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GAO

Report to the Congress

June 1987

FINANCIAL AUDIT

Commodity Credit Corporation's Financial Statements for 1986 and 1985

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GAO/AFMD-87-43

GAO

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

Comptroller General
of the United States

B-202690

June 22, 1987

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

This report presents our opinion on the financial statements of the Commodity Credit Corporation for the years ended September 30, 1986 and 1985, and our reports on the Corporation's system of internal accounting controls and on its compliance with laws and regulations. We conducted our examination under the provisions of 31 U.S.C. 9105 and in accordance with generally accepted government auditing standards.

Our opinion is qualified because the Corporation has not included in its financial statements an allowance for the uncollectible portion of outstanding loans to countries experiencing financial difficulties. We estimate that cumulative losses as of September 30, 1986, range from $4 to $7 billion on outstanding loans of $14 billion to foreign countries.

Our 1986 report on the Corporation's system of internal accounting controls discusses the correction of two material weaknesses reported in our 1985 report. Our report on compliance with laws and regulations discloses no violations for the transactions we tested.

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

Charles A. Bowsher

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Comptroller General
of the United States

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To the Board of Directors
Commodity Credit Corporation

We have examined the statements of financial condition of the Commodity Credit Corporation as of September 30, 1986 and 1985, the related statements of income and expense, and the statements of changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted government auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. In addition to this report on our examination of the Corporation's 1986 and 1985 financial statements, we are also reporting to you on our study and evaluation of internal accounting controls and compliance with laws and regulations.

The Corporation's assets include a significant amount of loans that are in arrears, have had payment dates rescheduled, and are outstanding to countries experiencing financial difficulties. The Corporation's financial statements do not reflect a provision for estimated losses that are likely to be sustained due to the uncollectibility of a portion of the $14 billion in outstanding loans made to foreign countries. If such an allowance for estimated loan losses had been established, we estimate that the Corporation's total assets and cumulative results of operations would have been decreased by $4.0 to $7.0 billion as of September 30, 1986, and by $1.0 to $2.5 billion as of September 30, 1985. This would result in a cumulative deficit of between $8.6 and $11.6 billion as of September 30, 1986, and between $5.1 and $6.6 billion as of September 30, 1985, instead of the cumulative deficits of $4.6 and $4.1 billion as shown in the accompanying financial statements. Our estimates are based on several factors, including international debt and country risk assessments published by several researchers. The lower boundary of our estimate provided a 100-percent allowance for repudiated debt and other debt where repayment is considered remote. The upper boundary of the estimate includes an additional amount for loans to countries that are experiencing severe economic and debt-repayment difficulties. Our loan loss allowance estimate for 1986 incorporates information concerning the emerging secondary market for less developed countries' debt, in addition to an assessment of the Corporation's foreign loan portfolio activity for the year.

In our opinion, except for the effects of not establishing an allowance for estimated loan losses as discussed in the preceding paragraph, the financial statements referred to above present fairly the financial position of the Commodity Credit Corporation as of September 30, 1986 and 1985, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

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

Charles A. Bowsher

Charles A. Bowsher
Comptroller General
of the United States

April 15, 1987

Report on Internal Accounting Controls

We have examined the financial statements of the Commodity Credit Corporation for the years ended September 30, 1986 and 1985, and have issued our opinion thereon dated April 15, 1987. This report pertains only to our study and evaluation of the system of internal accounting controls for the year ended September 30, 1986. Our report on the study and evaluation of the system of internal accounting controls for the year ended September 30, 1985, is presented in GAO/AFMD-86-57, dated September 30, 1986.

As part of our examination, we made a study and evaluation of the system of internal accounting controls to the extent we considered necessary to evaluate the system as required by generally accepted government auditing standards. The purpose of our study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the Corporation's financial statements. For the purpose of this report, we have classified the significant internal accounting controls in the following categories:

- administrative costs,
- cash management,
- commodity loans,
- export trade,
- facility loans,
- financial reporting,
- inventories, and
- producer payments.

Our study and evaluation included all of the control categories listed above, except we did not evaluate the internal accounting controls over all functions within any of the categories because it was more efficient to expand substantive audit tests. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting controls taken as a whole or on any of the categories of 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.

The Corporation evaluated its system of internal accounting and administrative controls in accordance with the Federal Managers' Financial Integrity Act of 1982. The Corporation reported in October 1986 that its internal control system in effect during fiscal year 1986, taken as a whole, provided reasonable assurance that the Corporation's objectives were achieved within the limits described above. The Corporation's evaluation was reviewed and considered in conducting our study and evaluation and determining the nature, timing, and extent of audit tests.

Our report on internal accounting controls for the year ending September 30, 1985, (GAO/AFMD-86-57) disclosed two weaknesses which we believed could have resulted in errors or irregularities which may not be promptly detected in amounts material to the Corporation's financial statements. Our report disclosed that the Corporation was not performing timely and accurate cash reconciliations and that accounting procedures required improvement. During 1986, the Corporation took steps to prepare timely and accurate cash reconciliations and has made substantial progress in improving its accounting procedures.

Our study and evaluation, made for the limited purpose described in the second paragraph, would not necessarily disclose all material weaknesses in the system of internal accounting controls. Accordingly, we do not express an opinion on the system of internal accounting controls of the Corporation taken as a whole or on any of the categories of controls identified in the second paragraph. However, our study and evaluation disclosed no condition that we believed to be a material weakness.

During the course of our examination, we identified a number of weaknesses in internal accounting controls and procedures which we will be reporting separately to the Corporation. Although we did not consider these weaknesses to be material to the Corporation's financial statements, they nonetheless merit corrective action to strengthen the Corporation's internal accounting controls.

Report on Compliance With Laws and Regulations

We have examined the financial statements of the Commodity Credit Corporation for the years ended September 30, 1986 and 1985, and have issued our opinion thereon dated April 15, 1987. 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, 1986. Our report on compliance with laws and regulations for the year ended September 30, 1985, is presented in GAO/AFMD-86-57, dated September 30, 1986.

In our opinion, the Commodity Credit Corporation complied with the terms and provisions of laws and regulations for the transactions tested that could have materially affected its financial statements.

In connection with our examination, nothing came to our attention that caused us to believe that the Corporation was not in compliance with the terms and provisions of laws and regulations for those transactions not tested.[1]

[1]Several GAO and USDA Office of Inspector General reports issued contain, in our judgment, matters of a programmatic nature that indicate noncompliance with various laws and regulations. We believe these matters do not have a material effect on the Corporation's 1986 financial statements but could change policies and procedures affecting future operations of the Corporation.

Financial Statements

Statement of Financial Condition

September 30, 1986 and 1985 (Note A)

	1986	1985
	-------thousands--------	
ASSETS:		
Cash (note D)	$ (30,624)	$ (21,478)
Loan Programs:		
Commodity, less allowance for losses (1986 $361,951; 1985 $157,719) (note H)	18,132,254	
Less lag activity - forfeitures (note P)	(1,789,573)	
Net	16,342,681	12,075,502
Storage Facility and Equipment	174,227	397,657
Commodity Inventories, less allowance for losses (1986 $4,108,324; 1985 $3,856,068)	6,941,285	
Plus lag activity - collateral acquired (note P)	1,789,573	
Net	8,730,858	3,064,856
Accounts and notes receivable, less allowance for losses (1986 $153,965; 1985 $92,074) (Note E)	14,867,566	13,190,778
Appropriation Receivable for net realized losses (note F)	2,405,056	7,339,976
Accrued interest receivable (note G)	634,632	612,646
Advance payments to producers (note H)	279,139	136,145
Fixed and other assets, less allowance for depreciation (1986 $17,666; 1985 $3,087) (Note B)	317,628	287,569
Total Assets	$43,721,163	$37,083,651

The accompanying notes are an integral part of these financial statements

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

	1986	1985
	--------thousands--------	
LIABILITIES:		
Accounts payable	$ 1,895,802	$ 211,805
Accrued interest on U.S. Treasury borrowings (note K)	994,104	1,521,334
Accrued deficiency and cash land diversion payments	6,580,280	3,036,226
Accrued export enhancement bonus		21,466
Accrued liabilities - other	278,422	129,021
Trust and deposit liabilities (note I)	1,618,731	1,328,296
Borrowings from U.S. Treasury (notes J and K)	24,871,952	23,811,290
Obligation due the general fund of the U.S. Treasury under P.L. 83-480 long-term credits (note A)	10,917,794	10,315,409
Unapplied receipts and other liabilities	1,088,318	714,665
Total Liabilities	48,245,403	41,089,512
Contingencies and commitments (note O)		
INVESTMENT OF U.S. GOVERNMENT:		
Capital Stock (note L)	100,000	100,000
Cumulative results of operations (note M)	(4,624,240)	(4,105,861)
Total Investment of U.S. Government	(4,524,240)	(4,005,861)
Total Liabilities and Investment of U.S. Government	$43,721,163	$37,083,651

Statement of Income and Expenses

For the Years Ended September 30, 1986 and 1985 (Note A)

	1986	1985
	-------thousands--------	
SALES AND OTHER REVENUE - PROGRAM		
Commodity inventory operations:		
Sales of commodities	$ 2,528,064	$ 1,757,563
Less:		
Cost of sales	(4,172,249)	(2,385,371)
Cost of commodities donated	(1,718,412)	(2,463,698)
Storage and handling expense	(712,940)	(394,190)
Transportation expense	(179,378)	(133,918)
Net loss on commodity inventory operations	(4,254,915)	(3,619,614)
Milk marketing fees	287,376	374,284
Special recoveries authorized for National Wool Act	116,496	102,540
Total sales and other revenue - program	(3,851,043)	(3,142,790)
EXPENSES AND COSTS - PROGRAM		
Producer payments (note C)	(13,962,271)	(7,307,951)
Grain reserve storage	(342,248)	(307,143)
National Wool Act payments	(116,496)	(102,540)
Loan and other charge-offs	(265,454)	(10,304)
Other costs net of recoveries	(87,574)	(28,116)
Total expenses and costs - program	(14,774,043)	(7,756,054)
Net Program Expenses	(18,625,086)	(10,898,844)
INTEREST AND ADMINISTRATIVE INCOME AND EXPENSES		
Interest income	797,804	417,122
Interest expense	(1,681,310)	(2,068,200)
Net interest	(883,506)	(1,651,078)

Administrative expense (net) (notes B and N)	(489,414)	(384,977)
Net interest and administrative expenses	(1,372,920)	(2,036,055)
TOTAL REALIZED LOSS	(19,998,006)	(12,934,899)
Adjustment of allowance for losses - program		
Loans (includes allowance for donations)	(204,232)	(135,990)
Commodity inventories (includes allowance for donations)	(252,256)	207,356
Accounts and notes receivable	(61,891)	(35,875)
Net change in allowance for losses - program	(518,379)	35,491
Excess of costs and expenses over revenues	(20,516,385)	(12,899,408)
Recoverable by appropriation for realized losses under P.L. 87-155	19,998,006	12,934,899
NET (LOSS) INCOME	$ (518,379)	$ 35,491

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

Statement of Changes in Financial Position

For the Years Ended September 30, 1986 and 1985 (Note A)

	1986	1985
	-------thousands--------	
FUNDS APPLIED:		
Net Loss (Income)	$ 518,379	$ (35,491)
Item Not Requiring Working Capital in the Current Year Depreciation	7,357	5,845
Cost of: Agricultural Trade Development and Assistance Act	1,095,324	1,715,101
National Wool Act	122,689	109,365
Repayment of Borrowings from U.S. Treasury	25,745,338	13,785,924
Increase (decrease) in:		
Accounts and Notes Receivable	1,663,464	836,083
Accrued Interest Receivable	21,986	93,858
Loan Programs	4,043,749	3,923,407
Commodity Inventories	5,666,002	(229,892)
Advance Payments to Producers	142,994	(33,805)
Fixed and Other Assets	22,702	52,415
Decrease (increase) in:		
Accrued Interest on U.S. Treasury Borrowings	527,230	(216,559)
Total Funds Applied	39,577,214	20,006,251
FUNDS PROVIDED:		
Appropriations Received: Agricultural Trade Development and Assistance Act	1,243,294	1,739,000
National Wool Act	109,365	131,959
Borrowings from U.S. Treasury	26,806,000	18,988,638
Increase (decrease) in:		
Trust and Deposit Liabilities	142,465	158,729
Obligations Due the General Fund of the U.S. Treasury Under P.L. 83-480, Long-term Credits	602,385	831,904
Accounts Payable	1,683,997	68,939
Unapplied Receipts and Other Liabilities	373,653	90,327
Accrued Liabilities	3,671,989	(1,508,070)
Decrease (increase) in:		
Appropriation Receivable for Net Realized Losses	4,934,920	(649,109)
Total Funds Provided	39,568,068	19,852,317
DECREASE IN CASH	$ 9,146	$ 153,934

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

Notes to Financial Statements

COMMODITY CREDIT CORPORATION
INTRODUCTION

Purpose

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

CCC Programs

Programs of CCC include the following:

Price-support programs are designed to provide producers of specified agricultural commodities the opportunity to obtain a certain return on their production of eligible commodities regardless of fluctuations in market prices. Price-support is provided by means of nonrecourse loans, recourse loans, purchases, direct payments, and other operations.

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

Storage facility programs are provided for the purpose of construction or expansion of farm-storage facilities and such other operations as are necessary to carry out CCC programs. Under these programs CCC makes recourse loans to participating producers.

Commodity export programs are designed to aid in the development of export markets for United States' agricultural commodities and products. Commodity export programs are carried out through such operations as financing, sales, barter, guaranteed loans, commodity bonus payments under the Export Enhancement Program, and the Targeted Export Assistance Program.

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

Special activities programs are carried out under authority of the Corporation's charter and specific authorizations and directives.

Financing

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

Trade Practices and Facilities

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

Balanced Budget and Emergency Deficit Control Act of 1985

The Balanced Budget and Emergency Deficit Control Act of 1985 provides for a reduction in sequestrable non-defense outlays where necessary. Based on a sequester order issued by the President of the United States on February 1, 1986, and effective on March 1, 1986, outlays under certain 1986 CCC programs were reduced by 4.3 percent, including cash payments to producers for commodity loans, deficiency and diversion payments for 1986 crops, cotton loan deficiency payments, commodity certificates redeemed for cash, and other miscellaneous cash payments made to producers.

Wool and mohair payments resulting solely from automatic increases in the statutory price-support formula were not made, as provided by the Act.

With respect to dairy program provisions, the Food Security Improvements Act of 1986 mandated an additional assessment of up to 12 cents per hundredweight for the period April 1 through September 30, 1986. This reduction was specifically in lieu of reductions in CCC purchase prices for milk and milk products which would otherwise have been necessary to comply with the sequester order.

Payments under the conservation reserve program and all payments in the form of commodities or commodity certificates were not reduced.

Notes to Financial Statements

Note A - Summary of Significant Accounting Policies

General Policy

CCC's policy is to adhere to accounting principles and practices which are generally accepted in the field of commercial accounting. In carrying out CCC's statutory objectives certain corporate operations are unique and have no counterpart in the commercial field. These notes briefly outline the programs and accounting policies and practices observed by CCC with particular reference to unusual applications of generally accepted accounting principles.

Mandatory Price-support Programs

CCC is required by statute to make price-support programs available for specified commodities at price levels bearing prescribed relationships between parity prices and prices received by farmers. This is accomplished through commodity loans, purchases, and payments. CCC has no choice of risks under mandatory price-support legislation and its objective is to maintain price-support in accordance with the statutory requirements.

Commodity Certificates

The Agricultural Act of 1949, as amended by the Food Security Act of 1985, and the Commodity Credit Corporation Charter Act, as amended, provide authority for CCC to make payments to producers, and other entities in a form other than cash. The Secretary of Agriculture authorized a portion of the payments to be made in commodity certificates rather than cash for (1) wheat, feed grains, rice and upland cotton deficiency and diversion payments including cotton loan deficiency payments, and (2) the Conservation Reserve Program. Payments are made entirely in commodity certificates for (1) Emergency Feed Program, (2) Ethanol Program, (3) Export Enhancement Program, and (4) Targeted Export Assistance Program.

Key characteristics of the commodity certificate are as follows: (1) denominated in specific dollar amounts; (2) generic or commodity specific (Some upland cotton price-support payments are made with cotton specific commodity certificates. All others are generic.); (3) state an "expiration date"; (4) may state a "first transfer deadline"; (5) is transferable to any person; (6) is not subject to any State law or regulation; and (7) is not to be encumbered by any lien or other claim, except that of an agency of the United States Government.

The expiration date is the last date on which a holder may present the certificate to CCC to either receive a quantity of a certain commodity pledged as collateral for a CCC loan made to such holder or to exchange the certificate for CCC-owned commodities.

The first transfer deadline is the last date on which the original holder of the certificate may transfer such certificate to another person. The original holder of a certificate with a first transfer deadline date may present such certificate to CCC: (1) to receive a quantity of a certain commodity pledged as collateral for a CCC loan made to such original holder at anytime through the expiration date, or (2) in exchange for a cash payment during a period established by CCC.

Original holders of certificates without a first transfer deadline may present the certificate to CCC through the expiration date: (1) to receive a quantity of a commodity pledged as collateral for a CCC loan made to such original holder, or (2) in exchange for CCC-owned commodities. For cotton specific commodity certificates, the original holder and subsequent holder cannot exchange the certificates for CCC-owned cotton prior to a date specified by CCC. Subsequent holders of a generic commodity certificate may choose to receive a quantity of a certain commodity pledged as collateral for a CCC loan made to such producer, transfer the certificate to another person, or exchange the certificates for commodities owned by CCC at anytime through the expiration date.

A producer with an outstanding CCC loan may redeem and sell to CCC a quantity of the commodity pledged as collateral for a CCC loan, as determined by CCC, in an amount equivalent to the value of the cash payment which would otherwise be made to the producer. CCC will then make available to the person that quantity of commodity in exchange for commodity certificates. The quantity required to be redeemed is considered to have the same grade and other quality characteristics as it had at the time the commodity was pledged as collateral for such CCC loan. The quantity that is being redeemed may be adjusted by CCC for unearned storage, transportation, handling and any other costs determined by CCC to affect the value of such commodity.

Commodity certificates may be transferred to any person. Any transfer must be in the full amount of the certificate and can be effected only by restrictive endorsement on the back of such certificate, showing the name of the transferee, the date of transfer, and signature by the transferor.

Commodity certificates can be exchanged for CCC owned commodities if the holder has a dollar amount of commodity certificates sufficient to acquire a carload lot of the applicable commodity or any other quantity determined by CCC. CCC determines the value of CCC-owned commodities made available for exchange of commodity certificates.

Commodity Loans

CCC makes nonrecourse loans to producers on certain agricultural commodities. These loans are carried in the accounts at the unpaid principal balance. Producers have the option to repay the principal plus interest or, at maturity, to surrender the commodity in full satisfaction of the loan. The Food Security Act of 1985 amended the Agricultural Act of 1949, as amended, to permit the Secretary of Agriculture to allow producers to repay 1985 through 1990 crop rice loans and 1986 through 1990 crop wheat, feed grains, cotton and honey loans at a level that is less than the original level determined for such crop.

CCC makes recourse loans available on certain commodities during periods when producers are unable to warehouse or market their commodities. In addition, CCC makes loans under its farmer-owned grain reserve and special producer loan storage programs. (See Note H.)

Commodity Inventories

Inventories are recorded at acquisition cost plus processing and packaging costs incurred after acquisition. Acquisition cost of commodities acquired from price-support loans, or by purchase from producers, is the amount of the loan settlement, excluding interest, or the amount of the purchase settlement. The loan rates and purchase prices under price-support programs are fixed to accomplish price-support objectives set by legislation. Therefore, acquisitions are usually at costs higher than market value. Inventories are not acquired and held by CCC for resale at a profit.

Price-support inventories are accumulated when demand is not sufficient to absorb available supplies and when farm prices are below the support levels. Inventories held under supply and commodity export programs are usually acquired to fill orders or known program requirements.

The cost allocated to most dispositions of commodities is computed on the basis of average unit cost of the commodity in inventory at the end of the previous month. The cost allocated to certain dispositions from the peanut price-support inventory, commodity export programs and redeemed loan collateral sold to CCC and exchanged for commodity certificates is computed on the basis of actual lot cost of the specific lots removed.

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

Feed Grain, Wheat, Cotton and Rice Program Expenses

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

The deficiency payment rate is the amount by which the established (target) price exceeds the higher of: (1) the national weighted average market price received by producers for the crop during the first 5 months of the marketing year (during the calendar year for upland cotton and during the first 8 months of the marketing year for extra long staple cotton) or (2) the national average loan rate established for the crop. When announced by the Secretary of Agriculture, a portion of the deficiency payment may be authorized to be paid in advance. Increased deficiency payments are also authorized to producers of wheat and feed grains to compensate for any reduction which may be made in the level of price support.

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

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

Disaster payments are authorized to be made to producers only if crop insurance under the Federal Crop Insurance Act is not available to producers for the commodity with respect to the producer's acreage of such commodity. The Secretary of Agriculture may authorize special disaster payments due to drought, flood, other natural disasters, or other conditions beyond the control of the producer regardless of whether producers have crop insurance under the Federal Crop Insurance Act.

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

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

Protection of Sugar Producers

The Agricultural Act of 1949, as amended, authorizes CCC to make payments to sugar beet and sugarcane producers who did not receive maximum benefits from the price-support program within 30 days after the final settlement date as stated in the contract between such producers and the sugar processor because of bankruptcy or other insolvency of the processor. CCC shall be subrogated to all claims of such producers against the processor and other persons responsible for nonpayment.

Dairy Programs

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

Under the dairy termination program, the Secretary of Agriculture, from February 10 through March 7, 1986, entered into contracts with producers 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 5 year period, beginning after the disposition of the herd.

To minimize the adverse effect of the dairy termination program on beef, pork, and lamb producers for the 18 month period, CCC is purchasing and distributing 400 million pounds of meat.

Conservation Reserve Program

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

Storage Facility and Equipment Loans

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

Accrued Interest

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

On tobacco loans, CCC records a deferred interest income credit to offset the receivable entry each September 30. On each October 1, this receivable entry is reversed. When the interest payment is received, CCC records the interest income. The accrued interest on tobacco loans is recorded this way because the objective of the No Net Cost Tobacco Act of 1982, as amended, is to provide that CCC will sustain no losses from the loan program. However, if tobacco loans are called by CCC, accrued interest is paid to the extent possible from the No Net Cost Tobacco assessments collected.

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

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

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

Accounts and Notes Receivable

Receivables for Public Law 83-480, Title II. The value of commodities made available from CCC inventories for export disposition at no cost to the recipients pursuant to Public Law 83-480, Title II, Agricultural Trade Development and Assistance Act of 1954, as amended, is recorded as proceeds of sales and is shown as a receivable until receipt of an appropriation reimbursing CCC, except to the extent that funds have been appropriated in advance. The costs of ocean freight on these commodities are also included in the same receivable. Statutory provisions direct that commodities acquired under the price-support program and made available under programs authorized by the Agricultural Trade Development and Assistance Act of 1954, as amended, shall be valued at a price not greater than the export market price at the time the commodity is made available.

The difference between the cost of the commodities and the above determined price is included in the net realized losses of CCC.

Receivables for Public Law 83-480, Credit Sales for Dollars, (Title I and Title III). Title I of the Agricultural Trade Development and Assistance Act of 1954, as amended, governs the concessional sale and exportation of agricultural commodities under agreements between the United States and either foreign governments or private trade entities. The agreements may provide for sales for dollars on credit terms, sales for foreign currencies on credit terms permitting conversion to dollars or sales for foreign currency to be paid within 120 days.

Title III commodity sales agreements permit funds from the sale of commodities in the importing country to be applied against the country's Title I repayment obligation to the United States provided the funds are used for certain agricultural self-help programs which are specified in the agreements. Countries on the United Nations Conference on Trade and Development list of least developed countries may use funds for agricultural self-help programs to offset their repayment obligations from other Title I agreements.

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

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

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

Allowances for Losses

Allowances for losses on commodity loans and commodity inventories are based on the estimated loss on ultimate commodity dispositions. Allowances equal to the full inventory value are established for commodities scheduled for donation. Allowances are based on estimated recoveries from foreseeable dispositions of the commodities to the extent practicable. Estimated recoveries for commodities which exceed foreseeable dispositions are generally based on the lowest of cost, market price, or CCC's price for export sales. Allowances are not established for commodities in the supply and commodity export program inventories when acquired pursuant to commitments providing for disposition on a basis calculated to recover the full cost to CCC.

Allowances for losses are not established for receivables representing loans made to foreign countries under Public Law 480, Title I, and CCC's export credit sales and guarantee programs.

Fixed Assets

Fixed assets acquired by CCC are recorded at acquisition cost. Capital items such as major equipment purchases which are used directly in the operation of programs are depreciated on a straight-line basis over a period which provides for annual absorption in program costs of a reasonable portion of the cost of assets. In 1985, furniture, fixtures, ADP equipment and other administrative property with a value of $5,000 or more were capitalized and depreciated over their estimated useful lives, which range from 4 to 15 years. (See Note B). The capitalization policy for administrative property had been $1,000 or more and a 100 percent allowance for depreciation at the time of acquisition.

Tobacco

The Consolidated Omnibus Budget Reconciliation Act of 1985 provides that CCC acquire title to the 1983 burley tobacco crop that was pledged as security for loans by May 7, 1986, by calling the loans for which the crops served as collateral. CCC acquired title to the crop on May 6, 1986. The principal loan amount outstanding on May 6, 1986, was over $499 million for over 212 million pounds of burley tobacco. After calling the loans, CCC has a 2 year period in which to sell such tobacco as it deems appropriate. If after the 2 year period, CCC has not sold all stocks of the 1983 burley tobacco, the Corporation may, if the Secretary determines, offer to sell the remaining stocks to domestic cigarette manufacturers over a period not to exceed 5 years. Stocks offered may be sold at a 90 percent discount of tobacco association's cost plus accrued carrying charges as of May 6, 1986. On September 30, 1986, approximately 71 million pounds had been sold for $44 million. As of March 17, 1987, another 86 million pounds had been sold for $51 million. If the remaining 56 million pounds of 1983 burley tobacco is sold at a 90 percent discount, CCC will absorb a total loss of approximately $392 million.

CCC policy is to record loan collateral taken into inventory at acquisition cost. Acquisition cost of the 1983 burley tobacco crop is the loan value, as of the close of business on May 6, 1986, excluding interest. The loan value is the sum of the loan advances to producers, carrying charges paid and charges incurred on the loan tobacco, but not paid at that time. The accrued interest was considered a loss to CCC and therefore recovered from the No Net Cost Tobacco Account maintained by CCC.

Except for the interest charges that had accrued through May 6, 1986, the tobacco producers and purchasers would have no responsibility for any other losses incurred in relation to the 1983 burley tobacco crop.

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

Further, this Act provides that the stocks of flue-cured tobacco from the 1976 through 1984 crops shall be offered for sale at the base prices, including carrying charges, in effect as of the date of the offer, reduced by 90 percent for flue-cured tobacco from the 1976 through 1981 crops and 10 percent for flue-cured tobacco from the 1982 through 1984 crops. Four tobacco purchasers agreed to buy the entire stock offered over the 8 year term of the contract. The tobacco delivered will be a cross-section of the 1976 through 1984 crops.

Pursuant to the No Net Cost Tobacco Program Act of 1982, as amended, CCC maintains a No Net Cost Tobacco Account as a trust and deposit liability. (See Note I). This account consists of contributions from tobacco producers which are used to offset any program losses realized by CCC relating to 1982 and subsequent crop tobacco loans.

In addition, the account consists of assessments from tobacco purchasers for 1986 and subsequent crops of flue-cured and burley tobacco and such assessments shall only be used to offset any program losses realized by CCC on 1985 and subsequent crop tobacco loans. Interest is credited on the daily principal balance of the account maintained by CCC.

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

Borrowings	Program activities of CCC are usually financed by borrowings from the U.S. Treasury. U.S. Treasury borrowings for current financing are subject to interest. The interest rate paid by CCC on its borrowings is established each month by the U.S. Treasury. The rate is based upon the U.S. Treasury's estimate of its cost of funds and is the average of the preceding months' yield on Treasury securities having a constant maturity of a year. Borrowings equal to the unreimbursed realized losses, after September 30 of the fiscal year in which such losses are realized, are not subject to interest pursuant to Public Law 89-316, as amended. Borrowings are shown in the financial statements as notes payable at the unpaid balance.
Full Reimbursement for Inventory Disposition	CCC is required by law to recover all costs incurred on the supply and export programs' inventory transactions when purchased specifically for other United States Government agencies.
Special Activities for Which Full Reimbursement is Provided by Statutes	CCC is directed by certain statutes to perform special activities for which full reimbursement is provided by appropriations. Examples of such activities include the financing of export sales under Public Law 83-480, Title I program and the producer incentive payments under the National Wool Act of 1954, as amended. CCC is also authorized by statutes to provide funds on a temporary basis for certain activities which are carried out by other agencies of the United States Department of Agriculture. The amount of funds provided for such activities are subsequently reimbursed from separate appropriations.
Reimbursement for Realized Losses	Public Law 87-155 authorizes reimbursement to CCC for its net losses. CCC recognizes these losses in the year they occur. A receivable from the U.S. Treasury is established for the amount due.
Reclassifications	Reclassifications have been made to some items as presented in the 1985 financial statements in order for them to conform to the presentation used in 1986.
Note B - Accounting Changes	In fiscal year 1986, CCC made no major accounting changes. However in fiscal year 1985, CCC changed its policy concerning capitalization and depreciation of administrative property. The capitalization criteria was changed to $5,000 or more and depreciation will be allocated over the estimated useful life of the group of assets as follows:

Category	Useful Life
Motor Vehicles	4 years
Modular Furniture	10 years
Photo Lab Equipment	15 years
Other Administrative Property	10 years
ADP Equipment	6 years

The impact of this change on the fiscal year 1985 financial statements resulted in a decrease in depreciation expense of $2.9 million.

Note C - Suspense Accounts

In addition to regular accruals made to record expenses in the proper accounting cycle, items in suspense accounts were reclassified to show the proper program expense during fiscal year 1986. Undistributed expenditures and issued certificates in suspense were reclassified as expenses to the deficiency and diversion programs. Information available from the Budget Division, program divisions and program regulations were used to estimate the reclassification. The impact of this reclassification was $796.4 million increase in program expenses.

Note D - Cash

The negative cash position as of September 30, 1986, was caused by routine nonexpenditure transfers to other government agencies recorded in CCC's account with the U.S. Treasury. These transfers were processed in October 1986, but were effective as of September 30, 1986. Since CCC cannot borrow from the U.S. Treasury retroactively, the borrowings to cover these transactions were made and recorded in October 1986.

On September 30, 1985, a negative cash position was caused by routine nonexpenditure transfers to other government agencies and an accounting error in the treatment of an interagency transfer. The routine nonexpenditure transfers were recorded in CCC's account with the U.S. Treasury on September 30, 1985, but the borrowings to cover these transactions were made in October 1985. The accounting error was a transfer incorrectly treated as a receipt rather than a disbursement. This error was not identified until October 1985. Borrowings to cover this transaction were made and recorded in October 1985.

Note E- Accounts and Notes Receivable

Maturities of accounts and notes receivable at September 30, 1986, and 1985, were:

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

	September 30, 1985			
	1986	1987	1988 & Beyond	Total
	(In millions)			
Recoverable from funds appropriated for P.L. 83-690, National Wool Act	$ 109	$ -	$ -	$ 109
P.L. 83-480 (Note E-1)				
Principal	263	290	9,493	10,046
Interest	270	-	-	270
Export credit sales (Note E-2)	501	119	183	803
Export guarantee claims paid	1,037	-	-	1,037
Rescheduled guarantees paid	39	49	545	633
Government agencies	4	-	-	4
Sales to foreign governments	75	15	-	90
Barter Program	30	-	-	30
Food Security Reserve	59	-	-	59
Others - net of $92 million allowance for loss	110	-	-	110
	$2,497	$473	$10,221	$13,191

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

As of September 30, 1986, and 1985, past due installments of principal and interest on receivables due from foreign governments amounted to $246 million and $214 million respectively.

Foreign government receivables of $190 million from the Khmer Republic and $33 million from the Republic of Vietnam represent transactions completed prior to April 17, 1975, and May 1, 1975, respectively, the dates on which the Foreign Assets Control Regulations were made applicable to those countries. The receivables also include $20 million for Khmer Republic and $12 million for Vietnam, representing the financed value of commodities shipped to those countries where delivery was frustrated, plus interest through September 30, 1986.

Proceeds from the disposition of commodities, the delivery of which was frustrated, in the amount of $10 million for commodities purchased by Khmer Republic and $6 million for commodities purchased by Vietnam, are included in CCC's accounts as a liability. Disposition expenses paid from these proceeds were $1 million. Disposition of net proceeds will be made after the U.S. Treasury Department has provided instructions.

Note E-2 - Export Credit Sales Programs

The CCC Export Credit Sales Programs provide for financing of export credit sales of agricultural commodities by purchasing exporters' accounts receivable. The registration of a sale enables a U.S. exporter to deliver agricultural commodities to a foreign importer on a deferred payment basis for periods of up to a maximum of 36 months, and for intermediate credits for periods in excess of 3 years, but not more than 10 years. All accounts receivable purchased under the programs are covered by U.S. bank and foreign bank letters of credit or other obligations acceptable to CCC. As of September 30, 1986, and 1985, past due installments of principal and interest amounted to $225 million and $416 million respectively. Previous past due amounts from Poland of $395 million were included in the $472 million rescheduling agreement effective September 8, 1986.

Note F - Reimbursement for Net Realized Losses

The receivable, as shown in the Comparative Statement of Financial Condition, represents the cumulative realized losses of CCC since its inception in 1933. Reimbursement for net realized losses as of September 30, 1986, and 1985, was:

	September 30 1986	September 30 1985
	(In millions)	
Realized loss or (gain):		
Through September 30 of previous year	$119,878	$106,943
Current fiscal year	19,998	12,935
Total	139,876	119,878
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	109,380	97,095
	111,940	99,655
Appropriations--current fiscal year	24,933	12,285
Net restorations	136,873	111,940
Recovery of losses charged to Post-war Price Support--P.L. 79-301	500	500
Recovery on commodities furnished for foreign assistance under P.L. 80-389 and 393	56	56
Recovery of Emergency Feed Program - P.L. 84-40	42	42
Total restoration and recoveries	137,471	112,538
Total unrecovered losses	$ 2,405	$ 7,340

Note G - Accrued Interest Receivable

Accrued interest receivable as of September 30, 1986, and 1985, was:

	September 30 1986	1985
	(In millions)	
Export credit sales	$193	$134
Storage facility and equipment loans	17	34
Export credit guarantee claims	17	60
No Net Cost Tobacco Program	408	384
Total	$635	$612

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

The Agricultural Act of 1949, as amended, provides for a farmer-owned grain reserve program for wheat and feed grains. The purpose of the program is to isolate grain stocks from the market to counter the price-depressing effects of these surplus stocks. In the current reserve programs, producers must place eligible grain under a 9 month nonrecourse CCC price-support loan prior to entering the reserve.

The reserve agreements are for 3 years. In the past, producers have been allowed to transfer from one reserve program to another, in effect, retaining grain in the reserve program for an additional 3 years. If the producer repays the loan and removes the grain from the reserve before the national average market price reaches a specified trigger level, the producer must pay a penalty.

CCC makes annual payments in advance to producers to help pay the costs of reserve storage. These advance payments are shown as an asset in the Comparative Statement of Financial Condition and as storage is earned, they are transferred to expense. Grain placed in the reserve is subject to the same storage requirements as grain in the regular price-support loan program. Producers are permitted to rotate their reserve stocks to maintain quality. These stocks can be stored either on the farm or in commercial warehouses.

The grain reserve loans outstanding at September 30, 1986, and 1985, are:

	1986 Quantity (Bushel)	1986 Value	1985 Quantity (Bushel)	1985 Value
	(In millions)			
Barley	59	$ 118	105	$ 228
Corn	685	1,724	437	1,183
Oats	1	2	3	4
Sorghum	60	147	128	353
Wheat	475	1,680	649	2,393
TOTAL	1,280	$3,671	1,322	$4,161

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

The special producer storage loan agreements are for a 12 month period and may be extended by CCC. The producers may redeem the commodity pledged as collateral at any time during the loan period.

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

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

The Special Producer Loan Storage Program began April 25, 1985. The special producer loans outstanding at September 30, 1986, and 1985, are:

	1986		1985	
	Quantity (Bushel)	Value	Quantity (Bushel)	Value
	(In millions)			
Barley	47	$ 103	4	$ 8
Corn	149	418	6	14
Oats	2	2	a/	a/
Sorghum	23	64	2	6
Wheat	165	611	23	84
TOTAL	386	$1,198	35	$112

a/ Less than 500 thousand.

Note I - Trust and Deposit Liabilities

Amounts advanced to, or deposited with, CCC as of September 30, 1986, and 1985, were:

	September 30 1986	1985
	(In millions)	
Funds appropriated for:		
Agricultural Stabilization and Conservation Service Programs:		
Agricultural Conservation	$ 240	$ 199
Rural Clean Water	30	40
Water Bank	42	43
Emergency Conservation	10	12
Expenses, ASCS (County Office)	36	16
Forestry Incentives	15	16
Dairy and Beekeeper Indemnity	6	-
Subtotal	379	326
P.L. 83-480:		
Title I	344	139
Title II	367	424
Advances from Agricultural Marketing Service and Food and Nutrition Service	242	260
Sales Proceeds from Frustrated Cargo, P.L. 83-480, Title I	15	15
No Net Cost Tobacco Program	250	112
Warehouse User Fee Fund	1	1
Other advances and deposits	20	51
Total	$1,618	$1,328

Note J - Borrowing Authority

CCC operations are financed by borrowings from the U.S. Treasury under a statutory borrowing authorization of $25 billion. This amount is the limit on borrowings that may be outstanding at any one time. CCC's actual borrowings from the Treasury amounted to $24.9 billion and $23.8 billion as of September 30, 1986, and 1985, respectively. CCC refinances its borrowings annually on January 1.

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

From July 17, 1985, to July 24, 1985, CCC temporarily suspended disbursements from commodity loans, warehouse payments, producer storage payments and dairy price support purchases; and its financing operations because CCC nearly depleted the $25 billion borrowing authority. CCC resumed the suspended operations after being reimbursed by Congress for a portion of its 1985 anticipated losses.

Note K - Interest on Borrowing

The monthly interest rate for fiscal year 1986 ranged from 6.125 to 8.000 percent and for fiscal year 1985 ranged from 7.750 to 11.750 percent.

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

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

During July 1985, CCC requested and was granted approval from the U.S. Treasury to defer the interest payment on the $1 billion principal repayment due in July, providing that CCC pay interest on the deferred interest. The deferred interest plus interest totaled $54 million and was paid on August 15, 1985, from an additional $2.9 billion appropriation received from Congress.

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

Note L - Capital Stock

The capital stock of CCC is $100 million which was subscribed by the United States as provided in the Commodity Credit Corporation Charter Act. The charter provides that CCC shall pay interest on its capital stock to the U.S. Treasury at rates determined by the Secretary of the Treasury. The amount and rate paid to Treasury during fiscal year 1986 were $10.4 million and 10 3/8 percent. The amount and rate paid to Treasury during fiscal year 1985 were $11.3 million and 11 3/8 percent.

Note M - Cumulative Results of Operations

CCC's deficit represents the cumulative results of operations since its inception in 1933.

CCC receives an annual appropriation for reimbursement of its net realized losses. Prior to the actual receipt, this is shown on the balance sheet as a receivable and on the income statement as recoverable by appropriations. (See Note F.)

The deficit of $4.6 billion approximates the difference between net losses on a generally accepted accounting principle basis and the net realized losses determined for reimbursement purposes.

The deficit as of September 30, 1986, and 1985, was:

	September 30 1986	1985
	(In millions)	
Net deficit, Beginning of fiscal year	$4,106	$4,141
Plus: Adjustments for current year allowances for losses	518	(35)
Net deficit, End of fiscal year	$4,624	$4,106

Note N - General Overhead

Substantially all of CCC's operating expenses are paid, as authorized by law, from an ASCS consolidated fund account which covers operating expenses for both CCC and ASCS activities. This consolidated account has been funded by an ASCS appropriation and by transfer of CCC corporate funds subject to limitations specified in the annual appropriation act. However, beginning in fiscal year 1986, this account was funded by only transfers from CCC.

Note O - Contingent Liabilities and Commitments

Export Credit Guarantee and Blended Credit Programs

Under the Export Credit Guarantee Program (GSM-102), CCC enters into guarantee agreements with U.S. exporters who sell agricultural commodities on credit terms for periods up to 3 years. These exporters usually have a U.S. bank finance the transactions. This enables the exporter to receive payment from the financing bank as soon as the commodities are shipped. These exporters assign their right to the payment guarantee to the U.S. bank. The parties to the financing arrangements establish the credit periods within the limitations established by CCC. The guarantee provided by CCC protects the exporter or the assignee against loss from defaults for payments due from a foreign bank. CCC's protection is for the amount specified by CCC, up to the unpaid port value of the commodity plus interest of not more than certain Treasury bill auction rates at the time of application. For this protection, the exporter must pay CCC a fee at the time of application for a guarantee agreement. In the event of default, CCC will pay the exporter or the assignee in U.S. dollars and take action to recover the amount due from the foreign bank and/or the importer.

The Blended Credit Program is a combination of the Export Credit Sales and Export Credit Guarantee Programs. One portion of the sale is financed by CCC under the Export Credit Sales Program and another portion is financed by the exporter or assignee U.S. bank under the Export Credit Guarantee Program. The portion financed by CCC is interest-free as long as the obligor makes timely payments. The Blended Credit Program was suspended on February 26, 1985, as a result of a U.S. District Court ruling requiring blended credit shipments to be subject to U.S. cargo preference laws.

CCC's contingent liability for these two guarantee programs as of September 30, 1986, and 1985, is $4,395 million and $5,709 million, respectively.

Commitments to Acquire or Dispose of Commodities

Contracts to acquire commodities are not shown in the accounts, but the amounts of contracts are considered as contingent liabilities. The approximate contract values of undelivered commodities under contracts to acquire such commodities at September 30, 1986, and 1985, were:

	September 30	
	1986	1985
	(In millions)	
Beans, dry edible	$ 2	$ 4
Beef	116	-
Blended food products	19	24
Dairy products	15	12
Feed grains and products	9	15
Honey	a/	-
Peas	1	-
Raisins	2	-
Rice	1	a/
Vegetable oil and products	31	37
Wheat and products	30	50
Total	$226	$142

a/ Less than 500 thousand

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

Conservation Reserve

The 50 percent cost-share payments stipulated in the contracts between the producers and CCC are recognized as contingent liabilities. CCC records a program expense when the cover practice is implemented. At September 30, 1986, the contingent liability was $301 million.

Letters of Commitment

Letters of commitment issued to banking institutions, authorizing reimbursement to banks for payment to exporters for sales of commodities and to carriers for ocean freight differential covering shipments made under Public Law 83-480, are not shown in the financial statements. The amount of outstanding letters of commitment issued for sales of commodities for September 30, 1986, and 1985, was $165 million and $95 million, respectively. Letters of commitment covering ocean freight differential are issued without stated value. However, estimated ocean freight differential as of September 30, 1986, and 1985, was $84 million and $57 million, respectively.

Note P - Lag Data

The accounts of the Commodity Credit Corporation are closed promptly at the end of each fiscal year causing some financial transactions to be omitted from the accounts. After closing the books, but before release of these financial statements, CCC became aware of the approximate dollar value of transactions prior to September 30 representing amounts not recorded or given full effect in the accounts.

These transactions resulted in net changes to the accounts at September 30 as follows:

		(In millions)
Assets		
Loans	overstated	$2,023
Inventory	understated	1,793
Accounts receivable	understated	3
Accrued interest	understated	1
Undistributed	overstated	441
Net overstated		$ 667
Liabilities		
Accounts payable	understated	$ 36
Trust and deposit	understated	1
Unapplied receipts	overstated	366
Drafts payable	understated	51
Loan certificates in suspense	overstated	320
Service charges withheld	understated	1
Net overstated		$ 597
Profit and Loss		
Cost of sales	understated	$ 345
Cost of donations	understated	39
Charged-off	understated	27
Sales	understated	329
Interest income	understated	12
Net loss		$ 70

P.L. 83-480, Title I

Shipments by suppliers totaling $73.9 million, including $4.6 million ocean transportation and $38.6 million ocean transportation differential, were not recorded at September 30. Consequently, accounts payable were understated by $73.9 million and trust and deposit liabilities were overstated by this same amount. Also, accounts receivable from foreign governments and the related deferred credit were understated by $35.3 million. The contingent liability for letters of commitment shown in the notes to the financial statement was overstated by $73.9 million.

Adjustments:

The Comparative Statement of Financial Condition reflects an adjustment to commodity loans and commodity inventory of $1,789.6 million, based on lag data. This represents commodity loan forfeitures which would have reduced the commodity loan balance and increased the commodity inventory balance. The other transactions were not significant and therefore, no adjustments were made.

Note Q - Pending Litigation

As of September 30, 1986, pending litigation against CCC totaled $72.4 million.

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