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GAO

Report to the Congress

September 1986

FINANCIAL AUDIT

Commodity Credit Corporation's Financial Statements for 1985 and 1984

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United States
General Accounting Office
Washington, D.C. 20548

Comptroller General
of the United States

B-202690

September 30, 1986

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

This report presents our opinion on the financial statements of the Commodity Credit Corporation for the years ended September 30, 1985 and 1984, and our reports on the Corporation's system of internal accounting controls and compliance with laws and regulations.

Our opinion is qualified because the Corporation has not included in its financial statements an allowance for an uncollectible portion of outstanding loans to countries experiencing financial difficulties. Our report on the Corporation's system of internal accounting controls disclosed two material weaknesses which are (1) not reconciling cash on a timely basis and (2) inadequate documentation of accounting procedures. For the transactions we tested, we found no evidence of noncompliance with laws and regulations.

The Commodity Credit Corporation is a wholly owned government corporation created in 1933 to stabilize, support, and protect farm prices, as well as to assist in the maintenance of adequate supplies and the orderly distribution of agricultural commodities. The Comptroller General is required to audit the financial transactions of wholly owned government corporations under 31 U.S.C. 9105. We conducted our examination in accordance with generally accepted government auditing standards.

We are sending copies of this report to the Director of the Office of Management and Budget, the Secretary of the Treasury, the Secretary of Agriculture, and the Board of Directors of the Commodity Credit Corporation.

Charles A. Bowsher

Charles A. Bowsher
Comptroller General
of the United States

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To the Board of Directors
Commodity Credit Corporation

We have examined the statements of financial condition of the Commodity Credit Corporation as of September 30, 1985 and 1984, the related statements of income (loss), and the statements of changes in financial position for the years then ended. Our examinations were 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.

The Corporation'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. The Corporation's financial statements do not reflect a provision for estimated losses that are likely to be sustained due to the uncollectibility of a portion of the loans made to foreign countries. 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.[1] This would result in a cumulative deficit of between $5.1 and $6.6 billion as of September 30, 1985 and 1984, instead of the cumulative deficit of $4.1 billion as shown in the accompanying 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 present fairly the financial posi-

[1]Our 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 several researchers. The lower boundary of our estimate provided 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.

tion of the Commodity Credit Corporation as of September 30, 1985 and 1984, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Charles A. Bowsher

Charles A. Bowsher
Comptroller General
of the United States

April 1, 1986

Report on Internal Accounting Controls

We have examined the financial statements of the Commodity Credit Corporation for the years ended September 30, 1985 and 1984, and have issued our opinion thereon dated April 1, 1986. This report pertains only to our study and evaluation of the system of internal accounting controls for the year ended September 30, 1985. (Our report on the study and evaluation of the system of internal accounting controls for the year ended September 30, 1984, is presented in GAO/AFMD-85-53, dated September 30, 1985.)

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. 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 the Corporation's financial statements. 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, and
- producer payments.

Our study and evaluation included all of the control categories listed above, except 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. 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 previously identified.

The management of the Corporation is responsible for establishing and maintaining a system of internal accounting controls. In fulfilling this responsibility, estimates and judgments by management are 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 which was made for the limited purpose described in the second paragraph would not necessarily disclose all material weaknesses in the system of internal accounting controls. Accordingly, we do not express an opinion on the system of internal accounting controls of the Corporation taken as a whole or on any of the categories of controls identified in the second paragraph. However, our study and evaluation disclosed the following two conditions that we believe could result in errors or irregularities which may not be promptly detected in amounts material to the Corporation's financial statements.

We found that the Corporation has not been performing timely and accurate reconciliations between its general ledger cash account and its corresponding accounts with the U.S. Treasury. The Corporation adjusted the September 30, 1985, balance in its cash account by $16 million in order to agree with the cash balance reported by the U.S. Treasury, without identifying all of the reasons for the difference. Our audit also disclosed that the reconciliation was performed incorrectly, which required an additional $36 million adjustment to the cash balance. In addition, we found that the Corporation was as far as 4 months behind in performing two of three supporting reconciliations that must be completed before it can reconcile its overall cash balance with the U.S. Treasury. The third supporting reconciliation was current for fiscal year 1985 but had not been completed for fiscal year 1984. Also, the Corporation had not taken action to resolve all known differences identified in these reconciliations, some of which dated back to fiscal year 1981.

Second, we found that the accounting procedures followed by the Corporation's Washington headquarters staff are outdated, not documented, or are not in sufficient detail to be understood and used. We believe that this situation is the primary reason why the Corporation's accounting staff are frequently unable to explain the preparation and rationale of certain journal entries and supporting worksheets, the accounting procedures used for the export trade programs, and other routine accounting procedures.

Except for the weaknesses discussed above, our study and evaluation disclosed no other conditions which we considered to be material in relation to the Corporation's financial statements taken as a whole. We considered the above conditions in determining the nature, timing, and extent of the audit tests to be applied in our examination. We extended our audit tests sufficiently to conclude that these conditions would not require further qualification of our opinion on the Corporation's financial statements for the year ended September 30, 1985.

During the course of our examination, we did identify a number of other weaknesses in internal accounting controls and procedures which, together with the two material weaknesses previously discussed, will be reported separately in management letters to the Corporation. Although we did not consider the other weaknesses to be material to the Corporation's financial statements, they nonetheless merit corrective action to strengthen the Corporation's internal accounting controls.

Report on Compliance With Laws and Regulations

We have examined the financial statements of the Commodity Credit Corporation for the years ended September 30, 1985 and 1984, and have issued our opinion thereon dated April 1, 1986. Our examinations were 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 the following locations where the transactions are carried out:

- the Agricultural Stabilization and Conservation Service headquarters,
- the Kansas City Management Office,
- the Kansas City Commodity Office,
- 17 county offices, and
- 10 state offices.

This report pertains only to our review of compliance with laws and regulations for the year ended September 30, 1985. (Our report on compliance with laws and regulations for the year ended September 30, 1984, is presented in GAO/AFMD-85-53, dated September 30, 1985.)

In our opinion, the Commodity Credit Corporation complied with the terms and provisions of laws and regulations for the transactions tested that could have materially affected its financial statements. Our testing of transactions of county offices was limited to a representative sample of 17 of a total of approximately 2,800 offices.

In connection with our examination, nothing came to our attention that caused us to believe that the Corporation was not in compliance with the terms and provisions of laws and regulations for those transactions not tested.[2]

[2]Several GAO and 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. We believe these matters do not have a material effect on the Corporation's 1985 financial statements, but could change policies and procedures affecting future operations of the corporation.

Financial Statements

Statement of Financial Condition

September 30, 1985 and 1984 (note A)

	1985	1984
ASSETS:	--------(thousands)---------	
Cash (note C)	$ (21,478)	$ 132,456
Loan programs:		
Commodity, less allowance for losses (1985 $157,719; 1984 $21,729)	12,075,502	7,833,819
Storage facility and equipment	397,657	715,933
Commodity inventories, less allowance for losses (1985 $3,856,068; 1984 $4,063,425)	3,064,856	3,294,748
Accounts and notes receivable, less allowance for losses (1985 $92,074; 1984 $56,199) (note D)	13,190,778	12,377,289
Anticipated appropriation for net realized losses (note E)	7,339,976	6,690,867
Accrued interest receivable (notes B and F)	612,646	518,788
Advance payments to producers (note G)	136,145	169,950
Fixed and other assets less allowance for depreciation (1985 $3,087; 1984 $11,468)	287,569	229,309
Total Assets	$37,083,651	$31,963,159

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

	1985	1984
LIABILITIES:	--------(thousands)---------	
Accounts payable	$ 211,805	$ 142,866
Accrued interest on U.S. Treasury borrowings	1,521,334	1,304,775
Accrued deficiency and cash land diversion payments	3,036,226	3,861,000
Accrued export enhancement bonus	21,466	
Accrued Payment-In-Kind (note H)		587,024
Accrued liabilities - Other	129,021	246,759
Trust and deposit liabilities (note I)	1,328,296	1,145,668
Borrowings from U.S. Treasury (notes J and K)	23,811,290	18,608,576
Obligation due the general fund of U.S. Treasury under P.L. 83-480 long-term credits	10,315,409	9,483,505
Other liabilities	714,665	624,338
Total Liabilities	41,089,512	36,004,511
Contingencies and commitments (note O)		
INVESTMENT OF U.S. GOVERNMENT:		
Capital stock (note L)	100,000	100,000
Cumulative results of operations (note M)	(4,105,861)	(4,141,352)
Total Investment of U.S. Government	(4,005,861)	(4,041,352)
Total Liabilities and Investment of U.S. Government	$ 37,083,651	$ 31,963,159

Statement of Income (Loss)

For the Years Ended September 30, 1985 and 1984 (note A)

	1985	1984
	----------(thousands)----------	
Sales and other revenue - program		
Commodity inventory operations:		
Sales of commodities	$ 1,757,563	$ 9,520,518
Less:		
Cost of sales	(2,385,371)	(10,114,676)
Cost of commodities donated	(2,463,698)	(1,598,618)
Storage and handling expense	(394,190)	(397,969)
Transportation expense	(133,918)	(109,816)
Net loss on commodity inventory operations	(3,619,614)	(2,700,561)
Milk marketing fees	374,284	816,561
Special recoveries authorized for National Wool Act	102,540	123,202
Other revenue	1,319	581
Total sales and other revenue - program	(3,141,471)	(1,760,217)
Expenses and costs - program		
Producer payments	(7,307,951)	(4,552,930)
Grain reserve storage	(307,143)	(278,204)
Payment-In-Kind	16,837	(301,982)
National Wool Act payments	(102,540)	(123,202)
Loan and other charge-offs	(10,304)	(15,457)
Other costs net of recoveries	(44,953)	(71,786)
Total expenses and costs - program	(7,756,054)	(5,343,561)
Net program expenses	(10,897,525)	(7,103,778)
Interest and administrative income and expenses		
Interest income	417,122	576,454
Interest expense	(2,068,200)	(1,610,091)
Net interest	(1,651,078)	(1,033,637)
Administrative expense (net) (notes B and N)	(386,296)	(380,949)
Net interest and administrative expenses	(2,037,374)	(1,414,586)
Total realized loss	**(12,934,899)**	**(8,518,364)**

Adjustment of allowances for losses - program		
Loans (includes allowance for donations)	(135,990)	(1,790)
Commodity inventories (includes allowance for donations)	207,356	(64,994)
Accounts and notes receivable	(35,875)	(14,402)
Net change in allowances for losses - program	35,491	(81,186)
Excess of costs and expenses over revenues	(12,899,408)	(8,599,550)
Anticipated appropriation for realized losses under P.L. 87-155	12,934,899	8,518,364
Net Income (Loss) (note M)	$ 35,491	$ (81,186)

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

Statement of Changes in Financial Position

For the Years Ended September 30, 1985 and 1984 (note A)

	1985	1984
	---------(thousands)-----------	
Funds Provided:		
Net income (loss)	$ 35,491	$ (81,186)
Item not requiring working capital in the current year:		
Depreciation	(5,845)	(2,157)
Borrowings from U.S. Treasury	18,988,638	8,605,907
Increase (decrease) in:		
Trust and deposit liabilities	182,628	307,356
Obligations due the general fund of U.S. Treasury Under P.L. 83-480, long-term credits	831,904	474,312
Accrued interest on U.S. Treasury borrowings	216,559	(30,464)
Accounts payable	68,939	(96,898)
Other liabilities	90,327	(1,051,152)
Decrease in:		
Commodity inventories	229,892	2,934,246
Advance payments to producers	33,805	272,588
Total funds provided	20,672,338	11,332,552
Funds Applied:		
Repayment of borrowings from U.S. Treasury	13,785,924	11,404,749
Increase (decrease) in:		
Accounts and notes receivable	813,489	1,630,802
Anticipated appropriation for net realized losses	649,109	(1,155,273)
Accrued interest receivable	93,858	254,852
Loan programs	3,923,407	(6,514,170)
Fixed and other assets	52,415	(294,343)
Decrease in:		
Accrued liabilities	1,508,070	5,984,687
Total funds applied	20,826,272	11,311,304
(Decrease) Increase in Cash	**$ (153,934)**	**$ 21,248**

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

Notes to Financial Statements

Description of Entity

Purpose

The Commodity Credit Corporation (CCC) was initially created as a Delaware corporation and organized as an agency of the United States by executive order in 1933. It was continued by statute in 1935 and subsequent years. In 1948, the Commodity Credit Corporation Charter Act, reincorporated CCC as a corporate body and agency of the United States within the U.S. Department of Agriculture (USDA). The Act also provided CCC with a Federal charter and broad powers for the purpose of stabilizing, supporting, and protecting farm income and prices; assisting in the maintenance of balanced and adequate supplies of agricultural commodities; and facilitating the orderly distribution of agricultural commodities. These broad powers enable it to adapt its operations to changing conditions in the execution of the agricultural policies of the United States. CCC does not have any operating personnel or facilities. All programs are administered through and by the USDA Agricultural Stabilization and Conservation Service (ASCS). CCC reimburses ASCS for this service. CCC also uses the services of other agencies in USDA to carry out its authority and fulfill its responsibilities. Many of CCC's activities are conducted under statutory authority which provides the Secretary of Agriculture the authority to implement agricultural programs through CCC.

CCC Programs

Programs of CCC include the following:

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 provide commodities to government agencies, foreign governments, relief and rehabilitation agencies, and to meet domestic requirements. The supply programs are carried out by CCC through the purchase and sale of various commodities.

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 help develop export markets for United States agricultural commodities and products. Commodity export programs are carried out through such operations as financing, sales, barter, guaranteed loans, and the export enhancement program.

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 (1) a statutory borrowing authority of $25 billion, (2) capital stock of $100 million, (3) an annual appropriation for realized losses incurred, (4) annual appropriations and advances for costs of foreign assistance programs and special activities, (5) receipts from sales of commodities, (6) loan repayments, (7) interest income, (8) foreign currencies used, and (9) various program fees.

Trade Practices and Facilities

CCC recognizes trade practices in the financing, purchasing, selling, storing, handling, etc., of agricultural commodities and uses normal trade facilities as much as practicable in its operations. Such facilities include commercial banks, growers' organizations, brokers, exporters, cooperative associations, and public warehouses.

Note A
Summary of Significant Accounting Policies

General Policy

CCC's policy is to adhere to accounting principles and practices which are generally accepted in the field of commercial accounting. However, certain CCC operations in carrying out its statutory objectives are unique and have no counterpart 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. This is accomplished through commodity loans, purchases, and producer payments. CCC has no choice of risks under mandatory price support legislation and its objective is to maintain price-support in accordance with the statutory requirements.

Commodity Loans

CCC makes nonrecourse loans to producers on certain agricultural commodities. These loans are carried in the accounts at the unpaid principal balance. Producers have the option to repay the interest on principal or, at maturity, to surrender the commodity in full satisfaction of the loan. CCC makes recourse loans available on certain commodities at periods when producers cannot warehouse or market their commodities. In addition, CCC makes farmer-owned grain reserve and special producer loan storage loans. (See note G.)

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 of the loan settlement, excluding interest, or the amount of the purchase settlement. The loan rates and purchase prices under price-support programs, by which CCC acquires commodities, are fixed to accomplish price-support objectives set by authorized legislation. Therefore, acquisitions are usually at costs higher than market value. 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 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.

The 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 cost of the specific lots removed. Actual average cost or lot cost is also the basis for costing dispositions from supply and commodity export program inventories.

Statutory provisions direct that, with certain exceptions, CCC cannot sell in the domestic market basic and storable nonbasic 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 a manner as to disrupt market or price-support operations.

Feed Grain, Wheat, Cotton, and Rice Producer Payments

In accordance with the Agricultural Act of 1949, as amended, and section 4 of the Extra Long Staple Cotton Act of 1983, CCC is authorized to make payments to eligible producers of feed grain, wheat, upland cotton, extra-long staple cotton, and rice. Payments are authorized for deficiency, diversion, and disaster programs.

The deficiency payment rate is the amount by which the established (target) price exceeds the higher of (1) the national weighted average market price received by farmers for the crop during the first 5 months of the marketing year (during the calendar year for upland cotton and during the first 8 months of the marketing year for extra-long staple cotton) or (2) the national average loan rate established for the crop. When announced by the Secretary of Agriculture, a portion of the deficiency payment may be authorized to be paid in advance.

Diversion payments are authorized when announced by the Secretary of Agriculture. The announcement will state the percentage of the planted crop acreage or the crop acreage base that producers are required to divert from production. It will also state the payment rate, whether advance payments are authorized, compliance requirements, and other requirements of the program.

Beginning with fiscal year 1983, CCC began accruing estimated deficiency and diversion payments due producers in the fiscal year in which the crop price deficiency and acreage diversion occurred.

Disaster payments are authorized to be made to producers only if crop insurance under the Federal Crop Insurance Act is not available to producers for the commodity with respect to the producer's acreage of such commodity.

Special disaster payments may be authorized by the Secretary of Agriculture due to drought, flood, or other natural disaster, or other conditions beyond the control of the producer, regardless of whether producers have crop insurance under the Federal Crop Insurance Act.

Dairy Production Stabilization

This program is authorized by the Dairy Production Stabilization Act of 1983; the Agricultural Act of 1949, as amended; and the CCC Charter Act. The purpose of the program was to stabilize the supply and demand for dairy products. The 1983 Act provided a price support level of $12.60 per hundredweight for milk for the period of December 1983 to September 1985, except that the Secretary of Agriculture was authorized to make fifty-cent adjustments on April 1 and July 1, 1985, if estimated CCC purchases exceeded specific levels. During the period of December 1, 1983, to March 31, 1985, the Secretary provided for a reduction in the price support level of fifty cents to encourage the adjustment of milk production to levels consistent with the national demand for milk and milk products. The funds representing this reduction were collected and remitted to CCC to help fund the milk diversion program.

Under the milk diversion program, the Secretary, at any time until February 1, 1984, could enter into a contract with a producer for the purpose of reducing the quantity of milk marketed for commercial use during the 15-month period beginning January 1, 1984. Producers were required to reduce the quantity of milk marketed for commercial use by specified amounts and were paid $10 per hundredweight for the amount reduced according to the statutory formula.

Storage Facility and Equipment Loans

During periods announced by the Secretary of Agriculture, CCC makes recourse loans to producers on farm storage facilities and drying equipment. The Secretary of Agriculture suspended the acceptance of new applications after November 12, 1982. Loans are carried in the accounts at the unpaid principal balance. These loans are secured by chattel or real estate mortgages. Loans made prior to April 1, 1981, are repayable in not more than seven installments over an 8-year period. Loans made after this date are repayable in not more than four installments over a 5-year period.

Accrued Interest

Interest is not accrued on commodity loans because the amount of interest is uncertain. Under the terms of nonrecourse loans, producers may choose to surrender the commodity to CCC in full satisfaction of the loan. Interest income is realized at the time interest payment is received.

On tobacco loans, interest receivable is recognized, but income is deferred until assessments are collected.

On storage facility and equipment loans, CCC records the interest accrual and recognizes interest income when the accrual is established.

Under the Export Credit Sales Programs, CCC accrues interest quarterly at the rate established in each agreement through the due date. If applicable, penalty interest is accrued quarterly from due date until date paid.

On rescheduled foreign debt, CCC accrues interest according to the applicable implementing agreement.

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, Public Law 83-480, Agricultural Trade Development and Assistance Act of 1954, as amended, is recorded as proceeds of sales and is shown as a receivable until receipt of an appropriation reimbursing CCC, 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. Statutory provisions direct that commodities acquired under the price-support program and made available under programs authorized by the Agricultural Trade Development Assistance Act of 1954, as amended, 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. 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.

Receivables for Public Law 83-480, Credit Sales for Dollars, (Title I and Title III). Title I of the Agricultural Trade Development and Assistance Act of 1954, as amended, governs the sale and exportation of agricultural commodities under agreements between the United States and foreign governments or private entities. The agreements provide for sales in dollars on credit terms or sales in foreign currencies on credit terms permitting conversion to dollars.

Title III commodity sales agreements permit funds from the sale of commodities in the importing country to be applied against the country's title I repayment obligation to the United States under the agreement, providing these funds are used for certain programs of agricultural self-help which are specified in the agreement. In addition, countries on the United Nations Conference on Trade and Development list of least developed countries may use funds for agricultural self-help programs to offset debt from all title I agreements.

For both title I and title III, the current minimum interest rates are 2 percent per annum during the grace period and 3 percent per annum thereafter. Higher interest rates may be negotiated on individual agreements. The amounts due from importers are carried as receivables. Accrued interest is added on September 30 each year. The program cost, less amounts received as installment payments and proceeds from the sale and use of foreign currencies generated under Public Law 83-480, is recovered from annual appropriations. The total receivable due from importers under the Public Law 83-480 program is offset by a corresponding amount due to the U.S. Treasury.

National Wool Act of 1954. Incentive payments to producers pursuant to the National Wool Act of 1954, title VII (Public Law 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.

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, allowances are based on estimated recoveries from foreseeable dispositions of the commodities. Estimated recoveries for commodities which exceed 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 receivables representing loans made to foreign countries under Public Law 480, title I, and CCC's credit sales and guarantee programs.

Fixed Assets

Fixed assets acquired by CCC are recorded at acquisition cost. 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. In 1985, furniture, fixtures, ADP equipment, and other administrative property with a value of $5,000 or more were capitalized and depreciated over their estimated useful lives which range from 4 to 15 years. (See note B.) The capitalization policy for administrative property had been $1,000 or more and a 100 percent allowance for depreciation at the time of acquisition.

No Net Cost Tobacco

Pursuant to the No Net Cost Tobacco Program Act of 1982, as amended, CCC maintains a No Net Cost Tobacco Account as a trust and deposit liability. (See note I). This account consists of assessment contributions from tobacco producers and is used to offset any program losses realized by CCC relating to 1982 and subsequent crop tobacco loans. Interest is credited on the daily principal balance of the account maintained by CCC.

If the producers do not approve marketing quotas on tobacco, price support is not available and assessment contributions are not collected. Therefore, contributions may not be sufficient to offset program losses covered under the No Net Cost Tobacco Program Act of 1982, as amended.

Warehouse Function

On May 13, 1984, the Secretary of Agriculture transferred the warehouse functions from the Agricultural Marketing Service to ASCS.

The cost of operating the warehouse functions is funded by CCC and user fees paid by warehouses. These user fees are collected under authority granted in Public Law 97-35.

The user fees are deposited directly into a trust and deposit account maintained by CCC until such time as the funds are needed by ASCS to pay salaries and expenses related to service provided under this Act. (See note I.) Interest is credited on the daily principal balance of the account maintained by CCC.

Borrowings

Program activities of CCC are financed by borrowings from the U.S. Treasury. U.S. Treasury borrowings are subject to interest for current financing. However, borrowings for unreimbursed realized losses, after September 30 of the fiscal year in which such losses are realized, are not subject to interest pursuant to Public Law 89-316, as amended. Borrowings are shown in the financial statements as notes payable in the amount of the unpaid balance.

Full Reimbursement for Inventory Disposition

CCC is required by law to recover all costs incurred on the supply and export programs' inventory transactions when purchased specifically for United States government agencies or the Public Law 83-480, title II, program.

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 such activities is the financing of export sales under Title I of Public Law 83-480 and the producer incentive payments under the National Wool Act of 1954, title VII of Public Law 83-690. CCC is also authorized by various statutes to provide funds on a temporary basis for certain activities which are carried out by other agencies of the United States Department of Agriculture. The funds provided for such activities are subsequently reimbursed from separate appropriations.

Reimbursement for Realized Losses

P.L. 87-155 authorizes reimbursement to CCC for its net realized losses. Beginning with fiscal year 1983, CCC began recognizing amounts for net realized losses in the year earned. A receivable from the U.S. Treasury is established for the amount due.

Reclassifications

Reclassifications have been made to some items as presented in the 1984 statement of changes in financial position in order for them to conform to the presentation used in 1985.

Note B
Accounting Changes

In fiscal year 1985, CCC changed its policy concerning capitalization and depreciation of administrative property. The capitalization criteria has been changed to $5,000 or more, and depreciation will be allocated over the estimated useful life of the group of assets as follows:

Category	Useful life (years)
Motor vehicles	4
Modular furniture	10
Photo lab equipment	15
Other administrative property	10
ADP equipment	6

The impact of this change on the financial statements resulted in a decrease in depreciation expense of $2.9 million.

In 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, as amended. CCC records a deferred interest income credit to offset the receivable entry until the interest payment is received.

Note C
Cash

The negative cash position as of September 30, 1985, was caused by an accounting error in the treatment of a September 1985 interagency transfer. CCC receipts are used to repay U.S. Treasury borrowings, whereas disbursements draw funds from the Treasury, thereby increasing U.S. Treasury borrowings. The transfer was incorrectly treated as a receipt rather than a disbursement, which resulted in CCC repaying rather than borrowing funds from the U.S. Treasury, causing a cash overdraft. This error was not identified until October 1985. Since CCC can not borrow from the U.S. Treasury retroactively, the borrowings to correct this transaction were made and recorded in October 1985.

Note D Accounts and Notes Receivable

Maturities of accounts and notes receivable at September 30, 1985 and 1984, were:

	September 30, 1985			
	1986	1987	1988 & later	Total
	-----------(millions)-----------			
Recoverable from funds Appropriated for P.L. 83-690, National Wool Act	$ 109	$ -	$ -	$ 109
P.L. 83-480 (note D-1)				
Principal	263	290	9,493	10,046
Interest	270	-	-	270
Export credit sales (note D-2)	501	119	183	803
Export guarantee claims paid	1,037	-	-	1,037
Rescheduled guarantees paid	39	49	545	633
Government agencies	4	-	-	4
Sales to foreign governments	75	15	-	90
Barter program	30	-	-	30
Food security reserve	59	-	-	59
Others	202	-	-	202
Allowance for loss	(92)	-	-	(92)
	$2,497	$473	$10,221	$13,191

	September 30, 1984			
	1985	1986	1987 & later	Total
	-----------(millions)-----------			
Recoverable from funds Appropriated for P.L. 83-690, National Wool Act	$ 132	$ -	$ -	$ 132
P.L. 83-480 (Note D-1)				
Principal	246	268	8,755	9,269
Interest	215	-	-	215
Export credit sales (note D-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
Refund from producers (note D-3)	235	-	-	235
Barter program	12	-	-	12
Others	146	-	-	146
Allowance for loss	(56)	-	-	(56)
	$2,546	$497	$9,334	$12,377

Note D-1 Receivables for P.L. 83-480, Credit Sales for Dollars

As of September 30, 1985 and 1984, past-due installments of principal and interest on receivables due from foreign governments amounted to $214 million and $143 million, 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 were made applicable to those countries. The receivables also include $20 million for the Khmer Republic and $11 million for the Republic of Vietnam, representing the financed value of commodities shipped to those countries where delivery was frustrated, plus interest through September 30, 1985.

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. Disposition expenses paid from these proceeds were $1 million. Disposition of net proceeds will be made after the U.S. Treasury Department has provided instructions.

Note D-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 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 over 3 years but not more than 10 years. All accounts receivable purchased under the programs are covered by U.S. and foreign bank letters of credit or other obligations acceptable to CCC. As of September 30, 1985 and 1984, past-due installments of principal and interest amounted to $416 million and $429 million, respectively.

Note D-3
Refund From Producers

Advance corn and sorghum deficiency payments made to producers in 1983 were carried as receivables (Refund from Producers) as of September 30, 1984. The receivables were the result of the national weighted average market price received by farmers during the first 5 months of the marketing year (October 1983 through February 1984) for corn and sorghum being below the target price; therefore, no deficiency was due. These receivables were substantially liquidated as of September 30, 1985.

Note E
Reimbursement for Net Realized Losses

The receivable, as shown in the Statement of Financial Condition, represents the cumulative realized losses of CCC since its inception in 1933. Reimbursement for net realized losses as of September 30, 1985 and 1984, was comprised of the following:

	September 30, 1985	September 30, 1984
	----(millions)---	
Realized loss		
Through September 30 of previous year	$106,943	$ 98,425
Current fiscal year	12,935	8,518
Total realized losses	119,878	106,943
Restorations From U.S. Treasury		
To September 30 of previous year:		
Notes cancelled	2,698	2,698
Payments to U.S. Treasury	(138)	(138)
Appropriations	97,095	87,421
	99,655	89,981
Appropriations--current fiscal year	12,285	9,674
Net restorations	111,940	99,655
Recovery of losses charged to post-war price support--P.L. 79-301	500	500
Recovery on commodities furnished for foreign assistance under P.L. 80-389 and P.L. 80-393	56	56
Recovery of Emergency Feed Program--P.L. 84-40	42	42
Total restorations and recoveries	112,538	100,253
Total unrecovered losses	$ 7,340	$ 6,690

Note F Accrued Interest Receivable

Accrued interest receivable as of September 30, 1985 and 1984, was comprised of the following:

	September 30, 1985	September 30, 1984
	--(millions)-	
Export credit sales	$134	$192
Storage facility and equipment loans	34	55
Export credit guarantee claims	60	51
No Net Cost Tobacco Program	384	220
Total	$612	$518

Note G Farmer-owned Grain Reserve and Special Producer Loan Storage Programs

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. In the current reserve programs, producers must place eligible grain under a 9-month nonrecourse CCC price-support loan prior to entering the reserve.

The reserve agreements are for 3 years. In the past, producers have been allowed to transfer from one reserve program to another, in effect, retaining grain in the reserve program for an additional 3 years. The producer agrees not to repay the loan in the reserve until the national average market price reaches a specified trigger level.

CCC makes annual payments in advance to producers to help pay the costs of reserve storage. These advance payments are shown as an asset in the Statement of Financial Condition and, as storage is earned, they are classified as an 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. Grain can be stored either on the farm or in commercial warehouses.

The grain reserve loans outstanding on September 30, 1985 and 1984, were:

	1985		1984	
	Bushels	Value	Bushels	Value
	(millions)			
Barley	105	$ 228	97	$ 213
Corn	437	1,183	426	1,164
Oats	3	4	3	4
Sorghum	128	353	178	486
Wheat	649	2,393	658	2,439
Total	1,322	$4,161	1,362	$4,306

Under the Special Producer Loan Storage Program, which began April 22, 1985, a producer may pledge the same collateral for loans that presently secures a matured farmer-owned grain reserve loan. The program provides an alternative for producers with matured grain reserve loans that have utilized the entire period of the reserve agreement and who would normally be required to redeem or forfeit the collateral to CCC.

The special producer storage loan agreements extend the farmer-owned reserve loan to a 12-month period. The producers may redeem the commodity pledged as collateral at any time during the loan period.

CCC makes an annual advance storage payment to producers with special producer loan storage agreements. Grain placed in the program is subject to the same requirements as grain in the farmer-owned reserve program and the regular price-support loan program. The pledged collateral may be stored either on the farm or in commercial warehouses.

Each special producer storage loan bears interest during the loan period at the interest rate applicable to CCC price-support loans in effect when the loan is approved. The rate of interest applicable to a loan may subsequently be increased or decreased on January 1.

The special producer loans outstanding at September 30, 1985, were:

	Bushels	Value
	---(millions)--	
Barley	4	$ 8
Corn	6	14
Sorghum	2	6
Wheat	23	84
Total	35	$112

Note H
Payment-In-Kind Program

The 1984 Payment-In-Kind (PIK) Program was 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, was applicable only to wheat. The 1984 PIK program required that producers take their 1984 PIK wheat from quantities which they previously pledged as collateral for outstanding prior crop-year loans or from 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 was required to redeem such quantity and sell it to CCC for PIK purposes. CCC would then make that quantity available to the producer as PIK compensation. PIK compensation for commodities redeemed by the producer and sold to CCC was recorded at the CCC purchase price. Unlike the 1983 program, the 1984 PIK program provided that PIK compensation be taken into account in applying the $50,000 payment limitation, together with any applicable deficiency and diversion payments.

PIK entitlements not redeemed and PIK storage 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's realized losses for the fiscal year.

In fiscal year 1985, CCC recorded transactions to remove 1984 and 1983 PIK entitlements and PIK storage accruals that did not materialize.

Note I
Trust and Deposit Liabilities

Amounts advanced to or deposited with CCC as of September 30, 1985 and 1984, were:

	September 30, 1985	September 30, 1984
	---(millions)--	
Funds appropriated for:		
Agricultural Stabilization and Conservation Service Programs:		
Agricultural Conservation	$ 199	$ 191
Rural Clean Water	40	45
Water Bank	43	44
Emergency Conservation	12	24
Expenses, ASCS (county office)	16	40
Forestry Incentives	16	16
	326	360
P.L. 83-480:		
Title I	139	187
Title II	424	352
Advances from Agricultural Marketing Service and Food and Nutrition Service	260	171
Sales Proceeds from Frustrated Cargo, P.L. 83-480, Title I	15	15
No Net Cost Tobacco Program	112	40
Warehouse User Fee Fund	1	1
Other advances and deposits	51	20
Total Trust Funds	$1,328	$1,146

Note J Borrowing Authority

CCC operations are financed by borrowings from the U.S. Treasury under a statutory borrowing authorization of $25 billion. This amount is the limit on borrowings that may be outstanding at any one time. CCC borrows from Treasury to pay program expenditures. Incoming receipts reduce outstanding borrowings. As of September 30, 1985 and 1984, CCC's actual borrowings from the U.S. Treasury amounted to $23.8 billion and $18.6 billion, respectively. CCC refinances its borrowings annually on January 1.

From July 17, 1985, to July 24, 1985, CCC suspended its check-writing functions for commodity loans, warehouse and producer storage payments, diversion programs, and dairy price support purchases because CCC had reached its $25 billion borrowing authority limit. CCC resumed check-writing functions after the Congress reimbursed it for a portion of its 1985 anticipated losses.

Note K
Interest on Borrowing

The interest rate paid by CCC on its Treasury borrowings is established each month by the U.S. Treasury. The rate is based upon the U.S. Treasury's estimate of its cost of funds and is the average of the preceding months' yield on Treasury securities having a constant maturity of 1 year. The monthly interest rate for 1985 ranged from 7.75 to 11.75 percent and for 1984 ranged from 9.875 to 12.125 percent.

During July 1985, CCC requested and received approval from the U.S. Treasury to defer the interest payment on the $1 billion principal repayment due in July, providing that CCC pay interest on the deferred interest. The deferred interest plus interest totaled $54.0 million and was paid on August 15, 1985, from an additional $2.9 billion appropriation received from the Congress.

During September 1985, CCC again requested and received approval from the U.S. Treasury to defer a $664 million interest payment due the U.S. Treasury. This amount was the interest due on borrowings as a result of the Congress providing $9.2 billion in October 1985 for reimbursable losses and a portion of 1986 anticipated losses. This $664 million plus interest will be deferred until CCC receives additional funding.

Note L
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 provides that CCC shall 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 1985 were $11.3 million and 11 3/8 percent. The amount and rate paid to Treasury during fiscal year 1984 were $10.9 million and 10 7/8 percent.

Note M
Cumulative Results of Operations

CCC's deficit represents the cumulative results of operations 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 reimbursement. (See note E.)

The deficit of $4.1 billion approximates the difference between net losses on a generally accepted accounting principle basis and the net realized losses determined for reimbursement purposes.

The deficits as of September 30, 1985, and 1984, were:

	September 30, 1985	September 30, 1984
	----(millions)----	
Net deficit, beginning of fiscal year	$4,141	$4,060
Adjustments for current year allowances for losses	(35)	81
Net deficit, end of fiscal year	$4,106	$4,141

Note N
General Overhead

Most of CCC's operating expenses are paid as authorized by law from an ASCS consolidated fund account which covers 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 work load.

Note O
Contingent Liabilities and Commitments

Export Credit Guarantee and Blended Credit Programs	Under the Export Credit Guarantee Program (GSM-102), CCC enters into guarantee agreements with U.S. exporters who sell agricultural commodities on credit terms for periods up to 3 years. These exporters usually have a U.S. bank finance the transaction thereby enabling them to receive payment from the financing bank as soon as the commodities are shipped. The exporters assign their right to the payment guarantee to the U.S. bank. The parties to the financing arrangements establish the credit periods within the limitations established by CCC. The guarantee provided by CCC protects the exporter or his assignee against loss from defaults for payments due from a foreign bank. CCC's protection is 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 Guarantee 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. The Blended Credit Program is a combination of the Export Credit Sales and Export Credit Guarantee Programs. One portion of the sale is financed by CCC under the Export Credit Sales Program, and another portion is financed by the exporter or assignee U.S. bank under the Export Credit Guarantee Program. The portion financed by CCC is interest-free as long as the obligor makes timely payments. The Blended Credit Program was suspended on February 26, 1985, as a result of a U.S. District Court ruling requiring blended credit shipments to be subject to U.S. cargo preference laws. CCC's contingent liabilities for these two guarantee programs as of September 30, 1985 and 1984, are $5,709 million and $6,314 million, respectively.
Commitments to Acquire or Dispose of Commodities	Contracts to acquire commodities are not reflected in the accounts, but the amounts of contracts are considered as contingent

liabilities. The approximate contract values of undelivered commodities under contracts to acquire such commodities at September 30, 1985, and 1984, were:

Commodity	Contract value	
	September 30,	
	1985	1984
	------(millions)------	
Beans, dry edible	$ 4	$ -
Blended food products	24	17
Dairy products	12	22
Feed grains and products	15	10
Rice		11
Vegetable oil and products	37	34
Wheat and products	50	26
Total	$142	$120

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, which are 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 for September 30, 1985 and 1984, was $95 million and $54 million, respectively. Letters of commitment covering ocean freight differential are issued without stated value. However, estimated ocean freight differential as of September 30, 1985 and 1984, was $57 million and $80 million, respectively.

Note P Subsequent Event

On April 7, 1986, the consolidated Omnibus Budget Reconciliation Act of 1985 was passed removing the 1983 burley tobacco crop from the No Net Cost Tobacco Program. The legislation calls for CCC to acquire title to the 1983 burley crop by May 7, 1986, by calling the loans for which the crop serves as collateral. After calling the loans, CCC will have a 2-year period in which to sell such tobacco as it deems appropriate. If after the 2-year period, CCC has not sold all stocks of the 1983 burley tobacco, CCC may offer to sell the remaining stocks to domestic cigarette manufacturers over a 5-year period.

The legislation authorizes CCC to sell 20 percent of the remaining stocks each year at 90 percent of the tobacco association's cost plus accrued carrying charges as of the loan call date. If all of the 1983 burley tobacco is sold at a 90 percent discount, CCC will absorb a loss of approximately $498 million over the 5-year period.

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