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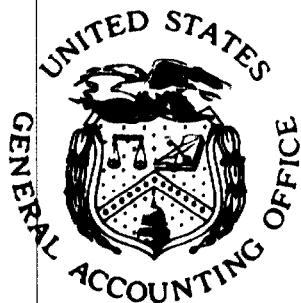
BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

Review Of The Commodity Credit Corporation's Financial Statements For The Year Ended September 30, 1981

GAO's review of the financial statements of the Commodity Credit Corporation for the year ended September 30, 1981, resulted in accounting and financial reporting policy changes. The changes, which are described in note 2 of the financial statements, were made to the 1981 statements so that they would be prepared in accordance with generally accepted accounting principles.



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GAO/AFMD-83-87
SEPTEMBER 2, 1983

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

B-202690

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

This report presents the results of our review of the statement of financial position of the Commodity Credit Corporation (CCC) as of September 30, 1981, and the related statements of income and expense and changes in financial position for the year then ended. Our review was made pursuant to the provisions of 31 U.S.C. 9105, and in accordance with standards issued by the Comptroller General and by the American Institute of Certified Public Accountants. All of the information included in the financial statements is the representation of CCC's management.

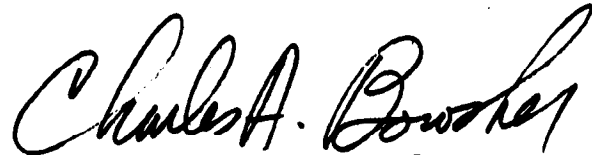
CCC is a wholly owned Government corporation created in 1933 to stabilize and protect farm prices as well as assist in the maintenance of adequate supplies and the orderly distribution of agricultural commodities.

The financial statements of CCC, as originally presented in its annual "Report of Financial Condition and Operations of the Commodity Credit Corporation," issued November 18, 1981, did not conform with generally accepted accounting principles. As a result, significant accounting and financial reporting policy changes were made to those financial statements to present the enclosed statements in accordance with generally accepted accounting principles. These changes, which are described in note 2 to the financial statements, relate principally to the recognition of certain income and expenses, and the recognition of an estimated liability for deficiency payments to producers. We are not aware of any other material changes that should be made to the statements in order for them to be in conformity with generally accepted accounting principles.

We are required to audit the accounts of CCC at least once every 3 years. However, due to the above changes and the amount of time needed to produce acceptable financial statements, our work was limited to interviewing CCC personnel, analyzing financial data, and providing consultative services on accounting matters. This scope was less than what would be required to audit the accounts in accordance with generally accepted government auditing standards. In particular, we have not done sufficient work to verify the physical quantities, condition, or valuation of commodities owned by CCC nor have we confirmed or otherwise verified loans and accounts receivable or the underlying collateral for such loans. Accordingly, we are not expressing an opinion on the enclosed fiscal 1981 financial statements. The financial statements, as revised to reflect the above accounting policy changes, were

completed in April 1983 and accepted by CCC as its official statements. We did not extend our review to cover events subsequent to fiscal 1981. Our next examination of the accounts of CCC, scheduled for fiscal 1984, will encompass all procedures necessary to express an opinion on the financial statements.

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



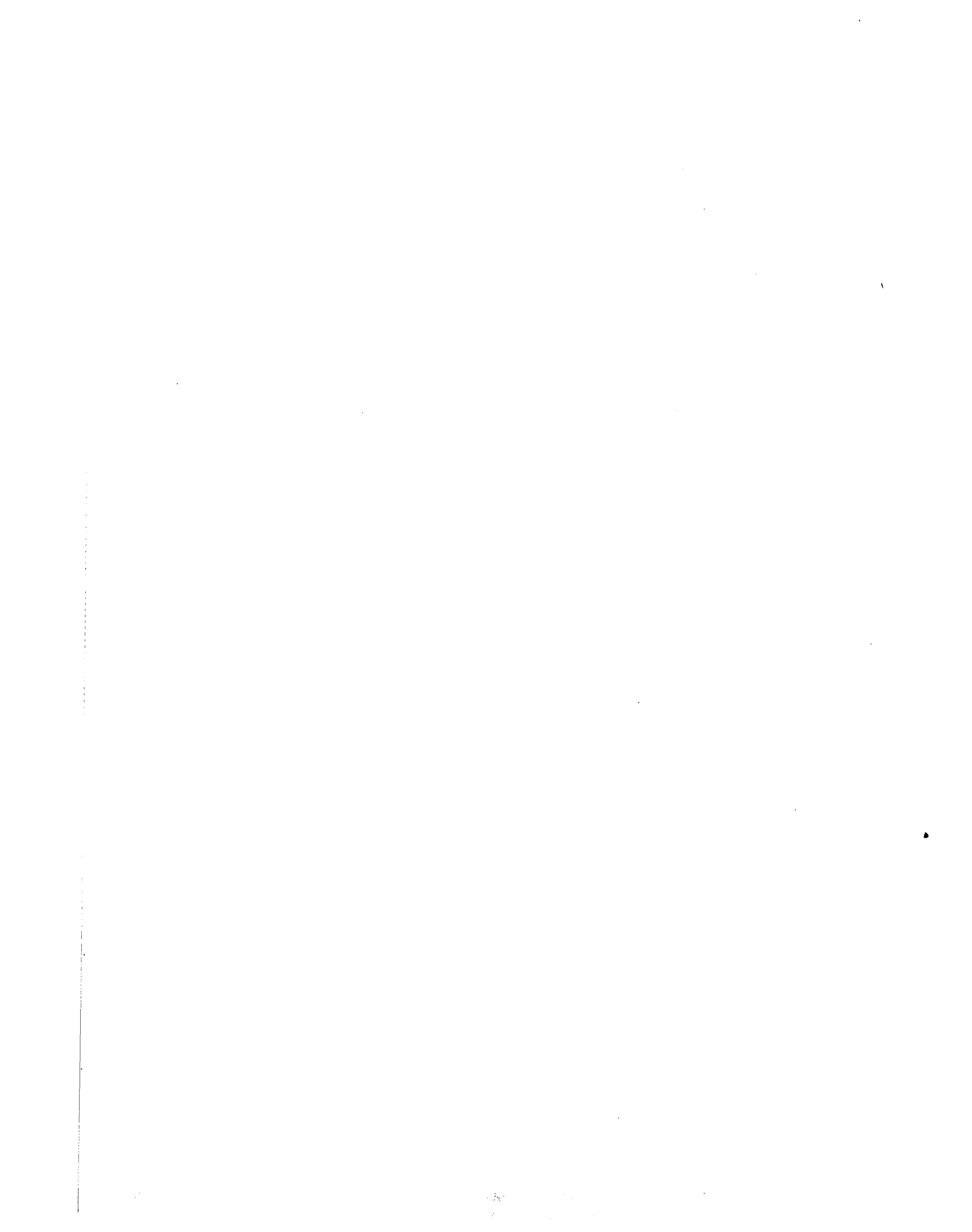
Comptroller General
of the United States

Appendix I

Commodity Credit Corporation

Financial Statements

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COMMODITY CREDIT CORPORATION
STATEMENT OF FINANCIAL POSITION
SEPTEMBER 30, 1981 (notes 1 and 2)

Unaudited
September 30
1981

(millions)

ASSETS

Cash	\$ 56
Loan programs:	
Commodity, net (schedule 1)	3,789
Storage facility and equipment	1,403
Commodity inventories, net (schedule 2)	1,803
Accounts and notes receivable, net (note 3)	9,074
Anticipated reimbursement from U.S. Treasury for net realized losses (notes 2, 3, 4)	6,879
Accrued interest receivable (note 5)	565
Advance payments to producers (note 6)	58
Fixed and other assets (net of accumulated depreciation of \$5.7 million)	73
Total assets	<u>\$23,700</u>

LIABILITIES

Accounts payable	\$ 227
Accrued liabilities	51
Accrued deficiency payments (note 7)	1,052
Trust and deposit liabilities (note 8)	570
Borrowings from U.S. Treasury (note 9)	14,374
Accrued interest on U.S. Treasury borrowings	1,257
Due to U.S. Treasury under Public Law 480 Program	7,881
Other liabilities	135
Contingent liabilities (note 10)	-
Total liabilities	<u>25,547</u>

INVESTMENT OF U.S. GOVERNMENT

Capital stock (note 11)	100
Cumulative results of operations (note 12)	(1,947)
Total investment of U.S. Government	(1,847)
Total liabilities and investment of U.S. Government	<u>\$23,700</u>

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

COMMODITY CREDIT CORPORATION
 CUMULATIVE RESULTS OF OPERATIONS
 FROM INCEPTION TO SEPTEMBER 30, 1981 (notes 1 and 2)

	<u>Unaudited Cumulative through Sept. 30, 1981</u>
	(millions)
Total realized loss exclusive of wartime consumer subsidy program as of October 1, 1980	\$(67,556)
Cumulative effect of accounting change (note 2)	5,596
Total realized loss exclusive of wartime consumer subsidy program	(61,960)
Cost of wartime consumer subsidy program	(2,102)
Provision for program losses	<u>(1,948)</u>
Net income (loss)	\$(66,010)
Restoration of capital from U.S. Treasury:	
Appropriations	60,905
Notes canceled	2,698
Payments to Treasury	(138)
Adjustments for recovery of price support losses - charges to reserve for postwar price support	500
Recovery from Secretary of Treasury under Public Laws 389 and 393, 80th Congress	56
Recovery of Emergency Feed Program under Public Law 40, 84th Congress	<u>42</u>
Net deficit (note 12)	<u><u>\$(1,947)</u></u>

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

COMMODITY CREDIT CORPORATION
STATEMENT OF REVENUE AND EXPENSES
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 1981 (notes 1 and 2)

	<u>Unaudited</u> <u>Fiscal</u> <u>1981</u>
	(millions)
<u>Commodity Inventory Operation</u>	
Sales of commodities	\$ 902
Less:	
Cost of sales	\$1,105
Cost of commodities donated	432
Storage and handling expenses	200
Transportation expenses	91
Net loss on commodity inventory operations	<u>1,828</u> \$(926)
<u>Program Costs of Operation</u>	
Producer payments	\$2,082
Emergency Feed Program payments	328
Grain reserve storage expense	87
Loan and other chargeoffs	22
Other costs (note 14)	367
Income (loss) from operations (note 13)	<u>2,886</u> \$(3,812)
<u>Other Income and Expenses</u>	
Interest and other income (note 2)	\$ 974
Less:	
Interest expense (note 15)	1,579
General and administrative expenses (note 16)	166
Total other income (loss)	<u>(771)</u>
Net realized loss (notes 2 and 17)	\$(4,583)
<u>Provision for Program Losses</u>	
Estimated losses on commodity inventories	\$ 871
Estimated losses on accounts receivable	12
Estimated losses on loans	-
Excess of costs and expenses over revenue	<u>883</u> (5,466)
Appropriations (notes 2 and 17)	4,583
Net loss before effect of accounting change	<u>(883)</u>
Cumulative effect of change in accounting for appropriations (note 2)	5,596
Net income (loss)	<u>\$4,713</u>

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

COMMODITY CREDIT CORPORATION
STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 1981 (notes 1 and 2)

	<u>Unaudited</u> <u>Fiscal</u> <u>1981</u>
	(millions)
<u>Sources of Funds</u>	
Net income (loss) before effect of accounting change	\$(883)
Cumulative effect of change	5,596
Net income after effect of accounting change	<u>4,713</u>
Not requiring funds:	
Provision for program losses	883
Total funds provided by operations	\$ 5,596
Reimbursements:	
Realized losses	-
Agricultural Trade Development and Assistance Act	1,254
National Wool Act Program	35
Military Family Housing Program	6
Export Credit Sales Program	1,005
Borrowings from U.S. Treasury	7,076
Decrease (increase) in:	
Advances to producers	59
Other	108
Increase (decrease) in:	
Accounts payable	14
Trust and deposit liabilities	36
Interest on borrowings	385
Due to U.S. Treasury, Public Law 480	603
Decrease in cash	58
Total sources	<u>\$16,235</u>
<u>Uses of Funds</u>	
Costs:	
Agricultural Trade Development and Assistance Act	\$ 1,254
U.S. Treasury borrowings	6,431
Export Credit Sales Program	22
National Wool Act Program	42
Other	980
Increase (decrease) in:	
Producer loans	74
Commodity inventories	990
Accounts and notes receivable	6,651
Accrued interest	368
Decrease (increase) in:	
Accrued liabilities	(1,026)
Other liabilities	449
Total uses	<u>\$16,235</u>

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

Schedule 1 - Commodity Loans

Commodity loans are nonrecourse loans. The borrower has the option, at maturity, to repay the principal plus interest or to surrender the commodity in full satisfaction of the loan. CCC takes commodities surrendered into inventory at full value (acquired price); thus, with the exception for tobacco loans, no allowances for losses are made on nonrecourse commodity loans. No allowance is provided for the storage facility and equipment loans. They are secured by mortgages.

<u>Commodity</u>	<u>Unaudited</u> <u>September 30,</u> <u>1981</u>
	(millions)
Feed grains:	
Barley	\$ 72.5
Corn	629.3
Corn products	-
Oats	7.7
Rye	0.7
Sorghum	96.1
Total feed grains	<u>806.3</u>
Dairy products:	
Butter	-
Cheese	-
Milk, dried	-
Total dairy products	<u>-</u>
Oils and oilseeds:	
Peanuts and peanut products	12.8
Soybeans	192.6
Total oils and oilseeds	<u>205.4</u>
Wheat	1,871.2
Wheat products, other	-
Rice	46.7
Rice, brown	-
Tobacco	763.5 ^{a/}
Seed cotton, upland	-
Cotton, extra long staple	9.8
Cotton, upland	66.4
Honey	20.1
Seeds, foundation	-
Sugar, beet	-
Sugar, cane	-
Vegetable oil products	-
Total	<u>\$3,789.4</u>

^{a/}Net of allowance for doubtful loans of \$277,000.

Schedule 2 - Commodity Inventories and Allowance for Losses on Inventories

Unaudited
September 30, 1981

<u>Commodity</u>	<u>Cost</u>	<u>Allow- ance for losses</u>	<u>Net Value</u>
	- - - -(millions)- - - -		
Feed grains:			
Barley	\$ 5.3	\$ 0.3	\$ 5.0
Corn	555.2	-	555.2
Corn products	-	-	-
Oats	1.8	0.5	1.3
Rye	0.2	-	0.2
Sorghum	<u>79.0</u>	<u>0.8</u>	<u>78.2</u>
Total feed grains	<u>641.5</u>	<u>1.6</u>	<u>639.9</u>
Dairy products:			
Butter	708.9	528.5	180.4
Cheese	887.4	877.0	10.4
Milk, dried	<u>799.3</u>	<u>513.7</u>	<u>285.6</u>
Total dairy products	<u>2,395.6</u>	<u>1,919.2</u>	<u>476.4</u>
Oils and oil-seeds:			
Peanuts and peanut products	0.2	0.2	-
Soybeans	<u>-</u>	<u>-</u>	<u>-</u>
Total oils and oilseeds	<u>0.2</u>	<u>0.2</u>	<u>-</u>
Wheat	<u>678.7</u>	<u>-</u>	<u>678.7</u>
Wheat products, other	-	-	-
Rice	1.0	-	1.0
Rice, brown	-	-	-
Tobacco	-	-	-
Seed cotton, upland	-	-	-
Cotton, extra long staple	0.8	-	0.8
Cotton, upland	-	-	-
Honey	0.3	0.3	-
Seeds, foundation	0.4	-	0.4
Sugar, beet	5.9	-	5.9
Sugar, cane	-	-	-
Vegetable oil products	<u>2.4</u>	<u>2.4</u>	<u>-</u>
Total	<u>\$3,726.8</u>	<u>\$1,923.7</u>	<u>\$1,803.1</u>

NOTES TO THE FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies**General policy**

The Commodity Credit Corporation's policy is to adhere to accounting principles and practices that are generally accepted in the field of commercial accounting. Certain operations engaged in by CCC in carrying out its primary objectives, as required by statute, are unique and thus no counterpart exists in the commercial field. This statement outlines briefly the accounting principles and practices observed by CCC with particular reference to unusual applications of generally accepted accounting principles.

Mandatory price-support programs

CCC is required by law to make price support programs available for specified commodities at price levels bearing prescribed relationships between parity prices and prices received by farmers.

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

Commodity loans

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

Commodity inventories

Inventories are recorded at acquisition cost plus processing and packaging costs incurred after acquisition. Acquisition cost of commodities acquired pursuant to price support loans, or by purchase from producers, is the amount due on the loan, excluding interest, or the amount of the purchase settlement. Inventories are not acquired and held by CCC for resale at a profit. Price-support inventories are accumulated when demand is not sufficient to absorb available supplies at the support prices when farm prices are below the support levels. Inventories held under

supply and commodity export programs are usually acquired to fill orders or known program requirements.

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

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

Storage facility and equipment loans

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

Accounts and notes receivable

Public Law 480, Title II, and Other Legislation Authorizing Reimbursement. The value of commodities made available from CCC inventories for export disposition at no cost to the recipients pursuant to Title II, Public Law 83-480, is recorded as proceeds of sales and is shown as a receivable until receipt of an appropriation reimbursing CCC, less any funds appropriated in advance. Costs of ocean freight on these commodities are also included in the same receivable. Costs under other congressional authorizations providing

for disposition of commodities at no cost to the recipients and for reimbursement to CCC by appropriation are treated similarly.

National Wool Act of 1954. Price support payments to producers pursuant to the National Wool Act of 1954, Title VII, Public Law 83-690, and the cost of making such payments, are shown as receivables until reimbursed to CCC from appropriations made pursuant to the act.

Receivables for Public Law 83-480, Credit Sales for Dollars. The amounts due under long-term credit agreements entered into with foreign governments and private trade entities pursuant to Public Law 83-480 are carried as receivables. Accrued interest is added on September 30 of each year. The principal amount financed, less amounts received as installment payments and proceeds from the sale and use of foreign currencies generated under Public Law 83-480, is recovered from annual appropriations. The total receivable under the Public Law 83-480 program is offset by a corresponding amount due the U.S. Treasury.

Fixed assets

Fixed assets acquired by CCC are recorded at cost. A 100-percent allowance for depreciation is normally established at the time of acquisition for furniture, fixtures, and other equipment for administrative use, because the amounts involved are relatively minor in relation to total general overhead expenses. Capital items such as major equipment purchases, which are used directly in the operation of programs, are depreciated on a straight-line basis over a period of years. This provides for the annual absorption by programs of a reasonable portion of the cost of such items.

Borrowings

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

Full reimbursement for inventory disposition	CCC is required by law to recover all costs for commodities supplied to U.S. Government agencies or for Title II of Public Law 480.
Special activities for which full reimbursement is provided by statutes	CCC has been directed by certain statutes to perform special activities for which full reimbursement is provided by appropriations. Illustrative of current activities of this nature are the financing of export sales under Title I of Public Law 83-480, and the producer incentive payments under the National Wool Act of 1954, Title VII of Public Law 83-690. CCC is also authorized by statutes to provide temporary funds for certain activities that are carried out by other agencies of the Department of Agriculture. The amounts of funds provided for such activities are subsequently reimbursed from appropriations.
Reimbursement for realized losses	Public Law 87-155 authorizes an annual appropriation each fiscal year to reimburse CCC for its net realized loss as shown in its financial statements for that fiscal year.

Note 2 - Accounting Changes

Beginning with fiscal 1981, CCC began accruing interest income on nonrecourse commodity loans. Previously, interest income on these loans was recorded on a cash basis.

CCC has also begun to recognize estimated deficiency payments to producers in the fiscal year in which the crop price deficiency occurred. Formerly, CCC had disclosed the estimated deficiency payment as a contingent liability, and it was not recorded until such time as cash payments were actually made. The cumulative effect of the above changes has been reflected in the appropriate revenue and expense accounts on the Statement of Revenue and Expenses for 1981.

In addition, CCC now recognizes appropriations for realized losses in the year earned. Thus a receivable from the U.S. Treasury has been established for the amount due. The realized losses were previously accounted for on the Statement of Cumulative Results of Operations. The cumulative effect of the change in accounting for appropriations (\$5,596 million) represents income earned but not recognized in 1979 and 1980.

Note 3 - Accounts and Notes Receivable,
Plus U.S. Treasury Reimbursements

Accounts and notes receivable for fiscal 1981 were \$9,074 million and anticipated reimbursement from the U.S. Treasury for net realized losses was \$6,879. Maturities of accounts and notes receivable at September 30, 1981, were as follows:

	<u>Unaudited</u>			<u>Total</u>
	<u>1982</u>	<u>1983</u>	<u>1984 and beyond</u>	
	(millions)			
Recoverable from funds approved for:				
Reimbursement for net realized loss (note 4)	\$2,296	\$4,583	-	\$ 6,879
Public Law 83-690, National Wool Act	42	-	-	42
Public Law 92-73, Animal Disease Eradication	15 <u>a/</u>	-	-	15 <u>a/</u>
Department of Defense under the Military Family Housing Program	5	-	-	5
Foreign governments and pri- vate trade entities under Public Law 480 (note 3-A):				
Principal	185	208	\$7,325	7,718
Interest	164	-	-	164
Foreign importers under the Export Credit Sales Pro- gram (note 3-B)	824	143	-	967
Rescheduling of Polish debt under Export Credit Guarantee Program (note 3-C)	-	-	61	61
Federal Government agencies	1	-	-	1
Other--net of \$24 million al- lowance for losses (note 3-D)	<u>101</u>	<u>-</u>	<u>-</u>	<u>101</u>
	<u>\$3,633</u>	<u>\$4,934</u>	<u>\$7,386</u>	<u>\$15,953</u>

a/Awaiting congressional appropriation.

A. Foreign Governments and Private Trade Entities
Under Public Law 480

As of September 30, 1981, past due installments of principal and interest on receivables due from foreign governments amounted to \$67.2 million. Of the amount past due, \$2.3 million due from Turkey, \$0.2 million due from Liberia, \$6.2 million due from Pakistan and \$3.5 million due from Zaire will be rescheduled.

Foreign government receivables of \$189.7 million from the Khmer Republic and \$32.9 million from the Republic of Viet Nam represent transactions completed prior to changes in governments which occurred on April 17 and May 1, 1975, respectively. The Foreign Assets Control Regulations (31 CFR 500) were applied on those dates. At that time, commodities with a financial value of \$19.8 and \$9.1 million were in transit to the Khmer Republic and Viet Nam, respectively. These commodities were not delivered and are considered "frustrated commodities." Proceeds from the disposition of frustrated commodities in the amount of \$10.0 million purchased by the Khmer Republic and \$6 million purchased by Viet Nam are included in CCC's accounts as a liability. Disposition expenses paid from these proceeds were \$0.9 million. Disposition of net proceeds will be made after the Treasury Department has provided instructions.

B. Export Credit Sales Program

The CCC export credit sales program provides for financing of export credit sales of agricultural commodities by purchasing exporters' accounts receivable. The registration of a sale enables a U.S. exporter to deliver agricultural commodities to a foreign importer on (1) a deferred payment basis for periods up to a maximum of 3 years, or (2) an intermediate credit basis, for periods in excess of 3 years but not more than 10 years. All accounts receivable purchased under the program are covered by U.S. and foreign bank letters of credit or other obligations acceptable to CCC. As of September 30, 1981, past due installments of principal and interest amounted to \$184.0 million. Of this amount, \$183.0 million due from Poland (see note 3-C) and \$0.5 million due from Zaire will be rescheduled. No funds have been provided for this program in the 1981 and 1982 budgets.

C. Rescheduling of Polish Debts

On August 27, 1981, the governments of the United States and Poland agreed to reschedule certain payments on Polish debts coming due during May through December 1981. This included amounts due under the CCC Export Credit Sales Program, the Noncommercial Risk Assurance Program (GSM-101) and the Export Credit Guarantee Program (GSM-102). The agreement provides that Poland will pay, on the due dates under the original contracts, 10 percent of the amounts due; the remaining 90 percent will be rescheduled with the final payment due July 1, 1989. As of September 30, 1981, CCC has paid to banking institutions under the GSM-101 and GSM-102 programs, \$61.0 million including interest, which represents 100 percent of CCC's liability. The government of Poland is to repay 10 percent of this amount to CCC currently.

CCC's contingent liability on exports to Poland under GSM-101 and GSM-102 as of September 30, 1981, was \$922.2 million excluding interest, with \$91.3 million of this amount due during October to December 1981.

Under the Export Credit Sales Program, principal and interest payments of \$183 million due through September 30, 1981, were not made and are part of the rescheduling. An additional \$41.3 million is due during October to December 1981 and will be rescheduled. The amount due from Poland under this program subsequent to December 1981 is \$360.9 million.

D. Other

Allowances for losses on accounts and notes receivable are based on the estimated recovery value of the respective assets as determined at fiscal yearend. Allowances on these assets totaled \$24 million in 1981.

Note 4 - Anticipated Reimbursement from U.S. Treasury for Net Realized Loss

CCC receives an annual appropriation for reimbursement of its net realized losses. This is shown on the balance sheet as an anticipated reimbursement and on the income statements as appropriations income. The balance sheet amount of \$6,879 represents net realized losses of \$4,583 and \$2,296 from fiscal 1981 and 1980, respectively.

Note 5 - Accrued Interest Receivable

Accrued interest receivable at September 30, 1981, comprised the following:

	<u>Unaudited Accrued Interest</u>
	(millions)
Peanut and tobacco loans	\$ 241.6
Nonrecourse commodity loans	157.0
Storage facility and equipment loans	81.8
Export credit sales receivable	82.3
Rescheduled export credit sales receivables	2.1
All other	<u>.2</u>
	<u>\$565.0</u>

No allowance for lost interest receivable has been established. Except for an immaterial amount of peanut and tobacco loans, no loans are considered to be nonperforming. However, \$40.8 million of the export credit sales' accrued interest receivable is due from Poland (see note 3-C) and subject to the rescheduling program arrangements.

In addition, the amount of interest that will be realized from nonrecourse commodity loans is uncertain. Under the terms of such loans, producers may choose to not redeem the commodities held as collateral and thereby cancel their debt, including any accrued interest.

Note 6 - Advance Payments to Producers

Under the farmer-owned grain reserve program CCC makes annual storage payments in advance to producers who place their grain under the 3-year program. Advances are shown as an asset on the statement of financial position. The advances are transferred to expense as storage costs are incurred.

Note 7 - Accrued Deficiency Payments

Each fiscal year, legislation applicable to that year's crops authorizes payments to eligible producers of feed grains, wheat, upland cotton, and rice for the deficiency between (1) established target prices for the applicable commodity and (2) the higher of the national average market prices for the first 5 months of the marketing year (for upland cotton, the average market price for the calendar year 1981) or the national loan level. Based on the relationship between current market prices and the established target prices, the estimated payments of \$1,052 million have been recorded as a liability for 1981.

Note 8 - Trust and Deposit Liabilities

Amounts advanced to, or deposited with, CCC were as follows:

	<u>Unaudited</u> <u>September 30, 1981</u>
	(millions)
Funds appropriated for the Agricultural Stabilization and Conservation Service Program	\$309.8
Agricultural Trade and Development Assistance Act	
Title I	67.7
Title II	73.0
Advances from Agricultural Marketing Service and Food and Nutrition Service	85.4
Sales proceeds of frustrated cargo Public Law 480, Title I	15.4
Other deposits	<u>18.8</u>
	<u>\$570.1</u>

Note 9 - Borrowings from U.S. Treasury

CCC operations are financed by borrowings from the U.S. Treasury under its statutory borrowing authority of \$20 billion. This amount is the limit on borrowings that may be outstanding at any one time. As of September 30, 1981, CCC's actual borrowings from the Treasury amounted to about \$14.4 billion. CCC refinances its borrowings annually.

Note 10 - Contingent Liabilities

Noncommercial risk assurance and export credit guarantee programs

Under the Noncommercial Risk Assurance Program (GSM-101) and the Export Credit Guarantee Program (GSM-102), CCC enters into assurance or guarantee agreements with U.S. exporters who sell agricultural commodities on credit terms for periods up to 3 years. The assurance or guarantee provided by CCC protects the exporter and his assignee against loss from defaults in payments by a foreign bank due to (1) noncommercial risks under the GSM-101 program and (2) noncommercial and commercial risks under the GSM-102 program. CCC's protection is limited to the unpaid port value of the commodity plus interest at not more than 6 percent per annum under the GSM-101 program, and interest of not more than certain Treasury bill auction rates, at the time of application, under the GSM-102 program. For this protection, the exporter must pay CCC a fee at the time of application for an assurance or guarantee agreement. In the event of default, CCC will pay the exporter or his assignee in U.S. dollars and take action to recover from the foreign bank and/or the importer the amount paid. The amount of agreements entered into during fiscal 1981 totaled \$1,965.0 million. CCC's contingent liability as of September 30, 1981, was \$2,484.3 million. This amount is not recognized as an account payable but is recorded for control purposes.

Loan guarantees for pilot projects for industrial hydrocarbons and alcohols

The Secretary of Agriculture is directed in Section 509 of the Rural Development Act of 1972, as amended, to formulate and carry out a pilot program for the production and marketing of industrial hydrocarbons and alcohols from agricultural commodities and forestry products. The Secretary is required to provide for four pilot projects and to utilize CCC to guarantee loans of up to \$15 million under each project for not more than 20 years.

On March 19, 1980, CCC entered into an agreement with Wachovia Bank & Trust Company, N.A. (Wachovia) and Guaranty Fuels North Carolina, Inc., (GFNC) which provided for guarantee by CCC of a loan of \$4.6 million made by Wachovia to GFNC for a project in Rowan County, North Carolina. GFNC defaulted on the loan and on July 8, 1981, filed for reorganization

under Chapter XI of the Bankruptcy Reform Act. On August 5, 1981, CCC paid Wachovia \$4.9 million representing unpaid principal of \$4.5 million and interest of \$0.4 million. CCC received an assignment from Wachovia of its right, title, and interest to the collateral securing the loan made by Wachovia to GFNC. In addition, CCC received an assignment of the right, title, and interest of Wachovia to the note evidencing the loan. GFNC's petition is pending in the bankruptcy court. For reporting purposes CCC has established an allowance for loss of \$3.3 million.

Liability for payments under 1981 program for feed grains, wheat, upland cotton, and rice.

The legislation also authorizes disaster payments to producers who are prevented from planting feed grains, wheat, upland cotton, or rice because of a natural disaster or condition beyond the control of the producers, or who, because of such a disaster or condition, harvest less than a specified quantity. Payments in accordance with these provisions will be made upon application. It is estimated that \$299.8 million will become due under the disaster provisions. The final amount of such payments cannot be determined until claims have been filed and adjudicated, or compliance determined, and therefore are not recorded as liabilities in the accounts. Also authorized, if determined necessary by the Secretary, are payments to producers who voluntarily divert acreage to approved conservation uses or use wheat acreage for grazing or hay rather than for grain production. No payments are expected to be made under the diversion provisions.

Commitments to acquire or dispose of commodities

Contracts to acquire commodities are not reflected in the accounts, but the amounts of firm contracts are considered as contingent liabilities. The approximate contract values of undelivered commodities under firm contracts to acquire such commodities at September 30, 1981, were as follows:

<u>Commodity</u>	<u>Unaudited Contract Value</u>
	(millions)
Blended food products	\$ 15.6
Dairy products	27.8
Feed grains and products	8.3
Peas, dry	.6
Rice	4.7
Vegetable oil and products	18.5
Wheat and products	<u>33.4</u>
	<u>\$108.9</u>

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

Letters of commitment

Letters of commitment issued to banking institutions, authorizing the banks to pay exporters for sales of commodities and to pay carriers for ocean freight differentials 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 was \$78.9 million as of September 30, 1981. Letters of commitment covering ocean freight differentials are issued without stated value. However, the amount of estimated ocean freight differential as of September 30, 1981, was \$48.0 million.

Note 11 - 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 United States Treasury at a rate determined by the Secretary of the Treasury. The amount and rate paid to the Treasury during fiscal 1981 were \$9.6 million and 9-5/8 percent.

Note 12 - Cumulative Results of Operations

CCC's deficit, as shown on the Statement of Cumulative Results of Operations, represents the results of the operations of CCC since its inception in 1933, and after several adjustments: the restoration of capital by the U.S. Treasury in accordance with the act of March 8, 1938, as amended; reimbursement for realized losses in accordance with Public Law 87-155; price-support losses charged

to the Reserve for the Post-War Price Support of Agriculture in accordance with Public Law 79-301; and recovery of certain specified losses on commodities under Public Law 80-389, 80-393, and 84-40.

The deficit of about \$1,947 million approximates the difference between net losses on a generally accepted accounting principle basis and net realized losses on the basis of CCC's policy of not claiming allowances and estimates for losses not yet realized.

Note 13 - Income (Loss) from Operations

Income (Loss) from operations does not include expenses incurred under the National Wool Act, which are reimbursed from special funds. The National Wool Act expenses and associated revenues are the same. Expenses and reimbursement under the National Wool Act were \$38 million in 1981.

Note 14 - Other Costs

During fiscal 1981, other costs included \$250 million of CCC funds which were provided to the Federal Crop Insurance Corporation (FCIC) to pay insurance claims. The Federal Crop Insurance Act of 1980 authorized the Secretary of Agriculture to use CCC funds to pay FCIC claims if FCIC did not have sufficient funds.

Note 15 - Interest Expense

Interest expense includes the following:

	<u>Unaudited</u> <u>Sept. 30, 1981</u>
	(millions)
Interest on borrowings from U.S. Treasury	\$1,561.2
Interest on capital stock	9.6
Other interest	<u>7.8</u>
Total interest expense	<u>\$1,578.6</u>

Note 16 - General and Administrative Expenses

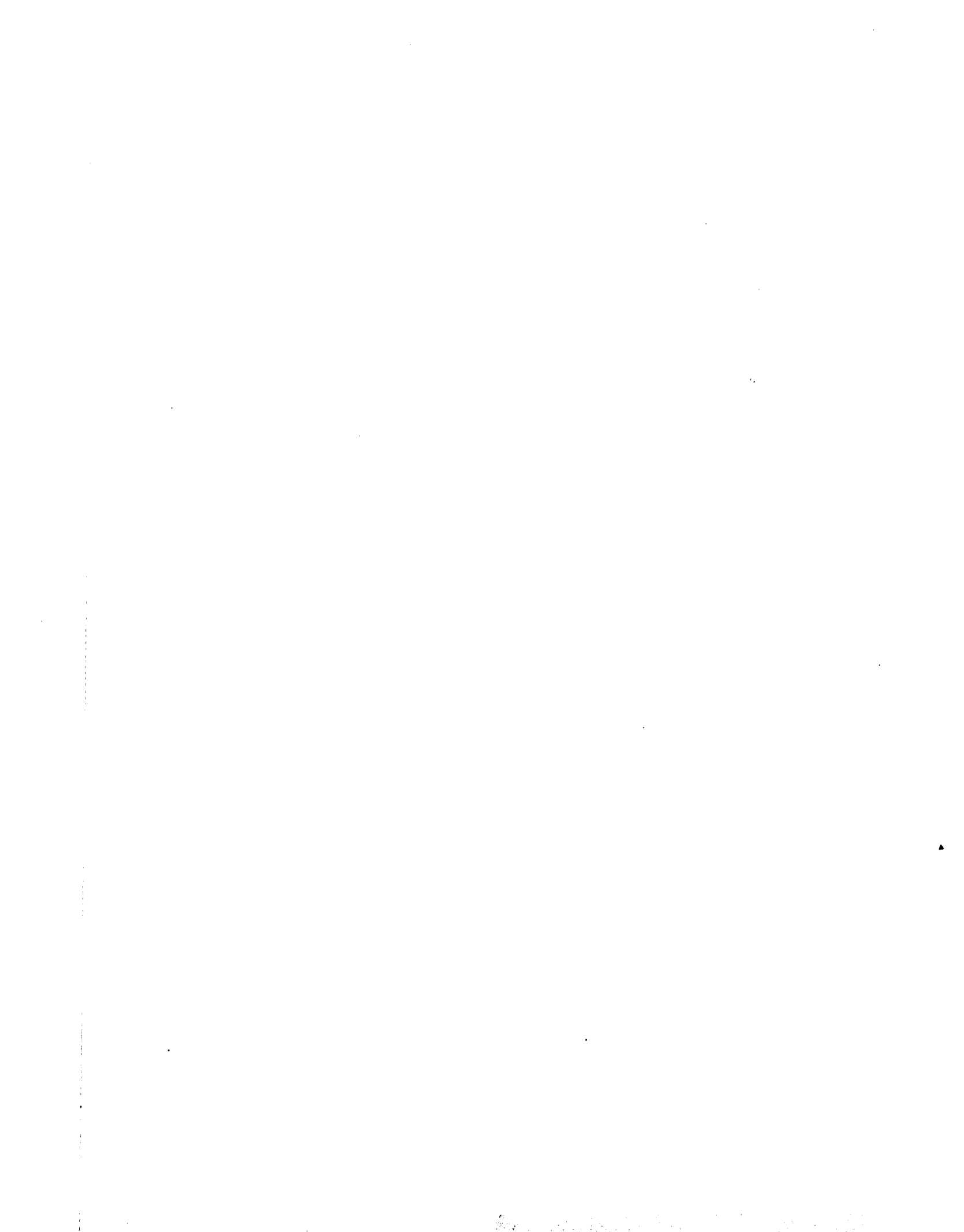
Substantially all of CCC's operating expenses are paid, as authorized by the Commodity Credit Corporation Charter Act, from an Agricultural Stabilization and Conservation Service (ASCS) consolidated fund account covering operating expenses for both CCC and ASCS activities. This consolidated corporate fund is subject to limitations specified in the annual appropriation act. The amount of operating expenses is distributed among CCC and ASCS activities on the basis of budgetary workload statistics.

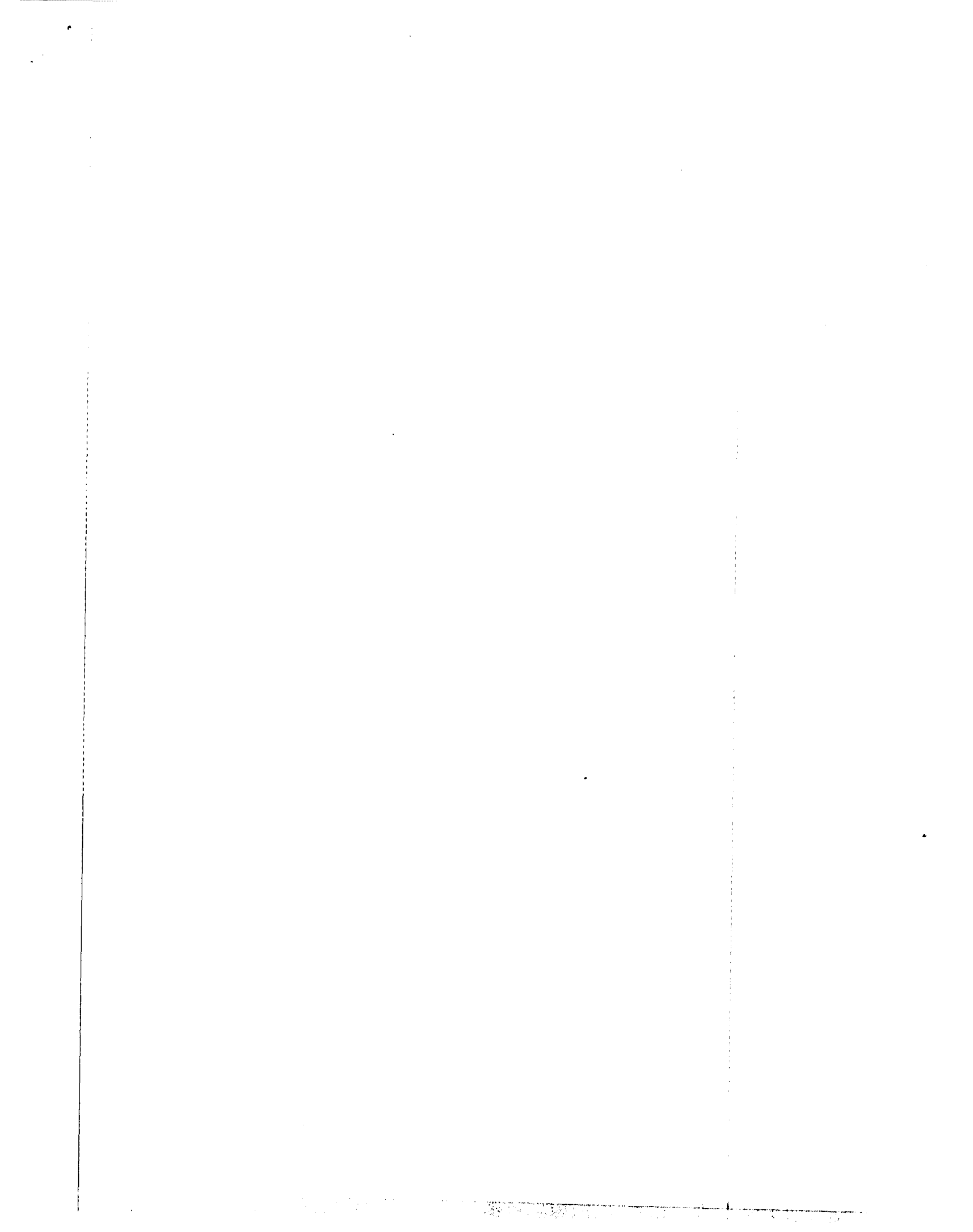
Note 17 - Realized Loss

CCC recognizes income and losses in the fiscal year they occur, even though the associated receipts or disbursements may not

take place until a subsequent fiscal year. The income or loss is reported as the excess of cost and expenses over revenue. CCC receives an annual appropriation for its net realized loss. A summary of the computation to arrive at the net realized loss is as follows:

	<u>Unaudited</u> <u>Fiscal</u> <u>1981</u>
	(millions)
Excess of cost and expenses over revenue	\$(5,466)
Less provision for program losses not yet realized:	
Allowance for losses on commodity inventories	871
Allowance for losses account and notes receivable	12
Allowance for losses on loans	-
	<u>883</u>
Net realized loss	\$(4,583)
Appropriation for net realized loss	<u>\$ 4,583</u>





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