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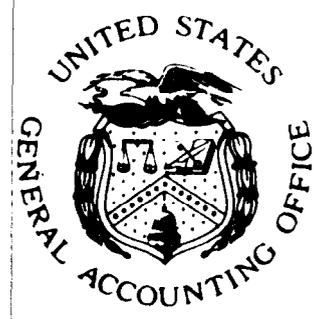
Report To The Congress

OF THE UNITED STATES

Reviews Of The Audits Of The Consumer Cooperative Development Corporation's Financial Statements For The Year Ended December 31, 1983, And For December 30 And 31, 1982

GAO reviewed the independent certified public accountants' audits of the Consumer Cooperative Development Corporation's financial statements for the year ended December 31, 1983, and for December 30 and 31, 1982. GAO found nothing to indicate the opinion of the certified public accountants is inappropriate or cannot be relied on.

In the opinion of the Corporation's certified public accountants, the financial statements present fairly the Corporation's financial position as of December 31, 1983 and 1982, and the results of its operations and the changes in its financial position for the year ended December 31, 1983, in conformity with generally accepted accounting principles applied on a consistent basis.



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GAO/AFMD-85-11
JULY 9, 1985

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B-215359

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

This report presents the results of our review of Peat, Marwick, Mitchell & Co.'s audits of the statements of financial condition of the Consumer Cooperative Development Corporation as of December 31, 1983 and 1982, and the related statements of income and retained earnings, and changes in financial position for the year ended December 31, 1983.¹

The Corporation, which is an independent affiliate of the National Consumer Cooperative Bank, provides capital investment advances and technical assistance to consumer cooperatives. The National Consumer Cooperative Bank Act (12 U.S.C. 3025) authorizes and directs us to audit the Bank. Because the Corporation is closely related to the Bank, we believe that to fully satisfy our audit responsibility with regard to the Bank we must also consider the affiliated Corporation's activities. The results of our reviews of Peat, Marwick, Mitchell & Co.'s audits of the Bank's financial statements are presented in a separate report (GAO/AFMD-85-10).

Our reviews were conducted in accordance with generally accepted government auditing standards. To avoid unnecessary duplication and expense and make the most efficient use of our available resources, we relied on the work and reports of the Corporation's independent certified public accountants rather than conduct financial audits ourselves. To review the reasonableness of the auditors' work and determine the extent to which we could rely on it, we

- interviewed the Corporation's officials to obtain information about the Corporation's operations, including the maintenance of its financial records and the preparation of its financial statements;
- interviewed the auditors to identify the audit approach used and the methods used to control the quality of audit work;

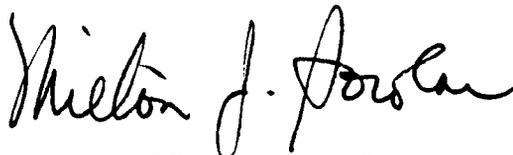
¹The Consumer Cooperative Development Corporation was established on December 30, 1982. The Corporation did not prepare statements of income and retained earnings and changes in financial position for the year ended December 31, 1982.

- obtained information about the qualifications and independence of the auditors;
- reviewed the Corporation's financial statements and the auditors' reports for compliance with the reporting requirements of generally accepted accounting principles and generally accepted government auditing standards; and
- reviewed the auditors' workpapers to determine:
 - o the nature, timing, and extent of audit work performed;
 - o whether the audit quality control methods identified by the auditors were actually used;
 - o whether there was a proper study and evaluation of the Corporation's internal controls; and
 - o whether the auditors tested transactions for compliance with applicable laws and regulations.

We found that the audits were conducted in accordance with generally accepted government auditing standards.

In the opinion of Peat, Marwick, Mitchell & Co., the Corporation's financial statements present fairly its financial position as of December 31, 1983 and 1982, and the results of its operations and the changes in its financial position for the year ended December 31, 1983, in conformity with generally accepted accounting principles applied on a consistent basis. During our reviews we found nothing to indicate Peat, Marwick, Mitchell & Co.'s opinion on the Corporation's 1983 and 1982 financial statements is inappropriate or that it cannot be relied on. The auditors' work did not disclose any material internal control weaknesses or noncompliance with laws and regulations. The opinion, statement on internal controls, statement on compliance with laws and regulations, and the financial statements are in appendix I.

We are sending copies of this report to the Director of the Office of Management and Budget; the Chairmen of the Senate Committee on Banking, Housing and Urban Affairs and the House Committee on Banking, Finance and Urban Affairs; the Secretary of the Treasury; and the Corporation's Board of Directors.



Acting Comptroller General
of the United States



Peat, Marwick, Mitchell & Co.
Certified Public Accountants
1990 K Street, N.W.
Washington, D.C. 20006

The Board of Directors
Consumer Cooperative Development Corporation:

We have examined the statements of financial condition of the Consumer Cooperative Development Corporation as of December 31, 1983 and 1982 and the related statements of income and retained earnings and changes in financial position for the year ended December 31, 1983. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the financial position of the Consumer Cooperative Development Corporation at December 31, 1983 and 1982 and the results of its operations and the changes in its financial position for the year ended December 31, 1983, in conformity with generally accepted accounting principles applied on a consistent basis.

Peat, Marwick, Mitchell & Co.

January 30, 1984



Peat, Marwick, Mitchell & Co.
Certified Public Accountants
1990 K Street, N.W.
Washington, D.C. 20006

The Board of Directors
Consumer Cooperative Development Corporation:

We have examined the financial statements of Consumer Cooperative Development Corporation for the year ended December 31, 1983, and have issued our report thereon dated January 30, 1984.

Our examination was made in accordance with generally accepted auditing standards and the standards for financial and compliance audits contained in the U.S. General Accounting Office "Standards for Audit of Governmental Organizations, Programs, Activities and Functions," 1981 revision. Solely to assist us in planning and performing our examination, we made a study and evaluation of the internal accounting controls of Consumer Cooperative Development Corporation. That study and evaluation was limited to a preliminary review of the system to obtain an understanding of the control environment and the flow of transactions through the accounting system.

For the purpose of this report, we have identified the internal accounting controls in the areas of investments, commercial and real estate loans, and cash disbursements as significant controls; however, we did not compliance test the internal accounting controls in these areas because we considered it more efficient to expand substantive tests and to place no reliance on the controls. Our study and evaluation of the internal accounting controls did not extend beyond this preliminary review phase. Accordingly, we do not express an opinion on the system of internal accounting control taken as a whole. Also, our examination, made in accordance with the standards mentioned above, would not necessarily disclose material weaknesses in the system of internal accounting control. However, during our examination, we did not become aware of any conditions that we believe to be a material weakness.

The management of Consumer Cooperative Development Corporation is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting control, 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 the procedures may deteriorate.

This report is intended solely for the use of management of Consumer Cooperative Development Corporation, the General Accounting Office and other associated Federal organizations and should not be used for any other purpose.

Peat, Marwick, Mitchell & Co.

January 30, 1984



Peat, Marwick, Mitchell & Co.
Certified Public Accountants
1990 K Street, N.W.
Washington, D.C. 20006

The Board of Directors
Consumer Cooperative Development Corporation:

We have examined the financial statements of the Consumer Cooperative Development Corporation as of and for the year ended December 31, 1983, and have issued our report thereon dated January 30, 1984. Our examination was made in accordance with generally accepted auditing standards and the provisions of "Standards for Audit of Governmental Organizations, Programs, Activities and Functions", 1981 revision, promulgated by the Comptroller General, which pertain to financial and compliance audits and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In connection with our examination, we have reviewed the provisions of the National Consumer Cooperative Bank Act (PL 95-351 Amended) to determine the material compliance requirements which may have a financial impact.

In our opinion, for the tested operations and records, the Consumer Cooperative Development Corporation complied with the material compliance requirements of the National Consumer Cooperative Bank Act (PL 95-351 Amended) referred to above. Further, based upon our examination and the procedures referred to above, for those operations and records not tested, nothing came to our attention to indicate that the Corporation had not complied with the compliance requirements referred to above.

Peat, Marwick, Mitchell & Co.

January 30, 1984

CONSUMER COOPERATIVE DEVELOPMENT CORPORATION

Statements of Financial Condition

December 31, 1983 and 1982

<u>Assets</u>	<u>1983</u>	<u>1982</u>
Cash	\$ 10,157	-
Investments (note 3)	22,989,978	19,010,079
Accrued interest receivable	66,766	74,696
Technical assistance fees receivable	228,492	300,185
Less - allowance for possible losses	<u>114,246</u>	<u>159,575</u>
	<u>114,246</u>	<u>140,610</u>
Loans (notes 4, 5 and 6)	6,294,266	8,312,838
Less - allowance for possible losses	<u>2,113,571</u>	<u>3,436,620</u>
	<u>4,180,695</u>	<u>4,876,218</u>
Other assets	<u>20,000</u>	<u>-</u>
	<u>\$ 27,381,842</u>	<u>24,101,603</u>
<u>Liabilities and Capital</u>		
Liabilities - accounts payable	1,872	69,477
Capital:		
U.S. Government appropriations (note 8)	25,282,456	25,282,456
Retained earnings (deficit)	<u>2,097,514</u>	<u>(1,250,330)</u>
	<u>27,379,970</u>	<u>24,032,126</u>
	<u>\$ 27,381,842</u>	<u>24,101,603</u>

See accompanying notes to financial statements.

CONSUMER COOPERATIVE DEVELOPMENT CORPORATION

Statement of Income and Retained Earnings

Year ended December 31, 1983

Interest earned from:		
Investments		\$ 2,080,316
Loans		<u>447,175</u>
Total interest earned		2,527,491
Provision for possible loan losses		<u>104,745</u>
Net interest income after provision for possible loan losses		2,422,746
Other income:		
Contribution from National Consumer Cooperative Bank (note 7)	\$ 1,000,000	
Other	<u>48,725</u>	
Total other income		1,048,725
Operating expenses:		
Salaries and employee benefits	60,116	
Contractual services	26,727	
Other	<u>36,784</u>	
Total operating expenses		<u>123,627</u>
Net income		3,347,844
Retained earnings (deficit) at beginning of year		<u>(1,250,330)</u>
Retained earnings at end of year		\$ <u>2,097,514</u>

See accompanying notes to financial statements.

CONSUMER COOPERATIVE DEVELOPMENT CORPORATION

Statement of Changes in Financial Position

Year ended December 31, 1983

Financial resources provided:	
Net income	\$ 3,347,844
Item not requiring resources - provision for possible loan losses	<u>104,745</u>
Resources provided from operations	3,452,589
Decrease in assets:	
Accrued interest receivable	7,930
Technical assistance fees receivable	26,364
Loans - net	<u>590,778</u>
Total resources provided	\$ <u>4,077,661</u>
Financial resources applied:	
Increase in assets:	
Cash	10,157
Investments	3,979,899
Other assets	20,000
Decrease in liabilities - accounts payable	<u>67,605</u>
Total resources applied	\$ <u>4,077,661</u>

See accompanying notes to financial statements.

CONSUMER COOPERATIVE DEVELOPMENT CORPORATION

Notes to Financial Statements

December 31, 1983 and 1982

(1) Organization

The Consumer Cooperative Development Corporation (The "CCDC") was established on December 30, 1982, under the laws of the District of Columbia, as a nonprofit corporation without capital stock. Its assets, liabilities and capital were transferred to it by the National Consumer Cooperative Bank (Bank), under the provisions of the National Consumer Cooperative Bank Act, as amended. The purpose of CCDC is to assume the functions of the Bank's Office of Self-Help Development and Technical Assistance, which consist primarily of providing capital investment advances and technical assistance to consumer cooperatives. The Board of Directors for CCDC consists of six directors which also serve on the National Consumer Cooperative Bank Board and three outside directors not related to the Bank.

(2) Summary of Significant Accounting Policies(a) Basis of Accounting

The financial statements are prepared on the accrual basis of accounting.

(b) Investments

Investment securities are carried at amortized cost which approximates market value.

(c) Loans

Loans are carried at their principal amounts outstanding. CCDC discontinues the accrual of interest on loans when principal or interest payments are ninety days or more in arrears. Interest previously accrued is reversed. If, in the opinion of management, the outstanding principal remains uncollectible, such a loan remains on the books as a "nonaccrual" loan. Interest income on nonaccrual loans is recognized on a cash basis.

(d) Allowance for Possible Loan Losses

The allowance for loan losses is a valuation allowance which management feels to be adequate to cover future loan losses. Provision for loan losses is added to the allowance and charged to expense. Loan charge-offs, net of recoveries, are subtracted from the allowance. Factors utilized by management in determining the adequacy of the allowance include, but are not limited to the following: the present and prospective financial condition of our borrowers, evaluation of the loan portfolio in conjunction with historical loss experience, portfolio composition and current and projected economic conditions.

(Continued)

CONSUMER COOPERATIVE DEVELOPMENT CORPORATION

Notes to Financial Statements

(e) Income Taxes

CCDC is tax exempt under the provision of Section 501(c)(3) of the Internal Revenue Code. Accordingly, no income tax liability is anticipated.

(3) Investments

Investments consist of securities with maturities less than one year with interest rates varying from 8.22% to 14.5% as follows:

	<u>1983</u>	<u>1982</u>
Euro certificates and time deposits	\$ 10,000,000	13,230,079
Federal funds	<u>12,989,978</u>	<u>5,780,000</u>
	<u>\$ 22,989,978</u>	<u>19,010,079</u>

(4) Loans and Nonperforming Assets

The following is a table of loans outstanding by category as of December 31, 1983 and 1982:

	<u>1983</u>	<u>1982</u>
Multi-family housing cooperatives:		
Loans to established cooperatives	\$ 1,223,534	1,226,954
Loans to developing cooperatives	<u>4,192,949</u>	<u>5,847,050</u>
	<u>5,416,483</u>	<u>7,074,004</u>
Food, producer and other cooperatives:		
Loans to established cooperatives	726,018	817,122
Loans to developing cooperatives	<u>151,765</u>	<u>421,712</u>
	<u>877,783</u>	<u>1,238,834</u>
	<u>\$ 6,294,266</u>	<u>8,312,838</u>

Additionally, and in the normal course of business, CCDC makes loan commitments which are not reflected in the accompanying statement of financial position. These outstanding commitments total \$905,440 and \$1,429,500 at December 31, 1983 and 1982, respectively.

(Continued)

CONSUMER COOPERATIVE DEVELOPMENT CORPORATION

Notes to Financial Statements

Nonaccrual loans are defined as loans for which the payments are 90 days or more past due. As of December 31, 1983 and 1982, CCDC had nonaccrual loans outstanding aggregating \$1,345,653 and \$1,560,656, respectively. At December 31, 1983, there were no commitments to lend additional funds to debtors whose loans were considered to be nonaccrual.

As of December 31, 1983 CCDC had two loans aggregating \$151,765 which were renegotiated due to adverse changes in the borrowers financial condition. These loans were renegotiated with a reduced interest rate or with an extension of payment of principal and interest. Interest income lost due to renegotiations totalled \$4,474 in 1983. At December 31, 1983, there were no commitments to lend additional funds to debtors whose loans were in nonaccrual status.

(5) Portfolio Risk and Security

As an inherent part of its charter and reason for existence, CCDC, in addition to making loans to established cooperative business, extends credit to newer, less established cooperatives. Estimates of repayment abilities of these newer developmental entities are generally less reliable than estimates of repayment abilities of existing cooperatives. In these instances, CCDC seeks to protect its interests by increasing collateral requirements, loan guarantees, etc.

CCDC often extends credit to organizations which also have loans from the Bank (see note 1).

(6) Allowance for Possible Loan Losses

The following is a summary of the transactions of allowance for possible loan losses.

	<u>1983</u>	<u>1982</u>
Balance at beginning of year	\$ 3,436,620	3,930,850
Add - provision for possible losses	<u>104,745</u>	<u>685,678</u>
	3,541,365	4,616,528
Deduct - charge-offs, net of recoveries	<u>1,427,794</u>	<u>1,179,908</u>
	<u>\$ 2,113,571</u>	<u>3,436,620</u>

The allowance for possible loan losses as a percentage of loans outstanding at December 31, 1983 and 1982 was 33.6% and 41.3%, respectively.

(Continued)

CONSUMER COOPERATIVE DEVELOPMENT CORPORATION

Notes to Financial Statements

CCDC at times makes loans to the same consumer cooperatives as the Bank. In such cases, losses and related provisions are charged to CCDC first and then to the Bank.

(7) Contribution

The Bank contributed \$1,000,000 to CCDC during the first year of operation. The Bank plans to continue to support CCDC in future years. The amount of future contributions will depend on the results of operations of the Bank.

(8) U.S. Government Appropriations

Capital of CCDC consists of appropriations by the United States Government, net of funds lapsed and rescinded, as follows:

Fiscal year 1980	\$ 582,456
Fiscal year 1981	10,500,000
Fiscal year 1982	9,200,000
Fiscal year 1983	<u>5,000,000</u>
	\$ <u>25,282,456</u>





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