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Schedule 1

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>
<u>Collections from customers for sales and service:</u>			
Peanuts - non-factored	\$1,476,168.96	\$ 1,682,049.54	\$ 27,876.32
Peanuts - factored	-	2,325,926.09	3,292,632.96
Seed Peanuts	257,323.08	176,971.52	182,955.46
Fertilizer, chemicals and other products	845,726.20	658,902.31	618,449.03
Dryer income	180,916.33	91,258.93	1,180.71
Ginning income	234,769.10	66,806.16	64,893.04
Hauling and commissions	28,890.99	7,103.06	13,971.65
Miscellaneous	40,336.36	6,657.79	1,712.67
Custom shelling		2,818.14	
Sales for account of others - McCleskey Mills, Inc.:			
Payments received from McCleskey for peanut purchases	554,003.40	-	-
Less cost of peanut purchases	(480,557.98)	-	-
Less applied to hauling and commission income	(28,890.99)	-	-
Net receipts for other sales to McCleskey	14,440.15	-	-
Allowances and accounts receivable reduction (increase) at year end	(368,671.91)	279,941.57	(9,588.27)
Notes receivable collected	4,892.17	-	-
	<u>\$2,759,345.86</u>	<u>\$5,298,435.11</u>	<u>\$4,194,083.57</u>

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

	1975	1976	1977
<u>Schedule 2</u>			
<u>Financing Activities (excludes factoring of accounts receivable):</u>			
National Bank of Georgia	\$2,642,000.00	\$5,095,045.36	\$1,021,060.00
Interest on peanut loan financed	-	17,075.80	-
Sheller and Warehouse loan advances	614,302.68	487,510.67	-
Citizens Bank of Americus	25,000.00	-	-
	<u>\$3,281,302.68</u>	<u>\$5,599,631.83</u>	<u>\$1,021,060.00</u>

<u>Schedule 3</u>			
<u>Purchases of peanuts, products and supplies:</u>			
Peanuts	\$2,532,244.96	\$5,192,912.05	\$ 205,660.44
Seed peanuts	27,359.86	-	-
Fertilizer, chemicals and other products	582,692.52	547,474.85	472,373.47
Supplies	29,713.52	37,552.18	32,272.77
Bin purchases (cotton)	217,834.13	69,363.12	64,444.71
Seed peanut expense	17,304.10	2,237.90	2,152.63
Cotton Board		123.00	
<u>Purchases for account of others:</u>			
McCleskey Mills, Inc.	-	15,663.44	
Stevens Industries	48,564.81		
Accounts payable reduction (increase) at year end	<u>74,472.28</u>	<u>(284,838.90)</u>	<u>371,689.07</u>
	<u>\$3,530,186.18</u>	<u>\$5,580,487.64</u>	<u>\$1,148,593.09</u>

<u>Schedule 4</u>			
<u>Payroll Costs (Excludes Partners):</u>			
Salaries and wages	\$ 123,972.46	\$ 124,667.84	\$ 88,439.64
Payroll taxes, net	5,648.87	4,558.35	13,044.38
	<u>\$ 129,621.33</u>	<u>\$ 129,226.19</u>	<u>\$ 101,484.02</u>

Schedule 5

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>
<u>Warehouse and peanut sheller expenses:</u>			
Cold storage	\$ 5,234.59	\$ 43,337.88	\$ 22,388.00
Brokerage Fees & Commissions	7,802.91	18,929.51	35,273.60
Rent (includes \$500 monthly rental to Lillian Carter)	6,529.70	6,546.82	6,891.00
Taxes and licenses	8,645.99	13,938.48	9,598.67
Utilities	29,027.97	39,666.93	21,656.02
Repairs and maintenance - buildings and equipment	26,530.25	37,619.00	33,786.04
Truck expenses (includes Billy Carter's Service Station)	40,529.04	43,348.45	23,052.37
Freight and hauling	4,478.04	18,124.40	9,400.96
Inspection services - federal and state	20,751.44	29,395.25	10,435.14
U.S. Department of Agriculture	2,889.00	5,558.50	4,904.50
Peanut Administrative Committee	7,090.40	25,525.61	(2,658.76)
Georgia Agricultural Commodity Committee	6,810.36	10,318.75	
Georgia Seed Development			4,950.00
Customer service and advertising	4,271.70	5,087.37	1,130.50
Telephone	1,797.57	2,490.24	3,162.08
Miscellaneous	9,412.56	18,990.62	15,098.92
Warehousing and management fees:			
NYTCO	6,986.77	18,906.33	23,553.93
Gold-Kist	-	-	5,000.00
Partners' expenses	582.04	1,953.05	97.29
Insurance	21,947.83	44,270.99	46,584.66
Contributions and dues	887.50	125.00	540.00
	<u>\$ 212,205.66</u>	<u>\$ 384,133.18</u>	<u>\$ 274,844.92</u>

Schedule 6

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>
<u>Bank and other loans repaid</u>			
National Bank of Georgia	\$	\$	\$
Peanut loan	952,000.00	3,922,407.44	3,820,030.84
Sheller and Warehouse loan	70,000.00	23,755.45	168,000.00
Citizens Bank of Americus	45,000.00	170,000.00	
Other	27,934.18	9,640.00	3,065.64
	<u>\$1,094,934.18</u>	<u>\$4,125,802.89</u>	<u>\$3,991,096.48</u>

Schedule 8

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

	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>
<u>Cash accounts, end of year</u>				
Cash on hand (primarily undeposited checks)	\$ 57,143.42	\$ 41,144.77	\$ 23,646.31	\$ 6.18
Citizens Bank of Americus	26,937.27	39,633.49	53,472.36	218.01
Bank of Webster	63.35	2.04	2.04	2.04
Bank of Commerce	9.08	8.08	8.08	8.08
National Bank of Georgia (Construc- tion Account)	-	101,958.90	-	-
National Bank of Georgia (Peanut Account)	-	42,540.04	44,993.94	405.33
Trust Company Bank	-	-	-	1,447.69
	<u>\$ 84,153.12</u>	<u>\$ 225,287.32</u>	<u>\$ 122,122.73</u>	<u>\$ 2,087.33</u>

The following comments relate to the foregoing summary statement and schedules of cash receipts and disbursements.

a. "Loan repayments to Carter Farms" of \$148,908.83 represent a transaction in which Billy Carter issued a note in that amount to Carter Farms. The note was intended to defray his negative capital balance with the Warehouse of \$125,727.72 and an open account balance of \$23,181.11. Carter Farms reduced the obligations due it from the Warehouse in the amount of the note received. Details of this transaction are more fully explained in the separate section entitled "Carter Farms."

b. The drawings by Billy Carter in 1977 appear in this statement (Schedule 7) in the amount of \$10,267.71. This is in contrast to the drawings as shown in the books of \$69,408.11. The difference is accounted for by the elimination of non-cash items as follows:

Drawings per the books:	\$69,408.11
Less: <u>Non-cash items</u>	
write-off of note	
receivable	\$59,000.00
payroll tax on	
Sybil Carter's	
salary	<u>140.40</u>
Total non-cash items	<u>\$59,140.40</u>
Difference	<u>\$10,267.71</u>

c. Drawings by Jimmy Carter for 1975 are shown on a cash basis. Accordingly, \$30,000 representing a journal transfer from notes receivable - "C. Kirbo" to the drawing account is excluded from these computations.

This is more fully explained in the following section relating to drawing accounts.

d. The item of truck expenses in Schedule 5 includes payments to Billy Carter's Service Station in the following amounts:

1975	\$21,566.49
1976	20,500.00
1977	8,000.00

The examination of the service station books and records is reviewed in a separate section of this report.

e. The amount of non-factored sales of peanuts in 1977 is approximately \$76,000 as contrasted to the \$27,876.32 in Schedule 1. This difference is because approximately \$49,000 of peanut sales were recorded in the seed peanut sales account in error.

f. Payments received from McCleskey as shown in Schedule 1 are made up as follows:

Cash received	\$365,000.00
Spanish peanuts received	<u>189,003.40</u>
	<u>\$554,003.40</u>

Cost of peanuts purchased for McCleskey in that same schedule is arrived at as follows:

Total cost of peanuts (runners) purchased for McCleskey	\$525,112.41
Unpaid purchase bills at end of year	<u>44,554.43</u>
Purchases paid for during 1975	<u>\$480,557.98</u>

g. The accounts receivable on the books and records contained the following debit (credit) balances of related or affiliated parties as at the end of 1975 and 1976:

	<u>December 31, 1975</u>	<u>December 31, 1976</u>
Carter Farms	(20,728.70)	(69,139.72)
JEC children	552.57	552.57
Chip Carter	648.74	820.93
Jack Carter	119.00	119.00
Billy Carter	7,321.69	19,543.12
Charles Kirbo	2,326.04	2,326.04

h. Interest payments include the following:

NBG peanut loan

NBG sheller and warehouse loan

TCB on Carter Farms loans made for
benefit of the Warehouse

Interest on purchase of forklift on credit

Interest on CBA loans

Interest paid to farmers who extended
credit to the Warehouse

i. The payment of \$153,177.26 against the peanut loan was recorded by the Warehouse on December 31, 1976 and by the bank on January 3, 1977. The item is included in Schedule 6 as a 1976 payment.

\$23,755.45 of payments in 1976 against the sheller and warehouse loan in Schedule 6 includes \$8,060.11 paid toward interest added to the loan principal.

j. Interest added to the peanut loan as of December 31, 1975 in the amount of \$17,075.80 shown in Schedule 2 was not recorded on the Warehouse books until

1976 and is therefore shown in Schedule 2 for that year.

k. Factoring costs in 1976 were \$17,678.80. The books and records showed this expense as \$17,908.80. The difference resulted from a charge of a non-factoring cost of \$230 to this account.

1. The summary of cash receipts and disbursements and supporting schedules contain the identical information that comprises the pie-charts relating to source and application of funds, which are Exhibits 5 and 6, respectively, to this report.

Differences between the summary and the charts relate primarily to manner of presentation. As an illustration, an increase in accounts payable between the beginning and end of the year might have been treated as a source of funds in Exhibit 5, whereas it was employed to reduce purchase costs in the application of funds part of these schedules. The net results are not affected.

In addition, the \$59,000 write-off of notes receivable to Billy Carter's drawing account was eliminated in the preparation of the schedules as a non-cash item. On the other hand, it was included in Exhibit 6 and shown with partners' drawings.

D. Miscellaneous

1. Analysis of Drawing Accounts

Each of the three partners drew funds for various personal purposes which were charged to their respective drawing accounts. With respect to Jimmy Carter \$20,000 was transferred from his drawing account to partners' salaries in 1975 and 1976. No entry for salary to the President was made for the year 1977.* With

* The President received a salary of \$1,000 in 1977 charged directly to partners' salaries; this transaction did not go through the drawing account.

respect to Billy Carter \$25,000 was transferred from his drawing account to partners' salaries in 1975 and 1976. In 1977 \$16,666.64 was transferred to partners' salaries, reflecting his annual salary for that part of 1977 in which he rendered services. Mrs. Lillian Carter did not draw any salaries from the partnership.

Drawings by the President as shown in the books for 1975 - 1977 are summarized below with appropriate comments following the schedules.

1975

Meadow Motors - purchase of car	\$ 4,550.75
Home Owners Insurance premium	370.00
Income Taxes paid	24,496.00
Miscellaneous personal items	3,186.12
Checks to Rosalynn Carter	19,000.00
Life Insurance premiums	<u>2,788.03</u>
Total Cash Withdrawals	\$54,390.90
Less: Transfer to partners' salaries	<u>20,000.00</u>
Difference	\$34,390.90
Add: Write-off notes receivable - "Kirbo" and charged to drawing account	<u>\$30,000.00</u>
Total drawings per books transferred to capital account	<u>\$64,390.90</u>

1976

Check to Jack Carter	\$ 1,000.00
Home Owners Insurance premium	370.00
Income Taxes Paid	26,167.74
Miscellaneous personal items	2,650.34
Checks to Rosalynn Carter	10,500.00
Check to Jimmy Carter	12,000.00

Life Insurance premiums		<u>2,710.03</u>
Total Cash Withdrawals		\$55,398.11
Less: Transfer to partners' salaries		<u>20,000.00</u>
Total drawings per books transferred to capital account		<u><u>\$35,398.11</u></u>
	<u>1977</u>	
Income Taxes paid		\$21,080.00
Miscellaneous personal items		587.96
Check to Rosalynn Carter		<u>6,000.00</u>
Total Cash Withdrawals		\$27,667.96
Add: Write-off of accounts receivable as follows and charged to drawing account:		
J. E. campaign account	\$ 454.35	
C. Kirbo account	<u>2,326.04</u>	<u>\$ 2,780.39</u>
Total drawings per books transferred to capital account		<u><u>\$30,448.35</u></u>

All checks issued on the above drawing accounts to Rosalynn Carter or Jimmy Carter were deposited in their joint account at CBA with the exception of a \$1,000 check drawn in April 1975, which was deposited by Jeff Carter at TCB.

The write-off in 1975 of an amount due from C. Kirbo of \$30,000 refers to a note receivable from Charles Kirbo, trustee for the President. The general ledger indicates a notes receivable account with a balance of \$93,930.59 as of 12/31/73. Examination of Warehouse books and records for the years 1975 through 1977 clearly established that the note had to originate before 12/31/74.*

* Further examination demonstrated that this account was in existence as of 9/1/69, the earliest date for which records were available.

In a letter dated July 19, 1979, Mr. Perry advised as follows:

"I have searched my files for the Warehouse back to 1964 and find no listing of the details of the notes receivable; therefore, I have no record of the date the \$30,000 "Kirbo" item was created."

All the evidence points to the conclusion that the Warehouse expenditure giving rise to this \$30,000 receivable relates either to Jimmy Carter's unsuccessful 1966 campaign or to an early stage of his successful 1970 campaign. Such an expenditure does not appear to violate any federal or state laws.

Again in 1977 the President's drawing account shows a write-off to "C. Kirbo," this time an account receivable for \$2,326.04.

The available records go back to January 22, 1969, although a carry forward balance in the account at that point indicates that the account was active earlier. The account reached a peak balance of \$73,733 on August 31, 1969 and was reduced by funds received well in excess of expenditures after that date, to \$2,326.04 as of February 11, 1971. There were no entries made to this account after February 11, 1971. Under date of 12/31/77 the balance in the account of \$2,326.04 was charged-off as previously described.

The pertinent "tickets" evidencing funds received contained the following information:

<u>Date</u>	<u>Ticket No.</u>	<u>Description</u>	<u>Amount</u>
9/25/70	2200	By check	\$22,000
		By cash	6,000
9/26/70	2220	By check	22,000
10/28/70	2442	By cash	27,000
12/22/70	2695	By cash	6,000
1/7/71	2779	By cash on Account	6,000

The other write-off to the President's drawing account of \$454.35 in 1977 relates to an account receiv-

able bearing the heading "JEC Campaign." Warehouse expenditures charged to this account commenced on June 25, 1976. This account reached a peak of expenditures of \$8,785.63. The major portion of this money was expended on re-modeling a parcel of improved property in Plains to accommodate the press. The beneficial owner of this property was Mrs. Lillian Carter. After efforts to obtain reimbursement for these expenditures from the Carter Campaign Committee were unsuccessful, \$7,851.28 was reversed from this account and charged to the drawing account of Mrs. Lillian Carter at December 31, 1976. In 1977 \$480 was charged to Carter Farms and the Carter Campaign account was credited in a like amount. The balance of \$454.35 was eliminated by a charge to the President's drawing account.

The President's Capital account appeared as follows on the Warehouse books of account:

Capital Account Balance January 1, 1975	\$ 290,406.08
Share of Income Credited 1975	<u>99,047.31</u>
Total	\$ 389,453.39
Drawings	<u>64,390.90</u>
Capital Account Balances December 31, 1975	<u>\$ 325,062.49</u>
Capital Account Balance January 1, 1976	\$ 325,062.49
Share of Income Credited 1976	<u>24,118.15</u>
Total	\$ 349,180.64
Drawings	<u>35,398.11</u>
Capital Account Balance December 31, 1976	<u>\$ 313,782.53</u>
Capital Account Balance January 1, 1977	\$ 313,782.53
Share of Income (loss) 1977	<u>(306,542.66)</u>
Total	\$ 7,239.87
Drawings	<u>30,448.35</u>
Capital Account Balance December 31, 1977	<u>(\$ 23,208.48)</u>

The drawing accounts of Billy Carter were available for the years 1976 and 1977. His 1975 account was not available. However, his total drawings for 1975 were ascertainable from the charge to the capital account and partners' salary account. To the extent it could be done, the account was reconstructed from the cash journal for 1975.*

The reconstructed 1975 drawing account and the drawing accounts for 1976 and 1977 are summarized as follows:

Total drawings charged to Capital Account	
1975:	\$34,930.44
Add: Charge to Partners' Salaries	<u>25,000.00</u>
Total Drawing Account	<u>\$59,930.44</u>

Probable 1975 Items Comprising Above:

Income Taxes Paid	\$ 9,125.00
Checks deposited to account of Billy Carter's Service Station not charged to truck expenses or accounts receivable	19,215.91
Medical Expenses	2,075.00
Life Insurance Premiums	790.40
Check to Billy Carter deposited in CBA	6,000.00
Check to Myers and Parks	17,270.06
Maddox Chevrolet - April purchase not charged to Equipment or to other drawing accounts	<u>5,819.50</u>

* Extensions in the cash journal to a miscellaneous or general ledger category are not identified in any manner with respect to their postings.

Total per above	\$60,295.87
Per Books	<u>59,930.44</u>
Unexplained Difference	<u>\$ 365.43</u>

1976

Purchase of two automobiles	\$10,114.77
Purchase of stock	1,687.50
Medical	1,564.20
Home improvements or repairs	4,999.41
Property Tax, travel agency, American Express and other similar type of personal items	3,568.59
Income Taxes	8,154.49
Life Insurance premiums	2,187.30
Miscellaneous personal items such as groceries and related living costs	3,573.37
Checks to Billy Carter	<u>21,590.00</u>
Total Cash Withdrawals	\$57,439.63
Less: Transfer to partners' salaries	<u>25,000.00</u>
Total drawings per books transferred to capital account	<u>\$32,439.63</u>

1977

The Inaugural Party	\$ 200.00
Income Taxes	3,100.00
Checks to Billy Carter	20,206.00
Reimbursement for flights to Washington, D.C.	(244.00)
Payment of NBG bank loan on Billy Carter's auto	4,872.35
Payroll taxes owed on Sybil Carter's salary	140.40

Write-off of note receivable - Billy	
Carter	<u>59,000.00</u>
Total Drawings	\$87,274.75
Less: Salary for 1977	
Billy Carter	\$16,666.64
Sybil (balance)	<u>1,200.00</u>
	<u>17,866.64</u>
Total drawings per books transferred	
to capital account	<u><u>\$69,408.11</u></u>

The records indicate that checks totalling \$59,000 were issued and charged to notes receivable as follows:

August, 1971	\$15,000
May, 1972	5,000
July, 1972	3,000
August, 1972	2,000
September, 1972	2,000
October, 1972	10,000
November, 1972	3,000
December, 1973	<u>19,000</u>
	<u><u>\$59,000</u></u>

Actual checks for those years were not available. However, those entries coupled with the \$30,000 note receivable "Kirbo" would appear to constitute the main portion of notes receivable, which at 12/31/73 amounted to \$93,930.59. A note receivable of \$4,892.17 from a customer, Edwards Brothers, was collected in October, 1975. The reversal of the note receivable of \$59,000 at 12/31/77 was to Billy Carter's drawing account.

Checks issued to Billy Carter and charged to his drawing account were deposited to a personal account with

CBA or to the Service Station account.

On May 23, 1975 the Warehouse issued a check to Myers and Parks, attorneys for Billy Carter in the amount of \$17,270.06. This check was deposited to the attorneys' Trust Account.

On May 14, 1976 Billy Carter withdrew \$15,390 payable to himself and deposited it in the Service Station account at CBA. This item was charged to his drawing account on Warehouse books. On May 15, 1976 a check was drawn on the Service Station account in the amount of \$15,390 made payable to Marlin Poole. The check bore the notation "For ann. pay on Farm."

Billy Carter's capital account appeared as follows on the Warehouse books of account:

Capital Account Balance 1/1/75 (negative)	(\$26,712.88)
Share of Income Credited 1975	<u>23,561.38</u>
Total	(3,151.50)
Drawings	<u>34,930.44</u>
Capital Account Balance 12/31/75	<u>(\$38,081.94)</u>
Capital Account Balance 1/1/76 (negative)	(\$38,081.94)
Share of Income Credited 1976	<u>5,835.04</u>
Total	(\$32,246.90)
Drawings	<u>32,439.63</u>
Capital Account Balance 12/31/76	<u>(\$64,686.53)</u>
Capital Account Balance 1/1/77 (negative)	(\$64,686.53)
Share of Income (Loss) 1977	<u>(74,163.55)</u>
Total	(\$138,850.08)
Drawings	<u>69,408.11</u>
	(\$208,258.19)

Repayment by Note to Carter Farms	<u>125,727.72</u>
Capital Account Balance 12/31/77	<u>(\$82,530.47)</u>

The repayment by note to Carter Farms in 1977 of \$125,727.72 was part of a larger transaction previously discussed.* The note actually issued to Carter Farms in September 1977 by Billy Carter was to cover his Warehouse capital account deficit as well as a balance due on an open account. The note was for \$148,908.83 and comprised the following:

Accounts Receivable - Billy Carter	\$ 23,181.11
Capital Account Deficit	<u>125,727.72</u>
Total Amount of Note	<u><u>\$148,908.83</u></u>

Further details regarding this transaction are in the separate section on Carter Farms.

The account receivable due from Billy Carter shows a balance due as of January 1, 1975 of \$6,227.86. The only significant transactions occurring after that date were:

January 3, 1976	- \$9,500	- Warehouse Ck. No. 9494
June 24, 1976	- 750	- Warehouse Ck. No. 10298
December 29, 1976	- 4,500	- Warehouse Ck. No. 9896

The January 3, 1976 check was issued to Billy Carter and deposited in the service station bank account. The June 24, 1976 check was issued to the Carter Campaign Committee apparently as a contribution. The December 29, 1976 check was issued to William N. Cox, an individual associated with architectural and construction work.

The drawing account for Mrs. Lillian Carter was not available for the year 1975. \$2,093.17 was charged

* The Warehouse accountants computed the capital deficit as at December 31, 1976 as \$125,727.72. This included the \$59,000 note receivable.

to her capital account for drawings in that year. The books further show that she received \$500 monthly or \$6,000 for 1975 as rent.

Of the sum drawn in 1975, \$1,650 represented income tax payments. In view of the small amount of drawings in 1975 we did not pursue this analysis. Mrs. Lillian Carter's drawings for 1976 and 1977 were:

1976

Taxes paid	\$10,559.80
Rents	6,000.00
Insurance	388.00
House maintenance and repairs	1,660.93
Miscellaneous	816.92
Journal adjustment for improvements to parcel of property used for Campaign	<u>7,851.28</u>
Total	\$27,276.93
Credits to account (rent)	<u>6,200.00</u>
Transferred to Capital Account	<u><u>\$21,076.93</u></u>

1977

Medical expenses	\$ 224.47
Taxes	8,065.00
Improvements to Home and Rental Property:	
Americus Engineering & Construction	6,755.00
Other charges	11,804.85
Rent	3,550.00
Miscellaneous	<u>47.89</u>
	\$30,447.21
Credit to account (rent - \$4,500)	<u>4,500.00</u>
	<u><u>\$25,947.21</u></u>

The 1976 journal entry for \$7,851.28 charged to Mrs. Lillian Carter's drawing account is discussed in an earlier part of this section.

The Capital account of Mrs. Lillian Carter appeared in the Warehouse books as follows:

Mrs. Earl Carter

Capital Account Balance 1/1/75	\$129,824.79
Share of Income Credited 1975	<u>36,743.36</u>
Total	\$166,568.15
Drawing	<u>2,093.17</u>
Capital Account Balance 12/31/75	<u>\$164,474.98</u>
Capital Account Balance 1/1/76	\$164,474.98
Share of Income Credited 1976	<u>8,947.06</u>
Total	\$173,422.04
Drawing	<u>21,076.93</u>
Capital Account Balance 12/31/76	<u>\$152,345.11</u>
Capital Account Balance 1/1/77	\$152,345.11
Share of Income (loss) 1977	<u>(\$113,717.44)</u>
Total	\$ 38,627.67
Drawings	<u>25,947.21</u>
Capital Account Balance 12/31/77	<u>\$ 12,680.46</u>

An analysis of all three partners' drawing and capital accounts fail to disclose any transactions relating to any Carter campaign other than those explicitly set forth herein.

The December 31, 1974 capital accounts as shown by the accountants in their unaudited statement amounted

to \$370,717.99 compared with the book figure of \$393,517.99. Differences existed between statements and books for all years reviewed except 1977.

The reasons for differences were:

1. Items were usually written off for statement purposes prior to the year written off on the books.
2. Certain items were written off for statement purposes and were not written off in the books.
3. Reserve for bad debts of \$18,000 in 1976 was shown in the statement and charged to capital accounts. This item did not appear in the books.

2. Investment Credit

The investment credits claimed on the tax returns filed by the three partners of the Warehouse appear to have been accepted as correct after examination and audit by the Internal Revenue Service. We have made a detailed analysis and review of the items making up the credits and while it is not our function to render a tax opinion, we believe that the credits are properly claimed. This section sets forth the details of these credits.

a. The Applicable Law

Section 38 of the Internal Revenue Code of 1954, as amended (the "Code") (Title 26, United States Code, Section 38) authorizes a taxpayer to claim a credit against income taxes for certain property placed in service during the taxable year ("investment credit"). Section 48(a)(1) of the Code (Title 26, United States Code, Section 48(a)(1)) defines the property eligible for such credit as follows:

"(A) tangible personal property (other than air conditioning or heating units) or . . .

(B) other tangible property (not including a building, and its structural components), but only if such property - -

(i) is used as an integral part of manufacturing, production, or extraction or of furnishing transportation, communications, electrical energy, gas, water or sewage disposal services, or

* * *

(iii) constitutes a facility used in connection with any of the activities referred to in clause (i) for the bulk storage of fungible commodities (including commodities in a liquid or gaseous state).

The allowable credit against the tax is generally 10 per cent of the basis (cost) of the eligible property. Section 46(a)(2) of the Code (Title 26, United States Code, Section 46(a)(2)).* The cost or basis of the property may be adjusted in making the determination of the credit. Internal Revenue Regulation 1.46-3(b) provides "the applicable percentage to be applied to the basis (or cost) of property is 33-1/3 per cent if the estimated useful life of the property is three years or more but less than five years; 66-2/3 per cent if the estimated useful life is five years or more but less than seven years; or 100 per cent if the estimated useful life is seven years or more."

Generally, the credit may be applied against the first \$25,000 of income tax in full plus 50 per cent of the income tax in excess of the first \$25,000. Section 46(a)(3) of the Code (Title 26, United States Code, Section 46(a)(3)). Unused investment credits may be carried back as well as forward to other years. Section 46(b) of the Code (Title 26, United States Code, Section 46(b)).

In sum, in order to qualify as Section 38 property eligible for the investment credit, property must:

- (1) be depreciable or amortizable;
- (2) be used for a purpose set out in the statute;
- (3) have a useful life of at least three years; and
- (4) be placed in service during the year.

Thus, it would appear that the sheller and other major acquisitions constitute property which is eligible for the appropriate investment credit claimed by the partners of the Warehouse.

Internal Revenue Regulation 1.46-3(f)(1) provides,

* For property acquired prior to January 22, 1975, the allowable credit was 7 per cent of the cost.

in relevant part, that "in the case of a partnership, each partner shall take into account separately, for his taxable year with or within which the partnership taxable year ends, his share of the basis of partnership new section 38 property and his share of the cost of partnership used section 38 property placed in service by the partnership during such partnership taxable year."

b. Investment Credit - 1975

In 1975 the partners of Carter's Warehouse claimed an aggregate investment credit of \$67,330.94, calculated as follows:

	<u>3-5 Year Asset Life Acquired Prior to 1/22/75</u>	<u>3-5 Year Asset Life Acquired After 1/21/75</u>	<u>7+ Year Asset Life Acquired After 1/21/75</u>
New Vehicles	\$	\$ 18,098.50	\$
Used Vehicles		7,767.50	
New Vehicle	6,182.94		
Office Equipment			544.48
Warehouse Equipment			50,158.57
Sheller and Installation			611,629.36
Warehouse Equipment			<u>912.28</u>
TOTALS	\$ 6,182.94	\$ 25,866.00	\$663,244.69
Percentages Allowable	<u>.3333</u>	<u>.3333</u>	<u>1.0</u>
Value for Investment Credit	\$ 2,060.98	\$ 8,622.00	\$663,244.69
Investment Credit at	<u>.07</u>	<u>.10</u>	<u>.10</u>
	\$ 144.27	\$ 862.20	\$ 66,324.47

Total investment credit for 1975 as shown above:

	\$	144.27
		862.20
		<u>66,324.47</u>
Total	\$	<u>67,330.94</u>

Based upon their partnership shares, the 1975 investment credit allocable to each of the partners of the Warehouse, was:

President Jimmy Carter	(62 per cent)	\$41,745.17
Mrs. Lillian G. Carter	(23 per cent)	15,486.12
Billy Carter	(15 per cent)	10,099.65

The tax return of the President discloses an eligible investment credit in 1975 of \$41,745.17, but the credit claimed was limited to \$41,702. The small reduction in the credit claimed resulted from the provision which restricts the credit to \$25,000 plus 50 per cent of the excess of income tax owed over \$25,000. However, as the result of changes made in income in the course of an audit by the Internal Revenue Service, the full credit was allowed.

The 1975 tax return of Mrs. Lillian G. Carter discloses an investment credit of \$15,486.11 limited to \$11,754.99, the amount of income tax due.

The credit claimed on the 1975 tax return of Billy Carter was slightly (\$7.50) higher than that shown in the schedule above. The difference, in this instance, is attributable to a small credit based upon acquisitions by the service station of which he was the sole owner. However, actual credit was limited to \$10,011.11, the income tax due.

The schedule of asset acquisitions subject to the investment credit in 1975 indicates that the single largest item is the sheller and its installation at a cost of \$611,630. The books and records of the Warehouse disclose

actual payments for this project in the amount of \$666,045 during 1975, as follows:

Payments to Carter Mfg. Co.	\$487,893
P. J. Wise, Electrical Work	39,765
Lewis M. Carter Mfg. Co.	119,330
Other miscellaneous contractors	<u>19,057</u>
Total Payments	\$666,045

In addition to the above payments, the following liabilities for unpaid bills were on the books at 12/31/75:

American Engineering and Construction Co.	\$ 40,937
Carter Mfg. Co.	<u>5,886</u>
Total Construction & Installa- tion Costs Incurred in 1975 with Respect to the Sheller	\$712,868
Less: Building Housing the Sheller Equipment	<u>101,238</u>
Balance subject to investment credit	<u>\$611,630</u>

As the above schedule evidences, an investment credit was not claimed for the building which housed the sheller equipment.

The warehouse equipment listed in the investment credit schedule at \$912.28 represented payment made in 1975 on a fork lift. Other warehouse equipment, in the amount of \$50,159 and vehicles, in the total amount of \$32,049, consisted of the following:

Payments for Various Vans & Trucks	\$23,704
Payments for Seed Cleaner	6,000
Payment for Seed Cleaner Tractors	12,835
Payments for Trailers	8,214

Payment for a Utility Loader	11,128
Payment for a Tractor	11,570
Payments for Dryer Wagons	<u>8,757</u>
Total	<u>\$82,208</u>

Included in the assets acquired prior to 1/22/75 is a part payment of \$3,000 made in December 1974 to Bickenstaff Chevrolet. The balance of \$3,182.94 for the vehicle purchased was paid in January 1975. The total cost of this vehicle, \$6,182.94, was shown in the investment credit schedule as incurred prior to January 22, 1975. If this vehicle was placed in service in 1974, then the investment credit claimed for it in 1975 may be considered to be improper. At any rate the amount involved is de minimis.

c. Investment Credit - 1976

The partners of the Warehouse claimed an aggregate investment credit of \$33,653.19 in 1976, calculated as follows:

	<u>3-5 Year Asset Life</u>	<u>7+ Years Asset Life</u>
Sheller Equipment	\$	\$ 63,571.43
Drying Trailers		49,627.46
New Warehouse (No. 7)		176,535.61
Equipment for New Warehouse		30,921.89
Office Equipment		490.00
Vehicles	<u>46,156.54</u>	<u> </u>
	\$ 46,156.54	\$321,146.39
Percentages Allowable	<u>.3333</u>	<u>1.0</u>
Value for Investment Credit	\$ 15,385.51	\$321,146.39
Investment Credit at	<u>.10</u>	<u>.10</u>
	\$ 1,538.55	\$ 32,114.64

Total investment credit for 1976 as shown above:

\$ 1,538.55
32,114.64
\$33,653.19

The 1976 investment credit allocable to each partner of the Warehouse was:

President Jimmy Carter	(62 per cent)	\$20,864.96
Mrs. Lillian G. Carter	(23 per cent)	7,740.25
Billy Carter	(15 per cent)	5,047.98

The 1976 tax return of the President discloses an eligible investment credit in the amount of \$20,864. The actual credit claimed on his tax return was \$11,675, which was the total amount of his income tax liability for that year.* By virtue of additions to income resulting from an Internal Revenue Service audit for the year 1976, the tax imposed for that year was increased modestly and the credit was therefore also increased to the amount of the revised tax, \$11,893.48.

The 1976 tax return of Mrs. Lillian G. Carter discloses an eligible investment credit in the amount of \$7,740. The actual credit claimed was \$2,335, the total amount of her income tax liability for that year.

The tax return for Billy Carter discloses that he claimed an investment credit in 1976 of \$5,047.98 and he was able to reduce his income tax liability for that year to the full extent of such credit.

Of the eligible assets for 1976, the first item shown is that of sheller equipment acquired at a cost of

* Although President Carter owed no income taxes for 1976 because of this credit, he nevertheless made a voluntary payment of \$6,000 to the United States.

\$63,571, calculated as follows:

Payments to Americus Engineering & Construction Co.	\$ 49,272
Payments to Carter Mfg. Co.	76,761
Payments to Lewis M. Carter	3,591
Others	<u>1,144</u>
Total	\$130,768

Less:

Accrued Liability 12/31/75 Paid in 1976	\$46,823
Items Transferred to Warehouse Equipment	12,039
Items Transferred to No. 7 New Warehouse	<u>8,335</u>
	<u>\$ 67,197</u>
Balance - Sheller Equipment	<u>\$ 63,571</u>

The \$63,571 consisted of the following major items:

Rebuilding 4 tanks	\$ 13,869
2 Syntron Feeders	1,146
48" Diameter Exhaust Fans & Shutters	494
Collectors for Seed Cleaners	5,824
Labor for Remaining Elevator at Old Warehouse	850
Conveyor Belt	977
Collectors for Old Cleaners	4,772
Twin Collectors & Screens	8,691
Elevators & Platform	7,612
Model 96 EZ Dump Assembly	16,710
Miscellaneous Other Equipment	<u>8,512</u>
	\$ 69,457
Less:	
12/31/75 Accrual to Carter Mfg. Co.	<u>5,886</u>
Balance Claimed Toward Investment Credit	<u>\$ 63,571</u>

The second category of property included in the investment credit schedule, \$49,627.46 for drying or peanut trailers, was purchased from the Peerless Manufacturing Co. in 1976 and was paid for in July and September of that year.

The third item in the schedule, the new warehouse,* was reported for investment credit purposes in an amount of \$176,535, calculated as follows:

Building 80' x 160' - Carter Mfg. Co.	\$136,172
Labor - Carter Mfg. Co.	9,200
Use of Crane - Carter Mfg. Co.	875
12' x 12' x 12' Dump Pit and Elevator Well - Carter Mfg. Co.	5,200
Miscellaneous	1,309
Work Performed by Americus Engineering & Construction Co.	15,444
Work Performed by Americus Engineering & Construction Co.	<u>8,335</u>
Total	<u><u>\$176,535</u></u>

Payments made during 1976 toward the construction of the new warehouse (No. 7) were as follows:

Payments to Carter Mfg. Co.	\$163,072
Payments to Americus Engineering & Construction Co.	15,444
Transfer to Warehouse Account from Sheller (shown above)	8,335
P. J. Wise, Electrical	7,535
Accrual - Amount Payable in 1977	<u>1,309</u>
Total	\$195,695

* Revenue Ruling 71-359 provides that structures used by a taxpayer for the storage of raw peanuts in the course of its business of buying peanuts from growers and selling the peanuts to manufacturers of consumer goods qualify as Section 38 property.

Less:

Transferred to Machinery &
Equipment \$18,883

Transferred to
Repairs 277

\$ 19,160

Warehouse Cost Subject
to Investment Credit \$ 176,535

The sum of \$30,921.89 shown as equipment for the new warehouse in the schedule of 1976 asset acquisitions is made up of \$18,883 (shown above as items transferred from the new warehouse building account) and \$12,039 (shown above as an item transferred from the sheller equipment account).*

P. J. Wise, Electric Co. \$ 7,258

7' WHP Truck Hoist with
Support and Cradle 2,235

One Model "DD-6000"
Elevator 82' DH 8,827

One 24" x 155' Troughing
Idler Belt Conveyor 7-1/2 HP 9,036

Miscellaneous Other Costs, i.e.,
Freight, Sales Tax 3,566

Warehouse Equipment Subject
To Investment Credit \$ 30,922

Vehicles at a cost of \$46,156.54, set forth as the sixth item in the schedule of 1976 asset acquisitions, consisted of the following:

A new David Brown Tractor Purchased
from Cornwell-Jennings in January 1976 \$ 8,523

A New Holland Utility Loader Purchased
from Mertz Equipment Co. in January
1976 12,630

* These amounts were in fact paid but were posted to the wrong accounts, thus necessitating the transfers.

A Clark Forklift Purchased on Installment Basis	13,029
A Chevrolet Blazer Purchased from Meadows Motors in March 1976	5,202
A Chevrolet Pick-Up Truck Net of Trade in from Meadows Motor in May 1976	2,969
A Pull Type Spreader Bought from Cross Equipment Co. in May 1976	<u>3,803</u>
Total	<u>\$ 46,156</u>

d. Investment Credit - 1977

The partners of the Warehouse claimed an aggregate credit of \$3,720 in 1977, calculated as follows:

	<u>3-5 Years Asset Life</u>	<u>7+ Years Asset Life</u>
Sheller Equipment		\$ 29,863.41
Electrical Work		927.28
Miscellaneous		3,012.23
Office Equipment-Copy Machine		2,395.00
Used Pick Up Truck	<u>\$ 3,000.00</u>	<u> </u>
Total	\$ 3,000.00	\$ 36,197.92
Percentage Allowable	<u>.3333</u>	<u>1.0</u>
Value for Investment Credit	\$ 1,000.00	\$ 36,197.92
Investment Credit at	<u>.10</u>	<u>.10</u>
	\$ 100.00	\$ 3,619.79

Total investment credit for 1977 as shown above:

\$ 100.00
<u>3,619.79</u>
<u>\$ 3,719.79</u>

The 1977 investment credit allocable to each of the partners of the Warehouse was:

President Jimmy Carter (62 per cent)	\$2,306.00
Mrs. Lillian G. Carter (23 per cent)	856.00
Billy Carter (15 per cent)	558.00

The President claimed \$2,306.27 as an investment credit on his 1977 Income Tax Return and received the full tax benefit therefrom.

In her tax return for 1977 Mrs. Lillian G. Carter reports an allowable investment credit of \$855.55 limited by taxes of - 0 -. No credit is therefore allowed for 1977.

Billy Carter claimed and received full credit for \$558.00.

The sum of \$29,863.41 of sheller equipment shown in the schedule of 1977 asset acquisitions consists of the following items purchased from the Carter Mfg. Co.:

Screen, Dust Collector and Other Items	\$ 6,711
Model DD-4500 Elevator, 52 DH and Remove Old Elevator	10,229
#4 Hart Grador Vibrator, Model 126 EZ Dump Elevator, Miscellaneous	10,582
Conveyor Belting and Accessories	2,121
2-1/2" Round Hole Screen	<u>220</u>
	<u>\$29,863</u>

Summary

Based upon an examination of the books, records, and supporting documents, the partners in the Warehouse appear to have qualified for an aggregate investment credit during the years 1975 - 1977 of \$104,703.92, calculated as follows:

	<u>3-5 Year Asset Life Pre 1/22/75</u>	<u>3-5 Year Asset Life</u>	<u>7+ Year Asset Life</u>	<u>Total</u>
1975	\$ 6,182.94	\$25,866.00	\$663,244.69	
1976		46,156.54	321,146.39	
1977		<u>3,000.00</u>	<u>36,197.92</u>	

Totals	\$ 6,182.94	\$75,022.54	\$1,020,589.00	\$1,101,794.48
Percentage Allowable	<u>.3333</u>	<u>.3333</u>	<u>1.0</u>	
	\$ 2,060.98	\$25,007.51	\$1,020,589.00	
Investment Credit at	<u>.07</u>	<u>.10</u>	<u>.10</u>	
Eligible Investment Credit	<u>\$ 144.27</u>	<u>\$ 2,500.75</u>	<u>\$ 102,058.90</u>	<u>\$ 104,703.92</u>

3. Post-1977 Review

The 1978 cash journals disclose receipts of funds of \$557,350.81. The sources of these receipts were:

Collections of Farmers' Accounts Receivable:

McGlaum	\$ 55,080.06
Cardon	5,000.00
Lease Income from Gold-Kist	171,333.32
Loans - see schedule below	238,000.00
Sales of trucks and spreader	7,900.00
Sale of cotton gin	50,000.00
Cotton sales	14,779.76
Insurance recoveries	14,926.04
Miscellaneous items	<u>331.63</u>
Total	<u>\$557,350.81</u>

Loans amounting to \$238,000 consisted of the following as shown in Warehouse records:

<u>Month</u>	<u>Year</u>	<u>Source</u>	<u>Amount</u>
January	1978	Carter Farms	\$ 15,000
January	1978	Carter Farms	13,000
February	1978	Kirbo	20,000
June	1978	Kirbo	120,000
July	1978	Carter Farms	60,000

November	1978	Carter Farms	4,000
December	1978	Kirbo - (Amy)	<u>6,000</u>
			<u>\$238,000</u>

The loans from Kirbo were made to the Warehouse in his capacity as trustee for the President.

The Warehouse general ledger showed that the \$120,000 loan of June 1978 carried an 8 per cent interest charge, and the \$20,000 loan of February 1978 carried a 9 per cent charge. The records further disclose that a payment of \$1,000 was made against the \$120,000 loan in July 1978 thereby reducing it to \$119,000. The \$120,000 loan from Kirbo in June 1978 which was used to repay a previous loan from TCB is discussed along with the Carter Farms loans, in the section entitled "Carter Farms."

During 1978 the Warehouse disbursed \$519,773. Of this sum \$450,888.91 represented interest and principal payments on outstanding loans as follows:

To TCB - Interest on all loans	
and \$120,000 principal repayment	\$151,578.59
To NBG principal repayments on peanut loan	80,742.88
To NBG principal repayments on sheller and warehouse loan	138,000.01
Interest payments to NBG on above loans	<u>80,567.43</u>
Total	\$450,888.91

The balance of \$68,884.09 consisted of payments for real estate taxes, income taxes, insurance coverage, rent payments to Mrs. Lillian Carter at the rate of \$500 per month, and payments to vendors of agricultural and chemical products past due.

Our review of the 1978 Warehouse books disclosed no indications of irregularities or improprieties, and no relationship to a Carter campaign.

4. Walter E. Heller & Company

The Warehouse entered into an accounts receivable factoring agreement with Heller. The August 26, 1976 agreement was for a one-year period and was to continue from year to year, unless terminated by either party upon not less than ninety days advance notice by mail. Heller was to make advance payments of up to 95 per cent of the net value of the assigned sales accounts, with a 5 per cent reserve withheld to cover contingencies for unpaid balances due to disputes. Factoring commissions were .76 per cent of sales. There was no provision for interest on advance payments from the date of advances to the average due date of the sales accounts. In general, Heller was granted a continuing lien and security interest in all accounts and interests, all returned or repossessed goods and merchandise, and all cash and reserve funds held.

The procedures for factoring of accounts receivable from sales provided for duplicate invoices of sales, accompanied by evidence of shipping, to be furnished to Heller. Each invoice and bill was required to bear a printed endorsement that the account had been assigned and is payable only to Heller. Heller made wire advances to the Warehouse against assigned accounts receivable, made customer collections, retained reserve funds, and paid itself for commissions earned. Heller's monthly statements were deemed correct unless objected to within

thirty days.

The agreement began in early September, 1976 and continued for one year. The accounts receivable factoring principally covered sales of peanuts and excluded sales of seed peanuts, sales of non-peanut products, and peanut commission business. A summary of the activity summarized from Heller's monthly statements follows:

	<u>9/1/76 - 12/31/76</u>	<u>1/1/77 - 11/30/77</u>	<u>Total</u>
Factored receivables	\$ <u>2,326,156.09</u>	\$ <u>3,380,449.54</u>	\$ <u>5,706,605.63</u>
Less: corrections and adjustments	230.00	527.58	757.58
duplicate billings to customers		53,833.00	53,833.00
shipment refused by customer		<u>33,456.00</u>	<u>33,456.00</u>
	<u>230.00</u>	<u>87,816.58</u>	<u>88,046.58</u>
Adjusted Factored Receivables	<u>2,325,926.09</u>	<u>3,292,632.96</u>	<u>5,618,559.05</u>
Factoring Commissions at .76 per cent	17,678.80	25,691.46	43,370.26
Payments made to Carter's Warehouse at National Bank of Georgia	2,274,277.83	3,290,079.46	5,564,357.29
Collections by Carter's Warehouse		<u>10,831.50</u>	<u>10,831,50</u>
	<u>2,291,956.63</u>	<u>3,326,602.42</u>	<u>5,618,559.05</u>
Due to (from) Carter's Warehouse	<u>\$ 33,969.46</u>	<u>\$ (33,969.46)</u>	<u>\$ -0-</u>

The terms of peanut sales to customers were generally on a "Net Cash" basis with collections usually ten to thirty days after delivery. Most customers were highly rated for credit purposes. The end of month balances in the Regular Reserve Fund retained by Heller frequently

exceeded five per cent of the outstanding accounts receivable at the end of the respective month. However, during interim periods in 1977 there appear to be over-advances (with no provision for interest). At January 31, 1977 the Warehouse was over-advanced by almost \$38,000.

Our audit procedures and comments are:

(a) Monthly statements and supporting documentation from Heller were scheduled and proved as to computations and charges for factoring commission. The statements had certain minor differences but otherwise corresponded with the Warehouse accounts. The factoring charges appeared consistent with the agreement.

(b) All factored sales were scheduled and reconciled to the books and records of the Warehouse. The factored receivables from sales were recorded in the accounts.

(c) Certain charge backs were traced to the Warehouse's books and records:

<u>Date of Charge Back</u>	<u>Customer</u>	<u>Amount</u>	<u>Explanation</u>
January 1977	CPC International	\$32,031.50	Duplicate billing
January 1977	McCleskey Mills, Inc.	21,801.50	Duplicate billing
June 1977	Bunge Corporation	33,456.00	Shipment refused by customer
October 1977	Ace Pecan Co.	10,831.50	Cash collected directly by Carter's Warehouse

(d) Net proceeds paid by Heller were traced to cash received and deposited by the Warehouse. At the request of the Warehouse, all of the proceeds were wire transferred to the Warehouse account at NBG. Total cash transferred, as reflected in the Heller statements,

was \$5,564,357.29. However, the actual transfers amounted to \$5,564,367.29, the \$10 difference representing an error on transfer.

In sum, all factored sales were accounted for; all remittances were traced into Warehouse accounts; and no irregularities or improprieties were disclosed in the audit of Heller.

5. Other Audit Procedures

In addition to conducting a thorough analysis of peanut purchases and sales, auditing the NBG loans in detail, and examining into numerous facets of cash received and disbursed, the following are some of the other audit procedures adopted in this investigation:

(a) Accounts receivable from farmers for agricultural and chemical sales were tested. "Tickets" were reviewed, particularly for large accounts. The general appearance of these accounts with the availability of the tickets, the nature of the items sold, the payments made either by check or in partial exchange for peanuts, the sales of items customarily purchased and inventoried by the Warehouse, and interviews of selected farmers, all contributed to the conclusion that there were no irregularities or improprieties.

(b) Tickets were prenumbered. A test period was selected to determine whether all tickets could readily be accounted for by the numbering sequence. One month was selected for testing. Approximately 530 tickets were written that month.

This test showed that various books of tickets were used without regard to the numbering sequence. On

the low end of the scale tickets numbered 1801 to 1885 were employed, with no gaps in between; on the high end tickets numbered 5143 to 5174 were used during this same month, also without any gaps. Other tickets used in the month were apparently from different books, but every group used consecutive numbers without gaps.

The numbering sequence was obviously employed by the Warehouse as a filing device. By recording the ticket number on the account receivable card along with the dollars involved, the Warehouse was able to trace, if necessary, the charge to the details shown on the applicable ticket. The numbering system was not employed as an audit tool.

No irregularities in the use of these tickets were indicated.

(c) Howe scales were used at the Warehouse to weigh peanuts purchased. Trucks delivering peanuts were weighed and the weights were automatically imprinted on a scale ticket. The tare weight of the truck was subtracted from gross weight to arrive at net or content weight. The information was repeated manually on "a weight ticket" which contained the name of the vendor. The scale ticket was always attached to the weight ticket.

A random sampling of these weight tickets was conducted, using the following procedures:

The scale ticket was compared with the information recorded on the weight ticket, and the weight ticket was matched to the net weight of peanuts recorded on the applicable MQ.

In all cases checked the weights on the scale tickets, weight ticket, and related M-Q's were in agreement.

E. Carter Farms

The stockholders are:

<u>Name of Stockholder</u>	<u>No. of Shares</u>
Charles H. Kirbo, Trustee U/A	
James E. Carter	9,090
John William Carter	220
James Earl Carter, III	220
Jeffrey Carter	220
Charles H. Kirbo, custodian for	
Amy Lynn Carter, a minor	<u>220</u>
Total shares issued	
and outstanding	<u>9,970</u>

The corporation maintains its records on a fiscal year basis ending February 28th. Carter Farms was incorporated in Georgia on November 6, 1969, and the following parcels of farm land were transferred to it from Jimmy Carter:

- (1) 391 acres of land in Sumter County known as Hearon Farm;
- (2) 421-1/4 acres of land in Sumter County known as Murray Farm;
- (3) 1,049-1/2 acres of land in Webster County known as Webster County Farm; and
- (4) 1/2 undivided interest in 176.50 acres of land known as Carter-McGee Farm. This interest was indicated as belonging to Jeffrey Carter, James E. Carter, III, and John William Carter although carried on original deed in the name of James E. Carter, Jr.

The farm lands were used for raising crops and livestock. Actual operations were conducted by other

farmers who shared in the profits. The nature of the operations apparently changed in 1977 when the lands were leased.

Net income per the books after taxes was as follows:

<u>Fiscal Year Ended</u>	<u>Net Income Per Books</u>
2/28/76	19,760.33
2/28/77	25,904.64
2/28/78	35,707.27

Principal sources of gross income from farm operations were as follows:

	<u>2/28/78</u>	<u>2/28/77</u>	<u>2/28/76</u>
Rent from farmers	\$46,850	\$2,200	\$ 800
Hogs sold			277
Peanuts		70,323	70,810

The 1978 fiscal year change to rental did not have a material effect on net income from farm operations. In fact, this change appears to have been financially beneficial. While Carter Farms no longer shared in the income from crops, it also no longer had to bear those costs and expenses. The following schedule of crop income and related expenses is illustrative:

	<u>2/28/78</u>	<u>2/28/77</u>	<u>2/28/76</u>
Crop Income	-	\$70,323	\$70,810
Rent from farmers	<u>\$46,850</u>	<u>2,200</u>	<u>800</u>
Total	<u>\$46,850</u>	<u>\$72,523</u>	<u>\$71,610</u>

Expenses:

Fertilizer	\$ -0-	\$12,894	\$19,821
Storage &			
Warehousing	-0-	6,335	4,576

Insecticides	-0-	3,670	1,614
Seed	-0-	<u>9,718</u>	<u>9,828</u>
Total Expenses	\$ -0-	<u>\$32,617</u>	<u>\$35,839</u>
Difference	<u>\$46,850</u>	<u>\$39,906</u>	<u>\$35,771</u>

The books are maintained on a cash basis. The above figures were taken from financial statements (disclaimer of opinion) prepared by Perry.

There were numerous transactions between Carter Farms and the Warehouse during 1975-1977. These transactions involved sale of fertilizers and other chemicals to Carter Farms, purchases of peanuts by Warehouse from Carter Farms, and loan advances by Carter Farms to the Warehouse. These loan advances carry over well into 1978 and are described later in this section.

The Warehouse paid Carter Farms for its share of the harvested peanut crop as follows:

<u>Date</u>	<u>Check Drawn On:</u>	<u>Amount</u>	<u>Deposited by Carter Farms to:</u>
10/17/75	NBG	\$ 9,701.28	Bank of Commerce
10/28/75	NBG	23,312.80	Bank of Commerce
11/26/75	NBG	33,220.07	Bank of Commerce
11/8/76	NBG	12,010.68	Bank of Commerce
11/16/76	NBG	30,043.08	Bank of Commerce
12/1/76	NBG	23,333.98	Bank of Commerce

Reconciliation of the payments shown above with peanut sales per the financial statements (disclaimer of opinion) is:

1975 Carter Farms receipts for	
sale of peanuts	\$66,234.15

Add: Storage and Warehousing

Expenses	<u>4,575.94</u>
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Total Sales	<u>\$70,810.09</u>
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1976 Carter Farms receipts

for sale of peanuts	\$65,387.74
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Add: Storage and Hauling

Expenses	<u>4,935.42</u>
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Total Sales	<u>\$70,323.16</u>
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The Warehouse check dated November 26, 1975 for \$33,220.07 was deposited on February 6, 1976. On November 11, 1975 Carter Farms advanced \$30,000 to the Warehouse; on November 16, 1976 Carter Farms advanced \$40,000 to the Warehouse; and on December 1, 1976 it advanced \$20,000. These advances were made on about the dates that the Warehouse was purchasing peanuts from Carter Farms, and were apparently made to lend financial assistance to the Warehouse which at December 1, 1976 was indebted to Carter Farms in the amount of \$72,313. This debt resulted from the above and other advances, less fertilizer and chemical sales to Carter Farms and repayments.

Carter Farms and the Warehouse settled their accounts by February 28 of each year, the end of Carter Farms' fiscal year. This practice is apparently motivated by the terms of Section 267 of the Internal Revenue Code, which requires that, to be deductible, expenses between certain related parties must be paid within 2-1/2 months after the close of the taxable year. Accordingly, the Warehouse paid the total sum owed to Carter Farms on February 28, 1976 in the amount of \$18,318.26. Significantly, Carter Farms extended to the

Warehouse an advance of \$18,318.26 on March 6, 1976 as well as an additional \$10,000 on the same date.

Again, on February 28, 1977 the Warehouse liquidated its obligations to Carter Farms by issuing its check in the amount of \$68,415.31, the then outstanding balance. On March 10, 1977, Carter Farms advanced \$60,000 by a check drawn on its account, payable to the Warehouse.

Toward the end of 1977 the relationship between the parties began to change materially. The Warehouse did not purchase peanuts for shelling purposes in the 1977-78 season. The Warehouse, as noted, was in a strained financial condition and its current assets were inadequate to meet its current obligations by September 1, 1977.

In addition to the \$60,000 owed to Carter Farms by virtue of the March 1977 advance, the Warehouse owed \$168,000 in the summer of 1977 as an annual payment on the construction loan with NBG, and the Warehouse was unable to make this payment from its own resources. Accordingly, Carter Farms borrowed \$120,000 from TCB on August 26, 1977. The security for this loan was 3,240 shares of American Can Company stock owned by Carter Farms. The \$120,000 plus \$48,000 of Warehouse funds were used by the Warehouse to pay NBG the \$168,000 annual payment due on the sheller loan.

The American Can Company stock was distributed as a dividend to Carter Farms' stockholders in late 1977. The stock had a basis of only \$10,000 to Carter Farms, but the distribution gave rise to a substantial amount of taxable dividend income to its shareholders which was based on its fair market value at the time of distribution (approximate value of stock was \$125,000). Carter Farms caused

I.R.S. information forms 1099 to be filed in connection with this distribution, as follows:

Charles H. Kirbo, Trustee	dividends	\$114,283
Amy Carter, Charles H.		
Kirbo, custodian	dividends	\$ 2,785
John Williams Carter	dividends	\$ 2,786
James Earl Carter III	dividends	\$ 2,785
Jeffrey Carter	dividends	\$ 2,786

In 1978 Kirbo sold the American Can stock, and on June 12, 1978 loaned \$120,000 to the Warehouse. The Warehouse, in turn, issued its check for \$120,000 to TCB on the same date. The Warehouse books reflect the reduction in indebtedness to Carter Farms and the creation of an indebtedness shown in the records as "Note Payable - Kirbo" 8 per cent demand. In July 1978 the Warehouse repaid \$1,000 of the above obligation, leaving a balance of \$119,000.

On September 26, 1977 Carter Farms borrowed an additional \$300,000 from TCB. On the following two days Carter Farms issued checks to the Warehouse's creditors totalling \$61,876.07 from this source of funds. In addition, on October 3, 1977 Carter Farms drew a check against these borrowed monies for \$232,000, which was used to open an account at the TCB on behalf of the Warehouse.

The \$300,000 loan from TCB appears to be unsecured except for the assets of Carter Farms. While Carter Farms's assets have not been pledged, the value of the land holdings is more than adequate to satisfy indebtedness, provided such holdings remain unencumbered. The records show Kirbo agreed to advise TCB before encumbering the land.

Available records disclose an \$85,000 repayment against the \$300,000 loan on March 13, 1978. The monies for this repayment came from funds advanced to Carter Farms by Kirbo as trustee.

The source of the \$85,000 was:

(1) Check No. 123 drawn on President's Expense Account at the Union 1st National Bank of Washington to Charles H. Kirbo, trustee, on 2/20/78	\$ 36,500
(2) Check No. 357 drawn on President's and Mrs. Carter's personal account at Union 1st National Bank of Washington to Charles H. Kirbo, trustee, on 2/20/78	15,000
(3) Withdrawal from President's and Mrs. Carter's personal savings account at Citizens Bank of Americus to Charles H. Kirbo, trustee, on 2/20/78	<u>48,500</u>
Total	<u>\$100,000</u>

Carter Farms made the following additional loans to the Warehouse:

12/8/77	\$ 1,000
1/23/78	15,000
1/30/78	13,000
7/5/78	60,000
11/21/78	4,000

The \$60,000 transferred to the Warehouse on 7/5/78 was borrowed by Carter Farms from TCB on that same date. This loan was to enable the Warehouse to make a payment, then due, on the NBG sheller loan.

On September 22, 1977 Carter Farms obtained a note from Billy Carter collateralized by a security deed to land owned by him. The note was for \$148,908.83, and was intended to constitute security for repayment of

Billy Carter's negative balance in his Warehouse capital account as well as his indebtedness to the Warehouse on an open account.

The balances covered were:

Accounts Receivable - Billy Carter	\$ 23,181.11
Capital Account deficit	<u>125,727.72</u>
Total	<u>\$148,908.83</u>

Carter Farms recorded the note as an asset on its books and credited or reduced the loans receivable from the Warehouse by a like amount. The Warehouse, on October 4, 1977 reduced the loans payable to Carter Farms in the amount of \$148,908.83, credited Billy Carter's capital account in the amount of \$125,727.72, and credited the account receivable due from him in the amount of \$23,181.11.

The property to which Carter Farms held a security deed was purchased by Kirbo as trustee on March 1, 1979. The closing statement for this transaction disclosed that credit was taken against the purchase price for the \$148,908.83 due on Billy Carter's note and interest on the note of \$17,102.08 was also claimed as a credit against the purchase price.

A summary of the transactions between Carter Farms and the Warehouse beginning with the loans in 1977 follows:

<u>Date</u>	<u>Loan Advance</u>	<u>Repayment</u>
3/10/77	\$ 60,000.00	
8/26/77	120,000.00	
9/22/77		148,908.83
9/27 and		
9/28/77	61,876.07	
10/3/77	232,000.00	
11/30/77		61.85
12/8/77	1,000.00	

1/16/78		3,585.10
1/23/78	15,000.00	
1/30/78	13,000.00	
6/12/78		120,000.00
7/7/78	60,000.00	
11/21/78	<u>4,000.00</u>	<u> </u>
Totals	\$566,876.07	\$272,555.78
	<u>272,555.78</u>	

Balance owed

Carter Farms at

11/21/78 \$294,320.29

The indebtedness of Carter Farms to TCB was:

<u>Date</u>	<u>Loan Advance</u>	<u>Repayment</u>
8/26/77	\$120,000	
9/26/77	300,000	
3/13/78		85,000
6/12/78		120,000
7/5/78	<u>60,000</u>	<u> </u>
	\$480,000	\$205,000
	<u>205,000</u>	

Balance at

July 5, 1978 \$275,000

The examination of Carter Farms's books and records, its inter-company transactions with the Warehouse, and its bank loans as well as loans to Warehouse, reveals no irregularities or improprieties. The examination of receipts and disbursements shows no relationship to any Carter campaign.

F. Gerald Rafshoon Advertising Agency, Inc.

In addition to the investigation of the Warehouse and NBG as well as the related matters addressed in preceding sections of this report we also examined into one aspect of the activities of the Gerald Rafshoon Advertising Agency, Inc. ("GRAA"). Specifically, we sought to determine whether GRAA obtained monies from any sources (other than its own operations), which enabled GRAA to extend credit to Jimmy Carter's 1976 primary campaign ("JCPC").

We understand that the activities of GRAA which are addressed in this report are also being examined by the Justice Department and have already been examined by the Federal Election Commission ("FEC"). However, because questions have been raised as to whether monies were diverted from the Warehouse and NBG into GRAA, I determined to conduct the investigation which is detailed in this section.*

The review was limited to ascertaining sources of funds which could have been used to extend credit to JCPC during the period December 1974 through October 1976. In this connection, FEC records disclose that in May 1976 the JCPC indebtedness to GRAA had reached \$671,243.52.

William Stack, counsel for GRAA, 1401 West Paces Ferry Road, N.W., Atlanta, Georgia, voluntarily made available for review relevant records of GRAA.

Records reviewed included:

(1) GRAA bank statements, cancelled checks, and deposit items from:

* The investigation of GRAA was limited to the matters set forth in this report.

(a) First National Bank and Trust Company
("FNBT") Account No. 16-012-517 for the period 12/74 - 7/76.

(b) NBG Account No. 0-27-627-9 for the
period 5/75 to 10/76.

(2) Accounts receivable records (JCPC).

(3) Accounts payable records (JCPC).

(4) Certain invoices and contracts.

GRAA used the FNBT account from December 1974 through June 1975 and the NBG account, which opened in May 1975, to handle all client receipts and disbursements including those for the JCPC. The FNBT account became inactive after the opening of the NBG account.

The records establish that GRAA collected a total of \$3,062,057.39 from JCPC during the period December 1974 through October 1976. Expenditures on behalf of JCPC during this same period totaled \$2,605,994.67, resulting in an apparent gross profit to GRAA of \$456,062.72 or 14.9 per cent.

The chart that follows was prepared to show the relationship between monies received from JCPC represented by the solid or upper line and monies expended on behalf of JCPC by GRAA by the broken or lower line.

The chart illustrates that on a cumulative cash basis, expenditures on-behalf-of JCPC at no time exceeded monies from JCPC. All receipts from JCPC which appear on the chart have been verified to GRAA bank statements. Expenditures, represented by the broken or lower line were taken from a schedule prepared by a GRAA representative. The expenditures, as reflected on the schedule were tested by verification to GRAA accounts payable records and cancelled checks for the months March through June 1976. The tested expenditures proved to be accurate.

Deposits recorded in the books and records of GRAA as "loans" were also reviewed. On December 19, 1975 a \$30,000 deposit was made to the NBG checking account. This deposit was shown as loan proceeds from NBG. On April 28, 1976 \$155,000 was deposited by credit memorandum to the NBG checking account. This deposit was reversed the following day by an NBG debit memorandum, \$150,250. The \$155,000 credit memorandum was generated by GRAA obtaining a \$155,000 line of credit from NBG. The bank erroneously deposited the entire line of credit to the NBG account. The net effect of the above transaction was that GRAA drew down \$4,750 on the \$155,000 line of credit.

GRAA drew an additional \$29,665 on this line of credit through October 1976 with a repayment of \$14,000 in July 1976. The total draw down on the line was \$64,415. Because GRAA commingled all deposits in one account, it is impossible to determine on a dollar-for-dollar basis the uses of the draw downs. However, there are disbursements made on behalf of bankrupt clients which exceed the

NBG draw down on their line of credit. In this regard Mr. Stack contended that the line of credit with NBG was established for the purpose of paying bills incurred as the result of bankruptcies by several GRAA clients.

On April 21, 1976 a \$25,000 deposit was made to the NBG checking account. The deposit was marked loan proceeds from Associated Credit Union, Atlanta, Georgia ("ACU"). The loan with ACU was verified with the credit union. ACU records reflect that a \$25,000 loan was made to GRAA on April 20, 1976. The loan was paid off on August 31, 1976. Information concerning the purpose of the loan from the application or note is unavailable at ACU because its records have been purged in the normal course of business.

The review of JCPC deposits to GRAA disclosed that during the period April through September 1976 a number of deposits were in the form of wire transfers directly to GRAA from various banks. Kirbo, as trustee for President Jimmy Carter, made available JCPC bank accounts from various primaries around the nation. All of the wire transfers were traced to these accounts. The sources of these wire transfers were funds raised for various state primary campaigns. One wire transfer for \$1,000 came from an individual in Texas and this transaction too was satisfactorily identified.

Deposits totaling \$3,062,057.39 representing collections from JCPC were verified to FEC records. The monthly reports to the FEC prepared by JCPC failed to

reflect some of the wire transfers mentioned above.

However, these items did appear on a recap schedule prepared by JCPC reflecting all monies paid to GRAA and this recap agrees with deposits in the GRAA bank account.

On the issue of the extension of credit to JCPC by GRAA a schedule was prepared by GRAA representatives reflecting invoices which were billed to the campaign but for which GRAA had received no payment. The unpaid invoices were broken down between production payables and media reservations.

GRAA stated that media expenses were expenses for advertising in the media such as newspapers, television, and radio. These expenses must be paid prior to the ad's actual appearance. GRAA's practice was to reserve media space prior to an ad actually appearing and bill JCPC at the time the reservation was made. This transaction would create an unpaid invoice for which GRAA had in fact expended no money. According to Mr. Stack, no liability accrued to GRAA as a result of placing the reservations. Nevertheless, JCPC was billed by GRAA for these reservations.

Independent sources have confirmed that placing a media reservation for future time or space generally does not then require funding.

The records disclose that unpaid invoices peaked in May 1976 when JCPC owed GRAA \$671,243.52. However, GRAA at that time had not paid for media reservations of \$236,152.74* and production payables of \$194,965.71. Thus, the net effect was that GRAA had then actually expended

* These unpaid reservations were tested against available documentation, and were determined to be substantially correct.

only \$240,125.07 of its funds on behalf of JCPC and not \$671,243.52. This expenditure is arrived at as follows:

Total unpaid invoices of JCPC	\$671,243.52
Less: Media reservations	\$236,152.74
Production payables	<u>194,965.71</u>
Total media reservation and production payables	<u>431,118.45</u>
GRAA funds expended for JCPC	\$240,125.07

Moreover, funds actually expended by GRAA did not require loans or other sources of funds. The fact is that commissions earned on monies already received from JCPC by GRAA as of May 31, 1976 were sufficient to defray the \$240,125.07 expended by GRAA on behalf of JCPC. The chart referred to earlier in this report showing cumulative deposits and expenditures reflects that at the end of May 1976 GRAA had collected a total of \$2,130,610.58 and had expended only \$2,073,629.92 which includes the \$240,125.07 referred to above, on behalf of JCPC. In effect, by May 31, 1976, GRAA had expended most of its earned commissions on behalf of JCPC.

GRAA records of two other clients were reviewed to determine if funds provided by these clients were employed for JCPC expenses. One of the clients was selected because of a substantial increase in billing and collections during the month of June 1976. The other was a new account.

A thorough review of the advertising activity of these two clients revealed that all expenditures on their behalf were made commensurate with receipts from them. Furthermore, investigation disclosed that all media expenditures and other activities by GRAA on behalf of

these clients were for the purpose of promoting the clients. There was no indication of any expenditure relating to JCPC through these two accounts or, for that matter through the account of any GRAA client.

Conclusion

This examination of the records of GRAA establishes that GRAA had the financial means to carry the obligation incurred on behalf of JCPC. Because GRAA used one bank account, in which all client funds, including JCPC receipts, were deposited, it cannot be determined if any of the bank loans or, for that matter, any client funds other than JCPC funds were used to pay JCPC expenses. However, the foregoing review and analysis clearly demonstrate that, in view of the excess of cash receipts from JCPC over the monies actually expended on behalf of JCPC at any given time, GRAA had no need for additional cash to use on behalf of JCPC. Further, during the entire period from December 1974 through July 1976 the month end bank balances of GRAA ranged from \$50,000 to approximately \$480,000. This is, of course, additional evidence that other sources of cash for JCPC purposes were not required.

We express no opinion as to whether the activities described in this section constitute a violation of the federal election laws.

G. Audit of Billy Carter

1. Scope and Cause

Records of Billy Carter's Service Station, Billy Carter, Inc., and Billy Carter personally were examined. During the years in question Billy Carter and his wife, Sybil, had signatory authority over the bank accounts at the Warehouse as well as at Carter Farms. Every check issued by the Warehouse was signed by Billy or Sybil Carter. She was the head bookkeeper for the Warehouse as well as for Carter Farms. In addition, Billy Carter ran the Warehouse, and held a power of attorney from the other two partners granting him broad authority over the Warehouse operations.

Thus, Billy and Sybil Carter's involvement in the Warehouse required careful examination, including an analysis of Billy Carter's finances.

2. Billy Carter, Inc.

This corporation was formed on March 29, 1977, and Billy Carter was its sole stockholder. The books and records were kept on a fiscal year ended March 31 and the first corporate return filed was for the year April 1, 1977 to March 31, 1978. The earned income was from monies received in connection with Billy Carter's public appearances.

An examination of the books and records for the first year of operation disclosed that all receipts and disbursements passing through the corporate bank account maintained at NBG related to Billy Carter in one form or another. None of these funds had anything to do with the Warehouse, the Warehouse loans, or any Carter campaign.

Monies were received during the first year from the following sources:

Loans from NBG	\$ 57,000.00
Contract Income	386,404.73
Unpaid Withholding Taxes at 3/3/78	<u>12,241.58</u>
Total funds available	<u>\$455,646.31</u>

Monies were expended as follows:

Taxes Paid	\$ 39,753.66
Salaries Paid	46,272.50
Agents' Fees	54,472.59
Supplies	2,743.97
Travel Expenses	32,368.21
Professional Services	6,552.25
Interest, telephone, flowers and miscellaneous	10,291.52

Personal Account:

Improvements, furnishings and payments on house	146,424.90
Advances to Service Station	34,406.92
Checks to Sybil Carter	9,833.44
Loan to Jack Carter	5,000.00
Payments to CBA	6,267.16
Interest on Home Mtg.	2,073.75
Life Insurance Payments	2,216.16
Investment	1,700.00
Payments on Car	4,169.50

Cash Checks	7,800.00
Gifts	13,401.80
Total Other Withdrawals	<u>12,944.10</u>
Total	\$438,692.43
Less: Refunds and credits	
to personal account	<u>25,136.22</u>
	Net <u>\$413,556.21</u>
Total Funds Available	\$455,646.31
Funds Expended	<u>413,556.21</u>
Cash Balance NBG	
3/31/78 Per Books	<u>\$ 42,090.10</u>

Of the \$25,136.22 credited to Billy Carter's personal account \$19,000 constituted a transfer from his account with CBA; \$5,602.18 were deposits from property rentals in connection with sightseeing tours; and the balance of \$534.04 was from miscellaneous sources.

The above analysis was made from books and records. Adjusting entries of accountants were not taken into consideration since they had little or no effect on the overall conclusion which was that the corporation was not used for the Warehouse, or Carter campaign purposes.

3. Billy Carter's Service Station

Billy Carter's Service Station (BCSS) was incorporated on June 10, 1975 in Sumter County, Georgia. BCSS, located in Plains, Georgia, was engaged in the service station business and a retail operation, which involved sales of beverages and various other items. Although possessing a corporate charter the business was conducted as a sole proprietorship until April 1, 1977 when the service station commenced operation as BCSS, Inc.

The examination of the books and records of BCSS was conducted to determine: the ultimate disposition of funds received from the Warehouse and the accounting treatment accorded such funds on BCSS books; whether BCSS was used in any way to funnel funds into any Carter campaign activity, or whether any Carter campaign funds came through BCSS for any purpose.

BCSS records examined were as follows:

(1) Cash journals, January 1975 through December 1977.

(2) General Ledgers, for the same period.

(3) Selected gasoline sales slips.

(4) Schedules "C," Federal Income Tax Returns, 1975 through 1977.

(5) Invoices for purchases of gasoline.

(6) Bank accounts, as follows:

(a) CBA, no. 00-16726.

(b) NBG, no. 7-76-449-9.

(c) NBG, no. 0-34-653-5.*

(d) Bank of Commerce, no. 1-17-198.

The cash journal for January 1976 was not available for examination. The activity for this month was therefore determined from bank records and general ledger entries.

The Bank of Commerce account was carried in the name of Jennings Service Station, the predecessor to BCSS. This account became virtually inactive after February 1975 although it remained open through December 1977 when its

* Account commences with corporate operation.

balance was reduced to zero.

The NBG account, no. 7-76-449-9, functioned from July 1976 to June 1977 when it was closed. Deposits and disbursements were examined. The account was apparently used to clear Master Charge and Bank Americard invoices. In addition, an NBG automobile loan in the amount of \$4,736.11 was deposited to this account in October 1976. Total deposits during the one year it existed, including the auto loan proceeds, came to \$26,801.

Disbursements through this account included the following:

October 1976	Check to Bickerstaff Chevrolet	\$4,736.11
November 1976	Check transfer to CBA account	2,500.00
January 1977	Check to Washington Hilton	2,881.59

The NBG account no. 0-34-653-5, opened in April 1977, was used very much like the predecessor NBG account. From April 1977 to December 1977 there were total deposits of \$33,562. The balance at December 31, 1977 was \$377.

The BCSS account with CBA was the most active, and the major part of all BCSS business was transacted through this account. The account was reviewed for the period January 1975 through December 1977. Deposits averaged about \$20,000 per month in 1975, \$24,000 per month in 1976, and \$32,500 per month in 1977.

Funds received from the Warehouse were traced into BCSS accounts. Non-income items, such as drawings from the Warehouse deposited to a BCSS account, were credited on the service station books to Billy Carter's drawing account. Billy Carter's drawings from the service

station were as follows:

<u>Year</u>	<u>Total Amount</u>	<u>Cash Portion</u>	<u>Balance</u>
1975	\$17,761.69	\$ 8,000.00	\$ 9,761.69
1976	48,319.40	23,127.04	25,192.36
1977*	36,572.01	23,546.90	13,025.11

Pertinent withdrawals were:

1. \$5,000 in 1975 to Don Carter, Escrow account.

Don Carter is a real estate broker.

2. \$15,390 in 1976 by check payable to Marlin Poole with notation to the effect that it represented an annual payment on a farm.

3. \$2,881.59 withdrawal in 1977 to Washington Hilton Hotel.

The remainder of checks drawn to named payees were for personal and living expenses.

BCSS earnings appear as follows:

	<u>1975</u>	<u>1976</u>	<u>January to March 1977</u>
Sales	\$198,460	\$317,586	\$174,193
Cost of Sales	<u>174,254</u>	<u>238,377</u>	<u>149,407</u>
	24,206	79,209	24,786
Tour Service	<u> </u>	<u> </u>	<u>5,437</u>
Gross Profit	<u>\$ 24,206</u>	<u>\$ 79,209</u>	<u>\$ 30,223</u>
<u>Expenses:</u>			
Depreciation	2,195	2,183	546
Taxes	6,977	6,773	6,320
Salaries	15,661	21,368	6,422
All other items	<u>7,585</u>	<u>13,377</u>	<u>4,885</u>
Total Expenses	<u>\$ 32,418</u>	<u>\$ 43,701</u>	<u>\$ 18,173</u>
Net Profit (loss)	(\$ 8,212)	\$ 35,508	\$ 12,050

* Represents full year.

The income from sales and cost of sales as shown on the books and records agree with those shown on Billy Carter's tax returns. The figures for 1977 represent a three month period ending in March. Commencing with April 1977 the service station operated as a corporate entity. The sales income is derived from gasoline sales, parts sales, custom work, and miscellaneous. The gas sales and costs as determined from the books and records for the two full year periods were:

	<u>1975</u>	<u>1976</u>
Gasoline sales	\$117,941	\$179,973
Cost of gasoline sales	<u>109,797</u>	<u>167,269</u>
Gross Profit	<u>\$ 8,144</u>	<u>\$ 12,704</u>
Gross Profit Percentage	6.9%	7%

The examination of the books and records of BCSS disclosed that it was not used in any manner either to furnish funds to any Carter campaign or to act as a conduit for that purpose.

4. Personal Checking Accounts

Billy Carter's personal bank accounts were examined. The accounts reviewed were:

(1) Checking account at the Bank of Webster in the name of William A. Carter III.

(2) Savings account at CBA in name of Ruth C. Stapleton or Billy Carter.

(3) Checking account with CBA, account no. 01-04544-2, in the names of Billy Carter or Mrs. Billy Carter.

(4) Checking account with CBA, account no. 01-05346-1, in the name of Mrs. Billy Carter.

These were examined for the years 1975 through 1978 to the extent that they existed during that period.

The largest significant deposit recorded was \$58,747.50 deposited on May 18, 1977 to the CBA account of Mrs. Billy Carter. On May 17, 1977 Billy Carter borrowed \$60,000* from the 1st Federal Savings and Loan Association of Americus repayable in 72 installments of \$1,081.55 each. The loan was secured by a mortgage on his residence in Plains, Georgia. \$19,000 of these funds were transferred to the NBG account of Billy Carter, Inc. and credited to Billy Carter's drawing account on those records. Most of the remainder of the funds were expended for fixing-up expenses and decorating a new residence in Buena Vista, Georgia.

Account no. 01-05346-1 with CBA was not complete, and the analysis was facilitated by use of photostats and other sources. CBA account no. 01-04544-2 became inactive approximately at the time that account no. 01-05346-1 became active. The Bank of Webster account was relatively inactive during this entire period.

The review of all these accounts clearly disclosed that they were not used to channel funds into any Carter campaign. In that connection other loans made by Billy Carter were traced to determine the disposition of the proceeds. This was done notwithstanding the fact that all of these loans were negotiated well after the campaign and election were over.

The sum of \$57,000 borrowed from NBG in 1977 and deposited to Billy Carter, Inc. was previously dis-

* Net proceeds of loan \$58,747.50.

cussed. These funds were advanced under a master note of \$148,000 and were accounted for in the expenditure analysis shown for Billy Carter, Inc.

The \$60,000 loan from 1st Federal Savings and Loan Association of Americus is discussed above. In addition, a Gainesville National Bank loan of \$30,000 was received on August 8, 1978. The proceeds of this loan were deposited in the NBG account of Billy Carter, Inc. and were used to pay interest and principal on other loans, current bills, and household expenses. This loan was repayable in six monthly installments of \$5,156.66 each.

On April 15, 1978 loan proceeds of \$30,691 were received from CBA and deposited into the NBG account with Billy Carter, Inc. The money was used to facilitate an income tax payment on April 15, 1978 of \$41,000.

H. Mrs. Lillian Carter

Photocopies of Mrs. Lillian Carter's savings account no. 75-8011209 with CBA were reviewed. Photocopies of Mrs. Lillian Carter's checking account with the Bank of Webster, Preston, Georgia, were also reviewed. No significant activity appeared in either of these accounts.

I. President and Mrs. Carter

The following bank accounts of President and Mrs. Carter were reviewed for the period 1974 to 1978 to the extent they existed during that period.

1. Savings account at CBA.
2. Savings account at Fulton National Bank, Buckhead Branch, Atlanta.
3. Checking account at CBA.

4. Presidential Expense Account at the Union 1st National Bank of Washington, D. C.

5. Checking account at Union 1st National Bank of Washington, D. C.

Relevant facts disclosed by our analysis and review of these accounts have been discussed in previous sections of this report.

The analysis of all of these accounts disclosed no irregularities or improprieties.

PART V

CONCLUSION

My report to the Attorney General discusses in detail all the evidence developed and applies that evidence to the relevant criminal statutes and the case law.

My conclusion, necessarily expressed summarily in this public report, is that based on the evidence and the law no criminal charges can or should be brought. Accordingly, there will be no indictments returned in this investigation. Messrs. Cahill, Gross, and Nesland agree with this decision.

Respectfully submitted,

A handwritten signature in cursive script, reading "Paul J. Curran", with a long horizontal flourish extending to the right.

October 16, 1979

Acknowledgments

At the investigation's outset F.B.I. Director William H. Webster responded promptly to my request for assistance with the result that F.B.I. agents have worked as an integral part of the staff from the very beginning. Other Bureau personnel, most notably George Keenan at Headquarters in Washington and Benjamin Cooke and James Blasingame in Atlanta have also made significant contributions to our work.

Before the inquiry began, I also received cooperation from representatives of the Department of Justice, including Assistant Attorney General Heymann, Deputy Assistant Attorney General John Keeney, Ruth Glushien, Mark Richard, Richard Beckler, and Ronnie Edelman. We also obtained at the outset information and suggestions from officials of the Securities and Exchange Commission, including Stanley Sporkin, Theodore Levine, and Edward Herlihy. Moreover, throughout this investigation we have enjoyed the cooperation of the Comptroller of the Currency and his staff. In this regard E. Wayne Rushton, Chief National Bank Examiner in Atlanta, has been most helpful over the past several months.

In April, when we began our work, I and my colleagues met in Atlanta with United States Attorney William L. Harper. His unfailing courtesy and helpfulness on administrative and procedural matters from then to now are appreciated. We also express gratitude to Mrs. Anita Orr of Mr. Harper's office, whose assistance with grand jury scheduling and related matters was constant and meaningful.

Eugene G. Anguilla, our administrator, was loaned to us on a full-time basis by William D. Moran, Regional Administrator of the S.E.C. in New York. Mr. Moran retired on June 30, 1979 after a distinguished career with that agency. Both he and Mr. Anguilla have our gratitude for their generosity and splendid cooperation.

I also note a word of special thanks to my partners and colleagues at Kaye, Scholer, Fierman, Hays & Handler for their generous contribution to this public service including legal research, research assistant help, and extensive stenographic assistance - all at no cost to the Government. In addition, my partner, Gerald D. Feller, has contributed his time and valuable guidance to our tasks.

As this investigation neared its end, Thomas D. Edwards of the Boston, Massachusetts law firm of Chaplin, Barzun & Edwards, consulted with us. We are grateful to Mr. Edwards, a former colleague in the United States Attorney's Office for the Southern District of New York, for his sound counsel given without fee.

Every member of the grand jury exhibited complete dedication to that body's important work. The grand jurors have day in and day out been attentive, questioning, scrupulously fair, and totally cooperative. Their performance in this inquiry has been in the highest tradition of the grand jury system - the one aspect of the federal criminal justice system which continues to function as effectively today as in past decades.

Finally, I express my personal thanks to the entire staff for diligence and dedication to this investigation over the past six months. The associate counsel, the

investigators, the research assistants, and our secretary all worked long hours away from their homes productively and without complaint. This investigation, which is now finished, was truly a team effort and it reflects the splendid collective and individual contributions of every member of our group.

PAUL J. CURRAN
Special Counsel
Department of Justice

STAFF

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John H. Gross
James E. Nesland
Associate Special Counsel

Glen J. Hunter
FBI Agent in Charge

Jimmy L. Berthea
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Susan Hosch**
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Secretarial Staff

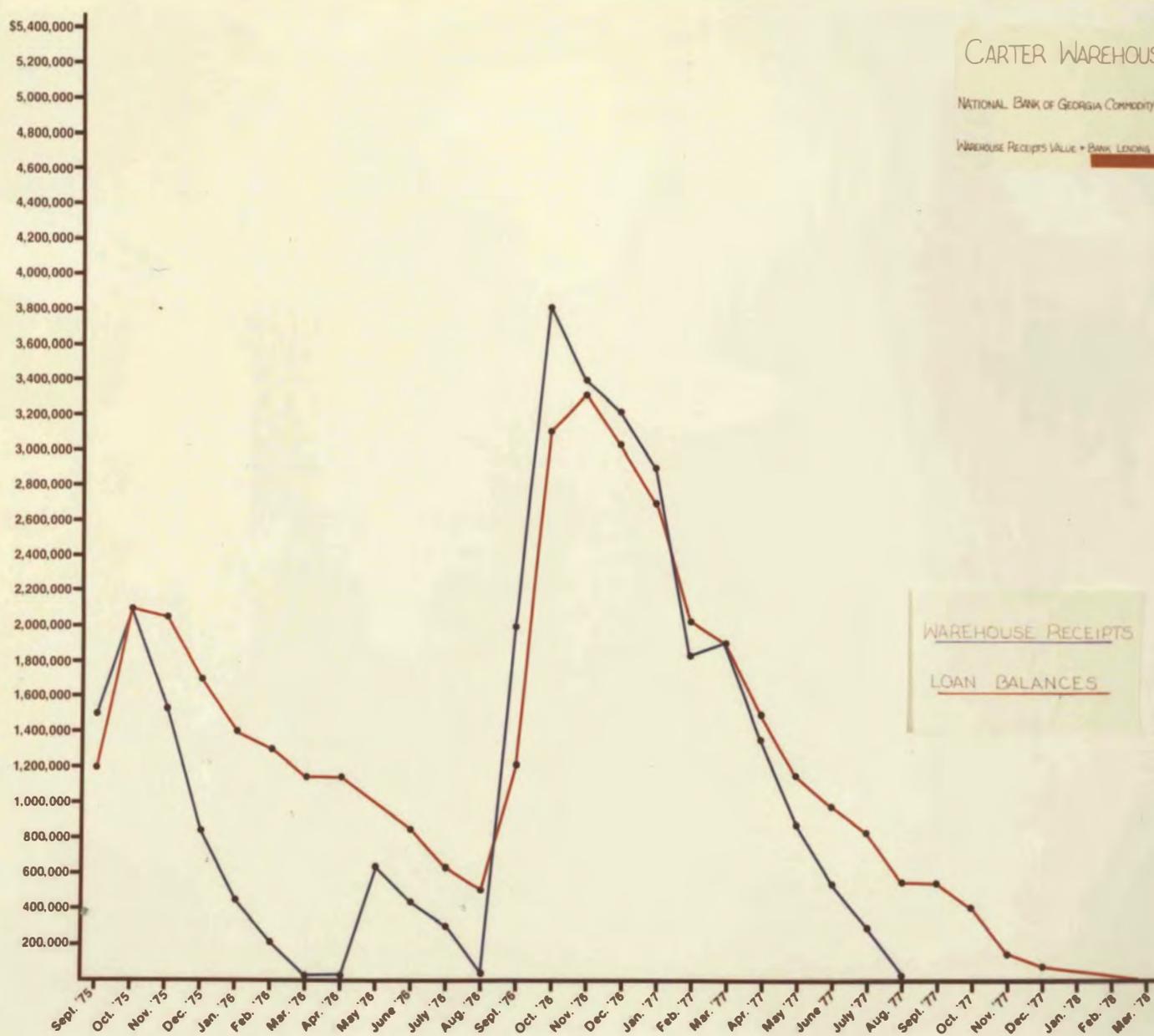
* Salaries paid by other agencies, to be reimbursed by the
Department of Justice.

**Not on government payroll.

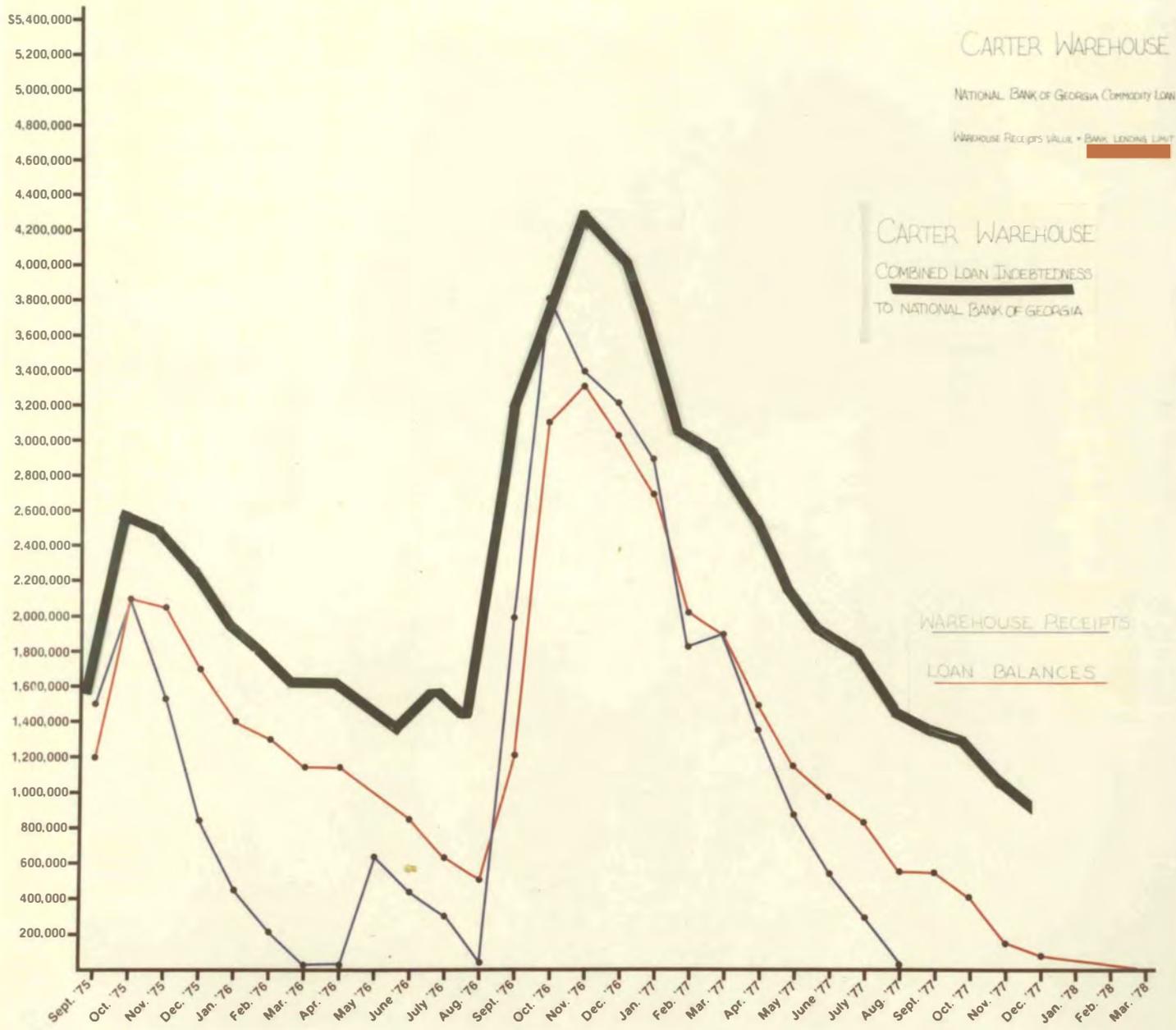
CARTER WAREHOUSE

NATIONAL BANK OF GEORGIA COMMODITY LOAN

WAREHOUSE RECEIPTS VALUE + BANK LOANS LIMIT



WAREHOUSE RECEIPTS
LOAN BALANCES



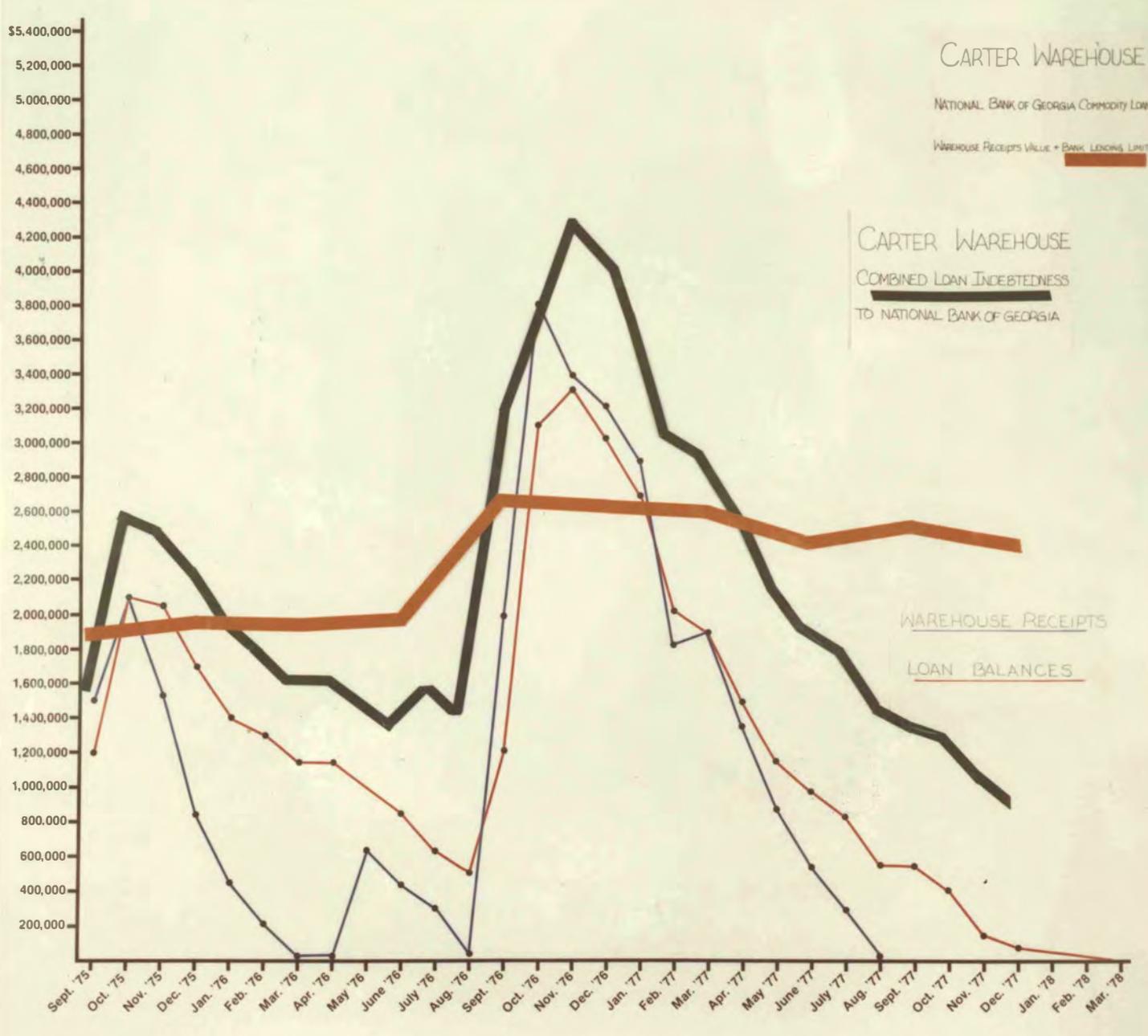
CARTER WAREHOUSE

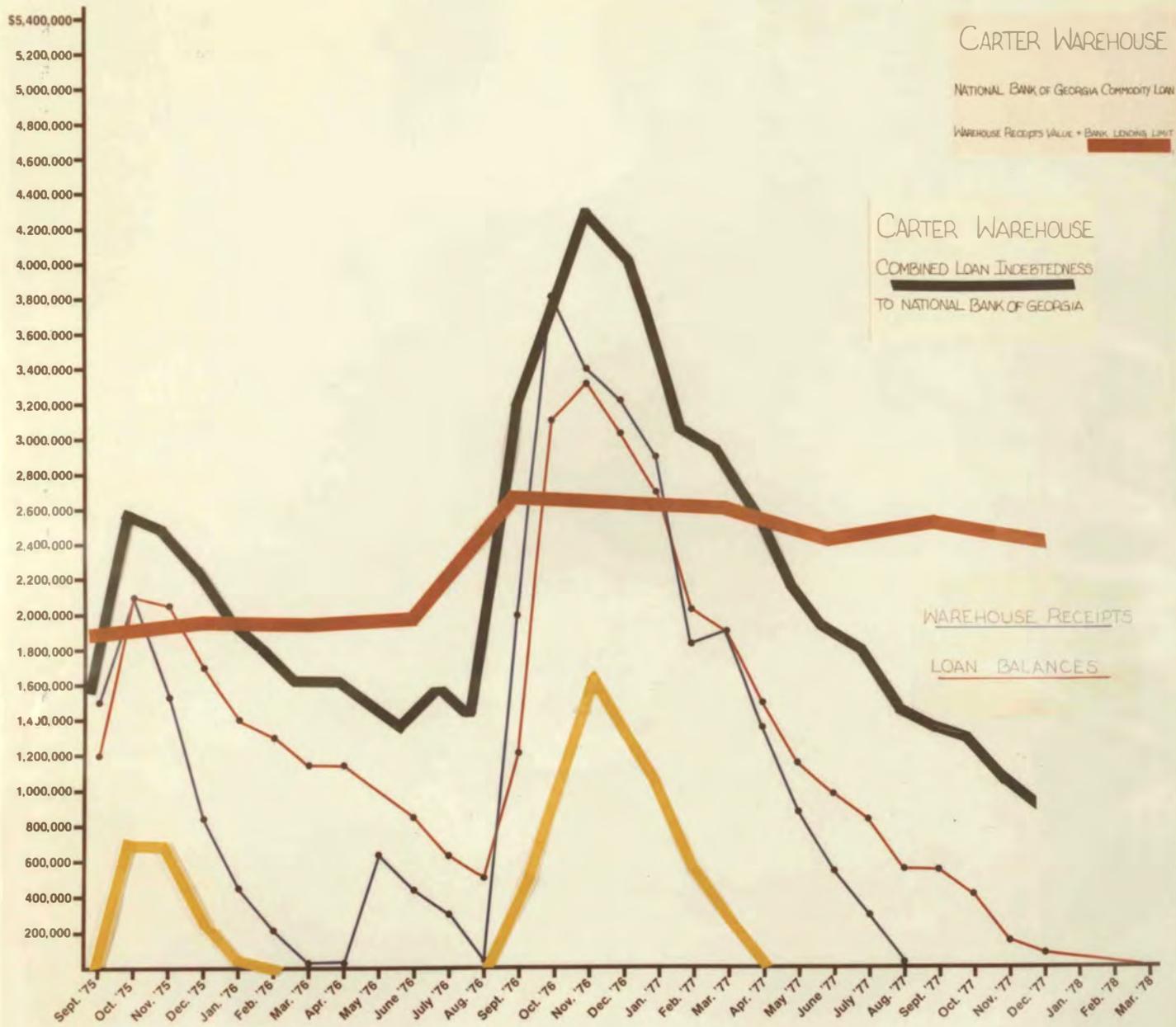
NATIONAL BANK OF GEORGIA COMMODITY LOAN

WAREHOUSE RECEIPTS VALUE + BANK LOANS LIMIT

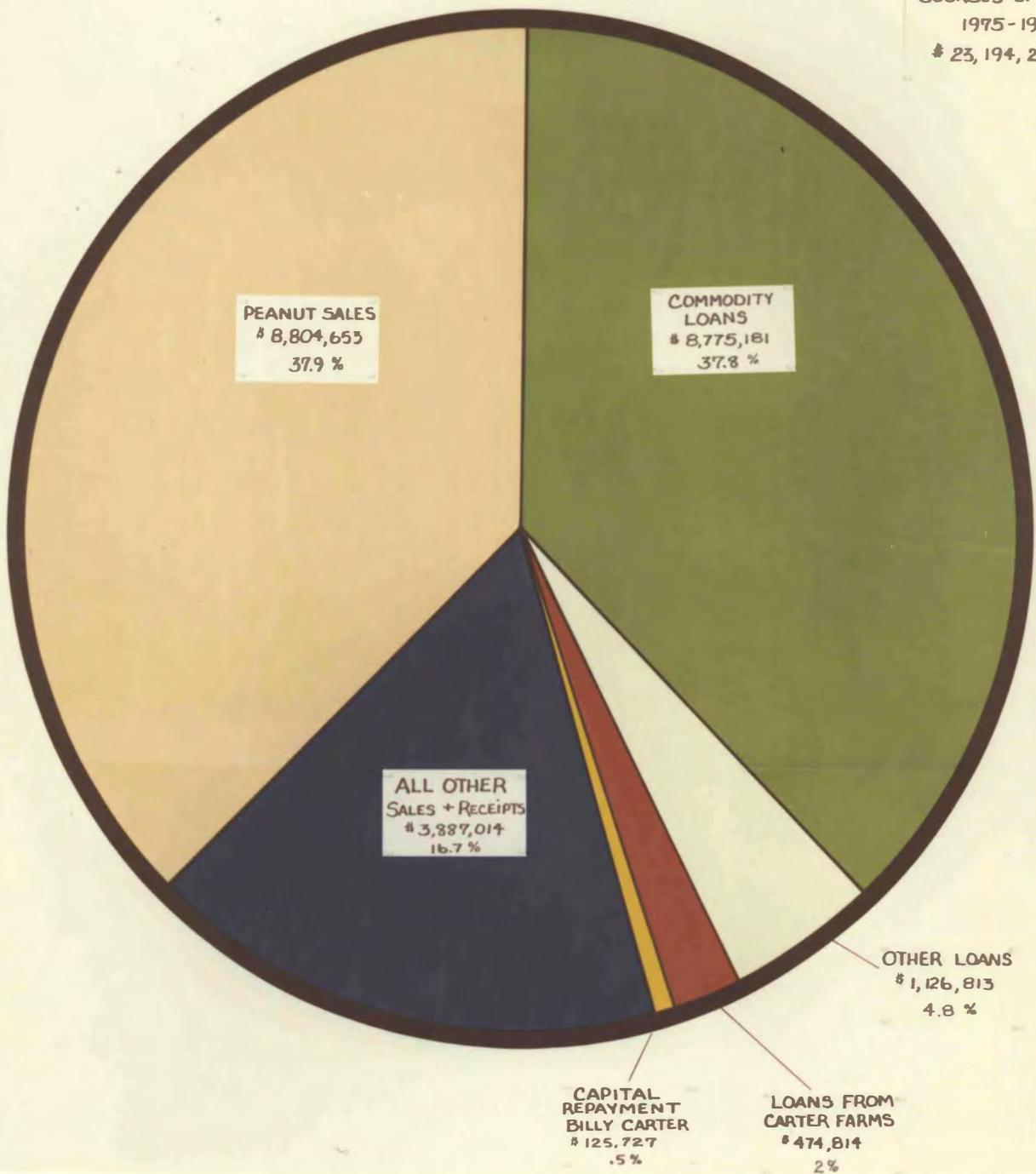
CARTER WAREHOUSE

COMBINED LOAN INDEBTEDNESS
TO NATIONAL BANK OF GEORGIA





CARTER'S WAREHOUSE
SOURCES OF FUNDS
1975-1977
\$ 23,194,204.⁹³



CARTER'S WAREHOUSE
 APPLICATION OF FUNDS
 1975 - 1977
 \$23,276,270.²²

