USDA United States Department of Agriculture

Commodity Credit Corporation's Financial Statements for Fiscal Year 2018

Audit Report 06403-0001-11

November 2018

OFFICE OF INSPECTOR GENERAL

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

DATE: November 9, 2018

AUDIT NUMBER: 06403-0001-11

TO: Board of Directors
Commodity Credit Corporation

ATTN: Perry Thompson
Director
Audits and Investigations

FROM: Gil H. Harden
Assistant Inspector General for Audit

SUBJECT: Commodity Credit Corporation's Financial Statements for Fiscal Year 2018

This report presents the results of the audit of Commodity Credit Corporation's (CCC) financial statements for the fiscal year ending September 30, 2018. The report contains an unmodified opinion on the financial statements, as well as an assessment of CCC's internal controls over financial reporting and compliance with laws and regulations.

KPMG LLP, an independent certified public accounting firm, conducted the audit. In connection with the contract, we reviewed KPMG 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 of America (U.S.), was not intended to enable us to express, and we do not express, an opinion on CCC's financial statements; internal control; whether CCC's financial management system substantially complied with the Federal Financial Management Improvement Act of 1996 (FFMIA); or conclusions on compliance with laws and regulations. KPMG LLP is responsible for the attached auditor's report, dated November 9, 2018, and the conclusions expressed in the report. However, our review disclosed no instances where KPMG LLP did not comply, in all material respects, with government auditing standards and the Office of Management and Budget 19-01, *Audit Requirements for Federal Financial Statements*, in the performance of its engagement.

It is the opinion of KPMG LLP that the financial statements present fairly, in all material respects, CCC's financial position as of September 30, 2018, in accordance with accounting principles generally accepted in the U.S.

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

- accounting for budgetary transactions, and
- accounting estimates related to Grants Payable.

KPMG LLP considered the first deficiency to be a material weakness and the second one to be a significant deficiency. The results of KPMG LLP's tests of compliance with laws and regulations disclosed instances of noncompliance related to the Anti-Deficiency Act and with FFMIA.

In accordance with Departmental Regulation 1720-1, please furnish a reply within 60 days describing the corrective actions taken or planned, and timeframes for implementing the recommendations for which management decisions have not been reached. Please note that the regulation requires management decision to be reached on all recommendations within 6 months from report issuance, and final action to be taken within 1 year of each management decision to prevent being listed in the Department's annual Agency Financial Report. Please follow your internal agency procedures in forwarding final action correspondence to the Office of the Chief Financial Officer.

We appreciate the courtesies and cooperation extended during this engagement. This report contains publicly available information and will be posted in its entirety to our website http://www.usda.gov/oig in the near future.

KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

Independent Auditors' Report

Board of Directors, Commodity Credit Corporation
Inspector General, United States Department of Agriculture:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the U.S. Department of Agriculture (USDA), Commodity Credit Corporation (CCC), which comprise the consolidated balance sheet as of September 30, 2018, and the related consolidated statements of net cost, and changes in net position, and combined statement of budgetary resources for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget (OMB) Bulletin No. 19-01, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 19-01 require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the U.S. Department of Agriculture, Commodity Credit Corporation as of September 30, 2018, and its net cost, changes in net position, and budgetary resources for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Interactive Data

Management has elected to reference to information on websites or other forms of interactive data outside the *Annual Management Report* to provide additional information for the users of its financial statements. Such information is not a required part of the basic consolidated financial statements or supplementary information required by the Federal Accounting Standards Advisory Board. The information on these websites or the other interactive data has not been subjected to any of our auditing procedures, and accordingly we do not express an opinion or provide any assurance on it.

Required Supplementary Information

U.S. generally accepted accounting principles require that the information in the Management's Discussion and Analysis and the Required Supplementary Information section be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated 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 basic consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, 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 basic consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements as a whole. The Preface; Table of Contents; Message from the Executive Vice President; Performance Section; Message from the Chief Financial Officer; Introduction to the Financial Statements, Required Supplementary Information, and Other Information; Other Information; and Appendix: Glossary of Acronyms are presented for purposes of additional analysis and are not a required part of the basic consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements as of and for the year ended September 30, 2018, we considered the CCC's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the CCC's internal control. Accordingly, we do not express an opinion on the effectiveness of the CCC's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying exhibits, we did identify certain deficiencies in internal control that we consider to be a material weakness and a significant deficiency.

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. We consider the deficiencies in Accounting for Budgetary Transactions, described in Exhibit I, to be a material weakness.

A significant deficiency is a deficiency, or a 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. We consider the deficiencies in Accounting Estimates related to Grants Payable, described in Exhibit II, to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the CCC's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters related to the *Anti-Deficiency Act* that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 19-01, and which are described in Exhibit III.

We also performed tests of its compliance with certain provisions referred to in Section 803(a) of the *Federal Financial Management Improvement Act of 1996* (FFMIA). Providing an opinion on compliance with FFMIA was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests of FFMIA disclosed instances, described in Exhibit III, in which the CCC's financial management systems did not substantially comply with applicable Federal accounting standards and the United States Government Standard General Ledger at the transaction level. The results of our tests disclosed no instances in which the CCC's financial management system did not substantially comply with Federal financial management systems requirements.

CCC's Response to Findings

The CCC's response to the findings identified in our audit is included in Exhibit IV. The CCC's response was not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on the response.

Purpose of the Other Reporting Required by Government Auditing Standards

The purpose of the communication described in the Other Reporting Required by *Government Auditing Standards* section is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the CCC's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington D.C.
November 9, 2018

Exhibit I – Material Weakness in Internal Control over Financial Reporting

During Fiscal Year (FY) 2018, the Commodity Credit Corporation (CCC) undertook various audit remediation efforts to address prior year material weaknesses and improve its internal controls and the accounting for significant balances in its financial statements. Our responsibility under professional standards requires the reporting of deficiencies that rise to the level of a material weakness and/or significant deficiency that were identified during the execution of our audit. The material weakness communicated in this Exhibit and the significant deficiency communicated in Exhibit II highlight matters that require management attention and the further development of processes, procedures, and effective controls related to (1) accounting for budgetary transactions (material weakness), and (2) accounting estimates related to grants payable (significant deficiency).

The following criteria were considered in the determination and evaluation of the material weakness:

The Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government*, states:

> Documentation is a necessary part of an effective internal control system. Documentation is required for the effective design, implementation, and operating effectiveness of an entity's internal control system […] Management develops and maintains documentation of its internal control system […] Management clearly documents internal control and all transactions and other significant events in a manner that allows the documentation to be readily available for examination.
>
> Management designs control activities in response to the entity's objectives and risks to achieve an effective internal control system. Control activities are the policies, procedures, techniques and mechanisms that enforce management's directives to achieve the entity's objectives and address related risks. As part of the control environment component, management defines responsibilities, assigns them to key roles, and delegates authority to achieve the entity's objectives. As part of the risk assessment component, management identifies the risks related to the entity and its objectives, including its service organizations; the entity's risk tolerance; and risk responses. Management designs control activities to fulfill defined responsibilities and address identified risk responses.

The Office of Management and Budget (OMB), Circular No. A-123, *Managements Responsibility for Enterprise Risk Management and Internal Control,* states:

> Management is responsible to develop and maintain effective internal control […] This includes establishing and maintaining internal control to achieve specific objectives related to operations, reporting and compliance.

OMB *Circular A-11, Preparation, Submission, and Execution of the Budget*, states:

> Obligation means a legally binding agreement that will result in outlays, immediately or in the future. When you place an order, sign a contract, award a grant, purchase a service, or take other actions that require the Government to make payments to the public or from one Government account to another, you incur an obligation. It is a violation of the Anti-deficiency Act (31 U.S.C. 1341(a)) to involve the Federal Government in a contract or obligation for payment of money before an appropriation is made, unless authorized by law. This means you cannot incur obligations in a vacuum; you incur an obligation against budget authority in a Treasury account that belongs to your agency. It is a violation of the Anti-deficiency Act to incur an obligation in an amount greater than the amount available in the Treasury account that is available. This means that the account must have budget authority sufficient to cover the total of such obligations at the time the obligation is incurred. In addition, the obligation you incur must conform to other applicable provisions of law, and you must be able to support the amounts reported by the documentary evidence required by 31 U.S.C. 1501.

Federal Accounting Standards Advisory Board (FASAB) Statement of Federal Financial Accounting Standards (SFFAS) No. 21, *Reporting Corrections of Errors and Changes in Accounting Principle*, states:

> Errors in financial statements result from mathematical mistakes, mistakes in the application of accounting principles, or oversight or misuse of facts that existed at the time the financial statements were prepared. When errors are discovered after the issuance of financial statements, and if the financial statements would be materially misstated absent correction of the errors, corrections should be made as follows:
>
> a) If only the current period statements are presented, then the cumulative effect of correcting the error should be reported as a prior period adjustment.
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> b) The nature of an error in previously issued financial statements and the effect of its correction on relevant balances should be disclosed. Financial statements of subsequent periods need not repeat the disclosures.

Accounting for Budgetary Transactions

During FY 2018, management continued to implement manual remediation procedures to address certain aspects of the material weakness identified in prior years. However, we continued to identify deficiencies in controls in the areas of undelivered orders (UDO) and delivered orders, budgetary funds control, and borrowing authority, as described in further detail below, that collectively represent a material weakness, and require further actions by CCC.

A. Undelivered and Delivered Orders

CCC incurs obligations and outlays to carry out its programs and activities. CCC's broad range of activities include farm price and income support programs, disaster assistance programs, conservation programs, and international agriculture support programs. As of September 30, 2018 CCC's UDO balance was $15.5 billion consisting of the Conservation Reserve Program (CRP), for $11.6 billion, the Agriculture Risk Coverage (ARC)/Price Loss Coverage (PLC) program, for $1.5 billion, and other programs for $2.4 billion. The primary programs within the CRP are CRP – Annual Rental and CRP – Cost Share (CSC).

CCC has not implemented sufficient controls across all relevant programs to periodically monitor UDO balances at the program level to assess the validity and accuracy of open UDOs and to accurately and timely identify those balances that require adjustments. To compensate for the deficiency in these controls, CCC implemented manual remediation procedures to identify and correct for UDO balances that were invalid as of October 1, 2017 at the specific program level. However, such remediation activities are highly dependent on manual controls due to the lack of effective automated controls, which increases the risk of material misstatement in CCC's consolidated financial statements. These remediation activities resulted in a net upward adjustment of approximately $77 million ($145 million upward adjustments offset by $68 million in downward adjustments), detailed in the following paragraphs, to the UDO balances as of October 1, 2017.

Weaknesses in the CRP – CSC was the primary cause for the $145 million upward adjustment. Specifically, CCC does not have adequately designed, implemented, and effective controls at the appropriate level of precision to ensure that obligations are recognized at time of the contract execution. For example, due to the long-term nature of the CRP - CSC contracts, payments to producers often are not made until the fifth year of the contracts, and many county offices were only recognizing the contracts' related obligations in the accounting records when payments are due and not when the contracts were executed. In addition, CCC did not have automated or manual controls in place to ensure that a CRP – CSC obligation is recorded when an obligation is recognized for a CRP – Annual Rental contract. As a result of these weaknesses, as part of the overall $145 million upward adjustment, CCC recognized an upward adjustment of $135 million to the October 1, 2017 UDO balances.

Additional weaknesses in the CRP – CSC and the PLC programs were the primary cause for the $68 million downward adjustment. Specifically, CCC does not have sufficient controls in place to identify invalid obligations in the CRP – CSC program, resulting in a downward adjustment of $25 million to the October 1, 2017 UDO balances related to the CRP – CSC program. In addition, sufficient controls were not in place to detect and correct errors in the PLC UDO calculations, resulting in a downward adjustment of $27 million to the October 1, 2017 UDO balances related to the PLC program.

In addition to the matters described above, we identified other weaknesses in the manual remediation efforts related to October 1, 2017 UDO balances, as well as ongoing weaknesses in controls related to the monitoring of current year UDO activity. Specifically, CCC incorrectly reduced the October 1, 2017 (beginning balance) and September 30, 2018 (ending balance) UDO balances by $77 million and $254 million, respectively, based upon the assumption that certain producer enrollments may not be approved. As a result, the recorded October 1, 2017 and September 30, 2018 UDO balances related to ARC/PLC were potentially understated by approximately $77 million and $254 million, respectively.

Across all other programs, we identified errors during our testing of beginning balances and new obligations, upward adjustments, liquidations, and deobligations that occurred during FY 2018 that resulted in a projected net upward adjustment of approximately $3 million ($11 million downward adjustment and $14 million upward adjustment) to the October 1, 2017 UDO balance and a projected $12 million overstatement of the September 30, 2018 UDO balance.

Further, during our testing of downward adjustments of prior year delivered orders, we identified errors that were not detected by management because of deficiencies in controls over the recognition of downward adjustments. Specifically, certain repayment activities within the Marketing Assistance Loans (MAL) program resulted in the recognition of downward adjustments of prior year delivered orders for $86 million that related to delivered orders in the current year and, therefore, should not have been recognized as a downward adjustment of prior year delivered orders. CCC established the recognition of MAL program transactions with the assumption that all MAL program activity would cross fiscal years; however, certain aspects of the MAL program activity are short term in nature and occurs within the same fiscal year. CCC subsequently corrected for this error in its September 30, 2018 consolidated financial statements.

B. Funds Control

As a resulting impact of the UDO remediation efforts, management identified potential and confirmed instances of noncompliance with the *Anti-Deficiency Act* caused by the following deficiencies noted in CCC's budgetary funds controls:

- Obligations are recognized at a summary ("bulk") level and not at a transactional level within its financial management systems;
- Automated budgetary funds controls are not designed and implemented within the related accounting systems; and
- Manual compensating budgetary funds controls are ineffective to prevent potential funds control violation.

In addition, ineffective budget formulation/apportionment processes exist, increasing the risk realized related to ineffective budgetary funds controls. See Exhibit III – Compliance and Other Matters for additional information related to the instances of noncompliance with the Anti-Deficiency Act.

C. Borrowing Authority

In addition to the deficiencies identified related to overall budgetary funds control and monitoring of the validity and accuracy of open obligations, we also identified deficiencies related to CCC's monitoring and accounting for borrowing authority carried over from the prior year. As described in the notes to the consolidated financial statements, CCC has permanent indefinite borrowing authority, which is used to finance most of its programs. Borrowing authority is established at the program level upon receipt of apportionment from OMB, borrowing authority carried forward to the next fiscal year should align with open obligations, net of any sequestrations, if relevant. CCC did not have sufficient controls in place to prevent, detect, and correct errors in the carried forward borrowing authority balances. Specifically, we noted in certain funds an overstatement in such balances by approximately $90 million, which management subsequently corrected. In addition, we noted other borrowing authority carried over differences at the specific program level that were not identified by management because the account relationship analysis performed by management is only performed at the overall general ledger account and not at the specific program level. Although these abnormal balances offset at the overall general ledger balance, without detailed evaluations at the program level, material errors in such balances could exist and would not be detected and corrected.

Recommendations:

We provided detailed recommendations in separate findings to management. In summary, we recommend that CCC:

1. Implement effective UDO monitoring controls at the program level, whereby the responsibility for assessing the accuracy and validity of open obligations resides at the program level, and the accounting execution, if necessary, as a result of the programmatic monitoring resides with the CCC accountants.

2. Provide necessary training to the County field offices' personnel over the requirements of OMB A-11 for recording obligations, and, where necessary, ensure program handbooks are up to date regarding execution and related accounting, to ensure consistent understanding and recording of obligations in accordance with OMB A-11 across all field offices.

3. Implement effective automated and/or manual controls to evaluate the relationship between a CRP annual rental contract and CRP cost share contract; and develop and implement data analytic routines and management review controls related to program UDO populations to identify and correct for abnormalities in the data.

4. Strengthen management controls related to the annual ARC/PLC UDO calculation to ensure that it is performed at a level of precision to include relevant and accurate data elements, such as enrollments and crop prices that reflect the documentation submitted by the producer and approved by management.

5. Implement processes, procedures, and controls to ensure accurate recognition of adjustments to delivered orders are input into the accounting systems and perform periodic reviews of the accounting events to validate the results of recorded transactions.

6. Implement effective automated budgetary funds controls within its accounting systems to ensure that a funds control violation does not occur.

7. Implement effective internal controls to review and reconcile the general ledger account inter-relationships, between borrowing authority and other budgetary accounts. In addition, we recommend CCC record borrowing authority at the appropriate program level to prevent abnormal balances, which assist in meaningful account review and reconciliation.

The following criteria were considered in the determination and evaluation of the significant deficiency:

GAO *Standards for Internal Control in the Federal Government*, states:

> Documentation is a necessary part of an effective internal control system. Documentation is required for the effective design, implementation, and operating effectiveness of an entity's internal control system […] Management develops and maintains documentation of its internal control system […] Management clearly documents internal control and all transactions and other significant events in a manner that allows the documentation to be readily available for examination.
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> Management designs control activities in response to the entity's objectives and risks to achieve an effective internal control system. Control activities are the policies, procedures, techniques and mechanisms that enforce management's directives to achieve the entity's objectives and address related risks. As part of the control environment component, management defines responsibilities, assigns them to key roles, and delegates authority to achieve the entity's objectives. As part of the risk assessment component, management identifies the risks related to the entity and its objectives, including its service organizations; the entity's risk tolerance; and risk responses. Management designs control activities to fulfill defined responsibilities and address identified risk responses.

OMB Circular No. A-123, *Managements Responsibility for Enterprise Risk Management and Internal Control,* states:

> Management is responsible to develop and maintain effective internal control […] This includes establishing and maintaining internal control to achieve specific objectives related to operations, reporting and compliance.

FASAB Technical Release (TR) No. 12, *Accrual Estimate for Grant Programs,* states:

> Agencies should document and maintain support for the data and assumptions used to develop grant accrual estimates. The documentation will facilitate the agency's review of the assumptions, a key internal control, and will also facilitate the auditor's testing of the estimates. Documentation should be complete and stand on its own, i.e., a knowledgeable independent person could perform the same steps and replicate the same results. If the documentation were from a source that would normally be destroyed, then copies should be maintained in the file for the purpose of reconstructing the estimates.

Accounting Estimates related to Grants Payable

CCC's consolidated financial statements includes several estimates to account for Accrued Liabilities; Direct Loans and Loan Guarantees, Net; and Grants Payable, related to Parent/Child activity. While improvements have been made by management in its controls related to accrued liabilities and direct loans and loan guarantees, weaknesses in CCC's processes, procedures, and controls continue to exist related to the accounting for grants payable (parent/child transactions).

The parent/child accounting and reporting guidance provided by OMB Bulletin No. A-136, *Financial Reporting Requirements,* states, "The parent must report all budgetary and proprietary activity in its financial statements." CCC's grant programs are administered through a parent/child agreement where CCC is the parent and another Federal agency is the child. While improvements have been made in the recording of grant data, we continued to identify areas needing improvement, similar to the prior year. We noted that management did not evaluate or perform a review, at an adequate level of precision, over the underlying data used in the estimation methodology. This data was not compared to other corroborating documentation, such as grant contracts, Treasury disbursements, and SF-425s (Federal Financial Reports) to validate the completeness and accuracy of the underlying data used in its grant accrual methodology.

Recommendations:

We provided detailed recommendations in separate findings to management. In summary, we recommend that CCC, strengthen the management review controls to validate the completeness and accuracy of the data being used in the grant calculator (estimate methodology). This process should be refined to include a more thorough review and analysis using other source documentation utilized by CCC's partner agency.

Noncompliance with the Anti-Deficiency Act

Title 31 U.S. Code (U.S.C.) Section 1517 states that an officer or an employee of the United States Government may not make or authorize an expenditure or obligation exceeding an apportionment or an amount permitted by regulations as specified by Title 31 U.S.C. Section 1514. If an officer or employee of an executive agency or of the District of Columbia government violates subsection (a) of this section, the head of the executive agency or the Mayor of the District of Columbia, as the case may be, shall report immediately to the President and Congress all relevant facts and a statement of actions taken. A copy of each report shall also be transmitted to the Comptroller General on the same date the report is transmitted to the President and Congress.

A. Known Noncompliance with the *Anti-Deficiency Act* (ADA)

Interest Expense related to Debt with Treasury Exceeded Apportionment

During FY 2016, CCC recognized expenditures for interest to Treasury that exceeded amounts initially apportioned by the OMB. CCC expended approximately $46.1 million in interest to Treasury, when the original apportioned amount was only $29.9 million. CCC is in the process of finalizing the necessary reporting of the violation and notifying the required parties, such as the President, Congress, and Comptroller General.

Obligations related to ARC – County Exceeded Apportionment

During FY 2017, CCC received an apportionment from OMB related to the ARC program (Crop Year 2017) in the amount of $851 million, which included $776 million for ARC – County (CO) and $75 million for ARC – Individual (IC). During FY 2017, CCC recognized an obligation for ARC-CO in the amount of $2.3 billion, prior to obtaining an updated apportionment from OMB. CCC is in the process of finalizing the necessary reporting of the violation and notifying the required parties, such as the President, Congress, and Comptroller General.

B. Potential Noncompliance with the ADA

CCC management is currently documenting a statement of facts for the following potential violations and through consultation with the USDA Office of General Council, OMB, and others will determine if an actual violation of the act occurred.

CRP – Annual Rental

During FY 2017, the accounting treatment for obligations related to the CRP – Annual Rental program was determined to be in error such that the entire (multi-year) contract value should have been obligated upon execution of the agreement, instead of recording the obligation for only the annual portion of the long-term contract value. As a result, in FY 2017, CCC recognized approximately $10 billion in obligations as a beginning balance adjustment, whereby apportioned authority may not have been available in the related prior years.

Emergency Forestry Conservation Reserve Program

Similar to CRP - Annual Rental, CCC did not recognize an obligation for the full value of the long-term contract when the contract was signed in prior years. As a result, CCC recognized approximately $2 million in obligations, whereby apportioned authority may not have been available.

Food for Progress Program

During FY 2017, CCC recorded disbursements related to the Food for Progress program related to administrative expenses for approximately $1.1 million. Such payments were made from funding established for freight charges as the administrative funding was fully expended.

Non-Insured Assistance Program – Frost Freeze

During FY 2018, CCC identified payments that exceeded initial apportionment by approximately $888.

Tree Assistance Program (TAP) and Non-Insured Assistance Program – Puerto Rico

During FY 2018, CCC identified a potential ADA violation related to TAP contracts in Puerto Rico for program years 2014, 2015, and 2017 that were approved but not entered into the program application, and, therefore, no related obligations were recognized. Evaluation is ongoing to determine if funding exists in the current and prior years upon recognition of these obligations.

ARC – CO

During FY 2018, CCC identified a potential ADA violation related to the ARC – CO program which had Crop Year 2017 enrollments approved in FY 2018 that exceeded the available funding. It was noted that the ARC program system functionality does not validate funds availability at the time of approved enrollment, instead availability of funds is validated at time of payment.

Food for Peace Program

During FY 2018, CCC identified a potential ADA violation related to grants managed through a parent-child relationship with the United States Agency for International Development (USAID). As part of the grant close out process during FY 2018, CCC identified certain grants that required additional funds to execute the close out process; however, it was not yet determined if sufficient funds existed at the grant fiscal year level.

Biomass Crop Assistance Program (BCAP)

During FY 2018, CCC identified a potential ADA violation related to the BCAP. During the FY 2017 Quarterly UDO Certification process, CCC identified 12 contracts as invalid and were deobligated. During, FY 2018, through further analysis, CCC determined these contracts were still valid and obligations should be re-established. However, no funding was available in FY 2018 to re-establish these obligations.

United States Warehouse Act Program

During FY 2018, CCC funding was provided to and used by FSA to reimburse the FSA Administrative Salaries and Expenses account for FSA personnel who performed CCC storage activities, when such funding was already provided in the FSA Salaries and Expenses appropriation.

<u>Recommendation:</u>

We recommend that management, through coordination with other necessary parties, complete the evaluation related to the ADA matters, communicate to necessary parties (Congress, President, and Comptroller General) if it is determined that a reportable violation occurred, and implement policies and procedures to prevent future violations.

Noncompliance with the Federal Financial Management Improvement Act of 1996 (FFMIA)

The FFMIA, Section 803(a) requires that Federal financial management systems comply with (1) Federal system requirements, (2) Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level. FFMIA emphasizes the need for agencies to have systems that can generate timely, reliable, and useful information with which to make informed decisions to ensure ongoing accountability. FFMIA requirements apply to *Chief Financial Officers Act of 1990* (CFO Act) agencies as well as *Government Corporation Control Act* Agencies that are components of a CFO Act agency.

During our audit, we identified instances where the financial management systems did not substantially comply with applicable Federal accounting standards and the United States Government Standard General Ledger (USSGL) at the transaction level. For example:

- Federal accounting standards - We identified a material weakness related to multiple elements of accounting for budgetary transactions, as reported in Exhibit I, which provide an indication that CCC's financial management systems were substantially non-compliant with Federal accounting standards.
- USSGL at the transaction level – As also identified by management in its Annual Statement of Assurance and reported within aspects of the material weakness communicated in Exhibit I, CCC's financial management systems did not record certain accounting events, at the transaction level, in accordance with the USSGL.

Recommendation:

We recommend that management implement the recommendations presented in Exhibit I, to resolve the instances of noncompliance with FFMIA.

United States Department of Agriculture

Farm Production and Conservation

Commodity Credit Corporation

Office of Budget and Finance
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TO: Steven Rickrode
Director Office of Financial Audit Operations
USDA

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FROM: Margo E. Erny
Chief Financial Officer
Farm Production and Conservation

MARGO ERNY

Digitally signed by MARGO ERNY
Date: 2018.11.07 12:11:19 -05'00'

SUBJECT: Commodity Credit Corporation (CCC) Audit Report Response

We have reviewed the KPMG Draft Independent Auditors' Report dated November 9, 2018. We are very pleased with the Auditors' unmodified opinion on CCC's Fiscal Year (FY) 2018 consolidated financial statements.

CCC agrees with the findings presented in the auditors' report. CCC is in the process of developing and implementing corrective actions to remediate the findings and will continue to work with the USDA Office of Inspector General to ensure effective remediation in FY 2019.

Please feel free to reach out to Kathleen Carroll at (202)772-6022 if you have any questions.

U.S. DEPARTMENT OF AGRICULTURE

COMMODITY CREDIT CORPORATION

COMMODITY CREDIT CORPORATION
A FEDERAL CORPORATE AGENCY BY ACT OF CONGRESS
1948

2018 ANNUAL MANAGEMENT REPORT

U.S. Department of Agriculture
Commodity Credit Corporation

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

2018 Annual Management Report

PREFACE

This Annual Management Report shows the results of the Commodity Credit Corporation's (CCC) operations for fiscal year (FY) 2018. This report meets the requirements of the CCC Charter Act, as amended, and the Government Corporation Control Act, as amended. The electronic version of this report can be found at http://www.usda.gov/oig.

The Management's Discussion and Analysis section of the report contains the purpose, authority, mission, and goals of the Corporation; financial summaries, program summaries, and performance measures. This report also includes the auditors' report, performance information, financial statements and accompanying notes.

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Message from the Executive Vice President

I am pleased to present the Commodity Credit Corporation's (CCC) Fiscal Year (FY) 2018 Annual Management Report. CCC is a wholly-owned Government corporation created in 1933 to assist in stabilizing, supporting, and protecting farm income and prices, help maintain balanced and adequate supplies of agricultural commodities, manage the orderly distribution of these commodities, and assist in the conservation of soil and water resources.

U.S. Department of Agriculture agencies have delivered CCC programs for more than 80 years. Today, CCC's domestic agricultural price and income support programs are carried out primarily through the personnel and facilities of the Farm Service Agency (FSA). International programs are carried out by the Foreign Agricultural Service (FAS) and the United States Agency for International Development. CCC conservation programs are implemented by FSA and the Natural Resources Conservation Service.

In 2018, CCC continued its support of American agriculture through commodity, conservation, disaster, energy, specialty and organic crops, and trade programs. USDA implemented relief strategies to protect the U.S. agricultural sector from suffering economic losses due to unjustified trade retaliation by foreign nations. The Market Facilitation Program was implemented by FSA to assist farmers and FAS administered the Agricultural Trade Promotion Program to help develop U.S. agricultural export markets. Additionally, the Agricultural Marketing Service administered the Food Purchase and Distribution Program to purchase specific commodities which will then be distributed to food assistance programs.

The Bipartisan Budget Act of 2018 (Act) amended the Margin Protection Program for Dairy which is a voluntary risk management program for dairy producers to offer more coverage and premium options, increase the timeliness of margin calculations, and allow for retroactive enrollment. The Act also amended USDA's primary farm safety net programs, Agriculture Risk Coverage and Price Loss Coverage, by adding seed cotton as a covered commodity. A more detailed discussion is included in this report about CCC's operations and accomplishments.

CCC's independent auditors issued an unmodified audit opinion on CCC's FY 2018 Consolidated Financial Statements.

Under the requirements of the Federal Managers' Financial Integrity Act of 1982, CCC's management conducted its annual assessment and provided a modified statement of assurance that internal controls over external financial reporting are operating effectively. In FY 2019, our focus remains on continuing to improve processes and procedures to ensure internal controls provide the requisite assurance to achieving CCC's objectives. Further details can be found in the Management Discussion and Analysis section of CCC's annual report and the independent auditors' report.

Thank you for your interest in CCC,

Robert Stephenson
Executive Vice President
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.* 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

The Commodity Credit Corporation (hereinafter CCC or Corporation) is a wholly owned United States government corporation created in 1933 to stabilize, support, and protect farm income and prices. It was federally chartered by the CCC Charter Act of 1948 (P.L. 80-806) and its statutory authority for operations is found there and in 62 Stat. 1070; 15 U.S.C. 714, et seq. CCC is authorized to buy, sell, lend, make payments and engage in other activities for the purpose of increasing production, stabilizing prices, assuring adequate supplies, and facilitating the efficient marketing of agricultural commodities. Under its Charter Act, CCC has capital stock in the amount of $100 million subscribed by the Department of the Treasury.

CCC provides the mechanism for financing USDA's farm price and income support commodity programs, commodity export credit guarantees, and agricultural export subsidies. The programs funded through CCC are administered primarily by the Farm Service Agency (FSA) and the Foreign Agricultural Service (FAS). CCC helps maintain balanced and adequate supplies of agricultural commodities and aids in their orderly distribution. Further, the Federal Agriculture Improvement and Reform Act of 1996 (1996 Farm Bill) (P.L. 104-127) expanded CCC's mandate to include funding for several conservation programs, such as the Conservation Reserve Program (CRP), and made conservation one of CCC's missions. CCC has the authority to borrow up to $30 billion from the Department of the Treasury to carry out its mission. Net losses from its operations subsequently are restored through the congressional appropriations process.

America's agricultural producers are assisted by CCC through commodity and farm storage facility loans, commodity purchases, disaster assistance, and income support payments. In addition, CCC provides incentives and payments to landowners to establish conservation practices on their land.

The Corporation provides agricultural commodities to other federal agencies and foreign governments. It 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 for American agricultural commodities. 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 (FRB) system and the Department of the 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:

- Under its Charter Act, CCC has a permanent indefinite borrowing authority, as defined by Office of Management and Budget (OMB) in Circular A-11, *Preparation, Submission, and Execution of the Budget,* to fund most of the programs operated out of the revolving fund. Borrowing authority permits the Corporation to incur obligations and authorizes it to borrow funds to liquidate the obligations. This fund also receives money from loan repayments, inventory sales, interest income, fees, and reimbursement for realized losses.
- Under the Federal Credit Reform Act of 1990 (FCRA), as amended, CCC also has a separate permanent indefinite borrowing authority to fund disbursements for credit reform financing as well as pre-credit reform liquidating programs.
- Lastly, 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

CCC 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 Board consists of six members, in addition to the Secretary, who are appointed by the President of the United States. All members of the Board and Corporation officers are USDA officials. CCC officers, directly or through officials of designated USDA agencies, maintain liaison with numerous other governmental and private trade operations. See the current organizational structure on page eight.

CCC has no operating personnel. Its price support, storage, and reserve programs, and domestic acquisition and disposal activities are carried out primarily through the personnel and facilities of FSA. FAS is programmatically responsible for certain CCC activities outside the United States. Also involved with CCC activities are USDA Agricultural Marketing Service (AMS), USDA Natural Resources Conservation Service (NRCS), and the United States Agency for International Development (USAID), through an allocation transfer.

Most CCC programs are delivered through an extensive nationwide network of FSA field offices, including approximately 2,100 USDA Service Centers and 51 State-level 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 majority of staff for CCC, several CCC-funded programs fall under purview of AMS, FAS or NRCS. AMS administers programs that create domestic and international marketing opportunities for U.S. producers of food, fiber, and specialty crops. AMS also provides the agriculture industry with valuable services to ensure the quality and availability of wholesome food for consumers across the country.

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 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.

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 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.

Through a parent/child relationship, CCC allocates funding which supports various activities led by USAID, including the Food for Peace (FFP) program. The mission of FFP is to reduce hunger and malnutrition and ensure that all people at all times have access to sufficient food for a healthy and productive life. FFP provides emergency food assistance to those affected by conflict and natural disasters and provides development food assistance to address the underlying causes of hunger. CCC provides funding for the purchase of commodities and for transportation costs in support of FFP operations. USAID executes the programs and the results are passed back to CCC for financial reporting purposes.

Organizational Structure

CCC Board of Directors

Chairperson, Sonny Perdue, Secretary of Agriculture
Vice Chairperson, Stephen Censky, Deputy Secretary of Agriculture
Member, Ted McKinney Under Secretary, Trade and Foreign Agricultural Affairs
Member, Gregory Ibach, Under Secretary, Marketing and Regulatory Programs
Member, Stephen Vaden, Principle Deputy General Counsel, Office of the General Counsel (OGC)
Member, Vacant*, Chief Financial Officer (CFO), USDA
Member, Gary Washington, Chief Information Officer, USDA

CCC Officers

President, William "Bill" Northey, Under Secretary, Farm Production and Conservation (FPAC)
Executive Vice President, Robert Stephenson, Chief Operating Officer, FPAC
Secretary, Joy Harwood, Acting Deputy Chief Operating Officer, Enterprise Services, FPAC
Assistant Secretary, Monique B. Randolph, Staff Specialist, FSA
Chief Financial Officer, Margo Erny, CFO, FPAC

CCC Advisors

Associate General Counsel, Ralph A. Linden, OGC, International Affairs, Food Assistance, and Farm and Rural Programs
White House Liaison, Carly Miller

* Pending Senate confirmation and/or appointment by the President.

CCC Program Areas

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

Income Support and Disaster Assistance – Income support and disaster assistance programs (DAP) 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 and DAP, administered by FSA.

Conservation – 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 CCC conservation programs.

Commodity Operations and Food Aid – Commodity operations, funded by CCC, purchase and deliver processed commodities under various domestic distribution programs, as well as commodities under Title II and Title III of the Agricultural Trade Development and Assistance Act of 1954 (Public Law 480 or P.L. 480), the Food for Progress Program. AMS oversees 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 Programs and Export Credit Programs – USDA agencies work to expand and maintain markets for agricultural products, and are 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.

- Foreign Market Development (FMD) (Cooperator) Programs - CCC funds used in market development programs play a critical role in helping to open new markets and in facilitating U.S. competitiveness by providing technical assistance in the utilization of U.S. commodities and promoting the quality, availability, value and health characteristics of U.S. products. Working in partnership with U.S. private industry associations, the programs provide support for the growth of mutually beneficial trade. FAS administers CCC FMD programs.

- Export Credits – CCC export credit guarantee programs, administered by FAS in conjunction with FSA, serve to increase and maintain exports of U.S. agricultural commodities by expanding access to trade finance which assists countries, particularly developing countries and emerging markets, in meeting their food and fiber needs. To expand exports of U.S. agricultural commodities, the export credit programs support financing of sales of agricultural commodities, and sales of goods and services to establish or improve facilities and infrastructure in emerging markets.

The current Farm Bill, which impacts many programs, expired at the end of fiscal year 2018. Current and future CCC programs could be impacted by the provisions that may be included in a new Farm Bill, which had not been enacted by Congress as of the date of this Annual Management Report.

Expected Market Conditions and Government Payments[1]

Farm producers' net cash income[2] and net farm income[3] are both forecast to decline in 2018 relative to 2017[4] estimates. Crop, animal, and animal related receipts are each forecast to remain stable, showing only fractional changes, as most prices show little change but remain relatively weak. In some cases, higher quantities sold offset lower expected prices.

Based on USDA's Economic Research Service (ERS) projections made in August 2018, net cash income for 2018 was forecast at $91.5 billion, down 12.0 percent from 2017. Net farm income, a broader measure of profits, was forecast to decline 13.0 percent relative to 2017 to $65.7 billion. The fall in net cash income reflects farm cash receipts that are stable but accompanied by a sharp increase in farm production expenses. The smaller drop in net farm income also reflects the accounting for noncash items, including changes in inventories, economic depreciation, and gross imputed rental income of operator dwellings.

The projected drop in 2018 net farm income follows a 22.5 percent increase in 2017. The 2018 projection of $65.7 billion for 2018 is down dramatically compared with the record

[1] The data in this section was drawn from the "2018 Farm Sector Income Forecast" published in August 2018 (USDA, Economic Research Service). Forecasts do not include payments under the Market Facilitation Program, as details were released too late to incorporate in the forecast. Commodity supply, demand, and price projections are published monthly by USDA in the World Agricultural Supply and Demand Estimates (USDA, Office of the Chief Economist). In addition, USDA's 10-year supply, demand and price projections are issued annually in February (USDA, Office of the Chief Economist).

[2] Net cash income is gross cash income (for example, from cash receipts for crop and livestock sales, and from government payments) less all cash expenses generated during the calendar year including for feed, seed, fertilizer, property taxes, interest on debt, wages to hired labor, contract labor and rent to non-operator landlords. Higher net cash income means more cash available to draw down debt, pay taxes, cover family living expenses, and invest. It is not a comprehensive measure of profitability, however, because it does not account for noncash income changes, including adjustments in farm inventory, accounts payable, accounts receivable, and capital consumption.

[3] Net farm income refers to the return (both monetary and non-monetary) to farm operators for their labor, management and capital, after all production expenses have been paid (that is, gross farm income minus production expenses). Net cash income includes only cash receipts and expenses; net farm income is net cash income plus the value of home consumption, changes in inventory, capital replacement, and implicit rent and expenses related to the farm operator's dwelling that are not reflected in cash transactions during the year.

[4] All data in "Expected Market Conditions and Government Payments", unless otherwise noted, are on a calendar year basis.

high of $123.8 billion of 2013. In nominal terms, net farm income in 2018 would be the lowest since 2006. In real terms (adjusted for inflation), 2018 net farm income would be the lowest since 2002.

Government payments made in 2018 (those made "directly" by the U.S. Government to farmers and ranchers such as Agriculture Risk Coverage (ARC), Price Loss Coverage (PLC), and conservation program payments) were forecast to decline 17 percent relative to 2017 to approximately $9.5 billion. Refer to the Government Payments Forecast section for further detail.

Impact of Trade Mitigation Measures Not Yet Estimated

The 2018 forecast for government payments and thus 2018 net farm income does not consider measures to respond to the impact of retaliatory tariffs on U.S. agricultural goods. USDA announced details in late August just prior to the release of the new farm income forecasts. The bulk of the initial payments to be made under the Market Facilitation Program (MFP) are expected to reach $4.7 billion, and cover soybeans, wheat, cotton, sorghum, corn, dairy and hog production. Almonds and sweet cherries were added to the list in late September 2018. MFP payments began in September, with the majority of payments expected to be made in early fiscal year 2019 when the impacted crops will be harvested. The actual amount could also be adjusted in cases where a producer's adjusted gross income exceeds the limit of $900,000 or where payments would exceed the $125,000 payment limit. The latest fact sheet at the time of publication of this report related to MFP can be found at https://www.farmers.gov/sites/default/files/documents/Market_Facilitation_Program_Fact_Sheet_September_2018B.pdf.

In addition to the MFP, there will be a Food Purchase and Distribution Program implemented during fiscal year 2019 to purchase up to $1.2 billion in commodities unfairly targeted by unjustified retaliation to be administered by AMS. These will be spread over several months, so they will likely have only a small impact on the 2018 forecast. The potential boost to farm income will be also less apparent as these purchases will have a more indirect benefit to producers than direct payments.

Cash Receipts Were Expected to Show Little Change in 2018

The August projections indicate that farm producers' cash receipts were forecast to remain stable in 2018. Both crop, animal and animal related receipts were forecast to be relatively unchanged from 2017. Crop cash receipts (the cash income from crop sales during 2018) were forecast to slip fractionally from 2017 levels, while cash receipts for broilers, hogs, and cattle/calves were expected to rise just fractionally, after posting substantial gains in 2017.

Crop cash receipts were forecast to fall $0.5 billion in 2018 as prices remain relatively low for most field crops. Wheat is the key exception, with receipts forecast to increase 6.3 percent from 2017 despite an expected decline in quantities sold which is more than outweighed by higher prices. Corn receipts were expected to decline 1.8 percent from 2017 on an expected decline in quantities sold. Corn is the largest crop by both volume and total value. Soybean receipts are expected to dip slightly (down 0.1 percent) in 2018 as lower prices offset higher quantities sold. Rice receipts were forecast to decrease 1.8 percent, with lower quantities sold after a smaller crop in 2017. The expected small increase in 2018 cotton receipts reflects higher upland cotton receipts that outweigh a decline in cottonseed receipts.

Vegetable and melon cash receipts were expected to fall 3.8 percent in 2018, despite expected increases in dry bean and potato receipts. Cash receipts for fruits and nuts were expected to decline slightly (2.2 percent) in 2018.

Milk receipts were expected to decrease 7.4 percent in 2018, due to a projected price decline that outweighs a higher quantity sold. Cash receipts from cattle and calves were expected to fall 1.1 percent in 2018 as forecast price declines more than offset higher quantities sold. Hog cash receipts were expected to decline 7.7 percent, reflecting a large price drop. Poultry and egg cash receipts were expected to rise significantly (12.1 percent) in 2018, as both broiler and egg receipts increase on higher prices and higher volumes. These gains easily outweigh a 17.8 percent decline in turkey cash receipts due to lower prices and lower quantities.

Farm Production Expenses Were Expected to Increase

For 2018, producers' production expenses were forecast higher at $365.9 billion, up from $354.1 billion in 2017, an increase of 3.3 percent. The net increase reflects forecast higher expenses for fuel/oils, interest expenses, hired labor, and feed. The biggest dollar increase was $3.2 billion for interest, followed by $2.6 billion for feed, $2.3 billion for fuels/oil, and $1.5 billion for hired labor. One bright spot for input costs was a forecast $1.0 billion decline (4.6 percent) for fertilizer, lime, and soil conditioners. This continues a 6-year downward trend for fertilizer that reflects low natural gas prices and a big increase in domestic nitrogen fertilizer production coming on stream in recent years.

A forecast 17.8 percent increase for fuels and oils would result in the highest spending on this expense since 2014 and the second consecutive yearly increase after a few years of low fuel costs due to weak oil prices. In addition, labor costs were forecast to increase in 2018 by 5.1 percent due to the tight labor market and wage rate increases. Interest expenses were expected to increase by 17.3 percent, driven by higher forecast debt levels and rising interest rates.

Farm Equity Expected to Increase

USDA's ERS expects farm sector equity in 2018 to increase by 0.8 percent but debt-to-asset levels for the sector were forecast to increase slightly, continuing an upward trend that started in 2012. Both producers' farm sector assets and debt are expected to rise, with assets projected up 1.2 percent and farm sector debt up 3.5 percent relative to 2017. The increase in farm sector assets is largely due to an increase in farm real estate assets. The increase in farm sector debt largely reflects higher real estate debt.

Government Payments Were Forecast Lower

Direct government farm program payments include payments from the programs created in the Agricultural Act of 2014 (2014 Farm Bill) as well as other programs, but do not include Federal Crop Insurance Corporation insurance indemnity payments. Direct government farm program payments in 2018 were forecast to decline by 17.4 percent, $2.0 billion, from 2017 levels (see Chart 1). While overall conservation payments are expected to show little change in 2018, large declines are anticipated for ARC and PLC. Combined payments are projected at $3.5 billion in 2018, down 50 percent from 2017, and the lowest since the implementation of the programs under the 2014 Farm Bill. The decline mainly reflects decreasing revenue guarantees under ARC due to lower prices in recent years.

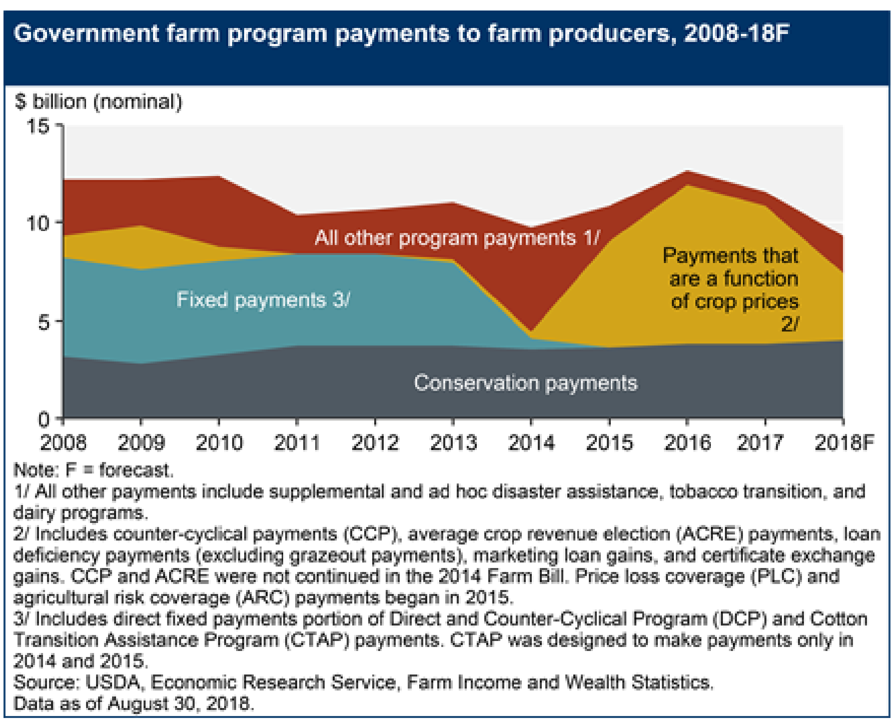
PLC is a price-based program while ARC is a revenue-based program. The $1.2 billion (37 percent) decrease in PLC payments in 2018 mostly reflects expected increases in 2017 market-year prices for commodities (including wheat and long-grain rice) where payments are expected, reducing their 2018 calendar year PLC payments. The $2.3 billion decrease in ARC payments from calendar year 2017 (2016 crop year ARC payments) to calendar year 2018 (2017 crop year ARC payments) reflects generally lower

2017 county revenue guarantees than for 2016. Prices have declined for the crops enrolled in ARC (i.e., corn), but yields have increased, so actual revenues have not fallen as much as prices. Almost all corn and soybean base acres, and almost 60 percent of wheat base acres, elected the ARC program for 2014-2018 crops.

In addition to introducing the ARC and PLC programs, the 2014 Farm Bill reduced the scope of CRP. The CRP enrollment ceiling for fiscal year 2018 was 24 million acres, down from the 32 million acre ceiling in the Food, Conservation, and Energy Act of 2008 (2008 Farm Bill). Even though acreage declined, CRP payments do not vary greatly from year-to-year (at slightly less than $2 billion) because land rents have increased and more costly practices (such as filter strips and shelterbelts) have been enrolled.

Marketing Loan Benefits are composed of Marketing Loan Gains and Loan Deficiency Payments (LDP). These are forecast to decline to a marginal amount in 2018, reflecting expected higher prices for wheat compared to 2017. Prices for other crops are not forecast to be low enough to trigger marketing loan benefits in 2018. The Dairy Margin Protection Program (MPP) is forecast to pay out $218.3 million in 2018, after payments in 2017 were minimal. This largely reflects adjustments in the program made under the Bipartisan Budget Act of 2018.

Chart 1: Government Payments 2008-2018F



2018 Performance Highlights Summary

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

CCC met its fiscal year 2018 goals for both riparian/grass buffers and restored wetland acres. However, CRP enrollment has declined from its peak in 2008 due to disruptions in the CRP authorization and varying crop prices. These factors reduced the availability for enrollment and encouraged landowners to bring land back into crop production. Total CRP enrollment currently stands at 22.6 million acres. These acres help reduce nitrogen, phosphorus, and sediment pollution and runoff by more than 85 percent annually.

The ARC and PLC programs enable producers to make a one-time election to reallocate crop bases, update program payment yields and select the type of coverage (price protection, county revenue protection, and/or individual revenue protection) for crop years 2014-2018. CCC met its goal by enrolling 1.67 million farms into these programs.

CCC did not meet its annual performance goal of conducting warehouse examinations, on average, at least annually. CCC has implemented 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 the USAID and CCC 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 CCC are stored or handled only through International Food Aid Warehouses licensed under USWA.

In fiscal year 2018, the CCC Export Credit Guarantee Program supported $2 billion in exports of U.S. commodities. Program use is tied to risk perception in the international financial markets, with program use increasing as the perception of risk increases. For 2018 program use increased by 25 percent over fiscal year 2017. Fiscal year 2018 saw the program maintain its negative budget subsidy rate, meaning that income was projected to be sufficient to cover the program's operating costs and any losses.

Financial Highlights

CCC provides financial information to stakeholders to facilitate decision-making in execution of CCC's mission to stabilize, support, and protect farm income and prices. The information that follows has been prepared from the accounting records of the Corporation as of September 30, 2018, in accordance with the United States Generally Accepted Accounting Principles (U.S. GAAP) promulgated by the FASAB. CCC has a parent/child relationship with the USAID. The child fund activities are part of the CCC financial statements.

Assets: The Consolidated Balance Sheet reflected Total Assets of $5.83 billion as of September 30, 2018. This mainly consisted of $2.90 billion in Fund Balance with Treasury and $2.19 billion in Direct Loans and Loan Guarantees, Net.

Table 1: Summary of Assets

	In Millions
Fund Balance with Treasury	$ 2,897
Accounts Receivable, Net	64
Commodity Loans, Net	476
Direct Loans and Loan Guarantees, Net	2,189
Other	207
Total Assets	$ 5,833

Liabilities:

The Consolidated Balance Sheet reflected Total Liabilities of $16.72 billion as of September 30, 2018. This mainly consists of $10.65 billion in Debt to the Treasury and $4.83 billion in Accrued Liabilities.

Table 2: Summary of Liabilities

		In Millions
Debt to the Treasury	$	10,647
Resources Payable to Treasury		827
Accounts Payable		121
Grants Payable		208
Accrued Liabilities		4,829
Other		91
Total Liabilities	$	16,723

Ending Net Position:

CCC's Net Position, as of September 30, 2018, was ($10.89) billion. Net Position includes Capital Stock, Unexpended Appropriations, and Cumulative Results of Operations.

Net Cost of Operations:

Net Cost of Operations is categorized based on CCC's strategic goals. Net Cost of Operations was $9.61 billion for the year ended September 30, 2018.

Table 3: Summary of Net Cost of Operations by Strategic Goal

		In Millions
Provide a Financial Safety Net for Farmers and Ranchers	$	5,066
Increase Stewardship of Natural Resources While Enhancing the Environment		2,532
Ensure Commodities are Procured and Distributed Effectively and Efficiently		250
Increase U.S. Food and Agricultural Exports		1,761
Total Net Cost of Operations	$	9,609

New Obligations and Upward Adjustments:

New Obligations and Upward Adjustments were $14.73 billion for the year ended September 30, 2018.

Table 4: Summary of New Obligations and Upward Adjustments

	In Millions
New Obligations and Upward Adjustments:	
Direct	$ 14,729
Reimbursable	1
Total Obligations	$ 14,730

Net Outlays:

Net Outlays were $12.32 billion for the fiscal year ended September 30, 2018.

Table 5: Summary of Agency Net Outlays

		In Millions
Net Outlays:		
Outlays, Net	$	12,352
Less: Distributed Offsetting Receipts		(32)
Total Agency Net Outlays	$	12,320

Management Controls, Systems, and Compliance with Laws and Regulations

FMFIA and FFMIA Assurance Statement:

USDA

United States Department of Agriculture

Farm Production and Conservation

Commodity Credit Corporation

Office of Budget and Finance
Stop 0581
1400 Independence Avenue, SW
Washington, DC
20250-0581

TO: Lynn Moaney
Deputy Chief Financial Officer
Office of the Chief Financial Officer

THROUGH: William Northey
Under Secretary
Farm Production and Conservation

Bill Northey NOV 07 2018

FROM: Margo E. Erny
Chief Financial Officer
Farm Production and Conservation

MARGO ERNY Digitally signed by MARGO ERNY Date: 2018.11.06 14:14:00 -05'00'

Richard Fordyce
Administrator
Farm Service Agency

RICHARD FORDYCE Digitally signed by RICHARD FORDYCE Date: 2018.11.06 14:54:12 -05'00'

SUBJECT: Commodity Credit Corporation's FY2018 Agency Financial Report Certification Statement – as of September 30, 2018

This memorandum provides the Commodity Credit Corporation (CCC) assertions to support the Secretary's annual assurances for the *United States Department of Agriculture Fiscal Year (FY) 2018 Agency Financial Report*. The assertions included in this statement cover the Agency's/Staff Office's assessment of:

- Effectiveness of Internal Control over Operations (FMFIA-Section 2);
- Effectiveness of Internal Control over External Financial Reporting (FMFIA-Section 2);
- Compliance with Laws and Regulations;
- Conformance with Federal Financial Management System Requirements (FMFIA-Section 4); and
- Compliance with Section 803(a) of the Federal Financial Management Improvement Act (FFMIA).

CCC assessed its Entity Level Controls and each of the components and principles of the Standards for Internal Control in the Federal Government (Green Book). The assessment revealed deficiencies within certain principles, however, the overall system of internal control is designed, implemented, and operating effectively.

The following are management control reviews that were completed during FY 2018:

- National Compliance Review (Spot Check Process 2-CP)

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- Adjusted Gross Income Review
- Physical Security Assessments
- Improper Payment Information Act of 2002 (IPIA)/Improper Payment Elimination and Recovery Act (IPERA)(Appendix C)
- OMB A-123 Appendix A
- IPIA Risk Assessment Tool
- IPIA Recovery Reporting
- IPIA High Dollar Reporting
- County Operations Review (National and State Target Reviews)

Federal Information Security Management Act of 2002 (FISMA) Control Assessments

A. Federal Managers' Financial Integrity Act Assertions

I. Internal Control over Operations (FMFIA-Section 2)

a. Management is responsible for developing and maintaining internal control to ensure the effectiveness of operations, reliability of reporting, compliance with applicable laws and regulations, and the safeguarding of assets.
b. Internal control encompasses accounting and administrative controls. Such controls include program, operational, and administrative controls.
c. Management has conducted its annual evaluations of internal control pursuant to Section 2, for the period ended September 30, 2018.
d. Based on the results of the evaluations, FSA provides an unmodified statement of assurance that internal controls are operating effectively over operations.

No new material weaknesses, significant deficiencies, or control deficiencies were identified during FY 2018.

II. Internal Control over External Financial Reporting (FMFIA - Section 2), Assertions in this section are specific to Internal Control over External Financial Reporting for FY 2018.

a. CCC assessed the effectiveness of internal control over external financial reporting as of September 30, 2018. The assessment followed USDA guidance, Office of Management and Budget Circular A-123, Appendix A (revised) and best practices established by the Department.
b. The assessment included risk assessments, process descriptions and flowcharts, documentation of key controls, an assessment of the design of key controls, tests of operating effectiveness of properly designed controls, summary of findings, and the development of corrective action plans for control deficiencies. Key controls in the following cycles were tested:

Page 3

Credit Management, Marketing Assistance Loans
Credit Management, Farm Storage Facility Loans
Credit Management, P.L. 480 Direct Loans
Credit Management, GSM Guaranteed Loans
Farm Support Programs
Food Aid
Disbursements
Revenue and Receivables (Collections)
Funds Management
Funds Control
Financial Reporting

c. Management recognizes its responsibility for monitoring and correcting control deficiencies assessed as outside of its risk tolerance.
d. Management further certifies that there have been no significant changes in the operation of controls tested from the sample selection date through June 30, 2018.
e. Based on the results of the evaluation, CCC provides a modified statement of assurance that internal controls over external financial reporting are operating effectively.
f. Based on the results of the evaluation, management confirmed that two material weaknesses in Accounting for Budgetary Transactions still exist that were previously identified through audits of CCC's financial statements. In the FMFIA Sections 2 and 4 of the assurance statement, these recommendations have been consolidated into one material weakness. During the FY 2017 Balance Sheet audit, one material weakness over accounting for budgetary transactions and one material weakness over Accounting Estimates were identified. Additionally, the material weaknesses reported for FY 2017 also reflect the deficiencies identified through the A-123 review process.
g. In addition to what was found through the Financial Statement audit, one deficiency over reconciling Fund Balance with Treasury remains as a significant deficiency. One deficiency over maintaining, controlling and monitoring the CORE general ledger was elevated to a significant deficiency. One significant deficiency related to other accounting estimates was consolidated. Finally, one significant deficiency over the accounting for forfeitures and settlements in the Commodity Loan Processing System was reassessed as no longer a reportable deficiency.
h. Corrective action plans have been developed and submitted in ACRT.

B. Compliance with Laws and Regulations (FMFIA-Section 2)

a. Anti-Deficiency Act
   i. **ADA Violation Exists**

Page 4

a) Commodity Credit Corporation (CCC) identified a potential ADA violation, confirmed by OMB, that occurred in CCC expenditures. Expenditures for CCC interest to Treasury exceeded amounts initially apportioned by OMB. CCC expended approximately $37 million in interest to Treasury, more than the apportioned amount of $29.9 million.

b) In FY 2018, CCC identified a potential ADA violation, confirmed by OGC, that occurred in CCC obligations entered in FY 2018. ARC/PLC Crop Year 2017 ARC-CO obligations exceeded estimated amount on apportionment.

ii. **Pending Determination**

a) In FY 2017, CCC identified a potential ADA violation because Foreign Agricultural Service (FAS) paid Food for Progress freight invoices from administrative funds. At the time of the payment(s) there was a zero balance in the funds for this agreement, however, there were funds available as a result of downward adjustments.

b) In FY 2018, CCC identified a potential ADA violation in Non-Insured Assistance Program (NAP) Frost Freeze (FFN) program. Funding for NAP ceased in FY 2015, however payments were discovered that were not paid and funding was established for discovered payment amounts in fiscal month eight of fiscal year 2016 and fiscal month three of 2018. The discovered payments had to be paid out of Prior Year Payments (NPY) and reclassified in the CORE general ledger system. During a reclassification process it was discovered that 2018 payments, totaling $888, exceeded the authority (the SF-132 does not provide verbiage to support funding).

c) In FY 2018, CCC identified a potential ADA violation within Tree Assistance Program in Puerto Rico related to approved contracts from prior fiscal years. As a result of audit testing, it was discovered that there are TAP contracts from FY 2014 through FY 2017 that were approved but not recorded into the Program application timely. An obligation is triggered when an application is approved via a producer's and FSA representative's signature. CCC received input from the Puerto Rico District Directors that indicates that there are unrecorded TAP contracts representing 2014, 2015 and 2017.

d) CCC identified a potential ADA violation when it failed to record Conservation Reserve Program (CRP) annual rental contract obligations when the contract was signed. Prior to FY 2009 CRP funds were apportioned on an annual basis and payments based on

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that apportionment were made in the same year. From FY 2010 to FY 2016, FSA received an apportionment and recorded an obligation for CRP annual rental payments to be made in the following fiscal year. OGC opined on March 28, 2018 that there is no ADA violation. On September 26, 2018, OIG communicated that they disagree with the OGC opinion and are seeking an opinion from GAO.

e) In FY 2018, CCC identified a potential ADA violation related to Emergency Forestry Conservation Reserve Program (EFCRP). EFCRP provides funds to help landowners and operators restore and enhance forestland damaged by 2005 hurricanes Dennis, Katrina, Ophelia, Rita and Wilma. Funds were not obligated for the full lifecycle of the contract when the contract was signed (only for the next payment). Office of General Counsel opined on June 5, 2018 that there is no ADA violation. On September 26, 2018, OIG communicated that they disagree with the OGC opinion and are seeking an opinion from GAO.

f) In FY 2018, CCC identified a potential ADA violation related to Agricultural Risk Coverage (ARC) program which had Crop Year 17 enrollments approved in FY 2018 that exceeded the available funding. The ARC program does not check funds availability at the time of approval. It is checked at the time of payment. When the payment run occurred, the program area identified that there were not enough funds for all Crop Year 17 contracts approved in FY 2018.

g) In FY 2018, CCC identified a potential ADA violation related to United States Agency for International Development (USAID), a child agency of CCC, with regards to grants. Pursuant to the Grants Oversight & New Efficiency (GONE) Act requirements, CCC must report quarterly the number of Federal grant and cooperative agreement awards and balances for which closeout has not yet occurred but for which the period of performance has elapsed more than two years with zero balances and undisbursed balances. At the end of Q3, FY 2018, USAID reported an increase in both count and amount for grants that had not been closed out in the greater than 5 years category. Based on this certification it was determined that there were a number of grants that were prematurely de-obligated in FY 2013 prior to grant closeout. In FY 2018, as part of grant closeout it was determined in some cases that additional funds were needed to fully execute the agreement

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and perform the closeout. FY 2018 funds were utilized to complete this process

h) In FY 2018, CCC identified a potential ADA violation related to the Biomass Crop Assistance Program (BCAP). During the FY 2017 Quarterly ULO Certification process, the program office identified 12 contracts as invalid and requiring deobligation. The contracts were deobligated through a Data Change Request (DCR) in eFMS. In FY 2018, through further analysis, the program office determined these contracts were still valid. There were no funds available in FY 2018 to re-establish these obligations.

i) CCC identified a potential ADA violation related to the U.S. Warehouse Act. FSA used CCC funds to reimburse the Administrative S&E account for personnel who performed CCC storage activities. These activities were already provided for in the FSA S&E appropriation.

b. Improper Payments Elimination and Recovery Act of 2010, as amended
   i. Management has reviewed all applicable programs and activities to identify any area that may be susceptible to significant improper payments.
   ii. Deficiencies and associated mitigation efforts are described in the attached Summary of Reportable Deficiencies chart.

c. Supplemental Appropriations for Disaster Relief Requirements, 2018/ Additional Supplemental Appropriations for Disaster Relief Act of 2018
   i. CCC has established appropriate policies and controls, and corrective actions have been taken to mitigate the risk of fraud and inappropriate spending practices regarding activities and expenses related to disaster-related activities for the following programs:

      Livestock Indemnity Program (LIP)
      Emergency Assistance for Livestock, Honey Bees, and Farm-raised Fish Program (ELAP)
      Tree Assistance Program (TAP)
      Livestock Forage Disaster Program

   ii. Management has identified additional significant deficiencies associated with management for disaster relief and other emergencies.

d. DATA Act Reporting for USAspending.gov

The CCC provides assurance that data integrity processes and controls align with OMB Circular A-123 and are in place for all reported data with the exceptions noted below. This includes agency financial systems, award

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management systems, and procurement data reported to the Federal Procurement Data System — Next Generation (FPDS-NG).

a. **Data Completeness - Award ID Linkage:** As required in OMB Memorandum M-15-12 on DATA Act reporting to USAspending.gov, agencies must link their financial account data to their award data using a Federal award ID as of January 1, 2017. For data submitted prior to that date, award data may not be linked to financial account data.
b. **Data Completeness – File D1:** FSA and OCFO/FMS have developed reports to monitor FPDS-NG reporting and FSA is addressing any non-reporting issues on a case-by-case basis.

e. Fraud Reduction and Data Analytics Act
   i. CCC has established financial and administrative controls to identify and assess fraud risks and has designed and implemented control activities to prevent, detect, and respond to fraud, including improper payments.
   ii. Management has implemented the fraud risk principle in the Standards for Internal Control for Federal Government and OMB Circular A-123 with respect to the leading practices for managing fraud risk.
   iii. Management has identified risks and vulnerabilities to fraud, including with beneficiary payments, grants, and large contracts, as applicable.
   iv. Management has established strategies, procedures, and other steps to curb fraud.

C. Conformance with Federal Financial Management System Requirements (FMFIA - Section 4 and FFMIA)

a. CCC management evaluated its financial management systems under FMFIA-section 4 and FFMIA for the period ended September 30, 2018.
b. CCC has one material system non-conformance.
c. Plans of Action and Milestones have been developed and entered into the Audit Follow-up, Tracking and Reporting (AFTR) System. They are identified on the attached Summary of Reportable Deficiencies chart on page 10.

D. Compliance with Section 803 (a) of the Federal Financial Management Improvement Act (FFMIA)

a. CCC management evaluated its financial management systems under FFMIA for the period ended September 30, 2018.

   Based on the results of our evaluation, we are in substantial compliance with Section 1. Federal Financial Management Systems Requirements. We are not in substantial compliance with Section 2. Applicable Federal Accounting Standards and Section 3. Standard General Ledger at the Transaction level, identified on the Summary of Reportable Deficiencies chart on page 10.

Federal Managers' Financial Integrity Act

Overview

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

- Obligations and costs comply with applicable laws and regulations;
- Federal assets are safeguarded against fraud, waste, abuse, 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.

CCC evaluated its internal controls in accordance with OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*.

CCC operates a comprehensive internal control program. This program ensures compliance with the requirements of FMFIA and other laws, and OMB Circular A-123, Appendix A. The Corporation, and all managers conducting Corporation business or acting on behalf of the Corporation must ensure that their programs operate efficiently and effectively, and comply with relevant laws. They must also ensure that financial management systems conform to applicable laws, standards, principles, and related requirements. In conjunction with the USDA's Office of the Inspector General (OIG) and the Government Accountability Office (GAO), CCC's management works decisively to determine the root causes of its material weaknesses so that it can direct resources to focus on their remediation.

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

Fiscal Year 2018 Results

Based on the results of the evaluations, CCC can provide reasonable assurance that internal controls are in place and operating effectively, except for the material weaknesses and significant deficiencies discussed in this section, resulting from its financial statement audits and annual A-123, Appendix A assessments.

CCC ended fiscal year 2018 with two open material weaknesses. The material weakness of accounting estimates resulting from the 2016 financial statement audit and the significant deficiency of other accounting estimates resulting from the OMB Circular A-123, Appendix A assessment were consolidated with the material weakness of accounting estimates resulting from the 2017 financial statement audit. The material weakness of accounting estimates has been reassessed to a significant deficiency and is in the process of being cleared by OIG and OCFO. The material weaknesses of financial reporting and maintenance of accounting records were resolved during the fiscal year. The material weakness related to funds control was consolidated with the material weakness of accounting for budgetary transactions, which was confirmed to continue to exist.

The significant deficiency of reconciling Fund Balance with Treasury was confirmed to still exist in 2018, and one deficiency of maintaining, controlling and monitoring the general ledger was elevated to a significant deficiency resulting from the OMB Circular A-123, Appendix A assessment.

The Chief Financial Officer's Statement of Assurance provides reasonable assurance that CCC's system of internal control complies with FMFIA objectives.

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 U.S. GAAP 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 fiscal year 2018, CCC evaluated its financial management systems to assess substantial compliance with FFMIA. CCC management made the determination that CCC demonstrated substantial compliance with Section 1; however, CCC is not substantially compliant with Section 2, applicable accounting standards, or 3, the USSGL at the transaction level, with respect to funds control.

CCC plans to correct the funds control material weakness through full migration to the Department's enterprise solution under the Financial Management Modernization Initiative (FMMI). The FMMI system will be CCC's integrated general ledger system at the transaction level, providing management with timely information to monitor and control the status of budgetary resources recorded in the general ledger. CCC continues to implement programs into FMMI 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.

CCC management continued to make significant progress in fiscal year 2018 toward implementing complete funds control; however, 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 manual controls in order to compensate for the system's inherent limitation, the controls may not be adequate to eliminate the risks of an ADA violation occurring and may not prevent or detect violations timely.

CCC implemented several business process and system improvements to record, track, and report obligations at the detail transaction level, which is a major step towards mitigating CCC's material weakness. A phased implementation has been in progress to bring various CCC program and financial management applications into full compliance with FFMIA. Complete implementation for full funds controls is targeted for completion by fiscal year 2021.

Anti-Deficiency Act

During fiscal year 2018, CCC management continued to analyze and investigate in coordination with the USDA OGC, USDA Office of the Chief Financial Officer, and OMB various potential instances of non-compliance with the ADA. Such instances either (1) occurred and were identified in prior years; (2) occurred in a prior year but were identified in the current year; or (3) occurred and were identified in the current year. The following summarizes those potential violations.

In fiscal year 2018, CCC confirmed two violations of the ADA:

In fiscal year 2016, CCC expended approximately $46.1 million in interest to the Department of the Treasury, $16.2 million more than the apportioned amount of $29.9 million. After further review of the legal authority of CCC with respect to the apportionment requirements, CCC was informed by OMB and OGC that it was a violation. CCC subsequently received a new apportionment in April 2016 that cured the violation. Completion of a report to the President and Congress, detailing relevant facts and a statement of actions taken, is planned for fiscal year 2019.

Agriculture Risk Coverage – County (ARC-CO): On November 10, 2016, OMB approved an ARC-CO apportionment providing a total of $851 million for crop year 2017 ARC funding. This funding was divided between ARC-CO ($776 million) and ARC – Individual ($75 million). As part of fiscal year-end close for fiscal year 2017, CCC recorded an obligation of $2.3 billion for crop year 2017 ARC-CO. This exceeded the apportioned amount by $1.5 billion. Completion of a report to the President and Congress, detailing relevant facts and a statement of actions taken, is planned for fiscal year 2019.

In fiscal year 2018, CCC reported the following potential violations of the ADA:

Food for Progress: In fiscal year 2017, CCC paid Food for Progress administrative invoices from freight funds totaling over $1 million, when there was no funding remaining obligated for this agreement. Documentation of the background and statement of facts and analysis was provided to OGC in September 2018.

Tree Assistance Program (TAP): During fiscal year 2018, CCC identified TAP contracts for program years 2014, 2015, and 2017 that were approved but not entered into the program application, and therefore no related obligations were recorded. Documentation of the background and statement of facts and analysis was still underway as of September 30, 2018.

Non-Insured Assistance Program (NAP) Frost Freeze (FFN): CCC identified NAP payments exceeding apportionment by $888. Documentation of the background and statement of facts and analysis was still underway as of September 30, 2018.

ARC-CO: In fiscal year 2018, CCC identified crop year 2017 enrollments for the ARC-CO program that exceeded available funding at the time of enrollment approval.

Documentation of the background and statement of facts and analysis was still underway as of September 30, 2018.

USAID grants: Pursuant to the Grants Oversight and New Efficiency (GONE) Act, CCC is required to report quarterly, the number of federal grant and cooperative agreement awards and balances of USAID for which closeout has not yet occurred but for which the period of performance has elapsed more than two years with zero and undisbursed balances. At the end of the third quarter of fiscal year 2018, USAID reported to CCC grants that had not been closed out in the greater than 5-years category. As part of the grant closeout in fiscal year 2018, CCC identified certain grants that required additional funds to perform the grant closeout. Documentation of the background and statement of facts and analysis was still underway as of September 30, 2018.

USWA: During fiscal year 2018 FSA used CCC funds to reimburse the Administrative Salaries and Expenses account for FSA personnel who performed CCC storage activities. Documentation of the background and statement of facts and analysis was still underway as of September 30, 2018.

Biomass Crop Assistance Program: During the fiscal year 2017 Quarterly Unliquidated Obligations (ULO) Certification process, CCC identified 12 contracts that were invalid and required deobligation. After further analysis in fiscal year 2018, CCC determined that such contracts should be reestablished. However, no funding was available in fiscal year 2018 to reestablish the related obligations. Documentation of the background and statement of facts and analysis was still underway as of September 30, 2018.

Other potential ADA violations:

CRP annual rental: During fiscal year 2017, management identified that it had not obligated the full value of multi-year (10-15 years) contracts at the time of contract execution. As a result, CCC recorded a retrospective adjustment of $10 billion to increase undelivered orders (UDO) beginning balance in fiscal year 2017. As of September 30, 2018, CCC continues to evaluate the facts and circumstances of the potential ADA, in consultation with FSA-OGC, OIG-OGC, and GAO.

Emergency Forestry CRP: CCC failed to record the obligation for the full value of the long-term contract when the contract was signed. As a result, CCC obligated a total of $2.2 million for long-term contracts. Because the facts and circumstances are similar, the status of this potential ADA violation is linked to the continuing research on the CRP annual rental potential ADA violation.

Limitations of the Financial Statements

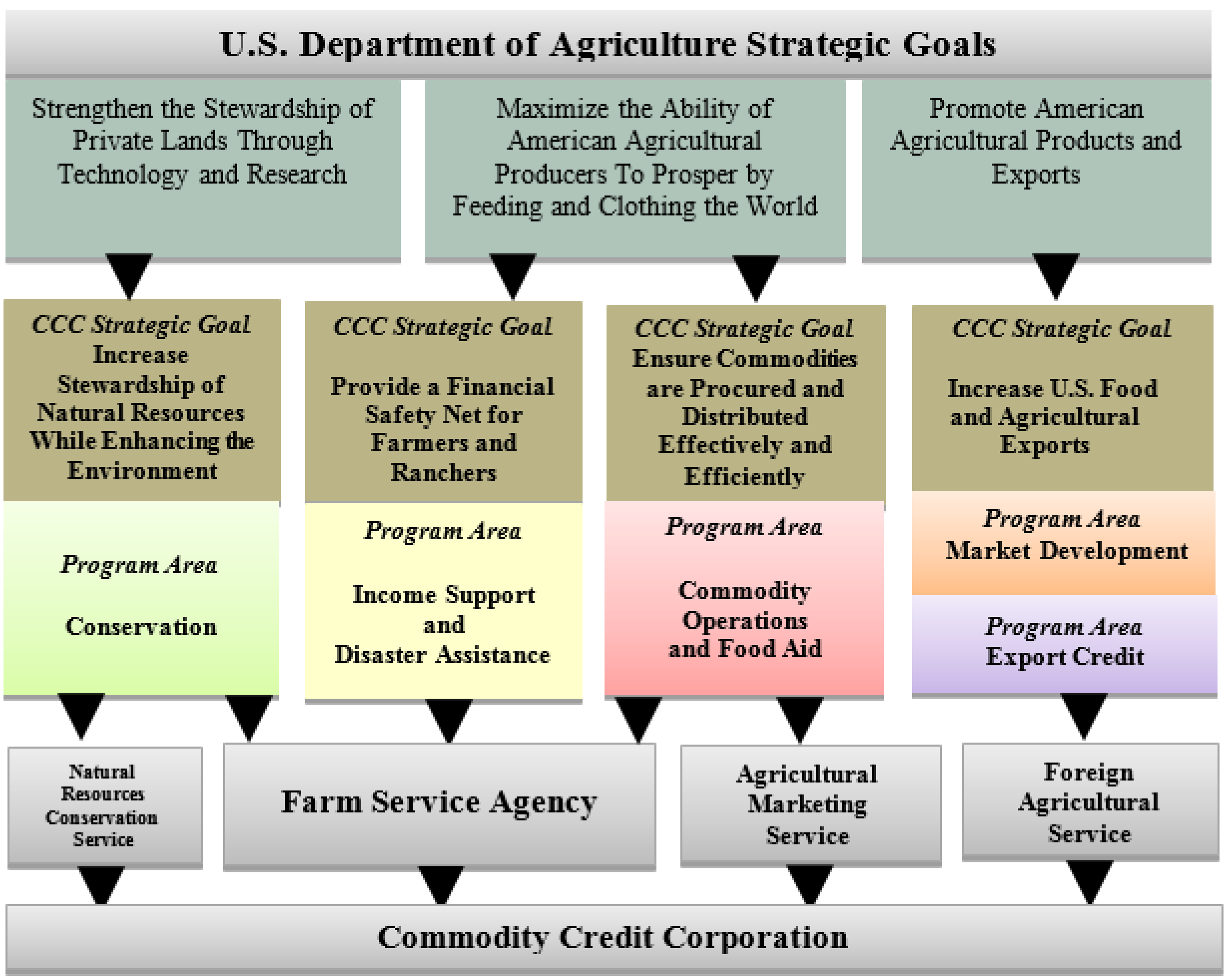
The principal financial statements have been prepared to report the financial position and results of operations of the entity, pursuant to the requirements of 31 U.S.C. 3515 (b), *Financial Statements of Agencies*. The statements have been prepared from the books and records of the entity in accordance with U.S. GAAP for federal entities and the formats prescribed by OMB. Reports used to monitor and control budgetary resources 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)

CCC Strategic Goals

Given that most of CCC services are carried out by the employees of FSA, AMS, NRCS, FAS and USAID, the mission of CCC aligns towards the strategic goals of the Department as well as to the strategic goals of FSA, AMS, NRCS and FAS. Each of these strategic goals, in turn, has objectives that support the results that each agency wants to achieve. The performance measures allow CCC to tangibly measure how well it achieved these objectives without creating a duplicate reporting burden. The chart below summarizes the relationship between the current USDA strategic goals and each agency's strategic goals, and CCC program areas.

Chart 2: Summary of Strategic Goals



Conservation Program Area

MISSION ELEMENT

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

Program Overview

CRP encourages producers to plant long-term, resource-conserving perennial vegetative covers to improve water and air quality, control soil erosion, sequester carbon, and enhance wildlife habitat on land formerly used for agricultural production. In return, the program provides participants with annual rental payments, cost-sharing implementation costs, and technical assistance. Contract terms run between 10 and 15 years. CRP is designed to restore and enhance wetland and riparian areas to improve water quality and provide quality habitat for waterfowl and other wildlife.

The program includes several initiatives for wetland restoration and enhancement. CRP wetland initiatives include the 582,000-acre Floodplain Wetland Restoration Initiative, the 250,000-acre Bottomland Hardwood Timber Initiative, the 768,000-acre Non-Floodplain and Playa Wetland Restoration Initiative, and the 600,000-acre Prairie Pothole Duck Nesting Habitat Initiative. CRP includes a number of riparian practices that are accepted on a continuous basis. A component of CRP, "Grassland", is designed to enroll lands already in grass covers. This practice helps landowners and operators protect grassland, including rangeland and pastureland, and mitigates grassland conversion to cropland or development. The program emphasizes support for grazing operations, plant and animal biodiversity, and eligible land containing shrubs and forbs.

Summary of Program Results

CRP buffer practice is estimated to end fiscal year 2018 at 1.53 million enrolled acres. Wetland practice is expected to end the year at 2.29 million enrolled acres.

Total CRP enrollment currently stands at 22.6 million acres. These acres help reduce nitrogen, phosphorus, and sediment pollution by more than 85 percent annually on enrolled lands. Buffers intercept runoff into adjacent land during crop production. CRP also helps increase carbon sequestered in enrolled soils and vegetation. Overall, CRP efforts contribute to increased wildlife populations, and have added more than two million ducks to the Prairie Pothole Region annually, protecting Sage Grouse populations in Eastern Washington and Lesser Prairie Chicken populations in the southern Great Plains, and increasing ring-necked pheasant and other grassland bird populations across the nation.

Table 6: Summary of Performance Measure for Riparian and Grass Buffers Acreage

Performance Measure	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018		
					Target	Actual	Result
CRP: acres of riparian and grass buffers (cumulative and in million acres)	1.82	1.77	1.70	1.60	1.60	1.53	Met*

***Threshold range:** +/- 0.5 million acres

Rationale for Met Range: Management Determination

Data Assessment of Performance Measure

Data source: The data source for this measure is the National CRP Contract Data Files.

Completeness of Data: The targets and actual data are cumulative (acres under contract at the end of a fiscal year). The measure reports national acres under contract with 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.

Reliability of Data: USDA considers the data to be reliable.

Quality of Data: Overall, the quality of the data is good.

Table 7: Summary of Performance Measure for Restored Wetland Acreage

Performance Measure	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018		
					Target	Actual	Result
CRP: restored wetland acreage (million acres)	2.00	1.93	2.09	2.16	1.90	2.29	Met

Threshold range: +/- 0.5 million acres

Rationale for Met Range: Management Determination

Data Assessment of Performance Measure

Data source: The data source for this measure is the National CRP Contract Data Files.

Completeness of Data: The targets and actual data are cumulative (acres under contract at the end of a fiscal year). 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.

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

The biggest challenges in both the near and long-term are factors largely outside the control of CCC. One such challenge is the expiration of the current Farm Bill at the end of fiscal year 2018, and uncertainty about what provisions will be included in a new Farm Bill. Statutory changes to the maximum acreage enrollment, eligibility, and payments all have the potential to alter how many acres are enrolled in buffer and wetland restoration practices. Another challenge is crop prices; an increase in prices typically results in less enrollment whereas a decrease in prices often leads to increased enrollment. These market fluctuations have the potential to impact whether CCC meets its buffer and wetland restoration targets.

Income Support and Disaster Assistance Program Area

MISSION ELEMENT

Stabilizing, supporting, and protecting farm income and prices

Program Overview

CCC provides billions 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 disasters. CCC payments are best explained in the context of a commodity crop year which does not directly correspond to financial statement reporting.

The ARC and PLC programs enable producers to make a one-time election to reallocate crop bases, update program payment yields and select the type of coverage (price protection, county revenue protection, and/or individual revenue protection) for crop years 2014-2018. Enrollment in the elected coverage must be done on an annual basis.

MFP was announced August 30, 2018, with signup starting September 4, 2018. This program authorizes payments to producers with commodities that have been significantly impacted by tariff actions of foreign governments resulting in the loss of traditional exports. Eligible producers or owners of the following designated commodities are eligible for MFP for the 2018 crop or marketing year: corn, cotton, sorghum, soybeans, wheat, dairy, hogs, fresh sweet cherries and shelled almonds. Enrollment will end January 15, 2019.

CCC offers additional programs and services to help communities, farmers, ranchers and businesses mitigate and recover from natural disaster events.

- NAP, reauthorized by the 2014 Farm Bill and administered by the CCC, provides financial assistance to producers of non-insurable crops to protect against natural disasters that result in lower yields or crop losses, or prevents crop planting.

- Livestock Forage Disaster Program (LFP) provides compensation to eligible livestock producers that have suffered grazing losses due to drought or fire on land that is native or improved pastureland with permanent vegetative cover or that is planted specifically for grazing.

- Livestock Indemnity Program (LIP) provides benefits to livestock producers for livestock deaths in excess of normal mortality caused by adverse weather or by attacks by animals reintroduced into the wild by the Federal Government. In addition, LIP provides benefits to livestock producers for livestock that are injured by an eligible loss condition but not killed, and are sold at a reduced price.

- Emergency Assistance for Livestock, Honeybees, and Farm-Raised Fish (ELAP) offers emergency assistance to eligible producers of livestock, honeybees and farm-raised fish for losses due to disease (including cattle tick fever), adverse weather, or other conditions, such as blizzards and wildfires, not covered by LFP and LIP.

- TAP provides financial assistance to qualifying orchardists and nursery tree growers to replant or rehabilitate eligible trees, bushes, and vines damaged by natural disasters.

The MPP for Dairy Producers provides dairy producers catastrophic coverage, at no cost to the producer, other than an annual $100 administrative fee; and various levels of buy-up coverage. Catastrophic coverage provides payments to participating producers when the national dairy production margin is less than $4.00 per hundredweight. The national dairy production margin is the difference between the all-milk price and average feed costs. Producers may purchase buy-up coverage that provides payments when margins are between $4.00 and $8.00 per hundredweight. To participate in buy-up coverage, a producer must pay a premium that varies with the level of protection the producer elects.

Marketing Assistance Loan Program (MAL) provides producers interim financing at harvest time to meet cash flow needs without having to sell their commodities when market prices are too low. Market loan repayment provisions specify, under certain circumstances, that producers may repay loans at less than principal plus accrued interest and other charges. Alternatively, LDP provisions specify that, in lieu of securing a loan, producers may be eligible for a LDP. MALs can either be redeemed by repayment, commodity certificate exchange, or by delivering the pledged collateral to CCC as full payment for the MAL at maturity.

Summary of Program Results

In fiscal year 2018:

- 1.66 million farms were enrolled in ARC/PLC in fiscal year 2016. Of those farms, $7.1 billion in payments were triggered in fiscal year 2018.
- Total signed MFP payments as of September 30, 2018 were $52 million, with over 41,000 applications.
- Over $183 million in NAP was disbursed, which includes 2017 and 2018 crop losses to date.
- Over $487 million in LFP was disbursed.
- Over $36 million in LIP was disbursed.
- Over $47 million in ELAP was disbursed.
- Over $11 million in TAP was disbursed.
- Over 42,000 MALs have been disbursed for crop year 2017 with an additional 1,800 disbursed for crop year 2018 totaling over $7.5 billion.
- Over $230 million in MPP Dairy payments to dairy producers have been issued so far in fiscal year 2018.

In the areas affected by 2017 and 2018 hurricanes and other disasters, NAP, LIP, ELAP and TAP provide much needed recovery support to affected crop producers, livestock producers, orchardists, and nursery tree growers. Assistance under NAP requires that coverage was obtained by the application closing date. However, assistance under LIP, ELAP and TAP is available to eligible applicants after the disaster occurred.

Table 8: Summary of Performance Measure for ARC/PLC program

Performance Measure	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018		
					Target	Actual	Result
Number of Farms enrolled in ARC/PLC (in millions)	1.45	1.48	1.66	1.65	1.66	1.67	Met
Threshold range: +/- 10,000 Farms **Rationale for Met Range:** Management Determination							
Data Assessment of Performance Measure							
Data source: ARC/PLC contract signup application **Completeness of Data:** Data reported are based on data available as of September 2018. **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

Government payments to farmers are expected to decline over the next decade, but the magnitude of the decline is somewhat uncertain. Safety net programs that were new under the 2014 Farm Bill have substantial outlay potential depending on the extent and duration of market swings, producer decisions on base reallocation and yield updates, and their choices to participate in the ARC or PLC programs.

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

AMS Warehouse and Commodity Management Division (WCMD) manages the acquisition, handling, storage, transportation, and disposition of government-owned agricultural commodities. WCMD performs licensing and examination activities, in accordance with the USWA and CCC storage agreements, to maintain acceptable standards for the protection of stored commodities.

WCMD is responsible for administering storage agreements that commercial warehouse operators establish with CCC. The agreements are for CCC interest commodities, including commodities owned by CCC or pledged as collateral for MALs. These programs help achieve domestic farm program price support objectives, ensure the timely provision of various commodities for 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 or state licensing authority. Producers who use the stored commodity as collateral for a MAL may deliver the warehouse receipts to CCC as security for a nine-month MAL.

WCMD, on behalf of CCC, also works to provide adequate, secure storage capacity to maintain quality and improve the purchase and delivery of food aid. Food assistance purchases support international food aid through USAID, FAS and the United Nations' World Food Program.

Summary of Program Results

The more frequently warehouses are examined, the earlier potential compliance issues, pest infestation, or deterioration of quality for commodities in store are discovered. The 2018 CCC performance estimate of 404 days (average) between warehouse examinations does not meet the 2018 target. The increasing number of commodity warehouses and the increasing capacities of licensed warehouses within the USWA, in conjunction with decreasing staff numbers, are the major factors in influencing the number of days between examinations. The addition of 19 International Food Aid warehouses licensed in fiscal year 2013 is also a contributing factor.

Table 9: Summary of Performance Measure for Commodity Operations Program

Performance Measure	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018		
					Target	Actual	Result
Average time between warehouse examinations (in days)	365	365	365	363	365	404	Did not meet

Threshold range: +/- 25 days

Rationale for Met Range: Management Determination

Data Assessment of Performance Measure

Data source: The data source for this measure is internal WCMD files.

Completeness of Data: Data reported are estimated final results for the fiscal year based on data available as of September 2018. The targets and actual data are annual.

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

A challenge is having examiner resources available to maintain the timeliness of examinations. The USWA-licensed warehouses represent more than half of all approved commercial grain, cotton, and peanut warehouse capacity in the United States. The USWA trend lines are for additional warehouses to be licensed as well as increased storage capacities of warehouses currently under license. CCC examination demands, especially in sugar and cotton warehouses, are on the increase. Marketing and transportation complexities in the commodity industry are also expanding. The implementation of non-traditional examination procedures and use of electronic mediums will provide efficiencies in the examination process. Management will need to be proactive in balancing work force needs with budgetary constraints while meeting the demand of the commodity industry and CCC.

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 U.S. industry is needed to ensure 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. On behalf of CCC, FAS manages several export development programs including FMD, Market Access Program (MAP), Technical Assistance for Specialty Crops Program, Quality Samples Program, and Emerging Markets Program. 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 State Regional Trade Groups (SRTG) and other industry organizations, CCC programs also provide funding to encourage Small to Medium-Sized Enterprises (SME) 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 U.S. industry non-profit associations, all provide services that help U.S. companies successfully access potential buyers in a wide-range of international trade shows.

Summary of Program Results

An "Economic Impact of MAP and FMD" study was conducted by Informa Economics in fiscal year 2016. The study used an export demand model, a different methodology from previous studies, to ensure that results are not overly influenced by repeatedly using the same analytical approach. The study also incorporated recommendations from GAO to include additional variables and provide greater sensitivity analysis on results. The Informa study reported that MAP and FMD programs continue to achieve what Congress intended, that regardless of whether an export demand or market share model is used, or what time period is studied, market development funding has a significant positive impact on exports, the farm economy and the overall U.S. economy.

The study reports overwhelming evidence that export promotion has a positive and statistically significant impact on increasing demand for U.S. exports, even though other demand factors such as price and exchange rates have a greater impact.

- Return on government and private industry investment (benefit-cost ratio or BCR) is consistently high.
- Informa's export demand model determined that return on investment from these programs between 1977 and 2014 was $28 for every dollar invested.
- The previous MAP and FMD studies showed returns of $25 to $1 (2007 study) and $35 to $1 (2010 study).
- These results are all well above the average $11 to $1 BCR reported by 27 previous industry-specific export promotion studies.
- Together, the two different approaches (export demand model and market share model) better approximate the range of credible outcomes. Programs contributed an average of $8.2 billion per year, a total of more than $309 billion, to farm export revenue between 1977 and 2014, accounting for 15 percent of all the revenue generated by exports for U.S. agriculture over that time.
- Increased total average annual U.S. economic output by $39.3 billion, gross domestic product by $16.9 billion and labor income by $9.8 billion over the same time.
- Economic lift created by these programs directly created 239,000 new jobs, including 90,000 farm sector jobs.

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:

- U.S. Grains Council used MAP to bring trade team participants from Panama, Costa Rica, Colombia and Peru to Mexico in April 2018, to see the use of U.S. dried distiller's grains (DDG) with solubles in feed rations. As a result, the largest poultry company in Peru purchased $1.3 million worth of DDGs and other participants expect to increase inclusion rates with a purchase potential of $2.5 million annually.

- U.S. Soybean Export Council's MAP and FMD programs conducted a wide range of activities in Turkey and in the Middle East/North Africa region, including poultry, dairy, and aquaculture nutrition seminars, a buyers' conference, and a regional aquaculture conference. As a result, Turkey's 2018 U.S. soybean consumption has doubled, reaching 485,000 metric tons, valued at about $220 million.

- Cotton Council International's MAP-funded "Cotton Days" are one-day promotional and educational events that reach key decision makers throughout the global textile supply chain. They showcased the "What's New in Cotton" collection including apparel, home textile products, live fashion shows and seminars. The Taiwan and Japan events held in May 2018 are expected to result in over $60 million in sales.

- The Southern Forest Products Association used MAP to participate at the 2017 Mumbai Wood trade show in India. U.S. participating companies reported $471,000 in direct on-site sales during the show and expect another $2.6 million in future sales. The show fueled increased exports to this emerging market for U.S. softwood lumber. Exports to India reached a record $23 million in 2017, more than doubling shipments from the previous year.

- The American Sweet Potato Marketing Institute used MAP to collaborate on an "International Sweet Potato Week" promotional campaign with leading European Union sweet potato importers and six large retail chains. The campaign included point of sale materials, tastings, print and social media, and reached over 280,000 consumers. More than $560,000 in sales resulted, contributing to increased U.S. exports which reached $134 million in 2017, $10 million more than the previous year; January-June 2018 exports are running 13 percent ahead of the previous year.

- California Prune Board's MAP-funded recipe development, social media, holiday workshops and print media placements helped to highlight the versatility and health attributes of prunes, building consumer demand in Poland. Promotional materials reached over an estimated one million consumers and U.S. prune exports in July-June 2017/18 reached nearly $3 million, about 10 percent above the previous year.

- The Pear Bureau Northwest's well-rounded MAP program has made Brazil one of the U.S. industry's best markets for Bartlett pears. In-store promotions, retailer promotion agreements, consumer outreach activities and consumer advertising, created a strong market window from October 2017 to early January 2018, resulting in 3.1 metric tons of exports, valued at $4.8 million, almost a 70 percent increase in value compared to the previous year.

- The Organic Trade Association used MAP funding to sponsor 15 U.S. organic companies at BIOFACH, the world's largest organic trade show, in Nuremburg, Germany. These companies met with buyers from all over the world, and reported $1.35 million in on-site sales and an additional $15.6 million in projected future sales.

- USA Poultry and Egg Export Council (USAPEEC) used MAP to participate in ANTAD, one of the largest retail shows in Latin America from March 6-8, 2018, in Guadalajara Mexico. The USAPEEC pavilion hosted Mexican meat processors that launched new, innovative processed poultry products made with U.S. poultry ingredients. The three-day show attracted nearly 45,000 visitors from Mexico and 30 Latin American countries. As a result, USAPEEC exhibitors projected sales of over $5 million.

- The Alaska Seafood Marketing Institute (ASMI) utilized MAP funds to conduct an Alaska Seafood fair with retail giant Aeon Group, Asia's largest retailer, as part of the retail group's American Fair, held at 380 Aeon stores in Japan, October 4-10, 2017. Alaska Pacific cod and Alaska salmon roe were featured in the stores' fresh and frozen seafood sections during the week-long event. ASMI Japan sent demonstration staff to approximately 225 of the Aeon stores across Japan and provided point of sale materials. This campaign resulted in over $223 million in sales.

CCC market development programs are used to broaden the base of U.S. exporters, which facilitates economic growth and job creation. A central focus of this effort is to provide additional assistance to SMEs, which are major drivers of new job creation. In 2017 there were about 2,900 SMEs participating in SRTG's market development programs, reporting about $1.8 billion in sales. Trade show participation is a key component of SME program participation and cornerstone of cooperators' MAP and FMD investments.

Table 10: Summary of Performance Measure for Market Development

Performance Measure	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018		
					Target	Actual	Result
Value of agricultural exports resulting from participation in foreign food and agricultural trade shows (million $)	$1,500	$1,522	$1,260 [1]	$2,326 [2]	$1,700	$2,041 [3]	Exceeded

Threshold range: +/-$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. Voluntary 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 30, 2018.

Reliability of Data: Data are considered reliable.

Quality of Data: Data are self-reported but are considered a good indicator of aggregate company sales, based on independent testing of the data.

[1] FY 2016 Actual Results fell well below past performance due to considerably lower sales from the Brussels Seafood Show, due to the terrorist event that took place in Brussels about a month prior to the show that reduced show participation.

[2] FY 2017 results were expected to return to prior year levels but far exceeded expectations. The Brussels Seafood Show rebounded significantly from the previous year's event, increasing sales by over $500 million, largely due to the limited participation in FY 2016. The Gulfood Dubai Show also exceeded expectations with increases of nearly $300 million.

[3] FY 2018 remained higher than expected due to the continued strength of the Brussels Seafood Show.

Challenges for the Future

USDA's "Outlook for U.S. Agricultural Trade", August 29, 2018, forecast U.S. agricultural trade at $144.0 billion for fiscal year 2018, $3.8 billion above the fiscal year 2017 level. Fiscal year 2019 U.S. agricultural exports are forecast at $144.5 billion, $0.5 billion above fiscal year 2018. This increase is primarily due to higher exports of wheat and horticultural products, which offset expected declines in oilseeds, livestock, poultry and dairy product exports. U.S. agricultural exports to China are expected to decline by $7.0 billion. On the other hand, U.S. agricultural exports to Japan, Taiwan, South Korea, and Southeast Asia are projected to increase by $3.4 billion. In addition, exports to the western hemisphere are projected up by $1.1 billion, Europe by $1.1 billion and Africa by $0.9 billion. USDA's ERS reported that prospects for the dollar's value in calendar year 2018 is mixed as weakened values early in the year have been offset by the dollar strengthening considerably since May. However, the overall average calendar year 2018 value is expected to be slightly lower than calendar year 2017 and to hold its value in calendar year 2019. Oil prices are expected to rise in the remainder of calendar year 2018 and concerns over geopolitical risks remain high. The next U.S. trade outlook assessment is released on November 29, 2018.

Export Credit 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 (GSM-102) Program is to increase sales of U.S. agricultural commodities to international markets by facilitating the extension of export credits to countries that have sufficient financial strength to have foreign exchange available for scheduled payments. This program encourages U.S. lenders and exporters to extend credit terms on sales of agricultural commodities and products to overseas customers. The GSM-102 Program supports the involvement of foreign private sector banks and private sector importers in commercial trade transactions with the United States. The program statute allows for repayment terms up to two years but actual repayment terms are currently limited to 18 months or less.

Summary of Program Results

In fiscal year 2018, the value of export sales registered under the program was $2 billion. The program exceeded its targeted economic return ratio of $100 per dollar invested. The Economic Return Ratio is calculated using gross default estimates and does not take into consideration expected recoveries on claims paid.

The GSM-102 Program continues to be critical in supporting sales of U.S. commodities to many markets. Accomplishments for fiscal year 2018 include:

- The GSM-102 program supported $700 million in U.S. yellow corn sales in fiscal year 2018. U.S. yellow corn sales under the program to Morocco, Nicaragua, and Israel accounted for 28, 24, and 18 percent, respectively, of all U.S. yellow corn exports to these countries (based on total U.S. export data through August 31, 2018). The GSM-102 program helps U.S. exports to compete with other major yellow corn suppliers, such as Argentina, in these markets.

- Soybeans are the second largest commodity supported by the GSM-102 program, with $610 million in sales for fiscal year 2018. U.S. soybean sales under the program to Venezuela, Costa Rica and Egypt accounted for 40, 25, and 20 percent respectively, of all U.S. soybean exports to these countries (based on total U.S.

export data through August 31, 2018). With the help of the GSM-102 program, the United States gained market share in Egypt in fiscal year 2018 (October – August) against major competitors Ukraine and Argentina.

- The GSM-102 program supported $215 million in U.S. wheat sales for fiscal year 2018. U.S. wheat sales under the program to South Korea, Morocco and Nigeria accounted for 27, 25, and 10 percent respectively, of all U.S. wheat exports to these countries (based on total U.S. export data through August 31, 2018). With the help of the GSM-102 program, the United States was able to compete in South Korea's wheat market against major suppliers Australia, Canada, and Ukraine in fiscal year 2018 (October – August).

- The GSM-102 program supported $303 million worth of U.S. soybean meal sales in fiscal year 2018. U.S. soybean meal sales to Costa Rica, Ecuador, and the Dominican Republic accounted for 32, 30, and 24 percent, respectively, of all U.S. soybean meal exports to these countries (based on total U.S. export data through August 31, 2018). With the help of the GSM-102 program, the United States gained market share in Ecuador in fiscal year 2018 (October – August) against major competitor Argentina.

- The GSM-102 program supported $69 million in U.S. soybean oil sales for fiscal year 2018. U.S. soybean oil sales under the program to Guatemala, Peru, and the Dominican Republic accounted for nearly 35, 30, and 20 percent, respectively, of all U.S. soybean oil exports to these countries (based on total U.S. export data through August 31, 2018). With the help of the GSM-102 program, the United States gained market share in Peru in fiscal year 2018 (October – August) against major competitor Argentina.

- In fiscal year 2018, the GSM-102 program supported $48 million in U.S. DDG sales for fiscal year 2018. U.S. sales of DDGs under the program accounted for 100 percent of total U.S. exports of DDGs to Tunisia. Sales of rice under the program were valued at $40 million, accounting for 40 percent of total U.S. rice exports to Honduras (based on total U.S. export data through August 31, 2018).

Table 11: Summary of Performance Measure for GSM

Performance Measure	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018		
					Target	Actual	Result
Estimated trade value resulting from USDA GSM export credit guarantee program (dollars in billions)	$2.09	$1.87	$2.21	$1.62	$1.80	$2.02	Exceeded

Threshold range: +/- 0.25 billion

Rationale for Met Range: Management Determination

Data Assessment of Performance Measure

Data source: 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 represent results for the fiscal year based on data available as of September 30, 2018.

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 port value derived from 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 being incorporated into the system. Data is reviewed on a daily basis.

Table 12: Summary of Performance Measure for Economic Return Ratio

Performance Measure	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018		
					Target	Actual	Result
Economic Return Ratio	$(124/1)	$(109/1)	$(106/1)	$(101/1)	$(100/1)	$(103/1)	Exceeded

Threshold range: +/- $5.00/1

Rationale for Met Range: Management Determination

Data Assessment of Performance Measure

Data source: 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 based on results for the fiscal year as of September 30, 2018.

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.

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 they are incorporated into the system. Data is reviewed on a daily basis.

Challenges for the Future

Fiscal year 2019 presents both challenges and opportunities for the GSM-102 Program. Program usage typically runs countercyclical to global financial stability. Uncertainties in the global economic environment, especially relating to emerging markets (the primary focus of the GSM program) and changes in local interest rates and bank liquidity will create program demand shifts as commercial financing availability changes.

To diversify the portfolio of obligor countries, Brazil has been added as a bank eligible country with credit lines on its eligible banks available for use by importers throughout Latin America. The addition of Brazil will broaden the sources of available credit in the region, providing more opportunities for U.S. agricultural sales to all of Latin America.

Operation for the revised Facility Guarantee Program (FGP) began in fiscal year 2017. The FGP is designed to boost sales of U.S. agricultural products by providing credit guarantees to improve or establish agriculture-related facilities in emerging markets where demand may be limited due to inadequate storage, processing, handling, or distribution capabilities. The FGP is a subset of the GSM-102 program and draws on the $5.5 billion yearly authorization for the Export Credit Guarantee Programs. No guarantees were issued under this program in fiscal year 2018 but USDA continues outreach efforts to increase industry's awareness of the program.

Part III: Financial Section

Message from the Chief Financial Officer

As Chief Financial Officer of the Commodity Credit Corporation (CCC), I am pleased to present CCC's fiscal year 2018 consolidated financial statements, related notes, and other information. CCC remains committed to improvement of financial management processes, transparency, and accountability.

CCC's financial condition is linked to the global marketplace and is subject to the volatility caused by extreme weather conditions, natural disasters, evolving conservation practices, and retaliatory tariffs. CCC's programs, which are predominantly administered by the Farm Service Agency (FSA), aim to carry out its mission to provide high quality services to the Nation's agricultural community and to proactively respond to worldwide agricultural needs.

This year CCC earned an unmodified audit opinion on fiscal year 2018 consolidated financial statements for the first time since 2014. CCC has worked diligently throughout the year to address, correct, and mitigate issues raised by its auditor. This is a great accomplishment, and we recognize there is still work required as we eliminate outstanding deficiencies and matters of noncompliance associated with ADA and FFMIA as described in Exhibits of the audit report. We are devoting a considerable amount of resources to resolving these issues and are looking forward to improved processes during Fiscal Year 2019.

CCC's consolidated financial statements, included herein, report the fiscal year 2018 financial position, results of operations, and status of budgetary resources. These statements comply, where relevant, 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.

I want to thank the financial management professionals who support CCC for their continued dedication and hard work this past year. It is through their effective and efficient efforts that CCC delivered the most accurate, transparent and useful information possible as we continue to work together in our quest for excellence in financial management.

Sincerely,

Margo Erny

Margo E Erny
Chief Financial Officer
Commodity Credit Corporation

Introduction to the Financial Statements, Required Supplementary Information, and Other Information

The Financial Statements have been prepared to report the financial position and results of CCC operations. The statements have been prepared from the books and records of CCC in accordance with U.S. GAAP as promulgated by FASAB. In addition, the statements and other financial reports prepared by CCC are in accordance with OMB and Department of the Treasury directives to monitor and control the status and use of budgetary resources.

CCC has permanent indefinite borrowing authority which operates out of a revolving fund to enable it to meet mission requirements quickly. CCC incurs obligations and is authorized to borrow funds from Department of the Treasury to meet its spending requirements. CCC has, and reports, a parent/child relationship with USAID for two Department of the Treasury Account Symbols.

Fiscal year 2018 financial statements and related Notes are not shown on a comparative basis due to a balance sheet only audit for fiscal year 2017.

CCC's financial statements and related Notes for fiscal year 2018 consist of the following:

The Consolidated Balance Sheet presents those resources owned or managed by CCC as of September 30, 2018 that are available to provide future economic benefits (assets); amounts owed by CCC that will require payments from those resources or future resources (liabilities); and residual amounts retained by CCC, comprising the difference between future economic benefits and future payments (net position). The net position consists of $100 million of Capital Stock, Unexpended Appropriations, and Cumulative Results of Operations.

The Consolidated Statement of Net Cost presents the net cost of CCC operations, which are comprised of the gross costs incurred by CCC less any exchange revenue earned from CCC activities for the fiscal year ended September 30, 2018.

The Consolidated Statement of Changes in Net Position presents the change in CCC's net position resulting from the net cost of CCC operations, budgetary financing sources other than exchange revenues, capital stock, and other financing sources for the fiscal year ended September 30, 2018.

The Combined Statement of Budgetary Resources presents budgetary resources available to CCC, the use or status of these resources at year-end, and net outlays of budgetary resources for the year ended September 30, 2018. Subject to Appropriation Law, CCC has no authority to pay liabilities not covered by budgetary resources. Liquidation of such liabilities requires the use of CCC's borrowing authority or enactment of an appropriation. The budgetary accounting principles 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 Notes to the Financial Statements are an integral part of the financial statements. They provide explanatory information or additional detail to help readers understand, interpret, and use the data presented.

CCC's Required Supplementary Information (RSI), and Other Information (OI) for fiscal year 2018 consist of the following:

RSI contains a Combining Schedule of Budgetary Resources by Major Fund for fiscal year 2018 that provides additional information on amounts presented in the Combined Statement of Budgetary Resources.

OI contains the Summary of Financial Statement Audit and Management Assurances, Payment Integrity, Fraud Reduction Report, and GONE Act Requirements, in accordance with OMB Circular A-136, *Financial Reporting Requirements*.

Commodity Credit Corporation
CONSOLIDATED BALANCE SHEET
As of September 30, 2018
(In Millions)

Assets:		
Intragovernmental:		
Fund Balance with Treasury (Note 2)	$	2,897
Accounts Receivable (Note 4)		3
Total Intragovernmental Assets	$	2,900
Cash and Other Monetary Assets (Note 3)		71
Accounts Receivable, Net (Note 4)		61
Commodity Loans, Net (Note 5)		476
Direct Loans and Loans Guarantees, Net (Note 6)		2,189
Commodity Inventory and Related Property (Note 7)		46
Advances to Others (Note 9)		90
Total Assets	$	5,833
General Property and Equipment (Note 8)		
Liabilities (Note 10):		
Intragovernmental:		
Accounts Payable	$	3
Debt to the Treasury (Note 11)		10,647
Other Intragovernmental Liabilities (Note 13):		
Resources Payable to Treasury		827
Excess Subsidy Payable to Treasury		30
Other		4
Subtotal Other Intragovernmental Liabilities	$	861
Total Intragovernmental Liabilities	$	11,511
Accounts Payable		118
Grants Payable (Note 12)		208
Loan Guarantee Liability (Note 6)		4
Environmental and Disposal Liabilities (Note 14)		21
Accrued Liabilities (Note 15)		4,829
Other Liabilities (Note 13):		
Deposit and Trust Liabilities		14
Other		18
Subtotal Other Liabilities	$	32
Total Liabilities	$	16,723
Commitments and Contingencies (Note 16)		
Net Position:		
Capital Stock	$	100
Unexpended Appropriations		1,761
Cumulative Results of Operations		(12,751)
Total Net Position	$	(10,890)
Total Liabilities and Net Position	$	5,833

The accompanying notes are an integral part of the financial statements.

Commodity Credit Corporation

CONSOLIDATED STATEMENT OF NET COST

For the Year Ended September 30, 2018
(In Millions)

Strategic Goals (Note 17):		
Provide a Financial Safety Net for Farmers and Ranchers		
Direct Program Gross Cost	$	4,497
Imputed Gross Cost		693
Total Gross Cost		5,190
Less: Earned Revenue		124
Net Goal Cost	$	5,066
Increase Stewardship of Natural Resources While Enhancing the Environment		
Direct Program Gross Cost	$	2,043
Imputed Gross Cost		499
Total Gross Cost		2,542
Less: Earned Revenue		10
Net Goal Cost	$	2,532
Ensure Commodities are Procured and Distributed Effectively and Efficiently		
Direct Program Gross Cost	$	183
Imputed Gross Cost		93
Total Gross Cost		276
Less: Earned Revenue		26
Net Goal Cost	$	250
Increase U.S. Food and Agricultural Exports		
Direct Program Gross Cost	$	1,830
Imputed Gross Cost		6
Total Gross Cost		1,836
Less: Earned Revenue		75
Net Goal Cost	$	1,761
Total Direct Program Gross Cost	$	8,553
Total Imputed Gross Cost		1,291
Total Gross Cost		9,844
Less: Total Earned Revenue		235
Net Cost of Operations	$	9,609

The accompanying notes are an integral part of the financial statements.

Commodity Credit Corporation

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the Year Ended September 30, 2018
(In Millions)

Capital Stock	$	100
Unexpended Appropriations:		
Beginning Balance	$	1,756
Budgetary Financing Sources:		
Appropriations Received		16,097
Other Adjustments		(1)
Appropriations Used		(16,091)
Total Budgetary Financing Sources	$	5
Total Unexpended Appropriations	$	1,761
Cumulative Results of Operations:		
Beginning Balance	$	(16,130)
Budgetary Financing Sources:		
Appropriations Used		16,091
Non-exchange Revenue		5
Transfers in/out without Reimbursement, Net		(4,164)
Other Financing Sources (Non-Exchange):		
Imputed Financing		1,291
Other		(235)
Total Financing Sources	$	12,988
Net Cost of Operations		(9,609)
Net Change	$	3,379
Cumulative Results of Operations	$	(12,751)
Net Position	$	(10,890)

The accompanying notes are an integral part of the financial statements.

Commodity Credit Corporation

COMBINED STATEMENT OF BUDGETARY RESOURCES

For the Year Ended September 30, 2018

(In Millions)

	Budgetary	Non-Budgetary Credit Reform Financing Accounts
Budgetary Resources:		
Unobligated balance from prior year budget authority, net	$ 3,277	$ 75
Appropriations (discretionary and mandatory)	1,815	-
Borrowing Authority (discretionary and mandatory)	9,888	340
Spending authority from offsetting collections (discretionary and mandatory)	46	87
Total Budgetary Resources	$ 15,026	$ 502
Status of Budgetary Resources:		
New obligations and upward adjustments (total) (Note 18)	$ 14,385	$ 345
Unobligated balance, end of year:		
Apportioned, unexpired account	341	74
Unapportioned, unexpired accounts	299	83
Unexpired unobligated balance, end of year	640	157
Expired unobligated balance, end of year	1	-
Total unobligated balance, end of year	641	157
Total Budgetary Resources	$ 15,026	$ 502
Outlays, Net:		
Outlays, net (discretionary and mandatory)	$ 12,442	$ (90)
Distributed offsetting receipts	(2)	(30)
Agency Outlays, net (discretionary and mandatory)	$ 12,440	$ (120)

The accompanying notes are an integral part of the financial statements.

Notes to the Financial Statements

Note 1 - Significant Accounting Policies

Reporting Entity

Commodity Credit Corporation (CCC) is a federal corporation operating within and through USDA. CCC's statutory authority for its operations is found in the CCC Charter Act, 15 U.S.C. 714, and et seq.

Basis of Presentation

The Corporation's financial statements report the financial position and results of operations of CCC. These statements have been prepared from the accounting records of CCC as of September 30, 2018 in accordance with U.S. GAAP promulgated by Financial Accounting Standards Advisory Board (FASAB). These statements have been prepared for the Corporation which is a component of the U.S. Government, a sovereign entity.

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. All dollar amounts in this section are presented in millions unless otherwise noted.

Basis of Accounting

The accounting structure of Federal agencies is designed to reflect both accrual and budgetary accounting transactions. Under the accrual basis of accounting, 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 Department of the Treasury funds of CCC, which encompass its domestic and foreign activities, including its child account Treasury funds. In consolidation, intra-agency activities and balances have been eliminated except for the Statement of Budgetary Resources (SBR), which is presented on a combined basis.

Allocation Transfers

CCC is a party to allocation transfers with another Federal agency as a transferring (parent) entity. Allocation transfers are legal delegations of one department's (parent entity) authority to obligate budget authority and outlay funds to another department (child entity). A separate fund account (allocation account) is created in the Department of the Treasury as a subset of the parent fund account for tracking and reporting purposes.

Note 1 - Significant Accounting Policies, Continued

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, as the parent, allocates funds to USAID to fund P.L. 480 Title II and Bill Emerson Humanitarian Trust transportation and other administrative costs in connection with foreign donations of commodities. In accordance with U.S. GAAP, CCC reports USAID's financial activity for which it is the parent.

Fund Balance with Treasury

CCC disbursements are made by checks or electronic funds transfers that are deducted from CCC's account at the Department of the Treasury.

The Department of the Treasury requires that the Fund Balance with Treasury amounts reported via Governmentwide Treasury Account Symbol Adjusted Trial Balance System be reconciled to the Department of the 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, Department of the Treasury, and other USDA entities. Refer to Note 2 – Fund Balance with Treasury for additional information.

Cash and Other Monetary Assets

CCC does not maintain cash in commercial bank accounts or at any FSA location. Cash received but not yet reflected in the Department of the Treasury balances is considered as undeposited collections. Refer to Note 3 – Cash and Other Monetary Assets.

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. Refer to Note 4 – Accounts Receivable, Net for additional information.

Note 1 - Significant Accounting Policies, Continued

Commodity Loans

CCC makes both recourse and nonrecourse loans to producers of designated agricultural commodities. Commodity loans are statutorily exempt from the accounting and reporting requirements of the Federal Credit Reform Act of 1990 (FCRA).

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. Refer to Note 5 – Commodity Loans, Net for additional information.

Direct Loans and Loan Guarantees

FCRA applies to direct loans and loan guarantees made on or after October 1, 1991 (Post-1991). CCC programs subject to credit reform requirements consist of:

- Direct loans extended under P.L. 480 Title I, Economic Assistance and Food Security;
- Receivables in the Debt Reduction Fund (this fund is specifically for restructure of foreign loans);
- Receivables for the Export Credit Guarantee program in the form of rescheduled agreements;
- Loans, including microloans, made to producers to build or upgrade farm, sugar storage and handling facilities, and for other purposes;
- Loans made to apple producers who incurred losses due to low market prices;
- Loans made to the Texas Boll Weevil Eradication Foundation; and
- Export Credit Guarantees extending credit to encourage financing of commercial exports of U.S. agricultural commodities.

Note 1 - Significant Accounting Policies, Continued

Definitions:

- 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 assurance 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.
- FCRA established credit program and financing accounts for loan guarantees and direct loans obligated after September 30, 1991 (Post-1991). It also established liquidating accounts for activity relating to any loan guarantees committed or direct loans obligated before October 1, 1991 (Pre-1992).
- 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 subsidy 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. The liquidating accounts are shown in the federal budget on a cash basis.

Accounting and Presentation

CCC records and reports direct loans and loan guarantees initiated after September 30, 1991 on a present value basis in accordance with FCRA and 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.* The difference between the outstanding principal of these receivables and the present value of their net cash inflows is recognized as a subsidy cost allowance; the present value of estimated net cash outflows of the loan guarantees is recognized as a liability for loan guarantees. CCC has

Note 1 - Significant Accounting Policies, Continued

elected to value its loans initiated before October 1, 1991 (Pre-1992) using the present value method. The net present value of Direct Loans 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.

In estimating net present values, the discount rate is the average interest rate on marketable Department of the 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 economic assumptions and the terms of the loan contract for the program.

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. Refer to Note 6 – Direct Loans and Loan Guarantees: Non-Federal Borrowers for additional information.

Commodity Inventory

Commodity inventory, referred to as goods held under price support and stabilization programs in SFFAS No. 3, *Accounting for Inventory and Related Property*, issued by the FASAB, represent commodities acquired by the Corporation for donation or price support purposes. Commodities are eventually sold or otherwise disposed of to help satisfy economic goals. Acquisition is generally made through commodity loan forfeitures, use of CCE, or by purchase of commodities on the open market.

Commodity inventory is initially recorded at the cost or forfeiture value, and the commodity is revalued in the balance sheet at year-end at the lower of cost or the net realizable value in accordance with SFFAS No. 3. Refer to Note 7 – Commodity Inventory and Related Property, Net.

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 two years or greater are capitalized. Property and equipment is depreciated on a straight-line basis.

Note 1 - Significant Accounting Policies, Continued

Computer equipment has a service life of five years. There is no salvage value associated with general property and equipment.

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 five years beginning with the first year the software is fully operational. Once the software is put into operation, amortization begins. Internal use software valued at $100,000 or more and a useful life of two years or greater is capitalized. Internal use software development costs are accumulated and capitalized upon completion.

As of September 30, 2018, CCC's property and equipment was fully depreciated and software costs were fully amortized. Refer to Note 8 – General Property and Equipment, Net for additional information.

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 non-exchange 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 include liabilities incurred for which revenues or other sources of funds necessary to pay the liabilities have not been made available through congressional appropriations, apportionments or current earnings of CCC. Liabilities not requiring budgetary resources are liabilities that have not in the past required and will not in the future require the use of budgetary resources. Refer to Note 10 – Liabilities Not Covered by Budgetary Resources for additional information.

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.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, the disclosure of contingent liabilities at the date of the financial statements, and the reported amounts of revenues, expenses, and budgetary accounts during the reporting period. For example,

Note 1 - Significant Accounting Policies, Continued

under U.S. GAAP, accrued liabilities must be estimated and recorded if the event creating the liability has occurred, even if an invoice or payment request has not been received and the precise amount is unknown, as long as the amount can reasonably be estimated. In addition, certain programs require management to make estimates and assumptions that affect the reported amounts of UDOs at the date of the financial statements, and the reported amounts of budgetary accounts during the reporting period. Actual results could differ from those estimates.

Imputed Financing (also known as Imputed Costs)

Imputed financing represent costs incurred by other USDA agencies for the benefit of CCC. In accordance with SFFAS No. 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government*[5], CCC's full cost incorporates the full cost of goods and services that it receives from other entities. As previously stated, CCC has no employees or facilities. Thus, CCC executes its various programs using the manpower and facilities of other agencies, primarily FSA. The imputed financing consists of the costs of hired labor, opportunity costs of unpaid labor, capital recovery of machinery and equipment, opportunity costs of land, general overhead, payroll taxes, and insurance expended by FSA for work on CCC programs.

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 the Department of the Treasury. Refer to Note 19 – Custodial Activity for additional information.

Borrowing Authority Sequestration

Office of Management and Budget (OMB) Circular A-11, *Preparation, Submission, and Execution of Budget*, provides an exception for budgetary resources sequestered in revolving accounts to remain as an unavailable balance in the original funding account rather than being returned to the General Fund of the Treasury. In accordance with this guidance, CCC retains the temporary reductions for programs, unavailable for obligations, within CCC's permanent indefinite borrowing authority. Amounts temporarily sequestered are then made available in the subsequent year if OMB specifically authorizes the availability in an apportionment.

[5] As amended by SFFAS No. 30, *Inter-Entity Cost Implementation*, and SFFAS No. 55, *Amending Inter-Entity Cost Provisions*

Note 2 – Fund Balance with Treasury

Fund Balance with Treasury as of September 30, 2018, was as follows:

Table 13: Fund Balance with Treasury

	(In Millions)
Status of Fund Balance with Treasury:	
Unobligated Balance:	
Available	$ 415
Unavailable	383
Obligated Balance not yet Disbursed	20,448
Subtotal	$ 21,246
Borrowing Authority not yet Converted to Fund Balance	(18,349)
Total Fund Balance with Treasury	$ 2,897

The Unavailable balance represents unobligated resources not yet apportioned by OMB and unobligated appropriations from prior years that are no longer available for new obligations. Borrowing Authority not yet Converted to Fund Balance represents unobligated and obligated amounts recorded as of September 30, 2018, which will be funded by future borrowings.

CCC has a permanent indefinite borrowing authority, as defined by OMB Circular A-11. Borrowing authority permits the Corporation to incur obligations and authorizes it to borrow funds to liquidate the obligations. Refer to Note 18 – Disclosures Related to the Statement of Budgetary Resources for additional information on permanent indefinite borrowing authority.

Note 3 – Cash and Other Monetary Assets

As of September 30, 2018, CCC had $71 million in undeposited collections.

Note 4 – Accounts Receivable, Net

Accounts Receivable as of September 30, 2018, were as follows:

Table 14: Accounts Receivable, Net

	(In Millions)
Intragovernmental:	
Due from Other Federal Agencies	$ 3
Total Intragovernmental Accounts Receivable	$ 3
Public:	
Notes Receivable	$ 5
Interest Receivable	2
Other	63
Subtotal	$ 70
Allowance for Doubtful Accounts	(9)
Total Public Accounts Receivable, Net	$ 61

Other Public Receivables consist primarily of amounts due as a result of program overpayments or dishonored checks.

Note 5 – Commodity Loans, Net

Commodity Loans Receivable, by commodity, net, as of September 30, 2018, were as follows:

Table 15: Commodity Loans Receivable by Commodity, Net

		(In Millions)
Cotton	$	70
Pulses		5
Feed Grains:		
Barley		3
Corn		153
Grain Sorghum		1
Honey		3
Oilseeds		6
Peanuts		96
Rice		13
Soybeans		36
Wheat		86
Subtotal Commodity Loans	$	472
Commodity Loans in Collection		1
Accrued Interest Receivable		5
Loans Receivable - Unapplied Receipts		(1)
Total Commodity Loans, Gross		477
Less: Allowance for Losses		(1)
Total Commodity Loans, Net	$	476

Commodity loans (MALs) are of two types, recourse or non-recourse. Recourse loans must be repaid at principal plus interest by the maturity date. The recourse loan commodity cannot be delivered or forfeited in satisfaction of the outstanding loan. For nonrecourse loans, producers have the option to: (a) repay the principal plus interest; (b) repay the loan (for certain designated commodities) at the market rate if the market rate is less than the loan rate; (c) repay the loan (for certain designated commodities) with a CCE if the market rate is less than the loan rate; or (d) forfeit the commodity in satisfaction of the loan at maturity.

Commodity Loans in Collection consist primarily of defaulted loans which have been turned over to the Receivables Management Office for collection action, including offset against future program payments.

Note 6 – Direct Loans and Loan Guarantees: Non-Federal Borrowers

CCC values both pre and post credit reform loans and loan guarantees on a net present value basis.

For credit reform programs, 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. CCC utilizes the Credit Subsidy Calculator (CSC) to compute the subsidy reestimates annually. The CSC is an OMB tool for performing credit calculations, incorporating both financing account interest and cash flow amounts.

CCC uses an estimation model to calculate the allowance for loan losses for its pre-credit reform program.

Based on management analysis and judgment, certain loans with significant periods of non-performance are written off only for financial statement purposes, since CCC must follow the requirements of 22 U.S.C. 2430c for any actual write-offs. 22 U.S.C. 2430c states that only the President of the United States has the authority to approve the write-off of foreign loans. When loans are written off for financial statement purposes, the unpaid principal and interest of the loans, along with the associated amount for the allowance, are removed from the general ledger but remain in the subsidiary loan system.

Credit Program Discussion and Descriptions

Credit Guarantee Programs – Export

CCC Export Credit Guarantee Program, Guaranteed Loans, provides guarantees to buyers in countries where credit is necessary to maintain or increase U.S. sales of agricultural products. The financing to buyers may not be otherwise available without the U.S. credit guarantees. CCC underwrites credit extended by the private banking sector under GSM-102 and FGP. 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.

Note 6 – Direct Loans and Loan Guarantees: Non-Federal Borrowers, Continued

Under GSM-102, CCC underwrites credit extended by the private banking sector in the U.S. (or, less commonly, by the exporter) for terms of up to twenty-four months. 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 this program are in U.S. dollar denominations. In the event CCC pays a claim under the guarantee programs, CCC assumes the debt and treats it as a direct credit loan receivable for accounting and collection purposes.

The FGP provides 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. CCC may offer coverage of up to 100 percent of the net contract value, less the initial payment.

Direct Credit Programs – Export

Under the CCC Export Credit Guarantees program, several cohorts have had defaults and claims that resulted in rescheduled loans which are now direct loans owed to CCC. The programmatic purpose does not differ from the original guaranteed loans.

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 in U.S. dollar denominations. 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 fiscal year 2006.

Note 6 – Direct Loans and Loan Guarantees: Non-Federal Borrowers, Continued

Direct Credit Programs – Debt Reduction

The Debt Reduction Fund is used to account for modified foreign debt. Debt is considered to have been modified if the original debt has been reduced or the interest rate of the agreement is changed. The Debt Reduction Fund is the financing fund for modification of defaulted foreign loans, both direct and guaranteed. Modifications moved to this fund must be approved by OMB and State Department.

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 3, 5, 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 Department of the Treasury securities of comparable maturity.

FSA developed the Farm Storage Microloan program designed to help producers, including new, small and mid-sized producers, grow their businesses and markets. Loans are now available for portable handling and storage equipment in addition to more traditional on-farm storage methods. The program will offer more flexible access to credit and will serve as an attractive loan alternative for smaller farming operations like specialty crop producers and operators of community supported agriculture. These smaller farms, including non-traditional farm operations, often face limited financing options. The loans have a term of 3, 5 or 7 years with a requirement of annual repayment installments.

Sugar Storage Facility Loans (SSFL) 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. The loan term is 15 years. Only one loan has been approved and disbursed for $3.9 million in the 2013 cohort.

The Boll Weevil Program was made available to the Texas Boll Weevil Eradication Foundation in fiscal year 2001, as 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.

Note 6 – Direct Loans and Loan Guarantees: Non-Federal Borrowers, Continued

In fiscal year 2001, the Apple Loan Program provided loans to apple producers who suffered hardships due to low prices following the 1998-1999 growing season when apple prices fell to their lowest levels in nearly 10 years. Eligible applicants obtained loans up to $300 per acre of apple trees in production in 1999 or 2000, up to a maximum indebtedness of $500,000. The original loan term was established as three years, but CCC is still receiving repayments.

Obligated Loans

P.L. 480 Title I direct credits outstanding that were obligated prior to October 1, 1991 (Pre-1992), and P.L. 480 direct credits, and direct loans for FSFL, Boll Weevil, and SSFL loans that were obligated on or after October 1, 1991 (Post-1991), and related interest receivable outstanding as of September 30, 2018, are shown in Table 16. Defaulted credit guarantees, and related interest receivable are also presented in Table 16.

Table 16: Direct Loans and Defaulted Guaranteed Loans, Net

(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 1	$ 843	$ 11	$ (178)	$ 676
Pre-1992 Total	$ 843	$ 11	$ (178)	$ 676
Obligated Post-1991				
P.L. 480 Title 1	$ 508	$ 8	$ (84)	$ 432
Debt Reduction Fund	104	1	(18)	87
Farm Storage Facility	749	10	(41)	718
Farm Storage Microloans	40	-	-	40
Boll Weevil Program	4	-	(1)	3
Sugar Storage Facility	3	-	-	3
Post-1991 Total	$ 1,408	$ 19	$ (144)	$ 1,283
Total Direct Loan Program Receivables	$ 2,251	$ 30	$ (322)	$ 1,959
Defaulted Guaranteed Loans:				
Post-1991				
Export Credit Guarantee Programs	$ 439	$ 10	$ (219)	$ 230
Post-1991 Total	$ 439	$ 10	$ (219)	$ 230
Total Defaulted Guaranteed Loans	$ 439	$ 10	$ (219)	$ 230
Total Direct Loans and Defaulted Guaranteed Loans, Net	$ 2,690	$ 40	$ (541)	$ 2,189

Note 6 – Direct Loans and Loan Guarantees: Non-Federal Borrowers, Continued

Disbursements

Table 17 shows new direct loans disbursed by CCC for the fiscal year ended September 30, 2018:

Table 17: Total Amount of Direct Loans Disbursed (Post-1991)

	(In Millions)
Direct Loan Programs	
Farm Storage Facility	$ 178
Farm Storage Microloans	24
Total Direct Loans Disbursed	$ 202

Table 18: Guaranteed Loans Disbursed shows new guaranteed loans disbursed by the lender at face value. Guaranteed Loans which have not defaulted are not included in the amounts for Direct Loans and Loans Guarantees, Net, on the Consolidated Balance Sheet.

For the fiscal year ended September 30, 2018, credit guaranteed disbursements were as follows:

Table 18: Guaranteed Loans Disbursed

	(In Millions)	
Loan Guarantee Programs	Principal, Face Value Disbursed	Principal, Guaranteed Disbursed
Export Credit Guarantee Programs	$ 1,961	$ 1,918
Total Guaranteed Loans Disbursed	$ 1,961	$ 1,918

Note 6 – Direct Loans and Loan Guarantees: Non-Federal Borrowers, Continued

Guaranteed Loans Outstanding

Table 19 contains the outstanding principal guaranteed as of September 30, 2018. This represents the outstanding principal, at face value and guaranteed amounts owed by foreign financial institutions to exporters or assignee U.S. financial institutions participating in the program.

Table 19: Guaranteed Loans Outstanding

	(In Millions)	
Loan Guarantee Programs	Outstanding Principal, Face Value	Outstanding Principal, Guaranteed
Export Credit Guarantee Program	$ 1,877	$ 1,840
Total Guaranteed Loans Outstanding	$ 1,877	$ 1,840

Loan Guarantee Liability

The liability for loan guarantees is the present value of expected net cash outflows due to the loan guarantees in the GSM program which includes the estimated cash flows of payments by CCC to cover defaults and delinquencies, interest subsidies, payments to CCC including origination and other fees, penalties, and recoveries, including the effects of any expected actions by CCC.

As of September 30, 2018, Loan Guarantee Liability (Present Value Method) was as follows:

Table 20: Loan Guarantee Liability (Present Value Method for Post-1991 Guarantees)

	(In Millions)
Loan Guarantee Programs	Loan Guarantee Liability, Present Value
Export Credit Guarantee Programs	$ 4
Total Loan Guarantee Liability	$ 4

Note 6 – Direct Loans and Loan Guarantees: Non-Federal Borrowers, Continued

Subsidy Expense

Total direct loan subsidy expense is a combination of subsidy expense for new direct loans disbursed in the current fiscal year, modifications to existing loans, and technical and interest rate reestimates to existing loans. Subsidy reestimates are calculated on cumulative disbursements for all budget fiscal years and the respective cohorts (direct loan origination year) that comprise them. There were no additional direct food aid credit agreements made after fiscal year 2006. Subsidy expenses related to direct loans, net of fees and other collections, and subsidy reestimates for the fiscal year ended September 30, 2018, are shown below.

Table 21: Subsidy Expense for Direct Loans by Program and Component

(In Millions)

Direct Loan Programs	Interest Differential	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total Subsidy Expense
P.L. 480 Title 1	$ -	$ -	$ (2)	$ (2)	$ (2)
Defaulted Export Credit Guarantee	-	-	(17)	(17)	(17)
Farm Storage Facility	(2)	2	23	25	23
Boll Weevil Program	-	1	-	1	1
Total Direct Loan Subsidy Expense	$ (2)	$ 3	$ 4	$ 7	$ 5

Subsidy expenses related to credit guarantees, net of fees and other collections, and subsidy reestimates for the fiscal year ended September 30, 2018, are shown in Table 22: Subsidy Expense for Loan Guarantees by Program and Component below. Subsidy reestimates are calculated on cumulative disbursements for each cohort.

Note 6 – Direct Loans and Loan Guarantees: Non-Federal Borrowers, Continued

Table 22: Subsidy Expense for Loan Guarantees by Program and Component

(In Millions)

Loan Guarantee Programs	Fees and Other Collections	Other	Subtotal	Technical Reestimates	Total Reestimates	Total Subsidy Expense
Export Credit Guarantee Programs	$ 10	$ (3)	$ 7	$ (7)	$ (7)	$ -
Total Loan Guarantees Subsidy Expense	$ 10	$ (3)	$ 7	$ (7)	$ (7)	$ -

Subsidy Rates

Subsidy rates are used to compute each year's subsidy expenses as disclosed below. The subsidy rates disclosed in Table 23: Subsidy Rates for Direct Loans by Program and Component and Table 24: Subsidy Rates for Loan Guarantees by Program and Component pertain only to fiscal year 2018. These rates cannot be applied to the direct credits and loans and guaranteed loans disbursed during the current reporting year to yield the subsidy expense. The subsidy expense for new loans reported in fiscal year 2018 could result from disbursements of loans from both the current year and prior year cohorts. The subsidy expense reported in fiscal year 2018 also includes reestimates. For the fiscal year ended September 30, 2018, there were no new loans for P.L. 480, and thus, no subsidy rate was provided. The Apple and Boll Weevil Loan Programs were one-year programs, both in cohort 2001. Both of these loan programs continue to receive repayments.

Subsidy rates (percentage) for direct loans were as follows:

Table 23: Subsidy Rates for Direct Loans by Program and Component

Direct Loan Programs	Interest Differential	Defaults	Fees and Other Collections	Other	Total
Farm Storage Facility	(0.97%)	0.02%	(0.27%)	(0.05%)	(1.27%)
Farm Storage Microloans	(0.97%)	0.02%	(0.27%)	(0.05%)	(1.27%)
Sugar Storage Facility	(2.37%)	0.03%	-	-	(2.35%)

Note 6 – Direct Loans and Loan Guarantees: Non-Federal Borrowers, Continued

Subsidy rates (percentage) for credit guarantee programs were as follows:

Table 24: Subsidy Rates for Loan Guarantees by Program and Component

Guaranteed Loan Programs	Defaults	Fees and Other Collections	Total
GSM-102	0.32%	(0.51%)	(0.19%)
Export Credit Guarantee Programs	0.71%	(3.57%)	(2.86%)

Schedule for Reconciliation

Subsidy Allowance in Table 25: Subsidy Cost Allowance Balances Direct Loans includes subsidy for both direct loans and loans receivable derived from those defaulted guaranteed loans as of September 30, 2018.

Table 25: Subsidy Cost Allowance Balances Direct Loans

	(In Millions)
Beginning Balance of the Subsidy Cost Allowance	$ 383
Add: Subsidy expense for direct loans disbursed during the year by component	
Interest Rate Differential Costs	(2)
Total Subsidy Expense prior to Adjustments and Reestimates	(2)
Adjustments:	
Loans Written Off	$ (2)
Subsidy Allowance Amortization	(14)
Accruals - Default Reestimates	(12)
Other	3
Total Subsidy Cost Allowance before Reestimates	$ 356
Add or Subtract Reestimates by Component:	
Interest Rate Reestimate	$ 3
Technical/Default Reestimate	4
Total Reestimates	$ 7
Ending Balance of the Subsidy Cost Allowance	$ 363

Note 6 – Direct Loans and Loan Guarantees: Non-Federal Borrowers, Continued

The change in the liability for credit guarantees as of September 30, 2018 was as follows:

Table 26: Schedule for Reconciling Loan Guarantee Liability

	(In Millions)
Beginning balance of the loan guarantee liability	$ 13
Add: Subsidy expense for guaranteed loans disbursed during the year by component	
Fees and other collections	10
Other subsidy costs	(3)
Total of the above subsidy expense components	$ 7
Adjustments:	
Other	$ (9)
Ending balance of the Loan Guarantee Liability before reestimates	$ 11
Add or Subtract reestimates by component:	
Technical/default reestimate	$ (7)
Total of the above reestimate components	$ (7)
Ending balance of the loan guarantee liability	$ 4

Note 6 – Direct Loans and Loan Guarantees: Non-Federal Borrowers, Continued

Loan Modifications and Rescheduling

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 foreign 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. Rescheduling agreements, whereby loan terms are changed, allow CCC to add uncollected interest to the principal balance of foreign credit and other receivables (capitalized interest). 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.

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

In fiscal year 2018, CCC received guidance from OMB to not perform reestimates on the Debt Reduction Fund. The reestimates completed in fiscal year 2017 were reversed in fiscal year 2018. CCC developed an alternate method to calculate the estimated net present value for the outstanding Debt Reduction Fund portfolio by repurposing the P.L. 480 cash flow model due to portfolio similarities as majority of the debt reduction loans were once P.L. 480 loans.

The Farm Storage model was modified during fiscal year 2018 to allow for an econometric update. The GSM and P.L. 480 models were not updated.

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.

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. Upward reestimates which indicate an increase in the subsidy cost are financed by permanent indefinite authority.

Note 6 – Direct Loans and Loan Guarantees: Non-Federal Borrowers, Continued

P.L. 480 Title I Direct Credit

The total reestimate for P.L. 480 program is a net downward of $2.1 million, consisting of $2.5 million upward and $4.6 million downward. Interest on the reestimate had a large impact on the reestimate, comprising $2.1 million of the upward reestimate and $3.3 million of the downward reestimate. Changes in defaults and recoveries drove the biggest changes in all cohorts, as well as changes in macroeconomic factors. Refer to Table 21: Subsidy Expense for Direct Loans by Program and Component for a summary on the direct loan reestimates.

Farm Storage Facility Loans

The total reestimate for FSFL program is a net upward of $25.5 million, consisting of $26.3 million upward and $0.8 million downward. There were upward reestimates of $1.7 million to $5.8 million in each of the cohorts between 2010 and 2015, and $2.3 million in cohort 2017. There was a downward reestimate of $0.8 million in the most recent 2018 cohort. Refer to Table 21: Subsidy Expense for Direct Loans by Program and Component for a summary on the direct loan reestimates.

Fiscal year 2018, when compared to previous fiscal years, had a historically high rate of prepayments. Principal prepayments accounted for 33 percent of total principal payments in fiscal year 2018 compared to a historical average of 16 percent over the previous three fiscal years.

Export Credit Guarantees

The total reestimate for GSM-102 program is a net downward of $7.6 million, consisting of $0.5 million upward and $8.1 million downward. The two most recent cohorts, 2017 and 2018, account for 87 percent of the total downward reestimate. The downward reestimate for the 2017 and 2018 cohorts are primarily caused by the differences between prior year projections and actual fiscal year 2018 loan performance. Because there were no fiscal year 2018 defaults or recoveries in the 2017 cohort, default claims paid net of recoveries in fiscal year 2018 were $0, compared to the $2.7 million forecasted in the fiscal year 2017 reestimate. Actual commitments in the 2018 cohort were $3.1 billion (62 percent) lower than the commitment assumptions used for 2018 budget execution. As a result, forecasted default claims decreased by $30.8 million (84.6 percent), forecasted recoveries decreased by $23.0 million (93.1 percent), and upfront fees received decreased by $15.9 million (62.8 percent).

Note 6 – Direct Loans and Loan Guarantees: Non-Federal Borrowers, Continued

The total reestimate for Supplier Credit is a net downward of $16.1 million. A rescheduled agreement was added for Indonesia in fiscal year 2018. This led to an increase in forecasted rescheduled recoveries of $16.7 million. The increase in forecasted rescheduled recoveries led to the large downward reestimate in the 2004 cohort. Refer to Table 21: Subsidy Expense for Direct Loans by Program and Component and Table 22: Subsidy Expense for Loan Guarantees by Program and Component for a summary on the loan guarantee reestimates for defaulted and active guarantee loans, respectively.

Note 7 – Commodity Inventory and Related Property

Commodity inventory and related property as of September 30, 2018 (Values in Thousands) was as follows:

Table 27: Commodity Inventory and Related Property

		Beginning Inventory October 1, 2017		Acquisitions		Collateral Acquired		Other Disposition, Addition, & Deduction		Donations		**Ending Inventory** September 30, 2018	
	Unit of Measure	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value
Dry Edible Beans	Cwt.	-	$ -	32	$ 897	-	$ -	-	$ -	(32)	$ (897)	-	$ -
Beans Total		**XXX**	**$ -**	**XXX**	**$ 897**	**XXX**	**$ -**	**XXX**	**$ -**	**XXX**	**$ (897)**	**XXX**	**$ -**
Corn Soya Blend	Pounds	4,444	$ 1,736	114,216	$ 38,656	-	$ -	28	$ 263	(106,569)	$ (36,489)	12,119	$ 4,166
Blended Foods Total		**XXX**	**$ 1,736**	**XXX**	**$ 38,656**	**XXX**	**$ -**	**XXX**	**$ 263**	**XXX**	**$ (36,489)**	**XXX**	**$ 4,166**
Miscellaneous	Cwt	-	$ -	-	$ 4,463	-	$ -	-	$ -	-	$ (3,992)	-	$ 471
CCC Total		**XXX**	**$ -**	**XXX**	**$ 4,463**	**XXX**	**$ -**	**XXX**	**$ -**	**XXX**	**$ (3,992)**	**XXX**	**$ 471**
Dry Whole Peas	Cwt.	241	$ 6,748	2,918	$ 64,335	-	$ -	-	$ (182)	(2,911)	$ (65,425)	248	$ 5,476
Lentils Dry	Cwt.	11	356	395	10,415	-	-	-	(54)	(406)	(10,717)	-	-
Dry Whole Peas Total		**XXX**	**$ 7,104**	**XXX**	**$ 74,750**	**XXX**	**$ -**	**XXX**	**$ (236)**	**XXX**	**$ (76,142)**	**XXX**	**$ 5,476**
Corn Meal	Pounds	2,998	$ 871	32,706	$ 6,872	-	$ -	5	$ (288)	(33,537)	$ (6,913)	2,172	$ 542
Grain Sorghum	Bushels	221	2,015	12,014	60,934	-	-	-	3	(11,839)	(60,075)	396	2,877
Feed Grains Total		**XXX**	**$ 2,886**	**XXX**	**$ 67,806**	**XXX**	**$ -**	**XXX**	**$ (285)**	**XXX**	**$ (66,988)**	**XXX**	**$ 3,419**
Peanut Butter	Pounds	-	$ -	-	$ -	-	$ -	12,150	$ 12,985	(12,150)	$ (12,985)	-	$ -
Peanuts	Pounds	55,593	9,678	-	-	155,852	27,970	(78,493)	(13,610)	-	-	132,952	24,038
Peanut Total		**XXX**	**$ 9,678**	**XXX**	**$ -**	**XXX**	**$ 27,970**	**XXX**	**$ (625)**	**XXX**	**$ (12,985)**	**XXX**	**$ 24,038**
Milled Head Rice	Cwt.	11	$ 248	448	$ 9,934	-	$ -	-	$ (42)	(459)	$ (10,140)	-	$ -
Rice Total		**XXX**	**$ 248**	**XXX**	**$ 9,934**	**XXX**	**$ -**	**XXX**	**$ (42)**	**XXX**	**$ (10,140)**	**XXX**	**$ -**
Soybean Meal	Pounds	-	$ -	67,682	$ 14,464	-	$ -	-	$ -	(67,682)	$ (14,464)	-	$ -
Soybeans	Bushels	-	-	132	2,322	-	-	-	-	(132)	(2,322)	-	-
Soybean Total		**XXX**	**$ -**	**XXX**	**$ 16,786**	**XXX**	**$ -**	**XXX**	**$ -**	**XXX**	**$ (16,786)**	**XXX**	**$ -**
Vegetable Oil	Pounds	20,683	$ 13,152	259,162	$ 126,721	-	$ -	-	$ (980)	(265,017)	$ (130,430)	14,828	$ 8,463
Vegetable Oil Products Total		**XXX**	**$ 13,152**	**XXX**	**$ 126,721**	**XXX**	**$ -**	**XXX**	**$ (980)**	**XXX**	**$ (130,430)**	**XXX**	**$ 8,463**
Flour	Pounds	-	$ -	13,291	$ 3,020	-	$ -	2	$ -	(13,293)	$ (3,020)	-	$ -
Wheat	Bushels	17	50	22,264	172,150	28	70	(40)	(106)	(22,264)	(172,150)	5	14
Wheat Total		**XXX**	**$ 50**	**XXX**	**$ 175,170**	**XXX**	**$ 70**	**XXX**	**$ (106)**	**XXX**	**$ (175,170)**	**XXX**	**$ 14**
Total Commodities		**XXX**	**$ 34,854**	**XXX**	**$ 515,183**	**XXX**	**$ 28,040**	**XXX**	**$ (2,011)**	**XXX**	**$ (530,019)**	**XXX**	**$ 46,047**
Commodity Inventory and Related Property													**$ 46,047**

Note: Due to distinct units of measure, Quantity totals are not tabulated, and are denoted as xxx.

Note 7 – Commodity Inventory and Related Property, Continued

Inventory purchases are initially recorded at acquisition cost, including transportation, plus processing and packaging costs incurred after acquisition. Acquisition cost for loan forfeitures is the amount of the loan settlement, excluding interest. The commodity is revalued in the balance sheet at year-end at the lower of cost or the net realizable value in accordance with SFFAS No. 3.

Commodity inventory is not held in reserve for future sale. All commodity inventory on hand at year-end is anticipated to be donated or transferred during the next fiscal year. CCC has no excess, obsolete or unserviceable inventory.

Generally, disposition costs are based on the average cost of the commodity in inventory at the end of the previous month. In certain 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 by CCC and must be immediately exchanged for a commodity owned by the Corporation.

Note 8 – General Property and Equipment, Net

General Property and Equipment as of September 30, 2018, were as follows:

Table 28: General Property and Equipment

	(In Millions)		
	Acquisition Value	Accumulated Depreciation	Net Book Value
Equipment	$ 9	$ (9)	$ -
Capitalized Software Costs	97	(97)	-
Total General Property and Equipment	$ 106	$ (106)	$ -

CCC disposed of $46 million of fully depreciated equipment and capitalized software during fiscal year 2018. As of September 30, 2018, CCC's property and equipment was fully depreciated and software costs were fully amortized.

Note 9 – Advances to Others

Advances to Others as of September 30, 2018, were as follows:

Table 29: Advances to Others

	(In Millions)
Public:	
The Peanut Designated Marketing Association Advance	$ 68
Biofuel Infrastructure Grantees	15
Various Grantees, via USAID	7
Total Advances to Others	$ 90

The programs contributing to the majority of the Advances to Others (Public) include:

The Peanut Designated Marketing Association (DMA) Advance

CCC advances funds to the DMA for each peanut marketing season for the purpose of providing peanut MALs and LDPs. During the marketing season, as the need for drawdown funds diminish, excess funds are reimbursed to CCC. At the end of the marketing season, the DMA reimburses CCC for any remaining fund advances.

Note 9 – Advances to Others, continued

Biofuel Infrastructure Grantees

To create new markets for U.S. farmers and ranchers, help Americans save money on their energy bills, support America's clean energy economy, cut carbon pollution, and reduce dependence on foreign oil and costly fossil fuels, USDA continues to aggressively pursue investments in American-grown renewable energy. As part of that commitment, USDA partnered with 21 states by providing one-to-one matching funds, through the Biofuel Infrastructure Partnership (BIP), to install nearly 5,000 pumps offering higher blends of ethanol nationwide. Through BIP, USDA is testing innovative ways to distribute higher blends of renewable fuel. As of September 30, 2018, CCC's advance related to the BIP program was $15 million.

Various Grantees, via USAID

The USAID program covers transportation-related costs in accordance with P.L. 480 under the authority of the Secretary of Agriculture. The FFP Title II program provides emergency and non-emergency food assistance to other countries. Advances occur when funds are disbursed to a grantee providing transportation services for commodities being delivered prior to the submittal of the expenses. As of September 30, 2018, CCC's advance related to the FFP Title II program was $7 million.

Note 10 – Liabilities Not Covered by Budgetary Resources

Liabilities not Covered by Budgetary Resources (Current) as of September 30, 2018 were as follows:

Table 30: Total Liabilities

	(In Millions)
Public:	
Environmental and Disposal Liabilities (Note 14)	$ 21
Total Liabilities not covered by budgetary resources	$ 21
Total Liabilities covered by budgetary resources	16,665
Total Liabilities not requiring budgetary resources	37
Total Liabilities	$ 16,723

Note 10 – Liabilities Not Covered by Budgetary Resources, continued

Liabilities not Covered by Budgetary Resources

Unfunded liabilities are not covered by budgetary resources or offsetting collections. An OMB apportionment and/or collection of cash is needed to provide budgetary resources and allow payment of the liability in a future period.

Liabilities Covered by Budgetary Resources

Funded liabilities are payables and accruals for which CCC has not yet paid as of the end of the fiscal year. As of September 30, 2018, the majority of the open liability for CCC was $10.7 billion in payables for principal due to the Bureau of Fiscal Service, $5.0 billion in program liabilities, and $827 million in pre-credit reform liabilities payable to Treasury.

Liabilities not Requiring Budgetary Resources

Liabilities not requiring budgetary resources are liabilities that have not in the past required and will not in the future require the use of budgetary resources, e.g., liabilities for clearing accounts, non-fiduciary deposit funds, custodial collections, and unearned revenue.

Note 11 – Debt to the Treasury

Debt to the Treasury, categorized as interest bearing as of September 30, 2018 was as follows:

Table 31: Debt to the Treasury, Categorized as Interest Bearing

	(In Millions)		
	Non-Credit Reform	Credit Reform	Total
Debt, beginning of Fiscal Year			
Principal	$ 8,150	$ 1,800	$ 9,950
Accrued Interest Payable	-	-	-
Total Debt Outstanding, Beginning of Fiscal Year	$ 8,150	$ 1,800	$ 9,950
New Debt			
Principal	$ 2,882,164	$ 372	$ 2,882,536
Accrued Interest Payable	164	70	234
Total New Debt	$ 2,882,328	$ 442	$ 2,882,770
Repayments			
Principal	$ (2,881,387)	$ (453)	$ (2,881,840)
Accrued Interest Payable	(163)	(70)	(233)
Total Repayments	$ (2,881,550)	$ (523)	$ (2,882,073)
Debt, as of September 30			
Principal	$ 8,927	$ 1,719	$ 10,646
Accrued Interest Payable	1	-	1
Total Debt Outstanding as of September 30	$ 8,928	$ 1,719	$ 10,647

Non-Credit Reform

CCC has permanent indefinite borrowing authority up to $30 billion that is used by a revolving fund to finance most of its programs. CCC borrows and repays on a daily basis, and may borrow, interest-free, up to the amount of the prior year unreimbursed realized losses until reimbursed. Monthly interest rates on borrowing authority fluctuated between 1.250% and 2.375% during fiscal year 2018.

Non-credit reform borrowing is tied to the one-year Department of the Treasury borrowing rate which is in effect on the date that a borrowing occurs. The Department of the Treasury's one-year rate, which is subject to change from month to month, is certified monthly by the Department of the Treasury in their notification to CCC. The Department of the Treasury's one-year loan rate is based upon the average market yields of the preceding 30 days at the time the Department of the Treasury issues certification of the subsequent monthly rate.

Note 11 – Debt to the Treasury, continued

Credit Reform

CCC also 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. CCC borrows from the Department of the 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. The effective date for borrowings is October 1 using a mid-year convention. 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 annually on these borrowings based on weighted average interest rates for the cohort to which the borrowings are associated.

The fiscal year 2018 interest rates on long-term borrowings under the permanent indefinite borrowing authority for CCC's credit reform programs are calculated using the OMB CSC. For 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.

Interest on borrowings from the Department of the Treasury 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 approximately $2 million in interest expense on capital stock for fiscal year 2018, which is separate from the interest expense on the Department of the Treasury borrowings.

Note 12 – Grants Payable

Essentially all CCC grants are funded through the parent/child relationship with USAID. In most instances, grantees incur expenditures before drawing down funds on a reimbursement basis. An accrued grant liability occurs when the grant expenses exceed outstanding payments to grantees.

At year-end, CCC reports both actual payments made through September 30, 2018, and an unreported grant expenditure estimate (accrual) based on historical spending patterns of the grantees. As of September 30, 2018, CCC had $208 million in grants payable.

Note 13 – Other Liabilities

Other Liabilities (Current) as of September 30, 2018, were as follows:

Table 32: Other Liabilities

		(In Millions)
Intragovernmental:		
Resources Payable to Treasury: P.L. 480	$	827
Excess Subsidy Payable to Treasury		30
Other		4
Total Intragovernmental Other Liabilities	$	861
Public:		
Deposit and Trust Liabilities	$	14
Other		18
Total Public Other Liabilities	$	32

Resources Payable to the Department of the Treasury represents CCC's liquidating fund and debt reduction fund assets (cash and loans receivable, net of an allowance) less any liabilities that may be held as working capital. These funds collect loan payments and pay any related expenses. At the end of each fiscal year, any unobligated cash balance is transferred to the Department of the Treasury.

The Excess Subsidy Payable to the Department of the Treasury is the downward reestimate owed to the Department of the Treasury from the financing 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 Department of the Treasury General Fund Receipt Account.

Deposit and Trust Liabilities are amounts advanced to or deposited with CCC on behalf of other entities. The balance, all categorized as public, 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 14 – Environmental and Disposal Liabilities

From the late 1930’s until the mid-1970’s, the Corporation operated approximately 4,500 grain storage facilities in the U.S. as part of USDA’s price support program for American farmers. The facilities were privately owned and leased by CCC primarily in Midwestern States where the majority of the grain production was high and access to commercial storage facilities was limited. Because much of the grain was stored for extended periods of time, it was periodically necessary to fumigate the grain in order to control destructive insects. The fumigant mixture most commonly used contained the chlorinated solvent carbon tetrachloride. The fumigant was the accepted industry standard at that time for stored grain. Carbon tetrachloride was used as a pesticide for the stored grain until it was banned by the Environmental Protection Agency (EPA) in 1985 as a potential human carcinogen.

In 1988 the first discovery of ground water contaminated with carbon tetrachloride in the vicinity of a CCC grain storage facility was made. Since then, CCC, in coordination with the EPA and the respective states, have been engaged in an active program to identify affected sites and respond with appropriate action to safeguard public health and protect the environment. In addition to addressing the contaminated sites initially identified, CCC funded and conducted a private well-sampling program at more than 600 former CCC grain storage facilities in Missouri, Kansas, and Nebraska. This sampling program identified numerous sites where some level of carbon tetrachloride contamination was present. The total number of CCC sites where some level of contamination was present is 83 known locations, of which 36 have been either remediated, are undergoing active remediation, or require no further action.

Addressing these formerly leased grain storage facility sites, most of which are located on private property, has been the focus of CCC’s hazardous waste cleanup program to date. Many of these former CCC sites have ground water contamination above the federal drinking water standard. EPA and state regulators continue to conduct soil and water sampling to identify any additional contaminated CCC sites that may pose a potential threat to public health or have contaminant levels that exceed natural resource degradation standards. Based on the due diligence procedures performed to date, in partnership with EPA and State Agencies, CCC determined that there are few, if any, sites which are not reported by CCC as of September 30, 2018.

Note 14 – Environmental and Disposal Liabilities, Continued

Site investigations are conducted to determine CCC's level of liability related to the contamination. Site investigation programs involve the review of existing documentation, development and implementation of sampling plans, installation of monitoring wells and sample points, contaminant distribution modeling, dynamic risk assessment, and remedial alternatives analysis. Additional costs are often incurred during negotiations with regulatory agencies regarding a selected remedy. Remedial activities can range from the design and implementation of a monitoring system to the engineering design, construction, and operation and maintenance of a groundwater extraction and treatment system. CCC makes every effort to develop rational and defensible remedial options and alternatives that are cost effective while protecting public health and the environment.

Funding requests and expected liabilities tied to these activities are based on anticipated site investigation and/or potential remedial action including construction of treatment systems. A portion of the requested funding is also required to support ongoing operations and maintenance activity at existing sites where remedial actions are ongoing and any additional sites identified where remedial activity is in the planning stages. CCC uses operations and maintenance funding, to support groundwater monitoring programs already in place or being developed in support of anticipated remedial actions. The funding is used for an intragovernmental agreement with the Department of Energy to establish reimbursable agreements to do analysis, implementation and operations and maintenance of existing systems. There are currently several sites where CCC is conducting active monitoring programs where investigations have been completed or remedial action is ongoing or likely. These monitoring programs are being conducted as directed by State regulatory agencies or the U.S. EPA.

Liability estimates are derived using a system that categorizes the existing sites. The funding requests and expected associated liabilities are based on the specific categories described below, with site counts as of September 30, 2018:

• Category I represents 8 CCC sites where there is least uncertainty regarding the pending action and associated costs. The upper bound estimates reflect the highest estimated cost that could be incurred to remediate the site to acceptable standards.

• Category II are 23 sites where CCC has conducted at least a limited site investigation and the liability associated with these sites has been evaluated assuming remedial action will be required. A range of values has been determined and is used to

Note 14 – Environmental and Disposal Liabilities, Continued

reflect a range of potential costs. Cost figures are based on program experience and typical treatment system designs. The costs identified as “low” are assumed to employ a natural migration/monitoring design. The costs identified as “high” represent a treatment system designed to actively remove or attenuate the contaminant.

• Category III represents 25 sites where contamination levels above the maximum allowable levels have been found. CCC has not conducted a site characterization at these sites. The costs are estimated using a range of values. The "low" value represents the cost of a limited data evaluation. The “high” values represent a thorough site characterization to include a feasibility study and some degree of remedial action.

CCC recorded a total liability for remediation of affected sites of $20.9 million in fiscal year 2018, of which $20.7 million was not covered by budgetary resources. CCC estimates the range of potential future losses due to remedial actions to be between $20.9 million and $144.8 million.

Note 15 – Accrued Liabilities

Accrued Liabilities (Public) as of September 30, 2018, were as follows:

Table 33: Accrued Liabilities

	(In Millions)
Conservation Reserve Program	$ 1,845
Income Support Programs:	
Agriculture Risk Coverage Program	1,063
Price Loss Coverage Program	1,893
Other Income Support Programs	20
Other Programs	8
Total Accrued Liabilities	$ 4,829

The CRP accrued liability consists of annual rental payments estimated on approved contracts, expected to be paid in fiscal year 2019. The ARC and PLC accruals consist of crop year 2017 program payments which began in October 2018 and continue throughout fiscal year 2019, as price and yield data are finalized.

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.

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 USDA OGC and Department of Justice.

As of September 30, 2018, no pending legal matters exist that were considered probable or reasonably possible, which require recognition (accrual) in the financial statements or require further disclosure.

Note 17 – Disclosures Related to the Statement of Net Cost

The Statement of Net Cost presents costs and associated earned revenues in alignment with CCC's strategic goals, stated below:

Provide a Financial Safety Net for Farmers and Ranchers

Under this strategic goal, program areas include Income Support and Disaster Assistance. CCC provides 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, DAP, and NAP. FSA administers CCC income support and DAP, the largest of which are ARC and PLC, with nearly 1.7 million farms enrolled, and are USDA's primary farm safety net programs.

Increase Stewardship of Natural Resources While Enhancing the Environment

The program under this strategic goal is Conservation. Supported by the *Food, Conservation, and Energy Act of 2008* (2008 Farm Bill), and extended by the 2014 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

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

conservation incentive payments, technical assistance, and cost-share programs. FSA and NRCS administer CCC conservation programs.

Ensure Commodities are Procured and Distributed Effectively and Efficiently

Under this strategic goal, program areas include Commodity Operations and Food Aid. AMS oversees the procurement, acquisition, storage, disposition, and distribution of commodities, and the administration of 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. FAS administers the Food for Progress Program, which provides food aid to countries that are emerging democracies and are committed to introducing and expanding free enterprise in the agricultural sector. Food aid addresses participating countries' hunger and helps to build longer term economic development that boosts trade opportunities for the United States and other countries.

Increase U.S. Food and Agricultural Exports

Under this strategic goal, program areas include Market Development and Export Credit.

Expanding markets for agricultural products are 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. CCC funds used in the market development programs play a critical role in helping to open new markets and in facilitating U.S. competitiveness, helping 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 CCC FMD programs.

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.

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

Earned Revenue

Revenue and expense are recognized based on SFFAS No. 7, *Accounting for Revenue and Other Financing Sources*. CCC follows SFFAS No. 7 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.

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

Table 34: Costs and Earned Revenue by Strategic Goal and Program

(Values in Millions)	Income Support and Disaster Assistance	Conservation Programs	Commodity Operations and Food Aid	Market Development and Export Credit	Total
Provide a Financial Safety Net for Farmers and Ranchers					
Total Cost	$ 4,989	$ -	$ 201	$ -	$ 5,190
Total Earned Revenue	124	-	-	-	124
Increase Stewardship of Natural Resources While Enhancing the Environment					
Total Cost	-	2,542	-	-	2,542
Total Earned Revenue	-	10	-	-	10
Ensure Commodities are Procured and Distributed Effectively and Efficiently					
Total Cost	46	-	95	135	276
Total Earned Revenue	23	-	3	-	26
Increase U.S. Food and Agricultural Exports					
Total Cost	-	-	-	1,836	1,836
Total Earned Revenue	-	-	-	75	75
Total Gross Cost	**$ 5,035**	**$ 2,542**	**$ 296**	**$ 1,971**	**$ 9,844**
Less: Total Earned Revenue	**147**	**10**	**3**	**75**	**235**
Net Cost of Operations	**$ 4,888**	**$ 2,532**	**$ 293**	**$ 1,896**	**$ 9,609**

Note 18 – Disclosures Related to the Statement of Budgetary Resources

The SBR is a combined statement that provides information about how budgetary resources were made available, as well as their status at the end of the year.

Terms of Borrowing Authority Used

Per the CCC Charter Act, 15 U.S.C. 714, the Corporation's borrowing authority is made up of both interest and non-interest-bearing notes. These notes are drawn upon on a daily basis when disbursements exceed deposits, as reported by the FRB, their branches, Department of 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 financing instruments in an aggregate amount not to exceed $30 billion. CCC's indefinite borrowing authority has a term of one year. Refer to Note 11: Debt to the Treasury for additional information related to CCC's terms of borrowing and repayment.

Available Borrowing Authority

As of September 30, 2018, CCC had available borrowing authority of $18.3 billion.

Apportionment Categories of New Obligations and Upward Adjustments

Obligations can either be categorized as direct or reimbursable. Direct obligations are not financed from reimbursements while reimbursable obligations are financed by offsetting collections that are payments to the performing account for goods and services provided to the ordering entity. For the fiscal year ended September 30, 2018, there were obligations incurred under apportionment category B, which is funded annually, and apportionment category E, which is exempt from apportionment. They were as follows:

Table 35: Direct and Reimbursable New Obligations and Upward Adjustments

	(In Millions)		
	Category B	Category E	Total Obligations
Direct	$ 7,148	$ 7,581	$ 14,729
Reimbursable	-	1	1
Total Obligations	$ 7,148	$ 7,582	$ 14,730

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

Undelivered Orders

UDOs, either unpaid or paid, are purchase orders or contracts awarded for which goods or services have not yet been received. For the fiscal year ended September 30, 2018 ending UDO balances were as follows:

Table 36: Undelivered Orders at the End of the Period

	(In Millions)		
	Intragovernmental	Public	Total Undelivered Orders
Paid	$ -	$ 90	$ 90
Unpaid	91	15,311	15,402
Total Undelivered Orders	$ 91	$ 15,401	$ 15,492

Permanent Indefinite Appropriations

CCC has a permanent indefinite borrowing authority, as defined by OMB Circular A-11. A permanent indefinite 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 *ADA*. 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 to borrow funds to liquidate the obligations. CCC borrowing cannot exceed the lesser of the amount required to liquidate the obligations incurred or $30 billion.

Legal Arrangements Affecting the Use of Unobligated Balances

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.

Note 19 – Custodial Activity

CCC's custodial activities involve the collection and transfer of funds received from the public on behalf of the Department of the 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 the Department of the Treasury and other USDA agencies. These are not part of CCC budget authority.

Custodial Activities for the fiscal year ended September 30, 2018, were as follows:

Table 37: Custodial Activities

	(In Millions)
Revenue Activity:	
Sources of Cash Collections:	
Administrative and Other Service Fees	$ 2
Total Cash Collections	$ 2
Total Custodial Revenue	$ 2
Disposition of Collections:	
Transfers to Others:	
Department of Treasury	(4)
Total Disposition of Collections	$ (4)
(Increase)/Decrease in Amounts Yet to be Transferred (+/-)	$ 2
Net Custodial Activity	$ -

Note 20 – Budget and Accrual Reconciliation

SFFAS 53, *Budget and Accrual Reconciliation* (BAR), amends requirements for a reconciliation between budgetary and financial accounting information established by SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*. The BAR explains the relationship between the entity's net outlays on a budgetary basis and the net cost of operations during the reporting period. SFFAS 53 is effective for fiscal year 2019, but early implementation is permitted. USDA and CCC chose to adopt the new format for fiscal year 2018.

Budgetary and financial accounting information are complementary, but both the types of information and the timing of their recognition are different. Budgetary accounting is used for planning and control purposes and relates to both the receipt and use of cash, as well as reporting the federal deficit. Financial accounting is intended to provide a picture of the government's financial operations and financial position so it presents information on an accrual basis. The accrual basis includes information about costs arising from the consumption of assets and the incurrence of liabilities.

The reconciliation of net outlays, presented on a budgetary basis, and the net cost, presented on an accrual basis, provides an explanation of the relationship between budgetary and financial accounting information. The reconciliation serves not only to identify costs paid for in the past and those that will be paid in the future, but also to assure integrity between budgetary and financial accounting.

The analysis below illustrates this reconciliation by listing the key differences between net cost and net outlays:

- The activity in accrued liabilities is primarily attributed to ARC and PLC programs. ARC program experienced a decrease in participation due to higher crop yields resulting from favorable weather conditions. PLC payments decreased because of higher prices for wheat and peanuts due to strong global demand. See Note 15: Accrued Liabilities for more details.

- Imputed financing consists of the costs of labor and facilities usage incurred by other USDA agencies for work on CCC programs. See Note 1: Significant Accounting Policies for further details.

Note 20 – Budget and Accrual Reconciliation, Continued

The BAR for the fiscal year ended September 30, 2018 was as follows:

Table 38: Budget and Accrual Reconciliation

	(In Millions) Intragovernmental	With the public	Total
NET COST	$ 1,588	$ 8,021	$ 9,609
Components of Net Cost That Are Not Part of Net Outlays:			
Year end credit reform subsidy reestimates	$ 159	$ -	$ 159
Increase/(decrease) in assets:			
Accounts receivable	(31)	(30)	(61)
Commodity loans and direct loans and loan guarantees	-	(146)	(146)
Other assets	-	13	13
(Increase)/decrease in liabilities:			
Accounts payable	(3)	(47)	(50)
Loan guarantee liabilities	-	9	9
Accrued liabilities	3	4,062	4,065
Other liabilities	-	11	11
Other financing sources:			
Imputed financing	(1,291)	-	(1,291)
Total Components of Net Cost That Are Not Part of Net Outlays	$ (1,163)	$ 3,872	$ 2,709
Components of Net Outlays That Are Not Part of Net Cost:			
Acquisition of inventory	$ -	$ 11	$ 11
Transfers out (in) without reimbursement	(9)	-	(9)
Total Components of Net Outlays That Are Not Part of Net Cost	$ (9)	$ 11	$ 2
NET OUTLAYS	**$ 416**	**$ 11,904**	**$ 12,320**
RELATED AMOUNTS ON THE STATEMENT OF BUDGETARY RESOURCES:			
Outlays, net	$ 448	$ 11,904	$ 12,352
Distributed Offsetting Receipts	(32)	-	(32)
NET OUTLAYS	**$ 416**	**$ 11,904**	**$ 12,320**

Part IV: Required Supplementary Information (Unaudited)

Combining Statement of Budgetary Resources by Major Fund: Budgetary Accounts (Unaudited)
For the Fiscal Year Ended September 30, 2018
(In Millions)

	Line #	CCC Fund (12X4336)	P.L. 480 Title II Grants (12X2278)	USAID - P.L. 480 Title II Grants ((72)12X2278)	P.L. 480 Direct Credit Liquidating Fund (12X2274)	Other	Total
Budgetary Resources:							
Unobligated balance from prior year budget authority, net	1051	$ 2,827	$ 326	$ 87	$ -	$ 37	$ 3,277
Appropriations (discretionary and mandatory)	1290	15	266	1,450	-	84	1,815
Borrowing Authority (discretionary and mandatory)	1490	9,888	-	-	-	-	9,888
Spending authority from offsetting collections (discretionary and mandatory)	1890	15	-	-	31	-	46
Total Budgetary Resources	1910	$ 12,745	$ 592	$ 1,537	$ 31	$ 121	$ 15,026
Status of Budgetary Resources:							
New obligations and upward adjustments (total) (Note 18)	2190	$ 12,403	$ 446	$ 1,448	$ 1	$ 87	$ 14,385
Unobligated balance, end of year:							
Apportioned, unexpired account	2204	61	144	89	23	24	341
Unapportioned, unexpired accounts	2404	281	2	-	7	9	299
Unexpired unobligated balance, end of year	2412	342	146	89	30	33	640
Expired unobligated balance, end of year	2413	-	-	-	-	1	1
Total Unobligated balance, end of year	2490	342	146	89	30	34	641
Total Budgetary Resources	2500	$ 12,745	$ 592	$ 1,537	$ 31	$ 121	$ 15,026
Outlays, net:							
Outlays, net (discretionary and mandatory)	4190	$ 10,853	$ 451	$ 1,289	$ (233)	$ 82	$ 12,442
Distributed offsetting receipts	4200	-	-	-	-	(2)	(2)
Agency Outlays, net (discretionary and mandatory)	4210	$ 10,853	$ 451	$ 1,289	$ (233)	$ 80	$ 12,440

Combining Statement of Budgetary Resources by Major Fund: Non-Budgetary Credit Program Financing Accounts (Unaudited) For the Fiscal Year Ended September 30, 2018
(In Millions)

Page 2	Line #	P.L. 480 Direct Loans (12X4049)	EAI Financing Fund (12X4143)	CCC Export Guarantees (12X4337)	Farm Storage Facility Direct Loan (12X4158)	Total
Budgetary Resources:						
Unobligated balance from prior year budget authority, net	1051	$ 2	$ 51	$ 10	$ 12	$ 75
Borrowing Authority (discretionary and mandatory)	1490	59	-	-	281	340
Spending authority from offsetting collections (discretionary and mandatory)	1890	11	-	33	43	87
Total Budgetary Resources	1910	$ 72	$ 51	$ 43	$ 336	$ 502
Status of Budgetary Resources:						
New obligations and upward adjustments (total) (Note 18)	2190	$ 48	$ 2	$ 22	$ 273	$ 345
Unobligated balance, end of year:						
Apportioned, unexpired account	2204	21	10	10	33	74
Unapportioned, unexpired accounts	2404	3	39	11	30	83
Unexpired unobligated balance, end of year	2412	$ 24	$ 49	$ 21	$ 63	$ 157
Total Unobligated balance, end of year	2490	24	49	21	63	157
Total Budgetary Resources	2500	$ 72	$ 51	$ 43	$ 336	$ 502
Outlays, Net:						
Outlays, net (discretionary and mandatory)	4190	$ (75)	$ (13)	$ (36)	$ 34	$ (90)
Distributed offsetting receipts	4200	(16)	-	(8)	(5)	(30)
Agency Outlays, net (discretionary and mandatory)	4210	$ (91)	$ (13)	$ (44)	$ 29	$ (120)

Part V: Other Information (Unaudited)

Summary of Financial Statement Audit[6]

The table below is a summary of the results of the fiscal year 2018 independent audit of CCC's Financial Statement.

Audit Opinion					
Unmodified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending
Budgetary Transactions	1	0	0	0	1
Accounting Estimates	1	0	1*	0	0
Total Material Weakness	2	0	0	0	1

*Accounting Estimates weakness was downgraded to a significant deficiency in fiscal year 2018

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

Summary of Management Assurances[7]

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 FMFIA. The last portion of the table is a summary of CCC's compliance with FFMIA.

Federal Managers' Financial Integrity Act (FMFIA § 2)						
Statement of Assurance	Reasonable Assurance, except for Material Weaknesses noted below					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Fund Control Management	1			1		0
Financial Reporting	1		1			0
Accounting for Budgetary Transactions	1					1
Accounting Estimates	1				1	0
Maintenance of Accounting Record	1		1			0
Total Material Weaknesss	5	0	2	1	1	1

Effectiveness of Internal Control over Operations (FMFIA §2)						
Statement of Assurance	Reasonable Assurance					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
	0					0
Total Material Weaknesss	0	0	0	0	0	0

Compliance with Federal Financial Management System Requirements (FMFIA §4)						
Statement of Assurance	Federal Systems comply, except for instances of non-compliance, to financial management system requirements					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
System Non-compliance Funds Control Management	1					1
Total non-compliances	1	0	0	0	0	1

Compliance with Section 803(a) of the Federal Financial Management Improvement Act (FFMIA)		
	Agency	Auditor
1. Federal Financial Management System Requirements	No lack of compliance noted	No lack of compliance noted
2. Applicable Federal Accounting Standards	Lack of compliance noted	Lack of compliance noted
3. USSGL at Transaction level	Lack of compliance noted	Lack of compliance noted

[7] The Summary of Management Assurances is as of completion of the Annual Management Report.

Payment Integrity

The Improper Payments Information Act of 2002 (IPIA), as amended by the Improper Payments Elimination and Recovery Act of 2010 and the Improper Payments Elimination and Recovery Improvement Act of 2012, requires agencies to review programs susceptible to significant improper payments, report estimated improper payments and establish corrective actions to reduce improper payments. OMB provides guidance on measuring, reducing, recovering, and reporting improper payments through OMB Circular A-123, Appendix C, *Requirements for Payment Integrity Improvement* and OMB Circular A-136.

Additional information can be found in Section III of the USDA fiscal year 2018 Agency Financial Report. The following link contains more detailed information on improper payments and other information regarding improper payments not included in this report: https://paymentaccuracy.gov/.

Fiscal year 2018 operational guidance for all improper payment initiatives is anticipated to be received in late October or early November.

Table 39: Summary of Improper Payment Results

Programs	Total Outlays (Millions)		Improper Payments (Millions)		Improper Payments (Percentage)		Overpayments (Millions)	Underpayments (Millions)
	2017	2018	2017	2018	2017	2018	2018	2018
ARC/PLC	$ 5,314.00	$ 7,944.96	$ 38.60	$ 214.46	0.73%	2.73%	$ 214.46	$ -
LDP[1]	$ 171.72	NA	$ 2.92	NA	1.70%	NA	NA	NA
LFP	$ 457.31	$ 353.35	$ 14.34	$ 42.11	3.14%	11.92%	$ 41.65	$ 0.46
LIP[1]	$ 43.19	NA	$ 2.35	NA	5.44%	NA	NA	NA
NAP	$ 139.60	$ 162.98	$ 11.85	$ 26.64	8.49%	16.35%	$ 26.05	$ 0.59

[1] LIP and LDP are no longer considered high risk programs effective with the fiscal year 2018 IPIA reporting cycle, per approval by OMB.

Fraud Reduction Report

Overview

As required by OMB Circular A-123, USDA is in the process of implementing a Departmental-Level Enterprise Risk Management (ERM) program that effectively identifies risks; assesses, analyzes, and prioritizes those risks; and formulates and documents the risks. As a component agency of USDA, CCC is participating in that effort. The implementation of ERM has helped agencies to better identify risk and vulnerabilities and take appropriate action to reduce and prevent fraud. As the Department and CCC continue to implement the requirements of OMB Circular A-123, CCC will use agency best practices to identify and minimize risks and vulnerabilities to prevent fraud. Outlined below are specific actions CCC is taking to integrate fraud risk prevention and monitoring into the management of internal controls.

Risk Assessment

The OMB Circular A-123, Appendix A, *Management Reporting and Data Integrity Risk*, annual risk assessment incorporates specific internal and external fraud risk questions in the “Inherent Risk Considerations” section. The questions allow the respondent to rate the risk of the agency’s process as either highly susceptible, susceptible, or not susceptible to fraud. The overall risk rating is dependent on the agency’s responses, tallied along with other risk responses to determine the level and frequency of testing.

Additionally, as a requirement of the Statement on Auditing Standards No. 122, *Clarification and Recodification*, specifically Audit Section 240, Consideration of Fraud in a Financial Statement Audit, CCC reports responses to a fraud questionnaire to the Department.

Entity Level Controls

CCC completes an annual Entity Level Control (ELC) assessment. The ELC assessment was recently updated to comply with the most current GAO — *Standards for Internal Control in the Federal Government* (“Green Book”).

The assessment includes GAO Principle 8, which assesses fraud risk. Attributes include: types of fraud, fraud risk factors, and responses to fraud risks. Objectives include: identifying fraud risks based on fraud risk factors; assessing Identified fraud risks for significance; and properly responding to identified fraud risks.

Fraud Reduction Report, Continued

Access Controls

Access controls are configured such that conflicting accounting roles are prohibited, unless there is an immediate need that is fully documented, mitigated, and supported by compensating controls. There is a standard process for the review and approval of mitigating controls to ensure that control strategies are properly documented and carried out by the requesting agency.

Segregation of Duties (SOD)

Various CCC financial systems are configured such that conflicting roles are prohibited, which ensures proper SOD. Those who initiate a transaction in the financial systems are not allowed to also approve that same transaction. There are also financially significant, agency specific SOD controls that are documented and tested annually during the OMB Circular A-123, Appendix A assessment. The strict prohibition of conflicting roles reduces the risk of fraud.

Table 40: Agency Transactional Control Objectives to Reduce Fraud:

Process	Objective	Risk
Collections	Cash receipts are protected before they are deposited.	Cash receipts are not protected before they are deposited, which may result in fraudulent activity.
Credit Extension	Direct loan obligations recorded in the general ledger are valid, pertain to the purpose of the appropriation, and are supported by documentation.	Direct loan obligations recorded in the general ledger are not valid, do not pertain to the purpose of the appropriation, and are not supported by documentation.
Disbursements	Disbursements are valid and supported by sufficient and relevant documentation.	Disbursements are not valid and supported by sufficient and relevant documentation.
Grant Awards and Modifications	Grants are awarded to eligible recipients (includes Do Not Pay verification).	Grants are awarded to ineligible recipients (includes Do Not Pay verification).
Loss Claims	Loss Claims are for valid policy reinsurance year.	Unauthorized or incomplete Loss Claims may be paid.

Process	Objective	Risk
Payments — Farm Support	Recorded obligations and payments for CCC farm support programs are valid (made to only eligible farms/producers) and are approved/authorized by management.	Recorded obligations and payments for CCC farm support programs are not valid (made to ineligible farms/producers) and/or are not approved/authorized by management.

Summary of Federal Grant and Cooperative Agreement Awards

Pursuant to the GONE Act, the table below is a summary of CCC's total number of federal grant and cooperative agreement awards and balances for which closeout has not yet occurred but for which the period of performance has elapsed more than two years with zero balances and undisbursed balances.

Table 41: Summary of Federal Grant and Cooperative Agreement Awards and Balances

Category	2-3 Years	>3-5 Years	>5 Years
Number of Grants/Cooperative Agreements with Zero Dollar Balances	3	14	35
Number of Grants/Cooperative Agreements with Undisbursed Balances	0	6	10
Total Amount of Undisbursed Balances (In Dollars)	$0	$444,768	$900,822

The grants reflected in the table above are related to USAID's administration of P.L. 480, Title II, funds provided by CCC under the parent/child relationship with USAID. USAID reports that they are taking aggressive action to finalize, deobligate and close-out these old grants. During the fourth quarter of fiscal year 2018, a total of $3.9 million has been deobligated from expired awards.

Several grants are awaiting finalization of rates and final vouchers. USAID continues to work with their recipients in an effort to resolve any remaining issues, with a goal of closing these awards with undisbursed balances during fiscal year 2019. USAID anticipates closing all grants with zero balances as of September 30, 2018, during the 2019 fiscal year.

Challenges faced by USAID in the closeout of these old grants are related to receipt of final vouchers from recipients, administrative challenges related to finalizing rates, budget line item adjustment, and pending audits for the period of the award.

In fiscal year 2018, CCC has closed out all non-USAID grants that met the GONE Act criteria at the end of fiscal year 2017.

Appendix: Glossary of Acronyms

Glossary of Acronyms

ACRONYM	TITLE
ADA	Anti-Deficiency Act
AMS	Agricultural Marketing Service
ARC	Agriculture Risk Coverage
ARC-CO	Agriculture Risk Coverage - County
ASMI	Alaska Seafood Marketing Institute
BAR	Budget and Accrual Reconciliation
BCR	Benefit-Cost Ratio
BIP	Biofuel Infrastructure Partnership
CCC	Commodity Credit Corporation
CFO	Chief Financial Officer
CRP	Conservation Reserve Program
CSC	Credit Subsidy Calculator
DAP	Disaster Assistance Programs
DDG	Distiller's Dried Grains
DMA	Designated Marketing Association
ELAP	Assistance for Livestock, Honeybees, and Farm-Raised Fish
ELC	Entity Level Control
EPA	Environmental Protection Agency
ERM	Enterprise Risk Management

ACRONYM	TITLE
ERS	Economic Research Service
FASAB	Federal Accounting Standards Advisory Board
FAS	Foreign Agricultural Service
FCIC	Federal Crop Insurance Corporation
FCRA	Federal Credit Reform Act of 1990
FFP	Food for Peace
FFMIA	Federal Financial Management Improvement Act
FGP	Facility Guarantee Program
FMD	Foreign Market Development Program
FMFIA	Federal Managers' Financial Integrity Act
FMMI	Financial Management Modernization Initiative
FRB	Federal Reserve Bank
FSA	Farm Service Agency
FSFL	Farm Storage Facility Loan Program
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
GONE	Grants Oversight and New Efficiency Act
GSM	General Sales Manager

Glossary of Acronyms

ACRONYM	TITLE
IPIA	Improper Payments Information Act of 2002
LDP	Loan Deficiency Payment
LFP	Livestock Forage Disaster Program
LIP	Livestock Indemnity Program
MAL	Marketing Assistance Loan Program
MAP	Market Access Program
MPP	Margin Protection Program
MFP	Market Facilitation Program
NAP	Non-insured Crop Disaster Assistance Program
NRCS	Natural Resources Conservation Service
OGC	Office of the General Counsel
OI	Other Information
OIG	Office of the Inspector General
OMB	Office of Management and Budget
P&F Schedule	Program and Financing Schedule
P.L. 480	Agricultural Trade Development and Assistance Act of 1954

ACRONYM	TITLE
PLC	Price Loss Coverage
RSI	Required Supplementary Information
SBR	Statement of Budgetary Resources
SFFAS	Statement of Federal Financial Accounting Standards
SME	Small to Medium-Sized Enterprise
SOD	Segregation of Duties
SRTG	State Regional Trade Groups
SSFL	Sugar Storage Facility Loan
TAP	Tree Assistance Program
UDO	Undelivered Order
ULO	Unliquidated Obligations
USAID	United States Agency for International Development
USDA	United States Department of Agriculture
USSGL	United States Standard General Ledger
USWA	United States Warehouse Act
WCMD	Warehouse and Commodity Management Division

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