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BY THE COMPTROLLER GENERAL

# Report To The Congress

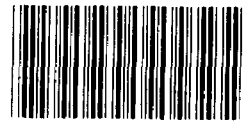
OF THE UNITED STATES

## Examination Of The Commodity Credit Corporation's Financial Statements For The Year Ended September 30, 1984

GAO examined the financial statements of the Commodity Credit Corporation for the year ended September 30, 1984. The examination was made in accordance with generally accepted government auditing standards.

The Corporation's financial statements do not include an allowance for estimated losses that are likely to be sustained due to the uncollectibility of a portion of the loans it has made to countries experiencing financial difficulties. If such an allowance had been deducted, GAO estimates that the Corporation's cumulative results of operations would have been decreased by \$1.0 to \$2.5 billion, resulting in a cumulative deficit of between \$5.1 and \$6.6 billion.

In GAO's opinion, except for the effects of not establishing an allowance for estimated loan losses, the Corporation's financial statements referred to above present fairly its financial position as of September 30, 1984, and the results of its operations and changes in its financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.



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GAO/AFMD-85-53  
SEPTEMBER 30, 1985

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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

This report transmits our opinion on the financial statements of the Commodity Credit Corporation for the year ended September 30, 1984. Our opinion is qualified because the Corporation has not included an allowance in its financial statements for an uncollectible portion of outstanding loans to countries experiencing financial difficulties. The Corporation believes that it is not necessary to establish an allowance for loans outstanding to foreign countries as they are sovereign entities. However, it is our position that although foreign countries are sovereign entities, the fact remains that a portion of outstanding loans to them may never be collected. Therefore, the financial statements should reflect a reduction of loans receivable to be fairly presented.

Appendix I is our report on the Corporation's system of internal accounting controls, and appendix II is our report on the Corporation's compliance with laws and regulations. The Comptroller General is required to audit the financial transactions of the Commodity Credit Corporation under 31 U.S.C. 9105. We conducted our examination in accordance with generally accepted government auditing standards.

The Commodity Credit Corporation is a wholly owned government corporation created in 1933 to stabilize, support, and protect farm prices as well as assist in the maintenance of adequate supplies and the orderly distribution of agricultural commodities.

We are sending copies of this report today to the Director of the Office of Management and Budget, the Secretaries of the Treasury and Agriculture, and the Executive Vice President, Commodity Credit Corporation.

*Charles A. Bowsher*

Comptroller General  
of the United States





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

B-202690

To the Board of Directors  
Commodity Credit Corporation

We have examined the statement of financial condition of the Commodity Credit Corporation (CCC) as of September 30, 1984, the related statement of income (loss), and the statement of changes in financial position for the year then ended. Our examination was made in accordance with generally accepted government auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

CCC's assets include a significant amount of loans that are in arrears, have had payment dates rescheduled, or are outstanding to countries experiencing financial difficulties. CCC's financial statements do not reflect the costs incurred for estimated losses that are likely to be sustained due to the uncollectibility of a portion of the loans CCC has made. CCC has not developed an estimate of such an allowance for potential loan losses. If such an allowance for estimated loan losses had been deducted, we estimate that total assets and cumulative results of operations would each be decreased by \$1.0 to \$2.5 billion.<sup>1</sup> This would result in a cumulative deficit of between \$5.1 and \$6.6 billion as of September 30, 1984, instead of the cumulative deficit of \$4.1 billion as shown in the accompanying 1984 financial statements.

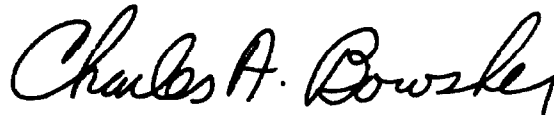
In our opinion, except for the effects of not establishing an allowance for estimated loan losses as discussed in the preceding paragraph, the financial statements referred to above

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<sup>1</sup>GAO's estimate of the loan loss allowance of between \$1.0 and \$2.5 billion is based on several factors, including international debt and country risk assessments published by a variety of researchers. The lower boundary of GAO's estimate provides a 100 percent allowance for repudiated debt and other debt where repayment is considered remote. The upper boundary of the estimate includes an additional amount for loans to countries that are experiencing severe economic and debt repayment difficulties.

present fairly the financial position of the Commodity Credit Corporation as of September 30, 1984, and the results of its operations and the changes in its financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

The financial statements of CCC for the year ended September 30, 1983, were not audited and, accordingly, we do not express an opinion on them.



Comptroller General  
of the United States

March 15, 1985

# A p p e n d i x e s

		<u>Page</u>
I	Report on internal accounting controls	1
II	Report on compliance with laws and regulations	3
III	Commodity Credit Corporation's financial statements:	
	Statement of financial condition	5
	Statement of income (loss)	6
	Statement of changes in financial position	7
	Notes to financial statements	8





REPORT ON INTERNAL ACCOUNTING CONTROLS

We have examined the financial statements of the Commodity Credit Corporation (CCC) for the year ended September 30, 1984, and have issued our opinion thereon. As part of our examination, we made a study and evaluation of the system of internal accounting controls to the extent we considered necessary to evaluate the system as required by generally accepted government auditing standards. For the purpose of this report, we have classified the significant internal accounting controls in the following categories:

- administrative costs,
- cash management,
- commodity loans,
- export trade,
- facility loans,
- financial reporting,
- inventories,
- payments-in-kind, and
- producer payments.

Our study included all of the control categories listed above. However, we did not evaluate the accounting controls over all functions within any of the categories because it was more efficient to expand substantive audit tests. The purpose of our study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on CCC's financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting controls taken as a whole or on any of the categories of controls identified above.

The management of CCC is responsible for establishing and maintaining a system of internal accounting controls. In fulfilling this responsibility, management is required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that (1) assets are safeguarded against loss from unauthorized use or disposition and (2) transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any system of internal accounting controls, errors or

irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with procedures may deteriorate.

Our study and evaluation was made for the limited purpose described in the first paragraph and would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting controls of CCC taken as a whole or on any of the categories of controls identified in the first paragraph. However, our study and evaluation disclosed one condition that we believed to be a material weakness: CCC had recorded \$93.3 million more in its general ledger cash accounts than its corresponding U.S. Treasury accounts at September 30, 1984. This was caused by an erroneous posting of \$46.65 million which resulted in a doubling effect creating the \$93.3 million difference. This error was not detected promptly because CCC did not give cash reconciliations the priority they deserve. CCC staff are now taking steps to reconcile cash monthly.

Certain matters which were not material to the financial statements were noted during our audit and have been communicated to CCC officials by separate management letters.

REPORT ON COMPLIANCE WITH LAWS  
AND REGULATIONS

We have examined the financial statements of the Commodity Credit Corporation (CCC) for the year ended September 30, 1984, and have issued our opinion thereon. Our examination was made in accordance with generally accepted government auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures, including tests of compliance with laws and regulations, as we considered necessary in the circumstances. These tests were made at selected Agricultural Stabilization and Conservation Service offices where CCC transactions are carried out:

- Agricultural Stabilization and Conservation Service headquarters,
- Kansas City Management Office,
- Kansas City Commodity Office, including the National Warehouse Service Center headquarters and four of seven area offices, and
- state and county offices, including nine states and 18 counties.

In our opinion, CCC complied with the terms and provisions of laws and regulations for the transactions tested that could have materially affected its financial statements. However, transaction testing at county offices was limited to 18 of about 2,800 county offices.

Nothing came to our attention in connection with our examination of CCC's financial statements that caused us to believe that CCC was not in compliance with the terms and provisions of laws and regulations for those transactions not tested.<sup>2</sup>

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<sup>2</sup>In separate GAO reviews of selected CCC programs and activities covering fiscal years 1983 and 1984, we noted several matters of noncompliance which are discussed in GAO/RCED-85-107, August 19, 1985, and GAO/RCED-85-89, September 25, 1985. These matters did not materially affect CCC's fiscal year 1984 financial statements.

In addition, several USDA Office of Inspector General reports issued and in process contain, in our judgment, matters of a programmatic nature that indicate noncompliance with various laws and regulations. These matters do not have a material effect on CCC's 1984 financial statements, but could change policies and procedures affecting future operations of the corporation.

Certain compliance matters which were not material to the financial statements were noted during our audit and have been communicated to CCC officials by separate management letters.

Commodity Credit Corporation  
Statement of Financial Condition  
September 30, 1984 and 1983 (Note A)

	(Unaudited)	
	<u>September 30, 1984</u>	<u>September 30, 1983</u>
ASSETS		
	(In Thousands)	
Cash.....	\$ 132,456	\$ 111,208
Loan Programs:		
Commodity, less allowance for losses (1984 \$21,729; 1983 \$19,939).....	7,833,819	14,055,832
Storage Facility and Equipment.....	715,933	1,008,090
Commodity Inventories, less allowance for losses (1984 \$4,063,425; 1983 \$3,998,430).....	3,294,748	6,228,994
Accounts and Notes Receivable, less allowance for losses (1984 \$56,199; 1983 \$41,797) (Note C).....	12,377,289	10,746,488
Anticipated Appropriation for Net Realized Losses (Notes B and D).	6,690,867	7,846,140
Accrued Interest Receivable (Notes B and E).....	518,788	263,936
Advance Payments to Producers (Note F).....	169,950	442,537
Fixed and Other Assets, less allowance for depreciation (1984 \$11,468; 1983 \$9,147).....	<u>229,309</u>	<u>521,494</u>
Total Assets.....	<u>\$ 31,963,159</u>	<u>\$ 41,224,719</u>
	=====	=====
LIABILITIES		
Accounts Payable.....	\$ 142,866	\$ 239,764
Accrued Interest on U.S. Treasury Borrowings.....	1,304,775	1,335,239
Accrued Deficiency and Cash Land Diversion Payments (Note B).....	3,861,000	1,452,294
Accrued Payment-in-kind (Note K).....	587,024	8,996,881
Accrued Liabilities.....	246,759	230,294
Trust and Deposit Liabilities (Note G).....	1,145,668	838,312
Borrowings From U.S. Treasury (Note H).....	18,608,576	21,407,418
Due to U.S. Treasury (P.L.83-480).....	9,483,505	9,009,193
Other Liabilities.....	<u>624,338</u>	<u>1,675,490</u>
Total Liabilities.....	<u>36,004,511</u>	<u>45,184,885</u>
Contingencies and Commitments (Note M).....		
INVESTMENT OF U.S. GOVERNMENT:		
Capital Stock (Note I).....	100,000	100,000
Cumulative Results of Operations (Deficit) (Note J).....	<u>(4,141,352)</u>	<u>(4,060,166)</u>
Total Investment of U.S. Government.....	<u>(4,041,352)</u>	<u>(3,960,166)</u>
Total Liabilities and Investment of U.S. Government.....	<u>\$ 31,963,159</u>	<u>\$ 41,224,719</u>

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

Commodity Credit Corporation  
Statement of Income (Loss)  
For Years Ended September 30, 1984 and 1983 (Note A)

	(Unaudited)	
	September 30, 1984	September 30, 1983
	(In Thousands)	
<b>Sales and Other Revenue - Program</b>		
Commodity Inventory Operations:		
Sales of Commodities.....	\$ 9,520,518	\$ 1,619,214
Less:		
Cost of Sales.....	(10,114,676)	(2,200,458)
Cost of Commodities Donated.....	(1,598,618)	(1,402,446)
Storage and Handling Expense.....	(397,969)	(486,589)
Transportation Expense.....	(109,816)	(92,138)
Net Loss on Commodity Inventory Operations.....	(2,700,561)	(2,562,417)
Milk Marketing Fees Collected.....	816,561	253,849
Special Recoveries Authorized for National Wool Act.....	123,202	88,282
Other Income.....	581	335
Total Sales and Other Revenue - Program.....	<u>(1,760,217)</u>	<u>(2,219,951)</u>
<b>Expenses and Costs - Program</b>		
Producer Payments.....	(4,552,930)	(4,734,184)
Grain Reserve Storage Expense.....	(278,204)	(1,112,646)
Payment-in-kind.....	(301,982)	(9,423,953)
National Wool Act Payments.....	(123,202)	(88,282)
Loan and Other Charge-Offs.....	(15,457)	(56,372)
Other Costs.....	(71,786)	(7,610)
Total Expenses and Costs - Program.....	<u>(5,343,561)</u>	<u>(15,423,047)</u>
Net Program Expense.....	<u>(7,103,778)</u>	<u>(17,642,998)</u>
<b>General and Administrative Income and Expenses</b>		
Interest Income.....	576,454	509,058
Interest Expense.....	(1,610,091)	(2,031,914)
Net Interest.....	(1,033,637)	(1,522,856)
Operating Expense (Net) (Note L).....	(380,949)	(347,125)
Net General and Administrative Income and Expense.....	<u>(1,414,586)</u>	<u>(1,869,981)</u>
Total Realized Loss.....	<u>(8,518,364)</u>	<u>(19,512,979)</u>
<b>Adjustment of Allowances for Losses - Program</b>		
Loans (Includes Allowance for Donations).....	(1,790)	54,739
Commodity Inventories (Includes Allowance for Donations).....	(64,994)	(608,434)
Accounts and Notes Receivable.....	(14,402)	(17,500)
Net Change in Allowances for Losses - Program.....	<u>(81,186)</u>	<u>(571,195)</u>
Excess of Costs and Expenses over Revenue.....	(8,599,550)	(20,084,174)
Anticipated Appropriation for Realized Losses Under P.L. 87-155...	8,518,364	19,512,979
Net Loss Before the Cumulative Effect of Change in Accounting.....	(81,186)	(571,195)
Cumulative Effect on Prior Years of Changing Recognition of Appropriation (Note B).....	--	4,506,675
Net Income (Loss), (Note J).....	<u>\$ (81,186)</u>	<u>\$ 3,935,480</u>

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

Commodity Credit Corporation  
Statement of Changes in Financial Position  
For Years Ended September 30, 1984 and 1983 (Note A)

	<u>September 30,</u> 1984	<u>(Unaudited)</u> <u>September 30,</u> 1983
(In Thousands)		
<u>Funds Provided:</u>		
Cumulative effect of accounting change (Note B).....	\$ --	\$ 4,506,675
Appropriations Received:		
Agricultural Trade Development and Assistance Act.....	1,377,000	1,028,000
National Wool Act Program.....	93,575	53,855
Repayments under Export Credit Sales Program.....	63,851	79,932
Borrowings from U.S. Treasury.....	8,605,907	18,045,000
Increase in:		
Trust and Deposit Liabilities.....	15,749	148,504
Due to U.S. Treasury (P.L. 83-480).....	474,312	499,974
Decrease (Increase) in:		
Commodity Inventories.....	2,869,252	(5,124,262)
Producer Loans.....	6,512,380	(3,450,576)
Producer Advance Payments.....	272,588	(169,204)
Fixed and Other Assets.....	292,186	(302,523)
Anticipated Appropriation for Net Realized Losses.....	<u>1,155,273</u>	<u>(7,846,140)</u>
Total Funds Provided.....	<u>\$21,732,073</u>	<u>\$ 7,469,235</u>
<u>Funds Applied:</u>		
Cost of Agricultural Trade Development and Assistance Act.....	\$ 1,085,393	\$ 991,986
Repayment of Borrowings from U.S. Treasury.....	11,404,749	15,446,008
Payments Under the Export Credit Sales Program.....	146,909	137,022
Cost of National Wool Act Program.....	131,959	93,575
Increase in:		
Accounts and Notes Receivable.....	1,523,762	773,216
Interest receivable.....	254,852	62,413
Decrease (Increase) in:		
Interest on Treasury Borrowings.....	30,464	2,002,058
Accounts Payable.....	96,898	(23,624)
Accrued Liabilities.....	5,984,687	(10,614,003)
Other Liabilities.....	<u>1,051,152</u>	<u>(1,501,352)</u>
Total Funds Applied.....	<u>21,710,825</u>	<u>7,367,299</u>
Increase in Cash	<u>\$ 21,248</u>	<u>\$ 101,936</u>

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

COMMODITY CREDIT CORPORATION  
Notes to Financial Statements

Description of Entity

**Purpose** The Commodity Credit Corporation (CCC) is a wholly government owned Corporation established in 1933. Its purpose is to stabilize, support, and protect farm income and prices; assist in the maintenance of balanced and adequate supplies of agricultural commodities; and facilitate the orderly distribution of 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.

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

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 nonrecourse loans, purchases, direct payments, and other operations.

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

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.

Commodity export programs are designed to aid in the development of export markets for United States agricultural commodities and products. Commodity export programs are carried out through such operations as financing, sales, barter, and assured loans.

Special activities programs are carried out under authority of the Corporation's charter and specific authorizations and directives.

**Financing** The operations of CCC are financed under a statutory borrowing authority of \$25 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.

**Use of Trade** CCC recognizes trade practices in the financing, purchase, sales, storage, and handling 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, public warehouses, and others.

**Note A -  
Summary of Significant  
Accounting Policies**

**General Policy** CCC policy is to adhere to accounting principles and practices which are generally accepted in the field of commercial accounting. 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 note outlines briefly the accounting policies and practices observed by CCC with particular reference to unusual applications of generally accepted accounting principles.

**Mandatory Price-support Programs** CCC is required by law to make price-support programs available for specified commodities at price levels bearing prescribed relationships between parity prices and 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.

The loan rates and purchase prices under price-support programs, by 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.

**Commodity Loans** CCC makes nonrecourse loans to producers on certain agricultural commodities. Loans are carried in the accounts at the unpaid principal balance. Producers have the option to repay the principal plus interest or, at maturity, to surrender the commodity in full satisfaction of the loan. In addition, CCC makes recourse loans available on certain commodities at periods when producers are unable to warehouse or market their commodities.

**Commodity Inventories** 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. 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. Inventories held under supply and commodity export programs are usually acquired to fill orders or known program requirements.

Statutory provisions direct that, with certain exceptions, CCC cannot sell in the domestic market certain 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.

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. Loans prior to April 1, 1981, are repayable in not more than seven annual installments. Loans after this date are repayable in four annual installments.

Dairy  
Production  
Stabilization

The Dairy Production Stabilization program is authorized by the Dairy and Tobacco Adjustment Act of 1983, the Agricultural Act of 1949, as amended, and the CCC Charter Act. The purpose of the program is to stabilize the supply and demand for dairy products. Producers are paid for reducing the quantity of milk marketed for commercial use during the 15-month period beginning January 1, 1984. The cost of this program will be offset by a 50 cents per hundredweight charge collected and remitted to CCC on milk and milk products produced in the United States and marketed by producers for commercial use.

Accounts and  
Notes Receivable

Public Law 83-480, 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.

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.

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 as receivables. Accrued interest is added on September 30 each year. The principal amount financed, 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. The total receivable under the P.L. 83-480 program is offset by a corresponding amount due to the U.S. Treasury.

Allowances for  
Losses

Allowances for losses on commodity loans and commodity inventories are based on the estimated loss on ultimate commodity dispositions. Allowances equal to the full inventory value are established for commodities scheduled for 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 CCC'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 cost to CCC.

Allowances for losses are not established for accounts and notes receivable representing loans made to foreign countries under CCC's foreign loan and guarantee programs. Allowances for losses are established for certain domestic accounts and notes receivable and are based on the recovery value of the respective assets.

Fixed Assets

Fixed assets acquired by CCC are recorded at cost. A 100-percent 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.

Borrowings

Borrowings to finance program activities of CCC are made from the U.S. Treasury. U.S. 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 P.L. 89-316, approved November 2, 1965. Borrowings are shown in the financial statements at the unpaid balance.

Price-support Commodities Delivered to Title II, P.L. 83-480	Statutory provisions direct that commodities acquired under the price-support program and delivered to Title II, P.L. 83-480 outlets, shall be valued at a price not greater than the export market price at the time the commodity is made available. The difference between the cost of the commodities and the above-determined price is included in the total realized losses of CCC.
Full Reimbursement for Inventory Disposition	CCC is required by law to recover all costs incurred on the supply and commodity export program inventory transactions when purchased specifically for United States government agencies or Title II of P.L. 83-480.
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 the 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.
Reimbursement for Realized Losses	P.L. 87-155 authorizes an annual appropriation to reimburse CCC for its net realized loss as recorded in its accounts.
Reclassifications	Reclassifications have been made in the 1983 financial statements to conform to the presentation used in 1984.
Note B - Accounting Changes	<p>In fiscal year 1984, CCC modified its interest accrual policy to record accrued interest receivable on tobacco loans subject to the No Net Cost Tobacco Program Act of 1982. To prevent timing differences between unrealized interest income and realized expenses, CCC records a deferred interest income credit to offset the receivable entry until the interest payment is received.</p> <p>Beginning with fiscal year 1983, CCC began to accrue estimated deficiency and diversion payments due producers in the fiscal year in which the crop price deficiency and acreage diversion occurred. Formerly, CCC had disclosed the estimated deficiency and diversion payments due as a contingent liability, and they were not recorded as expenses until such time as cash payments were actually made. Also, in fiscal year 1983, CCC began recognizing amounts due from appropriations for realized losses in the year earned. Therefore, a receivable from the U.S. Treasury is established for the amount due, rather than including it in the deficit.</p> <p>The above changes, increase (decrease), affect fiscal year 1983 income as follows:</p>

	(In Millions)
Deficiency and cash land diversion payments accrued	(\$ 1,452)
Effect on period prior to 1983 because of changing recognition of appropriations for 1982	\$ 4,507

Note C - Maturities of accounts and notes receivable as of  
Accounts and September 30, 1984 and 1983, were as follows:  
Notes Receivable

	<u>September 30, 1984</u>			
	<u>1985</u>	<u>1986</u>	<u>1987 &amp; Beyond</u>	<u>Total</u>
	(-----millions-----)			
Recoverable from funds appropriated for:				
P.L. 83-690, National Wool Act	\$ 132	\$ -	\$ -	\$ 132
P.L. 83-480 (Note C-1)				
Principal	246	268	8,755	9,269
Interest	215			215
Export Credit Sales (Note C-2)	420	159	244	823
Export Guarantee Claims Paid	1,143	-	-	1,143
Rescheduled Guarantees Paid	6	39	319	364
Government Agencies	16	-	-	16
Sales to Foreign Governments	31	31	16	78
Refunds from Producers (Note C-3)	235	-	-	235
Barter Program	12	-	-	12
Others - net of \$56 million allowance for loss	90	-	-	90
	<u>\$2,546</u>	<u>\$497</u>	<u>\$9,334</u>	<u>\$12,377</u>

	<u>September 30, 1983</u> (Unaudited)			
	<u>1984</u>	<u>1985</u>	<u>1986 &amp; Beyond</u>	<u>Total</u>
	(-----millions-----)			
Recoverable from funds appropriated for:				
P.L. 83-690, National Wool Act	\$ 94	\$ -	\$ -	\$ 94
P.L. 83-480 (Note C-1)				
Principal	222	238	8,341	8,801
Interest	208	-	-	208
Export Credit Sales (Note C-2)	387	54	299	740
Export Guarantee Claims Paid	638	-	-	638
Rescheduled Guarantees Paid	1	3	179	183
Government Agencies	1	-	-	1
Sales to Foreign Governments	13	13	13	39
Others - net of \$42 million allowance for loss	42	-	-	42
	<u>\$1,606</u>	<u>\$308</u>	<u>\$8,832</u>	<u>\$10,746</u>

Note C-1-  
Receivables for  
Public Law 83-480,  
Credit Sales for  
Dollars

As of September 30, 1984 and 1983, past-due installments of principal and interest on receivables due from foreign governments amounted to \$143 million and \$112 million (unaudited), respectively.

Foreign government receivables of \$190 million from the Khmer Republic and \$33 million from the Republic of Vietnam 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 receivables also include \$20 million for the Khmer Republic and \$10 million for the Republic of Vietnam, 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 million for commodities purchased by the Khmer Republic and \$6 million for commodities purchased by the Republic of Vietnam are included in CCC's accounts as a liability as of September 30, 1984 and 1983. Disposition expenses paid from these proceeds were \$1 million. Disposition of net proceeds will be made after the Treasury Department has provided instructions.

Note C-2-  
Export Credit  
Sales Programs

The CCC export credit sales programs provide for financing of export credit sales of agricultural commodities by purchasing exporters' accounts receivable. The registration of a sale enables a United States 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 programs are covered by United States bank and foreign bank letters of credit or other obligations acceptable to CCC. As of September 30, 1984 and 1983, past-due installments of principal and interest amounted to \$429 million. The past-due amount from Poland as of September 30, 1984 and 1983, amounted to \$420 million and \$418 million (unaudited), respectively. (See note C-4.)

Note C-3 -  
Refunds from  
Producers

Advance corn and sorghum deficiency payments made to producers in 1983 are carried as receivables (Refund from Producers) as of September 30, 1984. The receivables resulted because the national weighted average market price received by farmers during the first five months of the marketing year (October 1983 through February 1984) for corn and sorghum were not below the target price; therefore no deficiency was due.

Note C-4 -  
Polish Debt

During calendar year 1981, in accordance with an agreement between the governments of the United States and Poland, CCC paid \$158 million to banking institutions representing amounts due from Poland under the GSM-101 and GSM-102 programs. Of this amount, \$143 million was rescheduled for later payment. The remaining \$15 million was to be paid by Poland. CCC received no payments from Poland in fiscal years 1982 or 1983. In fiscal year 1984, CCC received a payment of \$10 million, leaving a \$5 million unpaid balance as of September 30, 1984. In addition, \$29 million in interest, due under the rescheduling agreement, was in arrears as of September 30, 1983. As of September 30, 1984, \$43 million in interest due under the agreement remained in arrears. Since January 1, 1982, CCC has paid \$845 million to banking institutions and exporters on claims submitted because of nonpayment by Poland. CCC's contingent liability on exports to Poland under the GSM-101 and GSM-102 programs as of September 30, 1983 and 1984, excluding guaranteed interest, was \$238 million and \$9 million, respectively.

Under the Export Credit Sales Program (GSM-5), principal and interest payments of \$228 million due in calendar year 1981 were not made by Poland. Of this amount, \$217 million was rescheduled for later payment. The remaining \$11 million was to be paid by Poland. CCC received no payments from Poland in fiscal years 1982 or 1983, but received \$8 million in fiscal year 1984, leaving \$3 million unpaid as of September 30, 1984. In addition, interest of \$51 million and \$72 million due under the rescheduling agreement was in arrears as of September 30, 1983 and 1984, respectively. Since January 1, 1982, \$357 million in principal and interest has not been paid by Poland.

Note D -  
Reimbursement for  
Net Realized  
Losses

The receivable for the anticipated appropriation for net realized losses, as shown in the Statement of Financial Condition, represents the cumulative realized losses of CCC since its inception in 1933 after:

- restoration (net) of capital by the U.S. Treasury in accordance with the CCC Charter Act of March 8, 1938, as amended,
- reimbursement for realized losses in accordance with P.L. 87-155,
- recovery of losses charged to the reserve for the post-war price support of agriculture provided by P.L. 79-301,
- recovery of certain specific losses on commodities furnished for foreign assistance under P.L. 80-389, and
- recovery of the costs of emergency livestock feed under P.L. 84-40.

The receivable for the anticipated appropriation for net realized losses as of September 30, 1984 and 1983, was:



September 30, 1984

(—millions—)

Realized Loss:		
Cumulative to September 30, 1983		\$ 98,425
In fiscal year 1984		<u>8,518</u>
Total		<u>106,943</u>
Restorations from U.S. Treasury to September 30, 1983:		
Notes cancelled	\$ 2,698	
Payments to U.S. Treasury	(138)	
Appropriations	<u>87,421</u>	
	<u>89,981</u>	
Appropriation FY 1984	<u>9,674</u>	
Net Restorations		99,655
Recovery of losses charged to post-war price support - P.L. 79-301		500
Recovery of losses and commodities furnished for foreign assistance - P.L. 80-389		56
Recovery of costs under the Emergency Feed Program - P.L. 84-40		<u>42</u>
Net restorations and recoveries		<u>100,253</u>
Total unrecovered losses		<u>\$ 6,690</u>

(Unaudited)  
September 30, 1983

(—millions—)

Realized Loss:		
Cumulative to September 30, 1982		\$ 78,912
In fiscal year 1983		<u>19,513</u>
Total		<u>98,425</u>
Restorations from U.S. Treasury to September 30, 1982:		
Notes cancelled	\$ 2,698	
Payments to U.S. Treasury	(138)	
Appropriations	<u>71,247</u>	
Appropriation FY 1983	<u>16,174</u>	
Net Restorations		89,981
Recovery of losses charged to post-war price support - P.L. 79-301		500
Recovery of losses and commodities furnished for foreign assistance - P.L. 80-389		56
Recovery of costs under the Emergency Feed Program - P.L. 84-40		<u>42</u>
Net restorations and recoveries		<u>90,579</u>
Total unrecovered losses		<u>\$ 7,846</u>

Note E -  
Accrued Interest  
Receivable

Accrued interest receivable as of September 30, 1984 and 1983, was comprised of the following:

	September 30	
	<u>1984</u>	<u>1983</u>
	(Unaudited)	
	(—millions—)	
Export credit sales	\$192	\$141
Storage facility and equipment loans	55	70
Export credit guarantee claims	51	52
No Net Cost Tobacco Program	220	-
Other	<u>-</u>	<u>1</u>
Total	<u>\$518</u>	<u>\$264</u>

No allowance for loss has been established for interest receivable.

Except for interest accrued on loans subject to the No Net Cost Tobacco Program (see Note B), the amount of interest which will be realized from nonrecourse commodity loans is uncertain and therefore not accrued. Under the terms of such loans, producers may choose to not redeem the commodities held as collateral and surrender the commodity in full satisfaction of the loan, including any interest thereon.

Note F -  
Farmer-owned  
Grain Reserve  
Program

The Food and Agriculture Act of 1977 and the Agriculture and Food Act of 1981 provide for a farmer-owned grain reserve program for wheat, corn, barley, sorghum, and oats. The purpose of the program is to isolate grain stocks from the market to counter the price-depressing effects of these surplus stocks. Producers must put the eligible crop under a nonrecourse CCC price-support loan.

The reserve agreement extends the original loan for 3 years. The farmer agrees not to repay the loan in the reserve until national average market prices reach a specified trigger level.

Under the farmer-owned grain reserve program, 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. Grain placed in the reserve is subject to the same storage requirements as grain in the regular price-support loan program. Producers are permitted to rotate their reserve stocks to maintain quality. The grain can be stored either on the farm or in commercial warehouses.

The grain reserve loans outstanding as of September 30, 1984 and 1983, are:

	September 30,			
	1984		(Unaudited) 1983	
	<u>Quantity</u>	<u>Value</u>	<u>Quantity</u>	<u>Value</u>
	(Bushels)		(Bushels)	
	(—millions—)		(—millions—)	
Barley	97	\$ 213	99	\$ 214
Corn	426	1,164	1,838	4,994
Oats	3	4	5	7
Sorghum	178	486	306	825
Wheat	658	2,439	816	3,024
Total	<u>1,362</u>	<u>\$4,306</u>	<u>3,064</u>	<u>\$9,064</u>

Note G -  
Trust and Deposit  
Liabilities

Amounts advanced to, or deposited with, CCC as of September 30, 1984 and 1983, were as follows:

	September 30 (Unaudited)	
	1984	1983
	(—millions—)	
Funds appropriated for:		
Agricultural Stabilization and Conservation Service Programs:		
Agricultural conservation	\$ 191	\$183
Rural clean water	45	50
Water bank	44	43
Emergency conservation	24	20
Expenses, ASCS (county office)	40	44
Forestry incentives	16	14
Subtotal	<u>360</u>	<u>354</u>
P.L. 83-480:		
Title I	187	39
Title II	352	208
Advances from Agricultural Marketing Service and Food and Nutrition Service	171	175
Sales Proceeds from Frustrated Cargo P.L. 83-480, Title I	15	15
No Net Cost Tobacco Program (Note G-1)	40	9
Other Advances and Deposits	<u>21</u>	<u>38</u>
Total	<u>\$1,146</u>	<u>\$838</u>

Note G - 1  
No Net Cost  
Tobacco

Pursuant to the No Net Cost Tobacco Program Act of 1982, CCC maintains a No Net Cost Tobacco Account as a trust and deposit liability. This account is made up of assessment contributions from tobacco producers and will be used to offset any program losses related to 1982 and subsequent crop tobacco loans realized by CCC. Interest is credited on the daily principal balance of the account maintained by CCC.

Note H -  
Borrowing  
Authority

CCC operations are financed by borrowings from the U.S. Treasury under its statutory borrowing authorization of \$25 billion. This amount is the limit on borrowings that may be outstanding at any one time. As of September 30, 1984 and 1983, CCC's actual borrowings from the Treasury amounted to \$18.6 billion and \$21.4 billion (unaudited), respectively. CCC refinances its borrowings annually.

Note I -  
Capital Stock

The capital stock of CCC is \$100 million which was subscribed by the United States as provided in the Commodity Credit Corporation Charter Act. The charter act provides that CCC pay interest on its capital stock to the U.S. Treasury at rates determined by the Secretary of the Treasury. The amount and rate paid to Treasury during fiscal year 1984 were \$11 million and 10 7/8 percent. The amount and rate paid to Treasury during fiscal year 1983 were \$12 million and 12 1/8 percent (unaudited).

Note J -  
Cumulative Results  
of Operations

CCC's deficit, as shown below, represents the results of the operations of CCC since its inception in 1933.

CCC receives an annual appropriation for reimbursement of its net realized losses. Prior to the actual receipt, this is shown on the balance sheet as a receivable and on the income statement as an anticipated appropriation (see Note D).

The deficit as of September 30, 1984 and 1983, was:

	<u>September 30, 1984</u>
	(—millions—)
Net deficit, September 30, 1983	\$4,060
Plus: Adjustment for current year allowances for losses	<u>81</u>
Net deficit, September 30, 1984	<u>\$4,141</u>
	(Unaudited)
	<u>September 30, 1983</u>
	(—millions—)
Net deficit, September 30, 1982	\$7,996
Less: Effect on prior years of accounting change	\$(4,507)
Plus: Adjustment for current year allowances for losses	<u>571 (3,936)</u>
Net deficit, September 30, 1983	<u>\$4,060</u>

Note K -  
Payment-in-kind

The payment-in-kind (PIK) program is authorized by the Agricultural Act of 1949, as amended, and the CCC Charter Act. The diversion of additional acreage from production, other than the acreage required to be diverted under the acreage reduction and cash land diversion programs established for the 1983 crops of wheat, feed grains, upland cotton, and rice, was necessary to assist in adjusting the total national acreage of these commodities to desirable goals. As compensation for diverting acreage of these commodities from production, CCC made quantities of such commodities available to producers. Producers received their 1983 PIK commodities from quantities which they previously pledged as collateral for outstanding 1982 or prior crop year loans, from quantities of their 1983 production if CCC required them to pledge such production as loan collateral, or from other quantities of the commodities

in CCC inventory. A producer with a quantity of commodity pledged as collateral for an outstanding loan was required to redeem such quantity and sell it to CCC for PIK purposes. CCC then made that quantity available to the producer as PIK compensation. A producer with an insufficient quantity of a commodity pledged as loan collateral, which could be utilized for PIK purposes, received PIK compensation from other quantities of the commodity in CCC inventory. PIK compensation for commodities redeemed by the producer and sold to CCC was recorded at the CCC purchase price. PIK compensation for commodities which were made available to the producer from other quantities of the commodity in CCC inventory was recorded at the average inventory cost.

In order to obtain sufficient quantities of commodities for CCC inventory to meet the 1983 PIK obligations, CCC purchased additional commodities from producers under acquisition programs. Under these programs, a producer could offer to sell to CCC a quantity of a commodity pledged as loan collateral which was in excess of that quantity needed by the producer for PIK purposes. In submitting the offer the producer would bid on the percentage of the commodity which the producer desired to retain as part of the purchase price. If the offer was accepted, the producer would redeem the loan collateral and sell it to CCC, retaining that percentage of the quantity of the commodity bid. The CCC inventory cost was increased by the loan value of the commodity retained by the producer.

PIK entitlements not redeemed and PIK storage and additional compensation earned but not paid at the end of the fiscal year were recorded as accruals. PIK compensation and related expenses and income became part of CCC realized losses for the fiscal year.

The 1984 PIK Program is also authorized by the Agricultural Act of 1949, as amended, and the CCC Charter Act. The program under which acreage was diverted from production as in the 1983 program, is applicable only to wheat. The 1984 PIK Program required that producers receive their 1984 PIK wheat from quantities which they previously pledged as collateral for outstanding 1983 or prior crop-year loans or from quantities of their 1984 production if CCC required them to pledge such production as loan collateral. A producer with a quantity of wheat pledged as collateral for an outstanding loan is required to redeem such quantity and sell it to CCC for PIK purposes. CCC then made that quantity available to the producer as PIK compensation. PIK compensation for commodities redeemed by the producer and sold to CCC is recorded at the CCC purchase price. Unlike the 1983 program, the 1984 PIK Program provides that the PIK compensation will be taken into account in applying the \$50,000 payment limitation, together with any applicable deficiency and diversion payments.

Note L -  
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 among CCC and ASCS activities on the basis of budgetary workload statistics.

Note M -  
Contingent  
Liabilities  
and Commitments

Export Credit  
Guarantee Program

Under the Export Credit Guarantee Program (GSM-102), CCC enters into guarantee agreements with United States exporters who sell agricultural commodities on credit terms for periods up to three years. The guarantee provided by CCC protects the exporter and his assignee against loss from defaults in payments by a foreign bank. CCC's protection is for up to the unpaid port value of the commodity plus interest of not more than certain Treasury bill auction rates, at the time of application, under the GSM-102 program. For this protection, the exporter must pay CCC a fee at the time of application for a guarantee 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 due from the foreign bank and/or the importer.

CCC's contingent liability as of September 30, 1984, is \$6,314 million. For information on claims paid under the Government of Poland agreements, see Note C-4.

Loan Guarantees  
for Pilot Projects  
for Industrial  
Hydrocarbons and  
Alcohols

The Secretary of Agriculture is directed in Section 509 of the Rural Development Act of 1972, as amended, to formulate and carry out a pilot program for the production and marketing of industrial hydrocarbons and alcohols from agricultural commodities and forestry products.

On March 19, 1980, CCC entered into an agreement with Wachovia Bank & Trust Company, N.A. (Wachovia) and Guaranty Fuels North Carolina, Inc. (GFNC) which provided for guarantee by CCC of a loan of \$4,566,000 made by Wachovia to GFNC for a project in Rowan County, North Carolina. GFNC defaulted on the loan and on July 8, 1981, filed for reorganization under Chapter XI of the Bankruptcy Reform Act. On August 5, 1981, CCC paid Wachovia \$5 million representing unpaid principal and interest. CCC received an assignment from Wachovia of its right, title, and interest to the collateral securing the loan made by Wachovia to GFNC. In addition, CCC received an assignment of the right, title, and interest of Wachovia to the note evidencing the

loan. GFNC's petition was pending in the bankruptcy court at September 30, 1983. At that time, for reporting purposes, CCC established an allowance for loss of \$3.5 million.

Equipment was sold at auction on August 30, 1984, for a total of \$164,000. Settlement on the property was held on June 8, 1984, for \$775,000. The loan was written off during the 1984 fiscal year in the amount of \$5,559,000, including principal and interest.

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 as of September 30, 1984 and 1983, were as follows:

<u>Commodity</u>	<u>Contract Value</u> <u>September 30</u> (Unaudited)	
	<u>1984</u>	<u>1983</u>
	(—in millions—)	
Blended Food Products	\$ 17	\$ 21
Dairy Products	22	21
Feed Grains and Products	10	13
Rice	11	5
Vegetable Oil and Products	34	33
Wheat and Products	26	42
Others	-	2
Total	<u>\$120</u>	<u>\$137</u>

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

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 amounts of outstanding letters of commitment issued for sales of commodities as of September 30, 1984 and 1983 (unaudited), were \$54 million and \$32 million, respectively. Letters of commitment covering ocean freight differential are issued without stated value. However, estimated ocean freight differential was \$80 million as of September 30, 1984, and \$64 million (unaudited) as of September 30, 1983.

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