U.S. Department of Agriculture
Office of Inspector General
Financial and IT Operations
Audit Report

RURAL TELEPHONE BANK FINANCIAL STATEMENTS FOR FISCAL YEARS 2001 AND 2000

OFFICE OF INSPECTOR GENERAL
OIG
USDA

Audit Report No.
15401-1-FM
February 2002

UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington D.C. 20250

DATE: FEB 19 2002

REPLY TO
ATTN OF: 15401-1-FM

SUBJECT: Audit of Rural Telephone Bank's Financial Statements for Fiscal Year 2001

TO: Board of Directors,
Rural Telephone Bank

ATTN: Sherie Hinton Henry
Director
Financial Management Division
Rural Development

This report represents the auditor's opinion on the Rural Telephone Bank's (RTB) Principal financial statements for the fiscal year ended September 30, 2001. Reports on RTB's internal control and on its compliance with laws and regulations are also provided.

Gardiner, Kamya & Associates, P.C. (GKA) an independent certified public accounting firm, conducted the audit. We monitored the progress of the audit at all key points, reviewed the work papers, and performed other procedures, as we deemed necessary. We determined that the audit was conducted in accordance with auditing standards generally accepted in the United States of America, Government Auditing Standards (issued by the Comptroller General of the United States), and the Office of Management and Budget's Bulletin 01-02, "Audit Requirements for Federal Financial Statements."

It is the opinion of GKA that the financial statements present fairly in all material respects, RTB's financial position as of September 30, 2001, and its net costs, changes in net position, budgetary resources and reconciliation of net cost to budgetary obligations for the year then ended, in conformity with generally accepted accounting principles. We agree with the opinion. GKA's report on RTB's internal control contains one material weakness relating to information technology and controls. GKA's report on RTB's laws and regulations contains one instance of noncompliance with regards to the Federal Financial Management Improvement Act.

This report is intended solely for the information and use of the management of RTB, Office of Management and Budget, and Congress, and is not intended to be and should not be used by anyone other than these specified parties. We caution that misstatements, losses and noncompliance may occur and not be detected by the testing performed and that such testing may not be sufficient for other purposes.

Joyce N. Fleischman

JOYCE N. FLEISCHMAN
Acting Inspector General

GKA

U.S. DEPARTMENT OF AGRICULTURE
RURAL TELEPHONE BANK (RTB)

FINANCIAL STATEMENTS
SEPTEMBER 30, 2001 and 2000

and

INDEPENDENT AUDITOR'S REPORT THEREON

Gardiner, Kamya & Associates, P.C.

Management Consultants and Certified Public Accountants
Washington, D.C.

U.S. DEPARTMENT OF AGRICULTURE
RURAL TELEPHONE BANK (RTB)

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Independent Auditor's Report on Financial Statements

To the Inspector General and the
Rural Telephone Bank Board of Directors

We have audited the accompanying Balance Sheet of the Rural Telephone Bank (RTB), an agency of the United States Department of Agriculture, as of September 30, 2001, and the related Statements of Net Cost, Changes in Net Position, Budgetary Resources and Financing for the year then ended. These financial statements are the responsibility of the management of the RTB. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the RTB as of, and for the year ended September 30, 2000, were examined by other auditors whose report dated December 22, 2000, expressed an unqualified opinion thereon.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and the Office of Management and Budget Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the RTB as of September 30, 2001, and its net costs, changes in net position, budgetary resources, and the reconciliation of budgetary obligations to net cost for the year then ended in conformity with generally accepted accounting principles.

As discussed in Notes 1E and 3 to the financial statements, RTB implemented, in fiscal year 2001, the Statement of Federal Financial Accounting Standard (SFFAS) No. 18, Amendments to Accounting Standards for Loans and Loan Guarantees. The RTB has included the additional disclosures as required by SFFAS No. 18 to improve financial reporting for subsidy costs and performance of Federal credit programs. The amounts for fiscal year 2000 included in Note 3 have been prepared for comparative purposes and are unaudited.

GKA

The information in the Management's Discussion & Analysis (MD&A) is not a required part of the financial statements, and we did not audit and do not express an opinion on such information. However, we have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the MD&A information.

In accordance with *Government Auditing Standards*, we have also issued reports dated December 28, 2001, on our consideration of the RTB's internal control over financial reporting, and on our tests of its compliance with certain provisions of applicable laws and regulations. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards*, and, in considering the results of the audit, these reports should be read in conjunction with this report.

December 28, 2001

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Independent Auditor's Report on Internal Control

To the Inspector General and the
Rural Telephone Bank Board of Directors

We have audited the financial statements of the Rural Telephone Bank (RTB), an agency of the United States Department of Agriculture, as of, and for the year ended September 30, 2001, and have issued our report thereon dated December 28, 2001. We conducted our audit in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and, Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

In planning and performing our audit, we considered the RTB's internal control over financial reporting by obtaining an understanding of the RTB's internal control, determined whether internal controls had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 01-02. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982, such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide assurance on internal control. Consequently, we do not provide an opinion on internal control.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the RTB's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal controls, misstatements, losses, or noncompliance may nevertheless occur and not be detected.

However, we noted certain matters discussed in the following pages (Reportable Conditions 1) involving the internal control and its operation that we consider to be reportable conditions. We consider Reportable Condition 1 to be a Material Weakness.

In addition, with respect to internal controls related to performance measures reported in the Management's Discussion and Analysis (MD&A), we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions, as required by OMB Bulletin No. 01-02. Our procedures were not designed to provide assurance on internal control over reported performance measures, and, accordingly, we do not provide an opinion on such controls.

This report is intended solely for the information and use of the management of the Rural Telephone Bank (RTB), Rural Development (RD), USDA, Office of the Inspector General (OIG), Office of the Management and Budget (OMB), and Congress, and is not intended to be and should not be used by anyone other than these specified parties

Cotton & Co., Kampo & Associates.

December 28, 2001

REPORTABLE CONDITION 1
(MATERIAL WEAKNESS)

IMPROVEMENTS NEEDED IN INFORMATION TECHNOLOGY SECURITY AND CONTROLS

During our audit, we noted that Rural Development/Rural Telephone Bank management reported as of September 30, 2001, that the financial management/accounting systems do not comply with OMB Circular A-127 standards under the Federal Financial Management Improvement Act (FFMIA). The RUS Legacy system is not compliant with JFMIP standards for Federal Financial Systems (Direct Loan System Requirement) and A-127 requirements for an integrated system that avoids redundant data, and in addition, the system has a single source of data entry. The RUS Legacy system also lacks automated controls. In addition, all financial management systems have not been certified by management to be in compliance with OMB Circular A-130, *Management of Federal Information Resources.*

Based on our review of recent USDA OIG's evaluations of information technology security and controls, RTB also is not in compliance with the Computer Security Act of 1987 (Public Law 100-236) with respect to the information security access controls in the National Information Technology Center (NITC), Kansas City, MO, and the Finance Office's Local Area Network, St. Louis, MO.

Additionally, during our audit, as well as based on information from the prior year audit, we noted that the following conditions, which were identified by OIG (contained in the ongoing USDA Audit Report Number 85099-2-FM and current USDA, OIG audit reviews, and Report Number 88099-3-FM dated September 2001), are still outstanding:

From USDA Audit Report Number 85099-2-FM

- Rural Development's Intranet and connected computer, router, and related equipment are vulnerable to unauthorized intrusions from internal and external sources.
- Rural Development has not sufficiently limited access to authorized users or implemented password management controls.

From USDA Audit Report Number 88099-3-FM

- User Ids and Privileges- "NITC needs to take additional steps to ensure that only authorized users access its systems, needs to better control special privileges on user Ids, and needs to track all access to sensitive and critical datasets.
- NITC needs to develop formal procedures to require periodic assessment of its mainframe user identifications (ID), including those users with the non-cancelable privilege, and assure that access activity relating to sensitive and critical dataset is logged."

- Internet Scans- "NITC needs to better conduct its vulnerability scanning and better assure the vulnerabilities it does identify are corrected. Based on our prior audit recommendation, NITC began to conduct vulnerability scans of its own, and its customers' systems. However, NITC was not scanning all of its systems, nor had it corrected all the vulnerabilities identified."

- Internet Access to Mainframe- " NITC needs to establish controls over access to its resources from the Internet. NITC does not require users that log into its mainframe through the Internet to do so through its virtual private network (VPN) services. Without the use of its VPN services NITC cannot be assured that data being transmitted over the Internet is protected from disclosure. Further, NITC does not have a warning banner on all its mainframe access points that informs its users that they have accessed a U.S. Government system, that access could be monitored, and that unauthorized access is punishable under Federal law. Without this banner, NITC could find it difficult to prosecute unauthorized access to its mainframe."

RECOMMENDATION

We recommend that:

1. Management continues with its plan to replace the RUS Legacy system with an OMB Circular A-127 compliant system.

2. Security plans and risk assessments should be completed for systems involving the RTB. We understand that Rural Development has a policy in place to ensure the certification and thus the completion of the security plan.

3. Management should complete its Information Technology Security accreditation on a timely basis.

Because the USDA, OIG has made recommendations to Rural Development and the US Department of Agriculture on the aforementioned matters in their respective reports referenced above, we are making no new recommendations herein.

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Independent Auditor's Report on Compliance with Laws and Regulations

To the Inspector General and the
Rural Telephone Bank Board of Directors

We have audited the financial statements of the Rural Telephone Bank (RTB), an agency of the United States Department of Agriculture, as of, and for the year ended September 30, 2001, and have issued our report thereon dated December 28, 2001. We conducted our audit in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and, Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

The management of the RTB is responsible for complying with laws and regulations applicable to the agency. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the RTB's compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain other laws and regulations specified in OMB Bulletin No. 01-02, including the requirements referred to in the Federal Financial Management Improvement Act (FFMIA) of 1996. We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to the RTB.

The results of our tests of compliance with laws and regulations described in the preceding paragraph exclusive of FFMIA disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 01-02.

Under FFMIA, we are required to report on whether the RTB's financial management systems substantially comply with the Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA section 803 (a) requirements.

GKA

The results of our tests disclosed an instance, discussed on page 5 as Reportable Condition 1 (Material Weakness), where the agency's financial management systems did not substantially comply with the Federal financial management systems requirements.

The RTB's financial management systems are the responsibility of and are managed by the Rural Development (RD), an agency within the United States Department of Agriculture. The RTB operates within the RD and the RD's Deputy Chief Financial Officer and Chief Information Officer are responsible for these systems. Specific conditions attributable to the instance of noncompliance noted above, and specific recommendations related to RTB's remediation plan are included on page 6 of this document.

Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

This report is intended solely for the information and use of the management of the Rural Telephone Bank (RTB), Rural Development (RD), USDA Office of the Inspector General (OIG), Office of the Management and Budget (OMB), and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

Cotton & Company LLP? [signature]

December 28, 2001

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE RURAL TELEPHONE BANK'S FINANCIAL STATEMENTS

Mission and Organizational Structure

The Rural Telephone Bank (RTB) was designed to assure rural telephone systems access to private sources of capital by establishing a supplemental credit mechanism to which borrower systems may turn for all or part of their future capital requirements. Since its inception in 1971, RTB has approved approximately $3.962 billion in loans to rural telecommunications infrastructure.

Ownership of RTB, in addition to the U.S. Government, consists of borrowers, former borrowers and other related organizations authorized to invest. RTB operates on a cooperative basis and earnings, in excess of the annual return of two percent required on the Government's investment, are returned to the non-government owners.

The Administrator of the Rural Utilities Service (RUS) serves as the Governor of RTB. In this capacity, the Governor may exercise and perform all of RTB's functions, powers, and duties except for matters specifically reserved for the Board of Directors. Overall policy decisions and management vest in a 13-member board composed of seven members appointed by the President and six members elected by RTB stockholders. RTB's operations are conducted by the employees of RUS that have similar duties and responsibilities under RUS's rural telecommunications program. In addition, RUS and the U.S. Department of Agriculture's Office of General Counsel provide facilities and administrative support to RTB without reimbursement.

Performance Goals And Results

In fiscal year (FY) 2001, a total of $174.6 million in loans were approved. The total amount of loan funds available for the fiscal year was obligated. RTB financing represented approximately 36.8 percent of the total loans approved by RUS' telecommunications loan program. The following performance indicators are calculated based on the percentage of RTB funding provided as a supplement to other RUS funding:

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE RURAL TELEPHONE BANK'S FINANCIAL STATEMENTS (Con't)

Performance Indicators	Target	Actual
Number of rural residents and businesses to receive improved service as a result of new loan investment	117,161	159,702
Number of rural residents and businesses to receive new service as a result of new loan investment	26,817	46,745
Number of jobs to be generated as a result of new loan investment	4,019	4,016
Leveraging of private funds	$5:00:$1	$5.69:$1

Entity's Financial Statements

Assets increased during the fiscal year from $1.933 billion to $1.974 billion. This $41 million increase results from increases in loan prepayments and additional interest earned on funds with US Treasury. Liabilities decreased during the fiscal year from $319 million to $297 million. This $22 million decrease is primarily a result of RTB paying off the remainder of its outstanding borrowings with the U.S. Treasury on the liquidating fund. Net Position was impacted during the fiscal year due to a policy change allowing liquidating borrowers to convert their B Stock to C Stock prior to final loan payment.

The change in outlays was due to RTB experiencing an increase in collections due to loan prepayments that were greater than the amount of disbursements during the fiscal year.

Entity's Systems, Controls And Legal Compliance

The purpose of the Federal Managers' Financial Integrity Act (FMFIA) is to promote the development of management structures that ensure management accountability for results and include appropriate, cost effective controls. The FMFIA requires annual assurance statements on both management controls and compliance with financial management system requirements.

For fiscal year 2001, Rural Development reported that its financial management systems did not comply with Office of Management and Budget (OMB) Circular A-127, Financial Management Systems, requirements. The conclusion was based, in part on the system for servicing the RTB direct loan portfolio being inefficient, labor intensive, and lacking in automated internal controls. In addition, the RTB financial management system has not been certified in compliance with OMB Circular A-130, Management of Federal Information Resources. The corrective action for this nonconformance is the incremental implementation of the Rural Utilities Loan Servicing System (RULSS). RULSS is being designed to replace several nonconforming financial management systems including the one used to service the RTB portfolio. The first phase of RULSS is to implement the Borrower Directory Management System during FY 2002. The Loan Application Processing System, the Loan Obligations and Disbursements System, and remaining servicing systems will follow with an implementation date that has yet to be determined. The systems certification in compliance with Office of Management and Budget Circular A-130 has not been completed and a revised target completion date has not been established.

Future Opportunities And Challenges

In January 2001, the elected board members met with Office of Management and Budget to discuss the privatization of the RTB. At that time, the board indicated their desire to explore an expedited privatization process and implement a privatization plan.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE RURAL TELEPHONE BANK'S FINANCIAL STATEMENTS (Con't)

The President's fiscal year 2002 budget reflected these issues and further encouraged an expedited privatization process by eliminating lending authorization for the RTB in fiscal year 2002 ($175 million in telecommunications loans). While this may certainly provide an impetus to those in favor of privatizing the RTB, it may also rally support among those opposing privatization. It is important to note that the appropriations bills for fiscal years 1996 through and including 2001 have stipulated that no more than five percent of the amount of Class A stock outstanding can be retired for each of those years, thereby preventing an expedited privatization of the RTB. The fiscal year 2002 appropriations bill also contained language limiting the Class A stock retirement as well as restored the authorized lending level of $175 million.

For the RTB to continue as a private lender that helps meet the growing capital demands of the rural telecommunications industry, it would be imprudent to privatize until a business plan is in place, complete with policies and procedures for meeting its future capital needs, as well as acquiring office space, staff, and the necessary computer systems. The current board recognizes this and has sought funding to acquire the services of entities suitable for developing and delivering a privatization model.

The Administration has responded to this need by setting aside funds for an independent contractor to study and provide a business plan and recommendations for privatization. The contract was awarded in late 2001 and the study will be completed within 12 months.

Limitation on Financial Statements

These financial statements have been prepared to report the financial position and results of operations of the entity, pursuant to the requirements of 31 U.S.C. 3515(b). While the statements have been prepared from the books and records of the entity in accordance with the formats prescribed by the Office of Management and Budget, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records. The statements should be read with the realization that they are a component of the U.S. Government, a sovereign entity. One implication of this is that liabilities cannot be liquidated without legislation that provides resources to do so.

United States Department of Agriculture
Rural Telephone Bank
Balance Sheet
As of September 30, 2001 and 2000
(Amounts presented in dollars)

	2001	2000
ASSETS		
Assets for Use by Entity:		
Federal		
Fund Balance with Treasury (Note 2)	$ 904,650,796	$ 776,171,844
Non-Federal		
Credit Program Receivables, net (Note 3)	1,069,670,859	1,156,914,117
Total Assets	1,974,321,655	1,933,085,961
LIABILITIES		
Liabilities Covered by Budgetary Resources:		
Federal		
Accounts Payable	3,118,000	5,642,000
Debt (Note 4)	272,733,633	295,202,110
Non-Federal		
Other Liabilities (Note 5)	20,675,583	18,129,342
Total Liabilities	296,527,216	318,973,452
COMMITMENTS AND CONTIGENCIES (Note 6)		
NET POSITION (Note 7)		
Unexpended Appropriations	19,115,171	19,812,242
Federal		
Equity of the U.S. Government		
Capital Stock Class A	452,865,475	476,700,500
Subsidy Re-estimates	(4,395,000)	(4,054,000)
Total Equity of the U.S. Government	448,470,475	472,646,500
Non-Federal		
Investment of Others		
Capital Stock Class B	666,730,835	681,518,810
Capital Stock Class C	447,722,000	344,837,000
Restricted Capital	10,000,000	9,912,183
Patronage Capital Earned	85,755,955	85,385,774
Total Investment of Others	1,210,208,793	1,121,653,767
Total Net Position	1,677,794,439	1,614,112,509
Total Liabilities and Net Position	$ 1,974,321,655	$ 1,933,085,961

The accompanying notes are an integral part of these statements

United States Department of Agriculture
Rural Telephone Bank
Statement of Net Cost
For the Years Ended September 30, 2001 and 2000
(Amounts presented in dollars

	2001	2000
COSTS		
Program Costs		
Federal	$ 23,018,400	$ 27,714,197
Non-Federal		
Loans-Subsidy Expense (Note 3)	2,380,534	(38,121)
Other Program Costs	1,310,470	1,180,754
Total Program Production Costs	26,709,404	28,856,830
Less Earned Revenues (Note 8)	(137,229,307)	(139,271,774)
Net Cost of Operations	$ (110,519,903)	$ (110,414,944)

The accompanying notes are an integral part of these statements

United States Department of Agriculture
Rural Telephone Bank
Statement of Changes in Net Position
For the Years Ended September 30, 2001 and 2000
(Amounts presented in dollars)

	2001	2000
Net Cost of Operations	$ 110,519,903	$ 110,414,944
Financing Sources (other than exchange revenues):		
Appropriations Used	7,749,934	4,324,944
Transfers-out	(32,854,882)	(32,492,865)
Changes in:		
Capital Stock-Redemption of Class A Stock	(23,835,025)	(25,089,500)
Investment of Others	2,799,071	2,011,524
Net Change in Cumulative Results of Operations	64,379,001	59,169,047
Decrease (Increase) in Unexpended Appropriations	(697,071)	272,137
Change in Net Position	63,681,930	59,441,184
Net Position, Beginning of Period	1,614,112,509	1,554,671,325
Net Position, End of Period	$ 1,677,112,509	$ 1,614,112,509

The accompanying notes are an integral part of these statements

United States Department of Agriculture
Rural Telephone Bank
Statement of Budgetary Resources
For the Year Ended September 30, 2001 and 2000
(Amounts presented in dollars)

	2001	2000
Budgetary Resources: (Note 9)		
Budget Authority	$ 163,057,341	$ 154,537,267
Unobligated Balances, Beginning of Period	642,636,296	512,466,687
Spending Authority from Offsetting Collections	292,183,424	225,804,066
Adjustments	(89,840,190)	(30,009,527)
Total Budgetary Resources	1,008,036,871	862,798,493
Status of Budgetary Resources:		
Obligations Incurred	230,606,932	220,162,197
Unobligated Balances-Available	12,298	-
Unobligated Balances-Not Available	777,417,641	642,636,296
Total Status of Budgetary Resources	1,008,036,871	862,798,493
Outlays:		
Obligations Incurred	230,606,932	220,162,197
Less: Actual Spending Authority from Offsetting Collection and Actual Adjustments	(330,300,659)	(304,002,790)
Obligated Balance, Net-Beginning of Period	1,038,758,567	979,877,054
Less: Obligated Balance, Net-End of Period	(1,123,328,441)	(1,038,758,567)
Total Outlays	$ (177,263,601)	$ (142,722,106)

The accompanying notes are an integral part of these statements

United States Department of Agriculture
Rural Telephone Bank
Statement of Financing
For the Year Ended September 30, 2001 and 2000
(Amounts presented in dollars)

	2001	2000
Resources Used to Finance Operations:		
Budgetary		
Budgetary Resources Obligated for Items to be Received or Provided to Others	$ 230,606,932	$ 220,162,197
Less: Offsetting Collections, Recoveries of Prior Years Authority, and Changes in Unfilled Customer Orders	(323,285,809)	(304,002,790)
Net Budgetary Resources Used to Finance Operations	(92,678,877)	(83,840,593)
Total Resources Used to Finance Operations	(92,678,877)	(83,840,593)
Less: Resources Used to Fund Items not Part of the Net Cost of Operations:		
Increase or (Decrease) in Budgetary Resources Obligated to Order Goods or Services not yet Received or Benefits not yet Provided	114,452,851	135,319,125
Budgetary Offsetting Collections not Increasing Exchange Revenue or Decreasing Expense	(156,174,760)	(92,788,017)
Adjustments Made to Compute Net Budgetary Resources not Affecting Net Cost of Operation	57,276,762	(15,979,084)
Resources Funding Expenses Recognized in Prior Year	-	1,003,065
Total Resources Used to Fund Items not Part Of the Net Cost of Operation	15,554,853	27,555,089
Resources Used to Finance the Net Cost of Operations	(108,233,730)	(111,395,682)

The accompanying notes are an integral part of these statements

United States Department of Agriculture
Rural Telephone Bank
Statement of Financing
For the Year Ended September 30, 2001 and 2000
(Amounts presented in dollars)

	2001	2000
Components of Net Cost of Operations not Requiring or Generating Resources During the Reporting Period		
Expenses or Exchange Revenue Related to the Disposition of Assets or Liabilities, or Allocation of their Cost over Time	(2,627,173)	(3,073,262)
Expenses which will be Financed with Budgetary Resources Recognized in Future Periods	341,000	4,054,000
Total Components of Net Cost of Operations not Requiring or Generating Resources During the Reporting Period	(2,286,173)	980,738
Net Cost of Operations	$ (110,519,903)	$ (110,414,944)

The accompanying notes are an integral part of these statements.

U.S. Department of Agriculture
Rural Telephone Bank
Notes to the Financial Statements

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Rural Telephone Bank (RTB), established in May 1971, provides a supplemental source of financing under the Rural Utilities Service's telephone loan program. The Rural Utilities Service (RUS) is a credit agency within the U.S. Department of Agriculture (USDA) which assists rural electric and telephone organizations in obtaining the financing required to provide electric and telephone service in rural areas. RTB lends principally to rural telephone organizations.

RTB is a government corporation which functions as an agency of the U.S. Department of Agriculture, subject to the supervision and direction of the Secretary of Agriculture. As provided by law, the Administrator of RUS serves as the Governor of RTB. In this capacity, the Governor may exercise and perform all of RTB's functions, powers, and duties, except for matters specifically reserved for its Board of Directors. As discussed below, upon retirement of the Class A stock held by the U.S. Government, the RTB would no longer operate as an integral agency of the Government.

Adverse changes in the telephone industries could have a direct and material impact on the financial capacity of RTB borrowers to provide for the repayment of loans.

B. Basis of Presentation

The accompanying financial statements have been prepared to report the financial position, net costs, and changes in net position of RTB together with budgetary resources and a reconciliation of budgetary obligations to net cost, as required by the Government Management Reform Act of 1994 and in conformity with generally accepted accounting principles (GAAP). GAAP for federal financial reporting entities recognizes the Federal Accounting Standards Advisory Board (FASAB) as the standards-setting body designated to establish these principles for these entities. The financial statements have also been prepared from the books and records of RTB in accordance with the form and content for entity financial statements specified by the Office of Management and Budget (OMB) Bulletin 97-01, Form and Content of Agency Financial Statements, as amended, except that credit subsidy re-estimates are presented as a separate line item within the total equity of the U.S. Government. The financial statements also follow USDA accounting policy guidelines.

C. Basis of Accounting

RTB's transactions are recorded on the accrual basis of accounting and with respect to certain information regarding budgetary resources and financing, a budgetary accounting basis. Under the accrual method, revenues are recognized when earned, and expenses are recognized when a liability is incurred. Budgetary accounting facilitates compliance with legal constraints and controls over the use of Federal funds.

Any significant interfund and intrafund balances and transactions have been eliminated in the consolidation of the pre- and post-credit reform lending programs.

D. Fund Balance with United State Treasury

RTB maintains all cash accounts with the United States Treasury. It is the policy of RTB not to maintain cash in commercial bank accounts, except in the normal course of processing cash receipts through third-party commercial banking institutions. Fund Balance with Treasury represents appropriated and revolving funds that are available to pay current liabilities and finance authorized loan commitments. RTB earns interest on all cash balances maintained at the Treasury in accordance with the terms of the 1973 note executed by RTB and U.S. Treasury, Section 505(c) of the Federal Credit Reform Act of 1990 and recent legislation (Public Law 106-78).

E. Credit Program Receivables, Net

Loans are accounted for as receivables after funds are disbursed. Loans receivable are carried at the principal amount outstanding, net of an allowance for estimated uncollectible amounts for pre-fiscal year 1992 loans. For direct loans obligated on or after October 1, 1991, RTB recognizes these assets at the present value of their estimated net cash inflows. The difference between the outstanding principal of the loans and the present value of their net cash inflows is recognized as a subsidy cost allowance (Note 3). All loans receivable are due from non-federal borrowers and accrue interest daily based on the contractual interest rate.

RTB's allowance is estimated based on delinquency rates, current economic conditions, borrowers' credit histories, borrowers' outstanding balances, and an analysis of each borrower's financial condition.

The projected cost of direct loan defaults (for loans obligated prior to October 1, 1991) will not necessarily reflect RTB's future appropriation requests. To the extent that fund revenues are not sufficient to fund future costs, financing will have to be obtained from future appropriations, or other congressionally approved sources.

The Credit Program Receivables footnote has been prepared to improve financial reporting for subsidy costs and performance of Federal credit programs as required by May 2000 Statement of Federal Financial Accounting Standard No. 18, Amendments to Accounting Standards for Loans and Loan Guarantees. RTB implemented this reporting requirement in fiscal year 2001, and therefore the fiscal year 2000 information is presented for comparative purposes and has not been audited.

F. Liabilities

Liabilities are recognized for amounts of probable future outflows or other sacrifices of resources as a result of past transactions or events. Since RTB is a component of the United States Government, a sovereign entity, its liabilities cannot be liquidated without legislation that provides resources to do so. Payments of all liabilities other than contracts can be abrogated by the sovereign entity.

Liabilities Covered by Budgetary Resources are those liabilities funded by available budgetary resources including: (1) new budget authority, (2) spending authority from offsetting collections, (3) recoveries of unexpired budget authority, (4) unobligated balances of budgetary resources at the beginning of the year, and (5) permanent indefinite appropriation or borrowing authority. All of RTB's liabilities are covered by budgetary resources.

Accounts Payable

Accounts payable consist solely of amounts payable to the United States Treasury based on credit reform subsidy re-estimates.

Debt - United States Treasury

As required under Credit Reform legislation, a note was executed by RTB with the United States Treasury which provides funds for direct loans approved after September 30, 1991 (Post-1991). The interest rate charged to RTB is the average annual Treasury rate, as provided by the Office of Management and Budget (OMB). For loans approved prior to October 1, 1991 (Pre-1992), Treasury funding is provided, when needed, in accordance with the terms of a note executed by RTB and Treasury in July 1973. RTB has not borrowed against the note for several years since the Pre 1992 fund balance is sufficient to advance new loans. In addition, the Pre 1992 outstanding debt balance was repaid in August 2001.

G. Stock Conversion

In accordance with its authorizing legislation and amendments, RTB will be converted to independent status at such time when 51 percent of the Class A stock issued to the U.S. Government (and outstanding at any time since September 30, 1985) has been fully redeemed and retired. When such conversion occurs, RTB will no longer be an agency of the USDA and the President will cease to appoint Board members. However, after the conversion, Congress may still continue its oversight responsibilities for RTB's operations.

H. Operations

The Rural Electrification Act of 1936, as amended, and RTB's enabling legislation, authorize RTB to partially or jointly use the facilities and services of employees of RUS, or of any other agency of the USDA, without cost. Under the Federal Credit Reform Act, $3 million of appropriated funds provided to RTB to cover administrative costs were transferred to RUS. This amount represents the additional cost to RUS for managing RTB. In this regard, RTB's operations are conducted by RUS administrative and program employees who have similar responsibilities under RUS's rural telephone loan program.

I. Intra-Governmental Relationships and Transactions

In the course of its operations, RTB has relationships and financial transactions with other Federal agencies. The more prominent of these are with RUS and the United States Treasury. RUS determines the annual cost allocations associated with the administration of RTB by RUS employees and the Treasury receives the collections of proceeds from direct loans issued on behalf of RTB. At the Government-wide level, the liabilities related to the debt payable to Treasury on RTB's financial statements and the corresponding assets on the Treasury's financial statements should be eliminated.

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NOTE 2: FUND BALANCE WITH TREASURY

Fiscal Year 2001

	Revolving Funds	Appropriated Funds	Total
1. Unobligated Balance:			
(a) Available	$768,876,461	$ 12,298	$ 768,888,759
(b) Unavailable	-	2,922,327	2,922,327
2. Obligated Balance not yet Disbursed	116,659,164	16,180,546	132,839,710
Total	$885,535,625	$19,115,171	$ 904,650,796

Fiscal Year 2000

	Revolving Funds	Appropriated Funds	Total
1. Unobligated Balance:			
(a) Available	$636,335,113	$ 424,345	$ 636,759,458
(b) Unavailable	-	4,642,276	4,642,276
2. Obligated Balance not yet Disbursed	120,024,489	14,745,621	134,770,110
Total	$756,359,602	$19,812,242	$ 776,171,844

NOTE 3: DIRECT LOANS, NON FEDERAL BORROWERS

Purpose

The Rural Telephone Bank (RTB) was created by Public Law 92-12 on May 7, 1971. The RTB was designed to assure rural telephone systems access to private sources of capital. It accomplished this by establishing a supplemental credit mechanism to which borrower systems may turn for all or part of their future capital requirements. The RTB is owned by the U.S. Government, its borrowers, former borrowers, and other related organizations authorized to invest. The RTB operates on a cooperative basis and earnings, in excess of the annual return of 2 percent required on the Government's investment, are returned to the non-Government owners as patronage refunds.

RTB makes telecommunications loans to public bodies, cooperatives, nonprofits, limited associations or mutual associations. RTB loans are made concurrently with Rural Utilities Service (RUS) cost-of-money loans to finance the improvement, expansion, construction, and acquisition of systems or facilities that improve telephone service in rural areas. However, RTB does not finance station apparatus owned by the borrower, headquarters facilities, and vehicles not used primarily in construction.

Eligibility

To be eligible, a borrower must be incorporated and must provide or propose to provide the basic local exchange telephone service needs of rural areas. A borrower must demonstrate that the average number of proposed subscribers per mile of line in the service area of the borrower is less than or equal to 15, or the borrower has a projected Times Interest Earned Ratio (borrowers net income after taxes plus interest expense, all divided by interest expense) of at least 1.0 but not greater than 5.0. Additionally, the borrower must participate in an approved telecommunications modernization plan for the state.

Repayment Period and Interest Rates

Loans must be repaid within a period that approximates the expected useful life of the facilities to be financed, not to exceed 35 years. Generally, interest is payable each month as it accrues. Principal payments on each note generally are scheduled to begin 2 years after the date of the note. After this deferral period, interest and principal payments on all funds advanced during this 2-year period are scheduled in equal monthly installments. RTB loans will bear interest at a rate equal to the cost of funds to RTB. However, the rate will not be less than 5 percent.

Servicing Options

RTB may extend the time of payment of principal or interest on a loan. This extension may be up to 5 years after such payment is due. Payment may be deferred as long as necessary in disaster situations so long as the final maturity date is not later than 40 years after the date of the loan.

Accounting Policy

Direct loan obligations made prior to FY 1992 are reported on a net realizable value (NRV) basis. Direct loan obligations made after FY 1991 are governed by the Federal Credit Reform Act. The Act provides that the present value of the subsidy costs (i.e. interest rate differentials, interest subsidies, delinquencies and defaults, fee offsets and other cash flows) associated with direct loans be recognized as a cost in the year the loan is made. The net present value (NPV) of loans receivable at any point in time is the amount of the gross loan receivable less the present value of the subsidy at that time. The Credit Program Receivable footnote has been prepared to improve financial reporting for subsidy costs and performance of Federal credit programs as required by May 2000 Statement of Federal Financial Accounting Standard No. 18, Amendments to Accounting Standards for Loans and Loan Guarantees. RTB implemented this reporting requirement in fiscal year 2001, and therefore the fiscal year 2000 information is presented for comparative purposes and has not been audited.

Direct Loans Obligated Prior to FY 1992 (Allowance for Loan Loss Method):

	2001	2000
Loans Receivable, Gross	$793,902,283	$923,673,900
Interest Receivable	2,815,782	2,483,485
Allowance for Loan Losses	(5,703,321)	(6,396,633)
Value of Assets Related to Direct Loans	$791,014,744	$919,760,752

Direct Loans Obligated After FY 1991 (Present Value Method):

	2001	2000
Loans Receivable, Gross	$ 290,794,551	$ 246,163,246
Interest Receivable	251,165	113,912
Allowance for Subsidy Cost (Present Value)	(12,389,601)	(9,123,793)
Value of Assets Related to Direct Loans	$ 278,656,115	$ 237,153,365
Total Portfolio Value of Assets Related to Direct Loans	$1,069,670,859	$1,156,914,117

Total Amount of Direct Loans Disbursed:

	2001	2000
Direct Loans Obligated Prior to FY 1992	$ 6,384,970	$ 10,994,885
Direct Loans Obligated After FY 1992	$ 52,767,444	$ 29,962,912

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Subsidy Expense for Direct Loans by Program and Component:

Subsidy Expense for New Direct Loans Disbursed

	2001	2000
Interest Differential	$ 676,141	$ 372,693
Defaults	10,494	5,305
Fees and Other Collections	-	(56,117)
Other	$ 15,899	$ (2)
Total	$ 702,534	$ 321,879

Reestimates

	2001	2000
Interest Rate Reestimates	$11,135,000	$ (5,995,000)
Technical Reestimates	$ (9,457,000)	$ 5,635,000
Total	$ 1,678,000	$ (360,000)
Total Direct Loan Subsidy Expense	$ 2,380,534	$ (38,121)

Subsidy Rates for Direct Loans by Program and Component:

Budget Subsidy Rates for Direct Loans by Program and Component

	2001	2000
Interest Differential	1.60%	1.28%
Defaults	0.03%	0.04%
Other Collections	-0.15%	0.56%
Total	1.48%	1.88%

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Schedule for Reconciling Subsidy Cost Allowance Balances:
(Post- FY 1991 Direct Loans)

	2001	**2000**
Beginning Balances, Changes, and Ending Balances		
Beginning balance of the subsidy cost allowance:	$ 9,123,793	$ 9,115,495
Add: Subsidy expense for direct loans disbursed during the reporting years by component:		
(a) Interest rate differential costs	676,141	372,693
(b) Default costs (net of recoveries)	10,494	5,305
(c) Fees and other collections	15,899	(956,119)
Total of the above subsidy expense and components	$ 702,534	$ 321,879
Adjustment:		
(a) Subsidy allowance amortization	2,003,781	889,419
(b) Other	(74,508)	(66,000)
Ending balance of the subsidy cost allowance before re-estimates	$11,755,600	$10,260,793
Add or subtract subsidy re-estimates by component:		
(a) Interest rate reestimates	11,135,000	(5,995,000)
Less: interest income amortized above	(1,044,000)	(777,000)
(b) Technical/default re-estimate	(9,457,000)	5,635,000
Total of the above re-estimate components	$ 634,000	$ (1,137,000)
Ending balance of the subsidy cost allowance	$12,389,600	$ 9,123,793
Administrative Expense	$ 2,993,400	$ 3,000,000

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NOTE 4: DEBT

Fiscal Year 2001

	Beginning Balance	Net Borrowings	Ending Balance
Federal Debt			
Interest Bearing:			
Debt to the Treasury	$ 295,202,110	$ (22,468,477)	$ 272,733,633

Fiscal Year 2000

	Beginning Balance	Net Borrowings	Ending Balance
Federal Debt			
Interest Bearing:			
Debt to the Treasury	$ 307,831,271	$ (12,629,161)	$ 295,202,110

Legislation limits outstanding borrowings from the U.S. Treasury to an amount which shall not exceed twenty times RTB's equity. As of September 30, 2001 and 2000, RTB's maximum borrowing authority approximated $33 billion and $32 billion, respectively. All Federal debt is covered by budgetary resources.

NOTE 5: OTHER LIABILITIES

Dividends declared and unpaid on Class C Stock to non-federal recipients in the amount of $20.7 million and $18 million as of September 30, 2001 and 2000, and are payable on December 15, 2001 and 2000 respectively. This liability is covered by budgetary resources.

NOTE 6: COMMITMENTS AND CONTINGENCIES

The RTB has in the course of its loan making activities, unliquidated loan obligations which, in the absence of contractual violations or cancellations, will require disbursements. Unliquidated loan obligations at September 30, 2001 and 2000, total approximately $1,103 million and $1,021 million, respectively.

As of September 30, 2001, and 2000, there were no obligations due to canceled appropriations for which there is a contractual commitment for payment.

NOTE 7: NET POSITION

	2001	2000
Unexpended Appropriations		
Unobligated	$ 2,934,624	$ 5,066,621
Undelivered Orders	16,180,547	14,745,621
Total Unexpended Appropriations	$19,115,171	$19,812,242

Unexpended Appropriations:

Unexpended Appropriations include the undelivered orders and unobligated balances of the program accounts which receive Congressional appropriations through the budgetary process.

As appropriated funds incur obligations, the obligated amount is recorded as an undelivered order. Undelivered orders are reduced by either an expenditure or an obligation cancellation. Appropriated funds which are not obligated are treated as unobligated amounts. Unobligated appropriations are returned to the U.S. Treasury when their period of availability expires.

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Rural Telephone Bank (RTB) Capital Stock

	2001	2000
CAPITAL STOCK CLASS A ($1 par value)		
Shares authorized	600,000,000	600,000,000
Shares issued and outstanding	452,865,475	476,700,500
Cash dividends	$ 9,534,010	$ 10,035,800
CAPITAL STOCK CLASS B ($1 par value)		
Shares authorized	Unlimited	Unlimited
Shares issued and outstanding	666,730,835	681,518,810
Stock dividends	$ 85,297,954	$ 90,515,784
CAPITAL STOCK CLASS C ($1,000 par value)		
Shares authorized	Unlimited	Unlimited
Par value, shares issued and outstanding	447,722,000	344,837,000
Cash dividends (accrued)	$ 20,675,583	$ 18,021,249

Although USDA Rural Development owns all Class A stock on behalf of the United States Government, the cash dividends are paid to the U.S. Treasury. On September 30, 2001, in accordance with Section 406 (c) of the Rural Electrification Act of 1936 (RE Act) as amended, the sixth redemption of Class A stock occurred. On September 30, 2001 and 2000, in accordance with Bank Board resolution 2001-2 and 2000-6, the sixth and fifth redemptions of Class A stock, in the amounts of $23.8 million and $25.1 million occurred, leaving balances of $452.9 and $476.7 million outstanding, respectively.

Class B stock, a voting class of stock, is issued only to borrowers of RTB, in proportion to actual loan advances. RTB requires borrowers to purchase Class B stock in the amount of 5 percent of advanced loan amounts. RTB may not pay cash dividends on Class B stock. Rather, holders of Class B stock are entitled to patronage refunds (paid in the form of Class B stock dividends) equal to the amount of patronage capital in excess of $10 million. Patronage refunds are allocated on liquidating account loans, based on the ratio of interest revenue to RTB from each holder to RTB's total interest revenue from all liquidating account Class B stockholders. Stock subscriptions relating to unadvanced loans approximated $52 million and $47 million at September 30, 2001,and 2000, and are not reflected in the accompanying principal financial statements.

Class B stock is nontransferable, except in connection with a transfer of ownership approved by RTB, of all or part of an RTB loan. Class B stock can be redeemed only after all shares of Class A stock, a nonvoting class of stock owned by the U.S. Government, have been redeemed and retired. A borrower may exchange Class B stock for Class C stock: 1) upon retiring all debt with RTB; or 2) effective November 9, 1999, prior to retiring all debt on a proportionate basis equal to the percentage of each note repaid. As of September 30, 2001, and 2000, Class B stock exchanges of $86.7 million and $21.7 million under the latter method had occurred.

Class C stock, a voting class of stock, is issued only to RTB borrowers, or to corporations and public entities eligible to borrow from RTB under Section 408 of the RE Act as amended, or by organizations controlled by such borrowers, corporations, and public entities. RTB may pay cash dividends on Class C stock.

Restricted Capital

The Omnibus Budget Reconciliation Act of 1987 required the RTB to establish a contingency reserve for interest rate fluctuations. As a result, the RTB Board of Directors amended the Bylaws of RTB regarding the allocation of patronage capital and established a reserve of $10 million. Any amounts in the reserve for interest rate fluctuations, classified as restricted capital on the Balance Sheet, in excess of $10 million will be allocated as Class B stock dividends to those borrowers holding Class B stock during the fiscal year the amounts were earned. At September 30, 2001, and 2000, restricted capital was $10 million and $ 9.9 million, respectively. At September 30, 2000, restricted capital was $9.9 million due to an increase in fiscal year 1999 Class C stock dividends payable after the end of the fiscal year 1999 of $88,000.

Patronage Capital Earned

Patronage capital earned consists of all revenues of the RTB for any fiscal year in excess of the amount thereof necessary to:

- Pay expenses of the RTB, including without limitation, payments in lieu of property taxes.
- Pay interest on telephone debentures accruing during the fiscal year.
- Provide reasonable allowances for depreciation, obsolescence, and losses on loans and interest receivable.
- Pay to the holders of Class A stock an amount equal to 2% per annum of the capital furnished to the RTB for such stock.

- Pay to the holders of Class C stock dividends at the rate determined by the Board, provided the following criteria is met:

  - No dividends shall be declared on Class C stock until arrearages, if any, on payments to holders of the cumulative Class A stock have been paid.

  - Until all Class A stock has been retired, the Board shall not declare any dividends on Class C stock at an annual rate in excess of the then current average rate payable on the RTB's telephone debentures.

Capital Stock Class A

Public Laws 92-12 and 97-98 authorized Congress, in fiscal years 1971 through 1991, to appropriate no more than $30 million per year for the purchase of RTB Class A stock. Class A stock has a guaranteed annual dividend of 2 percent of the total funds received. The law provides that Congress annually appropriate funds until such purchases approximate $600 million. As of September 30, 2001, RTB Class A stock appropriations amounted to approximately $592.1 million, the total funding USDA Rural Development will receive from Congress. Beginning in 1996, RTB was required to repurchase this stock; however, in accordance with Public Law 106-78, Section 718, the maximum Class A stock that may be retired is 5 percent. According to enabling legislation and amendments, the Bank will be converted to independent status when 51 percent of the Class A stock issued to the United States has been fully redeemed and retired. On September 30, 2001 and 2000, in accordance with Bank Board resolution 2001-2 and 2000-6, the sixth and fifth redemption of Class A stock, in the amounts of $23.8 million and $25.1 million occurred, leaving a balance of $452.8 million and $476.7 million outstanding.

Cumulative Results of Operations

Cumulative Results of Operations are allocated to the various components of Net Position based on the requirements of the RE Act. Specifically, current year results of operations are recorded as Patronage Capital Earned and redistributed to the Class B stock and Restricted Capital accounts. Cash dividends are paid out of Cumulative Results of Operations.

NOTE 8: EARNED REVENUES

	2001	2000
Federal:		
Interest Revenue from Treasury	$ 59,614,569	$ 57,866,623
Total Federal	59,614,569	57,866,623
Non-Federal:		
Interest and Penalties Revenue	$ 77,614,738	$ 81,405,151
Total Non-Federal Revenues	77,614,738	81,405,151
Total Earned Revenues	$137,229,307	$139,271,774

Credit Reform

The amount of subsidy expense on post-1991 direct loans equals the present value of estimated cash outflows over the life of the loan less the present value of cash inflows, discounted at the interest rate of marketable Treasury securities with a similar maturity term. A major component of subsidy expense is the interest subsidy cost/interest differential. This is defined as the excess of the amount of direct loans disbursed over the present value of the interest and principal payments required by the loan contracts, discounted at the applicable Treasury rate. One of the components of interest subsidy cost/interest differential is interest revenue. This interest revenue is earned from both federal and non-federal sources. For a further discussion of present value, refer to **Note 1E**, and for all of the components of subsidy expense and their respective dollar amounts by entity, refer to **Note 3**.

Exchange Transactions With Non-Federal Sources

Rural Telephone Bank loans have a statutory rate that is established on an annual basis depending on the Bank's cost of raising capital.

Exchange Transactions with Federal Sources

As discussed in **Note 1A**, the history of RTB is one of financial and technical assistance to rural America. RTB serves as a temporary source of supervised credit until borrowers are able to qualify for private sector resources. Although a lender of last resort, RTB is able to recoup all of the costs associated with its loan making activities. The main reason is that RTB establishes its cost of money on an annual basis in a manner which enables it to recover all related costs.

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NOTE 9: DISCLOSURES RELATED TO THE STATEMENT OF BUDGETARY RESOURCES

- The net amount of budgetary resources obligated for undelivered orders as of September 30, 2001 and 2000, is approximately $1,103 million and $1,021 million, respectively.

- The amount of Federal borrowing authority available as of September 30, 2001 and 2000, is approximately $996 million and $904 million, respectively.

- Requirements for repayments of borrowings: Borrowings are repaid on Form SF 1151, Non-expenditure Transfers, as maturity dates become due. For liquidating accounts, maturity dates are fifty years from the close of the fiscal year the funds were advanced by Treasury to the Bank. For financing accounts, maturity is based on the period of time used in the subsidy calculation, not the contractual term of the agency's loans to borrowers. This period of time used in the subsidy calculation will normally be longer than the contractual term of the agency's loans to borrowers.

Terms of borrowings used: In general, borrowings are for periods of up to fifty years depending upon the cohort. Interest rates on borrowings in the liquidating accounts were assigned on the basis of the Treasury rate in effect at the time of the borrowing. Interest rates on borrowings in the financing accounts are assigned on the basis of the Treasury rate in effect at the end of the year of loan disbursements. Since individual loans are typically disbursed over several years, several interest rates may be applicable to an individual loan. A single weighted average interest rate, which is adjusted each year until all the disbursements for the cohort have been made, is maintained. Prepayments can be made on Treasury borrowings in the liquidating and financing accounts without penalty.

Financing sources for repayments of borrowings: Included are reestimates and cash flows (i.e. borrower loan principal repayments), appropriations received in liquidating accounts for "cash needs", residual unobligated balances, where applicable, and other Treasury borrowings.

- *Adjustments during the fiscal year to budgetary resources available at the beginning of the year are as follows:*

	2001	2000
Federal:		
Actual Recoveries of Prior Year Obligations	$ 31,102,385	$ 78,198,724
Redemption of Debt	(118,790,620)	(51,673,540)
Other authority withdrawn	(2,151,955)	(56,534,711)
Total Adjustments	$ (89,840,190)	$ (30,009,527)

Actual recoveries of prior year obligations represent cancellations or downward adjustments of obligations incurred in prior fiscal years that did not result in an outlay. For expired accounts, these recoveries are available for upward adjustments of valid obligations incurred during the unexpired periods but not recorded.

Redemption of debt represents the amount of principal repayments paid to Treasury on outstanding borrowings. It does not include interest payments, which are shown as an obligation and an outlay.

Other authority withdrawn represents the withdrawal of unobligated balances of indefinite budget authority realized in no-year or multiple year accounts through downward adjustments of prior year obligations. Other authority withdrawn consisted of cancellations for the year of $2.2 million FY 2000: ($55.9 million) less adjustment to C stock dividend payable of $14,850 FY 2000: ($612,655).

- *Existence, purpose, and availability of permanent indefinite appropriations:* Permanent indefinite appropriations are mainly applicable to liquidating accounts which have the ability to apportion them and for reestimates related to upward adjustments of subsidy in the program accounts. These appropriations become available pursuant to standing provisions of law without further action by Congress after transmittal of the Budget for the year involved. They are treated as permanent the first year they become available, as well as succeeding years. However, they are not stated as specific amounts but are determined by specific variable factors, such as "cash needs" for the liquidating accounts and information about the actual performance of a cohort or estimated changes in future cash flows of the cohort in the program accounts.

The period of availability for these appropriations is as follows: Annual authority is available for obligations only during a specific year and expires at the end of that time. Multi-year authority is available for obligations for a specified period of time in excess of one fiscal year. No-year authority remains available for obligation for an indefinite period of time, usually until the objectives for which the authority was made available are achieved.

Annual and multi-year authority expires for the purpose of incurring new obligations. However, the authority is available for adjustments to obligations and for disbursements that were incurred or made during the period prior to expiration, but not recorded. Unless specifically authorized in law, the period that the expired authority is available for adjustments to obligations or for disbursements is five fiscal years (beginning with the first expired year). At the end of the fifth expired year, the authority is "canceled". Therefore, the authority is not available for any purpose.

- *Legal arrangements affecting the use of unobligated balances of budget authority:* The availability/use of budgetary resources (i.e., unobligated balances) for obligation and expenditure are limited by purpose, amount, and time.

- *Purpose:* Funds may be obligated and expended only for the purposes authorized in appropriations acts or other laws.

- *Amount:* Obligations and expenditures may not exceed the amounts established in law. Amounts available are classified as either definite (i.e., not to exceed a specified amount) or indefinite (i.e. amount is determined by specified variable factors).

- *Time:* The period of time during which budgetary resources may incur new obligations is different from the period of time during which the budgetary resources may be used to disburse funds.

The time limitations on the use of unobligated balances are the same as those previously discussed in the last two paragraphs of the permanent indefinite appropriations footnote disclosure.

Any information about legal arrangements affecting the use of unobligated balances of budget authority will be specifically stated by programs and fiscal year in the appropriation language or in the alternative provisions section at the end of the appropriations act.