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Our audit traced every advance by NBG under the August 26, 1976 loan agreement into the Warehouse account at NBG. Every advance was found to have been received, recorded, and accounted for by the Warehouse. Conversely, every repayment was traced from the records of the Warehouse to the bank loan records and was found to be properly accounted for. The end of year loan balance per the books and records of the Warehouse was reconciled to balance with the bank records.

All loan advances under this agreement were deposited in the Warehouse account no. 0-28881-0. Other deposits to this account from September 1, 1976 through December 31, 1977 consisted of monies advanced on the consolidated loan, proceeds from peanut sales including wire transfer remittances from the factors, a \$60,000 loan on March 10, 1977 from Carter Farms, and collections of accounts receivable from sales of agricultural products. Deposits from sales of agricultural products commenced on a regular basis on or about September 27, 1977. Before then the Warehouse's policy was to transact all business other than its peanut business through its account at CBA. This change in practice appears to have occurred after Billy Carter left the Warehouse and Gold-Kist leased it.

Disbursements were made from this account for the following purposes from September 1, 1976 to December 31, 1977. Percentages represent the per cent each category bears to total payments during the period:

	<u>Per cent of Total</u>
Principal and interest payments on	
loans due to NBG	.5370
Peanut purchases and related costs	.4298
Partners' drawings	.0012
Agricultural products costs	.0042
Warehouse construction	.0069
Transfer to CBA	
for general	
business purposes	.0209
Total	<u>100</u>

An analysis of all sources of funds and all disbursements of funds by the Warehouse is discussed in Part IV of this report in the section "Source and Application of Funds."

Repayments were made by checks accompanying warehouse releases from September 1, 1976 through August 1977. Unlike the 1975 peanut loan, most checks issued during this time frame were processed through the Warehouse bank account at NBG and were applied directly in reduction of the principal balance due. This was facilitated by the factoring arrangement, which resulted in funds being advanced directly to NBG within a few days of Heller's receipt of sales invoices from the Warehouse.

Notwithstanding the speedy availability of funds, some checks were still not processed. The following examples are illustrative:

<u>Ck. No.</u>	<u>Date of Check</u>	<u>Amount</u>	<u>Date Charged to Bank Acct.</u>	<u>Bank Balance on Date Ck. Issued</u>
571	11/22/76	\$131,278.19	12/10/76	\$ 22,672.87 O.D.
572	11/23/76	74,446.53 ¹	12/9/76	22,339.45
576	11/29/76	52,134.24 ¹	12/9/76	6,749.48
644	5/6/77	159,851.69 ²	6/7/77	102,768.48
647	5/17/77	86,637.69	6/30/77	16,820.87
652	5/25/77	83,362.15 ³	7/25/77	8,769.18

Some Warehouse checks payable to NBG accompanying releases were not processed. The Warehouse accountants, in their audit for 1977, reversed, by journal entries, the following unprocessed checks:

<u>Ck. No.</u>	<u>Date of Check</u>	<u>Amount</u>
653	5/26/77	\$ 79,484.85
655	6/2/77	75,080.00
656	6/7/77	25,600.00
659	6/10/77	55,857.59
676	7/25/77	122,200.00
679	7/29/77	46,680.00
683	8/17/77	102,400.00
684	8/18/77	53,760.00
687	8/30/77	25,600.00
686	8/24/77	12,800.00
688	-	<u>52,415.00</u>
Total Reversal		<u>\$651,877.44</u>

¹

Credited to loan accounts in total amount of both checks.

²

Credited to loan account 6/3/77 together with the Warehouse check for \$25,600.

³

Credited 7/25/77 with the Warehouse check for \$52,560.

From September 1, 1976 to December 31, 1977 the following loan repayments were made:

By debit memos 9/76 to 8/30/77	\$ 275,159.17
By debit memos 10/77, 11/77, and 12/77	474,015.27
By Warehouse checks processed	
9/1/76 through 9/30/77	<u>5,782,124.04</u>
Total payments in reduction of loan	
9/1/76 to 12/31/77	<u>\$6,531,298.48</u>

The schedule discloses that, unlike the 1975 peanut loan, advances were credited to the Warehouse on the loan discount date. In addition, the analysis set forth earlier in the "Value of Bonded Inventory" schedule shows that the outstanding peanut loan balance from September 1, 1976 to April 1977 was substantially secured by peanuts in bond. Modest deviations occurred in early September 1976, on December 7, 1976, February 24, 1977, and February 28, 1977 to March 30, 1977. However, from April 29, 1977 to the date the loan was repaid in full on March 1, 1978, the value of peanuts in bond was less than the outstanding indebtedness.

The new agreement reduced but did not eliminate the cash flow delays encountered the first year because of capital shortages.

On June 7, 1977 Flynt wrote to Billy Carter:

"Enclosed is a copy of a credit to the Warehouse account for \$90,700, representing an advance which we made on your line of credit to cover checks paid on insufficient funds. Since this advance is not covered by warehouse receipts, I will be debiting your account to repay this advance as soon as sufficient funds are available.

"At the present time, we have taken all available collateral and all peanuts under receipt which you have sent to us. This includes cold storage. At

this time, we are holding approximately \$400,000 in warehouse releases with no funds to cover these releases. You should release no additional peanuts until sufficient funds are in the bank to cover all releases, and no more checks should be written for any reason without sufficient funds. Note: you will need approximately \$500,000 to cover the advance mentioned above and the existing releases which we are holding, some of which are almost a month old.

"Please let me know if you have any questions.

Sincerely,

/s/ Bob
Robert D. Flynt
Vice President"

In a handwritten footnote to the letter Flynt wrote "Please, try to keep us in balance. We must have funds in the Bank or coming to the Bank within a day or two to cover releases!"

The records show that as of June 7, 1977 the bonded peanut inventory was below the outstanding peanut loan by approximately \$179,000. If the \$400,000 of overdue releases could have been paid by the Warehouse at that time, NBG would have had collateral in the form of bonded peanuts in excess of the loan liability. The reference in the letter to checks for releases being "almost a month old" accords with the evidence discussed.

On July 26, 1977 Flynt wrote another letter to Billy Carter dunning Carter for monies he personally owed to the bank. Flynt added a handwritten postscript as follows:

"Also: Billy we are short approximately \$500,000 due to inventory of approx. \$350,000 at your whse. and approx. \$850,000 that was loaned on peanuts now outstanding. This is a very serious situation and we need to solve the problem as soon as possible. As you know the line for 77-78 will begin soon and the old line must be paid out before the 77-78 season."

As the schedule shows, the Warehouse repaid this loan in full on March 1, 1978, but not from its own operating resources.

On September 1, 1977 when Billy Carter ceased to operate the Warehouse, it was indebted to agricultural suppliers in the approximate amount of \$303,000, to NBG on the second peanut loan in an approximate amount of \$580,000, and to Carter Farms in the amount of \$180,000.* Against these obligations the Warehouse only had \$34,026 in bank accounts, approximately \$58,000 in unsold inventory of peanuts, and \$446,189 in uncollected accounts receivable as of September 1, 1977.

The schedule of accounts receivable at September 1, 1977 contained the March 10, 1977 loan of \$60,000 owed to Carter Farms even though it was really a payable. However, since it appeared in the account as a negative figure it operated to reduce the overall receivables due. Thus, the actual accounts receivable as of August 31, 1977 were \$506,189. Other current assets of the Warehouse on this date included inventories of cotton and agricultural products with a market value of \$44,256, and securities with a market value of \$9,994.

In sum, as of September 1, 1977 the Warehouse's current debts exceeded its current assets by \$410,535 as follows:

* The \$180,000 debt to Carter Farms was made up of \$60,000 borrowed on March 10, 1977 and \$120,000 borrowed on August 26, 1977. The \$120,000 was borrowed from Carter Farms to make the payment of the \$168,000 annual installment due on the consolidated loan.

Current Assets

Cash	\$ 34,026
Peanut Inventory	58,000
Accounts Receivable	506,189
Other Inventories	44,256
Securities	9,994
	<hr/>
Total	\$652,465

Current Liabilities

Accounts Payable	\$303,000
NBG Peanut Loan	580,000
Carter Farms	180,000
	<hr/>
Total	<u>\$1,063,000</u>

Excess of Current Liabilities over
Current Assets \$ 410,535

To enable the Warehouse to meet its obligations,
Carter Farms negotiated loans from TCB and used the
proceeds for the benefit of the Warehouse as follows:

<u>Date</u>		<u>Amount</u>
3/10/77	Loan to the Warehouse	\$ 60,000.00
8/26/77	Loan to the Warehouse	120,000.00
10/4/77	Loan to the Warehouse	232,000.00
Oct. 1977	Net bills of the Warehouse paid directly by Carter Farms	61,814.00
12/15/77	Loan to the Warehouse	<u>1,000.00</u>
	Total	<u>\$474,814.00</u>

In October 1977 Kirbo leased the Warehouse to
Gold-Kist. Gold-Kist agreed to an eleven month lease at an
annual rental of \$180,000, and has continued to operate
the Warehouse under successive leases.

Kirbo borrowed on behalf of Carter Farms from
TCB to lend money to the Warehouse, and to secure the loans
Carter Farms gave TCB an assurance it would not mortgage
its assets. Kirbo used the money to make the installment
payment on the sheller loan and to repay current Warehouse
debts.

7. Interest Paid on Loans

Interest paid by the Warehouse on its loans from NBG from the beginning of the obligations through December 31, 1977 was:

<u>Month Paid</u>	<u>Interest on Sheller and Consolidated Loan</u>	<u>Interest on Peanut Loans</u>
November 1975	\$ 1,050.00	\$ 2,760.77
November, 1975	9,155.16	
December, 1975		<u>17,159.33</u>
1975 TOTAL	<u>\$ 10,205.16</u>	<u>19,920.10</u>
January, 1976	9,218.13	
February, 1976		14,389.92
February, 1976		12,655.78
March, 1976	9,343.10	10,061.80
March, 1976		8,980.20
April, 1976		8,864.59
May, 1976		
June, 1976		
July, 1976	15,501.38	
August, 1976	9,654.30	25,126.53
September, 1976	6,817.56	3,140.08
October, 1976	7,091.69	
October, 1976		14,901.28
November, 1976	7,101.00	
December, 1976	<u>6,756.15</u>	<u>19,511.67</u>
1976 TOTAL	<u>\$ 71,483.31</u>	<u>\$117,631.85</u>
January, 1977	6,936.06	37,186.46
February, 1977	6,629.38	7,985.86
March, 1977	6,076.35	10,428.27

April, 1977	6,727.38	8,426.54
May, 1977	6,510.38	
June, 1977	6,923.39	7,370.39
June, 1977	3,696.22	5,390.43
August, 1977	7,161.41	5,661.77
August, 1977		4,953.80
September, 1977	9,413.93	
October, 1977	5,950.41	2,645.74
November, 1977	6,411.28	2,951.87
December, 1977	<u>6,638.79</u>	<u>1,675.20</u>
1977 TOTAL	<u>\$ 79,074.98</u>	<u>\$ 94,676.33</u>

Recapitulation

<u>Year</u>	<u>Interest Paid on Construction Loans</u>	<u>Interest Paid on Peanut Loans</u>
1975	\$ 10,205.16	\$ 19,920.10
1976	71,483.31	117,631.85
1977	<u>79,074.98</u>	<u>94,676.33</u>
TOTALS	<u>\$ 160,763.45</u>	<u>\$ 232,228.28</u>

Interest payments as shown in the above schedules were by debit memos to the Warehouse account at NBG. Total interest actually paid during the period 1975-1977 was \$392,991.73. For the same period total interest on the accrual basis per the Warehouse books and records was \$407,641.88. The differences are accounted for by the accrual of unpaid interest on December 31, 1977 and by interest additions to the loan principal only partially paid.

8. Ten Warehouse Releases

In March of 1979 Jimmy L. Hayes, a former bonded warehouseman at the Warehouse from August 1975 until July

23, 1976, was reported as stating publicly that Billy Carter had pledged the same collateral twice and that "by late April or early May, 1976" Hayes had accumulated \$500,000 in checks and warehouse releases in his desk drawer. Because the purported accumulation of checks coincided with important presidential primary elections, there was much speculation about the incidents as possible indications that the Warehouse may have put money into Jimmy Carter's campaign.

There is no evidence that Billy Carter ever pledged the same collateral more than once, or that \$500,000 in warehouse releases and accompanying checks were accumulated during that time period. In fact, between March 23 and May 20, 1976 no warehouse releases issued for the simple reason that the last unshelled peanuts were released on March 23, 1976, and until May 14, 1976 the Warehouse did not obtain NYTCO warehouse receipts on shelled peanuts. On that date the Warehouse obtained and NYTCO issued warehouse receipts on shelled peanuts with a value of \$665,550 previously placed in two cold storage warehouses. Significantly, the Warehouse did not receive advances from NBG for those warehouse receipts.

NYTCO's records contain ten warehouse releases covering peanuts of a total value of approximately \$186,000* dated from May 10, 1976 to July 8,

* The Warehouse check book reflects that checks were prepared for each of the ten releases but were voided and replaced by a single check for \$186,000.

1976 - all of which were signed by Flynt on July 19, 1976 and were received by NYTCO on July 23, 1976. These releases were for shelled peanuts in lots of 40,000 pounds each or, in some cases, multiples of 40,000 pounds from the two cold storage warehouses. The releases were accompanied by a single warehouse check though the Warehouse did not obtain advances under its loan when the shelled peanuts were receipted.

9. Jimmy Carter's Primary Campaign

NBG has no record of any loans or applications for loans from Jimmy Carter's primary or general election campaigns for the presidency. The campaign did borrow from two other Atlanta banks based on personal guarantees of Jimmy Carter. However, in response to our subpoena, President Carter produced the original of a personal guarantee to NBG signed by him in April 1976, guaranteeing a loan of \$100,000 to his campaign. The evidence establishes that this guarantee was never used for any loan at NBG.

10. Jimmy Carter's Presidential Campaign

On July 20, 1976 the Treasury Department, in accordance with the law governing public financing of presidential campaigns, issued a letter of credit to the Democratic Presidential Campaign Committee in the amount of \$21,820,000 payable to a campaign account at NBG.

Because major reductions appear in the interest rates on the Warehouse loans at about the same time, we examined this campaign account to determine whether its value to NBG could reasonably be regarded as a quid pro quo for the bank's actions.

Our examination revealed the letter of credit

produced nominal interest to NBG: \$6,626.33. Our examination also established the letter of credit specifically authorized draw downs in excess of \$5 million, which, if utilized fully, would have resulted in the immediate deposit of the entire \$21.8 million. This would have resulted in NBG's earning substantially more interest than \$6,600. However, the draws under this line of credit were made over several months and usually as required to pay current expenses. For example, on July 28, 1976 \$425,000 was transferred to NBG, and NBG immediately had to distribute these funds to other banks, in which the campaign maintained operating accounts. Accordingly, on July 29, the account's balance was \$25,000. This practice of immediately disbursing funds deposited at NBG continued throughout the operation of the account until it was closed on November 4, 1976.

By computing the average daily balance in the account each month, less the reserve for each account required by the Federal Reserve Bank, the net loan balance for each month was obtained. That amount, multiplied by the average yield on Treasury Bills for the 90 day period preceding each month, less NBG's internal estimate of its service charge, such as the cost of a wire transfer, represents the economic benefit the account had to NBG each month. That total amount, as previously stated, was slightly in excess of \$6,600. The evidence does not support any finding that federal laws were violated in this situation.

11. NBG's Legal Lending Limits

Title 12, United States Code, Section 84 restricts

the funds a national bank may lend to a single borrower. Under this section, a violation of which is not criminal, NBG could only loan to a single borrower an amount which did not exceed 10 per cent of its unimpaired capital and surplus - in this case until its public offering in September, 1976 - approximately \$1,800,000. However, exception 6 to Section 84 exempts from this 10 per cent limitation loans covered by warehouse receipts securing title to such readily marketable nonperishable staples as peanuts. Thus, under exception 6, NBG's peanut loans to the Warehouse had a far higher lending limit which was:

(1) to the full extent of NBG's legal lending limit without regard to any collateral as security for the loan (\$1,800,000), plus

(2) an amount equal to approximately 85 per cent of the collateral in the form of warehouse receipts securing the peanuts or an amount of money secured by peanuts of a value at least equal to 115 per cent of the loan in excess of the legal lending limit.

NBG obtained an opinion from the Regional Administrator of National Banks on August 18, 1975 that exception 6 applied here.

"Accordingly, it is the opinion of this office that the National Bank of Georgia may make loans pursuant to the provisions of Exception 6 set forth in 12 U.S.C. 84, where such loans are collateralized by appropriate instruments of title to peanuts. The limitations on the dollar amount of such loans are set forth in the table in Interpretive Ruling 7.1560 (12 C.F.R. 7.1560).

"It is the further opinion of this office that peanuts, shelled and unshelled, constitute readily marketable staples and if stored under proper conditions, may constitute nonperishable goods."

Applying exception 6 as interpreted by the Comptroller of

the Currency to the Warehouse loan transactions, NBG never exceeded its legal lending limits on its loans to the Warehouse.

The following schedule tracing the high points of disparities between loans outstanding and legal lending limits is illustrative:

	<u>October 23, 1975</u>	<u>November 2, 1976</u>
Outstanding loans	\$2,754,988.00	\$4,663,763.00
Less: Tentative legal lending limit	<u>1,800,000.00</u>	<u>2,675,000.00</u>
Tentative excess over lending limit	954,988.00	1,988,763.00
Collateral required under Exception 6	1,098,236.00	2,287,077.00
Collateral available	2,277,453.00	3,969,304.00
Amount in violation	- 0 -	- 0 -

In sum, as the schedule shows, NBG had at all times more than sufficient collateral to keep its Warehouse loans well within the purview of Exception 6, and thus NBG did not exceed its legal lending limit.

Attached to this report as Exhibit 2 is a color chart which depicts in green the aggregate amount of NBG's loans to the Warehouse during the period covered by the investigation. The difference or gap between the red line, peanut loan balances, and the green line represents the amount of the sheller or consolidated loan.

Exhibit 3 to this report is the same color chart with a fourth orange line showing NBG's tentative legal lending limits over the period covered by the investigation. The green peak between October 1975 and January 1976 and between September 1976 and May 1977 shows the amount of the aggregate loans in excess of the tentative lending

limits.

Exhibit 4 to this report is the same chart with an additional yellow line representing the amount of collateral required to be held in compliance with exception 6 as interpreted by the Comptroller of the Currency. The blue line shows the actual collateral under warehouse receipt at that time to be well in excess of the collateral required.

12. Review of Loan By NBG's Auditors
and National Bank Examiners

a. Background

NBG is examined by bank examiners of the Office of the Comptroller of the Currency. Examinations are required once in every two year period. The examination is not an audit. Its purpose is to evaluate the soundness of the bank and to determine if the practices and procedures the bank has established for internal controls are adequate and followed.

As part of the examination, the bank's loan portfolio is reviewed. If an examiner questions a loan he can criticize it and, if he questions the collectibility of the loan, he can classify it according to four classifications: (i) "Loss" - the most serious classification which requires the bank to write off the entire loan balance; (ii) "Doubtful" - a classification which indicates a serious problem regarding the collectibility of a loan and which requires a reserve; (iii) "Sub-standard" - a classification which indicates a less serious collectibility problem which may but does not require a reserve; (iv) "Other Loans Especially Mentioned" or "OLEM" - a classification which indicates a potential problem with a

loan which may require some bank action.

None of the loans to the Warehouse was ever criticized or classified. However, the report of the 1976 examination completed in 1977 did mention that the Warehouse loans were a "concentration of credit", a comment with no negative implications.

b. The September 15, 1975 Examination

The first occasion for a review of the bank's loans to the Warehouse occurred as of September 15, 1975, when national bank examiners conducted an examination. The loan liability ledger for the sheller loan as of September 15, 1975 contained a record of the advances beginning on June 12, 1975. The aggregate amount of that loan as of September 15, 1976, as noted by the examiner, was \$432,091.76. The examiner's "line sheet" contains a question, "Former Governor Carter's outfit", and the answer "Yup." The examiner who reviewed the file noted that it contained a security agreement and a financing statement covering "all machinery and equipment used in the peanut warehouse and "also property on which the warehouse is built."*

The comments portion of the examiner's notes contains the following: "File refers to an approved \$3,000 M warehousing line on peanuts. Apparently W/H line not yet in use", and the stamped date Sep. 15, 1975. Because the warehousing line was "not in use" as of September 15, 1975, no review was made of the peanut loan. NBG's liability ledger for the \$3 million peanut

* As noted elsewhere in this report, the 1975 sheller security agreement did not encompass Warehouse realty of any kind.

loan does show the line was not in use. The first posting for that loan is on September 16, 1975, noting a September 15, 1975 advance of \$190,000.

An advance of \$70,000, however, had been made to the Warehouse checking account no. 0-28881-0, when it was opened on September 8, 1975 to receive advances on the peanut line of credit. That advance, although made on September 8, 1975 and posted on September 9, 1975, mistakenly appeared on the liability ledger for the sheller loan, not the peanut loan. On September 15, 1975, \$120,000 was credited to Warehouse checking account no. 0-28881-0. The loan liability ledger for the peanut loan posted an advance of \$190,000 on September 16, 1975. Presumably the \$190,000 included the \$120,000 advance on September 15 and the \$70,000 advance on September 8. That \$190,000 advance was made by an NBG cashier's check to NBG for \$190,000. The \$70,000 advance previously recorded mistakenly on the liability ledger of the sheller loan was later corrected.

NBG's handling of the advance on September 8 undoubtedly caused the peanut loan to be overlooked by the examiners. On the other hand, NBG had only one credit file on both loans and the examiners' review of that file for the sheller loan led to no criticism. Moreover, even if the true picture as of September 15 had been disclosed, the examination as of that date would not have uncovered the problems which took place later.

c. The December 31, 1975 AA Audit

AA audited NBG for the year ended December 31, 1975. According to the bank's liability ledgers, the

peanut loan as of that date was \$1,690,000. The collateral under warehouse receipts issued by NYTCO, as of December 26, 1975 (the nearest date to December 31, 1975) was \$834,000. The loan's collateral was then about 50 per cent and not 80 per cent as required by the agreement.

AA's work papers contain a document dated November 18, 1975 by a staff accountant. That document contains the statement: "The bank has attempted to maintain loan to value of eighty per cent" but that "as of September 30, 1975, the loan was in violation of eighty per cent requirement." The document refers to a representation by an unidentified bank employee that the collateral had been restored to the eighty per cent requirement.

d. The June 30, 1976 AA Audit

AA conducted another audit as of June 30, 1976 in connection with NBG's proposed public offering of its stock, which occurred in September of 1976. The peanut loan had been scheduled for review by AA because it exceeded \$750,000, but it was not reviewed at that time because the full outstanding amount of the loan had been previously sold as a participation to CSB.

e. The October 30, 1976 Examination

The 1976 examination of NBG was conducted by national bank examiners under new procedures. Rather than a surprise inspection, the examiners fixed October 30, 1976 as the date of examination and informed NBG in advance of that date to prepare materials as of that date for review. The examination actually commenced on December 6, 1976.

By virtue of the consolidated loan on July 9, 1976, NBG had obtained a first security on all the assets of

the Warehouse, including real property, accounts receivable, real property, accounts receivable, inventories, and an assignment of a term life insurance policy of \$1 million on Billy Carter. The examiner's report shows the value of collateral under bond as of October 29, 1976, as \$3,142,485 and a loan balance as of December 30, 1976 of \$3,135,459. (The loan as of October 30, 1976 was approximately the same, \$3,155,000.) No criticism or classification of the loan was made.

f. The December 31, 1976 AA Audit

AA reviewed both the consolidated loan and the 1976 peanut loan in connection with its audit of NBG for the year ended December, 1976. The accountants' notes for the consolidated loan, then \$1,013,422, comment on the difficulty of ascertaining the value of the collateral because of the limited market for the sheller, but that the facilities were relatively new and that the Warehouse had other fixed assets in excess of \$400,000.

With regard to the peanut loan, which was then \$3,238,000, the auditors found warehouse receipts with a value in excess of \$4 million. However, the auditors, apparently unaware that the 1976 peanut loan was for 100 per cent of the value of peanuts purchased as opposed to the 80 per cent value on the 1975 loan, made comments indicating that peanuts with a value of 125 per cent to the loan were required. No reserve was required, and no adverse criticism of the loans was made.

g. The December 31, 1977 AA Audit

The Warehouse loans were reviewed again by AA during its audit of December 31, 1977. The work sheets,

dated November 15, 1977, indicate outstanding balances of \$452,035.58 on the 1976 peanut loan and \$840,057.90 on the consolidated loan. The notes reflect that AA was advised by NBG that the real estate securing both loans was valued at approximately \$2 million. They also reflect that the December 31, 1976 financial statements which are mischaracterized as "audited" (Perry refused to express an opinion) fixes the costs of real estate and fixed assets at \$1,860,830.24. AA's notes state that figure was the cost "about 10 years ago."

AA's notes also state that the Warehouse was being operated by Gold-Kist management and that no funds are available to the Carter partnership for current operations. The notes further state: "However, there are receivables owed to the partnership of \$259,000 that are being endorsed directly to the bank as payments are made. Total receivables for 11/11/77 T/B is \$263,000."

The final auditors' comment is: "Based on the strength of the collateral, and the current economic position of the Carters as indicated in news media, no reserve appears required on this note."

Apparently, AA reviewed the loan again after December 31, 1977 and noted that the balance on the peanut loan as of December 31, 1977 and as of January 20, 1978 was \$80,743. The notes further reflect that "a \$50,000 receivable was just collected and is being forwarded to NBG. Remaining balance would then be approximately \$30 M. Based on press reports it's NBG's belief that loan will be satisfied fast."

No reserve was recommended by AA.

PART IV

EXAMINATION AND AUDIT OF BOOKS AND RECORDS

A. Scope of Review

A major phase of our investigation involved an intensive examination of the books and records of the Warehouse, NBG, and other entities to determine whether violations of federal law resulted from the financial transactions under scrutiny. This section of my report details what was done and found in these respects.

A special audit of the books and records of the Warehouse was conducted. Because of inter-company transactions the records of Carter Farms and Billy Carter's Service Station were also examined. Included among other records examined were:

1. Billy Carter, Inc.
2. Billy and Sybil Carter's personal bank accounts
3. President and Mrs. Carter's personal bank accounts
4. Mrs. Lillian Carter's personal bank accounts
5. Certain records of the Federal Election Commission
6. Certain records of Gerald Rafshoon Advertising Agency, Inc.
7. Records of NBG
8. Records of numerous corporations, other banks, and entities doing business with the Warehouse, Carter Farms, or Billy Carter's Service Station.

The audit covered the period from January 1, 1975 through December 31, 1977. Certain transactions were traced back into 1974 and a limited review was conducted into 1978.

The Warehouse records reviewed were:

1. Cash journals - Warehouse
2. Cash journals - Sheller
3. Bank Account - NBG account no. 0-28881-0
4. Bank Account - NBG account no. 0-28668-0
5. Bank Account - CBA
account no. 00 17001-9
6. General Ledgers - Warehouse
7. General Ledgers - Sheller
8. "Tickets" supporting certain entries in
the cash journals
9. Accounts receivable and accounts
payable schedules
10. Accounts receivable cards together with
supporting "tickets."
11. Worksheets of independent certified
public accountant relating to the
Warehouse
12. Payroll Records
13. The Warehouse's Federal partnership
returns
14. Inspection certificates and sales
memoranda relating to peanut purchases
and bearing U.S. Department of Agriculture
form no. MQ-94 Peanuts
15. Weight tickets relating to each
individual load of peanuts delivered
to the Warehouse

16. Invoices relating to agricultural product purchases, i.e. fertilizers, chemicals and insecticides
17. Annual reports (Disclaimer of Opinion) prepared by independent certified public accountant
18. Sales invoices covering sales of peanuts
19. Bank account - TCB
20. Numerous documents and records of firms, banks and individuals doing business with the Warehouse.

The Warehouse books of original entry consisted of the cash journals and the general ledgers. Most of the other records, such as the "tickets," the MQ-94 forms, payroll, bank accounts, purchase and sales invoices, accounts receivable cards, and weight tickets, were the documents underlying the entries in the books. The books were maintained on a calendar year basis.

The cash journals recorded both receipts and disbursements of cash in the same book. Purchases of peanuts from farmers or brokers were recorded on the cash basis, that is recorded only as paid. The Warehouse's accountants had to record purchases not paid for during the year when they reviewed and examined the books.

Purchases and sales of agricultural products as well as peanut sales were recorded on an accrual basis. The bases for recording the agricultural and peanut sales were prenumbered slips referred to as "tickets", which set forth date, name of customer, commodity sold, and amount. A copy of the "ticket" was included with each

customer's account. The system of writing "tickets" was also used for all cash collections from agricultural sales and peanut sales. Our audit procedure required analysis of these "tickets", since the identity of customers and transactions could not be ascertained from the cash journals. "Tickets" might be accumulated for several days and a compound entry would then be recorded in the cash journal under the caption "Tickets" with the days covered noted.

All checks issued were recorded in the cash journal - warehouse. All cash received was similarly recorded. If an entry affected a sheller account, i.e. peanut sales, the entry was repeated and recorded in the cash journal - sheller. There was a sheller control account maintained on the Warehouse books, and a Warehouse control account maintained on the sheller books.

The sheller books were kept to record transactions relating to the peanut business. The Warehouse books were kept to record agricultural product transactions, cotton purchases and sales, and all other business activities.

Generally, the Warehouse used NBG account no. 0-28881-0 for sheller purposes, and the CBA account for warehouse purposes. NBG account no. 0-28668-0 was used temporarily for construction purposes and was tentatively closed out on October 31, 1975.

Analyses of all these accounts as well as all pertinent audit findings relating to the Warehouse books and records are discussed in the sections that follow.

B. Audit of Peanuts

In order to determine whether the Warehouse used its peanut shelling and related operations for illegal purposes, including the raising of campaign funds, a complete audit of all peanut purchases and sales was conducted. This audit involved a reconstruction of the Warehouse's peanut inventory for the years 1975-1977. No such audit had ever been performed by the Warehouse's accountants. This section describes that audit.

1. Peanut Purchases

During the 1975-1976 season the Warehouse purchased unshelled peanuts from farmers and to a lesser extent from another sheller, McCleskey Mills of Americus, Georgia. During the 1976-1977 season peanuts were purchased from farmers and from brokers, who purchased peanuts from farmers and resold them to shellers.

During the period 1975-1977 the Warehouse also purchased limited quantities of shelled peanuts for resale and made seed peanut purchases in relatively nominal quantities.

When the farmer brings his peanuts to the buying point the peanuts are inspected and a form MQ-94 is generated. A representative of the Federal-State Agricultural Department Inspection Service completes and signs the left side or part I of the MQ-94 relating to loose kernels, moisture content, and other elements bearing on quality. The right side of form MQ-94 deals with tonnage, price, various adjustments, and net amount due. The form bears the name of the buyer and the name of the seller. A separate form MQ-94 is prepared for every load of peanuts delivered.

2. Peanut Sales

All sales were scheduled by name of customer, invoice number, date of sale, total sales price, and quantity sold. All sales were reconciled to the books of the Warehouse by month. The sales were traced to sales invoices, shipping documents, cold storage records, and the records of Heller, the factors. In addition, 70.8 per cent of total sales was verified by comparing customer records with sales shown by the Warehouse.*

Because substantially all sales were of shelled peanuts, to determine the quantities sold on a basis comparable to those purchased, pounds sold were converted back to their unshelled state. The accountants for the Warehouse, in arriving at their end of year inventory value, had converted shelled peanuts on hand to unshelled pounds by employing a factor of 77.6 per cent. The Department of Agriculture's opinion was that an 80 per cent factor is reasonable. The Warehouse's accountants appear to have used 80 per cent as well as 3 per cent of 80 per cent or 2.4 per cent for moisture content ($.80 - .024 = .776$).

Since the Department of Agriculture stated that an 80 per cent conversion factor was reasonable, while the accountants apparently felt that 77.6 per cent was more appropriate, we took advantage of hindsight and calculated the relationship that actually existed between farmers stock peanuts purchased and shelled peanuts sold. We found that if all peanuts shelled by the Warehouse and sold were converted back to an unshelled state at 78.73 per cent,

* This represents a far higher testing than is normally done.

substantially all peanuts bought and sold would be accounted for. This conversion factor turns out to be approximately mid-way between those previously discussed. Since the conversion factor used by the accountants or recommended by the Department of Agriculture is an educated guess, it is appropriate to employ the actual conversion factor determined here.

3. Reconciliation of Peanut Inventory

The only inventory of peanuts on hand at January 1, 1975 consisted of a relatively nominal quantity of seed peanuts. Also, the peanut inventory on hand at December 31, 1977 was minimal. These events facilitated somewhat the reconciliation of purchases and sales of peanuts set forth in the following schedule.*

The Warehouse Peanut Inventory Reconciliation		<u>POUNDS</u>
1975-1977 in Pounds		
Peanuts purchased per books in 1975		13,130,192
Seed peanuts purchased - quantity estimated		68,400
Peanuts purchased in 1975 and paid for in 1976; not accrued on books as of 12/31/75		1,366,963
Seed peanuts on hand 1/1/75; quantity estimated		<u>666,875</u>
Total Quantity Available		15,232,430
Pounds of peanuts sold:		
4,994,825 converted at 78.73 per cent	6,344,246	
Sales not requiring conversion	<u>598,426</u>	<u>6,942,672</u>
Inventory 12/31/75		<u><u>8,289,758</u></u>

* In preparing this schedule seed peanuts purchased were not converted to an unshelled state by employing the percentage factor because, when purchased, they were already shelled. So too shelled peanuts which were occasionally purchased and shipped to customers, were not subject to the conversion factor.

	<u>POUNDS</u>
Pounds of peanuts on hand 1/1/76	8,289,758
Pounds of peanuts purchased in 1976 adjusted for 1976 payments for 1975 purchases: (26,091,468-1,366,963)	<u>24,724,505</u>
Total Quantity Available	33,014,263
Pounds of peanuts sold:	
14,169,593 converted at 78.73 per cent	17,997,704
Sales not requiring conversion	<u>226,000</u>
Inventory 12/31/76	<u>14,790,559</u>
Pounds of peanuts on hand 1/1/77	14,790,559
Pounds of peanuts purchased in 1977	<u>504,526</u>
Total Quantity Available	15,295,085
Pounds of peanuts sold:	
11,468,507 converted at 78.73 per cent	14,566,883
Sales not requiring conversion	<u>720,078</u>
Inventory 12/31/77	8,124

The physical inventory of peanuts on December 31, 1977 was approximately 12,500 pounds.

This audit demonstrates all peanut purchases, all peanut sales, and the monies relating to these transactions were properly accounted for in the books and records of the Warehouse. Further, this audit establishes beyond question that the Warehouse could not have siphoned monies attributable to its purchases into other areas.

4. McCleskey Mills

McCleskey Mills, Inc. ("McCleskey") operates a sheller in Americus, Georgia. Although the Warehouse's

records show a relationship with McCleskey throughout the period, a special relationship existed in 1975 when the Warehouse, acting as McCleskey's agent purchased over \$500,000 of peanuts. Thus, a detailed review of this special relationship was conducted. This section summarizes the 1975 activity.

During September and October of 1975 the Warehouse purchased peanuts as agent for McCleskey and purchased peanuts from McCleskey. The peanuts bought as agent for McCleskey were "runners", and those purchased from McCleskey were "Spanish."*

The Warehouse maintained a separate account for recording its transactions with McCleskey. This separate account indicates that \$525,112 runners were purchased for McCleskey, and that \$189,003 of Spanish type peanuts were bought from McCleskey. A detailed review of the inter-company transactions appearing in this separate account was conducted. Invoices, bills of lading, and copies of MQ's were examined, as were certain records of McCleskey relating to these transactions. The books of the Warehouse show a net profit on these transactions in the amount of \$28,891, which is referred to as hauling and commission income. Our review disclosed no irregularities in these transactions.

5. Errors in the Warehouse's Books

The examination of purchases and sales for the

* "Runners" are peanuts contained within an elongated shell. "Spanish" are small round peanuts.

peanut audit uncovered a number of errors, which have a material bearing on the annual income statements of the Warehouse.

These errors were:

(a) Peanut purchases were recorded in the books and records as payments were made. Adjustments to the accrual basis by the recording of unpaid invoices were usually made at year end.*

For the calendar year 1975 1,366,963 pounds of peanuts purchased and received by the Warehouse at a cost of \$260,405 were not recorded until the 1976 calendar year.

Payments and recordings were made in 1976 as follows:

<u>Name of Vendor</u>	<u>Date</u>	<u>Total</u>	<u>Peanut Purchases</u>	<u>McCleskey Account</u>
Frank Chappell, Jr.	1/5/76	\$142,193**	\$131,685	\$10,508
W. A. Heath	1/15/76	1,033	1,033	
J. Livestock	1/19/76	40,328	6,283	34,045
Joel Thomas	2/2/76	20,084	20,084	
Joel Thomas	5/4/76	22,727	22,727	
W. C. Cornwall	10/30/76	<u>78,593***</u>	<u>78,593</u>	
		<u>\$304,958</u>	<u>\$260,405</u>	<u>\$44,553</u>

Although \$44,553 owed for peanut purchases on behalf of McCleskey were accrued at December 31, 1975, \$260,405 less

* For income tax purposes the Warehouse was required by law to file its return on the accrual basis. Simply put, the accrual basis reflects income when earned and expenses when incurred, regardless of when income is received or expenses paid.

** Of this amount the sum of \$110,000 was offset against monies due the Warehouse for purchases of agricultural products by Chappell.

*** Includes payment for interest of \$6,497.

an interest element included therein, were not accrued. Thus, the Warehouse understated peanut purchases in 1975 by \$260,405 (less the interest factor) and overstated such purchases in 1976.

(b) During 1975 certain sales amounting to \$76,363 were recorded. These sales represented shipments by McCleskey to Warehouse customers at the Warehouse's request. They were invoiced by the Warehouse. Upon payment by the customers, the funds received were to be remitted by the Warehouse to McCleskey. The Warehouse remitted \$76,363 to McCleskey in 1976 on account of 1975 shipments. These transactions were recorded in the Warehouse's books as 1975 sales and as sales refunds in 1976. Accordingly, the Warehouse's 1975 sales were overstated by \$76,363 and its 1976 sales were understated by the same amount.

(c) A duplicate sales invoice for the sale of 100,000 pounds of shelled peanuts was recorded on the Warehouse's books in November 1976 in the amount of \$32,031. The error was not corrected until the subsequent year, 1977. Accordingly, 1976 sales were overstated by the amount of \$32,031 and 1977 sales were understated by the same amount.

6. Statements of Income

The recording of purchases and sales in the wrong years and the calculation of peanut inventories set forth above both bear materially on the financial statements (disclaimer of opinion) of the Warehouse, which were prepared by the Warehouse's accountants. As noted, the accountants did not physically observe or test the taking of an inventory. The accountants only reviewed the books and records well after each year's end. Their worksheets indicate that they

reconstructed the peanut inventory from available information and from records furnished by Billy and Sybil Carter and by other Warehouse employees.

These adjustments to income have the effect of materially changing income in each of the years. However, the adjustments only shift income from one year to another. The net income, therefore, for the composite three year period of 1975-1977 remains unchanged.

To recalculate the income statements required that we compute the cost of peanut sales, giving effect to the errors in sales and purchases and to the differences determined in the end of year peanut inventories.

The Warehouse Cost of Sales schedule based upon the information obtained during our examination is as follows:

The Warehouse
Revised Cost of Sales
1975-1977

	<u>1975</u>	<u>1976</u>	<u>1977</u>
Inventory 1/1	\$ 266,758	\$1,641,372	\$2,928,531
Purchases - revised	<u>2,813,514</u>	<u>4,910,112</u>	<u>194,646</u>
Total Available	3,080,272	6,551,484	3,123,177
Closing Inventory	<u>1,641,372</u>	<u>2,928,531</u>	<u>3,399</u>
Cost of Peanut Sales	<u>\$1,438,900</u>	<u>\$3,622,953</u>	<u>\$3,119,778</u>

The following financial statements compare those prepared by the accountants (disclaimer of opinion) with those prepared as a result of our investigation.

Carter's Warehouse
 Financial Statements (Disclaimer of Opinion)
 As Filed and as Revised
 1975-1977

	Per Financial Statements			As Revised		
	1975	1976	1977	1975	1976	1977
Sales - Peanuts and Seed Peanuts	\$1,733,492	\$4,167,240	\$3,485,971	\$1,657,129	\$4,211,572	\$3,518,002
Cost of Sales	<u>1,452,000</u>	<u>3,312,184</u>	<u>3,417,447</u>	<u>1,438,900</u>	<u>3,622,953</u>	<u>3,119,778</u>
Gross Profit	<u>281,492</u>	<u>855,056</u>	<u>68,524</u>	<u>218,229</u>	<u>588,619</u>	<u>398,224</u>
Other Warehouse Operations:						
Sales	1,057,684	720,439	681,641	1,057,684	720,439	681,641
Cost of Sales	<u>785,802</u>	<u>642,906</u>	<u>595,549</u>	<u>785,802</u>	<u>642,906</u>	<u>595,549</u>
Gross Profit	<u>271,882</u>	<u>77,533</u>	<u>86,092</u>	<u>271,882</u>	<u>77,533</u>	<u>86,092</u>
Other Income - Warehouse	207,982	99,547	48,088	207,982	99,547	48,088
Rent Income			50,400			50,400
Commissions, Hauling and Other Operating Income (Sheller)	28,891	11,877	16,630	28,891	11,877	16,630
Total Gross Profits from Operations	<u>790,247</u>	<u>1,044,013</u>	<u>269,734</u>	<u>726,984</u>	<u>777,576</u>	<u>599,434</u>
Expenses						
Sheller						
Interest	27,930	198,643	165,015	27,930	198,643	165,015
Factoring		17,909	25,691		17,909	25,691

Carter's Warehouse
 Financial Statements (Disclaimer of Opinion)
 As Filed and as Revised
 1975-1977
 (Continued)

	Per Financial Statements			As Revised		
	1975	1976	1977	1975	1976	1977
Warehousing (NYTCO)	\$ 6,987	\$ 20,853	\$ 20,097	\$ 6,987	\$ 20,853	\$ 20,097
Storage	13,726	42,671	24,129	13,726	42,671	24,129
Brokerage	10,203	16,610	31,252	10,203	16,610	31,252
Depreciation	33,522	74,164	81,608	33,522	74,164	81,608
<u>Warehouse</u>						
Interest	58,305	15,994	14,283	58,305	15,994	14,283
Depreciation	77,163	75,640	73,772	77,163	75,640	73,772
Other General and Administrative Expenses	<u>403,059</u>	<u>539,316</u>	<u>324,706</u>	<u>403,059</u>	<u>539,316</u>	<u>324,706</u>
Total Expenses	<u>630,895</u>	<u>1,001,800</u>	<u>760,553</u>	<u>630,895</u>	<u>1,001,800</u>	<u>760,553</u>
Net Income	<u>\$ 159,352</u>	<u>\$ 42,213</u>	<u>(\$ 490,819)</u>	<u>\$ 96,089</u>	<u>(\$ 224,224)</u>	<u>(\$ 161,119)</u>
Peanut Transactions Gross Profit Percentage	16.2%	20.5%	2.0%	13.1%	14%	11.3%

The net income or losses per the above revised schedule agrees, in the aggregate, with the income or losses for the 1975-1977 period as shown per the accountant's financial statements.

On the other hand, the gross profit percentages are considerably different. The percentages derived from the financial statements (disclaimer of opinion) indicate a 20.5 per cent gross profit ratio in 1976 and only 2 per cent in 1977. The revised schedules showing our findings indicate a far more consistent ratio of gross profit (peanuts) to peanut sales. The cost of peanuts and sales prices for the year 1977 substantially confirms the revised gross profit ratio.

Because the peanuts sold between September 1976 and August 1977 substantially represent the 1976 harvested crop purchased by the Warehouse in the months of September, October, and November, 1976, the cost of peanuts sold from January to August 1977 is substantially the same as for the period September to December, 1976. For, if the sales prices during these two periods (September to December, 1976 vs. January to August, 1977) were relatively stable then it would not be possible for the gross profit to have dropped from 20.5 per cent in 1976 to 2 per cent in 1977.

Accordingly, a review of sales prices was made as follows with respect to factored sales:

<u>Month</u>	<u>Year</u>	<u>Sales (\$)</u>	<u>Sales (Pounds)</u>
September	1976	\$ 344,690	1,159,468
October	1976	803,800	2,619,690
November	1976	731,605	2,525,861
December	1976	<u>425,659</u>	<u>1,491,836</u>
		<u>\$2,305,754*</u>	<u>7,796,855</u>
Average Selling Price		<u>.2957 per pound</u>	

* Actual factored sales amounted to \$2,325,926.09. The difference of about \$20,000 is attributable to certain adjustments.

January	1977	\$ 557,684	1,905,655
February	1977	688,877	2,427,407
March	1977	293,124	1,090,404
April	1977	486,966	1,662,498
May	1977	486,884	1,723,462
June	1977	248,028	940,706
July	1977	305,912	1,067,105
August	1977	<u>247,487</u>	<u>848,013</u>
		<u>\$3,314,962</u>	<u>11,665,250</u>

Average Selling Price .2841 per pound

The factored sales of \$3,314,962 in 1977 were reduced subsequent to August, 1977 to 3,292,633 by virtue of customer payments made directly to the Warehouse and other adjustments. Sales made during the period January to August, 1976 (before factoring with Heller began) were at an average selling price of .2814¢

Combining the monthly sales figures and pounds of peanuts sold for the January to August, 1976 period with those for the factored sales during the September to December, 1976 period results in an average sales price of .2896¢ per pound, compared with an average sales price of .2841¢ per pound during 1977.

Seed peanuts are purchased shelled. However, during the 1975-1977 period the Warehouse generally created its own seed peanut inventory from farmers' stock. Seed peanuts were sold at an average price of .43¢ per pound in 1976 and .45¢ per pound during 1977.

Taking into consideration the modest difference in average sales prices for peanuts for the years 1976 and 1977, and the relative stability of the cost of peanuts

previously discussed, it is apparent that the gross profit on peanut sales as disclosed per the financial statements (disclaimer of opinion) for 1977 is in error, and that the revised computations more accurately represent the facts.

C. Audit of Cash

1. Proof of Cash of Warehouse Bank Accounts

Our accountants performed an analysis (referred to by accountants as a proof of cash) of all bank accounts for the period January 1, 1975 through December 31, 1977.

This procedure involved matching all deposits and all withdrawals as shown in the bank statements with those recorded in the books and records of the Warehouse to determine whether all deposits and withdrawals were recorded on the books. For example, one might make a deposit, not record it on the books, and then within the same month withdraw an amount identical to the unrecorded deposit. Since the deposit and withdrawal are in equal amounts, the book balance could be reconciled to the bank statements without giving any indication of the omitted item.

a. NBG Account No. 0-28881-0

The cash analysis discloses that receipts and disbursements as per the bank records agree with those per the books and records of the Warehouse. A summary of this analysis follows:

	<u>Books</u>	<u>Bank Records</u>
Disbursements 1975-77	<u>\$19,375,126.84</u>	<u>\$18,688,902.04</u>
Less: checks of the		
Warehouse held by		
NBG and not processed:	651,877.44	

Check issued to Stevens Industries returned for insufficient funds:	34,531.50	
Adjustments for various bank charges-reversed	<u>(184.14)</u>	<u> </u>
Total deductions	<u>686,224.80</u>	<u>-0-</u>
Corrected disbursements 1975-77	<u>\$18,688,902.04</u>	<u>\$18,688,902.04</u>

The reversal of unprocessed checks in the amount of \$651,877.44 was discussed in detail in the section of this report entitled "Operations of the 1976 Peanut Loan."

Total Deposits 1975-77	<u>\$19,375,532.17</u>	<u>\$18,689,307.37</u>
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Less: Reversal of

Warehouse checks held by NBG, not processed, and added back to receipts in Ware-

house books	651,877.44	
-------------	------------	--

Check issued to Stevens Industries returned

by bank for insufficient funds-added back to receipts

	34,531.50	
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Adjustments for various bank charges-

reversed

	<u>(184.18)</u>	<u> </u>
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Net Deductions

	<u>686,224.80</u>	<u>-0-</u>
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Corrected Deposits

1975-77	<u>\$18,689,307.37</u>	<u>\$18,689,307.37</u>
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The above summary schedules establish that all deposits in and all withdrawals from NBG account no. 0-28881-0 were recorded and accounted for in the Warehouse's books and records.

b. CBA Checking Account

The cash analysis discloses that receipts and disbursements as per the bank records agree with those reflected in the books and records of the Warehouse. A summary of this analysis follows:

	<u>Books</u>	<u>Bank Records</u>
Disbursements 1975-77	\$3,990,784.11	\$4,054,872.07
Add: Outstanding checks as of 12/31/74	<u>66,009.56</u>	<u> </u>
Total	<u>\$4,056,793.67</u>	<u>\$4,054,872.07</u>
Less: Check issued and Voided	\$ 1,866.35	
Outstanding check 12/31/77	29.62	
Bank Charges Adjustment	23.38	
Error in payroll check	<u>2.25</u>	<u> </u>
Total Deductions	<u>\$ 1,921.60</u>	<u>-0-</u>
Disbursements 1975-77	<u>\$4,054,872.07</u>	<u>\$4,054,872.07</u>
Total Deposits 1975-77	\$3,964,064.85	\$3,962,196.25
Less: Voided check added to cash receipts	- 1,866.35	
6/30/77 error	<u>- 2.25</u>	<u> </u>
Deposits	<u>\$3,962,196.25</u>	<u>\$3,962,196.25</u>

The above summary schedules show that all deposits and all withdrawals with respect to the CBA account were recorded and accounted for in the Warehouse's records.

c. NBG Account No. 0-28668-0

NBG account no. 0-28668-0 was opened June 11, 1975 and was closed October 31, 1975. Due to a bank error the account was reopened in December 1975 and upon discovery of the error closed again in March 1976. This account was used for deposits of sheller loan advances and disbursements relating thereto.

Comparison of deposits and withdrawals per the bank records with those shown on the Warehouse's books for the period June 11, 1975 to October 31, 1975:

	<u>Books</u>	<u>Bank Records</u>
Deposits 6/11/75 to 10/31/75	\$601,402.70	\$601,402.70
Disbursements 6/11/75 to 10/31/75	601,402.70	601,402.70

This summary schedule shows that all deposits into and all withdrawals from this NBG account were recorded and accounted for in the Warehouse's records.

d. TCB

This account was opened by Kirbo as trustee for the President on October 4, 1977. An analysis of the account discloses that receipts and disbursements as per the bank records agree with those per the books and records of the Warehouse. A summary of this analysis follows:

	<u>Books</u>	<u>Bank Records</u>
Deposits 10/77 to 12/77	\$338,138.70	\$337,327.77
Less: Deposit in Transit	<u>810.93</u>	<u> </u>
Deposits for Period	<u>\$337,327.77</u>	<u>\$337,327.77</u>
Disbursements 10/77 to 12/77	\$336,691.01	\$336,191.01

Less: Check no. 118 outstanding at 12/31/77	500.00	_____
Disbursements for period	<u>\$336,191.01</u>	<u>\$336,191.01</u>

The above summary shows that all deposits and all withdrawals with respect to the TCB account were recorded and accounted for in the Warehouse's records.

2. Review and Analysis of Deposits and Disbursements

a. NBG Account No. 0-28881-0

All deposits made to this account for the years 1975 to 1977 were identified and scheduled. Total deposits of \$18,688,902 were accounted for.

Sources of deposits to this account fall into the following categories:

1. Proceeds from first and second peanut loans.
2. Proceeds from sales of peanuts.
3. Proceeds from sheller and warehouse loans.
4. Wire transfers from factors for peanut sales.
5. A March 10, 1977 loan from Carter Farms.
6. Proceeds from agricultural product sales.*

All receipts related to the business of the Warehouse. The sources of all funds deposited were identified.** None of the funds came from any Carter campaign source.

* Proceeds from agricultural product sales constituted a very minor component of deposits to this account. It was the Warehouse's general practice to use this account principally for peanut transactions.

** Funds deposited in all Warehouse bank accounts including NBG account no. 0-28881-0 are more fully explained below in the section entitled "Source and Application of Funds."

With respect to disbursements all checks drawn and processed on this account were scheduled, examined, and tied into the books and records.

All checks or, in some instances, photocopies of the checks, were examined to determine that the named payee agreed with the books and records. All endorsements were examined and it was determined that the named payee negotiated the check. Where questions arose, the purpose of the payment as shown in the books was confirmed by other steps.

Disbursements totalled \$18,688,902.04, and were for the following purposes:

1. Payments to farmers and brokers for the purchase of peanuts and peanut related costs.
2. Loan repayments to NBG with interest.
3. Payments in connection with construction of the sheller and warehouse.
4. Payments for agricultural and chemical purchases.*
5. Transfers of funds to CBA for general business purposes.
6. Partners' drawings.*

None of the funds withdrawn from this account was expended for other than business purposes with the possible exception of some small partners' withdrawals, analyzed and discussed in the next section D "Miscellaneous."

Analysis of this account reveals no payments on

* Payments for agricultural products as well as for partners' drawings were minimal inasmuch as disbursements for these purposes were generally made through the CBA account.

behalf of any Carter campaign. Except for repayment to NBG of an automobile loan in the amount of \$4,872.35 disbursements show no loan repayments other than for the Warehouse.

This account was overdrawn over \$1,000 as disclosed by NBG bank statements in the amounts indicated and on the dates shown below:

<u>Date</u>	<u>Amount of Overdrafts</u>
9/23/75	\$ 65,655.40
9/24/75	63,740.06
9/25/75	113,601.18
9/26/75	222,256.02
9/29/75	42,223.54
10/6/75	12,623.71
10/7/75	27,310.28
10/8/75	30,279.52
10/9/75	141,257.66
10/10/75	158,081.53
10/13/75	160,221.71
10/14/75	76,708.79
10/15/75	114,379.52
10/16/75	64,261.49
10/17/75	71,863.93
10/20/75	173,948.25
10/21/75	192,683.55
10/22/75	369,415.50
10/23/75	157,415.50
10/24/75	228,217.01
10/28/75	5,314.33
10/29/75	70,268.99

<u>Date</u>	<u>Amount of Overdrafts</u>
11/4/75	71,181.19
11/5/75	44,307.73
12/19/75*	1,358.05
12/22/75*	52,400.87
12/23/75*	89,964.25
12/30/75*	14,239.89
7/8/76	34,443.07
7/9/76	22,678.07
7/29/76	29,891.83
7/30/76	29,897.83
8/2/76	22,997.06
8/5/76	2,017.15
8/6/76	2,023.15
8/9/76	2,029.15
8/11/76	4,100.23
9/10/76	4,446.67
11/16/76	33,529.78
11/22/76	22,672.87
12/6/76	5,055.89
1/5/77	23,488.19
3/3/77	15,912.91
4/19/77	45,309.54

During the entire 1975-1977 period one check written by the Warehouse was returned unpaid by NBG for insufficient funds. That check, in the amount of \$34,531.50,

* These four overdrafts would not have occurred if NBG had not erred and deposited \$102,000 in a dormant account.

was payable to Stevens Industries in 1977. On all other occasions NBG honored checks drawn by the Warehouse to third parties notwithstanding the lack of sufficient funds on deposit on the dates noted in the above schedule.

The book balance in this account on December 31, 1977 was \$405.33 as follows:

Total deposits per books	
after adjustments	\$18,689,307.37
Less: Total disbursements	
per books after	
adjustment	<u>\$18,688,902.04*</u>
Book balance and	
bank balance	
12/31/77	<u>405.33</u>

b. CBA Checking Account

All deposits in this account for the years 1975 - 1977 were identified and scheduled. Total deposits of \$3,962,196.25 were accounted for. This account was primarily for transacting non-peanut business but occasionally received deposits from commercial peanut sales.

Sources of deposits were:

1. Collections - agricultural product sales.
2. Collections - peanut sales and dryer income.
3. Transfers from NBG.
4. Loan from CBA (\$25,000).
5. Carter Farms - agricultural product sales and advances.
6. Income from cotton sales.

* Funds disbursed through all the Warehouse bank accounts, including NBG account no. 0-28881-0, are more fully explained below in the section entitled "Source and Application of Funds."

7. Sales of securities (under \$10,000).
8. Sales of equipment (under \$20,000).
9. Interest and dividend income (minimal).
10. Collections from NYTCO.
11. Insurance claims (under \$20,000).
12. Collections of receivables from Chip Carter and Billy Carter in the aggregate amount of \$9,000.
13. Miscellaneous items estimated to aggregate less than \$7,500 over the three year period.

The collections from NYTCO represented salary checks paid to NYTCO warehousemen. The Warehouse issued its own checks to these employees as salary payments. These payments were larger than the deposited NYTCO checks. The warehousemen rendered services to the Warehouse as well as to NYTCO and were therefore compensated by a single warehouse check.

Substantially all receipts into this account related to the business purpose of the Warehouse. The only discernible exceptions are the transactions with Billy and Chip Carter noted in No. 12, above. None of the deposited funds was from sources other than those identified, and none of the funds came from any Carter campaign source.

All checks drawn on this account were scheduled, examined, and tied into the books and records. Every check was examined to determine that its payee agreed with the books and records. All endorsements were examined and it was determined that the named payee negotiated the check. Where questions arose, the purpose of the payment as shown in the books was confirmed by other steps.

Disbursements of \$4,054,872 were made to cover agricultural product purchases as well as cotton purchases. In addition, partners' drawings, equipment acquisitions, salaries, and operating expenses were paid. Operating expenses included insurance, telephone, truck expenses, utilities, taxes, repairs, supplies, and professional costs. Some of the funds for the sheller construction were also paid.

None of the funds expended was for other than business purposes. The only exception may be funds drawn by the partners for their personal use. Partners drawing accounts are analyzed and discussed in the next section D "Miscellaneous."

The disbursements show no payments to or on behalf of any Carter campaign except as disclosed in the next section D "Miscellaneous" dealing with partners' drawing accounts. One loan repayment was made to CBA and one to NBG. Both were for Warehouse business.

This account was overdrawn in the amounts indicated and on the dates shown below:

<u>Date</u>	<u>Amount Overdrawn</u>
4/9/75	\$ 23,032.80
5/7/76	3,004.31
5/10/76	6,163.23
2/10/77	215.62
2/11/77	1,126.34
6/1/77	15,987.68
6/6/77	3,994.94

The book balance on 12/31/77 was \$218.01, arrived at as follows:

Bank Balance January 1, 1975	\$ 92,946.83*
Deposits in bank records '75-'77	<u>3,962,196.25</u>
Total	\$4,055,143.08
Disbursements per bank records	<u>4,054,872.07</u>
Balance	\$ 271.01
Bank service charges	<u>23.38</u>
Balance per bank records 12/31/77	\$ 247.63
Outstanding check no. 11254	<u>29.62</u>
Book Balance 12/31/77	<u><u>\$ 218.01</u></u>

c. NBG Account No. 0-28668-0

This account was actually in existence during the brief period of June 11, 1975 to October 30, 1975. The account was used for deposits under the sheller loan. Disbursements from this account were made for sheller construction purposes. All deposits and withdrawals have been discussed in Part III.

d. TCB

All deposits to this account from its opening on October 4, 1977 to December 31, 1977 were identified and scheduled.

Total deposits in 1977 per the Warehouse books amounted to \$338,138.70. One deposit in the amount of \$810.93, representing a dividend check, was recorded in the books in December, 1977, although it was not deposited until January 6, 1978. Total 1977 deposits are attributable to the following sources:

Loans from Carter Farms	\$233,000.00
Rent Income from Gold-Kist	72,000.00
Inventory sale to Gold-Kist**	31,042.65
Miscellaneous	<u>1,285.12</u>
Total	\$337,327.77

* Bank balance of \$92,946.83 less January 1, 1975 outstanding checks of \$66,009.56 equalled book balance of \$26,937.27.

**The inventory sale consisted of agricultural products on hand such as fertilizers, insecticides, and miscellaneous other chemicals, as well as various parts and supplies.

Disbursements of \$336,691.01 were made in 1977 for the following purposes:

1. Payments for agricultural product supplies for sums owed.
2. Real estate taxes.
3. Workmen's compensation insurance.
4. Professional fees.
5. Interest on loans to TCB re Carter Farms indebtedness.
6. Operating expenses owed such as insurance, repair bills, telephone, and taxes other than real estate.
7. \$5,000 payment to Gold-Kist.*

All checks were scheduled, examined, and tied into the Warehouse books and records. Photocopies of every check were examined and it was determined that the payee agreed with the books and records. Endorsements were examined and it was determined that the named payee negotiated the check.

All funds disbursed were expended for business purposes. No payments were made to or on behalf of any Carter campaign.

A summary of the activities in this account follows:

Deposits	\$337,327.77
Disbursements	<u>336,691.01</u>
	636.76
Dividend check on hand or in transit	<u>810.93</u>
Book balance 12/31/77	<u>\$ 1,447.69</u>

* The \$5,000 payment to Gold-Kist represented a fee for managing the Warehouse prior to the date the leasing arrangement took effect.

3. Statement of Source and Application of Funds

This statement and its supporting schedules show the sources of all funds received by the Warehouse, and the purposes for which all monies were expended. The schedules of receipts and expenditures are, in turn, reconciled to beginning and ending cash balances.

The statement was prepared on a cash basis, that is, sources of funds in each year are shown only to the extent received, and, conversely, expenses, capital improvements, loan repayments, and other items of disbursement are shown only to the extent paid.

This analysis and the related audit and examination of the books and records disclosed that no funds were received from the Carter campaign or from any source not shown herein. Further, no monies were expended for purposes other than those shown. More particularly, no monies were disbursed for the Carter campaign except to the extent indicated through the partners' drawing accounts, which are analyzed in section D "Miscellaneous" or as otherwise disclosed in this report.

Carter's Warehouse (A Partnership)
 Summary of Cash Receipts and Disbursements
 (Statement of Source and Application of Funds)

	1975	1976	1977
<u>Cash Receipts:</u>			
<u>Operations:</u>			
Collections from customers for sales and services (including proceeds from factor) Schedule 1*	\$2,759,345.86	\$5,298,435.11	\$4,194,083.57
Proceeds from sales of fixed assets	4,251.50	9,285.95	5,350.00
Proceeds from sales of security investments	-	-	9,993.97
Investment income	7,860.15	228.15	-
Rent	-	-	72,000.00
Financing activities (excludes factoring of accounts receivable) Schedule 2*	3,281,302.68	5,599,631.83	1,021,060.00
Loans and advances from Carter Farms			474,814.22
Partners' capital contribu- tions - William A. Carter	-	-	125,727.72
 Total Cash Receipts	<u>\$6,052,760.19</u>	<u>\$10,907,581.04</u>	<u>\$5,903,029.48</u>
<u>Cash Disbursements:</u>			
<u>Operations:</u>			
Payments to vendors and creditors			
Purchases of peanuts, products and supplies Schedule 3*	\$3,530,186.18	\$5,580,487.64	\$1,148,593.09
Payroll costs (excludes partners) Schedule 4*	129,621.33	129,226.19	101,484.02
Warehouse and peanut Sheller Expenses Schedule 5*	212,205.66	384,133.18	274,844.92
Professional fees (excludes management fees)	4,582.04	15,710.96	15,305.00
Financial costs			
Interest	67,476.49	213,663.62	192,304.59
Factoring commissions	-	17,908.80	25,691.46
Acquisition of buildings and equipment	756,205.60	409,897.68	40,506.58
Bank and other loans repaid Schedule 6*	1,094,934.18	4,125,802.89	3,991,096.48

* Details underlying each schedule are set forth in the following pages.

Carter's Warehouse (A Partnership)
 Summary of Cash Receipts and Disbursements
 (Statement of Source and Application of Funds)

	<u>1975</u>	<u>1976</u>	<u>1977</u>
Loans repayments to Carter Farms		-	148,908.83
Partners' salaries and withdrawals Schedule 7*	<u>116,414.51</u>	<u>133,914.67</u>	<u>84,329.91</u>
Total Cash Disbursements	<u>\$5,911,625.99</u>	<u>\$11,010,745.63</u>	<u>\$6,023,064.88</u>
Excess of Cash Receipts (Disbursements)	141,134.20	(103,164.59)	(120,035.40)
Cash Accounts Beginning of Year	<u>84,153.12</u>	<u>225,287.32</u>	<u>122,122.73</u>
Cash Accounts End of Year Schedule 8*	<u>\$ 225,287.32</u>	<u>\$ 122,122.73</u>	<u>\$ 2,087.33</u>

* Details underlying each schedule are set forth in the following pages.