaster Program (LFP). As a result of continued improved performance, the Milk Income Loss Contract Program (MILC) and Loan Deficiency Payments (LDP) were not statistically reviewed. A chart comparing the performance of the programs sampled is shown below.
- Conducted a briefing for State Executive Directors on both IPIA and IPERIA and their related impact on State and County Offices.
- Conducted two nationwide training sessions with State and County Offices on the FY 2012 Statistical Sample Review Process, High-Dollar Reporting, and Recovery Auditing.
- Briefed both the USDA Office of the Chief Financial Officer and representatives of the OMB on proposals on how to more effectively assess high risk programs. This included the following four alternative methods: (1) Traditional, (2) Proactive, (3) Performance Based, or (4) Program Focused.
- One of the key elements of the IPERIA legislation is an increased focus on recovery auditing. Two FSA programs, Noninsured Crop Disaster Assistance and Conservation Reserve, have been chosen by the Department to pilot the recovery audit efforts. FSA staffs have been working with the contractor to help identify any improper payments that may have been made and not previously identified.

FY 2013 operational guidance under both IPIA and IPERIA is anticipated to be received in late October or early November.

Improper Payment Results										
	Value of Total Outlays ($ Millions)		Improper Payments ($ Millions)		Value of Administrative Errors ($ Millions)		Value of Incorrect Disbursements ($ Millions)		Percent Incorrect Disbursements	
Program	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**
MAL	$3,054	$2,878	$16	$2	$10	$0	$6	$2	0.21%	0.08%
NAP[5]	$90	$69	$8	$5	$4	$2	$4	$3	4.91%	5.28%
DCP	$3,877	$3,867	$2	$19	$0	$0	$2	$19	0.05%	0.50%
LFP	$235	$477	$7	$10	N/A	$1	N/A	$9	N/A	1.97%
CRP	$1,605	$1,686	$27	$6	$6	$0	$21	$6	1.36%	0.36%
LDP	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
MILC	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

[5] Due to Departmental deadlines for completing the Statistical Sample Review, the FY 2011 Sample was based on FY 2010 payments; FY 2012 Sample was based on FY 2011 payments.

Glossary of Acronyms

ACRONYM	TITLE
ADA	Antideficiency Act
ADP	Automatic Data Processing
AGI	Adjusted Gross Income
AMS	Agricultural Marketing Service
APHIS	Animal and Plant Health Inspection Service
BCAP	Biomass Crop Assistance Program
BEHT	Bill Emerson Humanitarian Trust
BDO	Barter Delivery Obligations
CAP	Corrective Action Plan
CCC	Commodity Credit Corporation
CFO	Chief Financial Officer
CMI	Cherry Marketing Institute
CRP	Conservation Reserve Program
CREES	Cooperative State Research, Education, and Extension Service
CSC 2	Credit Subsidy Calculator 2
DACO	Deputy Administrator for Commodity Operations
DAFP	Deputy Administrator Farm Programs
DELAP	Dairy Economic Loss Assistance Program
DCP	Direct and Counter-Cyclical Payment Program
DPPSP	Dairy Product Price Support Program
eDCP	Electronic Direct and Counter-Cyclical Payment Program
eFMS	Electronic Funds Management System
ELAP	Emergency Loss Assistance Program
EMP	Emerging Markets Program
EQIP	Environmental Quality Incentive Program
EPAS	Economics, Policy, and Analysis
FACTS I	Federal Agencies Centralized Trial Balance System I
FASAB	Federal Accounting Standards Advisory Board
FAS	Foreign Agricultural Service

ACRONYM	TITLE
FATER	Food Aid Targeting Effectiveness Ratio
FCRA	Federal Credit Reform Act of 1990
FFAS	Farm and Foreign Agricultural Services
FFMIA	Federal Financial Management Improvement Act
FGP	Facilities Guarantee Program
FISMA	Federal Information Security Management Act
FMD	Foreign Market Development Program
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
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GRP	Grassland Reserve Program
GSM	General Sales Manager
ICRAS	Inter-Agency Credit Risk Assessment System
IPIA	Improper Payments Information Act of 2002
IT	Information Technology
ITSD	Information Technology Services Division
ITS	Information Technology Services
LIP	Livestock Indemnity Program
LFP	Livestock Forage Program
LRP	Local and Regional Pilot Program
MAL	Marketing Assistant Loans
MAP	Market Access Program
MIDAS	Modernize and Innovate the Delivery of Agricultural Systems

ACRONYM	TITLE
MILC	Milk Income Loss Contract Program
MRP	Marketing and Regulatory Programs
NAP	Noninsured Crop Disaster Assistance Program
NEI	National Export Initiative
NASDA	National Association of State Departments of Agriculture
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
OSHA	Occupational Safety and Health Agency
PAR	Performance and Accountability Report
P&F Schedule	Program and Financing Schedule
P.L.	Public Law
PP&E	Property, Plant and Equipment
PV	Present Value
QSP	Quality Samples Program
RMA	Risk Management Agency
RD	Rural Development
RSI	Required Supplementary Information
RSSI	Required Supplementary Stewardship Information
RTCP	Reimbursement Transportation Cost Payment
SBR	Statement of Budgetary Resources
SFFAC	Statement of Federal Financial Accounting Concepts
SFFAS	Statement of Federal Financial Accounting Standards
SME	Small to Medium-Sized
SRTGs	State Regional Trade Groups
TAAF	Trade Adjustment Assistance for Farmers
TAP	Tree Assistance Program

ACRONYM	TITLE
TASC	Technical Assistance for Specialty Crops
TTPP	Tobacco Transition Payment Program
USAID	United States Agency for International Development
USDA	United States Department of Agriculture
USSGL	United States Standard General Ledger
USWA	United States Warehouse Act
WRP	Wetlands Reserve Program

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