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United States General Accounting Office

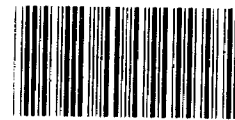
GAO

Report to the Congress

July 1988

FINANCIAL AUDIT

Commodity Credit Corporation's Financial Statements for 1987 and 1986



136298

Comptroller General
of the United States

B-202690

July 7, 1988

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

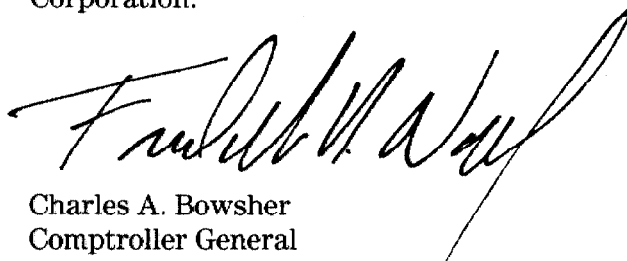
This report presents our opinion on the financial statements of the Commodity Credit Corporation for the fiscal years ended September 30, 1987 and 1986, and our reports on the Corporation's system of internal accounting controls and compliance with laws and regulations. We conducted our examination under the provisions of 31 U.S.C. 9105 and in accordance with generally accepted government auditing standards.

As reported last year, our opinion is qualified because the Corporation has not established in its financial statements an allowance for the uncollectible portion of outstanding loans to countries experiencing financial difficulties. We estimate that cumulative losses as of September 30, 1987, range from \$5 to \$8 billion on outstanding loans of \$15 billion to foreign countries. In addition, we believe the Corporation should provide a reserve of approximately \$1.5 billion to \$2.5 billion for losses associated with \$5 billion of outstanding guaranteed loans to foreign countries.

Our 1987 report on the Corporation's system of internal accounting controls discusses a material weakness in the automated system used by the Corporation to validate loan receipts and disbursements occurring at the Corporation's county offices. The Corporation concurred with our findings and maintains that once the county and state offices are fully automated, this weakness will be resolved. We believe it will require diligent management attention to ensure that this weakness is corrected.

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.

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Charles A. Bowshe
Comptroller General
of the United States

Contents

Letter		1
Opinion Letter		4
Report on Internal Accounting Controls		6
	Problems Associated With Converting to Automated Systems	7
	Conclusions and Recommendations	8
	Corporation Comments and Our Evaluation	9
Report on Compliance With Laws and Regulations		11
Financial Statements		12
	Statement of Financial Condition	12
	Statement of Income and Expense	14
	Statement of Changes in Financial Position	15
	Notes to Financial Statements	16

Abbreviation

KCMO Kansas City Management Office

**Comptroller General
of the United States**

B-202690

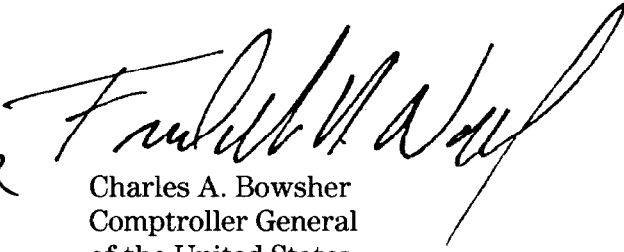
To the Board of Directors
Commodity Credit Corporation

We have examined the statement of financial condition of the Commodity Credit Corporation as of September 30, 1987 and 1986, the related statements of income and expense, and the statements of changes in financial position for the fiscal 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. In addition to this report on our examination of the Corporation's 1987 and 1986 financial statements, we are also reporting to you on our study and evaluation of internal accounting controls and compliance with laws and regulations. During our examination, we also identified, and are reporting separately to the Corporation, matters which, while not affecting the fair presentation of the financial statements, warrant management's attention.

The Corporation's financial statements do not reflect the estimated losses that are likely to be sustained due to the uncollectibility of a significant portion of the \$15 billion in outstanding loans and the \$5 billion of guaranteed loans made to foreign countries. If the appropriate losses had been recognized, we estimate that the Corporation's accounts and notes receivable would have been decreased by amounts ranging from \$5 billion to \$8 billion as of September 30, 1987, and by \$4 billion to \$7 billion as of September 30, 1986, while liabilities would have been increased by amounts ranging from \$1.5 billion to \$2.5 billion as of September 30, 1987. Our loss allowance estimates are based on resale values of less developed countries' loans in the secondary market, as well as an assessment of the Corporation's foreign loan portfolio activity for the year. When loans are written off, they contribute to net realized losses for which the Corporation may be reimbursed by appropriations authorized under 15 U.S.C. 713a-11.

In our opinion, except for the effects of not establishing an allowance for estimated loan losses and a reserve for losses associated with loan guarantees, as discussed in the preceding paragraph, the financial statements referred to above present fairly the financial position of the Commodity Credit Corporation as of September 30, 1987 and 1986, 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.

Our examinations were made for the purpose of forming an opinion on the basic financial statements taken as a whole. We did not examine other schedules and tables which the Corporation prepared for purposes of financial analysis and which are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the examination of the basic financial statements, and accordingly, we express no opinion on it.

for 
Charles A. Bowsher
Comptroller General
of the United States

April 1, 1988

Report on Internal Accounting Controls

We have examined the financial statements of the Commodity Credit Corporation for the years ended September 30, 1987 and 1986, and have issued our opinion thereon. This report pertains only to our study and evaluation of the system of internal accounting controls for the year ended September 30, 1987. Our report on the study and evaluation of the system of internal accounting controls for the year ended September 30, 1986, is presented in GAO/AFMD-87-43, dated June 22, 1987.

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,
- financial reporting,
- inventories, and
- producer payments.

Our study and evaluation included all of the control categories listed above, except we did not evaluate the internal accounting controls over all functions within any of the categories because it was more efficient to expand our 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 internal accounting controls previously identified.

The management of the Corporation is responsible for establishing and maintaining a system of internal accounting controls in accordance with the Accounting and Auditing Act of 1950 and the Federal Managers' Financial Integrity Act of 1982. 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 of internal accounting controls are to provide management with reasonable assurance that (1) obligations and costs are in conformance with applicable laws, (2) funds, property, and other assets are safeguarded against waste, loss, and unauthorized use or misappropriation, and

(3) assets, liabilities, revenue, and expenses applicable to Corporation operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over Corporation assets. 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.

On November 10, 1987, the Agricultural Stabilization and Conservation Service reported to the Department of Agriculture on the status of the Corporation's internal controls and identified a number of items that warranted corrective action. The report also identified what corrective actions were being taken and the expected completion date. This evaluation was reviewed and considered in conducting our study and evaluation and determining the nature, timing, and extent of audit tests.

Our study and evaluation, 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 a problem arising from the Corporation's conversion to an automated system. We believe this problem could result in errors or irregularities in amounts that are material in relation to the Corporation's consolidated financial statements, and these errors may not be promptly detected and corrected.

Problems Associated With Converting to Automated Systems

The Corporation did not employ adequate controls to ensure that approximately \$2 billion in transactions were properly recorded and classified in the accounts or that apparent errors were corrected in a timely manner. This internal control weakness occurred in the course of the Corporation's conversion to decentralized automated systems and resulted in the incomplete processing of \$1.1 billion in unapplied receipts and \$862 million in undistributed expenditures. These transactions were not reconciled with corresponding information reported from external sources, such as the Federal Reserve, and appropriate adjustments were not made. In order that the September 30, 1987, loan balance would be fairly stated, the Corporation made an end-of-year

adjustment to the financial statements for the receipts and disbursements applicable to the commodity loan balance.

The implementation of automated systems should include controls to adequately monitor the implementation and ensure that all transactions are recorded in the proper accounts. When erroneous transactions are detected, they should be corrected and reentered for processing in a timely manner. Monitoring procedures should also be instituted to provide management with a report which categorizes errors, indicates corrective actions taken, and shows the length of time the errors remain unresolved.

During fiscal year 1987, the Corporation instituted a new automated system which transferred the responsibility for recording and reconciling loan disbursements and repayment receipts from the Kansas City Management Office (KCMO) to the local county offices. Prior to this change, the local county offices submitted loan disbursement and receipt documentation to KCMO. KCMO would compare the payment and receipt information to corresponding information reported from external sources, such as the Federal Reserve, and reconcile all discrepancies within the normal clearing cycle of 90 days. However, we discovered that in a sample of transactions as of September 30, 1987, 87 of 256 unreconciled items had remained unresolved for periods in excess of 1½ years, and approximately \$461 million of undistributed expenditures included in the unreconciled items were over 90 days old. During conversion to decentralized automated systems, control procedures were not adequately monitored to ensure that differences were promptly reconciled. At year-end they amounted to \$1.1 billion in unapplied receipts and \$862 million in undistributed expenditures.

Conclusions and Recommendations

The Corporation did not adequately control conversion to its new automated systems. The conversion to automated systems prevented the unreconciled differences in receipts and disbursements from being accurately posted to the appropriate accounts. In 1987, major adjustments to the commodity loan balance were necessary to fairly present commodity loan activity. To avoid this problem in the future, the Corporation should give prompt attention to controls over conversions to new automated systems.

We recommend that the Chairman of the Board of Directors direct the Controller of the Corporation and the Director of the Kansas City Management Office to ensure that:

- local offices are provided with a monthly listing of unreconciled differences between internal and external sources,
- local offices' efforts are monitored to resolve the differences in a timely manner, and
- consideration is given to suspending further conversions to automated systems until problems associated with current implementation efforts are resolved and the Corporation's accounts are accurate and current.

Except for the weakness discussed above, our study and evaluation disclosed no condition which we considered to be material in relation to the Corporation's financial statements taken as a whole. We considered the above condition 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 this condition would not require qualification of our opinion on the Corporation's financial statements for the year ended September 30, 1987.

During the course of our examination, we also identified several other weaknesses in internal accounting controls and procedures which, although not material to the Corporation's financial statements, merit corrective action. Accordingly, we are reporting them separately to the Corporation.

Corporation Comments and Our Evaluation

Although we did not request official written comments on a draft of this report, we provided a draft to Corporation officials to obtain their comments. The Corporation officials reviewed our findings and pointed out that problems with timely reconciliation of differences were exacerbated by activities related to automating county and state offices and the increased workload as a result of legislative changes. They also stated that once further automation takes place, problems associated with the conversion to the automated system will not only be resolved, but the Corporation's internal accounting controls will be enhanced, and accounting records and operations associated with its programs will be improved. The Corporation instituted corrective actions to reduce the effect of this problem by requiring reconciliation of all differences in a timely manner. The Corporation has also established a policy to suspend further implementation of automated systems until the current implementation efforts are fine-tuned and operating efficiently.

We agree that further automation at county offices could enhance the control and correct this internal control problem. However, it will

require diligent management attention to ensure that problems associated with implementing automated systems are resolved and that controls are working effectively.

Report on Compliance With Laws and Regulations

We have examined the financial statements of the Commodity Credit Corporation for the years ended September 30, 1987 and 1986, 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.

This report pertains only to our review of compliance with laws and regulations for the year ended September 30, 1987. Our report on compliance with laws and regulations for the year ended September 30, 1986, is presented in GAO/AFMD-87-43, dated June 22, 1987.

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.

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. Several GAO and Department of Agriculture Office of Inspector General reports contain, in our judgment, matters of a programmatic nature that indicate noncompliance with various laws and regulations. However, these matters do not have a material effect on the Corporation's 1987 financial statements.

Financial Statements

Statement of Financial Condition

COMPARATIVE STATEMENT OF FINANCIAL CONDITION SEPTEMBER 30, 1987 AND 1986 (Note A)

	<u>1987</u>	<u>1986</u>
	----- (thousands) -----	
ASSETS:		
Cash (Note C)	\$ 35,829	\$ (30,624)
Loan Programs:		
Commodity	13,348,906	16,342,681
Storage Facility and Equipment	65,179	174,227
Commodity Inventories	9,679,489	8,730,858
Accounts and Notes Receivable (Net) (Note D)	15,886,640	14,867,566
Appropriation Receivable for Net Realized Losses (Note E)	3,176,833	2,405,056
Accrued Interest Receivable (Note F)	828,478	634,632
Advance Payments to Producers (Note G)	483,385	279,139
Fixed and Other Assets (Net) (Note A)	<u>463,361</u>	<u>317,628</u>
Total Assets	<u>\$43,968,100</u>	<u>\$43,721,163</u>

Financial Statements

COMPARATIVE STATEMENT OF FINANCIAL CONDITION
SEPTEMBER 30, 1987 AND 1986 (Note A)

	<u>1987</u>	<u>1986</u>
	----- (thousands) -----	
LIABILITIES:		
Accounts Payable	\$ 827,762	\$ 1,895,802
Accrued Interest on U.S. Treasury Borrowings (Note K)	731,275	994,104
Accrued Payments (Note H)	10,494,280	6,580,280
Accrued Liabilities - Other	404,967	278,422
Trust and Deposit Liabilities (Note I)	1,690,122	1,618,731
Borrowings From U.S. Treasury (Notes J and K)	20,969,268	24,871,952
Obligation Due the General Fund of U.S. Treasury Under P.L. 83-480 Long-term Credits (Note A)	11,560,205	10,917,794
Other Liabilities (Note H)	<u>758,414</u>	<u>1,088,318</u>
Total Liabilities	<u>\$47,436,293</u>	<u>\$48,245,403</u>
Contingencies and Commitments (Note D)		
EQUITY OF U.S. GOVERNMENT:		
Capital Stock (Note L)	100,000	100,000
Cumulative Results of Operations (Note N)	<u>(3,568,193)</u>	<u>(4,624,240)</u>
Total Equity of U.S. Government	<u>(3,468,193)</u>	<u>(4,524,240)</u>
Total Liabilities and Equity of U.S. Government	<u>\$43,968,100</u>	<u>\$43,721,163</u>

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

GAO Note: We did not examine other schedules and tables which the Corporation prepared for purposes of financial analysis and which are not a required part of the basic financial statements. These schedules and tables are not included in this report.

Financial Statements

Statement of Income and Expense

COMPARATIVE STATEMENT OF INCOME AND EXPENSE
FISCAL YEARS 1987 AND 1986 (Note A)

	<u>1987</u>	<u>1986</u>
	----- (thousands) -----	
Sales and other revenue - program:		
Commodity inventory operations:		
Sales of commodities	\$11,994,231	\$ 2,528,064
Less:		
Cost of sales	(15,153,215)	(4,172,249)
Cost of commodities donated	(1,855,759)	(1,718,412)
Storage and handling expense	(1,375,772)	(712,940)
Transportation expense	<u>(184,836)</u>	<u>(179,378)</u>
Net losses on commodity inventory operations (Table 11)	(6,575,351)	(4,254,915)
Milk marketing fees collected	429,952	287,376
Special recoveries authorized for National Wool Act	<u>145,164</u>	<u>116,496</u>
Net losses after other revenues - program	<u>(6,000,235)</u>	<u>(3,851,043)</u>
Expenses and costs - program:		
Program expense (Table 7)	(16,654,240)	(13,962,271)
Grain reserve storage expense	(628,118)	(342,248)
National Wool Act payments	(145,164)	(116,496)
Loan and other charge-offs	(1,049,503)	(265,454)
Other (costs) and recoveries	<u>(497,849)</u>	<u>(87,574)</u>
Total expenses and costs - program	<u>(18,974,874)</u>	<u>(14,774,043)</u>
Net realized program losses	<u>(24,975,109)</u>	<u>(18,625,086)</u>
General and administrative income and expenses:		
Interest income	660,455	797,804
Interest expense	<u>(1,222,692)</u>	<u>(1,681,310)</u>
Net interest	(562,237)	(883,506)
Operating expense (net) (Note H)	<u>(596,428)</u>	<u>(489,414)</u>
Net general and administrative expenses	<u>(1,158,665)</u>	<u>(1,372,920)</u>
Net realized losses (Table 1)	<u>(26,133,774)</u>	<u>(19,998,006)</u>
Adjustment of allowances for losses - program:		
Loans (includes allowance for donations)	(79,907)	(204,232)
Commodity inventory (includes allowance for donations)	1,161,649	(252,256)
Accounts and notes receivable	<u>(25,695)</u>	<u>(61,891)</u>
Net change in allowances for losses - program	<u>1,056,047</u>	<u>(518,379)</u>
Excess of costs and expenses over revenue	(25,077,727)	(20,516,385)
Recoverable by appropriations for fiscal year 1987 realized losses under P.L. 87-155	<u>26,133,774</u>	<u>19,998,006</u>
Net income (losses) transferred to deficit (Note M)	\$ <u>1,056,047</u>	\$ <u>(518,379)</u>

The accompanying notes are an integral part of these financial statements. All amounts reducing income or increasing expense or losses are designated by parentheses.

Financial Statements

Statement of Changes in Financial Position

COMPARATIVE STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR FISCAL YEARS ENDED SEPTEMBER 30, 1987 AND 1986 (Note A)

	<u>1987</u>	<u>1986</u>
	----- (thousands) -----	
SOURCES OF CASH:		
Net income (loss)	\$ 1,056,047	\$ (518,379)
Appropriations Received:		
Agricultural Trade Development and Assistance Act	1,038,071	1,243,294
National Wool Act program	122,689	109,365
Borrowings from U.S. Treasury	24,011,000	26,806,000
Increases (Decreases) in Cash:		
Loan programs	3,102,823	(4,043,749)
Trust and deposit liabilities	3,258	142,465
Obligation due the General Fund of the U.S. Treasury under P.L. 83-480, Long-term credits	642,411	602,385
Accrued liabilities	<u>4,040,545</u>	<u>3,671,989</u>
Total Sources of Cash	<u>34,016,844</u>	<u>28,013,370</u>
USES OF CASH:		
Cost of Agricultural Trade Development and Assistance Act	969,938	1,095,324
Cost of National Wool Act program	152,130	122,689
Repayment of borrowings form U.S. Treasury	27,913,684	25,745,338
Decreases (Increases) in Cash:		
Accounts and Notes Receivable	989,633	1,663,464
Accrued interest receivable	193,846	21,986
Commodity inventories	948,631	5,666,002
Advance payments to producers	204,247	142,994
Fixed and other assets	145,733	30,059
Accounts payable	1,068,039	(1,683,997)
Other liabilities	329,904	(373,653)
Appropriation receivable for net realized losses	771,777	(4,934,920)
Decrease (Increase) in Cash:		
Accrued interest on U.S. Treasury borrowings	<u>262,829</u>	<u>527,230</u>
Total Uses of Cash	<u>33,950,391</u>	<u>28,022,516</u>
Increase (Decrease) in Cash	66,453	(9,146)
Cash at October 1	<u>(30,624)</u>	<u>(21,478)</u>
Cash at September 30	\$ <u>35,829</u>	\$ <u>(30,624)</u>

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

Notes to Financial Statements

COMMODITY CREDIT CORPORATION
INTRODUCTION

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 through legislation enacted 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 United States Department of Agriculture (USDA). The Act also provided CCC with a Federal charter 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. CCC's 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. Most 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 authorities and 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, recourse 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 provided for the purpose of construction or expansion of farm-storage facilities and such other operations as are necessary to carry out CCC programs. Under these programs 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, guaranteed loans, commodity bonus payments under the Export Enhancement Program, and the Targeted Export Assistance Program.

Donation programs, under certain statutory provisions, authorize CCC to donate commodities to domestic relief agencies and to government agencies. The cost of the commodities donated is included in the total realized losses of CCC.

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 by (1) a statutory borrowing authority of \$25 billion which was raised to \$30 billion in December 1987, (2) capital stock of \$100 million, (3) appropriation to reimburse CCC 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, warehousemen, and others.

Balanced Budget and Emergency Deficit Control Act of 1985

The Balanced Budget and Emergency Deficit Control Act of 1985 provides for a reduction in sequestrable non-defense outlays where necessary. There were no reductions in outlays based on this Act for 1987 CCC programs. However, based on a sequester order issued by the President of the United States on February 1, 1986, and effective on March 1, 1986, outlays under certain 1986 CCC programs were reduced by 4.3 percent.

Notes to Financial Statements

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 except for establishing allowances for losses on receivables, and a provision for loss contingencies on guarantees to foreign countries. In carrying out CCC's statutory objectives certain corporate operations are unique and have no counterpart in the commercial field. These notes briefly outline the programs and 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 statute to make price-support programs available for specified commodities at specified prices. This is accomplished through commodity loans, purchases, and 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 Certificates The Agricultural Act of 1949, as amended by the Food Security Act of 1985, and the Commodity Credit Corporation Charter Act, as amended, provide authority for CCC to make payments to producers, and other entities in a form other than cash. The Secretary of Agriculture authorized a portion of the payments to be made in either generic or cotton specific commodity certificates rather than cash for (1) wheat, feed grains, rice and upland cotton deficiency and diversion payments including cotton loan deficiency payments, and (2) the Conservation Reserve Program. Payments are made entirely in commodity certificates for (1) Emergency Feed Program, (2) Ethanol Program, (3) Export Enhancement Program, and (4) Targeted Export Assistance Program.

The current options available for holders of generic Commodity Certificates received under domestic programs are to: (1) exchange the certificate for commodities in CCC's inventory. These commodities may be acquired by: (a) submitting a certificate to CCC for commodities which are listed in a catalog of CCC inventory, or (b) producers with outstanding CCC price support loans may acquire the commodities that were pledged as collateral for such loans by redeeming the loan, selling the commodity to CCC at the redemption price, and submitting the certificate in exchange for the commodity; (2) sell the certificate to another party, who may also sell the certificate to another party, or exchange the certificate for CCC inventory; (3) exchange the certificate for cash, if original holder, at: (a) 100 percent of the face value of the certificate prior to expiration date; (b) 85 percent of the face value of the certificate during the first six-month period after the certificate expiration date passes; or (c) 50 percent of the face value of the certificate during the 12-month period beginning on the seventh month after the certificate expiration date passes. The certificate has no value 18 months after the certificate expiration date.

The current options for exporters earning certificates under the Export Enhancement Program or Targeted Export Assistance Program are to: (1) exchange the certificate for commodities in CCC's inventory, (these commodities may be acquired by submitting a certificate to CCC for commodities which are listed in a catalog of CCC inventory), or (2) sell the certificate to another party who may also sell the certificate to another party, or exchange the certificate for CCC inventory.

The current options available for cotton specific certificate holders are: (1) to sell the certificate to another party, who may also sell the certificate to another party, or exchange the certificate for CCC upland cotton inventory; (2) with respect to producers with outstanding CCC upland cotton price support loans, redeem the loan collateral, sell the commodity to CCC at the redemption price, and submit the certificate to CCC in exchange for the commodity. The holder of the certificate shall use the certificate for either of these purposes by the expiration date or July 31, 1989 whichever is later. The certificate becomes void after that date.

Commodity Certificates payable at September 30, 1987 and September 30, 1986 are \$188 million and \$1.6 billion respectively and are included as a portion of Accounts Payable on the Statement of Financial Condition.

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 principal plus interest or, at maturity, to surrender the commodity in full satisfaction of the loan. The Food Security Act of 1985 amended the Agricultural Act of 1949, as amended, to permit the Secretary of Agriculture to allow producers to repay 1985 through 1990 crop rice loans and 1986 through 1990 crop wheat, feed grains, soybeans, cotton and honey loans at a level that is less than the original level determined for such crop.

CCC makes recourse loans available on certain commodities during periods when producers are unable to warehouse or market their commodities. In addition, CCC makes loans under its farmer-owned grain reserve and special producer loan storage programs. (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 are fixed to accomplish price-support objectives set by 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 most dispositions of commodities is computed on the basis of average unit cost of the commodity in inventory at the end of the previous month. The cost allocated to certain dispositions from the peanut price-support inventory, commodity export programs and redeemed loan collateral sold to CCC and exchanged for commodity certificates is computed on the basis of actual lot cost of the specific lots removed.

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 also 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
Program Expenses

In accordance with the Agricultural Act of 1949, as amended, CCC makes payments to eligible producers of feed grain, wheat, upland cotton, extra long staple cotton, and rice. Payments were made for: (1) deficiency, diversion, and disaster programs; (2) first handler, inventory protection and loan deficiency programs for upland cotton; and (3) rice marketing certificate program.

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 producers 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. Increased deficiency payments are also authorized to producers of wheat and feed grains to compensate for any reduction which may be made in the level of price support.

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. CCC accrues estimated deficiency and diversion payments due producers in the fiscal year in which the deficiency and diversion occurred.

Disaster payments are authorized to be made to producers on certain crops 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. The Secretary of Agriculture may authorize special disaster payments due to drought, flood, other natural disasters, or other conditions beyond the control of the producer regardless of whether producers have crop insurance under the Federal Crop Insurance Act.

Public Laws 99-500 and 99-591 authorized disaster payments to farmers who lost crops during 1986 to drought, excessive heat, flood, hail or excessive moisture. Payments were authorized to be made in generic certificates for wheat, feed grains, soybeans, upland cotton, peanuts, and sugar beets and cane. A transfer of \$400,000,000 to CCC from the Farmers Home Administration was required by Public Laws 99-500 and 99-591. The Farm Disaster Assistance Act of 1987, Public Law 100-45, subsequently amended Public Laws 99-500 and 99-591 to provide expanded eligibility requirements, and authorized "full payment" of losses under the original program. Public Law 100-71 provided an additional \$135 million for the original program and \$25 million for the expanded program for hay and straw, Maine program/non-program crops, cotton quality reduction and apples.

The upland cotton first handler, inventory protection and loan deficiency program payments are made in cotton specific commodity certificates. Under the first handler program, certificates are issued to approved first handlers who purchased eligible upland cotton for domestic consumption or export during a period in which the adjusted world market price, as determined by the Secretary of Agriculture, is below the announced loan repayment rate. Under the inventory protection program certificates were issued to persons who had eligible upland cotton in "free" stocks as of August 1, 1986. Loan deficiency payments will be made to eligible producers of upland cotton who agree to forego loan eligibility if the loan repayment rate (adjusted world price) for base quality cotton is below the established loan level. Commodity certificates may be issued for up to one-half of the total deficiency payments to which producers are entitled.

Commodity certificates are issued under the Rice Marketing Program to eligible producers who sold rice for domestic or export use when the prevailing world market price, as determined by the Secretary of Agriculture, is below the current loan repayment rate.

Dairy
Programs

These programs are authorized by the Agricultural Act of 1949, as amended. The purpose of these programs is to stabilize the supply and demand for dairy products. The Act provides specific price support levels per hundredweight for milk through 1990, except that the Secretary of Agriculture is authorized to make 50 cent adjustments on January 1 of calendar years 1988, 1989 and 1990, if estimated CCC purchases exceed specific levels. During the period beginning April 1, 1986, and ending on September 30, 1987, and beginning January 1, 1988, and ending on December 31, 1988, the Secretary of Agriculture shall provide for reductions in the price received by producers for all milk produced in the United States and marketed by producers for commercial use. The amount of the reduction in the price is: (1) 52 cents per hundredweight during the period April 1, 1986 to September 30, 1986, (40 cents as provided by the Act and 12 cents as provided by the Food Security Improvements Act of 1986 to comply with the Balanced Budget and Emergency Deficit Control Act of 1985); (2) 40 cents per hundredweight during the period October 1, 1986 through December 31, 1986; (3) 25 cents per hundredweight during the period January 1, 1987 through September 30, 1987; and (4) two and a half cents per hundredweight during January 1, 1988 through December 31, 1988. The funds from these reductions are collected and remitted to CCC to help fund the dairy programs.

Under the Dairy Termination Program, the Secretary of Agriculture, from February 10 through March 7, 1986, received bids from farmers to enter into contracts to terminate milk production and dispose of the producers' whole herd of dairy cattle over an 18 month period by selling for slaughter or export all dairy cattle in which the producers have financial interests. Payments to producers, based on bids submitted by producers and accepted by CCC, will be made over a five year period, beginning after the disposition of the herd.

To minimize the adverse effect of the Dairy Termination Program on beef, pork, and lamb producers for the 18 month period, CCC has purchased and is distributing 400 million pounds of meat.

Conservation Reserve Program

The Conservation Reserve Program is authorized by the Food Security Act of 1985. The primary objectives of this program are to help control critical soil erosion and to decrease the production of surplus agricultural commodities. In return for signing 10-year contracts, participants receive annual rental payments and one-time cost-share assistance to cover half the cost of installing necessary conservation practices. For fiscal years 1986 and 1987 only, the Food Security Act provided that the program be funded directly by CCC, with the remaining years funded by separate advance appropriations. To the extent rental payments are paid with CCC commodity certificates, these certificates are recorded as realized losses of the Corporation. Annual rental payments are made to participants after October 1 of each year for the duration of the 10-year contract to compensate the participant for taking the land out of production. CCC accrues estimated annual rental payments due participants in the fiscal year in which the rental is earned. CCC will share 50 percent of the cost of installing the conservation practice required by the contract. The cost share payments are paid when the cover practices are properly installed.

Storage Facility and Equipment Loans

During periods announced by the Secretary of Agriculture, CCC makes recourse loans to producers for 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 eight year period. Loans made after this date are repayable in not more than four installments over a five year period.

Accrued Interest

Except for tobacco loans subject to the No Net Cost Tobacco Act of 1982, as amended, interest is not accrued on commodity loans because the amount of interest is uncertain. Under the terms of nonrecourse loans, producers may choose to forfeit the commodity held as loan collateral to CCC in full satisfaction of the loan. Interest income is realized by CCC at the time the interest payment is received upon repayment of the loan.

With respect to storage facility and equipment loans, CCC records the interest accrual to recognize interest income when earned.

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 the due date until the date paid.

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

Accounts and
Notes Receivables

Receivables for Public Law 83-480, Title II. The value of commodities made available from CCC inventories for export disposition at no cost to the recipients pursuant to Public Law 83-480, Title II, 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. The 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 and 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 net realized losses of CCC.

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 concessional sale and export of agricultural commodities under agreements between the United States and either foreign governments or private trade entities. The agreements may provide for sales for dollars on credit terms and sales for foreign currencies.

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 provided the funds are used for certain agricultural self-help programs which are specified in the agreements. 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 their repayment obligations from other Title I agreements.

For both Title I and Title III, the current minimum interest rates are two percent per annum during the grace period and three percent per annum thereafter. Higher interest rates may be negotiated on individual agreements. The amounts due from importers for sales on credit terms are carried as receivables. Accrued interest is recorded quarterly. 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 funded by annual advance 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.

Financial Statements

National Wool Act of 1954. Incentive payments to producers pursuant to the National Wool Act of 1954, Public Law 83-690, Title VII, as amended, and the cost of making such payments are shown as a receivable until CCC is reimbursed by appropriations.

Notes receivable are established for the amount of promissory notes accepted by CCC.

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. Allowances are based on estimated recoveries from foreseeable dispositions of the commodities to the extent practicable. 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 the full cost to CCC.

Allowances for losses are not established for receivables representing loans made to foreign countries under Public Law 83-480, Title I, and CCC's export 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. Administrative property with a value of \$5,000 or more are capitalized and depreciated over their estimated useful lives, which range from 4 to 15 years.

Tobacco

The Consolidated Omnibus Budget Reconciliation Act of 1985 provided that CCC acquire title to the 1983 burley tobacco crop that was pledged as security for loans through May 7, 1986, by calling the loans for which that crop served as collateral. CCC acquired title to the crop on May 6, 1986. The principal loan amount outstanding on May 6, 1986, was over \$499 million for over 212 million pounds of burley tobacco. After calling the loans, CCC had a two year period in which to sell such tobacco as it deemed appropriate. If after the two year period, CCC had not sold all stocks of the 1983 burley tobacco, the Corporation could, if the Secretary determined, offer to sell the remaining stocks to domestic cigarette manufacturers over a period not to exceed five years. Stocks offered could be sold at a 90 percent discount of tobacco association's cost plus accrued carrying charges as of May 6, 1986. On September 30, 1986, approximately 71 million pounds had been sold for \$44 million. As of September 30, 1987 the remaining 142 million pounds was sold for \$82 million, resulting in a net loss to CCC of \$373 million.

The accrued interest was considered a loss to CCC and therefore recovered from proceeds in the No Net Cost Tobacco Account maintained by CCC. Except for the interest charges that had accrued through May 6, 1986, the tobacco producers and purchasers would have no responsibility for any other losses incurred in relation to the 1983 burley tobacco crop.

The Act also provides that the 1982 burley tobacco crop shall be offered for sale at the 1st base price in effect as of July 1, 1985, and that the purchaser of such tobacco shall pay the accrued carrying charges. Also, the stocks of the 1984 burley tobacco crop shall be offered for sale at cost on April 7, 1986 and the purchaser of such tobacco shall pay accrued carrying charges from this date to the date the tobacco is sold.

Further, this Act provides that the stocks of flue-cured tobacco from the 1976 through 1984 crops shall be offered for sale at the base prices, including carrying charges, in effect as of the date of the offer, reduced by 90 percent for flue-cured tobacco from the 1976 through 1981 crops and 10 percent for flue-cured tobacco from the 1982 through 1984 crops. Four tobacco purchasers agreed to buy the entire stock offered over the eight year term of the contract. The tobacco delivered will be a cross-section of the 1976 through 1984 crops.

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 a) contributions from tobacco producers used to offset any program losses realized by CCC relating to 1982 and subsequent crop tobacco loans; and b) assessments from tobacco purchasers for 1986 and subsequent crops of flue-cured and burley tobacco used to offset any program losses realized by CCC on 1985 and subsequent crop flue-cured and burley tobacco loans. Interest is credited on the daily principal balance of the account maintained by CCC.

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

Financial Statements

**Interest Penalties
for Late Payments**

Historically, CCC has not paid interest on late payments unless required by a specific contract. However, due to Congressional delay on supplemental appropriations, CCC was forced to suspend CCC program payments from May 1, 1987 - July 13, 1987. This was the fifth time in three years that CCC exhausted its available funding. CCC re-evaluated its policy on paying interest due to the unprecedented suspension of payments. On July 30, 1987, CCC announced that it was adopting the policy of paying interest penalties, in accordance with the procedures of the Prompt Payment Act, for late payments made under contracts for the procurement of property or services. This policy was implemented retroactive to May 1, 1987. As CCC completes a review of its records to determine additional late payments made during fiscal year 1987, additional interest costs may be incurred. For fiscal year 1987, these costs are expected to be minimal.

This policy remains in effect for payments for the procurement of property or services made by CCC in fiscal year 1988 and in the future. In addition, on December 22, 1987, Congress passed the Rural Development, Agriculture and Related Agencies Appropriations Act of 1988, as contained in Public Law 100-202. That act requires that CCC "shall pay an interest penalty, determined on the basis of the provisions of the Prompt Payment Act (31 U.S.C. 3901, et seq.), on the amount of all payments and price support loans which the Commodity Credit Corporation is obligated to make if payment is not made by the required payment date. This provision shall be applicable to all such payments for obligations incurred after January 1, 1988."

Borrowings

Program activities of CCC are usually financed by borrowings from the U.S. Treasury. U.S. Treasury borrowings for current financing are subject to interest. The interest rate paid by CCC on its 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 a year. 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 Public Law 89-316, as amended. Unpaid Treasury borrowings are shown in the financial statements as notes payable.

**Full Reimbursement
for Inventory
Disposition**

CCC is required by law to recover all costs incurred on supply and export programs' inventory transactions when purchased specifically for other United States Government agencies.

Financial Statements

Special Activities for Which Full Reimbursement is Provided by Statutes	CCC is directed by certain statutes to perform special activities for which full reimbursement is provided by appropriations. Examples of such activities include the financing of export sales under Public Law 83-480, Title I program and the producer incentive payments under the National Wool Act of 1954, as amended. 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 United States Department of Agriculture. The amount of funds provided for such activities are subsequently reimbursed from separate appropriations.
Reimbursement for Realized Losses	Public Law 87-155 authorizes reimbursement to CCC for its net realized losses. CCC recognizes an appropriation receivable for unrecovered realized losses in the year they are realized. A receivable from the U.S. Treasury is established for the amount due.
Reclassifications	Reclassifications have been made to the 1986 Statement of Financial Condition and the Statement of Changes in Financial Position to conform to the presentation used in 1987.
Note B - Suspense Accounts	In addition to regular accruals made to record expenses in the proper accounting cycle, items in suspense accounts were reclassified to show the proper program expense during fiscal year 1987. Undistributed expenditures and issued certificates in suspense were reclassified as expenses to the deficiency and diversion programs. Information available from the Budget Division, program divisions and program regulations were used to estimate the reclassification. The impact of this reclassification was \$29.4 million increase in program expenses for fiscal year 1987 and \$796.4 million increase in program expenses for fiscal year 1986.
Note C - Cash	<p>The Corporation makes every effort to maintain a minimum of \$1 million and no more than \$2 million in its cash account at the U.S. Treasury.</p> <p>The negative cash position as of September 30, 1986, was caused by routine nonexpenditure transfers to other government agencies recorded in CCC's account with the U.S. Treasury. These transfers were processed in October 1986, but were effective as of September 30, 1986. Since CCC cannot borrow from the U.S. Treasury retroactively, the borrowings to cover these transactions were made and recorded in October 1986.</p>

Financial Statements

Note D -
Accounts and
Notes Receivable

Maturities of accounts and notes receivable at
September 30, 1987, and 1986, were:

	<u>September 30, 1987</u>			
	<u>FY</u> <u>1988</u>	<u>FY</u> <u>1989</u>	<u>FY</u> <u>1990 &</u> <u>Beyond</u>	<u>Total</u>
	(In millions)			
Recoverable from funds				
appropriated for Public Law 83-690,				
National Wool Act	\$ 152	\$	\$	\$ 152
Public Law 83-480 (Note D-1)				
Principal	299	316	10,604	11,219
Interest	341			341
Export credit sales (Note D-2)	214	63	501	778
Export guarantee claims paid	269			269
Rescheduled guarantees paid	319	232	1,806	2,357
Government agencies	297			297
Sales to foreign governments	229			229
Barter Program	35			35
Food Security Reserve	0			0
Others - net of \$180 million allowance for loss	210			210
Total	<u>\$2,365</u>	<u>\$611</u>	<u>\$12,911</u>	<u>\$15,887</u>

	<u>September 30, 1986</u>			
	<u>FY</u> <u>1987</u>	<u>FY</u> <u>1988</u>	<u>FY</u> <u>1989 &</u> <u>Beyond</u>	<u>Total</u>
	(In millions)			
Recoverable from funds				
appropriated for Public Law 83-690,				
National Wool Act	\$ 123	\$	\$	\$ 123
Public Law 83-480 (Note D-1)				
Principal	401	291	9,930	10,622
Interest	296			296
Export credit sales (Note D-2)	180	87	560	827
Export guarantee claims paid	162			162
Rescheduled guarantees paid	138	90	1,723	1,951
Government agencies	458			458
Sales to foreign governments	121			121
Barter Program	35			35
Food Security Reserve	45			45
Others - net of \$154 million allowance for loss	228			228
Total	<u>\$2,187</u>	<u>\$468</u>	<u>\$12,213</u>	<u>\$14,868</u>

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

As of September 30, 1987, and 1986, past due installments of principal and interest on receivables due from foreign governments amounted to \$360 million and \$246 million respectively.

The receivables also include \$20 million for Khmer Republic and \$12 million for Vietnam, representing the financed value of commodities shipped to those countries where delivery was frustrated, plus interest through September 30, 1987.

Proceeds from the disposition of commodities, the delivery of which was frustrated, in the amount of \$10 million for commodities purchased by Khmer Republic and \$6 million for commodities purchased by 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 of 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 U.S. bank and foreign bank letters of credit or other obligations acceptable to CCC. As of September 30, 1987, and 1986, past due installments of principal and interest amounted to \$600 million and \$225 million respectively. Previous past due amounts from Poland of \$395 million were included in the \$472 million rescheduling agreement effective September 8, 1986.

Financial Statements

Note E-
Reimbursement for
Net Realized Losses

The receivable, as shown in the Comparative Statement of Financial Condition, represents the cumulative realized losses of GCC since its inception in 1933. Reimbursement for net realized losses as of September 30, 1987, and 1986, was:

	<u>September 30</u>	
	<u>1987</u>	<u>1986</u>
	(In millions)	
Realized loss or (gain):		
Through September 30 of previous year	\$139,876	\$119,878
Current fiscal year	<u>26,134</u>	<u>19,998</u>
Total (Table 2)	<u>\$166,010</u>	<u>\$139,876</u>
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	<u>134,313</u>	<u>109,380</u>
	<u>136,873</u>	<u>111,940</u>
Appropriations-current fiscal year	<u>25,362</u>	<u>24,933</u>
Net restorations	162,235	136,873
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 393	56	56
Recovery of Emergency Feed		
Program - P.L. 84-40	<u>42</u>	<u>42</u>
Total restoration and recoveries	<u>162,833</u>	<u>137,471</u>
Total unrecovered losses	<u>\$ 3,177</u>	<u>\$ 2,405</u>

Note F -
Accrued Interest
Receivable

Accrued interest receivable as of September 30, 1987, and 1986, was:

	<u>September 30</u>	
	<u>1987</u>	<u>1986</u>
	(In millions)	
Export credit sales	\$360	\$193
Storage facility and equipment loans	11	17
Export credit guarantee claims	54	17
Tobacco Price Support Loan Program	<u>404</u>	<u>408</u>
Total	<u>\$829</u>	<u>\$635</u>

Financial Statements

Note G -
Grain Reserve
Program, Advance
Payments to
Producers, and
Special Producer
Loan Storage
Program

The Agricultural Act of 1949, as amended, provides for a farmer-owned grain reserve program for wheat and feed grains. 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 nine month nonrecourse CCC price-support loan prior to entering the reserve.

The reserve agreements are for three 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 three years. If the producer repays the loan and removes the grain from the reserve before the national average market price reaches a specified trigger level, the producer must pay a penalty. 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 Comparative Statement of Financial Condition and as storage is earned, they are 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. These stocks can be stored either on the farm or in commercial warehouses.

The grain reserve loans outstanding at September 30, 1987, and 1986, are:

	<u>1987</u>		<u>1986</u>	
	Quantity (Bushel)	Value	Quantity (Bushel)	Value
(In millions)				
Barley	112	\$ 230	59	\$ 118
Corn	1,467	3,707	685	1,724
Oats	4	5	1	2
Sorghum	88	220	60	147
Wheat	<u>543</u>	<u>1,909</u>	<u>475</u>	<u>1,680</u>
Total	<u>2,214</u>	<u>\$6,071</u>	<u>1,280</u>	<u>\$3,671</u>

Under the Special Producer Loan Storage Program, a producer may pledge the same collateral for loans that had secured 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 their reserve agreement and who would normally be required to redeem or forfeit the collateral to CCC.

Financial Statements

The special producer storage loan agreements are for a 12 month period and may be extended by CCC. 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 Loan Storage Program began April 25, 1985. The special producer loans outstanding at September 30, 1987, and 1986, are:

	1987		1986	
	Quantity (Bushel)	Value	Quantity (Bushel)	Value
		_____		_____
	(In millions)			
Barley	7	\$ 16	47	\$ 103
Corn	33	90	149	418
Oats	a/	a/	2	2
Sorghum	4	10	23	64
Wheat	<u>35</u>	<u>129</u>	<u>165</u>	<u>611</u>
Total	<u>79</u>	<u>\$ 245</u>	<u>386</u>	<u>\$1,198</u>

a/ Less than 500 thousand.

Financial Statements

Note H -
Accrued Payments
and Other Liabilities

Accrued Payments as of September 30, 1987,
and 1986, were:

	<u>September 30</u>	
	<u>1987</u>	<u>1986</u>
	(In millions)	
Deficiency Program	\$ 9,631	\$6,089
Diversion Program	33	26
Dairy Termination Program	52	-
Conservation Reserve Program-		
Annual Rental Payments	778	87
Inventory Protection Programs	-	227
Loan Deficiency Program	-	<u>151</u>
Total	<u>\$10,494</u>	<u>\$6,580</u>

Other Liabilities as of September 30, 1987, and
1986, were:

	<u>September 30</u>	
	<u>1987</u>	<u>1986</u>
	(In millions)	
Total Deferred Credits	\$ 550	\$ 499
Commodity Certificates Due	-	(71)
Unapplied Receipts	282	684
Loan Certificates in Suspense	-	a/
Cash entered for Collection	(74)	(24)
SCOAP Loan Transactions	<u>a/</u>	<u>-</u>
Total	<u>\$ 758</u>	<u>\$1,088</u>

a/ Less than 500 thousand

Financial Statements

**Note I -
Trust and Deposit
Liabilities**

Amounts advanced to, or deposited with, CCC as of
September 30, 1987, and 1986, were:

	<u>September 30</u>	
	<u>1987</u>	<u>1986</u>
	(In millions)	
Funds appropriated for Agricultural Stabilization and Conservation Service Programs:		
Agricultural Conservation	\$257	\$ 240
Rural Clean Water	19	30
Water Bank	41	42
Emergency Conservation	16	10
Expenses, ASCS (County Office)	11	36
Forestry Incentives	17	15
Dairy and Beekeeper Indemnity	<u>1</u>	<u>6</u>
Subtotal	362	379
Public Law 83-480:		
Title I	364	344
Title II	414	367
Advances from Agricultural Marketing Service and Food and Nutrition Service		
	185	242
Sales Proceeds from Frustrated Cargo, Public Law 83-480, Title I		
	15	15
No Net Cost Tobacco Program	321	250
Warehouse User Fee Fund	3	1
Other advances and deposits	<u>26</u>	<u>20</u>
Total	<u>\$1,690</u>	<u>\$1,618</u>

**Note J -
Borrowing Authority**

CCC operations are financed by borrowings from the U.S. Treasury under a statutory borrowing authorization of \$25 billion. The Commodity Credit Corporation Charter Act was amended on December 22, 1987, increasing the statutory borrowing authorization to \$30 billion. This amount is the limit on borrowings that may be outstanding at any one time. CCC's borrowings from the Treasury amounted to \$21.0 billion and \$24.9 billion as of September 30, 1987, and 1986, respectively. CCC refinances its borrowings annually on January 1.

From close of business May 1, 1987, to July 13, 1987, CCC temporarily suspended disbursements on commodity loans, warehouse payments, producer storage payments, deficiency payments, dairy termination program payments, dairy price support purchases and conservation reserve cost-share payments because CCC nearly depleted its \$25 billion borrowing authority. CCC resumed the suspended operations after being reimbursed by Congress.

On three occasions during fiscal year 1986, CCC temporarily suspended disbursements for commodity loans, warehouse payments, producer storage payments, diversion payments and dairy price support purchases; and its financing operations because CCC had nearly depleted the \$25 billion borrowing authority. The dates during which such disbursements were suspended: (1) February 5 through February 7; (2) March 5 through March 21; and (3) June 5 through July 1. CCC resumed the suspended operations after being reimbursed by Congress.

Note K -
Interest on Borrowing

The monthly interest rate for fiscal year 1987 ranged from 5.750 to 6.875 percent and for fiscal year 1986 ranged from 6.125 to 8.000 percent.

During September 1985, CCC requested and was granted approval from the U.S. Treasury to defer a \$664 million interest payment due on borrowings as a result of Congress providing \$9.2 billion in October 1985 for reimbursable losses and a portion of 1986 anticipated losses. This amount was included in the \$1.8 billion interest deferred on January 1, 1986.

CCC was granted approval from the U.S. Treasury to defer its January 1, 1986, interest payment of \$1.8 billion. On September 30, 1986, CCC paid the U.S. Treasury the \$1.8 billion in deferred interest plus \$104 million in additional interest.

On November 5, 1986, CCC requested and was granted approval from the U.S. Treasury to defer the January 1, 1987, interest payment of \$320.5 million until September 30, 1987. In addition, CCC also requested and was granted approval to apply net daily receipts to repayment of principal and to defer the interest thereon until September 30, 1987. On September 10, 1987, CCC paid the U.S. Treasury interest of \$320.5 million deferred January 1, 1987, and \$235.2 million deferred to September 10, 1987, applicable to repayments of principal and \$16.4 million in additional interest.

Financial Statements

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 1987 were \$9.3 million and 9 1/4 percent. The amount and rate paid to Treasury during fiscal year 1986 were \$10.4 million and 10 3/8 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 recoverable by appropriations. (See Note E.)

The deficit of \$3.6 billion approximates the difference between net losses according to generally accepted accounting principles and the net realized losses determined for reimbursement purposes.

The deficit as of September 30, 1987, and 1986, was:

	<u>September 30</u>	
	1987	1986
	(In millions)	
Net deficit, Beginning of fiscal year	\$4,624	\$4,106
Plus: Adjustments for current year allowances for losses	(1,056)	518
Net deficit, End of fiscal year	<u>\$3,568</u>	<u>\$4,624</u>

Note N -
Operating Expenses

Substantially all 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. The consolidated account was funded by transfers from CCC corporate funds for fiscal years 1987 and 1986.

**Note 0 -
Contingent
Liabilities and
Commitments**

**Export Credit
Guarantee and
Blended Credit
Programs**

Under the Export Credit Guarantee Programs (GSM-102 and GSM-103), CCC enters into guarantee agreements with U.S. exporters who sell agricultural commodities on credit terms for periods up to three years for GSM-102 and for three to ten years for GSM-103. These exporters usually have a U.S. bank finance the transactions. This enables the exporter to receive payment from the financing bank as soon as the commodities are shipped. These 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 the assignee against loss from defaults for payments due from a foreign bank. CCC's protection is for the amount specified by CCC, 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. 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 the 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 was 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 was interest-free as long as the obligor made 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 liability for these two guarantee programs as of September 30, 1987, and 1986, is \$4,483.6 million and \$4,395 million, respectively.

Financial Statements

Commitments to Acquire or Dispose of Commodities

Contracts to acquire commodities are not shown 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, 1987, and 1986, were:

	<u>September 30</u>	
	<u>1987</u>	<u>1986</u>
	(In millions)	
Beans, dry edible	\$ 8	\$ 2
Beef	35	116
Blended food products	18	19
Dairy products	18	15
Feed grains and products	5	9
Honey	8	<u>a/</u>
Peas	1	1
Pork	<u>a/</u>	-
Raisins	-	2
Rice	6	1
Soybeans and products	<u>a/</u>	-
Vegetable oil and products	27	31
Wheat and products	<u>29</u>	<u>30</u>
Total	<u>\$155</u>	<u>\$226</u>

a/ Less than 500 thousand

Totals do not add due to rounding.

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

Conservation Reserve

Beginning on October 1, 1987, the 50 percent cost-share payments stipulated in the contracts between the producers and CCC are not to be funded from CCC, but from a separate appropriation. At September 30, 1986, CCC recognized a contingent liability for these payments and recorded a program expense when the cover practice was implemented. As of September 30, 1986, the contingent liability was \$301 million. No contingent liability was recorded as of September 30, 1987.

Financial Statements

Letters of
Commitment

Letters of commitment issued to banking institutions, authorizing reimbursement to banks for payment to exporters for sales of commodities and to carriers for ocean freight differential covering shipments made under Public Law 83-480, are not shown in the financial statements. The amount of outstanding letters of commitment issued for sales of commodities for September 30, 1987, and 1986, was \$114 million and \$165 million, respectively. Letters of commitment covering ocean freight differential are issued without stated value. However, estimated ocean freight differential as of September 30, 1987, and 1986, was \$69 million and \$84 million, respectively.

Note P -
Pending Litigation

As of September 30, 1987, and 1986 any amount of loss associated with pending litigation against the Corporation is considered immaterial in relation to the financial statements taken as a whole.

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