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BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

Review Of Financial Statements Of Commodity Credit Corporation

GAO has noted certain departures from generally accepted accounting principles in the financial statements of the Commodity Credit Corportation for the fiscal year ended September 30, 1980. Because of these departures and because its review was limited principally to inquiries of Corporation personnel and analytical procedures applied to financial data, GAO is expressing no opinion on the Corporation's financial statements.

The Corporation reported a loss of $2.3 billion for fiscal year 1980. This loss, reimbursable through appropriations, was $1 billion less than the $3.3 billion loss reported for fiscal year 1979.

116234

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AUGUST 13, 1981

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D.C. 20548

B-202690

To the President of the Senate and the
Speaker of the House of Representatives

We have reviewed the accompanying statement of financial condition of the Commodity Credit Corporation as of September 30, 1980, and the related statements of income and expense, analysis of deficit, and source and application of funds for the year then ended. The review was made pursuant to the requirements of the Government Corporation Control Act (31 U.S.C. 841).

As in previous years, our review consisted principally of discussions with Corporation personnel and performing analytical procedures on financial data. This was substantially less than would be necessary to express our opinion on the financial statements. Therefore, all information included in the financial statements is the representation of the management of the Commodity Credit Corporation.

As reported by the Corporation, a total loss of $2.3 billion was realized for fiscal year 1980. This loss, reimbursable through appropriations, was $1 billion less than the $3.3 billion loss reported for fiscal year 1979. The decrease was primarily due to reduced payments to farmers under the disaster and crop deficiency programs.

Certain accounting policies and practices of the Corporation depart from generally accepted accounting principles. These departures, which affect the presentation of information in the financial statements, were as follows:

--Interest income and accrued interest receivable of at least $200 million were not recognized in the proper accounting period on nonrecourse loans.

--Significant accounting transactions were not adequately shown on the financial statements.

--Inventory of about $1.7 billion may have been substantially overvalued.

--Accrued interest receivable of about $144 million on Public Law 480 sales were not separately shown in the statement of financial condition.

--The footnote to the financial statements did not adequately describe accounting treatment of the deferred credit account for Public Law 480 sales.

The total effect of these departures on the Corporation's financial statements has not been determined.

In commenting on our draft report (see app. III), the Corporation agreed to work with GAO in developing financial statements for fiscal year 1981 and future years which adhere more strictly to generally accepted accounting principles.

The following sections of this letter discuss more fully the departures from generally accepted accounting principles noted above which are applicable to the Corporation's statements for fiscal year 1980.

INTEREST INCOME AND ACCRUED INTEREST RECEIVABLE ARE NOT RECOGNIZED IN THE PROPER ACCOUNTING PERIOD ON NONRECOURSE LOANS

Generally accepted accounting principles require the accrual basis of accounting. The Corporation presently does not follow this principle with nonrecourse loans, since it does not periodically accrue interest or recognize interest income on a loan until the principal balance has been repaid.

While the Corporation had not determined the total effect of not recognizing the income from nonrecourse loans, Corporation data shows that tobacco associations owed it interest of about $200 million on principal of approximately $800 million at September 30, 1980. The Corporation had not accumulated similar data on other loans whose total principal balances were in excess of $2.8 billion.

A significant effect associated with the failure to recognize accrued interest receivable is to understate the cost of any commodity which is surrendered in payment of a loan. The cost of the commodity to the Corporation should include both the principal balance plus accrued interest. Failure to recognize both costs results in a misstatement of the Corporation's inventory.

SIGNIFICANT ACCOUNTING TRANSACTIONS WERE NOT ADEQUATELY SHOWN ON THE FINANCIAL STATEMENTS

The Corporation holds its records open for a brief period after the September 30 end of the fiscal year in order to record all possible transactions. However, due to the widespread nature of its operations, involving over 2,500 offices; a lag in receipt of documentation; and the time constraints imposed to meet reporting deadlines, the Corporation believes it is not possible to record all transactions in the proper accounts. The Corporation reported to us that accounting transactions not allocated to asset and liability accounts during 1980 because of the lag in receipt of documentation resulted in net assets being overstated by $451 million, liabilities by $475 million, and the deficit by $24 million.

In our opinion, the Corporation should adjust its statements to more accurately reflect these transactions. Because of the time limitations placed on the Corporation, these adjustments could be estimated to the extent practical. We believe such estimates will improve the presentation of the Corporation's financial statements.

INVENTORY OF ABOUT $1.7 BILLION MAY BE SUBSTANTIALLY OVERVALUED

The Corporation's inventory shown on the financial statements at a net value of $1.7 billion may be overvalued because the net realizable value of that inventory may be substantially less. The amount of overvaluation of the Corporation's inventory was not determined.

Inventories are acquired by the Corporation when demand for agricultural commodities is not sufficient to absorb available supplies at support prices and when farm prices are below the support level. The inventories are carried on the Corporation's books at acquisition cost plus processing and packaging costs incurred after acquisition.

The year end financial statements include an allowance account to show the estimated loss on ultimate disposition of the inventory. However, for the most part, the allowance account reflects losses based on commitments or anticipated agreements to donate or sell part of the inventory at low prices under various agriculture programs. The remainder of the inventory is valued at cost plus the processing and packaging costs.

Further, the Corporation has limitations on the sale of its price-support inventory. Statutory provisions direct that, in general, the inventory cannot be sold domestically except at specified prices above current price-support levels. Farm policy considerations dictate that commodities cannot be sold in such a manner as to disrupt market or price-support operations. These limitations essentially prevent the Corporation from selling commodities at prices below the statutory limits except under certain specific circumstances.

We recognize that the Corporation has special considerations in attempting to price its inventory in accordance with generally accepted accounting principles. Under normal situations the commercial market value would be compared to cost, but in the Corporation's situation such a commercial market value is not meaningful since selling at that price would not be legal if the market price is less than the statutory limit on selling price. On the other hand, the statutory limitation is probably not a realistic measure of market value because it would normally be higher than current market prices, and actual disposition of the inventory at such prices would not be possible.

We believe that the Corporation could comply with the accounting principle that requires inventories to be valued for financial statement purposes at the lower cost or market by valuing its inventory at net realizable value. For that part of the inventory that the Corporation has firm commitments to dispose of or sell, the contract prices should be used. For the remainder of the inventory that is currently valued at cost, we believe management should estimate a net realizable value based upon ultimate disposition and use that value for financial statement presentation.

Such a valuation would satisfy the accounting principle on inventory valuation because inventories would be shown at their realistic value to the Corporation. Since some of the Corporation's inventories may not be salable at a market value or the statutory limitation value, the inventory should be valued based on its ultimate disposition--which may be zero. If a situation occurs where the Corporation could sell its commodities at the statutory limit, that value, or cost if lower, should be used for financial statement presentation. We will work with the Corporation to determine a reasonable inventory valuation for purposes of future financial statement presentation.

ACCRUED INTEREST RECEIVABLE ON PUBLIC LAW 480 SALES WAS NOT SEPARATELY STATED IN THE STATEMENT OF FINANCIAL CONDITION

Generally accepted accounting principles require that accrued interest receivable be recognized and disclosed separately in the financial statements. As of September 30, 1980, Public Law 480 accounts receivable represented about $7.3 billion. Included in this amount is $143.6 million of accrued interest receivable. The accrued interest receivable should be separately shown on the statement of financial condition.

FOOTNOTE TO FINANCIAL STATEMENTS DOES NOT ADEQUATELY DESCRIBE ACCOUNTING TREATMENT OF THE DEFERRED CREDIT ACCOUNT FOR PUBLIC LAW 480 SALES

The cash required to finance the Public Law 480 sales program is appropriated by the Congress, and the Corporation records a deposit and trust liability equal to the funds advanced. When a Public Law 480 sale is made, a receivable from the foreign purchaser is recognized, a deferred credit account is established, and the deposit and trust liability is reduced by the cost of the sale.

Footnote G, Receivables for Public Law 83-480, Credit Sales for Dollars, as contained in the Notes to the Financial Statements, does not adequately explain the accounting treatment of the deferred credit. As currently presented, the use of the deferred credit classification is not appropriate and could be misleading. We have requested that the Corporation clarify the terminology and classification to describe its accounting treatment.

The Corporation is presently examining whether there is a unique principal/agent relationship with the Congress, or whether the Public Law 480 program should be considered a corporate mission. Settlement of this issue should determine whether the deferred credit should be classified as a deposit and trust liability or reclassified to equity for financial statement presentation in 1981.

We are most appreciative of the courtesies which the Corporation's management and staff extended to us during this review, and we welcome the opportunity to advise the Corporation on the preparation of its financial statements in future years.

Reports issued since 1977 by the General Accounting Office to the Congress on selected programs and activities of the Corporation are listed in appendix IV.

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Copies of this report are being sent to the Director, Office of Management and Budget, and to the Secretary of Agriculture.

Milton J. Socolar

Acting Comptroller General
of the United States

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 APPENDIX I

EXHIBIT A

Agricultural Stabilization and Conservation Service
Commodity Credit Corporation

COMPARATIVE STATEMENT OF FINANCIAL CONDITION
SEPTEMBER 30, 1980 and 1979

ASSETS	September 30, 1980	September 30, 1979	Increase or (Decrease)
1. Cash	$ 114,446,877	$ 111,650,475	$ 2,796,402
2. Loan Programs:			
Commodity (Net) (Note B) (Sch. A-1)	3,648,399,342	3,851,129,939	(202,730,597)
Storage Facility and Equipment	1,470,270,937	1,324,125,682	146,145,255
3. Commodity Inventories (Net) (Notes A and B) (Sch. A-1)	1,684,610,839	862,539,085	822,071,754
4. Accounts and Notes Receivable (Net) (Note C) (Sch. A-2)	9,314,064,484	9,341,792,634	(27,728,150)
5. Accrued Interest Receivable	196,864,342	171,992,016	24,872,326
6. Advance Payments to Producers (Note E)	116,756,642	94,474,999	22,281,643
7. Fixed and Other Assets (Net) (Sch. A-3 & 4)	180,601,692	82,301,089	98,300,603
Total Assets	$ 16,726,015,155	$ 15,840,005,919	$ 836,009,236
LIABILITIES			
8. Accounts Payable (Sch. A-5)	$ 212,657,431	$ 193,900,673	$ 18,756,758
9. Accrued Interest on U.S. Treasury Borrowings	872,412,634	794,628,106	77,784,528
10. Accrued Liabilities (Sch. A-6)	77,245,756	22,649,349	54,596,407
11. Trust and Deposit Liabilities (Sch. A-7)	533,843,620	730,964,480	(197,120,860)
12. Borrowings from U.S. Treasury (Note F)	13,728,502,871	13,926,516,435	(198,013,564)
13. Deferred Credit for P.L. 480 Receivables - Credit Sales for Dollars (Note G)	7,277,832,910	6,604,035,012	673,797,898
14. Other Liabilities (Sch. A-8)	583,767,629	167,654,560	416,113,069
Total Liabilities	23,286,262,851	22,440,348,615	845,914,236
INVESTMENT OF U.S. GOVERNMENT			
15. Capital Stock	100,000,000	100,000,000	
16. Deficit (Exhibit C)	6,660,247,696*	6,700,342,696*	40,095,000
Total Investment of U.S. Government	6,560,247,696*	6,600,342,696*	40,095,000
Total Liabilities and Investment of U.S. Government	$ 16,726,015,155	$ 15,840,005,919	$ 886,009,236

CERTIFICATE

I hereby certify that the financial statements and supporting schedules submitted herewith present the financial condition of Commodity Credit Corporation as of September 30, 1980 and September 30, 1979, and the results of its operations for the fiscal years then ended, as shown by its books and records, on a basis with respect to each year which is consistent with the preceding fiscal year. This certificate is subject to the notes appended to and made a part of the statements. (See pages 10 through 16.)

Lester W. LeCompte
Lester W. LeCompte, Controller
Commodity Credit Corporation

November 14, 1980

Schedule A-1

COMMODITY	Unit of Measure	estment a/ Quantity	Gross Value	Total Investment as of September 30, 1979 a/ Quantity	Gross Value
Feed Grains:					
Barley	Bushel	35,08	$ 62,015	75,285	$ 114,601
Corn	Bushel	811,46	2,213,507	765,301	1,509,318
Corn Products	Pound		34		
Oats	Bushel	27,22	29,113	47,874	45,679
Rye	Bushel	71	1,621	1,929	3,121
Sorghum	Bushel	41,22	171,876	113,247	223,946
Total Feed Grains		xx	2,478,166	xxx	1,896,665
Wheat	Bushel	343,441	1,542,638	411,381	934,340
Rice	Cwt.	601	23,896	11,869	98,447
Rice, Brown	Pound			26	5
Tobacco	Pound	647,37	814,941	691,071	903,163
Cotton, Extra Long Staple	Bale	2	1,464	12	4,889
Cotton, Upland	Bale	154	35,455	353	75,553
Seed Cotton, Upland	Pound	18	8		
Dairy Products:					
Butter	Pound		385,397	174,198	188,091
Cheese	Pound		309,435	3,700	4,222
Milk, Dried	Pound		571,525	527,298	377,471
Total Dairy Products		xxx	1,266,357	xxx	569,784
Oils and Oilseeds:					
Peanuts (and Products)	Pound	38,175	5,894	145,419	27,567
Soybeans	Bushel	23,631	103,783	8,944	40,211
Total Oils and Oilseeds		xxx	109,677	xxx	67,778
Honey	Pound	24,398	12,001	7,791	3,262
Seeds, Foundation	Pound		155	317	354
Sugar, Beet	Pound	194,537	73,077	980,616	165,845
Sugar, Cane	Pound	197,781	26,837	2,226,126	326,658
Vegetable Oil Products	Pound		1,016	3,231	1,291
Total		xxx	$ 6,385,688	xxx	$ 5,048,034

NOTE: Inventories of commodities as shown in this report includ

a/ Investment value before deduction of allowance for losses.

b/ Investment value of inventory represents acquisition cost pl

c/ Less than five hundred.

Agricultural Stabilization and Conservation Service
Commodity Credit Corporation

ACCOUNTS AND NOTES RECEIVABLE

Schedule A-2

Item		Amount
Recoverable from Funds Appropriated for:		
P.L. 83-690, National Wool Act		$ 34,519,715
P.L. 92-73, Animal Disease Eradication (APHIS)		4,893,674
Subtotal		39,413,389
Due from Department of Defense under the Military Family Housing Program		11,214,503
Accounts Receivable:		
Foreign Governments and Private Trade Entities Under P.L. 480		7,277,832,910
Foreign Importers Under Export Credit Sales Program (Note D)		1,949,813,403
Government Agencies		732,061
Others	$ 46,884,218	
Less: Allowance for Doubtful Accounts	11,826,000	35,058,218
Total		$9,314,064,484

FIXED ASSETS

Schedule A-3

Item	Cost	Allowance for Depreciation	Net Book Value
Nonexpendable Administrative Property	$ 4,431,327	$ 4,431,327	$ -
Peanut Testing Equipment	5,003	5,003	-
Total	$ 4,436,330	$ 4,436,330	$ -

OTHER ASSETS

Schedule A-4

Item	Amount
Undistributed Expenditures	$ 88,024,425
Advances to Government Agencies - Transfer Appropriations	49,431,871
Advances on Purchases	43,133,396
Property Acquired in Settlement of Claims	12,000
Total	$ 180,601,692

 APPENDIX I

Agricultural Stabilization and Conservation Service
Commodity Credit Corporation

ACCOUNTS PAYABLE

Schedule A-5

Item	Amount
Drafts Payable	$ 82,527,940
Due Under Grain Export Suspension Contracts	48,005,952
Due to Commercial Vendors and Processors	23,636,459
Due Under Agricultural Trade Development and Assistance Act of 1954	21,202,205
Service Charges Withheld	11,634,646
Due Under Export Credit Sales Program	8,159,544
Due to Government Agencies	2,554,453
Due to Others	14,936,232
Total	$ 212,657,431

ACCRUED LIABILITIES

Schedule A-6

Item	Amount
Accrued Storage and Handling Charges	$ 77,219,256
Accrued Custodian and Agency Expenses	26,500
Total	$ 77,245,756

TRUST AND DEPOSIT LIABILITIES

Schedule A-7

Item	Amount
Funds Appropriated for:	
Agricultural Stabilization and Conservation Service Programs:	
Agricultural Conservation	$ 163,002,490
Rural Clean Water Program	49,201,719
Water Bank	48,429,413
Emergency Conservation Program	31,368,382
Forestry Incentives	20,427,686
Expenses, ASCS (County Office Allocation)	3,167,509
Appalachian Regional Development	439,372
Old West Regional Commission	200,000
Regional Development	125,994
Subtotal	316,362,565
Agricultural Trade Development and Assistance Act:	
Title I	32,876,953
Title II	132,715,624
Advances from FSQS and FNS	10,473,049
Sales Proceeds of Frustrated Cargo P.L. 480, Title I	15,434,043
Other Advances and Deposits	25,981,386
Total	$ 533,843,620

OTHER LIABILITIES

Schedule A-8

Item	Amount
Unapplied Receipts	$ 562,988,959
Deferred Credits	20,778,670
Total	$ 583,767,629

NOTE: Most of the unapplied receipts represent repayments of commodity and storage facility loans. Therefore these loans are overstated on the Statement of Financial Condition.

Exhibit B

Agricultural Stabilization and Conservation Service
Commodity Credit Corporation

COMPARATIVE STATEMENT OF INCOME AND EXPENSE
FISCAL YEARS 1980 and 1979

	Fiscal Year 1980	Fiscal Year 1979	Increase or (Decrease)
I. Realized Gains and Losses - Program			
1. Commodity Inventory Operations: (Note P)			
(a) Sales of Commodities	$ 961,846,003	$ 667,219,878	$ 294,626,125
(b) Cost of Sales	1,032,035,790*	781,452,624*	250,583,166
(c) Net Gain (or Loss*) on Sales	70,189,787*	114,232,746*	(44,042,959)
(d) Cost of Commodities Donated	184,369,433*	119,096,845*	65,272,588
(e) Storage and Handling Expense	132,913,706*	72,561,059*	60,352,647
(f) Transportation Expense	91,392,924*	27,469,449*	63,923,475
(g) Net Gain (or Loss*) on Commodity Inventory Operations	478,865,850*	333,360,099*	145,505,751
2. Producer Payments:			
(a) Cotton	103,069,596*	216,606,622*	(113,537,026)
(b) Feed Grain	191,413,034*	929,115,904*	(737,702,870)
(c) Rice	1,398,330*	58,710,717*	(57,312,387)
(d) Sugar	25,357,167*	623,081*	24,734,086
(e) Wheat	96,803,445*	723,121,833*	(626,318,388)
(f) Total Producer Payments	418,041,572*	1,928,178,157*	(1,510,136,585)
3. Grain Reserve Storage Expense	236,767,244*	282,442,813*	(45,675,569)
4. National Wool Act Payments	30,989,321*	36,085,168*	(5,095,847)
5. Emergency Feed Program Payments	23,409,981*	69,725,168*	(46,315,187)
6. Loan and Other Charge-offs	50,935,989*	23,423,549*	27,512,440
7. Other Costs* and Recoveries	336,417,296*	614,189	337,031,485
8. *Special Recoveries Authorized for National Wool Act*	30,989,321	36,085,168	(5,095,847)
Net Realized Gain (or Loss*) - Program	1,544,437,932*	2,636,515,597*	(1,092,077,665)
II. Income and Expense - General			
1. Income:			
(a) Interest on Loans	309,415,323	267,100,669	42,314,654
(b) Other Interest Income	258,533,091	199,896,427	58,636,664
(c) Other Income	7,547,895	158,246	7,389,649
(d) Total Income	575,496,309	467,155,342	108,340,967
2. Expense:			
(a) Interest Expense (Sch. B-1)	1,163,826,645*	1,028,837,526*	134,989,119
(b) General Overhead Expense (Net) (Note Q) (Sch. B-2)	162,304,644*	101,266,603*	61,038,041
(c) Other Expense	783,089*	423,041*	360,048
(d) Total Expense	1,326,914,378*	1,130,527,170*	196,387,208
Net Income (or Expense*) - General	751,418,069*	663,371,828*	88,046,241
III. Total Realized Gain (or Loss*)	2,295,856,001*	3,299,887,425*	(1,004,031,424)
IV. Adjustment of Allowance for Losses - Program			
1. Loans (Includes Allowance for Donations)	34,405,000	32,549,000*	(66,954,000)
2. Commodity Inventories (Includes Allowance for Donations)	752,719,000*	122,522,000*	630,197,000
3. Accounts and Notes Receivable	1,924,000*	1,529,000*	395,000
Net Change in Allowances for Losses - Program	720,238,000*	156,600,000*	563,638,000
V. Net Gain (or Loss*) Transferred to Deficit (Exhibit C)	$ 3,016,094,001*	$ 3,456,487,425*	$ (440,393,424)

NOTE: All amounts reducing income or increasing expense or losses are designated by asterisks.

Agricultural Stabilization and Conservation Service
Commodity Credit Corporation

INTEREST EXPENSE

Schedule B-1

Item	Amount
Interest on Borrowing from U.S. Treasury	$ 1,155,322,750
Interest on Capital Stock	8,500,000
Other Interest Expense	3,895
Total	$ 1,163,826,645

GENERAL OVERHEAD EXPENSE

Schedule B-2

Item	Amount	
Expenses Applicable to CCC Administrative Expense Authorization, 1980:		
Agricultural Stabilization and Conservation Service (ASCS)	$ 42,878,000	
Foreign Agricultural Service	3,768,647	
Agricultural Marketing Service	2,295,358	$ 48,942,005 a/
Administrative Expense Applicable to Prior Years		998,047
Total CCC Administrative Expense		49,940,052
Expenses Not Applicable to CCC Administrative Expense Authorization:		
State and County Office Expenses	$ 112,182,371	
Less: Expenses Applicable to National Wool Act	1,778,000	
Net Expenses, ASCS		110,404,371
Cost of Administrative Property		1,339,192
Custodian and Agency Expenses		326,029
Global Commodity Information System Expenses		295,000
Total General Overhead Expenses		$ 162,304,644

a/ Administrative Expense Authorization for Fiscal Year 1980	$ 50,700,000
Net Administrative Expenses - Fiscal Year 1980	48,942,005
Balance	$ 1,757,995

Exhibit C

Agricultural Stabilization and Conservation Service
Commodity Credit Corporation

ANALYSIS OF DEFICIT
As of September 30, 1980

Item	Cumulative to September 30, 1979	Fiscal Year 1980	Cumulative to September 30, 1980
Total Realized Gain or Loss* Exclusive of Cost of Wartime Consumer Subsidy Program	$ 65,260,227,688*	$ 2,295,856,000*	$ 67,556,083,688*
Cost of Wartime Consumer Subsidy Program	2,102,281,073*		2,102,281,073*
Subtotal	67,362,508,761*	2,295,856,000*	69,658,364,761*
Allowance for Losses - Program	344,266,000*	720,238,000*a/	1,064,504,000*
Net Operating Gain or Loss*	67,706,774,761*	3,016,094,000*	70,722,868,761*
Net Restoration of Capital from U.S. Treasury...(Schedule C-1)	60,408,276,834	3,056,189,000	63,464,465,834
Adjustments for Recovery of Price-support Losses - Charges to the Reserve for Post-war Price-support	500,000,000		500,000,000
Recovery from Secretary of Treasury - Public Laws 389 and 393, 80th Congress	56,239,432		56,239,432
Recovery of Emergency Feed Program - Public Law 40, 84th Congress	41,915,799		41,915,799
Net Deficit*	$ 6,700,342,696*	$ 40,095,000	$ 6,660,247,696*b/

NOTE: Asterisks indicate loss or deficit.

a/ Represents adjustment of allowance for losses.

b/ Comprised of the following:

Unrestored Realized Losses:		
Fiscal Year 1979	$ 3,299,887,696	
Fiscal Year 1980	2,295,856,000	
Total as of September 30, 1980		$ 5,595,743,696
Allowance for Losses as of September 30, 1980		1,064,504,000
Net Deficit as of September 30, 1980		$ 6,660,247,696

Agricultural Stabilization and Conservation Service
Commodity Credit Corporation

NET RESTORATION OF CAPITAL BY U. S. TREASURY
MARCH 31, 1938 THROUGH SEPTEMBER 30, 1980

Schedule C-1

Payments to or from U. S. Treasury		
Date	Amount	Manner
June 1938	$ 94,285,405	Appropriation
August 1939	119,599,918	Appropriation
June 1940	43,756,731*	Payment to U. S. Treasury
September 1941	1,637,445	Appropriation
June-September 1942	27,815,514*	Payment to U. S. Treasury
May 1945	39,436,885	Appropriation
May 1945	217,327,996	Appropriation
July 1946	921,456,561	Note Cancellation
May 1947	641,832,081	Note Cancellation
April 1948	17,693,492*	Payment to U. S. Treasury
June 1949	48,943,010*	Payment to U. S. Treasury
September 1950	66,698,457	Note Cancellation
September 1951	421,462,507	Note Cancellation
July 1952	109,391,154	Appropriation
July 1953	96,205,161	Note Cancellation
February 1954	550,151,848	Note Cancellation
July 1955	1,634,659	Appropriation
July 1956	929,287,178	Appropriation
July 1957	1,239,788,671	Appropriation
July 1958	1,760,399,886	Appropriation
July 1959	1,435,424,413	Appropriation
April 1960	100,000,000	Appropriation
April 1960	575,000,000	Appropriation
July 1960	632,000,994	Appropriation
July 1960	594,499,005	Appropriation
July 1961	1,017,609,765	Appropriation
July 1962	1,017,610,000	Appropriation
August 1962	1,260,845,000	Appropriation
July 1963	2,278,455,000	Appropriation
October 1963	221,545,000	Appropriation
December 1963	199,400,000	Appropriation
July-August 1964	1,574,000,000	Appropriation
February 1965	1,100,000,000	Appropriation
July-November 1965	2,799,789,092	Appropriation
July-September 1966	3,555,855,000	Appropriation
July 1967	1,399,725,000	Appropriation
July 1968	3,188,112,500	Appropriation
April 1969	1,000,000,000	Appropriation
August 1969	4,965,934,000	Appropriation
January 1970	250,000,000	Appropriation
July 1970	3,113,155,000	Appropriation
December 1970	250,000,000	Appropriation
July 1971	3,363,155,000	Appropriation
August 1971	850,176,000	Appropriation
July 1972	3,832,952,000	Appropriation
September 1972	225,000,000	Appropriation
July 1973	3,301,940,000	Appropriation
September 1974	3,301,940,000	Appropriation
February 1975	767,472,000	Appropriation
July 1975	2,750,000,000	Appropriation
October 1976	189,053,000	Appropriation
May 1977	710,000,000	Appropriation
December 1977	524,342,000	Appropriation
November 1978	990,900,000	Appropriation
November 1979	3,056,189,000	Appropriation
	$ 63,464,465,834	

Agricultural Stabilization and Conservation Service
Commodity Credit Corporation

Exhibit D

STATEMENT OF SOURCE AND APPLICATION OF FUNDS
FISCAL YEAR 1980

Item	Amount
FUNDS PROVIDED:	
Borrowings from U.S. Treasury	$ 5,522,071,789
Appropriations:	
Reimbursement for Realized Losses	3,056,189,000
Agricultural Trade Development and Assistance Act	1,073,429,708
Reimbursement for National Wool Act Program	39,420,751
Reimbursement for Military Family Housing Program	6,000,000
Sales of Commodities	961,846,003
Inventory Settlements for Differences in Grade, Location and Quantity (Net)	2,694,116
Repayment of Loans by Producers	4,154,521,116
Repayment Under Export Credit Sales Program	1,386,281,076
Noncommercial Risk Assurance Fees	4,837,537
Interest Income	567,948,414
Other	10,527,209
Decrease in Working Capital Items	266,028,644
Total Funds Provided	$ 17,051,795,363
FUNDS APPLIED:	
Repayment of Borrowings from U.S. Treasury	$ 5,720,085,354
Cost of Commodities Purchased	2,643,329,528
Storage, Transportation and Processing Expenses	258,993,320
Acquisitions of Loan Collateral in Excess of Value of Loans Forfeited	436,014
Loans to Producers	4,228,183,216
Extended Loan Storage Expense	259,011,166
Payments under the Export Credit Sales Program	718,822,338
Cost of Agricultural Trade Development and Assistance Act	1,073,429,708
Cost of National Wool Act Program	34,519,715
Payments under the Cotton, Feed Grain, Rice, Sugar and Wheat Programs	418,041,572
Advances to Producers - Direct Purchases	4,669,127
Emergency Feed Grain Payments	23,409,981
Interest Expense	1,163,826,645
Grain Export Suspension Expenses	335,930,680
Administrative, State and County Office Expenses	159,346,376
Purchase of Nonexpendable Equipment	1,360,363
Custodian and Agency Expenses	326,029
Other	8,074,231
Total Funds Applied	$ 17,051,795,363

Agricultural Stabilization and Conservation Service
Commodity Credit Corporation

NOTES TO THE FINANCIAL STATEMENTS

A. Commodity Inventories

Inventories are valued at acquisition cost plus the cost of any packaging or processing performed after acquisition. The amount of cost allocated to dispositions of commodities, acquired under price-support programs, is computed on the basis of the average unit cost of the commodity in inventory at the end of the previous month. Cost allocated to certain dispositions from the peanut price-support inventory is computed on the basis of the actual lot cost of the specific lots removed. Actual lot cost or average cost is the basis for costing dispositions from supply and commodity export program inventories.

B. Allowances for Losses on Loans and Inventories

Allowances for losses on commodity loans and commodity inventories are the estimated loss on ultimate commodity dispositions. Allowances equal to the full inventory value are established for commodities scheduled for domestic donation. To the extent practicable, estimates are based on estimated recoveries from foreseeable dispositions of the commodities. Estimated recoveries for commodities which are in excess of foreseeable dispositions are generally based on the lowest of cost, market price, or the Corporation's price for export sales. Allowances are not established for commodities in the supply and commodity export program inventories when acquired pursuant to commitments providing for disposition on a basis calculated to recover full costs to the Corporation.

At September 30, 1980, the estimated allowances for losses amounted to $296,000 on loans and $1,052,382,000 on inventories. The amounts of such losses by commodity are shown in Schedule A-1. At September 30, 1979, allowances for losses amounted to $34,701,000 on loans and $299,663,000 on inventories.

C. Allowances for Losses on Accounts and Notes Receivable

Allowances for losses on accounts and notes receivable are based on the estimated recovery value of the respective assets. At September 30, 1980, allowances on these assets totaled $11,826,000 and at September 30, 1979, amounted to $8,921,729.

No allowance has been provided for possible losses on dollar credit sales under the Agricultural Trade Development and Assistance Act of 1954, P.L. 83-480, because the full amounts of the receivables will be recovered from appropriations. (See Note G.)

D. Export Credit Sales Program

The CCC Export Credit Sales Program provides for financing of export credit sales of agricultural commodities by purchasing exporters' accounts receivable. The registration of a sale enables a U.S. exporter to deliver agricultural commodities to a foreign importer on a deferred payment basis for periods up to a maximum of 36 months, and for intermediate credits, for periods in excess of three years but not more than ten years. All accounts receivable purchased under the program are covered by U.S. bank and foreign bank letters of credit or other obligations acceptable to CCC. As of September 30, 1980, past-due installments of principal and interest amounted to $11,761,124. Of this amount $890,257 was paid in October 1980. Of the amount past due $9,887,451 due from Zaire will be rescheduled. None of the amounts are due from U.S. banks. The 1981 budget does not provide funds for this program.

E. Advance Payments to Producers

Under the Farmer-owned Grain Reserve, CCC makes annual storage payments in advance to producers who place their grain under the three-year program. Advances are shown as an asset in the Statement of Financial Condition, and as storage is earned it is transferred to expense.

F. Borrowing Authority

CCC operations are financed by borrowings from the U.S. Treasury, under its statutory borrowing authorization of $20 billion, this amount being the limit on borrowings that may be outstanding at any one time. As of September 30, 1980, CCC's actual borrowings from the Treasury amounted to $13,728,502,870.

G. Receivables for Public Law 83-480, Credit Sales for Dollars

The amounts due for financing deliveries of agricultural commodities and products thereof, under long term credit agreements entered into with foreign governments and private trade entities pursuant to P.L. 83-480, are carried on the Corporation's books as receivables. Accrued interest is added on September 30 each year. The principal amounts financed during the fiscal year, less amounts received as installment payments and proceeds from the sale and use of foreign currencies generated under P.L. 83-480, is recovered from annual appropriations made by Congress for P.L. 83-480 programs. Therefore, the total amount of the long term credit receivable is offset in a deferred credit account.

The Food for Development Program under P.L. 83-480 permits proceeds from local sales of P.L. 83-480 commodities, when used for approved programs, to be applied against the repayment obligation of the foreign government. This amount was $55,262,680 in fiscal year 1980 and $57,374,558 since inception of the program.

As of September 30, 1980, past-due installments of principal and interest on receivables due from foreign governments amounted to $59,234,403. Of this amount $3,302,090 was paid during October 1980. Of the amount past due, $1,774,272 due from Turkey and $9,774,161 due from Zaire will be rescheduled.

Foreign government receivables of $189.7 million from the Khmer Republic and $32.9 million from the Republic of Viet Nam represent transactions completed prior to April 17, 1975, and May 1, 1975, respectively, the dates on which the Foreign Assets Control Regulations (31 CFR 500) were made applicable to those countries. The receivable also includes $19.7 million for Khmer Republic and $8.7 million for Viet Nam representing the financed value of commodities shipped to those countries where delivery was frustrated. Proceeds from the disposition of frustrated commodities in the amount of $10.0 million for commodities purchased by Khmer Republic and $6.3 million for commodities purchased by Viet Nam are included in CCC's accounts as a liability. Disposition expenses paid from these proceeds were $.9 million. Disposition of net proceeds will be made after the Treasury Department has provided instructions.

H. Export Credit Assurance Program

Under its assurance program, CCC enters into assurance agreements with U.S. exporters who sell agricultural commodities on credit terms for periods up to three years. The assurance provided by CCC protects the exporter against loss from defaults in payments by a foreign bank. CCC's assurance is limited to the unpaid port value of the commodity plus interest of not more than certain Treasury bill auction rates, at the time of application, on such unpaid balance to the date payment is due. For this protection the exporter must pay CCC a fee at the time of application for an assurance agreement. In the event of default CCC will pay the exporter or his assignee in U.S. dollars and take action to recover the amount paid from the foreign bank and or the importer. To date no payments have been made by CCC.

The amount of assurance agreements entered into during fiscal year 1980 totaled $719,217,166. CCC's contingent liability as of September 30, 1980, is $791,174,461. This amount is not recorded as an account payable but is recorded for control purposes.

I. Loan Guarantees for Pilot Projects for Industrial Hydrocarbons and Alcohols

The Secretary is directed in Section 509 of the Rural Development Act of 1972, as amended, to formulate and carry out a program for the production and marketing of industrial hydrocarbons and alcohols from agricultural commodities and forestry products. The Secretary shall provide for four pilot projects. CCC is required to guarantee loans under each project up to $15 million each for not more than 20 years. During fiscal year 1980 one loan guarantee was approved for $4,566,000. Other loan guarantees have been tentatively approved. This amount is not recorded as an accounts payable but is recorded for control purposes.

J. Liability for Payments under 1980 Programs for Feed Grains, Wheat, Upland Cotton and Rice

Legislation applicable to 1980 crops authorized payments to eligible producers of feed grains, wheat, upland cotton and rice for the deficiency between established target prices for the applicable commodity and the higher of the national average market prices for the first five months of the marketing year (for upland cotton, the average market price for the calendar year 1980) or the national loan level. Based on the relationship between current market prices and the established target prices, it is estimated that no deficiency payments will be made for upland cotton, rice and wheat. However, at September 30, 1980, the Corporation was contingently liable to make such payments estimated at $6,000,000 for feed grains. This contingency is not recorded as a liability in the accounts.

The legislation also authorizes disaster payments to producers who are prevented from planting feed grains, wheat, upland cotton, or rice because of a natural disaster or condition beyond the control of the producers, or who, because of such a disaster or condition, harvest less than a specified quantity. Also authorized, if determined necessary by the Secretary, are payments to producers who voluntarily divert acreage to approved conservation uses or use wheat acreage for grazing or hay rather than for grain production. Payments in accordance with these provisions will be made upon application. It is estimated that $705,000,000 will become due under the disaster provisions. No payments will be made under the diversion provisions. The final amount of such payments cannot be determined until claims have been filed and adjudicated, or compliance determined, and therefore are not recorded as liabilities in the accounts.

K. Suspension of Shipments of Agricultural Commodities to the Soviet Union

In January 1980 the President directed the suspension of all grain shipments to the Soviet Union in excess of the 8 million tons committed under our five year grain sale agreement. Other agricultural shipments were also suspended.

A series of actions were taken to insure that the burden of the suspension would not fall unfairly on the farmers. One of the actions resulted in CCC purchasing 311.8 million bushels of grain, valued at $981.9 million, thereby removing the grain from the market. In another action, CCC assumed the contractual obligations of exporters of wheat, corn, soybeans and soybean products to protect them against losses but not to guarantee profits. All of these contract rights have been sold back into the market with settlement to take place at time of delivery. During fiscal year 1980, CCC incurred net expenses of $336 million in contract settlements. As of September 30, 1980, it is estimated that CCC will incur $159 million expenses on subsequent contract settlements. These estimated expenses are not recorded as a liability in the accounts.

L. Commitments to Acquire or Dispose of Commodities

Contracts to acquire commodities are not reflected in the accounts, but the amounts of firm contracts are considered as contingent liabilities. The approximate contract values of undelivered commodities under firm contracts to acquire such commodities were as follows:

Commodity	Value
Blended Food Products	$ 21,412,779
Dairy Products	20,594,869
Feed Grains and Products	7,580,750
Peanut Products	2,727,211
Peas, Dry	3,199,107
Rice	2,003,315
Vegetable Oil and Products	28,618,975
Wheat and Products	37,235,769
Total	$ 123,372,775

Sales commitments and other disposition commitments are not shown in the accounts but are considered in establishing allowances for losses.

M. Letters of Commitment

Letters of Commitment issued to banking institutions authorizing the banks to pay exporters for sales of commodities and to pay carriers for ocean freight differential covering shipments made under P.L. 83-480, are not shown in the financial statements. The amount of outstanding letters of commitment issued for sales of commodities were $78,833,819 as of September 30, 1980. Letters of commitment covering ocean freight differential are issued without stated value. However the estimated ocean freight differential at September 30, 1980, is $19,203,451.

N. Claims

Amounts due the Corporation arising from claims that are definitely known or can reasonably be established are recorded currently as accounts receivable. On claims established under programs for which the Corporation will be reimbursed on an actual cost basis and on certain claims established in the maximum amount chargeable, notwithstanding improbability of collection, credit is deferred until actual recovery is made. This deferred credit is shown under "Other Liabilities". An allowance for losses is provided on other claims where collection is doubtful. Amounts of claims on which adequate proof has not been established are not recorded as accounts receivable but are recorded for control purposes. It is estimated that such claims amounted to $10,057,709 as of September 30, 1980.

Claims against the Corporation for which the amounts are definitely known, or can reasonably be established, are recorded as accounts payable. Amounts of claims which are not considered valid by the Corporation are not shown as accounts payable but are recorded for control purposes. Claims in this category were estimated at $885,535 as of September 30, 1980.

O. Potential Value of Freight Transit Rights

The Corporation had commodities stored in commercial warehouses at inland locations with freight bills covering the inbound shipments registered for transit purposes under arrangements which permit use of the registered freight bills to reduce the freight costs on outbound shipments. Because of uncertainty as to when outbound shipments will be made and as to the ultimate destinations, it is not practicable to place a dollar value on the potential freight reductions to be realized from the registered freight bills. No value is recorded in the accounts for such potential savings.

P. Commodity Inventory Operations

Cost of sales and cost of commodities donated, as shown in the Comparative Statement of Income and Expense, represent the acquisition cost of the commodities plus the cost of any packaging or processing performed after acquisition. Storage and handling and transportation expenses pertaining to inventories are shown separately in this statement.

Q. General Overhead Expense

Substantially all of CCC's operating expenses are paid, as authorized by law, from an Agricultural Stabilization and Conservation Service (ASCS) consolidated fund account covering operating expenses for both CCC and ASCS activities. This consolidated account is funded by an

ASCS appropriation and by transfer of CCC corporate funds subject to limitations specified in the annual appropriation act. The amount of operating expenses is distributed to CCC and ASCS activities on the basis of budgetary workload statistics.

The budgetary statistics for fiscal year 1980 will not be available until after the publishing of this report, and therefore, the amount of CCC expenses, if any, financed with funds appropriated to ASCS is not known as of the statement date.

During fiscal year 1980, CCC transferred $155,573,000 to the consolidated fund.

FOR FURTHER INFORMATION SEE STATEMENT OF ACCOUNTING POLICIES AND PRACTICES INCLUDED IN THIS REPORT

ACCOUNTING POLICIES AND PRACTICES OF COMMODITY CREDIT CORPORATION

PART 1. INTRODUCTION

1. PURPOSE OF COMMODITY CREDIT CORPORATION (CCC)

CCC is a wholly government owned Corporation established in 1933. Its purpose is stabilizing, supporting, and protecting farm income and prices; assisting in the maintenance of balanced adequate supplies of agricultural commodities; and facilitating the orderly distribution of agricultural commodities. The broad powers contained in the charter of CCC (P.L. 80-806) enable it to adapt its operations to changing conditions in the execution of the agricultural policies of the United States Government.

2. PROGRAMS OF CCC

Programs of CCC include price-support, supply, storage facility, commodity export and special activities.

A. Price Support. Programs are designed to provide producers of specified agricultural commodities the opportunity to obtain a certain return on their production of eligible commodities regardless of fluctuations in market prices. Price support is provided by means of non-recourse loans, purchases, direct payments, and other operations.

B. Supply. Programs are undertaken, as the need arises, to supply requirements of Government Agencies, foreign governments, relief and rehabilitation agencies, and to meet domestic requirements. The supply program is carried out by CCC through the purchase and sale of the commodities involved.

C. Storage Facility. Programs are for the purpose of construction or expansion of farm-storage facilities and such other operations as are necessary to carry out CCC programs. Under this program CCC makes recourse loans to participating producers.

D. Commodity Export. Programs are designed to aid in the development of export markets for U.S. agricultural commodities and products. Commodity export programs are carried out through such operations as financing, sales and assured loans.

E. Special Activities. Programs are carried out under authority of the Corporation's charter and specific authorizations and directives.

3. FINANCING

The operations of CCC are financed under a statutory borrowing authority of $20 billion; capital stock of $100 million; an annual appropriation for realized losses incurred; annual appropriations and advances for costs of foreign assistance programs and special activities; and receipts from sales of commodities, loan repayments, interest income and foreign currencies used.

4. USE OF TRADE PRACTICES AND FACILITIES

CCC recognizes trade practices in the financing, purchase, sale, storage, handling, etc., of agricultural commodities and uses normal trade facilities to the fullest practicable extent in its operations. Such facilities include commercial banks, growers' organizations, brokers, exporters, cooperative associations, warehousemen, and others.

5. APPLICATION OF ACCOUNTING PRINCIPLES AND PRACTICES

CCC employs generally accepted accounting principles and practices to the maximum extent applicable; however, there are a number of characteristics of the operations of CCC of statutory origin which differ substantially from those to be found in commercial or other government operations. Several of these unique characteristics are discussed in Part 2 of this statement.

PART 2. UNIQUE CHARACTERISTICS OF THE OPERATIONS OF COMMODITY CREDIT CORPORATION

6. NONRECOURSE LOANS

CCC makes nonrecourse loans to producers on certain agricultural commodities. Tobacco, warehouse stored peanut and naval stores loans made to producer associations do not have a fixed maturity date and are liquidated by disposition authorized by CCC. Other commodity loans are made to producers for a fixed period. The producer has the option to repay the principal plus interest or at maturity to surrender the commodity in full satisfaction of the loan.

7. MANDATORY FEATURE OF PRICE-SUPPORT PROGRAMS

CCC is required by law to make price support available for specified commodities at price levels bearing prescribed relationships to parity prices and to prices received by farmers. CCC has no choice of risks under mandatory price support legislation and its objective is price support in accordance with the statutory requirements.

8. ACQUISITION COSTS USUALLY HIGHER THAN MARKET

The loan rates and purchase prices under price-support programs, at which CCC acquires commodities, are fixed to accomplish price-support objectives within the purview of legislation. Therefore, acquisitions are usually at costs higher than market.

9. INVENTORIES HELD BY THE CORPORATION

Inventories are not acquired and held by CCC for resale at a profit. Price-support inventories are accumulated when demand is not sufficient to absorb available supplies at the support prices and when farm prices are below the support levels. The inventories held under the supply and commodity export programs are usually acquired to fill orders or known program requirements.

10. LIMITATIONS ON DISPOSITIONS FROM PRICE-SUPPORT INVENTORY

Statutory provisions direct that, with certain exceptions, CCC cannot sell in the domestic market basic and storable non-basic commodities from the price-support inventory except at specified price levels, generally bearing a fixed relationship to current support prices. Policy considerations dictate that CCC not sell any commodity in such manner as to disrupt market or price-support operations.

11. DONATIONS OF COMMODITIES

Under certain statutory provisions, CCC donates commodities to domestic relief agencies and to government agencies. The cost of the commodities donated is included in the total realized losses of CCC.

12. PRICE-SUPPORT COMMODITIES DELIVERED TO TITLE II, P.L. 480

Statutory provisions direct that commodities acquired under the price-support program and delivered to Title II, P.L. 480 outlets, shall be valued at the export market price at the time the commodity is made available. The difference between the cost of the commodities and the export market value is included in the total realized losses of CCC.

13. INVENTORY DISPOSITIONS FOR WHICH FULL REIMBURSEMENT IS PROVIDED OR REQUIRED BY STATUTES

CCC is required by law to recover all costs incurred on the supply and commodity export program inventory transactions when purchased specifically for U.S. Government agencies or Title II, P.L. 480.

14. SPECIAL ACTIVITIES FOR WHICH FULL REIMBURSEMENT IS PROVIDED BY STATUTES

CCC has been directed by certain statutes to perform special activities for which full reimbursement is provided by appropriations. Illustrative of current activities of this nature is the financing of export sales under Title I of P.L. 83-480, and producer incentive payments under the National Wool Act of 1954, Title VII of P.L. 83-690. CCC is also authorized by statutes to provide funds on a temporary basis for certain activities which are carried out by other agencies of the Department of Agriculture. The amounts of funds provided for such activities are subsequently reimbursed from appropriations.

15. AUTHORIZATION FOR REIMBURSEMENT FOR REALIZED LOSSES

Public Law 87-155 authorizes an annual appropriation for each fiscal year to reimburse CCC for its net realized loss as recorded in its accounts and shown in its report of financial condition as of the close of the fiscal year.

PART 3. STATEMENT AND DISCUSSION OF ACCOUNTING POLICIES AND PRACTICES

16. GENERAL POLICY

CCC policy is to adhere to accounting principles and practices which are generally accepted in the field of commercial accounting and to follow methods and procedures which furnish data needed by management, facilitate the preparation of the financial statements prescribed by statutes and regulations and make available to the public informative data on the operations of CCC. However, certain operations engaged in by CCC in carrying out its primary objectives, as required by statute, are unique and thus no counterpart exists in the commercial field. This statement outlines briefly the accounting policies and practices observed by CCC with particular reference to unique operations.

17. CASH

CCC uses the facilities of the United States Treasury and the Federal Reserve Banks and Branch Banks in accomplishing cash receipt and disbursement transactions. Amounts of disbursements and deposits made by Federal Reserve Banks are recorded in CCC accounts on the basis of reports from the banks. The cash balance reported in the financial statement includes receipts on hand and receipts forwarded for deposit but not as yet credited to CCC's account with the United States Treasury. Payments are made by negotiable drafts issued by CCC payable at Federal Reserve Banks. Certain financial institutions are authorized to obtain payments by drawing drafts on CCC through the Federal Reserve Banks. Federal Reserve Banks reimburse themselves daily for the amounts of drafts paid on behalf of CCC by charging CCC's account with the United States Treasury. Certain payments are made in Washington by checks issued by the Treasurer of CCC directly on the United States Treasury.

18. STORAGE FACILITY AND EQUIPMENT LOANS

CCC makes recourse loans to producers on farm-storage facilities and drying equipment. Loans are carried in the accounts at the unpaid principal balance. These loans are secured by chattel or real estate mortgages and are repayable in not more than seven annual installments.

19. COMMODITY LOANS

CCC makes nonrecourse loans to producers on commodities. Loans are carried in the accounts at the unpaid principal balance. Allowances are established on prior crop year loans when required to disclose the amount of estimated losses on ultimate disposition of the collateral. These allowances are determined in the same manner and concurrently with the determination of allowances for estimated losses on commodity inventories discussed in a subsequent paragraph. In addition, CCC makes recourse loans available on certain commodities at periods when producers are unable to warehouse or market their commodities.

20. COMMODITY INVENTORIES

A. Inventory Value. Inventories are recorded at acquisition cost plus processing and packaging costs incurred after acquisition. Acquisition cost of commodities acquired from price support loans, or by purchase from producers, is the amount due on the loan, excluding interest, or the amount of the purchase settlement. If warehouse stored before acquisition, accrued storage and handling charges assumed by CCC are added. If acquired from farm storage, costs of delivery to CCC are added. For other purchases, acquisition cost is the purchase price.

B. Costing Inventory Dispositions. The amount of cost allocated to commodities removed from inventory is determined with the view of retaining in the inventory accounts the cost of commodities remaining on hand. The amount of cost allocated to dispositions of commodities, acquired under price support programs, is computed on the basis of average unit cost of the commodity in inventory at the end of the previous month. Cost allocated to certain dispositions from the peanut price support inventory is computed on the basis of actual lot cost of the specific lots removed. Actual lot cost or average cost is the basis for costing dispositions from supply and commodity export program inventories.

C. Allowances for Losses.

1. Purpose. An allowance account is used to show the estimated loss on ultimate disposition of inventory. The separate account is used so that the realized losses as required by statute can be determined. Also, so that the accounts will show the cost of inventory as well as the estimated amount of future losses.

2. Basis. Allowances are based on estimated realizable values after giving consideration to all known factors. Estimated realizable value, to the extent practicable, is based on estimated recoveries from foreseeable dispositions of the commodities. Estimated realizable value for quantities of commodities which are in excess of foreseeable dispositions generally is based on the lowest of cost, market price, or CCC's price for export sales. Allowances equal to the full inventory value are established for commodities scheduled for donation and quantities of certain commodities which are in excess of foreseeable dispositions. Allowances are not established for commodities in the supply and commodity export program inventories when acquired pursuant to commitments providing for disposition on a basis calculated to recover full costs to CCC.

D. Basis for Recording Inventory Transactions. Inventory transactions generally are recorded on the basis of transfer of title. Contracts and other commitments to acquire commodities are not recorded in the accounts but are shown as contingent liabilities in notes to the financial statements when the amounts are significant. Sales commitments and other disposition commitments are not recorded in the accounts but are considered in computing an allowance for losses.

21. ACCOUNTS AND NOTES RECEIVABLE

A. Recording. Receivables, including amounts due arising from claims that are definitely known or can reasonably be established, are recorded currently upon determination of amounts due. Amounts of claims on which adequate proof has not been established are not recorded as accounts receivable but are kept under accounting control and are recognized in notes appended to the financial statement. An allowance is recorded for estimated losses on receivables.

B. Public Law 480, Title II, and Other Legislation Authorizing Reimbursement. The value of commodities made available from CCC inventories for export disposition at no cost to the recipients pursuant to Title II, P.L. 83-480, is recorded as proceeds of sales and is shown as a receivable until receipt of an appropriation reimbursing the Corporation, except to the extent that funds have been appropriated in advance. Costs of ocean freight on these commodities are also included in the same receivable. Costs under other Congressional authorizations providing for disposition of commodities at no cost to the recipients and for reimbursement to CCC by appropriation are treated similarly.

C. National Wool Act of 1954. Price support payments to producers pursuant to the National Wool Act of 1954, Title VII, P.L. 83-690, and the cost of making such payments are shown as a receivable until reimbursed to CCC from appropriations made pursuant to the Act.

D. Receivables for Public Law 83-480, Credit Sales for Dollars. The amounts due under long term credit agreements entered into with foreign governments and private trade entities pursuant to P.L. 83-480 are carried on the Corporation's books as receivables. Accrued interest is added on September 30 each year. The principal amount financed during the fiscal year, less amounts received as installment payments and as proceeds from the sale and use of foreign currencies generated under P.L. 83-480, is recovered from annual appropriations made by Congress for P.L. 480 programs. Therefore, the total amount of the long term credit receivables is offset by a deferred credit.

22. ACCRUED INTEREST RECEIVABLE

Interest due CCC is accrued on recourse loans and other contracts which provide for interest. Interest is not accrued on nonrecourse loans.

23. FIXED ASSETS

Fixed assets acquired by CCC are recorded at cost. A 100% allowance for depreciation is normally established at the time of acquisition of furniture, fixtures and other equipment for administrative use, because the amounts involved are relatively minor in relation to total general overhead expenses. Capital items such as major equipment purchases which are used directly in the operation of programs are depreciated on a straight-line basis over a period which provides for annual absorption in program costs of a reasonable portion of the cost of assets. When fixed assets are sold, abandoned, demolished, or otherwise withdrawn from service, the asset account and the allowance for depreciation are reduced by the applicable amounts recorded in these accounts.

24. ADVANCE PAYMENTS TO PRODUCERS

Payments to producers under the additional diversion, grazing and hay programs which are made in advance are recorded as assets pending compliance determination. Advance payments to producers under the grain reserve storage program are recorded as assets until earned.

25. OTHER ASSETS

Advances to contractors and agents, deferred charges, and undistributed expenditures are shown as assets in the financial statement pending application to the appropriate accounts. Also included in this category are investments acquired in settlements of claims.

26. ACCOUNTS PAYABLE

Accounts payable are recorded on the basis of receipt of goods or services, except for items referred to under "Accrued Liabilities", or on determination of valid claims against CCC. Amounts of claims which are not considered valid by CCC are not shown as accounts payable but are recognized in notes to the financial statement.

27. ACCRUED LIABILITIES

Liabilities for expenses of a continuing nature, such as storage, interest, etc., which are not due and payable but can be established with reasonable certainty, or which are unbilled at the close of the period, are recorded as accrued liabilities. Transportation and related charges are recorded when paid, due to the many small amounts involved, but an estimated amount to cover services rendered for which payment has not been made is recorded at the end of the fiscal year to show such costs within the proper accounting period.

28. TRUST AND DEPOSIT LIABILITIES

Amounts advanced to or deposited with CCC, including appropriated funds, and amounts withheld for financial protection or for payment to others are shown as trust and deposit liabilities.

29. OBLIGATION TO REDEEM POOLED PAYMENT-IN-KIND CERTIFICATES, AND RELATED ADVANCES

Certificates issued to producers and subsequently surrendered for marketing were pooled and recorded as an obligation to redeem pooled payment-in-kind certificates and as cash advances in amounts equal to the advances made by CCC. The liability for pooled certificates and the offsetting cash advance were reduced by the sales value of commodities sold in liquidation of the pool. Because the certificate payments for which advances were made have been recorded as expense and the amounts advanced are not repayable, the advance and the offsetting obligation to redeem pooled certificates are not shown in the financial statement.

30. OTHER LIABILITIES

Unapplied cash receipts and other undistributed credits are temporarily recorded as liabilities pending identification or application to the appropriate account.

31. BORROWINGS

Borrowings to finance program activities of CCC are made from the United States Treasury. United States Treasury borrowings for current financing are subject to interest. Borrowings equal to the unreimbursed realized losses after September 30 of the fiscal year in which such losses are realized are not subject to interest pursuant to authority contained in Public Law 89-316, approved November 2, 1965. Borrowings are shown in the financial statements at the unpaid balance.

32. CAPITAL STOCK AND DEFICIT

A. Capital Stock. The capital stock of CCC is $100,000,000 which was subscribed by the United States as provided in the Commodity Credit Corporation Charter Act. The charter provides that CCC shall pay interest on its capital stock to the United States Treasury at rates determined by the Secretary of the Treasury.

B. Deficit. Deficit, as shown in the Statement of Financial Condition, represents the results of the operations of CCC since its inception in 1933 after:

1. The restoration (net) of capital by the U.S. Treasury in accordance with the Act of March 8, 1938, as amended, and reimbursement for realized losses in accordance with P.L. 87-155.

2. The net price-support losses in the amount of $500,000,000 have been charged to the Reserve for the Post-War Price Support of Agriculture provided by P.L. 79-301.

3. The recovery of certain specified losses on commodities furnished for foreign assistance under P.L. 80-389 and P.L. 80-393 and for costs of emergency livestock feed under P.L. 84-40.

33. INCOME AND EXPENSE

A. Objective. Income and expense are accounted for on an accrual basis with the objective of matching costs and revenues, to the extent practicable. Adjustments to prior year transactions are included as income or expense of the current fiscal year.

B. Commodity Inventory Operations. Sales of commodities are recorded in the accounts on the basis of transfer of title. Deliveries of commodities under legislation authorizing full reimbursement to CCC or in redemption of certificates are recorded as sales. The cost of commodities donated is recorded as expense on the basis of delivery of the commodities. Storage and handling costs are accrued monthly. Transportation and accessorial expenses are recorded on a paid basis, except at September 30 when an accrual is established for unpaid expenses.

C. Producer Payments. Payments to producers who comply with program provisions are recorded as expense when they are made.

D. Other Program Costs and Adjustments. Annual grain reserve storage payments are made to producers in advance and as they are earned they are expensed. Casualty losses, uncollectible loans and receivables, and other charge-offs are recorded when determined. Miscellaneous income and expense relating to program operations are recorded on an accrual basis to the extent practicable.

E. Special Recoveries. When amounts recorded as program expense are to be recovered from funds appropriated or to be appropriated by the Congress, pursuant to specific legislation, the amounts recovered or to be recovered are recorded as income in the same accounting period as the expenses are recorded.

F. Interest Income. Interest on recourse loans is recorded as income on a accrual basis. Interest on nonrecourse loans is recorded on a receipt basis because no interest is earned when the collateral securing the loans is delivered to CCC in full satisfaction of the loan. Interest on amounts to be recovered through specific appropriations (when applicable) and on notes, negotiable instruments, and accounts receivable resulting from credit sales is recorded as income on an accrual basis. Other interest is recorded when collected.

G. Other Income. Miscellaneous income not directly related to current program operations is recorded on an accrual basis to the extent practicable.

H. Interest Expense. Interest on borrowings from the United States Treasury and on capital stock of CCC are recorded as expenses on an accrual basis. In view of the administrative difficulties involved, no allocation of interest expense is made to the various programs operated by CCC.

I. General Overhead Expense. Administrative and other general overhead expenses are recorded on an accrual basis. In view of the administrative difficulties involved in the legislative provisions with respect to administrative expenses, no allocation of general overhead expense is made to the various programs operated by CCC.

J. Other Expense. Miscellaneous expenses not directly related to current program operations are recorded on an accrual basis to the extent practicable.

K. Adjustments of Allowances for Losses. Adjustments in allowances for losses are recorded as income or expense.

34. CLOSING ACCOUNTING RECORDS

The accounting records of CCC are closed following the end of each fiscal year after allowing time for receipt and recording of documents evidencing transactions relating to the fiscal year being closed. The time allowed is limited because of the need to meet budgetary and other reporting deadlines. Transactions not recorded before closing are recorded as current transactions in the following period.

Prepared by:

Committee for Review of Accounting Policies and Practices of the Commodity Credit Corporation.

Lester W. LeCompte, Chairman

Robbie A. Brammer

John J. Sikora

Albert R. Cox

Richard G. Tucker, Jr.

November 14, 1980

UNITED STATES DEPARTMENT OF AGRICULTURE
COMMODITY CREDIT CORPORATION
P.O. Box 2415
WASHINGTON, D.C. 20013

JUL 22 1981

Mr. Henry Eschwege
Director
Community and Economic Development Division
United States General Accounting Office
Washington, D.C. 20548

Dear Mr. Eschwege:

Thank you for the opportunity to respond to the draft report entitled, "Review of Financial Statements of Commodity Credit Corporation for Fiscal Year 1980," your reference B-202690. Although this report reflects only a review of the financial statements of Commodity Credit Corporation, it does point out where the accounting policies and practices of CCC depart from generally accepted accounting principles or commercial practices.

Historically, because of the unique nature of many CCC programs, the accounting methodology employed by the Corporation has been designed to recover CCC's actual realized losses, which are reimbursable under the provisions of 15 U.S.C. 713a-11. However, we understand your position that the Corporation's financial statements, notwithstanding the "uniqueness" of certain CCC programs and policies, must adhere more strictly to generally accepted accounting principles, as required by the Corporation Control Act. In this regard we have met with your representatives on two occasions to discuss mutually agreeable methods that could provide for both adequate reimbursement of CCC, and the preparation of financial schedules more in line with standard commercial practices. Your representatives were in agreement with the merit of this approach, and also with proceeding as follows:

1. GAO specialist will be available to advise the Controller of CCC and his staff in developing statements which adhere more strictly to generally accepted accounting principles understanding the need for full reimbursement of realized losses and the uniqueness of certain CCC programs.

    a. Such statements are to be prepared at little or no additional cost to CCC.

    b. Any accounting methodology or techniques employed in the "recast" of financial data will be mutually acceptable to GAO and CCC.

    c. "Memo" or recast statements developed will be included with CCC's regular statements.

Mr. Henry Eschwege 2

2. Complete audit of CCC for Fiscal Year 1981.

   a. In view of the somewhat limited reviews or studies of CCC operations by GAO in recent years we believe a full audit of CCC operations should be conducted. Your representatives agreed, and it is our understanding that GAO has now scheduled a comprehensive audit of CCC for FY 1981.

We are most appreciative of the responsiveness of your representatives to our suggestions concerning your draft report for FY 1980, and for your willingness to conduct a full audit of CCC for FY 1981.

In conclusion, we want you to know that it is this Administration's policy to cooperate fully with GAO in responding to recommendations contained in your reports.

Sincerely,

Everett Rank

Executive Vice President

GAO REPORTS ISSUED TO THE CONGRESS SINCE 1977

ON SELECTED PROGRAMS AND ACTIVITIES OF

THE COMMODITY CREDIT CORPORATION

SUMMARY OF GAO REPORTS ISSUED SINCE 1977 PERTAINING TO FARM BILL LEGISLATION

In a report to the Congress (CED-81-43, Jan. 21, 1981), we summarized and updated our reports issued since 1977 on topics which are addressed by the Food and Agricultural Act of 1977 (the Farm Bill). The report also discussed our ongoing work related to Farm Bill issues such as farm structure, parity, commodity surpluses, cultural research, nutrition, disaster assistance, grain reserves, food assistance provided under Public Law 480, foreign agricultural development, grain inspection, rural development, food stamps, farm credit, and agricultural policy.

COMPETITION AMONG SUPPLIERS IN THE PUBLIC LAW 480 CONCESSIONAL FOOD SALES PROGRAM

Since fiscal year 1969, seven major grain firms have supplied most of the grain sold under the federally financed Public Law 480 program. While other firms and farmer cooperatives have been important suppliers in several years, recent bidding statistics show that they compete only on a sporadic basis. For example, these seven firms collectively supplied 70 to 90 percent of all title I grains and rice in 8 of 11 fiscal years from 1969 through 1979.

In our report to the Chairman, Subcommittee on Limitations of Contracted and Delegated Authority, Senate Committee on the Judiciary (ID-81-6, Dec. 19, 1980), we said that certain grain firms are experiencing problems with certain title I procedures and requirements which are acting as barriers to greater industry participation, particularly by smaller firms or cooperatives. Accordingly, we recommended that the Secretary of Agriculture direct the General Sales Manager, who has the responsibility for the program, to take appropriate action to standardize performance bond requirements, improve procedures to provide earlier payment to suppliers, simplify bid bond requirements, standardize letter-of-credit procedures, develop standardized invitations for bids, and limit the size of individual sales and seek to develop a more orderly sales distribution.

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