United States General Accounting Office

GAO

Report to the Congress

August 1989

FINANCIAL AUDIT

Commodity Credit Corporation's Financial Statements for 1988 and 1987

GAO/AFMD-89-83

GAO

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

Comptroller General
of the United States

B-202690

August 4, 1989

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, 1988 and 1987, and our reports on internal accounting controls and compliance with laws and regulations. We conducted our audit under the provisions of 31 U.S.C. 9105 and in accordance with generally accepted government auditing standards.

As we have reported in past years, 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 on such loans as of September 30, 1988, range from $5.6 billion to $8.8 billion on loans outstanding of $16 billion. Also, we estimate additional cumulative losses of $2.3 billion to $3.5 billion on guarantees of outstanding loans to foreign countries amounting to $6 billion. We continue to recommend that the Corporation include an allowance for these losses in its financial statements. This year's opinion is also qualified because the Corporation has improperly recognized as income $573 million in accrued interest receivable on loans that were delinquent 90 days or more.

As reported last year, our report on the Corporation's system of internal accounting controls discusses a material weakness in the systems used by the Corporation to ensure that accounting transactions are completely processed and that apparent errors are corrected in a timely manner. The Corporation concurred with our finding and has initiated corrective actions that should correct this weakness.

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.

Brian P. Crowley

for Charles A. Bowsher
Comptroller General
of the United States

Contents

Abbreviations

KCMO	Kansas City Management Office

GAO

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To the Board of Directors
Commodity Credit Corporation

We have audited the accompanying comparative statement of financial position of the Commodity Credit Corporation as of September 30, 1988 and 1987, and the related comparative statements of operations and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits. In addition to this report on our audits of the Corporation's 1988 and 1987 financial statements, we are also reporting to you on our study and evaluation of internal accounting controls and compliance with laws and regulations. Our report on the Corporation's system of internal accounting controls discusses a material weakness in the systems used by the Corporation to ensure that accounting transactions are completely processed or that apparent errors are corrected in a timely manner. We considered the above weakness in determining the nature, timing, and extent of the audit tests to be applied in our examination.

We conducted our audits in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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 $16 billion in outstanding loans and the $6 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 $5.6 billion to $8.8 billion as of September 30, 1988, and by $5.0 billion to $8.0 billion as of September 30, 1987, while liabilities would have been increased by amounts ranging from $2.3 billion to $3.5 billion as of September 30, 1988. Our loss allowance estimates are based on the market values of certain troubled, 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 the Corporation's net loss, for which it may be reimbursed by appropriations authorized under 15 U.S.C. 713a-11.

The Corporation has included in its fiscal year 1988 statement of financial position $573 million worth of accrued interest receivable on loans that were in default 90 days or more. For fiscal year 1987, the amount was $415 million. The Corporation has adopted generally accepted accounting principles, which state that accrued interest receivable on such delinquent loans should not be included as an asset in the financial statements because its ultimate collectibility is seriously in question. The recognition of such interest overstates accrued interest receivable and interest income and understates net loss.

In our opinion, except for the effects of not establishing an allowance to reflect the amounts of estimated losses on its foreign country loans and loan guarantees and the effects of including accrued interest on delinquent loans as an asset, as discussed in the preceding paragraphs, the financial statements referred to above present fairly, in all material respects, the financial position of the Commodity Credit Corporation as of September 30, 1988 and 1987, the results of its operations, and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Brian P. Crowley

for Charles A. Bowsher
Comptroller General
of the United States

March 31, 1989

Report on Internal Accounting Controls

We have examined the financial statements of the Commodity Credit Corporation for the years ended September 30, 1988 and 1987, 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, 1988. Our report on the study and evaluation of the system of internal accounting controls for the year ended September 30, 1987, is presented in GAO/AFMD-88-47, dated July 7, 1988.

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 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 16, 1988, 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 taken as a whole or on any of the categories of controls identified in the second paragraph. However, our study and evaluation disclosed a continuing problem from fiscal year 1987 in processing accounting transactions and correcting errors. We believe this problem could result in errors or irregularities in amounts that are material in relation to the Corporation's financial statements, and these errors may not be promptly detected or corrected. 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, 1988.

Problems in Processing Accounting Transactions and Correcting Errors

The Corporation did not employ internal accounting controls to ensure that potential errors of approximately $418 million were corrected in a timely manner. This internal control weakness occurred during the Corporation's conversion to decentralized automated systems in fiscal year 1987 and resulted in the Corporation not reconciling checks processed by banks to accounting data submitted by county offices and other issuers of checks. In addition to the unreconciled checks, the Corporation had a backlog of redeemed commodity certificates that had not been reconciled to issuance records. (Problems with commodity certificates were also reported by GAO in Commodity Certificates: Backlog of 200,000 Unreconciled Certificates Affects Financial Reporting, GAO/RCED-89-14, October 25, 1988.) At the end of fiscal year 1988, this weakness resulted in about $211 million in checks and $207 million in certificates that were not reconciled. Although Kansas City Management Office (KCMO) management considers 90 days to be the normal clearing cycle for reconciliations, samples of 630 unreconciled checks and 2,056 unreconciled certificates at August 31, 1988, were outstanding an average of about 330 days and 253 days, respectively.

Unreconciled Checks

Our review of internal accounting controls for fiscal year 1987 showed that the Corporation did not employ adequate internal accounting controls to ensure that about $461 million of checks reported as paid by banks were reconciled with corresponding issue records within 90 days.

We recommended in our report on internal controls for the year ended September 30, 1987, that (1) local offices be provided a monthly list of unreconciled differences, (2) local offices be monitored to resolve differences in a timely manner, and (3) consideration be given to suspending further conversions to automated systems until problems associated with the current implementation efforts were resolved and the Corporation's accounts were accurate and current.

The Corporation has taken steps to correct the above weaknesses, including researching unreconciled differences and following up on problem areas at county offices. These efforts reduced the dollar amount of checks unreconciled over 90 days from $461 million at September 30, 1987, to $211 million at September 30, 1988. Our review showed that a sample of 630 unreconciled checks at August 31, 1988, were outstanding an average of about 330 days.

Unreconciled Certificates

In addition to the unreconciled checks, the Corporation had a backlog of 184,000 redeemed commodity certificates, valued at about $207 million at September 30, 1988, that had not been reconciled to issuance records. Although KCMO management considers 90 days to be the normal time frame for reconciliations, our review showed that at August 31, 1988, a sample of 2,056 unreconciled certificates were outstanding an average of about 253 days.

The Corporation issues commodity certificates to eligible producers instead of the cash payments due them if they participate in certain agricultural programs. Certificates can be (1) used to purchase government-owned commodities or repay price support loans, (2) redeemed for cash, or (3) sold to other parties. Between April 1986 and December 1988, the Corporation issued over 22 million certificates valued at approximately $23 billion.

The Corporation accounts for the issuance and redemption of certificates and uses automated internal controls to identify exceptions such as (1) certificates recorded in the system as being redeemed but never recorded as being issued or (2) redeemed certificates that show a higher or lower dollar value than the value of the certificates when issued.

The backlog of 184,000 unreconciled certificates includes 45,000 redeemed certificates whose serial numbers were never recorded as being issued; 56,000 certificates that the Corporation identified as potential duplicates; and 83,000 other certificates with unreconciled differences, including certificates that were recorded at redemption at higher or lower values than when they were issued.

Corporation's Actions to Resolve Problems

The Corporation established a task force in October 1988 to investigate and correct the certificate exceptions. The task force developed an action plan which included

- developing a document to be used by county offices for promptly clearing exceptions;
- developing instructions, training, and a tracking process for the document; and
- obtaining additional temporary personnel and authorizing overtime.

The Corporation's efforts have reduced the number of unresolved certificates to about 113,000 at March 31, 1989, and officials said they expect that most of the backlog will be cleared by the end of fiscal year 1989.

Conclusions

While the Corporation did not employ sufficient internal accounting controls to ensure that potential errors were corrected in a timely manner, it has taken steps to correct the weakness and these steps have significantly reduced the number of unreconciled items. We believe that the actions, if continued, should further reduce the backlog.

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, 1988.

Corporation Comments

We discussed the contents of our report with Corporation officials and their comments have been incorporated where appropriate. The Corporation officials reviewed our findings and pointed out that considerable progress has been made in reducing the backlog and they expect it to be substantially eliminated by the end of fiscal year 1989. We agree that if the current actions are continued, they should correct the weakness.

Report on Compliance With Laws and Regulations

We have examined the financial statements of the Commodity Credit Corporation for the fiscal years ended September 30, 1988, and 1987 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, 1988. Our report on compliance with laws and regulations for the year ended September 30, 1987, is presented in GAO/AFMD-88-47, dated July 7, 1988.

As part of our examination, we reviewed and tested compliance with provisions of the Commodity Credit Corporation Charter Act (Public Law 80-806) as amended, the Agricultural Act of 1949 (Public Law 81-439) as amended, the Agricultural Trade Development and Assistance Act of 1954 (Public Law 83-480) as amended, the Food Security Act of 1985 (Public Law 99-198) as amended, and related regulations.

In our opinion, the 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 1988 financial statements.

Financial Statements

Comparative Statement of Financial Position

Exhibit A

September 30, 1988 and 1987

	September 30, 1988	September 30, 1987
	(In Millions)	
ASSETS:		
Cash	$ 1	$ 36
Loans Receivable *(Note C)*	8,007	13,414
(Net of Allowance of $346 million and $442 million for Fiscal Years 1988 and 1987, respectively)		
Commodity Inventories	4,477	9,680
(Net of Allowance of $1,111 million and $2,947 million for Fiscal Years 1988 and 1987, respectively)		
Accounts and Notes Receivable *(Note D)*	16,972	15,887
(Net of Allowance of $197 million and $180 million for Fiscal Years 1988 and 1987, respectively)		
Future Financing Sources *(Note E)*		
Appropriations for Net Realized Losses	10,395	3,177
Deferred Funding for Losses	1,655	3,568
Accrued Interest Receivable	1,359	828
Advance Payments to Producers	472	483
Fixed and Other Assets *(Net)*	436	463
Total Assets	$ 43,774	$ 47,536
LIABILITIES:		
Accounts Payable	$ 1,262	$ 828
Accrued Interest Payable	414	731
Accrued Liabilities *(Note F)*	9,853	10,900
Trust and Deposit Liabilities *(Note G)*	2,951	1,690
U.S. Treasury Borrowings *(Note H)*	11,758	20,969
Obligations Due	11,985	11,560
Other Liabilities	859	758
Total Liabilities	39,082	47,436
Commitments and Contingencies *(Note I)*		
EQUITY OF U.S. GOVERNMENT:		
Appropriated Capital *(Note J)*	4,592	---
Capital Stock *(Note K)*	100	100
Total Equity of U.S. Government	4,692	100
Total Liabilities and Equity of U.S. Government	$ 43,774	$ 47,536

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

Comparative Statement of Operations

Exhibit B

For Fiscal Years Ended September 30, 1988 and 1987

	Fiscal Year 1988	Fiscal Year 1987
	(In Millions)	
Sales and other revenue - program		
Commodity inventory operations:		
Sales of commodities	$ 12,153	$ 11,994
Cost of sales	(14,826)	(13,992)
Cost of commodities donated	(1,710)	(1,856)
Storage and handling expense	(986)	(1,376)
Transportation expense	(37)	(184)
Net losses on commodity inventory operations	(5,406)	(5,414)
Milk marketing fees collected	74	430
Special recoveries authorized for National Wool Act	128	145
Net losses after other revenue - program	(5,204)	(4,839)
Expenses and costs - program		
Program expense	(12,126)	(16,654)
Grain reserve storage expense	(669)	(628)
National Wool Act payments	(128)	(145)
Loan and other charge-offs *(net)*	(301)	(1,129)
Other costs *(net)*	(2,720)	(524)
Total expenses and costs - program	(15,944)	(19,080)
General and administrative income and expense		
Net interest income *(expense)*	109	(562)
Net operating expense	(682)	(597)
Net general and administrative expenses	(573)	(1,159)
Net loss	(21,721)	(25,078)
Financed by appropriations *(Note E)*	21,721	25,078
Transfered to Equity	0	0
Appropriated Capital *(Note J)*	4,592	0
Equity of U.S. Government, beginning of year	100	100
Equity of U.S. Government, end of year	$ 4,692	$ 100

All amounts reducing income or increasing expense or losses are designated by parentheses ( ).

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

Comparative Statement of Cash Flows

Exhibit C

For Fiscal Years Ended September 30, 1988 and 1987

	Fiscal Year 1988	Fiscal Year 1987
	(In Millions)	
Cash flow from operating activities:		
Cash received from program participants	$ 11,099	$ 10,915
Cash paid to program participants and for inventory held	(29,133)	(34,564)
Interest received	255	467
Interest paid	(993)	(1,486)
Net cash from operating activities	(18,772)	(24,668)
Cash flow from investing activities:		
Net Cash from investing activities	5,130	2,438
Cash flow from financing activities:		
Appropriations received in advance	16,541	25,485
Appropriated capital	4,592	---
Net payments from U. S. Treasury	(7,950)	(3,831)
Net receipts for Agriculture Trade and Development Act (PL-480)	424	642
Net Cash from financing activities	13,607	22,296
Net increase in cash equivalents	(35)	66
Cash and cash equivalents at beginning of year	36	(30)
Cash and cash equivalents at end of year	$ 1	$ 36

The accompanying notes are an integral part of these financial statements. See Note L for reconciliation of net income to net cash provided by operating activities.

For purposes of the Comparative Statement of Cash Flows, CCC considers commodity certificates to be cash equivalents.

Notes to Financial Statements

September 30, 1988

Note A - General Purpose

The Commodity Credit Corporation (CCC) was incorporated as a Delaware corporation and organized as an agency of the United States by Executive Order in 1933. 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 chartered CCC 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 does not have any operating personnel or facilities.

CCC programs include:

Price-support programs designed to provide eligible producers of certain agricultural commodities the opportunity to obtain a specified return on their production of eligible commodities regardless of fluctuations in market prices.

Supply programs undertaken, as need arises, to provide commodities to government agencies, foreign governments, relief and rehabilitation agencies, and for domestic consumption requirements.

Commodity export programs designed to aid in the development or expansion of export markets for United States' agricultural commodities and products.

Donation programs, which, under certain statutory provisions, authorize CCC to donate commodities to domestic and international relief agencies and government agencies.

Special activity programs carried out under authority of the Corporation's charter and specific authorization and directives.

Note B - Summary of Significant Accounting Policies

General Accounting Policy

CCC adheres to generally accepted accounting principles except for establishing allowances for losses on receivables and a provision for loss contingencies on guarantees to foreign countries. The program and accounting policies and practices followed are described below.

Commodity Certificates

The Commodity Credit Corporation Charter Act, as amended, and the Agricultural Act 1949, as amended, provide authority for CCC to make payments in forms other than cash. Accordingly, some CCC payments such as wheat, feed grains, rice, and upland cotton deficiency and diversion payments, cotton loan deficiency payments, and payments for the Conservation Reserve Program and Export Enhancement Program may be made in commodity certificates.

Commodity certificates payable at September 30, 1988, and September 30, 1987, are $835 million and $188 million, respectively and are included as a portion of accounts payable on the Statement of Financial Position.

Commodity Loans

CCC makes nonrecourse loans to producers on designated agricultural commodities. These loans are carried at the unpaid principal balance. Producers have the option to repay the principal plus interest or, at maturity, to forfeit the commodity to fully satisfy the loan. The Agricultural Act of 1949, as amended, allows producers to repay certain loans at a level that is less than the original level determined for such crop. These loans are secured by the collateral offered by the producer. For collateral stored on farms a lien (UCC-1) is filed by CCC.

Allowances for losses on commodity loans are based on the estimated loss on ultimate commodity dispositions.

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. Interest income is realized by CCC at the time the interest payment is received.

Commodity Inventories

Inventories are recorded at acquisition cost plus processing and packaging costs incurred after acquisition. Acquisition cost is the amount of the loan settlement, excluding interest, or the amount of the purchase settlement. The loan and purchase rates under price support programs are fixed to accomplish price-support objectives set by legislation. Therefore, acquisitions are usually at a cost higher than market value. Allowances on commodity inventories are based on the estimated loss on ultimate commodity dispositions.

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.

Fixed Assets

Fixed assets acquired by CCC are recorded at the 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 is capitalized and depreciated over its estimated useful life, which ranges from 4 to 15 years.

Feed Grain, Wheat, Cotton, Rice, and Emergency 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 Disaster Assistance Act of 1988 was enacted on August 11, 1988, to provide disaster and livestock emergency assistance to producers who experienced livestock or crop losses due to drought, hail, or excessive moisture in 1988.

CCC accrues estimated deficiency, diversion, and disaster payments due producers in the fiscal year in which the deficiency, diversion, or disaster begins.

Dairy Programs

Programs are authorized by the Agricultural Act of 1949, as amended, to stabilize the supply and demand for dairy products. The Act specifies price support levels per hundredweight for milk through 1990. For certain time periods, the Secretary of Agriculture has been required to 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 funds from these reductions have been collected and remitted to CCC. Collections were terminated on December 31, 1988.

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 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.

Conservation Reserve Program

The Conservation Reserve Program is authorized by the Food Security Act of 1985 to 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 CCC. CCC accrues estimated annual rental payments due participants in the fiscal year in which the rental is earned, if paid with certificates.

Full Reimbursement

CCC is required by law to be reimbursed for services performed, losses sustained, operating costs incurred or commodities purchased or delivered to or on behalf of other United States Government agencies.

Reclassifications

Certain reclassifications have been made to the 1987 financial statements in order to conform to the 1988 presentation. These changes include restating cumulative results of operations (an equity account) as a future financing source-deferred funding for losses (an asset account) to reflect its eventual collection through the appropriation process and restating net income by adjusting net realized losses for their related allowance for losses.

Note C - Loans Receivable

Loans receivable at September 30, 1988 and 1987, were:

	September 30 1988	September 30 1987	
	(In Millions)		
Corn	$ 3,803	$ 7,424	
Other Feed Grains	422	1,233	
Wheat	1,608	2,836	
Tobacco	1,616	2,071	
Upland Cotton	568	447	
Other	312	(220)	a/
Storage Facility and Equipment	25	65	
Loans Outstanding	8,354	13,856	
Less: Allowance for Losses	346	442	
Loans receivable end of fiscal year	$ 8,007	$ 13,414	

Note: May not add due to rounding

a/ Includes an adjustment for unallocated loan transactions and timing differences of $1,317 million.

Note D - Accounts and Notes Receivable

Accounts and notes receivable at September 30, 1988 and 1987, were:

	September 30	
	1988	1987
	(In Millions)	
National Wool Act	$ 5	$ 152
Public Law 83-480:		
Principal	11,632	11,219
Interest	352	341
Export credit sales	733	778
Export guarantee claims paid	225	269
Rescheduled guarantees paid	2,691	2,357
Government Agencies	2	297
Barter Program	21	35
OGSM Sales to foreign governments	238	229
Producers	651	12
State Office Claims	149	137
Other Claims	166	148
Others	304	93
Allowance for Losses	(197)	(180)
Total	$ 16,972	$ 15,667

Past due installments of principal and interest on notes receivable from foreign governments as of September 30, 1988 and 1987, amounted to $1,044 million and $960 million, respectively.

The receivables also include repudiated debts of $20 million for the Khmer Republic and $12 million for Vietnam.

Note E - Future Financing Sources

Appropriations for Net Realized Losses

Public Law 87-155, as amended, authorizes reimbursement to CCC for its net realized losses each year. Reimbursement for net realized losses as of September 30, 1988 and 1987, was:

	September 30 1988	September 30 1987
	(In Millions)	
Realized loss or (gain):		
Through September 30 of previous year	$ 166,010	$ 139,876
Current fiscal year:		
Net loss	21,721	25,078
Adjustment for allowances for losses:		
Loans	95	(80)
Inventories	1,835	1,162
Accounts and notes receivable	(17)	(26)
Net change in allowances for losses	1,913	1,056
Realized loss or (gain) - current fiscal year	23,634	26,134
Sub-total	189,644	166,010
Advanced appropriation	(14,993)	---
Total	174,650	166,010
Restorations from U.S. Treasury		
To September 30 of previous year:		
Notes canceled	2,698	2,698
Payments to U.S. Treasury	(138)	(138)
Appropriations	159,675	134,313
	162,235	136,873
Appropriations-current fiscal year	1,422	25,362
Net restorations	163,657	162,235
Recovery	598	598
Total restoration and recoveries	164,255	162,833
Appropriations for net realized losses	$ 10,395	$ 3,177

Note: May not add due to rounding.

CCC's current fiscal year realized losses are $23,634 million. $14,993 million of the advanced appropriation of $21,133 million, received under P.L. 100-202, was applied as authorized to these losses resulting in remaining recoverable losses of $6,728 million for fiscal year 1988, which is comprised of $8,641 million of realized losses less net change in allowances for losses of $1,913 million.

Total realized losses recoverable from appropriations was $10,395 million consisting of $8,641 million for 1988 and $1,754 million for 1987. The 1987 losses recoverable from appropriation of $3,177 million was reduced in 1988 by application of $1,422 million from the advanced appropriation as authorized by P.L. 100-202.

Deferred Funding for Losses

Public Law 87-155, as amended, authorizes reimbursement to CCC for its net realized losses each year. Unrealized losses, which represent changes in certain accrued expenses, are not reimbursed to CCC until they are realized. They represent future funding that will be required by the Corporation. For fiscal years 1988 and 1987 there were:

	September 30	
	1988	1987
	(In Millions)	
Deferred funding for losses - beginning of year	$ 3,568	$ 4,624
Net change in allowances for losses	(1,913)	(1,056)
Deferred funding for losses - end of year	$ 1,655	$ 3,568

Note F - Accrued Liabilities

Accrued liabilities as of September 30, 1988 and 1987, were:

	September 30	
	1988	1987
	(In Millions)	
Deficiency Payments	$ 4,134	$ 9,631
Diversion Payments	*	33
Dairy Termination Program Payments	---	52
Conservation Reserve Program Annual Rental Payments	---	778
1988 Disaster Assistance Act Payments:		
Livestock Feed Program Payments	1,959	---
Forage Assistance Program	50	---
Tree Assistance Program	40	---
Disaster Program	3,492	---
Carrying Charges	170	396
Other Accrued Expenses	8	10
Total	$ 9,853	$ 10,900

* Less than $500 thousand.

Note G - Trust and Deposit Liabilities

Trust and deposit liabilities are amounts advanced to, or deposited with, CCC. The balances as of September 30, 1988 and 1987, were:

	September 30 1988	September 30 1987
	(In Millions)	
Funds appropriated for Agricultural Stabilization and Conservation Service Programs:		
Agricultural Conservation	$ 233	$ 257
Rural Clean Water	16	19
Water Bank	40	41
Emergency Conservation	12	16
Expenses, ASCS (County Office)	27	11
Forestry Incentives	18	17
Dairy and Beekeeper Indemnity	*	1
Colorado River Salinity Control	4	---
Conservation Reserve Program	794	---
Subtotal	1,144	362
Public Law 83-480:		
Title I	470	364
Title II	595	414
Advances from Agricultural Marketing Service and Food and Nutrition Service	268	185
Sales Proceeds from Frustrated Cargo, Public Law 83-480, Title I	15	15
No Net Cost Tobacco Fund	381	321
Warehouse User Fee Fund	2	3
Government Agencies	10	*
Amount Due Treasury	2	1
ASCS Administrative Collections	1	*
Other advances and deposits	63	25
Total	$ 2,951	$ 1,690

* Less than $500 thousand.

Note H - Borrowing Authority

CCC operations are financed by borrowings from the Treasury under a statutory borrowing authorization of $30 billion which limits the borrowings that may be outstanding at any one time. CCC's actual borrowings from the Treasury amounted to $11,758.5 million and $20,969.3 million as of September 30, 1988 and 1987, respectively. CCC refinances its borrowings annually on January 1. Monthly interest rates for fiscal year 1988 ranged from 6.625 to 8.000 percent. Interest expense for fiscal year 1988 borrowings was $637.0 million.

Note I - Commitments and Contingencies

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

Letters of commitment issued to banking institutions were $230 million for September 30, 1988, and $114 million for September 30, 1987.

Under the Export Credit Guarantee Program, CCC enters into guarantee agreements with U.S. exporters who sell agricultural commodities on credit. 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. The guarantee may provide for automatic adjustment in the eligible interest during the term of the credit. 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 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 guarantee programs as of September 30, 1988 and 1987, is $6,022.1 million and $4,483.6 million, respectively. 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, 1988 and 1987, were $214 million and $155 million, respectively.

Note J - Appropriated Capital

The Rural Development, Agriculture and Related Agencies Appropriation Act of 1988 as contained in Public Law 100-202 provided for seventeen individual spending authorizations totalling $21.1 billion for the purpose of financing CCC's programs. These funds were used for reimbursement of $1,422 million of fiscal year 1987 losses, $14,993 million of fiscal year 1988 losses, and $126 million for the National Wool Act Program. As of September 30, 1988, CCC had appropriated capital of $4,592 million.

Note K - 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 1988 was $8.8 million and 8.750 percent. The amount and rate paid to Treasury during fiscal year 1987 was $9.3 million and 9.250 percent.

Note L - Reconciliation of Net Income to Net Cash

Reconciliation of net income to net cash from operating activities as of September 30, 1988 and 1987:

		September 30 1988		September 30 1987
		(In Millions)		
Net Loss		$ (21,721)		$ (25,078)
Adjustments to Reconcile Net Income to Net Cash From Operating Activities:				
Net change in allowance for losses	(1,913)		(1,056)	
Loan and other writeoffs	372		585	
Special recovery for National Wool Act	(128)		(145)	
Depreciation expense	22		24	
Change in Assets and Liabilities:				
Commodity Inventories	7,038		213	
Accounts and Notes Receivable	(1,102)		(1,045)	
Accrued Interest Receivable	(530)		(194)	
Advance Payments to Producers	11		(204)	
Fixed and Other Assets	8		(148)	
Accounts Payable	434		(1,068)	
Accrued Interest Payable	(318)		(263)	
Accrued Liabilities	(1,046)		4,041	
Other Liabilities	101		(330)	
Total Adjustments		2,949		410
Net Cash From Operating Activities		$ (18,772)		$ (24,668)

Note M - General Overhead

CCC does not have any operating personnel. Most programs are administered through and by the USDA Agricultural Stabilization and Conservation Service (ASCS), Agricultural Marketing Service (AMS), and Foreign Agricultural Service (FAS). CCC reimburses ASCS, AMS and FAS for their services.

Substantially all of CCC's operating expenses are paid, as authorized by law, from an ASCS consolidated fund account which covers operating expenses for CCC and ASCS and CCC operating expenses related to AMS and FAS activities.

Note N - Pending Litigation

As of September 30, 1988, any amount of loss associated with pending litigation against the Corporation is immaterial in relation to the financial statements taken as a whole.

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